

Market Meltdown

New York's Financial Crisis

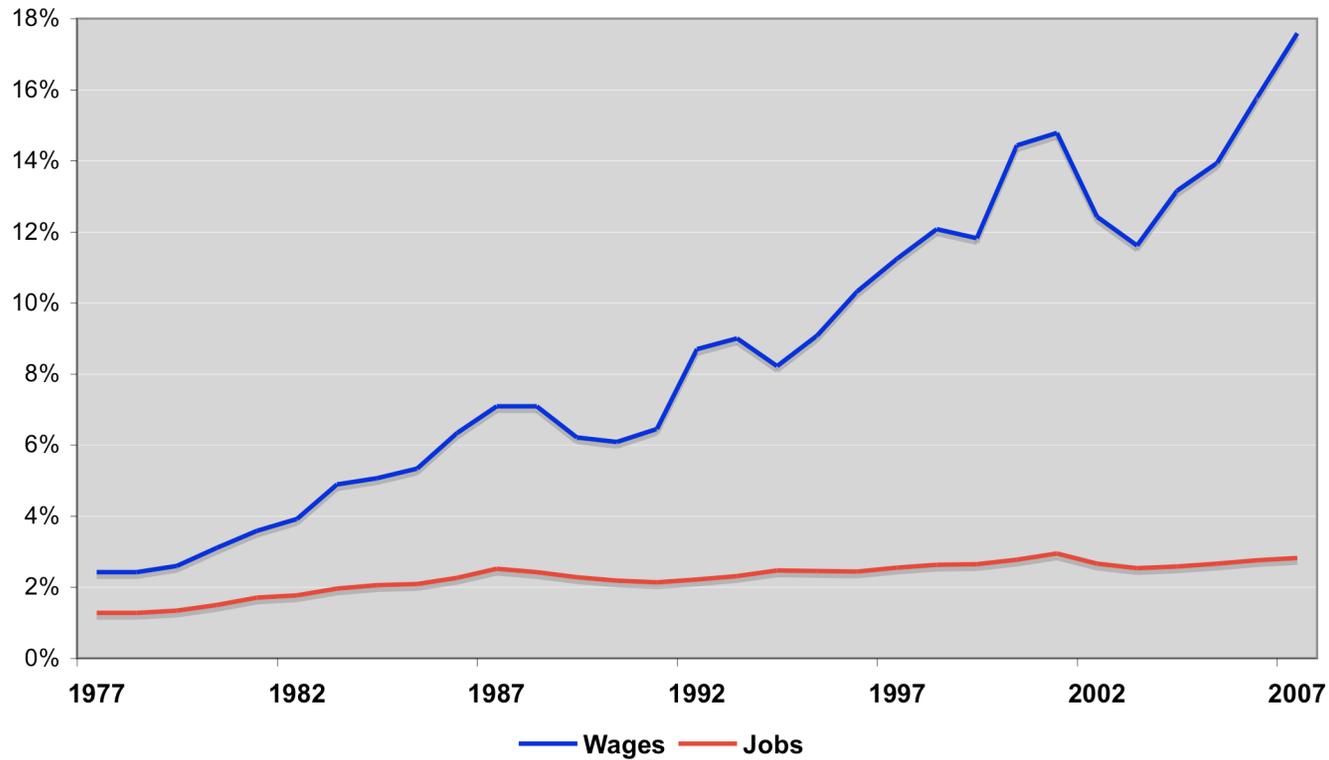
Oct. 22, 2008

Presentation of E.J. McMahon



