New York: Revenue Issues

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Context: The US economy

- GDP rose 1.2% in 2008; fell by annualized 3.8% in Q4.

- *The Economist* poll (Feb.): -2.0% in 2009.

- Index of Consumer Confidence (Conference Board) is at lowest level since started in 1967: 37.7 in January 2009.

- Shaping to be the worse recession since 1957, perhaps since the 1930s (measured by GDP decline, employment decline, consumption decline, investment shrinkage)

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US unemployment rate
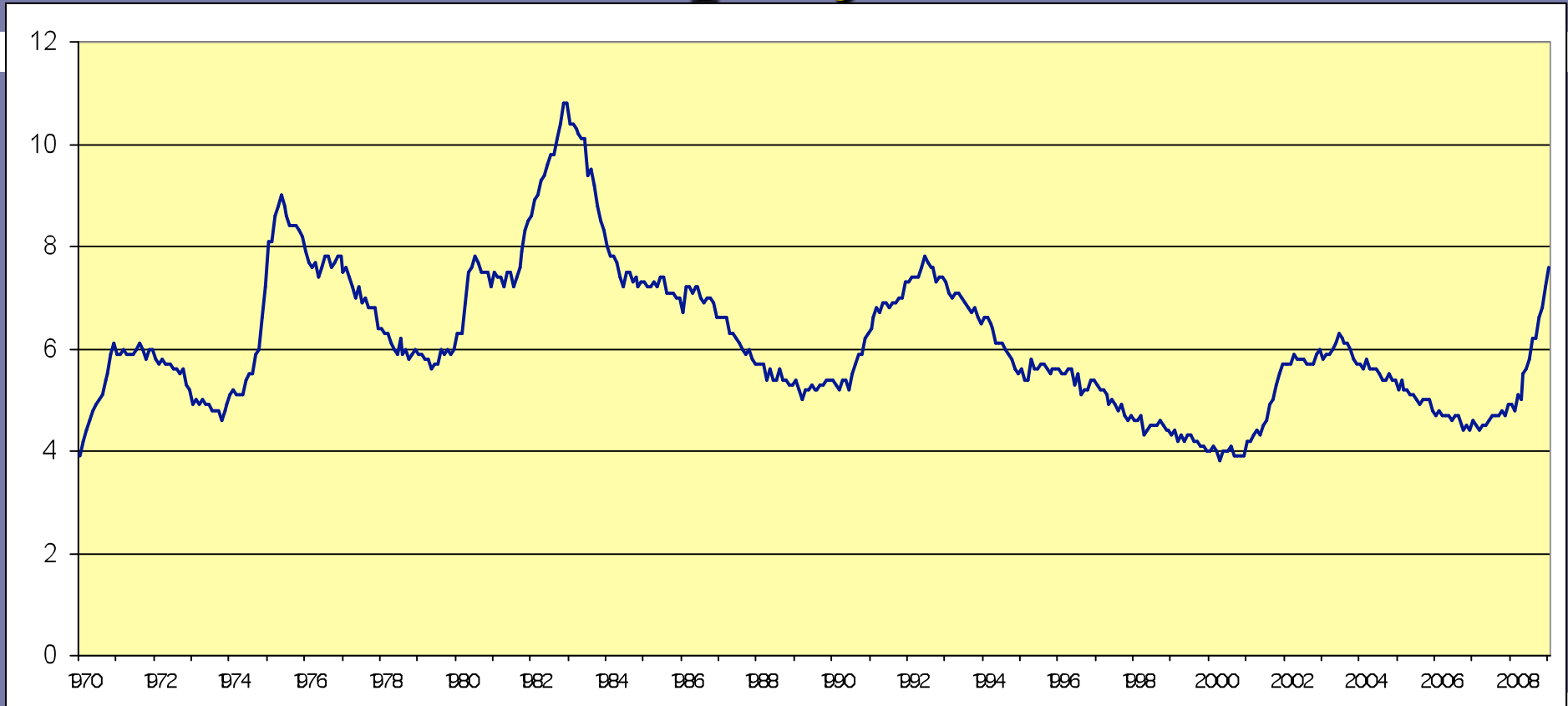
The NY state economy

