

The State of Working New York: Treading Water in a Tenuous Recovery

Presentation before the NYS Economic and Revenue
Consensus Forecasting Conference

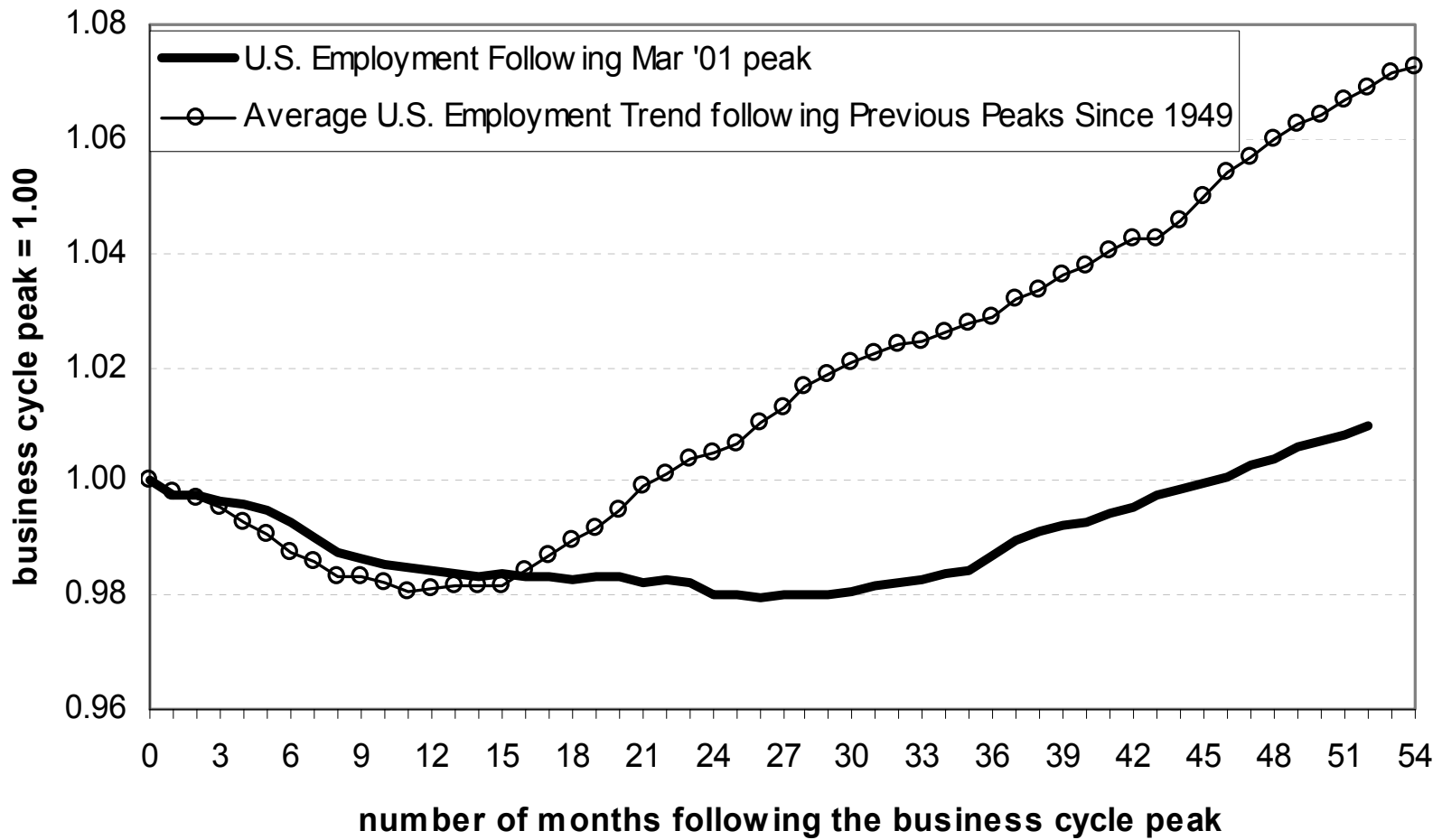
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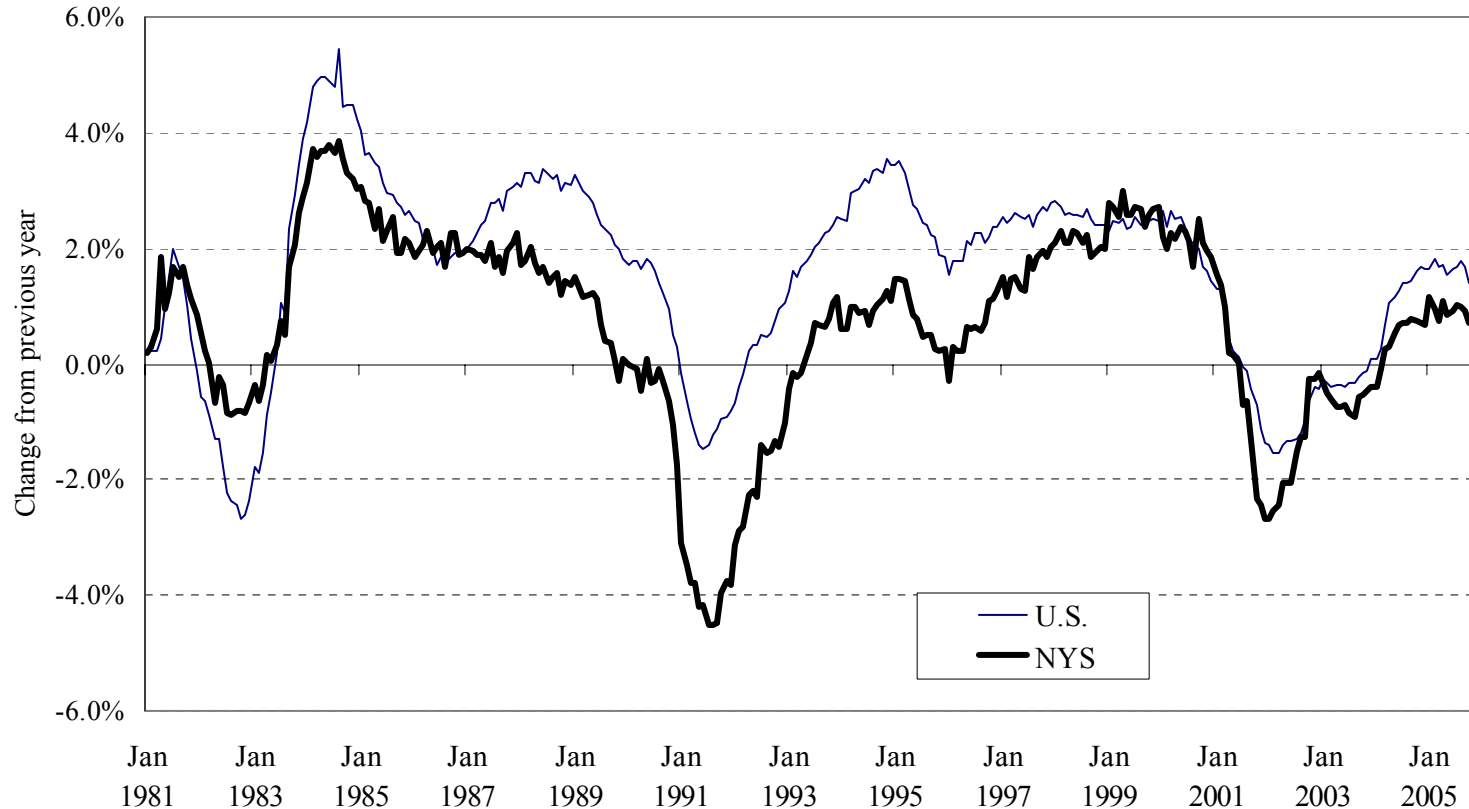
March 1, 2006

National recovery that started in mid-2003 is the weakest recovery in terms of job growth since 1949.



Source: BLS data analyzed by FPI.

2001-03 downturn not as steep as early 1990s, but NYS lags even historically weak national job growth.



Source: BLS, NYS DOL. Not seasonally adjusted. Analysis by FPI.

We refer to the national recovery as tenuous because it has been largely fueled by borrowing on the part of households (through mortgage debt) and all levels of government. Total national debt has increased 50% faster than the growth in GDP.

