

Grow Together or  
Pull Further Apart?  
Income Concentration  
Trends in New York



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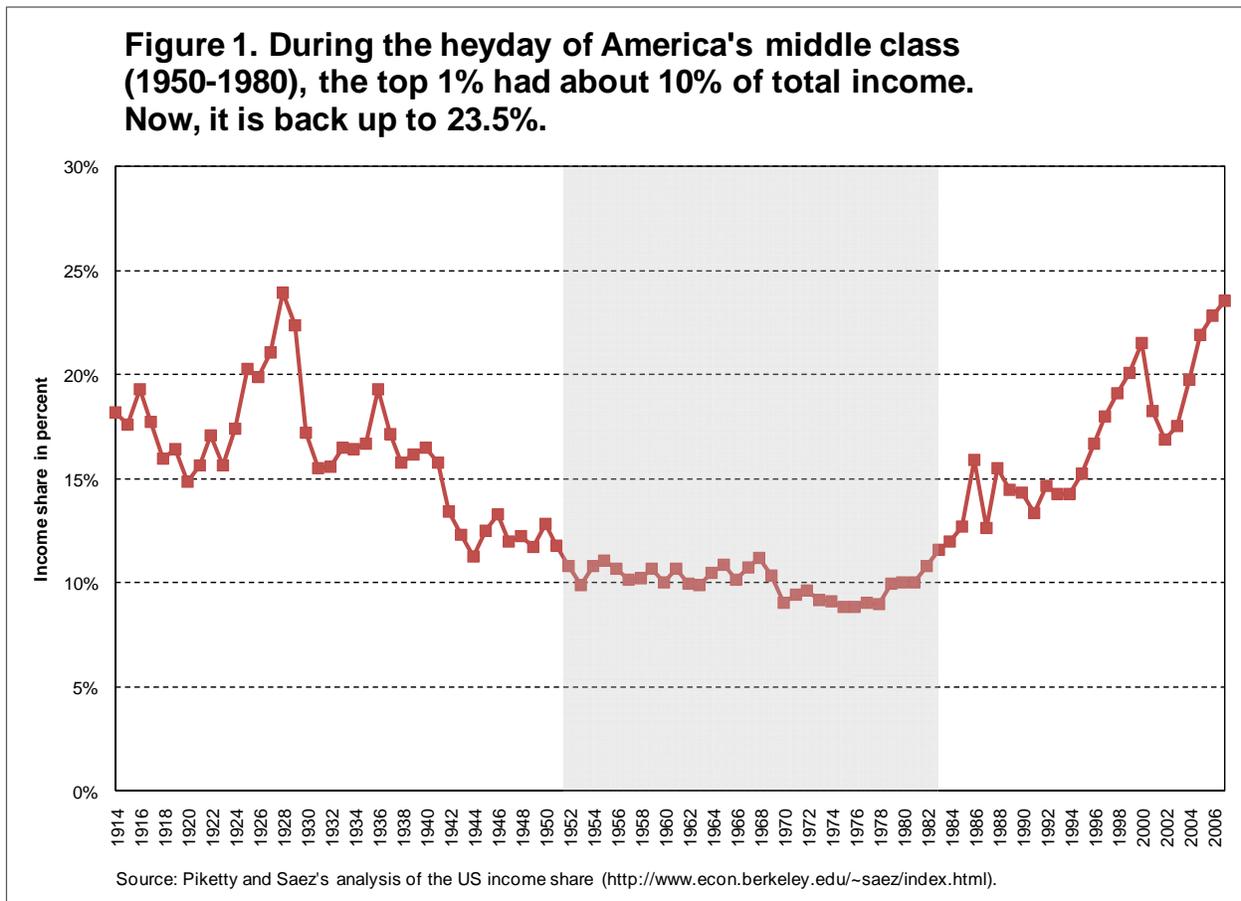
## Introduction

Over the past three decades, the bulk of economic gains in the United States and New York have accrued to those at the very top of the income distribution. The economy has grown significantly over this period, but those at the very top of the economy have taken a vastly disproportionate share of the gains, leaving very little behind for the rest.

Is this the way it's always been, with the rich getting richer and the poor getting poorer?

Not at all.

The chart below, derived from work by economists Piketty and Saez, demonstrates that the first three decades after World War II—from the mid 1940s to the late 1970s—were a time when the share of total income going to the top one percent of tax filers was remarkably steady. In 1947, the share of income that went to the top one percent was 12 percent, while three decades later, in 1978, it was about the same—actually slightly lower—at 9 percent. The top share remained close to 10 percent throughout all three decades.<sup>1</sup>



<sup>1</sup> The Piketty-Saez data are available on Saez's website, <http://www.econ.berkeley.edu/~saez/>.