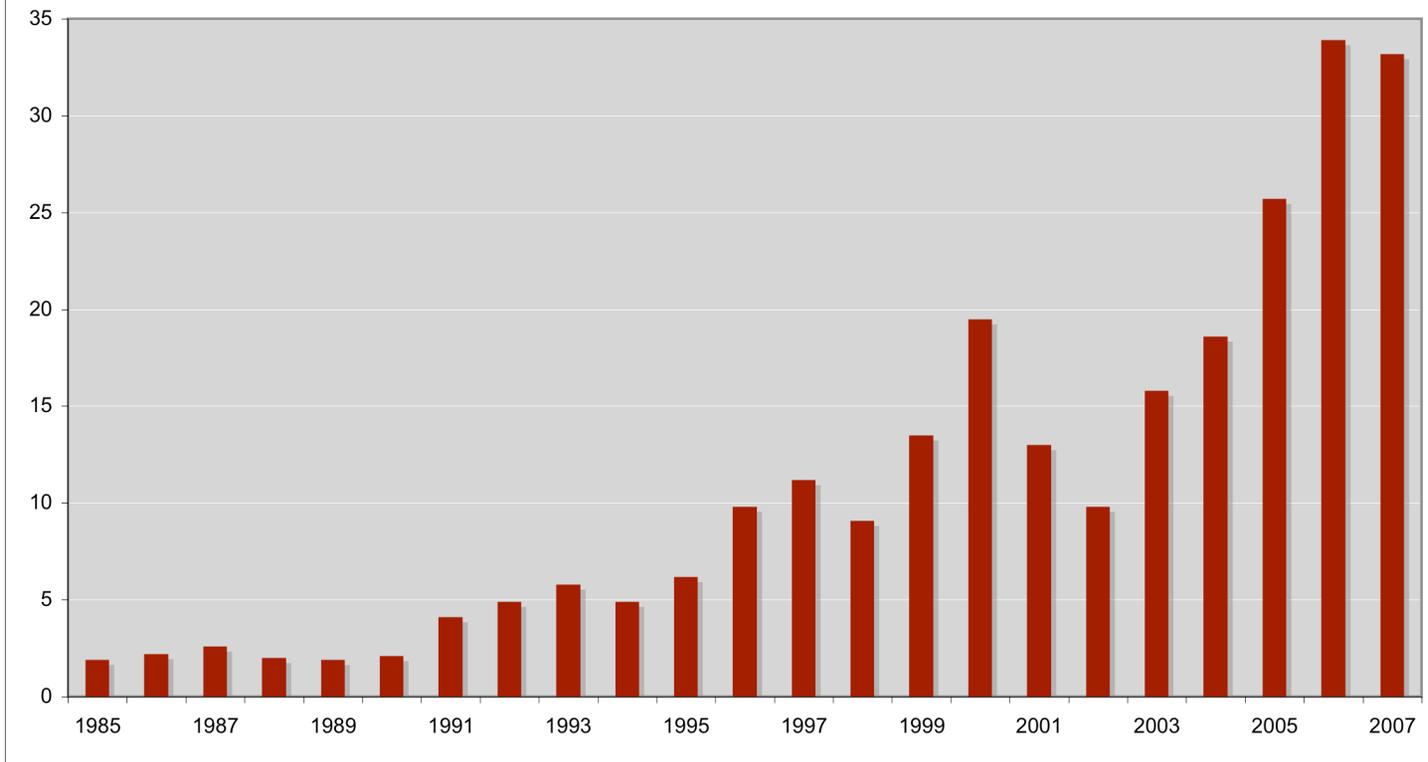
EMPIRE  CENTER
FOR NEW YORK STATE POLICY
A project of the Manhattan Institute for Policy Research

