Albany in Reruns

When will the state cut spending, cease tax hikes and take a lesson from Trenton?

BY ROBERT KNAKAL

New York has been living beyond its means for decades. The fiscal irresponsibility exhibited by the state has put us in a $9 billion hole, and there are no easy solutions to this fiscal disaster.

Typically, budget gaps are plugged with a combination of spending cuts, tax increases and borrowing. The time has come, however, for our legislators to make the tough decisions that they all claimed to be able to make when they were running for office. Many of New York's elected officials agree that raising taxes, which would increase what is already the highest tax burden in the U.S., is not feasible. Borrowing more money, which has been proposed as part of the Ravitch plan, would only add to our problems, as New Yorkers already pay $5.7 billion per year in debt service out of a $132 billion budget. Without any new borrowing, it is expected that taxpayers will be paying $7.7 billion a year by 2014 to service our existing debt. It is time to make tangible and painful spending cuts.

Robert Knakal
Columnist

This year's $9 billion shortfall is just the tip of a projected $60 billion deficit iceberg over the next five years. How did we get here? Governor Paterson stated at a press conference recently that a plan must be formulated to enforce a relationship between spending and revenue, "just like you would do in your own household." It is painfully apparent that this pragmatic mind-set was not part of the process in formulating last year's budget, which was one of the biggest acts of irresponsibility in the history of the state.

Last year, with almost all families and businesses struggling to cope with the impact of the worst recession since the Great Depression, personal and corporate budgets were slashed, in accordance with our new economic realities. It was perfectly clear that incomes and revenues would be down; therefore, reductions in operating budgets were necessary. In a rational world, expenses are adjusted to the point where the dollars you expect to have meet your obligations. Residents and businesses here applied this simple rule in order to make ends meet. While this process is painful and no one enjoys facing it, few of us had a choice. It's called fiscal responsibility. New York legislators didn't see it that way.

Last year, the Legislature passed a $131.8 billion budget, an increase of 10.1 percent, or $12.1 billion over the prior budget. State officials maintained that the growth in expenditures was the result of spending economic stimulus funds received from the federal government. Unfortunately for state officials, we were paying attention in first grade and know how to count. Excluding the federal stimulus funds, state spending increased by 4.7 percent, or $5.9 billion. This increase was approved at a time when it was clear revenue would be decreasing greatly and was larger than the rate of inflation by a wide margin. While local residents and businesses were cutting expenses, our state was greatly increasing them.

In order to address the deficits created by this irresponsibility, last year's budget included 137 new taxes, fees and charges that New Yorkers didn't have to pay before—137! (Far be it for our elected officials to let New York slip from the coveted position of having the country's highest tax burden.) These new taxes addressed plugging 80 percent of the projected budget gap at that time; genuine spending cuts accounted for only 20 percent.

At the time that last year's budget was passed, many believed that New York State's economy would be much worse off in the future due to these spending increases. They occurred nonetheless. Clearly, the federal stimulus money was a nonrecurring event. Using the stimulus money to create additional spending not only delayed the making of tough decisions, but now makes those decisions more difficult, as the billions of dollars of additional spending, created by stimulus money, has to be cut simply to get back to pre-stimulus levels. Moreover, there were significant flaws in last year's budget, as it was based on overly optimistic revenue assumptions and temporary fixes that pushed the problems into the future.

Unfortunately, the future is now.

Lieutenant Governor Richard Ravitch was appointed to devise a plan to address the growing budget dilemma. Mr. Ravitch is credited with being a major architect of the plan that helped New York escape near-bankruptcy conditions in the mid-1970s. His task is not an enviable one today. To solve our fiscal problems, we must deal not only with a 2009 budget that was a disaster, but with decades of irresponsible behavior.

Just like a college student with his first credit card, the state has routinely been taking on increasingly higher financial obligations, utilizing credit-card-style borrowing. Many New York historians point to Robert Moses and his initiatives in 1954 as the first of the credit-card-like dominos to fall. Fundamental changes made to the M.T.A. 40 years ago were maligned by Rockefeller-era critics, and many point to New York City's near-bankruptcy experience in the mid-1970s as another turning point where the state just kept borrowing and borrowing. It occurred again after 9/11. The state has repeatedly tried to borrow its way out of problems and has consistently passed counterproductive tax-and-fee increases. Each time the state has resorted to these emergency measures, it promises it will be the last time.

