

PULLING APART IN NEW YORK

AN ANALYSIS OF INCOME TRENDS IN NEW YORK STATE

Fiscal Policy Institute

One Lear Jet Lane
Latham, NY 12110
518-786-3156

275 Seventh Avenue
New York, NY 10001
212-414-9001

www.fiscalpolicy.org

April 23, 2002

Acknowledgments

The primary author of this report is Trudi Renwick, an economist with the Fiscal Policy Institute and a nationally recognized expert on issues related to poverty and family incomes. Frank Mauro and James Parrott, also of the Fiscal Policy Institute staff, assisted Dr. Renwick in the analysis of the data presented in the report and in the editing of the final report. Special thanks are due to Elizabeth C. McNichol of the Center on Budget and Policy Priorities and Jared Bernstein of the Economic Policy Institute for sharing with us the data from their new state-by-state analysis of income trends. This project would not have been possible without the support of the Ford and Charles Stewart Mott Foundations and the many labor, religious, human services, community and other organizations that support and disseminate the Fiscal Policy Institute's analytical work.

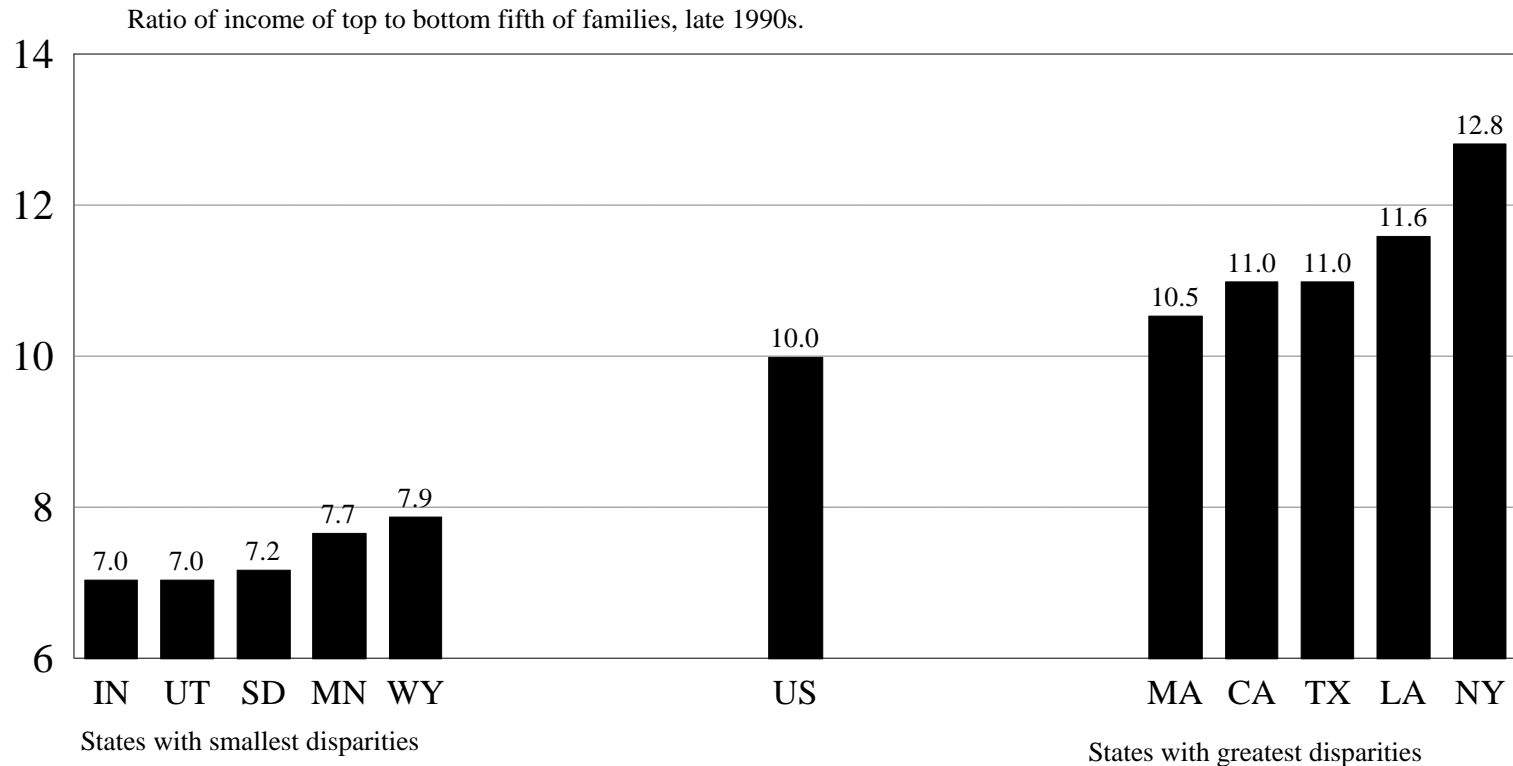
Executive Summary

New York State has had many distinctions of which it could be proud. There is, however, at least one major national trend in which New York's preeminence is more of a danger sign than a blessing. This involves the widening gap that exists between the economic well-being of people at the top of the socioeconomic ladder and those below them on that ladder.

A new edition of the report by the Center on Budget and Policy Priorities (CBPP) and the Economic Policy Institute (EPI), *Pulling Apart: A State-by-State Analysis of Income Trends*, finds that, overall, New York continues to have the most unequal distribution of income in the United States and that the situation in the Empire State has gotten much worse over the last two decades. The major findings of the CBPP/EPI report and of this companion state-level report, *Pulling Apart in New York*, include the following:

- C At the peak of the economic expansion of the last decade (1998-1999-2000), **New York had the widest income gap between rich and poor of all 50 states (12.8 to 1), and the second widest gap between the rich and the middle class (3.1 to 1).**
- C Despite the strength of the economic expansions of the mid 1980s and mid 1990s, these income disparities are significantly wider than they were at similar “high” points in the last two business cycles. **Over this period of time, no state has seen greater growth in the income disparity between the rich and the poor than New York.**
- C The ratio of the average family income of the richest *five* percent of New Yorkers to the average family income of the poorest twenty percent was 21 to 1 in the late 1990s — almost double the ratio of the 1970s.
- C Income inequality in New York is growing not simply because the rich are getting richer but also because the poor have seen their real incomes fall. **New York was one of only five states in the nation in which the average income of the lower fifth of families declined.**

New York has the widest income gap between rich and poor of all 50 states.



Note: These figures represent the relationship between the average income of families in the top fifth to the average income of families in the bottom fifth. For example, New York's ratio of 12.8 means that the average income of the top fifth of families (\$161,858) is 12.8 times greater than the average income in the bottom fifth of families (\$12,639).

New York's Inequality Worst of All States

On almost all income inequality measures, New York has either the most inequality of any state or runs a close second or third.

