

DEEPENING DISPARITY: INCOME INEQUALITY IN NEW YORK CITY

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Summary

The nation's historic economic expansion has reduced unemployment to the lowest levels in 30 years and pushed labor force participation to the highest levels ever recorded. As a result, the poverty rate has dropped to its lowest level since 1979.¹ However, the good national economic news has done little to raise the incomes of New York City's low-income families, pushing income inequality to unparalleled heights. Analysis of the Current Population Survey data for New York City reveals that:

- Between 1992 and 1999, income inequality grew rapidly: by the end of the decade, inequality in New York was far higher than the nation as a whole and in any other single state. Income inequality in New York City is also higher than other major cities we analyzed.

- Rising income inequality has been spurred by rapid income gains among the top fifth of New Yorkers and stagnant incomes among the poorest fifth. Most income growth went to the 5 percent of families at the very top of the earnings scale.
- Low earnings are directly related to low skills. Nearly 30 percent of all New York City families are headed by people with less than an 11th-grade education, including nearly half of families in the bottom quintile.

This analysis demonstrates that New York will not be able to depend on the economy alone to meet the income needs of its citizens. More aggressive action is needed to counteract growing inequality by increasing the rewards of work and improving the quality of the labor force, such as:

- **An increase in the minimum wage.** The minimum wage has fallen in real terms (inflation adjusted) from \$7.49 in 1968 to \$5.15 today.² Instead of waiting for action at the federal level, several states, including Connecticut (\$6.40), Massachusetts (\$6.75) and Vermont (\$5.75), have increased the minimum wage above the federal level. New York should follow suit.
- **Development of a local Earned Income Tax Credit.** As one of the few localities with an income tax, New York City should join the 14 other states and two localities³ that have instituted EITCs that supplement the federal and/or state credits.
- **Launch an ambitious program to upgrade the education and skills of city residents.** Otherwise, New York's ability to compete economically will be severely hampered by its disproportionately large unskilled workforce.

Income Inequality Increased During the Economic Expansion of the 1990s

The prosperity of the past decade led to a net increase of more than 20 million jobs nationwide.⁴ This remarkably long period of sustained expansion reduced unemployment to a low of 3.9 percent in late 1999 and increased labor force participation to an all time high. Although New York City lagged behind the rest of the nation during the start of this expansion, unemployment dropped to 5.2 percent⁵ and more than 300,000 jobs were added to the local economy,⁶ more than recovering jobs lost during the last recession.

Analysis of the Current Population Survey (CPS), a monthly household survey conducted by the U.S. Census Bureau for the Bureau of Labor Statistics, reveals that the economic growth of the 1990s increased the incomes of families across the earnings spectrum nationally. However, earnings among families in the top quintile have outpaced other quintiles, leading to an increase in income inequality. Families in

the top quintile earned, on average, 14.2 times more than did families in the bottom quintile in 1999, up from a ratio of 11.7 in 1992 (see Table 1).

Inequality was substantially greater in New York State, which, according to a recent report published by the Center on Budget and Policy Priorities and the Economic Policy Institute, had more extreme inequality than any state in the nation.⁷ In New York, high-income families earned 19.2 times their low-income counterparts by 1999, compared with 14.2 times in 1992.

Analysis of the CPS data demonstrates that income inequality is greater in New York City than in either the state or the nation. High-income families earned on average 22.9 times what low-income families earned in 1999, up from a top-to-bottom ratio of 17.7 in 1992. In other words, the average high-income family could expect to earn in two years what a low-income family would earn in more than 45 years.

Moreover, the earnings of low-income families barely budged, increasing in real terms from \$5,255 in 1992 to \$5,387 by 1999. This modest 2.5 percent increase is far lower than experienced by families in the bottom quintile nationwide: their income grew by 23.5 percent, while New York State's bottom quintile's income grew by 9.2 percent.

Incomes of New York City's middle-income families, that is, the 60 percent in the three middle quintiles, have grown slowly since 1992 (see Appendix). Rapid income gains among the wealthy have been so substantial, that middle-income families' share of total income has dropped by almost one-tenth (from 48.2% to 43.9%).

