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Spitzer's Hole in the Pocket

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It is easier to be frugal when you're broke. This principle applies just as well to government as it does to your teenager.

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While the state budget is still on a glide path to disaster, this year we have some extra change jingling in our pockets and the temptation to spend it proved irresistible to the three politicians who make these decisions. Governor Spitzer and legislative leaders have announced the broad outlines of a \$121.6 billion budget that raises overall spending more than 7% and state spending, not including federal dollars, 9%.

And why not? After all, the state's economy doesn't look so bad. New York added 93,000 jobs in the year ending in January. This places us no. 28 among the 50 states. That's above average — should we be complaining? But our job creation over the last decade isn't so fabulous. Ranked no. 39, New York added 11% to its job total since 1997 while the top 10 states grew 31% over the same period.

Not only has the state's growth been lackluster, there are risks to New York's economy that loom over our fiscal future.

First, the state and New York City are entirely too dependent on Wall Street. How dependent? In 2006, Wall Street bonuses were expected to be \$24 billion, a new record. That's equal to the total payroll statewide for retail workers, just under the \$30.1 billion that manufacturing workers earned, and substantially more than what the entire construction industry paid out in wages and salaries, which amounted to \$16.3 billion.

Finance-sector workers get a regular paycheck, too, of course, totaling \$40.2 billion in 2005, twice the statewide total payroll of the information sector. In 2005 the payout to the finance sector including bonuses totaled nearly \$61 billion, one-quarter of New York City's payroll and 14% of the entire state's payroll.

If you include the earnings of people whose livelihood is tied to the spending of Wall Street and its well-compensated employees, perhaps as much as half the city economy and one-quarter of the state economy is dependent on New York City's finance sector. Can this last? In an essay in the *New York Observer* in February 2005, New York University's president, John Sexton, and Mayor Giuliani's budget director and current head of the Commission on Independent Colleges and Universities, Abe Lackman, argued that it might not, particularly considering how cyberspace is changing the business world. "Today's chief executives can conduct business from Aspen or make deals from the Caribbean. They plan their lives and the locations of their businesses accordingly," they wrote. If they are right, then the state budget is going to be in very serious trouble.

The second problem is continuing retrenchment in parts of the upstate economy. The statewide growth rate since 1997 has been lackluster. Every city west of Albany has added jobs at a third of the rate enjoyed by the nation.

The ultimate test of economic vitality is population. And New York State's population growth rate has been near the bottom nationally throughout the decade. Moreover, since 2000 nearly 7% of the state's population has left for other states, the highest rate of internal migration in the nation.

The newly fattened state budget rests upon this wobbly economy. Tax revenues will have to grow substantially to feed the budgets following this one. The Citizens Budget Commission predicts a shortfall of \$4.5 billion in just 18 months.

Governor Spitzer said the budget spends more than he wanted to and that it will take him more time to rein in spending. But he began the budget deal-making by proposing a spending increase of 6.3%, a level much higher than one might expect from a tax-conscious governor. Mr. Spitzer said he wasn't going to allow the Legislature to add gobs of spending, but then he agreed to the addition of \$1 billion – and that was after settling with lawmakers that there was only \$575 million in revenues to add.

Mr. Spitzer also said that he has won some important reforms in how the state does business that will benefit us in the long run. But each one had a price:

— The governor cut the growth of the Medicaid program by \$1 billion, but he had to restore another \$350 million in proposed health care reductions.

— He won adoption of a new school funding formula aimed at sending more money to truly needy schools, but the formula won't operate this year as it should because he agreed to send an extra \$420 million to wealthier schools on Long Island and elsewhere.

— He changed how the School Tax Relief, or STAR, program works to base the amount of a homeowner's property-tax break in part on income. But he had to partially undo that too, sending more relief to wealthier homeowners.

Horse-trading is part of any budgetary deal-making, but Mr. Spitzer traded a lot to get the Senate Republicans on board by the April 1 deadline. If the economy doesn't ramp up to meet the increased demand for tax dollars, the governor will likely have to raise the income tax or the sales tax or some other tax in years to come — unless the state starts making the painful decisions that Mr. Spitzer alluded to, but then largely avoided, this year.

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