This post-war era was seen as a golden age of the middle class, with an economy fueled in significant part by middle-class spending. The middle class flourished. Its numbers expanded and its living standards rose steadily, year in and year out. The United States economy was growing at a very strong pace, and that growth was lifting millions of families out of poverty and into the middle class. Parents could expect their children to do even better. The top one percent was gaining as well—executives and bankers were enjoying the success of the American economy as much as anyone. Their incomes grew steadily, but together with the rest of the country in a rising tide that lifted all boats, in New York and in the country as a whole. We grew together.

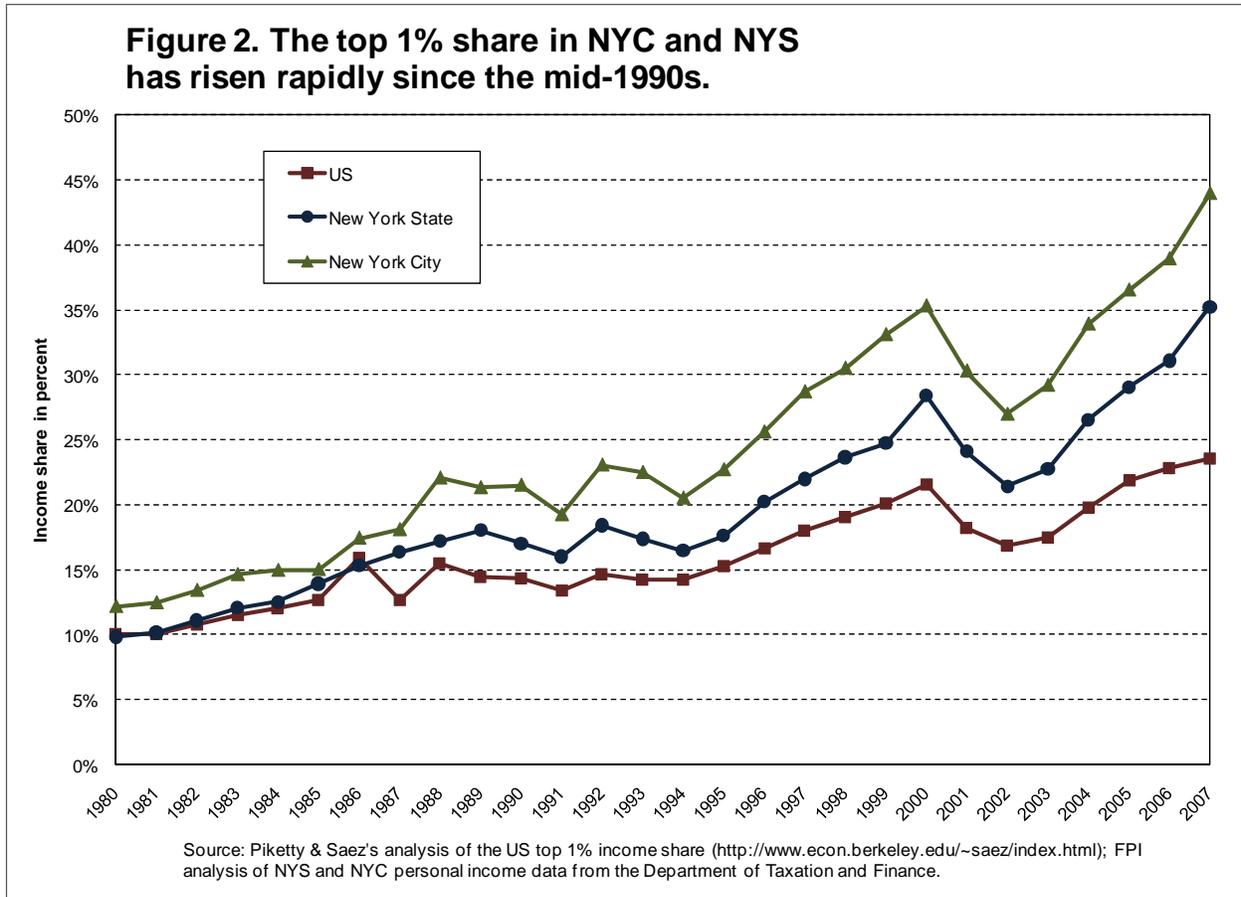
The picture since 1980 is dramatically different. In 1980, the top one percent of households held 10 percent of the total income. By 2007, that share had more than doubled, rising to 23.5 percent—a historic high previously attained only in 1928, the eve of the 1929 stock market crash that ushered in the Great Depression. The economy has grown in the three decades since 1980, albeit not as fast as in the 1950s through the 1970s. But growth after 1980 looked different than in the preceding era. The incomes of the top 1 percent and the top 5 percent grew faster, much faster, than in the post-war period, while the incomes of everyone else, those with low incomes as well as the broad middle class, faltered and stagnated. We grew apart.

