One New York

An Agenda for Shared Prosperity

A discussion paper
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Fiscal Policy Institute

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Executive Summary

With a new governor in Albany for the first time in 12 years, New Yorkers have high expectations for the future, seeing a rare opportunity for the state to reevaluate its policies in a wide variety of areas. This political moment provides a particularly exciting chance for state government to develop a coherent economic agenda that will allow all of New York's regions to realize their full potential. *One New York: An Agenda for Shared Prosperity* is the Fiscal Policy Institute's contribution to this much-needed effort.

One New York presents a package of interrelated economic and fiscal policy recommendations aimed at addressing the major economic challenges and opportunities facing New York State, which it groups into the following two categories:

- Helping New York's regions grow together. The state economy as a whole is expanding, but growth has been highly uneven.
- Strengthening and expanding the middle class. New York's economy is increasingly polarized between rich and poor with a shrinking middle class.

Helping New York's regions grow together

Enhance New York's productivity edge. New York ranks high among the states in human, technological and financial resources. The state's high productivity could be further enhanced by building a workforce investment system that makes lifelong learning a reality for all workers and that serves the evolving skill needs of the state's businesses. Workforce investments enhance profitability and are good for all New Yorkers.

State leaders can make sure that New York provides good value for businesses here, first and foremost by reducing the costs of health care coverage to businesses that provide it while achieving quality universal coverage. Business, labor and political leaders should work together to resolve the workers' compensation issue so they can get to other challenges. Energy costs and transportation costs can and should be restrained.

Make smart and strategic investments. Unguided by an economic strategy and unfettered by accountability, economic development program abuse has become rampant in New York, and expensive. The state, local governments and public authorities spend three to four billion dollars annually in the name of economic development. The state needs a complete overhaul of its economic development programs to make sure they produce good jobs. When possible, funds should go to benefit a cluster of firms or a region, not just one firm.

Business subsidies should be based on three core principles:

- Subsidies should go only to companies meeting certain minimum standards regarding pay and employment practices. Taxpayer funds should not be used to create or retain poverty-level jobs that generate additional taxpayer costs for such low-income safety net programs as Medicaid.

- Companies should be required to specify how the subsidies will improve workforce skills, opportunities and compensation.
- The government agencies involved should vigorously monitor performance to ensure compliance with promises of job retention, creation and quality.

Manufacturing jobs are still vital to the state's economy, particularly upstate, and many New York manufacturing industries are among the most productive in the nation. State policy should concentrate on keeping that part of the manufacturing base that has a competitive advantage here. State investments in the technology field should be carefully structured to ensure clear public benefits and good jobs.

Smart growth upstate. Upstate cities are losing population to the suburbs, undermining the quality of life everywhere as urban areas become troubled, suburbs sprawl and rural areas disappear. With their many assets, New York's cities can and should participate in the urban revival unfolding across the nation. Rural areas should be protected so they retain their character. Economic development should be concentrated in urban areas, taking advantage of their enormous, underutilized infrastructure. City schools should be improved so families don't think they need to move to find quality public education. City residents should have access to a diverse supply of housing for all income levels as well as the cultural amenities and public spaces that make cities attractive to residents and business.

Smart growth downstate. Downstate, the dynamic economy needs a better-integrated regional mass transportation system so that growth can continue and all can benefit. The Metropolitan Transportation Authority (MTA) must prioritize its expansion projects and Albany should ensure that the dedicated tolls and taxes in the downstate region more adequately support MTA capital needs to reduce the pressure on the MTA's operating budget. The state should more effectively use upstate manufacturing capacity to build the subway cars, buses and transit equipment serving the large downstate market. And mega development projects – which can eat up enormous subsidies – should be reexamined to assure that they enhance the underlying economy, that they fit with community goals and that the jobs they provide will be good ones.

Reduce pressures on the property tax. Over the past three decades, New York State has come to rely far too heavily on local taxes, particularly property taxes, to finance its services. State government should reduce the pressure on the property tax through four actions:

- Implementing a legitimate statewide solution to the Campaign for Fiscal Equity law suit.
- Increasing the state share of Medicaid and basing each county's share on its "ability to pay."
- Restoring the state's commitment to "revenue sharing" with its local governments through a transparent needs-based formula that is honored over time.
- Eliminating the fiscal disparities in the STAR program that disadvantage city school districts with high percentages of renter-occupied dwellings and high concentrations of needy children.

If these reforms were funded by restoring some of the personal income tax's lost progressivity and closing corporate income tax loopholes, the combined effect would be to make the overall tax system fairer. The result would be that those who can afford to (and who have been given big federal tax cuts in recent years) would pay more, and the middle class and low-income residents would pay less.

Strengthening and expanding the middle class

New York was for generations a place with a strong and growing middle class. In recent years, however, New York has experienced a middle-class squeeze. The cost of living is rising, but growth in wages is not keeping pace. Rebuilding New York's middle class requires providing educational opportunity for children and adults, and controlling the cost of living.

Sound basic education. The governor and the legislature should make substantial investments in education—the key to the ability of the next generation of New Yorkers to enter the middle class. The economic benefits of investing in education are enormous and varied. A sound basic education is crucial for everyone in an increasingly knowledge-based economy, and it is the essential preparation for students who go on to colleges and universities. Proper funding of education will also get at one of the central concerns of New York taxpayers. Reluctant to reduce school quality, districts that can afford it have repeatedly raised property taxes to pay for good schools. The result has been great inequality among school districts as well as too much pressure on a tax that is not based on taxpayers' ability to pay.

Opportunities for adults. To build and maintain a strong middle class, New York should improve higher education quality, access and affordability; build more effective labor markets and better career ladders; and expand opportunities for asset development. Labor markets could be much improved with solid minimum standards for wages and benefits, better enforcement of labor standards, and a modernized unemployment insurance system. Rungs in the career ladder include English and literacy classes; improved welfare-to-work programs; transitional jobs for people leaving welfare or the criminal justice system; and a strong safety net for New Yorkers not yet in the middle class.

Help with the cost of living. The governor and the legislature should address the pressure that the increasing cost of living places on middle and lower income families. By reshaping our tax structure, the middle class would pay less and those that can afford it would pay more. Other components of the high cost of living—energy, housing, health care, and retirement security—should be addressed as well. State policy changes should also help families strike a better balance between their work and home lives by helping with such issues as child care and family and medical leave.

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One New York: An Agenda for Shared Prosperity draws on various budget, economic and policy reports that have been published by FPI over the years. It also brings together ideas from organizations and individuals around the state and nation. Some of the ideas presented in this discussion paper are ready for implementation; others need refinement. They all deserve review as part of a much needed reevaluation and broadly based discussion of New York State's economic policies. *One New York* is the Fiscal Policy Institute's contribution to this effort. As such, we view this discussion paper as a work in progress and welcome comments and suggestions in response to it.

The economic analysis that informs the recommendations presented here is from FPI's *State of Working New York 2006* report as well as earlier reports in the *State of Working New York* series, FPI's annual budget briefing books and its other budget, economic and policy reports.

All of FPI's reports are available on its website at www.fiscalpolicy.org.

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