New York state budget deal: the worst attacks still to come

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New York's Democratic Governor David Paterson and the leadership of the state legislature, which is controlled in both houses by the Democrats, reached a budget deal at the end of March that will spell painful cutbacks in healthcare and other areas, mass layoffs for state employees and a modest tax increase for the three percent income brackets.

From the start, the contentious budgetary process has been overshadowed by the financial and economic meltdown. Paterson took office on March 17, 2008-the same day that Bear Stearns collapsed.

The home of Wall Street, New York State's revenue flow has benefited from the inflated stock market boom. Indeed, in recent years 20 percent of state revenue was derived, in one way or another, from financial institutions. Now, the situation has reversed itself, rapidly and radically. Within little more than a year, that income and the economy in general have suffered a precipitous decline. One clear index of this change can be seen in the nearly exponential increase in the estimated state budget deficit for the fiscal year beginning on 1 April 2009. A year ago, in April 2008, the deficit was projected at $8 billion. Now the estimate has more than doubled to $17.7 billion, and it is expected to keep rising.

Since the fall of 2008, New York State's Governor, David Paterson, has issued dire warnings regarding the need for drastic fiscal austerity not only to compensate for the staggering decline in revenue but also to correct what he described as years of budgetary excess and lack of fiscal discipline. Paterson called for "shared sacrifice" and described the economic crisis as an opportunity to put the state's budgetary practices on a sustainable path for the future. His aides warned of sharp cutbacks that would translate into "blood in the streets."

The Democratic Governor's rhetoric seemed aimed at outdoing the Republicans in support of the wealthy and attacks on the working class. In December, he issued his proposed budget for the 2009-2010 fiscal year. It included drastic cuts in spending, focused especially on education and health care, and a demand for reductions in state employee compensation. He also included more than a hundred new and increased regressive taxes and fees on a wide variety of products and services, which would fall most heavily on the working class.

At the same time, the Governor adamantly insisted that raising taxes on the wealthy, the so-called millionaires' tax, which was being proposed by state employee unions and others, was absolutely a last resort, to be employed only if drastic budget cuts did not suffice. He echoed the spurious claim made by New York City's billionaire Mayor Michael Bloomberg that any increase in their tax rates would result in New York's multi-millionaires and billionaires fleeing the state.

Moreover, Paterson insisted that money from the federal stimulus package should not be used as a "short term fix" to cover over the state's fundamental budgetary problems.

Paterson maintained these positions through January and February as the size of the projected deficit continued to rise. During this time, a coalition of state employee unions and advocates for education and health care mounted a sustained media campaign under the slogan of "real shared sacrifice," advancing proposals to balance the budget by means of alternative cuts—including the firing of the state's private contractors and consultants—as well as the "millionaires' tax."

As his proposals for drastic budget cuts were unveiled, Paterson's popularity and approval ratings, which had initially been high when he replaced Eliot Spitzer, who resigned due to a sex scandal, took a nose dive to historic lows, with barely 19 percent of state residents giving him a positive rating.

In mid-March, Paterson announced that because state employee unions had refused to reopen their contracts and accept a rollback of their wages and benefits, he was ordering the layoff of 8,900 state employees beginning this summer.

In recent weeks, as the April 1 budget deadline approached, Paterson and the leaders of the Senate and Assembly (the two houses of the State legislature), both Democrats, held a series of so-called "three men in a room" meetings to work out a final budget proposal. This closed-door procedure, which excluded not only the Republicans, but rank-and-file Democratic legislators as well, ran counter to "open government" legislation that had passed in 2007. The resulting set of budget bills represents a quantitative, though by no means a qualitative shift in the Governor's position. As the Albany *Times Union* put it, "The same governor who wanted $9.5 billion in spending cuts back in December now is willing to settle for $6 billion in cuts, much of them in health care."

The budget proposal includes a relatively modest and temporary version of the millionaires' tax.

Income taxes were raised one percentage point to 7.85 percent for families with annual incomes exceeding $300,000; while those taking in more than $500,000 will pay 8.97 percent, up from the 6.85 percent rate that previously applied equally to workers making $40,000 a year and billionaires like Bloomberg. The tax is supposed to sunset after three years and is expected to raise $4 billion this year. The Democratic leadership shied away from imposing a still higher tax bracket on those actually making more than a million dollars a year, which could have brought in billions more in revenue.

The new top tax rate of 8.97 percent is the same as that in neighboring New Jersey and still far below what existed in the mid-1970s, when New York faced what was previously its deepest fiscal crisis. At that time, those at the top of the income ladder were paying 15.375 percent.