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So what do you think a major component of Mr. Ravitch's new plan is? You guessed it, more borrowing. But isn't this what got New York into this deep hole in the first place? Mr. Ravitch readily admits that borrowing money in our financial condition is a terrible idea: "One of the problems you have is, you've got all the banks wandering through the halls of the Capitol, selling all the same kind of cockamamie borrowing schemes that got us into trouble in the first place. So at least this borrowing [the type proposed by him] is up front, contains covenants, is done with the best possible credit and it reflects my judgment, which—I could be wrong—say, 'They ain't gonna cut $10 billion.'" The "they" he is referring to is our Legislature and his belief that, even under these dire circumstances, there is little political will to make the spending cuts that are necessary.

The city has, at times, been functionally insolvent and has borrowed from the capital budget to pay operating expenses in order to conceal this deficit spending. This practice was most obvious in 1975, when the city was on the brink of bankruptcy. The state has swung from surpluses to deficits, and when it needed money, it either borrowed or relied on temporary revenues. This has placed the state in a position where approximately 17 percent of our state-supported $60 billion debt can be directly linked to past deficit borrowings. New Yorkers have seen this movie before and are now suffering the consequences.

I was in a meeting last week with a Democratic senator and felt like I was listening to a Republican. The approach that was laid out for addressing the budget, which is due on April 1, consisted of (1) no new taxes; (2) spending cuts; and (3) a comprehensive plan for deficit reduction. Wouldn't it be nice if this actually happened? I am not advocating for one side of the aisle or the other, merely for the approach.

This approach would deviate from the normal budgeting process in which the Legislature continues to spend money on services the people of New York clearly cannot afford. The labor unions continue to lobby for this irresponsible spending to continue regardless of the state's financial condition, as if it would be wrong to make state government smaller. We must remember that tax dollars are not guaranteed.

This brings up one key precedent, established during the 1970s crisis, one Mr. Ravitch has not yet addressed: It is the power to freeze public-sector wages in a fiscal emergency, notwithstanding existing contracts.

At present, health care and education expenses make up 57 percent of the state budget. Union obligations are strangling the city and the state. Given labor contracts, New York is currently paying for three police forces and three fire departments but only getting services from one each. The city is paying about $6.8 billion for pensions this year. Add to that figure $7.3 billion for benefits, and the $14.1 billion total represents about 22 percent of the city's $63 billion budget. New York's five pension funds are severely underfunded to the tune of an aggregate $105.4 billion. Comprehensive reforms in these areas are needed; the current system is simply unsustainable.

Running a municipality is just like running a business. When revenue is down, expenses have to be adjusted. Why don't our elected officials understand this simple principle? The time for tough decisions and painful spending cuts is now. If we wait until disaster strikes to close our long-term fiscal gap, the cost will be much greater. Just saying that there is "no political will" to make these hard choices should not be tolerated by New Yorkers any longer.

We should take a lesson from two of America's newest governors. Chris Christy in New Jersey and Bob McDonnell in Virginia have been tackling deficits without increasing taxes. They are asking not just for spending freezes but for real reductions in spending. Mr. Christy has proposed that the Garden State spend $2.9 billion less in 2011 than it did in 2009. He has exhibited a willingness to enact much needed reform to the way government employee unions operate. In Virginia, Mr. McDonnell wants to sign a budget that will take spending down below 2006 levels. Both of these men are making tough choices and doing what needs to be done. They are both being vilified by liberal interest groups and the media for not raising taxes. What these critics fail to realize is that the public wants government to show restraint—just the way families and small businesses have already had to.

Consider this: If Washington learned a lesson from Virginia and reverted to spending at 2006 levels, the $1.34 trillion budget deficit projected for 2011 would evaporate. The actions being implemented in New Jersey and Virginia show that political will does exist for fiscal responsibility. I wonder if anyone in New York is paying attention.

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