Today, the pace of the nascent recovery from the Great Recession of 2008-09 is expected to remain subdued in large part because of high household debt burdens, stagnant or declining wages and a bleak job market outlook. The recession was brought on by more than the bursting of the housing bubble and a speculative, excess-prone financial system. These crises came on top of an economy with an increasingly shaky foundation characterized by weak job growth, continued export of middle-income jobs, and wage growth that failed to keep pace with inflation or with the growth in the productivity of labor. This shaky foundation has a lot to do with the post-1980 hyper-concentration of income. The expansion from 2004 to 2007 was the first in which family incomes and median wages adjusted for inflation did not rise over the cycle to reach the peak of the previous business cycle. The economy grew moderately in the mid-2000s, but most families did not share in the prosperity that was created. In this context, American families turned to debt through credit cards and home equity borrowing to sustain living standards. The crash of the financial and housing bubbles destroyed trillions of dollars in retirement and college savings and home value wealth that had been accumulated by middle- and low-income Americans.

Rebuilding that wealth and economic security and restoring a sense of optimism for the next generation will be doubly difficult given the current polarized system of economic rewards and the bleak outlook for job and economic growth. The broadly shared prosperity that prevailed in the three decades after World War II is a distant memory. Are we destined to grow further apart? With the recent agreement to extend the Bush tax cuts and to reduce the estate tax, it seems that is where we are headed.

## Growing further apart in New York

As the home of the financial markets that have so much to do with the trend toward extreme polarization, New York provides an opportunity to examine a local economy at the forefront of income concentration. New York state is the most polarized among the fifty states, and New York City is more polarized than the state overall and is the most polarized among the twenty-five largest cities in the United States. Now, for the first time, using income tax data similar to that used by Piketty and Saez we are able to trace the extent of income concentration in New York State and New York City.



From a little under 10 percent in 1980, the top one percent in New York State saw its share rise to 17 percent in 1990, and to 28 percent in 2000. Then, after dipping briefly during the early 2000s recession, the top one percent's share shot up again to reach 35 percent in 2007, the latest year for which data are available. Thus, since 1980 the richest one percent of New York's population increased its share of total state income by almost one percentage point each year through 2007.<sup>2</sup> New York's top one percent has an income share that one and a half times as high as the 23.5 percent historically-high national level.

<sup>2</sup> This report primarily relies on state income tax data to analyze income trends. Income shares are determined based on New York adjusted gross income (NYAGI), and include all forms of cash income, including realized capital gains and losses. Total New York State or New York City incomes generally are based on resident tax returns,

Concentration is even more pronounced in New York City. Here, the share of all incomes going to the top one percent was 12 percent in 1980—more or less in line with the rest of the United States. But, by 1990 the share of the top one percent in New York City had risen to almost 20 percent, and after a period of extreme concentration in the late 1990s reached nearly 35 percent in 2000. The 2001-2003 recession pushed the top share down to 27 percent but then it gained at its fastest pace over the past 30 years during the 2002 to 2007 expansion, climbing to 44 percent in 2007. Within New York City, the income share of the richest one percent rose at slightly more than one percentage point a year during the 1980 to 2007 period. The top one percent in New York City has an income share almost twice that of the 23.5 percent historically-high national level.

New York City exerts a huge influence on the state's income trends since the city accounted for 43 percent of the state's population and 46 percent of the state's income in 2007. Slightly over half of the state's millionaires (22,516 out of 44,070) were New York City residents in 2007. Most previous analyses of trends in income distribution in New York relied on data from the Census or the Current Population Survey. These data sets allow for valuable insights, for example that New York State in recent years has had the widest income gap between rich and poor of all 50 states, or that the gaps between high and low income groups have grown dramatically since the early 1980s.<sup>3</sup> But Census and CPS data provide only limited information about the full range of income sources, including realized capital gains and they do not provide sufficient sampling to assess trends in the incomes of the ten, five or one percent of the population with the highest incomes. Data from income tax returns more comprehensively and accurately reflects income than either the Census or government survey data.

