The State of Working New York

The Illusion of Prosperity: New York in the New Economy

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September 1999

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Executive Summary

New Yorkers have reason to be concerned for their economic future. While low unemployment and economic growth suggest a healthy economy, most New Yorkers find themselves less economically secure than a decade ago. The state has gained jobs, but only this year, eight years into an economic recovery, has the state recouped the jobs lost during the last recession. Prosperity is an illusion for most New Yorkers: incomes and wages have declined and income inequality is greater than in any other state.

This report uses a wide range of government data to paint a statistical portrait of New York in the 1990s. Three broad trends are identified: declining incomes and wages, unfavorable employment prospects, and sluggish statewide growth. The major findings of this report are outlined below.

Declining Incomes and Wages

• Median family income in New York has declined by 1.8 percent since 1989, while the nation's median family income increased by 1.1 percent. All but the top-earning one-fifth of New York's population experienced income declines in the 1990s.

For the middle-earning 20 percent of the population, average income declined by 8 percent, or $3,400 between the late 1980s and the mid-1990s. The average income of the bottom one-fifth declined 15 percent from the late 1980s, while the second one-fifth lost slightly less. Such broad-based declines in family income stem mainly from declining wages.

• The gap between rich and poor and between the rich and those in the middle is greater in New York than in any other state. The top 20 percent of families gained 29 percent in average income from the late 1980s to the mid-1990s. Meanwhile, everyone else lost income, and rates of loss were greatest for those with the lowest incomes.

In the late 1970s, the average income of the top one-fifth of families in New York was eight times the average income of the lowest one-fifth; by the mid-1990s, it was more than 20 times that of the poorest one-fifth. The average income of the top fifth of families is four times higher than that of middle income families.

• The number of New Yorkers in poverty has increased by one third since 1989 to three million. New York's poverty rate was 16.5 percent in 1997 compared to the U.S. poverty rate of 13.3 percent. Children are disproportionately affected: 25 percent of all New York children live in poverty. In New York City, 40 percent of children grow up in poverty.

Declining family income has pushed 750,000 additional New Yorkers into poverty since 1989. While the state's poverty rate was about the same as the nation's during the 1980s, New York's poverty rate started to rise through the early 1990s recession, and has stayed high since 1993 while the nation's poverty rate has moved downward.

• The number of working poor families in New York has increased by 60 percent in the 1990s, much faster than the U.S. increase of 24 percent.

Nearly 1.2 million New Yorkers live in households in which at least one adult works for wages, yet does not earn enough to lift their household above the poverty threshold. Almost one-third of working poor family heads has a college degree or some college education.

• The median hourly wage of New York workers, which increased 1.8 percent in the 1980s, fell 6.3 percent in the 1990s. Nationally, the median hourly wage declined 0.6 percent in the 1990s. In New York, the median wage declined despite a 7.9 percent increase in output per worker, and a 7.1 percent increase in average wages.

• Wage inequality increased in New York in the 1990s, as most of the population saw wage losses while only the highest paid 20 percent experienced gains.

The lowest paid half of workers experienced declines of 6.5 percent or greater from 1989 to 1998. Wage inequality between high and middle earners in the state increased much faster than it did for the nation. Moreover, wage inequality between the 90th percentile and the 10th percentile increased by 13.5 percent in New York, while it declined slightly for the U.S.

• *Income and wage declines in New York City since the late 1980s have been steeper than for the state, with real incomes declining by almost 20 percent, on average, for all but the top 40 percent of families.*

• *The benefits of the Wall Street bull market have been highly concentrated among the well off, while other New Yorkers have seen an erosion in the value of their assets in the 1990s. Capital gains realizations, most of which has come from the stock market, have nearly quadrupled from 1990-97 for New Yorkers, with the top 7 percent of New York households receiving 85 percent of all capital gains.*

Home ownership has surged nationally since 1994, but in New York, the home ownership rate has been flat in the 1990s. Mortgage foreclosures, an indication of people losing their homes, have averaged 50 percent higher than the national rate since 1992, and personal bankruptcies have soared above national rates.

• *State taxation policies, rather than ameliorating the trend toward greater income inequality, disproportionately have favored those with the greatest incomes. Nearly two-thirds of the 1995 income tax cuts, which were the largest of the series of tax cuts enacted since 1994, went to the richest 20 percent of households.*

The richest one percent of taxpayers reaped 24 percent of the 1995 state income tax cuts, which reduced taxes paid by New York State residents by $4 billion in 1998. Since 1994, the State has enacted tax cuts that will reduce State revenues by over $13 billion per year. These cuts may jeopardize the state's ability to fund needed services and make essential investments should the financial markets, which have provided an ample fiscal cushion over the last three years, falter.

