The New York State Budget in the Aftermath of September 11th:

Economically Sensible Options for Budget Balancing During a Recession

Fiscal Policy Institute

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

275 Seventh Avenue
New York, NY 10001
212-414-9001

www.fiscalpolicy.org

January 23, 2002

The New York State Budget in the Aftermath of September 11th: Economically Sensible Options for Budget Balancing During a Recession

Table of Contents

As state legislatures around the country begin their 2002 legislative sessions, most will be facing difficult budget situations because of the national recession and the September 11th attacks. New York is obviously no exception to this general situation. In fact, as the location of the most devastating of the September 11th attacks, New York State's revenues and expenditures have been directly affected. Moreover, as a result of the September 11th attacks, the budgetary challenges facing New York State are even more intertwined than usual with New York City's budgetary challenges.

This report compares and contrasts the different budget challenges that the federal and state governments face during a recession. The federal government, given its responsibility for the overall management of the macroeconomy, usually responds to recessions with some combination of spending increases and/or tax cuts to "prime the pump." And just such a debate is now going on in Washington. The states, however, are generally required to balance their budgets in both good times and bad. This forces them to act in ways that make recessions worse rather than better. The resulting challenge for the states is to choose the least damaging mix of tax increases and spending cuts.

Within this context, this report reviews the guidance that state policymakers can draw from the principles of economics as they attempt to deal with recession-induced deficits in ways that are least harmful to the economy. This report and a companion report, *New York and the Federal Fisc in the Aftermath of September 11th*, also review some of the options available to the federal government for (a) mitigating the impact of the recession on all of the states, and (b) providing relief to New York for the losses suffered as a result of those attacks.

The federal and state governments face different but related budgetary challenges during recessions.

While the President and the members of Congress are debating the details of an economic stimulus package, all of the alternatives on the table in Washington involve some combination of spending increases and tax cuts. The debate at the national level is over which kinds of spending increases and tax cuts will be most effective in stimulating the economy in the short run without creating long term budgetary problems.

This debate is over what economists call "fiscal policy." This is one of the two major sets of tools available to the federal government in its attempts to "manage" the national economy. The other major set of economic management tools is called "monetary policy."

Fiscal policy involves decisions regarding the level at which the federal government sets its levels of revenues and expenditures. The basic theory of fiscal policy is that the government can speed the economy up by running a deficit and slow it down by running a surplus. According to this theory, in times when the economy is growing, the government can and should run a surplus; and in times when the economy is lagging, the government can help to stimulate it by running a deficit. A more technical variation of this theory (which does not assume that the government budget is ordinarily in balance) is that the government can help to stimulate the economy by implementing a year-to-year reduction in its surplus (if it is operating at a surplus) or by implementing a year-to-year increase in its deficit (if it is operating at a deficit). In any of these situations, the basic prescription is that when the economy is declining or operating more slowly than we would like, the government can stimulate it by cutting taxes while holding spending constant; increasing spending while holding taxes constant; or both cutting taxes and increasing spending.

The idea of using fiscal policy in this way was originally developed by the economist John Maynard Keynes and during the 1930s through the 1950s it was the subject of significant debate in the United States. But, by the time of the Kennedy and Nixon administrations, this approach had become widely accepted and pursued. Belief in this approach to macroeconomic management probably reached its zenith in the early 1970s when President Nixon made his famous statement that "We are all Keynsians now." Fiscal policy, however, did not turn out to be infallible, as Presidents Ford and Carter learned when they were confronted simultaneously with high unemployment rates and high rates of inflation.

While President Reagan did not consciously espouse the practice of Keynsian fiscal policy, many respected economists have concluded that he practiced it in an unprecedented way. Under Reagan, big tax cuts and big increases in defense spending were implemented. The result was large and growing deficits. While Reagan did not claim to be doing this intentionally to stimulate the economy, his policies had the effect that an economist would predict if presented with this fact pattern in a theoretical case study.

During the Reagan, Bush and Clinton administrations, the country came to depend on the other set of macroeconomic management tools - “monetary policy.” These economic management tools (primarily control of the money supply and the setting of key interest rates) are the province of the Federal Reserve Bank. And under Paul Volcker and, to an even greater extent, his successor, Alan Greenspan, many Americans came to virtually accept the infallibility of monetary policy. During the late 1990s and during most of 2000, many observers including some legitimate economist, seriously argued that business cycles were a thing of the past.

While Greenspan and the Fed sat on their hands during 2000, they set forth on an aggressive expansionary course in 2001 - cutting interest rates 11 times. In the absence of any clear evidence that this exercise in the use of monetary policy is working (which it might be but we have no way of knowing if it is and, more importantly, neither does Greenspan or the President), the President is now pushing hard for an “economic stimulus” package.

In early 2001, the President also recast the arguments for the tax reduction plan that he had advanced during the 2000 Presidential election campaign. During 2000, the Congressional Budget Office and the Office of Management and Budget were both predicting that the federal treasury would continue to run surpluses for the foreseeable future and that those surpluses would amount to approximately $4 billion over the next ten years. In this context, Governor Bush made a proposal for a large 10-year tax reduction plan a cornerstone of his presidential campaign - arguing that it would be wrong for the federal government to keep a surplus that had really been generated by the hard work of the American public.

When President Bush took office in 2001, signs of a weakening economy were beginning to appear and he began to sell his tax reduction plan as necessary to stimulate the economy. Many critics found it ironic that the same tax reduction plan that was previously proposed as the right way to return a substantial surplus to the taxpayers was now being pictured as the right way to stimulate the economy. Despite arguments from some quarters that the correct response to the economic downturn would be a larger but temporary tax cut that was focused on those taxpayers with the greatest propensity to consume, the President prevailed in having the Congress adopt his plan with some modifications. The major concession to those who were calling for a more immediate stimulus type tax cut was the plan for the $300 and $600 rebate checks that were mailed out last fall. But even in regard to this proposal, the propensity to consume, the President prevailed in having the Congress adopt his plan with some modifications. The major concession to those who were calling for a more immediate stimulus type tax cut was the plan for the $300 and $600 rebate checks that were mailed out last fall. But even in regard to this proposal, the President and his allies insisted that these rebate checks could not possibly be given to low and moderate income taxpayers who paid payroll and other taxes but who had no income tax liability; and that those with modest income tax liabilities should get smaller rebate checks.

As the economy took further downturns as a result of the September 11th attacks, the President began to argue for an "economic stimulus" package. In this context, the President and his allies in the Congress are now supporters of providing $300 and $600 rebate checks to those lower income households who they insisted on leaving out of the tax bill that was enacted last year. While the House of Representatives has passed two "economic stimulus" bills that have been endorsed by the President, neither of these bills has proven to be acceptable to the Senate Democratic majority. In the Senate, where the party split is 51 to 49, neither the Democrats nor the Republicans can muster the 60 votes necessary to pass their own stimulus package. During November and December, for example, several attempts by the Senate Democrats to bring alternative stimulus plans to a vote failed to garner the 60 votes necessary to waive various relevant provisions of the Congressional Budget Act.

While it is not clear at this moment if the President and the Congress will reach an agreement on an "economic stimulus" bill, several important points need to be kept clearly in mind. First, the importance and relevance of "fiscal policy" is being underscored by the current debate in Washington. Second, both the President's economic stimulus proposal, as adopted by the U. S. House of Representatives, and the Senate alternatives have implications - both good and bad - for balancing the New York state and local government budgets. These implications are discussed in greater detail in a companion report, *New York and the Federal Fisc in the Aftermath of September 11th*. Third, and perhaps most important conceptually, is that while the debate in Washington is about stimulating the economy through tax cuts and spending increases, the challenge at the state level is very different - because of the states' balanced budget requirements.

All of the states, except Vermont, have balanced budget requirements of one kind or another. Absent substantial rainy day funds and/or significant help from Washington, this means that during recessions state and local governments have to cut spending and/or raise taxes. During a recession, unemployment increases, the number of hours worked declines, consumer spending declines, etc. This translates into a reduction in government tax revenues - sometimes absolutely and almost always in terms of the rate of growth. Some aspects of government spending, particularly spending on safety net programs like unemployment insurance, income support programs, and Medicaid, also increase during recessions as an increasing number of workers are laid off.

