The Nonprofit Sector and the Federal Budget: Analysis of President Bush’s FY 2007 Budget

by

Alan J. Abramson, Lester M. Salamon and John Russell

2006

THE ASPEN INSTITUTE
The Nonprofit Sector and the Federal Budget: 
Analysis of President Bush’s FY 2007 Budget

by

Alan J. Abramson
Aspen Institute
Alan.Abramson@aspeninstitute.org

Lester M. Salamon
Johns Hopkins University
LSalamon@jhu.edu

John Russell
Aspen Institute
John.Russell@aspeninstitute.org

2006

The opinions and conclusions expressed in this Working Paper are the authors’ and not those of the Aspen Institute, the Nonprofit Sector Research Fund, or their funders.
Nonprofit Sector Research Fund

The Nonprofit Sector Research Fund (NSRF) was established in 1991 to increase understanding of the nonprofit sector and philanthropy. Since its founding, the Fund has awarded a total of $10 million to support over 400 research projects on a broad range of nonprofit topics. NSRF is currently focusing its work in three broad areas: public policy affecting nonprofits, social entrepreneurship, and foundation policy and practice. In each area, NSRF is identifying priority research topics, supporting research and dialogue on these topics, communicating research findings to appropriate audiences, and working with other organizations to facilitate the use of new knowledge to improve relevant practices and policies.


Publications

The Nonprofit Sector Research Fund produces a variety of publications, including Snapshots, concise research briefings that highlight practical and policy-relevant findings reported by Fund grantees; the Aspen Philanthropy Letter, an e-newsletter on new developments in the field of philanthropy; books, such as Building Wealth and Organizing Foundations for Maximum Impact; and working papers that present findings of Fund-supported research.

A complete list of publications is available from the Fund by calling (202) 736-2500 or visiting our website at www.nonprofitresearch.org. Publications may be ordered through the Aspen Institute Fulfillment Office at (410) 820-5338.

Working Papers

Working papers are not formally peer-reviewed. The Fund invites reader feedback on working papers and can convey reader comments to author(s).

A complete list of Working Papers is available from the Fund by calling (202) 736-2500 or visiting our website at www.nonprofitresearch.org. Individual copies may be ordered through the Aspen Institute Fulfillment Office at (410) 820-5338.
Nonprofit Sector Research Fund Council

Audrey R. Alvarado  
Executive Director  
National Council of Nonprofit Associations

James Allen Smith  
Waldemar A. Nielsen Professor of Philanthropy  
Georgetown Public Policy Institute  
Georgetown University

Elizabeth T. Boris  
Director  
Center on Nonprofits and Philanthropy  
The Urban Institute

Steven Rathgeb Smith  
Professor, Nonprofit Management Program  
University of Washington

Stacey Daniels-Young  
President  
Black Health Care Coalition

Pat Willis  
Executive Director  
Voices for Georgia’s Children

Virginia Hodgkinson, Chair  
Research Professor of Public Policy  
The Georgetown Public Policy Institute  
Georgetown University

Julian Wolpert  
Professor of Geography, Public Affairs and Urban Planning  
Woodrow Wilson School of Public and International Affairs  
Princeton University

Peter Reiling, Ex Officio  
Executive Vice President for International and Policy Programs  
The Aspen Institute

Nonprofit Sector Research Fund Staff

Alan J. Abramson, Director  
Elizabeth Myrick, Senior Associate

Carrie Kovar, Program Assistant  
John Russell, Program Coordinator

Winnifred Levy, Communications Manager  
Cinthia H. Schuman, Associate Director

Rachel Mosher-Williams, Project Director

For further information on the Nonprofit Sector Research Fund, contact:

Nonprofit Sector Research Fund  
The Aspen Institute  
One Dupont Circle, NW  
Suite 700  
Washington, DC 20036

(202) 736-2500 / (202) 293-0525 fax  
e-mail: nsrf@aspeninstitute.org  
www.nonprofitresearch.org
The Nonprofit Sector and the Federal Budget: Analysis of President Bush’s FY 2007 Budget

by

Alan J. Abramson, Lester M. Salamon, and John Russell

Overview

The budget proposals that President Bush recently submitted to Congress, covering fiscal year 2007 and beyond, would put new demands on the nation’s private, nonprofit organizations at the same time they would reduce the federal support going to these organizations to provide services.¹ In particular, our analysis of the president’s FY 2007 budget indicates that:

- Over the five years, FY 2007-2011, the Bush Administration’s latest budget proposals would reduce federal spending on programs of interest to nonprofits, outside of Medicare and Medicaid, by a cumulative total of $78.6 billion below current FY 2006 levels, after adjusting for inflation.

