



# **The State Budget Crisis And the Economy**

David Lara

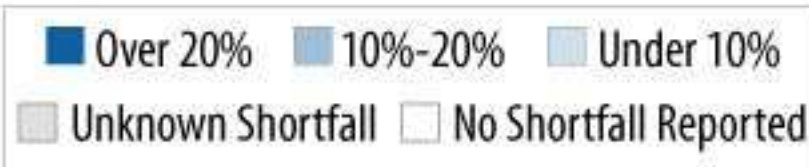
September 23, 2011

NALEO Legislative Summit on Health

# 42 States Have Faced Budget Shortfalls in FY12



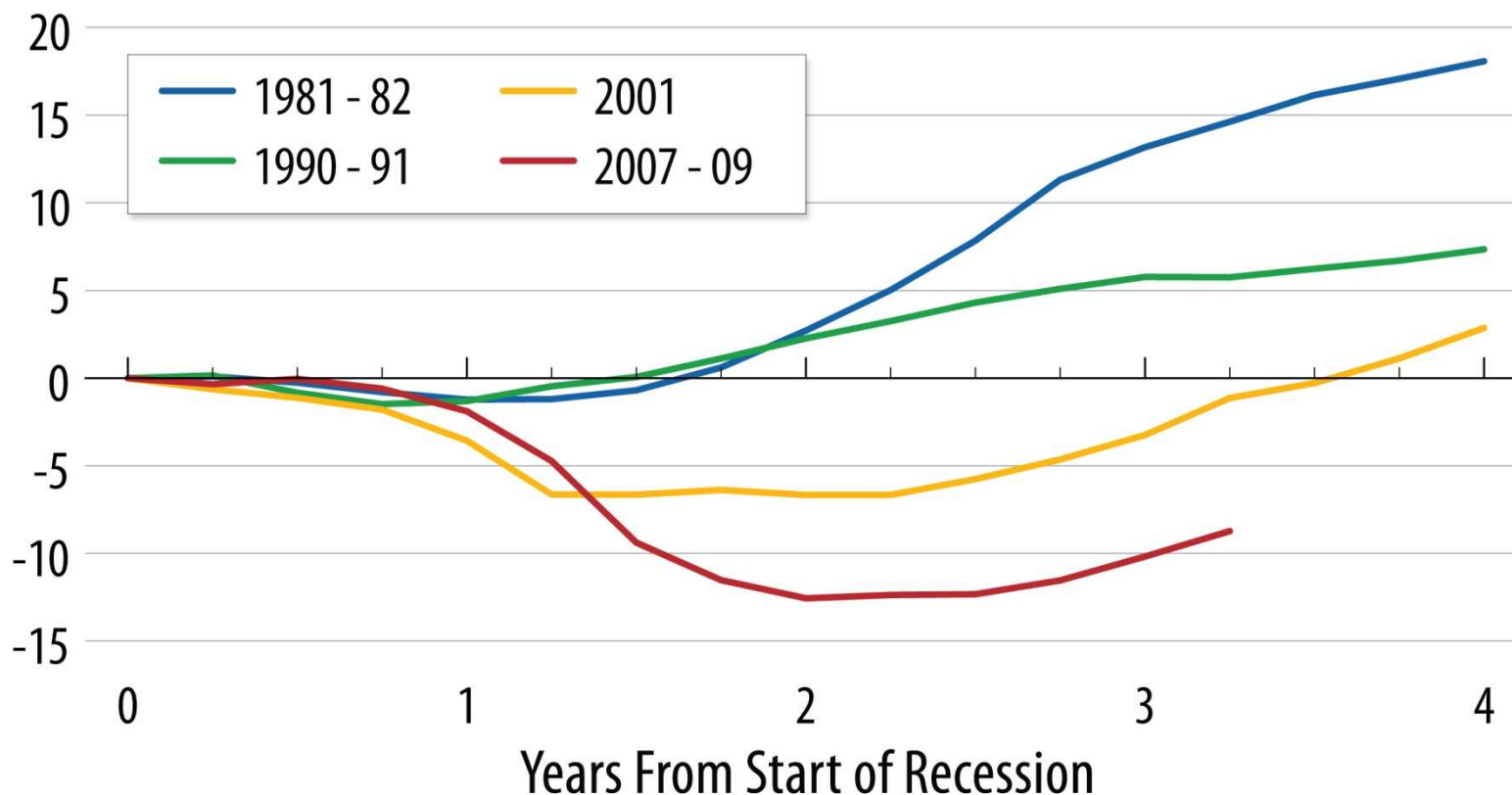
Shortfalls as share of FY11 General Fund expenditures.



