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Strike a Fairer Balance In Balancing City Budget: Trim Hedge Funds, Not Services

By James A. Parrott

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Wall Street prosperity never really trickled down to New York City's neighborhoods. Median real hourly wages fell by 11 percent over the past two decades as Wall Street's profile steadily grew. Despite record-busting financial profits of \$61 billion—three times the previous record haul—unemployment is nearly 10 percent and the Mayor's budget proposal calls for steep cuts and thousands of public employee layoffs.

The Great Recession might be over in a technical sense, but the recovery path will be rocky and long. And while it's true that the city lost fewer payroll jobs in this recession than in the two previous downturns in the early 1990s and the early 2000s, by other measures such as the five percent falloff in total non-finance wages or the doubling in the number of jobless residents, this recession is every bit as bad, or worse.

Losses have been concentrated in moderate- and middle-income paying jobs largely held by city residents, like construction, manufacturing, trade and transportation, administrative and building services, and in local government.

In fact, there has been a steeper decline in local government employment over the past two years than there has been in private employment. New York City local government employment fell by 20,000 or 4.3 percent from April 2008 to April 2010. Private employment declined 3.4 percent.

The city should balance its budget in a way that does not worsen unemployment or unduly burden neighborhoods that are reeling from the effects of the recession. The city's pre-recession poverty rate was 22 percent. The safety net has become badly frayed. In some neighborhoods, unemployment is 20 percent or more.

The Mayor's Executive Budget proposal targets a wide range of essential City services—from closing child care centers, senior centers, and swimming pools, to eliminating fire companies, cutting afterschool programs and libraries and school nurses. The impact of these and earlier cuts is concentrated in neighborhoods that can ill afford to lose support services to low- and moderate-income residents.

The revenue side of the budget needs attention as well. Making the City personal income tax more progressive should be at the top of the agenda. After all, the historic concentration of

income among the very wealthy suggests that shared sacrifice would have the fortunate few pay a little more to avert greater joblessness and to lessen the cuts suffered by those ravaged by the recession.

Some like to point out that the wealthiest one percent pay about half of the city personal income tax. Often overlooked, however, is the fact that they receive 45 percent of all income and their incomes nearly tripled from 2002 to 2007. When you factor in regressive sales and property taxes—the taxes that have increased in recent years—the top one percent with incomes over \$600,000 pay a lower share of their income in city taxes than less fortunate New Yorkers.

The city could go a long way toward redressing this regressive picture by reforming its personal income tax to moderately increase rates at the top and increase tax credits for low- and moderate-income households to lighten tax burdens among those with the least income. Tax reform along these lines could generate \$1 billion annually. This would require Albany approval. Considering how proposed state budget cuts have disproportionately targeted New York City, it is the least Albany can do.

Another option is eliminating the “carried interest” exemption on the city’s Unincorporated Business Tax (UBT). This is a loophole that costs the city upwards of \$100 million yearly and results in the perversity that truly small businesses pay a higher effective UBT tax rate than hedge funds that generate hundreds of millions of dollars in fees for their principals. Federal financial reform will end the favored tax treatment of carried interest; the city should as well.

No one wants to pay higher taxes, but otherwise “shared sacrifice” is a hollow phrase. The recession has taken a heavy toll on hundreds of thousands of New Yorkers. The adverse effects in wage and job loss will persist for several months, if not years, to come. Adequately funded public safety, health, education, youth, and other public services are essential to maintain the city’s quality of life and economic vitality. It is quite reasonable to ask those who have benefitted so greatly from the city’s robust economy to share the burden of balancing the city’s budget.