- C The average income of the top fifth of New York families is 12.8 times greater than that of the bottom fifth. This is the biggest difference of all states and is far worse than the national average ratio of 10 to 1.
- C The average income of the top 5 percent of New York families is 21 times greater than that of the bottom 20 percent. This is the larger than the difference for any of the 11 largest states in the US.*

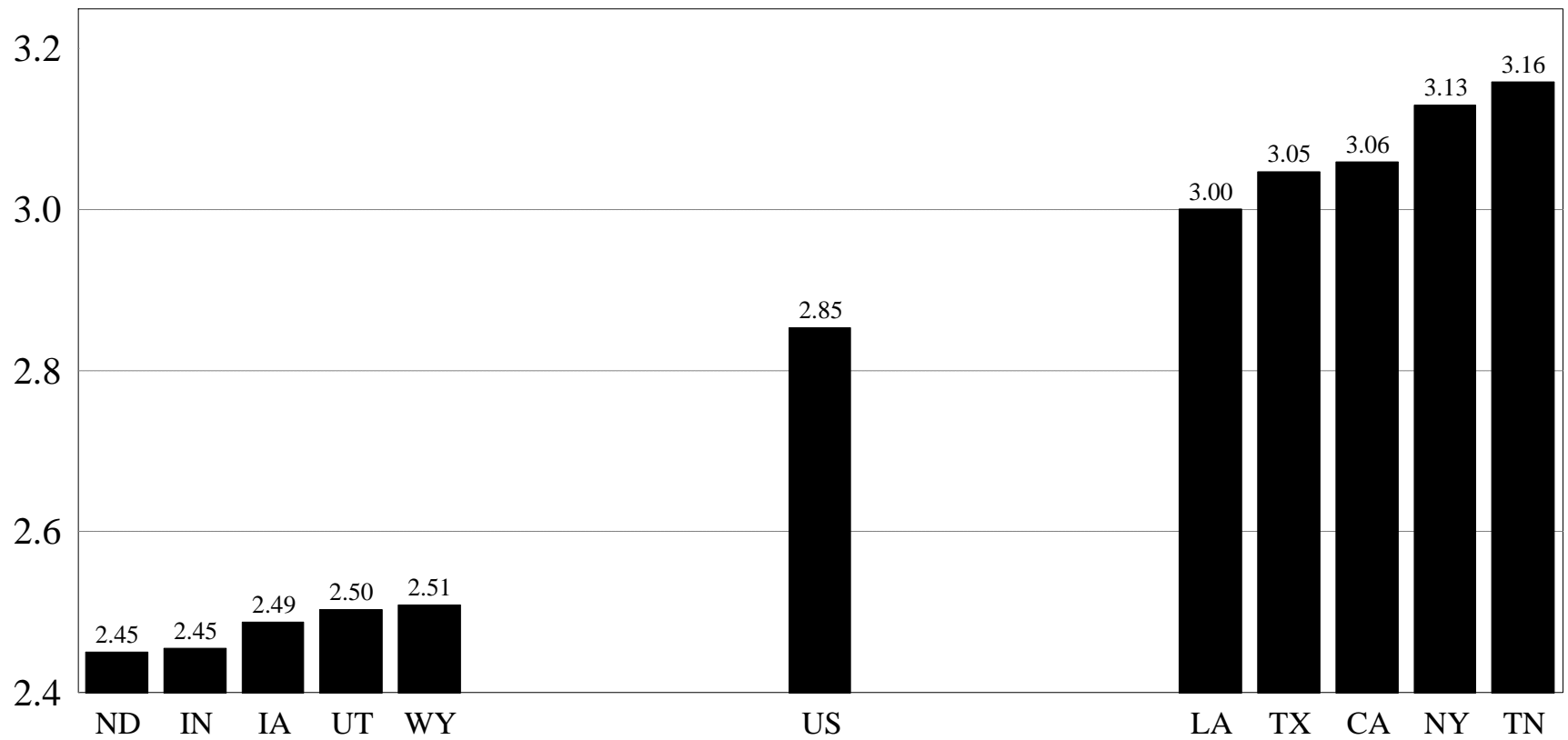
Not only is there an enormous gap between the richest and the poorest, but the gap between the incomes of New York's rich and middle income families is one of the worst in the nation.

- C The ratio of the average family income of the top fifth of New Yorkers to the average income of the middle fifth is 3.1 to 1. This is the second worst ratio in the nation, only better than Tennessee (3.2 to 1).
- The gap between the middle income group and the top *five* percent of the population is even more severe. Once again, New York leads the nation with a ratio of 5.2 to 1 — that is, the average income of families in the top five percent was 5.2 times greater than the average income of families in the middle 20 percent.

*These are the only states for which the Census Bureau's Current Population Survey sample sizes were large enough to make statistically significant calculations for the top 5 percent of families.

New York also has one of the widest gaps between rich and middle income families of all 50 states.

Ratio of average family income of top fifth of families to the average income of the middle fifth of families, 1998-2000.



States with smallest disparities.

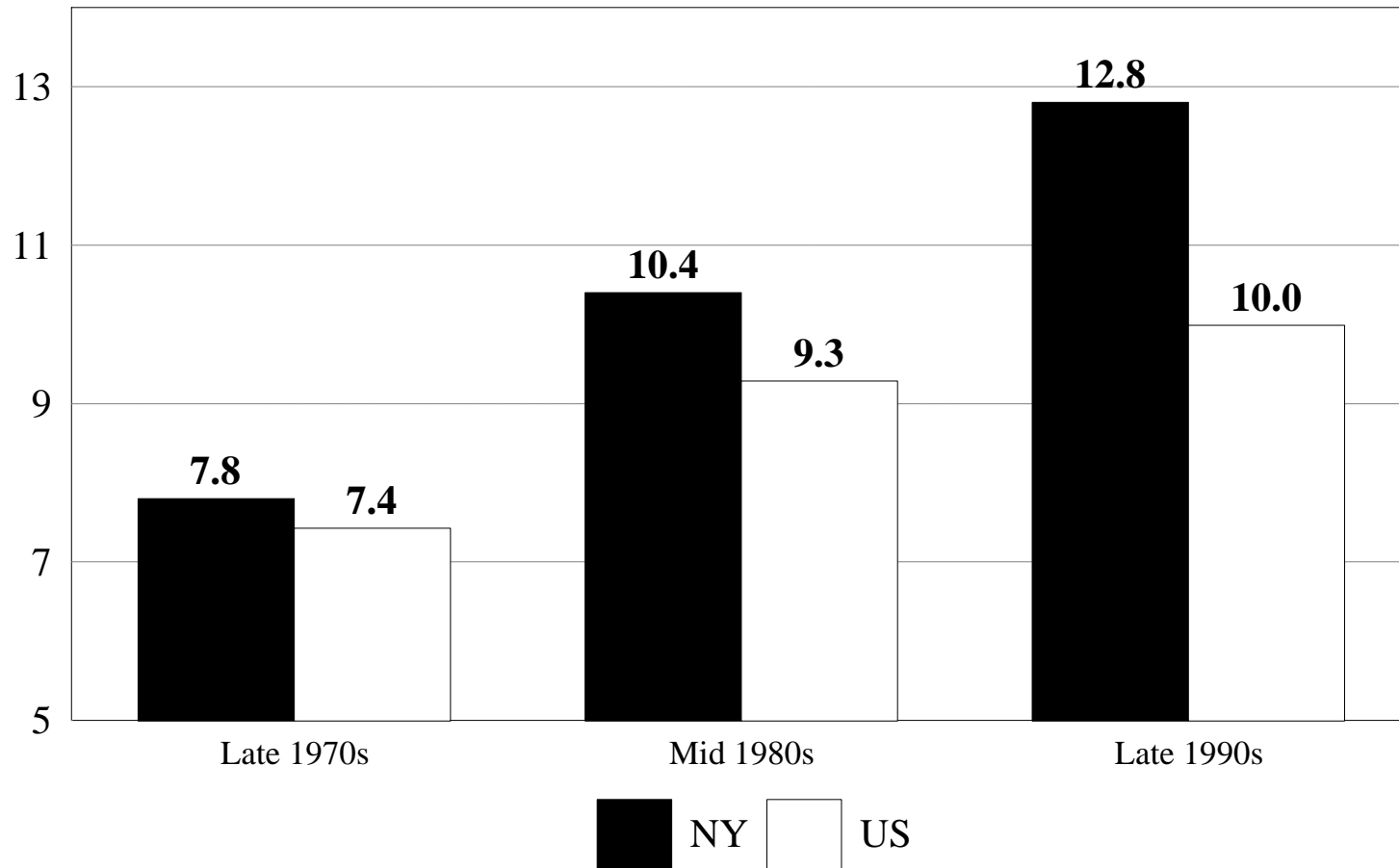
States with greatest disparities.

