

The State of Working New York 2006: An Uneven Recovery

Western New York lags, and wages stay flat while productivity rises

FISCAL POLICY INSTITUTE

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Introduction

New York ranks among the highest of all states in human, technology and financial resources. The promise and potential of the Empire State's trillion-dollar economy is clearly indicated by its capacity to build on its already rich human capital resources. Since 2000, for instance, the state has seen an impressive increase in the number of adults living in New York who have 4-year college degrees or better (the ranks of those with college degrees grew by 500,000). And, New York's overall energy efficiency (it has the second lowest per capita energy consumption of all states) also bodes well considering the likelihood of permanently higher energy costs.

Yet, despite these favorable attributes and the state's relatively strong overall economic growth and its high level of worker productivity, New York's economic performance in recent years has fallen considerably short of its potential. New York's most pressing economic challenge is the relative economic stagnation of the upstate region west of the Hudson River Valley, encompassing the area extending from the Mohawk Valley to the Niagara frontier, including the Southern Tier. The continued erosion of the manufacturing base that undergirds the economies of these upstate metropolitan areas has led to much weaker wage and income growth and to slight population declines, even as the rest of the state saw population growth. The economic travails of western New York have been compounded by suburban sprawl and State fiscal policies that have pushed up local property and sales taxes and severely strained local government budgets.

At the same time, even where job growth is resuming after the downturn earlier in the decade, workers generally are not sharing in the economic gains. The decline in inflation-adjusted hourly wages may finally be bottoming-out for most New York workers. At the very low-end of the pay spectrum, real wage recovery has been helped by two increases since January 2005 in the state minimum wage. Still, an unusually wide gap has emerged in this decade between growth in productivity and growth in real wages for most workers. While this productivity-wage gap is not unique to New York, it comes against the backdrop of New York's already extraordinary degree of income polarization between those at the top and the large majority of families in the middle and at the bottom.

New York has the unwelcome distinction as being the only state ranking near the very top in terms of both per capita income and poverty. The Empire State has the fifth highest per capita income, but having the 11th highest poverty rate among the 50 states also makes New York the only northern state with a high poverty rate.

As it approaches a major election in the fall of 2006, New York State faces considerable economic and governmental challenges. Some critical ones are highlighted in this report, and many others have been discussed in more detail in the Fiscal Policy Institute's comprehensive biennial reports on *The State of Working New York*¹ and its annual state budget briefing books.² To meet these challenges, new regional models for economic growth and prosperity and a reconfigured set of state-local fiscal relationships are needed. These models must build on our state's considerable skill base, educational attainment, technology, physical infrastructure and natural resources in ways that will allow more New Yorkers to more effectively produce and achieve a sustainable and broadly shared prosperity. In addition, since families are working substantially more hours than ten or twenty years ago and commutes are longer, working families across the entire economic spectrum need help balancing work and family responsibilities.

New York's Regional Economic Distinctions

Regional economic distinctions are essential in better understanding New York State's economic challenges. Simply distinguishing upstate from downstate is not a sufficient description of the economic differences in New York State. Upstate, usually taken to be that part of the state north of New York City and its suburbs, includes two areas that have been doing relatively better economically than the balance of upstate. The Hudson Valley area up through Greene and Columbia counties is being increasingly influenced by second homeowners from New York City, people commuting to New York City and spillover economic activity from the New York City metropolitan area. The Capital Region also has fared better economically, in part because it has been less dependent on manufacturing and more reliant on government spending and it is now benefiting from some technology-oriented economic development related to the area's colleges and universities.

In assessing relative regional economic performance, this report considers three broad "super-regions" in New York State: **Eastern New York, Western and Northern New York**, and **New York City**. The Hudson Valley and the Albany and Glens Falls metropolitan areas are grouped together with the downstate suburbs (Long Island and the northern suburban counties of Westchester, Rockland and Putnam counties), as Eastern New York. While the Western and Northern New York "super-region" is the most economically troubled, we put more focus on the Western area, from Utica west to Buffalo, including the Southern Tier. The Adirondacks area, often referred to as the North Country region, is the northern part of the Western and Northern "super-region". The North Country is the least populated area of the state and its heavily resource- and tourism-dependent economy generally faces different

¹ See: <http://www.fiscalpolicy.org/SOWNY2005.stm>.

