

December 13, 2008

Dear Governor Paterson:

New York State faces enormous challenges in closing a projected \$12.5 billion gap in the 2009-2010 state budget. Wall Street is the epicenter of the global financial crisis and there likely will be no quick rebound from what could prove to be a severe recession.

We applaud the leadership you have shown in tackling the state's budget crisis head on. We agree with you that the federal government has an obligation to New York and all the states in providing substantial fiscal relief to help state governments maintain essential public services during this crisis.

We are concerned, however, that steep state budget cuts will exacerbate the economic downturn and harm vulnerable low- and moderate-income New Yorkers. Constrained by a balanced budget imperative, states face only difficult choices in balancing their budgets during recessions. Economic theory and historical experience gives a clear and unambiguous answer: it is economically preferable to raise taxes on those with high incomes than to cut state expenditures.

The reasoning is straightforward: in a recession, you want to raise (or not decrease) the level of total spending—by households, businesses and government—in the economy. That keeps people employed and buying things, and makes it more likely that businesses will want to invest to serve that consumer demand. Budget cuts reduce the level of total spending. Raising taxes on high income households also will reduce spending, but by much less than the amount of the tax increase since those with plenty of income typically spend only a fraction of their income.

By contrast, almost every dollar of state and local government spending on transfer payments to the needy and for the salaries of public servants providing vital services to our communities enters the local economy right away, generating a greater economic impact. The New York local spending impact difference is even greater when you consider that much of the higher state income tax will be deductible against federal income taxes, and that non-residents who commute to high-paying jobs in New York will pay much of the increase.

Raising taxes and maintaining public expenditures and investments also helps New York and America in meeting its long run needs. America today faces two major problems—inadequate investments, especially in infrastructure, and growing inequality. The poor are particularly dependent on government expenditures, and cutbacks would hurt them the most.

Our nation is at an historic juncture. In both Washington and Albany, we need to move away from polarization and toward economic and fiscal policies that restore a better balance between the private and public sectors.

Signed,

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\* Signed after the letter was sent to the Governor on December 13, 2008.