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Responding to New York's Budget Crisis

Abstract

Wealthy individuals and big businesses have benefited dramatically from reduced taxes and increased subsidies, and they should make a fair contribution to resolving New York's budget crisis. Taxes on the very wealthy and reduction of corporate welfare will do much more to reinvigorate the economy and restore fiscal health than drastic cuts in health and education spending.

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Responding to New York's Budget Crisis

Sam Magavern

Summary

Wealthy individuals and big businesses have benefited dramatically from reduced taxes and increased subsidies, and they should make a fair contribution to resolving New York's budget crisis. Taxes on the very wealthy and reduction of corporate welfare will do much more to reinvigorate the economy and restore fiscal health than drastic cuts in health and education spending.

Wealthy Individuals and Businesses Have Expanded their Political Power

Over the past decades, the political power of very wealthy individuals and large businesses has skyrocketed in New York, as it has across the nation. These powerful interests have used their clout to reduce taxes for the highest income brackets and increase government subsidies to private businesses. As their influence permeates state government through campaign donations, lobbying, and other means, state government becomes less and less able to advance the public good.

As New York's budget crisis unfolds, much of the discussion has centered on the power of public sector unions and the need to force them to sacrifice. The influence of these middle class interest groups, however, is dwarfed by the

power of big business and the very rich. In 2010, unions donated \$21 million to state electoral campaigns, while individuals donated \$83 million and businesses donated \$67 million.¹ Governor Cuomo received \$2 million from unions, \$11 million from business, and \$20 million from individuals.

Individual giving was overwhelmingly from wealthy donors.² Of the \$83 million in individual donations, 88 percent came in gifts over \$1,000.³ Less than six percent came from gifts under \$250. Bruce Kovner, a hedge fund executive and chair of the conservative American Enterprise Institute, donated over \$283,000.⁴ David Rich, of Rich Foods, donated over \$221,000.⁵ The biggest month for donations each year is March, when the budget process is at its most active.⁶

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New York has the Worst Income Inequality in the Nation.⁷

Between 1980 and 2007, the average income of New York's bottom 50 percent fell from \$16,074 to \$14,045.⁸

Meanwhile, the average income for the top one percent exploded from \$446,507 to \$2,730,973.⁹ The richest one percent now receives 35 percent of all income in the state.¹⁰ During the same decades that their income was surging, the state income taxes of the wealthiest New Yorkers were being halved.¹¹ Our tax system became drastically less progressive, to the point where today, those in the top one percent pay only 7.2 percent of their incomes in New York sales, property, and income taxes, while those in the lowest twenty percent pay 9.6 percent, and those in the middle, earning between \$33,000 and \$56,000 per year, pay 11.6 percent.¹²

New Yorkers Overwhelmingly Favor the Millionaires Tax

Given these realities, it is shockingly irresponsible to eliminate the tax surcharge on those earning over \$200,000 per year – a surcharge that is generating an average of \$4.6 billion per year for New York.¹³ New Yorkers overwhelmingly support keeping this surcharge – a recent NY1/Marist poll found 66 percent in favor.¹⁴ Similarly, a December 2010 Siena poll found that 73 percent favor raising taxes on those with incomes over \$1 million, compared to 29 percent favoring cuts in health care and 23 percent favoring cuts in education.¹⁵

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In 2008, Nobel Prize winning economist Joseph Stiglitz explained the need for the millionaires tax: “[E]conomic theory and evidence give a clear and unambiguous answer: it is economically preferable to raise taxes on those with high incomes than to cut state expenditures.”¹⁶ As Stiglitz pointed out, in a recession budget cuts reduce spending and thus reduce jobs at precisely the moment when the government should be spurring job creation.

A Bonus Recapture Tax Could Generate \$6.9 Billion

The very people that plunged the state and nation into the Great Recession – the financiers on Wall Street – continue to reap the greatest rewards from our inequality and wield outsize influence in Albany and Washington. This select group of plutocrats took over \$20 billion in bonuses at the end of 2009. A bonus recapture tax proposed by the Center for Working Families would generate between \$4.7 and \$6.9 billion if levied on bonuses of over \$50,000.¹⁷ But with the insurance, financial, and banking sector donating almost \$7 million to New York politicians in 2010, such a common sense tax faces an uphill battle.¹⁸

