Testimony of Nathan Newman

Progressive States Network

Before the New York State Senate Select Committee on Budget and Tax Reform

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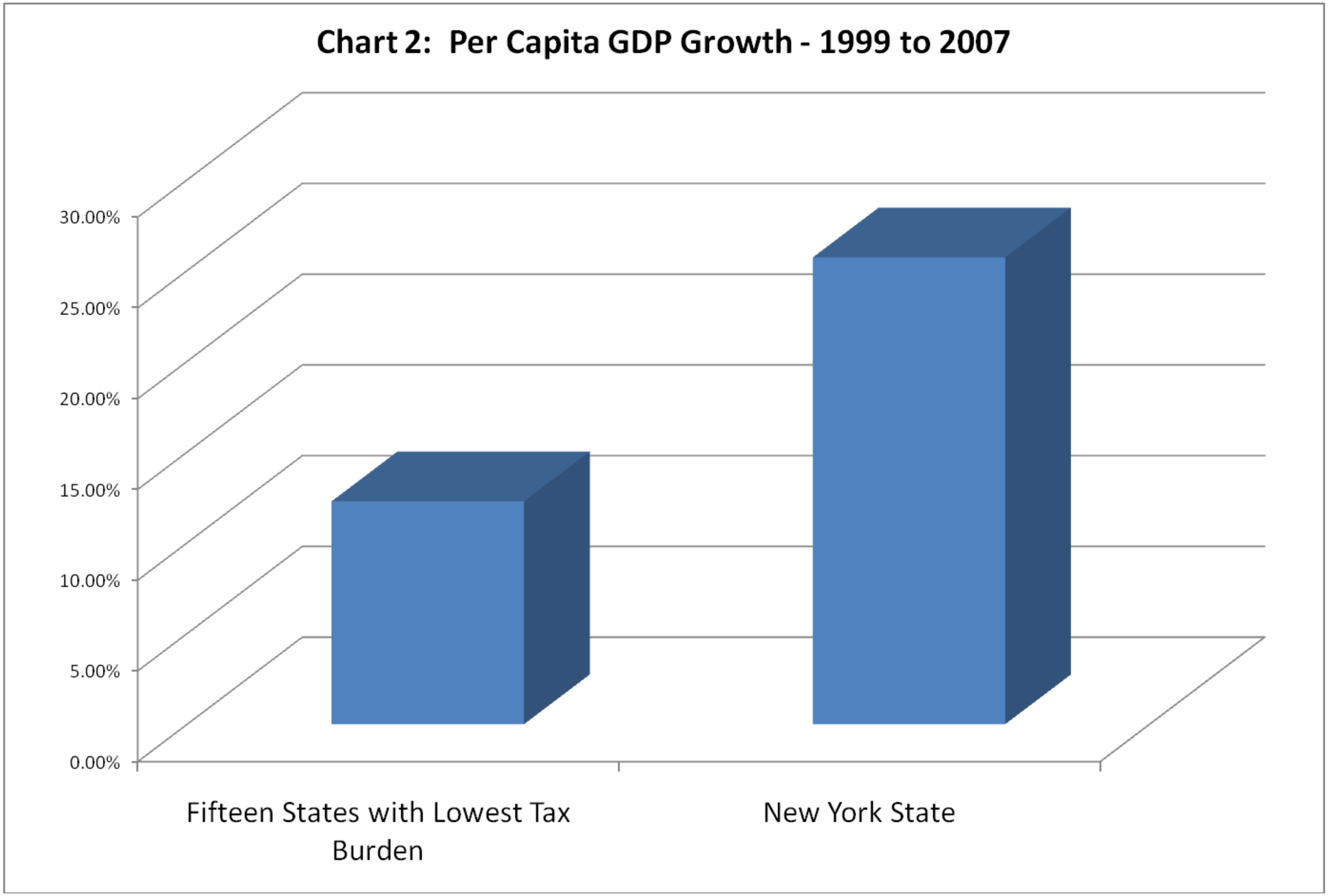
Chart I: New York Suffered Some of the Lowest Percentage Job Losses of Any State in Last Year

Percentage Loss in Employment Across States- March 2008 to March 2009

Data: U.S. Bureau of Labor Statistics

Alaska, Louisiana, Nebraska, New Hampshire, New Mexico, North Dakota, Oklahoma, South Dakota, Wyoming did not have statistically significant changes in employment



Data Sources: Tax Foundation and U.S. Bureau of Economic Affairs

Good afternoon and thank you for having me here. My name is Nathan Newman, Interim Executive Director of Progressive States Network. Since many people addressing this panel today will be addressing the virtues of ending particular tax loopholes or enacting other revenue raising options, I wanted to concentrate on a particular point, that reasonable revenue increases are the best approach to addressing the current economic and fiscal crisis, far better than budget cuts.

There are ideological proponents of focusing budgetary sacrifices on the poor and others who would lose government support when they most need it in order to balance the budget. The *Wall Street Journal* editorial page continues to refer to New York as the "Tax Capitol of the World" where budget cuts, not new revenues, should be used to balance the budget. Yet budget argument likes that are not only morally misguided but their economic arguments have been proven time and again to be intellectually bankrupt.   I will note that the argument often raised that New York's supposed "high tax" business environment is an economic drag on our economy just has no reasonable data behind it.

Let us take the current economic crisis.   In the last year, job losses have swept the nation, a grinding loss of hope and well-being for employees and families across our nation.   New York, the center of the financial crisis where firms have gone bankrupt, has shared in those painful layoffs.

