

As appeared in: Daily News, December 13, 2001

Stimulus Bill Could Cost City Big Time

By George Sweeting

Congress is trying to hammer out an economic stimulus package. New York could certainly use a boost. But at least one part of the package under consideration could actually worsen the city's fiscal health by costing it more than a quarter-billion dollars a year in lost tax revenues.

That is because the House version of the bill would change how businesses write off the depreciation of assets, such as buildings or machinery. Firms would be able to use that provision to lower their taxable income—reducing not only what they owe the federal government, but also their state and city taxes.

The city's Independent Budget Office estimates that the loss to the city could be as high as \$280 million annually over the next three years.

To offset this, other provisions in the bill would have to provide an enormous stimulus. But that doesn't look likely. The House bill also would speed up an already scheduled tax rate cut and lower the capital gains tax rate.

The rate cut is limited to those in upper tax brackets. In the city, 69% of income tax filers would get no savings from the change because they earn too little. Since research shows that higher income taxpayers are less likely to spend newly untaxed income, the city would see little spark to its economy.

Similarly, because the benefits from the proposed capital gains cut are heavily weighted toward a relatively small number of wealthy tax payers, it does little to spur spending in the short term.

The city needs a shot in the arm now, not in the long run.

My office recently estimated that even before accounting for any changes in federal law, city tax revenues could fall short of expectations by as much as \$ 925 million in this year's adopted budget. If our economic forecast proves correct, the shortfall could grow to \$1.8 billion for the fiscal year that begins in July.

That puts a big hole in the city's income and makes balancing next year's budget—which the city now estimates has a \$3.6 billion gap—a daunting task.

Only the right kind of federal stimulus package will ease the city's problems by spurring the national and local economies fast enough to generate more city revenues.

Achieving this goal depends on getting money into the hands of the people most likely to spend it quickly. One tax cut option that does that is the Senate's proposed partial rebate of payroll taxes. The rebate would give tax relief to working Americans, including the 40% of workers who earn too little to owe income taxes and so did not receive one of the refund checks last summer.

There are other options under consideration as well. One is increasing the federal share of Medicaid spending, which would provide some fiscal relief to the states. Another is extending unemployment insurance, although many people losing jobs in the current downturn are not covered by it. A third is increased spending on public

infrastructure, which is started quickly could provide both stimulus and long-term benefits.

These and other proposals can all be helpful. But what New York needs most is a stimulus plan that delivers quickly and provides the boost to the local economy that helps close its budget gaps.

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