FPI Fiscal Policy Institute

BRIEF LOOK

The Unequal State of New York

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THE GILDED AGE IN THE LATE 19TH CENTURY and the boom times of the Roaring Twenties were two periods in US history that were marked by significant inequality and corruption. Although some people amassed enormous wealth, prosperity was not widely shared. A recent report by the Economic Policy Institute (EPI)[1] draws parallels between the "Gilded Age" and the current economic era. These parallels are especially striking in New York, the nation's most unequal state. About a century ago, already a major and booming financial and industrial center and an engine of growth, New York had noticeable inequities. Throughout the early post-World War II era, New York had a more equitable economic growth. Today, New York is an economic powerhouse, with a state GDP of $1.61 trillion[2], just below that of Canada, but its high inequality index of 0.516 places it between Honduras (0.5153) and Columbia (0.5163), far more unequal than Canada, at 0.340.[3] Much of the inequality in New York State is driven by the New York City metro area, and in particular by Manhattan, which has the 2nd highest income concentration of any county in the country.[4]

Parallel to the rest of the country, New York State's pronounced inequality has radically worsened over the past few decades. The historical development progressed in phases. During the post-World War II years (1945-1973), income growth was broadly shared across the income spectrum with the top one percent capturing 0.5 percent of all income growth (see Figure 1). However, that changed after 1973 when factors like changing technology, globalization, weakened collective bargaining power, shifting political and policy climate, and pro-business macroeconomic policy combined to widen inequality. This broad trend has remained largely unchanged to this day.

Share of Overall Income Growth Captured by Top 1% and Bottom 99%. New York State

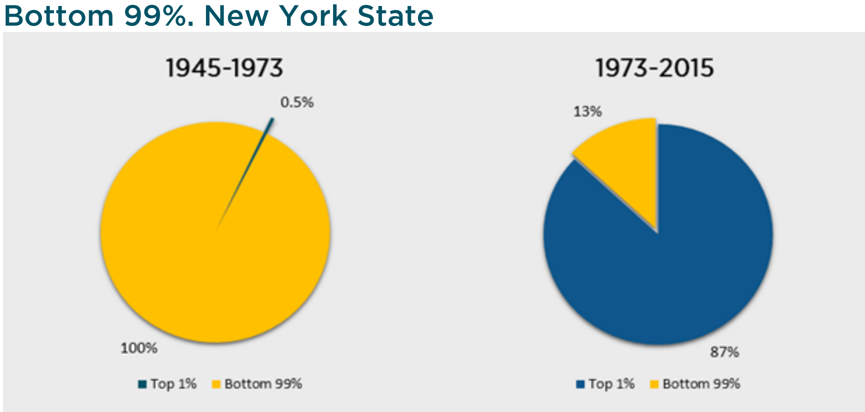

FIG. 1 Source: Sommeiller, Estelle, and Mark Price. 2018. The New Gilded Age: Income Inequality in the US by State, Metropolitan Area, and County. Economic Policy Institute, July 2018

One must look to earlier times, beyond recent history, to find a period with comparable levels of economic and income inequity: The Roaring Twenties. In the United States, that was a decade of great economic growth as Americans embraced new technology and consumerism that lead to social change and contrast similar to that of today. At the highpoint, in 1928, the top one percent of all New Yorkers earned an average of 56 times more income than the bottom 99 percent. In 2015, those in the top one percent make on average about 44 times more than the rest.[5] Figure 2 shows that the ratio of the average income in the top one percent of income earners to the average income of the bottom 99 percent of income earners decreased from its pre-Great Depression peak of 56 to a lower value of 12 by 1973. This points to a more equitable income distribution in the 1970s than in the 1920s. However, since the 1970s, the income ratio has increased substantially and is likely to continue increasing in the absence of corrective economic policy. In 2015, the top one percent of New Yorkers captured nearly one-third of all income, almost 10 percentage points more than the national average. Figure 3 shows that income gains for the top one percent have rapidly increased since the 1970s.