- If the president’s proposals were enacted, federal funding of nonprofits, excluding support of nonprofit health organizations through the Medicare and Medicaid programs, would decline during the five years, FY 2007-2011, by a cumulative total of $14.3 billion below FY 2006 levels after adjusting for inflation.

- The impact of the president’s proposed spending plan on the nation’s nonprofit organizations would be even more severe were it not for the projected continued growth of the Medicaid program, which now delivers important assistance to nonprofit organizations outside of the health field. But significant pressures exist at the state level to reduce Medicaid spending. If Medicaid support of non-health organizations (e.g. social service organizations) is also excluded (along with Medicare and Medicaid support of health organizations), then during FY 2007-2011 federal support of non-health nonprofits would decline by a cumulative total of $23.8 billion below FY 2006 levels under the president’s budget.

The balance of this report examines these findings in greater detail and puts them into context in terms of the recent history of federal spending changes and their impact on the country’s nonprofit organizations.

**How Federal Budget Decisions Affect Nonprofits: Two Kinds of Impacts**

The nonprofit sector and government are often viewed as operating independently of one another and as alternative ways to respond to human needs. In reality, however, nonprofits and government are deeply intertwined, with the two sectors working hand-in-hand to address many of the nation’s social and economic problems. As a consequence, federal budget decisions affect nonprofit organizations in at least two important ways:

- **Demand on Nonprofits**: First, by determining the overall level of government resources available to address public problems and hence the need, or demand, for nonprofit services; and
- **Revenue of Nonprofits**: Second, by affecting the revenues that nonprofit organizations have available to respond to these needs since a significant portion of nonprofit revenues come from federal programs.

**The President’s FY 2007 Budget and Overall Federal Spending on Programs of Interest to Nonprofits**

In terms of the first of these impacts, President Bush’s FY 2007 budget would increase overall federal outlays for programs in areas where nonprofit organizations are active by a cumulative total of $195.5 billion from FY 2007 to FY 2011 as compared to FY 2006 levels, after adjusting for inflation. Even so, these increases would not keep up with the projected overall growth of the economy. As a result, by FY 2011 federal spending in these fields as a percentage of GDP would slip 2 percent below its FY 2006 level.

Moreover, the proposed increases in overall federal spending for programs of interest to nonprofits are heavily concentrated in a single program area: health finance. As shown in Table 1, the health finance program area, which includes Medicare and Medicaid, is by far the largest and fastest growing area of those examined here, and the only one that would expand as a share of GDP. Excluding Medicare and Medicaid, federal spending in the remaining areas of interest to nonprofits is projected to fall a cumulative total of $78.6 billion over the five years, FY 2007-2011, ending up in FY 2011 with a 17 percent smaller share of GDP.

As shown in Table 1, these cuts affect nearly every program area of interest to nonprofits. While some program areas, like international aid and social services, would experience a cumulative increase during FY 2007-2011 in dollar terms, spending in all fields (except health) would drop between FY 2006 and FY 2011 as a percentage of GDP.
Social Welfare

Spending on social welfare programs, including social services, employment and training, and community development activities, is projected to fall relative to FY 2006 funding levels by a cumulative total of $13.6 billion during FY 2007-2011.

Within this broad area, Federal social service outlays under the President’s budget will increase by a cumulative total of $7.6 billion over the next five years. However, nearly all of this growth comes from increased social service-oriented spending through the Medicaid program. In contrast, the president’s budget would cut many other major social service programs, including the Social Services Block Grant and Head Start. In addition, it would sharply reduce spending on community development.

