Balancing Revenues, Expenditures and Human Needs in the 21st Century

Assessing New York's 2001-2002 Executive Budget in Economic, Social and Fiscal Context

Fiscal Policy Institute

One Lear Jet Lane
Latham, New York 12110
518-786-3156

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

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Does the Governor's 2001-2002 Executive Budget pass this test?

C During each of the last seven years, New York State has enacted a series of multi-year phased-in tax cuts. The NYS Division of the Budget has estimated that, taken together, these several rounds of tax cuts will be reducing state tax revenues by $13.4 billion dollars during the state fiscal year that begins on April 1, 2001.

C While these changes in the tax law have provided some needed tax relief to middle and lower income New Yorkers, the lion's share of the savings have gone to corporations and higher income households, through the reduction of the top rates on the personal income tax, the reduction of New York's estate tax to the level that is fully creditable against the federal estate tax, and the repeal of the tax on the capital gains realized on sales of properties costing $1 million dollars or more.

C Even the STAR (School TAx Relief) program misses the opportunity to target its relief to those who are truly overburdened by school property taxes. The calculation of STAR benefits are not based on the school taxes that a homeowner actually pays or his/her income, let alone on the relationship between the two - a true measure of overburden. Instead STAR benefits are based on the median home value in the county in which a home is located and the school property tax rate to which that home is subject. The result is that many homeowners for whom property taxes are a minuscule portion of their total income receive benefits in excess of the help given to others for whom property taxes are a much higher percentage of their total income. Moreover, STAR assists only owner-occupied dwellings. This means that no relief whatsoever is given to renters, or their landlords, who, in some combination or other, frequently pay school property taxes at higher effective rates than homeowners.

- The magnitude of the tax cuts enacted during the last seven years has also made it virtually impossible for the state to make the investments that are necessary to strengthen the state's physical and human infrastructure. Between 1994-1995 and the end of the current 2000-2001 fiscal year, the state government will have put a cumulative $37.3 billion into additional tax cuts. Over this same six year period, it will have spent an additional $11.7 billion on current services (from both the state's General Fund and its state special revenue funds) and invested almost $2 billion more. That's not $2 billion in one year, but a total increase of that amount over the six years involved.

- Under the proposals and projections set forth in this year's Executive Budget, the cumulative value of the tax reduction program, by the end of the 2003-2004 fiscal year, will be $79.4 billion. (It takes a few more years to get to the $100 billion that the Governor spoke about in his State of the State message.) Over this same period, the increased investments in services and capital projects are estimated, respectively, to be $50.5 and just under $6 billion.

- For the period from 1994-95 through the end of the most recently completed state fiscal year (1999-2000), a review of the Comptroller's annual financial reports indicates that actual spending from state funds for all purposes other than capital projects, debt service and STAR, increased from $39.5 billion to $44.2 billion. This amounts to an average annual increase of 1.89%. Over this same period, the Consumer Price Index grew by 2.38% per year and the size of the state's economy (as measured by total personal income) increased at an average annual rate of 5.03%. While some critics argue that government expenditures should not increase faster than the rate of inflation, this ignores important factors, such as increases in population and economic activity, that affect the demand for public services and infrastructure investments both directly and indirectly. Personal income growth serves to encompass all three of these factors: changes in the costs of goods and services, changes in a jurisdiction's population, and changes in the level of economic activity.

- Looking at changes in the overall level of public spending also ignores the fact that increases in some areas can mask inadequate investment in others. From 1994-95 through 1999-2000, for the Legislature, the Judiciary and the 35 largest state agencies covered by the Comptroller's annual financial reports, the only entities whose spending from state funds (for all purposes other than capital projects and debt service) grew faster than personal income were the Urban Development Corporation (up an average of 38% per year from $8.5 million to $116.5 billion), the Executive Chamber (up an average of 8.7% per year), the Division of the Lottery (up an average of 7.7% per year) the Department of Law (up 7.4% per year), the Division of Military and Naval Affairs (up an average of 6.23% per year), and the Council on the Arts (up an average of 5.8% per year).
- Over this same period, the state's annual investment in capital projects grew from $3.6

billion to $4.3 billion (an average annual rate of growth of 3.7%), and the Executive Budget projects that this amount will grow by an average of 3.5% per year to $4.8 billion in 2002-03. While this increase is greater than the rate of inflation, it pales in comparison to the state's infrastructure needs.

- Last year, for example, the state approved the Metropolitan Transportation Authority's latest 5-year capital plan but provided no state contribution to the financing of this $16 billion effort, other than through the proposed transportation bond act. Even if the voters had approved that proposal, the plan would still have had significant funding gaps <u>and</u> its unprecedented level of reliance on fare-backed bonds would have placed substantial pressure, over time, on the system's operating budget. The revitalization and restoration of the subway and commuter rail systems has been one of New York's major public policy accomplishments during the 1980s and 1990s, and one that can not be allowed to deteriorate. The metropolitan area's transit system is essential to functioning of the economy of this densely populated area, and the effective functioning of New York City's economy is essential to the health of the state treasury.

- New York also faces a number of important social challenges, some of which it has begun to address and other of which it has not. The state government has begun to deal with one of New York's most glaring social disparities - the large and growing number of New Yorkers without health insurance, and it has begun investing in several other areas in which there are significant social investment gaps, such as child care. But more needs to be done even in these two areas. Unfortunately, we continue to miss the opportunity to use the surpluses generated by the boom on Wall Street and several other factors to do more in these areas and to begin addressing the state's numerous other unmet social and infrastructure investment needs.

C Rather than contributing to the current surpluses, the large, multi-year, backloaded tax cuts of the last six years, have been financed in large part by the revenues that the state is receiving from the boom on Wall Street. Other factors that have assisted the state in balancing its budgets in the face of these seemingly unaffordable tax cuts include: -
real cutbacks in current services and increases in tuition and other fees,
-the shifting of a variety of costs to local governments,
-the stalling of the effort to ramp back up the portion of capital spending paid for on a pay-as-you go basis rather than through borrowing,
-the fiscal relief generated by the federal government's conversion of welfare assistance to a block grant combined with substantial declines in caseloads, and
-the revenues from the tobacco settlement.

C Since 1994, New York State has been doing much better in income growth than in employment growth. While the growth in personal income, as reported by the U.S. Bureau of Economic Analysis (BEA), has not returned to the rates attained during the 1980s, every year since 1994 has witnessed growth on this measure of between 4.2% and 5.8%. Moreover, capital gains income, which is not included in the BEA measure of personal income, has shown phenomenal growth in New York State, more than quadrupling from $12 billion in 1994 to $53.5 billion in 2000, according to NYS Division of the Budget estimates.

C The result is that personal income tax receipts have grown by almost $5 billion over the last two years, helping to offset the $4.2 billion in additional annual tax cuts phased-in over this same period, and the first increases in current services spending in four years.

C The recent growth in personal income tax receipts masks some of the long-run problems that are being created by the evisceration of some of its other important taxes, particularly the corporate income or franchise tax and the estate tax, and the repeal of some smaller, but still progressive, revenue sources such as the real estate capital gains tax. This year’s Executive Budget proposes to add additional holes to the base of the corporate income tax in the name of economic development, but those changes are not effectively tied to job creation, let alone to the creation of good-paying jobs.

C This briefing will examine the relationships that exist between recent economic trends and the state’s fiscal situation, as well as the factors that are resulting in increasing disparities between those at the top of the socioeconomic ladder and both the middle class and the working poor. This will be followed by a discussion of the steps that state government can take to improve the economic prospects of middle income and needier New Yorkers. The briefing will conclude with an examination of the state’s tax system and the proposals being advanced in this year’s Executive Budget.

What lies ahead for the New York economy?

- New York's rate of job growth and its aggregate income growth have matched or exceeded the nation's in recent years.
- The benefits of New York's prosperity have been uneven and not broadly shared.
- Upstate has seen weaker job, wage and income growth.
- The position of low and moderate-income workers and families has been very slow to improve in this expansion.
- While the number of jobs is at an all-time peak, job growth has been concentrated in low wage industries.
- Unemployment rates are still high in many areas around the state, and there has been an increase in the number of people working but unable to rise out of poverty.

C Family incomes in the middle and at the bottom have fallen, and the gap between the rich and everyone else has widened.

C New York's economic and revenue growth has become heavily dependent on Wall Street.

C New York's economy is experiencing the effects of the national slowdown and the weakness on Wall Street.

C Whether the New York economy faces a "soft" or a "hard landing" largely depends on what happens to the financial markets.

C In several areas, the factors that will shape the course of the state in a period of economic slowing are different than at the peak of the previous business cycle in 1989.

The overall New York State economy has turned in a strong performance since 1996.

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UNEMPLOYMENT RATE

Unemployment rate	1996	1997	1998	1999	2000**	2001 (forecast)
US BLS and NYS DOL	6.2%	6.4%	5.6%	5.2%	4.6%	
NYS DOB						5.3%

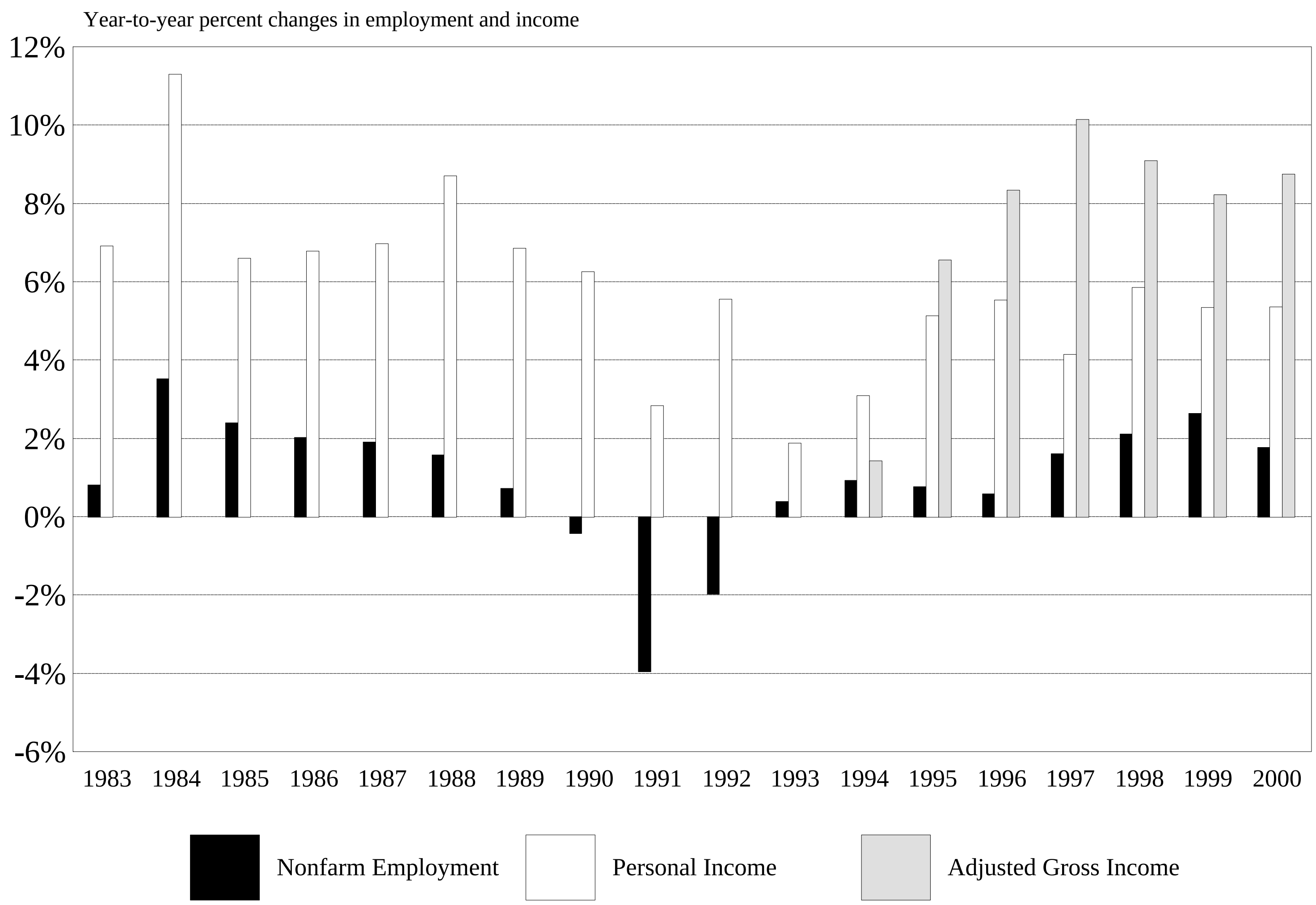
PERCENT CHANGE FROM PRIOR YEAR

	1996	1997	1998	1999	2000*	2001 (forecast)
Nonfarm Employment						
US BLS and NYS DOL	0.6%	1.6%	2.1%	2.6%	2.0%	
NYS DOB					2.1%	1.4%
Personal Income						
US BEA	5.5%	4.1%	5.9%	5.4%		
NYS DOB				4.8%	7.8%	4.6%
Total Wages						
US BEA	5.8%	6.2%	6.8%	7.0%		
NYS DOB				6.2%	9.1%	5.0%
Consumer Price Index**						
US BLS - US	3.0%	2.3%	1.6%	2.2%	3.4%	
US BLS NY metro area	2.9%	2.3%	1.6%	2.0%	3.1%	
NYS DOB				2.0%	3.3%	3.1%

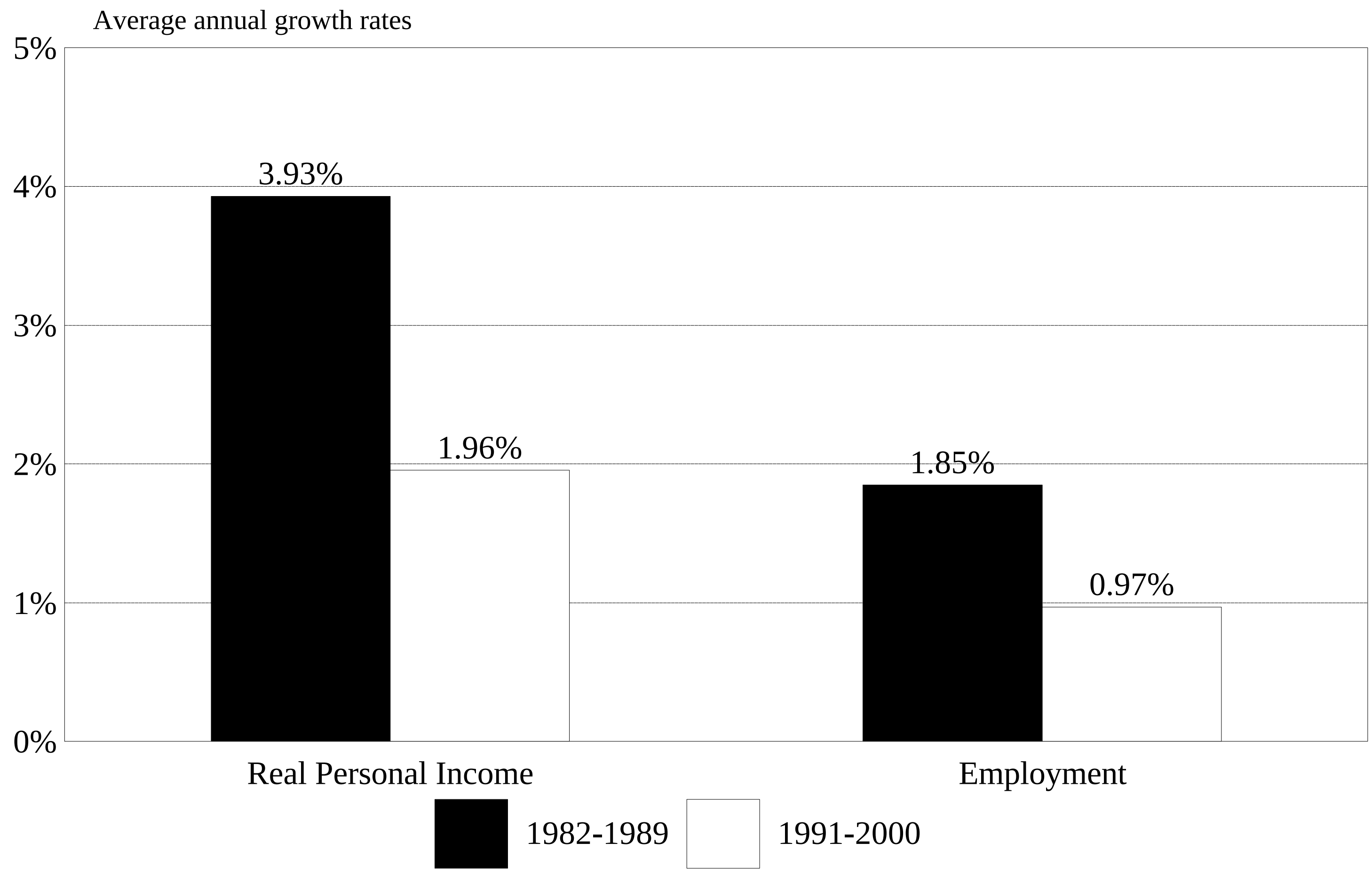
* For 2000, nonfarm employment change is based on preliminary NYS Department of Labor estimates, personal income and wage changes are forecasted.

** US BLS line is US CPI-U; NYS DOB line is a composite index of the NY metro area CPI and the US CPI created by DOB.

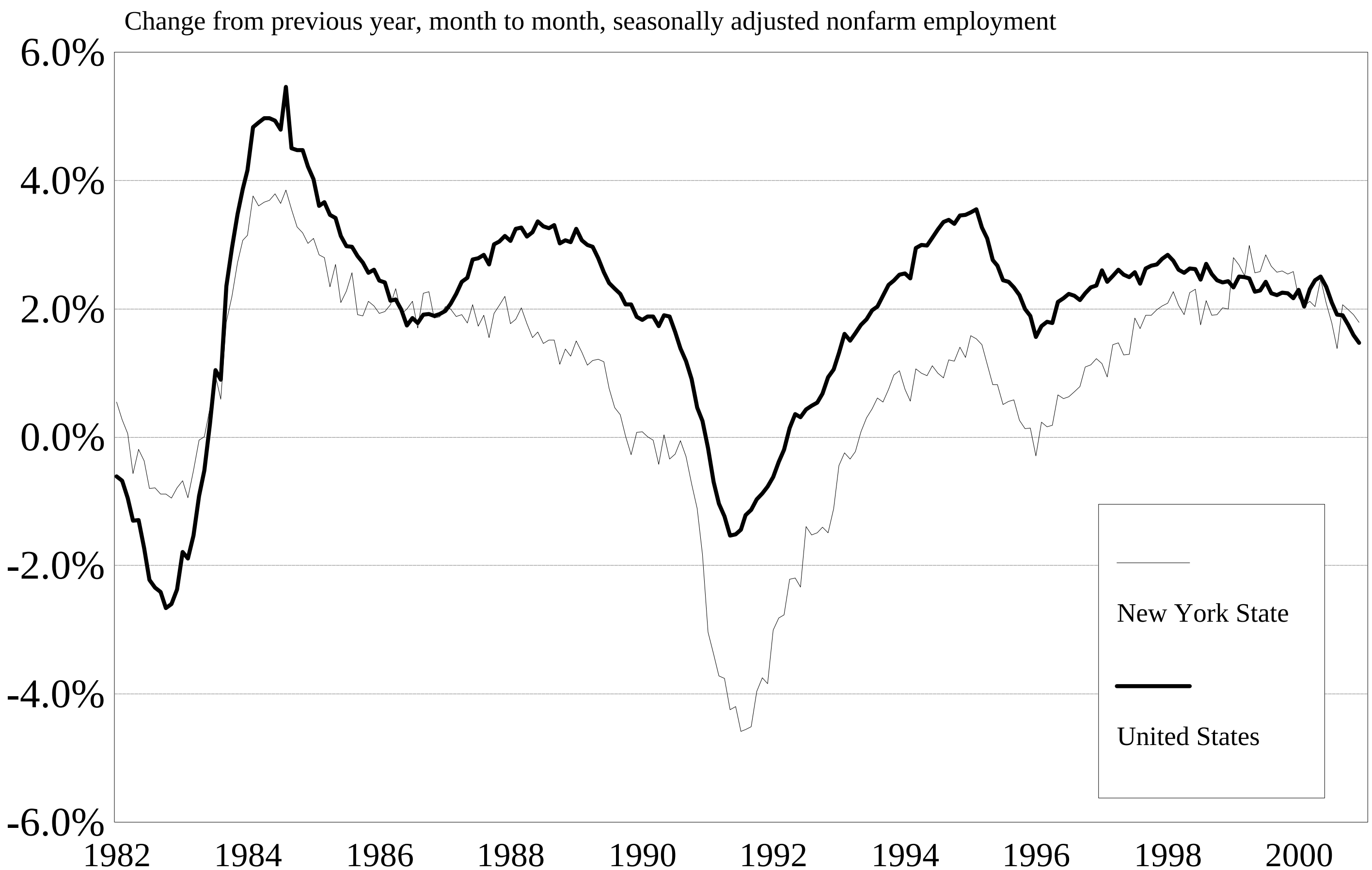
New York has relatively strong income growth but weak employment growth.



