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HOUSE BUDGET RESOLUTION CUTS KEY LOW-INCOME PROGRAMS
Yet Budget Finds Room for Further Tax Cuts for the Wealthy

by Sharon Parrott and Isaac Shapiro

The budget resolution passed by the House of Representatives on March 17 includes substantial reductions in key programs for low-income families, seniors, and people with disabilities while calling for large tax cuts whose benefits would flow largely to wealthy Americans. The budget resolution calls for an estimated $30 billion to $35 billion in cuts over the next five years from low-income “mandatory” (also known as “entitlement”) programs, including Medicaid, food stamps, and the Earned Income Tax Credit — a significantly higher level of cuts than were proposed in the President’s budget. Low-income Americans would absorb a large and disproportionate share of the cuts in mandatory programs. As much as half of the mandatory cuts would come from low-income programs.

The budget resolution the House adopted also calls for $106 billion in tax cuts over the next five years and puts $45 billion of these tax cuts on a legislative “fast track” to ease their enactment. The budget resolution includes an explicit assumption that the capital gains and dividend tax cuts would be extended. Analysis by the Urban Institute-Brookings Tax Policy Center shows that nearly half — 46 percent — of the benefits from the dividend and capital gains tax cuts accrue to the nation’s small handful of people with incomes exceeding $1 million a year, a group that constitutes only 0.2 percent of U.S. households.

The cuts proposed in low-income mandatory programs likely would result in increases in the number of low-income Americans who are uninsured or underinsured, reductions in key supports for low-income working families with children, increases in the extent and depth of poverty among seniors and people with disabilities, and reductions in nutrition assistance provided to poor families and individuals. These reductions are not part of a shared-sacrifice budget that reins in the deficit and restores fiscal discipline. Instead, these cuts are proposed as part of a budget that showers more tax benefits on wealthy Americans and *increases* the federal deficit over the next five years as compared to what the deficit would be under current policies.

This analysis does not examine cuts in domestic *discretionary* programs (programs funded by annual appropriations, except for programs related to defense and international affairs). It should be noted, however, that the House Budget Resolution calls for $216 billion in cuts to such programs. If low-income discretionary programs were cut by the same percentage as overall domestic discretionary programs, then these low-income programs would be cut by about $43 billion over five years.

The Size of the Reductions in Mandatory Programs

The Budget Resolution that the House approved on March 17 would cut mandatory programs by a total of $68.6 billion over the five-year period from 2006 through 2010. Over the period:

- *The cuts in the Medicaid program would total at least $15 billion and could be as much as $20 billion.*[1] For the purpose of comparison, this level of savings is roughly equal to the cost of the capital gains and dividend tax cuts that would go to the three to four percent of Americans with incomes above $200,000.[2]

- *Low-income programs under the jurisdiction of the House Ways and Means Committee would be cut by about $15 billion.*[3] This is roughly equivalent to the total amount that households with incomes exceeding $1 million will receive in tax cuts over the next five years from two tax cuts that were enacted in 2001 but have not yet taken effect. The two tax cuts in question, which are slated to phase in starting in 2006, affect only high-income households. These two measures repeal provisions of current law that limit the personal exemption and itemized deductions for taxpayers at high income levels.

- *The House Agriculture Committee would be required to cut farm and nutrition programs by a total of $5.3 billion.* The President's budget called for $600 million in food stamp reductions over this period, but some members of that Committee have indicated they intend to make much deeper cuts in the Food Stamp Program than the Administration has proposed so they can substantially reduce the size of, or eliminate, the farm cuts. The Food Stamp Program thus could be cut by as much as $5.3 billion. Even this large a cutback would be equivalent to just half of the benefits to households with incomes over $1 million of extending the capital gains and dividend tax cuts through 2010.

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[1] The Energy and Commerce Committee is required to secure $20 billion in cuts. A modest amount of these cuts may be achieved through the sale of spectrum rights, which the President's budget proposes. It also is possible that the full $20 billion in savings could come out of the Medicaid program. See the separate Center analysis by Victoria Wachino, "The House Budget Committee's Proposed Medicaid and SCHIP Cuts Are Larger Than Those the Administration Proposed," March 10, 2005.