<table>
<thead>
<tr>
<th>Program Area</th>
<th>FY 2006 Outlays</th>
<th>Change, FY 2011 vs. FY 2006</th>
<th>Cumulative Change, FY 2006 Level</th>
<th>Percent Change FY 2011 vs. FY 2006 as a Percent of GDF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Welfare</td>
<td>$63.4</td>
<td>$0.0</td>
<td>0%</td>
<td>-$13.6</td>
</tr>
<tr>
<td>Social services&lt;sup&gt;c&lt;/sup&gt;</td>
<td>46.6</td>
<td>3.9</td>
<td>8</td>
<td>7.6</td>
</tr>
<tr>
<td>Employment and training&lt;sup&gt;c&lt;/sup&gt;</td>
<td>5.9</td>
<td>-0.3</td>
<td>-5</td>
<td>-1.3</td>
</tr>
<tr>
<td>Community development&lt;sup&gt;c&lt;/sup&gt;</td>
<td>10.9</td>
<td>-3.6</td>
<td>-33</td>
<td>-19.9</td>
</tr>
<tr>
<td>Education and Research</td>
<td>91.2</td>
<td>-10.7</td>
<td>-12</td>
<td>-31.0</td>
</tr>
<tr>
<td>Elementary and secondary&lt;sup&gt;c&lt;/sup&gt;</td>
<td>37.7</td>
<td>-5.5</td>
<td>-15</td>
<td>-15.5</td>
</tr>
<tr>
<td>Higher education&lt;sup&gt;c&lt;/sup&gt;</td>
<td>22.3</td>
<td>-2.9</td>
<td>-13</td>
<td>-9.0</td>
</tr>
<tr>
<td>Research and development</td>
<td>31.2</td>
<td>-2.2</td>
<td>-7</td>
<td>-6.4</td>
</tr>
<tr>
<td>Health</td>
<td>615.9</td>
<td>83.9</td>
<td>14</td>
<td>267.7</td>
</tr>
<tr>
<td>Health finance&lt;sup&gt;b&lt;/sup&gt;</td>
<td>586.1</td>
<td>86.4</td>
<td>15</td>
<td>276.5</td>
</tr>
<tr>
<td>Health services</td>
<td>29.8</td>
<td>-2.5</td>
<td>-8</td>
<td>-8.8</td>
</tr>
<tr>
<td>Income Assistance</td>
<td>212.8</td>
<td>-5.8</td>
<td>-3</td>
<td>-27.2</td>
</tr>
<tr>
<td>Housing&lt;sup&gt;c&lt;/sup&gt;</td>
<td>38.3</td>
<td>-7.1</td>
<td>-18</td>
<td>-18.7</td>
</tr>
<tr>
<td>Cash</td>
<td>97.4</td>
<td>7.7</td>
<td>8</td>
<td>15.9</td>
</tr>
<tr>
<td>Food&lt;sup&gt;c&lt;/sup&gt;</td>
<td>55.3</td>
<td>-1.7</td>
<td>-3</td>
<td>-9.2</td>
</tr>
<tr>
<td>Other</td>
<td>21.8</td>
<td>-4.7</td>
<td>-22</td>
<td>-15.3</td>
</tr>
<tr>
<td>International Aid</td>
<td>16.0</td>
<td>0.9</td>
<td>5</td>
<td>1.8</td>
</tr>
<tr>
<td>Arts and Culture</td>
<td>1.9</td>
<td>-0.4</td>
<td>-22</td>
<td>-1.7</td>
</tr>
<tr>
<td>Environment</td>
<td>0.3</td>
<td>-0.2</td>
<td>-55</td>
<td>-0.5</td>
</tr>
<tr>
<td>Total&lt;sup&gt;c&lt;/sup&gt;</td>
<td>$1,001.4</td>
<td>$67.7</td>
<td>7%</td>
<td>$195.5</td>
</tr>
</tbody>
</table>

Total, Excluding Medicare and Medicaid: 427.9, -18.4, -4, -78.6, -17.
Total, Excluding all Health and Income Assistance: 172.8, -10.4, -6, -45.0, -20.


a. Excludes federal credit programs.
b. Excludes Medicare premiums and collections.
c. Excludes outlays resulting from FY 2006 supplemental appropriations for hurricane relief and recovery.
Education and Research

Federal spending on education and research would experience the largest cuts of any single program area considered here under President Bush’s FY 2007 budget. Funding for elementary and secondary education, higher education, and research and development would fall by a cumulative total of $31.0 billion from FY 2006 levels through FY 2011. Vocational and adult education programs would experience significant cuts as would the federal TRIO higher education programs that provide postsecondary support services for disadvantaged adults.