Income Inequality is Considerably More Extreme in New York City than in the Rest of the Nation

Year	United States Average Incomes			New York State Average Incomes			New York City Average Incomes		
	Bottom quintile of families	Top quintile of families	Top-to-bottom ratio	Bottom quintile of families	Top quintile of families	Top-to-bottom ratio	Bottom quintile of families	Top quintile of families	Top-to-bottom ratio
1992	\$7,563	\$88,432	11.7	\$6,847	\$97,367	14.2	\$5,255	\$92,951	17.7
1993	\$7,623	\$91,217	12.0	\$7,155	\$100,165	14.0	\$5,428	\$92,763	17.1
1994	\$7,733	\$96,208	12.4	\$7,057	\$100,894	14.3	\$5,512	\$93,924	17.0
1995	\$8,015	\$99,060	12.4	\$6,738	\$107,566	16.0	\$5,503	\$102,533	18.6
1996	\$8,584	\$112,987	13.2	\$7,017	\$121,722	17.3	\$4,953	\$104,944	21.2
1997	\$8,868	\$119,092	13.4	\$7,249	\$138,199	19.0	\$5,202	\$113,809	21.9
1998	\$9,138	\$127,760	14.0	\$7,678	\$142,039	18.5	\$5,549	\$120,071	21.6
1999	\$9,340	\$132,752	14.2	\$7,479	\$143,387	19.2	\$5,387	\$123,452	22.9
Increase 1992-1999	23.5%	50.1%		9.2%	47.3%		2.5%	32.8%	

Source: P/PV analysis based on annual data from the March Supplement of the U.S. Census Bureau and the Bureau of Labor Statistics' Current Population Survey.

Inequality is Greater in New York than in Other Major Cities

Income inequality in New York City exceeds that of the other cities we examined: San Francisco, Philadelphia, Denver and Baltimore. Although these cities have varied economies and local resident populations, each has lower income inequality than New York's top-to-bottom ratio. The top-to-bottom ratio in Philadelphia and Denver comes close to that of New York, caused largely by a decline in average income among families in the bottom quintile. In San Francisco and Baltimore, the average income of low-income families was substantially higher and had grown faster than their counterparts in New York City. In Baltimore and San Francisco, earnings gains among low-income families grew sufficiently to reduce inequality.

TABLE 2:

Compared with Other Major Cities, New York's Inequality is Considerably More Extreme

City	1992-1994 (pooled)			1997-1999 (pooled)		
	Average income for bottom quintile of families	Average income for top quintile of families	Top-to-bottom ratio	Average income for bottom quintile of families	Average income for top quintile of families	Top-to-bottom ratio
Baltimore	\$9,997	\$96,601	9.6	\$11,011	\$91,021	8.3
Denver	\$10,225	\$99,944	9.7	\$7,370	\$143,031	19.4
Philadelphia	\$7,467	\$99,994	13.4	\$5,471	\$105,853	19.3
San Francisco	\$8,928	\$118,467	13.3	\$10,618	\$137,977	13.0
New York	\$5,395	\$93,175	17.3	\$5,371	\$119,349	22.2

Source: P/PV analysis based on annual data from the March Supplement of the U.S. Census Bureau and the Bureau of Labor Statistics' Current Population Survey.

Income Gains Have Principally Been Among High-Income Families

During the economic expansion of the 1990s, only the top fifth of New York City families enjoyed significant income growth. From 1992 to 1999, the average income of families in the top quintile grew by almost 33 percent, rising from \$92,951 to \$123,452. In fact, most of these gains benefitted the 5 percent of families that constitute New York's richest, whose average incomes soared by 66.3 percent during this period (see Chart 1).

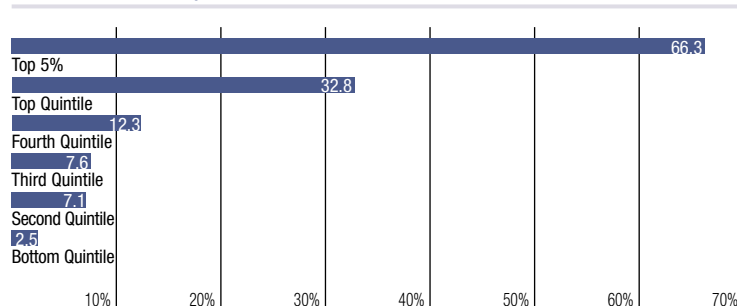
Due to data limitations of the Current Population Survey, it is likely that wealthy families actually earned considerably more. Because of the method the CPS uses to calculate income, the earnings of very high-income families tends to be underestimated. To illustrate in more concrete terms, P/PV's analysis of CPS data found no families with incomes above \$500,000 per year.

Moreover, the CPS does not capture income derived from capital gains, so figures for the top quintile are likely to be even higher.⁸ Thus, the CPS data understates the income earned by the highest earning families which in turn reduces the disparity in income distribution.