² See: <http://www.fiscalpolicy.org/2006FPIBudgetBriefing.pdf>.

economic challenges than the rest of upstate. Even the rest of upstate is not monolithic. Tompkins County, for example, which was recently designated as the Ithaca Metropolitan Statistical Area, includes Cornell University and the area's generally strong job growth in recent years may exemplify the potential of a "knowledge-based economy". Figure 1 details the components of these three "super-regions" and shows their relative shares of New York's total 2005 population of 19.3 million.

Fig. 1 here

[Note: for the galley version, all Figures are included in one PDF file available at: <http://www.fiscalpolicy.org/SOWNY/2006links.stm>]

I. Western New York's economic erosion and New York's incomplete recovery from the 2001-2003 downturn

As we enter the fourth year of recovery, there is scant evidence that a cyclical upswing is underway for Western and Northern New York. This super-region never really shared in the late 1990s expansion. As Figure 2 indicates, while the state as a whole scored impressive economic gains from 1995 to 2000, Western and Northern New York's job growth was less than half the state average. Even worse, its total wage growth, adjusted for inflation³, was only a fraction of the growth generated in the Eastern New York region and New York City. Years of stagnation took a toll on the population levels in Western and Northern New York, particularly among young adults,⁴ while the other parts of New York gained steadily.

Fig. 2 here

The years since 2000 have included three years marked by national recession and economic decline so it is not surprising that many of the indicators, by region, shown in Figure 2 have declines from 2000 to 2005. Real per-capita incomes in 2004 (the latest year income data are available at a regional level) were still below 2000 levels for the Eastern region and New York City. Over the last five years payroll employment has only gained in the Hudson Valley and downstate suburbs. Western and Northern New York shows negative indicators for the change in population, employment and total wages. However, Western and Northern New York registers a gain in terms of per capita income growth, partly due to its slightly declining population. It is interesting, however, and encouraging, to note that the annual rate of population decline since 2000 has slowed considerably compared to the late 1990s.

Although Western and Northern New York's average annual decline from 2000 to 2005 in payroll employment is not as severe as New York City's, the City experienced a much steeper downturn and is recovering much more quickly. As Figure 3 shows, New York City increased

³ Where dollar amounts for wages or incomes are adjusted for inflation in this report, the deflator used is the CPI-U-RS. The CPI-U-RS is a series developed by the Bureau of Labor Statistics to incorporate all of the improvements that have appeared in a piecemeal fashion in the main Consumer Price Index (CPI-U). Since 1999, the CPI-U-RS has moved in tandem with the commonly used national CPI-U.

⁴ The number of young adults aged 20-34 in Western and Northern New York fell by 23% in the decade of the 1990s. Fiscal Policy Institute, The State of Working New York 2003, p. 30.

payroll employment by 2.9% between the first half of 2003 and the first half of 2006, much faster than the pace of job gain for the other two regions. However, the Eastern Region showed only a very slight job loss during the downturn from the first half of 2001 to the six months of 2003. Coupled with a 2.4% job gain over the last 3 years, the Eastern Region has, in fact, done better on the net job front than the nation when putting together the downturn and the recovery periods. For the first half of 2006, New York City's job growth was 1.6%, more than twice the national job gain. In addition, New York City is starting to see job gains in some high wage industries, such as information, finance and professional services that were particularly hard hit during the economic and financial markets downturn.

Fig. 3 here

Recent data from the Census Bureau's American Community Survey (ACS) show very high poverty rates for the major upstate cities. Whereas statewide, the ACS poverty rate was 13.8% in 2005, Syracuse had a poverty rate of 31.3%, Rochester 30.0%, Buffalo 26.9% and Albany 26.5%. (New York City's poverty rate in 2005 was 19.1%.) See the box below for further discussion of urban-suburban disparities in New York State.