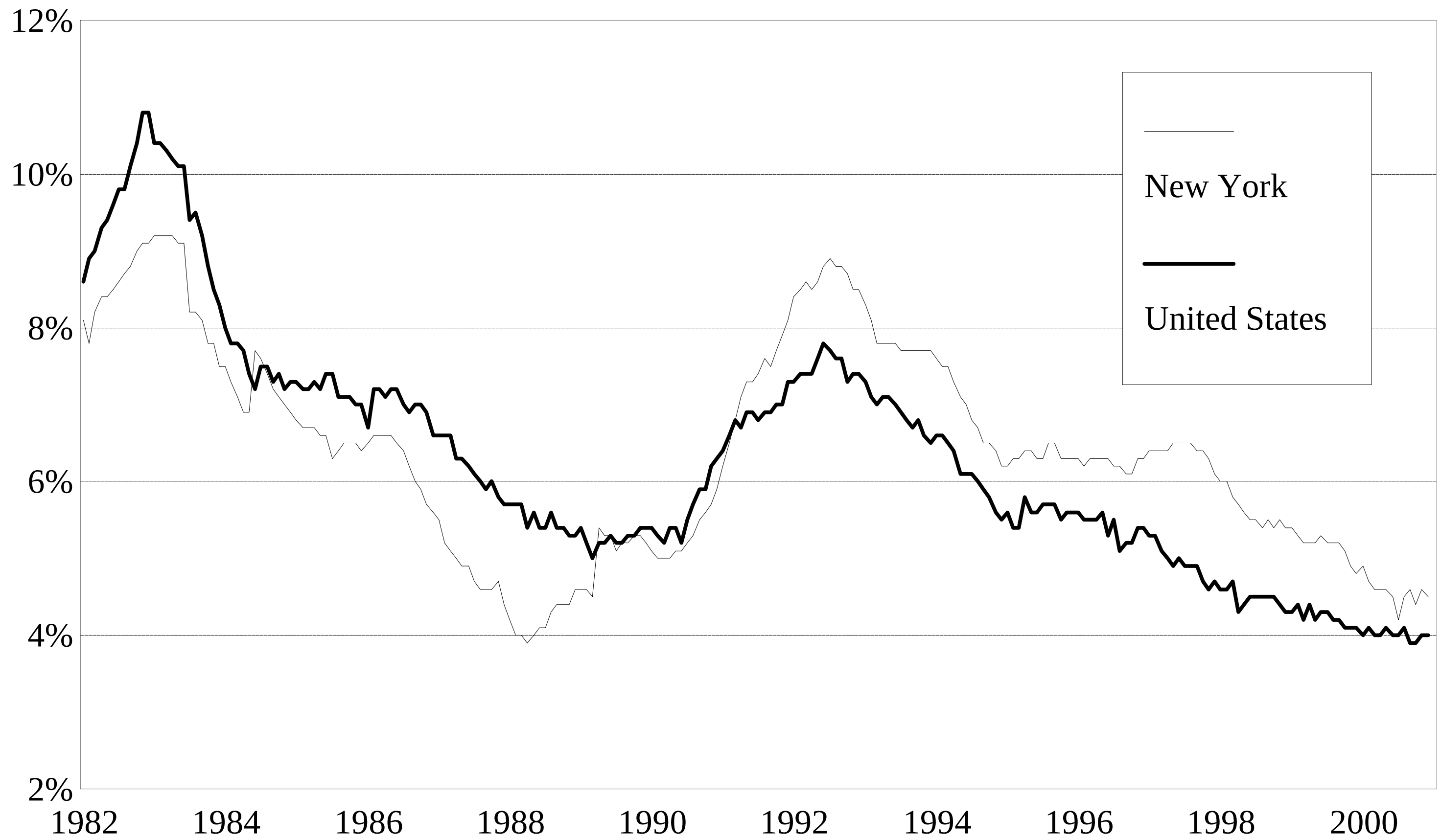
Both income and employment growth were more robust in the economic expansion of the 1980s than in the expansion of the 1990s.



New York's job growth has matched or exceeded the United States as a whole in recent years.



New York's unemployment rate has exceeded the nation's throughout the 1990s, in contrast to the 1980s when New York had a lower unemployment rate than the nation as a whole.



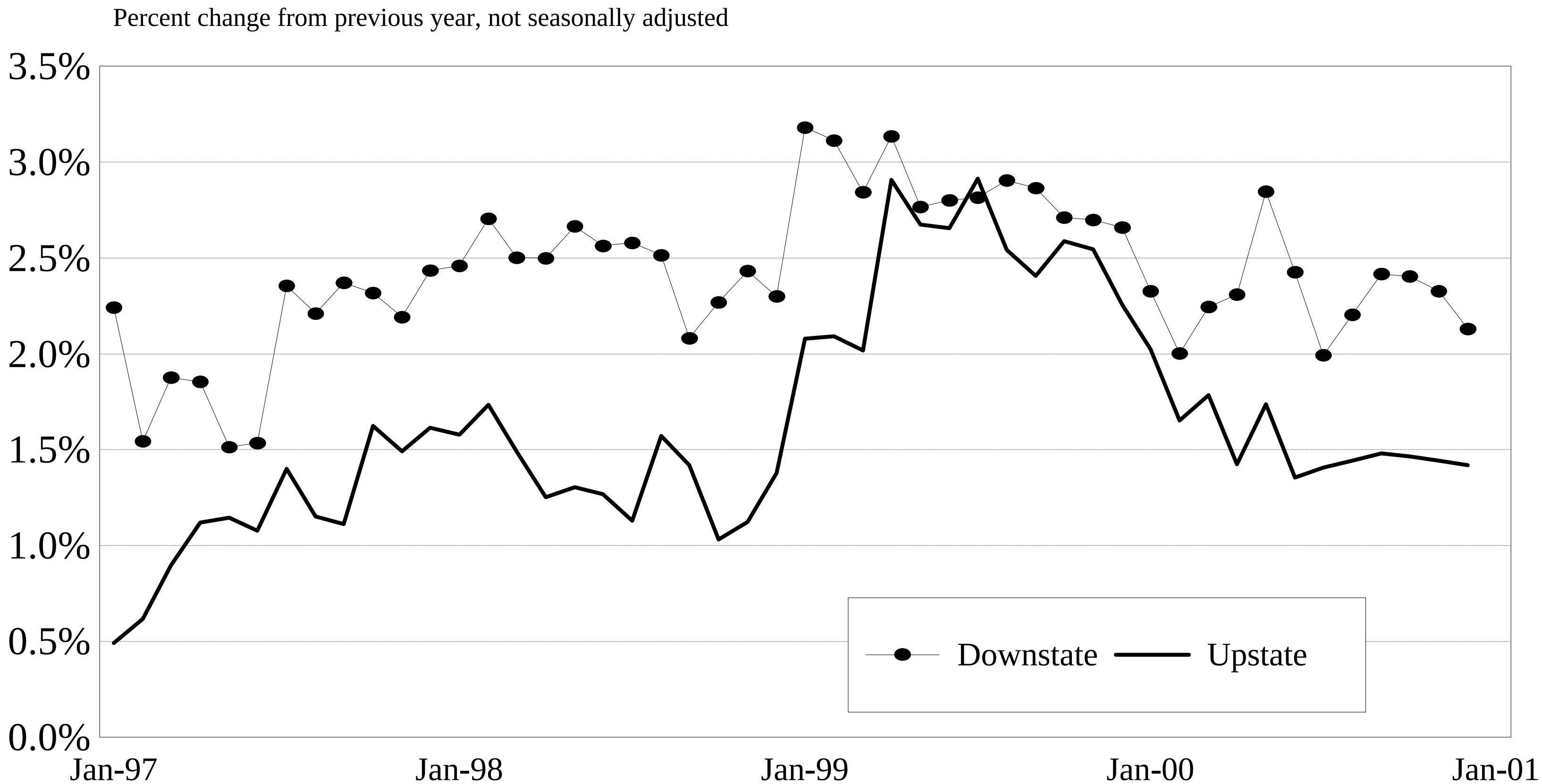
Source: United States Bureau of Labor Statistics; seasonally adjusted data.

For the past six years, upstate New York has lagged well behind the downstate region in job growth.

Percent change from prior calendar year

	1993 to 1994	1994 to 1995	1995 to 1996	1996 to 1997	1997 to 1998	1998 to 1999	Average Annual Growth Rate
New York State	0.9%	0.8%	0.6%	1.6%	2.0%	1.8%	1.6%
10 County Downstate Area	1.1%	0.8%	0.9%	2.0%	2.5%	2.3%	1.9%
New York City	0.9%	0.5%	0.9%	2.2%	2.5%	2.3%	1.9%
Putnam	1.6%	2.6%	1.0%	4.1%	5.4%	3.0%	3.5%
Rockland	0.7%	-0.1%	0.0%	1.8%	3.9%	3.2%	1.9%
Westchester	0.6%	1.2%	1.1%	1.6%	2.0%	2.0%	1.7%
Nassau-Suffolk	1.6%	1.7%	0.7%	1.8%	2.5%	2.4%	2.2%
Upstate Metropolitan Areas	0.8%	0.7%	0.1%	1.1%	1.1%	1.0%	1.0%
Albany-Schenectady-Troy	1.6%	-0.2%	-0.9%	1.6%	1.6%	0.8%	0.9%
Binghamton	-0.8%	-0.8%	-1.2%	2.6%	1.5%	1.2%	0.5%
Buffalo-Niagara Falls	1.3%	0.9%	0.0%	0.9%	0.1%	0.4%	0.7%
Dutchess County	-1.9%	1.5%	1.9%	1.5%	1.5%	2.9%	1.5%
Elmira	2.0%	1.0%	2.2%	1.7%	2.1%	-0.4%	1.7%
Glens Falls	3.4%	2.2%	-1.6%	-0.2%	0.4%	1.4%	1.1%
Jamestown	0.9%	0.2%	1.4%	0.9%	0.5%	0.9%	0.9%
Newburgh NY-PA	0.7%	1.2%	1.3%	1.9%	1.6%	3.1%	2.0%
Rochester	0.3%	1.2%	0.6%	0.8%	1.2%	0.6%	1.0%
Syracuse	0.3%	0.5%	0.3%	0.7%	1.2%	1.2%	0.8%
Utica-Rome	2.3%	1.0%	-1.6%	0.6%	2.0%	1.4%	1.1%
Nonmetropolitan Counties	0.9%	0.6%	0.1%	1.3%	1.6%	1.5%	1.2%
Upstate	0.8%	0.7%	0.1%	1.1%	1.2%	1.1%	1.0%

Upstate's job growth has slowed more than downstate's over the past year.



Source: New York State Department of Labor. August 2000 nonfarm employment numbers adjusted by FPI to account for the impact of the Verizon strike.

Downstate income growth far outpaced upstate growth over the decade. The slight gains upstate were due solely to growth in transfer payments.

	Change in Real Personal Income			Change in Real Wages and Salaries			Change in Real Dividends, Interest, and Rent			Change in Real Transfer Payments		
	1989-98	1989-95	1995-98	**1989-98**	1989-95	1995-98	**1989-98**	1989-95	1995-98	**1989-98**	1989-95	1995-98
United States	**19.4%**	9.9%	8.6%	**20.4%**	7.6%	11.9%	**10.5%**	1.7%	8.7%	**35.5%**	33.4%	1.6%
New York State	**9.9%**	3.6%	6.0%	**7.8%**	-1.7%	9.6%	**-3.6%**	-6.7%	3.4%	**36.0%**	36.6%	-0.4%
Downstate	**12.6%**	5.0%	7.2%	**11.2%**	-1.1%	12.4%	**-3.8%**	-6.1%	2.4%	**36.9%**	38.4%	-1.1%
New York City	**14.7%**	7.3%	6.9%	**13.7%**	0.0%	13.8%	**-8.3%**	-8.1%	-0.3%	**36.7%**	39.8%	-2.2%
Long Island	**7.0%**	-0.1%	7.1%	**3.5%**	-4.1%	7.9%	**2.6%**	-3.9%	6.8%	**39.1%**	37.1%	1.4%
Northern suburbs	**13.8%**	3.9%	9.5%	**6.0%**	-3.8%	10.3%	**1.2%**	-2.7%	4.1%	**33.8%**	30.2%	2.8%
Upstate	**3.6%**	0.6%	3.1%	**-0.6%**	-3.1%	2.5%	**-2.8%**	-8.2%	5.9%	**34.2%**	32.7%	1.1%
Capital District	**7.0%**	2.7%	4.2%	**4.1%**	-0.4%	4.5%	**-1.1%**	-6.6%	5.9%	**36.4%**	33.4%	2.2%
Central New York	**1.5%**	0.0%	1.6%	**-2.8%**	-3.7%	0.9%	**-2.0%**	-6.8%	5.2%	**35.1%**	34.0%	0.8%
Finger Lakes	**4.0%**	1.0%	3.0%	**0.8%**	-1.4%	2.2%	**-3.4%**	-11.2%	8.8%	**38.3%**	37.5%	0.5%
Hudson Valley	**4.0%**	-2.7%	6.9%	**-9.1%**	-12.6%	4.0%	**-2.4%**	-7.6%	5.7%	**45.2%**	39.3%	4.2%
Mohawk Valley	**-0.3%**	-1.0%	0.7%	**-5.1%**	-4.3%	-0.8%	**-7.3%**	-11.5%	4.9%	**30.5%**	28.8%	1.4%
North Country	**3.7%**	1.1%	2.6%	**0.3%**	-1.6%	1.9%	**-3.7%**	-7.4%	4.0%	**36.0%**	34.0%	1.4%
Southern Tier	**0.1%**	-2.1%	2.2%	**-5.1%**	-7.9%	3.1%	**-5.2%**	-9.1%	4.2%	**30.3%**	31.2%	-0.7%
Western New York	**4.0%**	2.3%	1.7%	**2.9%**	0.9%	2.0%	**-2.1%**	-7.0%	5.2%	**26.8%**	26.6%	0.2%

Source: Bureau of Economic Analysis, deflators applied by the Fiscal Policy Institute.

Low wage industries grew much faster and added more than half of all new jobs during the expansion.

	Employment 1999	Share of 1999 Employment	Employment Change 1989-99	Employment Change 1994-99	Share of Total Employment Change 1994-99	Rate of Change 1989-99	Rate of Change 1994-99
Total Employment	8,292,305	100.0%	160,755	594,922	100.0%	1.9%	7.2%
Low wage industries							
Wages < $29,112	2,702,519	32.6%	326,772	312,776	52.6%	12.1%	11.6%
Medium wage industries							
Wages between $48,520 and $29,112	3,657,061	44.1%	-159,659	138,408	23.3%	-4.4%	3.8%
High wage industries							
Wages > $48,520	1,930,752	23.3%	-8,173	141,924	23.9%	-0.4%	7.4%

Note: Wage brackets for high and low wage industries were based on values 25% greater and 25% less than the average non-securities wage $38,816.

Source: New York State Department of Labor, insured employment series.

Industries in decline have wages far higher than the state average.

SIC	New York State Industry	Employment 1994	Employment 1999	Absolute Change 1994-99	Rate of Change	1999 Average Wage	Wage Level (Lo/Med/Hi)
	Total Statewide Employment	7,697,383	8,292,305	594,922	7.7%	$38,816	
602	Commercial Banks	138,257	116,721	-21,536	-15.6%	$82,094	Hi
386	Photographic Equipment and Supplies	54,349	42,622	-11,727	-21.6%	$62,039	Hi
371	Motor Vehicles and Equipment	31,648	20,778	-10,870	-34.3%	$57,345	Hi
603	Savings Institutions	32,023	22,418	-9,605	-30.0%	$40,874	Med
493	Combination Utility Services	42,100	34,013	-8,087	-19.2%	$69,689	Hi
631	Life Insurance	38,473	31,432	-7,041	-18.3%	$65,023	Hi
233	Women's and Misses' Outerwear	55,285	49,103	-6,182	-11.2%	$25,929	Lo
806	Hospitals	329,339	324,372	-4,967	-1.5%	$38,089	Med
225	Knitting Mills	13,524	8,607	-4,917	-36.4%	$27,039	Lo
608	Foreign Banks and Branches and Agencies	23,671	19,497	-4,174	-17.6%	$122,449	Hi
	Total, these 10 private declining industries	758,669	669,562	-89,107	-11.7%		

Note: Average wage for total employment excludes securities.

Source: New York State Department of Labor, insured employment series.

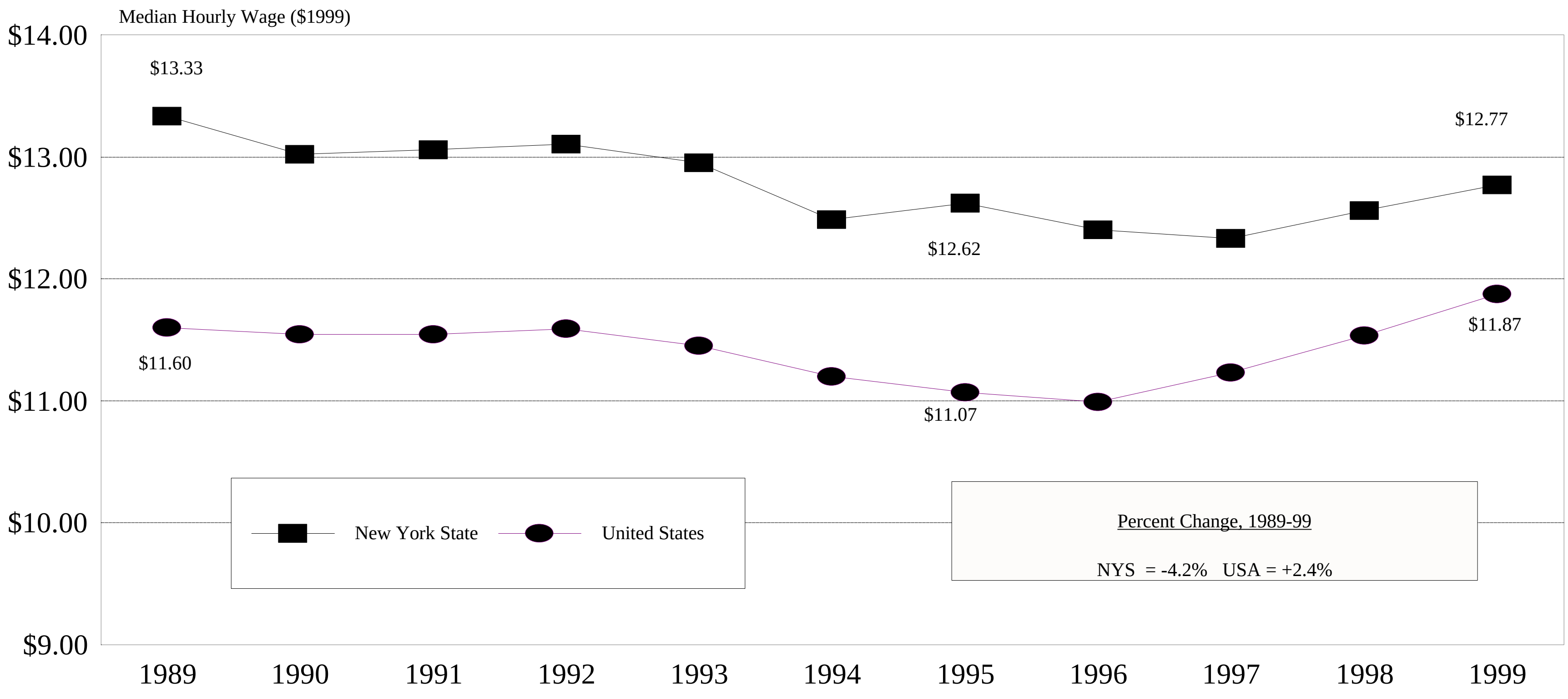
Three of New York States's four fastest growing industries during the recent expansion are low wage industries.