Securities Industry Share of Private Wages and Jobs in New York State



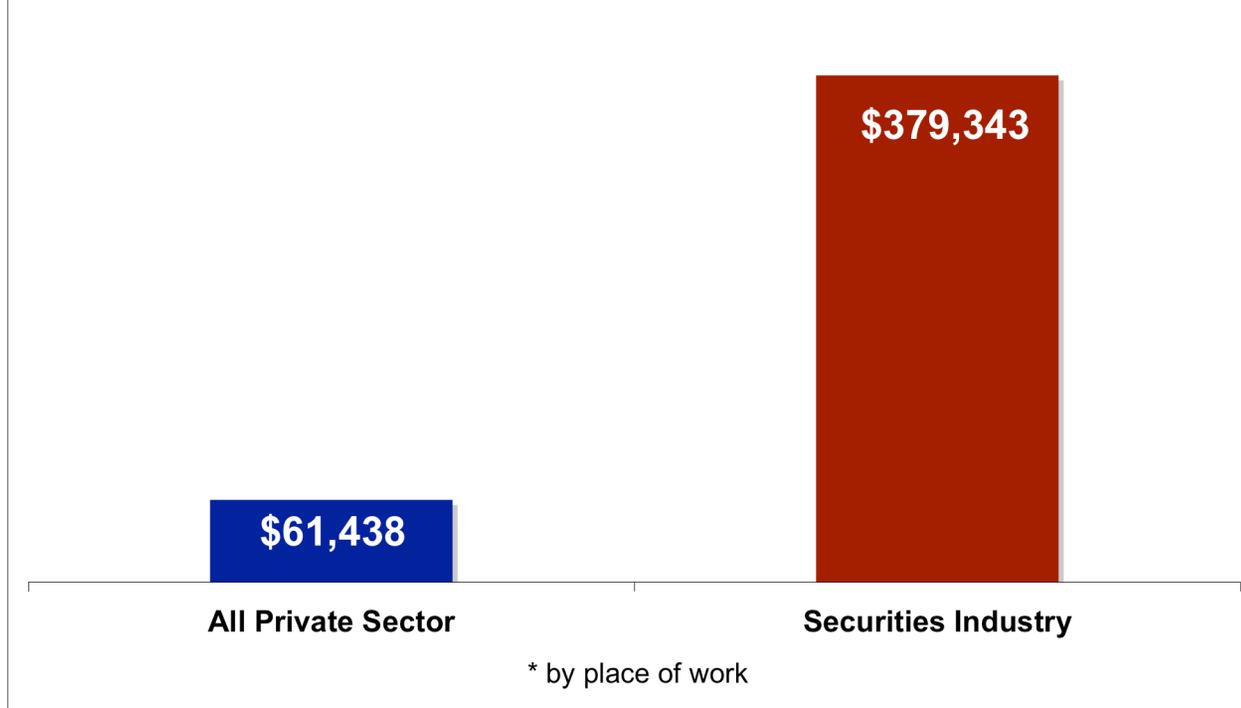
Wall Street jobs—including securities industry jobs in the New York City suburbs—are a relatively small share of statewide private-sector employment. But by 2007, securities industry wages had skyrocketed to nearly one-fifth of all private wages statewide.

Wall Street bonuses (in billions)

