PULLING APART IN NEW YORK

AN ANALYSIS OF INCOME TRENDS IN NEW YORK STATE AND NEW YORK CITY

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January 2000

Acknowledgments

The primary author of this report is Trudi Renwick, an economist with the Fiscal Policy Institute and a nationally recognized expert on issues related to poverty and family incomes. Frank Mauro and James Parrott, also of the Fiscal Policy Institute staff, assisted Dr. Renwick in the analysis of the data presented in the report and in the editing of the final report. Special thanks are due to Elizabeth C. McNichol of the Center on Budget and Policy Priorities and Jared Bernstein of the Economic Policy Institute for sharing with us the data from their new state-by-state analysis of income trends. We are also grateful to Dr. Bernstein and his EPI colleague, Danielle Gao, for the CPS work that made it possible for us to compare the changes in family incomes in the New York City Metropolitan Statistical Area to the rest of the state. This project would not have been possible without the support of the Ford and Charles Stewart Mott Foundations and the many labor, religious, human services, community and other organizations that support and disseminate the Fiscal Policy Institute=s analytical work.

Methodological Notes

The data utilized in this report is for the before-tax incomes of families (two or more related individuals residing together) and comes from the U. S. Bureau of the Census= Current Population Survey (CPS). The CPS data captures only some of the effects of the unequal distribution of investment income since it does not include income from capital gains, a rapidly increasing component of income in New York during the 1990s. All figures have been adjusted for inflation and are expressed in 1997 dollars. Due to small sample sizes for some states, the report compares Apooled@ data for the three most recent years available (1996, 1997 and 1998) to pooled data for the late 1970s (1978, 1979 and 1980) and late 1980s (1988, 1989 and 1990). Comparisons among these three time periods are appropriate since they represent similar points in the business cycle. The people living in families in each state have been divided into five groups, each with 20 percent of those individuals. These various 20 percent groupings are referred to interchangeably as particular fifths or quintiles of families or of individuals living in families. Data for the top five percent of families is presented, but only for the eleven largest states in the country, since these were the only states for which the sample sizes were large enough to make statistically significant calculations for this segment of the population.

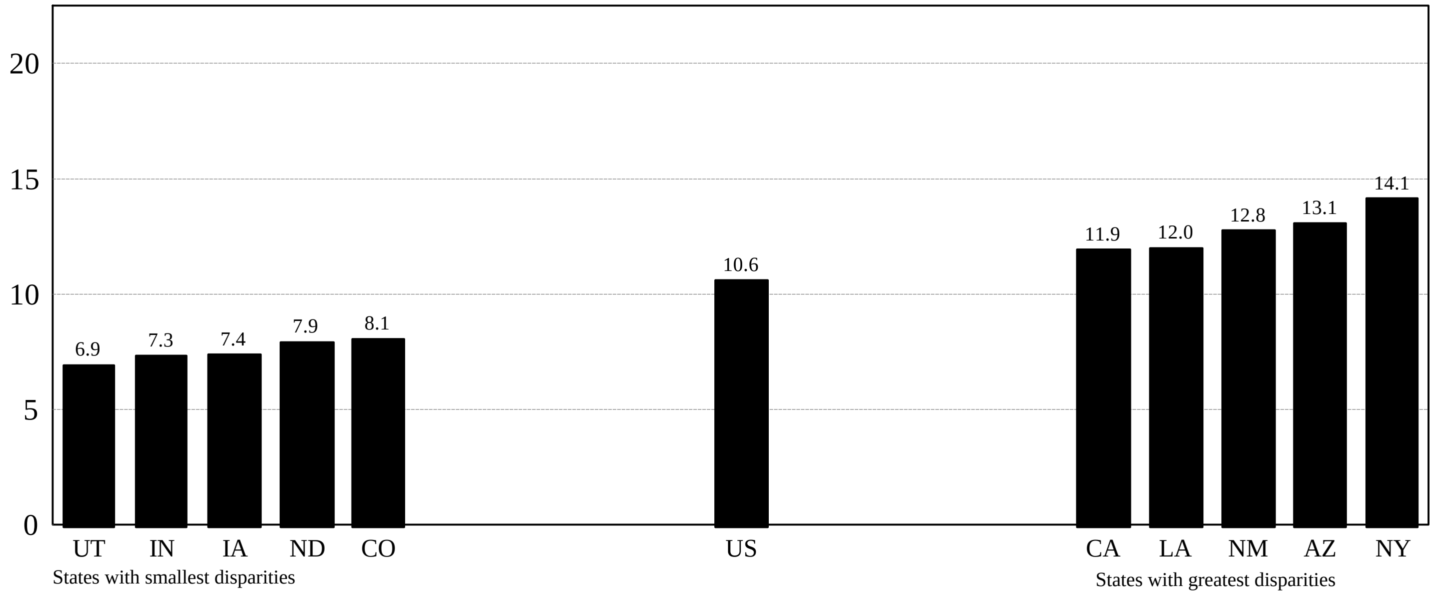
Executive Summary

New York State and New York City have always had much to brag about. There is, however, at least one major national trend in which New York=s preeminence is more of a danger sign than a blessing. This involves the widening gap that exists between the economic well-being of people at the top of the socioeconomic ladder and those below them on that ladder.

A new report by the Center on Budget and Policy Priorities (CBPP) and the Economic Policy Institute (EPI), *Pulling Apart: A State-by-State Analysis of Income Trends*, finds that, overall, New York has the most unequal distribution of income in the United States and that the situation in the Empire State has gotten much worse over the last two decades. The major findings of the CBPP/EPI report and of this companion state-level report, *Pulling Apart in New York*, include the following:

- New York has the widest income gap between rich and poor of all 50 states (14.1 to 1), and the third widest gap between the rich and the middle class (3.3 to 1).
- Despite the recent economic recovery, these income disparities are significantly wider today then they were at similar points in the business cycle in the late 1970s and late 1980s. Over this period of time, no state has seen greater growth in the income disparity between the rich and the poor than New York.
- The ratio of the average family income of the richest *five* percent of New Yorkers to the average family income of the poorest twenty percent was 25 to 1 in the late 1990s **C** more than double the ratio of the 1970s.
- Income inequality in New York is growing not simply because the rich are getting richer but also because both the poor and the middle class are seeing their real incomes decline. In the 1990s, only the top fifth of New York families saw an increase in their average real incomes. The other four quintiles have all seen their average incomes decline.
- The share of income going to the poorest fifth of families is smaller in New York than in all but one other state while only three other states have a larger share of income going to the richest fifth of families.
- While the New York City Primary Metropolitan Statistical Area has an extremely unequal income distribution, even the rest of the state, considered on its own, has a wider income gap between rich and poor than 32 of the other states.
- When only families with children are considered, the gap between the average incomes of New York's richest and poorest families is even larger and has more than doubled since the late 1970s.