SIC	New York State Industry	Employment 1994	Employment 1999	Absolute Change 1994-99	Rate of Change	1999 Average Wage	Wage Level (Lo/Med/Hi)
	Total Statewide Employment	7,697,383	8,292,305	594,922	7.7%	$38,816	
736	Personnel Supply Services	114,644	164,196	49,552	43.2%	$28,351	Lo
737	Computer and Data Processing Services	54,121	101,702	47,581	87.9%	$67,086	Hi
581	Eating and Drinking Places	368,380	408,963	40,583	11.0%	$14,212	Lo
832	Individual and Family Services	123,238	152,482	29,244	23.7%	$19,471	Lo
738	Miscellaneous Business Services	116,037	143,189	27,152	23.4%	$29,912	Med
801	Offices and Clinics of Medical Doctors	100,974	127,593	26,619	26.4%	$53,258	Hi
874	Management and Public Relations	48,511	67,289	18,778	38.7%	$73,257	Hi
805	Nursing and Personal Care Facilities	116,495	134,659	18,164	15.6%	$25,906	Lo
621	Security Brokers and Dealers	126,180	142,756	16,576	13.1%	$197,907	Hi
781	Motion Picture Production and Services	27,323	41,667	14,344	52.5%	$57,802	Hi
	Total, these 10 private growing industries	**1,195,903**	**1,484,495**	**288,592**	**24.1%**		

Note: Average wage for total employment excludes securities.

Source: New York State Department of Labor, insured employment series.

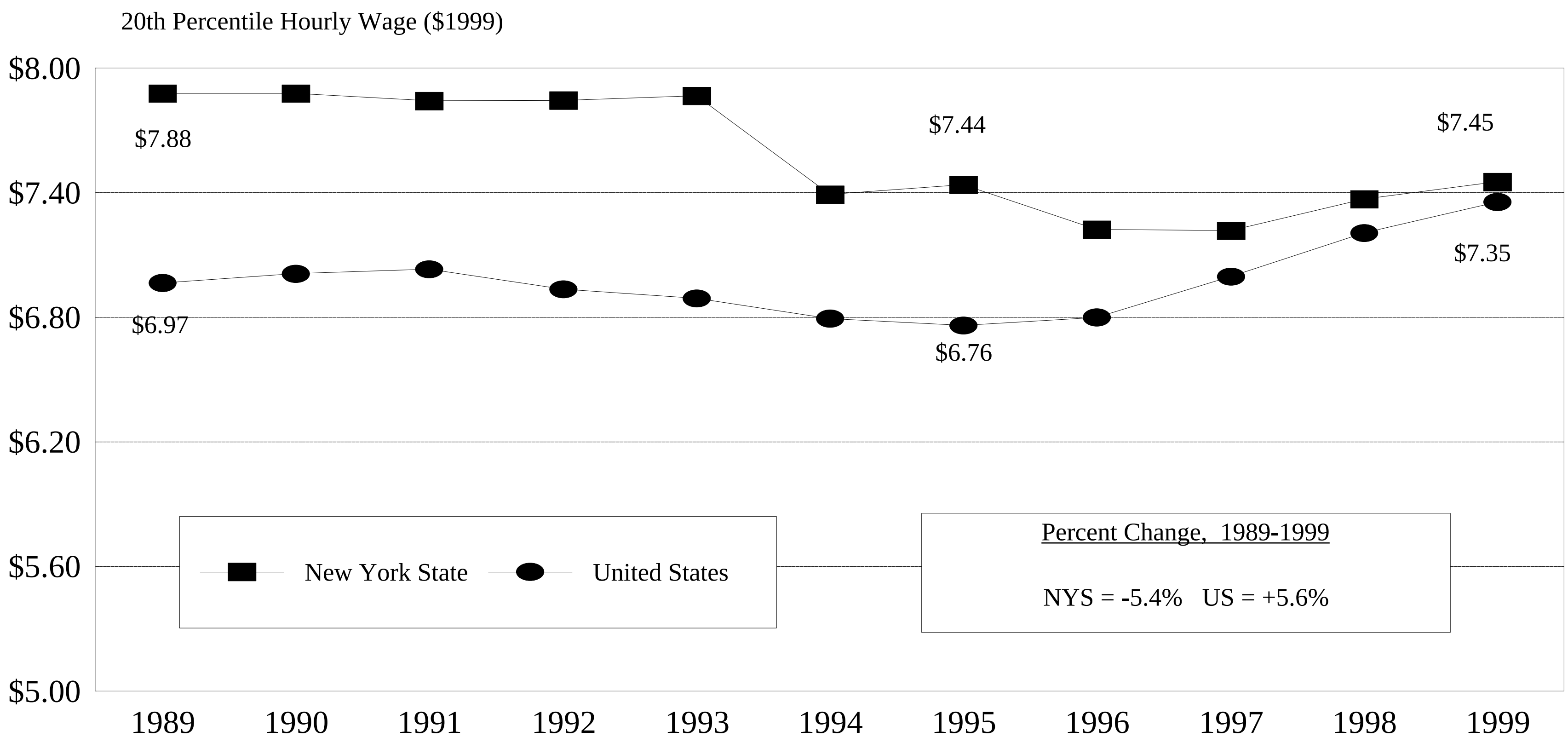
While the wages of typical workers in the United States and New York State have risen in recent years, in New York State they are still below the 1989 level.



Source: Fiscal Policy Institute analysis of data provided by the Economic Policy Institute.

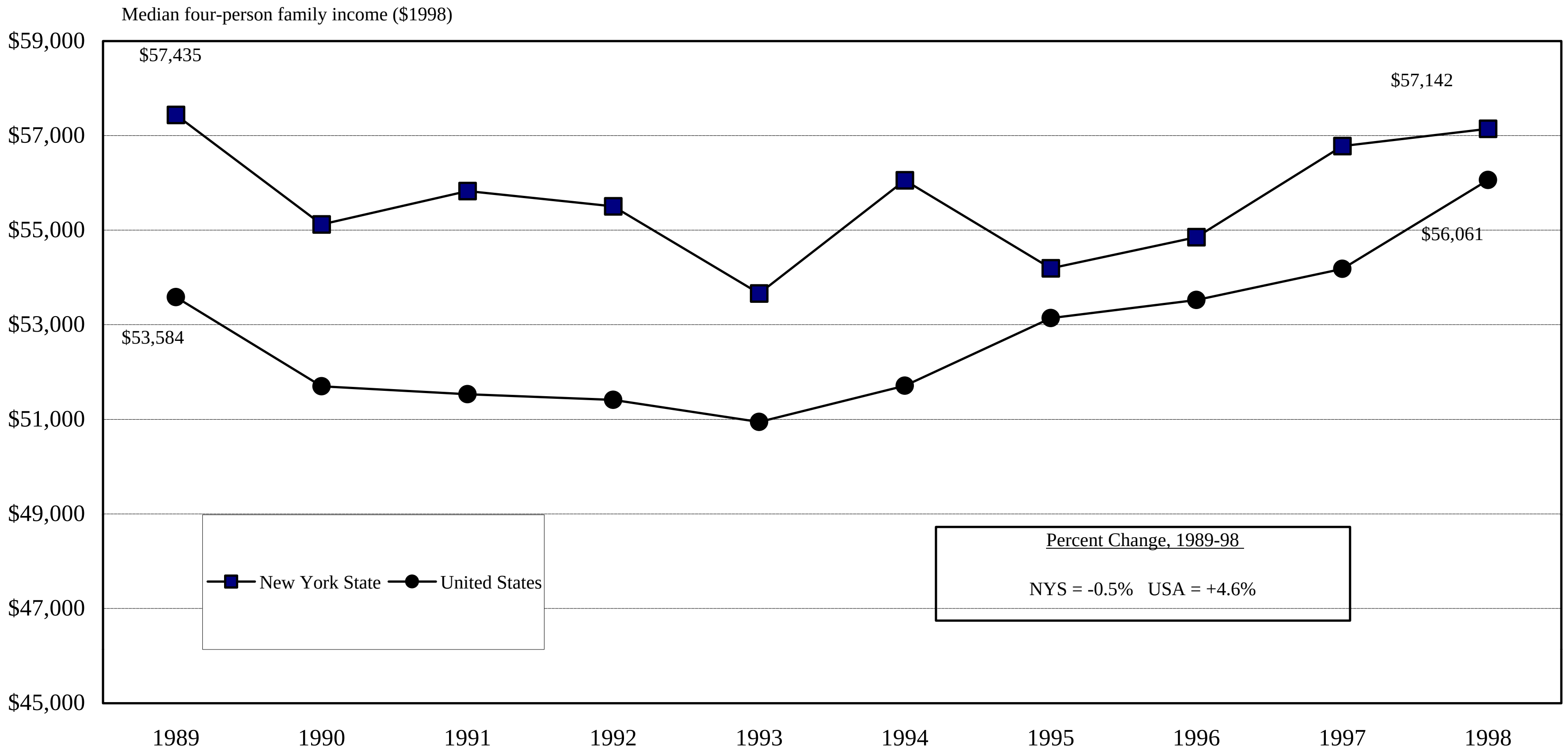
The wages for low wage workers have rebounded much more strongly in the United States than in New York State.

Since 1989, the wages of these workers in New York have declined by over 5%.



Source: Fiscal Policy Institute analysis of data provided by the Economic Policy Institute.

Median family income in the United States increased by 4.6% from 1989 to 1998, while it remained flat in New York State.



Source: Fiscal Policy Institute analysis of data from the U.S. Bureau of the Census and the Economic Policy Institute.

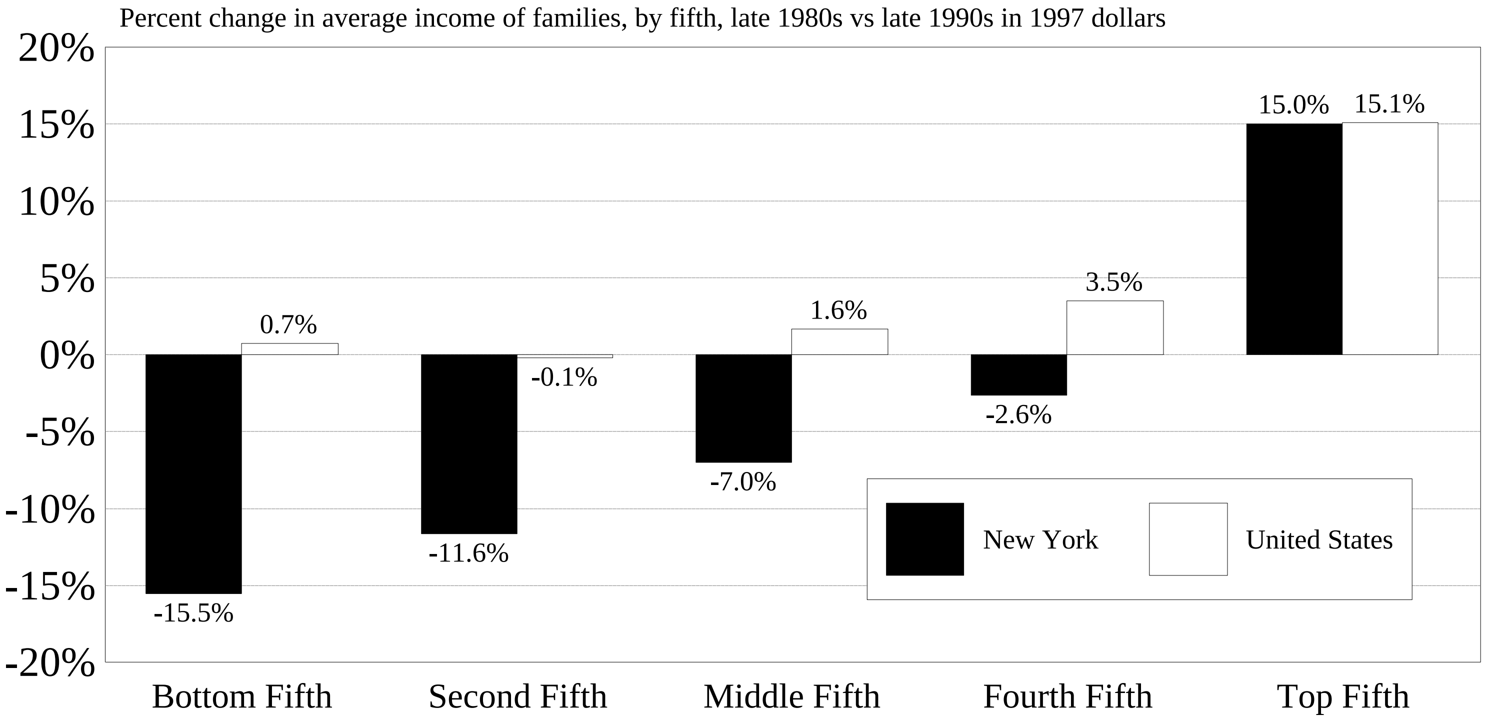
In sharp contrast to the 1980s, when the median New York State family income rose by 24%, the typical New York State family has not improved over where they were a decade ago.

Growth in Median Four-person Family Income ($1998)

	1979	1989	1998	Total Percent Change 1979-89	Total Percent Change 1989-98
New York State	$46,437	$57,435	$57,142	23.7%	-0.5%
United States	$49,330	$53,584	$56,061	8.6%	4.6%

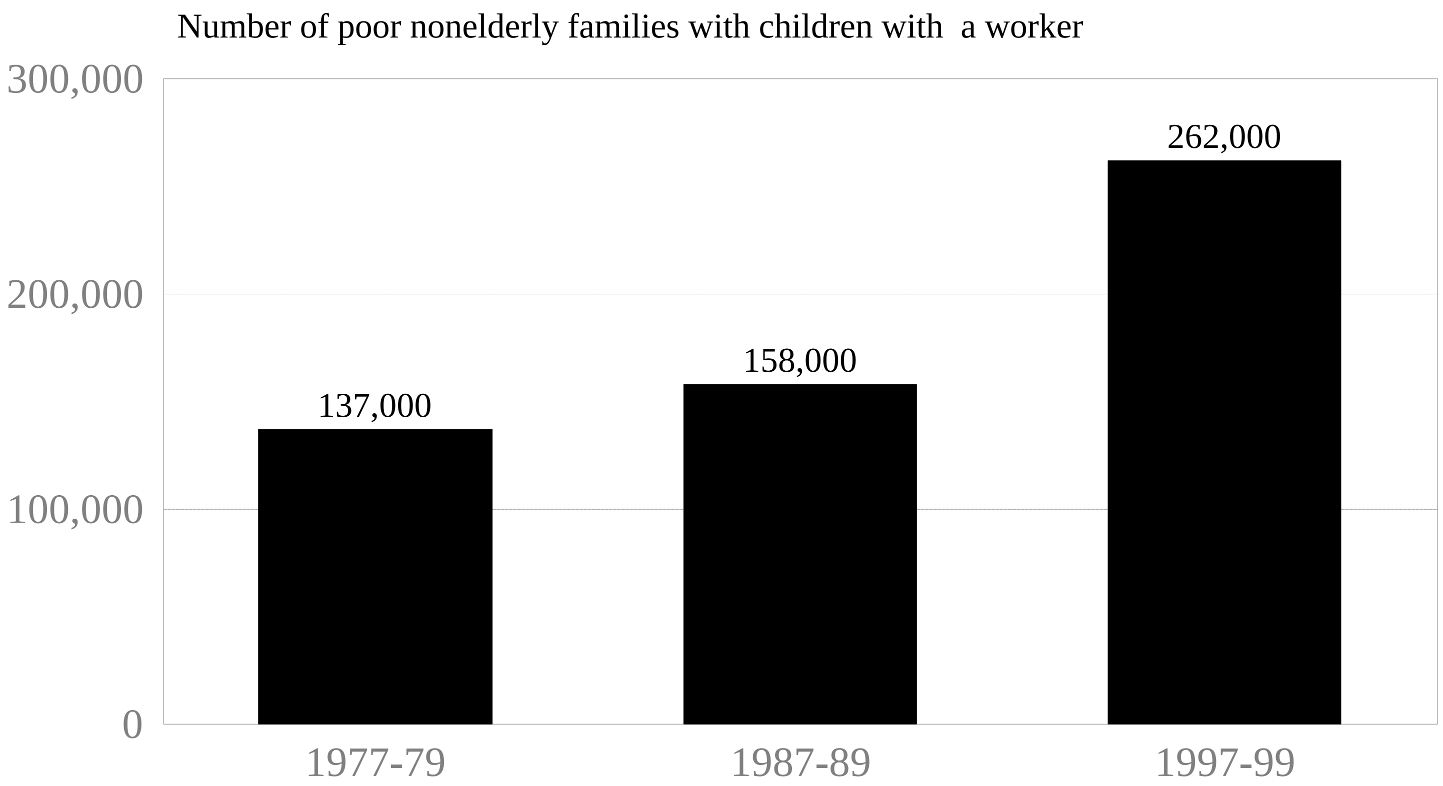
Source: Fiscal Policy Institute analysis of data from the Economic Policy Institute.

Most families in New York State have much lower incomes, on average, than in the late 1980s, with only the top fifth of families enjoying sizable income gains.



Source: Fiscal Policy Institute analysis of data from *Pulling Apart: A State by State Analysis of Income Trends*, Appendix Table 5, January 2000 (Center for Budget and Policy Priorities and EPI). Late 1980s refers to pooled data from 1988-1990 and late 1990s refers to pooled data from 1996-98. Each fifth represents 20% of all families, ranked by family income.

The number of working poor families in New York has almost doubled in the past twenty years.



Many cities and rural counties still have high unemployment rates.

2000 Annual Average Unemployment Rate

UNITED STATES	4.0%
NEW YORK STATE	4.6%

Cities

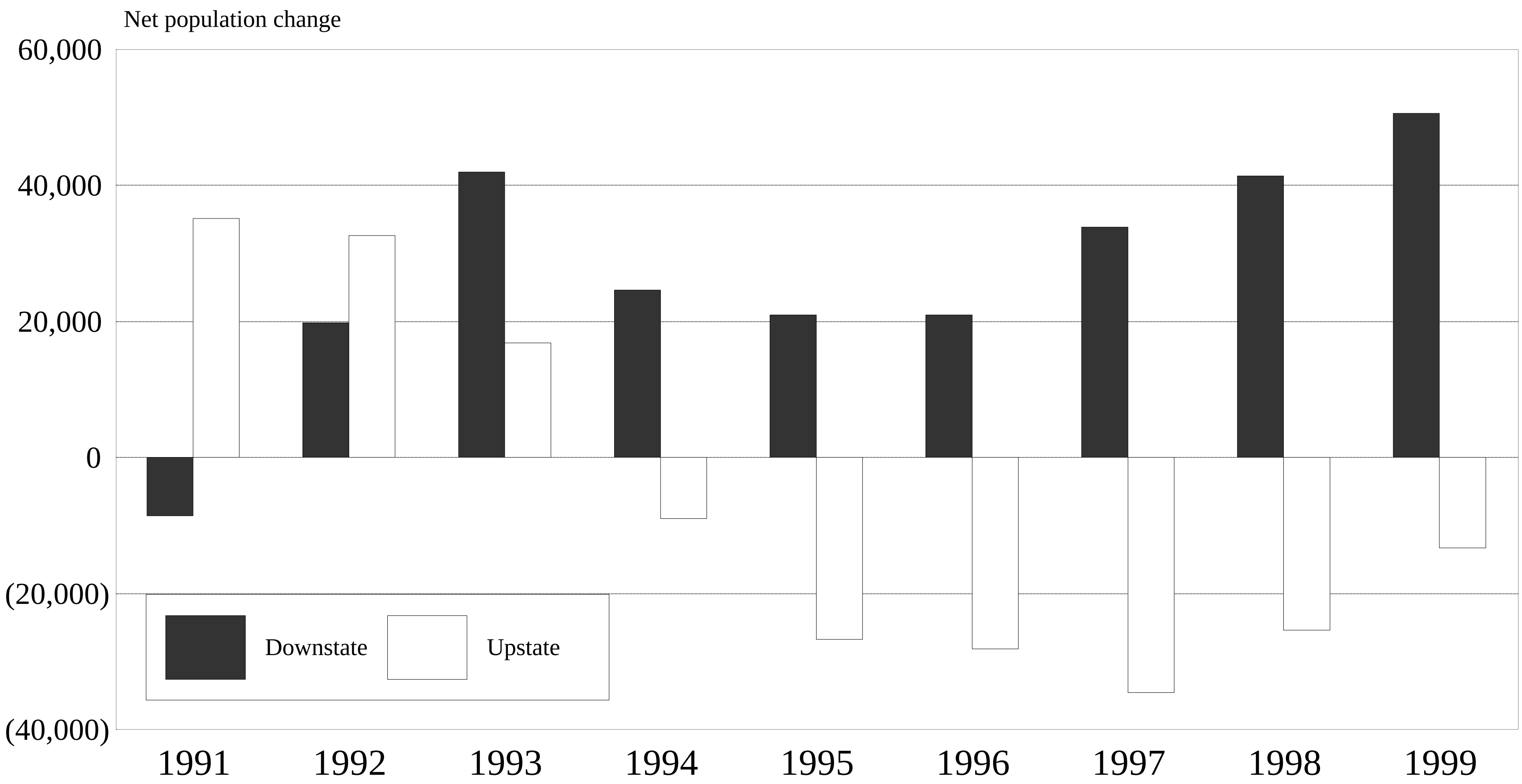
Bronx	7.3%
Brooklyn	6.8%
Buffalo City	8.1%
Elmira City	7.3%
Newburgh City	6.7%
Niagara Falls City	9.2%
Rochester City	6.7%
Watertown City	8.8%

Counties

Allegany County	6.8%
Essex County	6.8%
Franklin County	7.6%
Hamilton County	8.1%
Jefferson County	8.4%
Lewis County	8.1%
St. Lawrence County	8.1%

Source: United States Bureau of Labor Statistics.

