Low-Income Programs Not Driving Nation’s Long-Term Fiscal Problem

Programs Outside Health Projected to Decline Relative to Economy

By Robert Greenstein, Richard Kogan, and Isaac Shapiro

Programs assisting low- and moderate-income people are not driving the nation’s long-term fiscal problems, contrary to the assertions some policymakers and analysts make. Lawmakers should bear this in mind as they consider proposals for deep cuts in this part of the budget.

Low-income program spending grew significantly between 2007 and 2010 in response to the severe recession, helping to mitigate its worst effects. But as a percent of the economy, federal spending on low-income programs other than health care has fallen considerably since then. Currently such spending, as a percent of gross domestic product (GDP), is below its level in the year before President Obama’s inauguration and equals its average level over the past 40 years. New Congressional Budget Office (CBO) estimates indicate, moreover, that spending on low-income programs other than health care will fall below its 40-year average in 2018 and continue declining as a percent of GDP over the next decade. (See Figure 1.)

These trends indicate that low-income programs do not add to the nation’s long-term fiscal problem — they are not the reason that CBO projects that debt will rise faster than the economy in future decades. Nor are they especially generous or expensive. In total, federal spending on low-income programs outside health care averages about 2 percent of GDP, claiming two cents for every dollar the economy produces.

Specifically, federal spending for low-income programs outside health care — including refundable tax credits such as the Earned Income Tax Credit — rose from 1.9 percent of GDP in 2007 to a peak of 2.9 percent of GDP in 2010 and 2011. This rise reflected increased need during the downturn as well as policies adopted in response. But as a percent of the economy, this spending has now dropped six years in a row, to the prior 40-year average of 2.1 percent of GDP. It is projected to decline further, to 1.7 percent, by 2027, which would be the lowest level since 1990.


2 The budget projections in this analysis come from CBO. The authors categorized programs as low-income, or not.
Spending on low-income health care programs also rose sharply in response to the recession and then fell as a percent of GDP in 2012. But this spending then started rising again, and is expected to continue rising as a percent of GDP over the next decade. The upward trend results from factors such as the longstanding rise in costs throughout the U.S. health care system — which affects private-sector health care spending as much as public programs such as Medicaid — and the aging of the population. Coverage expansions under the Affordable Care Act (ACA) also increased costs in recent years, though the ACA’s revenue-raising provisions more than covered those increases.

Over the coming decade, the projected rise in spending on low-income health programs as a percent of GDP, as estimated by CBO, will be fully offset by the projected decline in other low-income programs. Overall spending on low-income programs — health and non-health combined — is expected to be 4.7 percent of GDP in 2017, falling slightly to 4.6 percent in 2027.

To ignore these facts and impose large cuts in low-income programs in the mistaken belief that low-income spending is growing rapidly would have serious consequences. Low-income programs such as SNAP (formerly known as food stamps), Supplemental Security Income for the elderly and disabled poor, Medicaid, and the ACA’s premium subsidies keep millions of families out of poverty, reduce the depth of poverty for millions more, help tens of millions of people obtain health insurance, and improve the nutrition, housing, and education of families in need. The dramatic budget cuts that the Trump Administration is reportedly considering, which could exceed the also
dramatic cuts proposed by previous congressional Republican budgets, would threaten these accomplishments.3

**Low-Income Programs Outside Health Care Are Small and Shrinking Relative to the Economy**

Federal spending for low-income programs other than health care has averaged about 2 percent of the economy over the last 40 years and is projected to fall below that average in coming years (see Figure 1). Put differently, of every dollar the economy produces, about two cents are devoted to these programs, which assist families living near or below the poverty line.

Figure 2 shows the major components of federal spending for low-income programs other than health programs in 2017, including both discretionary (annually appropriated) and mandatory (entitlement) programs.