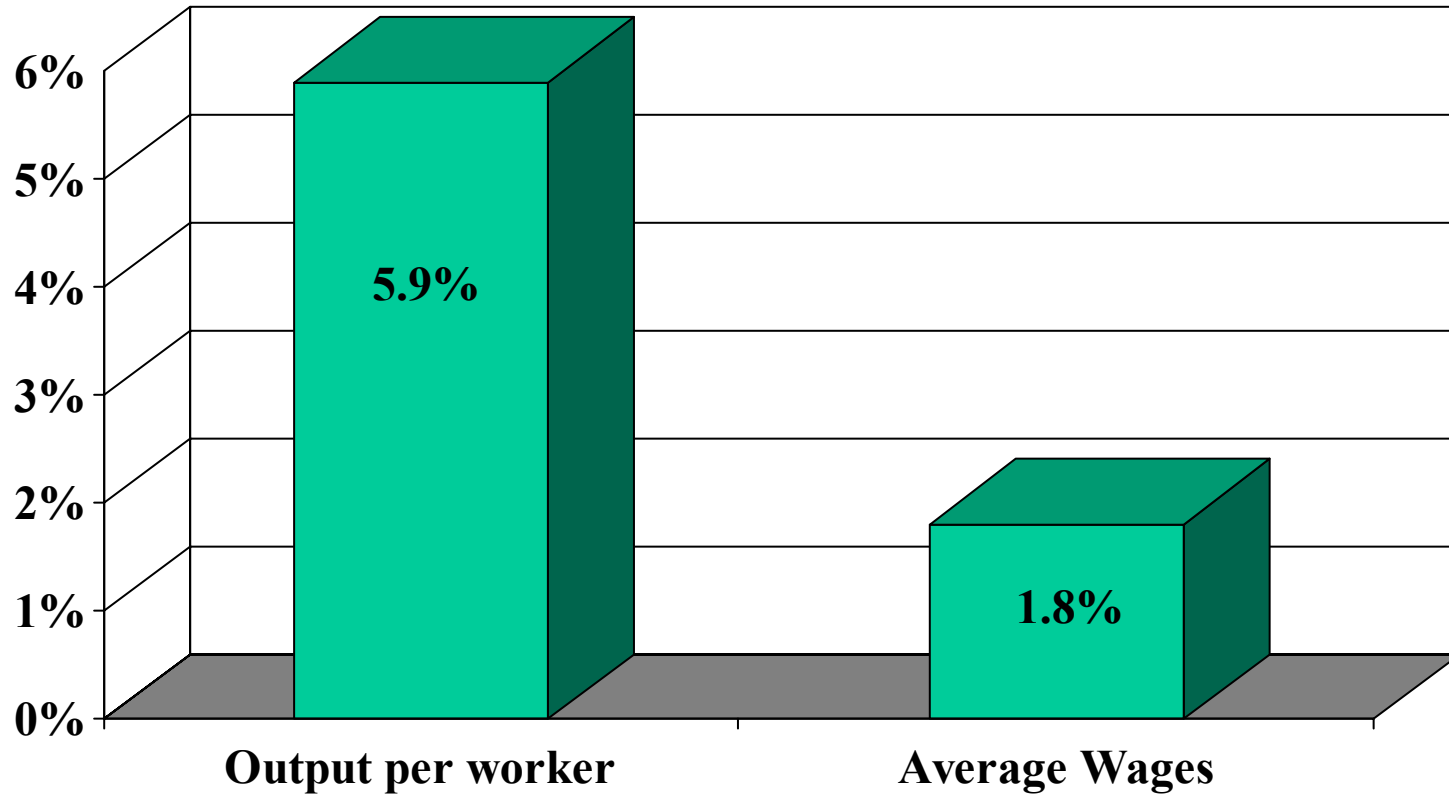
(\$billions, nominal)	2001:1	2005:1	change	% change
<i>Gross Domestic Product</i>				
Gross domestic product (GDP)	\$10,021.5	\$12,191.7	\$2,170.2	21.7%
<i>The Growth in Debt Levels</i>				
Total domestic nonfinancial debt	\$18,378.1	\$24,772.7	\$6,394.6	34.8%
Home mortgage debt	\$4,925.9	\$7,768.6	\$2,842.7	57.7%

Nationally, workers and their families are treading water in this recovery largely because the growth in wages (14%) has dramatically trailed the growth in profits

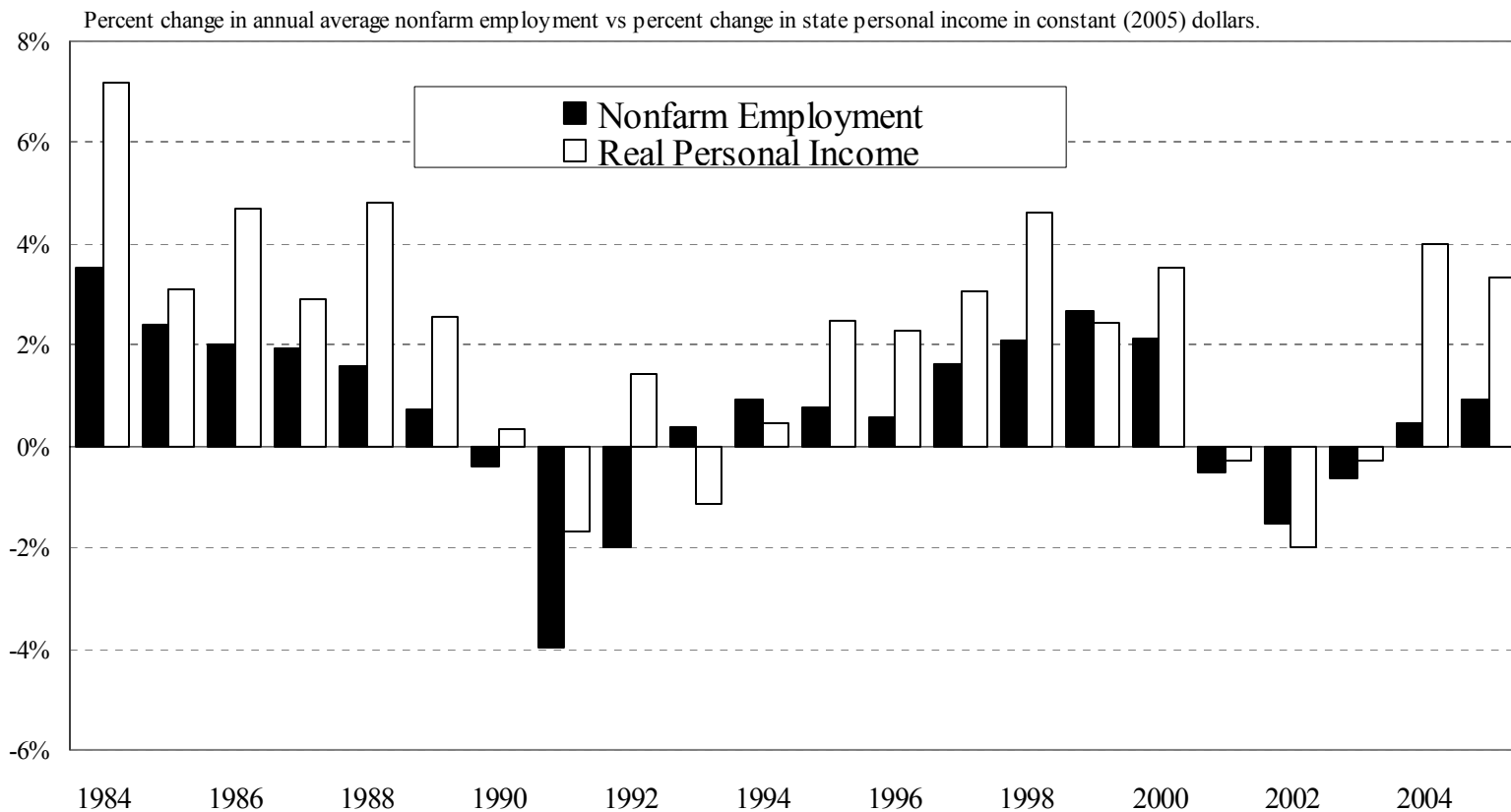
(\$billions, nominal)	2001:1	2005:1	change	% change
<i>National Income, Wages and Profits</i>				
National income	\$8,987.6	\$10,768.4	\$1,780.8	19.8%
Wages and salaries	\$4,961.1	\$5,646.9	\$685.8	13.8%
Corporate profits	\$778.7	\$1,288.2	\$509.5	65.4%

Sources: U.S. Bureau of Economic Analysis, National Income and Product Accounts, and Federal Reserve System, Flow of Funds, First Quarter 2005

Between 2004 and 2001 output per worker in New York State increased by 5.9% while average wages increased by only 1.8%.



While New York's income growth often exceeds job growth, this was particularly the case in 2004 and 2005

