NEWS RELEASE

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CENTER ON BUDGET AND POLICY PRIORITIES

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LOW-INCOME PROGRAMS NOT A MAJOR CAUSE OF DEFICIT, BUT COULD BE A MAJOR TARGET OF DEFICIT-REDUCTION EFFORTS

Programs that serve needy Americans could bear a disproportionate share of any budget cuts Congress adopts this year, according to a new report from the Center on Budget and Policy Priorities. Since revenue increases and cuts in defense and several major programs are "off the table" for deficit reduction, programs serving the needy could face a large share of the total reductions even though they have played only a very small role in the deficit's reemergence.

Increases in programs that provide benefits and services for needy families, children, and elderly and disabled people account for only six percent of the cost this year of legislation enacted since January 2001 (the period over which the budget has moved from sizeable surpluses to large deficits). But a far larger share of the budget cuts enacted this year may come from these programs.

"The number of Americans living in poverty and the number who are uninsured have both gone up in recent years, and the recent tax cuts have helped widen the gap between rich and poor," said Isaac Shapiro, associate director of the Center and the report's lead author. "Large cuts in programs that needy families and individuals rely on would exacerbate these disturbing trends." (See attached fact sheet.)

"Congress can reduce the deficit without targeting low-income programs," Shapiro explained, "by adopting a balanced deficit-reduction package, as it did in 1990 under the first President Bush." Such a package would raise revenues (such as by scaling back some recent tax cuts for very-high-income households) as well as cut spending.

Tax Increases or Cuts in Social Security, Defense, or Medicare Unlikely

A prime reason why a large share of the cuts made this year could come from low-income programs is that only a minority of the budget is likely to be considered in deficit-reduction efforts:

- There appears to be widespread support not to reduce spending for Social Security (at least in the near term), defense, or homeland security.
- Major cuts in Medicare are unlikely this year; Congressional leaders appear to have no appetite for taking on Medicare at the

same time they are considering controversial changes in the other key retirement program, Social Security.

- The Administration and the Congressional leadership appear determined not to raise taxes or revisit any of the recent tax cuts, even though federal tax revenues in 2004 fell to their lowest level since 1959, when measured as a share of the economy.

If revenues, Social Security, Medicare, defense, and homeland security are taken off the table, low-income programs will make up roughly half (49 percent) of the part of the budget that remains for potential cuts. If all of the programs left on the table are cut by the same proportion, low-income programs would bear nearly half of the total cuts.

Low-Income Cuts Could Grow as Budget Process Unfolds

Low-income programs could be reduced even more sharply than other programs left "on the table," because they tend to have less powerful backers than many other programs (such as farm programs or NASA) to protect them during budget negotiations.

Media reports indicate that certain low-income programs, such as housing assistance and Medicaid, are likely to be singled out for significant cuts in the President's budget. Congress is likely to seek large additional cuts as well, as it has done in previous years. Last year's Senate budget resolution assumed cuts in the Earned Income Tax Credit which the President had not proposed, while the House budget resolutions for each of the past two years reflected substantial reductions in low-income entitlement programs not proposed by the Administration. Congressional committees may also seek to convert cuts the Administration may propose in *non*-low-income programs, such as farm subsidies, into cuts in low-income programs, such as food stamps.

Balanced Deficit-Reduction Efforts Have Worked in the Past

Both the bipartisan deficit-reduction package in 1990 (negotiated and signed by the first President Bush) and the deficit-reduction package enacted under President Clinton in 1993 reduced deficits significantly while protecting poor and vulnerable Americans.

Those measures combined program reductions with tax increases (primarily on high-income households), and did much to transform the large deficits of the late 1980s into the large surpluses of the late 1990s. At the same time, both measures strengthened programs that assist the working poor, such as the Earned Income Tax Credit.

One sensible component of a new deficit-reduction package would be the repeal of two significant tax cuts enacted in 2001 that are slated to phase in starting in 2006. Virtually all (97 percent) of the benefits of these two tax cuts will go to households with incomes exceeding $200,000 a year. Virtually none of the benefits will go to households with incomes below $100,000.

Repealing these two tax cuts, which were enacted at a time when large surpluses were thought to exist and which have not even begun to take effect, would save about $200 billion in the first decade they are fully in effect (assuming the tax cuts are extended). That would ease somewhat the pressure on Congress to make significant cuts in programs of importance to the neediest households.

"For Congress to cut programs that help vulnerable Americans while allowing a substantial new tax cut to go into effect that exclusively benefits high-income households — a group that already has received the lion's share of the tax cuts to date — would represent seriously unbalanced priorities," said Robert Greenstein, the Center's executive director.

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The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.

FACTS AND FIGURES

Cost and Distribution of the Tax Cuts

- Cost of 2001 and 2003 tax cuts in 2005: $248 billion
- Share of tax cuts going to top 10 percent of households (incomes above about $112,000) in 2004: 53 percent
- Share of tax cuts going to bottom 40 percent of households (incomes below around $25,000) in 2004: 5 percent

The Growing Income Gap

- Gain in after-tax income, 1979-2001, for top 1 percent of households: 139 percent ($408,800) (Dollar figures are adjusted for inflation and expressed in 2001 dollars.)
- Gain in after-tax income, 1979-2001, for middle 20 percent of households: 17 percent ($6,300)
- Gain in after-tax income, 1979-2001, for bottom 20 percent of households: 9 percent ($1,100)

Health Insurance

- Number of Americans without health insurance (2003): 45 million
- Share of Americans without health insurance (2003): 16 percent

Poverty

- Number of Americans living below the poverty line (2003): 36 million
- Share of Americans living below the poverty line (2003): 13 percent
- Share of children living below the poverty line (2003): 18 percent

The number of uninsured Americans rose between 2000 and 2003, as did the number of Americans living in poverty.

Along all three dimensions — income inequality, health insurance coverage, and poverty (especially among children) — the United States compares unfavorably to most other western industrialized nations.