[2] This calculation is based on distributional estimates of the tax cuts from the Urban-Brookings Tax Policy Center and cost estimates from the Joint Committee on Taxation.

[3] This estimate is calculated by assuming that the Ways and Means Committee would not cut the Medicare program, consistent with statements by House Budget Committee Chairman Nussle, and would not cut Social Security, because, under Congressional rules, changes to Social Security cannot be made in budget reconciliation. This estimate also assumes that cuts to the unemployment insurance program would not exceed those proposed by the Administration (as scored by the Congressional Budget Office). It seems unlikely that the Congress would cut the broad-based unemployment insurance program, which is financed by a dedicated funding source, deeper than the President has proposed. Finally, the estimate assumes that Congress would adopt the President's proposal related to fees recovered from the resolution of "dumping" trade disputes.

Altogether, these cuts in low-income mandatory programs would total between $30 and $35 billion over five years. (The low end of this range assumes $600 million in food stamp cuts; the high end assumes $5 billion in food stamp cuts. Both estimates assume that the Medicaid reduction is $15 billion, rather than the higher possible level of as much as $20 billion.) This represents between 44 percent and 51 percent all the cuts proposed to mandatory programs.[4]

The share of the reductions in mandatory programs that would come from low-income programs would far outstrip the much more modest contribution that these programs have made to the return of budget deficits. Measured as a share of the economy, expenditures for low-income mandatory programs increased by 0.6 percent of the Gross Domestic Product between 2000 and 2005 (in substantial part due to increased enrollments in programs caused by the economic slump). This is a very modest fraction of the overall deterioration in the fiscal situation over this period, which amounted to 5.7 percent of GDP. (The large majority of the deterioration was due to the fall in revenues.)

In another comparison, increases in low-income mandatory programs account for only a small fraction — six percent — of the cost in 2005 of all legislative changes enacted since January 2001. By contrast, nearly half of the cost in 2005 of these legislative changes reflect the cost of tax cuts while 37 percent stem from increases in defense, homeland security, and international aid costs.

Table I

Estimated Cuts in Low-Income Mandatory Programs Under the House Budget Resolution
(2006 – 2010)

Medicaid	at least $15 billion
Food Stamps	$600 million - $5.3 billion
Ways and Means Committee Programs, such as: *EITC, SSI, foster care/adoption assistance, TANF, child care, Social Services Block Grant*	$15 billion
Total	**$30 billion - $35 billion**

Source: Center on Budget and Policy Priorities calculations based on data provided in the House Budget Resolution and the Congressional Budget Office re-estimate of the proposals included in the Presidents FY 2006 proposed budget.

Examples of Potential Cuts in Benefits and Services for Low-Income Americans

A budget resolution does not provide specifics about how the cuts it calls for would be achieved. For example, the budget resolution that the House approved does not provide details about how the House Energy and Commerce Committee would change the Medicaid program to

[4] Spending on low-income mandatory programs represent 26 percent of total spending on mandatory programs.

achieve the $15 billion to $20 billion in Medicaid savings that apparently are called for under the budget plan. That Committee could choose to adopt some or all of the President's Medicaid proposals and develop additional proposals to achieve the balance of the cuts, or it could ignore the President's proposals and develop a new set of Medicaid reductions.

In the case of the cuts to the House Ways and Means Committee, there is little information about which programs under the Committee's jurisdiction would be cut to achieve the $18.7 billion in reductions that committee would be required to make. During the mark-up of the House Budget Resolution, Budget Committee Chairman Jim Nussle indicated that the Ways and Means Committee could achieve some of its savings by cutting the Earned Income Tax Credit. The EITC provides tax relief and supplements wages for low-income working families.

- If the Ways and Means Committee achieved *all* of their required savings from the EITC, the EITC would be cut by $3.9 billion in 2006, or 11 percent. To achieve reductions of this magnitude, the average EITC for low-income working families could be cut by about $200. Alternatively, 2 million low-income working families could be cut adrift from the program.