CHART 1:

New York City's Upper-Income Families Have Enjoyed Substantial Income Gains

Income Growth by Quintile, 1992-99



Source: P/PV analysis based on annual data from the March Supplement of the U.S. Census Bureau and the Bureau of Labor Statistics' Current Population Survey.

(By focusing on the economic expansion of the 1990s, P/PV's analysis may actually be overly positive. For example, analysis of data from 1989 to 1999, which represent similar points in the economic cycle, indicates that incomes for all groups declined, except for the top quintile.)⁹

Wealthy Families Now Receive Over Half of Total Family Income in New York City

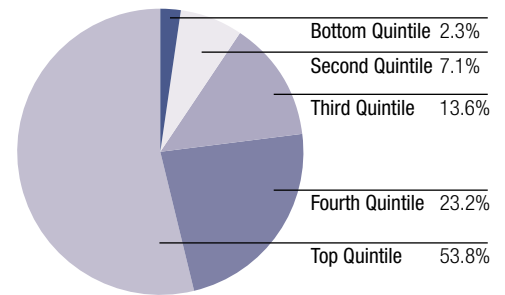
As a result of the disproportionate income gains of the current economic expansion, New York City families in the top quintile now receive nearly 54 percent of total family income, up from 49 percent in 1992 (see Chart 2). Their share of family income is far higher than their counterparts across the country who receive on average, more than 47 percent.

In fact, gains have been so concentrated at the top of the income scale that the top 5 percent of families received nearly 25 percent of total family income in New York City, *more than the bottom 60 percent of families combined.*

Moreover, the significant gains made by the top quintile have meant that the share of income received by all other quintiles has decreased. Middle-income families in New York City (represented by the second, third and fourth quintiles) received 48.2 percent of total family income in 1992. By 1999, their share had dropped to 43.9 percent. Thus, while the top quintile's share of family income grew by 4.9 percent in the 1990s, the middle classes' share decreased by almost the same amount (4.3%).

CHART 2:
Wealthy New York City Residents Receive Over Half of Total Family Income

Share of Family Income by Quintile, 1999



Source: P/IPV analysis based on annual data from the March Supplement of the U.S. Census Bureau and the Bureau of Labor Statistics' Current Population Survey.

Characteristics of New York City's Labor Market

In the past decade, New York City families were less likely to be in the labor force or to have completed the 11th grade than families in the rest of the state or nation. Low-income households within the city generally have low labor force participation rates and educational levels, and are typically headed by women.

Labor force participation is low in New York City.

In 1999, the national labor force participation rate reached 65.7 percent (the rate reflects those who are employed or recently unemployed). Although labor force participation increased in New York City during the 1990s, reaching 53.9 percent, it remained well below the national average.

Table 3 summarizes New York City's labor force participation by income quintile for the period 1992 to 1999. Labor force participation varied substantially by income quintile, ranging from a low of 22.1 percent in the bottom quintile to a high of 78.6 percent among the top quintile in 1999.

TABLE 3:
New York City's Labor Force Participation Varies Significantly by Quintile

Income Quintile	Percent of Families in the Labor Force 1992	Percent of Families in the Labor Force 1999
Bottom	20.9%	22.1%
Second	46.2%	44.7%
Third	61.2%	61.7%
Fourth	71.0%	70.2%
Top	75.7%	78.6%

Source: P/IPV analysis based on annual data from the March Supplement of the U.S. Census Bureau and the Bureau of Labor Statistics' Current Population Survey.

Labor force participation rates are particularly low for New York City's youth, who are half as likely to be in the labor force as their counterparts nationally. In New York City,

only 27.2 percent of young people participated in the labor force, compared with 52.8 percent nation-wide, according to a recent report based on Bureau of Labor Statistics data.¹⁰

New York City residents have low education levels.

A second critical factor underlying the income trends in New York is the fact that many local residents are poorly educated. In 1999, 29.3 percent of New York City adults had less than an 11th-grade education, compared with 23.4 percent in New York State and 21.4 percent nationally (see Chart 3). Low education levels not only play a significant role in inequality, but they also act as a strong brake on the velocity of the local economy.