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 to the average income of families in the bottom fifth. For example, New York's ratio of 14.1 means that the average income of the top fifth of families ($152,349) is 14.1 times greater than the average income in the bottom fifth of families ($10,769).

New York=s Inequality Worst of All States

On almost all measures of income inequality, New York is the worst or one of the worst.

- The average income of the top fifth of New York families is 14.1 times greater than that of the bottom fifth. This is the biggest difference of all states and is far worse than the national average ratio of 10.6 to 1.

- Almost half (48.7%) of all family income in New York goes to the richest 20 percent of individuals in families (that is individuals in families with incomes of more than $86,525 per year in the 1996-98 period). In contrast, only 3.8% of income goes to the poorest fifth of New Yorkers (those who are in families with incomes of less than $19,693 per year). Only three other states (Arizona, New Mexico and Texas) have a larger proportion of income going to the richest families and only New Mexico has such a small share of income going to its poorest families.

- The disparities are even greater among families with children. The average income of the top fifth of New York families with children is 17.3 times greater than the average family income for the poorest fifth of such families.

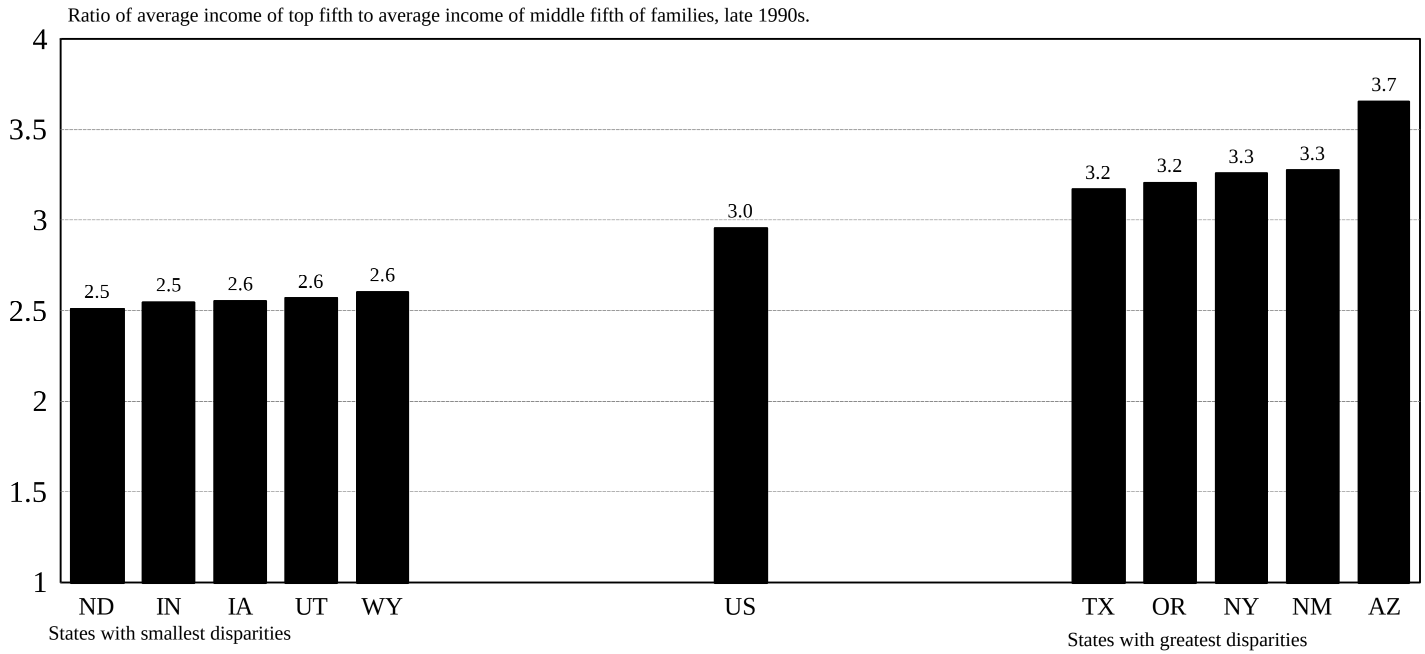
Not only is there an enormous gap between the richest and the poorest, but the gap between the incomes of New York=s rich and middle income families is one of the worst in the nation.

- The ratio of the average family income of the top fifth of New Yorkers to the average income of the middle fifth is 3.3 to 1. This is the third worst ratio in the nation, only better than Arizona (3.7 to 1) and New Mexico (3.3 to 1).