- If *half* of the cuts assigned to the Ways and Means Committee were made in the EITC, the credit would be cut by almost six percent in 2006. A cut of that magnitude could be achieved by reducing the average EITC by about $100. Alternatively, 1 million working families could be terminated.

Instead of targeting the EITC for disproportionate cuts, the Ways and Means Committee could decide to cut unemployment insurance as the President's budget proposes and to cut all other mandatory programs in its jurisdiction (other than Medicare and Social Security) by the same percentage. Table 2 shows the estimated level of cuts in selected low-income programs under the jurisdiction of the Ways and Means Committee under this assumption. If the cuts were made in this fashion:

- *The Supplemental Security Income (SSI) program for poor seniors and people with disabilities would be cut by $4.8 billion over five years,* and $1.2 billion in 2006. If the cut in 2006 were achieved by reducing the number of poor Americans who receive SSI benefits, 222,000 seniors and adults and children with disabilities would have to be terminated from the program. If instead the cut were implemented by reducing the average benefit for all recipients, poor seniors and individuals with disabilities would lose an average of $170 in benefits in 2006 and be pushed deeper into poverty.

- *TANF and child care funding to states would be cut by a combined $2.4 billion over five years,* and $660 million in 2006 alone. States use TANF for a broad array of benefits and services for low-income families, including child care assistance. States use child care block grant funds to provide child care assistance to low-income working families and to fund initiatives to improve the quality of care. The combined cut in TANF and child care in 2006 is equivalent to the cost of providing child care assistance to 132,000 children.

Table 2 shows that if all programs under the jurisdiction of the Ways and Means Committee were cut proportionately, the refundable child tax credit available to low-income working families would be cut by $1.6 billion over the next five years. If the Committee did not want to cut this popular tax credit, other programs under its jurisdiction would have to be cut more deeply.

Table 2

Possible Cuts in Selected Low-Income Programs Under the Jurisdiction of the Ways and Means Committee
(2006 – 2010)

Supplemental Security Income	$4.8 billion
Earned Income Tax Credit (refundable portion)	$4.2 billion
TANF and Child Care Block Grant (combined)	$2.4 billion
Child Tax Credit (refundable portion)	$1.6 billion
Foster Care and Adoption Assistance	$900 million
Child Support Enforcement	$600 million
Social Services Block Grant	$208 million

Source: Center on Budget and Policy Priorities.

Note: These calculations assume that Medicare and Social Security are not cut; the Administration's proposals are adopted with regard to cuts in Unemployment Insurance and elimination of payments related to trade "dumping" disputes; and all other programs in the committee's jurisdiction are cut by the same percentage.

Budget Finds Room for Tax Cuts for High-income Households

Rather than cutting these low-income programs, there are other, readily identifiable options to achieve the budget plan's deficit goal. The plan calls for $106 billion in tax cuts over the next five years. High-income households have benefited the most from the tax cuts already enacted and would benefit nicely from many of the proposed tax cuts.

The proposal to extend the capital gains and dividend tax cuts now scheduled to expire in 2008 stands out.[5] Data from the Tax Policy Center show that more than *half* of the benefits from extending these tax cuts would go to taxpayers with incomes over $500,000. About three-quarters of the benefits would go to taxpayers with incomes over $200,000.

The dividends/capital gains proposal would cost $23 billion between 2006 and 2010, even though they are not slated to expire until 2008. This is about two-thirds the amount that the cuts in low-income mandatory programs would save. In other words, the budget could reach the

[5] For a full analysis of these tax cuts, see the separate Center analysis by Joel Friedman, "Dividend and Capital Gains Tax Cuts Unlikely to Yield Touted Economic Gains," March 10, 2005.

same deficit target without most of its cuts in low-income mandatory programs if it simply did not extend this costly tax cut, or if it extended this tax cut but offset it with revenue raisers.

For example, if Congress is determined to extend the capital gains and dividend tax cuts, it could pay for the cost of doing so through revenue-raising measures to close unproductive tax breaks and reduce tax avoidance. (There would be a tradeoff here; rather than using these revenue-raising measures to pay for further tax cuts for high-income households, they could be used to offset the deficit or to fund other, more pressing priorities.)