## Living standards not rising for most: Income growth concentrated at the top

The concentration of income growth at the top does not necessarily mean that those below the top are not experiencing real income gains and generally rising living standards. Incomes could be rising up and down the income scale even as gains are disproportionately concentrated at the top. However, over the period from 1980 to 2007 in New York, when total inflation-adjusted income in the state grew an average of 2.1 percent a year after adjusting for population increase, incomes for those in the bottom half of the income spectrum generally declined while those in the middle income range rose but at only a fraction of the pace of total income growth.<sup>4</sup>

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including those without an income tax liability. From 1980 to 1991, the state tax data used do not distinguish between full-year and part-year residents; data from 1992 to 2007 are for full-year residents. Returns by tax filers who are claimed as a dependent on another tax return are excluded. The summary tables used in this analysis do not distinguish between filing statuses (i.e., between those filing married joint returns, single or married filing separately returns.) Where income trends discussed in this report are based on government survey data rather than income tax data that will be noted. In 2007, the top one percent of New York State households had incomes of \$580,500 and above, and the top one percent of New York City households had incomes of \$642,700 and above. Figures 3 and 4 note the income cutoffs for the top five percent.

<sup>3</sup> See for example Fiscal Policy Institute, *Pulling Apart in New York: An Analysis of Income Trends in New York State*, April 2008. [http://www.fiscalpolicy.org/FPI\\_PullingApartInNewYork.pdf](http://www.fiscalpolicy.org/FPI_PullingApartInNewYork.pdf). An earlier edition of the Pulling Apart report was issued January 26, 2006, <http://fiscalpolicy.org/PullingApartNY2006.pdf>.

<sup>4</sup> The population below the top five percent is divided into two groups, the bottom half, and the “middle” income range comprised of those between the 51<sup>st</sup> and the 95<sup>th</sup> percentiles, i.e., the first 45 percent in the top half of the distribution. For the state, this broad “middle” income range extends from \$32,600 to \$176,400. The growth rates cited in this paragraph can be found below in Figure 13.

Meanwhile, the real incomes of those in the top one percent grew seven percent annually, over three times as fast as overall income growth. The next four percent within the top five percent saw their incomes rise a little faster than the pace of total income growth.

Income growth started to diverge in the 1980s, but household incomes, according to Census Bureau data, generally rose during that decade. Since 1990, however, the divergence has been more pronounced, and the stagnation in living standards for most New Yorkers has been more evident. A range of commonly-cited indicators show that most New York workers and their families have experienced very little real income or wage growth over the past two decades of modest overall growth in the state economy. During this period income gains have been concentrated at the top. See Figure 3.

- New York’s economy (as indicated by state Gross Domestic Product) grew by nearly half, or an average of 2.4 percent a year from 1990 to 2007.
- Real per capita personal income (an income measure distinct from tax data) grew nearly one percent a year.
- The real median hourly wage barely improved, inching up *by less than one percent over the entire period*.
- Real median family income for New Yorkers increased by 7.4 percent, less than half a percent per year from 1990 to 2007.

**Figure 3. There has been considerable growth in the NYS economy since 1990 (2.4% annually), and higher educational attainment. This growth did not lower poverty, or increase real wages or family income for most New Yorkers. However, the income share of the top 5% and average Wall Street wages increased rapidly.**

	1990	2007	1990-2007
1 Real NYS Gross Domestic Product (billions)	\$687.8	\$1,022.11	48.6%
2 Per Capita Real Personal Income, NYS	\$37,624	\$47,188	25.4%
3 Real Hourly Median Wage, NYS	\$15.86	\$16.00	0.9%
4 Real average annual Wall Street salary (including cash bonus)	\$190,400	\$403,358	111.8%
5 Real Median Family Income, NYS	\$49,722	\$53,400	7.4%
6 Poverty Rate, NYS	14.3%	14.5%	+ 0.2 ppts
7 Percent of age 25-64 workforce with bachelor's degree or higher, NYS	26.2%	34.1%	+ 7.9 ppts
8 Average earnings for full-time, year-round NYS worker with bachelor's degree or higher, age 25-34	\$60,283	\$52,000	-13.7%
<b>Income Shares</b>			
9 Share of Total NYS income received by the top 5 percent (in 2007, incomes above \$176,400)	30.9%	49.4%	+ 18.5 ppts
10 Share of Total NYS income received by the "middle" 45 percent (the 51st to the 95th percentile; in 2007, income range from \$32,600 to \$176,400)	55.2%	41.5%	- 13.7 ppts
11 Share of Total NYS income received by the "bottom" 50 percent (in 2007, incomes below \$32,600)	13.9%	9.1%	- 4.8 ppts

Note: GDP (line 1) is in 2005 dollars. Income, wage and salary figures (lines 2-5) are in 2007 dollars.