Not surprisingly, people with low education levels crowd the lower income groups. Nearly half (47.7%) of people in the bottom quintile and more than 40 percent in the second quintile had less than a 11th-grade education in 1999 (see Chart 4). The earnings potential of people with poor education is not promising: the real hourly wages of high school dropouts have been falling for nearly three decades, declining by nearly 25 percent since 1973.¹¹

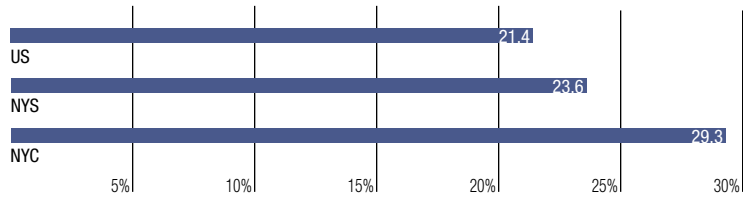
Low-income households are disproportionately headed by New York City's women.

A third important characteristic of low-income households is that they tend to be headed by women. Nearly two-thirds of the households in the bottom quintile are headed by women, as are almost 40 percent of those in the second quintile (see Chart 5). Though not surprising, since the feminization of poverty has been well-documented, this does pose important policy considerations.

Not only are large portions of families in the lowest-income quintile headed by women, they are also substantially less likely to be in the labor force than male heads of households in the same quintile. Thus, as the number of people on public assistance declines, one would expect labor force participation (which includes both people who are working and those recently looking for work) to increase.

**CHART 3:
A Disproportionate Number of New York City Residents are Poorly Educated**

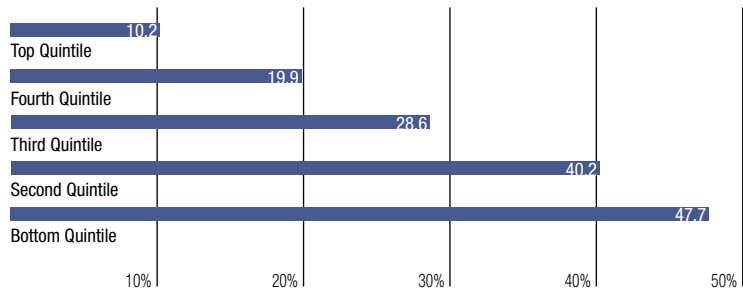
Percent of Individuals with Less Than an 11th-Grade Education



Source: P/PV analysis based on annual data from the March Supplement of the U.S. Census Bureau and the Bureau of Labor Statistics' Current Population Survey.

**CHART 4:
Nearly Half of Poor New Yorkers Have Less Than an 11th-Grade Education**

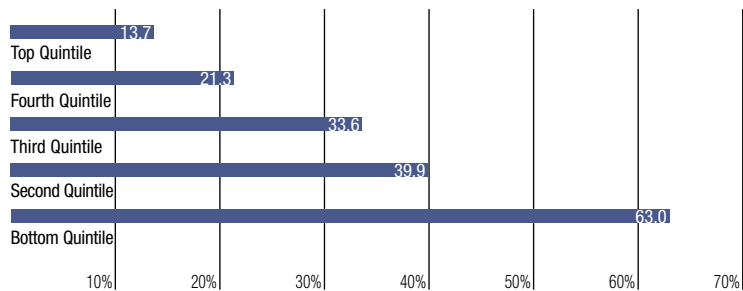
Percent of Individuals With Less Than an 11th-Grade Education



Source: P/PV analysis based on data from the March Supplement of the U.S. Census Bureau and the Bureau of Labor Statistics' Current Population Survey.

**CHART 5:
Female-Headed Households are a Majority of the Poorest New Yorkers**

Percent of Households Headed by a Female, by Quintile



Source: P/PV analysis based on annual data from the March Supplement of the U.S. Census Bureau and the Bureau of Labor Statistics' Current Population Survey.

Policy Recommendations

In many ways, New York City's economic performance during the 1990s has been remarkably good, and nothing should detract from the importance of continued job growth and the advent of new industries. At the same time, it is critical to acknowledge that current economic trends are resulting in stagnant earnings for most New Yorkers and rapid earnings growth only for very high-income families. Income inequality is growing, principally due to expanding wage inequality.¹² Numerous factors are believed to be responsible for this trend, including a shift from manufacturing to service sector jobs, the globalization of the economy, immigration and the decline in union representation.

Although wages are becoming less equal, most Americans still believe strongly in the importance of work. Work is not only a means to an end: it teaches discipline, rewards determination, provides structure to our lives and creates a sense of self-worth. International studies consistently find that Americans work more hours than do their counterparts in other developed countries. These beliefs underscore the strong emphasis on work in recent social policy developments. The creation and substantial expansion of the Earned Income Tax Credit, the succeeding versions of welfare reform and employment training, as well as recent changes in housing policy, have demonstrated a political consensus that social benefits should be tightly tied to work.

