

New York City: Economic and Budget Challenges

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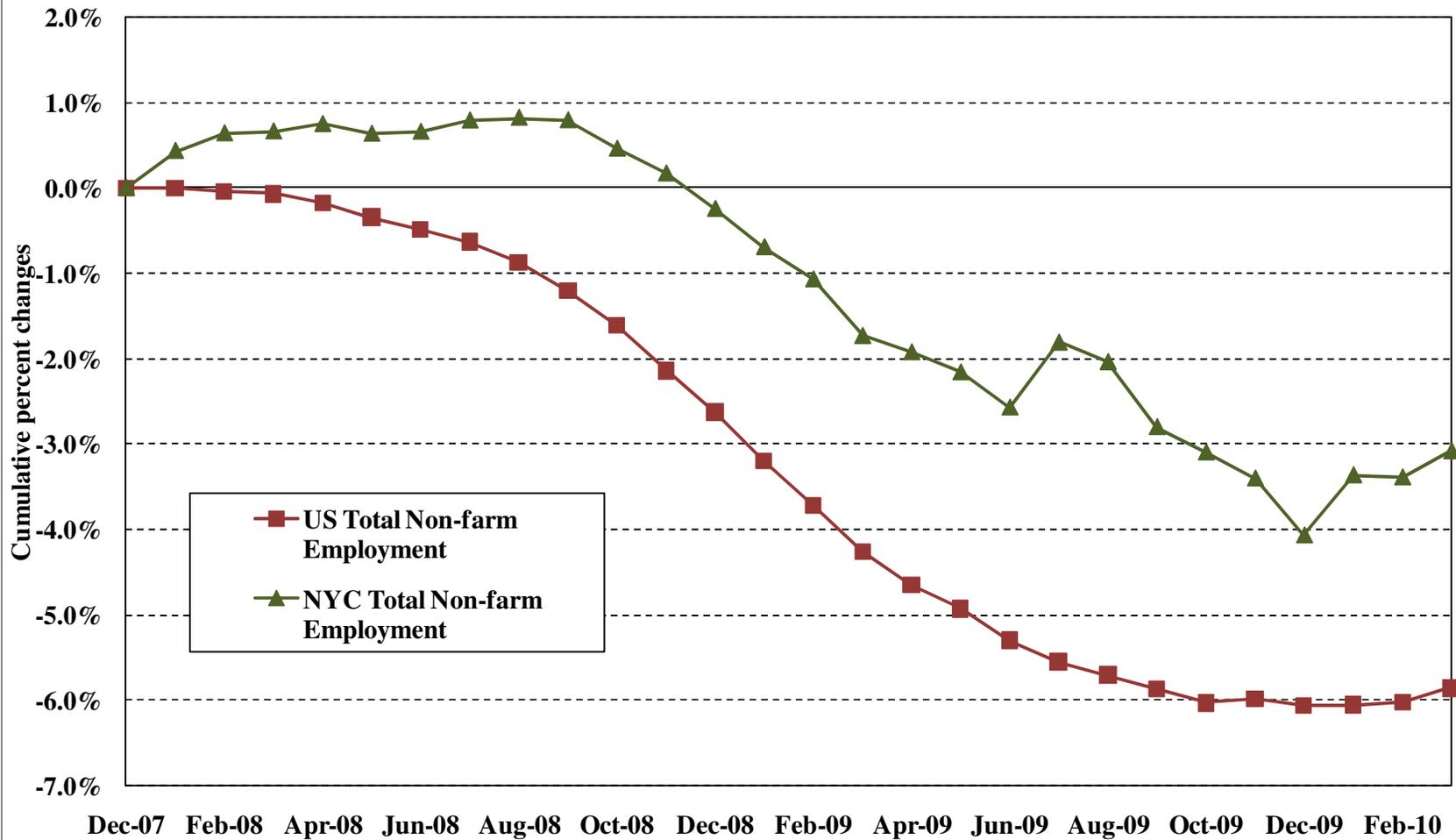
Overview

- Wall Street may have recovered but for the average New York worker, this is still the Great Recession.
- Like most states, NYS has severe budget problems and not enough Federal aid.
- State & local government budget cuts will harm the local economy and slow the national recovery.
- The Mayor's NYC budget proposal punishes workers and the poor while not asking the well-off or Wall Street to share the burden.