Sprawl without growth and widening urban-suburban disparities

Migration within metropolitan areas from cities to newer and newer rings of suburbs and rural areas has become a significant problem nationally and in New York State for the economy and the fiscal health of localities. In Western and Northern New York, suburban sprawl has taken place even in the context of stagnant regional economies.⁵ In the decade of the 1990s, the population of villages and cities declined by 7.4% whereas the population growth for the portion of towns outside of villages, which include suburbs and outlying areas was 5.1%. Suburban sprawl also has increased economic disparities between urban and suburban areas. Using measures comparing such things as poverty rates and median household income, the Lewis Mumford Center at the State University of Albany found a significant increase in economic disparities between center cities and suburban areas in all of the upstate metropolitan areas between 1990 and 2000.⁶

II. Making it, or not, in New York: manufacturing's decline has been substantial in Western New York but it is still vital and highly productive

It is hard to exaggerate the role of the Erie Canal in creating the basis for New York's long-standing economic dynamism. It was an economic pipeline to the Midwest and beyond, establishing both New York City as a commercial and financial center and the Erie Canal corridor cities – Albany, Utica, Syracuse, Rochester and Buffalo – as the nation's workshop for everything from locomotives to light bulbs. Manufacturing has long been the economic lynchpin for several upstate metro areas, and even with the sharp drop in manufacturing

⁵ The characterization "sprawl without growth" was first used by Rolf Pendall of the Cornell University Department of City and Regional Planning. See Rolf Pendall, "Sprawl without Growth: the Upstate Paradox," Center on Urban and Metropolitan Policy, Brookings Institution, October 2003.

⁶ For a discussion of the Mumford Center data, see Fiscal Policy Institute, The State of Working New York 2003, pp. 35-36.

employment in the nation and in New York since the late 1990s, manufacturing continues as the predominant economic driver in the Western New York metropolitan areas.

Figure 4 shows that even in 2005, Western and Northern New York depended on manufacturing for nearly 20% of total wage income, a level twice that for Eastern New York and several times that for New York City. Manufacturing provides some of the best-paying jobs upstate. With the exception of the Mohawk Valley region, manufacturing wages are over 40% above the average wage for the Western and Northern New York regions. For the state as a whole, the average manufacturing wage is right at the statewide average. This is because of New York City where the average manufacturing wage is only 71% of the overall average wage.

Fig. 4 here

For most of the upstate metro areas, manufacturing employment fell by nearly a quarter or more between 2000 and 2005. See Figure 5. The Buffalo-Niagara Falls metro area, for example, lost 23.4% of manufacturing jobs, while Binghamton, Rochester, Syracuse, and Utica-Rome all lost 25%-26% of their manufacturing employment. This magnitude of decline approaches one-and-a-half times the national rate of manufacturing job loss of 17.6% during the first half of the decade. New York was far from alone in experiencing an unprecedented wave of plant closings and factory job losses. Almost all the major industrial states, from New England to Illinois, from California to North Carolina, lost in the neighborhood of one in five of their factory jobs.

Fig. 5 here

Many of New York's manufacturing industries are among the most productive in the nation. The dollar amount of manufacturing output per worker is fairly similar for New York and the U.S. Since 2000, however, output per worker in New York manufacturing has grown nearly 10% faster than the national average. See Figure 6. In part, this favorable productivity performance might be a reflection of the high skill level among manufacturing workers in the Empire State.⁷ Among the 12 largest manufacturing states, New York has the second highest share of workers in high-skilled occupations. Nationally, 24.7% of manufacturing workers were in high-skilled occupations in 2002, while California ranked highest at 32%, followed by New York with 28.6%.⁸

Fig. 6 here

⁷ Considering that the 2000 to 2004 time period was one of sharp decline in manufacturing employment in New York, the relatively faster growth in manufacturing productivity compared to the nation might also result from disproportionate New York declines among low productivity manufacturing plants or less-skilled workers.

⁸ FPI analysis using Current Population Survey data and following a methodology used by Richard Dietz and James Orr, "A Leaner, More Skilled U.S. Manufacturing Workforce," Current Issues in Economics and Finance, Federal Reserve Bank of New York, February/March 2006.