**FIGURE 2**

<table>
<thead>
<tr>
<th>Expenditures in 2017 for Low-Income Programs Other Than Health Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>SNAP, WIC, child nutrition, etc.</td>
</tr>
<tr>
<td>Refundable tax credits (CTC, EITC, etc.)</td>
</tr>
<tr>
<td>Supplemental Security Income</td>
</tr>
<tr>
<td>Education and training</td>
</tr>
<tr>
<td>Housing Assistance</td>
</tr>
<tr>
<td>TANF, foster care, child care, LiHEAP, and related programs</td>
</tr>
<tr>
<td>All others</td>
</tr>
</tbody>
</table>

SNAP = Supplemental Nutrition Assistance Program; WIC = Special Supplemental Nutrition Program for Women, Infants, and Children; CTC = Child Tax Credit; EITC = Earned Income Tax Credit; TANF = Temporary Assistance for Needy Families; LiHEAP = Low Income Home Energy Assistance Program

Note: Figures do not add to 100% due to rounding.
Source: Congressional Budget Office data

Outside health care, spending on low-income discretionary programs such as education and training and housing assistance is already slightly below its 40-year average as a percent of GDP, and CBO

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projects it will decline further. Going forward, this drop will be driven by the 2011 Budget Control Act’s (BCA) cap on annual non-defense discretionary (NDD) funding, as further reduced by sequestration, which will shrink overall NDD spending substantially over the coming decade. Total NDD spending is slated to fall from 3.2 percent of GDP in 2017 to 3.0 percent in 2019 — the lowest level on record, with data going back to 1962 — and then to 2.6 percent in 2027.

Such a large decline in overall NDD appropriations makes it virtually inevitable that spending for low-income programs in this part of the budget will decline as well. If low-income discretionary programs shrink by the same percentage as NDD spending as a whole, spending for low-income discretionary programs (other than health programs) will fall from 0.7 percent of GDP in 2017 to 0.5 percent by 2027, the lowest level since 1966.

Federal spending on low-income mandatory programs outside of health care generally rose during the recession but has fallen during the recovery:

- In 2017, federal spending for low-income mandatory programs outside health care will equal 1.5 percent of GDP, somewhat above the 40-year average of 1.3 percent of GDP. These programs’ costs rose from 2007 through 2011 but have diminished significantly since then.

- Spending for low-income mandatory programs outside health care will continue to decline over the next decade. CBO projects that this spending will fall to 1.2 percent of GDP, or below its historical average, by 2024. Specifically, CBO projects spending on each of the three largest low-income mandatory programs outside health care — refundable tax credits for the working poor, SNAP, and Supplemental Security Income (which assists elderly and disabled people with little or no income) — will fall as a percent of the economy over the next decade.\(^4\)

Together, mandatory and discretionary low-income expenditures outside health care now total 2.1 percent of GDP, equivalent to their 40-year average. Over the next decade, they will fall to about 1.7 percent of GDP, significantly below that historical average.

**Low-Income Health Programs Growing Relative to Economy**

Medicaid is the largest low-income health program. Others include the Children’s Health Insurance Program (CHIP), subsidies to help pay the premiums and cost-sharing for low-income beneficiaries of Medicare’s prescription drug program, and subsidies to help purchase coverage and reduce cost-sharing in the ACA’s health insurance marketplaces. CBO projections indicate spending on low-income health programs will grow from 2.5 percent of GDP in 2017 to 2.9 percent in 2027.

This projected rise in costs over the coming decade, relative to GDP, is due to several factors. To begin with, costs throughout the U.S. health care system — in both the public and private sectors — have been growing faster than GDP for several decades. This remains true even though health care

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cost growth has slowed noticeably in recent years.\(^5\) CBO projects that health care costs will continue to grow at a moderate pace; while a share of the recent cost slowdown is expected to be temporary, a portion is expected to be more long-lasting.\(^6\)

Medicaid isn’t the cause of system-wide health care cost growth; in fact, per-beneficiary costs have risen more slowly in Medicaid than under private insurance over the past decade and are expected to rise no faster than private insurance costs in coming years (according to the Medicaid and CHIP Payment and Access Commission).\(^7\) Moreover, per-beneficiary costs in Medicaid are substantially lower than those under private insurance (after adjusting for differences in beneficiaries’ health status), largely because Medicaid pays providers much lower rates and has lower administrative costs and no profit margin.\(^8\) Even so, Medicaid is not immune to system-wide health care cost increases, which are driven in part by medical advances that improve health and lengthen life but add to costs. Medicaid costs are still expected to rise faster than GDP in coming years and decades.