The result is that during recessions, most state and local governments face budget gaps. At such times, state and local governments turn to their rainy day funds and the surpluses that they have accumulated in other governmental accounts. If these and other one-time resources are not sufficient to bridge the gap between revenues and expenditures until the economy rebounds, governments with balanced budget requirements have no choice but to cut spending and/or increase taxes.

Unfortunately, cutting state spending and/or increasing state taxes during a recession serves to make the situation worse rather than better. It is also the opposite of what the federal government is doing to stimulate the economy and serves to cancel out the impact of some or all of those federal actions.

Fortunately, in the current economic stimulus debate at the national level, the National Governors Association and others have succeeded in making this dilemma, at least tentatively, part of the debate. As is explained in greater detail a companion report, *New York and the Federal Fisc in the Aftermath of September 11th*, the original economic stimulus bill advanced by the President and the House Republicans would have made the situation facing the states worse rather than better. It did this by including some tax deductions for business that would automatically pass through to the corporate tax systems in New York and virtually all of the other states. While these provisions are still on the table in Washington, the leadership of both houses have included some offsetting aid for the states is their economic stimulus packages. The challenge for New York is to work to ensure that the Congress passes an economic stimulus package that reduces rather than increases the magnitude of the spending cuts and/or tax increases that must be implemented at the state level.

Choosing the least harmful budget balancing actions during a recession

While federal assistance and one time revenues (from rainy day funds or "gimmicks" such as tax amnesty programs) can reduce the size of the recession-generated budget gap that the state must close, it is unlikely that New York will be able to get through the current recession without some spending cuts and/or tax increases. Thus for New York and the other the states, the policy question becomes what kinds of spending cuts and/or tax increases will do the least harm during a recession.

A sound framework for evaluating these difficult choices is provided by Joseph Stiglitz, a professor of economics at Columbia University and one of the recipients of the 2001 Nobel Prize in economics, and Peter Orszag of the Brookings Institution. In a recent paper published by the Center on Budget and Policy Priorities, Siglitz and Orszag point out that while some state officials apparently believe that reducing spending is preferable to raising taxes, "economic analysis suggests that tax increases would *not* in general be more harmful to the economy than spending reductions. Indeed, in the short run (which is the period of concern during a downturn), the adverse impact of a tax increase on the economy may, if anything, be *smaller* than the adverse impact of a spending reduction, because some of the tax increase would result in reduced saving rather than reduced consumption."[1]

For example, if taxes increase by $1, consumption may fall by 90 cents and saving may fall by 10 cents. Since a tax increase does not reduce consumption on a dollar-for-dollar basis, its negative impact on the economy is reduced in the short run. By contrast, some types of spending reductions would reduce demand in the economy on a dollar-for-dollar basis and therefore would be more harmful to the economy than a tax increase.

Applying this basic set of economic principles, Stiglitz and Orszag conclude that "direct spending reductions will generate more adverse consequences for the economy in the short run than either a tax increase or a transfer program reduction. The reason is that some of any tax increase or transfer payment reduction would reduce saving rather than consumption, lessening its impact on the economy in the short run, whereas the full amount of government spending on goods and services would directly reduce consumption."

---

[1] Peter Orszag and Joseph Stiglitz, ***Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-Productive than the Other During a Recession?***, Center on Budget and Policy Prioriteis, November 6, 2001.

In comparing tax increases and reductions in transfer payments, the impact on the economy depends primarily on the propensity to consume of the households affected. A recent Congressional Budget Office report noted that, "As a general proposition, higher-income households save more of their income than do lower-income households. Although occasionally some data emerge to indicate otherwise, a large accumulation of evidence continues to show that as a household's income rises, the proportion of that income that is consumed falls."[2] The more that tax increases and transfer payment reductions are focused on those with lower propensities to spend (that is, on those who spend less and save more of each additional dollar of income), the less damage is done to the weakened economy. Since higher-income households tend to have lower propensities to spend than lower-income households, the least damaging approach in the short run involves tax increases concentrated on higher-income households. Across the board tax increases and reductions in transfer payments to low-income families would generally be more harmful to the economy than increases in taxes on higher-income families.

Stiglitz and Orszag also point out that these arguments are even stronger for state policymakers who are more interested in the impact of policy options on their own state's economy than on the national economy. "In particular, government spending that would be reduced if direct spending programs are cut is often concentrated among local businesses. . . . By contrast, the spending by individuals and businesses that would be affected by tax increases often is less concentrated among local producers – since part of the decline in purchases that would occur if taxes were raised would be a decline in the purchase of goods produced *out of state*." They also point out that this is particularly true for expenditures by high-income households, who "appear to consume relatively more goods and services produced in other regions of the country (or abroad) than lower-income families do."

As we consider the options available for balancing New York State's budget during the current economic downturn, Stiglitz and Orszag present the following policy relevant conclusions:

1. Tax increases on higher-income households are the least damaging mechanism for closing state fiscal deficits in the short run. Reductions in government spending on goods and services, or reductions in transfer payments to lower-income families, are likely to be more damaging to the economy in the short run.

2. Given the existence of balanced budget rules at the state level, some form of federal fiscal relief to states is warranted since state spending reductions or tax increases would be counter-productive at this time - restraining the economy at a time when it is already slowing.

New York City's fiscal challenges in the aftermath of the World Trade Center disaster

In considering how to balance their own 2002-2003 budgets, state legislators and members of Congress should be particularly sensitive to New York City's fiscal situation and how they can assist New York City at this crucial time in its history.

[2] ***Economic Stimulus: Evaluating Proposed Changes in Tax Policy***, U. S. Congressional Budget Office, January 2002.

Compared to other states, New York State has traditionally assigned a very high degree of responsibility for the delivery and financing of most public services to its local governments. This includes the assignment to its localities of responsibility for a greater share of the cost of social safety net programs than any other states. The implications of this approach have always been particularly significant for New York City. Despite its great concentrations of wealth, New York City is home to 60% of all New Yorkers who live below the poverty line. Moreover, as the financial and entertainment capital of the world, New York City hosts, every day of the year, hundreds of thousands of commuters, business visitors and tourists. As a result, New York City must provide public services and maintain public infrastructure systems at levels far in excess of what would be necessary to serve the needs of its full-time residential population.

In recent years, the New York City economy has been doing very well and the city government was able to cut taxes and build up some cash surpluses. Based on the city's good fortune, the Governor and the Legislature concluded that the city government could operate just fine without several revenue sources that it had relied on for over thirty years - the commuter income tax and the stock transfer tax. The Governor and the Legislature repealed the former and eliminated the incentive aid that had allowed the city to function with a 100% rebate of the latter. And, in 2000, when the state restored some of the cuts in state revenue sharing that it had enacted during the last recession, it left New York City out - even though the "municipal overburden" faced by the state's largest cities is what convinced the Legislature and Governor Rockefeller to enact revenue sharing (originally called Urbanaid" by Rockefeller) in the first place. It has also left New York City out of the special municipal assistance appropriations that it has made for selected cities to compensate for the continuing shortfalls in formula-based revenue sharing for all localities.

The state government has an important interest in the health of the New York City economy and in the New York City government services that allow that economy to function. The New York metro area economy provides the lion's share of state tax revenue and New York City is the engine that drives the metro area's economy. According to the NYS Department of Taxation and Finance's most recent analysis of state personal income tax returns by place of residence, over 74% of the state income taxes paid by full-year New York State residents comes from residents of the 10-county New York metro area. New Jersey and Connecticut residents who work in New York State (most of whom work in New York City and virtually all of whom work in the New York metro area) pay almost 10% of the state income taxes paid by all full-year resident and nonresident taxpayers.

The health of New York City economy is also extremely important to the health of the national economy. And, households and businesses in the tri-state area (New York, New Jersey and Connecticut) make a major contribution to the financing of the federal government. As is explained in greater detail later in our companion report, *New York and the Federal Fisc in the Aftermath of September 11th*, these three states account for 30% of the total "deficit" of the 20 states that are net contributors to the federal government's balance sheet. A recent analysis prepared by the NYS Business Council's Public Policy Institute said that if the taxes paid to the federal treasury by New Jersey and Connecticut residents on income earned in New York State were attributed to New York rather than to their home states, New York's balance of payments deficit with the federal treasury would be increased by $8.2 billion and those two states' deficits would be reduced by a like amount.

Federal, state and local policy options and balancing New York State's 2002-2003 budget in a fair and balanced manner.

Step 1: Identify alternatives to service cuts and tax increases.