III. *So long to "a rising tide lifts all boats": the widening of the productivity-wage gap since 2000*

Economists often cite changes in real, median hourly wages as the single best indicator of labor market conditions. The median represents the exact middle point in the continuum of all wages ranked from lowest to highest. The relatively low unemployment conditions that persisted during the late 1990s allowed the real, median hourly wage in New York to rise by 4.2% between 1999 and 2002. The momentum of this wage gain was so strong, in fact, that wage gains persisted well beyond the peak employment level reached at the end of 2000. The wage peak occurred in 2002. Predictably, the inflation-adjusted median wage in the state overall fell for the next three years, by 3.6%. The real median wage appears to have bottomed out and has leveled off more recently, for the 12 months through June of 2006.⁹ See Figure 7.

Fig. 7 here

Compared to the U.S. as a whole, New York's real median hourly wage grew more at the end of the late 1990s expansion but also fell more during the 2002-to-2005 period. While New York's median wage now may be leveling off, based on the 12 months through June of 2006, the U.S. median wage appears to still be declining.

Real median family incomes have been flat in both New York and the nation since 2002. The latest data from the American Community Survey shows a slightly higher level for New York in 2005 than in 2002, but not sufficient to be significantly different. For the U.S. as a whole, the reported figure for 2005 is slightly less than in 2002, but not significantly different.

Within New York State, New York City's real median wage rose less from 1999 to 2002, and declined about the same as the statewide figure from 2002 to 2005. For the latest 12 month period through June of 2006, the real median hourly wage in New York City has increased slightly, by 1.9%. However, this recent improvement still leaves the median wage slightly below the 2002 level. Also, it should be kept in mind that the New York City median is adjusted for inflation using a national consumer price index in order to facilitate comparison with national wage trends. Reflecting considerably greater increases in housing and energy costs, the New York metropolitan area consumer price index has risen much faster than the national consumer price measure in recent years. From June of 2002 to June 2006, the New York metropolitan consumer price index increased by 16.2% compared to a 12.8% increase in the national consumer price index.

The real median wage pattern is somewhat different between New York City and the rest of the state.¹⁰ The balance-of-the-state median rose more than in New York City as a result of the late 1990s expansion, and fell by less than in the city from 2002 to 2005. During the latest 12 months, however, the real median wage for the balance of the state is basically flat.

⁹ The last two periods analyzed in Figure 7 partly overlap.

¹⁰ The Current Population Survey used to examine hourly wage trends in New York does not have a large enough sample size to permit analysis for the various regions around the state, necessitating a "balance of the state outside of New York City" approach.

In considering the pattern of wage change among different demographic groups for the most recent 12-month period, two observations should be mentioned. First, within New York City, despite the 1.9% overall increase in the real hourly median wage, the median wage for workers with a 4-year college degree or higher fell by 7.2%. This statistical finding likely results from an otherwise very positive development, the fairly rapid increase in the City's college-educated population. From 2000 to 2005 there was an increase of 300,000, or 21%, in the college-educated population in New York City. Much of this population increase could reflect the in-migration of recent college graduates taking jobs below the median wage level for that group (\$22.26 for the 12 months through June 2006).¹¹

A second observation that stands out in the analysis of recent wage developments is the apparent large median wage gain (+7.2%) among those with less than a high school education in the state outside of New York City. Among the trends that could be producing this result are the January, 2005, and January, 2006, increases in New York State's minimum wage.¹²

What's most striking on the wage front, however, is the emergence since 2000 of a pronounced gap between the growth in productivity and the growth in wages. As Figure 8 demonstrates, during the late 1990s, productivity (as measured by the change in Gross State Product per worker) rose along with the average annual wage.¹³