Another reason that Medicaid costs have risen and will continue to rise faster than GDP is the aging of the population. By 2027, an estimated 18.8 percent of Americans will be elderly, up from 15.1 percent in 2017 and 10.6 percent in 1977. Older people have much higher average health care costs than younger people do and hence account for a disproportionate share of Medicaid costs (as do people with serious disabilities).\(^9\) As the population ages, the number and share of Medicaid beneficiaries who are elderly will increase, raising program costs. The same phenomenon will push up the costs of the low-income subsidies for Medicare’s prescription drug program.

Although CBO projections show that spending on low-income health programs will rise as a percent of GDP, it also projects that spending on low-income programs outside health will fall at roughly an equivalent pace. As a result, after peaking at 5.0 percent of GDP in 2010, total spending on low-income programs is expected to equal 4.7 percent of GDP in 2017 and 4.6 percent in 2027. (See Table 1.) As a percent of GDP, total spending on low-income programs now exceeds the 40-year average and is projected to remain above it, due to the growth in low-income health programs.

\(^5\) Health care cost growth slowed to historically low annual rates during the recession and recovery. According to the National Health Expenditure projections from the Office of the Actuary at the Centers for Medicare and Medicaid Services, health spending growth will tick up slightly in the next few years but will remain well below pre-recession growth rates. Sean P. Keehan et al., “National Health Expenditure Projections: 2015-25,” Health Affairs, July 2016, http://content.healthaffairs.org/content/early/2016/07/12/hlthaff.2016.0459.full.


TABLE 1

Spending on Low-Income Programs (percent of GDP)

<table>
<thead>
<tr>
<th></th>
<th>1977-2016 average</th>
<th>2010</th>
<th>2017</th>
<th>2027</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-income programs, excluding health</td>
<td>2.1</td>
<td>2.9</td>
<td>2.1</td>
<td>1.7</td>
</tr>
<tr>
<td>Low-income health programs</td>
<td>1.2</td>
<td>2.2</td>
<td>2.5</td>
<td>2.9</td>
</tr>
<tr>
<td>Total, all low-income programs</td>
<td>3.3</td>
<td>5.0</td>
<td>4.7</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Source: CBPP calculations based on Office of Management and Budget and Congressional Budget Office data

Long-Term Fiscal Problem Is Challenging but Manageable

If the question is whether low-income programs are contributing to the nation’s longer-term budget challenges, the answer is that, outside of health care costs, the opposite is the case: those programs are shrinking modestly as a percent of GDP, and are on path to fall below their 40-year average in 2018 and then edge down further. Even though spending on low-income health programs is continuing to rise, total spending on low-income programs is projected to decline slightly over the next decade, measured as a percent of the economy.

This picture is consistent with another CBPP analysis, which finds that outside of Social Security and Medicare, total federal program spending already is below its 40-year average as a percent of GDP and is projected to decline further. When Social Security and Medicare are added in, total program spending will rise by the end of the decade, from 19.3 percent of GDP in 2017 to 20.7 percent in 2027. Spending on Social Security and Medicare will rise by 2.2 percent of GDP during this period, more than accounting for the rise in overall program spending. This increase in Social Security and Medicare spending largely reflects the aging of the population, but also reflects the continuing rise in health care costs.

The nation faces a challenging but manageable long-term fiscal problem. Rising Social Security and health care costs and increased interest payments on the debt (primarily reflecting the effect of higher interest rates as the economy continues to recover), coupled with insufficient revenue levels, mean that after 2018, debt is projected to climb slowly as a percent of GDP through 2046. Debt cannot grow indefinitely as a percent of GDP without eventually causing economic harm. Policymakers should address this long-term trend in a balanced fashion.

Nonetheless, the assumption that safety-net programs as a whole are experiencing ever-increasing costs and contributing to the long-run budgetary challenge is mistaken.

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