A statement from the Fiscal Policy Institute

Tuesday, March 6, 2007 Frank Mauro, Executive Director, 518-786-3156

Cutting Upstate Adrift Won't Serve It Well

Like the "Unshackle Upstate" coalition, the Fiscal Policy Institute strongly recommends a concerted focus on the upstate economy. In its recent report, *One New York: An Agenda for Shared Prosperity* (www.fiscalpolicy.org/OneNewYork.html), FPI lays out a comprehensive agenda for helping New York's regions to grow together while strengthening and expanding the middle class.

While our goals are similar to those of the Unshackle Upstate coalition, we believe that many of that coalition's recommendations are based on faulty or inadequate analysis while others, if implemented, would fuel further declines in the size and the viability of the middle class. Instead New York should strive for public policies like the recent workers' compensation reform plan—policies that are both supportive of economic growth and good for the middle class.

Unshackle Upstate lays the responsibility for flagging regional economies on "worker-related cost drivers." This misses the forest for the trees. The bottom line is driven not by the cost of workers but by the cost of workers relative to the value of their output—in other words, productivity. And, upstate workers are among the most productive in the country.

Even when looking at worker costs, the Unshackle Upstate analysis ignores the major issue of health care costs while dwelling on the law assigning responsibility to employers for scaffolding safety and other regulatory requirements that have little if any effect on overall business costs while serving to reduce injuries and the resulting costs to society. According to testimony presented to the state legislature last week by Ken Adams, president of the Business Council of New York State, "Business Council members tell us that the cost of health coverage is their Number One concern." But you would never know that from the Unshackle Upstate agenda. Reducing the cost of health insurance while expanding coverage and improving quality would be the right place for the state to focus its attention if it truly wants to reduce the cost of doing business in New York.

In regard to health care, Unshackle Upstate goes in the opposite direction of health care reform by recommending that county governments be authorized to provide "subsidy payments that working (Medicaid) recipients could use to purchase employer-sponsored insurance." This recommendation ignores the unnecessarily high overhead of many health insurance plans and of the American health care system as a whole.

Some of the coalition's recommendations would require the dedication of enormous amounts of state resources but would use those resources in a manner that does not get at the root of the problems that they are trying to solve. For example, they call on the state to "lower the 'local cap' on Medicaid spending by one-half percent each year, so that the inflation rate paid by counties goes down to 2.5% in 2009 and down to zero by 2014." The real Medicaid property tax problem for upstate counties with flagging economies is that the cap on growth is being applied to a distribution of responsibilities that did not take into account that there is great variation among the state's counties in terms of the strength of their tax bases relative to their concentrations of needy and elderly residents.

In 2003, for example, if local Medicaid costs were covered entirely by local property taxes, it would have taken close to \$6 per \$1,000 of full value to cover these costs in Fulton and Montgomery counties, and over \$4 per \$1,000 in Erie and Oneida counties, but \$1 or less per \$1,000 in Nassau, Suffolk and Putnam counties. An across the board cap on the growth in local contributions will only exacerbate these inequities over the next several years. The way to help upstate is to base each county's share of Medicaid costs on objective measures of their relative "ability to pay" while gradually increasing the state share.

One New York: An Agenda for Shared Prosperity and the Unshackle Upstate agenda are probably closest to each other when it comes to the need to streamline and rationalize government programs meant to assist business and economic development. This goal—especially when accompanied by measures to assure transparency—is laudable. We believe that economic development assistance should be consistently conditioned on a firm's record of complying with labor, environmental and other laws and on clear, pre-established standards for job growth and job quality. Businesses that already play by the rules will benefit by such a leveling of the playing field.

Cutting upstate adrift won't serve it well. The whole state will benefit from stronger regional economies, and the whole state should pull together in an effort to strengthen all of its regions.

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. The FPI publishes The State of Working New York, an annual compendium of analysis of the city and state economies, available on the Internet at www.fiscalpolicy.org.

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