In January, the Congressional Joint Committee on Taxation issued a major report outlining options to achieve about $190 billion in tax savings over the next five years (and $400 billion over ten years) through such types of measures. The House budget resolution rejects such an approach, however, and even builds into the budget plan a fast-track procedure that would facilitate the passage of extension of the capital gains and dividend tax cuts *without* paying for them with revenue increases.

As yet another alternative to most of the reductions in low-income mandatory programs, the budget resolution could have chosen to cancel two tax cuts enacted in 2001 that have not yet started to take effect and that will benefit only households with high incomes.[6] Analysis by the Tax Policy Center shows that 97 percent of these two tax cuts, which repeal existing limits on personal exemptions and certain itemized deductions for high-income taxpayers, will go to the 3 percent to 4 percent of taxpayers with incomes above $200,000. Repealing these two tax cuts before they took effect would increase revenues by $27 billion over the next five years, an amount that is equal to more than three-quarters of the cuts in low-income mandatory programs and greater than the proposed cuts in Medicaid and food stamps combined.

One final observation: high-income households would fare extraordinarily well under the recent tax cuts even if the capital gains and dividend tax cut is not extended and even if the two new tax cuts mentioned just above are not implemented starting in 2006. Millionaires, for instance, will receive tax cuts averaging $90,000 in 2005 *without* counting their average tax cut of $10,000 from the capital gains and dividend provisions.

[6] See Robert Greenstein, Joel Friedman, and Isaac Shapiro, "Two Tax Cuts That Benefit *Only* High-Income Households — Primarily Millionaires — Slated to Start Taking Effect in 2006," Center on Budget and Policy Priorities, revised February 24, 2005.

Appendix

Potential State-by-State Impacts of Cuts in Low-Income Mandatory Programs Under the House Budget Resolution

As discussed in the analysis, a budget resolution does not provide specifics about how cuts assigned to each congressional committee will be achieved. Committees can select which of the mandatory programs under their jurisdiction to cut and which program rules should be changed to achieve savings.

The following table shows the state-by-state distribution of potential cuts to some key low-income programs under the jurisdiction of the Ways and Means Committee. The data in the table are not meant to be precise estimates of how final reconciliation legislation will affect each state, but are intended to provide policymakers with a sense of how their states might be affected by cuts of the magnitude called for in the House Budget Resolution.

The table shows the state-by-state distribution of cuts in SSI, the EITC, TANF and child care, foster care and adoption assistance, and child support enforcement. The estimate of the total level of cuts nationally in each of these program was made by assuming that: (1) the Ways and Means Committee would not cut the Medicare program, consistent with statements by House Budget Committee Chairman Nussle, and would not cut Social Security;[7] (2) cuts to the unemployment insurance program would follow the Administration's proposals (as scored by the Congressional Budget Office), as would elimination of payments related to trade "dumping" disputes; and (3) all other programs under the jurisdiction of the committee would be cut by the same percentage.

The state estimates were computed by assuming that each state's share of the cut in a particular program would equal its share of federal funding for that program in the most recent year for which data are available.

While these estimates assume that each state's share of the cut in a particular program equals its proportion of federal funding for that program, it is important to note that, in practice, legislation to secure savings in the programs under the jurisdiction of the Ways and Means Committee may not affect all states proportionally. This is another reason why these figures should be treated as rough estimates of how individual states (and low-income families in each state) might be affected by cuts of the magnitude that would be required under the House Budget Resolution.

[7] Under Congressional rules, changes to Social Security cannot be made in budget reconciliation.

How Could States Be Affected by Cuts of the Magnitude Required Under the House Budget Resolution?