Based on the conceptual framework provided by Nobel Prize winning economist Joseph Stiglitz and his colleague, Peter Orszag, it is important that New York State begin by examining ways in which it can reduce the size of the budget gap that it must close through service cuts and tax increases.

Federal Assistance

As we have pointed out above, the federal government has a clear interest in ensuring that the states are able to balance their budgets with the least harm to the economy. That means that the federal government should provide some form of counter-cyclical assistance to the states that allows them to get through the current recession, and future recessions, without having to cut services or increase taxes - or, at least, with less service cutting and tax increasing that would otherwise be necessary. In a our companion report, *New York and the Federal Fisc in the Aftermath of September 11th*, we review in detail several steps that can be taken at the federal level in this regard.

State Actions

A number of steps are available at the state level to reduce the size of the budget gap that must be closed with spending cuts and/or tax increases.

a. This is the kind of “rainy day” when it is appropriate for New York State to utilize its “rainy day funds” and the other financial reserves that it built up during the good economic times of the mid and late 1990s. Taking money out of savings and injecting it into state programs will increase overall economic activity in the state. The alternatives — reducing state spending and/or increasing taxes — have the opposite effect, helping to contract the state economy. As a recent Standard & Poor’s report on state fiscal conditions noted, “Use of reserves is not a credit weakness in and of itself. These reserves are accumulated in order to be spent during times of budget imbalance and extraordinary economic events.”[3]

b. Significant one-time savings are possible from tax amnesty programs. Since 1982, 39 of the 50 states, including New York have offered one or more tax amnesty programs. New York offered 3-month tax amnesties in the mid-1980s (November 1985 through January 1986) and the mid-1990s (November 1996 through January 1997). New York’s first tax amnesty reportedly produced just over $400 million. The second produced $323 million. (See Appendix A for a summary of the nature and results of state tax amnesty programs since November 22, 1982 as compiled by the Federation of Tax Administrators.)

c. The current favorable interest rate climate offers the state to generate significant savings (both up front and over time) through the refinancing of state and state-supported debt. As part of the final budget bills enacted by in October 2001, the Legislature authorized the state to issue a new

[3] Standard and Poor’s, ***The State of the States***, October 2001.

form of "revenue-backed" bonds that would be backed by a pledge of 25% of the state's personal income tax receipts. It was envisioned at the time that this new mechanism would allow the State to consolidate its state-supported debt to achieve administrative and cost efficiencies. This new mechanism together combined with refinancing at the most opportune time during 2002 should generate substantial savings for the state.

d. During the last recession, New York State was able to generate some immediate budget-balancing help by reducing the amount of its capital program which it financed on a pay-as-you-go basis and increasing the amount for which it bonded. Unfortunately, during the good times of the late-1990s, New York State did not ramp back up the portion of the capital program financed on a pay-as-you-go basis, as the Fiscal Policy Institute and other observers had suggested. As a result some fiscal relief, but much less than was available in the late 1980s and early 1990s, is available at the present time. Whether or not this strategy is pursued during the current recession, the Governor and the Legislature should make a firm commitment to ramp back up, during the next economic recovery, the portion of the state's capital program that is paid for on a pay-as-you-go basis.

e. Over the last seven years, New York implemented a wide range of tax cuts that are estimated to reduce state tax revenues by over $14 billion during the 2002-03 state fiscal year and almost $16 billion in 2003-04. A number of additional tax cuts (see Attachment B) are already scheduled to take effect this year and over the next several years. In his recent State of the State Message, Governor Pataki said that these "Tax cuts will go forward. They must go forward, because we know that tax cuts create jobs." But not all tax cuts create jobs, and the tax cuts that are taking effect this year are not the tax cuts that anyone would choose if they were asked to design a plan for stimulating the state's economy during the current downturn or for otherwise creating jobs. The cash basis savings, during the 2002-03 state fiscal year, of postponing the implementation of these tax cuts is estimated at between $300 and $350 million. While those estimates are substantially less than the fully-implemented annual costs of these tax cuts, they are nothing to scoff at when trying to reduce the size of the budget gap that needs to be closed through tax increases and/or spending cuts. (It should be noted that postponing the scheduled increase in the State Earned Income Tax Credit would provide the state with little or no savings since this program is financed with federal Temporary Assistance to Needy Families [TANF] block grant funds.)

Step 2: Identify and implement cost savings and revenue increases that do not hurt New York residents or the state's economy.

As part of the recently adopted health care plan, the Social Services Law was amended to add the following to the list of services and supplies that are not covered by Medicaid:

> A brand name drug for which a multi-source therapeutically and generically equivalent drug, as determined by the federal food and drug administration, is available, unless previously authorized by the department of health. The commissioner of health is authorized to exempt, for good cause shown, any brand name drug from the restrictions imposed by this paragraph;

This legislation also reduces the reimbursements paid to pharmacists under the state's Elderly Pharmaceutical Insurance Coverage (EPIC) program by an estimated $25 million a year and increases the rebates that drug manufacturers must pay to participate in the EPIC program to mirror those currently required under the Medicaid program, saving an estimated $13.2 million per year.

Seeking to reduce state expenditures on prescription drugs is a worthwhile objective given the rate at which these expenditures have increased in recent years. In the first three quarters of 2001, Medicaid expenditures on drugs and supplies exceeded $2.2 billion, a 15% increase over expenditures in the same quarter of 2000 and 80% more than expenditures for the first three quarters of 1998. While overall Medicaid expenditures grew by an average annual rate of 5% between 1998 and 2001, expenditures on drugs and supplies grew by over 20% <u>per year</u>.

In fact, New York could use its purchasing power to get better prices on brand name drugs. Virtually every state in the union has come to recognize that prescription drug costs for state employees and retirees, Medicaid beneficiaries, and the participants in other state funded programs are increasing much faster than the benefits that these individuals are receiving. But some states are moving much more aggressively to address this problem than are others. Governors Jeb Bush (R-Florida) and John Engler (R-Michigan) have been among the more assertive Governors on this front and their efforts provide some useful models for New York. In the first week in January, in fact, a federal district court judge in Talahassee, Florida, upheld Florida's plan. The following week, however, a federal district court judge in Michigan ruled against Michigan's very similar plan.

The Florida plan, for example, requires drug manufacturers to give additional percentage discounts to the state's Medicaid program in order to have their drugs included on a list of drugs that are generally available for Medicaid recipients. Drugs not included on this list can still be provided through the Medicaid program but an additional review would be required. Michigan's plan is similar - resticting coverage of popular drugs unless the manufacturers offer steeper discounts.

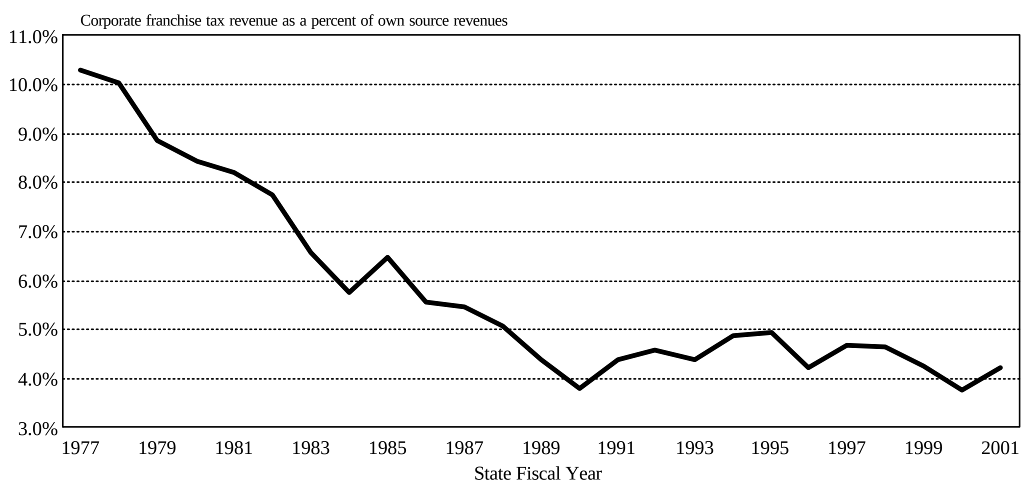
New York State has now enacted legislation limiting Medicaid recipients' access to brand name drugs. But, unlike Florida and Michigan, it has not tied this move to using its purchasing power to get better prices from brand-name drug manufacturers. The savings of aggressive action on this front are substantial. For example, the Health Reform Program at the Boston University School of Public Health has estimated (using data for 2000) that New York could reduce its Medicaid expenditures by over $400 million per year if it were able to purchase brand name prescription drugs at federal supply schedule prices. *See* Appendix C.