Source: CBPP survey.

# State Revenue Losses Far Exceed Other Recent Recessions

Percent change in state tax revenue since start of recession, adjusted for inflation

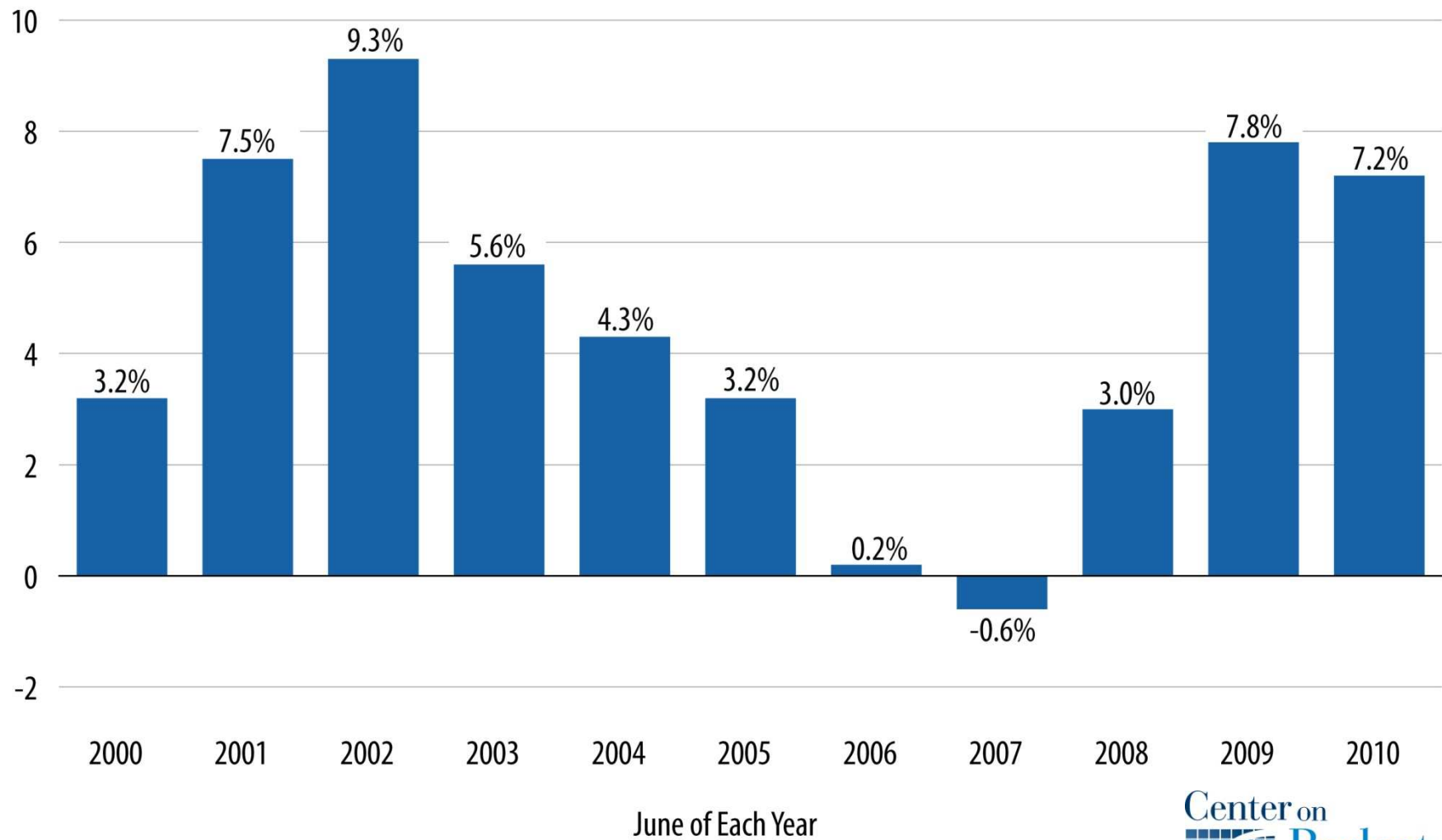


Figures represent four-quarter rolling averages.

Sources: Census Bureau and Bureau of Labor Statistics.