Yet the job losses in New York State have, as a percentage of total employment, been significantly less than in most states.   As Chart 1 in my testimony highlights, between March 2008 and March 2009, New York saw a loss of 160,000 jobs, a not inconsiderable 1.8% of total jobs.   Yet supposedly low-tax states like Florida, Nevada and Arizona saw far larger drops in employment on a percentage basis, losing 5.4% of jobs in Florida, 5.4% in Nevada and a whopping 7% of jobs in Arizona.   Aside from Texas, New York has had the least percentage job loss of any large state economy in the nation.

And it's worth remembering that per capita growth in New York was far higher than per capita growth in supposed low tax states. Using measures of low tax burdens by the conservative tax foundation, combined with measures for per capita GDP growth from the Bureau of Economic Affairs, New York had far higher total per capita GDP growth (25.7%) than the average per capita GDP growth (12.3%) in the fifteen states with the lowest tax burden

Tax Policy does not Drive Business Location and Investment Decisions

Now, the last thing I would argue is that the higher tax burden in New York directly caused either the higher per capita growth rates during the economic boom years or the lower job losses when crisis set in, since most economic growth analysts agree that tax rates are one of the least significant factors effecting job location and expansion decisions by businesses.   As Paul O'Neil, CEO of Alcoa Aluminum and Treasury Secretary under George W. Bush said at his confirmation hearings :

> "I never made an investment decision based on the tax code...If you are giving money away I will take it. If you want to give me inducements for something I am going to do anyway, I will take it. But good business people do not do things because of inducements."

Transportation costs, the availability of skills in the local workforce, real estate costs and many other cost factors play a far larger role in business decisions than particular tax rates in any location.

So I point out this data not to argue for tax increases as an economic panacea – no one likes any tax if it can be avoided – but rather to argue that tax decisions should be made based on basic questions of: *what revenue is needed to meet desired spending amounts* and *what taxes apportion revenue obligations in the fairest manner possible.*

If taxes matter to economic growth, it is because revenues allow the spending and investments by states in a more skilled workforce, in healthier children and adults, in a more effective transportation system, and in a more vibrant and creative community that attracts creative workers to a community. If states use the revenue they do collect effectively, they can translate higher taxes into stronger economic performance. But that is a product not of higher tax per se, but of wise spending decisions that may or may not be made with those revenues.

Why Tax Increases are Better than Budget Cuts in Addressing the Current Economic Crisis

At the moment, raising taxes on the wealthy and on corporations, while directing those revenues to investments in job growth in our states is the most effective tool policy leaders have to address the current economic crisis. The best way to help low- and moderate-income families is to do so directly through state spending programs that fund jobs and provide services. This is not just because it improves the lives of those families, but because it will drive broader economic growth as well.

As Nobel Prize winning economist Joseph Stiglitz and Peter Orszag, Obama's new director of the Office of Management and Budget, wrote earlier this decade:

> "[E]conomic analysis suggests that tax increases would not in general be more harmful to the economy than spending reductions…any tax increase or transfer payment reduction would reduce saving rather than consumption…whereas [cutting] government spending on goods and services would directly reduce consumption.

The spending by individuals and businesses that would be affected by tax increases often is less concentrated among local producers — since part of the decline in purchases that would occur if taxes were raised would be a decline in the purchase of goods produced out of state."

Compared to corporate tax breaks and any other tax benefits which will often flow out-of-state, money spent on health care, transportation or education will fund jobs and services directly in New York. Money spent on a pre-school, for example, not only creates jobs for pre-K teachers, it puts money in the pockets of parents who don't have to pay for private day care and gives them more flexibility in finding and keep work that is available. Money spent on Medicaid employs local nurses and helps patients financially by allowing them to spend what they do have on other local goods and services.

As the Congressional Budget Office has explained, "policies aimed at lower-income households tend to have greater stimulative effects" because such families have a higher tendency to spend money they receive. Because of this, the Center on Budget Policy and Policy Priorities argued earlier this year that state spending that helps low- and moderate-income individuals such as health care spending or nutrition assistance is one of the best ways to boost the economy. Many analysts have noted that typical state government spending is particularly well-targeted at boosting economic recovery, so raising taxes on the wealthy who can afford to contribute to fund government spending is one of the most effective approaches to job creation and economic stimulus.

Across the country, states are taking action to raise revenue. As the Center on Budget and Policy Priorities has highlighted recently:

> "So far, in 2009, 16 states have raised new revenue through tax measures. Another 17 are giving serious consideration to doing so. These actions are in addition to revenue actions taken by 10 states in late 2007 and 2008 as the recession's effects began to be felt."

This has included a number of new corporate tax increases, from Wisconsin broadening its corporate income tax through measures like "combined reporting" to Hawaii increasing hotel taxes to Virginia taxing some investment income of corporations. States are considering raising corporate income tax rates, limiting business tax credits and exemptions, and raising other kinds of business taxes.

Any tax increase should be considered carefully, but the pendulum has swung very far away from corporations to paying their fair share of state tax burdens. I know Matt Gardner from the Institute for Economic and Tax Policy is submitting testimony today and will reemphasize the problems cited in their 2005 report that found that of 252 of the largest corporations, 71 of these corporations –

more than a quarter of the total – paid NO state corporate income taxes in at least one year between 2001 and 2003. The long-term decline in the share of state taxes paid by corporations has meant a higher relative tax burden on individual families.

So to address both the immediate economic crisis and begin adjusting the relative tax burdens between working families and corporations, passing some common-sense corporate tax reforms should be part of the budget-making decisions in 2009.

Thank you for your time.