

Trickle Down Economics in Full Flow

Center for Impact Research

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Economists and politicians may have missed the mark on their trickle down theorizing in the past, but we are seeing today a troubling variation on the same theme.

The combination of federal social policies, tax cuts that favor the wealthy, appropriations for the war against Iraq, and the economic recession is leading to substantial reductions in federal expenditures on vital anti-poverty programs at the national, state, and local levels. In this context, the trickle down effect means that federal fiscal policy adversely affects low-income children, women, and men living in city neighborhoods and suburbs, small towns and rural communities throughout the United States.

National Economic Indicators and the Federal Budget

In February 2003, the national unemployment rate was 5.8%; it is projected to remain at this level until June 2003.¹ An estimated 11.7% of the population or 32.9 million people in the United States are living below the official federal poverty line² (\$15,260 for a family of 3).³ And many millions more have difficulty feeding and housing their families. Approximately 16.3% of the children in the United States are living in poverty.⁴

The projected federal deficit for FY03 is \$304 billion.⁵ The federal tax cuts proposed by President Bush for fiscal year 2004 (10-year plan) is \$726 billion; the Senate is proposing a \$350 billion tax cut.⁶

Impact on Federal Programs

The House Budget Resolution includes cuts to selected programs, many of which assist vulnerable, disadvantaged, and at-risk populations. In its Resolution, the House requires \$265 billion in cuts over the next 10 years in mandatory or entitlement programs.⁷ As much as \$165 billion or 62% of these cuts will target programs for low-income children and adults.⁸ The Senate Budget Resolution does not contain these provisions; the differences between the two resolutions are currently being negotiated in conference committee.

Department of Education

The House Budget Resolution for FY04 eliminates 45 Education Department programs, freezes spending on the Child Care Development Block Grant, and makes the following cuts:⁹

\$400 million After-school programs

\$300 million Vocational education

\$50 million State and Drug Free School Program

Department of Health and Human Services

In his budget proposal, President Bush asked for \$265 billion in cuts to health, nutrition, and child welfare programs. Under the House's budget plan, over a ten-year period, the low-income mandatory programs will experience the following cuts:¹⁰

\$92.1 billion Medicaid and State Children's Health Insurance Plan (SCHIP)

\$18.5 billion Supplemental Security Income (SSI)

\$13.8 billion Earned Income Tax Credit (EITC)

\$12.5 billion Food Stamps

\$ 7.9 billion Temporary Assistance to Needy Families (TANF)

\$ 5.8 billion Child Nutrition

\$ 3.7 billion Foster Care and Adoption Assistance

\$ 1.2 billion Child Care

Department of Labor

The House budget for FY04 proposes the following cuts to the Department of Labor programs covered by the Workforce Investment Act:¹¹

\$166 million Dislocated Worker Programs

\$127 million Youth Activities Programs

\$83 million Migrant and Seasonal Farmworker Programs

\$50 million Adult worker Programs

\$44 million Youth Opportunity Grants

Illinois Economic Indicators and the Illinois State Budget

The effects of the economic and budgetary situation at the national level are evident at the state level. In January 2003 the unemployment rate in Illinois was 6.3%.¹² A total of 244,303 people in Illinois live below the federal poverty line (May 2002),¹³ which includes 14.3% of all Illinois children.¹⁴

The Illinois state budget deficit is projected to be \$4.8 billion by the end of June 2004.¹⁵ The Governor has ordered all agencies to reduce administrative expenses by 10%.¹⁶ The proposed FY04 budget reduces total expenditure by \$500 million.¹⁷

Impact on State Programs

The House Budget Resolution has serious repercussions for federal programs that assist Illinois children and adults. The estimated reductions for program expenditure in Illinois over the next 10 years are:¹⁸

\$2.8 billion Medicaid and State Children's Health Insurance Plan (SCHIP)

\$710 million Supplemental Security Income (SSI)

\$623 million Food Stamps

\$534 million Earned Income Tax Credit (EITC)

\$275 million Temporary Assistance for Needy Families (TANF)

\$248 million Foster Care

\$222 million Child Nutrition

\$56 million Childcare

Illinois Department of Human Services

Due to budget cuts, the Department has reduced its staff by 26% or 1,100 people (300 laid off and 800 early retirements) during 2002 and 2003.¹⁹ Eleven local service offices are proposed to close throughout the state.