Sources: NYC Office of Management and Budget, Bureau of Economic Analysis, Current Population Survey, American Community Survey, Census Bureau, and FPI analysis of NYS tax data.

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- New York's poverty rate stayed basically the same over this nearly two-decade period at 14.5 percent.
- The percent of the state's age 25-64 workforce with a 4-year college degree or higher improved from 26 percent in 1990 to 34 percent in 2007, but the average real earnings of a young (age 25-34) college-educated worker fell by 14 percent from \$60,000 to \$52,000.
- However, pay on Wall Street grew by 112 percent and the top five percent increased their share of total income from 31 to 49 percent.

There is a similar juxtaposition of trends from 1990 to 2007 in economic well-being for New York City. The city's economy grew faster than the state's, but hourly wages fell more, and median family incomes declined instead of modestly improving as they had at the state level. College attainment levels increased more in the city, but the annual earnings of young college educated workers still fell by six percent. The poverty rate in 2007 was 18.5 percent, but that was less than one percent lower than it had been 17 years earlier. Meanwhile, Wall Street pay more than doubled and the wealthiest five percent of the city's population nearly doubled their share of total income, increasing from 30 percent to 58 percent in 2007. See Figure 4.

**Figure 4. There has been considerable growth in the NYC economy since 1990 (2.9% annually), and higher educational attainment. This growth did not lower poverty, or increase real wages or family income for most New York City residents. However, the income share of the top 5% and average Wall Street wages doubled.**

	1990	2007	1990-2007
1 Real NYC Gross Domestic Product (billions)	\$365.3	\$595.0	62.9%
2 Per Capita Real Personal Income, NYC	\$42,332	\$50,725	19.8%
3 Real Hourly Median Wage, NYC	\$17.00	\$15.53	-8.6%
4 Real average annual Wall Street salary (including cash bonus)	\$190,400	\$403,358	111.8%
5 Real Median Family Income, NYC	\$46,017	\$45,000	-2.2%
6 Poverty Rate, NYC	19.3%	18.5%	- 0.8 ppts
7 Percent of age 25-64 workforce with bachelor's degree or higher, NYC	26.0%	35.3%	+ 9.3 ppts
8 Average earnings for full-time, year-round NYC worker with bachelor's degree or higher, age 25-34	\$60,627	\$57,000	-6.0%
<b>Income Shares</b>			
9 Share of Total NYC income received by the top 5 percent (in 2007, incomes above \$167,400)	30.0%	58.0%	+ 28.0 ppts
10 Share of Total NYC income received by the "middle" 45 percent (the 51st to the 95th percentile; in 2007, income range from \$28,800 to \$167,400)	53.2%	34.1%	- 19.1 ppts
11 Share of Total NYC income received by the "bottom" 50 percent ( in 2007, incomes below \$28,800)	15.8%	7.9%	- 7.9 ppts

Note: GDP (line 1) is in 2005 dollars. Income, wage and salary figures (lines 2-5) are in 2007 dollars.

Sources: NYC Office of Management and Budget, Bureau of Economic Analysis, Current Population Survey, American Community Survey, Census Bureau, and FPI analysis of NYS tax data.

## **New York State has the highest income inequality of all states— New York City the most polarized among the nation’s 25 largest cities**

In recent years, New York State has had the most unequal income of all 50 states. This was not always the case. In the early 1980s, based on government survey data, the ratio of the average income of the top fifth of families to the average income of the bottom fifth of families was close to the national average (5.59 vs. 5.46), and extreme income polarization was thought of as primarily a phenomenon of states in the South. Previous FPI reports have tracked how the spread between those ratios widened by the early 1990 and the early and the mid-2000s. By 2004-2006, the ratio of the income of the top fifth of families to the bottom fifth of families rose to 7.29 for the U.S. as a whole, but to 8.66 for New York State.<sup>5</sup> Government survey data tends to understate high incomes, and the income concept is more limited than the incomes included on tax returns.

In the last few years, the U.S. Census Bureau’s annual American Community Survey has estimated a Gini index of inequality for states, cities, and other governmental jurisdictions. The Gini index measures the inequality of incomes for a given area in a range from zero (all incomes are equal) to one (one household has all the income). The higher the index value, the greater the degree of inequality. For the years 2006-2009, New York State has had the highest Gini index value among all states, indicating the greatest degree of inequality. In 2009, New York was followed by Connecticut, Texas, Louisiana, Mississippi, and Florida. Alaska had the lowest degree of state inequality.

Not surprisingly, New York City leads the 25 largest cities in the United States in inequality. It was followed in 2009 by Dallas, Chicago, Boston, and Houston. Half of the 25 largest cities had greater inequality than New York State overall, but the large cities with the lowest degree of inequality (like San Jose, Indianapolis, and Jacksonville) had Gini values that would place them in league with the least unequal third of the states.