Fig. 8 here

The productivity of New York's workers and their average wages both grew about 15% from 1995 to 2000. The recession early in this decade set back this growth trend with average wages falling while productivity continued to increase, albeit at much slower rates. A significant gap opened up in the trend between productivity and wage growth. And since 2003, strong productivity growth has resumed while real wage growth picked up in 2004 but then slowed again in 2005. The net result is that output per worker in New York increased by 9.3% between 2000 and 2005, while the real average wage is only 1.6% higher in 2005 than in 2000. (The results do not change when the securities industry is excluded from the productivity-wage comparison, or when the comparison is done using compensation instead of wages.)¹⁴

¹¹ The decline in the median real wage for New York City college graduates may also be part of a national trend. From 2002 to 2005, real median earnings for U.S. workers aged 25-34 with a B.A. declined 7.5%. See <http://www.census.gov/hhes/www/income/dinctabs.html> for the detailed earnings data.

¹² The fact that there is not a comparable wage gain for New York City residents with less than a high school education may reflect a minimum wage enforcement problem and/or a disproportionate expansion in very low-wage employment in New York City.

¹³ "Average" wage here means total annual wages divided by the number of wage and salary workers. This is a different wage concept than "median" wage, which represents the wage for the worker in the middle of the wage distribution.

¹⁴ The New York productivity-compensation gap for 1998-2004 is slightly smaller but qualitatively very similar to the New York productivity-wage gap. Compensation includes employer-funded health, pension and other fringe benefits. However, it should be kept in mind that since compensation is more highly concentrated than wages, a slightly more narrow gap between productivity growth and growth in average compensation does not necessarily mean that the median, or typical, worker has seen compensation growth even close to on par with

One might expect real wage growth to slow relative to productivity growth in a downturn. Yet, Figure 8 shows that this gap has only widened as the recovery progressed, in part because of rapid increases in the prices of particular consumer goods, the effect of which is to depress workers' real wages.

The emergence since 2000 of a more pronounced productivity-wage gap is not unique to New York State. As the authors of the new, 2006-2007 edition of The State of Working America note, this is a broader, national trend in this decade that helps explain the disjuncture between seemingly strong national economic growth and widespread concerns about stagnant living standards and rising economic insecurity. In explaining this trend, the authors of The State of Working America write:

If the nation is indeed wealthier in 2006 than at the peak of the last business cycle in 2000, but many families' incomes are lower and the share in poverty has grown, where is all the money going? This answer is fairly obvious as well: wages, income, and wealth are being drawn to the very top earners and families. This redistribution is a continuation of a historic trend that began in the late 1970s, paused for a few years when the financial bubble burst in 2000, and has most recently returned.¹⁵

Hourly wage data from the Current Population Survey indicate a widening gap in wage distribution. From 1995 to 2005, the real hourly median wage in New York State increased by 3.2%. However, over the same period, the 95th percentile real hourly wage rose by 11.3%.

Using tax data on wage income for New York State, Figure 9 examines the trends in wage growth between a household in the middle—the median—and those at the top of the wage distribution.¹⁶ From 1995 to 2003, the median wage-earning household experienced a 10.2% increase in total real wage income. Further up the wage distribution at the 95th percentile, the growth in wage income was 18.4%. At the very top of the distribution, the 99.9th percentile, total wage income rose 47.4% between 1995 and 2003, a growth rate nearly five times as fast as wage income received by the median New York household. (At the high end of the wage income spectrum, the 90th percentile and above, total wage income had peaked in 2000 and generally declined through 2003.)

Fig. 9 here

Since 2003, data suggest that the top-to-middle wage gap in New York has probably opened up again. At the national level, the 99th percentile enjoyed a 9% real wage gain in 2004, while

productivity growth. See Brooks Pierce, "Compensation Inequality," BLS Working Papers series, No. 323, June 1999, <http://www.bls.gov/ore/orecatlg.htm#1996>.

¹⁵ Lawrence Mishel, Jared Bernstein and Sylvia Allegretto, The State of Working America 2006/2007, Economic Policy Institute, galley version, September 2006 (forthcoming from ILR Press, an imprint of Cornell University Press.)