- Recession hit late, but hard
  - Oct-Dec 2008: 65,000 payroll jobs lost in NYC
  - Unemployment: from 6.0% in Nov to 7.0% in Dec.
  - Bloomberg: NYC could lose 300,000 jobs by mid-2010, including 46,000 in financial sector

- Housing bubble collapse will still hurt some: Case-Shiller index to fall 21% over 4 years; nationally fell 17% in 20-cities in 2008.

- Need to build a post-Wall St. economy
  - Securities industry: 3% of private wages in 1980, 14% in 2000, 18% in 2007 (vs. 2% in rest of the US). Back to 5%?
    - 2007: 3% of employment, 9% of GSP, 20% of state tax revenue

Initial unemployment claims
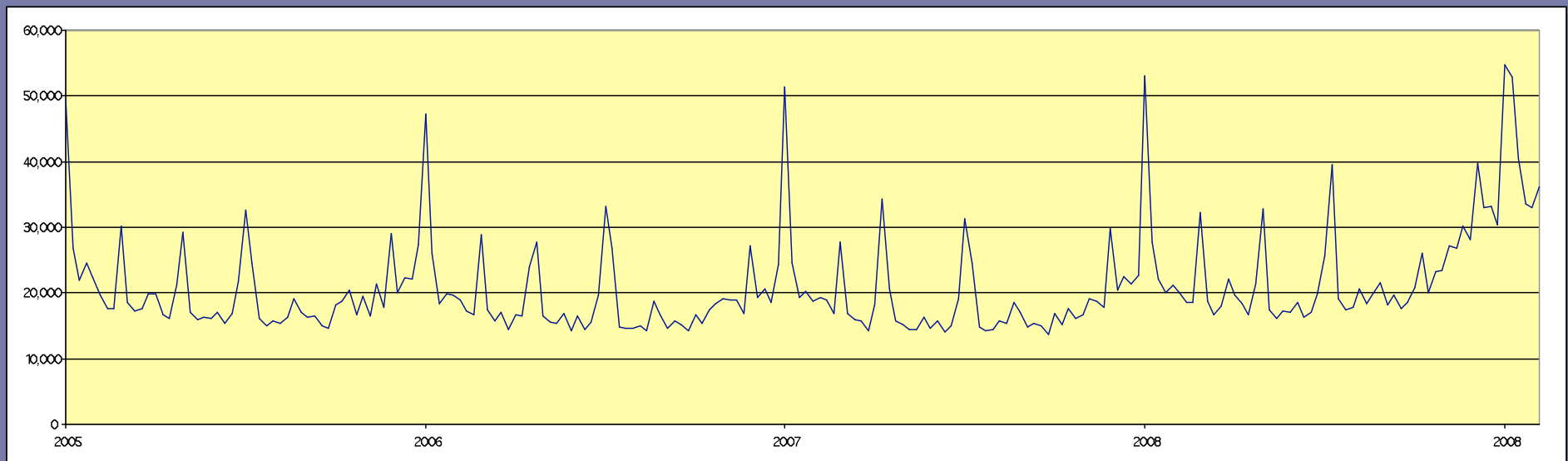
Insured unemployment rate
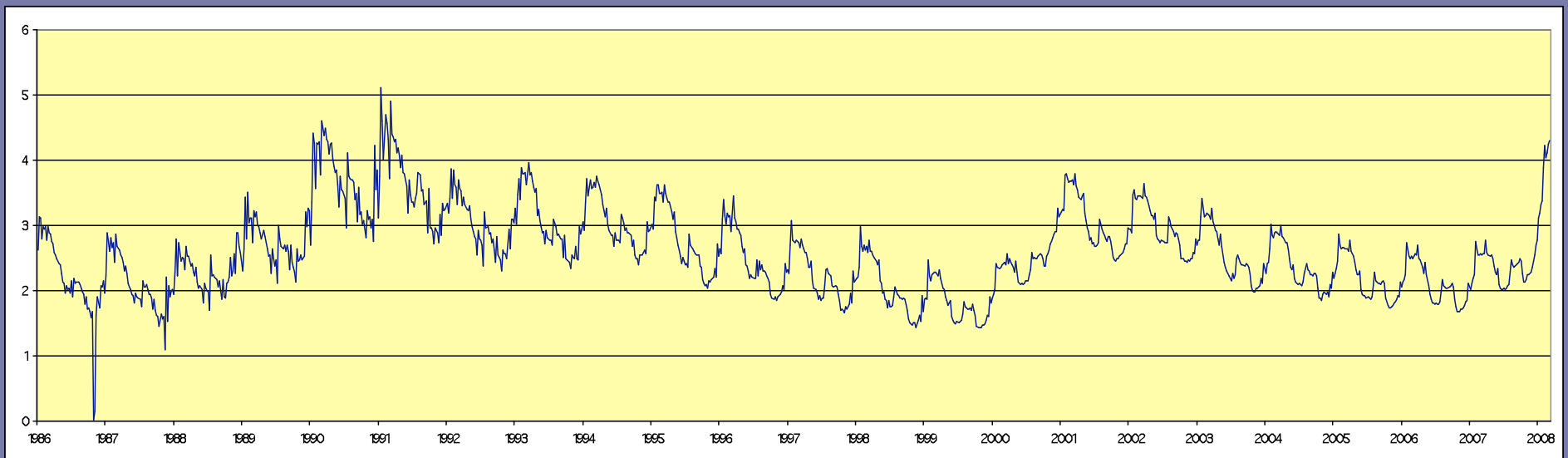
Issue 1: Taxes for competitiveness

