



# CENTER ON BUDGET AND POLICY PRIORITIES

## NEWS RELEASE

FOR IMMEDIATE RELEASE:  
March 30, 2005

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### POSSIBLE CUTS IN KEY LOW-INCOME PROGRAMS A MAJOR ISSUE IN HOUSE-SENATE BUDGET CONFERENCE

#### Report Gives State-by-State Estimates on Effects of House Budget

With House and Senate negotiators about to begin work on a compromise FY 2006 budget resolution, a new Center report shows how the reductions that the House budget would likely produce in a range of low-income “mandatory” (or “entitlement”) programs could affect individual programs and specific states if they are enacted.

The House budget could result in an estimated \$30 billion to \$35 billion in cuts over the next five years to such programs as Medicaid, food stamps, the Earned Income Tax Credit, Supplemental Security Income, Temporary Assistance for Needy Families, and child care. These cuts are *at least ten times larger* than the Senate budget’s cuts to these programs, which would affect only food stamps.

The House and Senate budgets are much closer in other areas. They both contain more than \$100 billion in tax cuts (which apparently would go mostly to high-income households), as well as more than \$200 billion in reductions in domestic *non-entitlement* programs and significant increases in defense spending.

“If the House has its way on the issue of cuts to mandatory programs, Congress will likely end up with a budget that cuts health care, nutrition assistance, and other help for vulnerable families at the same time it confers large tax breaks on upper-income households,” said Sharon Parrott, the Center’s director of welfare reform and income support and the report’s lead author.

#### **House Cuts Could Harm Low-Income Elderly, Families with Children, and People with Disabilities**

The cuts in the House budget would come from Medicaid, food stamps, and a set of programs overseen by the Ways and Means Committee, such as the EITC and Supplemental Security Income (SSI) for the elderly and disabled poor:

- **Health care.** The House budget would lead to \$15 billion to \$20 billion in cuts to Medicaid and/or the State Children’s Health Insurance Program over the next five years. (Over the course of a year, these programs provide more than 60 million people, roughly half of them children, with health coverage.) These cuts are much larger than those proposed by the Administration, according to cost estimates by the Congressional Budget Office. The House budget does not say *how* these cuts would be made, but almost certainly

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they would force states to cut back their programs in ways that would cause more Americans to become uninsured or underinsured.

- **Taxes on low-income working families.** The House budget would require the House Ways and Means Committee to cut \$18.7 billion over five years from programs under its jurisdiction. The EITC, a tax credit and wage supplement for low-income working families, was the only program House Budget Committee Chairman Nussle cited when he was asked where these cuts would come from.

If the *entire* \$18.7 billion in cuts came from the EITC, the credit would have to be cut by \$3.9 billion (11 percent) in 2006. To achieve reductions of this magnitude, 2 million families could be cut from the program or the average EITC for the 21 million low-income working households that receive the credit could be cut by about \$190 annually.

- **Assistance for the elderly and people with disabilities.** If the Committee does not achieve all of its required cuts from the EITC, it might make some cuts in programs such as SSI, which provides modest income assistance to roughly 7 million poor elderly and individuals with disabilities.

If the Committee met its target by cutting all low-income programs under its jurisdiction by the same percentage, SSI would be cut by \$4.8 billion over five years and by \$1.2 billion in 2006 alone. If that cut in 2006 were achieved by reducing the number of people who receive SSI benefits, 222,000 seniors and individuals with disabilities would have to be terminated from the program.

- **Funding for states for key human services.** The Ways and Means Committee also has jurisdiction over a set of programs that provide funding for states for key human services, including basic assistance and welfare-to-work programs for poor families with children, child care subsidies, services for abused and neglected children and foster and adoptive families, child support enforcement services, and adult day care for the elderly.

If the Committee cut all of its low-income programs by the same percentage, this set of programs would be cut by \$4.1 billion over five years and by \$1.1 billion in 2006 alone.

- **Food stamps.** The House budget assigns \$5.3 billion over five years in cuts to the Agriculture Committee, which oversees the Food Stamp Program and other farm, nutrition, and conservation programs. (The Senate budget assigns \$2.8 billion in cuts to the Agriculture Committee.)

House Agriculture Committee leaders say they plan to make much deeper cuts in food stamps than the Administration has proposed. According to the Agriculture Department, the Administration's proposed \$600 million in food stamp cuts would cause 300,000 people to lose food stamps by 2007.

## **Yet Deficit Would Grow Under Both Plans Because of Tax Cuts and Spending Increases**

The Center's report also shows that both the House and Senate budgets would cause deficits over the next five years to be more than \$100 billion larger than they would be if no policy changes were made. This is because both plans contain large tax cuts and sizeable defense increases. As a result, the House budget's cuts in low-income mandatory programs would *not* be used to reduce the deficit; instead, they would help "pay for" some of the tax cuts in the budget.

Moreover, the tax cuts in the House and Senate budgets would mostly help high-income families. For example, nearly half of the benefits of extending existing capital gains and dividend taxes for two more years would go to households with annual incomes of more than \$1 million. (The cost of these tax-cut extensions, \$23 billion, is about two-thirds the size of the House's cuts in low-income mandatory programs, so the House could have eliminated two-thirds of these program cuts with no effect on the deficit simply by choosing not to extend the capital gains and dividend tax cuts. Alternatively, the House could have extended those tax cuts but covered the costs of doing so by curbing tax shelters and other unproductive tax breaks.)

"Basically, the House approach is to help pay for tax cuts tilted toward *high*-income households by cutting many forms of basic assistance to *low*-income households," Parrott noted. "The big question now is whether the Senate — which itself has approved a budget that features substantial reductions in domestic discretionary programs and tax cuts tilted toward high-income households — will go along with the even harsher House approach."

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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.