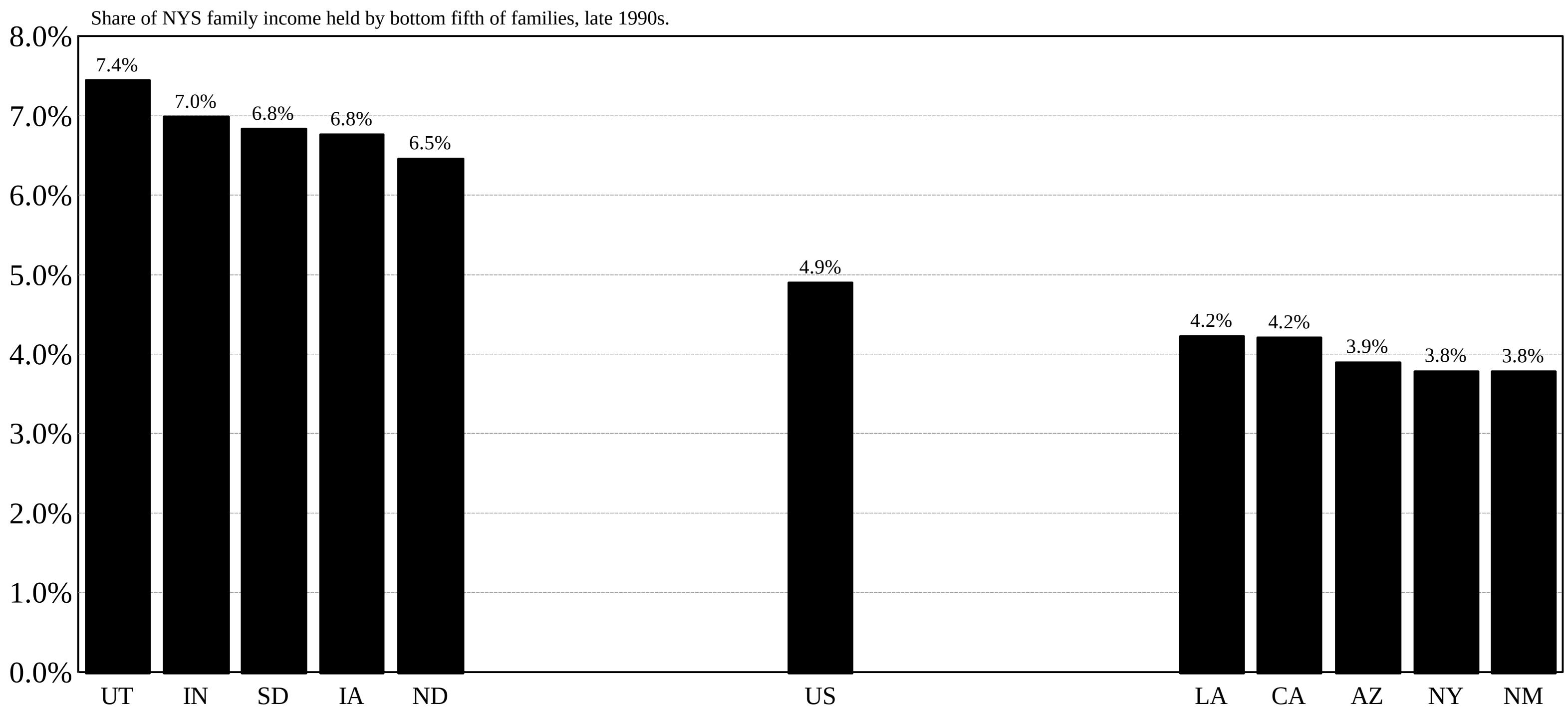
$ The gap between the middle income group and the top *five* percent of the population is even more severe. Once again, New York leads the nation with a ratio of 5.8 to 1 C that is, the average income of families in the top five percent was 5.8 times greater than the average income of families in the middle fifth.

- The share of income going to the middle fifth of individuals in families in New York is 15%. Only seven states have a smaller share of income going to this group of families.

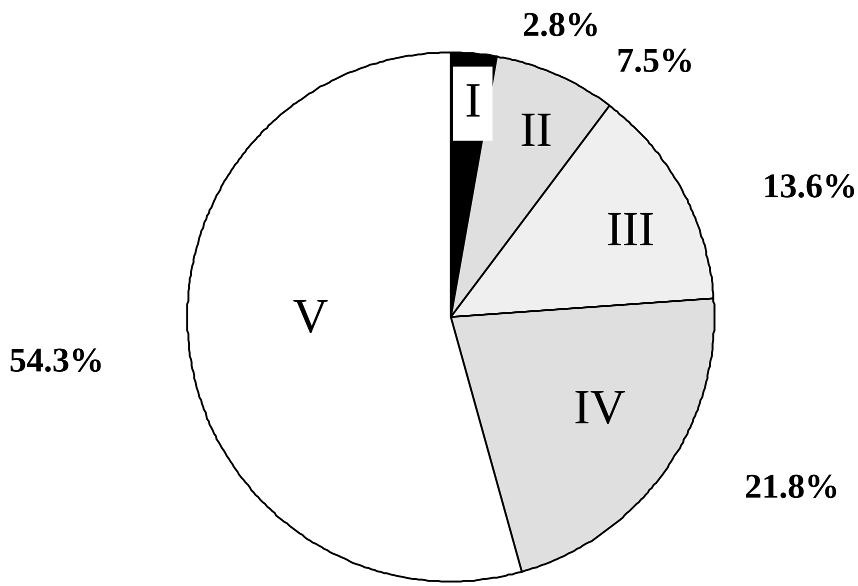
New York also has one of the widest gaps between the rich and middle income families of all 50 states.



Only one state has a smaller share of income going to its poorest families.



More than half the income of all families in the New York City PMSA goes to the richest fifth of families. Less than 3% goes to the poorest fifth.



Share of income held by each income fifth, late 1990s.

Fifth	Average Income
I	$ 7,774
II	$ 21,179
III	$ 38,416
IV	$ 63,105
V	$155,485

The New York City Primary Metropolitan Statistical Area (New York City plus Westchester, Rockland and Putnam counties) has a much less equal distribution of income than the rest of the state.

- $ The average family income of the top fifth of families in the New York City PMSA was 20 times greater than the average family income of the bottom fifth.

- $ The ratio of the average family income of the top fifth of families in the New York City PMSA to the average family income of the middle fifth was 4 to 1.

- $ More than half (54.4%) of family income in the New York City PMSA went to the richest fifth of families. A mere 2.7% of income went to the poorest fifth and only 13.4% went to the middle fifth.

