THE STATE *of* WORKING NEW YORK

2006

An Uneven Recovery

Western New York Lags and Wages Stay Flat While Productivity Rises

FISCAL POLICY INSTITUTE

Labor Day, 2006

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Acknowledgments

This is the latest edition in the Fiscal Policy Institute's State of Working New York series. A supplement to this report, which contains additional data on economic trends in New York State, is available on the FPI website, www.fiscalpolicy.org, as are earlier editions in this series and numerous other FPI reports.

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Executive Summary

In New York State, 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.

In the last five years, New York state has seen the striking emergence of a gap between relatively strong growth in productivity and the stagnation of wages for most New York workers. From 2000 to 2005, productivity (output per worker) in New York grew by a strong 9.3%, yet the real average wage inched up by only 1.6% over those five years. In the first decade of the 21st century, a rising economic tide is not lifting all boats.

Yet, even this ungratifying picture does not tell the whole story. 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* (downstate suburbs, Hudson Valley and Capital Region)
- *Western and Northern New York* (upstate area from Utica west to Buffalo, including the Southern Tier and North Country).

The metropolitan areas of Buffalo, Rochester, Syracuse, Utica, Binghamton and Elmira saw only tepid growth during the late 1990s expansion, and have been hit hard by the steep 25% decline in manufacturing jobs in the state in the past five years. These economic problems 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.

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 metro areas have all lost jobs in this recovery.

The State of Working New York 2006 also highlights the following trends.

° **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 are beginning to level off, they remain well below their 2002 level.

° **Wage gains concentrated at the top.** The highest-paid workers received a disproportionate share of New York's growth. From 1995 to 2005, while the real hourly median wage in New York increased by 3.2%, the 95th 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.

° **Manufacturing lost a lot of jobs but remains vibrant.** While western and central New York metro areas lost a quarter of their manufacturing jobs in the past five years, manufacturing still accounts for nearly 20% of total wages in these 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 also ranks among the highest in poverty rate. With 54% of the state's poor, New York City's 2005 poverty rate was 19.1%. Upstate cities had 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 about health care.** In a period when 6 million more people nationally lost health insurance coverage, New York was the only state to show a significant reduction in the portion of its population without health insurance. Over the past five years, the portion of the population without insurance has fallen from 16.3% to 13.5%, as a result of expanded coverage under Medicaid, Child Health Plus and Family Health Plus. 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 the revenue coming from this, the fairest of all state taxes. 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 essential services.

The State of Working New York 2006: An Uneven Recovery

Western New York lags and wages stay flat while productivity rises

Introduction

New York ranks among the richest 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. One of New York's most pressing economic challenges 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, but median family incomes were no higher in 2005 than at the start of the recovery. 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 of 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

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1. See: http://www.fiscalpolicy.org/SOWNY2005.stm.
2. See: http://www.fiscalpolicy.org/2006FPIBudgetBriefing.pdf.

Figure 1.

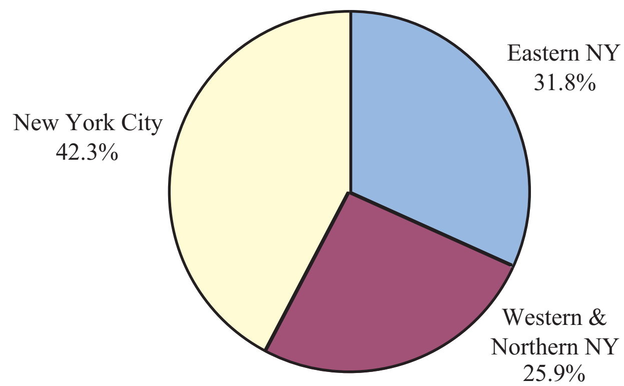
New York's three "super-regions"

1) New York City

2) Eastern New York
- Long Island
- Hudson Valley
- Capital District

3) Western and Northern New York
- Mohawk Valley
- Central New York
- Southern Tier
- Finger Lakes Region
- Western New York
- North Country

Super-region shares of New York State population, 2005



Source: U.S. Bureau of the Census

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 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 shares of New York's total 2005 population of 19.3 million.

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 inflation,[3] 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.

Figure 2.

Population, employment, wages, and per capita income, New York State and "super-regions," 1995-2000 and 2000-2005

	Average Annual Change, 1995-2000			
	Population	**Employment**	**Total Real Wages**	**Real Per-Capita Income**
New York State	0.5%	1.8%	4.7%	2.8%
Eastern NY	0.6%	1.8%	3.7%	3.3%
Western & Northern NY	-0.3%	0.8%	1.6%	2.1%
New York City	1.0%	2.2%	5.9%	2.6%
	Average Annual Change, 2000-2005			
	Population	**Employment**	**Total Real Wages**	**Real Per-Capita Income***
New York State	0.3%	-0.3%	0.1%	0.0%
Eastern NY	0.5%	0.5%	1.0%	-0.2%
Western & Northern NY	-0.1%	-0.4%	-0.5%	0.4%
New York City	0.3%	-0.7%	-0.1%	-0.1%

* Real per-capita income is shown only for 2000-2004. For the state, the average annual change from 2000-2005 is +0.5%; 2005 regional data for personal income have not yet been released.

Sources: U.S. Bureau of the Census (population); U.S. Bureau of Labor Statistics (BLS), Quarterly Census of Employment and Wages (employment and wages); U.S. Bureau of Economic Analysis (BEA) (personal income)

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.