Another example of an efficiency that could be implemented without hurting New York residents or the state's economy would involve closing a loophole that allows large multinational retailers to benefit from New York markets while legally avoiding all or most of their corporate income tax liability. Certain firms, like Toys 'R Us and Sherwin Williams Paints, have begun licensing their trademarks to a wholly-owned subsidiary that operates in a state without a corporate income tax, and then have their subsidiaries that operate revenue-generating retail outlets in New York and other states make royalty payments for the use of the firm's trademark. Those royalty payments are, by coincidence, about equal to the outlets' profits. The NYS Department of Taxation and Finance has challenged a number of these arrangements but the firms have prevailed in court because of the looseness of New York's underlying law. Ohio and North Carolina provide useful models of states that have enacted legislation on this front.

There are many other loopholes in the state's corporate income tax. In 1987, New York State enacted a far-reaching reform of its corporate tax system with the active support of the state's business community. That reform which lowered the general corporate tax rate also instituted an alternative minimum tax (AMT) designed so that profitable corporations could not use the state's many remaining tax preferences to reduce their tax liability to zero. Beginning in 1994, however, the business community began a successful lobbying campaign that initially added loopholes to the AMT and then reduced the AMT rate from 3.5% to 2.5%. To stop the continuing evisceration of the corporate tax system, the state should restore the base and the rate of the AMT.

Step 3. Identify and implement those spending reductions and those tax increases that do the least harm to the economy.

The corporate income tax represents a declining share of state tax revenues.



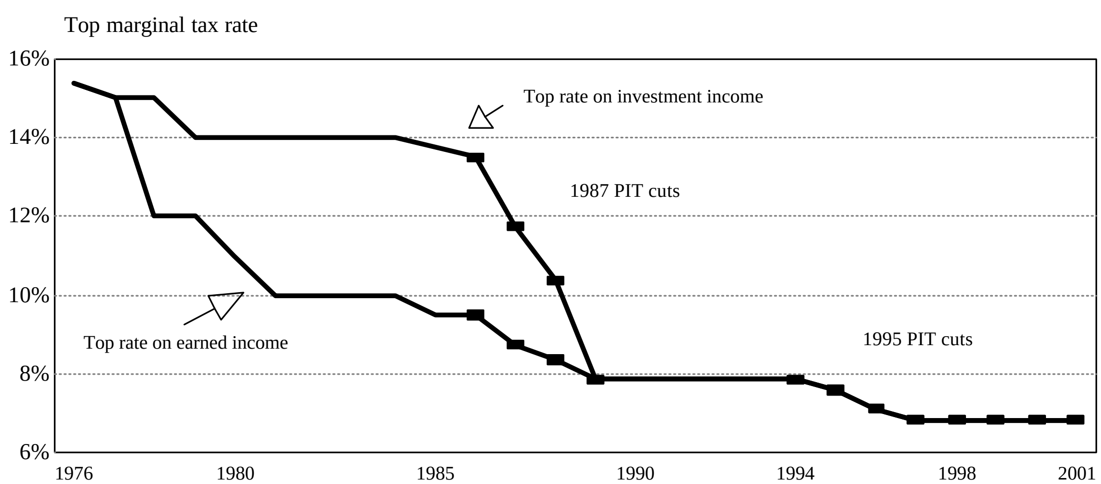
Based on the conceptual framework provided by Nobel prize winning economist Joseph Stiglitz and his colleague, Peter Orszag, the type of temporary gap-closing action that does the least harm to a state's economy during a recession is a temporary increase in taxes on high-income households. While a temporary one or two year surcharge on the portions of a household incomes over some relatively high level is probably the least harmful kind of spending cut and/or tax increase to implement during a recession, many politicians favor spending reductions or across-the board tax increases so that we are not accused of trying to "soak the rich."

During the recession of the early 1990s, the state undertook billions of dollars of budget gap closing actions, but only $100 million took the form of a tax on high-end incomes. The state directly increased and/or established a number of consumption taxes which hit middle and lower income taxpayers as hard or harder than they hit high income taxpayers. In addition, by cutting and/or freezing a variety of state aid programs, including state aid to education, the state put localities in the position of cutting local services and increasing local taxes. This basically meant substantial increases in local property and sales taxes, two of the state's most regressive taxes.

During the good times of the 1980s and 1990s, both before and after the recession of the late 1980s and early 1990s, the state focused its tax cutting on the personal income tax. And in the mid and late 1990s, the state enacted substantial reductions in its taxes on profitable corporations including the evisceration of the state's corporate alternative minimum tax.

During the 1980s, under Governor Cuomo, the state cuts its top personal income tax rates from 10% to 7.85% on earned income (wages, salaries and business income) and from 14 % to 7.875% on investment income. Under Governor Pataki, this trend was continued with the top income tax rate being cut from 7.875% to 6.85%. Thus, during good times, the state focused its tax cuts on progressive taxes; while in bad times, it closed its budget gaps by cutting services and increasing its reliance on regressive taxes.

New York State has cut its top personal income tax rate by more than 50% over the last 25 years.



By temporarily restoring a small portion of the progressivity that was removed from the personal income tax over the last 15 years, New York could weather the current recession in a way that would be much better from an economic perspective than if it cut services or increased regressive taxes.

One specific alternative which we have examined would involve a temporary two-year (2002 and 2003) income tax surcharge of seven tenths of one percent (.007) on the portions of a taxpayer's New York Adjusted Gross Income above $100,000 and another seven tenths of one percent (.007) on the portions above $200,000. Given the changes in the state's income distribution over the last decade, this relatively modest surcharge on the portions of income above these thresholds would generate between $2.7 and $3 billion for the 2002-03 fiscal year (depending on the accuracy of the Budget Division's projected decline in personal income tax receipts) and slightly more for the 2003-04 fiscal year. To generate the same amount of revenue with an across-the-board surcharge of every taxpayer's bottom line tax liability would require a surcharge of about 11% on the amount of tax due.

The difference between these two approaches is that the across-the-board surcharge would be more damaging to the economy in the short run since it would be reducing the disposable income of middle and lower income households. Some share of the income covered by such an across-the-board surcharge on tax liability would otherwise be saved rather than spent, but that share would be much less than for the portions of income covered by the lower level surcharges on the portions of income above $100,000.

For all taxpayers with incomes between $150,000 and $200,000 a year, we estimate that average "seven tenths of one percent (.007) surcharge on income above $100,000" tax would be about $436 while the average 11% surcharge on the amount of tax due would be slightly more than one thousand dollars.

Step 4. Recognize the impact of state budget balancing strategies on New York City and the state's other local governments and establish a multi-year plan for undoing those policies that have placed additional pressure on local services and local tax bases.

During the last recession, the state government balanced its budget, in part, by cutting some programs of state aid to localities and freezing others. The resulted in service cuts and tax increases at the local level. One of the results of this strategy was that in the early 1990s, the state moved to move further and further away from the goal of funding, on average, half the cost of elementary and secondary education. By the 1995-96 school year, the state share was at about 40%, where it remained for the next five years.

Last year, however, the adopted state budget moved back in the other direction. After adjusting for the change in the Consumer Price Index, 64% of the state's school districts (with 81% of all pupils) are receiving less state operating aid per pupil during the current 2001-02 school year than they did last year. And, the Governor's 2002-03 Executive Budget, proposes to basically freeze most elements of school aid at last year's levels and cut some others. This strategy will place inordinate pressure on the local property tax base and make it increasingly difficult for the state to argue, as it did during the trial in the Campaign for Fiscal Equity law suit, that it is adequately funding elementary and secondary education throughout the state.