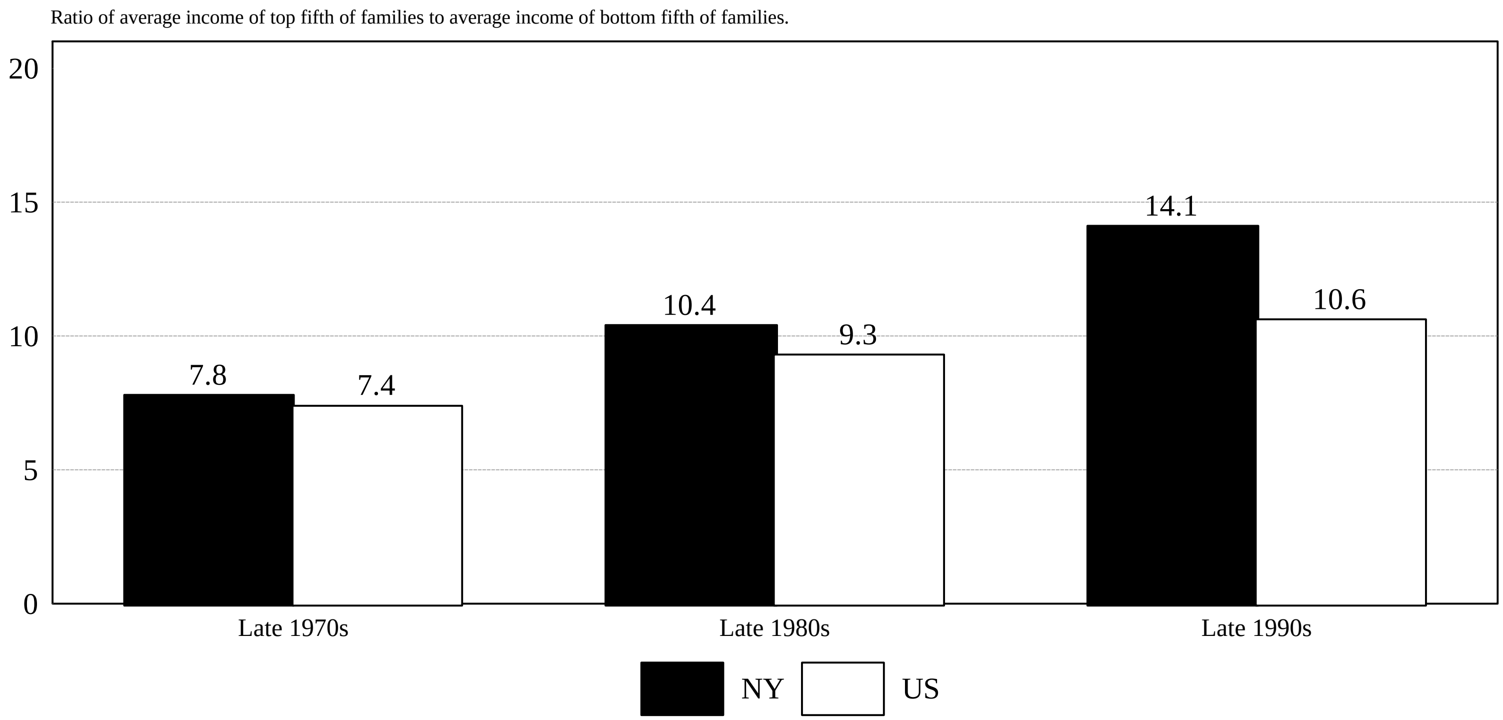
While income in the rest of the state is more equally distributed than it is in the New York City PMSA, it is less equally distributed than in most other states.

- $ The average family income of the top fifth in the rest of the state was 9.9 times greater than the average income of the bottom fifth. This ratio means that, even outside the New York City PMSA, the income distribution is more unequal than it is in 32 other states.

- $ The average income of the top fifth of families outside the New York City PMSA was 2.8 times greater than the average income of the middle fifth of families in that part of the state.

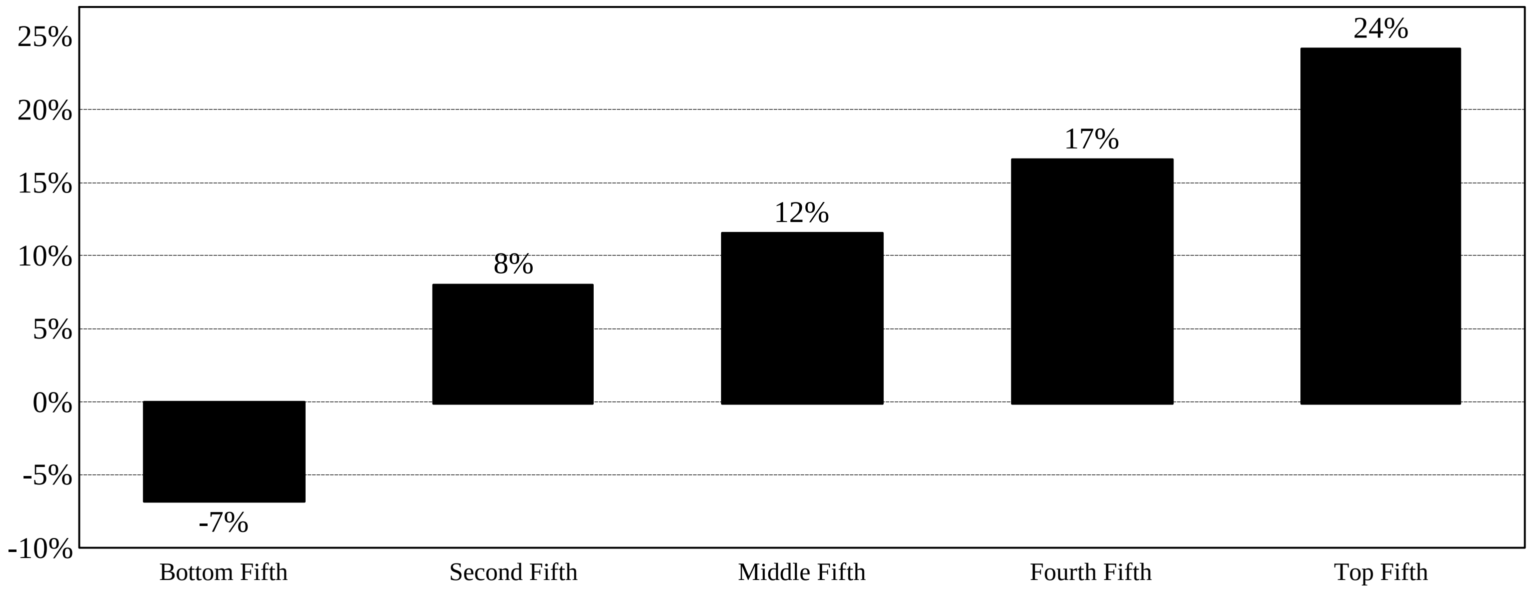
- $ The share of family income outside the New York City PMSA going to the top fifth was 44% while the bottom fifth received only 5.4% of the total. The middle fifth accounted for 16.2% of income.

While income inequality has increased nationally, it has increased much more in New York State than in the rest of the country.