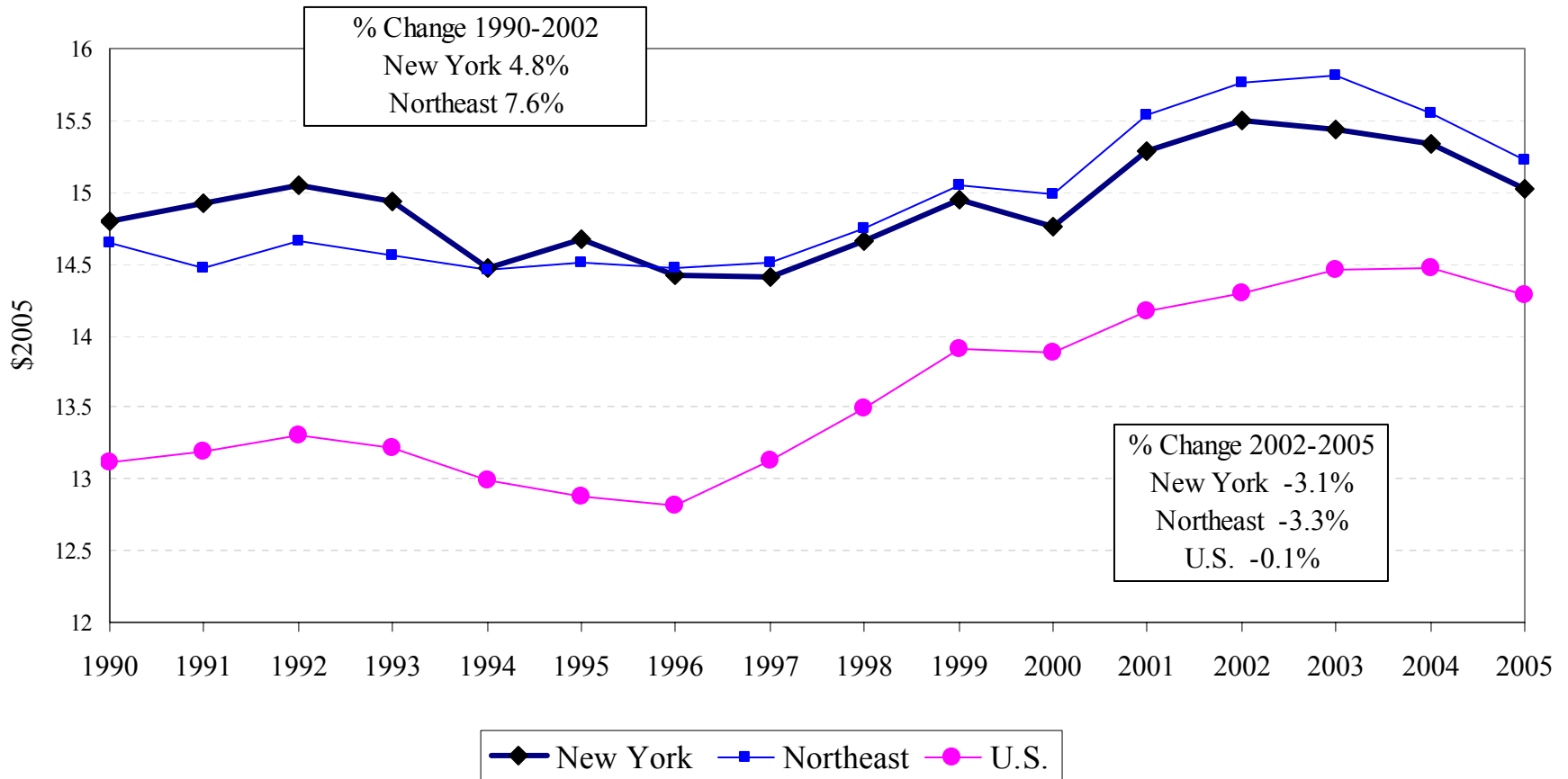


Capital Gains and Wall Street Wages Account for more than half of growth in NYS AGI over the past few years.

	New York State			<u>Change from prior year</u>			Capital Gains and Wall Street Wages	
	Adjusted Gross Income (NYSAGI) (\$ millions)	Net Capital Gains (\$ millions)	Total Wall Street Wages (\$ millions)	AGI (\$ millions)	Capital Gains (\$ millions)	Wall Street Wages (\$ millions)	as share of	
							AGI	AGI change from prior year
2001	481,001	29,450	49,810	-27,933	-32,852	1,033	16.5%	113.9%
2002	459,919	20,398	40,278	-21,082	-9,052	-9,532	13.2%	88.2%
2003	473,778	28,455	38,008	13,859	8,057	-2,270	14.0%	41.8%
2004	525,751	49,427	46,161	51,973	20,972	8,153	18.2%	56.0%
2005	571,592	69,855	56,316	45,841	20,428	10,155	22.1%	66.7%
CHANGE 2002 to 2005				111,673	49,457	16,038		58.6%

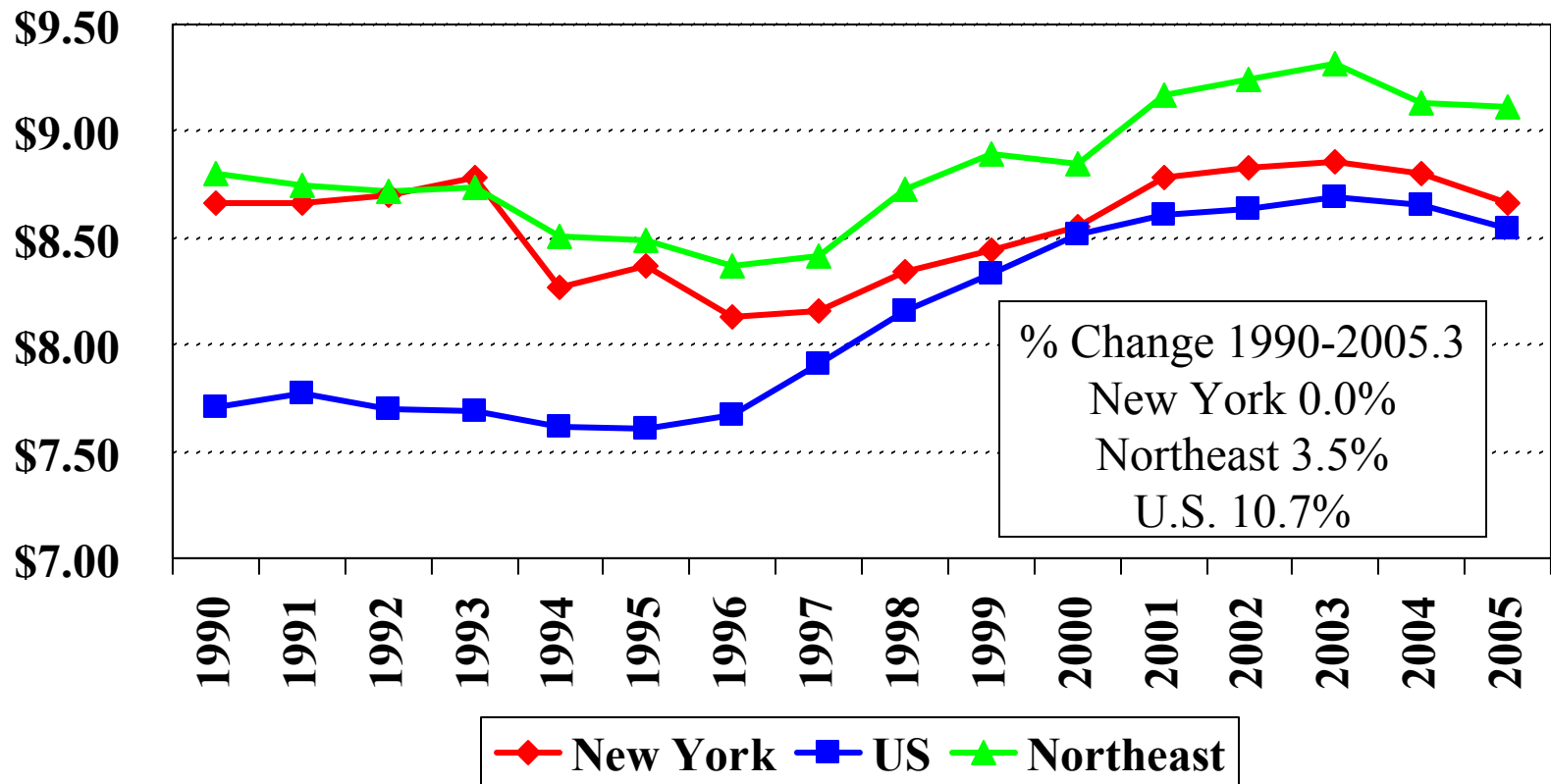
Sources: NYSAGI and Capital Gains, New York State Division of the Budget; 2004-2007 are DoB projections.
 Wall Street Wages from NYS DoL: 1991-1999 on SIC basis; 2000-2007 on NAICS basis.
 2005 Wall Street wages are FPI projections.

Inflation-adjusted median hourly wages in NYS had gone up in 2001 and 2002, but have fallen each of the last three years.

