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Testimony of
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Before the
New York City Rent Guidelines Board

The Great Recession and the Economic Situation of New York City's Low- and Moderate-Income Households

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Good morning, my name is James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI). The Fiscal Policy Institute is a nonpartisan research and education organization that focuses on the broad range of tax, budget, economic and related public policy issues that affect the quality of life and the economic well-being of New York City and State residents. FPI regularly prepares reports on the state of the New York City economy and we have conducted several studies on the city's labor market and leading industries. We closely follow employment, wage and income trends affecting New Yorkers. Thank you for the opportunity to testify today.

I want to make three broad points on the question of the economic situation of New York City’s low- and moderate-income households, a population that includes many renters.

1—This is the worst recession since the Great Depression with sharply higher unemployment.

2—Inflation-adjusted wages and incomes are falling for most New York families.

3—Housing costs are placing an enormous burden on New York City working families.

1—This is the worst recession since the Great Depression with sharply higher unemployment

The current recession officially began in December of 2007. It is already the longest recession since the 1930s. Yesterday's report that Gross Domestic Product fell by 6.1 percent in the first quarter, following a 6.3 percent drop in the fourth quarter, strongly suggests that this will also be the deepest downturn since the 1930s.

Job losses are mounting by the month in New York City. Since the seasonally adjusted peak employment level reached last August, the city has lost 100,000 jobs. The Mayor's office projects that the City will lose a total of 294,000 jobs through the middle of 2010. First-time unemployment claims are soaring and were 75 percent greater in the early weeks of this year compared to 2008.

Despite perceptions that job losses are concentrated within the high-wage finance sector, two thirds of the 100,000 jobs lost have occurred in sectors paying low- and middle-income wages. More New York City construction and manufacturing workers have lost jobs in this recession than bankers on Wall Street. Many more retail and clerical workers have gotten pink slips than professional service workers. Two thirds of those receiving unemployment insurance are blue collar, clerical or service workers.

The number of New York City residents who are unemployed has jumped by 150,000 over the past year, reaching a total of 330,000 in March. The city's unemployment rate is 8.2 percent, up sharply from 4.6 percent a year ago. Given the severity of this recession, it is likely that an additional 10,000 or more New Yorkers will lose their jobs each month through the end of this year and into the early months of 2010.

More over, only one third of city residents who become unemployed receive unemployment insurance benefits. This extraordinarily low recipiency rate results from the fact that a growing number of workers are misclassified as independent contractors by their employers and are not covered by any social insurance,[1] including unemployment insurance, and because the claims system is not user-friendly. Thus, the two thirds of those unemployed in New York City who do not receive any unemployment face particularly severe hardship.[2]

The unemployment insurance safety net is the first line of defense against downward spiraling incomes for tens of thousands of New York's working families facing a worsening recession. New York State's unemployment insurance system sorely needs modernization to raise the wage replacement rate and to expand eligibility to a greater proportion of those who become unemployed through no fault of their own. Because New York State does not index its maximum weekly unemployment benefit and has not updated its unemployment system since 2000, the state's weekly benefit averaged only $305 at the

[1] For a discussion of the "growing epidemic" of employee misclassification, see Fiscal Policy Institute, *The State of Working New York 2007*, pp. 20-23, Sept. 2007.
[2] See Fiscal Policy Institute, *New York City Unemployment in 2009—The Emerging Crisis,* Dec.11, 2008.

end of last year, much less than in the neighboring states of New Jersey, Connecticut and Massachusetts. The "wage replacement rate" of unemployment insurance benefits in New York fell below the national average in 2003, and by 2007, it was only 43.8 percent of the average wage, compared to 47 percent for the U.S. overall.[3]

2—Inflation-adjusted wages and incomes are falling for most New York families

According to the Current Population Survey, the median hourly wage in New York City in 2008 was $16.00. In 2001, the median wage was $16.58 when measured in 2008 dollar terms. That indicates an inflation-adjusted decline of 3.5 percent during the 2001-to-2008 recovery and expansion.[4] One third of this decline occurred in just the past year. For 20 percent of New York workers, hourly wages are less than $10.00 an hour and are also below where they were in 2001.

Although New York City's job growth relative to the nation during the recent expansion was slightly better than in some earlier periods, the economic condition of most New York workers has not improved measurably during this decade despite fairly strong total income gains. The overwhelming bulk of the income gains, of course, have accrued to the very top of the income distribution. In fact, data from the New York State Division of the Budget indicates that all of the net income growth in the state between 2002 and 2009 is likely to accrue to the wealthiest five percent of the population (those with annual incomes above about $200,000).

Not only are hourly earnings falling for most New York City workers, but hours worked are also declining, putting further downward pressure on incomes. Both the Mayor's budget office and the city's Independent Budget Office project that inflation-adjusted total personal income will drop sharply this year and will not recover until 2011 at the earliest.

The staff's *2009 Income and Affordability Study* highlights the reported 6.3 percent increase in inflation-adjusted average wages in New York City in 2007 compared to 2006, noting that this rate of wage growth was "the fastest pace in the last 15 years."[5] However, such an observation skirts over the fact that the real average wage dropped by 6.9 percent during the 2001-to-2003 recession, and fails to note that the 2006 level against which the 2007 growth rate of 6.3 percent is measured was barely higher than the 2001 level.