In terms of general purpose aid to local governments, the Governor proposed no cuts in revenue sharing and only minor cuts in supplemental aid. The result is that the state is still funding revenue sharing at a level which is almost a half billion dollars less than the 1988-89 level. New

York City, alone, is receiving $207 million less than it received in 1988-89, and the state is now sharing less than 1.4% of state revenues with local government, far below both the statutory (State Finance Law, Section 54) level of 8% and the 1988-89 level of 3.9%. While some cities have received supplemental aid outside of the revenue sharing formula, New York City and many other cities do not. Unless the state government reestablishes its commitment to revenue sharing, the Governor's rhetoric regarding "smart growth" and "quality communities" is likely to fall far short. To ease the fiscal pressures on New York City and local governments around the state, New York State should make a commitment to restoring its formula based revenue sharing program and increasing (in three to five steps) the state's share of the non-long term care portion of Medicaid from 25% to 40%, the current state share for long-term care.

In light of the World Trade Center disaster, NYS should design and implement a comprehensive agenda for easing New York City's fiscal crisis. Such a strategy should include the undoing of such short-sighted budget actions of the past as the repeal of the commuter income tax and last year's repeal of the longstanding stock transfer incentive aid program. The current rebate on the stock transfer tax could be reduced from 100% to 90% and still produce about $800 million a year for the city treasury. Reducing the rebate to 90% for two years would provide the city with much needed help as it attempts to deal with substantial revenue shortfalls as a result of September 11th. In addition, if the city and state governments decide to go ahead with the plan to subsidize the construction of a new facility for the New York Stock Exchange, a reduced rebate could be continued in 2004 and subsequent years to provide funding for this project without jeopardizing basic services and important safety net programs.

Appendix A: State Tax Amnesty Programs

November 22, 1982 -- Present

STATE	AMNESTY PERIOD			LEGISLATIVE AUTHORIZATION		MAJOR TAXES COVERED		ACCOUNTS RECEIVABLE INCLUDED		COLLECTIONS IN MILLIONS (a)		INSTALLMENT ARRANGEMENTS PERMITTED (b)	
ALABAMA	1/20/84	-	4/1/84	No	(c)	All		No		3.2		No	
ARIZONA	11/22/82	-	1/20/83	No	(c)	All		No		6.0		Yes	
" "	1/1/02		2/28/02	Yes		Ind. Income						No	
ARKANSAS	9/1/87	-	11/30/87	Yes		All		No		1.7		Yes	
CALIFORNIA	12/10/84	-	3/15/85	Yes		Ind. Income		Yes		154.0		Yes	
" "				Yes		Sales		No		43.0		Yes	
COLORADO	9/16/85	-	11/15/85	Yes		All		No		6.4		Yes	
CONNECTICUT	9/1/90	-	11/30/90	Yes		All		Yes		54.0		Yes	
" "	9/1/95	-	11/30/95	Yes		All		Yes		46.2		Yes	
FLORIDA	1/1/87	-	6/30/87	Yes		Intangibles		No		13.0		No	
" "	1/1/88	-	6/30/88	Yes	(d)	All		No		8.4	(d)	No	
GEORGIA	10/1/92	-	12/5/92	Yes		All		Yes		51.3		No	
IDAHO	5/20/83	-	8/30/83	No	(c)	Ind. Income		No		0.3		No	
ILLINOIS	10/1/84	-	11/30/84	Yes		All		Yes		160.5		No	
IOWA	9/2/86	-	10/31/86	Yes		All		Yes		35.1			
KANSAS	7/1/84	-	9/30/84	Yes		All		No		0.6		No	
KENTUCKY	9/15/88	-	9/30/88	Yes	(c)	All		No		61.1		No	
LOUISIANA	10/1/85	-	12/31/85	Yes		All		No		1.2		Yes	(f)
" "	10/1/87	-	12/15/87	Yes		All		No		0.3		Yes	(f)
" "	10/1/98	-	12/31/98	Yes		All		No	(q)	1.3		No	
" "	9/1/01	-	10/30/01	Yes		All		Yes				No	
MAINE	11/1/90	-	12/31/90	Yes		All		Yes		29.0		Yes	
MARYLAND	9/1/87	-	11/2/87	Yes		All		Yes		34.6	(g)	No	
" "	9/1/01	-	10/31/01	Yes		All		Yes				No	
MASSACHUSETTS	10/17/83	-	1/17/84	Yes		All		Yes		86.5		Yes	(h)
MICHIGAN	5/12/86	-	6/30/86	Yes		All		Yes		109.8		No	
" "	TBA/02	-	TBA/02					Yes					
MINNESOTA	8/1/84	-	10/31/84	Yes		All		Yes		12.1		No	
MISSISSIPPI	9/1/86	-	11/30/86	Yes		All		No		1.0		No	
MISSOURI	9/1/83	-	10/31/83	No	(c)	All		No		0.9		No	
NEW HAMPSHIRE	12/1/97	-	2/17/98	Yes		All		Yes		13.5		No	
" "	12/1/01	-	2/15/02	Yes									
NEW MEXICO	8/16/99	-	11/12/99	Yes		All		Yes		45.0		Yes	
NEW JERSEY	9/10/87	-	12/8/87	Yes		All		Yes		186.5		Yes	
" "	3/15/96	-	6/1/96	Yes		All		Yes		359.0		No	
NEW MEXICO	8/15/85	-	11/13/85	Yes		All	(i)	No		13.6		Yes	
NEW YORK	11/1/85	-	1/31/86	Yes		All	(j)	Yes		401.3		Yes	
" "	11/1/96	-	1/31/97	Yes		All		Yes		322.8		Yes	(o)
NORTH CAROLINA	9/1/89	-	12/1/89	Yes		All	(k)	Yes		37.6		No	
NORTH DAKOTA	9/1/83	-	11/30/83	No	(c)	All		No		0.2		Yes	
OHIO	10/15/01	-	1/15/02	Yes		All		No				No	
OKLAHOMA	7/1/84	-	12/31/84	Yes		Inc & Sales		Yes		13.9		No	(l)
PENNSYLVANIA	10/13/95	-	1/10/96	Yes		All		Yes		n.a.		No	
RHODE ISLAND	10/15/86	-	1/12/87	Yes		All		No		0.7		Yes	
" "	4/15/96	-	6/28/96	Yes		All		Yes		7.9		Yes	
SOUTH CAROLINA	9/1/85	-	11/30/85	Yes		All		Yes		7.1		Yes	
SOUTH DAKOTA	4/1/99	-	5/15/99	Yes		All		Yes		0.5			
TEXAS	2/1/84	-	2/29/84	No	(c)	All	(m)	No		0.5		No	
VERMONT	5/15/90	-	6/25/90	Yes		All		Yes		1.0	(e)	No	
VIRGINIA	2/1/90	-	3/31/90	Yes		All		Yes		32.2		No	
WEST VIRGINIA	10/1/86	-	12/31/86	Yes		All		Yes		15.9		Yes	
WISCONSIN	9/15/85	-	11/22/85	Yes		All		Yes	(n)	27.3		Yes	
" "	6/15/98	-	8/14/98	Yes		All		Yes		30.9			
DC	7/1/87	-	9/30/87	Yes		All		Yes		24.3		Yes	
DC	7/10/95	-	8/31/95	Yes		All	(p)	Yes		19.5		Yes	(p)

Source: Federation of Tax Administrators, January 2002.

Appendix A: State Tax Amnesty Programs
November 22, 1982 -- Present

NOTES:

(a) Where applicable, figure includes local portions of certain taxes collected under the state tax amnesty program.
(b) "No" indicates requirement of full payment by the expiration of the amnesty period. "Yes" indicates allowance of full payment after the expiration of the amnesty period.
(c) Authority for amnesty derived from pre-existing statutory powers permitting the waiver of tax penalties.
(d) Does not include intangibles tax and drug taxes. Gross collections totaled $22.1 million, with $13.7 million in penalties withdrawn.
(e) Preliminary figure.
(f) Amnesty taxpayers were billed for the interest owed, with payment due within 30 days of notification.
(g) Figure includes $1.1 million for the separate program conducted by the Department of Natural Resources for the boat excise tax.
(h) The amnesty statute was construed to extend the amnesty to those who applied to the department before the end of the amnesty period, and permitted them to file overdue returns and pay back taxes and interest at a later date
(i) The severance taxes, including the six oil and gas severance taxes, the resources excise tax, the corporate franchise tax, and the special fuels tax were not subject to amnesty.
(j) Availability of amnesty for the corporation tax, the oil company taxes, the transportation and transmissions companies tax, the gross receipts oil tax and the unincorporated business tax restricted to entities with 500 or fewer employees in the United States on the date of application. In addition, a taxpayer principally engaged in aviation, or a utility subject to the supervision of the State Department of Public Service was also ineligible.
(k) Local taxes and real property taxes were not included.
(l) Full payment of tax liability required before the end of the amnesty period to avoid civil penalties.
(m) Texas does not impose a corporate or individual income tax. In practical effect, the amnesty was limited to the sales tax and other excises.
(n) Waiver terms varied depending upon the date of tax liability was accessed.
(o) Installment arrangements were permitted if applicant demonstrated that payment would present a server financial hardship.
(p) Does not include real property taxes. All interest was waived on tax payments made before July 31, 1995. After this date, only 50% of the interest was waived.
(q) Exception for individuals who owed $500 or less.