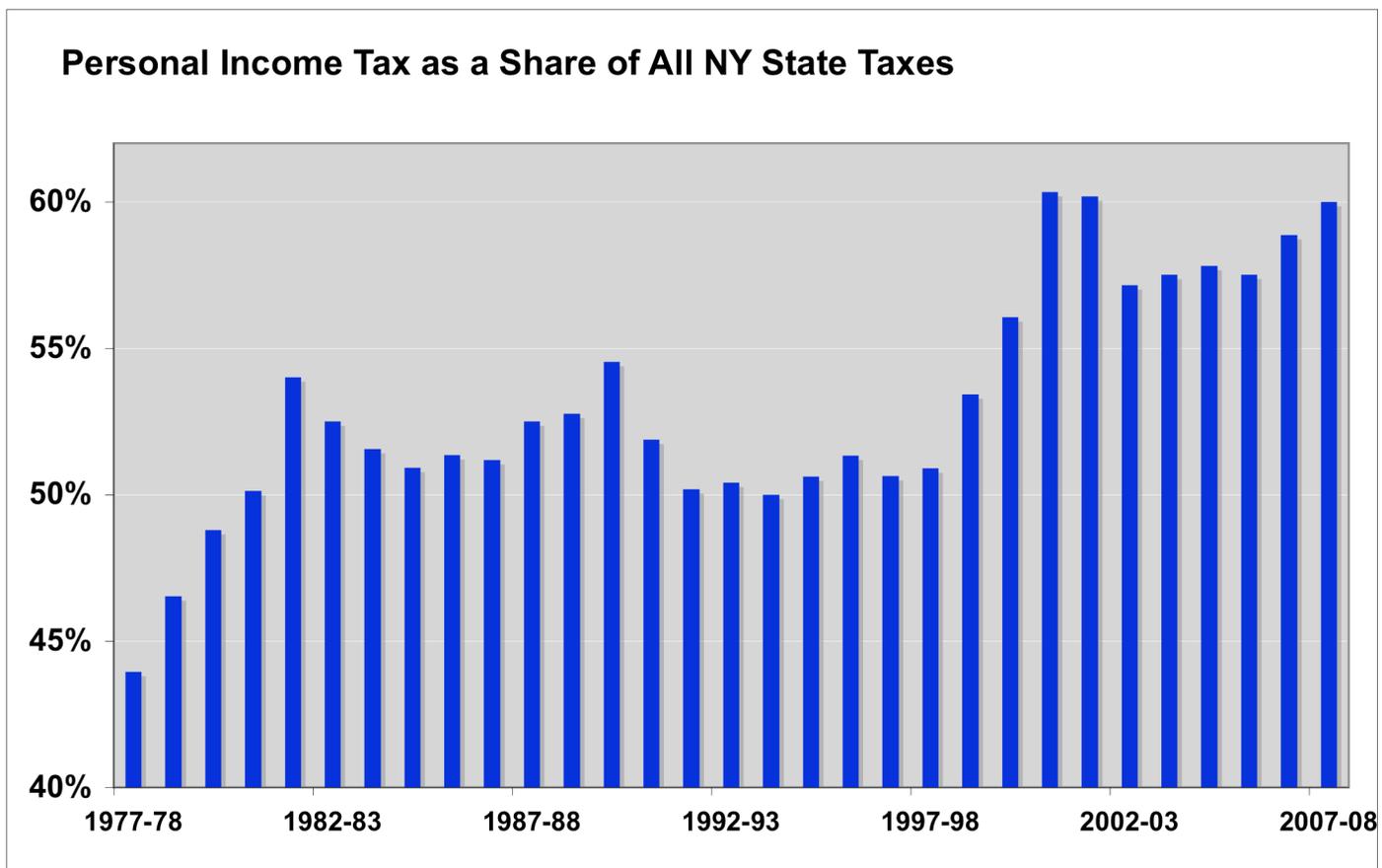


By the end of the last boom, roughly half of all Wall Street compensation came in the form of bonuses based on firm profits. Every billion in bonuses directly translated into nearly \$70 million in added state personal income tax revenues.