Economic Overview

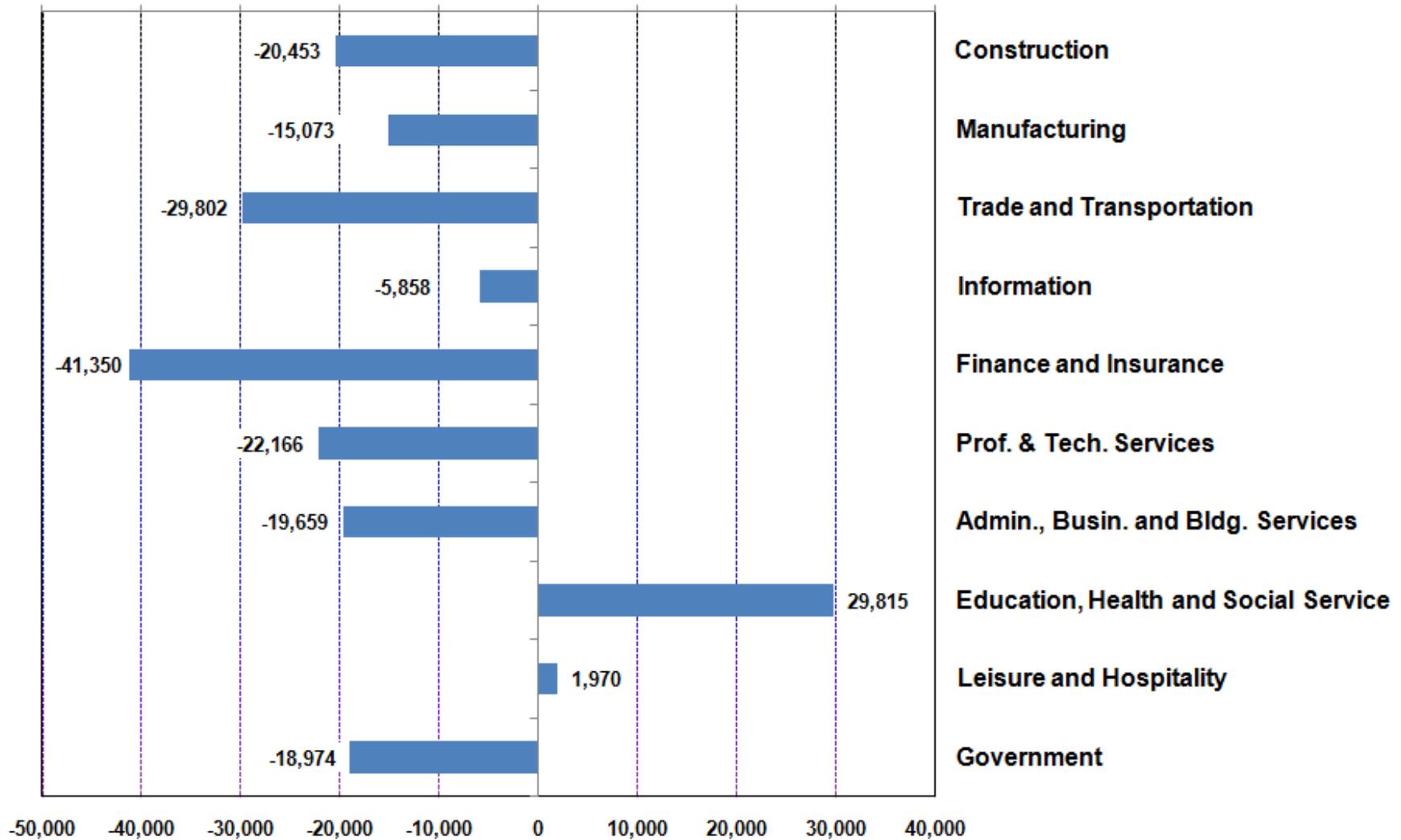
- Bulk of NYC job loss suffered by moderate- and middle-income workers (blue collar, lower-wage white collar and service workers, and public sector.)
- Total wages outside of the finance sector dropped by 5% in 2009—the most since 1970s. Average wages fell in most sectors.
- Unemployment has doubled, most is long-term (6 months+), and unemployment is likely to stay high for an extended period. This will further restrain wage growth.
- NYC poverty rate 22% in 2008. Huge increase in working poor since 1990; 20% of families with a full-time, year-round worker live in poverty.

Since the start of the recession in December 2007, New York City's job loss has been much less than that of the United States as a whole.



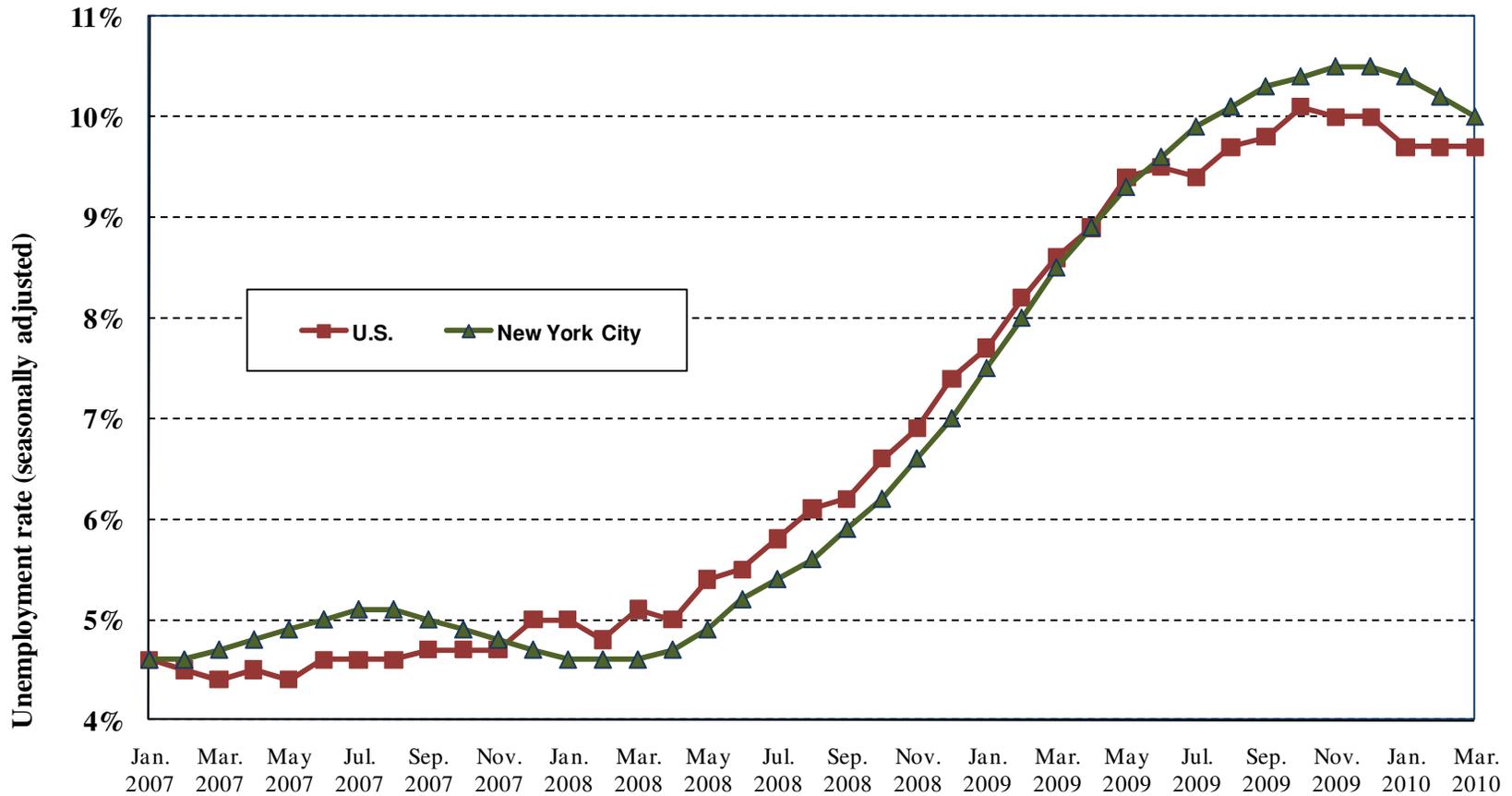
Source: FPI analysis of NYS Department of Labor and Bureau of Labor Statistics payroll employment data.