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 declined 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 changes 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 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

Figure 3.

Employment changes in New York's regions, first half 2001 to first half 2006

	Recession and downturn	**Recovery**
	First half 2001 to first half 2003	**First half 2003 to first half 2006**
UNITED STATES	-1.8%	3.8%
New York State	-2.9%	2.1%
New York City	-5.2%	2.9%
Eastern New York	-0.1%	2.4%
Western & Northern New York	-2.5%	0.5%

Source: New York State Department of Labor; US Bureau of Labor Statistics. Not seasonally adjusted.
See Appendix for details

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.

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 sidebar 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 Manufacturing 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,

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.

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 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 the average manufacturing wage in New York City is only 71% of the overall average wage.

Figure 4.

Manufacturing share of wages and employment, New York State and regions, 2005

	Manufacturing share of total employment	Manufacturing share of total wages	Average manufacturing wage as % of overall average wage
New York State	7%	7%	100%
New York City	3%	2%	71%
Eastern NY	7%	9%	131%
Capital Region	6%	9%	134%
Hudson Valley Region	7%	11%	153%
Long Island Region	7%	8%	114%
Western & Northern NY	13%	19%	143%
Central Region	11%	16%	143%
Finger Lakes Region	16%	23%	144%
Mohawk Valley Region	12%	14%	115%
North Country Region	9%	13%	143%
Southern Tier Region	15%	21%	143%
Western New York Region	13%	19%	144%

Source: NYS DOL (Quarterly Census of Employment and Wages); analysis by FPI
Employment is annual average employment

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.

Many of New York's manufacturing industries are among the most productive in the nation. The dollar amount of manufacturing output per work-

Figure 5.

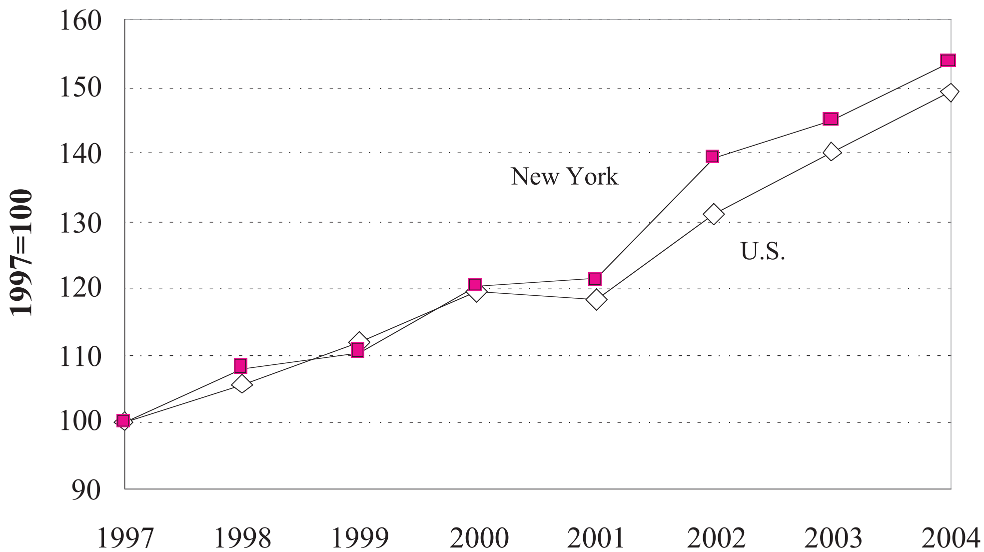
Employment trends in manufacturing, New York State and metropolitan areas, 2000 to 2005

	Manufacturing employment change 2000 to 2005	2005 manufacturing employment
United States	-17.6%	14,232,000
New York State	-22.7%	580,100
Albany-Schenectady-Troy	-18.9%	23,100
Binghamton	-25.4%	17,300
Buffalo-Niagara Falls	-23.4%	64,100
Elmira	-31.0%	5,800
Glens Falls	-9.2%	6,900
Ithaca	-11.4%	3,900
Kingston	-29.7%	4,500
Nassau-Suffolk	-17.3%	87,300
Poughkeepsie-Newburgh-Middletown	-20.8%	23,200
Rochester	-25.6%	76,400
Syracuse	-25.4%	33,200
Utica-Rome	-26.6%	13,800
New York City	-35.4%	114,300
Putnam-Rockland-Westchester	-13.6%	32,300
14 metro areas	-25.3%	506,100
All non-metro areas	0.5%	74,000

Source: BLS (Current Employment Survey series)

Figure 6.

Manufacturing output per worker, NY and the US, 1997 to 2004



Source: FPI analysis of BEA and BLS data.