¹⁶ The New York tax data are for "taxpayers" which we generally interpret as "households". Caution should be used in comparing household wage data with hourly wage data since the former may include multiple wage earners and total wages are a function of hours worked as well as pay rates.

the top 0.1 percent of the wage distribution (the 99.9th percentile) experienced growth on the order of 15%.¹⁷

No data source suggests that the median or average household enjoyed wage gains of this magnitude in recent years. Moreover, the best available data indicate a widening wage and income gap between the very affluent and the typical household since the early 1980s. (See the box below for a discussion of New York's widening income polarization between the early 1980s and the early 2000s.) This income gap has widened further during the recent recovery. The New York State budget office projects that the state's nominal adjusted gross income will grow by 8.2% a year from 2003 to 2006, partly due to sharp increases in 2004 and 2005 in realized capital gains. Budget office data indicate most of this income growth takes place at the high end of the income spectrum. Households with incomes of \$200,000 and more will increase their share of total statewide adjusted gross income from 33.5% in 2003 to 43.1% in 2006, and the aggregate income share of households earning \$100,000 or less will decline from 48.8% to 39.1% in the budget office's projections.¹⁸

New York has the widest top-bottom income gap among all states

The average income of families in the top quintile in New York in the early 2000s was 8.1 times greater than the average income of families in the bottom quintile. This fact earned New York the dubious distinction of having the widest income gap between the rich and the poor of all 50 states. New York had the sixth widest gap between the rich and the middle income quintile. These income gaps have grown dramatically over the last 20 years. For most of the 1980s and 1990s, the richest families gained steadily while the poor and those in the middle held steady or lost ground. For a few years in the late 1990s, a sustained period of growth tightened the labor market enough that the people at the bottom and the middle finally saw meaningful increases in their paychecks. However, from the early 1980s to the early 2000s, only one state (Arizona) experienced greater growth in the income disparity between the rich and the poor than New York. See, Fiscal Policy Institute, [Pulling Apart in New York: An Analysis of Income Trends in New York State](http://www.fiscalpolicy.org/PullingApartNY2006.pdf), January 26, 2006. (<http://www.fiscalpolicy.org/PullingApartNY2006.pdf>)

IV. Health care coverage and rising health care costs are among the major cost challenges facing New York

As in the rest of the country, the escalating costs of health care have led many private employers to reduce or eliminate health-insurance coverage for their employees. From 2000 to 2005, health insurance premiums have risen 73%, while workers' real wages have risen only 3% nationally.¹⁹ While the percent of New Yorkers with private employer-provided

¹⁷ Internal Revenue Service data analyzed by economists Thomas Piketty and Emmanuel Saez, see: <http://elsa.berkeley.edu/~saez/TabFig2004prel.xls>.

¹⁸ New York State Division of the Budget, [2006-07 New York State Executive Budget, Economic and Revenue Outlook: Analysis and Methodology](#), January 2006, p. 180. The proportion of taxpayers with adjusted gross incomes of \$200,000 and more is projected to account for 4.3% of tax returns in 2006, up from 2.9% in 2003.

¹⁹ Premium changes from Kaiser Family Foundation Employer Health Benefits 2005 Annual Survey (<http://www.kff.org/insurance/7315/index.cfm>). Wages are real median wages, from EPI analysis of CPS data.

health coverage was higher than the national rate for many years, it has fallen behind since the mid 1990s (see figure 10). In addition, those with coverage often face higher premiums, larger co-payments, or reduced coverage.

Fig. 10 here

New York introduced Child Health Plus in 1991 and Family Health Plus in 2000, expanding coverage for children and low-income adults beyond the traditional Medicaid limits. These programs have been literal life-savers. As figure 11 indicates, the steady rise since 2000 in the part of the national population that has no health insurance at all has not been reflected in New York. The portion of New York's population without health insurance has fallen from 16.3% in 2000 to 13.5% in 2005, as a direct result of expanded coverage under Medicaid, Child Health Plus and Family Health Plus. In fact, New York State is the only state to have a statistically significant reduction in the portion of its population that is uninsured over the last four years.²⁰

Nevertheless, this means that 2.6 million people in the state still have no health insurance. This represents a health risk for society, a major economic problem for the families without coverage, and, to the extent that these uninsured New Yorkers end up accessing emergency room services and other so-called "uncompensated" care, a fiscal problem for hospitals, state and local government and all those who pay for or are covered by health insurance premiums that include an add-on to help cover the cost of such uncompensated care. Thus, while New York deserves credit for having reduced the number of uninsured significantly over the last several years, it is far from having solved this problem.