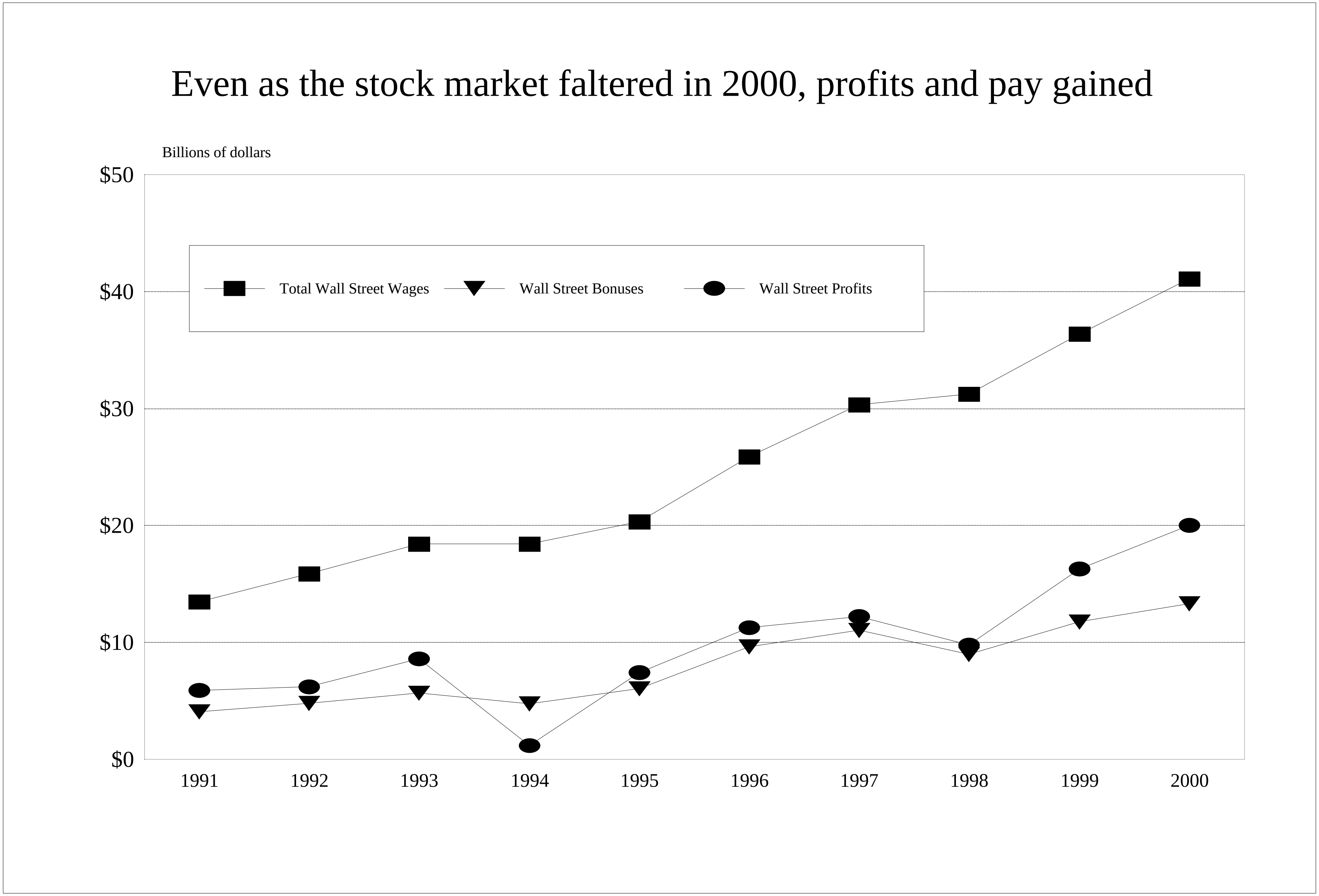
The weakness of the upstate economy has been a factor in the declining population upstate, even as population growth in downstate New York has accelerated.



Wall Street has accounted for a disproportionate share of the 1990s growth in the New York State economy.

	Wall Street	**Total NYS Economy**	**Wall Street share of NYS Economy**
Employment, 1999	186,245	8,292,305	2.2%
Total wages, 1999 ($ billions)	$35.1	$349.8	10.0%
Real Gross State Product (GSP), 1998 (in billions of 1996 chained dollars)	$61.6	$687.7	9.0%
1991-98 change in real GSP	$43.2	$115.3	37.5%

Sources: NYS DOL, US BEA.



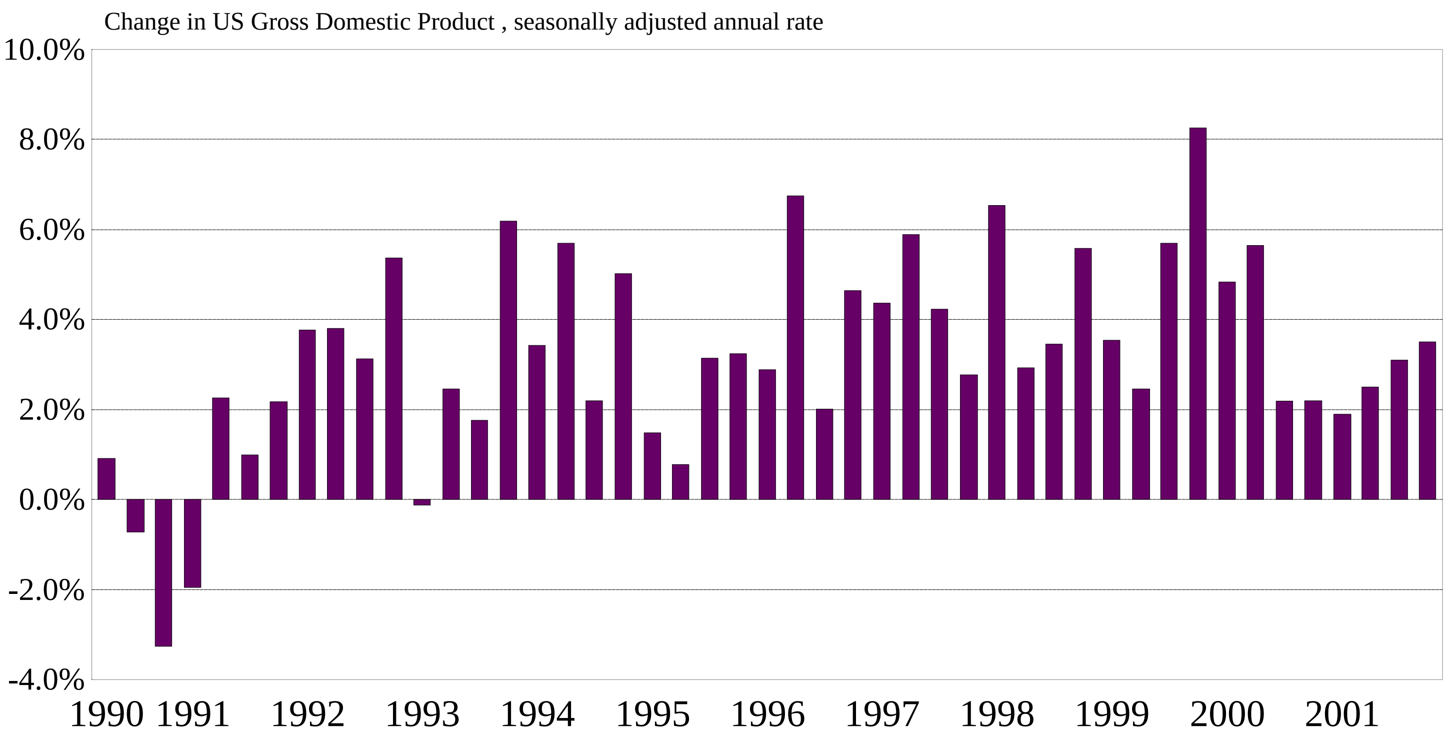
Even as the stock market faltered in 2000, profits and pay gained
Billions of dollars
$50
$40
$30
$20
$10
$0
Total Wall Street Wages
Wall Street Bonuses
Wall Street Profits
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000

Wall Street pay and stock market-related capital gains have accounted for one-third of the growth in New York's taxable personal income base since 1991.

	Adjusted Gross Income (AGI) ($ millions)	Net Capital Gains ($ millions)	Total Wall Street Wages ($ millions)	Change from prior year: AGI	Change from prior year: Capital Gains	Change from prior year: Wall Street Wages	Capital Gains and Wall Street Wages as share of AGI	Capital Gains and Wall Street Wages share of AGI Growth over Prior Year
1991	$276,058	$8,735	$12,321	-2.6%	-4.3%	5.5%	7.3%	n.m.
1992	$294,861	$9,457	$17,850	6.8%	8.3%	44.9%	9.3%	33.2%
1993	$297,112	$13,365	$18,572	0.8%	41.3%	4.0%	10.7%	205.7%
1994	$301,362	$12,032	$17,274	1.4%	-10.0%	-7.0%	9.7%	-61.9%
1995	$321,124	$14,086	$20,187	6.6%	17.1%	16.9%	10.7%	25.1%
1996	$347,891	$22,441	$24,534	8.3%	59.3%	21.5%	13.5%	47.5%
1997	$383,179	$31,563	$28,790	10.1%	40.6%	17.3%	15.8%	37.9%
1998	$417,996	$38,929	$33,602	9.1%	23.3%	16.7%	17.4%	35.0%
1999	$452,373	$49,492	$35,116	8.2%	27.1%	4.5%	18.7%	35.1%
2000	$491,957	$53,512	$40,384	8.8%	8.1%	15.0%	19.1%	23.5%
Change, 1991-2000	**$215,899**	**$44,777**	**$28,063**	**78.2%**	**512.6%**	**227.8%**	**33.7%**	

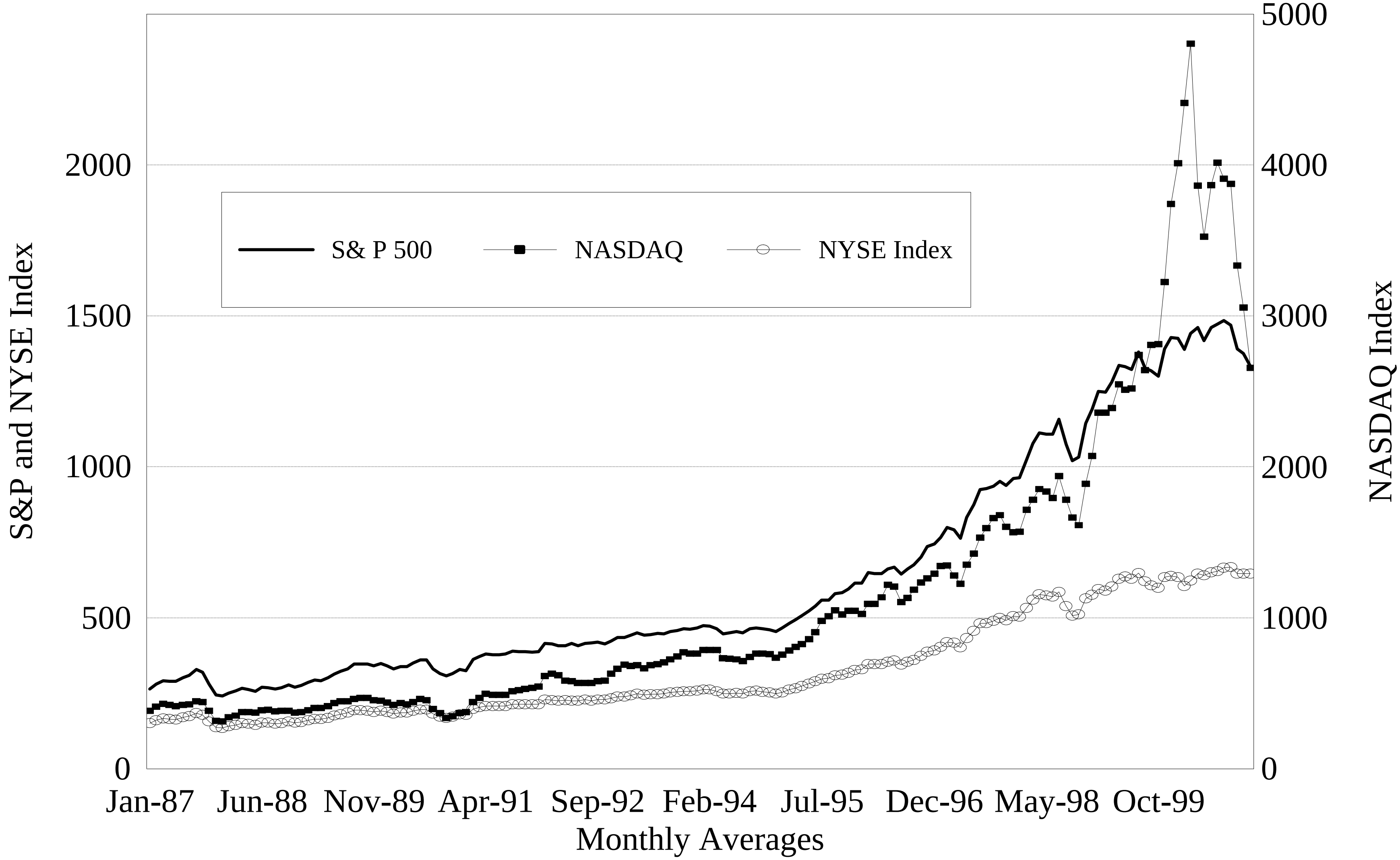
Sources: AGI and Capital Gains from New York State Division of the Budget; 1999-2000 are estimates. Wall Street wages from NYS Department of Labor. Wall Street wages for 2000 estimated by FPI.

U.S. Gross Domestic Product slows from its 4.4% pace over the past 4 years.



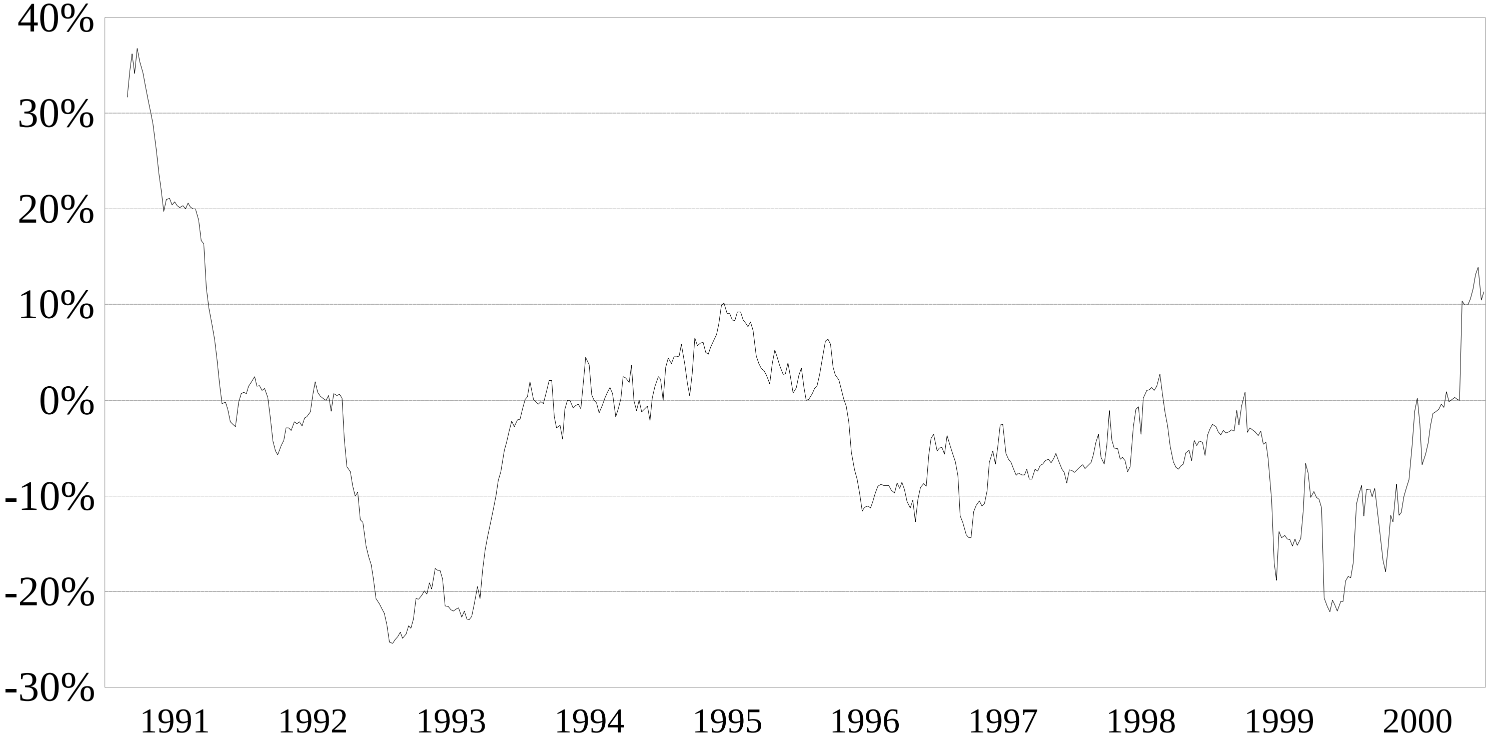
Sources: Second quarter 1990 through third quarter 2000, BEA. Fourth quarter 2000 and 2001, Blue Chip Consensus forecast.

While the broader stock indices have been less volatile, the NASDAQ is down over 40% from its March 2000 average.



Unemployment Insurance claims are up substantially.

Twelve week moving average of initial unemployment insurance claims in New York: 1990-2000



Causes of the national economic slowdown

C Six interest rate increases by the Federal Reserve Open Market Committee from mid-1999 to mid-2000 increased borrowing costs for households and businesses and dampened expectations.

C High and rising corporate debt burdens became problematic for both borrowers and the lending financial institutions, leading to tightened lending standards.

C Consumers reign in free-wheeling spending with the turbulence in the stock market, heightened job insecurity, and higher borrowing costs. Consumer debt ratios are much higher for bottom 80% of households than in 1989.

C Consumer spending and capital spending -- the 2 main factors that had driven GDP growth to such heights -- have slowed.

C The bubble conditions that drove technology and Internet stocks are reversed, producing large paper wealth losses, dampening consumer and capital spending, and leading to the demise of many Internet companies.

C Higher energy prices drain resources from consumers and non-energy businesses and complicate any rebound.

For New York State, a recession in the near future would <u>not</u> be just a replay of 1989-92.