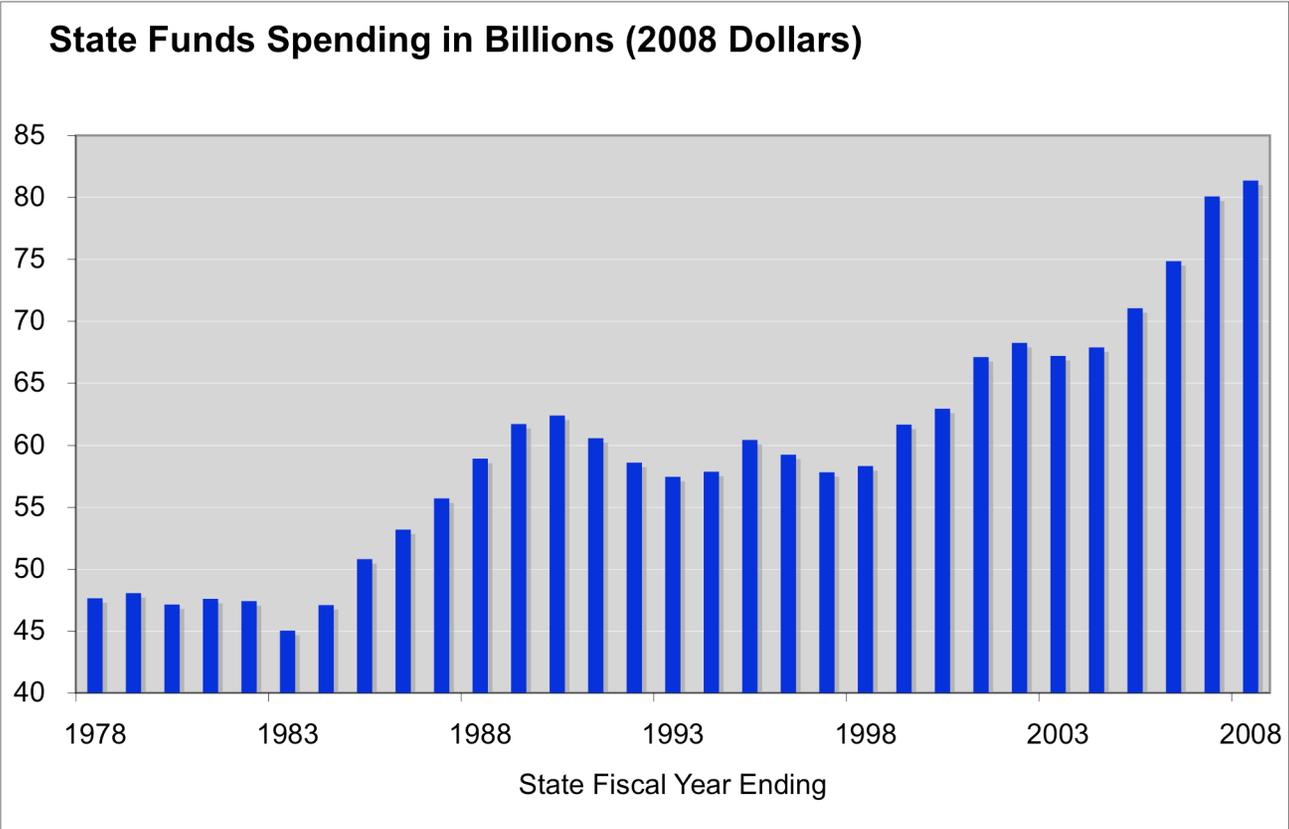
Average Wage* in New York State, 2007



As recently as 1980, the average securities industry wage (including bonuses) was just over double the average for all private sector jobs in the state. The compensation model spawned by the heavily leveraged profit margins of the last 25 years pushed the industry's average wage level (including bonuses) to more than \$379,000, which was over six times the average wage for the entire private sector. Growth in securities industry compensation was responsible for a large share of the state's revenue rebound in the 1990s and earlier in this decade. But it won't happen again.



The growth in Wall Street wages was a key factor in the growth of the state government's growing dependence on its personal income tax (PIT), which hits out-of-state commuters as well. As shown above, the PIT share of all state taxes has risen from less than 45% in the late 1970s to 60% last year.