# Medicaid Enrollment Is Rising

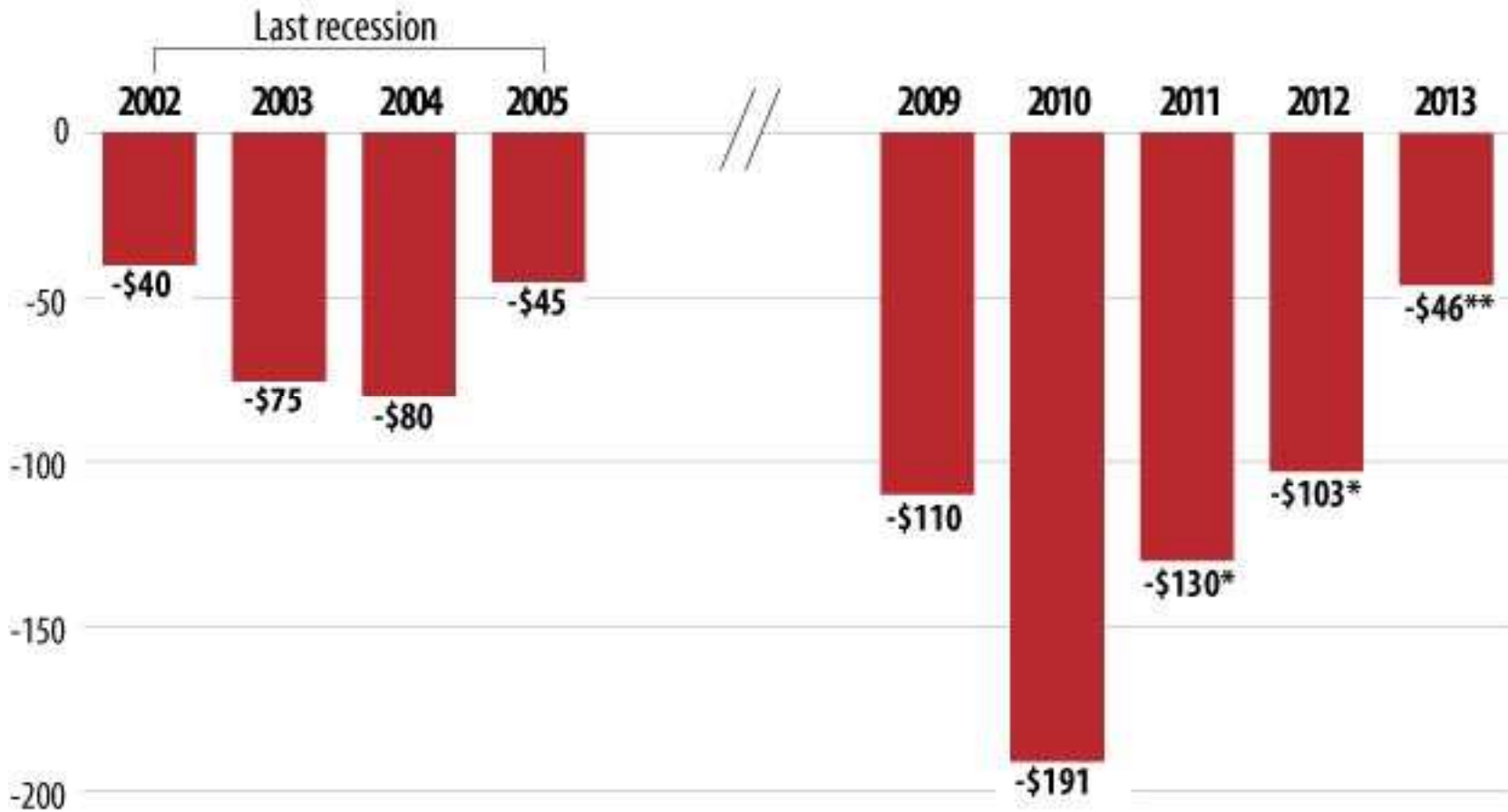
12-month annual growth rate (percent)



Source: Kaiser Commission on Medicaid and the Uninsured.

# Largest State Budget Shortfalls on Record

Total state budget shortfall in each fiscal year, in billions



\*Reported to date

\*\*Preliminary

Source: CBPP survey, revised June 2011.

# Cuts in State Services

Health



31

Elderly & Disabled



29

K-12



34

Colleges & Universities



43

Employees



44

Budget cuts already enacted in this downturn.