Health

Federal spending on health would continue to increase substantially under the President’s budget, with most of the increases concentrated in the federal Medicare and Medicaid programs. By contrast, spending in the smaller health services area, which includes programs like Community Health Centers and Mental Health and Substance Abuse Block Grants, will be reduced by a cumulative total of $8.8 billion.

Income Assistance

The income assistance program area would experience significant funding cuts under President Bush’s FY 2007 budget. A total of $27.2 billion would be cut from a wide array of housing, cash, and food assistance programs. The largest reductions in this area would occur in housing assistance where Section 8 housing vouchers are slated to lose $11.5 billion through FY 2011 compared to their FY 2006 level. Some of the reductions would be offset in the area of cash assistance, where increases in Supplemental Security Income (SSI) and the health care tax credit would result in a $15.9 billion increase in outlays over five years.

International Aid

The President’s FY 2007 budget increases funding for programs in the area of international aid by a cumulative total of $1.8 billion over its FY 2006 level during the next five years. This increase reflects a change in priorities in this program area away from traditional aid funding through the U.S. Agency for International Development and toward the new Millennium Challenge Corporation. The MCC is slated to receive a cumulative increase of $15 billion between FY 2007 and FY 2011, while all other international aid spending on programs of interest to nonprofits will fall by $13.2 billion.

Arts and Culture and Environment

The two smallest program areas of interest to nonprofits would experience cumulative funding reductions of $1.7 billion and $600 million respectively under the president’s FY 2007 budget. Funding for the two largest programs in these areas, the Corporation for Public Broadcasting and the Smithsonian Institution, would fall by $672 million and $578 million, respectively.
The President’s FY 2007 Budget and Nonprofit Revenues from Federal Sources

While the proposed reductions in federal spending, by reducing the availability of public sector activity, would increase the need for a variety of nonprofit services, they would simultaneously reduce the revenues many nonprofits have available to meet even previous demands.

To be sure, overall nonprofit revenues from federal sources are estimated to increase over FY 2006 levels by a cumulative total of $128.8 billion between FY 2007 and FY 2011 under the President’s budget. However, as seen in Table 2, this is largely due to the anticipated growth in federal support of nonprofit health organizations through the federal Medicare and Medicaid programs. Excluding Medicare and Medicaid, other federal funding of nonprofits would decline by $14.3 billion over the next five years.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Services</td>
<td>$4.3</td>
<td>-0.1</td>
<td>3%</td>
<td>$1.1</td>
<td>-12%</td>
</tr>
<tr>
<td>Community Development</td>
<td>3.5</td>
<td>-1.0</td>
<td>-28%</td>
<td>-4.6</td>
<td>-39%</td>
</tr>
<tr>
<td>Education and Research</td>
<td>23.3</td>
<td>-2.6</td>
<td>-11%</td>
<td>-7.9</td>
<td>-24%</td>
</tr>
<tr>
<td>Elementary and secondary</td>
<td>2.5</td>
<td>-0.5</td>
<td>-20%</td>
<td>-1.6</td>
<td>-31%</td>
</tr>
<tr>
<td>Higher education</td>
<td>4.9</td>
<td>-0.9</td>
<td>-18%</td>
<td>-2.8</td>
<td>-30%</td>
</tr>
<tr>
<td>Research and development</td>
<td>16.0</td>
<td>-1.2</td>
<td>-6%</td>
<td>-3.4</td>
<td>-21%</td>
</tr>
<tr>
<td>Health</td>
<td>297.5</td>
<td>43.6</td>
<td>15%</td>
<td>140.9</td>
<td>8%</td>
</tr>
<tr>
<td>Health Finance</td>
<td>292.0</td>
<td>44.6</td>
<td>15%</td>
<td>143.8</td>
<td>9%</td>
</tr>
<tr>
<td>Health Services</td>
<td>5.4</td>
<td>-1.0</td>
<td>-18%</td>
<td>-2.9</td>
<td>-23%</td>
</tr>
<tr>
<td>International Aid</td>
<td>3.0</td>
<td>-0.3</td>
<td>-10%</td>
<td>-0.6</td>
<td>-23%</td>
</tr>
<tr>
<td>Arts and Culture</td>
<td>0.9</td>
<td>-0.2</td>
<td>-27%</td>
<td>-1.0</td>
<td>-38%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$332.5</strong></td>
<td><strong>$39.7</strong></td>
<td><strong>12%</strong></td>
<td><strong>$128.1</strong></td>
<td><strong>5%</strong></td>
</tr>
</tbody>
</table>