Ratio of Income between Top 1% and Bottom 99%, New York (Statewide)

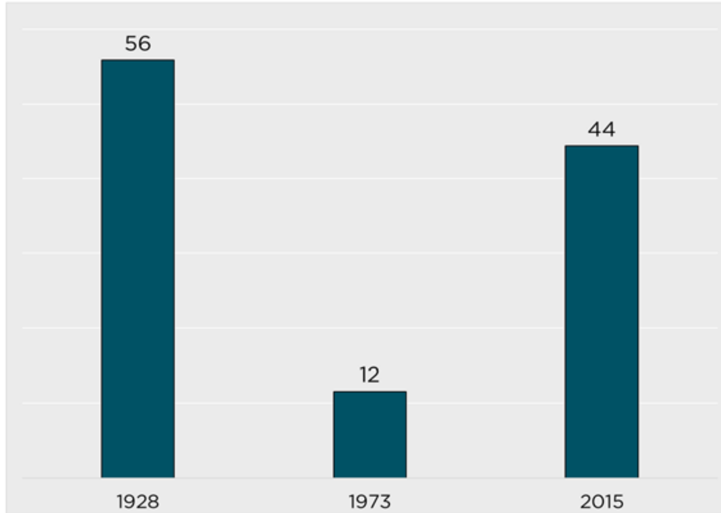

FIG. 2 Source: Sommeiller, Estelle, and Mark Price. 2018. The New Gilded Age: Income Inequality in the US by State, Metropolitan Area, and County. Economic Policy Institute, July 2018.

The early post-war period was a distinct economic period. After the post-WWII demobilization, the economy experienced a recession followed by an era of stability and growth until 1953. The vast racial inequities and the discriminatory character of some economic policies of the times notwithstanding, they were, on

Percentage Share of All Income Held by Top 1% Is Rising

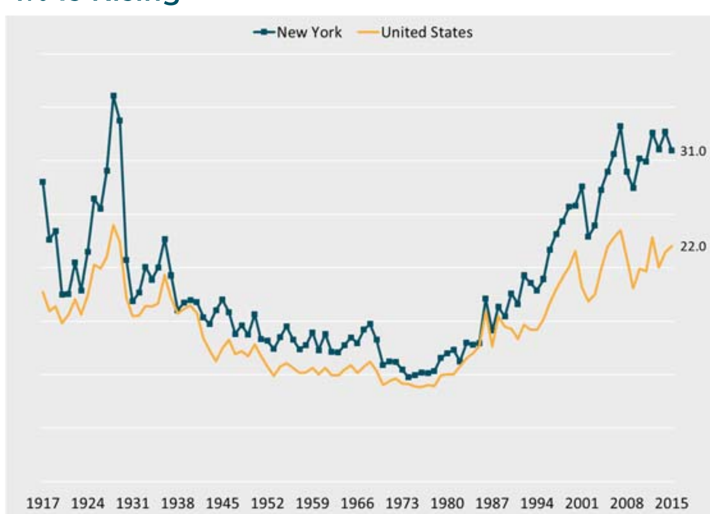

FIG. 3 Source: Sommeiller, Estelle, and Mark Price. 2018. The New Gilded Age: Income Inequality in the US by State, Metropolitan Area, and County. Economic Policy Institute, July 2018

Distribution of Average Income Growth over Periods of Economic Expansion since End of World War II, New York (Statewide)

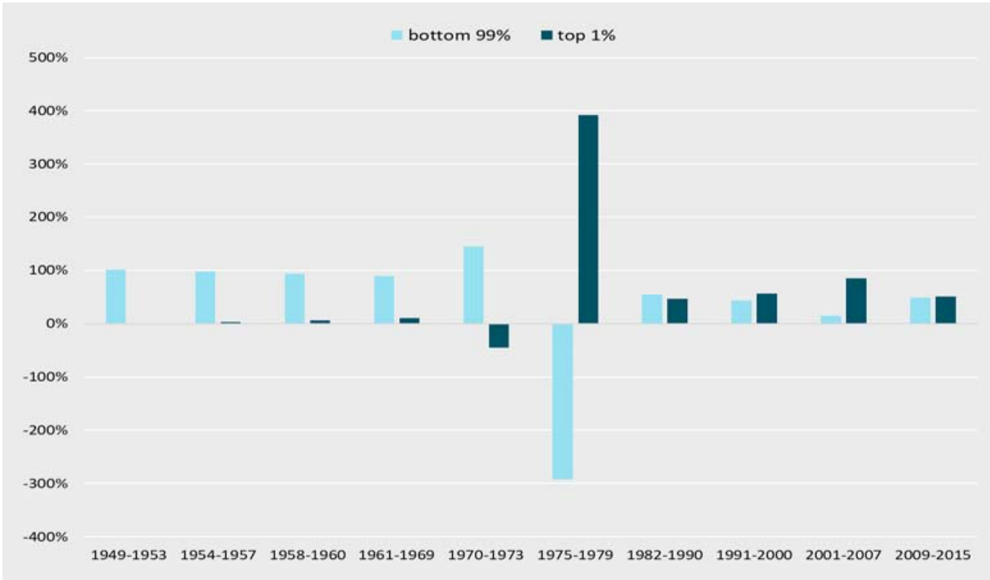

FIG. 4 Source: Sommelier, Estelle, and Mark Price. 2018. The New Gilded Age: Income Inequality in the US by State, Metropolitan Area, and County. Economic Policy Institute, July 2018.

