



Watertown Daily Times, February 25, 2008

Coffers of New York state could be hit hard by recession

By Tom Wanamaker

ALBANY — Recession is no stranger to New Yorkers. The Empire State was pummeled hard by recessions in 1990 and 2001; the state ranked fifth nationally in job loss during the former and second during the latter.

A January report by the Rockefeller Institute of Government studied recent recessions to examine how a national recession might affect the revenue streams of state governments and addressed ways in which the states could respond.

“Recessions differ not only in their depth and duration but also in their character,” the report said. “Different kinds of recessions will have different impacts on the tax receipts of state governments.”

Thus, a recession affecting investment may have a greater impact on more industrialized states, while a recession marked by falling consumer consumption likely would have greater effect on states relying most heavily on sales taxes.

The report speculates that New York could be hit hard again by a 2008 recession, particularly if it comes with “a disproportionate impact on finance and insurance,” as did the 1990-91 recession.

The Rockefeller report said that almost 31 percent of the state’s gross domestic product co-

mes from the finance/insurance and real estate/rental/leasing sectors.

Taxes generated by Wall Street show up on the state’s income ledger as corporate taxes, as real estate transfer taxes and primarily as income taxes. A strong economy will yield high salaries and bonuses on Wall Street, of which the state surely will take a sizable chunk. Conversely, those revenues deteriorate during economic slumps.

“Personal income tax is significantly more important in New York than in other states,” said Robert B. Ward, the Institute’s deputy director. “When people buy a lottery ticket and pay sales taxes they’re helping the state. But by far the most important contribution is the income tax.”

New York derives the lion’s share of its cash from personal income taxes, some 20 percent of which come from Wall Street, Mr. Ward said. In his 2008-09 executive budget, Gov. Eliot L. Spitzer projects revenue of more than \$38.8 million from personal income taxes. This amount represents more than 60 percent of the almost \$64.4 million in total tax revenue.

“All recessions have implications for Wall Street, with layoffs and declining bonuses,” said Michael Wasylenko, professor of economics at the Maxwell School of Citizenship and Public Affairs at Syracuse University. “Financial markets are exposed. People are holding lots of bad debt. The financial markets will get hurt, based on what we know now.”