Executive Summary

The terrorist attacks of September 11 struck home in New York, and have left the state dramatically shaken. But even before the attacks, New York faced a very mixed economic picture.

On the one hand, New York, like the country as a whole, saw an unprecedented economic expansion, beginning in 1993 and ending in early 2001. That expansion brought with it extraordinarily good times for some, with soaring stock markets, a booming Wall Street financial sector, significant government budget surpluses, low unemployment rates, and in the last four years of the expansion — for New York City — the fastest private-sector job growth in four decades.

On the other hand, this rising tide did not lift all boats. Even at the end of the long 1993-2000 expansion, the majority of New York's workers had actually lost economic ground compared to where they were in 1989, at the peak of the previous expansion. Median wages for New York's workers fell between 1989 and 2000 even as the stock market rose to record heights. During the peak years of the expansion — 1997 to 2000 — tight labor markets finally began to push up wages at the bottom and middle of the economic spectrum. But these gains were not enough to offset the losses most workers experienced in the early 1990s. The onset of the recession in early 2001 meant an end to wage gains and a rise in unemployment. In addition to the recession, the events of September 11 took a heavy toll on the New York City and State economies, and particularly on low-wage workers, who bore the brunt of layoffs in industries hit by the aftershocks.

WORKING HARDER, GROWING APART

During the period between 1989 (the peak of the previous expansion) and 2000 (the peak of the most recent expansion), New York experienced four broad economic trends. The median wage fell. Families worked longer hours to achieve only modest increases in income. Economic growth centered on the stock market without spreading into upstate New York or the outer boroughs of New York City. And people of color fared significantly worse than whites.

1. Family income polarization increased dramatically in the course of the 1990s.

Between the late 1980s and the late 1990s, the average incomes for the two lower quintiles of people in New York families with children — 40% of all people in families with children in New York — fell by 2%. For the middle quintile — another 20% of families with children — the gain was only a modest 2%. New York's top quintile, by contrast, experienced average income gains of 21% .[1]

For the nation as a whole, the quintile with the highest incomes also had a 21% gain. However, the other 80% of people in families with children in the first through the fourth quintile had increases in average incomes that ranged from 9 to 13%. While those at the top still did better, everybody else gained by about 10%.

To achieve these modest results, New York's married-couple families with children worked 3.8 more hours each week in the late 1990s than they did in the late 1980s, an increase of 5.8% overall. Those in the middle income quintile worked 8.8% more hours and those in the second quintile increased their hours worked by 15.7%. Low-income wage earners in single-parent families with children increased their work hours even more.

Reflecting the decade's increased income polarization, the "Top-to-Bottom" ratio, which compares the average income of the top-earning 20% of people in families with children to the bottom-earning 20%, increased 2.4 points over this period, from

10.4 to 12.8 in New York. This compares to a 0.7 point increase nationwide, from 9.3 to 10.0.

Not only does New York State's performance on income distribution diverge from the nation's performance in the 1990s, it also contrasts with how average New Yorkers fared in the expansion of the 1980s. For example, during the 1980s, the middle quintile of New York families with children had a 15% gain in average income during the 1980s in contrast to the 2% gain in the 1990s.

Even after a decade of growth, there were more families in poverty in New York than at the peak of the last business cycle. In 2000, 13.4% of all New Yorkers fell below the federal poverty level. But, New York has a much higher cost of living than the U.S. average. Based on a standard developed by the Economic Policy Institute that takes fairer account of the local cost of living, fully 37% of New Yorkers fall below a "basic needs" family budget.

Finally, New York State's tax structure worked to increase income polarization in the 1990s rather than decrease it. While the state income tax is progressive, the cumulative effect of all taxes —including property, sales and excise taxes — is regressive. That means that the lowest 20% of non-elderly married couples pay 16% of their income in taxes, while the top 1% pay only 9% of their income in taxes.