Most of NYC Job Loss in Moderate- and Middle-Wage Sectors, July 2008 - March 2010



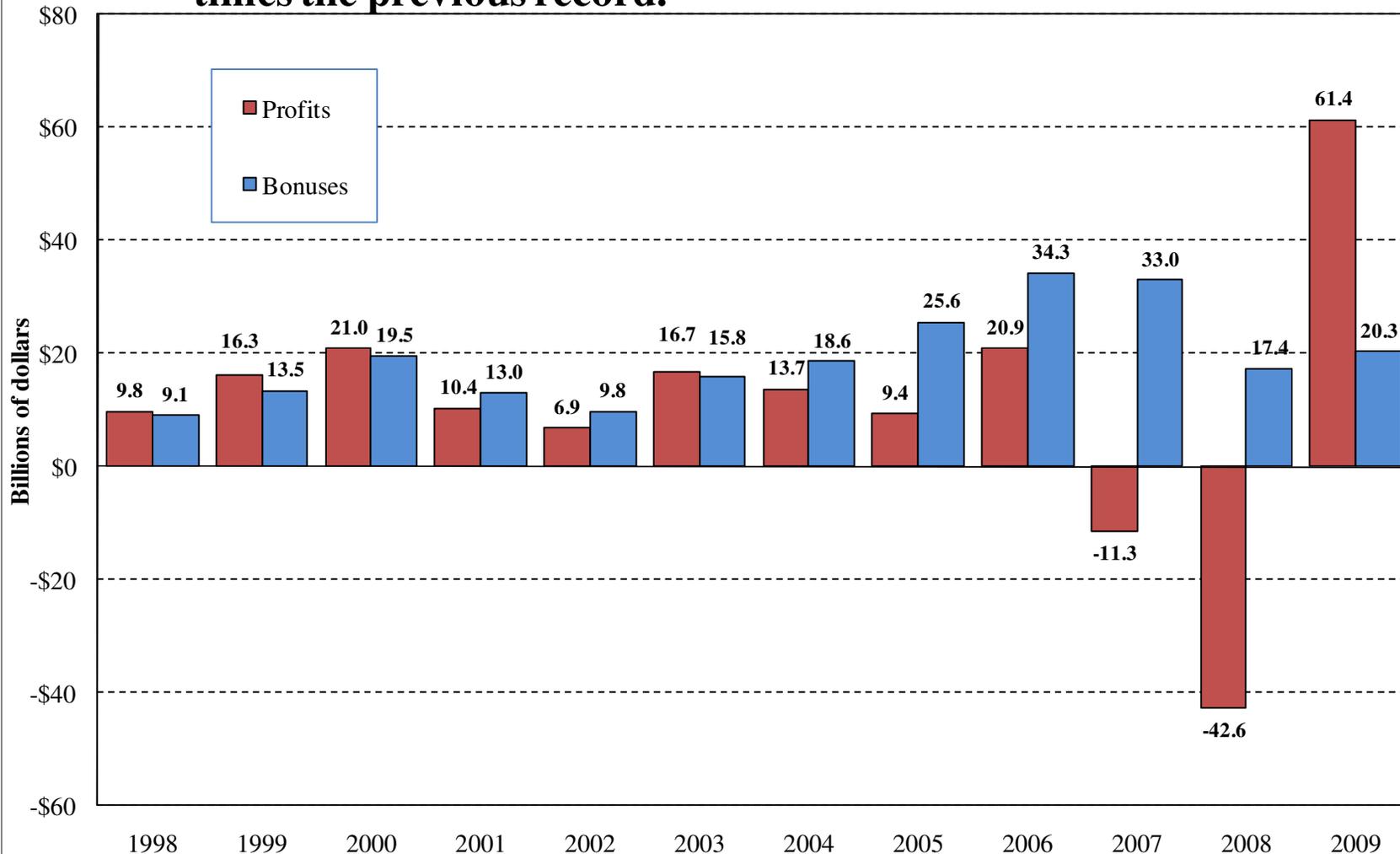
Source: FPI analysis of Current Employment Survey

New York City's unemployment rate has risen sharply, and in recent months has been even with or higher than the U.S. unemployment rate.



Source: NYS Department of Labor and Bureau of Labor Statistics.

Wall Street Profits surged to over \$61 billion in 2009, three times the previous record.



Source: NYSE member firms' net profits from Securities Industry and Financial Markets Association, Office of Management and Budget; NYC Securities industry bonuses from Office of the State Comptroller, Feb. 23, 2010 (2008-09 figures are estimates).