More importantly, however, is the fact that a notion such as the "average wage" in New York City is nothing but a meaningless statistical artifact given the tremendous disparities in wage and salary levels in New York City. In 2007, the 184,000 workers in the securities industry had an average wage of over $401,000, 17 times as great as the $23,900 average wage for the 189,000 restaurant workers. In this context, the "average" wage across all

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[3] U.S. Department of Labor, Employment and Training Administration.
[4] Fiscal Policy Institute calculations of Current Population Survey data, adjusted for inflation using the New York-Northern New Jersey area Consumer Price Index for All Urban Consumers.
[5] New York City Rent Guidelines Board, *2009 Income and Affordability Study*, April 2009, pp. 6-7.

industries is a poor indicator of the well being of the typical worker. This is particularly the case when wage growth is much faster at the top end of the pay scale. In 2007, inflation-adjusted average wages in securities jumped by 14.8 percent, roughly 10 times as fast as the 1.5 percent wage growth among restaurant workers.

A much better indicator of the well being of the typical worker is the trend in the median real hourly wage. That, too, increased in 2007, but by 1.1 percent, and that increase was fleeting. As noted earlier, the real hourly median wage fell by 1.2 percent in 2008, and the 2008 level is now 3.5 percent below where it was in 2001.

According to the latest Housing and Vacancy Survey, median household income for renters in rent-stabilized buildings was $36,000 in 2007, slightly more than half of the $70,000 median income for all owners. For renters in pre-1947 stabilized buildings, real household income fell by 1.4 percent between 2004 and 2007, the years representing the heart of the last economic expansion. And for renters in post-1947 stabilized buildings, inflation-adjusted median household income fell by 1.6 percent. For households in rent-controlled apartments, median income was only $24,000 in 2007 and had fallen by 2.4 percent between 2004 and 2007.[6]

The trends in wages and incomes tell only part of the story. For a host of other measures of job quality – health insurance coverage, employer-paid retirement benefits, social insurance coverage, advancement opportunities—the last few years have seen fairly steady erosion in benefits for the average worker.[7] Consider the area of health insurance. Not only has the percent of workers with employer-provided health insurance declined, but the average employee contribution for family health insurance coverage rose over 76 percent from 2000 to 2005, nearly five times as fast as the increase in the regional consumer price index over that period.[8]

3—Housing costs are placing an enormous burden on New York City working families

It is clear from two major federal government surveys that the cost of housing relative to the income of renters has risen sharply in New York City in this decade. According to the Housing and Vacancy Survey, median household income for renters, after adjusting for inflation, declined by 4.2 percent from 2001 to 2007 while the real median gross rent

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[6] Dr. Moon Wha Lee, "Selected Findings of the 2008 New York City Housing and Vacancy Survey," New York City Department of Housing Preservation and Development, Feb. 10, 2009.

[7] FPI's *The State of Working New York 2007* documents the decline in New York of employer-provided health insurance and pension coverage and the pronounced rise in the misclassification of workers as independent contractors. When employers illegally misclassify workers as independent contractors they fail to pay payroll taxes for Social Security and Medicare and employer premiums for unemployment insurance and workers' compensation coverage.

[8] FPI, *The State of Working New York 20**07**,* pp. 41-42. This also illustrates the fact that the CPI is not a good indicator of the cost of living.

increased, rising by 9.7 percent from 2002 to 2008.[9] The American Community Survey indicates that the percent of New York City renters paying 35 percent or more of their income on rent increased from 35.3 percent in 2000 to 39.2 percent in 2007.

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Summing up, low- and moderate-income New Yorkers, many of whom are renters, are being hard hit by the ongoing recession. Unemployment has nearly doubled over the past year and 10,000 and more New Yorkers are losing their jobs each month. Wages for most New York workers are falling, and household incomes likely will falter significantly over the next year or so. In recent years, New York City rents have risen sharply relative to the incomes received by most New York workers, including most renters in rent-controlled or stabilized apartments.

I would like to add a note about the role of the property tax cost component in the Board’s deliberations. It seems much is being made of the recent seven percent property tax increase coupled with a 4.8 percent increase in assessments. I would make two observations on this score. One, the property tax component is only a little over a quarter of the overall Price Index of Operating Costs (PIOC), and most components are increasing by much smaller rates, and some, such as fuel, are actually declining and declining sharply. Second, the property tax component is quite volatile from year to year, and this just happens to be an up year. The 2005 and 2008 increases were barely positive. The Class Two property tax increase this year comes on the heels of a 6.4 percent decline last fiscal year.

What is significant is the change in the overall PIOC. For this year, it is 4.0 percent, down considerably from 7.8 percent in 2008. More over, the PIOC is projected to increase by only 2.2 percent in 2010 as another increase in the property tax component is more than offset by a further decline in fuel costs that carry a weight about 3/5 that of property taxes.[10]

Finally, rent-regulated building owners realized a substantial 9.3 percent increase in net operating income in 2007 compared to 2006, the latest period for which data exist.[11]

[9] Dr. Moon Wha Lee, “Selected Findings of the 2005 New York City Housing and Vacancy Survey, New York City Department of Housing Preservation and Development, Feb. 10, 2006; and Dr. Moon Wha Lee, “Selected Findings of the 2008 New York City Housing and Vacancy Survey, New York City Department of Housing Preservation and Development, Feb. 10, 2009.
[10] New York City Rent Guidelines Board, *2009 Price Index of Operating Costs*, April 21, 2009.
[11] New York City Rent Guidelines Board, *2009 Income and Expense Study***,** April 21, 2009, p. 14.