New York is the only state in the United States that is ranked among the ten worst performing states in each of the six major criteria used for measuring inequality in the new EPI/CBPP report. Most astonishingly, while no other state is even among the ten worst states on all six of these measures, New York actually ranks 1st, 2nd or 3rd in all six.

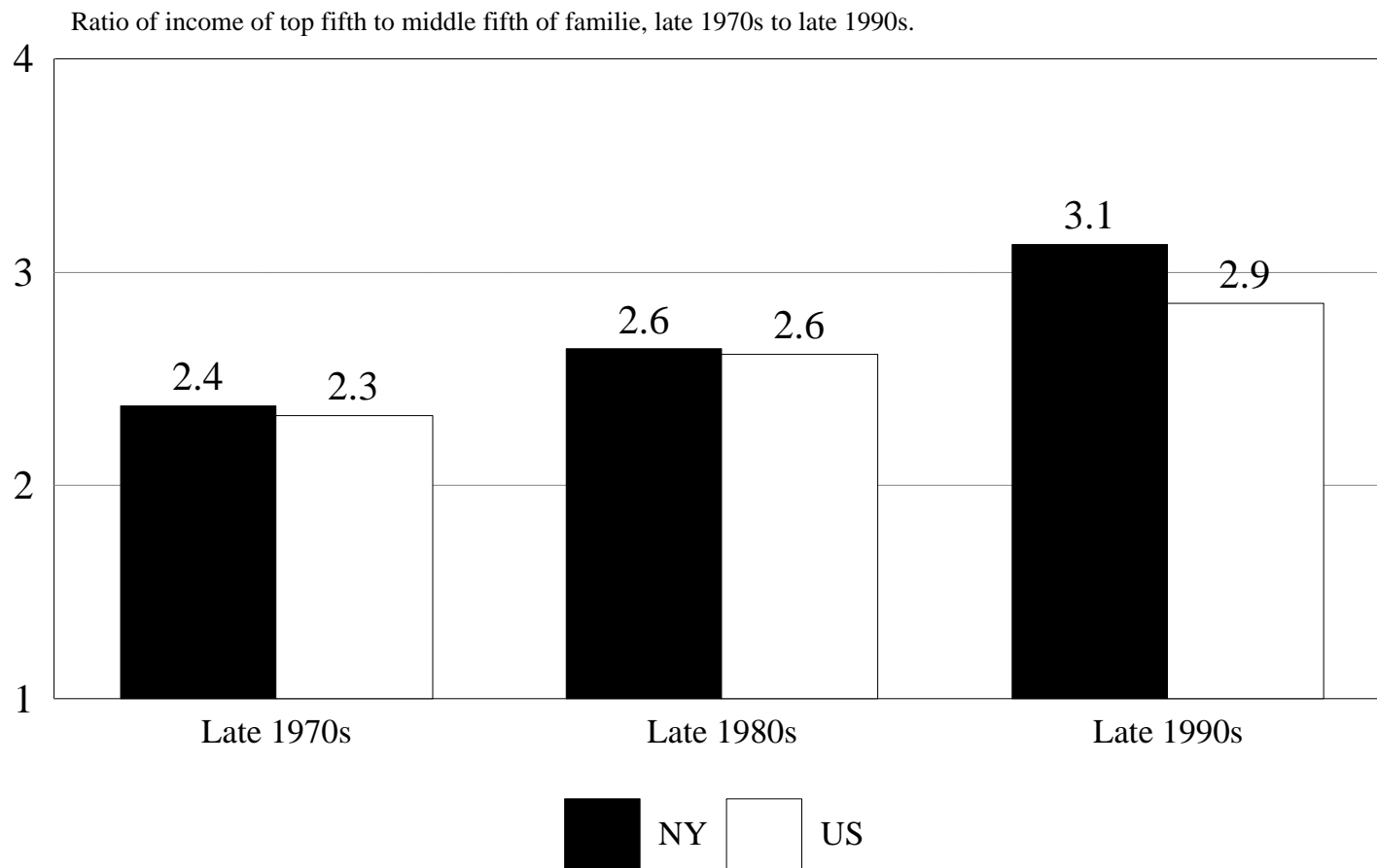
<u>Measure</u>	<u>New York's Rank</u>
Income Inequality Between the Top and the Bottom, late 1990s	First
Income Inequality Between the Top and the Middle, late 1990s	Second
Growth in Income Inequality Between the Top and the Bottom, Late 1970s to Late 1990s	First
Growth in Income Inequality Between the Top and the Bottom, Late 1980s to Late 1990s	Third
Growth in Income Inequality Between the Top and the Middle, Late 1970s to Late 1990s	Third
Growth in Income Inequality Between the Top and the Middle, Late 1980s to Late 1990s	Second

While income inequality has increased nationally,
it has increased much more in New York State
than in the rest of the country.

Ratio of average income of top fifth of families to average income of bottom fifth of families.