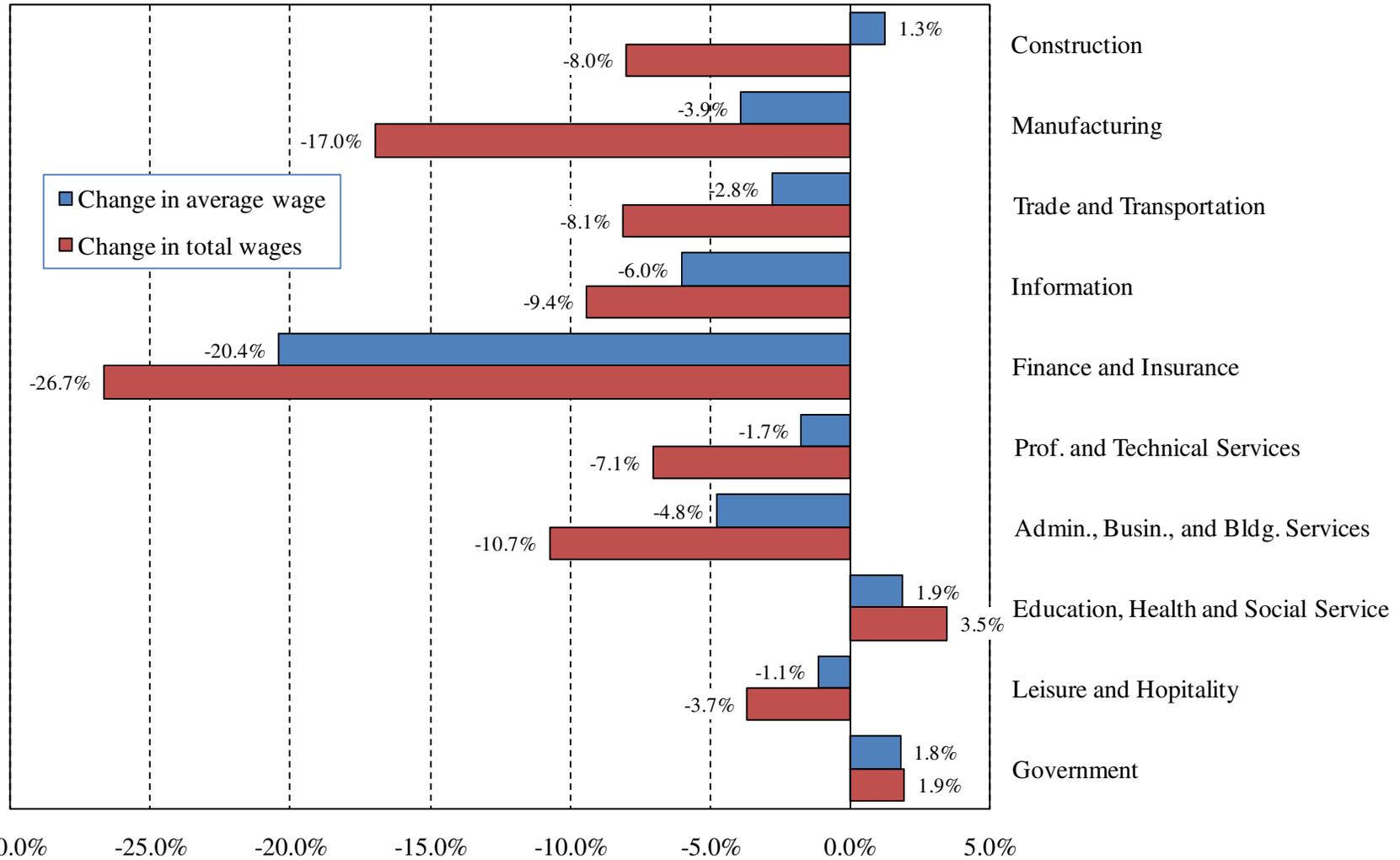
New York City workers suffer worse wage decline in this recession.

Percent change from prior year

	<u>Worst year of each recession</u>		
	<u>1991</u>	<u>2002</u>	<u>2009</u>
Decline in NYC payroll jobs	-6.0%	-2.9%	-2.8%
Personal income change	1.8%	-1.0%	-3.0%
Total wage decline	-1.4%	-5.3%	-10.5%
Total Non-finance wage decline	-2.3%	-1.3%	-4.9%

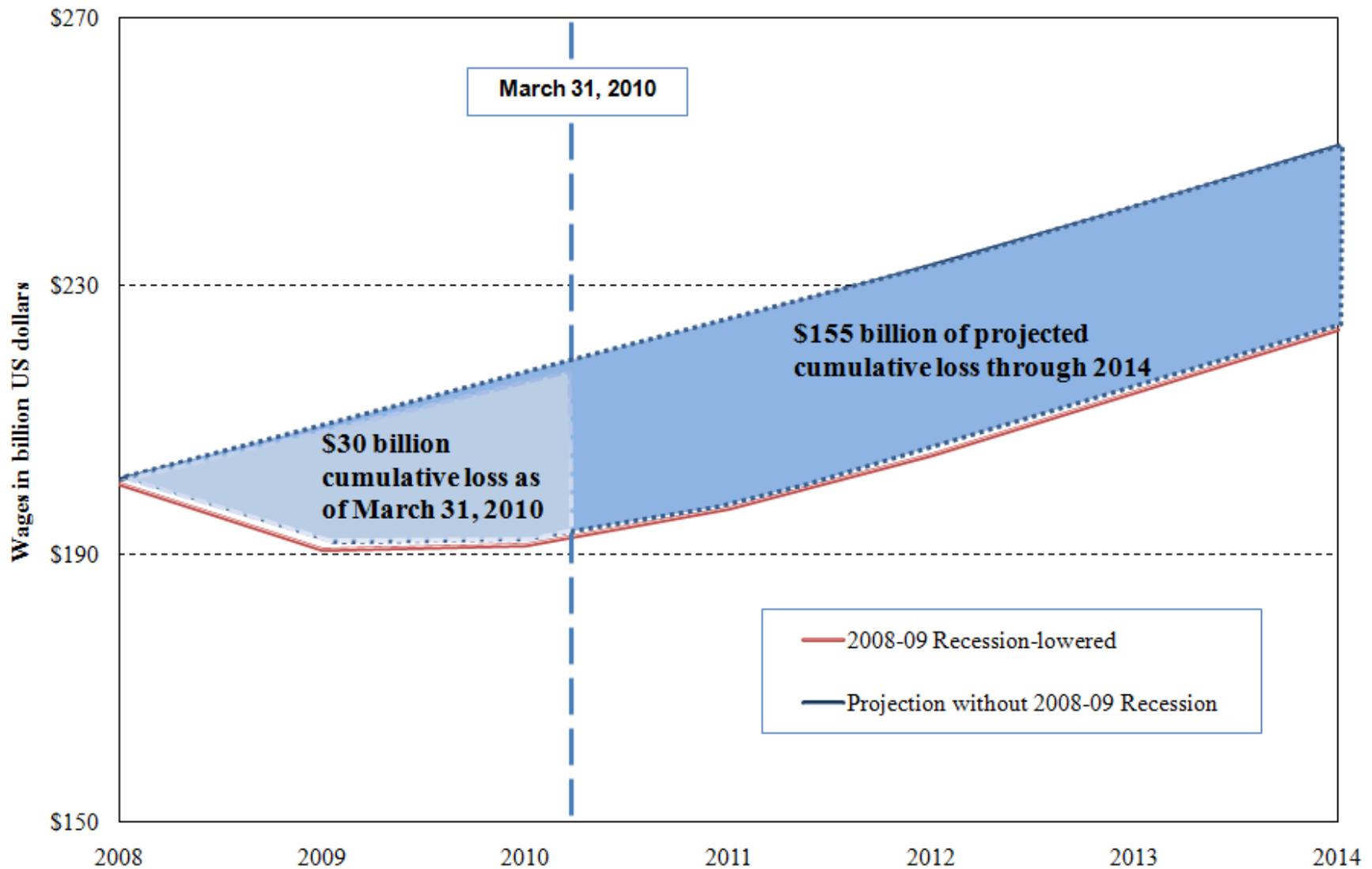
Sources: U.S. Bureau of Economic Analysis; New York State Department of Labor; 2009 forecasts by FPI.

