News from the
Fiscal Policy Institute

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New York's recovery uneven with wages yet to rise while worker productivity climbs

Economic and fiscal pressures restrain rebound for most of upstate NY

(Full report available for downloading at http://www.fiscalpolicy.org/SOWNY2006.stm)

Real wages for most workers are not yet back to where they were in 2002, even with reasonably strong growth in total output and worker productivity. That's the conclusion of The State of Working New York, 2006, a new report by the Fiscal Policy Institute (FPI), that shows New York's economy paralleling the economic troubles of the nation. The report also finds that the recovery of jobs and wages since mid-2003 has been very uneven across the state's three "super-regions": New York City; Eastern New York (the downstate suburbs, the Hudson Valley and the Capital Region); and Western and Northern New York (the upstate area that extends from Utica west to Buffalo, including the Southern Tier and North Country).

"What's most striking about New York State's economy over the last five years is the emergence since 2000 of a pronounced gap between the relatively strong growth in productivity and the stagnation of wages for most New York workers," said James Parrott, FPI's Deputy Director and Chief Economist. "Many parts of New York's economy have rebounded from the downturn a few years ago but the data all point to the concentration of economic gains at the very top," Parrott continued. "Meanwhile, middle income families are being squeezed by stagnant incomes and rising prices, and poverty remains staggeringly high in cities across the state."

Frank Mauro, FPI's Executive Director, stated: "The upstate metropolitan areas in central and western New York, which saw only tepid growth during the late 1990s expansion, have been socked with the steep 25% decline in manufacturing jobs since 2000. The economic travails of central and western New York have been compounded by suburban sprawl and State fiscal policies that have pushed up local property taxes and severely strained local government budgets, hindering upstate's recovery."

The Fiscal Policy Institute, based in Albany and New York City, is releasing it's The State of Working New York report at the same time as the Washington-based Economic Policy Institute (EPI) is releasing the 10th edition of its definitive volume, The State of Working America.[1] EPI's comprehensive analysis details an economic picture centered around a seeming contradiction. On the one hand, the economy is frequently characterized as robust in terms of big-picture indicators such as gross domestic product. On the other hand, the wages and incomes that shape most Americans' living standards continue to fall behind expectations.

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[1] Internet access to The State of Working America is available at www.epi.org.

Other highlights of FPI's The State of Working New York, include:

- **Productivity-wage gap.** While the productivity of New York workers and their average wages grew in tandem in the late 1990s, a significant productivity-wage gap emerged, beginning in 2000. Since then, productivity (output per worker) in New York grew by 9.3% while the real average wage inched up by only 1.6% over those five years.
- **Stagnant median wages during recovery.** Momentum from the late 1990s expansion continued to increase New York wages through 2002, but over the next three years, real median hourly wages fell by 3.6%. While it now appears that median wages in New York state are beginning to level off, they remain well below the 2002 level.
- **Wage gains concentrated at the top.** The trend in average wages in New York is misleading since the highest-paid workers tend to receive disproportionately faster increases. From 1995 to 2005, while the real hourly median wage in New York increased by 3.2%, the 95^{th} percentile real hourly wage rose by 11.3%.
- **Minimum wage hikes lift wages at the bottom.** In an otherwise somber wage picture, workers with less than a high school education outside of New York City appear to be benefiting from the two increases in 2005 and 2006 in the New York state minimum wage: their wages have increased by 7.2% in the 12 months through June 2006.
- **Income polarization intensifies since 2003.** According to State budget office projections, the less than 5% of households with incomes of $200,000 or more will increase their share of total state income from 33.5% in 2003 to 43.1% in 2006, while the aggregate income share of households with incomes of $100,000 or less will decline from 48.8% to 39.1%.
- **Particularly weak job growth in Western and Northern New York.** In the three years since the recovery began in mid-2003, New York City has experienced a 2.9% job gain and the Eastern region had 2.4% employment growth. On the other hand, the Western and Northern New York region has seen very weak job growth of only 0.5% over three years. The Rochester, Binghamton and Elmira MSAs have all lost jobs in this recovery.
- **Manufacturing lost a lot of jobs but remains vibrant.** While western and central New York metro areas lost 25% of their manufacturing jobs from 2000 to 2005, manufacturing still accounts for nearly 20% of total wages in these upstate areas and there are signs that the remaining manufacturing is vibrant. Manufacturing productivity grew faster in New York than nationally since 2000 and New York has the second highest share of high-skilled manufacturing workers among the 12 largest industrial states.
- **Poverty rates high for New York's cities.** New York has the unenviable distinction of being the only high-income state that ranks among the highest in terms of poverty. With 54% of the state's poor, New York City's poverty rate was 19.1% in 2005. But upstate cities face even higher rates: Syracuse had a poverty rate of 31.3%, Rochester 30.0%, Buffalo 26.9% and Albany 26.5%.
- **Good news and bad news on the health coverage front.** In a period when 6 million more people nationally lost health insurance coverage, New York State is the only state to show a statistically significant reduction over the past four years in the portion of its population without health insurance. On the other hand, rising costs for private and publicly-funded health care are putting increasing strains on private employers, taxpayers and the insured, and New York still has 2.6 million people without health coverage.
- **State fiscal policies put needy cities, counties and school districts in a fiscal bind.** Changes in New York State's personal income tax since the 1970s have sharply reduced its progressivity and resulted in greater use of more regressive state and local taxes and fees. One result has been that since the early 1980s, New York has substantially reduced state revenue-sharing with its general purpose local governments. And, the share of school district budgets covered by state aid has now fallen to a 50-year low. These trends have combined to put much greater pressure on regressive property and sales taxes, while severely limiting the ability of the state's neediest localities and school districts to provide the services that are essential to their continued viability.

FPI's Parrott stated, "As New York approaches the 2006 elections, it faces the considerable challenge of reversing these trends. The key economic questions for the next governor and legislature are: how can we knit the state back together so that we have strong growth that expands the pie for all of New York's regions and communities?"

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