2. Wages and work conditions eroded for most New Yorkers.

Between 1989 and 2000, New York's median real wage fell by 5.1%. The median wage is the money earned by the person in the exact middle of the working population — with half the wage-earners making more than that person and half making less.

The average real wage, on the other hand, increased by 18.4% over the same period. While it may seem odd for average wages to rise while median wages fall, the explanation is that top wages increased steeply over this period, while wages in the middle and bottom stagnated or fell. As a result, the economic pie expanded greatly, but those at the top not only took all the gains but also took some of the portions of those in the middle and at the bottom.

At the national level, trends followed generally similar lines. Yet, although most gains nationally were also concentrated at the top, there was nevertheless modest growth of 2.2% in real median wages between 1989 and 2000. Why did New York wage growth lag so far behind the nation? Some of the answer may be tied to industrial restructuring — the shift from manufacturing to service industries, for example. But a more central cause is that wages within most industries tended to grow more slowly in New York than in other states.

A significant factor in determining wages is the rate of unionization. Although New York continues to have one of the highest rates of union density in the country, the portion of New York's workforce represented by unions continued a long decline during the 1990s. Between 1990 and 2000, the number of union members fell by 6%. At the same time, because the workforce expanded, union density fell from 28.2% in 1990 to 25.5% in 2000, with most losses of union jobs occurring in the manufacturing sector.

Another factor in low wages at the bottom of the economic spectrum is a low minimum wage. Many high-wage states, including New York's neighbors Connecticut and Massachusetts, have higher minimum wage levels than the nation's $5.15 an hour minimum. New York has failed to raise its minimum above the national level and, as a result, New York now has the lowest ratio of minimum wage to the average wage among high-wage states.

In addition to a polarization between top and bottom, New York's economy became increasingly divided along gender and racial lines during the 1990s. The gender gap in wages increased for New Yorkers in the past decade, even as the gender gap decreased for the country. In the U.S. as a whole, the median wage for women increased from 75% of men's median wage in 1989 to 79% in 2000. In New York, in the same period, the median wage for women fell from 82% to 81% of the male median.

At the same time, blacks and Hispanics in New York fared worse than whites. The median wage of white men fell by 5.4% between 1989 and 2000, while it fell by 10.7% for black men and 14.1% for Hispanic men. Over the same period, median wages for white women remained constant, while they fell by 5.5% for black women and 8.7% for Hispanic women.

One common explanation offered for racial wage differentials is the lower level of formal education of people of color. Yet, differences in the amount of formal education cannot account for the extent of New York's wage gap. The education/race differential is particularly pronounced among men. A Hispanic man with a college education makes on average only 71% of the wage of a similarly educated white man, and a black man makes on average only 74% of the average wage of the similarly educated white man. Among women, blacks with a college education make on average 91% of what whites make, while Hispanics make on average 87% of what white women make.

After a long slide, the median wage for all New York workers did finally begin to rise in the late 1990s. Tight labor markets (low unemployment) helped workers at the bottom and middle gain in wages — median wages rose between 1997 and 2000 by 2.6%. But this increase was short lived, and median wages for New Yorkers fell 1.0% between the one-year period ending in May 2000 and the one-year period ending in May 2001.

3. In the course of a decade, New York shifted away from a "high-road" model of well-paid work with good benefits toward a "low-road" economic model based on lower-paid work, out-sourcing and temporary employment.

Similar to the nation as a whole, in the course of the 1990s New York continued to see polarization and a hollowing out of the middle. Most of the jobs in the fastest-growing category in the state were at the low end of the wage spectrum — such as restaurant and temp agency jobs — with a few in the middle to high range — such as securities brokers and public relations jobs.