Many of the policy levers, such as trade policy and immigration, which might affect the trajectory of the local economy and distribution of earnings, are outside state and local control. However, there are actions that policymakers can take to address the dramatically unequal outcomes facing local residents. While there are many possible approaches to this issue, we recommend starting with three key steps. We select these not because they are new—indeed they will be familiar to most readers. We choose them because we believe they should lay the foundation for *any* serious long-term effort.

Raise the minimum wage.

The real value of the minimum wage has fallen from \$7.49 an hour in 1968 to its current level of \$5.15, a drop of almost one-third of its purchasing power.¹³ While an increase in the minimum wage has been under discussion in Washington, D.C., it is not clear when action will occur. Ten states and the District of Columbia have moved to raise the minimum wage higher than the federal level, including New York's neighbors Connecticut, Massachusetts and Vermont, where the current hourly levels are now \$6.40, \$6.75 and \$5.75, respectively. Raising the minimum wage will not only increase the earnings of workers, but will encourage those who are out of the labor force to pursue employment. Concerns that increasing the minimum wage would reduce employment have been allayed by several recent analyses.¹⁴

Establish a New York City Earned Income Tax Credit.

Fourteen states and two local governments have established Earned Income Tax Credits (EITCs) that provide tax reductions and wage supplements to low- and moderate-income families. The federal government established the EITC in 1975 and bipartisan support led to major expansions of the federal credit in 1986, 1990 and 1993. New York State's EITC is one of the most generous in the nation.

A local EITC would increase the incomes of the working poor and could increase the labor force participation rates among families in the lower quintiles. Unfortunately, New York State has not passed enabling legislation required to enact the refundable EITC agreed upon by the Mayor and City Council in 1999.

Moreover, New York City, one of few local governments imposing an income tax, should not tax its poor working residents. Next year, 126,500 New York City residents will owe personal income tax to the city but have no state tax obligation due to their modest earnings.¹⁵ The city should restructure the local income tax to ensure that these low-income families have no local obligation as well.

Invest in the skills of New York City's workforce.

To address income inequality over the long term, investments must be made in improving the education and skill levels of local residents. These investments are critical not just to address inequality. Ultimately, the city's ability to compete with other regions in the United States and abroad will depend on the skills of its workforce. Any skills strategy should:

- **Increase the proportion of New Yorkers with a high school degree or its equivalent and ease access to postsecondary education.** Not only are high school graduates able to find employment more readily than non-graduates, they also command higher wages in the labor market. Moreover, a high school degree unlocks the door to more advanced education.

Postsecondary education should also be made more affordable, thereby easing access. A recent national study gave New York State a D-minus on its Affordability Index, reflecting the high costs of attending both community colleges and public four-year colleges and universities.¹⁶ These high costs put investments in advanced education out of reach for many low-income families, though such investments would generate high returns for them and for the overall economy.

- **Invest in New York City's workforce development system.** In order to ensure that local residents can meet the workplace demands of the new economy, investments should be made in institutions that can prepare low-skilled residents for these opportunities. Workforce development has seldom been a priority for local policymakers—a neglect that in the long run will only weaken the local economy and exacerbate inequality.

- A substantial share of the State's Temporary Assistance for Needy Families funds should be allocated for raising the education and skill levels of lower-income state residents. Several states have found creative

Appendix:

ways to use their TANF surpluses for workforce development. In Florida, for example, employed former welfare recipients can earn up to \$5,000 in Retention Incentive Training Accounts that can be used to fund education and/or training at local community colleges.

These resources should be used to expand eligibility for skills training to include the working poor, as several states have done. Ohio and Indiana, for example, are providing services to families earning up to 185 percent and 200 percent of poverty, respectively.

- New York City should also provide financial support, though direct grants or tax incentives, to employers that partner with workforce development organizations to upgrade the skills of their entry-level workforce. Innovative approaches to supporting such partnerships are being implemented in Philadelphia, Boston and Minnesota.

New York City Families' Average Incomes by Quintile, 1992-1999.

