Who's fudging what?

James Parrott, Fiscal Policy Institute, February 1, 2011

In its editorial, "Fudging the income gap," (New York Post, Jan. 24, 2011[1]), the New York Post implies that the Fiscal Policy Institute presented "false" facts in a recent analysis of income concentration trends in New York, *As Incomes Gap Widens, New York Grows Apart*.[2]

The Post does not deny that the state tax data we analyzed do indeed show that the wealthiest 1 percent of state residents received 35 percent of all income in 2007, up substantially from 10 percent in 1980. It seems the Post was troubled by the fact that we mainly concentrated on pre-tax income rather than after-tax income. Maybe the Post didn't make it to the end of our report where we showed the relative impact of state and local taxes in New York by income level. Maybe it's because the Post doesn't like the fact that the data show that the wealthiest 1 percent pay a <u>smaller</u> share of their income in state and local taxes than everyone else in New York, whether middle- or low-income. In New York City, the richest 1 percent have 44 percent of the income but pay only 33 percent of local income, residential property and sales taxes.

The Post contends that since FPI did not account for various income maintenance transfer payment programs such as food stamps, school lunches and WIC, that we somehow distorted the evidence regarding New York's greatest-in-the-nation income concentration. Granted, these income maintenance programs are vital to the poor. However, as pointed out to the Post editorial writer before their editorial appeared, the annual amount of such payments to low-income New Yorkers was $11.5 billion in 2007, an amount that is basically a rounding error in calculating the income share going to the top 1 percent. Before counting this $11.5 billion, the richest 1 percent of New York State residents received 35.3 percent of all income, that's $224 billion out of a total of $634 billion. Adding $11.5 billion as income received by the bottom 50 percent would ever so slightly reduce the top 1 percent share to 34.6 percent. Both figures round to 35 percent, whether you include income transfers or not.

The Post editorial makes various other claims in an apparent effort to argue that New York's very high income concentration is not an issue. Here are their statements, and a brief rejoinder to each.

- New York Post: "Poverty in New York is tempered by massive wealth transfers from the taxpaying rich and middle class to the untaxed poor."
    - As noted above, what the Post means by "massive" is a rounding error.
    - Also, the Post chooses to ignore that when regressive sales and property taxes are included, the poor pay a greater share of their incomes in state and local taxes than do the richest 1 percent.

[1] www.nypost.com/p/news/opinion/editorials/fudging_the_income_gap_QukMT0unOdsFW0ixw2tv9H.

[2] www.fiscalpolicy.org/GothamGazette_IncomePolarization.pdf.

- New York Post: "A fifth of the state is on Medicaid, costing taxpayers $1 billion a week."
    - Medicaid payments go to providers, not those receiving health care.
    - The recession has boosted Medicaid rolls by 650,000 since December 2007.

- New York Post: "The rich-poor divide reflects New York's strength as a world financial center. Wall Street pay soared, but tax revenue did too, benefitting everyone."
    - But the Wall Streeters among New York City's top 1 percent pay a proportionately smaller share of their income in local taxes than everyone else. If they paid closer to their fair share, New York would not have to cut essential spending on education and health care as much, and it would be more likely the state could close its budget gap without greatly exacerbating unemployment.

- New York Post: "Tellingly, the report's data ends right where the recession began. Yet when the big boom ended, the wealthy became demonstrably less so."
    - We noted that we used the latest available data through 2007, and we cited the nation's foremost income distribution expert, Emmanuel Saez, who does not expect the recession to have "a very large impact on top income shares."
    - In a column in the Gotham Gazette last September we noted that the recession thrust an additional 100,000 New York City residents into poverty in 2009, and boosted the number living in "deep poverty"—half of the federal poverty line—to 900,000, 10.5 percent of the city's population.
    - Two years after the recession began in New York City in mid-2008, total finance wages had increased by over 8 percent while they were still down in the rest of the city's economy. Meanwhile, corporate profits have soared, and the stock market, capital gains and Wall Street bonuses have resumed their lofty levels. It's highly unlikely that the income share of the top 1 percent has faltered since 2007.

- The Post seems to be arguing something about an influx of immigrants accounting for the persistence of poverty in New York City when they claim: "Most immigrants perform unskilled labor and lack higher education—so their wages are low and keep the overall poverty rate static."
    - Actually, nearly half of New York City's immigrants have at least some college and many are highly educated—11 percent have a graduate or professional degree. About half work in white collar jobs. And in fact, New York City immigrants are less likely to live in poverty than U.S.-born residents.
    - Overall, immigrants account for 37 percent of the City's wage , salary and proprietors' income, matching the immigrant share of the city's overall population.

- The Post also says that "most of New York's poorest won't be at the bottom for life."
    - It would be wonderful if there were data to support that claim, but the Post doesn't provide any and we're not aware of any. National data show that four in five people stay in the same income quintile over the course of a typical decade or move a single quintile up or down.
    - There is more intergenerational mobility in countries with less top-heavy income concentration such as Canada, France, Germany, Spain or Sweden.

- Not surprisingly, the Post doesn't pass up the opportunity to warn that extending the state's temporarily higher top tax brackets "will only drive more taxpayers—and more revenue—from the state."
  - This is the most oft-repeated, totally baseless claim one hears in tax policy discussions these days. In the wake of the 2003-to-2005 temporary high-end tax increases, the number of people subject to that tax living in New York State increased considerably.
  - Moreover, the windfall headed to very high-income New Yorkers as a result of the two-year extension of the Bush tax cuts dwarfs the additional amount they would pay were the state to extend the temporarily higher rates. How many more tax cuts do the wealthiest need?

Increasing public understanding of the extreme concentration of income in New York, and elsewhere around the nation, is about more than just tax policy, although that is obviously one place to begin to reverse the trend that Federal Reserve Chairman Ben Bernanke recently called a "very bad development … [that's] creating two societies." 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.

It is ironic that the Post wants to exaggerate the impact of income maintenance payments to the working poor when it should be decrying the low wages that confine far too many New Yorkers to poverty or near-poverty and thus must turn to public income supports. Workers should be compensated in line with their productivity but that happens less and less these days as the economic system concentrates unimaginable gains at the very top. In New York City, the size of our economy has grown by 63 percent since 1990 yet there has been no increase in median hourly wages or median family incomes and college-educated young workers get paid 6 percent less than two decades ago. The Post should stop fudging the issue and get behind a system of economic rewards that restores the idea of a "fair day's wages" for a "fair day's work." How long can an economy function when the rewards of everyone's hard work all get siphoned to the very top?

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