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<sup>5</sup> See Fiscal Policy Institute, *Pulling Apart in New York: An Analysis of Income Trends in New York State*, April 2008. [http://www.fiscalspolicy.org/FPI\\_PullingApartInNewYork.pdf](http://www.fiscalspolicy.org/FPI_PullingApartInNewYork.pdf). An earlier edition of the Pulling Apart report was issued January 26, 2006, <http://fiscalspolicy.org/PullingApartNY2006.pdf>.

**Figure 5. New York State has the greatest degree of inequality among the 50 states, 2009**

(states ranked according to Gini index of inequality*)		ranking
United States	0.469	
<b>New York</b>	<b>0.502</b>	<b>1</b>
Connecticut	0.480	2
Texas	0.474	3
Louisiana	0.473	4
Alabama	0.471	5
Mississippi	0.470	6
Florida	0.469	7
Georgia	0.469	8
Illinois	0.469	9
Massachusetts	0.468	10
California	0.467	11
Tennessee	0.467	12
New Jersey	0.465	13
Kentucky	0.464	14
North Carolina	0.464	15
West Virginia	0.463	16
South Carolina	0.462	17
Arkansas	0.461	18
Oklahoma	0.460	19
Pennsylvania	0.460	20
Rhode Island	0.457	21
Virginia	0.456	22
Colorado	0.453	23
Michigan	0.453	24
New Mexico	0.453	25
Ohio	0.453	26
South Dakota	0.452	27
Arizona	0.451	28
Missouri	0.450	29
North Dakota	0.450	30
Maryland	0.448	31
Kansas	0.444	32
Oregon	0.443	33
Nebraska	0.440	34
Minnesota	0.439	35
Washington	0.439	36
Delaware	0.434	37
Indiana	0.434	38
Nevada	0.433	39
Maine	0.432	40
Wisconsin	0.432	41
Iowa	0.431	42
Montana	0.431	43
New Hampshire	0.431	44
Vermont	0.428	45
Hawaii	0.425	46
Idaho	0.421	47
Wyoming	0.415	48
Utah	0.414	49
Alaska	0.402	50

\* Under the Gini index of inequality, a state in which household incomes were all equal would have an index of zero while one with extreme inequality (one household with all the income) would have an index of one. The higher the index, the more inequality.

Source: American Community Survey.

**Figure 6. New York City has the greatest degree of inequality among the 25 largest cities in the United States, 2009**

(cities ranked according to Gini index of inequality*)		
<b>New York City</b>	<b>NY</b>	<b>0.543</b>
Dallas	TX	0.538
Chicago	IL	0.522
Boston	MA	0.517
Houston	TX	0.517
Los Angeles	CA	0.513
Baltimore	MD	0.509
Denver	CO	0.508
San Francisco	CA	0.507
Charlotte	NC	0.504
Philadelphia	PA	0.504
Nashville	TN	0.504
Detroit	MI	0.491
Memphis	TN	0.491
Seattle	WA	0.476
Austin	TX	0.470
San Antonio	TX	0.469
El Paso	TX	0.468
Fort Worth	TX	0.465
Phoenix	AZ	0.459
San Diego	CA	0.458
Columbus	OH	0.450
Jacksonville	FL	0.439
Indianapolis	IN	0.439
San Jose	CA	0.430

\* Under the Gini index of inequality, a city in which household incomes were all equal would have an index of zero while one with extreme inequality (one household with all the income) would have an index of one. The higher the index, the more inequality.

Source: American Community Survey.

## A closer look at the trends in income shares in New York

Figure 7 shows New York State income shares for four groups (the top one percent, top five percent, the “middle” 45 percent, and the bottom 50 percent) for 1990 and 2007. The figure makes clear how the “middle” group lost the most ground while almost all of the gains recorded by the top five percent went to the very top one percent.

The story is almost exactly the same when looking at New York City. For both the state and the city, the top one percent significantly increased its share while the share of the next four percent was basically flat, the “middle” group lost the most ground, and the bottom half lost a considerable share. See Figure 8.

The next two figures show the annual trend lines, and over a longer period. Figure 9 shows the trends among the four groups for New York State from 1980 to 2007. Because state tax data for New York City are not available before 1987, Figure 10 shows the trend lines from 1987 to 2007. Since high incomes are typically boosted by realized capital gains income during peak periods when financial markets (usually) are the most lucrative, and fall when financial markets falter, the top shares dipped in the financial market downturns in the early 1990s and the early 2000s, but soon recovered and resumed climbing.