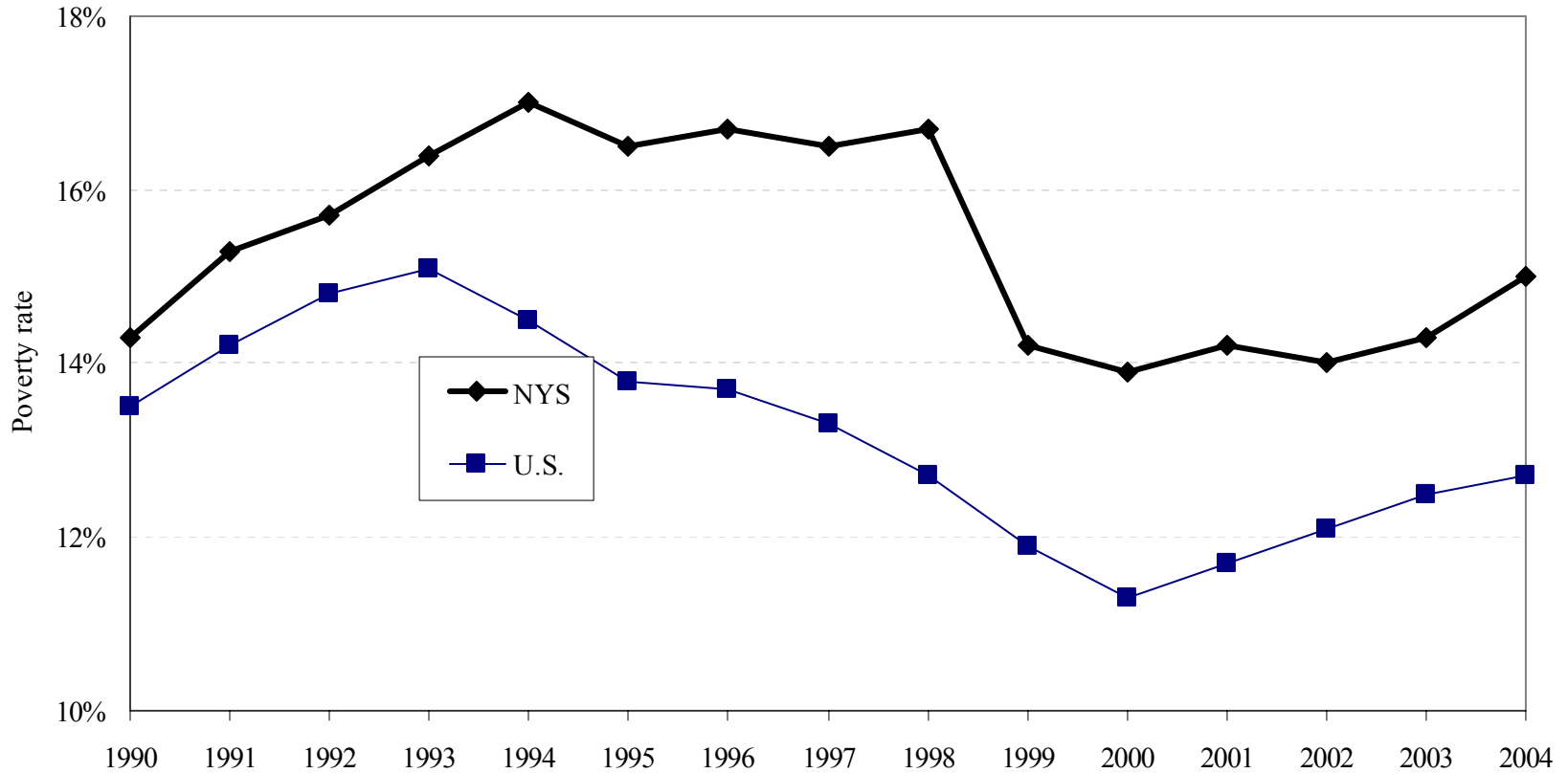


Source: Economic Policy Institute analysis of Current Population Survey data 1990-2004; FPI analysis 2005

The 20th percentile wage in New York State has not increased since 1990.



**After dropping at the end of the late 1990s expansion,
New York State's poverty rate increased in 2003 and 2004.**

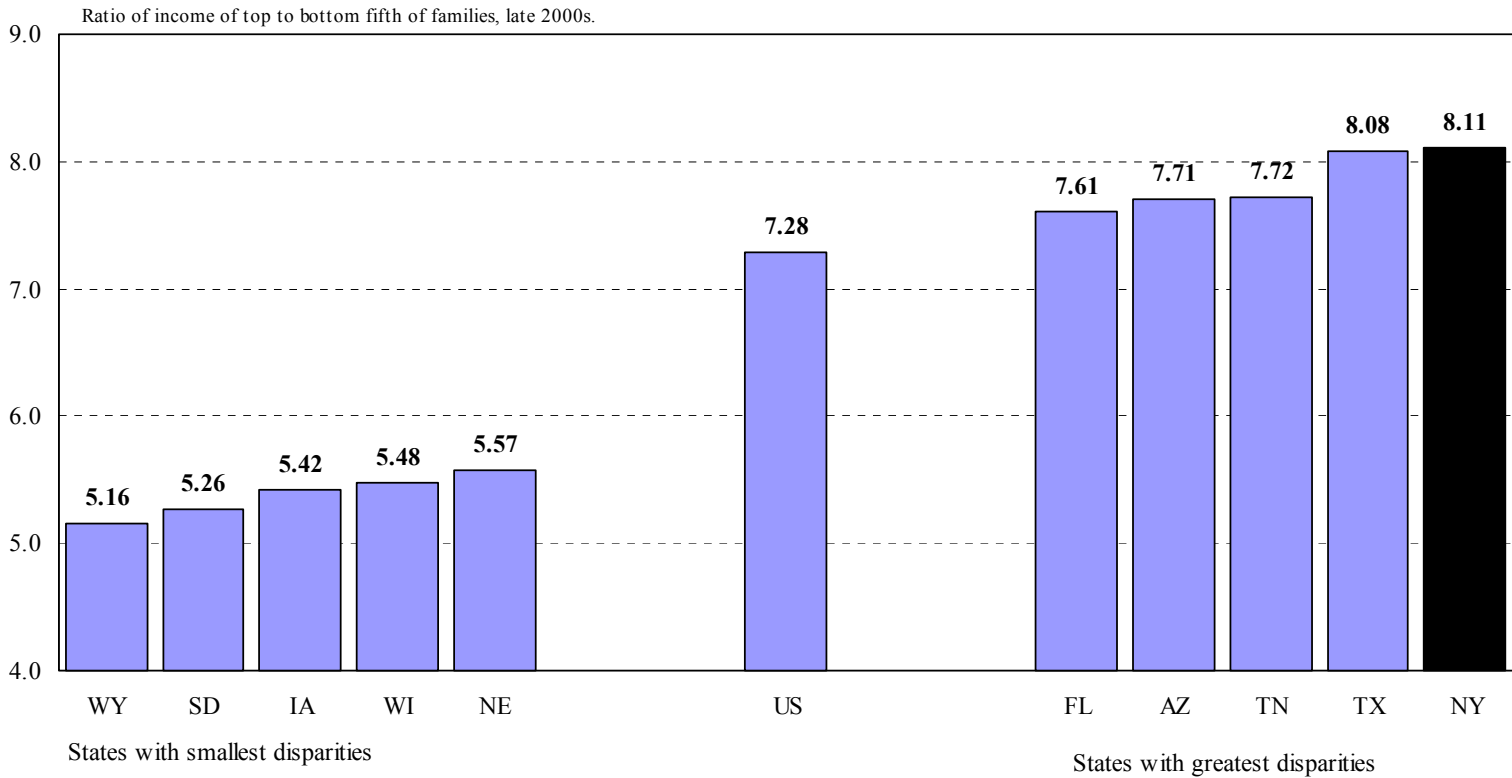


Source: US Census Bureau.

NYS has the widest income gap between rich and poor of all 50 states

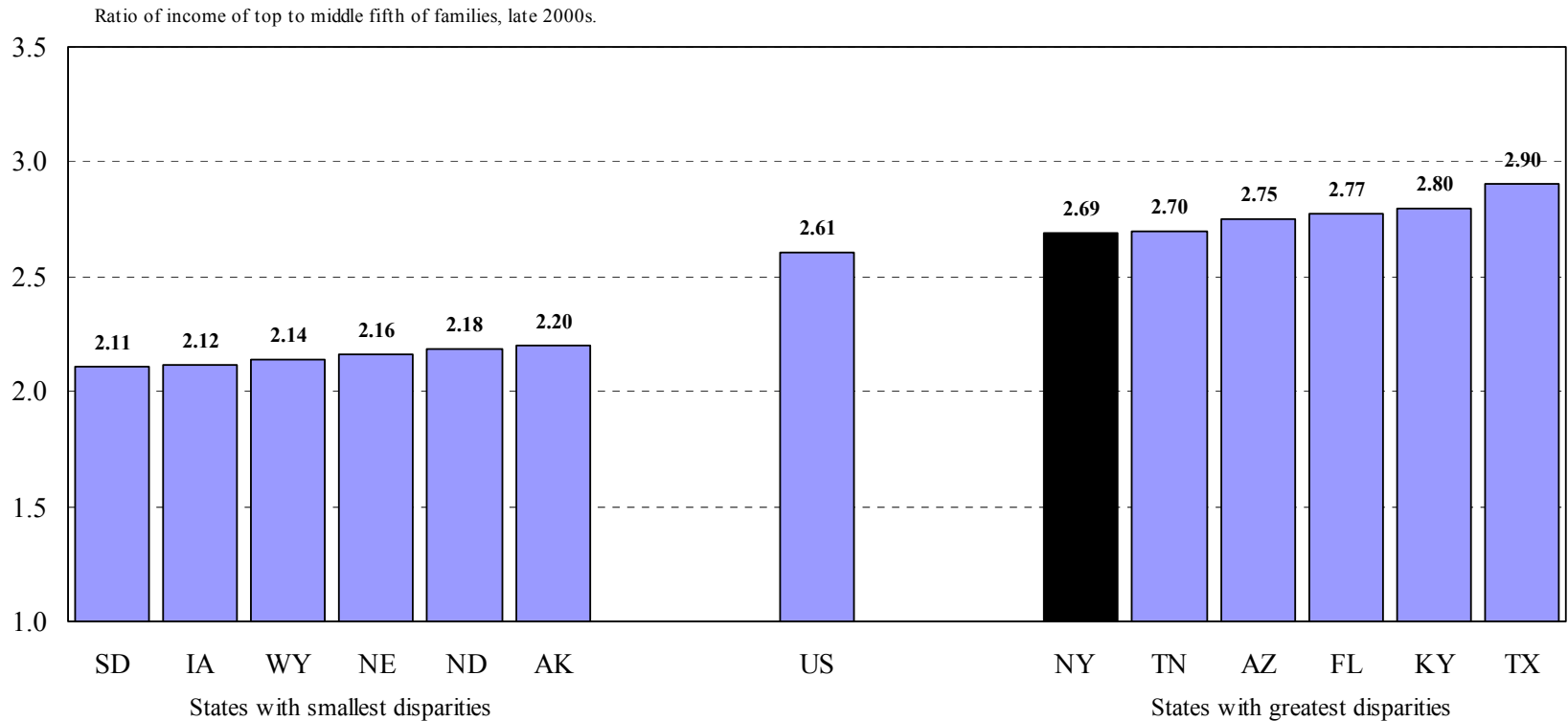
- NYS has the widest income gap between rich and poor of all 50 states (high incomes 8.1 times greater than low incomes), and the 6th widest gap between the rich and those in the middle.
- These gaps have grown dramatically over the last 20 years. For most of the 1980s and 1990s, the richest families 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 people at the bottom and the middle finally saw meaningful increases. However, over the entire 20-year time period, only one state (Arizona) experienced greater growth in income disparity between the rich and the poor than NYS.
- While NY has had a relatively unequal income distribution for some time, in the early 1980s it ranked 11th among the 50 states.
- Polarization has increased since the early 2000s as real median wages have fallen and capital gains and bonuses and wages at the top have soared.