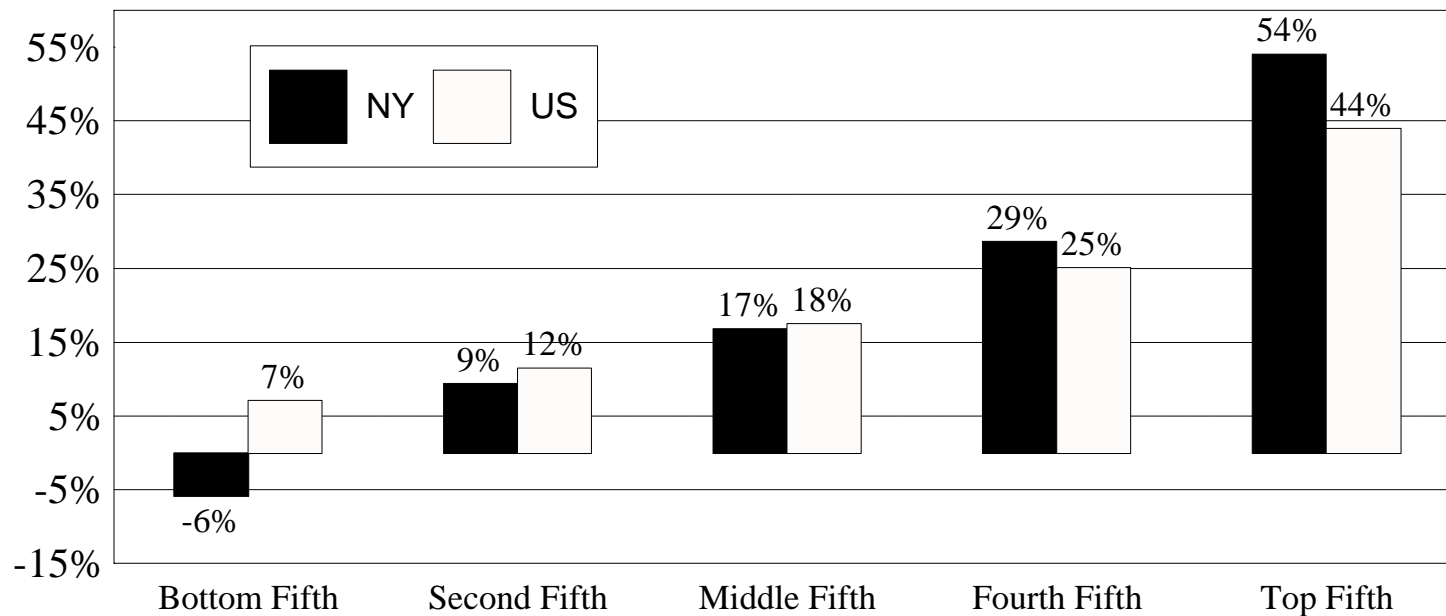
The ratio of average income of the richest fifth of New York families to the middle fifth has also been rising.



Income inequality in New York is growing not simply because the rich are getting richer, but because the real income of the poor has declined.

This is different than what has happened in the nation as a whole.

Change in average incomes of families, by fifths of families, from late 1970s to late 1990s.



The Rich Get Richer While the Poor and Middle Income Families See No Improvement

While New York's income inequality has always been high, the disparities have been worsening over time and have been growing much more quickly than in most other states.

- C The average income of the richest fifth of New York families, even after adjusting for inflation, *increased* \$27,797 (or 21%) to \$161,858 from the late 1980s to the late 1990s. Meanwhile the average income of the poorest fifth of New York families was stagnant --- showing a statistically insignificant decline of \$233 (or 2%) to \$12,639.
- C The ratio of the average family income of the richest to the poorest New Yorkers has grown steadily from 7.8 to 1 in the late 1970s to 10.4 to 1 in the late 1980s to 12.8 to 1 in the late 1990s. The change between the late 1970s and the late 1990s was greater in New York than in any other state.
- C While New York has had a relatively unequal income distribution for a long time, its place at the top of the list is of recent vintage. Traditionally, income inequality in the United States was thought of as a Southern phenomenon. In the late 1970s, for example, New York had the greatest income inequality of any northern industrial state, but it ranked "only" 12th among the 50 states. At that time, nine of the 11 states with more unequal income distributions were from the South. Only four of those states (Louisiana, Texas, Tennessee and Alabama) remain in the top ten today, while others, such as South Carolina which went from 10th to 42nd, have greatly improved their relative ranking in terms of top-to-bottom income inequality.
- C The growth in the ratio of the average income of the top five percent of New York's families relative to the poorest 20 percent is even more disturbing. While in the 1970s, the average income of the top five percent was 11.8 times greater than that of the poorest 20 percent of families, by the late 1990s this ratio was 21 to 1.

- C The average income of middle income families grew 17% over the past 20 years but almost all of this growth took place in the period between the late 1970s and the late 1980s. During the economic expansion of the 1990s, the average income of this group grew only 2%.
- C The ratio of the average income of the richest fifth of New York families to the average income of the middle fifth is also worsening — from 2.4 to 1 in the late 1970s to 3.1 to 1 in the late 1990s. This 29% increase was greater than the increase in all but two other states — Oregon and Tennessee.
- C The ratio of the average income of the richest five percent of families to the average income of the middle 20% of families has also grown steadily from 3.6 to 1 in the late 1970s to 5.2 to 1 in the late 1990s . New York experienced a bigger increase in this ratio over the period than any of the other ten large states with samples large enough to calculate this ratio.

Average New York State Family Incomes, by Quintile							
in 1999 Dollars							
						Breakdown of Top Quintile	
	Bottom Fifth	Next-to-bottom Fifth	Middle Fifth	Next-to-top Fifth	Top Fifth	80th to 95th Percentile	Top 5 Percent
Late 1970s	\$13,433	\$28,990	\$44,260	\$60,536	\$105,046	\$87,252	\$158,426
Late 1980s	\$12,871	\$32,189	\$50,753	\$72,553	\$134,061	\$109,543	\$207,616
Late 1990s	\$12,639	\$31,699	\$51,709	\$77,876	\$161,858	\$126,966	\$266,534