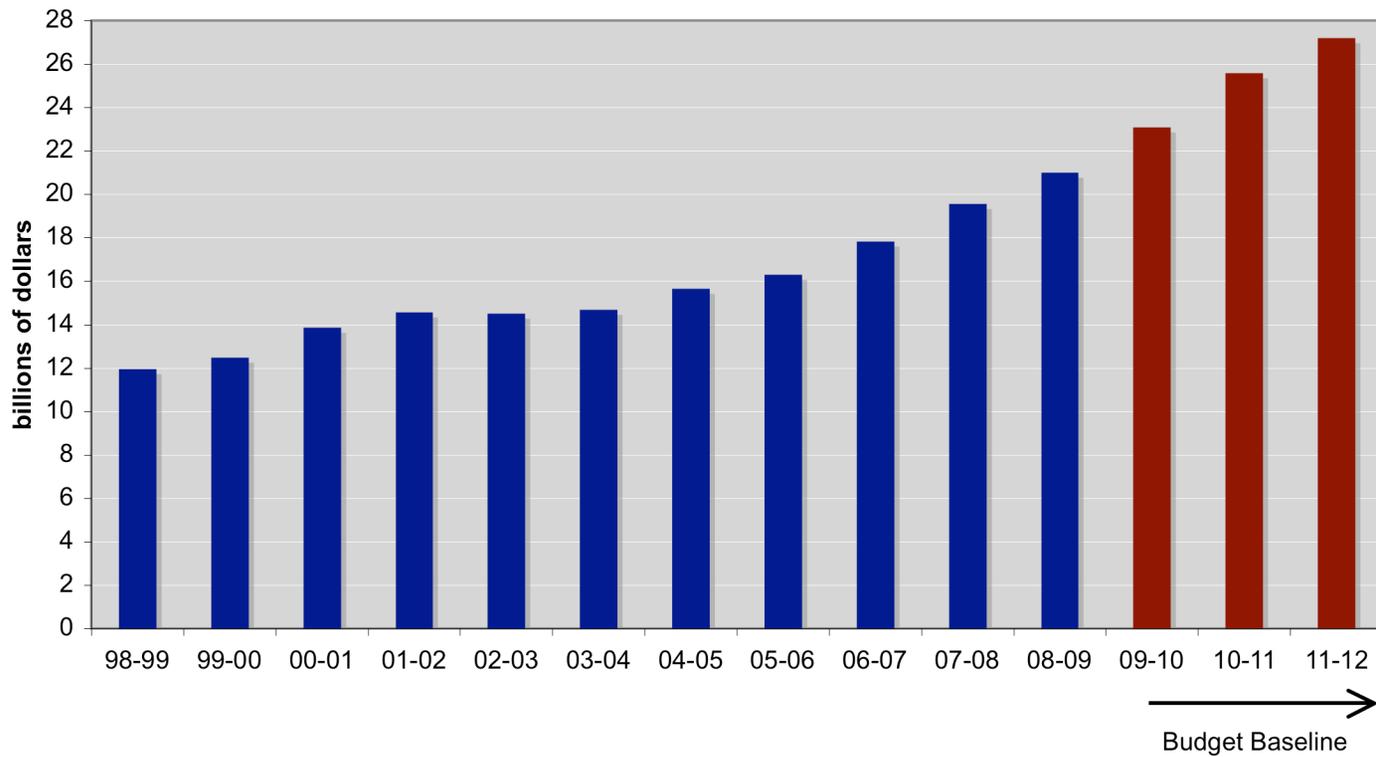


Inflation-adjusted State Funds spending (excluding federal aid, but included borrowed money) has surged over