New York has the widest income gap between rich and poor of all 50 states.



Note: These figures represent the relationship between the average income of families in the top fifth and the average income of families in the bottom fifth. For example, New York's ratio of 8.11 means that the average income of the top fifth of families (\$130,431) is approximately 8.11 times greater than the average income in the bottom fifth of families (\$16,076).

New York also has one of the widest gaps between the top and the middle income groups



Note: These figures represent the relationship between the average income of families in the top fifth and the average income of families in the middle fifth. For example, New York's ratio of 2.69 means that the average income of the top fifth of families (\$130,431) is 2.69 times greater than the average income in the middle fifth of families.

New York's top-to-bottom inequality has risen dramatically over the past 20 years.

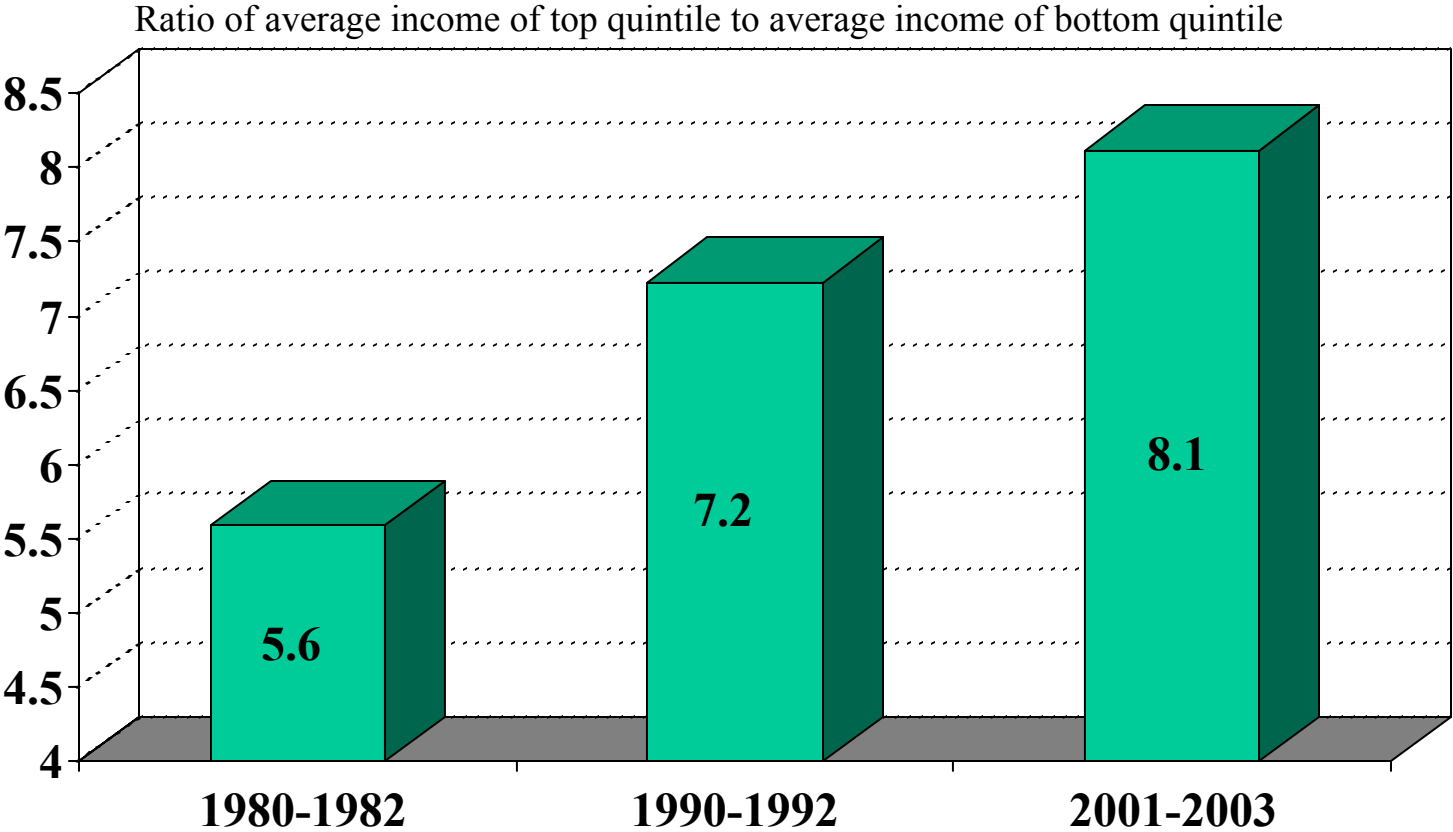


Figure 2.4

Family Income and Benefits, NYC, NYS and Balance of U.S., by Income Range Shares, 2000 and 2004

share of all families, by income range (\$2004)							percentage point change 2000-2004		
	NYC		NYS		balance of U.S. *		NYC	NYS	balance of U.S.
	2000	2004	2000	2004	2000	2004			
All families	1,795,855	1,802,009	4,603,388	4,614,684	66,372,525	69,271,269			
less than \$35,000	35.9%	38.6%	28.8%	29.9%	29.9%	30.6%	2.7%	1.1%	0.8%
less than \$10,000	10.0%	10.0%	6.3%	6.3%	4.8%	5.4%	0.0%	0.0%	0.6%
\$10,000 to \$14,999	4.9%	5.9%	3.9%	4.0%	3.9%	4.0%	1.0%	0.1%	0.1%
\$15,000 to \$24,999	9.8%	12.6%	8.8%	9.8%	10.0%	10.1%	2.8%	1.0%	0.1%
\$25,000 to \$34,999	11.2%	10.1%	9.8%	9.8%	11.2%	11.1%	-1.1%	0.0%	-0.1%
\$35,000 to \$149,999	56.7%	53.4%	62.3%	60.6%	63.2%	62.5%	-3.3%	-1.7%	-0.6%
\$35,000 to \$49,999	14.7%	14.2%	14.7%	14.1%	16.0%	15.7%	-0.5%	-0.6%	-0.5%
\$50,000 to \$74,999	18.7%	17.2%	20.3%	19.4%	22.0%	21.4%	-1.5%	-0.9%	-0.6%
\$75,000 to \$99,999	12.5%	10.9%	14.0%	13.5%	13.6%	13.5%	-1.6%	-0.5%	-0.1%
\$100,000 to \$149,999	10.8%	11.1%	13.3%	13.6%	11.6%	11.9%	0.3%	0.3%	0.3%
\$150,000 or more	7.4%	7.9%	8.8%	9.4%	6.9%	7.1%	0.5%	0.6%	0.2%
\$150,000 to \$199,999	3.6%	3.2%	4.4%	4.4%	3.5%	3.7%	-0.4%	0.0%	0.1%
\$200,000 or more	3.8%	4.7%	4.4%	5.0%	3.3%	3.4%	0.9%	0.6%	0.1%
Median family income	\$49,346	\$46,717	\$57,478	\$56,556	\$54,419	\$53,692	-5.3%	-1.6%	-1.3%
Mean family income	\$72,024	\$70,575	\$76,923	\$77,768	\$69,770	\$69,593	-2.0%	1.1%	-0.3%

* median family income is for U.S.

Source: U.S. Census Bureau, American Community Survey, August 2005 release.

New York State's Economic Outlook for 2006

- Though job growth slowed in the last half of 2005, job and income growth projected to continue at moderate pace in 2006.
- Real estate market has started to cool but job growth has picked up in financial and professional services (these 2 sectors accounted for 1/3 of 2005 NYS net job growth).
- Tourism continues to boost NYC job growth in the arts, hotels and restaurants.
- Construction job growth is weak, and manufacturing job decline has moderated but continues.
- Temp agencies and security guards are experiencing moderate job gains.
- Most of the information sector, particularly publishing and telecommunications, have been flat and are not expected to pick up.