Chicago Economic Indicators and the City of Chicago Budget

The same trends seen at the national and state levels are also affecting Chicago, which has even higher unemployment and poverty rates. In January 2003, unemployment in Chicago was 7.1%.²⁰ An estimated 20% of people in Chicago are living under the poverty line; 30% of children; and 21% of senior citizens.²¹ The City's FY 04 budget shortfall is estimated to be as high as \$116 million.²²

Impact of Projected Revenue Shortfalls on City Programs

Projected cuts to the City departments were not yet announced at the time the newsletter went to press. However, significant cuts to all programs are expected to offset severely reduced revenues from federal, state, and local sources.

¹ "Employment Situation Summary," Bureau of Labor Statistics, www.bls.gov. Accessed 3/25/2003.

² "Poverty Rate Rises, Household Income Declines, Census Bureau Reports," United States Department of Commerce, www.census.gov. Accessed March 25, 2003.

³ U.S. Department of Health and Human Services, 2003 Poverty Guidelines, <http://aspe.hhs.gov/poverty/03poverty.htm>. Accessed March 25, 2003.

⁴ "Poverty Rate Rises, Household Income Declines, Census Bureau Reports," United States Department of Commerce, www.census.gov. Accessed March 25, 2003.

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- ⁵ “Senator Enzi, Budget Committee Begin Shaping Federal Budget,” <http://enzi.senate.gov/budget3.htm>. Accessed March 25, 2003.
- ⁶ “House Passes 2004 Budget,” New York Times, www.nytimes.com. Accessed March 24, 2003.
- ⁷ “House Budget Plan Calls for Deep Cuts in Key Low-income Entitlement Programs,” Center on Budget and Policy Priorities, www.cbpp.org. Accessed March 25, 2003.
- ⁸ “The Human Costs of Cuts in Major Low-income Programs Contained in the House Budget Resolution,” Sharron Parrot and John Springer, Center on Budget and Policy Priorities, www.cbpp.org. Accessed March 28, 2003.
- ⁹ “FY2004 Bush Budget, Shortchanging Education Reform,” Democratic Staff of the Committee on Education and the Workforce, U.S. House of Representatives, February 3, 2003. <http://www.ldonline.org/news/bush2004budget.pdf>. Accessed March 25, 2003.
- ¹⁰ Ibid.
- ¹¹ “Overview of the President’s FY03 Budget Proposal for Employment and Training Programs,” Working for America Institute, www.workingforamerica.org. Accessed March 25, 2003.
- ¹² “January Employment Increases by 17,000 Jobs,” Illinois Economic Bulletin, www.illinois.biz.biz. Accessed March 25, 2003.
- ¹³ “Illinois Residents’ Standard of Living Improves During 1990s, New Census Data Shows Increase in Household Income, Decrease in Poverty,” Press Release, Department of Commerce and Community Affairs, May 14, 2002.
- ¹⁴ “Illinois Kids Count 2003: The Window of Opportunity,” Voices For Illinois Children, www.voices4kids.org. Accessed March 25, 2003.
- ¹⁵ “State Budget Director Outlines \$4.8 billion Deficit Facing Illinois,” Illinois Government News Network, www.illinois.gov. Accessed March 25, 2003.
- ¹⁶ “Budget Cuts Threaten Working Opportunities Campaign Initiatives,” State of Illinois, www.illinois.gov. Accessed March 25, 2003.
- ¹⁷ “Special Session Ends with Nearly \$500 Billion in Cuts,” *Weekly Review*, June 23, 2002.
- ¹⁸ “Budget Plan Calls for Deep Cuts in Key Low-income Programs,” Center on Budget and Policy Priorities, www.cbpp.org. Accessed March 27, 2003.
- ¹⁹ “A Disaster in the Making: How DHS Budget Cuts are Placing Illinois Families in Jeopardy,” Anne Irving, AFSCME, Illinois Council 31, October 2002.
- ²⁰ “Unemployment Rate: Chicago, IL PMSA; Percent: NSA,” Economic Time Series, www.economagic.com. Accessed March 26, 2003.
- ²¹ “Population and Housing Profile: Chicago City, Illinois,” U.S. Census Bureau, www.census.gov. Accessed March 26, 2003.
- ²² “Cities in Crisis,” Catherine Valenti, *ABC News*, www.abcnews.com. Accessed March 25, 2003.