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New report: http://www.fiscalpolicy.org/FPI_GrowTogetherOrPullFurtherApart_20101213.pdf.

New Data: Extreme Inequality Restrains Growth for Most New Yorkers

NYC and NYS polarization trends expose economic fault line

New York—In a report released today, the Fiscal Policy Institute (FPI) documented the pronounced concentration of income growth that has occurred in New York State and New York City since 1980. The richest one percent of households increased their share of all income statewide from 10 percent in 1980 to 35 percent in 2007, while in New York City the income share going to the top one percent rose from 12 percent to 44 percent over that span. For the first time, the report compiled state income tax data to analyze trends since 1980 in income growth by various segments of the state's population.

In the United States as a whole, income concentration was higher in 2007 than at any time since 1928, reversing the trend that prevailed through the first three decades following World War II. For those three decades, the top one percent's share of income was stable at around 10 percent and an expanding middle class enjoyed rising living standards. Yet, this new analysis shows that as historically high as income concentration has become in the United States, it is far greater in New York State and even more pronounced in New York City.

The FPI report helps put into context the highly skewed benefits flowing to the richest one percent from the proposed extension of the Bush tax cuts agreed to last week by President Obama and the Republican Congressional leadership. Citing estimates by the highly respected nonpartisan group Citizens for Tax Justice, FPI notes that the richest one percent of New York State households—which have an average income of $2.3 million—will receive an average tax cut of $123,890 in 2011. Meanwhile, the average household in the middle fifth of the population, whose incomes average $44,161, will see their federal taxes cut by $1,500 and the poorest fifth of households, with an average income of $10,685, will get a $288 tax cut. The richest one percent—whose inflation adjusted incomes already grew 36 times as fast as the incomes of the bottom 95 percent from 1980 to 2007—will get over one-third of the entire tax cuts destined for New Yorkers.

"We're on the verge of growing further apart when we know our economy performs best when we grow together," noted James Parrott, FPI's Deputy Director and Chief Economist and the principal author of the report. "There are many reasons to be concerned about New York's extreme income concentration. Among the most pressing is that the pronounced polarization in the distribution of the rewards of economic growth is holding back the nascent recovery. Growth is stalled because our system of rewarding economic effort is out of kilter—the average worker is not paid for the productivity he or she generates and incomes flowing to those at the top are far out of proportion to what they contribute to our economy."

Since 1990, the sharp concentration of income growth at the top in New York has been accompanied by income stagnation for those at the bottom and very slight growth for middle income households. From 1990 to 2007, Wall Street pay and the average incomes of New York State's top five percent more than doubled and their share of total income rose from 31 to 49 percent. However,

- Real median hourly wages barely improved over this period, inching up by less than one percent over the entire period;
- Real median family income increased by less than half a percent a year;
- New York's poverty rate was basically the same in 2007 as in 1990 (14.5 percent); and
- The average real earnings of a young (age 25-34) college-educated worker fell by 14 percent from $60,000 to $52,000.

If all groups had grown together rather than apart over the past three decades, the highest earners still would have enjoyed the biggest income gains, they just would not have seen "super-charged" income gains. And the living standards of the other 95 percent of New Yorkers would have been substantially higher.

If all income groups gained by 2.1 percent a year between 1980 and 2007—the actual annual growth after adjusting for population change—and each group maintained its 1980 income share, the average income of the bottom half would have doubled from $14,000 to $28,000. The "middle" 45 percent would have seen their average incomes rise by 43 percent, twice the growth that was realized. This would have pushed the average incomes of the "middle" 45 percent to $104,000 in 2007, instead of the $72,300 level they did reach. And the top five percent would still have seen a substantial income gain of almost $150,000, putting their incomes on average at $343,300.

In addition to benefiting families directly, this income distribution would likely have also translated into faster and more sustainable (or less volatile) overall economic growth, since a more broadly dispersed pattern of economic rewards would have boosted consumer spending and productivity-enhancing investments in higher education.

The report notes that while there is no easy set of solutions to reverse our extreme polarization, better tax policies at the Federal, State, and City level are a logical place to begin. The report is available at: http://www.fiscalpolicy.org/FPI_GrowTogetherOrPullFurtherApart_20101213.pdf.

The Fiscal Policy Institute (www.fiscalpolicy.org) is an independent, nonpartisan, nonprofit research and education organization committed to improving policies and practices that better the economic and social conditions of all New Yorkers.

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