The New York state budget crisis and the debate over the “millionaire’s tax”

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The economic meltdown is having a devastating effect on state budgets across the United States. After California, which recently went through a grueling legislative process to enact a budget with severe consequences for that state's working class, New York State has the second-highest projected budget deficit in the nation.

This deficit is growing month by month. In April 2008, the deficit for the fiscal year beginning on April 1, 2009, was estimated at $8 billion. In December 2008, the estimate had grown to just over $13 billion. In February, only two months later, it is projected at more than $14 billion, the change from December being attributed to falling tax revenues largely due to declines on Wall Street. Now, in early March, New York Governor David Paterson predicted that the deficit could grow another $3 billion in the next few months. With the worldwide economy rapidly plunging toward depression, this may well prove an understatement.

In December, Governor Paterson proposed a state budget for the coming fiscal year that includes drastic cuts in social services and education, and layoffs of state workers. Paterson emphasized the severity of the economic downturn and its dramatic effects on the state's economy. He has repeatedly characterized his budget as representing a necessary reversal of what he portrays as years of overspending and financial irresponsibility, claiming that he is forced to make "hard decisions."

Effectively, given the targets of his proposed budget cutting, Paterson sees social services and government employees as the center of these problems. Reactions to this budget proposal have followed traditional political patterns despite the fact that the economic situation has changed drastically. This is particularly notable with respect to the public employee unions, which have sought to put pressure on their "friends" in state government (among whom they recently counted Paterson himself) to soften the planned blows.

In the midst of this growing crisis, Paterson and the state legislature, along with the unions and a variety of interest groups, are engaged in a very vocal, public debate regarding whether or not to raise taxes on the state's wealthiest citizens in order to help reduce the budget gap. The public employee unions are strong proponents of the so-called millionaire's tax, promoting the idea that it along with the state's share of funds from the federal stimulus package will permit the elimination of most if not all of the cuts to state jobs, education, and medical services that are included in Paterson's budget proposal.

Currently, New York State income tax rates reach a maximum of 6.85 percent for those making $40,000 a year. All incomes above that amount are taxed at the same rate. The millionaire's tax has been proposed in several different versions. The most popular appears to be one that would increase taxes beginning with a small rise (1.4 percent) for those making $250,000, then a somewhat larger increase (2.12 percent) on incomes beginning at half a million dollars, and a still larger increase (3.45 percent) on those making a million dollars or more. However, even the highest rate would take only a relatively modest portion of income from the wealthiest New Yorkers (10.3 percent). Estimates of how much revenue this would actually bring to the state are uncertain given the marked declines on Wall Street, from which much of this income is derived either directly or indirectly.

Regardless of whether the millionaire's tax along with the stimulus package money would result in substantial reduction of the proposed cuts, the positions taken by various parties in this debate highlight the overall consensus across the official political spectrum that the wealth of the upper class must be left largely untouched.

The Republicans in the legislature, a minority in both houses after the loss last November of their longtime grip on the Senate, are opposed to any tax increases, advocating even greater budget cuts instead. Senate Republican Minority Leader Dean Skelos has said that "Increased taxes, especially on sales and personal income, would further damage the economy, put more people out of work and take money away from families who are already struggling to make ends meet." While this position represents the Republicans' basic supply-side or "trickle down" economic philosophy, their opposition to increases in sales taxes and a variety of other consumption taxes proposed by Paterson allows them to feign a certain populist concern for "the little guy" while trying to guarantee that the wealthy are left totally unscathed.

The Democratic politicians have a greater range of positions regarding the millionaire's tax. In the legislature, the leaders of the Senate and the Assembly differ, at least to a degree. Assembly Speaker Sheldon Silver supports the graduated version of the millionaire's tax, rightly pointing out that the governor's proposed budget cuts will disproportionately affect the poor and working class. By contrast, Senate Majority Leader Malcolm Smith opposes income tax increases and is, instead, proposing even larger cuts than Paterson, totaling approximately $2 billion.

Governor Paterson has repeatedly stated that he views tax increases as a last resort, to be implemented only if drastic cuts fail to close the budget gap. He has expressed the fear that increasing taxes on the rich will cause them to move out of state, thus decreasing revenues even further. Given Wall Street's role in giving New York the greatest concentration of millionaires in the country and the fact that other states are also facing severe budget crises and may well resort to increased taxes, Paterson's argument is difficult to accept.

In New York over the past 30 years, the wealthiest 5 percent of the population has seen its tax rate cut by more than half (15.375 percent to 6.85 percent). This same layer has seen its average income more than double since 2003, with the great bulk of this increase going to richest of the rich.

Paterson emphasizes what he sees as the opportunity presented by the economic crisis to force a reduction in "out-of-control" spending. He correctly points out that the federal stimulus money is, at best, a temporary fix, which will last only two years. A recent report by the Nelson A. Rockefeller Institute of Government, entitled "What Will Happen to State Budgets When the Money Runs Out?," clearly shows that even under the most optimistic scenarios, state budgets are likely to face severe difficulties once the stimulus money is exhausted.

Similar conclusions were reached in an earlier report prepared by the Center on Budget and Policy Priorities. This study states that at least 46 states faced or are facing shortfalls in their budgets for this and/or next year, and severe fiscal problems are highly likely to continue into the following year as well. Combined budget gaps for the remainder of this fiscal year and state fiscal years 2010 and 2011 are estimated to total more than $350 billion. Paterson projects that if spending isn't reduced, New York State alone will face deficits totaling $38 billion between the 2011-2012 and 2012-2013 fiscal years.

The Rockefeller Institute's report maintains that the federal funds can provide a sort of anesthetic that will temporarily mask the pain of state budget cuts, making them more politically palatable. Implicit is the understanding that once the anesthetic wears off, the pain will return in full force. Furthermore, since the reality of the economic collapse is likely to be substantially more severe than the scenarios presented in the report, the consequences for the working class will be all the greater.

The governor's resistance to tax increases on the wealthy clearly reveals his determination to impose "hard choices" on the working class. In this he differs little from the Republicans in substance. The public service union bureaucracies' adoption of the millionaire's tax as a central element in their response to the deepening crisis reveals their inability to mount any serious or independent struggle against the drastic attacks that are being prepared. The union bureaucracies' acceptance of the concepts of "fairness" and "shared sacrifice," which are constantly repeated by Paterson and other politicians, only paves the way to their collaboration in imposing the cutbacks and layoffs that are being prepared.

The idea of making the rich pay for the economic catastrophe that the capitalist system has created resonates with the overwhelming majority of working class people. This is confirmed by a recent Quinnipiac University poll that found that New Yorkers back the idea of a millionaire's tax 4 to 1, with a majority backing a tax hike on people making more than $250,000 a year.

At the same time, a Marist College poll indicates that at the end of February, Paterson has a 26 percent job approval rating, down from 46 percent in January and 57 percent in October. This precipitous collapse is due in large part to the public's negative perception of his budget proposal and his determination to shift the crisis onto the back of workers and the poor. The governor has been under persistent attack in television ads opposing his budget cuts sponsored by some public employee unions and other groups.

On the other side, powerful business interests, such as the Taxpayers for an Affordable NY, which includes the Business Council of New York, the Real Estate Board of New York, and the Rent Stabilization Association, are lining up to oppose the millionaire's tax.

During the course of the next few weeks, the governor and legislature will be developing a final budget for the coming fiscal year. Regardless of whether some form of a millionaire's tax is enacted, given the rapid decline toward the second Great Depression, this budget will represent a direct assault on the lives of all workers in the state, both in the public and private sectors, setting the stage for explosive social struggles.