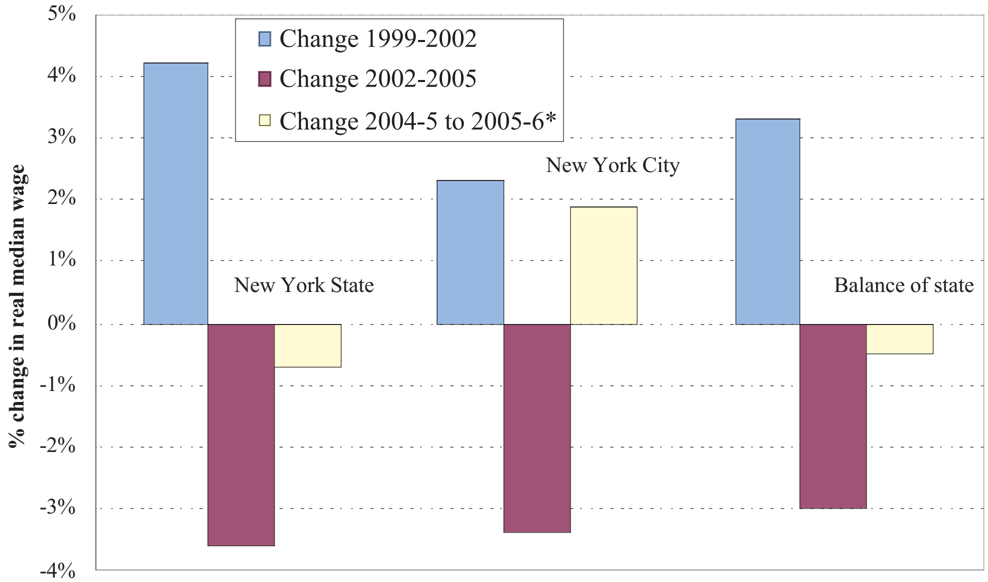
er is fairly similar for New York and the U.S. Since 2000, however, output per worker in New York manufacturing has grown nearly 10% faster than the national average. See Figure 6. In part, this favorable productivity performance might be a reflection of the high skill level among manufacturing workers 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]

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.

Figure 7.

Changes in real median wages, 1999 - first half of 2006



Source: FPI analysis of Current Population Survey. People in workforce, ages 18-64. Wages deflated using CPI-U-RS.
*July 2004-June 2005 to July 2005-June 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.

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

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.[10] 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 reported here 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.[11] 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 has been basically flat.

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

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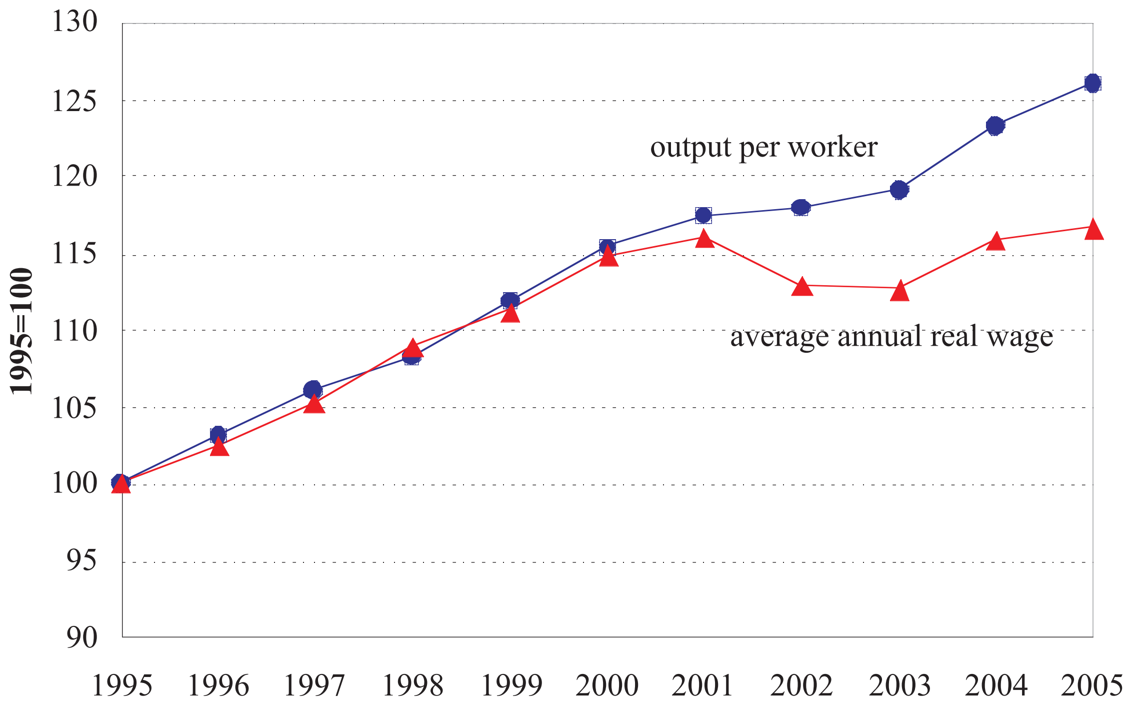
10. Changes are "significantly different" if the change is larger than the margin of error in the estimates. Otherwise the indicated change may just be a statistical anomaly.
11. The Current Population Survey used to examine hourly wage trends in New York does not have a large enough sample size to permit analysis for the various regions around the state, necessitating a "balance of the state outside of New York City" approach.

in 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).[12]

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

Figure 8.
New York State productivity-wage gap, 1995-2005



Source: FPI analysis of BEA data and QCEW data from BLS.

12. 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.

and January 2006 increases in New York State's minimum wage.[13]

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.[14]

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.)[15]

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

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13. 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.
14. "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.
15. 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 productivity growth. See Brooks Pierce, "Compensation Inequality," BLS Working Papers series, No. 323, June 1999, http://www.bls.gov/ore/orecatlg.htm#1996.

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.[16]

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 taxpaying unit in the middle—the median—and those at the top of the wage distribution.[17] From 1995 to 2003, the median wage-earning taxpayer 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 peaked in 2000 and generally declined through 2003.)

