NEWS from the Fiscal Policy Institute

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FPI Reaction to the Proposed Executive Budget

The state's plan should use all available resources—certainly including funds set aside precisely to meet unplanned end-of-year deficits. In proposing actions to close this year's $1.7 billion deficit, the governor unaccountably ignores balances available in the Tax Stabilization Reserve Fund. This reserve fund is specifically designated for unplanned end-of-year deficits. It cannot be used to cover already anticipated deficits. The Tax Stabilization Reserve Fund should be an important component of the plan to close this year's deficit.

The governor's proposal hurts low- and moderate-income New Yorkers while requiring little from wealthy New Yorkers. Cuts in state programs disproportionately affect New York's working and poor families, who have not prospered in recent years and who will suffer greatly in this recession. "Shared sacrifice" should mean that all New Yorkers contribute to help solve this problem. The budget should not be balanced on the backs of low- and moderate-income people.

The governor's proposal would cause needless harm to the state economy. It relies heavily on cuts to essential programs and services. Taking away a dollar in government spending on transfer payments or vital community services has a far more contractionary impact on the economy than does taking a dollar from a high-income family. During a recession, the least damaging kind of budget balancing action is an increase in the tax on the portion of family income over a relatively high level.

Dozens of economists from all over New York State have written to the governor to say,

> [S]teep state budget cuts will exacerbate the economic downturn and harm vulnerable low- and moderate-income New Yorkers. Constrained by a balanced budget imperative, states face only difficult choices in balancing their budgets during recessions. Economic theory and historical experience gives a clear and

> unambiguous answer: it is economically preferable to raise taxes on those with high incomes than to cut state expenditures.

Full text of the letter is available at www.fiscalpolicy.org/FPI_Release_EconomistsOnFiscalPolicy_December2008.pdf.

The governor's proposed budget also relies on increases in consumption taxes and fees. While such revenue increases may do less damage to the economy than some expenditure reductions, they are clearly more harmful than a progressive increase in the income tax.

The lessons from 2003 show that New York can successfully close large budget gaps—without disproportionately hurting low and middle-income families, or causing undue harm to the economy. The last time New York dealt with budget gaps of this magnitude was after 9/11. At that time, in addition to spending cuts, the legislature placed a temporary income tax surcharge on high-income filers. Employment in the state grew each year that the surcharge was in place, and the number of high-income returns grew steadily from about 245,000 in 2002 to an estimated 420,000 in 2007.

Moreover, a recent Princeton study concluded that no net out-migration of the rich resulted from New Jersey raising income taxes on households with incomes over $500,000. The governor's concern that the wealthy will choose to leave New York is overblown.

The Fiscal Policy Institute (FPI) is a nonpartisan research and education organization that focuses on the tax, budget, and economic public policy issues that affect the quality of life and the economic well being of New York State residents. FPI reports are available at www.fiscalpolicy.org.

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