The leading job losses, on the other hand, were among jobs with mid-level salaries — such as bank tellers, insurance carriers, or manufacturing. The average job in the 15 industries registering the most jobs lost paid an annual salary of $60,588, while the average wage in the 15 fastest-growing industries was nearly $20,000 lower, at $41,270 (excluding the very high wages of securities brokers). The average wage earned in many of the industries that grew the fastest in regions around the state is too low to support a family of one adult and one child at the Self-Sufficiency Standard for each county, based on a budget that provides for a family's basic needs.

As wages fell, so did benefits. Private-sector, employer-provided health coverage in New York dropped from 66.1% in the late 1980s to 57.4% in the late 1990s — a drop of 8.8 percentage points, compared to a drop of 3.6 percentage points over the same period nationwide. Until 1994, New York performed better than the nation in supplying health insurance to residents (including employer-provided, private, or public insurance). The 1990s reversed that situation, putting New York behind the national average for health insurance coverage. As in the beginning of the decade, whites were more likely to have private-sector employer-provided health insurance coverage than blacks, blacks were more likely to have this coverage than Hispanics, and men were more likely to have the coverage than women — but in the course of the decade the rate of coverage fell for all races, and for both men and women.

Increases in the number of contingent and temporary jobs helped fuel many of the above trends. Temporary employment agencies are among the fastest-growing job categories around the state. In Western New York, for example, temporary agency employment grew by 95% between 1992 and 2000, leading all other industries in job growth. Over the same period, jobs for nurses aides throughout the state grew at a rapid pace, increasing 43%, while the number of more highly trained and highly paid registered nurses increased only 9%. At the same time, government at all levels increased its reliance on contracting out services in areas such as child welfare, homelessness and youth services — with private contractors usually paying considerably lower wages and providing fewer benefits than government employees receive.

4. New York's economic growth was uneven throughout the 1990s, with upstate lagging, downstate heavily dependent on Wall Street, and the suburbs increasingly dependent on people working in New York City.

Growth across the state has been very uneven. The main reason is that manufacturing in New York has continued a longterm decline. While manufacturing employment increased throughout the nation from 1993-1998, the manufacturing sector lost jobs in New York during the same period. Manufacturing makes up one quarter of all wages paid in upstate.

The downstate economy, by contrast, is heavily and increasingly dependent on one area: the Wall Street securities industry. The securities industry added over 50,000 jobs in the 1992-2000 period — more than any other job category. Fully 47.6% of growth in Gross State Product (GSP) between 1992 and 1999 was due to Wall Street alone — over four times the 9.7% Wall Street contributed to the state's growth during the 1980s expansion. By the same token, wages in the securities industry averaged $221,500 in 2000 — more than five times the state average wage of $40,600.

The suburbs of New York City have also become far more dependent on Wall Street and the New York City economy in the course of the 1990s. Between 1991 and 1998, for example, the share of Long Island residents' wages that came from commuters to New York City grew from 37% to 41%. For the Northern suburbs (Westchester, Rockland and Putnam Counties), the commuter share of resident wage income increased from 44% to 61%.

Finally, government, too, has become more dependent on Wall Street. From 1991 to 2000, the securities industry and securities markets were responsible for over one third of the growth in New York State realized capital gains, wages, and bonuses — which together form the basis for state personal income-tax revenues.The income tax, in turn, is the largest component in state revenues. While added revenues have been good for government and government services, government is likely to experience the negative effects of such a high degree of dependence on a single source of revenue in the current downturn in the securities industry.

CONCLUSION

New York's economy continues to hold the potential of giving real benefits to all residents. Indeed, the state's hefty share of the nation's Gross Domestic Product — which was 25% higher than its share of the nation's workers in 1999 — reflects the economy's strong promise. But to realize this goal, New York will have to turn around a trend of polarization that was even more extreme in this state in the 1990s than it was in the nation as a whole. The decade just beginning can be one of shared prosperity. But the 1990s were a decade when New Yorkers were "Working Harder, Growing Apart."

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1 Income for families with children for the late 1980s is based on a three-year average of 1988-1990; for the late 1990s on a three-year average of 1998-2000.