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 the top 0.1 percent of the wage distribution (the 99.9th percentile) experienced growth on the order of 15%.[18]

No data source suggests that the median or average household enjoyed wage gains of this magnitude in recent years. Moreover, the best available

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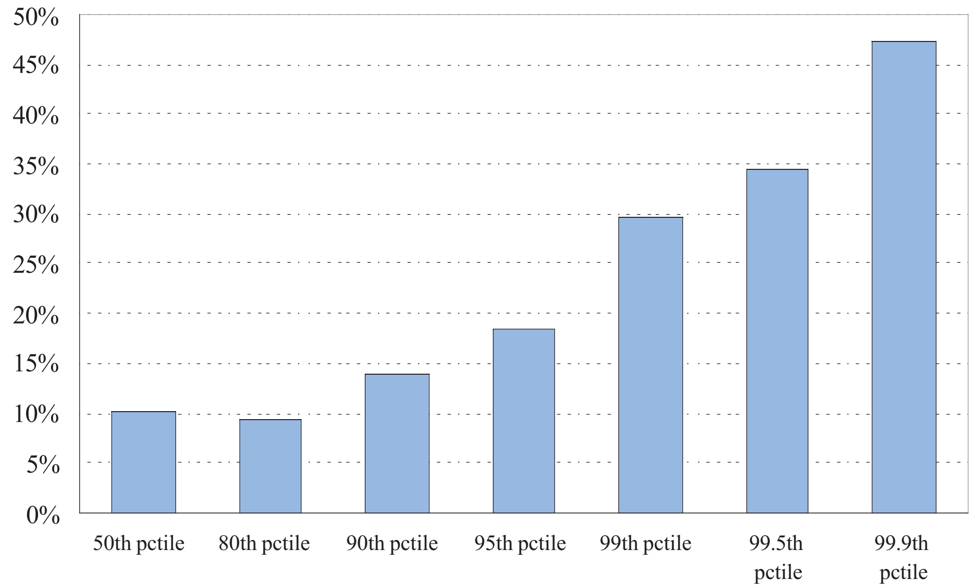
16. Lawrence Mishel, Jared Bernstein and Sylvia Allegretto, The State of Working America 2006/2007, Economic Policy Institute, galley version, September 2006 (forthcoming from ILR Press, an imprint of Cornell University Press.)
17. The New York tax data are for "taxpayers" which we generally interpret 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.
18. Internal Revenue Service data analyzed by economists Thomas Piketty and Emmanuel Saez, see: http://elsa.berkeley.edu/~saez/TabFig2004prel.xls.

Figure 9.

Growth in real wage income, New York State, 1995-2003



Source: NYS Dept. of Taxation and Finance, wage income for full-year resident returns, annual "Analysis of Personal Income Tax Returns" reports. Analysis by FPI.

data indicate a widening wage and income gap between the very affluent and the typical household since the early 1980s. (See the box on page 18 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.[19]

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.[21] While the percent of privately employed New Yorkers with employer-provided 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.

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.

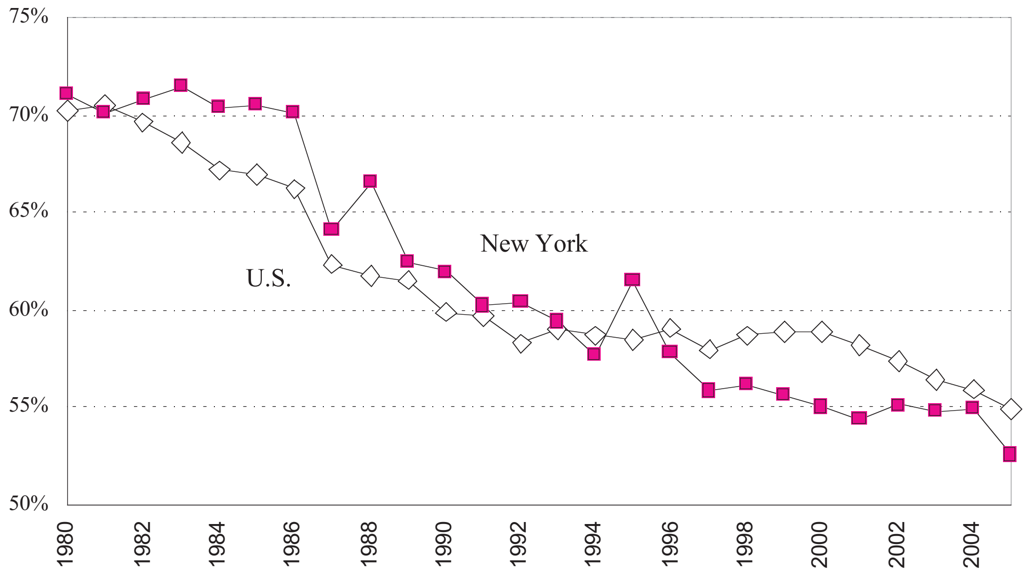
For most of the 1980s and 1990s, the richest families gained steadily while the poor and those in the middle held steady or lost ground. For a few years in the late 1990s, a sustained period of growth tightened the labor market enough that the people at the bottom and the middle finally saw meaningful 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.[20]

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

19. 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.
20. See: Fiscal Policy Institute, Pulling Apart in New York: An Analysis of Income Trends in New York State, January 26, 2006 (http://www.fiscalpolicy.org/PullingApartNY2006.pdf).
21. 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.