# State Tax Increases

## Sales Tax



17

## Personal Income Tax



13

## Business Taxes



17

## Excise Taxes



22

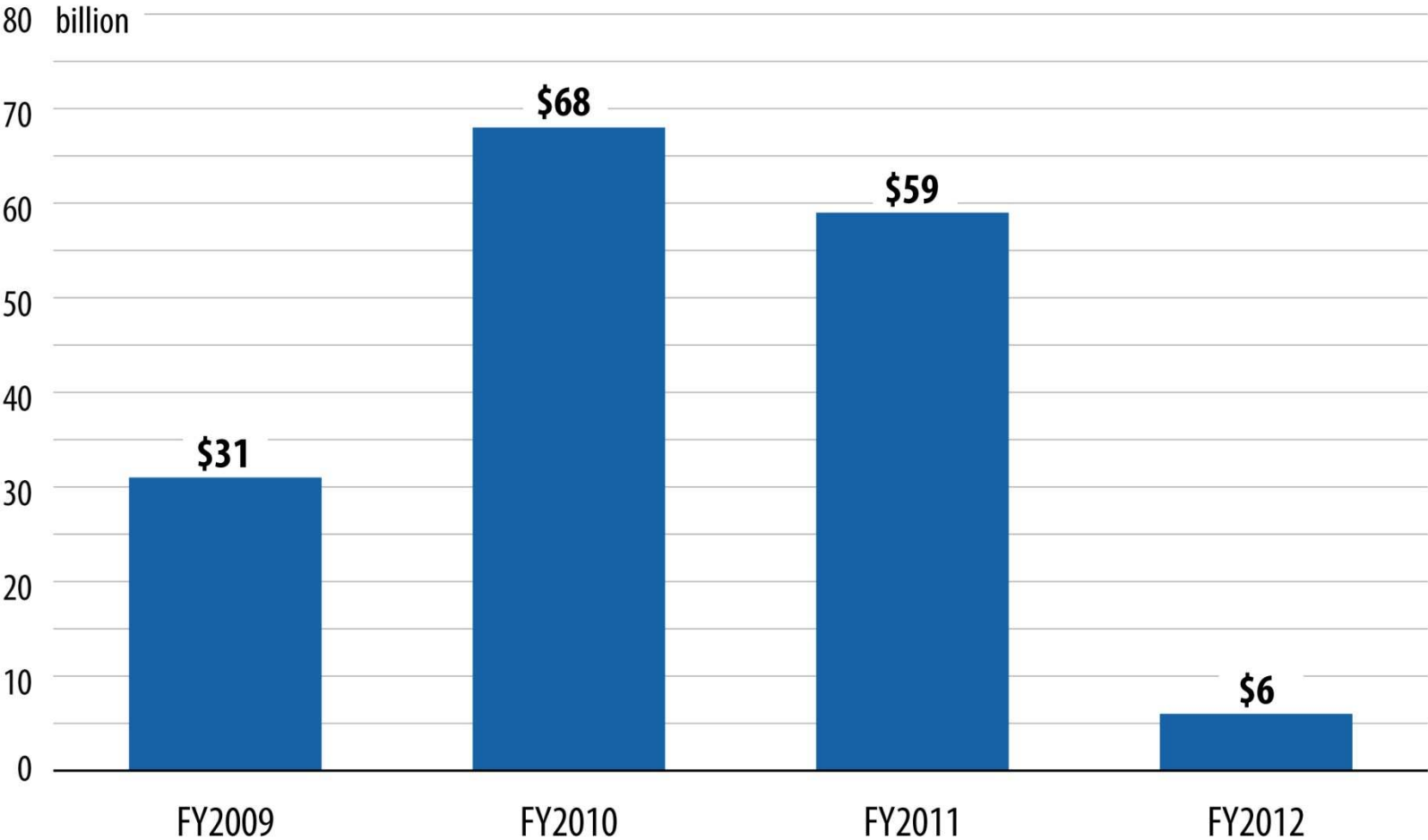
## Miscellaneous



24

Tax increases enacted in 2008 and 2009.

# Few Recovery Act Funds (Including August Extension) Available After 2011



FY = Fiscal Year

Source: CBPP analysis using data from U.S. Department of Health and Human Services, U.S. Department of Education, and Congressional Budget Office.

Revised September 2010.



