News from the Fiscal Policy Institute

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Statement on Governor Cuomo's Proposed 2014-2015 Budget

ALBANY, N.Y. – In his budget message, Governor Andrew Cuomo rightly touts his strong record of leadership in Albany. However, when it comes to the state budget, the governor's approach is out of focus and falls far short in making the essential public investments to expand opportunities for the millions of New Yorkers in poverty or still struggling to pull away from the Great Recession of 2008-09.

The question is whether the Governor's approach to the budget is the right set of proposals for a state which has gone through six years of austerity and that has stretched the financial capacity of its municipalities, schools and agencies to the limit. Is this the right time for large, multi-year tax cuts paid for with projected surpluses and substantial, unspecified out-year budget cuts, or will those steep tax and spending cuts seriously erode the state's ability to invest in its people, communities and infrastructure?

Our concerns are threefold. First, the 4-year financial plan has unspecified cuts in the 2016 through 2018 budget years totaling $7.2 billion. What is likely to be cut and what impact will those cuts have? Second, the Governor noted that there is great uncertainty surrounding the Federal Medicaid Waiver and its impact on health care system funding. Third, there is even greater uncertainty about whether localities will be able to make meaningful consolidations and savings as part of his property tax freeze proposals. This budget proposal continues to freeze state aid to municipalities, and assumes these consolidations will not only happen, but that localities will save meaningful amounts of resources to cover the lack of inflation adjusted state support.

Cuts to the Estate, Bank and Corporate taxes could have been fully paid for in revenue neutral ways by closing tax loopholes as the Solomon-McCall Tax Reform and Fairness Commission proposed. The Governor used some of these recommendations, by limiting the investment tax credit, eliminating the financial services investment tax credit, and closing the resident trust loophole, but did not go far enough to pay for his tax cuts in a financially stable manner. It also begs the question of whether the best way to grow the New York economy is through this set of

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tax cuts. The economic literature is clear: cutting corporate taxes has little or no impact on a state's economic growth.[1] Likewise, research shows that raising educational attainment is the best way for states to bolster their economic performance and job creation.[2] The legislature needs a clear rationale for any tax cuts, and should require a level of fairness that is inclusive; these tax proposals lack that basis.

The Governor proposes to expand full day Pre-K programs and makes a strong case for why this is important to improving educational attainment and preparing the next generation's workforce. Yet, the Governor provides only $100 million this year and $1.5 billion for this purpose over 5 years. This is far from adequate for the estimated 230,000 four year old children who will be eligible each year in New York State. Since total state aid to education is still not back to its 2008-09 levels, this leads us to worry about whether austerity funding will continue to shortchange our youngest citizens. TAP and higher education aid in general is also inadequate to meet the needs of the students of New York. This is concerning given all of the evidence that a strong education is the best way out of poverty.

Finally, by setting an arbitrary two percent state spending target, the governor is turning government away from its role in expanding opportunities and investing in people, communities and infrastructure. Over the next four years, the governor's budget projects that inflation will rise by 2.3 percent a year, total personal income is forecast to grow by five percent a year, and state adjusted gross income by 5.3 percent a year. The needed resources are there for state government to give a leg up to the poor and the unemployed and their communities, but not if the governor holds spending to less than the rate of inflation and goes through with his huge tax cuts for the wealthy and Wall Street banks. The sounder budget framework would be to put our tax growth to work so we can fully fund universal pre-K, make good on a long-overdue commitment to provide a sound basic education, and help more low- and moderate-income students get the higher education they need.

The Fiscal Policy Institute (www.fiscalpolicy.org) is an independent, nonpartisan, nonprofit research and education organization committed to improving public policies and private practices to better the economic and social conditions of all New Yorkers.

[1] See for example, The Center for Effective Government, The Corporate Tax Rate Debate: Lower Taxes on Corporate Profits Not Linked to Job Creation, 2013.
[2] Noah Berger and Peter Fisher, A Well-Educated Workforce is Key to State Prosperity, Economic Policy Institute, August 22, 2013.

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