Figure 10.

Share of private-sector employees covered by health insurance at work



Source: CPS March supplements, 1981-2006. Analysis by FPI. People who work at least 26 weeks per year, at least 20 hours per week, with at least some health insurance provided by employer.

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.[22]

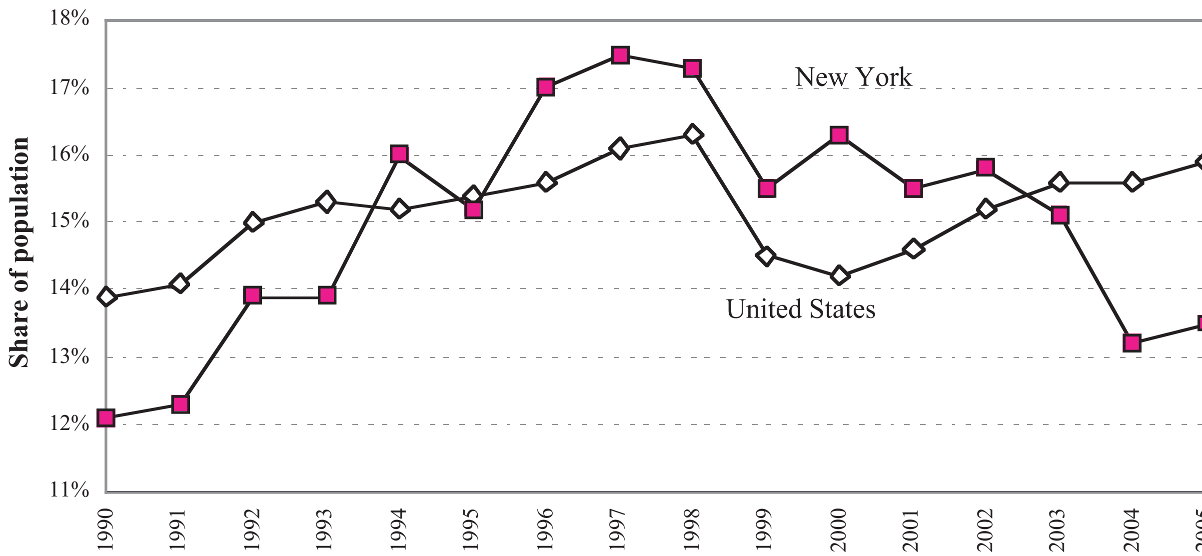
Nevertheless, this means that 2.6 million people in the state still have no health insurance. This represents a health risk for society, a major economic problem for the families without coverage, and, to the extent that

22. Based on analysis of Census data compiled by the Center on Budget and Policy Priorities. See http://www.cbpp.org/8-30-05health.htm.

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.

Figure 11.

People without health insurance coverage, 1990-2005



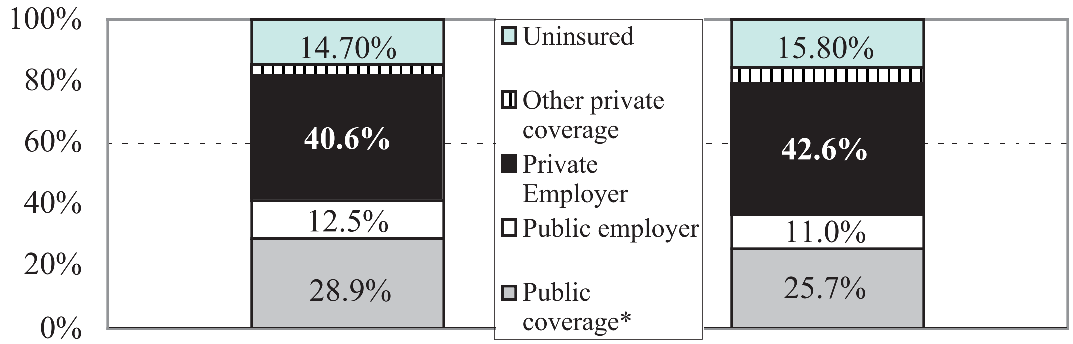
Source: U.S. Census Bureau (www.census.gov/hhes/www/hlthins/historic/hihistt4.html); 2004 figures as revised by Census

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 enrollment that leads to New York's having a smaller share of the population with no insurance at all (14.7% vs.

15.8% nationally).[23] 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.

Health insurance coverage, New York and the



*Medicare, Medicaid, and other public

Source: Kaiser Family Foundation (www.statehealthfacts.org) and FPI analysis of March, 2004 and March, 2005 CPS supplements

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.

