

Pandemic Economics Demand A Diverse Response

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IN LIGHT OF NEW JERSEY'S ADOPTION OF A MILLIONAIRES TAX to help fill a statewide revenue hole caused by the coronavirus, many asked what about New York? Like New Jersey, New York was hard hit by the pandemic, and its economy continues to suffer. Like New Jersey, New York has historic fiscal problems with a budget shortage of \$14.5 billion this year, and in the tens of billions of dollars over the next several years. Like New Jersey, we continue to wait on the federal government for assistance. Unlike New Jersey, however, New York does not seem to have much interest in using the entire spectrum of available policies to help provide needed revenue. Why?

New Jersey will increase its tax rate for those earning \$1 to \$5 million a year from 8.97 percent to 10.75 percent. Taxpayers earning over \$5 million are already taxed at that rate. New York's top tax rate is 8.82 percent. If our state increased its top rate from 8.82 to 10.75 percent, it would close the budget gap partway with just under \$6 billion of new revenue. Why the reluctance to raise the top rate on the highest earners by 1.93%?

A close read of the statement by New York State Budget Director Robert Mujica seems to argue for the feasibility of such a proposal:

*There is much discussion about the state and nation's economic condition and the options available to New York State. Let's make sure the discussions are informed. New Jersey has announced they will pass a millionaire's tax that raises the tax rate on millionaires to 10.75 percent. Some have suggested New York raise the top tax rate for billionaires and millionaires to 12 percent. The overwhelming majority of billionaires and millionaires in this state live or work in New York City. The combined state and city income tax rate is already 12.6 percent -- which is higher than New Jersey's new top rate or a proposed 12 percent 'billionaire/millionaire tax rate.'*¹

Here is the apparent contradiction: despite the top tax rate differential, which existed for years, New York remained attractive as a place where millionaires and billionaires chose to work and live. Otherwise, they could have all migrated to New Jersey or some other "low tax" city, years ago. New York would need to increase its millionaire tax rate to 10.57 percent, proportionately, to maintain the differential after New Jersey's tax hike. New York's high earners are hardly overburdened: the top one percent contribute about 40 percent of NYC income taxes and 50 percent of the New York State income taxes because the top one percent earns about 30 percent of all income in the state – the largest share of total income among all states – and about 40 percent of all income in the city.

¹ <https://www.governor.ny.gov/news/statement-new-york-state-budget-director-robert-mujica>

New York City's chief competitors are global cities: Paris, London, Dubai. Arguably, New York City has some disadvantages, including pollution, crowds, congestion, and a higher personal tax rate for the very wealthy. Still, people look past these to access what they want in a hub like New York: world-class opportunities, culture, and services. Those things are not cheap, and taxes fund the livability of New York and other communities statewide. We all share in that responsibility, and the rich benefit from them the most. New York City is an economic engine and maintaining public services, and economic vibrancy helps power our competitiveness.

The pandemic economy requires the commonsense use of all the tools available to us. Other high-earner proposals include a pied-a-terre tax and billionaire mark-to-market tax, among others. Our state requires a responsible mix of revenue raisers, sensible borrowing, federal aid (when and if it materializes), and –yes!— some intelligent cuts and operational optimization, is the proper way of addressing the state budget woes, maintaining services, and stimulating the economy.

There is a better way forward than the cut-and-hope strategy Albany has been engaged in so far - slashing spending indiscriminately and hoping things get better - is not a road to recovery and future success. New Yorkers require more from our state government now, which means examining every means available to fuel our state's recovery.

Recommendations

- Maintain and bolster government services to ensure New York's global competitiveness.
- Employ a balanced approach that addresses objective revenue needs and reimagining state governance.

By: Jonas Shaende

Jonas J.N. Shaende, PhD is the Chief Economist at the Fiscal Policy Institute.

The Fiscal Policy Institute 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. FPI's Immigration Research Initiative looks at immigration issues in New York State, and around the country.