Changes in Total and Average Wages in Selected Industries in New York City, 2008-2009



Source: FPI analysis of QCEW and CES, 2008-2009

Recession Causes Huge Loss in Non-Finance Wages, NYC, 2008-2014



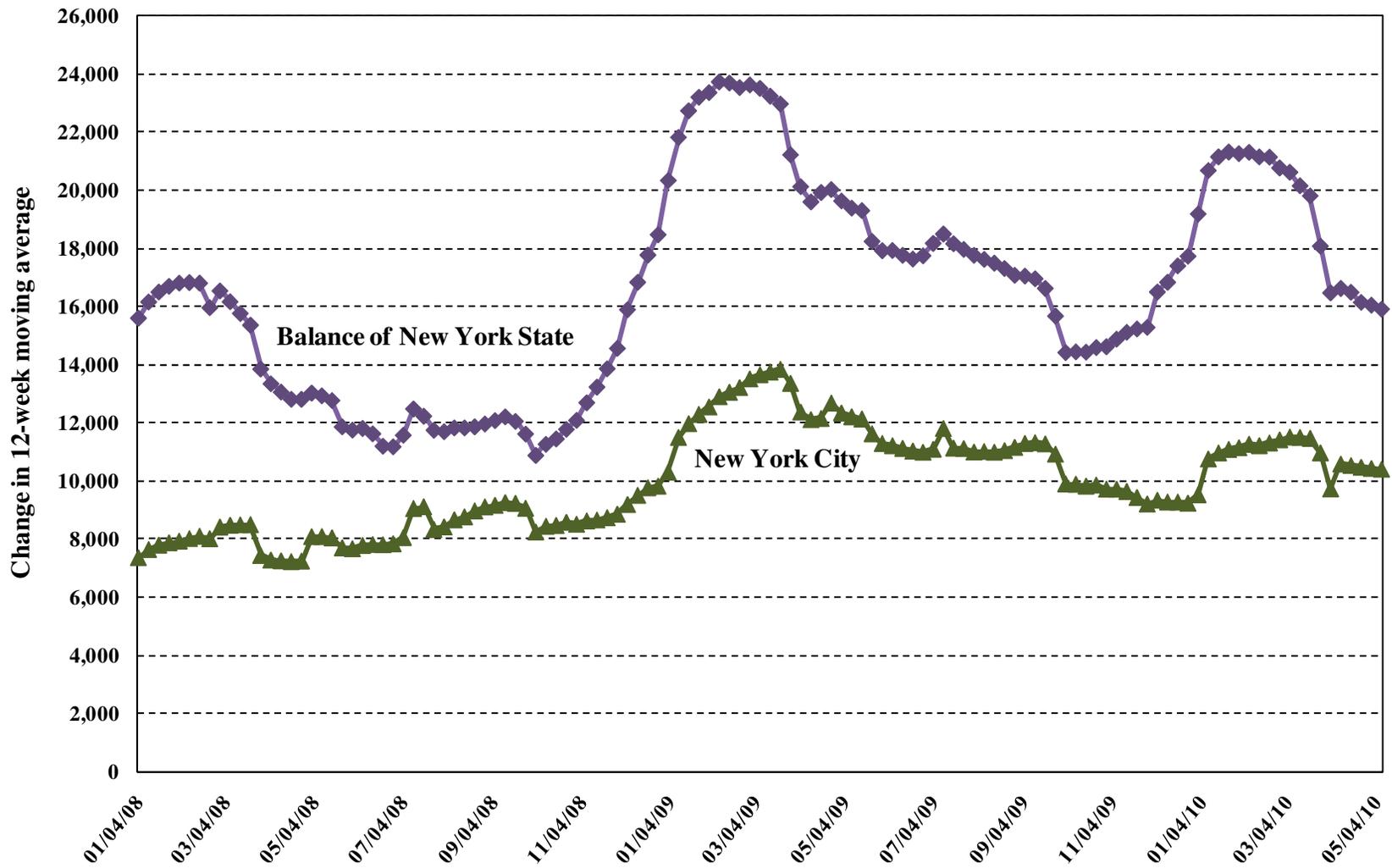
Source: FPI analysis of BLS and NYS DOL QCEW data

NYC unemployment increase is much greater in this recession.