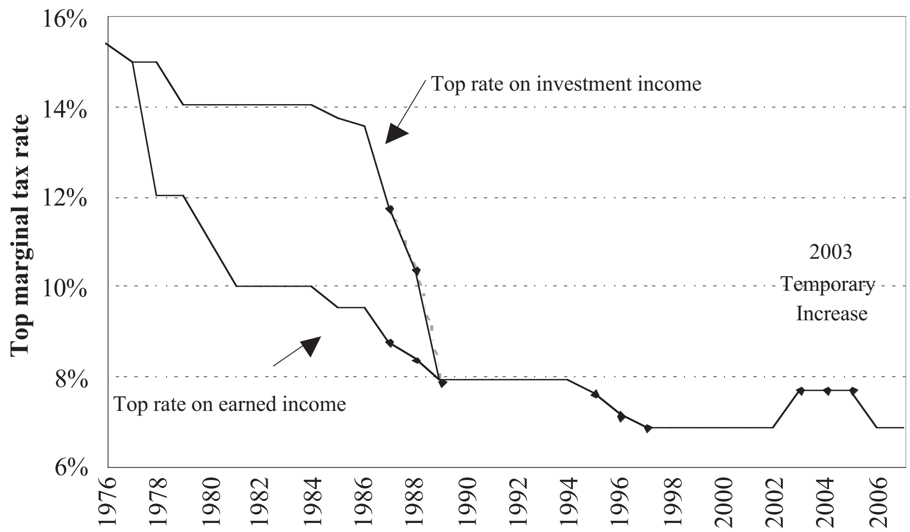
Over the last 30 years, New York State has cut its top personal income tax rate by more than 50%—from 15.375% to 6.85% (see Figure 13)—and eliminated its bottom 2% and 3% brackets. The result is that New York State now has a much flatter income tax than it used to have (with 5 rates, but in a very tight 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

23. Percentages for New York based on 2003-2004 averages before revisions by the Census Bureau. The revised gap between the national and state figures is greater than shown here.

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.

New York State has cut its top personal income tax rate by more than 50% over the last 30 years, from 15.375% to 6.85%.

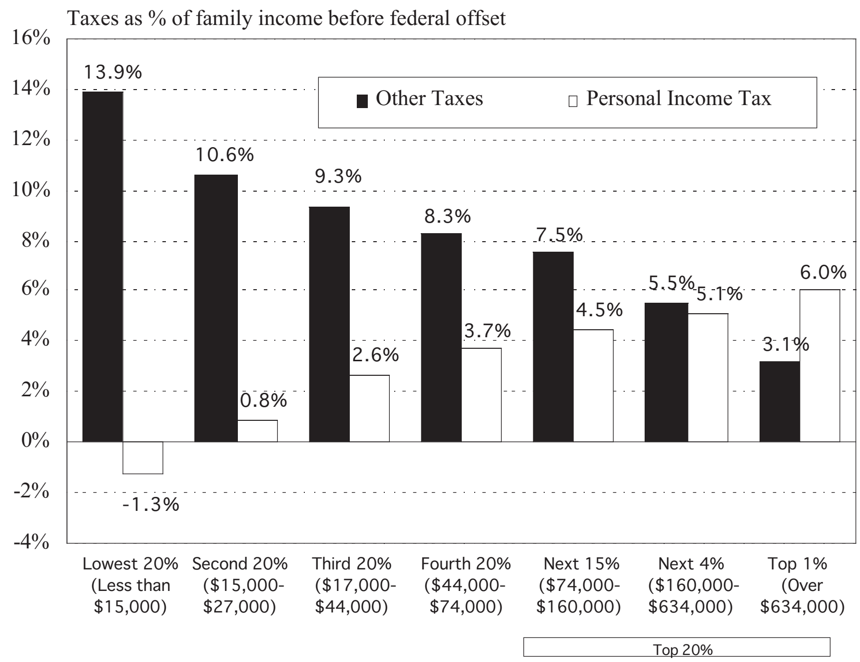


Source: FPI review of official NYS government laws and supporting documentation

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,

Figure 14.

The state personal income tax helps to balance out the regressivity of the rest of New York's state-local tax system



Source: Institute for Taxation & Economic Policy, 2003. Chart shows 2002 tax law at 2000 income levels for nonelderly taxpayers.

Figure 15.

New York State's revenue sharing with local governments has fallen each decade

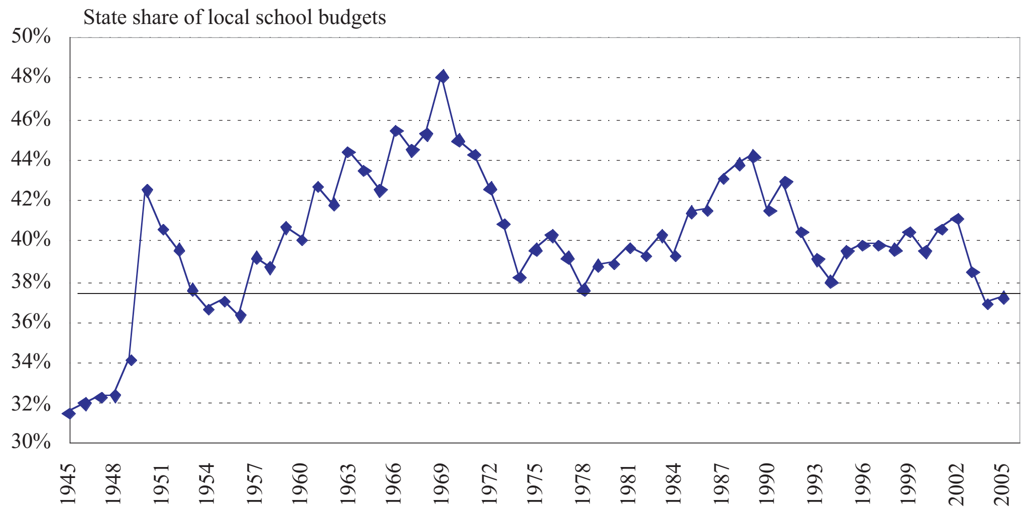
	Annual average payments to local governments ($millions)	**As share of statutory standard***
FY 1980-1989	$919.7	66.1%
FY 1990-1999	$608.9	25.9%
FY 2000-2005	$559.7	17.8%

*8% of state revenues

Source: FPI analysis of state budget documents

Figure 16.

