Alliance for Quality Education

Fiscal Policy Institute

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NEW ANALYSIS SHOWS THAT GOVERNOR'S SCHOOL AID CUTS ARE "JOB KILLERS" IN THE SHORT RUN AND EVEN WORSE FOR THE STATE'S ECONOMY OVER TIME

Positive Effect of Restoring School Aid Cuts Swamps Negative Impact of Income Tax Increase

April 24, 2003, New York City and Albany— A first-ever analysis of the economic impact of Governor Pataki's proposed school aid cuts shows that those cuts are "job killers." Restoring those cuts, even after taking into consideration the offsetting impact of an income tax increase to fund them, would be much better for the state's economy in both the short-run and the long-run, according to an economic impact analysis prepared for the Fiscal Policy Institute (FPI) by the Institute on Taxation and Economic Policy.

The new report, released today by FPI and the Alliance for Quality Education (AQE) shows that a fiscally responsible “balanced budget” alternative that increases state aid to education by $1.84 billion over the level proposed by the Governor and funds that increase in state aid with a concomitant and offsetting $1.84 billion increase in the state individual income tax would have a net positive effect on the state's economy of over 56,000 jobs. $1.84 billion is the amount of the Governor's proposed school aid cut for the 2003-2004 school year relative to the budget baseline presented in Pataki's January 2003 Executive Budget.

According to Frank Mauro, Executive Director of the Fiscal Policy Institute, "Governor Pataki’s framing of the choices facing New York in the current budget is one-sided. By thinking only about the economic impact of tax changes while ignoring the economic impact of what is purchased with the revenues generated by those taxes, the Governor is recommending policies that are bad for the state’s economy. It is clear, as the Governor himself has acknowledged, that his proposed school aid cuts are not desirable or warranted on educational policy grounds. But as this analysis indicates, those school aid cuts also fail on the criteria that the Governor has selected: their impact on jobs and the economy."

Regina Eaton, Executive Director of the Alliance for Quality Education said that: "What this analysis shows is that we should avoid job-killing education cuts this legislative session. I applaud the Legislature for trying to save jobs by their agreement to restore most of the Governor's education cuts next week, and encourage them to go even further by providing sufficient funds to enable schools to maintain current educational programs. I'm hopeful the Governor will learn from this analysis that its spending on education, not tax cuts that creates jobs in our communities."

The positive economic impact of this alternative to Pataki's proposal is even greater when the model takes into consideration, the positive "amenity" effects provided by strong and attractive school systems. According to the ITEP model, this "amenity" or "competitiveness" aspect of education spending is predicated on the fact that people prefer to live in areas with comparatively better schools. Increased educational spending makes the effected community a more desirable place to live and work, and as a consequence, more people and businesses want to move into the area. When taking these "amenity" effects into consideration, the net positive effect of fully funding school aid and paying for it with an income tax hike increases from 56,000 to 58,000 in the short run and to over 72,000 over the long term.

The ITEP analysis takes into consideration the direct and indirect effects of school spending on the state's economy and the detailed effects of taxes used to finance school spending, including the effects of the federal deductibility of state income taxes and the fact that a substantial portion of New York State income tax revenues are paid by residents of other states.

Table A: New York Education Spending and Tax Options

Scenario 1: Eliminate the proposed $1.84 billion reduction in state aid to education* without increasing taxes or cutting other programs.

Economic Impact by School Year Compared to Governor's Proposal

School Year	2004	2005	2006	2007
Employment (in Thousands)	78.87	78.39	78.8	79.8
Gross State Product (in Billions)	$ 2.53	$ 2.64	$ 2.76	$ 2.86
Real Disposable Personal Income (in Billions)	$ 1.81	$ 2.00	$ 2.19	$ 2.37

Scenario 2: Eliminate the proposed $1.84 billion reduction in state aid to education* funded by a $1.84 billion increase in individual income taxes**

Economic Impact by School Year Compared to Governor's Proposal

School Year	2004	2005	2006	2007
Employment (in Thousands)	58.0	58.8	59.7	61.1
Gross State Product (in Billions)	$ 1.53	$ 1.67	$ 1.77	$ 1.87
Real Disposable Personal Income (in Billions)	$ 0.16	$ 0.35	$ 0.50	$ 0.65

Notes

* For the 2003-2004 school year, the Executive Budget is proposing a reduction in state aid to elementary and secondary education of $1.84 billion relative to the Budget Division's baseline. This includes a proposed year-to-year reduction of $1.24 billion.

** The $1.84 billion would be raised by a set of progressive income tax surcharges on the portions of income over $100,000. The average effective federal income tax offset for the affected taxpayers would be an estimated 25.5%

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