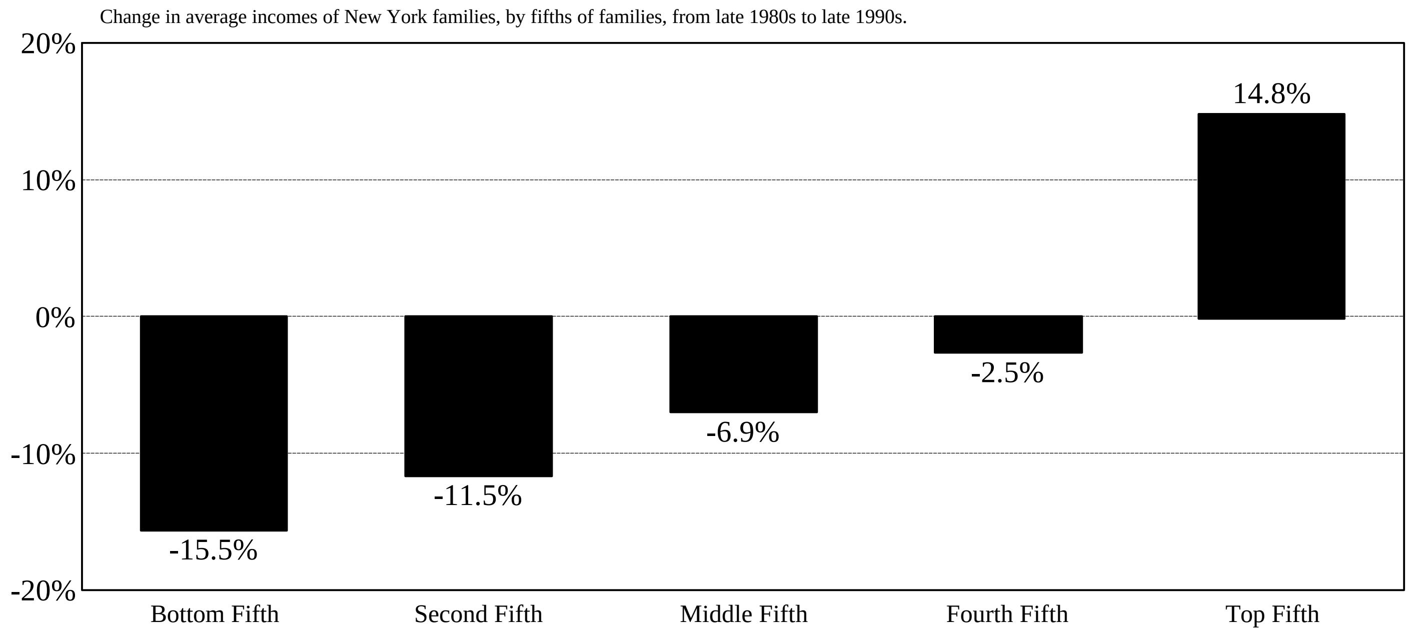


During the 1980s, all but the poorest quintile of New York's families saw average family incomes grow.

Change in average incomes of New York families, by fifths of families, from late 1970s to late 1980s.



Since the late 1980's the average incomes of all quintiles except the top have declined.



The Rich Get Richer While the Poor and Middle Income Families Lose Ground

While New York=s income inequality has always been high, the disparities have been worsening over time and have been growing much more quickly than in most other states.

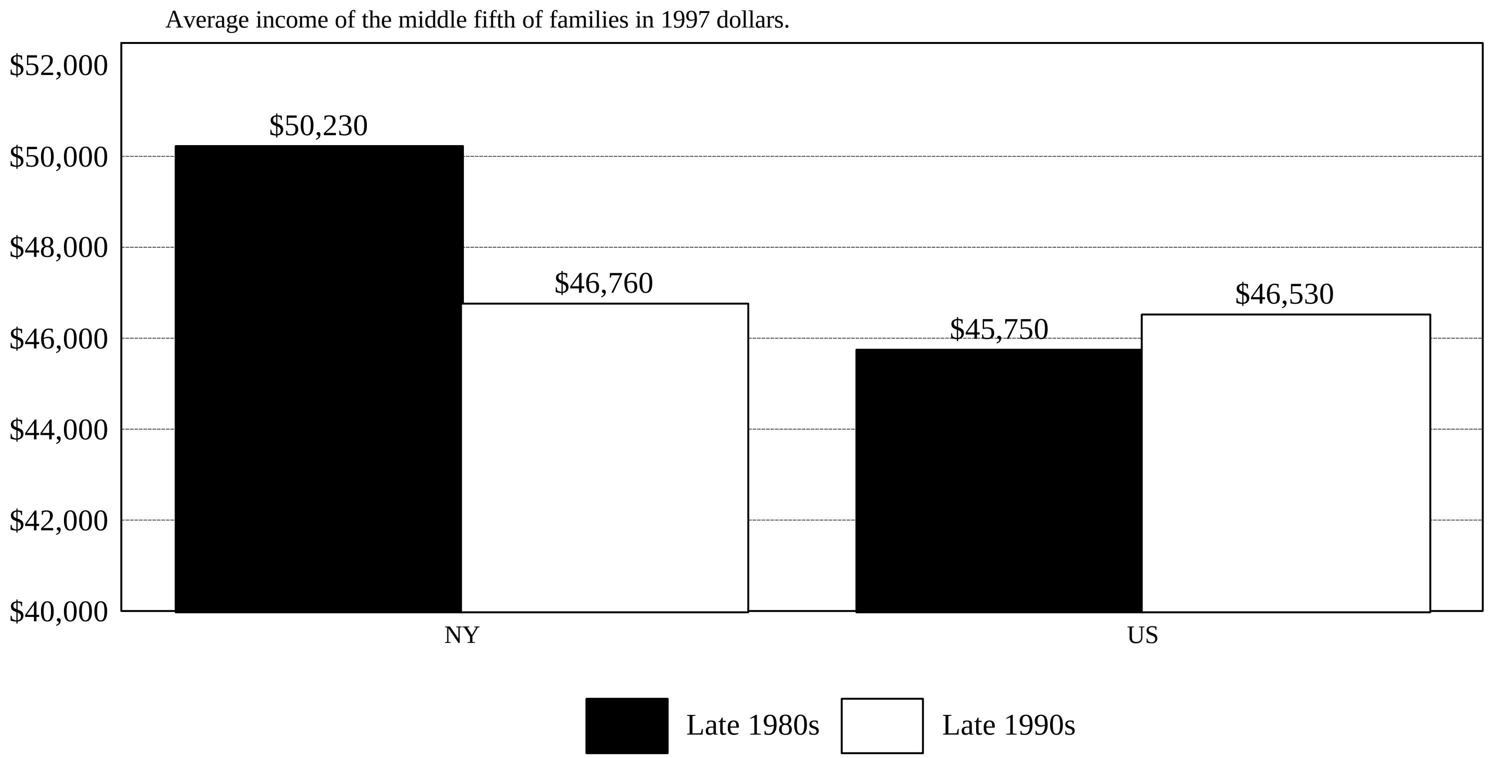
- The richest fifth of New York families saw its average inflation-adjusted family income *increase* $19,680 (or 14.8%) to $152,350 from the late 1980s to the late 1990s. Meanwhile the average income of the poorest fifth of New York families declined by $1,970 (or 15.5%) to $10,770.

