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New Yorkers Treading Water in a Tenuous Recovery

Gains of growth go to corporate profits and high-wage earners. Middle class shrinks.

The tenuous economic recovery of the past two years has been characterized by such weak wage growth that most of New York's working families have been left treading water, according to the latest edition of the Fiscal Policy Institute's biennial report on ***The State of Working New York***.

"These trends are evident around the state and add up to an economy that faces enormous challenges in achieving a shared and sustainable prosperity," said Frank Mauro, the Fiscal Policy Institute's executive director.

While the overall New York economy has grown at a modest rate over the past two years, the new report concludes that workers have not been sharing fully in the fruits of this growth. At the national level, corporate profits have increased five times faster than total wages since early 2001. In New York, economic output per worker increased by 6 percent from 2001 to 2004, while average wages increased by only 1.8 percent.

And even this very modest increase in the average wage masks the difficulties faced by most New Yorkers. Only high-wage workers (80^{th} percentile) received a modest real wage increase of 2.3 percent between 2001 and 2004. Real wages for workers in the bottom half of the wage distribution are in fact no higher than in 2001. In other words, the gains of increased productivity are virtually all going to corporate profits and high-wage earners, with most workers seeing no real gain.

Although there has been a decline in manufacturing jobs nationwide, the decline in upstate New York areas has been much steeper than for the U.S. as a whole. New York has lost 21 percent of its factory jobs since 2000. Three heavily-manufacturing dependent upstate metro areas – Rochester, Binghamton and Elmira – continued to lose jobs into the first part of 2005 and have experienced fairly substantial 5 to 10 percent job declines since 2000.

Across the state, the net loss of thousands of good paying jobs has meant that the "hollowing out" of the middle of the income distribution continued at a rapid pace. According to Census Bureau data, there was a decline of over 50,000 families with incomes between $35,000 and $150,000 between 2000 and 2003. During this same period, however, the number of families with incomes above $150,000, and the number with incomes below $35,000 both increased.

As in many parts of the country, including the downstate New York areas and the Hudson Valley corridor, the rapid rise in housing prices and the explosion in home equity borrowing and home mortgage debt have been among the major forces driving the economy.

"For the areas within New York that have been growing in this tenuous recovery, much of that growth has been fueled by the super-heated housing market and the explosion of household debt readily evident at the national level," commented Fiscal Policy Institute chief economist James Parrott. "Unfortunately, that spur to New York's growth may end as the Federal Reserve pushes interest rates higher," added Parrott.

An important bright spot in the report is the data showing that New York's recent increase in the minimum wage did not dampen job growth among low-wage workers. The first step of a three-step increase occurred on January 1, 2005, bringing New Yorkers from the federal minimum of $5.15/hour to a New York minimum of $6.00/hour. Contrary to warnings of opponents to the increase, the number of jobs in industries employing large numbers of low-wage workers grew significantly after the first step of the increase took place. Retail jobs increased 1.8 percent in the first half of 2005 compared to the first half of 2004, considerably faster than either the state's overall growth rate or the rate of increase in retail jobs nationally. The next phases of the increase will raise the minimum to $6.75/hour in 2006 and $7.15/hour in 2007.

The report also provides detailed economic profiles for each of the state's 10 labor market regions, including data on population, wage, income, and job trends as well as a list of each region's largest employers and a discussion of regional prospects.

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