

What's the future for fiscal federalism in New York?

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With President-elect Donald Trump and a newly empowered, Republican-dominated Congress soon taking control of the federal budget, the potential for substantial cuts in domestic spending poses gargantuan challenges for New York state and city budgets.

Roughly \$57 billion in federal dollars flow into our city and state budgets annually. Medicaid accounts for approximately \$35 billion, with another \$14 billion in categorical funds flowing to the state, and roughly \$8 billion to New York City. The federal treasury provides another \$4 billion to \$5 billion to support the New York City Housing Authority, the Metropolitan Transportation Authority's capital budget and the city's public hospital system, entities where steep funding cuts will set off alarms in Albany and City Hall.

Federal spending cuts are hardly new, but unprecedented cuts seem to be headed our way. A massive tax cut is one of the few significant Trump proposals that could be readily adopted in the first 100 days. Trump nominated a founding member of the anti-government, deficit-hating House Freedom Caucus, U.S. Rep. Mick Mulvaney, to be his budget director. Mulvaney has repeatedly demonstrated his willingness to shut down government or block increases to the debt ceiling unless spending is cut severely. Some Republicans will likely seek to offset as much of the tax cuts as they can get away with by slashing non-military spending.

After Medicaid, social welfare is the biggest area of federal funding for the city and the state – about \$8.1 billion combined – supporting a wide range of programs from foster care and child care to public assistance. Education aid – \$5.3 billion – is the second-largest source of federal funding, particularly for schools serving low-income students. Other areas receiving considerable federal support include public health, housing and community development, and criminal justice and anti-terrorism, each receiving roughly \$2 billion.

We'll see if, given the chance, die-hard anti-government Republicans will sharply cut funds for needy children. After all, 36 percent of all low-income children are white. But it is not hard to imagine, given the incoming budget director and Cabinet appointments, that funding for many social welfare, education and housing programs could shrink, in some cases severely.

Repealing the defining characteristics of Obamacare would, of course, risk taking health insurance away from 1.1 million New Yorkers. It could also entail a rollback of \$4 billion in federal Medicaid dollars associated with expanded health insurance coverage in New York. Block-granting Medicaid, favored by U.S. Rep. Tom Price, Trump's nominee for health and human services secretary, would destabilize a system that covers more than one in four New Yorkers.

Trump's infrastructure plan, at least according to the detailed version released during the campaign, suggests that it is mainly a tax-reduction scheme for private investors. To the extent

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new federal funds are committed, it would likely also come at the expense of other domestic spending and add to the budget squeeze.

Other policies favored by members of the incoming Cabinet could weaken foundational elements of the safety net most Americans rely on, including Medicare and Social Security. If that were to happen, added pressure would be placed on the city and state budgets to repair some of the damage.

The progress President Barack Obama made in using federal tax policy to reduce income inequality very likely will be undone. As the latest Economic Report of the President demonstrated, Obama's policies delivered the most significant reduction in market-generated inequality since the Great Society programs in the mid-1960s. The combined impact of his tax policy changes and Obamacare's taxing of the rich to pay for expanded health coverage cut by 20 percent the ratio of average income of the top 1 percent to the bottom 20 percent.

Trump's tax policy, including killing the century-old estate tax, likely will shower almost all of its cuts on the richest 1 percent. Using data from the Tax Policy Center, it appears that New York state's top 1 percent could get a \$20 billion windfall. Eliminating the deductibility of state and local income taxes, hinted at by U.S. Treasury Secretary nominee Steven Mnuchin, could decrease the tax windfall for the rich by \$8 billion.

In the event there are draconian federal spending cuts that threaten the well-being of millions of New Yorkers, the state should consider a special tax to recapture some of the federal tax cut windfall that would flow to the state's richest 1 percent. Whatever happens in Washington, Albany needs to extend and enhance the state's millionaire's tax, due to expire at the end of 2017. Without it, New York would be inflicting harmful budget cuts on itself.

As we peer into the Washington chasm that we'll face in 2017, vigilance will be needed in every dimension of democratic governance, civil society, environmental stewardship and foreign affairs. While budgets may not be the most important priority given the epochal challenges we face, we know that government spending, or lack thereof, will profoundly affect the world we want to leave our children, and our children's children.