- The ratio of the average family income of the richest to the poorest New Yorkers has grown steadily from 7.8 to 1 in the late 1970s to 10.4 to 1 in the late 1980s to 14.1 to 1 in the late 1990s. The absolute change between the late 1970s and the 1990s was greater in New York than in any other state and only Rhode Island experienced a greater percentage increase in this ratio. (Despite this rapid increase, the overall ratio of the average income of Rhode Island=s richest to its poorest families was 11.8 to 1, well below New York=s.)

- While New York has had a relatively unequal income distribution for a long time, its place at the top of the list is of recent vintage. Traditionally, income inequality in the United States was thought of as a Southern phenomenon. In the late 1970s, for example, New York had the greatest income inequality of any northern industrial state, but it ranked Aonly@ 12th among the 50 states. At that time, nine of the 11 states with more unequal income distributions were from the South. Only two of those states (Louisiana and Texas) remain in the top ten today, while others, such as South Carolina which went from 10th to 36th, have greatly improved their relative ranking in terms of top-to-bottom income inequality.

- The growth in the average income of the top five percent of New York=s families relative to the poorest fifth was even more disturbing. While in the 1970s the top five percent enjoyed 11.8 times the income of the poorest fifth, by the late 1990s their average income was 25 times the average income of the poorest families.

New York's middle income families are losing ground.



Not only the poorest New Yorkers have seen their incomes fall. In fact, during the 1990s, only the top fifth of New York families saw an increase in their average incomes after adjusting for inflation. The average real income of this quintile grew by 15% from the late 1980s to the 1996-98 period. Over this same period of time, the other four quintiles all saw their average incomes decline.

- The average income of middle income families grew slightly (3.8%) over the past 18 years but all of this growth took place in the period between the late 1970s and the late 1980s. Since the late 1980s the average income of the middle group actually fell from $50,230 to $46,760, a decline of almost seven percent.

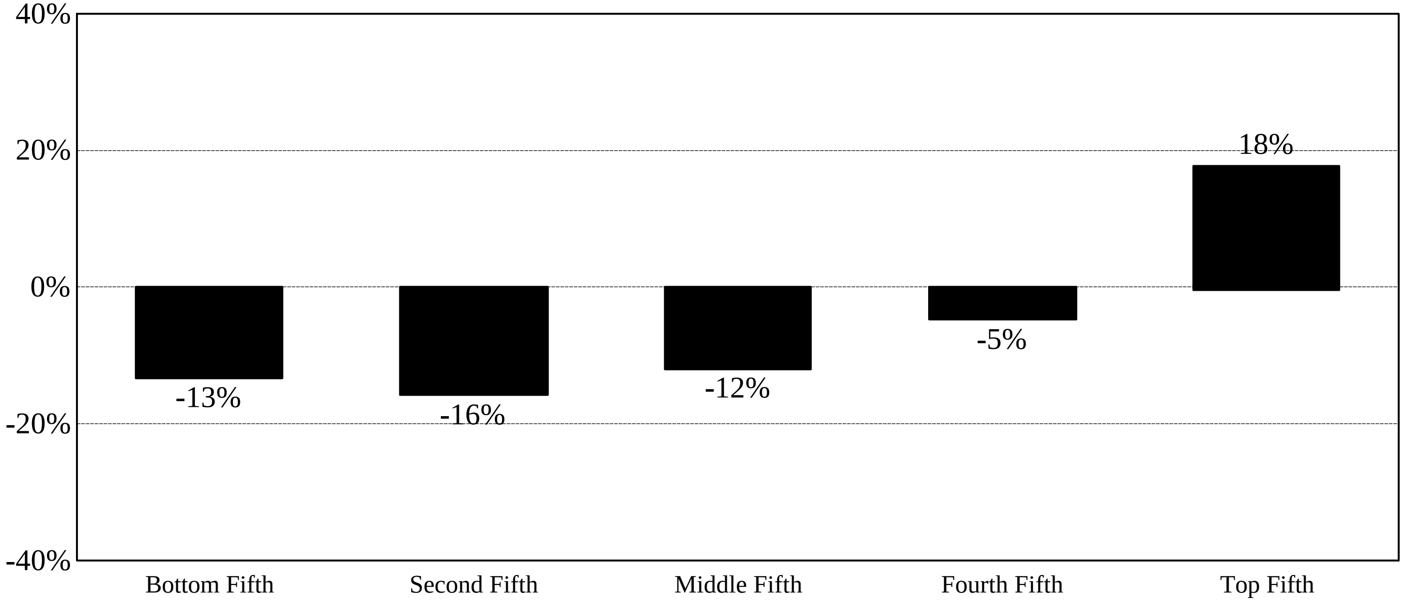
- The ratio of the average income of the richest fifth of New York families to the average income of the middle fifth is also worsening C from 2.4 to 1 in the late 1970s to 3.3 to 1 in the late 1990s. This 37% increase was greater than the increase in all but four states.

- The ratio of the average income of the richest five percent of families to the average income of the middle 20% of families has also grown steadily from 3.6 to 1 in the late 1970s to 5.8 to 1 in the late 1990s . New York experienced a bigger increase in this ratio over the period than any of the other ten large states with samples large enough to calculate this ratio.