- **BHI publishes annual *State Competitiveness Report.***
- **A state is competitive if it has in place the policies and conditions that ensure and sustain a high level of per capita income and its continued growth.**
  - **Naturally leads to the question of what these policies and conditions are**

- **Michael Porter:**
  - **Competitiveness measures "the microfoundations of prosperity" and "wealth is actually created at the microeconomic level."**

- **43 indicators, scaled 0-10 (mean 5, SD 1), grouped into eight equally-weighted "subindexes"**
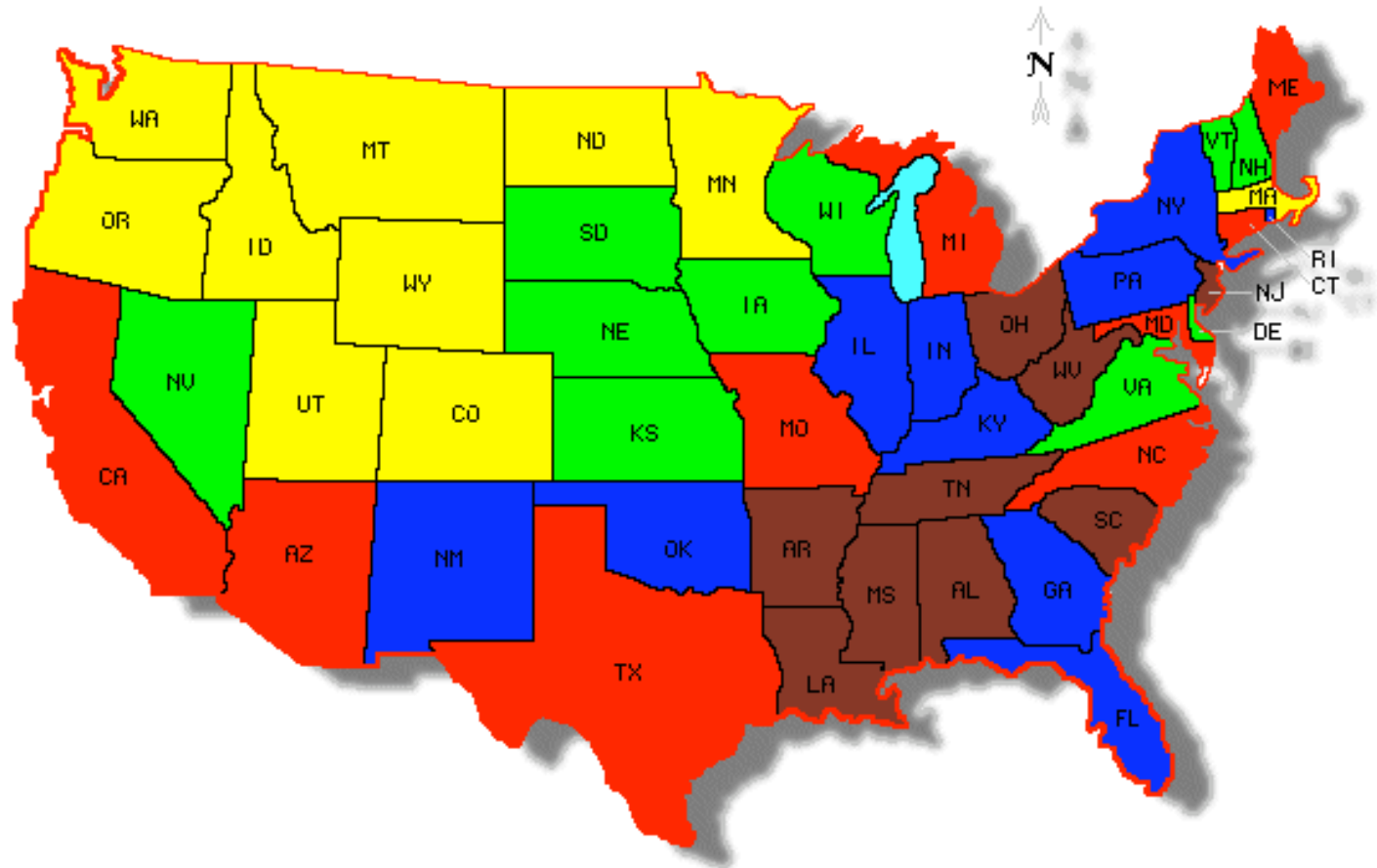
NY competitiveness

	NY index	NY rank
Government and fiscal policy	4.28	46
Security	5.40	17
Infrastructure	3.97	50
Human resources	5.30	19
Technology	5.42	13
Business incubation	4.84	33
Openness	5.74	5
Environmental policy	5.04	27
Overall	**4.38**	**35**

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Higher Index, Higher Income

Real personal income per capita
= 31.2 + 1.546 × Competitiveness Index 2008
t=9.9   t=2.5

Index rises one point, real PCI rises $1,546.
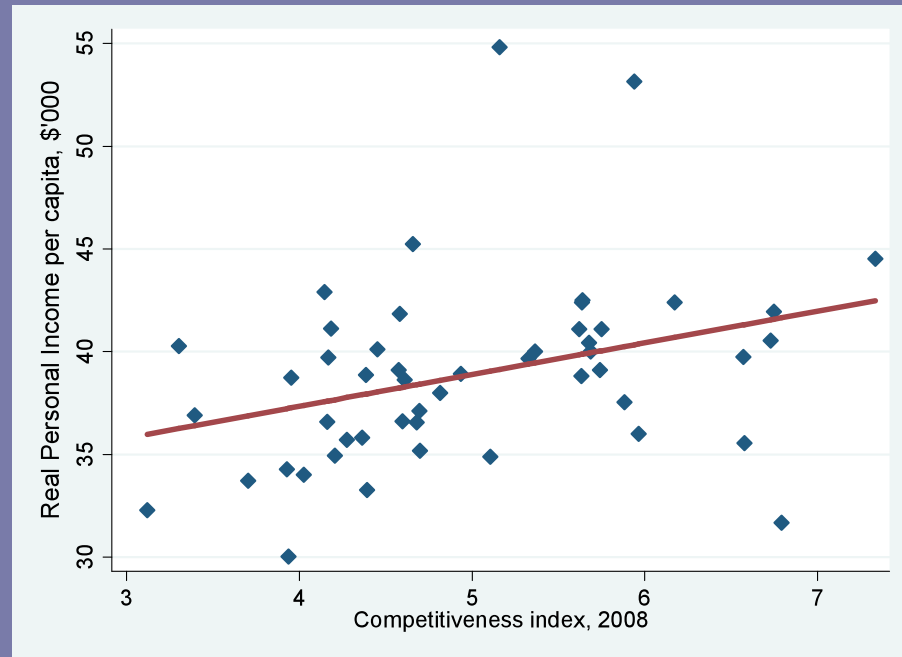
R^2 = 0.10

