The State of Working New York 2005: Treading Water in a Tenuous Recovery

Executive Summary

The tenuous economic recovery of the past two years has been characterized by such weak wage growth that most working families have been left treading water. Although there has been a sharp decline in manufacturing jobs nationwide, the manufacturing decline in parts of upstate New York has been much steeper than for the U.S. as a whole. Across the state, the loss of thousands of well-paying jobs has meant that the "hollowing out" of the middle of New York's income distribution continued at a rapid pace in this decade. These trends add up to an economy that faces enormous challenges in achieving a shared and sustainable prosperity.

Tenuous New York and national recovery

The recession officially ended in November 2001. But the nation, as a whole, and the overwhelming majority of the states, continued to lose jobs until the spring of 2003. So far, the Empire State has gained back only half of the 273,000 jobs that it lost during the recession (March through November 2001) and the ensuing "job loss" recovery (November 2001 through May 2003). A "job growth" recovery began for the U.S. in June 2003, and for New York around the same time. Since then, New York's 1.5% growth has been about half the nation's 3.0% growth.

In many ways, New York's economy is not on a firm footing. The national economy on which New York heavily depends is growing slowly and much of the growth has been propelled by borrowing. In fact, the nation's employment level is only slightly above where it was at the recession's start, an improvement that substantially trails all of the recoveries from the nine previous recessions since 1949.

Total national debt -- household, government and corporate -- has grown one-and-a-half times faster than the 22% increase in gross domestic product between early 2001 and early 2005. Consumption has grown far faster than wages and salaries, with the difference made up by borrowing. In many parts of the country, including New York's Hudson Valley corridor and the downstate areas, the rapid rise in housing prices and the explosion in home equity borrowing and home mortgage debt have been the driving economic forces.

This trend, however, may not continue. After an unusual and prolonged period of low interest rates, the Federal Reserve Board of Governors seems determined to cool the super-heated housing market and already has boosted short-term interest rates 10 times since June 2004. Eventually, long-term interest rates are likely to rise sufficiently to slow the housing market, and probably the broader economy as well.

Weak wage growth leaves working families treading water

Workers have not been sharing fully in the fruits of the expanded production of goods and services. At the national level, corporate profits have increased five times faster than total wages since early 2001. In New York, economic output and output per worker increased by 6% from 2001 to 2004, while average wages increased by only 1.8%.

But even this very modest increase in the average wage masks the difficulties faced by most New York workers. *Real wages for workers in the bottom half of the wage distribution were no higher in 2004 than in 2001.* Only high-wage workers (80^{th} percentile) received a modest real wage increase (2.3%) between 2001 and 2004. The gains from increased productivity are virtually all going to profits and high-wage workers, with most workers not seeing any real gain.

General economic well-being in New York has been reduced by the rapid rise in housing costs in the New York metro area and the Hudson Valley and the decreased availability of private-employer provided health insurance and pension coverage. An economic security index that accurately reflected these changes would almost certainly show a declining living standard for New York in this decade, as they are forced to pay more for housing, health care, and pensions out of stagnant salaries.

The most recent data, for the first half of 2005, show that median hourly pay is declining. Increasing housing and energy costs account for much of the increase in the consumer price index and mean that the purchasing power of workers' earnings is shrinking. Through 2004, the real hourly pay for New York's low-wage workers had barely improved compared to 1990, while nationally, the 20th percentile wage rose by 12%.

Increasingly, the extent to which hourly pay improves depends on educational attainment. While the median wage for New York workers with a bachelor's degree or higher has increased by 8.7% since 1990, workers with less than a high school education have seen their wages decline by 13.3%. However, the results are mixed for the groups in between. Workers with only a high school education make roughly the same real hourly wage as in the 1990s, but those with some college, but less than a bachelor's degree, have actually seen nearly a five percent decline in their hourly wages. New York has a higher percentage of its 25 year + population with a bachelor's degree or higher (30.5%) than the nation (27.0%), but both New York and the U.S. have the same 16.1% of their 25-year plus population with less than a high school diploma.

Racial disparities in New York wages have also continued unabated over the past decade and a half. Median wages for Hispanic and black workers were about the same in constant dollars in 2004 as in 1990, while white workers saw a 6% increase in hourly pay. Gender disparities have narrowed because the median hourly wage for females has increased by 6.6% while the median male wage fell by 3.0% between 1990 and 2004. The female-male median wage ratio increased from 76% in 1990 to 84% in 2004.