# Tax Reform Policy Options and Number of States That Could Benefit



**Close corporate  
loopholes**

**22**



**Income tax**

**37**



**Broaden sales  
tax base to include  
more services  
and more Internet  
transactions**

**43**



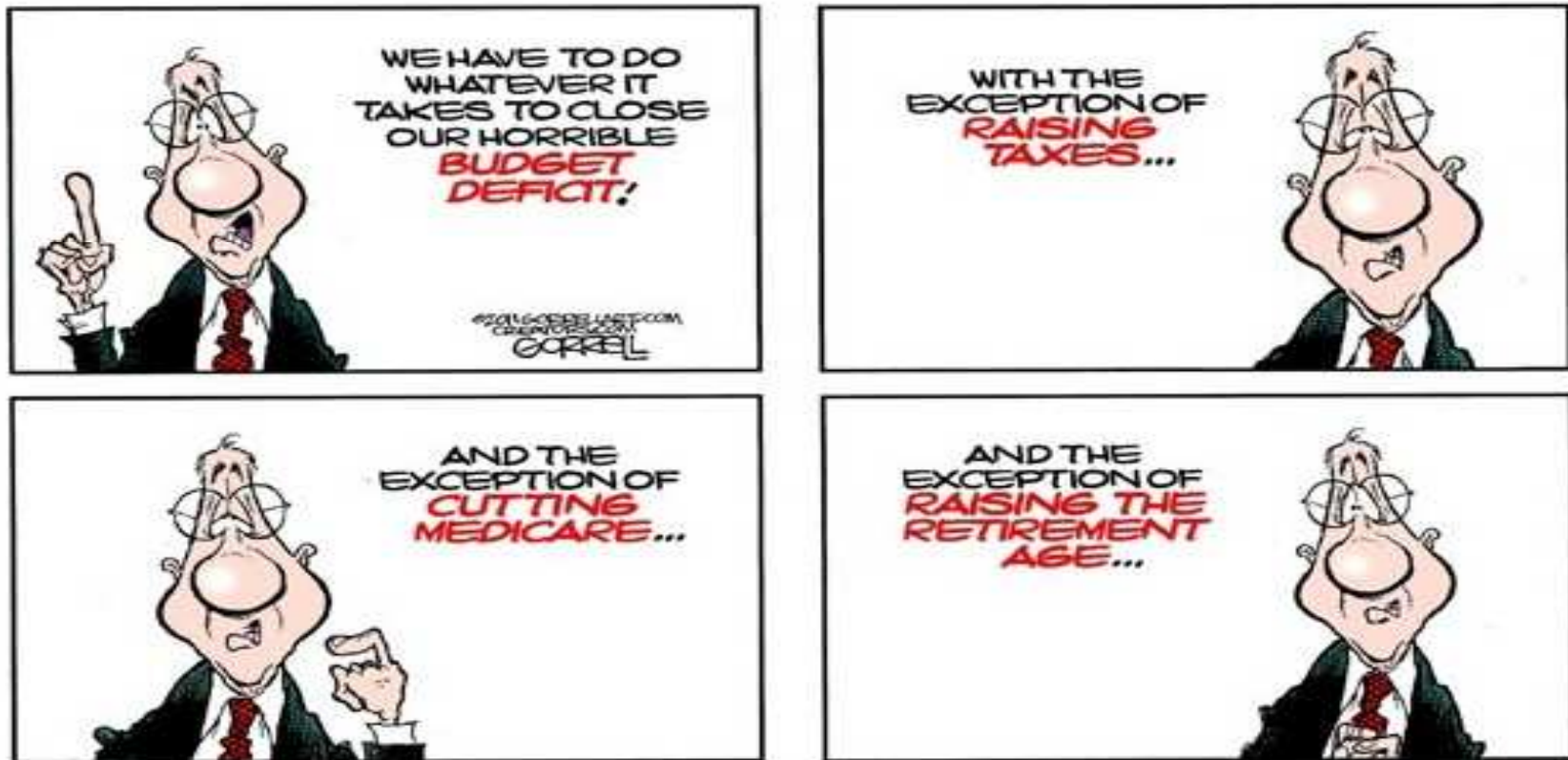
**Decouple from federal  
tax changes** **41**