Source: The Federation of Tax Administrators, January 2002

Appendix B: Tax cuts taking effect in 2002 and beyond

(This list does NOT include tax changes that apply to tax years beginning on or before January 1, 2001 or tax changes that apply to specific actions [such as the making of a purchase of a specified kind] taken on or after particular dates up to and including January 1, 2002.)

A. Tax cuts that apply to tax years that have begun for most (but not all) affected taxpayers but for which final returns will not be filed until 2003 or late 2002.

1. Personal Income Tax - Increase in standard deduction for married couples filing joint returns, from $13,400 to $14,200, for tax years beginning on and after January 1, 2002 (2000 Part P)

2. Personal Income Tax - Increase in State Earned Income Tax Credit from 25% to 27.5% of Federal Earned Income Tax Credit, for tax years beginning on and after January 1, 2002 (2000 Part Q)

3. Personal Income Tax - For tax years beginning on and after January 1, 2002, increases from $2,500 to $5,000 the maximum amount of allowable undergraduate higher education tuition expenses for which an itemized deduction or a 4% refundable credit can be taken by New York residents. (2000 Part DD)

4. Insurance Tax - For tax years beginning on and after January 1, 2002, insurance companies can claim credits for 100% of any investments made on or after May 1, 2000, in CAPCOs (cerified capital companies), up to a $150 million statewide cap. (This is the state's third round of CAPCO credits for insurance companies.) (2000 Part FF)

5. Bank Tax - For tax years beginning on and after July 1, 2001, reduces the tax rate from 8.5% to 8% of net income. (Note: For virtually all banks this applies to tax years beginning on January 1, 2002.) (1999 Part O)

6. Insurance Tax - For tax years beginning on and after July 1, 2001, reduces the tax rate from 8.5% to 8% of net income. (Note: For virtually all insurance companies this applies to tax years beginning on January 1, 2002.) (1999 Part O)

7. Insurance Tax - For tax years beginning on and after July 1, 2001, reduces the Cap tax rate for non-life insurance companies from 2.4% to 2.2%. (Note: For virtually all insurance companies this applies to tax years beginning on January 1, 2002.) (1999 Part O)

8. Corporation and Utility Tax - For tax years beginning on and after January 1, 2002, eliminates the excess dividends tax (Section 183) for telecommunications companies principally engaged in local telephone with fewer than one million access lines. (1999 Part V)

9. Corporate Franchise Tax - For tax years beginning on and after July 1, 2001, reduces the tax rate from 8% to 7.5% of net income. (Note: Most corporations have calendar year fiscal years so that this reduction applies to tax years beginning on January 1, 2002.) (1998 Section 9)

10. S Corporation Differential - Reduces the S corporation differential rate from 0.825% to 0.65% for large S corporations for tax years beginning on and after July 1, 2001. (Note: 1. Most affected corporations have calendar year fiscal years so that this reduction applies to tax years beginning on January 1, 2002; 2. the differential rate for small S corporations was reduced previously from 0.125% to 0.05%.) (1998 Section 13)

B. Tax Cuts that apply to tax years that have not begun for any affected taxpayers.

1. Personal Income Tax - Increase in standard deduction for married couples filing joint returns, from $14,200 to $14,600, for tax years beginning on and after January 1, 2003 (2000 Part P)

2. Personal Income Tax - Increase in State Earned Income Tax Credit from 27.5% to 30% of Federal Earned Income Tax Credit, for tax years beginning on and after January 1, 2003 (2000 Part Q)

3. Beer Tax - Reduces beer excise tax rate from 12.5 cents to 11 cents per gallon effective September 1, 2003 (2000 Part V)

4. Petroleum Business Tax - Provides for a 33% rate reduction for both diesel motor fuel and residual oil used for non-residential heating purposes effective September 1, 2002 (2000 Part X)

5. Personal Income Tax - Creates new credit up to $1,500 for the cost of installing fuel cell electric generating equipment in taxpayer's residence, for tax years beginning on and after January 1, 2003. Excess may be carried over for 5 years. (2000 Part Z)

6. Personal Income Tax - For tax years beginning on and after January 1, 2003, increases from $5,000 to $7,500 the maximum amount of allowable undergraduate higher education tuition expenses for which an itemized deduction or a 4% refundable credit can be taken by New York residents. (2000 Part DD)

7. Personal Income Tax - For tax years beginning on and after January 1, 2004, increases from $7,500 to $10,000 the maximum amount of allowable undergraduate higher education tuition expenses for which an itemized deduction or a 4% refundable credit can be taken by New York residents. (2000 Part DD)

8. Bank Tax - For tax years beginning on and after July 1, 2002, reduces the tax rate from 8% to 7.5% of net income. (1999 Part O)

9. Insurance Tax - For tax years beginning on and after July 1, 2002, reduces the tax rate from 8% to 7.5% of net income. (1999 Part O)

10. Insurance Tax - For tax years beginning on and after July 1, 2002, reduces the Cap tax rate for non-life insurance companies from 2.2% to 2%.   (1999 Part O)

11. Corporate Franchise Tax - For tax years beginning on and after July 1, 2003, reduces the tax rate on net income from 7.5% to 6.85% for businesses with net income of less than $200,000. For businesses with net income between $200,000 and $290,000, the tax rate would range from 6.85% to 7.5%. (2000 Part A)

12. S Corporation Differential - Reduces the S corporation differential rate by over 40% for tax years beginning on and after July 1, 2003. For S corporations with net income of more than $290,000, this reduction is from 0.65% to 0.375%; for S corporations with net income of $200,000 or less, this reduction is from 0.05% to 0.0275%; for S corporations with net income between $2000,000 and $290,000, the differential rates are prorated between these two levels. (2000 Part A)

13. Personal and Corporate Taxes - Provides, for tax years beginning on and after January 1, 2002, a 10% credit for cost of purchasing long-term care insurance. This credit applies to the corporation and utility tax, the corporate franchise tax, the personal income tax, the bank tax, and

the insurance tax. Any unused portions of this credit can be carried over to future years. (2000 Part E)

14. Corporation and Utility Tax - Beginning on January 1, 2003, reduces the section 186-a gross receipts tax on gas and electricity and the section 189 gas import tax from 1.9% to 0.85%; beginning on January 1, 2004, reduces these taxes from 0.85% to 0.4%; and beginning on January 1, 2005, reduces these taxes from 0.4% to 0%. (2000 Part Y)

15. Corporation and Utility Tax - Beginning on January 1, 2003, increases from 25% to 50%, the portion of the section 186-a excise tax on the transmission and distribution component of gas and electric services for commercial, industrial and not-for-profit customers that is excluded from taxation; on January 1, 2004 this exclusion is increased to 75%; and on January 1, 2005, it is increased to 100%. Beginning on January 1, 2003, reduces this tax on transmission and distribution services for other customers from 2.4% to 2.25%; beginning on January 1, 2004, reduces this tax from 2.25% to 2.125%; and beginning on January 1, 2005, reduces this tax from 2.125% to 2%. (2000 Part Y)

Appendix C: Estimated Savings on Brand Name Prescription Drugs, If Federal Supply Schedule Prices Prevailed