An important bright spot on the pay front has been the increase in New York State's minimum wage. The first step of a three-step increase occurred on January 1, 2005, when the state raised its minimum wage from the federal $5.15 an hour to $6.00 an hour. This increase benefited thousands of low-wage New York workers. Contrary to the warnings of opponents of the minimum wage hike, employment in industries employing large numbers of low-wage workers grew significantly. The number of retail jobs in New York increased by 1.8% in the first half of 2005 compared to the first half of 2004, considerably faster than the state's overall 1.0% job gain over this period and the 0.9% national growth in retail employment. Nor have businesses reduced the hours of work for low-wage workers. The average worker in the lowest decile worked more hours in the six months following the wage hike than during the year-earlier period.

In addition, New York has been able to maintain its 25.3% union density, the highest in the nation, over the past five years, despite the vagaries of the business cycle and declining unionization at the national level. This is good news for workers, who are more likely to receive health insurance and pension coverage when they are represented by a collective bargaining agreement than when they are not.

The percentage of New Yorkers without health coverage fell to 14.2% in 2004 from 16.3% in 2000, largely due to a substantial increase in Medicaid-funded coverage.

Continued "hollowing out" of the labor market and family incomes

While job changes by industry vary considerably across regions, the trend from high to low paying jobs is occurring throughout the state. Industries accounting for most of the job gains since 2000 in New York State include health care and social assistance, government, educational services, and food and drinking places. While many of these sectors have good jobs, they generally tend to pay less than higher-wage, middle-income jobs in industries that have lost a lot of jobs since 2000, including manufacturing, information services, professional scientific and technical services, and wholesale trade.

The average wage for sectors that have been losing job share over the 2000 to 2004 period is $64,382, more than two-thirds higher than the average wage of $38,074 for the sectors gaining job share.

Between 2000 and 2004, according to Census Bureau data, there was a decline of 70,000 families with incomes between $35,000 and $150,000 in New York State, reflecting a decline in the middle-income share of all families of 1.7 percentage points. The nation as a whole experienced a much smaller (-0.6 percentage point) decline in the percentage of families in the middle-income range. For both New York and the rest of the nation, the increase in the share of families at the bottom substantially exceeded the increase at the top of the income distribution. The share of families with high incomes ($150,000 or more) has increased more in New York than in the U.S., with most of New York's increase occurring in 2002 and 2003, while the high income share only increased for the rest of the U.S. in 2004.

Because it lost so many well-paying jobs and had a very high rate of net domestic out-migration, New York City experienced an even sharper decline in the middle-income range than the state overall. New York City's middle income range shrank by 3.3 percentage points. The share of the city's families with middle incomes was 53.4% in 2004, well below the 62.5% share for the balance of the U.S. The city had a comparable gain in the high-income share between 2000 and 2004, but a much larger increase in the share of families in the low-income range.

Precipitous manufacturing decline

Although there has been a sharp nationwide manufacturing decline, the drop in New York manufacturing jobs has been far steeper than in the U.S. as a whole since 2000. In New York, the manufacturing job decline has been nearly 21%, a percentage drop exceeded among large manufacturing states only by North Carolina, Massachusetts and Michigan. While net job losses since 2000 are by no means limited to the manufacturing sector, manufacturing jobs have been the backbone of several upstate regions for several decades and will be hard to replace. The information sector also has declined sharply and both finance and professional services are well below 2000 job levels.

Three of the upstate metro areas -- Rochester, Binghamton and Elmira - continued to lose jobs into the first part of 2005 and have experienced net job declines over the four-year period of 5% to 10%. Problems besetting the leading manufacturers in these areas have cascaded through these communities to their suppliers and other local businesses that traditionally have relied on the orders, jobs and wages these major employers have provided. These areas have not had enough other sources of job growth to offset the continued erosion in their manufacturing sectors. These and many other upstate areas will likely continue to experience the decline in their young working age population (ages 20-34), a trend that became pronounced during the 1990s.

Finally, while data on the extent of the off-shoring of non-manufacturing business activity is not compiled by any government entity, considerable anecdotal evidence indicates that this trend has restrained New York's employment recovery. In the last few years, more and more examples have come to light where financial service, information technology, customer service, and even research and development activities that used to be performed in New York have been sent abroad. Against a backdrop of more robust job growth, the off-shoring trend would have attracted far less notice. However, the explosive growth of China and India and those countries' substantial investments in technical skills development mean that New York's economic future depends on a lot more than just increasing educational attainment. New national and regional models for economic growth and prosperity are needed, models that show how we can build on our state's considerable skill base, educational attainment, technology, physical infrastructure and natural resources in ways that will allow more New Yorkers to more effectively produce and achieve a sustainable and broadly shared prosperity.