NYS job growth in the recovery period since mid-2003 is at less than half the national pace

Employment	(in thousands, seasonally adjusted)	U.S.	New York State	New York City
March 2001	(U.S. peak month)	132,511	8,672	3,741
November 2001	(end of national recession)	130,879	8,472	3,603
May 2003	(U.S. employment trough)	129,827	8,399	3,529
December 2005*	(latest month)	134,468	8,534	3,585
March 2001 - November 2001 (Recession)				
Change		-1,632	-200	-138
% change		-1.2%	-2.3%	-3.7%
November 2001 - May 2003 (Post-recession Downturn)				
Change		-1,052	-73	-74
% change		-0.8%	-0.9%	-2.1%
May 2003 - December 2005 (31 months of recovery)				
Change		4,641	135	56
% change		3.6%	1.6%	1.6%
March 2001 - December 2005 (from national pre-recession peak to latest)				
Change		1,957	-138	-156
% change		1.5%	-1.6%	-4.2%
Source: Bureau of Labor Statistics (BLS), New York State Dept. of Labor. NYS and NYC seasonal adjustment by FPI.				
*December 2005 data are subject to revision				

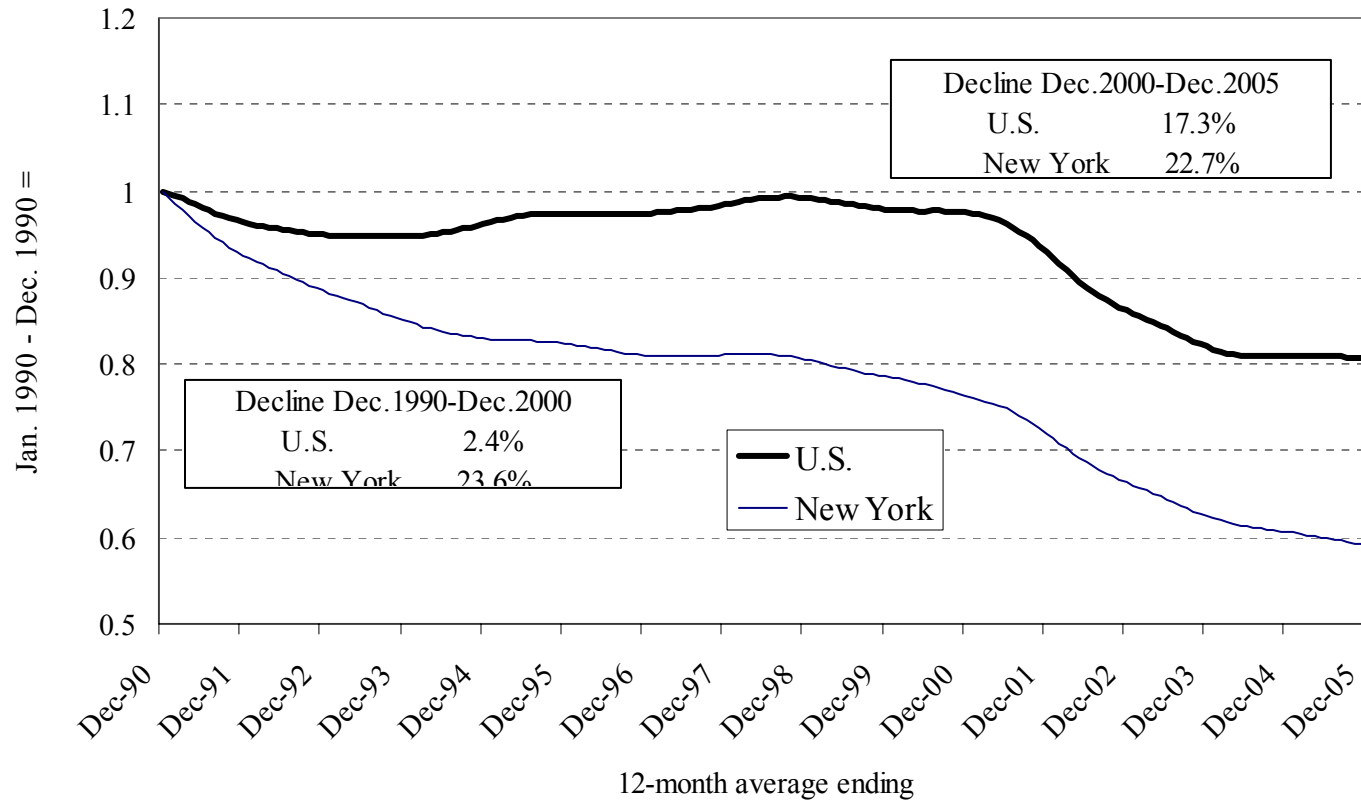
Within New York, job growth during the recovery has been best in Eastern NY, weakest in Northern and Western NY

	Dec-00	Dec-03	Dec-05	Change 12/00 to 12/03		Change 12/03 to 12/05	
				number	%	number	%
Employment*							
UNITED STATES	133,308,000	131,026,000	135,188,000	-2,282,000	-1.7%	4,162,000	3.2%
NEW YORK STATE	8,831,400	8,548,200	8,667,500	-283,200	-3.2%	119,300	1.4%
NEW YORK CITY	3,821,400	3,593,900	3,647,200	-227,500	-6.0%	53,300	1.5%
EASTERN NEW YORK	2,691,900	2,696,300	2,764,100	4,400	0.2%	67,800	2.5%
Nassau-Suffolk, NY Metropolitan Division	1,253,800	1,251,300	1,274,000	-2,500	-0.2%	22,700	1.8%
Putnam-Rockland-Westchester	567,900	567,400	589,000	-500	-0.1%	21,600	3.8%
Albany-Schenectady-Troy, NY MSA	448,600	447,000	456,400	-1,600	-0.4%	9,400	2.1%
Glens Falls, NY Metropolitan Statistical Area	50,000	51,200	53,300	1,200	2.4%	2,100	4.1%
Kingston, NY Metropolitan Statistical Area	65,600	65,000	67,000	-600	-0.9%	2,000	3.1%
Poughkeepsie-Newburgh-Middletown, NY MSA	245,200	253,500	259,200	8,300	3.4%	5,700	2.2%
Columbia County	21,800	21,500	22,000	-300	-1.4%	500	2.3%
Greene County	14,400	14,000	14,700	-400	-2.8%	700	5.0%
Sullivan County	24,600	25,400	28,500	800	3.3%	3,100	12.2%
WESTERN AND NORTHERN NEW YORK	2,316,600	2,257,700	2,261,300	-58,900	-2.5%	3,600	0.2%
WNNY Metropolitan areas	1,854,800	1,800,300	1,797,600	-54,500	-2.9%	-2,700	-0.1%
Binghamton, NY MSA	121,300	113,800	113,300	-7,500	-6.2%	-500	-0.4%
Buffalo-Niagara Falls, NY MSA	564,800	555,700	555,200	-9,100	-1.6%	-500	-0.1%
Chautauqua County	59,700	56,700	57,000	-3,000	-5.0%	300	0.5%
Elmira, NY MSA	44,500	40,700	40,200	-3,800	-8.5%	-500	-1.2%
Ithaca, NY MSA	59,900	62,500	63,800	2,600	4.3%	1,300	2.1%
Rochester, NY MSA	536,700	517,200	505,300	-19,500	-3.6%	-11,900	-2.3%
Syracuse, NY MSA	330,300	321,100	327,800	-9,200	-2.8%	6,700	2.1%
Utica-Rome, NY MSA	137,600	132,600	135,000	-5,000	-3.6%	2,400	1.8%
WNNY Non-metropolitan areas	461,800	457,400	463,700	-4,400	-1.0%	6,300	1.4%

Source: Bureau of Labor Statistics, New York State Department of Labor

*not seasonally adjusted

Manufacturing jobs, still critical to the upstate economy, have declined faster in NYS than in the US over the past 15 years.



Source: BLS, NYS DOL. December 2005 numbers subject to revision.

Although there has been some job recovery in finance and professional and technical services, the average wage of sectors gaining job share in NYS is still 23% less than the average wage of sectors losing job share.

(New York State employment in thousands)	Employment		2004 Average	Job Change		Share Change	
SUPERSECTOR*	July-03	December-05	Annual Wage	Change	Gain/Loss	Change (pps.**)	Gain/Loss
Health Care and Social Assistance	1,160.3	1,202.5	\$37,374	42.1	gained jobs	0.27%	gained share
Educational Services	333.1	357.0	\$38,413	23.9	gained jobs	0.21%	gained share
Administrative and Support Services	391.0	412.1	\$33,404	21.2	gained jobs	0.17%	gained share
Professional, Scientific, and Technical Services	508.1	528.6	\$73,580	20.5	gained jobs	0.14%	gained share
Food Services and Drinking Places	445.9	465.2	\$16,289	19.3	gained jobs	0.14%	gained share
Retail Trade	855.9	877.0	\$26,517	21.2	gained jobs	0.08%	gained share
Arts, Entertainment, and Recreation	127.1	134.9	\$38,824	7.8	gained jobs	0.07%	gained share
Finance and Insurance	518.0	530.2	\$143,420	12.3	gained jobs	0.04%	gained share
Real Estate and Rental and Leasing	179.8	184.8	\$45,809	5.0	gained jobs	0.02%	gained share
Accommodation	77.5	80.2	\$31,206	2.7	gained jobs	0.02%	gained share
Other Services	349.6	356.8	\$28,022	7.1	gained jobs	0.01%	gained share
Waste Management and Remediation Services	19.0	19.9	\$44,041	0.9	gained jobs	0.01%	gained share
Subtotal, industries gaining job share	4,965.2	5,149.1	\$41,928	184.0		1.2%	
Manufacturing	608.0	572.9	\$50,247	-35.1	lost jobs	-0.53%	lost share
Government	1,486.9	1,482.3	\$45,754	-4.5	lost jobs	-0.35%	lost share
Wholesale Trade	354.7	350.0	\$60,436	-4.7	lost jobs	-0.12%	lost share
Information	272.7	269.6	\$73,648	-3.1	lost jobs	-0.09%	lost share
Management of Companies and Enterprises	121.8	119.7	\$115,678	-2.1	lost jobs	-0.05%	lost share
Construction	320.4	322.6	\$49,317	2.2	gained jobs	-0.04%	lost share
Transportation and Warehousing	220.9	222.3	\$38,351	1.4	gained jobs	-0.03%	lost share
Utilities	41.0	39.9	\$82,496	-1.1	lost jobs	-0.02%	lost share
Subtotal, industries losing job share	3,426.3	3,379.4	\$54,602	-47.0		-1.2%	
Total	8,391.5	8,528.5	\$49,921	137.0			

*Analysis excludes natural resources and mining and not elsewhere classified.