- **<u>Factors that contributed to the steep 1989-92 recession in NY</u>**

  - Wall Street downturn and restructuring
  - Commercial real estate bubble and consequences for commercial banks
  - Military production cutbacks on Long Island and Central NY
  - Corporate downsizing wave, especially pronounced with banking consolidations
  - NYC: high crime and out-migration

- **<u>Factors that might moderate a downturn this time</u>**

  - Commercial real estate expansion not speculative & lower vacancy rates
  - No military cutbacks on the horizon
  - Downstate: strong immigration trend
  - NYC: improved quality of life, reduced crime, corporate flight should be less of a threat
  - Federal Reserve policy alert to contain financial sector crises
  - Increased reliance on bonuses may make it easier to cut compensation costs without cutting jobs

- **<u>Factors that might make a downturn severe</u>**

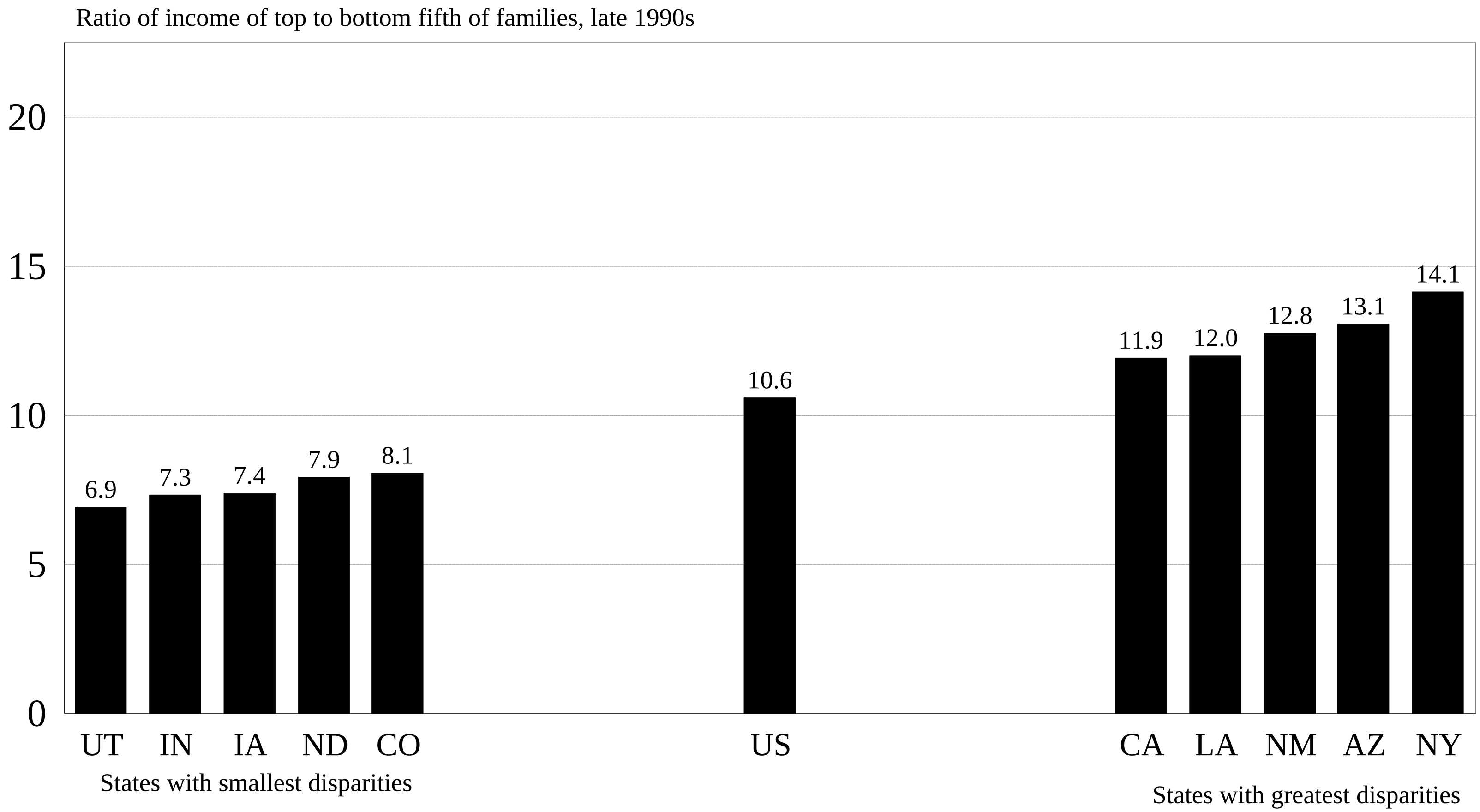
  - New York and downstate are more dependent on Wall Street
  - Layoffs related to financial industry consolidation likely to increase
  - High corporate debt loads could jeopardize financial institutions and some large NY employers
  - Social safety net frayed
  - Little likelihood for a replay of the rapid growth in Medicaid payments that occurred during last recession that pumped billions of dollars into downstate
  - Incomes of low- and middle-income families did not increase in real terms in the 1990s, providing much less of a cushion against job loss
  - Upstate: coming in the wake of relative stagnation, could re-accelerate out-migration

The 2000-2001 Executive Budget misses the opportunity to address the economic and social disparities that continue to plague New York State.

- The most important challenge facing New York State is the increasing divergence that exists between the relatively small number of New Yorkers who are benefitting from the current economic recovery and the rest of the state’s residents.

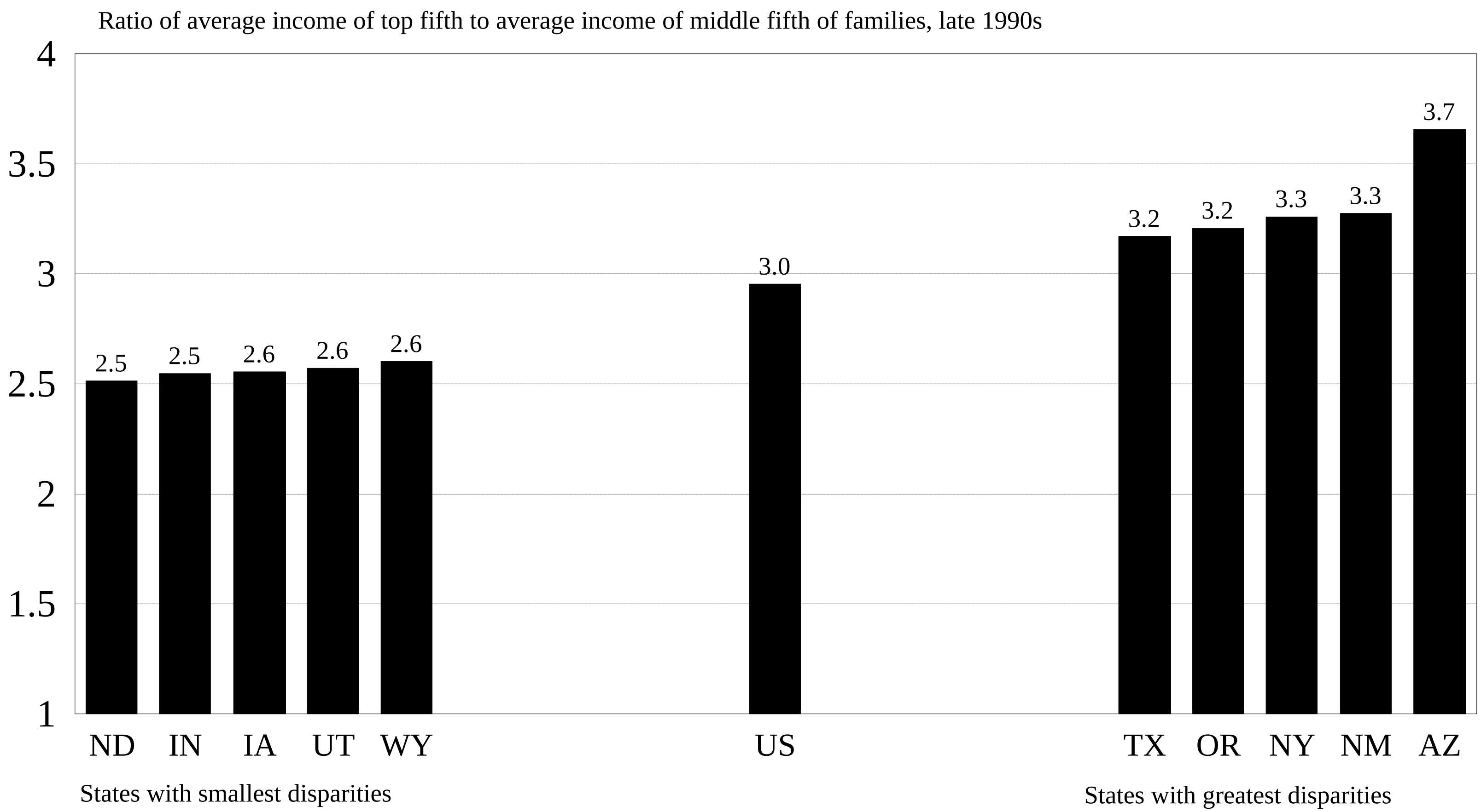
- The budget does little however, to reduce the increasing number of New Yorkers who are living in poverty or to reduce the disparities that exist within the state in terms of the educational resources available to New York children or to address the state’s substantial social investment gap. Leveling up school spending through a substantial increase and a fundamental restructuring of the school aid system will prepare New York for the future and provide more effective tax relief for all property owners than the STAR program could ever do.

New York has the widest income gap between rich and poor of all 50 states.



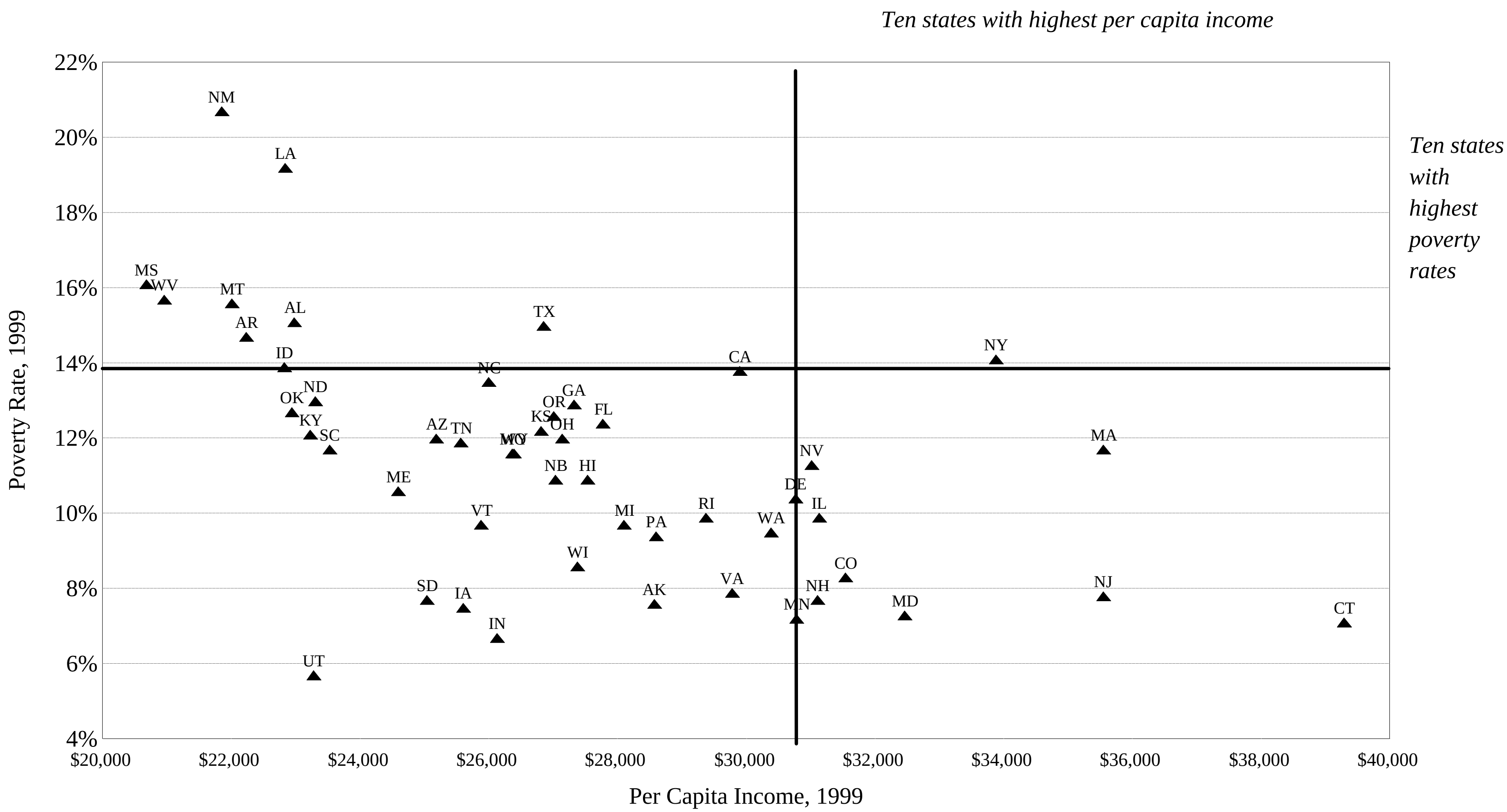
Source: *Pulling Apart: A State-by-State Analysis of Income Trends,* January 2000

New York also has one of the widest gaps between the rich and

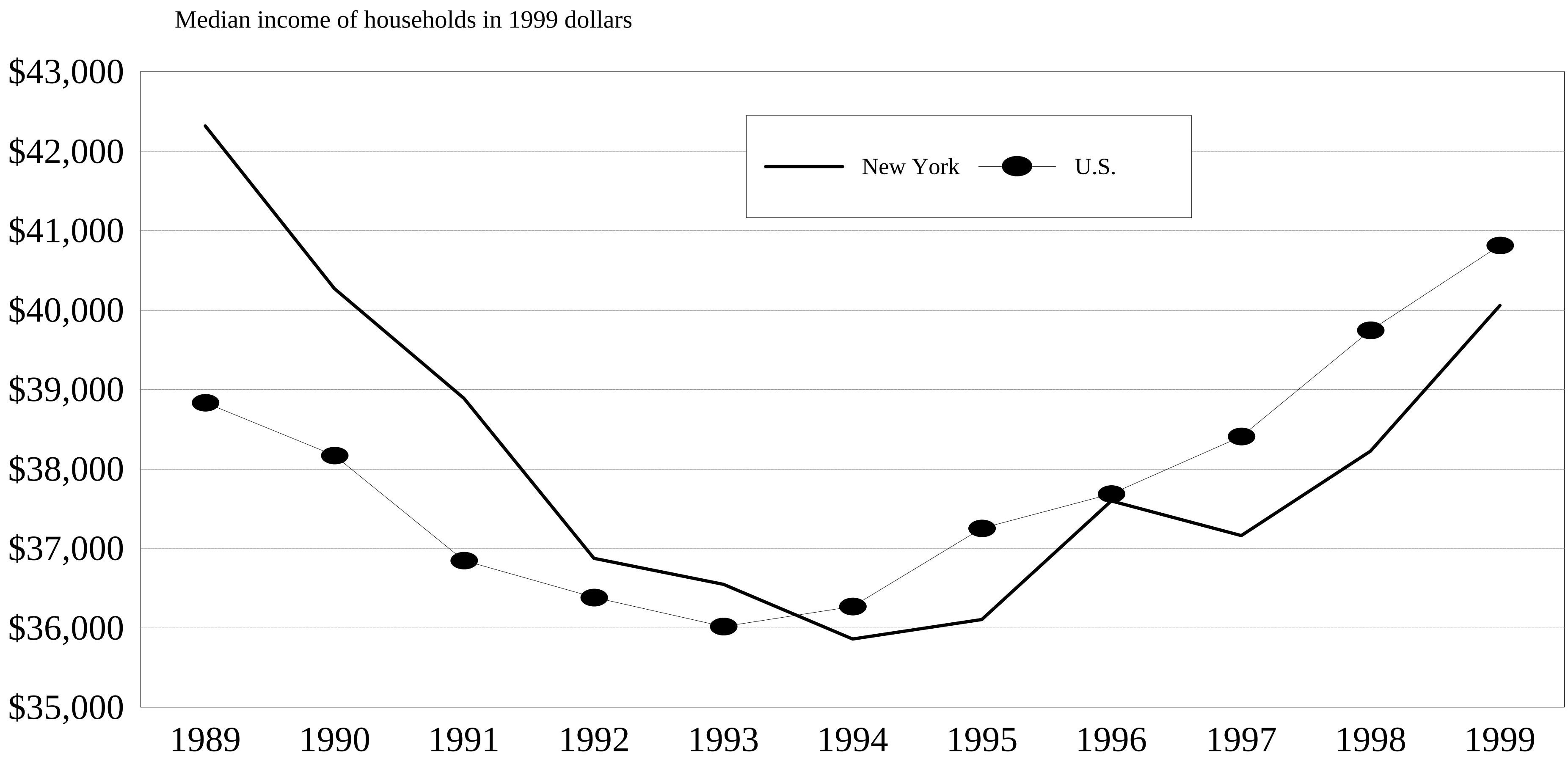


Source: *Pulling Apart: A State-by-State Analysis of Income Trends*, January 2000

New York is a state with both great wealth and great poverty. It is the only state in the nation with one of the 10 highest poverty rates <u>and</u> one of the 10 highest per capita income levels.

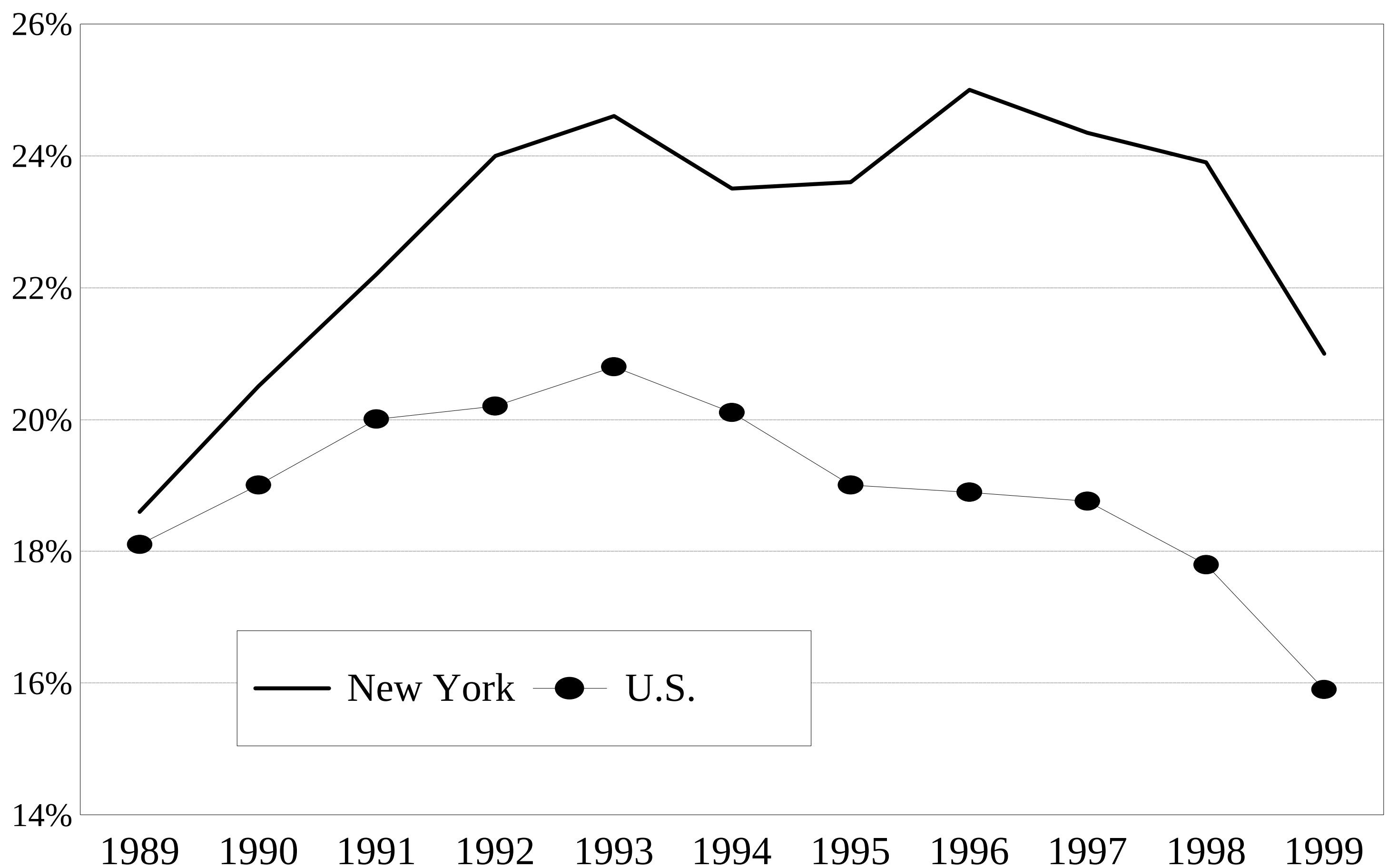


Since 1989, median household income in New York has gone from $3,500 above the U.S. median to $758 below.



