

The Potential of Countercyclical Fiscal Policy in New York City

Executive Summary

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In New York City, there is growing debate on how to pay for the expanded social services promised by Mayor Zohran Mamdani, given the profound absence of federal support under President Trump. This debate resonates far outside New York as other U.S. cities face similar challenges.

Given the tension between federal and local governments, this paper makes the case for New York City enacting countercyclical fiscal policy to strengthen its economy and navigate downturns.

Countercyclical fiscal policy generally means a government uses its own spending and taxation power to smooth out business cycle fluctuations. During a recession, for example, a government would increase or maintain its spending while reducing taxes – actions that help stabilize demand, employment, and income, while reducing “economic scarring.”

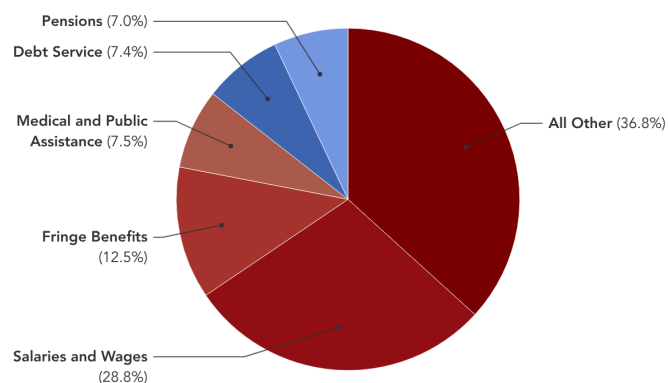
Countercyclical fiscal policy is not widely promoted at the local level, especially given New York’s significant borrowing and spending constraints since the 1970s fiscal crisis. This report lays out how it is in fact a viable solution and powerful tool in a downturn.

The government can spend when households and businesses can’t or won’t, but the type of spending matters. I argue the first step in effective countercyclical fiscal policy is to increase or at least maintain “multiplier” spending during a downturn. Multiplier spending, like spending on salaries, wages, and public assistance, can directly help reduce the duration, severity, and general pain of a recession (see Figure 1). This isn’t the case for “non-multiplier” spending, which does not help stabilize incomes or demand, like spending on pensions and debt service.

Figure 1:

NYC expenditures (FY 2027 adopted budget)

Multiplier spending (reds) directly stabilizes demand, incomes, and employment, while non-multiplier spending (blues) does not.



The expenditure data is from all funding sources, not just city funds.
Source: New York City Office of the Comptroller

The report delves into the challenges of taxation as a countercyclical tool and believes that targeted, progressive tax *increases* can bring in revenue to maintain multiplier spending. It also outlines different strategies for the City to free up funding, including reducing the size of its asset positions, using alternative metrics to assess pension fund sustainability, and utilizing short- and long-term borrowing to the extent necessary.

Capital spending could be made into an even sharper tool for countercyclical fiscal policy if budget officials and policymakers incorporate countercyclical considerations into their debates, discussions, and projects.

In that vein, there are 10 recommendations under two guiding principles:

- New York City and New York State policymakers should bring a countercyclical perspective to their work.
- New York City's countercyclical fiscal policy toolkit should contain a variety of tools.

Short-term recommendations include:

1. Increase or at least maintain multiplier spending.
2. Stop the prepayment of future expenses.
3. Draw down available reserves as needed, within legal limits.
4. Issue revenue anticipation notes (RANs) and tax anticipation notes (TANs) to help cover short-term revenue shortfalls.
5. Utilize long-term borrowing capacity to maintain capital project spending throughout a downturn.

Medium-term recommendations include:

6. Implement targeted, progressive tax increases.
7. Deficit finance during the next recession if the City decides the benefits outweigh the costs.

And long-term recommendations include:

8. Identify the types of spending that can be legally rerouted to multiplier spending during a downturn.
9. Explore metrics other than the funding ratio to assess the sustainability of public pension funds.
10. Create a committee within the Mayor's Office of Management and Budget (OMB) to study the costs and benefits of a full or partial pay-as-you-go funding for the City's pension funds.