<i>Change from peak to trough months</i>	1989-1992 recession	2001-2003 recession	2008-2009 recession
Total recession loss in payroll jobs located in NYC	-360,000	-235,000	-175,000
Increase in number of NYC residents unemployed	174,900	120,400	238,700
Percent increase in number of unemployed residents	84%	61%	133%
Percentage point increase in city resident unemployment rate	5.2%	3.1%	5.9%
Decline in city resident household employment	-158,100	-40,400	-160,600

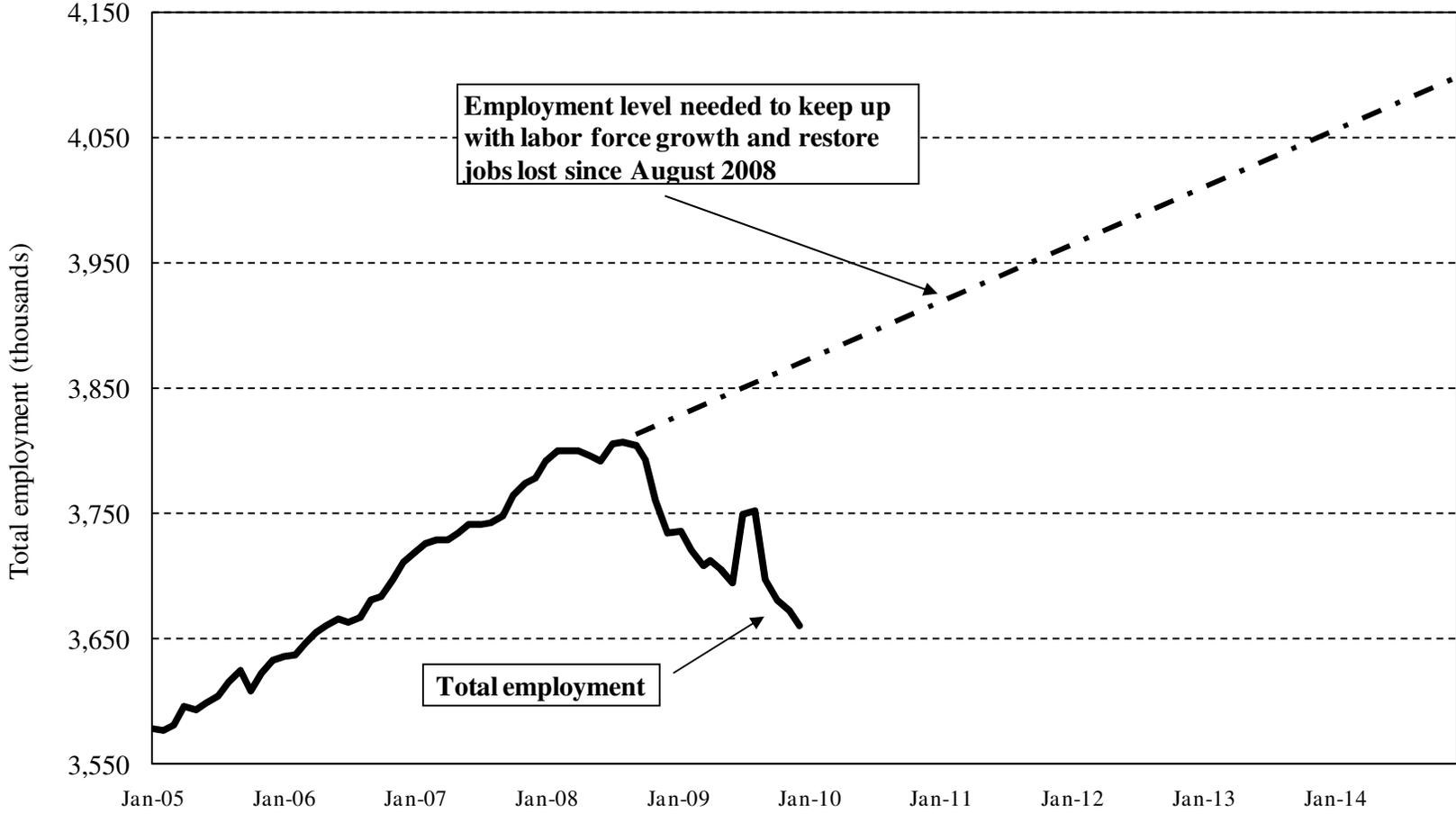
Source: New York State Department of Labor.

Initial unemployment claims in NYC and the rest of the state are down from a year ago, but still greater than before the recession.



Source: New York State Department of Labor.

New York City will need to add more than 400,000 jobs over the next five years to restore jobs lost in the recession and to keep up with labor force growth.



Source: FPI analysis of Current Employment Statistics and Local and Area Unemployment Statistics.

New York City's economic outlook

- The pace of national economic growth is the main determinant of NYC's outlook. Severe problems related to housing and consumer debt burdens likely will operate to keep the pace of recovery slower than that following most recessions.
- For both NYC and the U.S., most projections foresee a weak and gradual recovery for the job market, with the unemployment rate not reaching pre-recession levels for several years.
- NYC needs 400,000 jobs (80,000 a year for 5 years) just to bring the current 10% unemployment rate down to 5.5 to 6.0%.
- Unless there are policy changes, NYC workers will remain under severe wage pressure and will face rising cost of living.

NYS and NYC budget overview

- Federal fiscal relief for state & local governments is running out before revenues have recovered.
- Without more federal aid, or new revenues, NYS budget cuts will harm workers and the recovery, and will exacerbate NYC's budget picture.
- Mayor's proposed budget further curtails services and targets city workforce.
- Despite record income gains by the wealthiest 5%, the Mayor has hiked regressive taxes and fees.
- NYC revenues aren't benefitting greatly from Wall Street's record profits because of loss carryforwards, the high percent of Wall Street commuters, and failure to adequately tax hedge fund profits.

Why NYS budget problems are worse than NYC's

- NYS is more reliant on personal income taxes, while NYC's property tax—its largest tax—has been a stabilizing force.
- NYS was more reckless in cutting taxes in the late 1990s, while NYC made its property tax cuts temporary.
- NYS took on major new spending commitments in the mid-2000s without identifying recurring revenues to fund those commitments.
 - Implement statewide solution in CFE case
 - State takeover of some local Medicaid costs, and expansion of Family Health Plus
 - Expansion of STAR

NYS budget impasse

- Governor's proposal relies heavily on cuts in education aid, health care, human services, higher ed, and revenue sharing to NYC.
- Election year and national backlash against government makes legislature particularly wary of increasing taxes.
- Governor's aversion to short-term cash borrowing displaces the budget problem onto others—school districts, construction workers, and the state workforce.
- Ravitch 5-year proposal for “structural balance” provides potential for borrowing to help close budget gap. [Ravitch plan acknowledges that undue reliance on budget cuts comes at a high price.]