Change in Average New York State Family Incomes, by Quintile
in 1999 Dollars

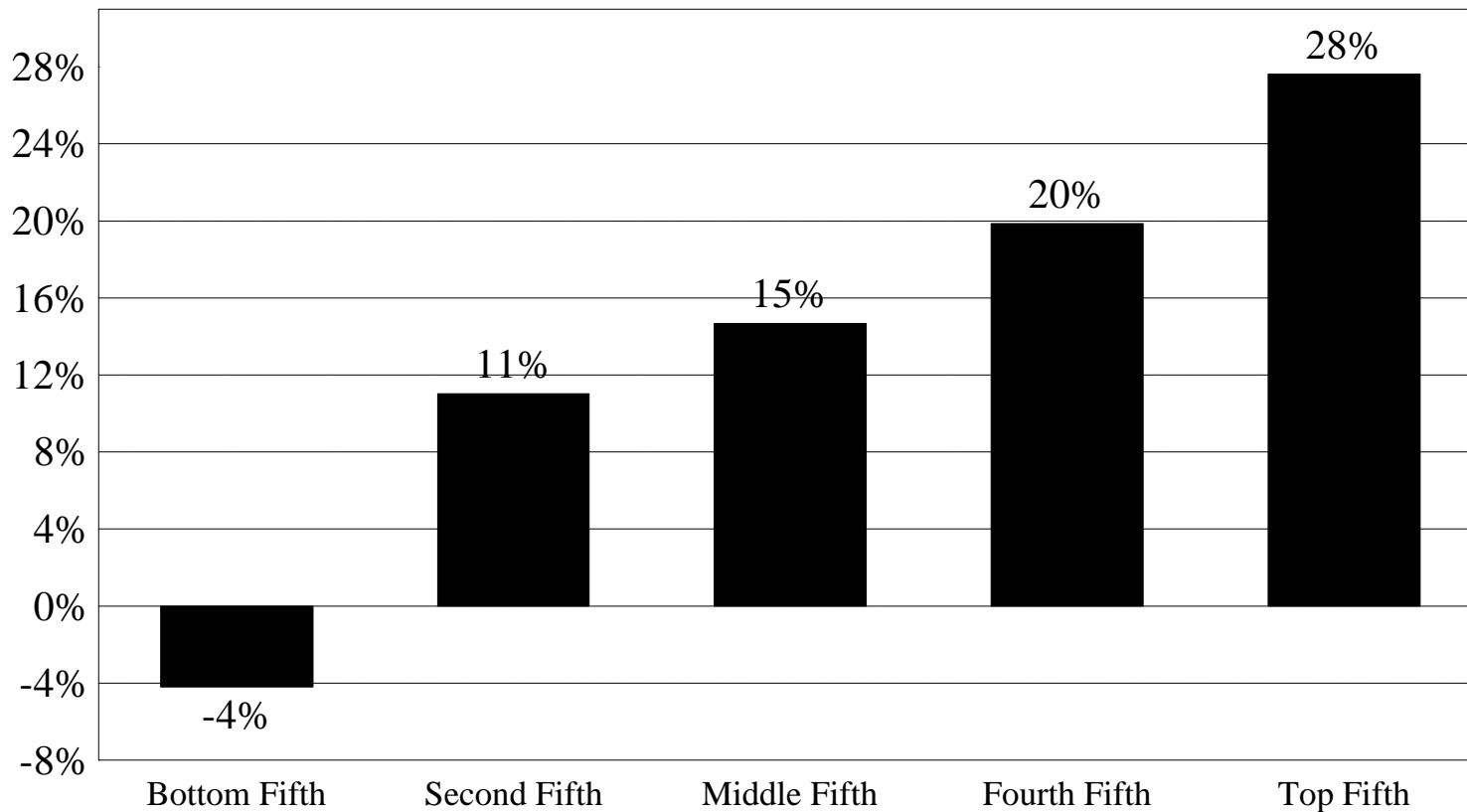
						Breakdown of Top Quintile	
	Bottom Fifth	Next-to-bottom Fifth	Middle Fifth	Next-to-top Fifth	Top Fifth	80 th to 95 th Percentile	Top 5 Percent
Late 1970s to Late 1980s	(\$562)	\$3,199	\$6,493	\$12,017	\$29,015	\$22,291	\$49,190
Late 1980s to Late 1990s	(\$232)	(\$490)	\$956	\$5,323	\$27,797	\$17,423	\$58,918
Late 1970s to Late 1990s	(\$794)	\$2,709	\$7,449	\$17,340	\$56,812	\$39,714	\$108,108

Percent Change in Average New York State Family Incomes, by Quintile
in 1999 Dollars

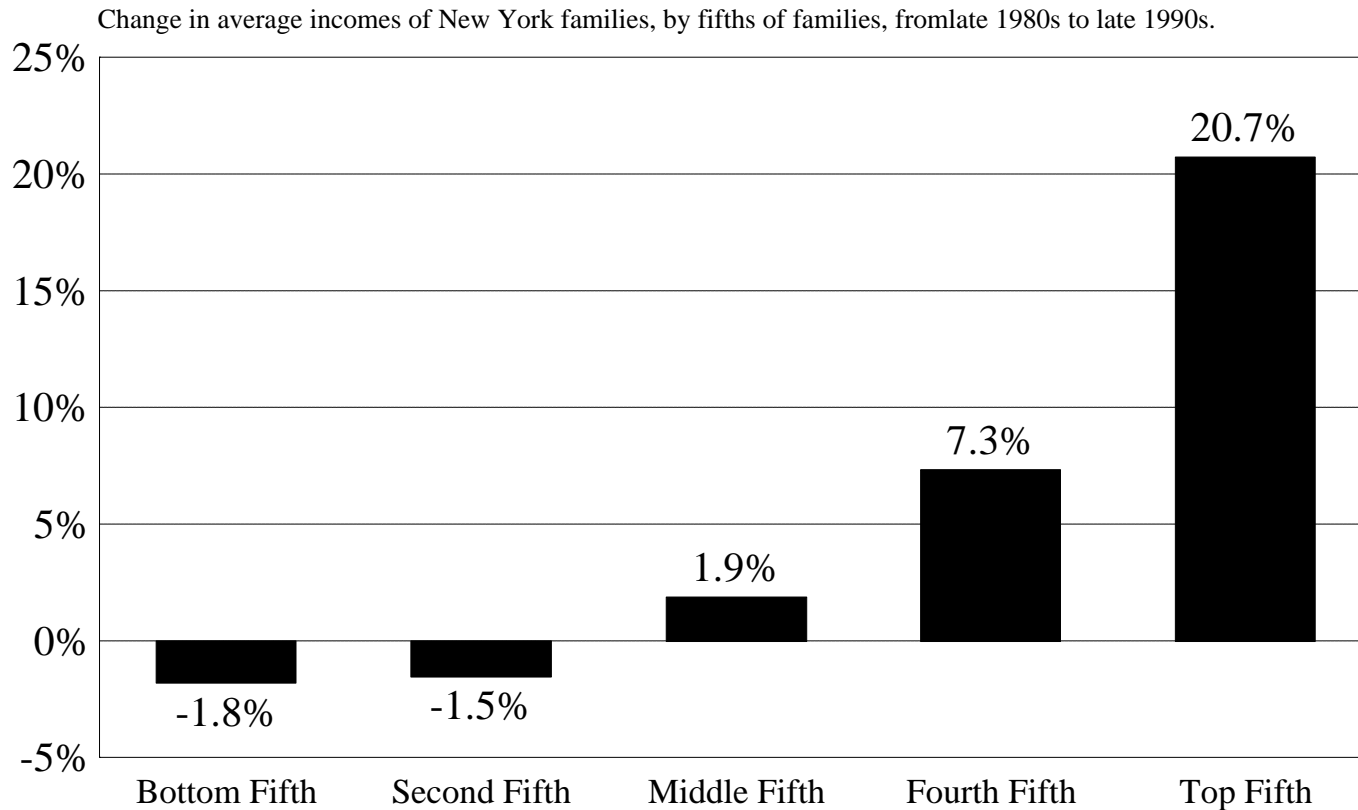
						Breakdown of Top Quintile	
	Bottom Fifth	Next-to-bottom Fifth	Middle Fifth	Next-to-top Fifth	Top Fifth	80 th to 95 th Percentile	Top 5 Percent
Late 1970s to Late 1980s	-4.2%	11.0%	14.7%	19.9%	27.6%	25.5%	31.0%
Late 1980s to Late 1990s	-1.8%	-1.5%	1.9%	7.3%	20.7%	15.9%	28.4%
Late 1970s to Late 1990s	-5.9%	9.3%	16.8%	28.6%	54.1%	45.5%	68.2%

During the 1980s, average family incomes grew for all but the poorest fifth of New York families.

Change in average incomes of New York families, by fifths of families, from late 1970s to late 1980s.

