

Sizing up the Governor's Proposed 2012-13 Executive Budget in its Economic Context

James A. Parrott, Ph.D.
Deputy Director and Chief Economist

A Fiscal Policy Institute Presentation
www.fiscalpolicy.org

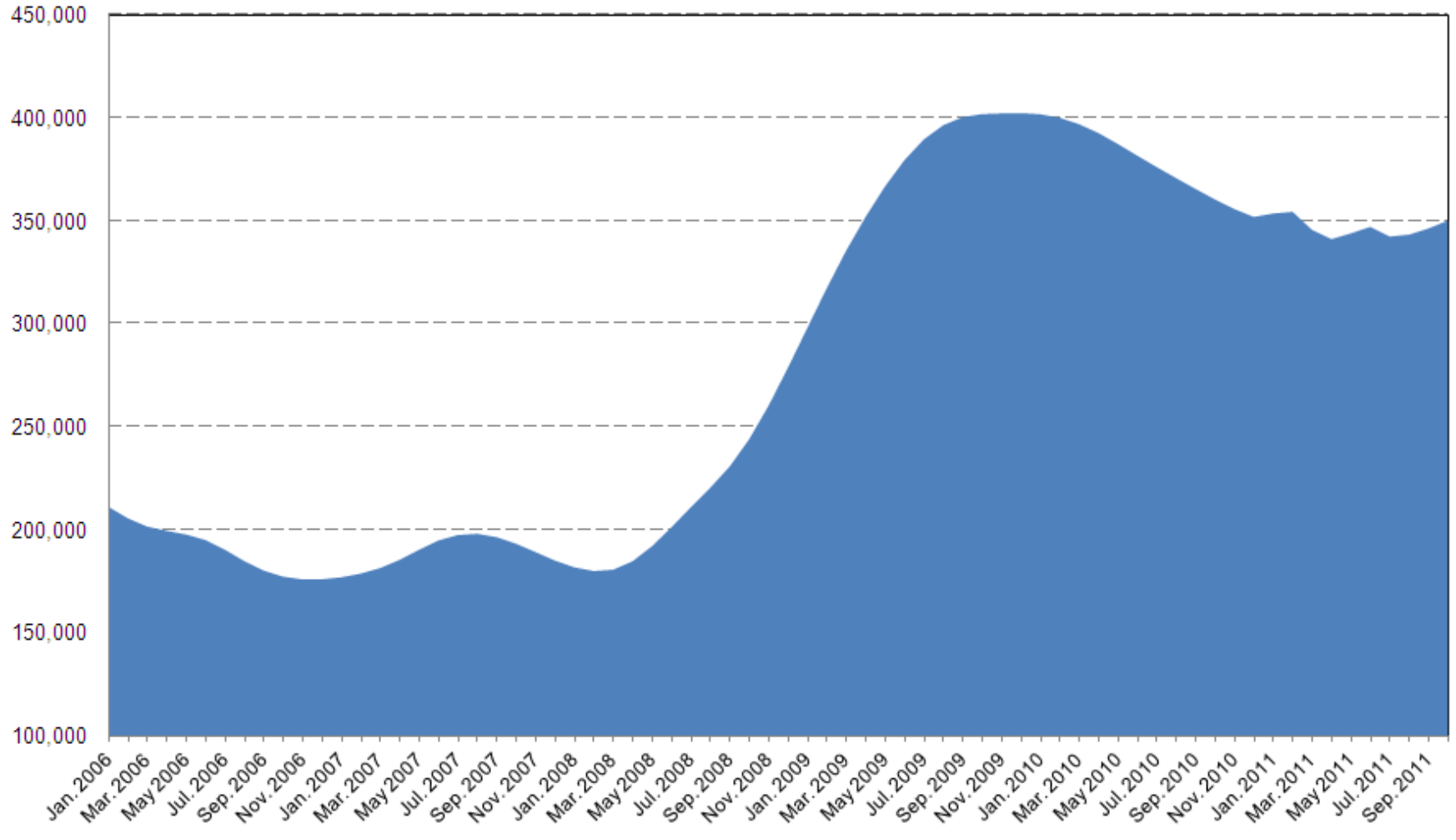
January 2012



Two records: worst recession – weakest recovery

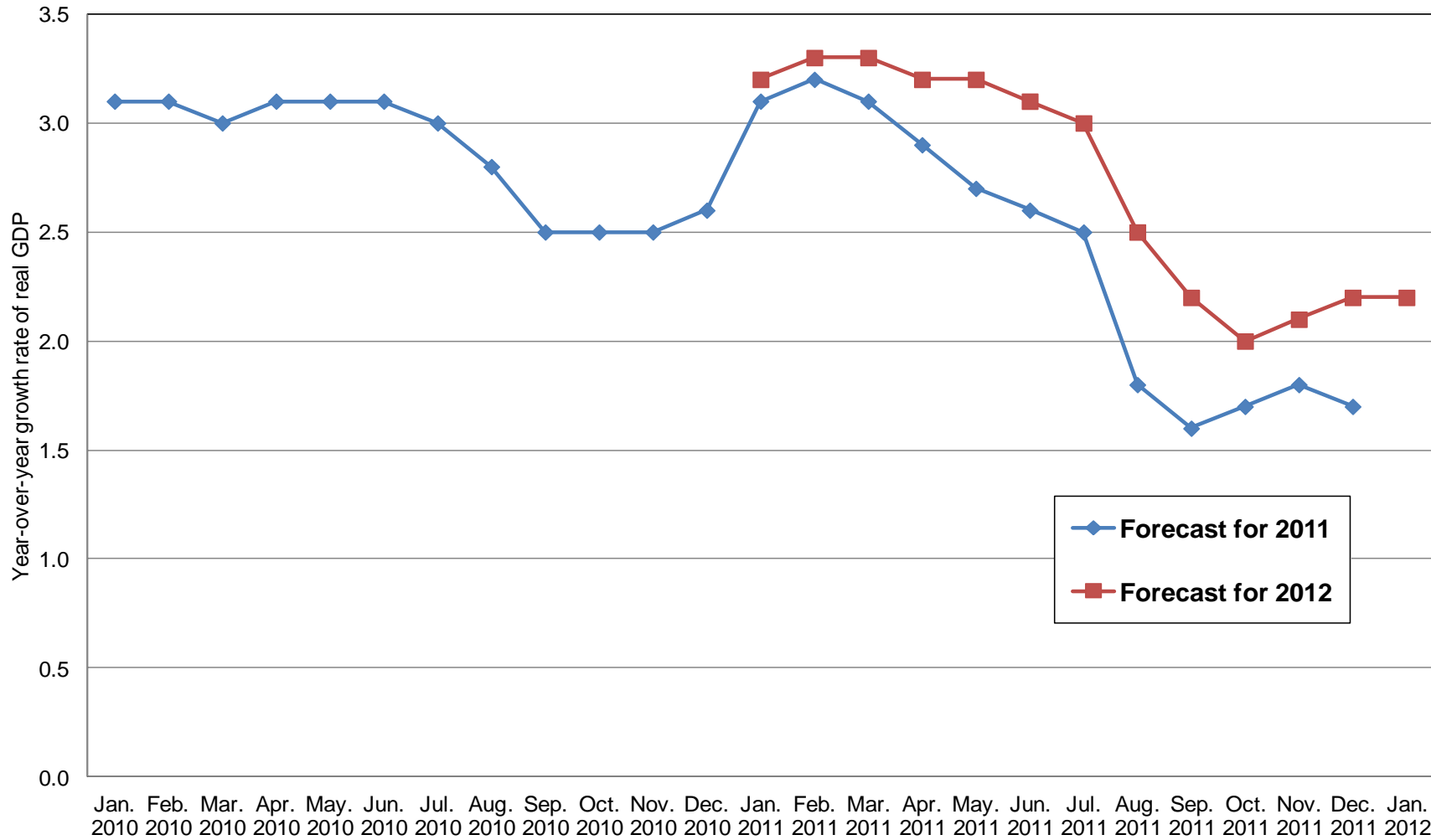
- Nothing normal about this economy—prolonged high unemployment, tremendous waste of human resources, individually and socially destructive.
- Worst development—Washington perspective that blocks more stimulus action in hopes that a bad economy will have a political reward.
- While President has proposed a \$500B job creation package, his opponents have blocked that, and are determined to shrink government.
- Austerity budgets at all levels worsen economy, increase unemployment and reduce needed services and investments. Weaken long-term growth.
- New Yorkers are losing more than 500,000 employment opportunities, including nearly 100,000 fledgling business opportunities—with loss of \$31B in earnings.

NYC unemployment has been at or over 350,000 for nearly 3 years; it has come down only because discouraged workers have dropped out.



Source: New York State Department of Labor seasonally adjusted labor force statistics

An Uncertain Outlook Reflected in the Ebb and Flow of Recent Blue Chip Real GDP Forecasts



Source: Blue Chip Economic Indicators

Mounting hardships from prolonged high unemployment

- The average duration of unemployment in NYC is over 40 weeks, and nearly a year (51 weeks) for prime age 35-44 year olds. For older workers 55-64, unemployed spells average a year.
- When discouraged workers and those working part-time involuntarily are factored in, the under-employment rate is over 14 percent; for blacks it is 22 percent and 18 percent for Hispanics.
- Among young workers ages 20-24, under-employment is 25 percent.
- Food stamp reciprocity has increased by over 700,000 (63%) since recession began.
- Homelessness at record levels with 38,000 people, including 15,000 children, in the city's shelter system.
- In the wake of the recession, poverty has risen sharply: 20% of NYC population below the poverty line, another 20% "near-poor", i.e., 100-200% of poverty.
- Poverty calculation is higher in NYC when housing costs are factored in.