**Other tax changes**

**50 + DC**

# Shifting Gears: From State Fiscal Crisis to Federal Fiscal “Crisis”

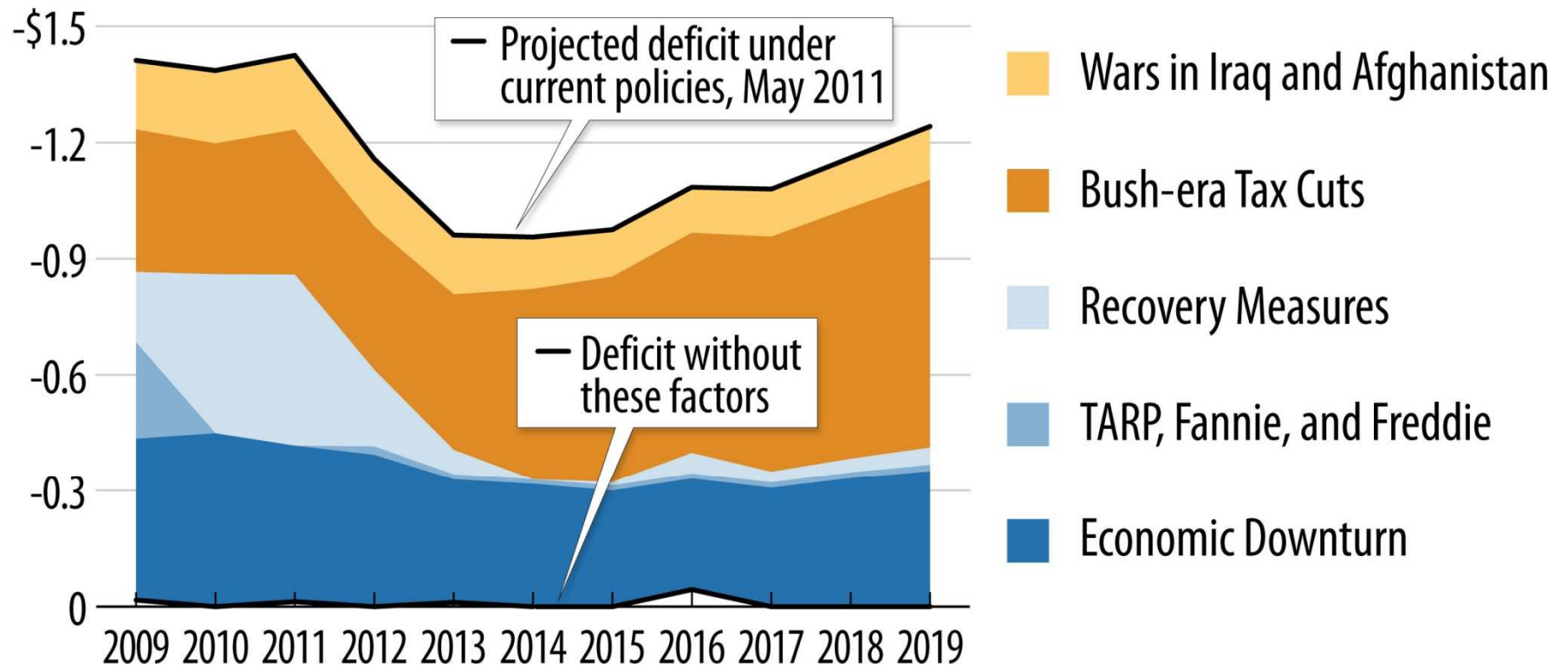


AMERICAN EXCEPTIONALISM

# Bush-era Tax Cuts Significantly Drive Deficits

## Economic Downturn and Legacy of Bush Policies Drive Record Deficits

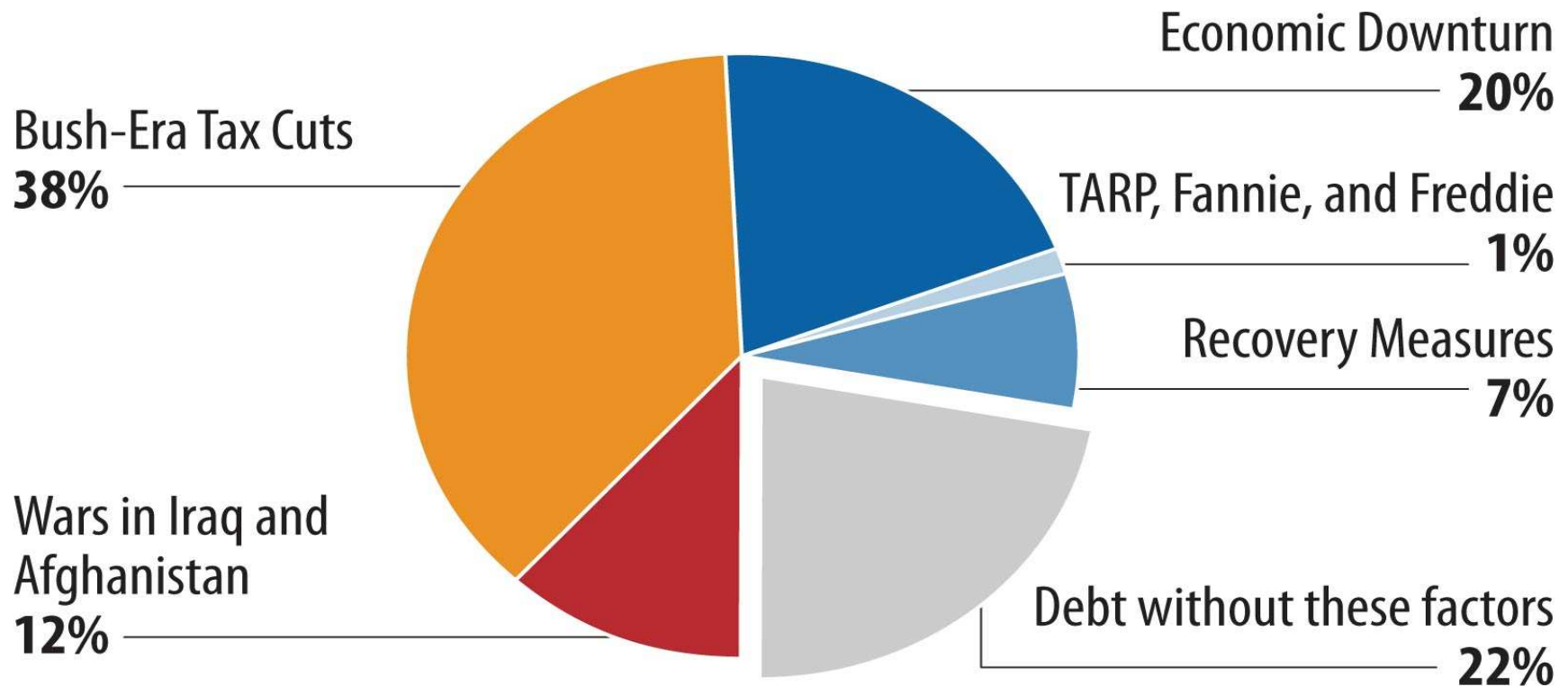
