F I S C A L   P O L I C Y   I N S T I T U T E

11 Park Place, Suite 701, New York, NY 10007
212-721-5624   www.fiscalpolicy.og

Testimony of
James A. Parrott, Ph.D.
Deputy Director and Chief Economist
Fiscal Policy Institute

Before the
New York City Rent Guidelines Board

The Economic Situation of New York City's Low- and Moderate-Income Households

New York City
May 2, 2008

Good afternoon, my name is James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI). The Fiscal Policy Institute is a nonpartisan research and education organization that focuses on the broad range of tax, budget, economic and related public policy issues that affect the quality of life and the economic well-being of New York City and State residents. FPI regularly prepares reports on the state of the New York City economy and we have conducted several studies on the city's labor market and leading industries. We closely follow wage and income trends affecting New Yorkers. Thank you for the opportunity to testify today.

I want to make three overall points on the question of the economic situation of New York City’s low- and moderate-income households, a population that includes many of New York’s renters.

1—The 2003-2007 recovery and expansion was extremely shallow in terms of the benefits to most New York City working families: hourly wages and median family incomes either failed to keep pace with inflation or rose only slightly in real, inflation-adjusted terms.

2—Housing costs in New York City are placing an enormous burden on working families.

3—The current recession will exact a heavy economic toll over the next two years, shrinking the city's job base, pushing up unemployment, and exacerbating the financial predicament facing many working families.

1—The shallow 2003-2007 recovery and expansion

Nationally, among the 10 expansions since 1949, the recent expansion ranks ninth or tenth in terms of the growth in GDP, consumption, investment, employment, and wage and salary income, and in improvement in the unemployment rate. The recent expansion was also the first since World War II where median family income did not recover the losses of the previous recession.[1] Although New York City's job growth relative to nation was slightly better than in some earlier periods, the economic condition of most New York workers did not improve measurably over the past four to five years despite fairly strong total income gains.

According to the Current Population Survey, the median hourly wage in New York City in 2007 was $15.85. In 2002, it was $15.97 when measured in 2007 dollar terms. That indicates an inflation-adjusted decline of 0.7 percent during the 2003-to-2007 recovery and expansion.[2] At the low end of the city's labor market (the 10th percentile), real wages fell by 2.4 percent from $7.69 in 2002 to $7.50 in 2007.

While the "average" wage for private sector payroll jobs in New York City rose by 8.5 percent from 2002 to 2006 (adjusted for inflation), that measure is a poor indicator of the well-being of the typical worker. The "average" wage across all industries is purely a statistical artifact whose trend is very heavily influenced by the much more rapid growth in wages among the city's very high wage industries, notably the financial sector.[3] The average real wage in the finance sector increased by 27.9 percent to $244,000, while average construction wages fell by 5.3 percent, average retail wages were flat, and the average wage in the large health care sector declined by 1.6 percent in real terms. The latter set of industries is much more representative of the jobs that New York renters are likely to hold.

The grim reality is that too many jobs in New York City pay far too little to adequately support a family here. At the median hourly wage of $15.85, a worker employed full-time for the entire year would earn total wages of barely $33,000. That amount is roughly 150 percent of the 4-person federal poverty line, a threshold that is universally considered an inadequate standard for poverty in high-cost areas like New York City. By another measure, 60 percent of New York City workers make less than the Bureau of Labor

---

[1] L. Josh Bivens and John Irons, "A Feeble Recovery: The fundamental economic weaknesses of the 2001-07 expansion," Economic Policy Institute Briefing Paper #214, May 1, 2008.

[2] Fiscal Policy Institute calculations of Current Population Survey data, adjusted for inflation using the NY-NJ-PA metropolitan area Consumer Price Index for All Urban Consumers (check formal name).

[3] Fiscal Policy Institute, *The State of Working New York 2007* (SWNY 2007), September 2007, p. 34

Statistics Lower Living Standard Income level of $39,572 for 2008 for the New York metropolitan region.[4]

The most telling statistic regarding the growth in jobs paying very low wages in New York City is that between the early 1990s and the middle of this decade there was a 75 percent increase in the number of New York City families who have a full-time, year-round worker but remained in poverty.[5]

According to the Housing and Vacancy Survey, median household income for all renters in 2004 was $32,000, less than half of the $65,000 median income for all owners. According to the American Community Survey, median family incomes rose only 2.3 percent from 2000 to 2006, an annual increase of about $200. For the broader household measure, median incomes were about the same in 2006 as in 2000.

The trends in wages and incomes tell only part of the story. For a host of other measures of job quality—health insurance coverage, employer-paid retirement benefits, social insurance coverage, advancement opportunities—the last few years have seen fairly steady erosion in benefits for the average worker.[6] Consider the area of health insurance. Not only has the percent of workers with employer-provided health insurance declined, but the average employee contribution for family health insurance coverage rose over 76 percent from 2000 to 2005, nearly five times as fast as the increase in the regional consumer price index over that period.[7]

Moreover, given the national trend in the dramatic rise in household debt over the course of the 2003-to-2007 recovery and expansion, it is likely that many New York workers are now much more heavily in debt today than five years ago. National economic growth over this period was heavily fueled by borrowing, particularly by the doubling of household mortgage debt, which increased three times as fast as the growth in GDP.[8] Many New York households undoubtedly took advantage of low interest rates and rapidly rising home prices to take out home equity loans that helped sustain consumption levels during a time of stagnant wages and family incomes.

There are no reliable government data on household debt levels for New York City residents. Subprime mortgage lending is at one end of the spectrum of household

---

[4] U.S. Bureau of Labor Statistics, Lower Living Standard Income Level; 60 percentile hourly wage of $18.75, times 2080 hours equals $39,000.