Why Wall Street should help Main Street New York

- Wall Street's record 2009 profits solely result of taxpayer bailout and nat'l economic policy intended to re-start economic growth.
- The Great Recession made on Wall Street has cost New Yorkers 375,000 jobs; 100,000 foreclosed homes; and \$58B in lost wages.
- Four options to temporarily tax Wall Street:
 - Bonus tax paid by firms
 - Windfall profits tax
 - Disallow use of prior year losses to offset tax liability
 - Reduction in rebate on stock transfer tax.
- Another possibility: raise top tax rate on millionaires.
- Bonus tax modeled on London tax. Projected that London's finance sector will add 18,000 jobs this year.
- No evidence that income tax increase drives the wealthy away from NY.

Managing NYC's budget gaps

- NYC has exhausted benefit of 2005-2008 budget surpluses rolled forward.
- Economically-sensitive taxes decline by 18% (\$4.6B) between FY 2008 and FY 2010. [Property taxes increase.]
- While \$3.3B “surplus” is forecast for the current FY through June that will be rolled into FY 2011, the Mayor is proposing \$1.8 B in cuts for next year. Those proposals are on top of several rounds of cuts since early 2008.
- Proposed NYS budget cuts reduce aid to NYC by \$1.3B.

Mayor proposes sweeping budget cuts

- School funding cut of \$493M, plus \$1.3B in other agency reductions.
- Cuts range from 0.9% in Police to 4% in schools to 10-13% in human services, transportation, parks, libraries, arts, and most city agencies. For all agencies combined: -5.4%.
- Cuts 6,400 teachers, closes 4 swimming pools, 20 fire companies, 15 child care centers, and 50 senior centers.
- Eliminates 5th firefighter on 60 engine companies, reduces library hours and staffing, cuts school nurses, eliminates over 700 Parks Job Training Participant positions, and increases child protective service caseloads.

Mayor targets city workforce

- Proposes to cut 11,000 city workers, including 6,400 teachers, 740 library workers, 500 corrections, and 400 each in fire, social services and parks.
- In addition, Health and Hospitals will lose 1,000 jobs in the coming year on top of 1,300 lost this year, and could lose another 1,400 in 2012-2014. That would be a 10% reduction from 2009 workforce of nearly 39,000.
- MTA, which relies in part on subsidies from NYS and NYC, is aiming to cut 1,500 transit jobs.
- Mayor wants to reduce the 4% pay increase due Teachers to 2%, and has totally eliminated any labor reserve out of which to fund increases for the next round of collective bargaining.
- Mayor also wants \$600M annually in savings from a tier 5 pension and health insurance contributions.

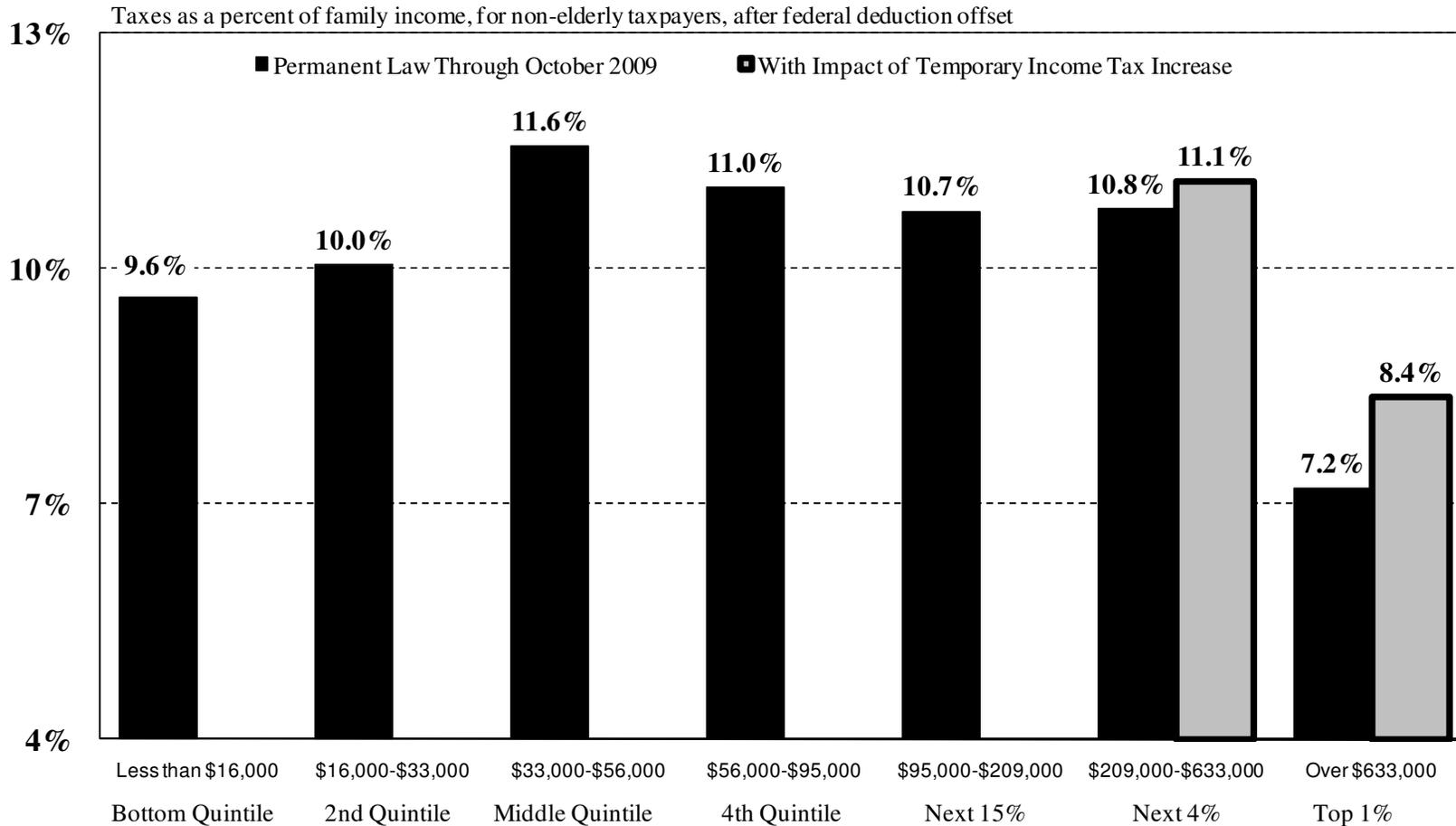
Options for a more balanced approach to gap closing

- Savings from contracting-in a range of professional, clerical and maintenance services now contracted out. The City now contracts out \$650M worth of these services annually.
- Improve the quality and timeliness of real property tax assessments would likely generate additional revenues.
- Consider various revenue options:
 - Restructure city's personal income tax
 - Eliminate hedge fund loophole on unincorporated business tax
 - Extend corporate income tax to insurance corporations
- Amend Martin Act to permit civil law suits and private right of action to enable public pension funds to recover losses from bad investment advice.