Deficit, in trillions



Source: CBPP analysis based on Congressional Budget Office estimates.

# Tax Cuts, Wars Account For Nearly Half Of Public Debt By 2019

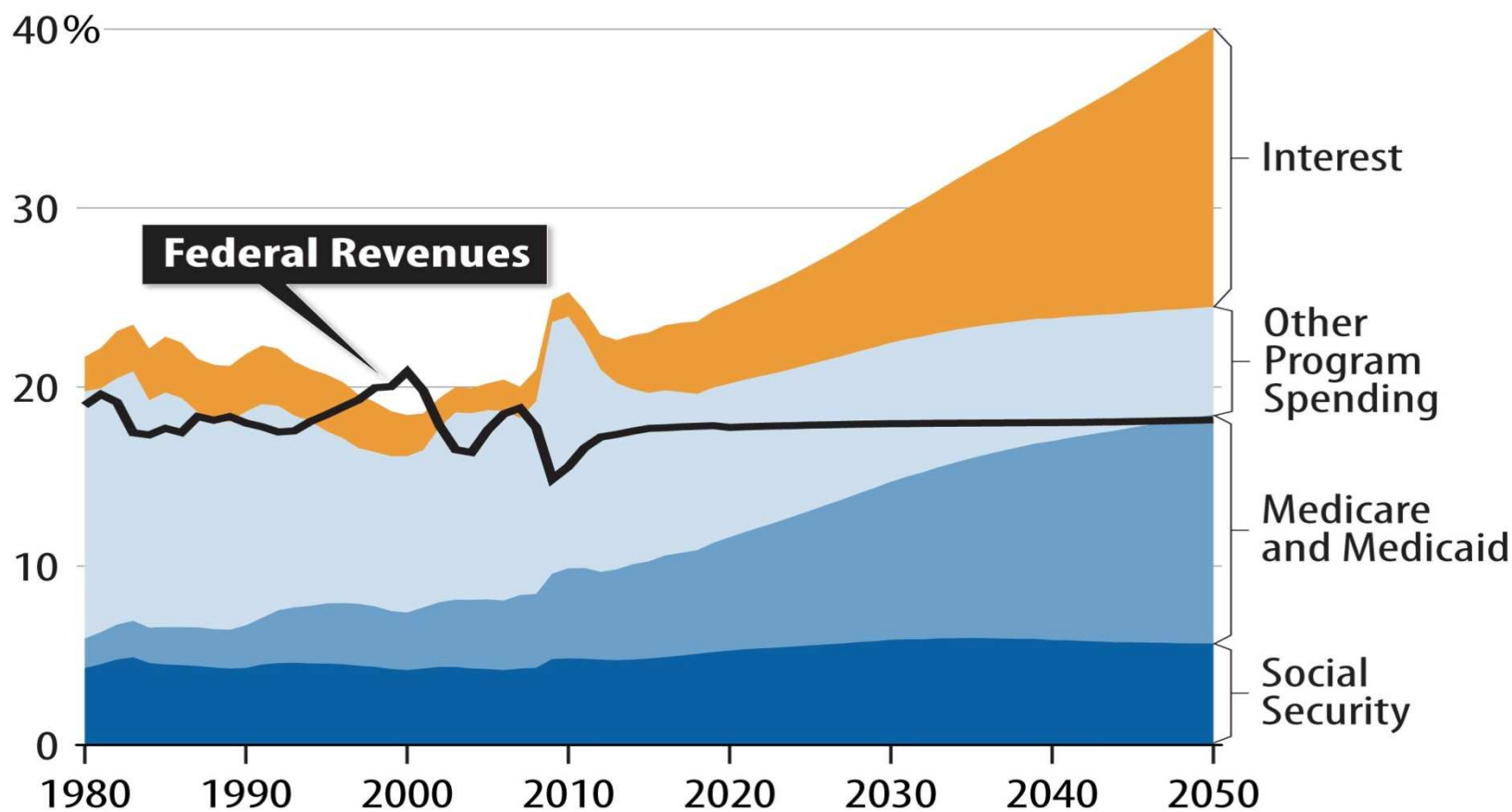
Debt from various factors as a share of total debt held by the public in 2019