Coefficients signif. at 95%

PI per capita deflated using a spatial price index (Aten, Nov. 2007)

Government and Fiscal Policy

New Hampshire	18	New Jersey	49
Pennsylvania	36	Vermont	42
Massachusetts	34	Maine	45
Connecticut	43	New York	46
Rhode Island	39		

Weaknesses

- *State+Local taxes/income*   *49th*
- *FTE state+local employees per 100 residents*   *40th*

  – *Governor: NYS has highest per pupil education spending in US; highest per capita medicaid spending (twice nat'l average)*
  – *State workforce: 187,365 in 03-04; 199,400 in 08-09.*

Infrastructure

Vermont	31	New Hampshire	36
Maine	35	New Jersey	46
Pennsylvania	37	Massachusetts	41
Rhode Island	45	New York	50
Connecticut	38		

Strengths
- **High-speed lines per 1,000**   *15th*
- **Air Passengers per capita**   *17th*

Weaknesses
- **Electricity prices**   *46th*
- **Rental rates (housing)**   *40th*
- **Travel time to work**   *50th*

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Issue 2: Raising PIT

- Conspicuously absent from Governor's proposals.

- The "fair share tax" proposal:
  - Raise 6.85% rate to:
    - 8.25% for income > $250,000
    - 8.97% for income > $500,000
    - 10.3% for income > $1 million.
      - [With 3.648% NYC, 13.948% rate; next highest: CA's 10.3%]
  - Revenue increment: $6 bn
    - (or less; very difficult to forecast)

Economic effects

- ## Use BHI's *New York CGE-STAMP*
  - "State Tax Analysis Modeling Program"
  - CGE (Computable General Equilibrium) model with 81 economic sectors:
    - 7 classes of household
    - 27 "industrial" sectors
    - 30 taxes (4 federal, 14 state, 12 local/city)
    - 13 categories of government spending
    - 2 factors (L,K), investment, ROW
  - 3,800 variables