NYC overdue for progressive income tax increase

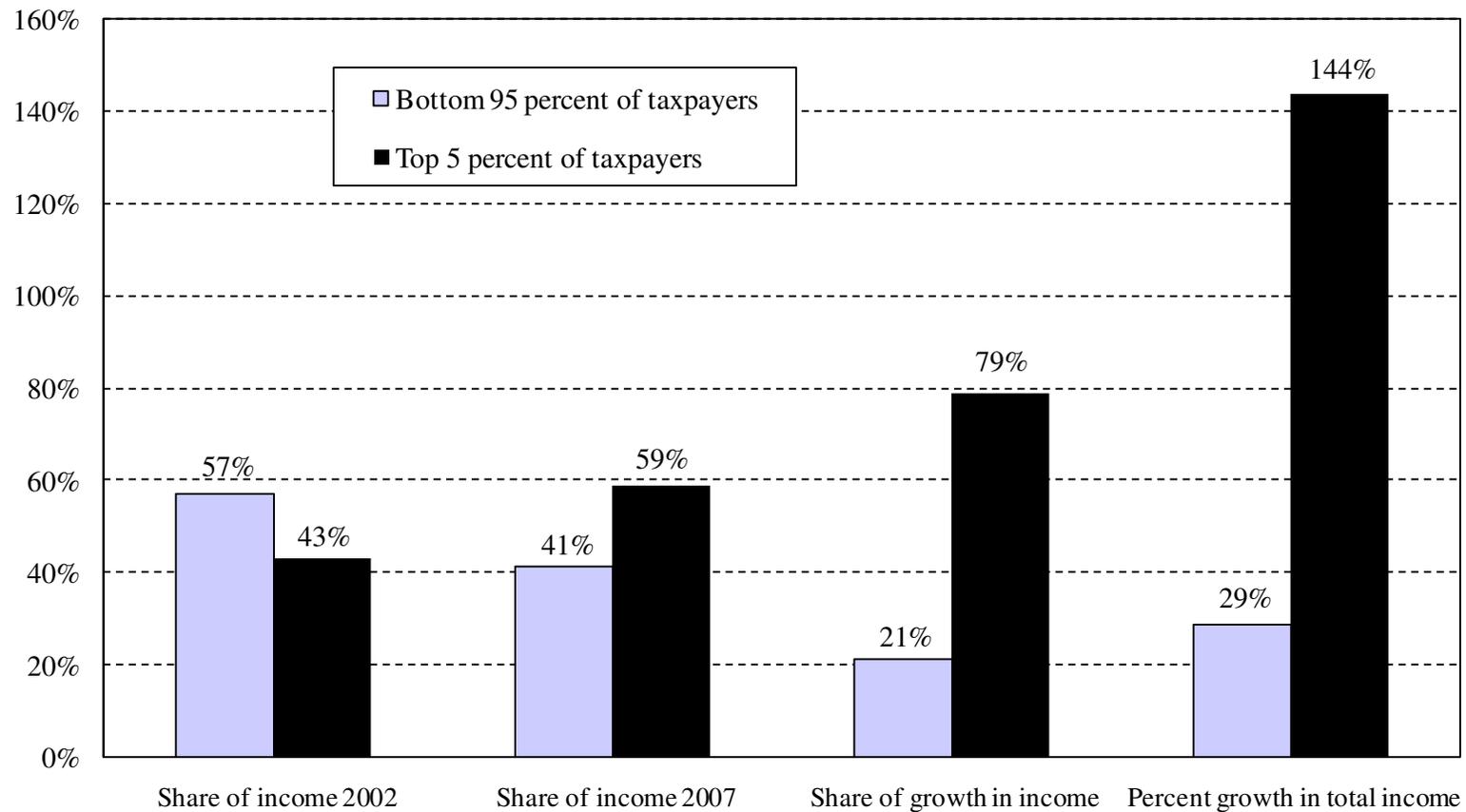
- State and local tax burden regressive in New York; lower- and middle-income families pay higher share of income in taxes than the top 1%. Mildly progressive personal income tax offset by highly regressive sales tax and regressive property tax.
- NYC tax changes under Bloomberg mainly in regressive property and sales taxes, and 100% increase in water fees.
- Top NYC income tax rate now lower than in all but 2 years out of the last 35 years.
- To avert damaging budget cuts and better fund ongoing needs, the City could raise \$1B through PIT reform.
 - Increase rates at the top (above \$250K or \$300K)
 - Reduce tax liability for families under \$40,000.

Overall, the wealthiest 1% of households pay a much smaller share of their income in state and local taxes than do all other New Yorkers, even with the temporary income tax increase.



Source: Institute on Taxation and Economic Policy, 2009. Note: 2007 tax law updated to reflect changes in law enacted through October 2009.

Nearly 80 percent of income growth in New York City between 2002 and 2007 has gone to the wealthiest five percent of taxpayers.



Source: New York City Independent Budget Office.

Policy priorities for New York City

- Balance NYS budget with help from Wall Street or high earners.
- NYC should raise taxes in a progressive manner to balance its budget without exacerbating NYC's high unemployment.
- NYC's leaders should advocate for add'l federal fiscal relief (increase FMAP, education aid, TANF emergency fund) for states and localities so budget cuts don't further retard recovery.
- Also need robust federal job creation program that includes targeted wage subsidies, public service jobs, and infrastructure investments to boost short- and long-term economic growth.
- Another round of federal stimulus should include operating aid for mass transit—not part of ARRA.