

Reforming Regulation to Reduce New York's Exorbitant Cost of Living

Everyone recognizes that taxes in New York are too high and have been for a long time. According to data compiled and calculated by the Tax Foundation, the combined state and local tax burden in New York has been the highest (or second highest) in the nation for decades. While it's difficult to determine the precise impact of taxes, no one doubts that New York's excessive tax burden has a chilling effect on business. New York's high income taxes have a particularly negative impact on entrepreneurs, for example, who typically report business profit as individual income. Publicly traded companies, which must answer to shareholders, are also very sensitive to taxes.

But are taxes the only impediment to economic growth and prosperity? Or do other factors come into play as well? Increasingly, more attention is being paid to the astoundingly high cost of living in New York, especially in the City and downstate region. While New Yorkers currently have to pay an additional two cents on the dollar in state and local taxes compared with the national average, the cost of living in New York, by all estimates is far greater. A study by the federal Bureau of Economic Analysis in Washington, D.C., for example, estimates that the cost of living in New York State, based on the most recent available data, is 31.8 percent above the national average, the second highest in the nation. Only Hawaii, an island in the middle of the ocean, is more expensive. Housing is the major reason for New York's high cost of living. But it's not just housing that is so expensive. Almost everything in New York costs more, including electricity, health and auto insurance, and even groceries.

Why? Why does everything in New York cost so much? Obviously, a major factor is the high cost of regulation. While new regulations rarely come with an advertised price tag, the indirect or hidden costs that they impose are often substantial. The inability to site new power plants in New York, for example, has clearly increased the price of electricity. Onerous requirements under the State Environmental Quality Review Act requiring developers to submit time-consuming and often very expensive environmental impact statements also increase costs. In many parts of New York City, ill-considered zoning restrictions make it impossible to build new housing. Excessive mandates drive up the cost of health insurance, while also creating what economists refer to as deadweight losses. All of these regulations contribute to the high cost of living. And there are many more. The question is how to reduce the impact of regulation and thus the cost of living.

Interestingly, there are approaches that point the way towards possible solutions. The World Bank in Washington, for example, has created a website called doingbusiness.org that publishes research that attempts to measure and rank the quality of regulation at both the national and sub-national level. The Organization for Economic Cooperation and Development in Paris promotes a turn-key methodology called the International Standard Cost Manual that makes it possible to measure the cost of a specific regulation by following a series of pre-determined steps. The International Trade Commission in Washington, D.C. has commissioned research that uses cost of living data compiled by the Economist Intelligence Unit along with a complaint index to estimate the impact of non-tariff trade barriers on U.S. exports. The research was commissioned in order to assist American negotiators as part of the ongoing

Doha Round. And in September 2009, consultants hired by the State of California issued a study aimed at measuring the overall cost of state and local regulation in California. Based on an econometric analysis and with help from a commonly used input-output model, they arrived at a total price tag of \$493 billion per year, once indirect and induced costs were taken into account. The implication of all these efforts is clear. Regulation can be measured. And its impact is significant.

So what does this mean for New York? The bad news, of course, is that since the cost of living in New York State is so high, our de facto economic performance is much worse than generally recognized. If we deflate median household income, for example, by what it actually costs to live here, it turns out that New York is probably the poorest or certainly one of the poorest states in America. Clearly, this would explain the huge outmigration that has plagued New York in recent decades and continues to whittle away at the size and influence of our Congressional delegation. The good news, however, is that a growing appreciation of the economic impact of regulation, as well as improved techniques for measuring its cost, create a valuable road map for like-minded New Yorkers to change the direction of our state and create genuine prosperity for everyone who lives here.

Like California, we in New York should commission a study to measure the overall cost of state and local regulation. Ideally, researchers would use a variety of assumptions and methodologies to build broad based consensus on the need for reform. At the same time, we should begin drilling down to measure the cost of specific regulations, so that we can better judge which ones should be preserved and which should be changed or eliminated. These kinds of efforts can be performed at all levels of government. At the executive level, pressure should be brought to bear on the Governor's Office of Regulatory Reform to examine not just proposed regulations, but also regulations that are already in place. State and local auditors should also use their considerable resources to assess the cost of regulation and think pro-actively about how to reduce it. In some instances, this will require that personnel be retrained to ensure that they have the skills to perform this kind of analysis. And finally legislators should begin thinking about the changes in State and local law that will also be necessary. Reducing the cost of regulation cannot wait. New York's economic future depends on it.

For further information, visit www.thecostoflivingproject.org.