	Average New York State Family Incomes, by Quintile in 1997 Dollars					**Breakdown of Top Quintile**	
	Bottom Fifth	**Next-to-bottom Fifth**	**Middle Fifth**	**Next-to-top Fifth**	**Top Fifth**	**80th to 95th Percentile**	**Top 5 Percent**
Late 1970s	$13,666	$29,493	$45,028	$61,586	$106,869	$89,394	$161,175
Late 1980s	$12,738	$31,856	$50,228	$71,802	$132,674	$107,790	$205,467
Late 1990s	$10,769	$28,180	$46,756	$69,989	$152,349	$111,878	$269,051

Since the late 1980's the average family incomes of all but the top fifth of families in the New York City PMSA have declined.

Change in average incomes of New York City families, by fifth of families, from late 1980s to late 1990s.



New York City Metro Area Inequality Growing Even Faster

Income inequality in the New York City Primary Metropolitan Statistical Area (New York City plus Westchester, Rockland and Putnam counties) is growing at an even more disturbing pace.

- The richest fifth of New York City PMSA families saw their average inflation-adjusted family income *increase* by $23,373 (or 17.7%) to $155,485 from the late 1980s to the late 1990s. Meanwhile the poorest fifth of New York City PMSA families saw their inflation adjusted incomes decline by $1,164 (or 13%) to $7,774.

- The ratio of the average family income of the richest quintile in the New York City PMSA to the average family income of the poorest quintile more than doubled from the late 1970s to the late 1990s, growing steadily from 9.5 to 1 in the late 1970s to 14.8 to 1 in the late 1980s to 20.0 to 1 in the late 1990s.

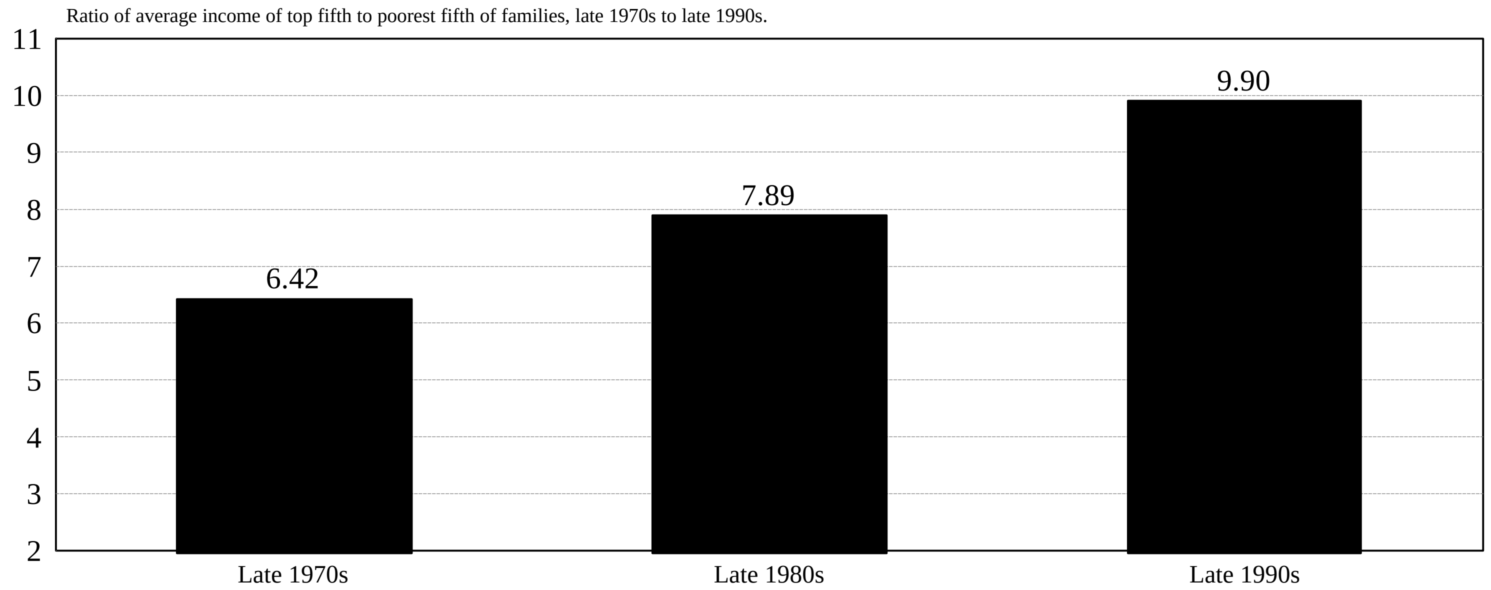
Middle income families in the New York City PMSA have also seen their incomes fall.

- The middle fifth of New York City PMSA families saw their inflation-adjusted family incomes decline by $5,084 (or 11.7%) to $38,416 from the late 1980s to the late 1990s.

- The ratio of the average income of the richest fifth of New York City PMSA families to the middle fifth has worsened C increasing from 2.7 to 1 in the late 1970s to 4.0 to 1 in the late 1990s.

- Since the late 1980s, only the richest fifth of individuals in New York City saw an increase in average family income. The other four quintiles all experienced declines in average family income.

The ratio of the average income of the richest fifth of families to the average income of the poorest fifth has also worsened for families outside the New York City PMSA.



The Rest of New York State has also Experienced Increasing Inequality

The increase in income inequality in New York State goes beyond the New York City PMSA. The rest of the state has also seen a dramatic increase in income inequality.

- For the richest fifth of New York families outside the NYC PMSA, average inflation-adjusted family income *increased* by $16,195 (or 12.2%) to $148,454 from the late 1980s to the late 1990s while the poorest fifth saw its average income decline by $1,774 or 10.6% to $14,883.

- The ratio of the average family income of the richest fifth of families to the poorest fifth of families, outside the New York City PMSA, grew steadily over the last two decades, from 6.4 to 1 in the late 1970s to 7.9 to 1 in the late 1980s to 9.9 to 1 in the late 1990s.

In the rest of New York State all but the richest have seen their family incomes decline since the late 1980s.

- The average income of the middle fifth of families outside the New York City PMSA declined by $2,567 (or 4.9%) to $52,292, from the late 1980s to the late 1990s.

- The ratio of the average income of the richest fifth of these families to the average income of the middle fifth increased from 2.2 to 1 in the late 1970s to 2.4 to 1 in the late 1980s to 2.8 to 1 in the late 1990s.