Total, Excluding Medicare and Medicaid: 42.2% -11% -14.3% -22%
Total, Excluding all Health: 35.0% -11% -12.8% -24%


a. Includes Medicaid support flowing to social service organizations.
Can Private Charity Fill the Gap Resulting from Federal Budget Cuts?

What is the likelihood that private charitable giving by individuals, foundations, and corporations can make up for the spending cuts outlined in President Bush’s FY 2007 budget?

Under the president’s budget, overall federal spending on programs of interest to nonprofits, outside of health and income security, will fall by $45 billion below FY 2006 levels over the next five years. During the same period, assuming that private giving for all but health and religious worship organizations continues to grow at the same rate as over the past 20 years, giving will grow by a cumulative total of $28.2 billion. As shown in Figure 1, this would leave a gap of $16.8 billion even if no other increases in need for private giving arose.

The projected $28.2 billion growth in private giving would be sufficient, however, to offset the projected $12.8 billion in cuts in nonprofit revenues from federal sources outside of Medicare, Medicaid, and other health programs over this five-year period. However, this, too, assumes that no other demands for these private resources exist and that the private giving finds its way to the types of organizations affected by the cuts, which is highly improbable.

Figure 1
Overall Cuts in Federal Spending in Areas of Interest to Nonprofits
$45 billion\(^a\)

- Projected Growth in Private Giving
  $28.2 billion\(^b\)
- Private Giving Gap
  $16.8 billion

\(^a\) Excludes outlays for Health and Income Assistance
\(^b\) Excludes giving for health and sacramental religious purposes
The Nonprofit Sector and the Federal Budget in Historical Perspective

The current climate of fiscal restraint in programs of interest to nonprofits is not unprecedented. In the early and mid-1980s, President Reagan and Congress enacted significant reductions in federal spending on programs of interest to the nonprofit sector, at least outside of health and income assistance where entitlement programs made cuts difficult to enact. Thus while Medicare, Medicaid, and income assistance spending continued to grow, the real value of federal spending on a broad range of other social welfare programs declined, after adjusting for inflation, from $106.1 billion in FY 1980 to $78.4 billion in FY 1988 (see Figure 2).

From the late 1990s onward, funding in the program areas of interest to nonprofits began to rise gradually, and the rate of increase accelerated substantially during the first half of the current decade. The proposals now on the table, however, would reverse this growth to a significant extent.
Conclusion

President Bush’s FY 2007 budget portends a return to an era of fiscal constraint like the 1980s and 1990s for many of the nation’s nonprofit organizations. While federal spending continues to increase in the areas of health and income security, spending in other areas of interest to nonprofits would decline over the FY 2007 though FY 2011 period. As a consequence, federal support of nonprofits would also fall significantly, at least outside of the health field.

The estimates outlined here are based on budget projections contained in the president’s FY 2007 budget proposals. Final decisions on the shape of the budget, and hence on the federal resources available to nonprofit organizations and those they serve, in FY 2007 and beyond will be made by the president and Congress in the weeks, months, and years to come. Hopefully, the information contained in this report will help alert policymakers to the implications of these decisions for the nation’s nonprofit organizations and those they serve.