Business profits in New York State have grown much faster than wages since 2001; minimum wage hike is a good corrective

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In a new analysis, the Fiscal Policy Institute finds that business profits per worker in New York State increased by 61% from 2001-13, while labor compensation per worker has risen by only 34%[1], and the typical worker received wage increases of 25-29%, much less than inflation.

James Parrott, the Institute's Deputy Director and Chief Economist stated: "These data confirm once again that most workers in New York have not been sharing in the fruits of the state's economic growth over the past decade-and-a-half. An effective antidote to this disturbing disparity would be a sustained increase in the state's minimum wage such as that proposed by Governor Andrew Cuomo."

In part, New York is following the national trend where, in 2013, after-tax corporate profits reached the highest share of Gross Domestic Product (GDP) since 1929, the first year the government began calculating this broad gauge of overall market-oriented economic activity. The labor compensation share of GDP, on the other hand, recorded its lowest level in 2013 since 1948.[2]

Something called "gross operating surplus" is the category in economic bookkeeping that most closely approximates total business profits, both corporate profits and proprietors' income. It includes rent and net interest, depreciation, and is before business income taxes, but after the payment of sales and property taxes. Total gross operating surplus in New York amounted to $547 billion in 2013, with about half of that occurring in the finance, insurance and real estate (FIRE) sector. New York has the nation's largest finance sector and it is well-known for the extraordinarily high profits and compensation of the largest financial firms and funds. Because it is truly an outlier for the purposes of most economic analysis, the relative gross operating surplus and labor compensation trends reported in this data brief exclude the FIRE sector.

On a per worker basis, gross operating surplus per worker was $26,827 in New York in 2013. This was 61% greater than the $16,669 figure twelve years earlier in 2001. The business profits measure grew much faster than labor compensation, which includes wages, salaries, fringe benefits such as health insurance and employee pensions, and employer contributions for

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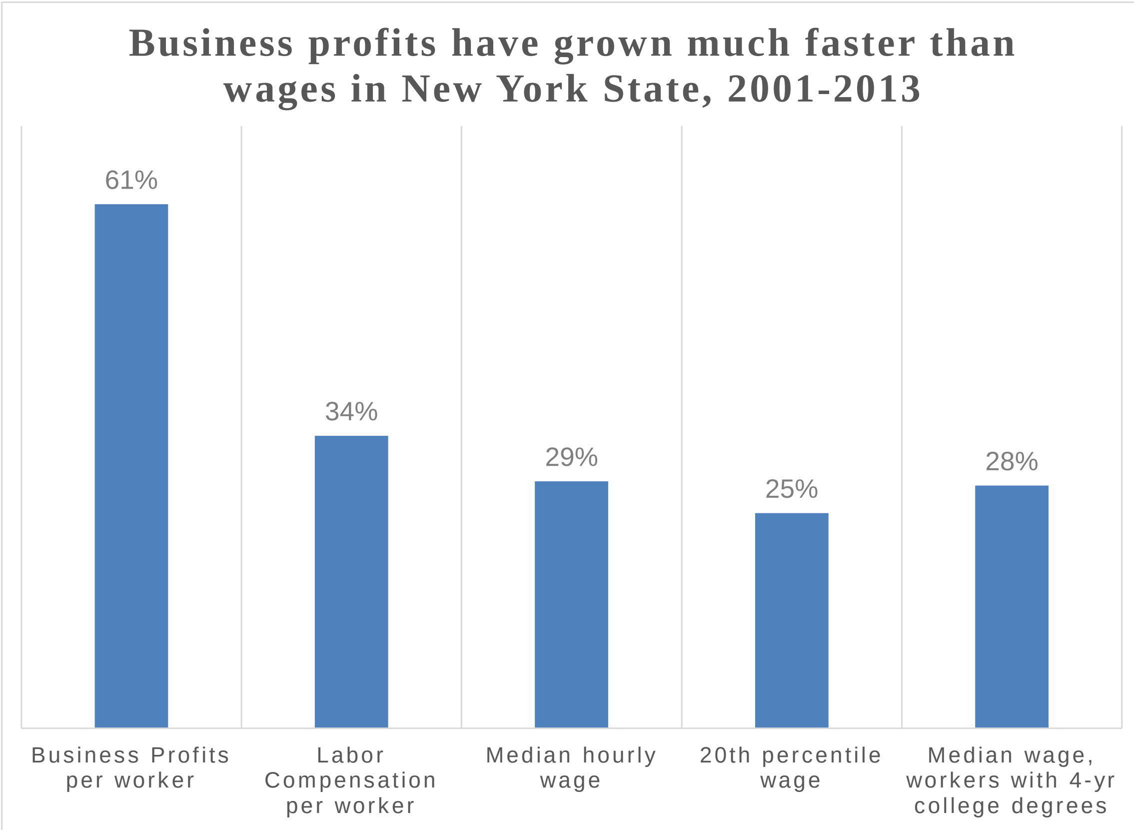
[1] Both figures are in nominal terms, i.e., without adjustment for price changes; 2013 is the latest year these data are available. State Gross Domestic Product data from the Bureau of Economic Analysis, U.S. Commerce Department.