the whole, unquestionably the best examples of deliberate efforts to cultivate and strengthen the American middle class. Most of the income gains went to the bottom 99 percent of the country's income earners. In all subsequent economic expansions, the bottom 99 percent stood to gain collectively a larger share of income growth. That, however, changed in the 1970s. Since 1973, despite the multiple periods of economic instability, the top one percent of income earners had a greater increase in income in most of the country's economic expansions (see Figure 4). Figure 5 shows that the bottom 90 percent of households in New York have lost income since 1973, while the top 10 percent have more than doubled theirs.

Income Growth Overall for Top 10% and Bottom 90%, New York (Statewide), 1943-1973 and 1973-2015

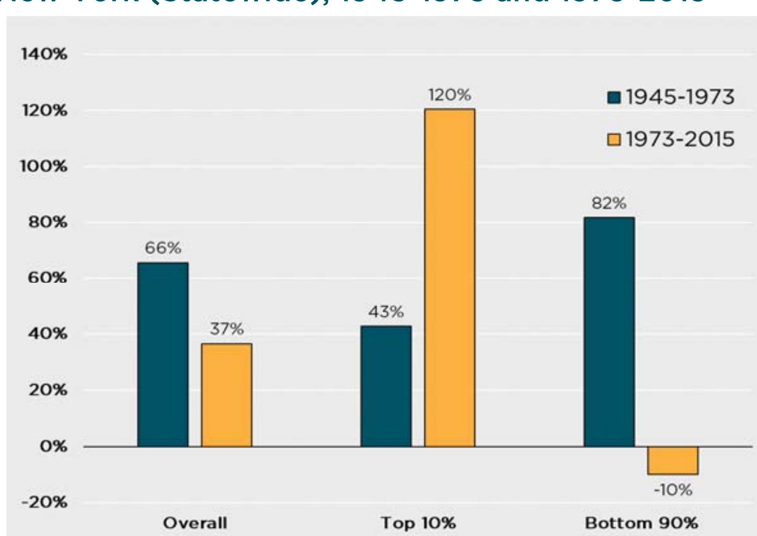

FIG. 5 Source: Sommeiller, Estelle, and Mark Price. 2018. The New Gilded Age: Income Inequality in the US by State, Metropolitan Area, and County. Economic Policy Institute, July 2018.

Combatting New York's Rising Inequality

Highly unequal societies with small in number, but exorbitantly rich and powerful elites are often inherently systemically and institutionally corrupt. Rising inequality is a deeply troubling problem across all areas of the country, and New York is a particularly extreme example. There is an impression that America is moving towards another "Gilded Age" as the country's wealth and resources grows ever more concentrated. However, as deliberate policy positions at the state and federal level can be identified as central causes of the growing structural inequity, there is a way to reverse the trend by adopting better policies. The 99 percent of this state (and of this country) needs good jobs that provide income stability and encourage economic advancement. This requires a comprehensive set of measures designed to help address inequality, decrease poverty, and ensure that all New Yorkers have genuine economic opportunity.

Policy Recommendations

- Enact progressive tax policies to moderate inequality (*e.g.* raise the top marginal tax rate; expand the Earned Income Tax Credit for childless workers, seniors, and noncustodial parents; expand access to quality affordable childcare and early education, *etc.*).
- Invest in infrastructure, renewable energy, and affordable housing to create "good" jobs.
- Strengthen collective bargaining to improve workers' job standards, earnings, and

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[1] Sommeiller, Estelle, and Mark Price. 2018. The New Gilded Age: Income Inequality in the U.S. by State, Metropolitan Area, and County. Economic Policy Institute, July 2018

[2] US Bureau of Economic Analysis (2017, in current dollars).

[3] GDPs and Gini indices for other countries from the World Bank, at https://data.worldbank.org/indicator/ny.gdp.mktp.cd?view=map and https://data.worldbank.org/indicator/si.pov.gini?view=map

[4] In Manhattan 53 percent of income goes to the top one percent. The only county with a higher concentration of income is the small county of Teton, Wyoming, population of 23,000, where the top one percent take home 59 percent of income. See Sommeiller and Price, 2018. Teton population from the 2018 Census population estimate.

[5] In 2015, to enter the top one percent in New York, the income must be at least $550 thousand, but the average income in this income group is $2.2 million. The bottom 99 percent's mean income is only $49 thousand.

[6] Thanks to Melissa Krug for her research assistance.