Source: Kathy Ruffing and James R. Horney, *Economic Downturn and Bush Policies Continue to Drive Large Projected Deficits*, CBPP, May 10, 2011.

# Health is a Significant Driver of Long-term Deficits

Spending and Revenues as a Share of GDP



# Federal Deficit Reduction and the Budget Control Act

## Main Elements of the Legislation

- The Budget Control Act (BCA), enacted in early August, caps discretionary spending for ten years (2012-2021) and reduces projected deficits by \$895 billion.
- It also establishes a Joint Select Committee (JSC) to draft, vote this year on legislation that would reduce projected deficits by at least \$1.2 trillion.
- To the extent the JSC falls short, discretionary appropriations for the following nine years (2013-2021) will be further reduced (“sequester”), as will spending for certain mandatory programs.
- Therefore, one way or another, the BCA will reduce deficits by \$2.1 trillion.

# What Happens if the Joint Committee Fails?

- Failure to enact sufficient savings would result in program cuts starting in January 2013.
- Under the formula the BCA specifies, both defense and non-defense programs would be cut by a total of \$55 billion each year from 2013 through 2021.
- A number of key health mandatory programs are exempt from the sequestration, including Medicaid and CHIP.

# Medicaid is a Target for Cuts in the Joint Committee

- While Medicaid is exempt from automatic cuts if the JSC fails, cuts could still take place if the committee can agree on *some* savings.
- If the JSC fails to include substantial new revenues to help meet its deficit reduction target, policymakers are more likely to make deep cuts in Medicaid and other key entitlement programs.
- Congressional members are likely to fight hard to protect Medicare and Social Security – both of which have large and powerful constituencies – leaving Medicaid at a political disadvantage.
- The JSC will be one phase of the deficit reduction process; there is general consensus among policy makers that at least \$4 trillion in savings over 10 years is needed to put the federal budget on a sustainable path, meaning that another round of deficit reduction is likely after the 2012 election.

# Deficit Reduction Principles

- **Do not shift costs to states.** Any spending cuts should control costs, not shift them to states or localities.
  - **Do not undermine Medicaid.** Many policymakers view Medicaid as a special-case low-income program that cannot be fully protected; any changes should be made in Medicaid only if spending cuts are matched by savings from revenues.
  - **No additional cuts to domestic discretionary programs.** Additional cuts to domestic discretionary programs should be avoided; deeper cuts would further undermine state finances.
- **Adopt a balanced approach to deficit reduction.** Any spending cuts proposed by the JCT should be matched dollar-for-dollar basis with savings from new revenues.
- **Protect entitlements for low-income programs.** To ensure that deficit reduction does not increase poverty or inequality, as the bipartisan Bowles-Simpson Commission recommended, the Joint Committee must follow the Bowles-Simpson and Senate “Gang of Six” principles and not cut low-income entitlements.