[2] Floyd Norris, "Corporate Profits Grow and Wages Slide," ***The New York Times***, April 4, 2014.

government social insurance (mainly Social Security, Medicare and Unemployment Insurance.) Labor compensation per worker increased by 34%, from $42,622 in 2001 to $57,111 in 2013. (All figures in the above paragraph are for the entire New York State economy except for the FIRE sector.)



This 34% change in labor compensation per worker failed to keep pace with the 35.5% rise in the composite Consumer Price Index for New York State.[3] Not only did labor compensation fail to keep up with the growth in profits, but it declined slightly in inflation-adjusted terms over this period.

Moreover, since the labor compensation measure in the state GDP series encompasses highly compensated executives and professionals as well as lower paid workers, it overstates the pay trends affecting the average worker. Wages are not as highly concentrated as total incomes in New York, but the highest-income households also receive a disproportionate share of wage income. In 2011, the richest 1.5% of New York resident households accounted for over 17% of all wage income, slightly more than the total wages received by all households with incomes less than $50,000, a group that accounts for 51% of all tax-filing households.[4]

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[3] The New York State Division of the Budget compiles a composite CPI for New York State.
[4] New York State Department of Taxation and Finance, ***Analysis of 2011 Personal Income Tax Returns***, May 2015, Table 23.

A better gauge of the wage trends affecting the average worker is hourly wage data from the Census Bureau's monthly Current Population Survey. That data show that the typical New York worker, represented by the median wage level (with half of all workers paid more, and half paid less), saw her or his (nominal) wages increase by 29% between 2001 and 2013, a little less than half of the growth in business profits. The typical low-wage worker at the 20th percentile in the overall wage distribution (20% making less, 80% making more), who had an hourly wage of $10.45, experienced a 25% nominal wage increase from 2001 to 2013.[5] Adjusting for inflation, the typical low-wage worker suffered roughly a 10% drop in real wages during this period.

Even the wages of highly educated New York workers, in general, failed to keep pace with profit growth (or inflation). The median wage of workers with a 4-year college degree or better, experienced a 28% nominal wage increase over the 12 years from 2001 to 2013. Equally remarkable and disturbing is the observation that median pay badly trailed profit growth in New York State since 2001 despite the fact that the share of the age 25+ workforce with at least a 4-year college degree soared over this period from 34% to 44%.[6]

Thus, the education attainment of the average New York worker has impressively improved in this century but a better educated workforce by itself is not sufficient to maintain the labor compensation share of state's GDP.

What would help is a higher wage floor under the New York economy. Governor Cuomo's proposal to raise the state's minimum wage in stages to $15 an hour over the next few years would affect about one-third of all New York workers. There would also be some spillover benefit for workers paid a little above $15 an hour.

Conclusion

A better balance between the growth in labor compensation (and its distribution) and profits as economic growth proceeds would translate into rising living standards for more New York families. This closer alignment between wages and productivity would mean better opportunities for the children of working New Yorkers, a lessening of New York's sky-high child poverty rates in the upstate cities, a more stable and even more productive workforce that better rewards skills and education, and more promising long-term economic growth with strong profits. A significant and long overdue boost in the minimum wage helps set the table for this brighter future for New York.

[5] Fiscal Policy Institute analysis of Current Population Survey microdata from the EPI org file.
[6] Fiscal Policy Institute analysis of Current Population Survey microdata from the EPI org file.