FISCAL POLICY NOTE$

The President's 07-08 Budget: What It Means to New Yorkers

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President Bush released his budget on February 5, 2007. The budget pays for massive tax cuts for the rich by cutting services and programs for the poor. The President's proposals balance the federal budget only on paper, and make it harder for New York to balance its budget. The President's budget would:

Exacerbate income inequality. The federal tax cuts proposed by the President would further widen income inequality as well as make the nation's fiscal problems worse. In addition to weakening child care, food assistance, and other supports for those at the bottom and the middle of the income scale, the president's budget provides massive tax cuts for people at the pinnacle of society.

- According to the Urban Institute-Brookings Institution Tax Policy Center, if the President's tax cuts are made permanent, households in the top 1 percent of the population (currently those with incomes over $400,000) will receive tax cuts averaging $67,000 a year by 2012. In today's dollars, that amount is larger than the entire income of the typical American household.
- According to the Tax Policy Center, the tax cuts for those with incomes of over $1 million a year would average $162,000 a year by 2012.[1]

Deepen the strain on New York's health care system.

- One week after Governor Spitzer proposed the expansion of the Child Health Plus program to children in families with incomes between 250 percent and 400 percent of poverty, President Bush proposed reducing federal reimbursement rates for Child Health Plus from 65 percent to 50 percent for children in families with incomes above 200 percent of poverty. This will make the Child Health Plus expansion more costly for New York.
- Cuts in Medicare rates would hit the same providers that face the elimination of the Medicaid reimbursement "trend factor." Together, the combined state and federal changes have been described as a "double whammy," and according to the New York Times would total more than 4 percent of New York hospitals' incomes—over $1 billion a year.
- Other Medicaid costs—administrative and case management costs—would shift to states.

Hurt vulnerable populations. Under the President's budget, grants to state and local governments for all programs other than Medicaid would decline by $12.7 billion or 5.1 percent from fiscal year 2006 to 2008 after adjusting for inflation. New York's share of this cut would be over $1 billion in 2008.[2]

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[1] Robert Greenstein, "Despite the Rhetoric, Budget Would Make Nation's Fiscal Problems Worse and Further Income Inequality," Center on Budget and Policy Priorities, revised February 6, 2007.
[2] Iris J. Lav, "Federal Grants to States and Localities Cut Deeply in Fiscal Year 2008 Federal Budget," Center on Budget and Policy Priorities, February 5, 2007.

The budget identifies specific program cuts only for 2008; details are not available for the rest of the five-year plan, but total cuts increase over time. Examples of cuts in 2008:

- LIHEAP (Low Income Home Energy Assistance Program), which helps low income families pay heating bills, would be cut by 19 percent.
- The Commodity Supplemental Food Program, which provides nutritional food packages for less than $20 a month to low-income elderly people, would be eliminated.
- The Social Services Block Grant, which provides funding for a range of social services and other types of assistance to low-income families and elderly and disabled individuals, would be cut $500 million per year and reduced by $4.4 billion over 10 years.
- The Child Care Development Block Grant would be frozen. By 2010, 450,000 fewer children would be covered by subsidies.
- Head Start would be sliced $100 million below the 2007 level proposed in FY 2007 Continuing Resolution passed by the House.
- Supportive Housing for the Elderly and People with Disabilities would be cut by 28 percent.
- The preventive health services block grant would be eliminated.

Cut into existing state revenue sources. The budget also includes a number of tax initiatives that could result in the loss of significant amounts of state revenue, including: making expensing permanent for small businesses and doubling the amount that can be expensed; new savings incentives; expanded Health Savings Accounts; and certain incentives for charitable giving.

Lead to massive future deficits. The President claims that his budget is fiscally responsible because it reaches balance in 2012. But the budget would be balanced only on paper. That goal is reached by omitting well over $100 billion in costs for that year, and making optimistic assumptions about the revenue that will be collected in that year. Robert Greenstein, director of the Center on Budget and Policy Priorities, notes that whether the budget is balanced in 2012 is not of great significance. The big fiscal challenge is the severe long-term deficits that will emerge in the decades after 2012. Indeed, in the fine print of the budget, the Administration acknowledges that deficits will shoot up not many years after 2012. The President's budget would make these long-term deficits even larger.

The Fiscal Policy Institute (FPI) is a nonpartisan research and education organization that focuses on tax, budget, and economic issues that affect the quality of life and the economic well being of New York State residents.

One Lear Jet Lane
Latham, NY 12110
518-786-3156

11 Park Place, Suite 701
New York, NY 10007
212-414-9001

www.fiscalpolicy.org