State aid as a share of public school budgets is at a 50-year low.



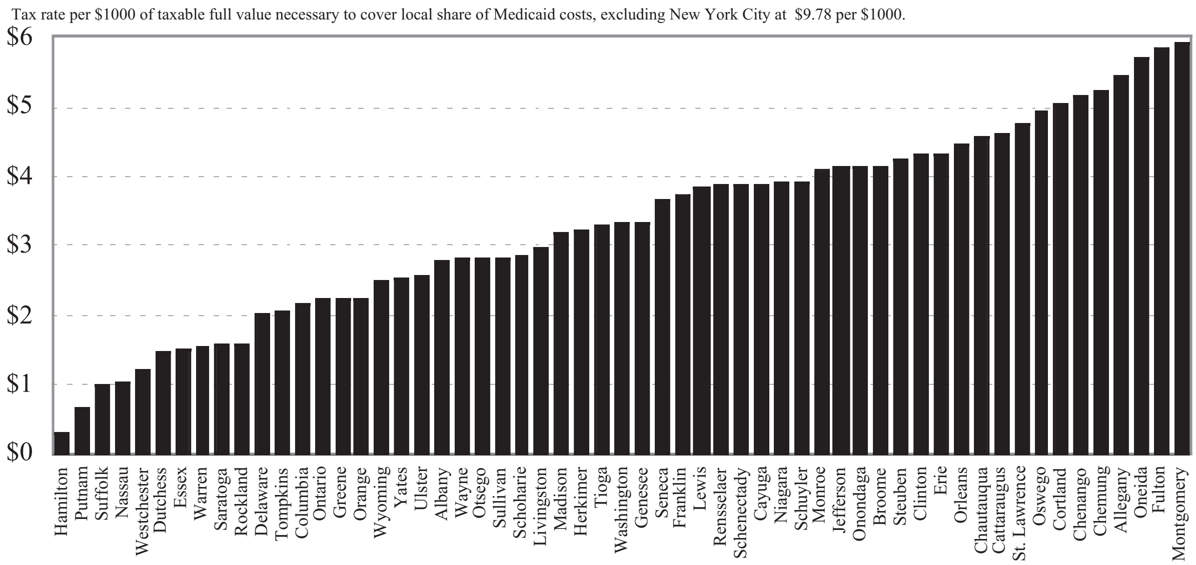
Source: State Education Department, Analysis of School District Finances in NYS School Districts, January 2006.

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.

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, 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.

Figure 17.

New York's method of financing Medicaid places great pressure on counties with weak tax bases relative to their concentrations of needy individuals.

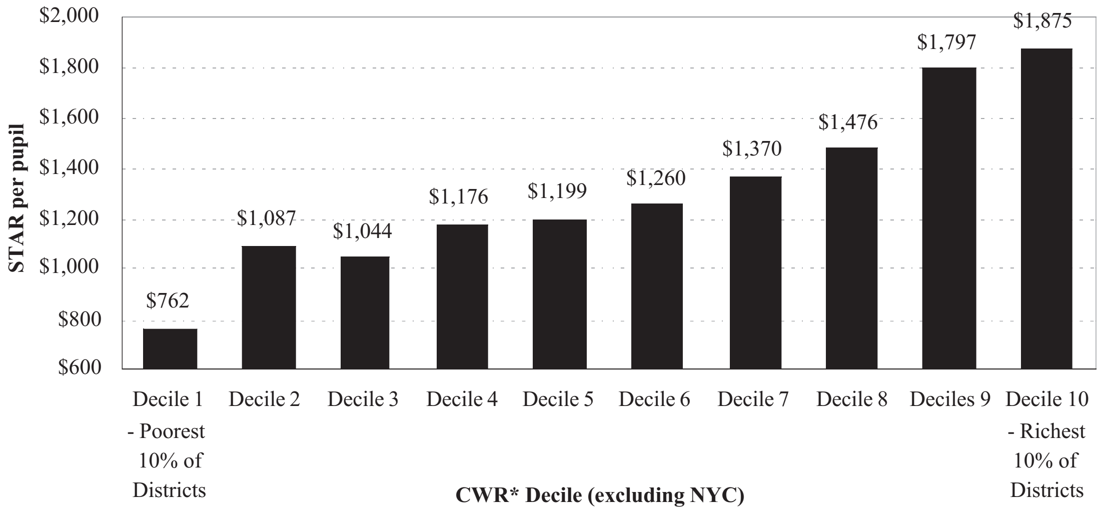


Sources: Medicaid Expenditures from NYS Department of Health. Full value from Office of State Comptroller.

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.

STAR (School Tax Relief) payments to school districts increase fiscal disparities rather than reducing them.