- For the last eight years, only the richest fifth of families living outside the New York City PMSA experienced any increase in inflation-adjusted family income. On average, the inflation-adjusted family incomes of each of the other four quintiles fell.

Many Factors Affect Inequality

The increase in income inequality is a result of growth in both wage and income inequality.

- $ **Wage Inequality:** The growth in wage inequality is generally attributed to a number of factors including increasing globalization, the decline of manufacturing jobs, the growth in low-wage service jobs, the decline of unionization, and the erosion of the real value of the minimum wage. Many of these trends are attributable to government policies. In some cases, such as trade liberalization, this has involved what government has done. In other cases, such as the erosion of the minimum wage as a floor under the low end of the wage scale, this has been the result of what government has failed to do.

- $ Manufacturers, corporate headquarters, banks, defense contractors, utilities and government reduced employment in New York by nearly 400,000 in the 1990s, resulting in the loss of many middle income jobs. These jobs have been replaced by over 400,000 jobs in the service sector. The industries adding jobs in the 1990s in New York had average wages 39% below the average for the industries losing jobs. For a more complete statistical picture of this and other aspects of New York's economy see the Fiscal Policy Institute's September 1999 report, *The State of Working New York. The Illusion of Prosperity: New York in the New Economy.*

- $ While New York has the second highest degree of unionization in the nation, the percent of the state's workforce that was unionized declined from 28.1% in 1988 to 25.4% in 1998. Over this same period, the number of unionized employees declined faster in New York (down 6.5%) than in the nation as a whole (down 4.6%).

- $ As a result of these sectoral shifts and the decline in unionization, the median hourly wage of New York workers fell 6.3% in the 1990s. During the same period the median hourly wage nationally declined by only 0.6%.

- $ **Investment Income Inequality:** The growth in investment income is overwhelmingly related to the boom on Wall Street, particularly during the last five years. The data presented in this report, however, does not capture all, or probably even most, of the increasing inequality attributable to the distribution of investment income since the Census Bureau's Current Population Survey does not include information on capital gains. Between 1994 and 1999, the portion of the income reported on New York State personal income tax returns that was from capital gains is estimated by the NYS Division of the Budget to have increased from 4% to 11% of total income. In dollar terms, the capital gains income of New Yorkers increased from $12 billion to $49 billion over this five year period. According to IRS data, over 75% of the $32 billion in capital gains income reported by New York resident taxpayers in 1997 was attributable to only 1.7% of these taxpayers, all with incomes over $200,000.

Policies to Reduce Inequality

A significant amount of increasing income inequality results from economic forces that are largely outside the control of state policymakers. However, state government policies can serve to mitigate the effects of increasing inequality and push against rather than worsen the trend towards increasing inequality. By improving the economic well-being of the working poor and assisting in the transition from welfare to work, states can provide economic opportunity for everyone struggling to make ends meet including workers on the lowest rung of the wage-ladder, recently arrived immigrants and workers who face temporary unemployment. In addition, state tax structures can be modified to reduce their tendency to accelerate rather than moderate the growth in the income gap between rich families and poor and middle income families.

The new report by the Center on Budget and Policy Priorities and the Economic Policy Institute presents a number of policy options including the enactment of higher federal and state minimum wages, strengthening the unemployment insurance system, increasing cash assistance benefits, providing enhanced work supports and reforming state tax systems. Some of those recommendations, such as those relating to the adoption of a State Earned Income Tax Credit and certain important unemployment insurance reforms, have already been adopted by New York State, but others have not and should be seriously considered by New York policymakers. For a thorough analysis of policy options for mitigating income disparities in New York, see the Fiscal Policy Institute's March 1999 report, *Working but Poor in New York: Improving the Economic Situation of a Hard-Working but Ignored Population.* Among the most relevant and timely of the specific ideas presented in one or both of those reports are:

- Increasing and indexing of the minimum wage at both the federal and state levels.
- Making welfare reform work by liberalizing the earned income disregard, making affordable transportation alternatives available, establishing transitional employment programs and increasing welfare grant levels.
- Improving the unemployment insurance system as it relates to low-wage and contingent workers, particularly those with families, in terms of both qualification requirements and benefit levels.

In addition to considering such specific options, New York leaders should also consider whether the choices that they make in other policy areas, from transportation to higher education, are making it easier rather than harder for people to move up the socioeconomic ladder.

Conclusion: Growing Together Rather than Pulling Apart

By their use of the Apulling apart@ metaphor in the title of their new study of income trends in the 50 states, the Center on Budget and Policy Priorities (CBPP) and the Economic Policy Institute (EPI), are being both accurately descriptive and appropriately judgmental.

Arithmetically the widening income gaps that are being experienced in New York are the result of two divergent trends. The average income of the top quintile of families is pulling in one direction - up, substantially. At the same time, the average incomes of families in the other quintiles are being pulled in the opposite direction, overwhelmingly by forces outside their control. This Apulling apart@ phenomenon has been particularly intense in New York State. In fact, no state in the nation has seen a greater increase in the gap between the incomes of the richest and the poorest families. While the economic growth in New York between the late 1970s and the 1980s was, on average, shared (albeit not equally) by four out of five families in New York, the most recent economic expansion has increased the average income of only the richest fifth of families. The poorest fifth of New Yorkers has seen steady declines in its average income through both periods.

The term Apulling apart@ also connotes that there are dangers inherent in these cold hard facts. The CBPP/EPI report highlights those risks - which range from the broadly philosophical to the mundane and pragmatic. As that report explains, there are important negative implications for the effective functioning of our economic system when everyone who contributes to the growth of the economy does not share in the resulting prosperity. The reality of recent trends, particularly in New York, has been far from that ideal and is captured well by the following statement from the CBPP/EPI report: AIt is not that the poor and middle class are simply getting a smaller share of the growth; it is that virtually all of the growth is going to the top end.@

There are also important negative implications for our political and social systems. The widening gulf between the rich and the middle class, and between the rich and the poor, reduces social cohesion, trust in societal institutions, and participation in the democratic process. And, the latter phenomenon can lead to public policies that exacerbate rather than ameliorate the causes and the consequences of income inequality.

Public and private sector leaders should commit themselves to pursuing policies and making decisions that make it easier rather than harder for New York families to move up the socioeconomic ladder. In this way, New York can begin growing together rather than pulling apart.