** Percentage point change.

Job Quality Ratio	-0.25
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Note: The average wage for the two groups is computed by weighting the industry average wage by each industry's share of the change in the job share for its group. For a description of the Job Quality Ratio, see State of Working New York, 2005, fig.3.3, p

Source: New York State Department of Labor Insured Employment series, analyzed by Fiscal Policy Institute.

Relative to New York's total job growth, job growth in industries with a lot of minimum-wage jobs has fared well since the January 2005 minimum wage increase.

		Employment (000s)			Ratio of change in low-wage to overall
		December 2004	December 2005	Change	
New York State					
	All non-farm	8,604.6	8,667.5	0.7%	
	Retail trade	924.0	929.8	0.6%	
	Food service	456.9	467.7	2.4%	
	Low-wage	1,380.9	1,397.5	1.2%	1.64
Four neighboring states (NJ, PA, MA, CT)					
	All non-farm	14,691.1	14,817.5	0.9%	
	Retail trade	1,775.2	1,788.1	0.7%	
	Food service	862.0	881.6	2.3%	
	Low-wage	2,637.2	2,669.7	1.2%	1.43
United States					
	All non-farm	133,187.0	135,188.0	1.5%	
	Retail trade	15,646.1	15,729.4	0.5%	
	Food service	8,885.4	9,095.8	2.4%	
	Low-wage	24,531.5	24,825.2	1.2%	0.80
Note: Retail trade and food services are the largest employers of minimum-wage workers.					
December 2005 figures are preliminary					
Source: Bureau of Labor Statistics					

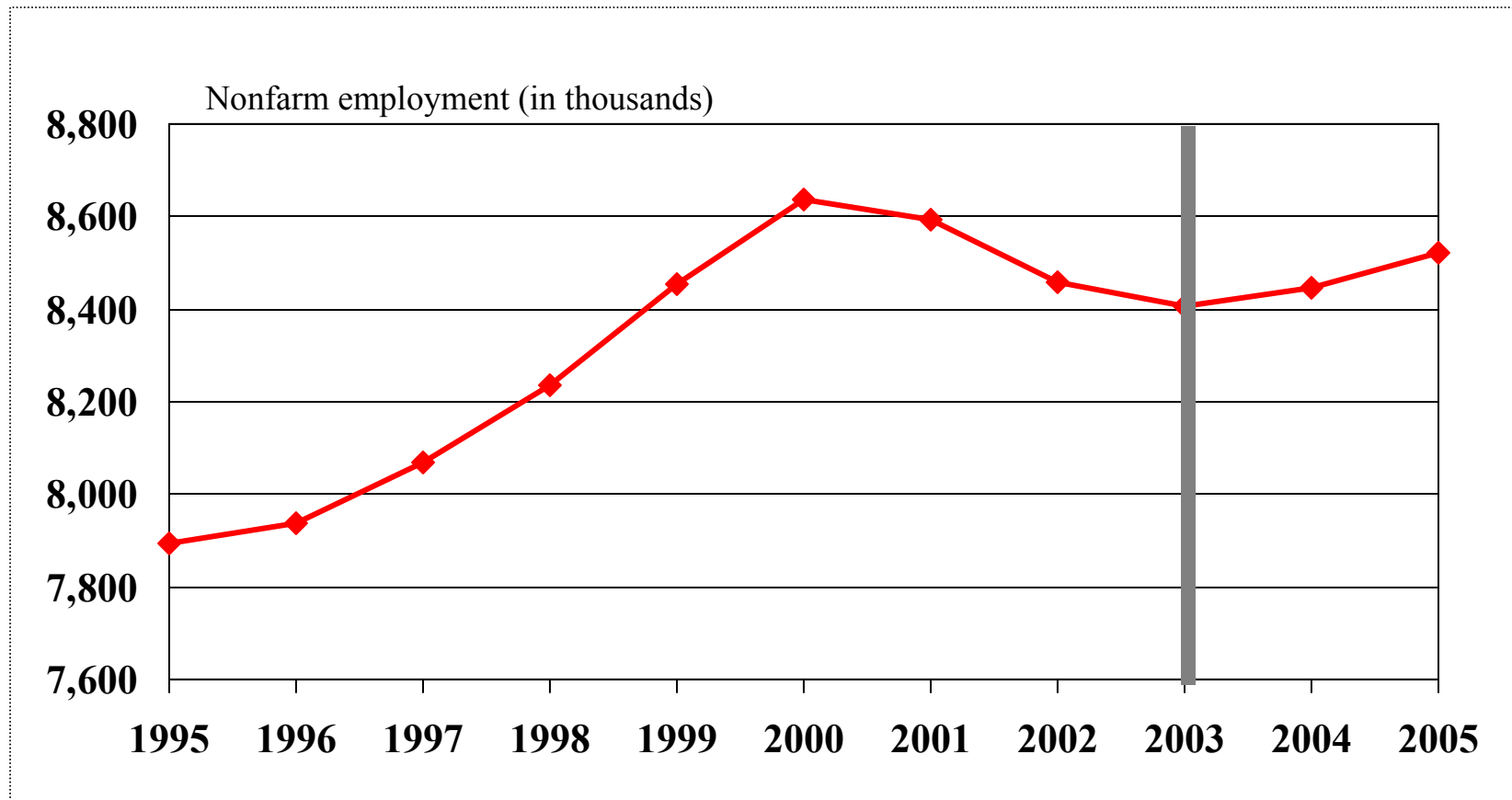
We know that the health of the NYS economy is key to forecasting revenue growth, but how do state budget decisions impact the health of the New York State economy?

- Simplistic reasoning argues that all increases in government spending depress the economy while all tax cuts stimulate the economy.
- For example, in May 2003 when the legislature passed its budget which included significant revenue increases, the Governor issued a press release with the following lead paragraph:

“Governor George E. Pataki today announced that the fiscally irresponsible budget passed by the State Legislature will harm New Yorkers by imposing the largest tax increase in the history of the State -- a tax increase that will lead to massive job losses and a projected \$13 billion budget shortfall in the upcoming two years.”

- **The answer is more complex --- both increases in government spending and tax decreases will stimulate the economy. Both spending cuts and tax increases will depress the economy.**
- **In a balanced budget scenario (e.g. when spending changes must be paid for with tax changes) the net impact on the economy often depends on the kinds of spending and tax changes proposed.**

In fact, despite the Governor's dire predictions, employment in NYS began to grow after the 2003 budget was adopted.



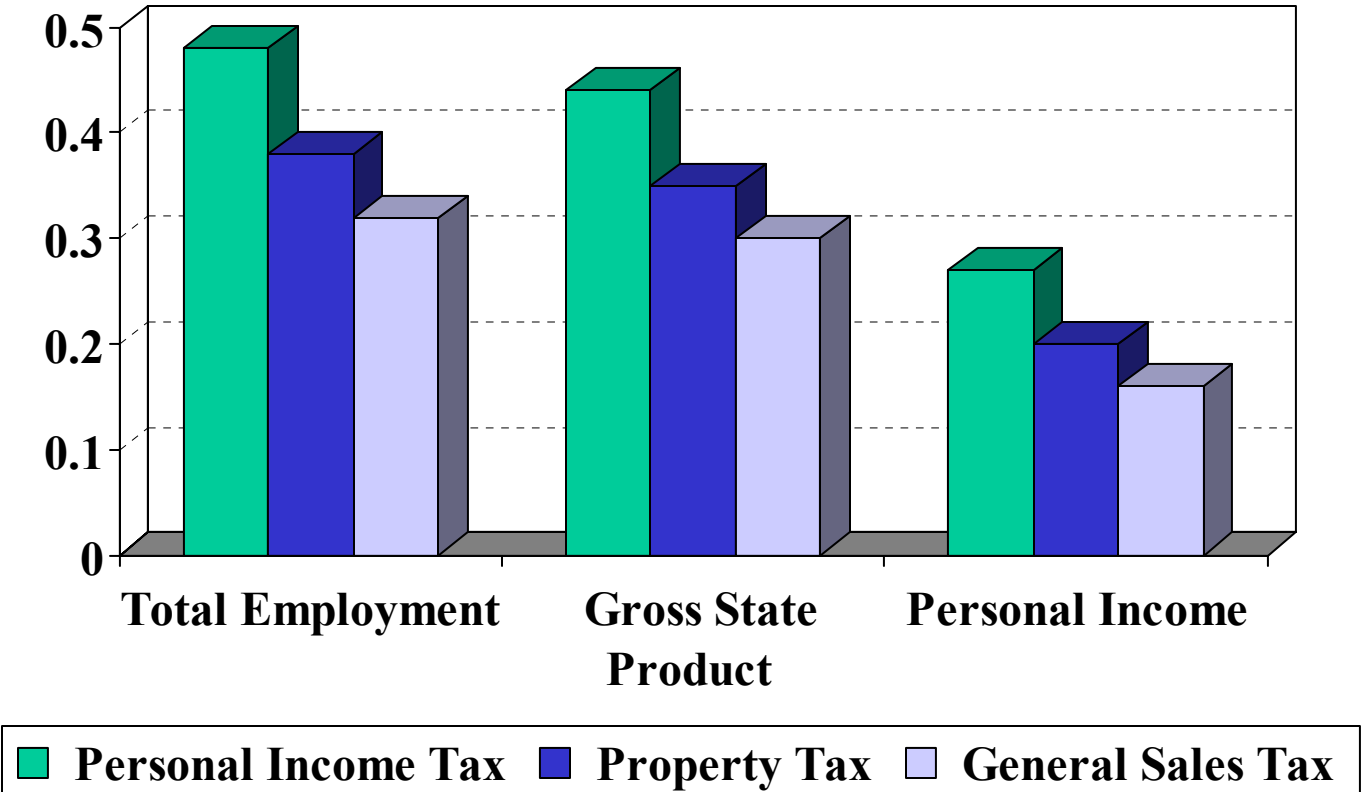
A recent report from the Institute on Taxation and Economic Policy estimates that a statewide solution to the CFE case would stimulate the state's economy.