NYS & NYC budget picture since recession—broad strokes

- Federal Recovery Act stimulus aid a huge help in 2009 and 2010.
- NYS temporary 2009-2011 income tax surcharge enacted 2009.
- State budget cuts grew from about \$6B in 2009 and 2010 to \$8.5B in 2011.
- NYC has had 10 rounds of budget cuts since early 2008, adding up to about \$6 billion.
- NYC rescinded earlier property tax cuts, but then increased sales tax rate that hits low-income families the hardest. No progressive tax increases in NYC since recession began.
- Albany action in December to “restructure” state income tax.
 - turnaround for Gov. Cuomo
 - raises net of \$2bn compared to \$4-5bn for expiring income tax surcharge

Projected NYS 2012-13 budget gap of \$3.5 B

- By any measure this is an austere budget, following 3 years of budget cuts averaging nearly \$7B a year.
- Growth in total taxes for the coming year is much slower than last year and this year since the Dec. “tax reform” generates much less than the expiring surcharge. Taxes are projected to increase 3.1% next year vs. an average of 5.8% this year and last.
- With Federal spending being cut by \$2B (nearly 5%), All Funds spending of \$132.5B will be slightly less in the coming year than this year.
- State operating funds projected to increase by \$1.7B, with most of that in school aid and Medicaid, both of which are increasing by 4%. No increase in state operations or fringe benefits. The capital budget (state and federal monies) is projected to decline by 2.9%.
- The gap is closed through a net of \$1.5B from the Dec. “tax reform” and nearly \$2B in spending cuts: \$1.1B from agency operations and \$750M in Local Assistance.

Local school aid

- When Gov. Spitzer came in, a new school aid formula favorable to “high need” districts established in 2007 as the state’s response to the CFE case. The amount of aid was to have been increased over 4 years. Under Paterson, 4-year phase-in was stretched out. Now, Cuomo has effectively set the CFE commitment aside and slashed school aid last year.
- In response to reduced state school aid in recent years, NYC has substantially increased school funding. (This schools funding switch has severely squeezed other areas of NYC’s budget.)
- While the budget proposal implies that the school aid increase is targeted to high need school districts, less than 40% of the \$805M increase falls in the general support category that is targeted to high need districts.
- Again this year, the Governor is eliminating \$300M in state revenue sharing funds to NYC.

Pension and other reforms proposed by the Governor

- Credit this governor with seeking “reforms” in several areas: Medicaid redesign, mandate relief, economic development (regional councils), local property tax cap, capping growth in school aid and Medicaid, the Spending and Government Efficiency Commission (SAGE) to “streamline” state government.
- Add to the list—Tier VI Pension Reform, ostensibly to provide state and local governments with fiscal relief in the years ahead: raising retirement age to 65, increasing employee contribution, decreasing the “pension multiplier,” and excluding overtime and other payments from the formula used to calculate final average salary for pension allowances.
- Also, governor wants to provide a defined contribution option that “requires both employees and employers to share in the risks and rewards of market volatility.”
- Broader debate about curbing public employee compensation as a response to the recession and fiscal pressures.

Reform corporate tax structure and close loopholes to raise needed revenues and restore fairness

- In announcing the income tax reform in December, the governor also indicated that he was creating a Tax Reform and Fairness Commission to “address long term changes to the tax system and create economic growth.” Corporate tax reforms will be on the agenda, but there are some things that can be done right away in the interest of fairness and raising revenues.
- Some background: steady decline in corporate tax share of NYS GDP; several profitable large corporations based in NYS paid zero state income taxes in at least one of the past 3 years; several loopholes have gone unaddressed.
- Advocates promoting “A Blueprint for Corporate Tax Fairness” to advance principles of enforcement, fairness and transparency. (see handout)
- Priorities include:
 - Review real estate partnerships to ensure they are paying the taxes they owe.
 - Increase the corporate Alternative Minimum Tax on large corporations.
 - Ensure that hedge fund and private equity fund managers pay their fair share.

Budget outlook and concluding thoughts

- Except for the Recovery Act, Federal non-defense discretionary spending perennially on the chopping block. Without a significant change in Congress, the outlook is bleak. Entitlement programs (Social Security, Medicare and Medicaid) also under intense budget pressures.
- State and local tax revenue growth will stay moderate as long as the economy remains weak.
- Statewide 2% property tax cap (which doesn't apply in NYC) is starting to take effect—it will ratchet up pressure on Albany for more aid to schools and local governments around the state. More and more, NYC will be expected to rely on its own tax base.
- Despite what is often said, and continued high unemployment, NYS's economy is faring fairly better than most other states, and we expect that to continue. Still, New York should do what it can to increase infrastructure investment, spur job growth, and promote a sustainable recovery. This agenda should include raising the state minimum wage—18 states and the District of Columbia are now higher than NY.

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James Parrott, Ph.D.
Deputy Director and Chief Economist
Fiscal Policy Institute
parrott@fiscalpolicy.org
212-721-5624