

## **Déjà Vu All Over Again – Budget Balancing in Bad Times Lessons From the Last Two Recessions**

Governor Paterson has sounded the warning bell that the economy is in trouble and the deficit is growing. Just this week he proposed additional cuts (a menu of \$1 billion in cuts) to this year's state budget, on top of the cuts (3.35%) that he made earlier this year and has called the Legislature back to Albany for a Special Session to act on his proposals. He has said we need significant cuts to state expenditures, but he has completely ignored the revenue side of the budget equation. The Governor calls for "shared sacrifice" but seems to be targeting those with the least means rather than those with the most.

Indeed, the cuts made earlier in the year are already having a damaging impact on non-profit organizations that deliver state services to a wide variety of constituent groups across the state. It's time for the Governor to take a lesson from New York's history books as he develops his plan to dig the state out of the current fiscal crises.

In January of 2003, New York State built up a combined deficit of \$11.5 billion for the upcoming 2003-04 fiscal year and the close-out of 2002-03; and Governor Pataki proposed closing that gap primarily through service cuts. In response to the Governor's proposal, Senate Majority Leader Bruno and Assembly Speaker Sheldon Silver led the Legislature in adopting, over the Governor's vetoes, a much more practical approach to balancing the state budget including a temporary three-year income tax increase of less than one percent on taxpayers with taxable incomes above \$500,000, and a smaller increase on families with taxable incomes above \$150,000. This approach to budget balancing helped New York rebound faster than it did from the 1990s recession – when it had relied on a strategy of only massive budget and service cuts. It did not have the negative impact on the state's economy, or on the number of high-income taxpayers in the state, that Governor Pataki predicted in vetoing the Legislature's budget bills. In fact, the number of high-income returns grew steadily from about 245,000 in 2002 to an estimated 420,000 in 2007 and employment in the state increased each year that the temporary surcharge was in place. The wealthiest New Yorkers (over \$200,000) also saw their incomes increase 108% between 2003-2008 (those below \$200,000 only saw an increase of 15% over the same time period).

The lessons to be learned from New York's fiscal policy choices during the last two recessions are clear. The balanced approach to the state's budget that was adopted in 2003 worked much better than the deep service cuts of the early 1990s which prolonged and deepened the effects of that recession on New York State.

Joseph Stiglitz, winner of the 2001 Nobel Prize in Economics, and the chairman of Governor Paterson's new Council of Economic Advisors explains that an increase in the tax on the portions of families' incomes over some relatively high level (i.e., a tax on the portions of incomes that are least likely to be spent) is the least damaging mechanism for balancing state budgets during recessions. In contrast, cuts in government spending on goods and services that are produced locally (like education and healthcare) and cuts in transfer payments to lower-income families are most damaging to the economy since they come closest to taking dollar for dollar out of the local economy.

## Learning from the Past! Solutions to Our Budget Crisis:

The more than 100 members of the Better Choice Budget Campaign (representing nearly 1 million New Yorkers) believe that New York State needs to take a balanced approach to balancing the state's budget problems.