In the middle of the 2002-2007 expansion, the income share of New York City’s top one percent passed that of the “middle” 45 percent. (See Figure 10.) At the state level, it was the share of the top five percent that surpassed the share of the “middle” 45 percent around the same time. For 2007, the top one percent’s share of state income was 35 percent compared to 40 percent for the “middle” group. Still, this is a dramatic change from 1980 when the “middle” 45 percent share statewide was *six times* the share of the top one percent in New York.

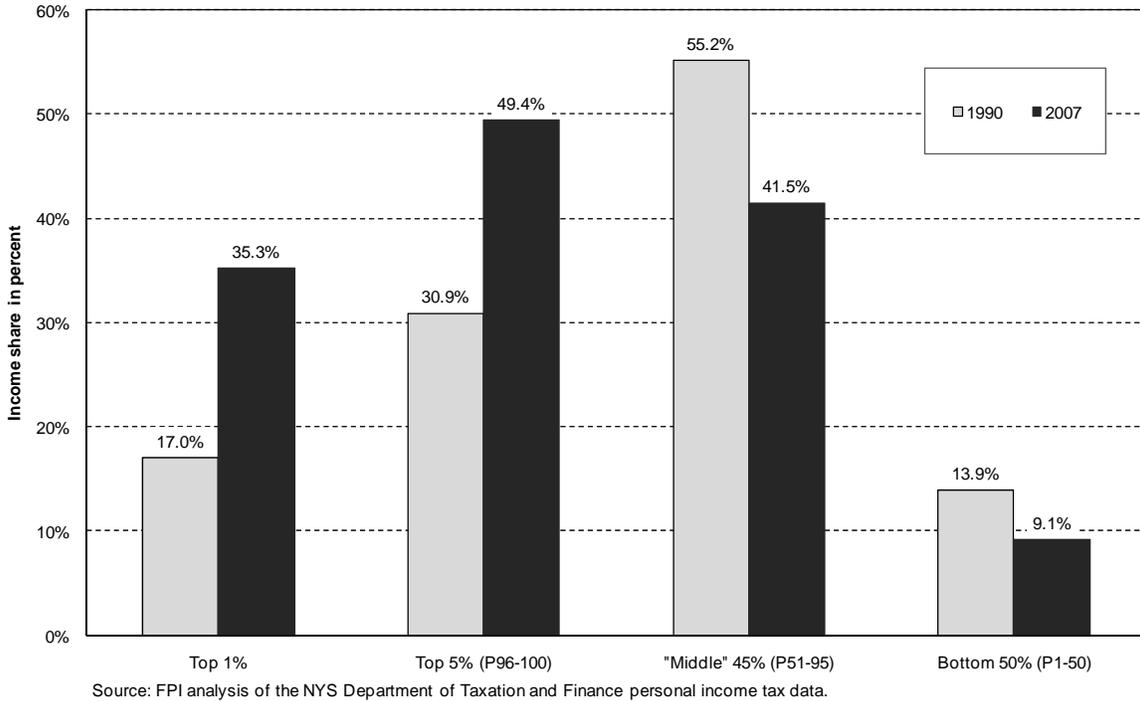
The lop-sided growth during the 2002-2007 expansion meant that while the inflation-adjusted income of the average New York City household in the bottom 95 percent declined slightly, the average income among the city’s top five percent increased by 85 percent. And among the richest one percent of New York City households, average real income more than doubled, increasing by 119 percent.<sup>6</sup>

It is likely that the share of top one and five percents receded in 2008 and possibly 2009, although the top shares might have started increasing again in 2009 in New York City since Wall Street profits reached super-record levels in 2009, financial sector bonuses were very high, and financial markets started to recover from lows reached in early 2009.