Potential Cuts to Key Low-Income Mandatory Programs Under the Jurisdiction of the Committee on Ways and Means: 2006 through 2010

(In Millions)

State	SSI	EITC	TANF and Child Care	Foster Care and Adoption	Child Support Enforcement
U.S. Total	-$4,758.6	-$4,243.7	-$2,432.0	-$914.7	-$557.0
Alabama	-$100.7	-$108.0	-$15.0	-$4.4	-$6.3
Alaska	-6.7	-6.0	-10.2	-2.6	-2.1
Arizona	-60.6	-76.1	-35.5	-10.0	-6.2
Arkansas	-51.4	-57.8	-9.1	-6.1	-4.0
California	-1,033.0	-460.6	-537.7	-228.1	-103.1
Colorado	-33.6	-45.1	-21.6	-13.5	-8.0
Connecticut	-33.6	-28.4	-38.4	-11.8	-6.2
Delaware	-8.2	-10.6	-4.7	-1.5	-2.4
District of Columbia	-14.5	-9.4	-13.3	-4.5	-2.4
Florida	-259.4	-303.9	-89.7	-22.8	-26.1
Georgia	-122.1	-178.8	-53.0	-10.3	-12.1
Hawaii	-15.4	-14.2	-14.2	-4.0	-1.1
Idaho	-12.7	-18.3	-5.1	-1.4	-3.8
Illinois	-174.0	-164.2	-84.3	-64.2	-17.9
Indiana	-61.3	-79.1	-29.8	-10.7	-5.5
Iowa	-24.5	-29.6	-18.9	-6.9	-4.5
Kansas	-23.6	-32.0	-14.7	-6.5	-6.1
Kentucky	-113.4	-64.7	-26.1	-9.7	-5.6
Louisiana	-104.8	-122.8	-26.1	-10.4	-5.6
Maine	-18.8	-14.6	-11.3	-5.2	-1.6
Maryland	-61.0	-63.3	-33.0	-24.5	-10.4
Massachusetts	-117.4	-50.4	-66.2	-14.3	-14.2
Michigan	-148.6	-119.6	-111.7	-34.4	-29.2
Minnesota	-43.7	-42.8	-38.6	-13.4	-13.1
Mississippi	-76.4	-86.1	-13.8	-2.3	-4.9
Missouri	-73.1	-81.8	-31.3	-12.6	-6.4
Montana	-8.8	-12.9	-6.7	-2.2	-1.5
Nebraska	-13.3	-19.6	-8.4	-4.6	-4.3
Nevada	-20.4	-28.5	-6.9	-3.3	-3.8
New Hampshire	-7.9	-10.0	-5.5	-2.5	-4.6
New Jersey	-100.1	-90.1	-58.2	-12.0	-17.1
New Mexico	-30.5	-38.9	-19.1	-5.2	-9.6
New York	-458.0	-279.7	-351.8	-97.2	-29.5
North Carolina	-113.8	-150.4	-48.7	-11.2	-10.9
North Dakota	-4.5	-6.9	-3.8	-2.0	-5.2
Ohio	-164.6	-147.2	-104.8	-57.1	-28.1
Oklahoma	-47.0	-61.4	-21.3	-5.9	-4.4
Oregon	-37.3	-37.8	-24.2	-8.6	-9.7
Pennsylvania	-218.4	-137.3	-103.6	-58.3	-21.3
Rhode Island	-20.3	-11.7	-13.7	-3.2	-0.9
South Carolina	-63.5	-87.1	-14.4	-5.2	-4.5
South Dakota	-7.2	-9.8	-3.2	-1.1	-6.2
Tennessee	-100.3	-108.6	-30.7	-5.7	-7.9
Texas	-264.9	-462.2	-77.6	-31.4	-25.7
Utah	-14.0	-25.1	-12.3	-4.1	-4.8
Vermont	-7.8	-6.1	-6.8	-2.8	-5.0
Virginia	-80.7	-93.5	-22.8	-17.2	-7.3
Washington	-75.8	-61.0	-58.2	-12.8	-10.9
West Virginia	-48.7	-27.0	-15.9	-5.3	-2.9
Wisconsin	-54.7	-50.8	-45.8	-17.0	-11.4
Wyoming	-3.5	-5.9	-3.1	-0.4	-1.0

For each program, cuts are allocated by state in proportion to each state's share of nationwide federal program spending in the most recent available year.