**We support making the wealthiest 1% of New Yorkers pay their fair share.**

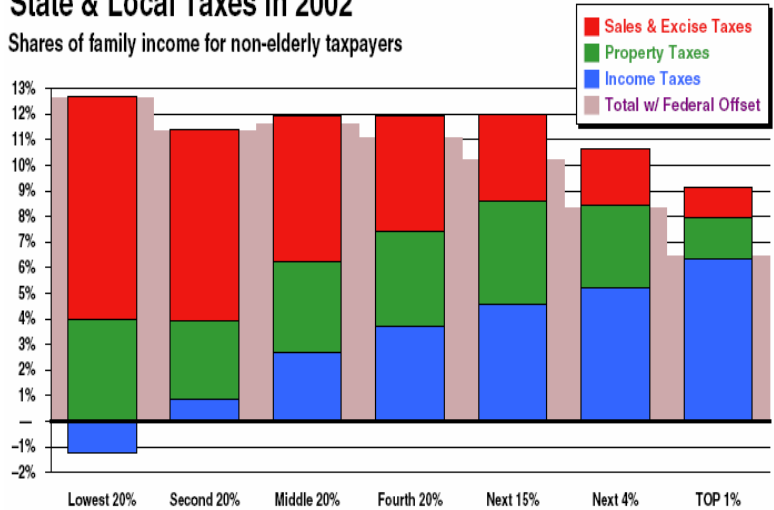
Currently, low and middle-income families in New York pay a much greater share of their income in state and local taxes than the richest New Yorkers. This is because of the pressure that the state has placed on local property and sales taxes over the last 30 years as it has moved New York State's income tax system from one with 14 brackets ranging from 2% to 15% to one with five brackets in a very narrow range from 4% to 6.85%.

The most recent detailed study of the impact of New York's overall state-local tax system on families at different income levels found that the richest one percent of families - those with an average income of \$1.6 million - paid only 6.5% of their income in state and local income, property, and sales taxes; while the overall state-local tax burden for families in the middle-of-the-income distribution (those with incomes between \$27,000 and \$44,000) was 11.6%. The poorest New Yorkers - those with incomes below \$15,000 - carried the highest tax burden, 12.6% of their overall income.

## New York

### State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$15,000	\$15,000 - \$27,000	\$27,000 - \$44,000	\$44,000 - \$74,000	\$74,000 - \$160,000	\$160,000 - \$634,000	\$634,000 or more
<b>Average Income in Group</b>	\$8,700	\$20,700	\$34,900	\$56,800	\$102,000	\$250,000	\$1,663,000
<b>Sales &amp; Excise Taxes</b>	9.5%	7.5%	5.7%	4.5%	3.4%	2.2%	1.2%
General Sales—Individuals	3.9%	3.6%	2.9%	2.5%	1.9%	1.3%	0.7%
Other Sales & Excise—Ind.	2.7%	1.6%	1.1%	0.7%	0.5%	0.3%	0.1%
Sales & Excise on Business	2.9%	2.3%	1.7%	1.3%	0.9%	0.6%	0.4%
<b>Property Taxes</b>	4.4%	3.0%	3.5%	3.7%	4.1%	3.2%	1.6%
Property Taxes on Families	3.9%	2.7%	3.1%	3.2%	3.5%	2.7%	0.7%
Other Property Taxes	0.5%	0.4%	0.4%	0.5%	0.5%	0.6%	0.9%
<b>Income Taxes</b>	-1.2%	0.8%	2.7%	3.7%	4.6%	5.2%	6.3%
Personal Income Tax	-1.3%	0.8%	2.6%	3.7%	4.5%	5.1%	6.0%
Corporate Income Tax	0.0%	0.0%	0.1%	0.0%	0.0%	0.1%	0.3%
<b>TOTAL TAXES</b>	12.7%	11.4%	11.9%	11.9%	12.0%	10.6%	9.1%
Federal Deduction Offset	-0.0%	-0.1%	-0.3%	-0.8%	-1.8%	-2.3%	-2.7%
<b>TOTAL AFTER OFFSET</b>	12.6%	11.3%	11.6%	11.1%	10.2%	8.4%	6.5%

Note: Table shows 2002 tax law at 2000 income levels.

INSTITUTE ON TAXATION & ECONOMIC POLICY, JANUARY 2003

**Let's take a balanced approach to balancing this state budget. Let's not place the burden on those that can least afford it. Let's ask the wealthiest New Yorkers to step up to the plate and help out the state in this fiscal crisis. 78% of New Yorker's support making the wealthiest pay their fair share. Its time that the Governor listened to them!**

**For more information please contact Ron Deutsch, New Yorkers for Fiscal Fairness (518)452-2130**