Fig. 11 here

A comparison of health insurance coverage in New York and the nation is presented in figure 12. Private employer health insurance covers a smaller proportion of New York's population than the case for the U.S. as a whole. Private employer coverage reaches 40.6% of New Yorkers, while the comparable national figure is 42.6%. New York has a much higher share of its population covered by Medicaid (16%) than nationally, 13%. It is primarily this expanded Medicaid roll that leads to New York's having a smaller share of the population with no insurance at all (14.7% vs. 15.8% nationally).²¹ Including those government employees with coverage at work, publicly funded health insurance in New York covers 41% of the population, a substantially higher portion than the 37% covered by public funding nationally, and about the same as the portion of New Yorkers covered by private-employer plans.

Figure 12 here

²⁰ Based on analysis of Census data compiled by the Center on Budget and Policy Priorities.

²¹ The 14.7% uninsured presented here is the 2003-2004 average, while figure 11 shows the years separately.

V. *State fiscal actions have compounded local fiscal stress and hindered economic recovery*

Upstate New York's economic travails have been compounded by State fiscal policies that have pushed up local property and sales taxes and severely strained local government budgets.

Over the last 30 years, New York State has cut its top personal income tax rate by more than 50%—from 15.375% to 6.85% (see Figure 13) and eliminated its bottom 2% and 3% brackets. The result is that New York State now has a much flatter income tax than it used to have (with 5 rates, but in a very tight range, from 4% to 6.85%). This has made the income tax much less progressive than it used to be while greatly reducing the revenue that the state would otherwise have collected from this fairest of all state taxes. We estimate that if, since 1972, the state government had indexed its personal exemptions and tax brackets for inflation rather than eliminating tax brackets from the bottom and the top of the rate schedule, 95% of all New York resident taxpayers would be paying less in income taxes than they now pay but the state would be collecting about \$8 billion more in revenue each year.

Figure 13 here

These changes in the state personal income tax structure have also had a negative trickle-down effect on New York State's local governments which, with the exception of New York City, have tax systems that rely almost entirely on regressive property and sales taxes. (See Figure 14) In order to accommodate the loss of revenue from its changes in the state income tax, New York State has substantially reduced state revenue-sharing with its counties, cities, towns, and villages (see Figure 15) and reduced the share of school district budgets covered by state aid (see Figure 16). These changes in revenue-sharing and school aid have, in turn, put greater pressure on local property and sales tax bases. As we know from Figure 14, this serves to make the overall state-local tax system even more regressive. While New York's personal income tax is still progressive, it is not as progressive as it used to be, and the state has reduced its reliance on this tax while engendering greater reliance on local sales and property taxes.

Figures 14-16 here

These fiscal policies—reducing the top tax rates on personal income, cutting state aid to localities, and putting pressure on the property and sales tax bases—combine to have a particularly negative effect on Upstate New York. The New York City metropolitan area has the overwhelming majority of the state's high-income taxpayers,²² while Upstate New York has a much smaller share of high-end taxable income than it has of the state's population and service needs. As Figure 17 indicates, New York's method for the funding of Medicaid costs provides a glaring example of this mismatch.

²² In fact, about 15% of state personal income tax revenues come from residents of other states, primarily high-income commuters from New Jersey and Connecticut.

Figure 17 here

As the burden being placed on local property taxes began to generate increased resentment among voters, the state government responded with the STAR program which provides for state-funded exemptions on owner-occupied primary residences. The state, in effect, makes payments to school districts to “write down” the property taxes on such homes. While the desire to reduce the pressure being placed on local property taxes is well placed, the STAR program delivers aid to school districts in a way that exacerbates the fiscal disparities among school districts. (See Figure 18)

Figure 18 here