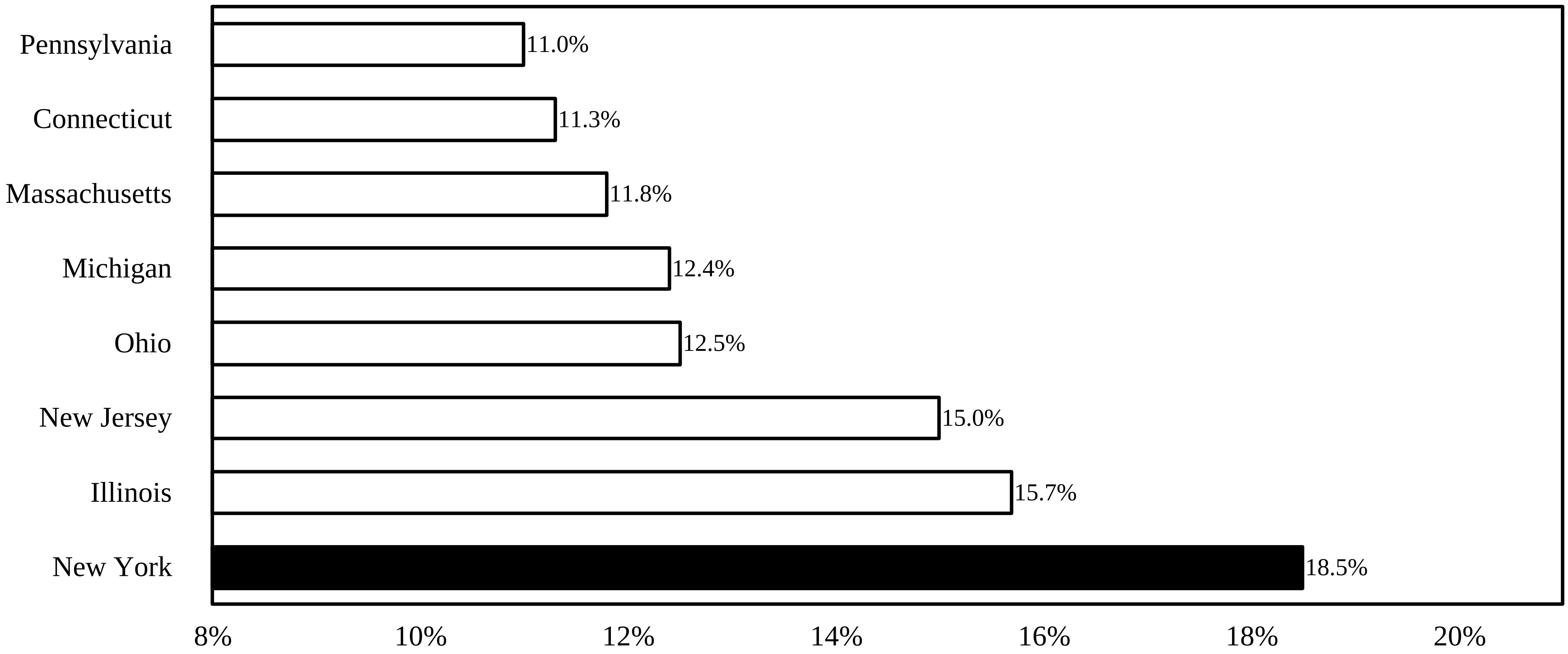
Source: U.S. Bureau of the Census

In recent years, the child poverty rate in New York State has begun to decline, but it is still higher than a decade ago and considerably higher than the national rate.



New York has a higher percentage of its non-elderly population uninsured than any other Northern industrial state.

Percent of non-elderly without employer-based, publicly-provided or individually purchased health insurance, 1999.



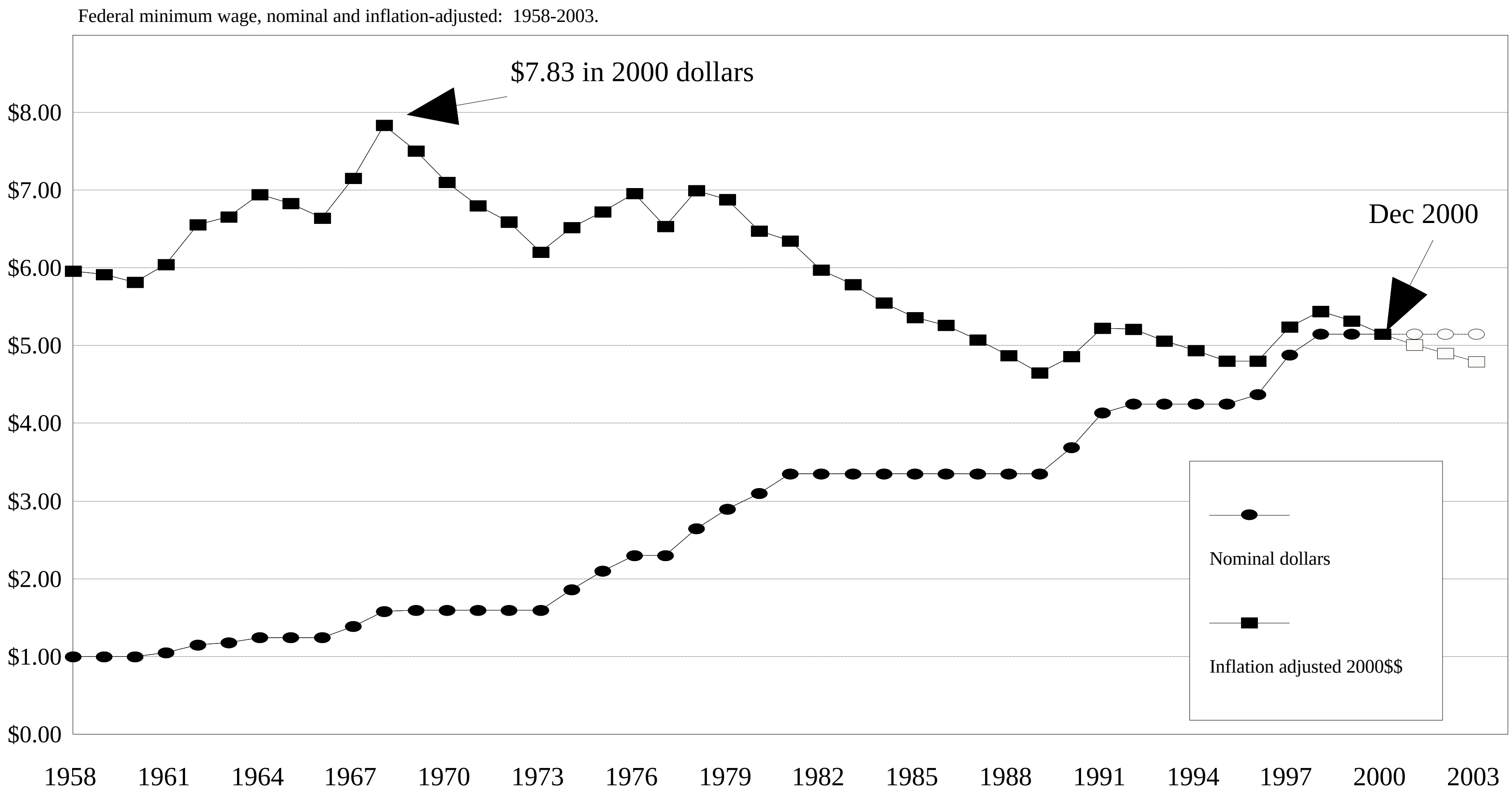
Source: Employee Benefit Research Institute Brief Number 228, December 2000.

There is much that New York State can do to address both the cause and the consequences of this situation.

It can:

- Restore the purchasing power of the minimum wage,
- Strengthen its unemployment insurance systems,
- Strengthen Social Safety Nets and provide key supports for low-wage workers, and
- Stop the movement toward greater regressivity in the state tax system.

The purchasing power of the minimum wage remains well below its level of the 1960s and 1970s.



Real value of the minimum wage for 2001 through 2003 estimated using NYS Department of the Budget inflationary forecast.

Of all the high wage states, New York has the lowest minimum wage relative to average wages.

When New York's neighboring states (Connecticut and Massachusetts) raised their minimum wages in recent years they did not experience any economic problems.

State	**Average Weekly Wages, 1999**	**Current Minimuim Wage**	**Minimum Wage as a Percent of Average Weekly Wages**
Washington	$687	$6.72	39.13%
Delaware	$675	$6.15	36.44%
Massachusetts	$776	$6.75	34.79%
Alaska	$655	$5.65	34.50%
California	$722	$5.75	31.86%
Connecticut	$820	$6.40	31.22%
Maryland	$663	$5.15	31.07%
Michigan	$687	$5.15	29.99%
Illinois	$698	$5.15	29.51%
New Jersey	$760	$5.15	27.11%
New York	$810	$5.15	25.43%

Note: Data on average weekly wages from the U.S. Bureau of Labor Statistics. The calculation of the relationship between minimum wage and average weekly wages is based on a 40-hour work week.

New York can strengthen its Social Safety Net and provide supports for low-wage workers to assist them in moving up the income ladder.

- Liberalize the earned income disregard
- Make affordable transportation options readily available
- Establish transitional employment programs
- Increase welfare grant levels
- Faithfully implement the new Family Health Plus program and increase outreach for the Child Health Plus program
- Improve the availability of affordable child care

New York also has great physical infrastructure needs.

Only New Jersey has a higher percentage of its highway miles in poor condition.

New York also has a greater percentage of its bridges in disrepair (40.5%) than the U.S. as a whole (28.6%).

	PERCENT OF HIGHWAY MILES IN BAD CONDITION in 1999	RANK		PERCENT OF HIGHWAY MILES IN BAD CONDITION IN 1999	RANK
New Jersey	25.79%	1	Oregon	7.73%	26
New York	**22.25%**	**2**	Alaska	6.40%	27
Louisiana	21.65%	3	Maine	6.27%	28
California	21.61%	4	New Hampshire	5.90%	29
Massachusetts	20.25%	5	Ohio	5.71%	30
Connecticut	16.64%	6	Indiana	5.27%	31
Wisconsin	16.60%	7	Mississippi	5.11%	32
New Mexico	16.25%	8	Virginia	4.97%	33
Vermont	16.07%	9	Tennessee	4.39%	34
Maryland	15.05%	10	Idaho	3.54%	35
Michigan	15.03%	11	South Carolina	3.40%	36
Arkansas	14.46%	12	Arizona	3.05%	37
Iowa	14.07%	13	Nevada	3.05%	38
Nebraska	13.08%	14	Montana	3.00%	39
Rhode Island	13.08%	15	Minnesota	3.00%	40
Missouri	13.01%	16	Washington	2.44%	41
South Dakota	11.30%	17	Utah	2.40%	42
Pennsylvania	10.85%	18	Kansas	1.91%	43
Illinois	10.60%	19	Wyoming	1.84%	44
Oklahoma	10.49%	20	Kentucky	1.80%	45
North Carolina	10.11%	21	Florida	1.68%	46
Delaware	9.45%	22	North Dakota	1.18%	47
Colorado	9.21%	23	Alabama	0.44%	48
Texas	9.04%	24	Georgia	0.06%	49
West Virginia	8.00%	25	Hawaii	n/a	n/a
U.S. Total	9.32%				

Source: U.S. Department of Transportation. The highways included in this analysis, using the International Roughness Index (IRI), are: rural and urban interstates, other principal rural and urban arterials, rural minor arterials, and other urban freeways and expressways. Major urban and rural collectors and minor urban arterials are not included because the Department of Transportation uses a different index to rate them.

Despite its high poverty rates and great wage and income inequality, New York maintains a regressive state-local tax system.

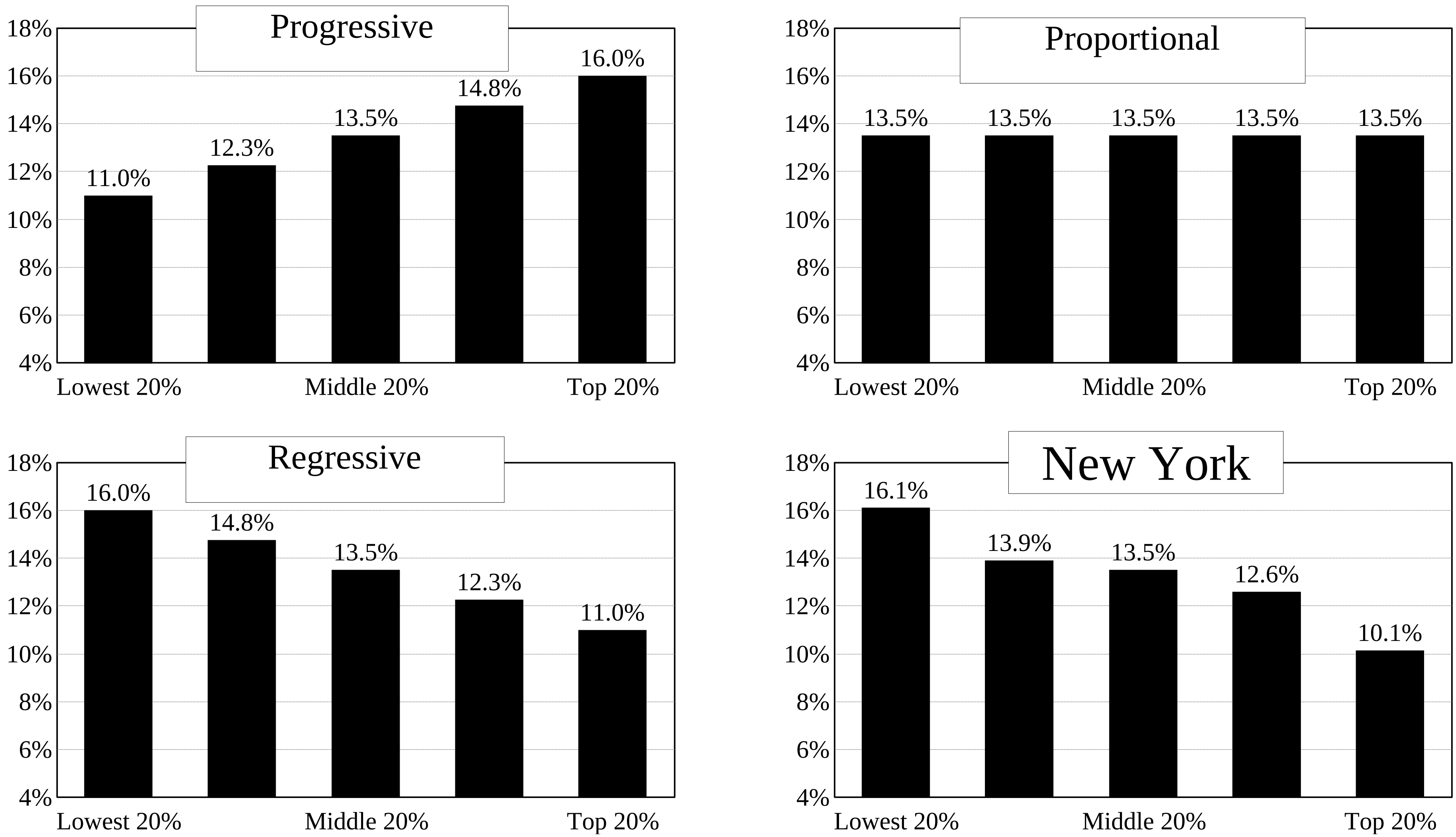
- A progressive tax system is one in which the **portion** of a household's income that goes to taxes increases as its income increases.

- A regressive tax system is one in which that portion decreases as one's income increases. In other words, a regressive tax system is one in which wealthy households pay a smaller share of their income in taxes than do lower income households.

- A proportional tax system is one in which all households, regardless of their income levels, pay about the same portion of their incomes in taxes.

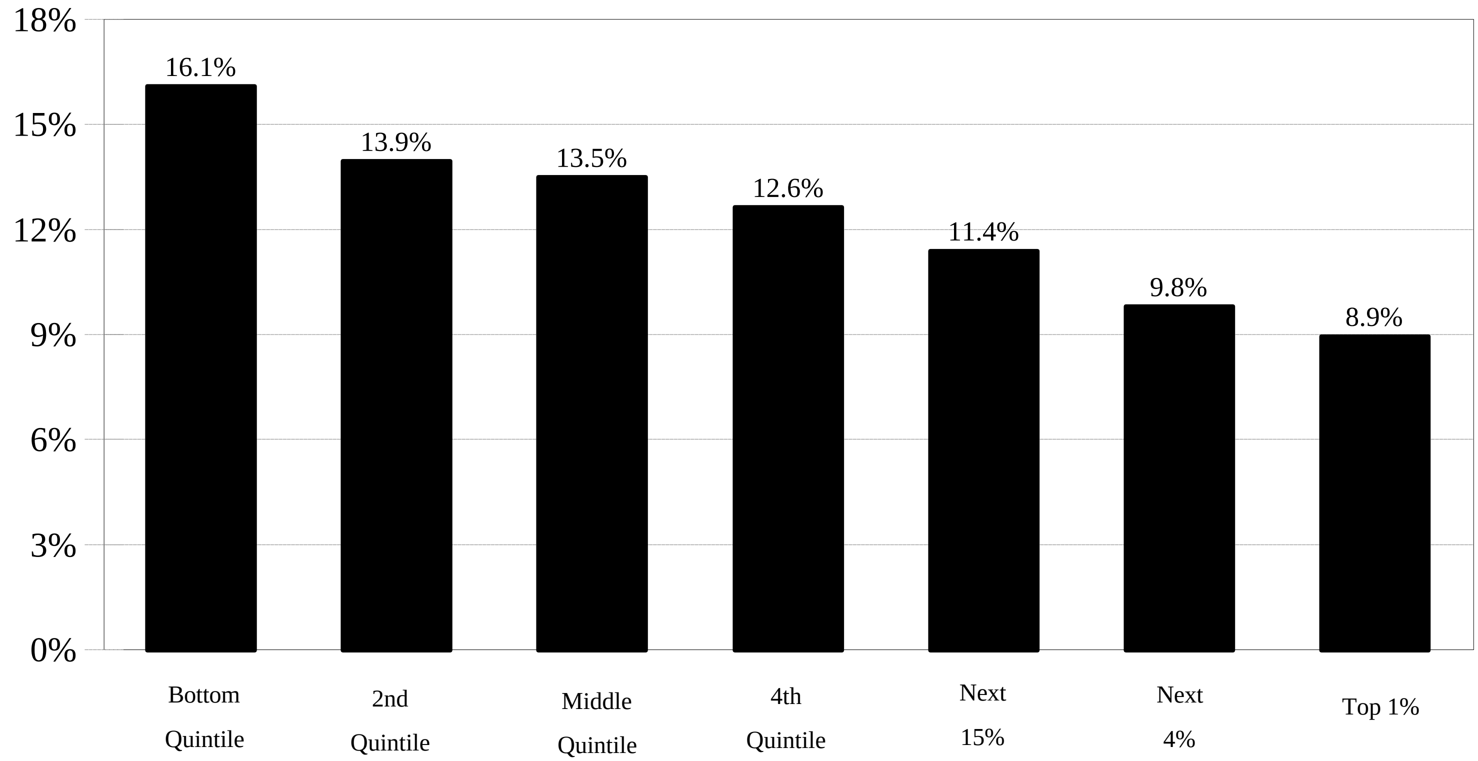
- While it is interesting to note if an individual tax is regressive, proportional, or progressive, the more important question is whether the tax system as a whole is regressive, proportional, or progressive. For most states, the question is not whether or not the progressivity of its personal and corporate income taxes and its estate tax balance out the regressivity of its consumption, excise and property taxes.

Progressive, Proportional and Regressive Tax Systems



Source: Citizens for Tax Justice, 1996. Data are for nonelderly married couples in New York in 1995, after federal offset

Overall, middle and low income New Yorkers pay a higher share of their incomes in state and local taxes than do the better-off.