Unfavorable Employment Prospects

• *Manufacturers, corporate headquarters, banks, military producers, utilities and government have reduced employment by nearly 400,000 in the 1990s, resulting in the loss of many middle income jobs. Meanwhile, employment in services expanded by over 400,000, producing a much more pronounced shift toward services than occurred nationally. Overall, these changes have meant the loss of high wage jobs and the growth of jobs paying wages at or below the statewide average.*

For industries that lost the most jobs during the 1990s expansion, wages average $56,600, 53 percent above the statewide average. On the other hand, industries adding the most jobs had average wages of $34,300, 8 percent below the state average, and 39 percent below the average for the industries losing jobs.

• *The number of New Yorkers with three or more years on the job who were displaced increased by 21 percent in the 1990s compared to the 1980s, while for the U.S. as a whole, the number dropped by 7 percent.*

New York's increased worker displacement in the 1990s can be attributed to an unusually deep recession as well as the scaling back of several major industries. A majority of displaced workers suffered significant declines in their living standards because they were either unemployed or, when they found new employment, their wages were below their previous earnings.

• *The share of all New York jobs that paid less than the poverty line ($7.95 an hour) rose by 8 percent from 22.1 percent in 1989 to 23.8 percent in 1998. Nationally, there was a 10 percent drop in the share of jobs that pay poverty wages.*

• *Nearly 30 percent of New York workers are employed in contingent work arrangements, work part-time or are self-employed.*

Employment in temporary employment agencies added more jobs than any other industry from 1992-98. Contingent and other nonstandard workers earn less than their full-time counterparts, and are less likely to have employer-provided health and pension coverage. Men who work part-time, for example, earn 22 percent less per hour than their full-time counterparts.

• *While New Yorkers enjoy the second highest degree of unionization in the nation, levels of unionization declined 7* *percent in New York compared to the nation's 5 percent decline from 1988 to 1998.*

• New York now has a higher percent of its population without health insurance than the U.S., and fewer New York workers have employer provided health and pension coverage than 20 years ago.

Sluggish and Uneven Economic Growth

• According to three major economic indicators — job, income and output growth — the performance of New York's economy has trailed the nation's since 1992. New York's annual job growth has averaged 1.0 percent (U.S., 2.5 percent), income growth, 1.8 percent (U.S., 2.7 percent), and output growth, 2.2 percent (U.S., 3.2 percent).

Although New York's job growth has increased since 1996, over the entire 1992-98 period the state's rate of job growth ranks 49th among the 50 states. New York's economic performance in the 1990s has been slower than it was during the 1980s expansion from 1982-89.

• New York's economic growth has lagged most of the eight comparable urban, industrial states of the Northeast and Midwest in the 1990s (Massachusetts, New Jersey, Pennsylvania, Ohio, Michigan, Indiana, Illinois and Wisconsin).

During this expansion, New York's job growth has been only half that of the five Midwestern states and Massachusetts. Its output growth has trailed all of these states, and in terms of growth in total income, it shares the last position with Pennsylvania. More of New York's job growth since 1992 has been concentrated in the services industries, and it has lost proportionately more manufacturing jobs than the other Northeastern states except New Jersey while the Midwestern states all gained manufacturing jobs.

• Slow growth is a particular problem for upstate New York, which gained jobs at only 0.7 percent a year, less than three-fifths of the 1.3 percent employment growth for the downstate area. Upstate, with 37 percent of the state's job base, accounted for only 25 percent of the state's job growth from 1992-98. In the 1990s, most upstate regions have lost high-paying manufacturing jobs, the core of the upstate economic base, and gained low-paying service jobs.

Upstate labor market conditions have been weak for much of the decade. Household finances have suffered, as indicated by a greater than average rise in personal bankruptcy filings in upstate metro areas. The decline in the unemployment rate reported for many upstate areas for 1998 was largely a result of the decline in the labor force rather than growth in the number of jobs.

• Upstate's sluggish job and income growth in the 1990s has resulted in net population declines in many regions as working age adults have moved their families out of the state.

As a result of outmigration, upstate has seen a net decline in its population under the age of 65 of 127,000, or 2.1 percent, from 1993-98.

• In the downstate area, several industries have added jobs, but overall economic growth has been concentrated in the Wall Street sector. Wall Street directly accounted for more than half of the output and earnings growth for the entire state over the 1992-97 period.

New York City, the downstate region and the state are far more dependent on Wall Street for economic and fiscal stimulus than in the 1980s. Given New York's dependence on the volatile Wall Street sector, its economy could again be subject to a painful contraction should the unparalleled boom come to an end.

New York Needs a New Direction

The Empire State is rich in people, skills, resources and entrepreneurial energy. It has a long and strong tradition of being a national leader and innovator. Its people have been buffeted by the economic transformations taking place in the 1990s, and by the failure of government policies to respond to those transformations in a constructive manner. New York State's private and public leaders need to chart a new direction that raises living standards across the board and that maximizes employment, education, and training opportunities for the largest number of New Yorkers. The final chapter of this report proposes recommendations that could be implemented at the state level to create a more democratic and truly prosperous, sustainable future.