Year	Bottom Quintile	Second Quintile	Third Quintile	Fourth Quintile	Top Quintile
1992	\$5,255	\$15,260	\$28,910	\$47,217	\$92,951
1993	\$5,428	\$15,193	\$28,440	\$46,716	\$92,763
1994	\$5,512	\$14,601	\$27,116	\$46,486	\$93,924
1995	\$5,503	\$15,926	\$29,146	\$48,569	\$102,618
1996	\$4,953	\$14,697	\$26,458	\$44,781	\$104,944
1997	\$5,202	\$15,313	\$28,682	\$48,621	\$114,238
1998	\$5,549	\$15,692	\$29,824	\$51,189	\$120,071
1999	\$5,387	\$16,351	\$31,166	\$53,039	\$123,452

Endnotes

1. U.S. Census Bureau, *Poverty in the United States 1999*, September 2000, p.v.
2. U.S. Department of Labor, *Value of the Federal Minimum Wage, 1938-1997*, <http://www.dol.gov/dol/esa/public/minwage/chart2.htm>. Real dollars are based on data from 1998.
3. Localities with an earned income tax credit are Montgomery County, Maryland and the District of Columbia. States with an earned income tax credit are Colorado, Illinois, Iowa, Kansas, Maryland, Maine, Massachusetts, Minnesota, New Jersey, New York, Oregon, Rhode Island, Vermont and Wisconsin. Center on Budget and Policy Priorities, *A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2000, An Overview*, November 2000, p.3.
4. U.S. Department of Labor, Bureau of Labor Statistics Data, *National Employment, Hours, and Earnings*, (1991-2001), <http://146.142.4.24/cgi-bin/SeriesHist?ees00000001>.
5. U.S. Department of Labor, Bureau of Labor Statistics Data, *Local Area Unemployment Statistics*, (1991-2000), <http://146.142.4.24/cgi-bin/SeriesHist?laups36040004>.
6. U.S. Department of Labor, Bureau of Labor Statistics Data, *Local Area Unemployment Statistics*, (1991-2000), <http://146.142.4.24/cgi-bin/SeriesHist?laups36040005>.
7. Center on Budget and Policy Priorities and Economic Policy Institute, *Pulling Apart: A State-by-State Analysis of Income Trends*. January 2000, p.10.
8. As the Center on Budget and Policy Priorities and Economic Policy Institute point out, in 1997, the top 5 percent of families acquired 75 percent of income derived from capital gains. Center on Budget and Policy Priorities and Economic Policy Institute, *Pulling Apart: A State-by-State Analysis of Income Trends*. January 2000, p.5.
9. Center on Budget and Policy Priorities, "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." Unpublished table.
10. New York City Office of the Comptroller, *City Job Market Tight for Teens*. March 2001, p.1.
11. Garth Mangum, Stephen Mangum, and Andrew Sum, *A Fourth Chance at Second Chance Programs: Lessons from the Old and New*. Baltimore: Sar Levitan Center for Social Policy Studies, 1998.
12. Center on Budget and Policy Priorities and Economic Policy Institute, *Pulling Apart: A State-by-State Analysis of Income Trends*, January 2000, p.34.

13. Garth Mangum, Stephen Mangum, and Andrew Sum, *A Fourth Chance at Second Chance Programs: Lessons from the Old and New*. Baltimore: Sar Levitan Center for Social Policy Studies, 1998.
14. David Card and Alan B. Kruger, *Myth and Measurement: The New Economics of the Minimum Wage*. Princeton: Princeton University Press, 1995; Oren M. Levin-Waldman, "The Minimum Wage Can Be Raised: Lessons from the 1999 Levy Institute Survey of Small Business." *Challenge*, March/April 2000. Armonk, New York: M.E. Sharpe; Oren M. Levin-Waldman, "The Effects of the Minimum Wage: A Business Response." *Journal of Economic Issues*, September 2000. Knoxville, Tennessee: Association of Evolutionary Economics.
- Also, the Center on Budget and Policy Priorities and Economic Policy Institute cites the following research as supportive of its conclusion that state minimum wage increases do not reduce employment in *Pulling Apart: A State-by-State Analysis of Income Trends*, p.40, footnote 31: Jared Bernstein and John Schmitt, *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase*, Economic Policy Institute, 1998; David Card, "Using Regional Variations in Wages to Measure the Effects of the Federal Minimum Wage," *Industrial and Labor Relations Review*, October 1992; Lawrence Katz and Alan Krueger, "The Effect of the Minimum Wage on the Fast Food Industry," *Industrial and Labor Relations Review*, October 1992; David Card, "Do Minimum Wages Reduce Employment? A Case Study in California, 1987-89," *Industrial and Labor Relations Review*, October 1992; and David Card and Alan Krueger, "Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania," *Economic Review*, Vol. 84, No. 4, September 1994.
15. New York City Independent Budget Office estimate based on data from the New York State Department of Taxation and Finance.
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