the past quarter-century, roughly in line with the Wall Street booms during that period.

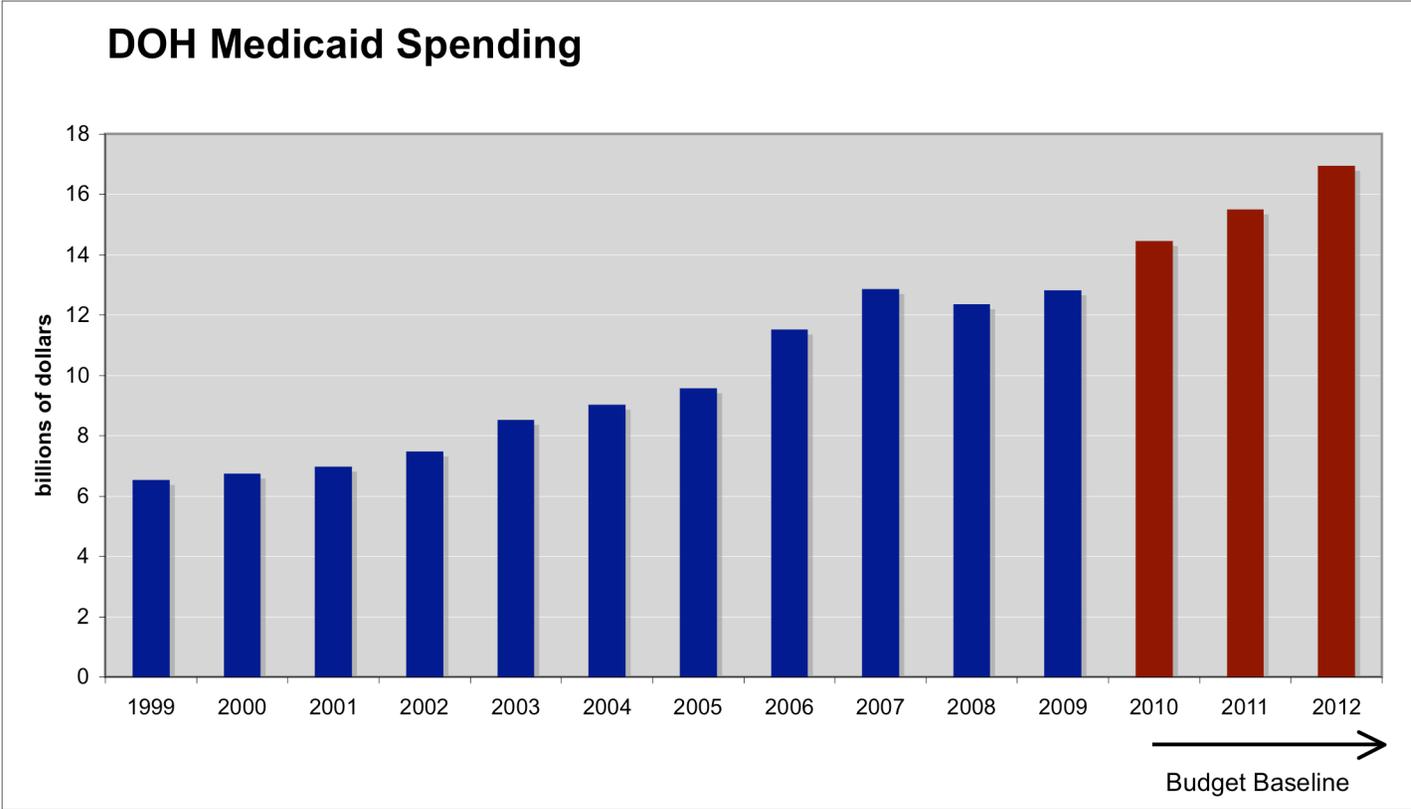
Budget Drivers:

