

High Cost of Living Drives New York's Fiscal Deficit with Washington

Between now and the end of the year, a hot political topic here in New York will be whether to let the Bush tax cuts expire for people in the highest income bracket, as the Obama administration proposes, or whether to extend those cuts for everyone. Advocates taking the latter position will correctly argue that higher rates will be especially harmful to New York, because of the large number of wealthy people, who live here.

What is not likely to be discussed, however, is that because of the exorbitant cost of living in New York and the surrounding suburbs, federal taxes take a supersized bite out of the incomes of all New Yorkers, who in the vast majority are not wealthy at all. The result is that here in New York City, which is arguably the poorest city in America when it comes to what people can actually afford, we end up subsidizing other states and localities, where people pay less to Uncle Sam, even as they enjoy a higher standard of living than we do.

How could this be? The answer is that because New York and the surrounding suburbs are so expensive, businesses have to pay higher salaries to recruit people to work for them. According to the ERI Economic Research Institute, a leading data survey company that helps corporate clients set compensation packages and calculate the cost of doing business throughout the United States and elsewhere, these higher salary costs are substantial.

They calculate, for example, that a typical registered nurse in metropolitan New York earns \$82,712 versus a national average of \$65,464. In the case of an accountant, they calculate a figure of \$74,388 versus a national average of \$58,712. In the case of an administrative assistant, as they define those job responsibilities, they calculate a figure of \$59,243 versus \$47,961 nationally. And finally, they also provide data for someone working as a janitor. Here the figure they calculate is \$38,142 versus \$31,220.

Sounds great. Who doesn't want a higher salary? But unfortunately, it's not that simple. The problem is that the IRS doesn't care how much you can actually buy with your hard earned dollars. They just want to see the number printed on your W-2. And as we all know, the more you make, the more you pay.

For the average registered nurse in New York, filing as an individual, and assuming no special deductions or one-time credits, the tax bite amounts to \$14,381 versus \$10,219 for the average registered nurse in the rest of the country. An accountant here pays \$12,444 versus \$8,531 nationally. For an administrative assistant, the figure is \$8,656 versus \$5,844. And in the case of a janitor, the figure is \$3,899 versus \$2,864.

But wait, it gets worse than that. Based on data from the federal Bureau of Economic Analysis, it turns out that the cost of living in the New York metropolitan area is significantly higher than the difference in salaries alone would indicate. According to their data, the cost of living here is 45 percent higher than in the rest of the country or approximately twice the difference in salaries.

Yes, employers have to pay more to recruit people to work here in New York, but they don't have to make up the whole difference. Economists refer to this as money illusion, which is their way of saying that people find it difficult to distinguish between the nominal value of money and the true purchasing power of that money in the marketplace.

If we recalculate salaries to take into account the cost of living, it turns out that the federal tax premium that New Yorkers have to pay is even greater. Thus, if the tax bite were to reflect the actual standard of living for a registered nurse in New York, the real tax would be \$8,106 instead of the actual tax of \$14,381 or a difference of \$6,275. For an accountant, the difference would be \$5,775. For an administrative assistant, it would be \$4,352, and for a janitor, \$1,778.

The lessons here are clear. In the short term, New York's Congressional delegation needs to restrain efforts to raise taxes in Washington, D.C., because the impact here will be greater than elsewhere. And in the longer term, we need to determine why the cost of living in New York is so high and then implement the reforms necessary to fix the problem and give New Yorkers a standard of living that is competitive with rest of America.

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