(*Combined Wealth Ratio, the measure of a school district's ability to pay used to distribute state aid)

Source: FPI analysis of data from NY State Education Department and Office of Real Property Services

Appendix

Employment in New York's regions, first half 2001 to first half 2006

	first half 2001	first half 2003	first half 2006	change fh01-03		change fh03-06	
UNITED STATES	**131,882,300**	**129,550,800**	**134,490,300**	**-2,331,500**	**-1.8%**	**4,939,500**	**3.8%**
NEW YORK STATE	**8,615,100**	**8,365,000**	**8,539,800**	**-250,100**	**-2.9%**	**174,800**	**2.1%**
NEW YORK CITY	**3,717,100**	**3,524,400**	**3,628,200**	**-192,700**	**-5.2%**	**103,800**	**2.9%**
EASTERN NEW YORK	**2,622,900**	**2,621,200**	**2,684,200**	**-1,700**	**-0.1%**	**63,000**	**2.4%**
Nassau-Suffolk, NY Metropolitan Division	1,213,000	1,211,500	1,236,800	-1,500	-0.1%	25,300	2.1%
Putnam-Rockland-Westchester	551,700	549,500	566,200	-2,200	-0.4%	16,700	3.0%
Albany-Schenectady-Troy, NY MSA	440,600	436,700	446,300	-3,900	-0.9%	9,600	2.2%
Glens Falls, NY Metropolitan Statistical Area	50,400	51,000	53,100	600	1.2%	2,100	4.1%
Kingston, NY Metropolitan Statistical Area	64,500	65,500	64,900	1,000	1.6%	-600	-0.9%
Poughkeepsie-Newburgh-Middletown, NY MSA	242,600	246,100	254,900	3,500	1.4%	8,800	3.6%
Columbia County	21,500	20,800	21,200	-700	-3.3%	400	1.9%
Greene County	13,500	14,700	14,700	1,200	8.9%	0	0.0%
Sullivan County	25,100	25,400	26,100	300	1.2%	700	2.8%
WESTERN AND NORTHERN NEW YORK	**2,275,700**	**2,218,400**	**2,230,300**	**-57,300**	**-2.5%**	**11,900**	**0.5%**
W&N NY Metropolitan Areas	**1,759,700**	**1,711,800**	**1,717,600**	**-47,900**	**-2.7%**	**5,800**	**0.3%**
Binghamton, NY MSA	119,800	112,800	111,700	-7,000	-5.8%	-1,100	-1.0%
Buffalo-Niagara Falls, NY MSA	551,300	542,500	544,100	-8,800	-1.6%	1,600	0.3%
Elmira, NY MSA	43,400	41,300	40,000	-2,100	-4.8%	-1,300	-3.1%
Ithaca, NY MSA	59,600	60,400	62,100	800	1.3%	1,700	2.8%
Rochester, NY MSA	527,500	507,400	505,700	-20,100	-3.8%	-1,700	-0.3%
Syracuse, NY MSA	324,100	316,200	322,000	-7,900	-2.4%	5,800	1.8%
Utica-Rome, NY MSA	134,000	131,200	132,000	-2,800	-2.1%	800	0.6%
W&N NY Non-metropolitan areas	**516,000**	**506,600**	**512,700**	**-9,400**	**-1.8%**	**6,100**	**1.2%**
Allegany County	17,100	16,900	17,300	-200	-1.2%	400	2.4%
Cattaraugus County	34,500	34,900	34,700	400	1.2%	-200	-0.6%
Cayuga County	25,800	26,100	26,800	300	1.2%	700	2.7%
Chautauqua County	58,600	56,200	56,500	-2,400	-4.1%	300	0.5%
Chenango County	17,400	16,700	16,800	-700	-4.0%	100	0.6%
Clinton County	36,000	35,700	35,000	-300	-0.8%	-700	-2.0%
Cortland County	20,500	19,300	19,500	-1,200	-5.9%	200	1.0%
Delaware County	17,500	17,700	18,300	200	1.1%	600	3.4%
Essex County	15,600	15,000	15,100	-600	-3.8%	100	0.7%
Franklin County	18,400	18,500	18,800	100	0.5%	300	1.6%
Fulton County	19,000	18,500	18,600	-500	-2.6%	100	0.5%
Genesee County	22,900	22,900	22,700	0	0.0%	-200	-0.9%
Hamilton County	1,700	1,800	1,900	100	5.9%	100	5.6%
Jefferson County	39,300	39,800	40,900	500	1.3%	1,100	2.8%
Lewis County	6,600	6,400	6,700	-200	-3.0%	300	4.7%
Montgomery County	19,200	19,000	19,900	-200	-1.0%	900	4.7%
Otsego County	25,400	25,500	26,500	100	0.4%	1,000	3.9%
St. Lawrence County	41,900	41,600	41,600	-300	-0.7%	0	0.0%
Schuyler County	4,400	4,600	4,700	200	4.5%	100	2.2%
Seneca County	10,500	10,800	11,300	300	2.9%	500	4.6%
Steuben County	44,200	38,300	38,100	-5,900	-13.3%	-200	-0.5%
Wyoming County	13,100	13,700	14,100	600	4.6%	400	2.9%
Yates County	6,500	6,800	7,100	300	4.6%	300	4.4%
NEW YORK STATE	**8,615,100**	**8,365,000**	**8,539,800**	**8,358,500**	**-2.9%**	**174,800**	**2.1%**
10-COUNTY DOWNSTATE AREA	**5,481,800**	**5,285,400**	**5,431,200**	**-196,400**	**-3.6%**	**145,800**	**2.8%**
52-COUNTY UPSTATE AREA	**3,133,900**	**3,078,600**	**3,111,500**	**-55,300**	**-1.8%**	**32,900**	**1.1%**

Totals may not agree due to rounding. Half-year figures are rounded averages of rounded monthly figures.
Source: New York State Department of Labor; US Bureau of Labor Statistics. Not seasonally adjusted.

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