- K-12 School Aid
 - Medicaid
 - Pensions

State Aid to Public Schools

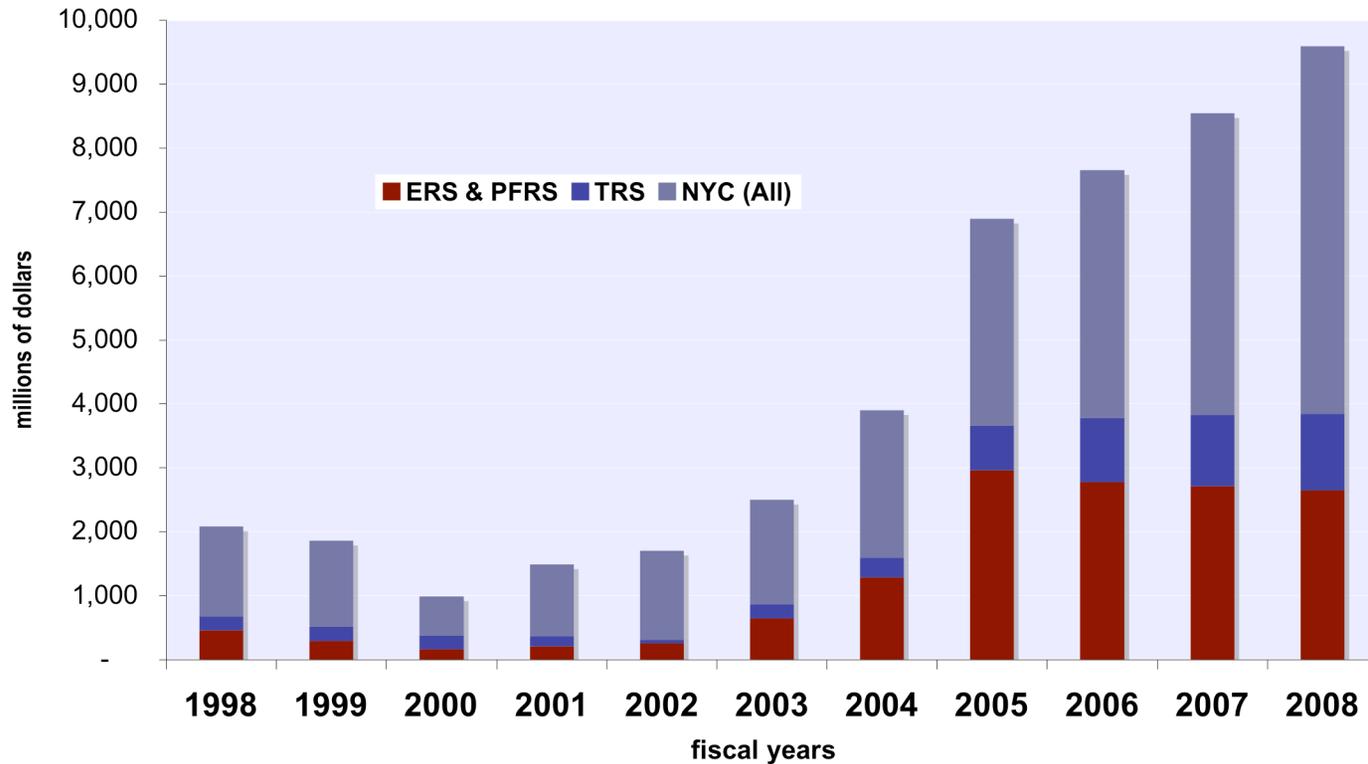


State aid to K-12 schools has risen 76% in the last 10 years, including 29% in the last three years, and the baseline calls a further 29% hike over the next three years. Enrollment during this period has decreased slightly, and is projected to remain flat over the next three years.



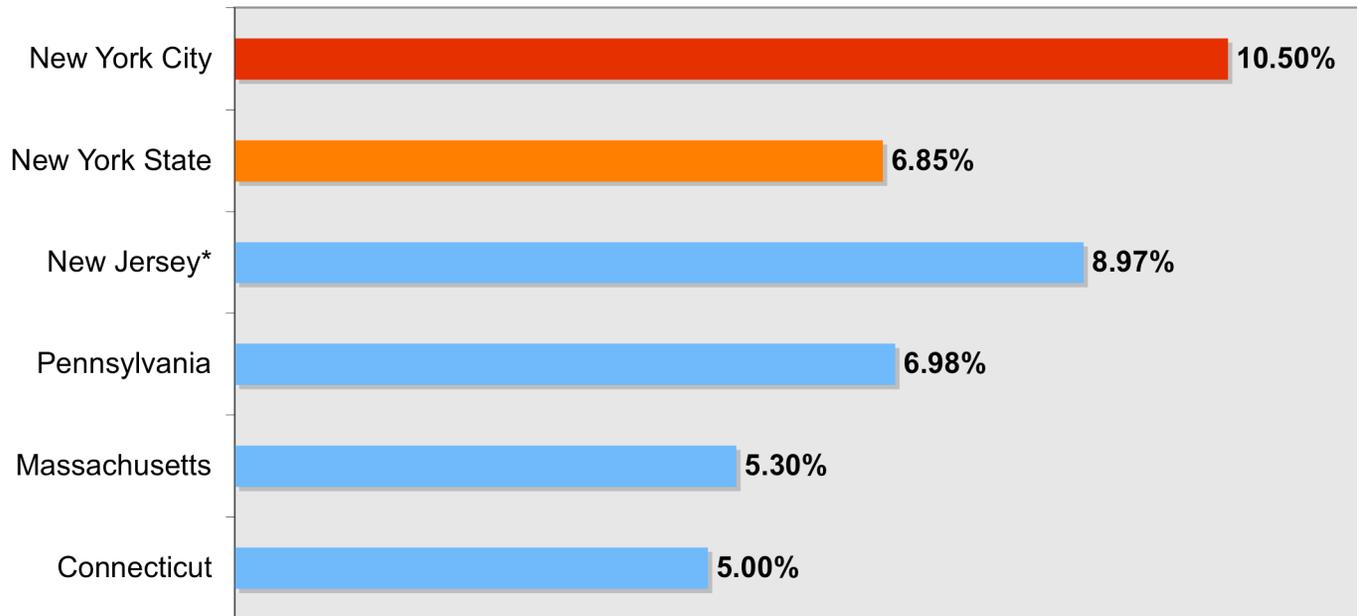
Medicaid spending is up only 11% in the last three years—including a *decrease* in fiscal 2007-08—but is projected to rise 32% over the next three years.

Employer Contributions to Public Pension Funds in NYS



Public pension fund contributions have risen *tenfold* since 2000.

Personal Income Tax, Highest State-Local Rates



* Employers in Newark pay a 1% wage tax

Source: Tax Foundation

The combined state-local personal income tax in New York City is already the highest in the region—and the nation.

Long-Term

- Pension reform
- Taylor Law reform
- School property tax cap
- State spending cap
- Contracting out & privatization