Source: Citizens for Tax Justice, 1996. Data are for nonelderly married couples in 1995, after federal offset.

65% of the 1995 Personal Income Tax cuts go to the best-off 20% of the income distribution.

1995 Income Tax Cut Effect by Income Class in 1998							
Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	Top 1%
Average Income in Group	$7,400	$16,800	$28,900	$48,500	$85,700	$189,100	$1,278,500
Income Range	Less than $12,000	$12,000 – $22,000	$22,000 – $37,000	$37,000 – $63,000	$63,000 – $130,000	$130,000 – $494,000	$494,000 – or more
Tax Change as % of Income	–0.1%	–0.4%	–0.8%	–1.0%	–0.9%	–0.8%	–0.9%
Average Tax Change	-$8	-$68	-$236	-$461	-$796	-$1,482	-$11,028
Share of Total Tax Cut	0%	3%	11%	21%	27%	14%	24%

Source: Institute on Taxation and Economic Policy Microsimulation Tax Model, February 5, 1999.

(EITC), as enacted in 1994, provides more tax relief to low-income working New Yorkers than the 1995 tax cut despite its much smaller cost.

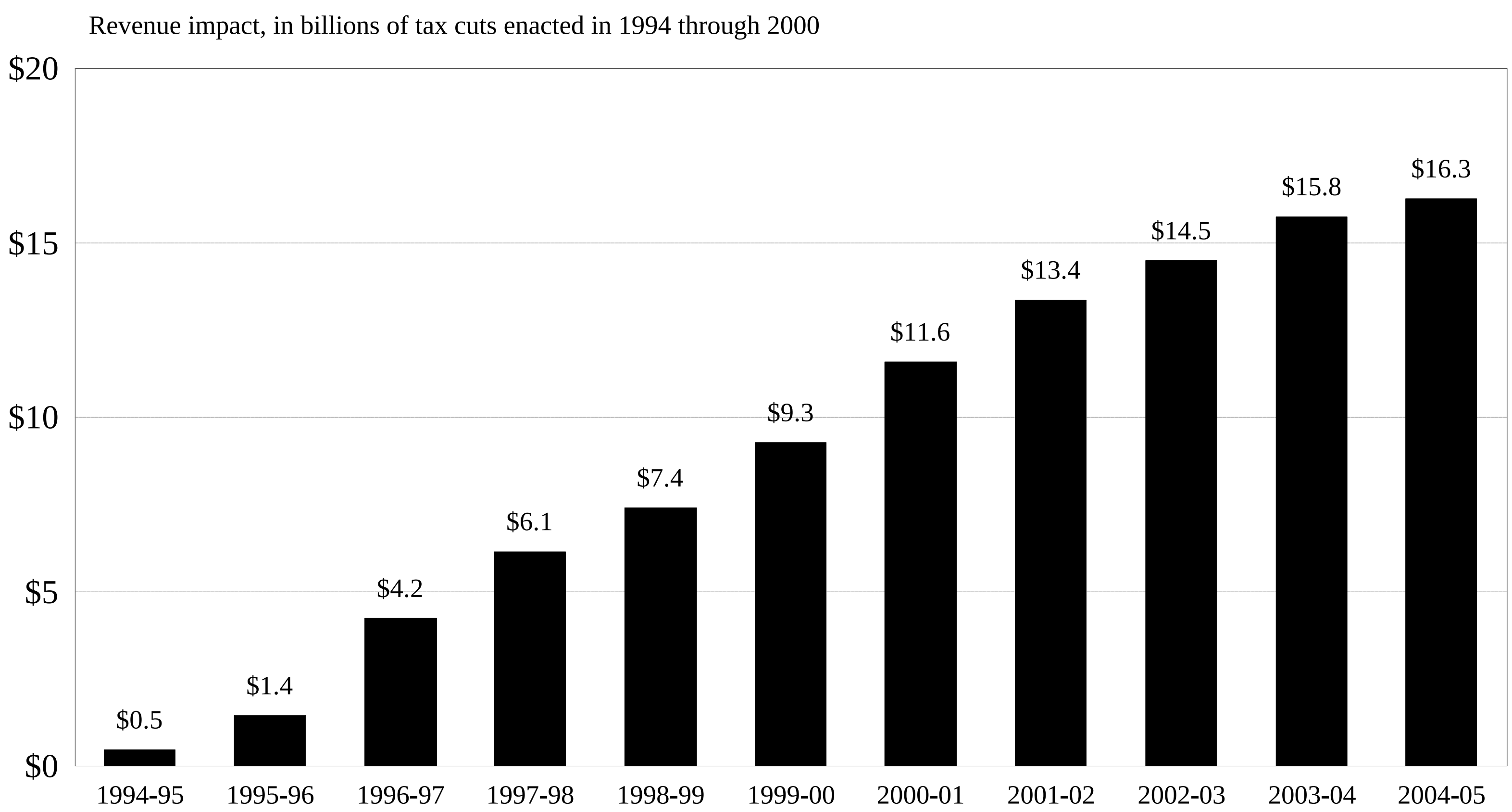
In 1998, the cost of the 1994 EITC was estimated to be about $375 million. This was less than 9% of the estimated 1998 cost of the 1995 PIT cut ($4.3 billion).

Effect of 1994 and 1995 Income Tax Cuts, by Income Category, When Fully Implemented, in 1998

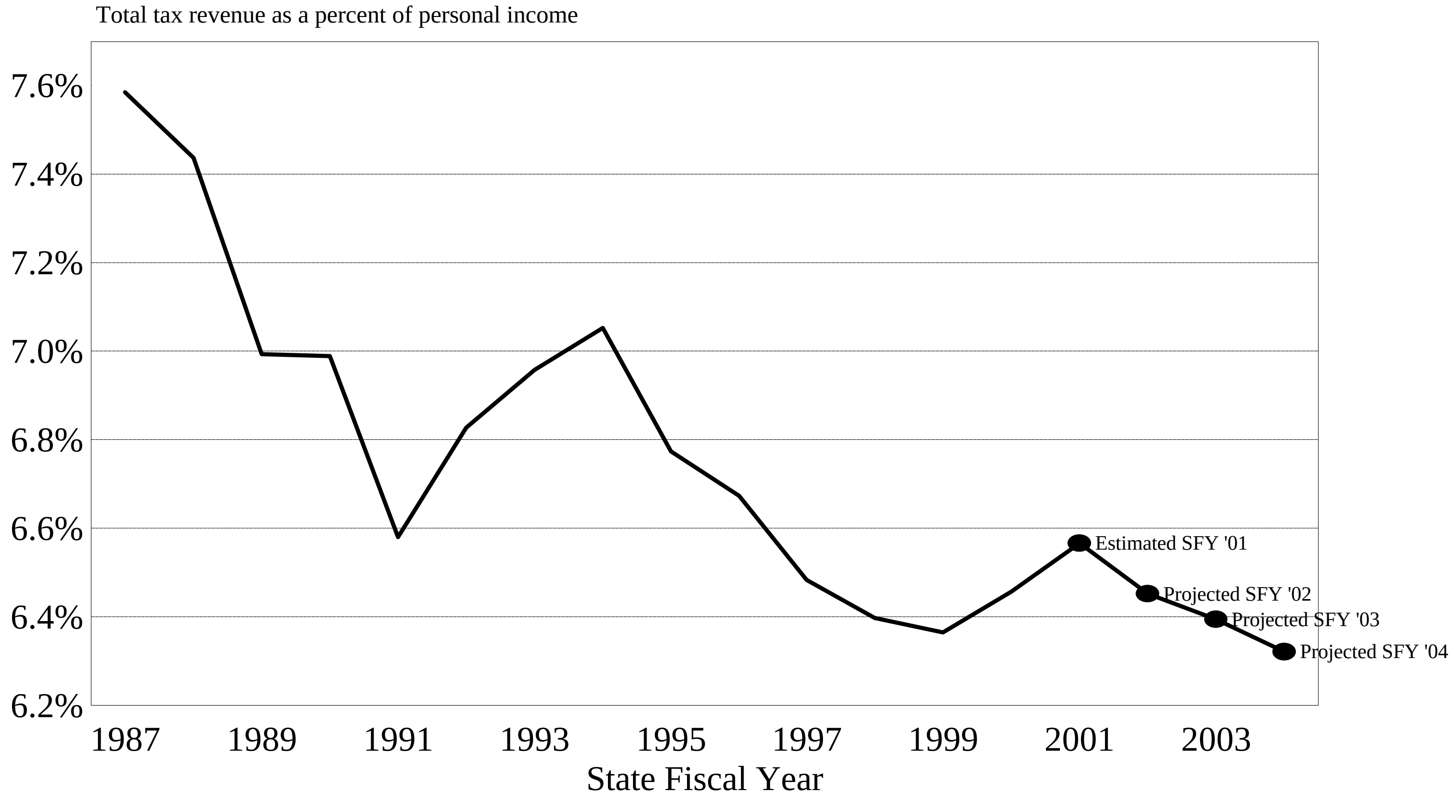
						Top 20%		
Income Category		**Lowest 20%**	**Second 20%**	**Middle 20%**	**Fourth 20%**	**Next 15%**	**Next 4%**	**Top 1%**
Average Income in Group		**$7,400**	**$16,800**	**$28,900**	**$48,500**	**$85,700**	**$189,100**	**$1,278,500**
Income Range	From:	$0	$12,000	$22,000	$37,000	$63,000	$130,000	$494,000
	To:	$12,000	$22,000	$37,000	$63,000	$130,000	$494,000	
Average Annual Tax Change								
Combined Effect		($69)	($183)	($261)	($467)	($796)	($1,482)	($11,028)
1994 EITC Only		($61)	($115)	($25)	($6)	$0	$0	$0
1995 Tax Changes		($8)	($68)	($236)	($461)	($796)	($1,482)	($11,028)
Tax Change as % of Income								
Combined Effect		-0.9%	-1.1%	-0.9%	-1.0%	-0.9%	-0.8%	-0.9%
1994 EITC Only		-0.8%	-0.7%	-0.1%	0.0%	0.0%	0.0%	0.0%
1995 Tax Changes		-0.1%	-0.4%	-0.8%	-1.0%	-0.9%	-0.8%	-0.9%

Source: Institute on Taxation and Economic Policy Microsimulation Tax Model. All estimates are for 1998 in 1998 dollars.

The tax cuts enacted since 1994 will reduce state revenues by more than $16 billion per year when fully implemented.

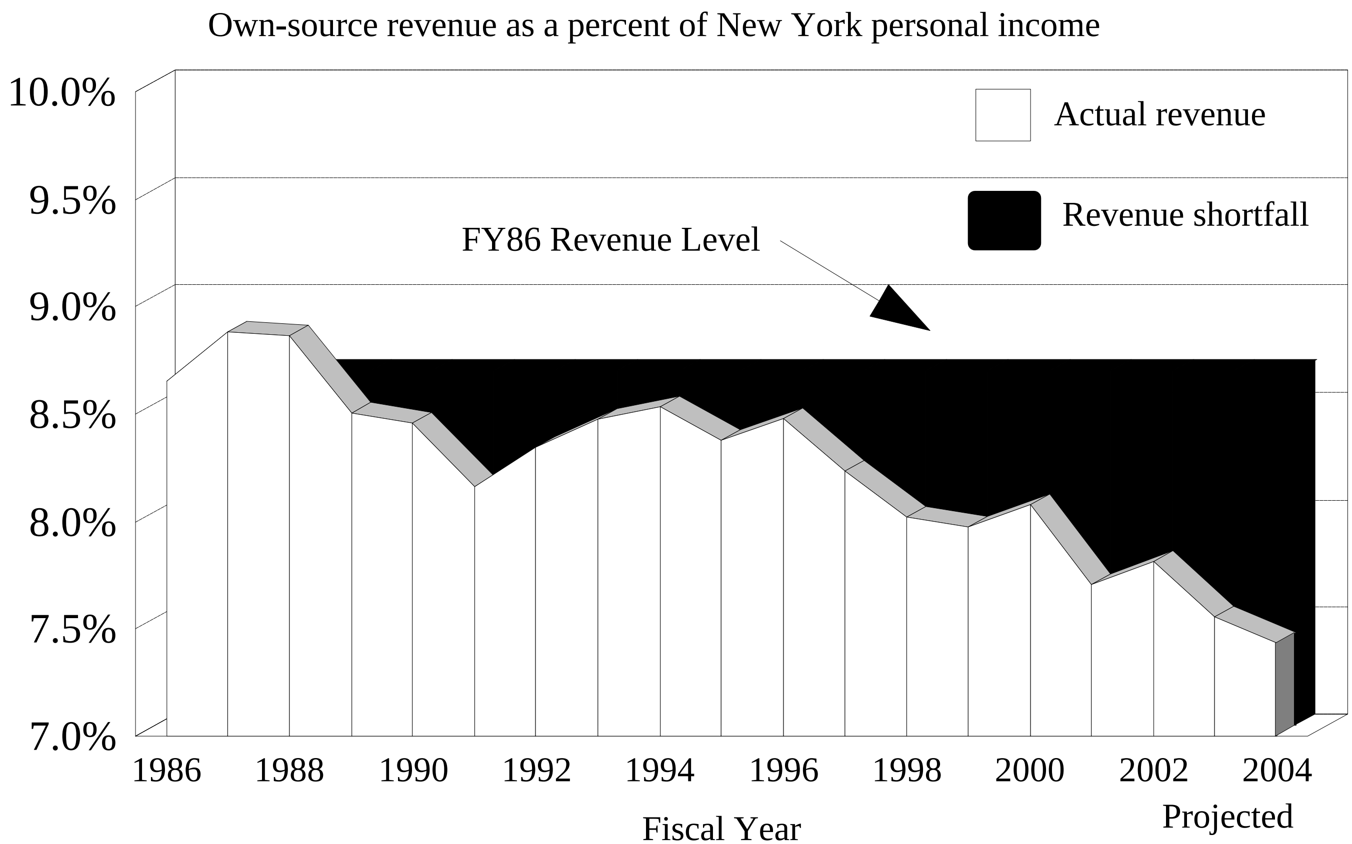


Since the enactment of the 1987 tax cuts, state tax revenues have declined significantly relative to the size of the state's economy. This creates pressure to cut services, particularly during downturns in the economy.

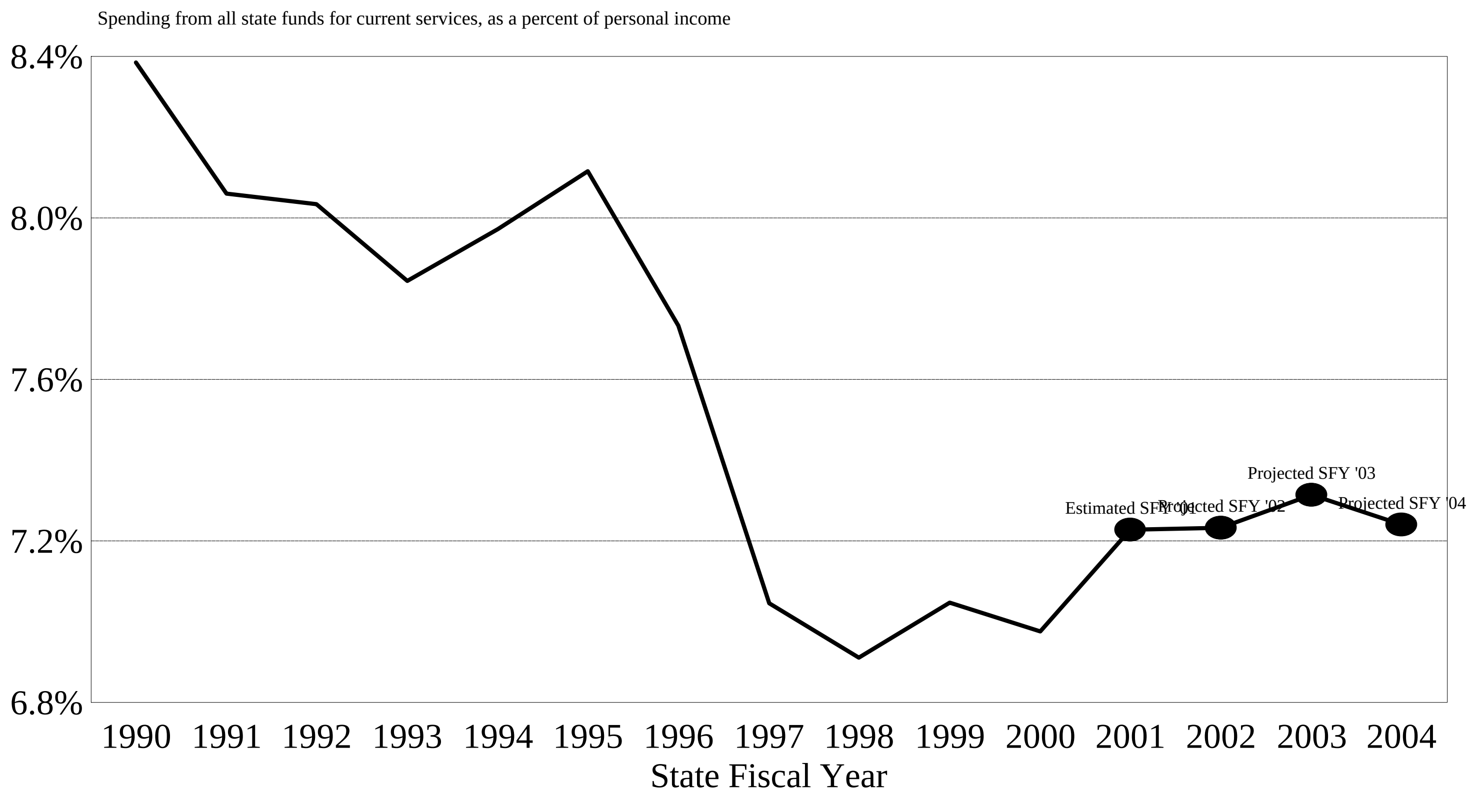


Note: For state fiscal years beginning in 1999, these numbers include the personal income tax revenues used to pay for the STAR reductions in school property taxes. While these revenues are included, they are not available for funding state services.

Cumulative revenue shortfall to reach $32 billion by March 31,2002.



Current services spending relative to the size of the economy has declined substantially in recent years: the 2001-2002 Executive Budget proposes no increase in current services spending.



Over the course of the last five years of the Cuomo Administration and the first five years of the Pataki Administration, New York State's expenditures for employee wages and salaries have declined in real terms by over $1.3 billion, or more than 13%.