Also added on the revenue side was money from the federal stimulus package, and a variety of mostly short-term measures. A number of the “nuisance taxes”, which primarily affect working people, were retained as were the 8900 state employee layoffs. This mix allowed New York Democrats to somewhat blunt the attacks which had originally been proposed by Paterson.

“This budget imposes motor vehicle registration fee hikes, surcharges on auto insurance policies and increases in drivers’ license fees.” “Regressive increases on utilities ($557 million), health-maintenance organizations ($107 million) and health insurance companies ($5 million) ... These will be passed along to consumers—regardless of their ability to pay—in higher utility bills and costlier health care” (*Newsday*).

Proposed health care cuts have been attenuated using federal stimulus money. Nevertheless, aid to hospitals will be cut by $300 million. “The spending plan reduces Medicaid payments to nursing homes and home care agencies by $293 million. Home care agencies will pay a tax on their revenues, totaling $14.2 million” *(Times Union*).

Daniel Sisto, president of the Healthcare Association of New York State warned: “This health care budget plan contains cuts far greater than what our members can absorb without reducing services and laying off staff ... The plan will result in severe service dislocations and lost jobs. Cutbacks in staff and services should be anticipated in most communities.”

The proposed education cuts will largely be restored also using federal stimulus money. However, court-ordered increases for the poorest districts will be put off to future years. School districts, which are also suffering losses in local revenues, will be forced to raise taxes and/or make their own cuts.

For students at the state’s universities and colleges, the budget spells a $310 increase in tuition per semester.

Importantly, there is little in the way of assistance to families struggling due to job losses and other effects of the economic crisis.

Republicans, business interests, and news media across the state have raised a furor over the “lost opportunity” to impose more drastic cutbacks, and the imprudence of raising taxes on the rich who supposedly may take their money and leave the state. Paterson in particular has been criticized for a “failure of leadership”. Even the state comptroller, a Democrat, has attacked the budget, stating that it might not meet the legal requirement to be balanced. He described the budget as “very shaky,” having failed to make “tough choices,” and based on “temporary fixes.”

The right-wing media and leaders of business groups have called for the rich to “open their wallets” and mobilize to remove Paterson and reverse the Democrat’s hold on the State Senate, consisting of a slim 32 to 30 majority, which was won only last year after four decades of dominance by the Republicans.

New York’s Democrats are gambling that there will be a quick turn around in the economy and, in the mean time, are using money from the stimulus package and a variety of short term “fixes” to somewhat blunt the attacks on the working class.

A pair of studies released in the last few months, however, demonstrates that state budgets are likely to undergo severe pressure over the next several years, even under the most optimistic scenarios. The Nelson A. Rockefeller Institute of Government report, entitled *What Will Happen to State Budgets When the Money Runs Out?*, clearly shows that even under the best conditions 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. According to the Center’s report, entitled *State Budget Troubles Worsen*:

“At least 46 states [out of 50] 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 [2009] fiscal year and state fiscal years 2010 and 2011 are estimated to total more than $350 billion.”

This staggering figure does not include the budget shortfalls faced by county and municipal governments, which will be compounded by reductions in assistance from their respective state governments. The study warns that the “easy” cuts will be made in state budgets this year. Consequently, in the following years the hard cuts will be the only remaining options.

If, as is highly likely, there is no turn around, New York Democrats will soon be faced with a situation in which they will have no alternative but to make a full frontal assault on working people or be replaced by those who will. Paterson has already said that it is likely that the budget will have to be revised during the course of the fiscal year as tax receipts and other factors play out. “We will be back into cutting human services, we will be going back to those nuisance taxes,” he said at a recent Albany news conference.

Available evidence indicates no lessening of the rate of economic decline. The Conference Board has reported that for March, labor demand in New York State dropped by 14,600, the largest decline of any northeastern state. The Federal Reserve Bank of New York’s general economic index for March dropped to minus 38.2, the lowest level since data began in 2001, from minus 34.7 in February (negative numbers indicate a decline in manufacturing).

The trade union bureaucracy and supposedly liberal sections of the Democratic Party have touted the minor tax increases on the rich as a supposed political victory for working people in New York. Having been implemented under the slogan of “shared sacrifice,” however, these increases will be used to pave the way for far more draconian cuts in the not too distant future. There is no doubt that the labor bureaucracy is prepared to help impose these attacks. It has been reported by the Albany *Times Union* that in February, more than a month before Paterson announced his plan for the layoff of 8,900 state workers, the state employee unions were already in negotiations with the state government regarding how layoffs, when they occurred, were to be carried out.