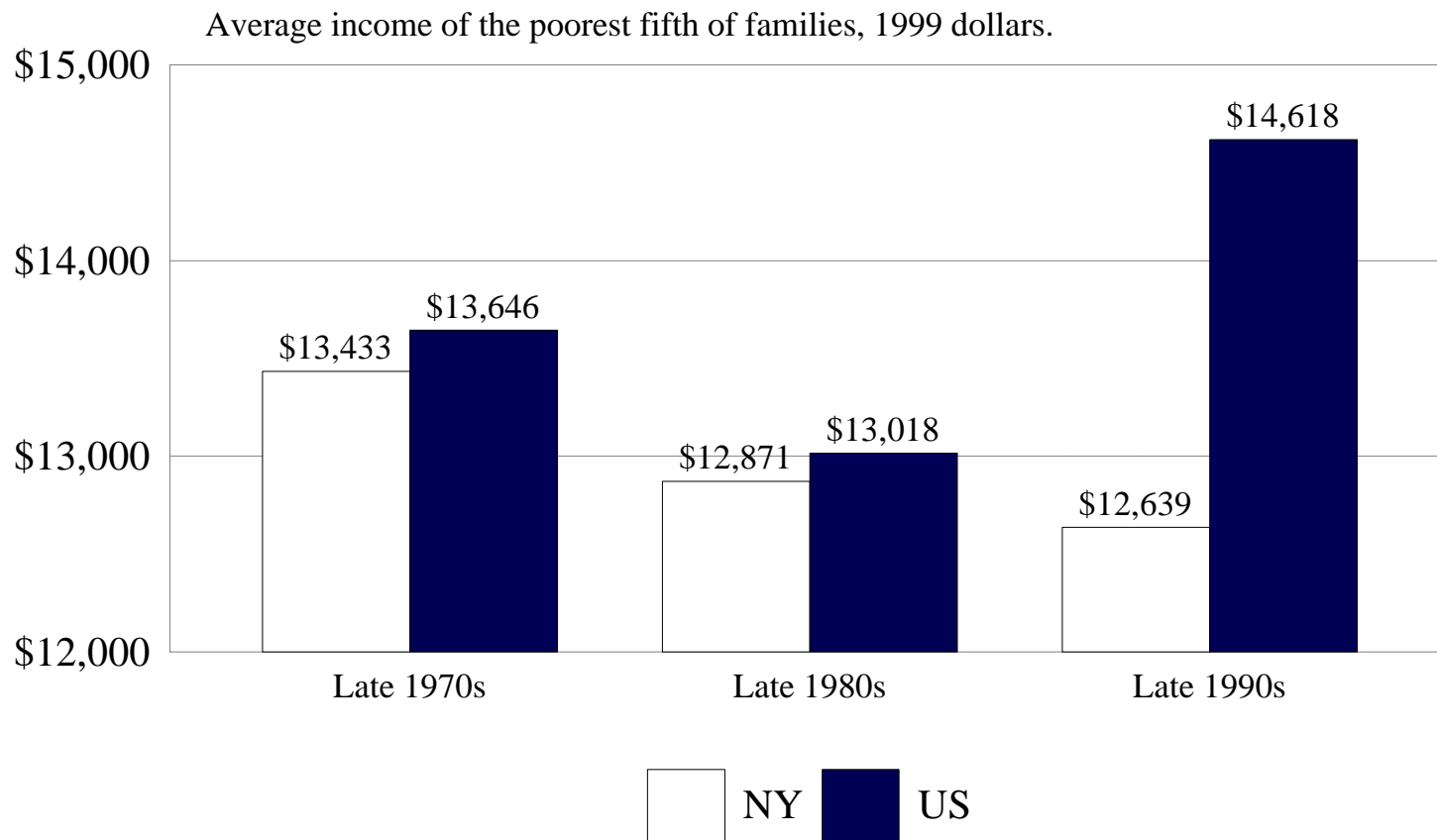


During the 1990s, only the top fifth of New York families saw significant income gains.

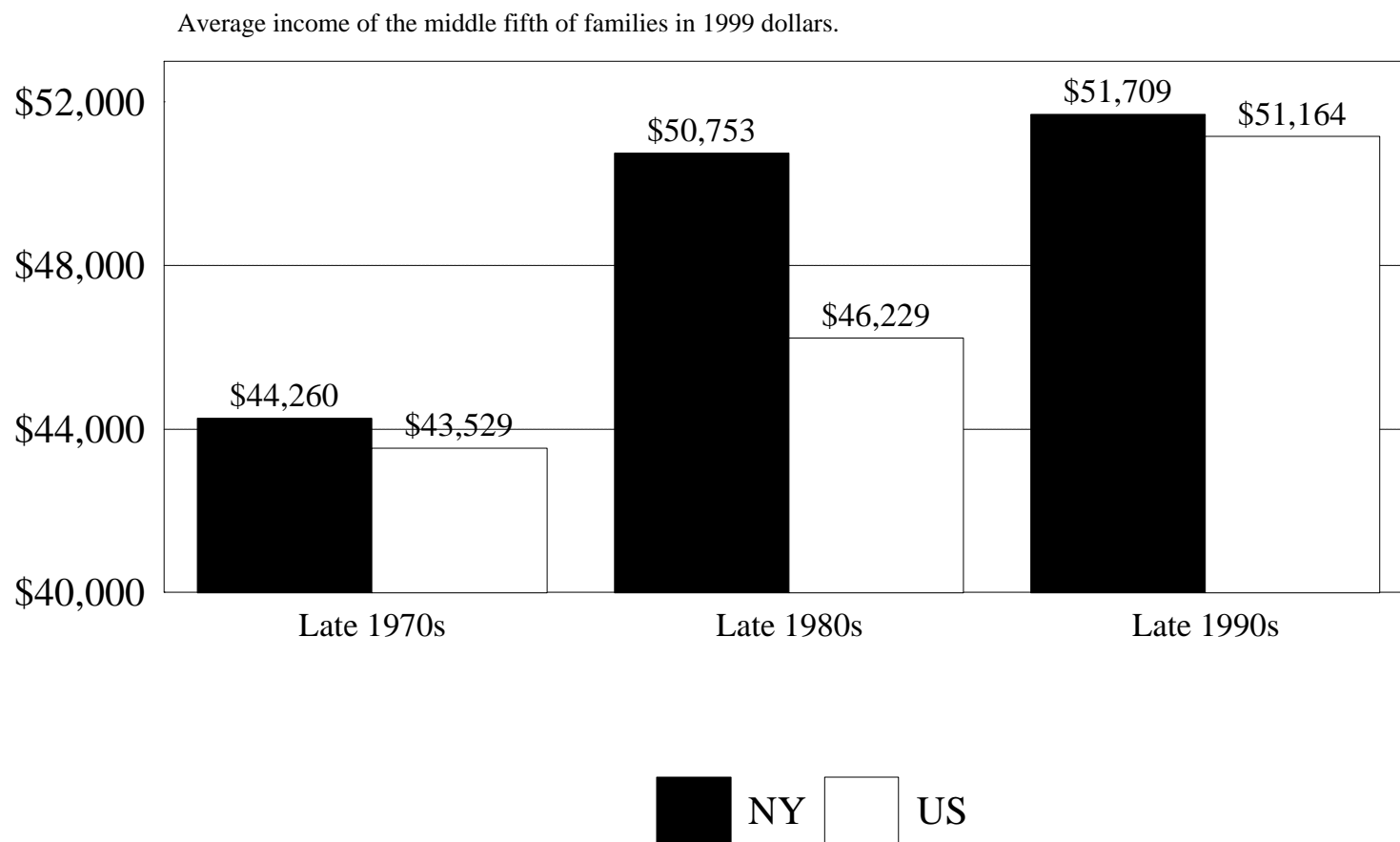


Change in average family income for the bottom fifth of families was not statistically significant.