[5] FPI, SWNY 2007, pp. 27-28. The 75 percent increase in New York City's number of working poor families occurred between the early 1990s and the mid-2000s.

[6] FPI's SWNY 2007 documents the decline in New York of employer-provided health insurance and pension coverage and the pronounced rise in the misclassification of workers as independent contractors. When employers illegally misclassify workers as independent contractors they fail to pay payroll taxes for Social Security and Medicare and employer premiums for unemployment insurance and workers' compensation coverage.

[7] FPI, SWNY 2007, pp. 41-42. This also illustrates the fact that the CPI is not a good indicator of the cost of living.

[8] FPI, SWNY 2007, pp. 13-14.

borrowing and there are starting to be some data the reveal the magnitude of this unfolding crisis.

Unfortunately, far too many New York households fell prey to unscrupulous subprime mortgage lending practices and took on unsustainable debt burdens. Data from the Federal Reserve Bank of New York indicate that as of March of 2008, there were nearly 80,000 nonprime housing mortgages in New York City with 12.1 percent (nearly 10,000) in foreclosure or already in the lender's possession. Another 13.5 percent were 30 or more days delinquent. Since the interest rates for about one-quarter of all adjustable rate mortgages on subprime owner-occupied residents are due to reset between April 2008 and September 2009, foreclosures will continue at high levels for the next two years.[9] (Growing numbers of tenants are also threatened with losing their homes when their building enters foreclosure.[10]

2—Housing cost burdens and continued income polarization

It is clear from the two major federal government surveys that the cost of housing relative to income has risen sharply in New York City in this decade. According to the Housing and Vacancy Survey, median household income for renters, before adjusting for inflation, increased by only 3.2 percent from 2001 to 2004 while the median gross rent increased by 16.8 percent from 2002 to 2005.[11] The American Community Survey indicates that the percent of New York City renters paying 35 percent or more of their income on rent increased from 35.3 percent in 2000 to 40.1 percent in 2006. For New York City families with incomes under $50,000, 40.2 percent of renters were paying 50 percent or more of their income on rent.

In the recent recovery and expansion, the New York economy has provided the bulk of total income benefits to those at the very top of the income distribution. According to 2005 state income tax data analyzed by the New York City Independent Budget Office, the top 5 percent of New York City households had 51 percent of total state adjusted gross income received in New York City. On the other hand, the bottom 60 percent of households with income under $36,000 had a combined gross income share of 14 percent.[12]

[9] Federal Reserve Bank of New York, see http://www.newyorkfed.org/regional/subprime.html. Nonprime mortgages include both subprime and Alt-A home loans.

[10] See, Elizabeth A. Harris, "Even Renters Aren't Safe," The New York Times, April 13, 2008.

[11] Dr. Moon Wha Lee, "Selected Findings of the 2005 New York City Housing and Vacancy Survey, New York City Department of Housing Preservation and Development, Feb. 10, 2006.

[12] New York City Independent Budget Office analysis of the 2005 Personal Income Tax Sample File for the Office of Tax Policy Analysis, NYS Department of Taxation and Finance. Data from the State Division of the Budget indicate that income growth statewide from 2003 to 2007 was highly concentrated among the top five percent, with tax filers earning more than $200,000 a year expected to receive three-fourths of the net gain in total incomes. See, Fiscal Policy Institute, *Pulling Apart in New York: An Analysis of Income Trends in New York State,* April 9, 2008, p. 27.

3—The current recession will exact a heavy toll on working families

Finally, if this picture of a shallow recovery, high housing cost burdens and a shrinking middle class is not troubling enough, it is fairly clear that the local economy is now in a recession. The majority of economic forecasters have been in agreement since at least mid-March that the national economy is already in a recession. It matters little that the formal declaration of that fact by the business cycle dating committee of the National Bureau of Economic Research has not yet been made. They typically do not make their determination on such things until several months after the fact.

Considering that the recession largely emanates from Wall Street and the dubious and highly speculative lending practices engaged in for the past several years, it is hard to imagine how New York City could escape the recession's effects. Yesterday, in their respective budget-related announcements, the Mayor and Governor both clearly signaled their conclusions that the city and the state are already in recession.

In the Mayor's Executive Budget release, the Mayor indicated that the city's private sector is expected to lose approximately 90,000 jobs between the second quarter of 2008 and the second quarter of 2009. In the State Division of the Budget's report on the enacted state 2008-2009 budget, it is acknowledged that the U.S. economy "likely entered a recession during the latter part of the 2007-2008 fiscal year" (i.e., before March 31, 2008).[13]

In the economic forecast section of the Mayor's main budget report, the city's official forecast expects job losses in every major sector of the city economy except for health, social and educational services, with the largest declines occurring in the financial sector, professional and business services, wholesale and retail trade, manufacturing, and information. The city projects no nominal personal income growth in 2008 and a small decline in 2009.

Given the City's official economic forecast, the next two years are likely to be a period of continued stagnation in real wages and incomes for most New York working families. Unemployment is already rising and will rise further. Tens of thousands of low- and moderate-income New Yorkers will lose their jobs and have even greater difficulty making ends meet. High gas prices, electricity rates and food prices are further squeezing extremely tight renter budgets.

Nor is the social safety net what it used to be. Unemployment insurance benefits have not risen in years and only about 40 percent of the unemployed qualify for unemployment compensation in New York. In the wake of the "welfare reform" of the last decade, the public assistance safety net has been severely tattered. During the recession in the early part of this decade, public assistance rolls declined in 2001 and were flat from 2002 through 2004.

---

[13] New York State Division of the Budget, 2008-09 Enacted Budget Financial Plan, May 1, 2008, http://www.budget.state.ny.us/budgetFP/2008-09EBReportFinal.pdf, p. 23.