

Empire Upward *7 Steps to Recovery & Renewal*

The coronavirus pandemic has prompted an unprecedented shutdown of normal human activity and commerce across much of the developed world. New York State and the nation have entered uncharted economic territory, facing what may be the worst global downturn since the Great Depression of the 1930s.

Initial hopes for a quick, V-shaped comeback from the pandemic “pause” have faded, replaced by growing concern the slump will be a very long one. Business activity may not begin to rebound strongly until mid-2021, at the earliest, and it could be several years before employment and incomes once again approach pre-pandemic levels.

Even before the pandemic, New York’s tax and regulatory policies were the economic equivalent of a pre-existing condition, leaving struggling upstate counties especially vulnerable to even a modest recession. New York City, the state’s main engine of economic growth for the past decade, also has been the epicenter of Covid-19 infections. The harrowing intensity of the health crisis in the metropolitan region could become yet another factor pushing New Yorkers away – to lower-cost, lower-taxed states.

Five weeks into the shutdown, the precise terms and timing of an economic reopening remains unclear. Looking ahead, however, state officials must begin *now* to take seven essential steps for promoting the recovery and renewal of New York’s economy:

1. **Repeal or reform laws and regulations that discourage hiring and investment** in New York. Immediate targets include scheduled end-of-year increases in the minimum wage outside New York City and the expansion of public works “prevailing wage” requirements to government-subsidized private projects. The Public Service Commission should postpone utility rate surcharges linked to costly renewable energy projects, and the state should clear the way for expansion of natural gas pipelines it has been blocking. The nation’s highest workers’ compensation insurance costs must be lowered. Proposals that would force new employee benefits on businesses of any size should be rejected.
2. **Avoid tax increases.** Every New York fiscal crisis over the last 45 years has resulted in tax hikes that ultimately were rolled back or allowed to expire – with the exception of the 2009 “millionaire tax” increase, most of which has been repeatedly extended past its original 2011 sunset date. The new federal cap on state and local tax (SALT) deductions has added to the burden on New York’s highest earners, whose taxes finance a disproportionate share of the state budget. Yet some lawmakers were clamoring for higher taxes before the pandemic, despite the SALT cap’s impact. In a state already notorious for its heavy taxes, it should go without saying that further tax hikes would undermine New York’s competitiveness and future growth prospects.

3. **Freeze public-sector pay across the board**, postponing all scheduled base pay or step “increment” increases for a period of at least two years. This would save at least \$1.9 billion in 2021 state and local fiscal years, reducing the number of layoffs and staff reductions necessary to close budget deficits. Based on long-established precedents dating back to New York City’s brush with bankruptcy in the mid- 1970s, the governor and the Legislature clearly have the authority to pass a law imposing such a freeze in response to a severe fiscal emergency.
4. **Provide local governments with relief from costly state mandates**, concentrating on rules covering personnel, procurement and contracting. Building on the pay freeze, municipalities and school districts need greater flexibility to deploy their workforces more efficiently than allowed under current contract provisions effectively locked in place by state law.
5. **Reduce government operating budgets** by eliminating non-essential programs and contracting out services and functions that can be provided more cost effectively by private sector. With payrolls constituting the largest chunk of municipal and school budgets, government workforce reductions are unavoidable but can at least be minimized with pay freezes, as noted above.
6. **Redirect scarce capital resources** from amorphous “economic development” projects, which have claimed a growing share of the state capital budget, to core infrastructure needs such as transportation, water and sewer facilities, and to public facility improvements needed to preserve and enhance public services, build value and promote economic growth.
7. **Improve transparency and accountability**, especially in the area of state finances, as recommended by state Comptroller DiNapoli. The Governor and the Legislature should abide by the financial reporting deadlines they have repeatedly ignored in recent years, and additional financial updates should be issued to explain every step of any budget adjustments sought by the governor under the temporary powers granted to him in the 2021 fiscal year.

This is the first in the Empire Center’s planned Empire Upward series on policy priorities needed to promote a recovery in the wake of the novel coronavirus pandemic. Future reports in this series will expand on the steps summarized here.