A Windfall Recapture Tax Could Generate \$8.1 Billion

The wealthiest Americans saw their federal tax burdens drop by an average of \$124,000 due to the Bush tax cuts.¹⁹ President Obama originally proposed to let the Bush cuts expire for the wealthiest two percent but later reached a deal with the Republicans to maintain them. A recent proposal to address New York’s budget suggests that New York enact a surcharge on those earning

over \$250,000 to recapture the windfall they are receiving from the federal government. This surcharge would generate some \$8.1 billion in revenue for New York.²⁰

Corporate Welfare Has Exploded to over \$8 Billion in New York

What is business reaping from its \$67 million per year in campaign donations and millions more in lobbying? One of the biggest rewards is the ever-escalating number and size of corporate welfare benefits: loopholes, exemptions, incentives, abatements, subsidies, loans, and direct cash assistance given to a small minority of companies each year. Currently, New York State and its local governments and Industrial Development Agencies (IDAs) provide roughly \$8.2 billion per year in business tax expenditures.²¹

The badly broken Empire Zones program expanded from \$40 million in 2000 to \$554 million in 2010. Despite numerous studies and reports detailing their lack of accountability and results, IDAs offered \$645 million in tax expenditures in fiscal year 2008.²²

Here in Western New York, we have nine IDAs, including six in Erie County, competing with each other for business – each with its own staff, office, lawyers, etc. In 2004, the Amherst IDA spent \$396,600 on its salaries and overhead while offering businesses net exemptions worth over \$4.8 million. Every taxpayer in the county pays for these exemptions, but a small, unelected board and staff representing only Amherst give them away.²³

Verizon Received Subsidies Worth \$3.1 Million per Job Created

The way that large corporations have learned to work the subsidy system can be seen in recent data center deals. Yahoo received roughly \$200 million in tax breaks for a data center in Lockport that will employ 125 people – a subsidy of \$2.1 million per job. Verizon is receiving subsidies worth \$614 million for 200 jobs, or \$3.1 million per job, for a data center in Somerset.²⁴ How did Verizon obtain this lavish package? Certainly, it didn't hurt that Verizon donated more than \$1.2 million in campaign contributions over the last five years and spent \$9.3 million in lobbying state and local governments in New York from 2006 to 2009, employing fourteen in-house lobbyists and outside lobbying firms, too.²⁵

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Conclusion

One important cause of New York's fiscal crisis is the way that wealthy individuals and large business interests have used influence acquired through campaign donations and lobbying to reduce their share of the tax burden. An equitable and economically sound solution to the crisis must include fairer taxation.

¹ New York Public Interest Research Group, “Capital Investment\$ 2010”
² Id.
³ Id.
⁴ Id.
⁵ Id.
⁶ Id.
⁷ Fiscal Policy Institute, “Grow Together or Pull Apart? Income Concentration Trends in New York”
⁸ Id.
⁹ Id.
¹⁰ Fiscal Policy Institute, “Budget Austerity will not Put New Yorkers Back to Work,” February 1, 2011.
¹¹ Center for Working Families, “A \$4.6 Billion Tax Break for the Wealthiest: Bad News for New York”
¹² Institute on Taxation and Economic Policy, 2009
¹³ Center for Working Families, “A \$4.6 Billion Tax Break for the Wealthiest: Bad News for New York”
¹⁴ NY1, “Poll Finds Most New Yorkers Support ‘Millionaire’s Tax,’ Governor, February 1, 2011.
¹⁵ <http://www.siena.edu/SRI/SNY>
¹⁶ Joseph Stiglitz, Letter to Governor David Patterson, Majority Leader Joseph L. Bruno, and Speaker Sheldon Silver, March 27, 2008.

¹⁷ Center for Working Families, “Tax Wall Street to Close the Deficit,” April 19, 2010.
¹⁸ New York Public Interest Research Group, “Capital Investment\$ 2010”
¹⁹ Center for Working Families, “A \$4.6 Billion Tax Break for the Wealthiest: Bad News for New York”
²⁰ The Council of the City of New York Progressive Caucus, “Proposal for Temporary New York Surcharge on Bush-Era Tax Cuts for the Wealthiest Households,” December 2010.
²¹ Fiscal Policy Institute, “The Growing Budget Burden of New York’s Business Tax Expenditures,” December 7, 2010, p. 3.
²² Id., p. 4
²³ Partnership for the Public Good, “Missing the Target: How Economic Development Programs Have Failed to Revive Buffalo’s Most Challenged Neighborhoods,” p. 31.
²⁴ James Heaney, “Sweet deals lure major data centers,” Buffalo News, November 7, 2010.
²⁵ James Heaney, “Deep pockets help Verizon promote its interests,” Buffalo News, November 14, 2010.