During the 1990s, the average income of New York's poorest families fell further behind the incomes of the poorest families in the rest of the nation.



Unlike the economic expansion of the 1980s, New York's middle income families experienced very anemic income growth during the 1990s.



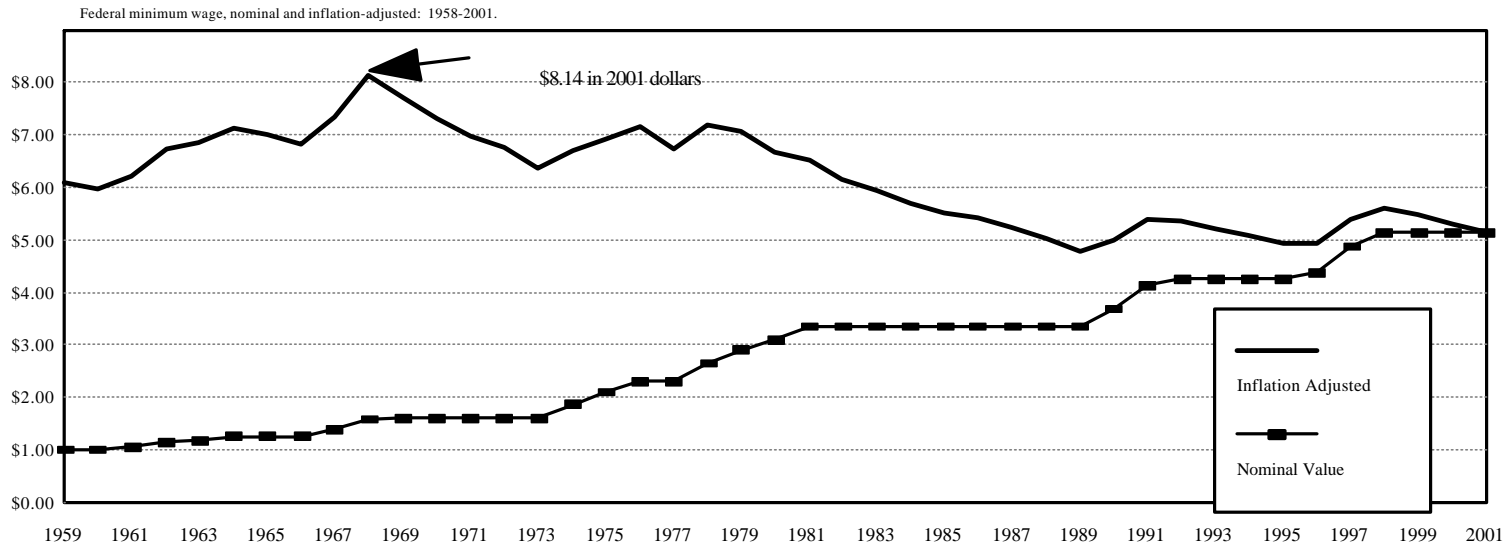
Many Factors Affect Inequality

Researchers have identified several factors that have contributed to the large and growing income gaps in most states.

1. Wage Inequality. The growth of income inequality is primarily due to the growth in wage inequality. Wages at the bottom and middle of the wage scale have been stagnant or have declined for much of the last two decades. The wages of the very highest paid employees, however, have grown significantly. Several factors have contributed to increasing wage inequality including globalization, the decline of manufacturing jobs and the expansion of low-wage service jobs, immigration, and the weakening of labor market institutions — the lower real value of the minimum wage and fewer and weaker unions. These factors have led to an erosion of wages for workers with less than a college education — approximately the lowest-earning 75 percent of the workforce. Many of these trends are attributable to government policies. In some cases, such as trade liberalization, this has involved what government has done. In other cases, such as the erosion of the minimum wage as a floor under the low end of the wage scale, this has been the result of what government has failed to do.

- **Structural Change** — From 1989 to 2000, New York lost 298,900 manufacturing jobs and gained more than twice that number of jobs in services. The average wage for the 15 industries with the greatest employment declines between 1992 and 2000 was 50% above the statewide average wage. For a more complete statistical picture of this and other aspects of New York's economy see the Fiscal Policy Institute's January 2002 report, *The State of Working New York. Working Harder, Growing Apart.*
- **Unionization** — While New York has the second highest degree of unionization in the nation, the percent of the state's workforce that was unionized declined from 28.2% in 1990 to 25.5% in 2000.
- **Minimum wage** — Although New York belatedly moved in 2001 to conform its state minimum wage to the federal minimum of \$5.15 an hour, the real value of the minimum wage is far below its late 1960s level.
- **Median Wages** — As a result of these sectoral shifts and the decline in unionization, the median hourly wage of New York workers fell 5.1% in the 1990s. During the same period the median hourly wage nationally increased by 2.2%. After several years of wage decline, the years 1997-2000 saw a 2.6% inflation-adjusted increase in the median wage for New York workers from \$12.75 to \$13.08 per hour. However, in the year 2000, the median wage of \$13.08 remained well below its 1989 level of \$13.78. As the economic slowdown hit New York in 2001, even before the attack on the World Trade Center, the median wage in New York had begun to fall again.

The purchasing power of the minimum wage remains well below its level of the 1960s and 1970s.



2. Investment Income Inequality. The growth in investment income is overwhelmingly related to the boom on Wall Street, particularly during the last five years. The data presented in this report, however, does not capture all, or probably even most, of the increasing inequality attributable to the distribution of investment income since the Census Bureau's Current Population Survey does not include information on capital gains. Between 1994 and 1999, the portion of the income reported on New York State personal income tax returns that was from capital gains is estimated by the NYS Division of the Budget to have increased from 4% to 11% of total income. In dollar terms, the capital gains income of New Yorkers increased from \$12 billion to \$49 billion over this five year period. According to New York State Tax Department, over 79% of the \$36 billion in capital gains income reported by New York resident taxpayers in 1998 was attributable to the only 3% of taxpayers with incomes over \$200,000.

The Results Are Dramatic and Demand Action. They Cannot Be Explained Away.

Rather than trying to understand and address the causes and consequences of these trends, some critics will claim that the results do not show a problem. Others will try to explain away the results.

Excuse #1. Americans constantly move up and down the income scale so a gap between the top and the bottom is not a problem. The families in the bottom fifth today aren't the same families who were in the bottom fifth decades ago.

The Reality:

- Low-income families and individuals with less education have the lowest income mobility. Some 60 percent of families in the bottom fifth remain there 10 years later. Even after 25 years, more than two out of five of the poorest workers remain at the bottom of the income distribution.
- C The ability of Americans to move up the income ladder has not increased as inequality has increased. In fact, recent studies suggest that the probability of staying in the same fifth of the income distribution has increased since the late 1960s.

Excuse #2: It is not a problem that the rich are getting richer faster because everyone is doing better. All have shared in the growth in income and wealth. The poor are not really badly off.