2000, by Payor and State, in Millions

	Cash	Third Party	Medicaid	Non-retail	Total	Savings as a % of Current Spending
Alabama	$183.40	$311.60	$62.20	$72.50	$629.70	36.9%
Alaska	$17.90	$21.60	$5.70	$5.80	$51.00	37.2%
Arizona	$129.80	$327.40	$1.80	$59.30	$518.30	37.2%
Arkansas	$140.30	$143.50	$38.60	$41.20	$363.70	37.5%
California	$724.80	$1,631.20	$191.40	$340.80	$2,888.30	36.0%
Colorado	$98.20	$214.40	$12.20	$42.20	$367.00	37.0%
Connecticut	$129.20	$276.50	$40.60	$58.60	$505.00	36.6%
Delaware	$26.40	$65.90	$6.80	$13.00	$112.10	36.7%
DC	$16.40	$39.40	$9.30	$8.70	$73.90	36.1%
Florida	$661.70	$1,217.80	$218.30	$274.00	$2,371.80	36.8%
Georgia	$287.80	$474.70	$99.70	$113.00	$975.20	36.7%
Hawaii	$25.90	$76.40	$5.70	$14.10	$122.10	36.7%
Idaho	$45.10	$66.90	$12.20	$16.10	$140.40	37.1%
Illinois	$475.00	$839.80	$109.60	$185.20	$1,609.60	36.9%
Indiana	$238.60	$463.60	$62.90	$99.50	$864.60	37.0%
Iowa	$138.00	$158.60	$30.50	$42.10	$369.20	37.3%
Kansas	$137.50	$148.00	$26.50	$39.90	$351.80	37.5%
Kentucky	$157.40	$288.90	$82.50	$70.40	$599.20	36.2%
Louisiana	$180.20	$276.10	$71.30	$69.80	$597.40	36.4%
Maine	$41.70	$79.80	$32.90	$20.60	$175.00	36.0%
Maryland	$118.80	$413.60	$45.90	$76.70	$655.00	36.3%
Massachusetts	$148.90	$457.70	$99.40	$95.00	$801.10	35.8%
Michigan	$255.10	$1,009.20	$105.00	$183.30	$1,552.70	36.0%
Minnesota	$128.70	$330.30	$37.60	$65.40	$562.00	36.5%
Mississippi	$120.40	$145.40	$62.50	$43.40	$371.70	36.4%
Missouri	$194.00	$366.20	$48.80	$79.50	$688.40	36.8%
Montana	$43.80	$29.50	$9.90	$10.60	$93.80	37.7%
Nebraska	$78.90	$110.90	$21.00	$27.40	$238.30	36.9%
Nevada	$49.70	$107.40	$7.30	$21.30	$185.70	37.1%
New Hampshi	$36.70	$84.20	$10.50	$17.20	$148.60	36.6%
New Jersey	$274.60	$776.10	$140.60	$158.30	$1,349.50	36.2%
New Mexico	$42.90	$80.70	$12.00	$18.40	$153.90	35.6%
New York	$501.30	$1,454.30	$411.10	$321.80	$2,688.40	35.5%
North Carolin	$337.60	$474.00	$93.40	$117.60	$1,022.60	37.0%
North Dakota	$37.00	$23.60	$7.20	$8.60	$76.40	37.8%
Ohio	$352.70	$870.20	$143.50	$180.70	$1,547.10	36.4%
Oklahoma	$141.80	$216.40	$18.90	$48.60	$425.60	37.3%
Oregon	$101.70	$194.20	$17.90	$40.60	$354.50	37.1%
Pennsylvania	$336.40	$1,234.40	$127.50	$226.10	$1,924.30	36.2%
Rhode Island	$23.60	$90.80	$12.40	$17.00	$143.90	36.0%
South Carolin	$155.90	$252.70	$57.70	$61.20	$527.60	36.6%
South Dakota	$38.00	$27.30	$6.30	$9.00	$80.60	38.0%
Tennessee	$231.40	$514.40	$1.70	$96.20	$843.80	37.3%
Texas	$646.40	$1,215.20	$206.60	$271.60	$2,339.80	36.6%
Utah	$61.20	$136.70	$9.00	$26.80	$233.60	37.1%
Vermont	$20.60	$29.90	$9.50	$8.10	$68.10	35.9%
Virginia	$189.30	$495.20	$54.70	$97.40	$836.60	36.5%
Washington	$173.80	$332.80	$34.90	$70.20	$611.60	37.1%
West Virginia	$71.50	$154.70	$45.20	$36.40	$307.80	35.9%
Wisconsin	$167.40	$375.20	$41.10	$76.40	$660.20	36.7%
Wyoming	$23.70	$20.50	$3.60	$6.10	$53.90	37.8%
U.S.A.	$8,959	$19,146	$2,997	$4,104	$35,347	36.5%

Source: Alan Sager and Deborah Socolar, "A Prescription Drug Peace Treaty: Cutting Prices to Make Prescription Drugs Affordable for All and to Protect Research," Boston University School of Public Health, October 2000.

Appendix D: All Funds Disbursements SFY 2001 Accrual, SFY 2002 Estimated, SFY 2003 Recommended

Amounts in Thousands; Sorted by amount of total increase in proposed spending from SFY 2002 to SFY 2003, from largest increase to largest decrease.

	2001 Actual	2002 Est'd.	2003 Rec'd.	01 to 02 Change	02 to 03 Change	Share of 02 to 03 Change	02 to 03 Pct Chng	01 to 03 Change
TOTAL	79,753,168	84,598,475	88,595,376	4,845,307	3,996,901		4.7%	8,842,208
Health, Department of -- Medical Assistance	20,202,879	21,549,306	23,652,275	1,346,427	2,102,969	52.6%	9.8%	3,449,396
Health, Department of -- All Other	2,596,030	3,060,222	3,441,592	464,192	381,370	9.5%	12.5%	845,562
Education, Department of -- School Aid	12,983,413	13,753,151	14,122,717	769,738	369,566	9.2%	2.7%	1,139,304
Transportation, Department of	4,393,932	4,562,215	4,844,979	168,283	282,764	7.1%	6.2%	451,047
General State Charges and Miscellaneous	3,078,938	3,614,714	3,867,732	535,776	253,018	6.3%	7.0%	788,794
Mental Retardation and Developmental Disabilities, Office of	2,213,922	2,307,918	2,492,398	93,996	184,480	4.6%	8.0%	278,476
State University of New York	3,900,871	3,927,293	4,101,159	26,422	173,866	4.4%	4.4%	200,288
Children and Family Services, Office of	2,690,590	2,746,124	2,907,203	55,534	161,079	4.0%	5.9%	216,613
Education, Department of -- STAR Property Tax Relief	1,876,521	2,510,000	2,630,000	633,479	120,000	3.0%	4.8%	753,479
World Trade Center (excluding fringe benefits)	0	204,130	322,700	204,130	118,570	3.0%	58.1%	322,700
Empire State Development Corporation	87,515	105,666	211,402	18,151	105,736	2.6%	100.1%	123,887
Environmental Conservation, Department of	927,392	806,875	896,548	-120,517	89,673	2.2%	11.1%	-30,844
Mental Health, Office of	1,952,062	1,991,283	2,061,615	39,221	70,332	1.8%	3.5%	109,553
Education, Department of -- All Other	2,440,791	2,316,333	2,385,272	-124,458	68,939	1.7%	3.0%	-55,519
Judiciary (excluding fringe benefits)	1,308,719	1,426,894	1,479,804	118,175	52,910	1.3%	3.7%	171,085
Temp & Disability Assistance, Office of -- Welfare Assistance	2,761,972	2,818,733	2,869,568	56,761	50,835	1.3%	1.8%	107,596
Homeland Security (excluding fringe benefits)	0	27,097	74,887	27,097	47,790	1.2%	176.4%	74,887
General Services, Office of	203,022	188,435	226,917	-14,587	38,482	1.0%	20.4%	23,895
Temp & Disability Assistance, Office of -- All Other	837,854	846,327	875,868	8,473	29,541	0.7%	3.5%	38,014
Taxation and Finance, Department of	330,051	331,350	349,808	1,299	18,458	0.5%	5.6%	19,757
State, Department of	90,296	106,186	118,144	15,890	11,958	0.3%	11.3%	27,848
Labor, Department of	653,945	735,798	747,736	81,853	11,938	0.3%	1.6%	93,791
Parks, Recreation and Historic Preservation, Office of	211,963	209,333	221,200	-2,630	11,867	0.3%	5.7%	9,237
Insurance Department	85,304	92,959	101,449	7,655	8,490	0.2%	9.1%	16,145
Employee Relations, Office of	145,556	159,819	168,144	14,263	8,325	0.2%	5.2%	22,588
Workers' Compensation Board	125,196	134,803	141,248	9,607	6,445	0.2%	4.8%	16,052
Lottery, Division of	134,174	159,326	165,498	25,152	6,172	0.2%	3.9%	31,324
Aging, Office for the	139,138	161,655	167,347	22,517	5,692	0.1%	3.5%	28,209
Motor Vehicles, Department of	193,265	206,152	211,835	12,887	5,683	0.1%	2.8%	18,570
Banking Department	49,621	52,115	56,945	2,494	4,830	0.1%	9.3%	7,324
Housing and Community Renewal, Division of	208,833	230,428	232,510	21,595	2,082	0.1%	0.9%	23,677
Agriculture and Markets, Department of	63,947	77,073	79,040	13,126	1,967	0.05%	2.6%	15,093
Alcohol and Substance Abuse Services, Office of	467,750	471,182	472,747	3,432	1,565	0.04%	0.3%	4,997