Impact of Education Spending with Various Revenue Sources							
	Gross Effects (percent change)				Net Effects (percent change)		
	Education Spending	Personal Income Tax	Property Tax	General Sales Tax	Personal Income Tax	Property Tax	General Sales Tax
Impact of \$6 Billion							
Total Employment	1.26	-0.78	-0.87	-0.94	0.48	0.38	0.32
Gross State Product	1.1	-0.67	-0.75	-0.80	0.44	0.35	0.3
Personal Income	0.78	-0.52	-0.58	-0.62	0.27	0.2	0.16
Impact of \$8 Billion							
Total Employment	1.67	-1.04	-1.17	-1.25	0.64	0.51	0.43
Gross State Product	1.47	-0.89	-1.00	-1.07	0.58	0.47	0.4
Personal Income	1.05	-0.69	-0.78	-0.83	0.36	0.27	0.21

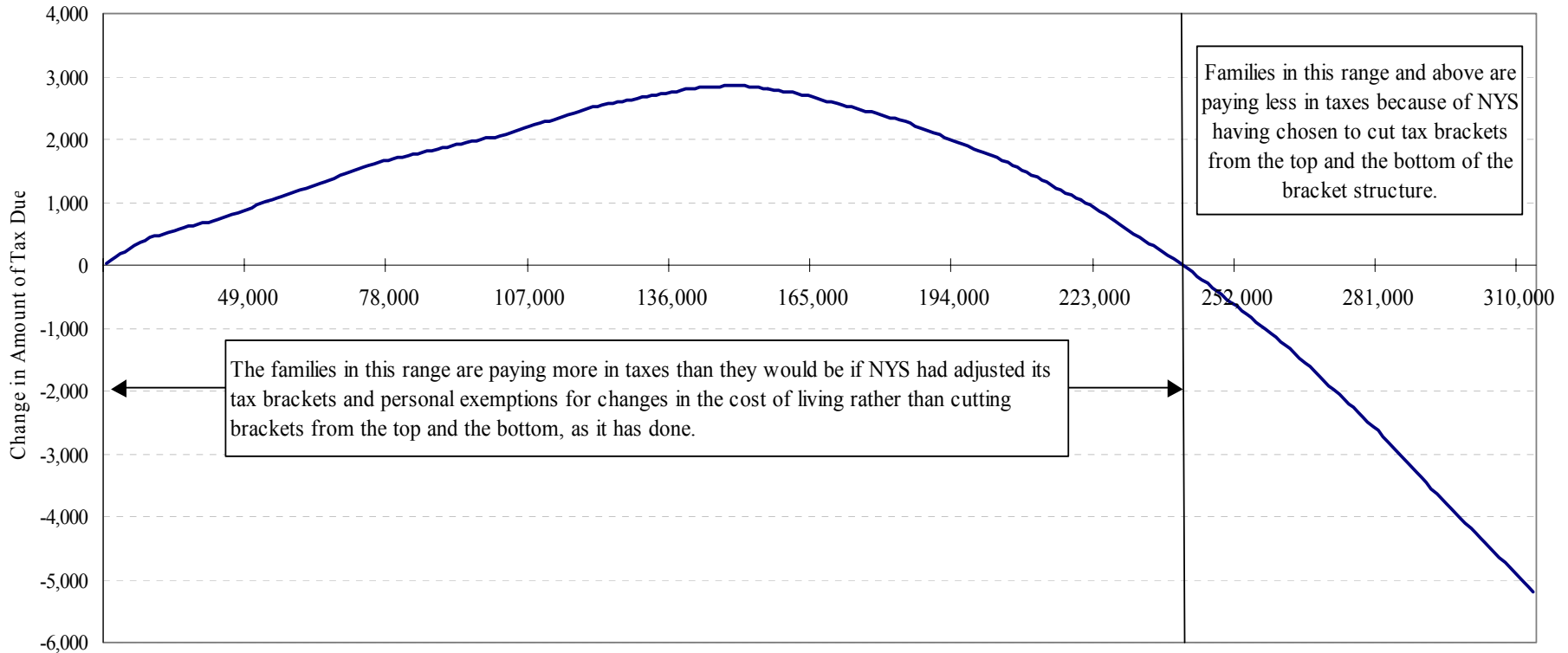
Source: Institute on Taxation and Economic Policy, Achieving Adequacy, April 2005, p. 53

Economic stimulus would be maximized if the personal income tax system were reformed to take make it more progressive --- reversing some of the changes over the past 30 years. In addition, 95% of New Yorkers would get a tax cut.

Net percentage point change with \$6 billion increase in education spending.

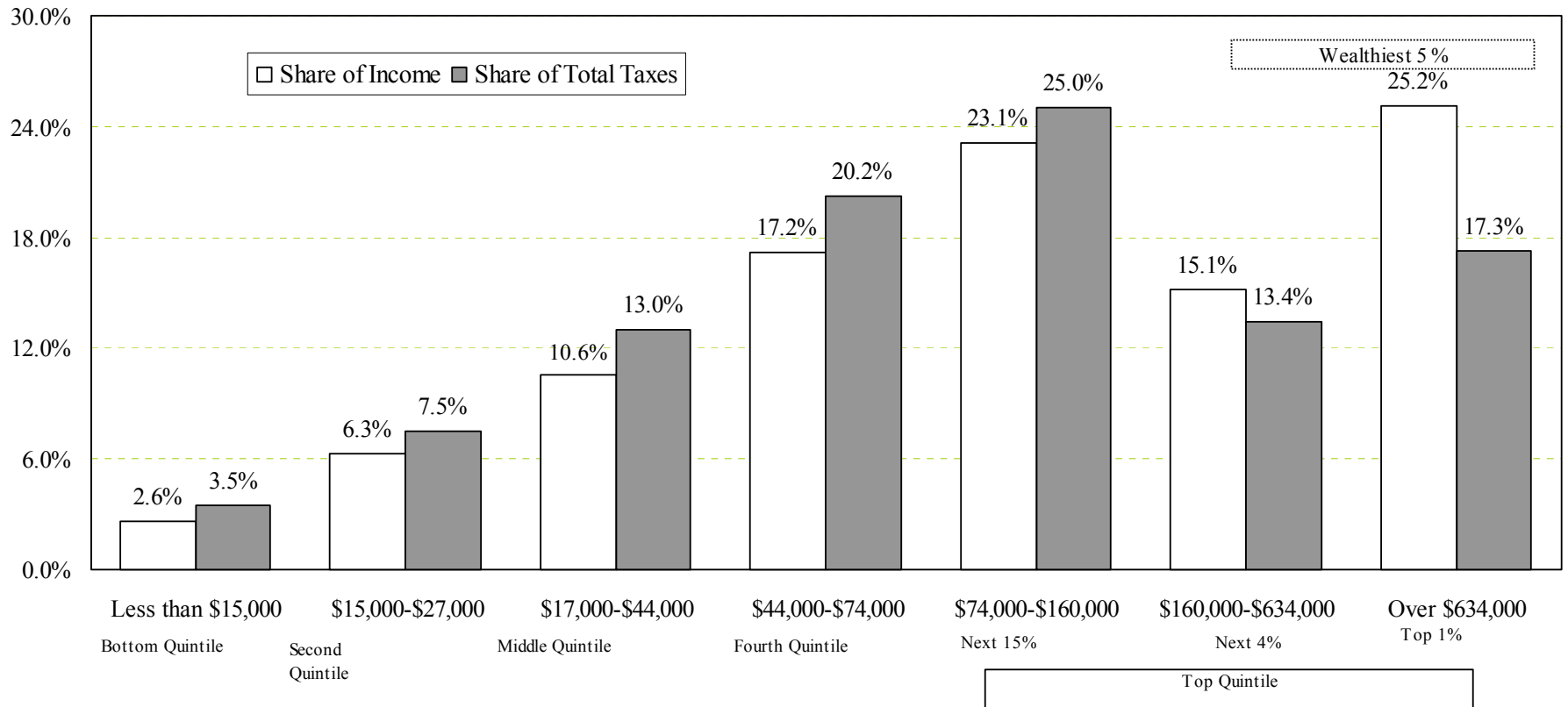


Over the past 30 years, NYS has shifted the tax burden by cutting personal income tax rates from the top and bottom rather than adjusting the state's tax brackets and the personal exemption amounts for inflation.



New York Adjusted Gross Income, from \$20,000 to \$313,000, of Families of 4 - weighted average of standard vs. itemized deductions - includes Household Credit

Taking federal deductibility into consideration, the wealthiest 5% of New York families have over 40% of the income but less than 31% of the tax burden.



Source: Institute for Taxation & Economic Policy, 2003. Table shows 2002 tax law at 2000 income levels for nonelderly taxpayers, after federal offset. The percentages for the seven income groups add to 100%.

The President's proposed 2007 federal budget represents another risk to the NYS revenue forecast.

- In 2007, New York would lose \$313 million in funding for discretionary grants-in-aid programs for which we have data.
- These cuts would grow to \$885 million by 2011
- These estimates represent less than half the cuts in discretionary grants in aid
- Medicaid and other entitlement cuts would be in addition to these estimates