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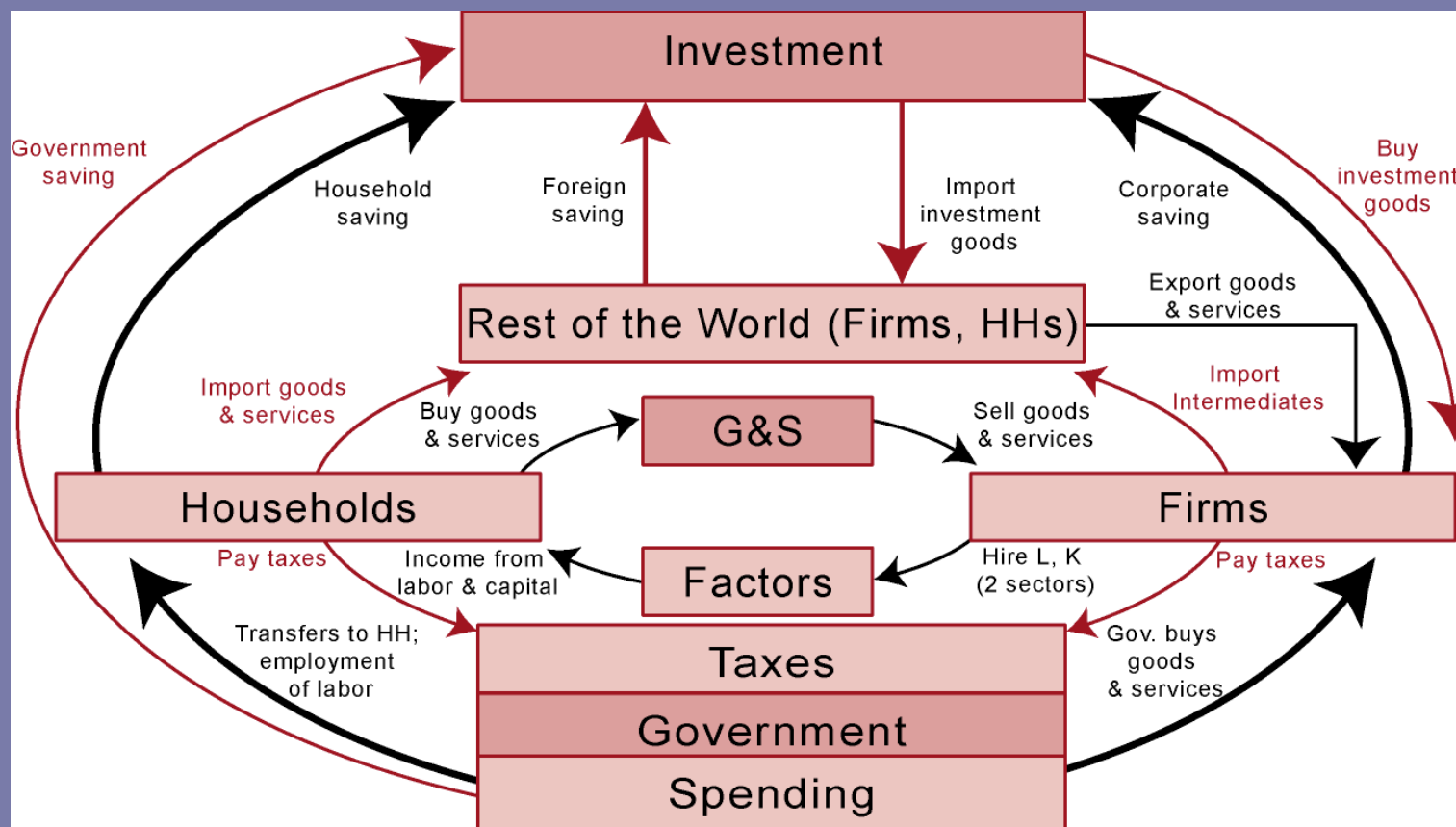
Adapted from Berck et al. 1996

- Model is based on 2004 data, updated to reflect current conditions

- Parameters from the literature; standard.

- A policy model to answer "what if" questions.

- Used to simulate effects of the "fair share tax" proposal

Simulation results

- 22,000 fewer private-sector jobs
  - This is net effect if revenue used to boost state incomes & benefits

- 0.22% reduction in real disposable income

- Mayor Bloomberg
  - "Raising taxes on those with the flexibility to move their businesses – as was done in previous crises – will lead to an exodus that will hurt us for decades and have devastating consequences for the entire state.

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Further comments

- Taxes on high incomes (and capital gains) are especially volatile
  - Variable compensation expected to fall 45% this SFY, another 17% SFY2009-2010 (optimistic!)
  - Taxable capital gains due to fall 50% this SFY, another 18.5% in SFY2009.
    - MA: capital gains revenue fell 57% after 1987; 71% after 2001.
  - Capital losses can be carried forward

- Argument that taxing rich more, to pay state bills, raises total spending, is uncompelling in an open economy; effect is small.