Appendix D: All Funds Disbursements SFY 2001 Accrual, SFY 2002 Estimated, SFY 2003 Recommended								
Amounts in Thousands; Sorted by amount of total increase in proposed spending from SFY 2002 to SFY 2003, from largest increase to largest decrease.								
	2001 Actual	**2002 Est'd.**	**2003 Rec'd.**	**01 to 02 Change**	**02 to 03 Change**	**Share of 02 to 03 Change**	**02 to 03 Pct Chng**	**01 to 03 Change**
TOTAL	**79,753,168**	**84,598,475**	**88,595,376**	**4,845,307**	**3,996,901**		**4.7%**	**8,842,208**
Audit and Control, Department of	128,632	148,947	149,841	20,315	894	0.02%	0.6%	21,209
Consumer Protection Board	2,254	3,426	4,294	1,172	868	0.02%	25.3%	2,040
Veterans Affairs, Division of	9,819	11,281	11,993	1,462	712	0.02%	6.3%	2,174
Quality of Care for the Mentally Disabled, Commission on	8,680	9,606	10,291	926	685	0.02%	7.1%	1,611
Capital Defenders Office	13,536	12,222	12,800	-1,314	578	0.01%	4.7%	-736
Military and Naval Affairs, Division of	147,381	120,124	120,586	-27,257	462	0.01%	0.4%	-26,795
Regulatory Reform, Governor's Office of	2,924	3,360	3,740	436	380	0.01%	11.3%	816
Criminal Justice Services, Division of	156,354	151,731	152,105	-4,623	374	0.01%	0.2%	-4,249
Adirondack Park Agency	4,209	4,406	4,644	197	238	0.01%	5.4%	435
TSC Lobbying	1,060	1,218	1,418	158	200	0.01%	16.4%	358
Arts, Council on the	54,098	51,899	52,044	-2,199	145	0.004%	0.3%	-2,054
Employee Relations, Office of	4,015	4,290	4,427	275	137	0.003%	3.2%	412
Judicial Commissions	2,196	2,273	2,397	77	124	0.003%	5.5%	201
Correction, Commission of	2,600	2,456	2,551	-144	95	0.002%	3.9%	-49
Welfare Inspector General, Office of	891	992	1,083	101	91	0.002%	9.2%	192
Racing and Wagering Board, State	14,038	13,415	13,485	-623	70	0.002%	0.5%	-553
Investigation, Temporary State Commission of	2,824	3,178	3,228	354	50	0.001%	1.6%	404
Human Rights, Division of	13,013	14,795	14,835	1,782	40	0.001%	0.3%	1,822
Public Employment Relations Board	3,869	3,942	3,956	73	14	0.0004%	0.4%	87
Public Service, Department of	50,954	56,645	56,653	5,691	8	0.0002%	0.01%	5,699
Olympic Regional Development Authority	7,671	7,700	7,700	29	0	0.0%	0.0%	29
Probation and Correctional Alternatives, Division of	91,952	85,446	85,446	-6,506	0	0.0%	0.0%	-6,506
State University Construction Fund	8,899	10,837	10,837	1,938	0	0.0%	0.0%	1,938
Budget, Division of the	30,004	38,107	38,107	8,103	0	0.0%	0.0%	8,103
Elections, State Board of	3,200	3,600	3,600	400	0	0.0%	0.0%	400
Executive Chamber	15,101	18,865	18,865	3,764	0	0.0%	0.0%	3,764
Lieutenant Governor, Office of the	450	548	548	98	0	0.0%	0.0%	98
Legislature	196,140	207,685	207,685	11,545	0	0.0%	0.0%	11,545
Short-Term Debt Service	890	0	0	-890	0	0.0%	0.0%	-890
Children and Families, Council on	1,420	1,687	1,684	267	-3	-0.0001%	-0.2%	264
Prevention of Domestic Violence, Office of	2,861	2,628	2,613	-233	-15	-0.0004%	-0.6%	-248
Developmental Disabilities Planning Council	0	3,865	3,833	3,865	-32	-0.0008%	-0.8%	3,833
Housing Finance Agency	1,700	700	665	-1,000	-35	-0.0009%	-5.0%	-1,035

Appendix D: All Funds Disbursements SFY 2001 Accrual, SFY 2002 Estimated, SFY 2003 Recommended

Amounts in Thousands; Sorted by amount of total increase in proposed spending from SFY 2002 to SFY 2003, from largest increase to largest decrease.

	2001 Actual	2002 Est'd.	2003 Rec'd.	01 to 02 Change	02 to 03 Change	Share of 02 to 03 Change	02 to 03 Pct Chng	01 to 03 Change
TOTAL	79,753,168	84,598,475	88,595,376	4,845,307	3,996,901		4.7%	8,842,208
Parole, Division of	197,739	192,851	192,810	-4,888	-41	-0.0010%	0.0%	-4,929
Alcoholic Beverage Control	10,965	11,013	10,968	48	-45	-0.0011%	-0.4%	3
Advocate for Persons with Disabilities, Office of	1,265	1,385	1,335	120	-50	-0.0013%	-3.6%	70
Tax Appeals, Division of	3,090	3,166	3,087	76	-79	-0.002%	-2.5%	-3
Crime Victims Board	48,830	62,777	62,280	13,947	-497	-0.012%	-0.8%	13,450
Elections, State Board of	6,184	6,537	5,994	353	-543	-0.014%	-8.3%	-190
Temp & Disability Assistance, Office of -- Welfare Administration	385,656	384,296	383,225	-1,360	-1,071	-0.027%	-0.3%	-2,431
Civil Service, Department of	30,780	29,057	27,964	-1,723	-1,093	-0.027%	-3.8%	-2,816
Technology, Office for	51,528	49,349	47,845	-2,179	-1,504	-0.038%	-3.0%	-3,683
Real Property Services, Office of	51,802	51,991	50,323	189	-1,668	-0.042%	-3.2%	-1,479
Energy Research and Development Authority	28,633	30,023	28,023	1,390	-2,000	-0.050%	-6.7%	-610
City University of New York	811,613	812,547	809,278	934	-3,269	-0.082%	-0.4%	-2,335
Health, Department of -- Medicaid Administration	424,264	454,900	449,900	30,636	-5,000	-0.13%	-1.1%	25,636
Economic Development, Department of	53,352	48,719	40,779	-4,633	-7,940	-0.20%	-16.3%	-12,573
Environmental Facilities Corporation	13,609	17,430	9,071	3,821	-8,359	-0.21%	-48.0%	-4,538
Local Government Assistance	953,192	845,040	834,170	-108,152	-10,870	-0.27%	-1.3%	-119,022
State Police, Division of	370,876	445,294	429,050	74,418	-16,244	-0.41%	-3.6%	58,174
Long-Term Debt Service**	3,582,143	3,685,302	3,665,692	103,159	-19,610	-0.49%	-0.5%	83,549
Science, Technology and Academic Research, Office of	16,695	80,575	53,149	63,880	-27,426	-0.69%	-34.0%	36,454
Correctional Services, Department of	2,197,264	2,084,345	2,053,312	-112,919	-31,033	-0.78%	-1.5%	-143,952
Education, Department of -- Handicapped	953,262	1,125,200	1,090,451	171,938	-34,749	-0.87%	-3.1%	137,189
Higher Education Services Corporation	721,329	783,909	640,429	62,580	-143,480	-3.59%	-18.3%	-80,900
Debt Service Reserve Fund Defeasance of High Rate Debt**	500,000	500,000	0	0	-500,000	-12.51%	-100.0%	-500,000

**** Long-Term Debt Service Line separated into debt service paid and the $500 million dollar payments made in the 2001 and 2002 state fiscal years to defease outstanding high rate state debt**