News from the Fiscal Policy Institute

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Statement by Frank Mauro, Executive Director, Fiscal Policy Institute

Governor Paterson's call today for New York State to make $1.8 billion in spending cuts between now and March 31, 2010, is a poor policy recommendation that will have the opposite effect of his contention that it will "prime" the state for economic recovery.

His plan will definitely delay economic recovery. State and local spending pays salaries. It buys goods and services from businesses that employ people. It provides assistance to millions of families. Taking $1.8 billion of demand out of New York's economy will inevitably disrupt and slow down the recovery that seems to be underway. NYS has already experienced a net loss of 236,000 jobs over the past year and nearly 850,000 New Yorkers are unemployed.

The Governor's overall deficit reduction proposal of $3 billion includes the use of some state reserves (and other actions that will not hurt the economy) in order to reduce the magnitude of the real budget cuts over the next five and a half months to $1.8 billion. And, the Governor says that school districts (and, presumably, other local governments and health care providers) can, if they want to, use some of their reserves to avoid having to lay off workers to accommodate the proposed cuts in state aid. But the Governor declines to tap additional state reserves, saying that he wants to keep that money in case we have an even rainier day.

When the Governor was asked if he had estimates of the impact of his proposed cuts on employment levels in the state, his budget director pointed out that the $1.8 billion in cuts were designed to have the least possible negative economic impact. Which leaves me the question: "How can you take $1.8 billion of demand out of the state's economy without having some negative impact?"

Rather than risking an interruption of the economic recovery, the state should balance this year's budget with as little damage to the economy as possible. Budget decisions that affect multiple years should be made as part of the regular budget process with a thorough vetting of all the options.

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