The Reality:

- C In New York, as in many other states, the rich have gotten richer while the incomes of poor and middle class families have remained stagnant or increased only slightly.
- C The distribution of wealth in the United States is more unequal than the distribution of income. For example, a recent study found that, in 1995, the wealthiest 10 percent of the U.S. population held 88 percent to 92 percent of stocks and mutual funds, financial securities, trusts and business equity, while the remaining 90 percent of the population held less than 12 percent.
- C Poor families face serious problems paying for housing and utilities, putting food on the table and obtaining health insurance. A recent Urban Institute survey found that half of the low-income families surveyed reported food-related problems; close to one-third reported difficulties paying their rent, mortgage or utility bills and some 37 percent of the low-income adults surveyed lacked health insurance.

Excuse #3. These results are before taxes and ignore **non-cash** benefits that low-income families receive.

The Reality:

- C All cash transfer payments are included in the Census data. In New York, as in other states, the exclusion of food stamps and housing subsidies for low-income families is outweighed by the fact that the Census data also excludes Capital Gains (\$36 billion for New York resident taxpayers in 1998, with 79% going to the 3% of taxpayers with incomes over \$200,000 per year)
- C The most recent Congressional Budget Office analysis of income after federal taxes (including the refundable portion of the Earned Income Tax Credit, about \$1.7 billion to New York residents in 1997) and non-cash benefits found the an even higher level of inequality and the same pattern of growth.
- C While the inclusion of federal income taxes narrows the income gap, the inclusion of payroll taxes widens it. State and local taxes are not included in the Congressional Budget Office study but because virtually all state tax systems collect a larger share of the incomes of poor and middle-income families than of high-income families, their inclusion would serve to widen the after-tax income gap.

Excuse # 4. The widening of the income gap is the result of demographic changes such as smaller family sizes and is the natural result of differences in education, skills and work effort.

The Reality:

- C This analysis includes only families; thus it is not skewed by the inclusion of teenagers and other young single workers. The income gap is even greater among families with children than among all families. The Congressional Budget Office study of income inequality which adjusts for family size also shows a widening income gap.
- C The income gap has also grown for families with similar amounts of education and within age groups. There is no reason that the differential for education or skills should be widening. A study by the RAND corporation found that changes in age and educational make-up of the population have served to reduce the rise in inequality rather than increase it.

There Is Much That Government and Business Can Do to Push Back Against this Trend.

New York State can:

- C Restore the purchasing power of the minimum wage.
- C Improve the unemployment insurance system as it relates to low-wage and contingent workers, particularly those with families, in terms of both qualification requirements and benefit levels.
- C Make welfare reform work by liberalizing the earned income disregard, making affordable transportation alternatives available, establishing transitional employment programs and increasing welfare grant levels.
- C Provide supports for low-wage workers by faithfully implementing the Family Health Plus program and increasing outreach for the Child Health Plus program and improving the availability of affordable child care.
- C Stop giving subsidies to firms that create jobs that drive increases in government income supports (Food stamps, EITC, etc.) and firms that compete unfairly with responsible employers that provide good wages and benefits.
- C Stop the movement toward greater regressivity in state tax systems.

The federal government can:

- Restore the purchasing power of the minimum wage.
- Reform labor laws.
- Make sure that international trade agreements do not require American plants to compete with plants that are paying slave wages, totally ignoring worker safety considerations, and freely polluting the environment.

Corporations can:

- Stop increasing the gap between the wages paid to top executives and what they pay line workers and middle managers.
- Stop using contingent work arrangements, part-time work arrangements and so-called independent contractors to avoid paying fair wages and benefits.
- Use the bully pulpit of trade associations and chambers of commerce to place peer pressure on irresponsible employers who drive down wages.

In addition to considering such specific options, New York leaders should also consider whether the choices that they make in other policy areas, from transportation to higher education, are making it easier rather than harder for people to move up the socioeconomic ladder.

Conclusion: Growing Together Rather than Pulling Apart

By their use of the “pulling apart” metaphor in the title of their new study of income trends in the 50 states, the Center on Budget and Policy Priorities (CBPP) and the Economic Policy Institute (EPI), are being both accurately descriptive and appropriately judgmental.

Arithmetically the widening income gaps that are being experienced in New York are the result of two divergent trends. The average income of the top quintile of families is pulling in one direction - up, substantially. At the same time, the average incomes of families in the other quintiles are being pulled in the opposite direction, overwhelmingly by forces outside their control. This “pulling apart” phenomenon has been particularly intense in New York State. In fact, no state in the nation has seen a greater increase in the gap between the incomes of the richest and the poorest families. While the economic growth in New York between the late 1970s and the 1980s was, on average, shared (albeit not equally) by four out of five families in New York, the most recent economic expansion has significantly increased the average income of only the richest two fifths of families. The poorest fifth of New Yorkers has seen steady declines in its average income through both periods.

The term “pulling apart” also connotes that there are dangers inherent in these cold hard facts. The CBPP/EPI report highlights those risks - which range from the broadly philosophical to the mundane and pragmatic. As that report explains, there are important negative implications for the effective functioning of our economic system when everyone who contributes to the growth of the economy does not share in the resulting prosperity. The reality of recent trends, particularly in New York, has been far from that ideal. It is not that the poor and middle class are simply getting a smaller share of the growth; it is that virtually all of the growth is going to the top end.

There are also important negative implications for our political and social systems. The widening gulf between the rich and the middle class, and between the rich and the poor, reduces social cohesion, trust in societal institutions, and participation in the democratic process. And, the latter phenomenon can lead to public policies that exacerbate rather than ameliorate the causes and the consequences of income inequality.

Public and private sector leaders should commit themselves to pursuing policies and making decisions that make it easier rather than harder for New York families to move up the socioeconomic ladder. In this way, New York can begin growing together rather than pulling apart.

Methodological Notes

The data utilized in this report is for the before-tax incomes of families (two or more related individuals residing together) and comes from the U. S. Bureau of the Census' Current Population Survey (CPS). The CPS data captures only some of the effects of the unequal distribution of investment income since it does not include income from capital gains, a rapidly increasing component of income in New York during the 1990s. All figures have been adjusted for inflation and are expressed in 1999 dollars. Due to small sample sizes for some states, the report compares "pooled" data for the late 1990s (1998, 1999 and 2000) to pooled data for the late 1970s (1978, 1979 and 1980) and the late 1980s (1988, 1989 and 1990). The data for the late 1990s is the most recent data available from the Census Bureau. Comparisons among these three time periods are appropriate since they represent similar "high" points in the business cycle.

The people living in families in each state have been divided into five groups, each with 20 percent of those individuals. These 20 percent groupings are referred to interchangeably as particular fifths or quintiles of families or of individuals living in families. So, for example, the 20% of individuals in the highest income families are referred to as the top fifth, the top 20 percent or the top quintile of families. The analysis is done using equal quintiles of individuals rather than equal quintiles of families in order to avoid bias stemming from differences in average family sizes across quintiles.

Data for the top five percent of families is presented, but only for the eleven largest states in the country, since these were the only states for which the sample sizes were large enough to make statistically significant calculations for this segment of the population.

For more information on this report's findings, or the methodology used, please contact us by telephone, mail or e-mail at the addresses or telephone numbers listed below. For more information on the Fiscal Policy Institute (FPI) and for copies of this and other FPI reports, visit our web site at www.fiscalpolicy.org.

One Lear Jet Lane
Latham, New York 12110
518-786-3156
mauro@fiscalpolicy.org

275 Seventh Avenue
New York, NY 10001
212-414-9001
parrott@fiscalpolicy.org