- Substantial academic literature on economic effects of high marginal tax rates at state level. Examples:
  - Poulson & Kaplan, *Cato Journal*, 2008
  - Becsi, Atlanta Fed, *Economic Review,* 1996
  - Dye & Feiock, *Social Science Quarterly*, 1995
  - Bartik, "Who Benefits from State and Local Economic Development Policies?", 19
  - Vedder, *Journal of Contemporary Studies*, 1982

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Issue 3: Taxes and fees

- Some are especially bad:
  - Luxury taxes: low-yield gimmicks, easy to avoid; remember the 10% on yachts.
  - Sales tax holidays: make the tax code more complicated, don't boost economic activity
  - Obesity tax on soft drinks: just another tax? [Or should we tax pizza and ice cream too?]

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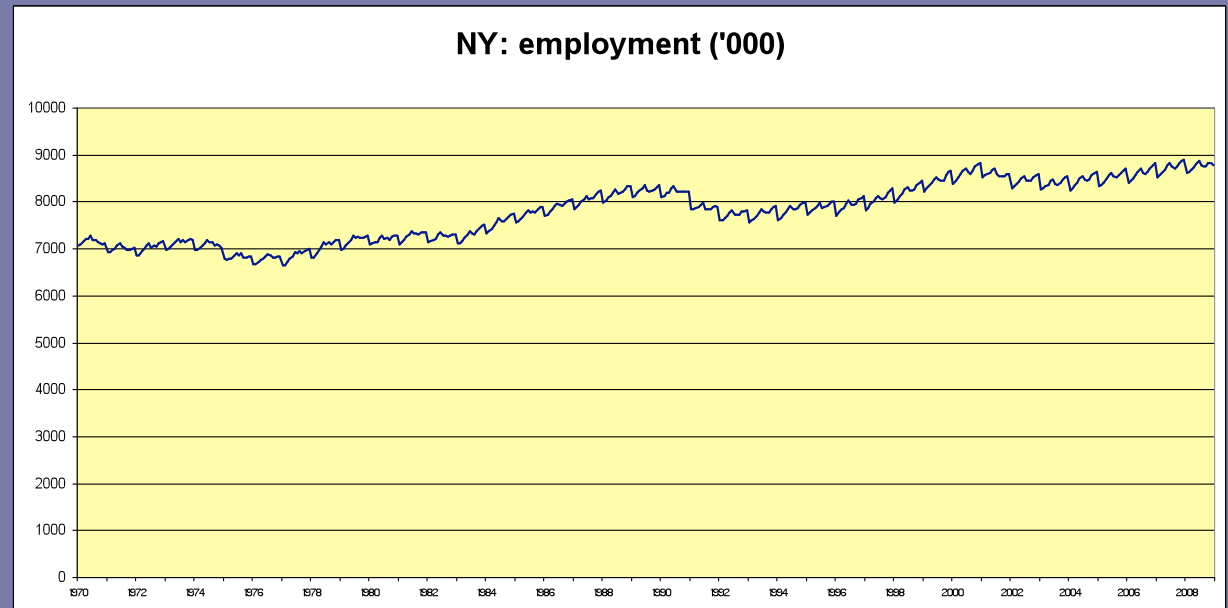
Reconciling short- and long-run

Short-run problems:
- Unemployment
- Budget/Revenue
- Investment
- Housing
- Energy cost

Temptations:
- UE benefits
- Tax hikes
- Aid to the favored
- Mortgage rules

… short-run palliatives, long-run costs

… repent at leisure!

NY: employment ('000)

For Further Information

Research Institute associated with the Department of Economics at Suffolk University in Boston.

Founded in 1991.

Draws on staff, faculty and students.

Specializes in tax policy analysis, competitiveness, cost-benefit analysis, and the environment.

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