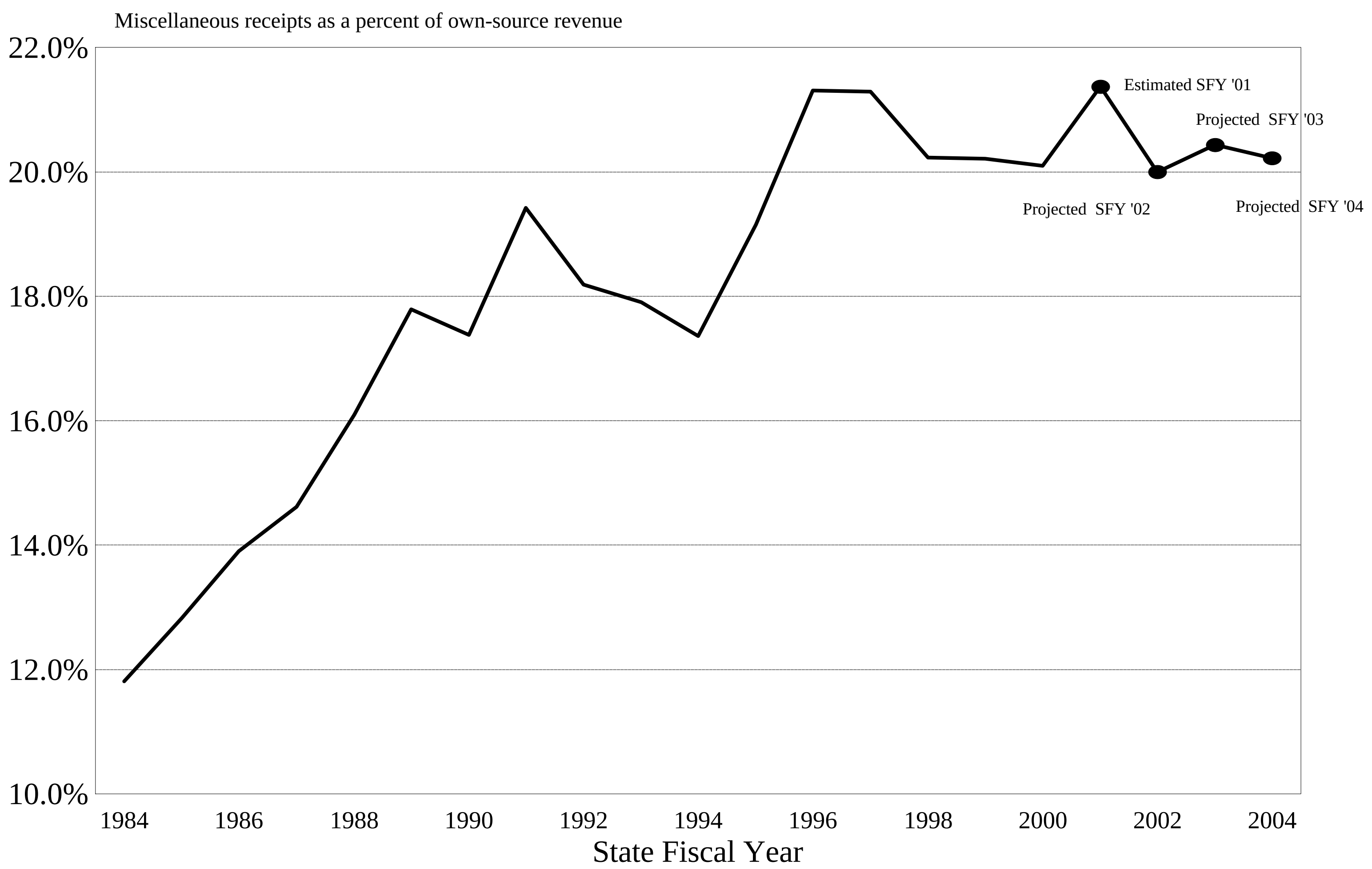
Personal Service expenditures in millions

	General Fund	Special Revenue Funds	Total	Consumer Price Index
State FY 1989-90	$4,787.7	$2,737.2	$7,524.9	125.6
State FY 1994-95	$4,567.4	$3,812.6	$8,380.0	149.3
State FY 1999-00	$4,715.8	$4,014.6	$8,730.4	167.9
Average Annual Change				
1989-90 to 1994-95	-$44.1	$215.1	$171.0	
1994-95 to 1999-00	$29.7	$40.4	$70.1	
Average Annual Percent Change				
1989-90 to 1994-95	-0.94%	6.85%	2.18%	3.52%
1994-95 to 1999-00	0.64%	1.04%	0.82%	2.38%
Total 10-Year Change				
Amount	-$71.9	$1,277.3	$1,205.5	
Percent	-1.50%	46.67%	16.02%	33.73%

Personal Service expenditures in millions of SFY 2000 dollars

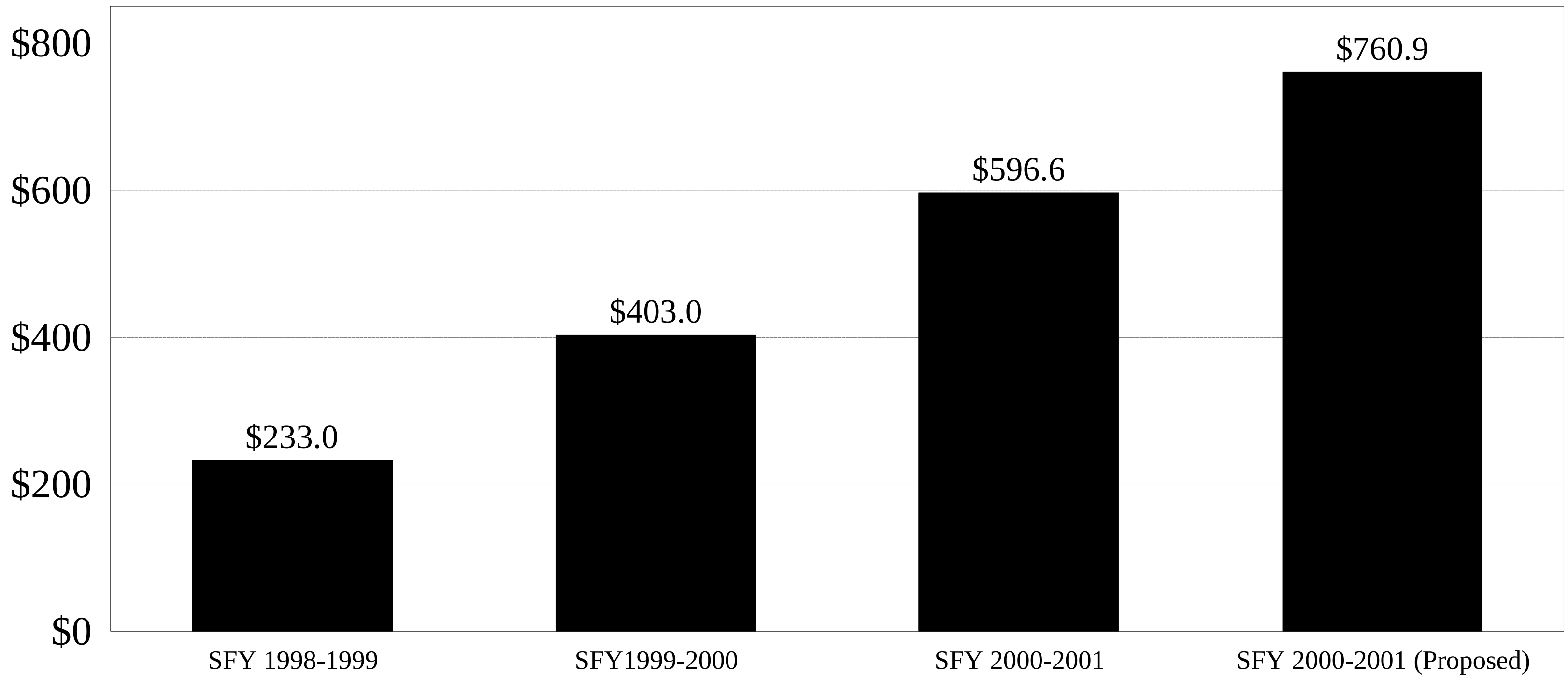
	General Fund	Special Revenue Funds	Total
State FY 1989-90	$6,402.5	$3,660.5	$10,063.0
State FY 1994-95	$5,137.8	$4,288.7	$9,426.6
State FY 1999-00	$4,715.8	$4,014.6	$8,730.4
Average Annual Change			
1989-90 to 1994-95	-$252.9	$125.7	-$127.3
1994-95 to 1999-00	-$84.4	-$54.8	-$139.2
Average Annual Percent Change			
1989-90 to 1994-95	-4.31%	3.22%	-1.30%
1994-95 to 1999-00	-1.70%	-1.31%	-1.52%
Total 10-Year Change			
Amount	-$1,686.7	$354.1	-$1,332.6
Percent	-26.34%	9.67%	-13.24%

Tuition, fees, one-shots, and other nontax revenues pay for an increasing share of services.



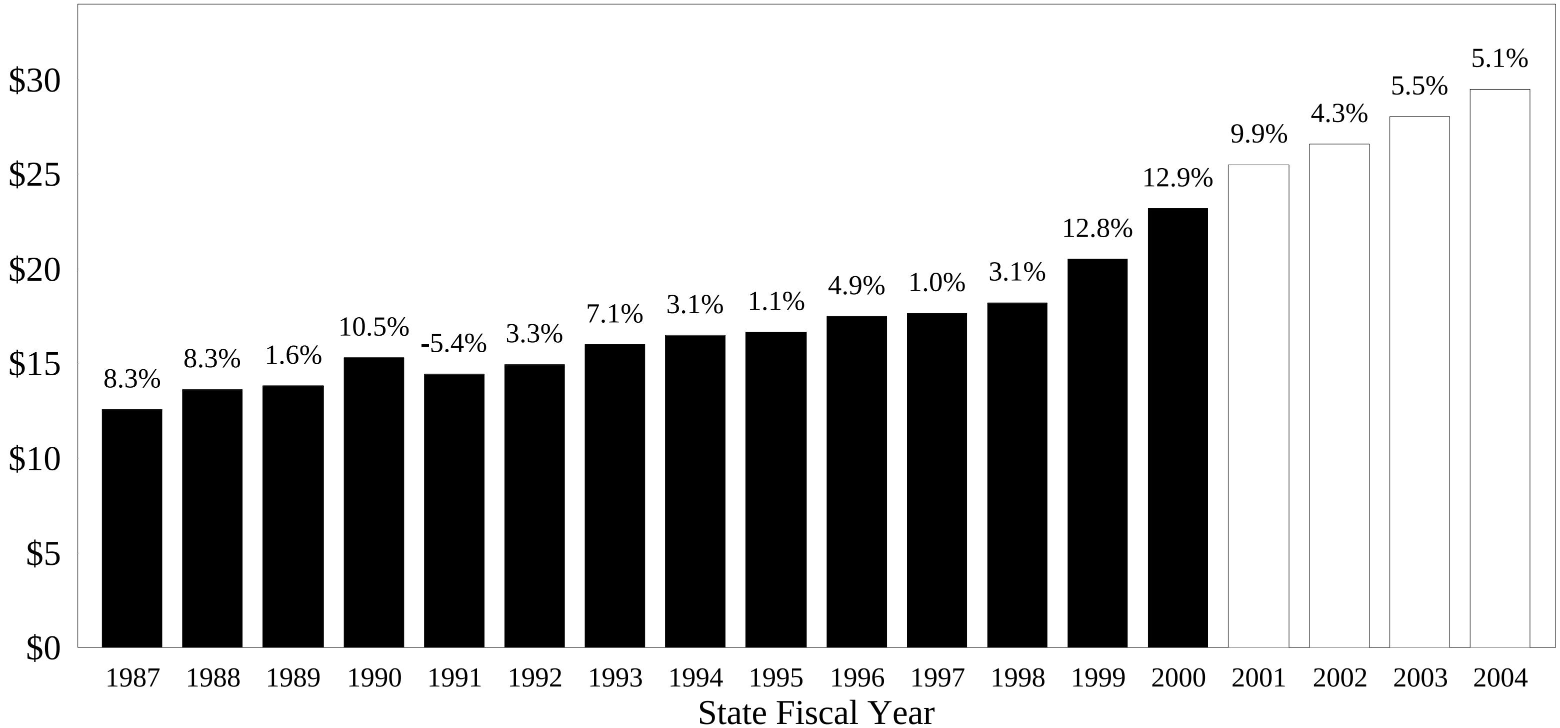
New York is using more of its Federal Welfare Reform Block Grant to balance its budget.

Amount of Temporary Assistance to Needy Families (TANF) Block Grant, in millions, going to fiscal relief.



Personal income tax receipts, driven by capital gains and Wall Street bonuses, have grown by over $7.3 billion in the last three years.

PIT collections in billions, for all funds, before cash management transactions. Percent change from previous year shown on top of each bar.

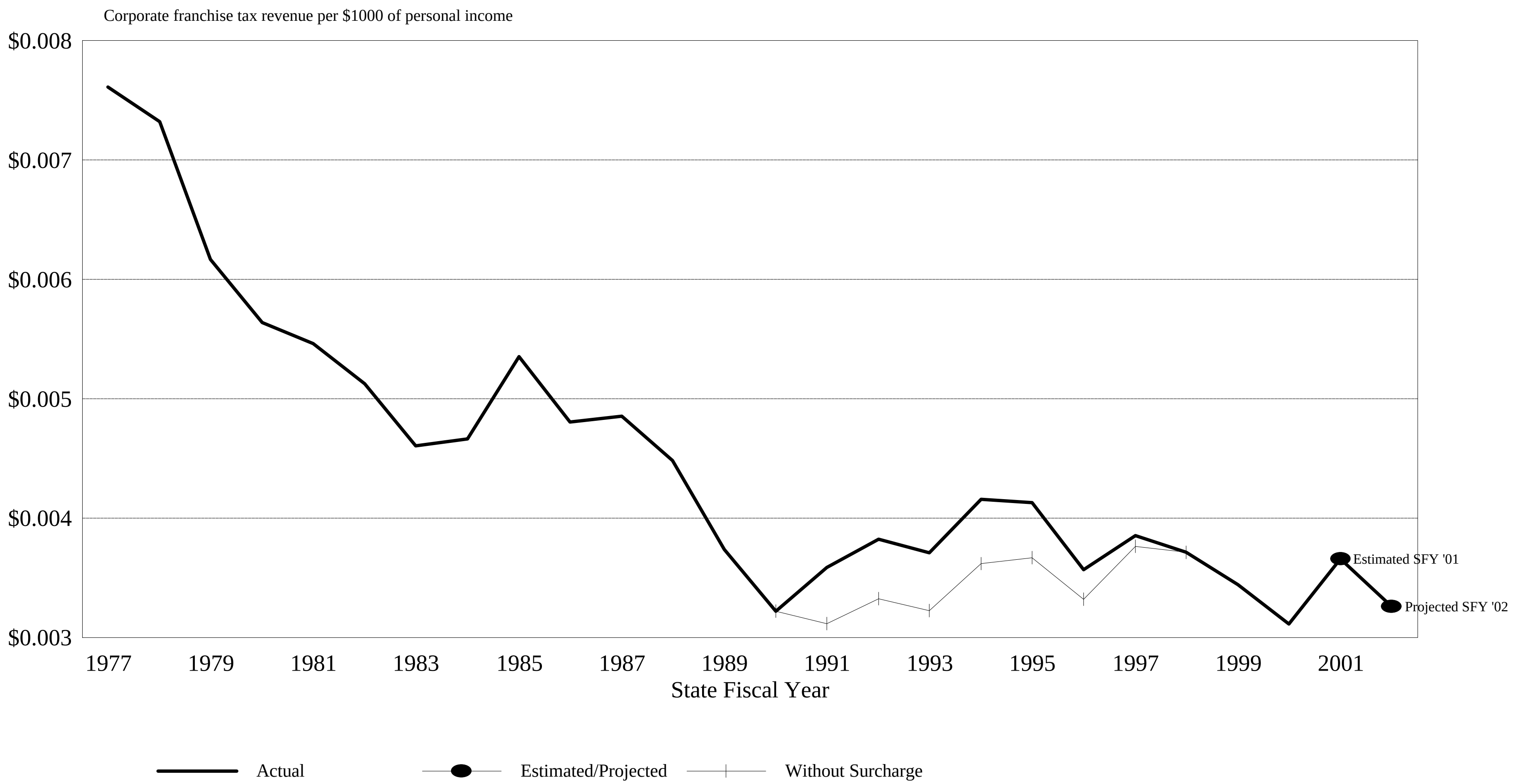


Source: The information for 1987 through 2000 is from Comptroller's Annual Report to the legislature. The information for 2001 through 2004 are estimates fr
Executive Budget.

New York's sales tax collections are declining as a percent of disposable income.

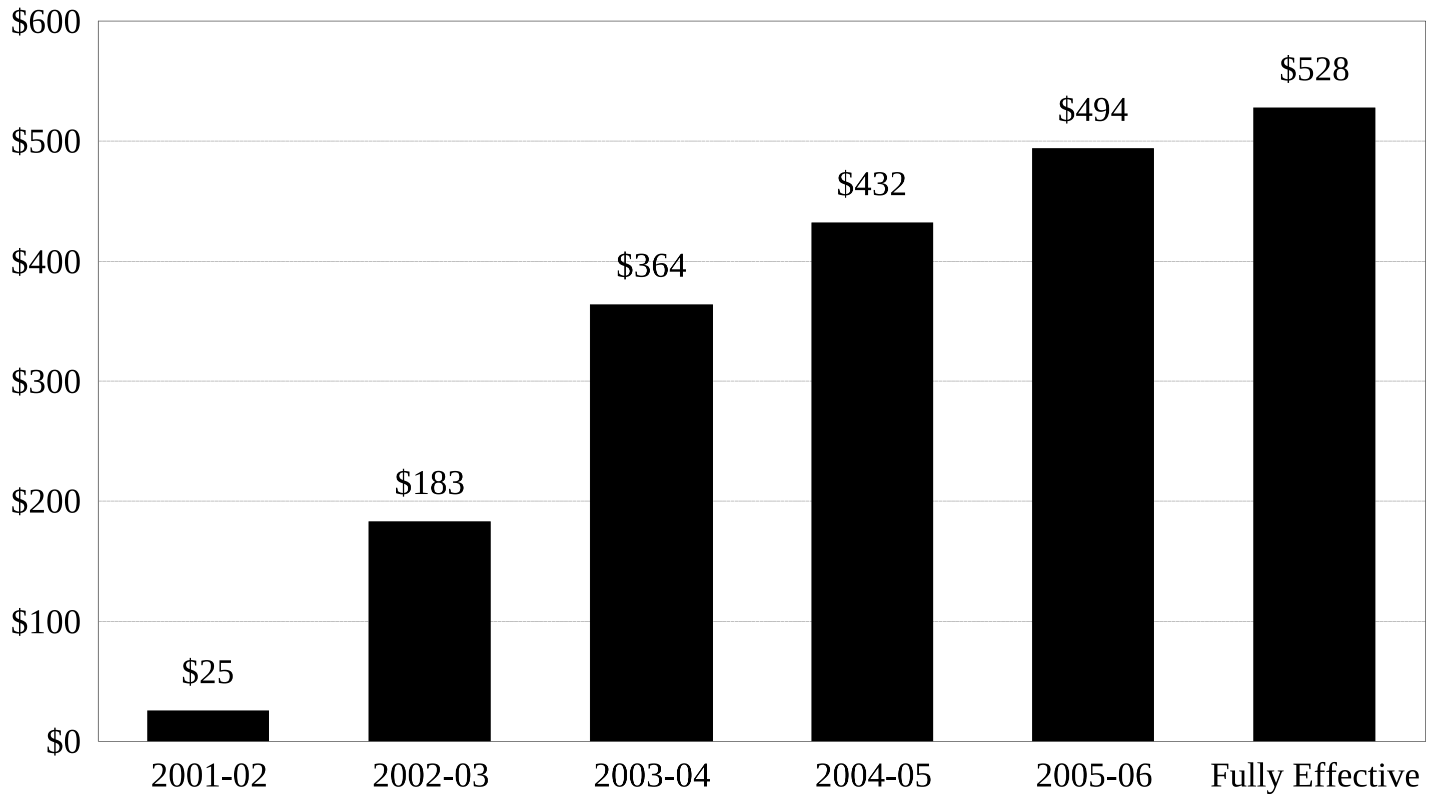
The corporate income tax represents a declining share of state tax revenues.

The corporate income tax has fallen by over 50% relative to the size of New York's economy.



Note: The estimated increase in corporate tax revenues from SFY 1999-00 to SFY 2000-01 is "due primarily to the impact of legislation which moved energy companies to the corporate franchise tax." Executive Budget, Appendix II, page 11.

The 2001-2002 Executive Budget proposes additional backloaded tax cuts.



New York needs better information on the impact of state tax changes.

- In New York, as in most states, tax reductions and tax increases have been adopted without information or debate over the extent to which various income groups would benefit or be harmed by the proposed tax changes.

- In order for state policymakers to fashion tax reforms which reduce after-tax inequality, they must have access to consistent, timely information about the distributional impact of their existing taxes. In addition, tax incidence information should be available during legislative debates over changes to the tax system. Periodic reports on the tax system as a whole should also be prepared and disseminated.

- Minnesota has routinely produced such information. Texas and Maine recently established requirements for regular reports on the incidence of their tax systems.

Most of the new tax cuts proposed in the 2000-2001 Executive Budget are unlikely to improve the state's economy.

- Many of the other tax cuts being proposed this year are designed to encourage firms to create jobs in areas of New York State where job creation is needed. But behind the scenes the Empire Zones program's targeting features are being undercut by administrative actions that allow (or are, in practice, being interpreted to allow) zones to be expanded to included non-contiguous parcels in suburban and other outlying areas.

- The proposed tax cuts do not have accountability mechanisms to ensure that job creation actually materializes and the proposed change in the way manufacturers' allocate their income to New York could result not only in a much larger that indicated reduction in state revenue but also in a reduction of jobs in New York State.

- If New York State adopts tax breaks or other incentives in the name of job creation, it must establish standards that will ensure that the taxpayers of the state get their money's worth and that they get what they pay for.

- For example, over 46 cities, states or counties now attach job quality standards to economic development subsidies such as tax-free loans, training grants, property tax abatements. Standards span wages, health care, full-time hours. About half require or encourage health care coverage.