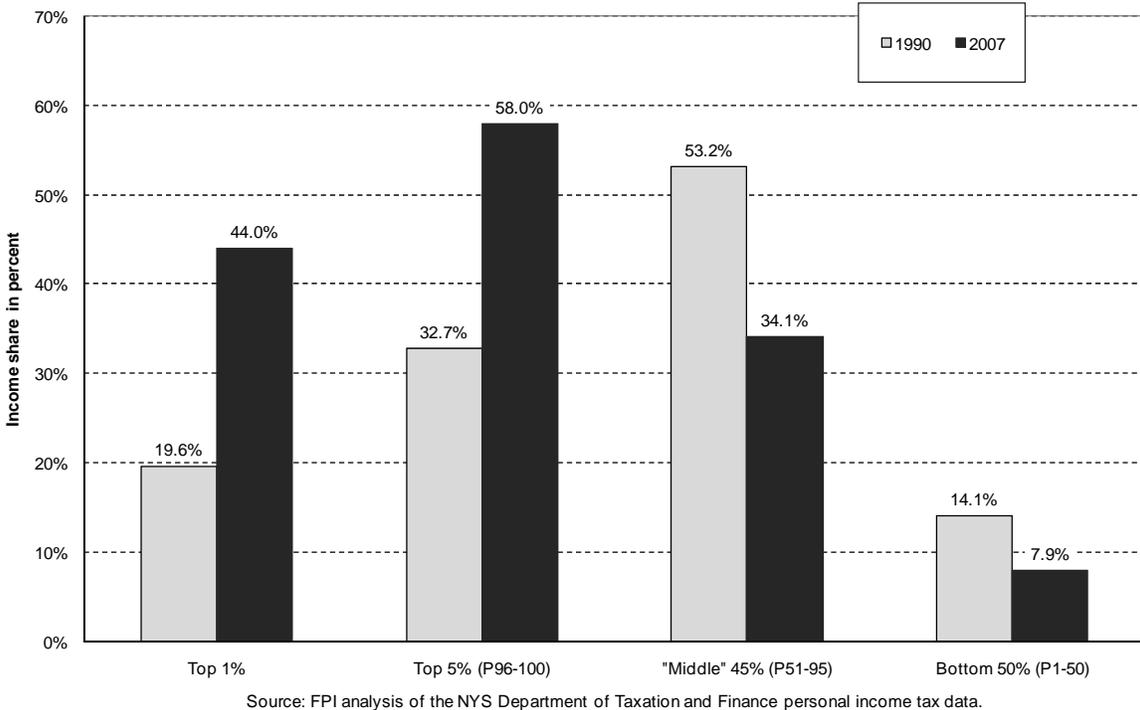
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<sup>6</sup> FPI analysis of state tax data.

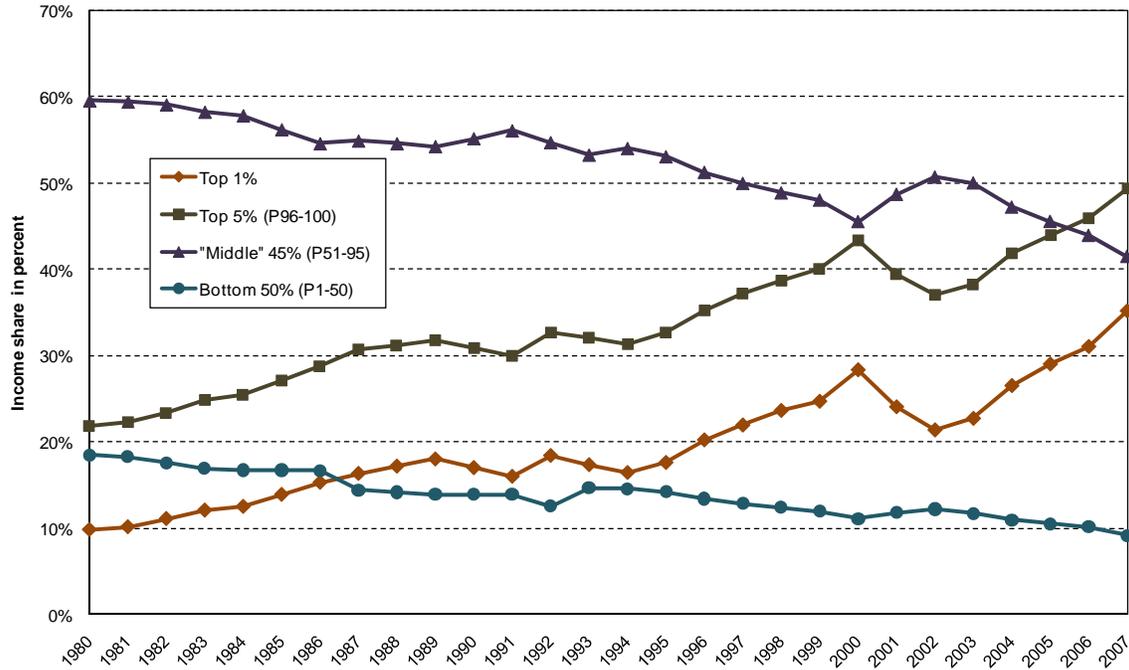
**Figure 7. The top 1% and 5% income shares have grown rapidly since 1990, while the "middle" and bottom have lost ground in NYS.**



**Figure 8. The top 1% and 5% income shares have grown rapidly since 1990, while the "middle" and bottom have lost ground in NYC.**

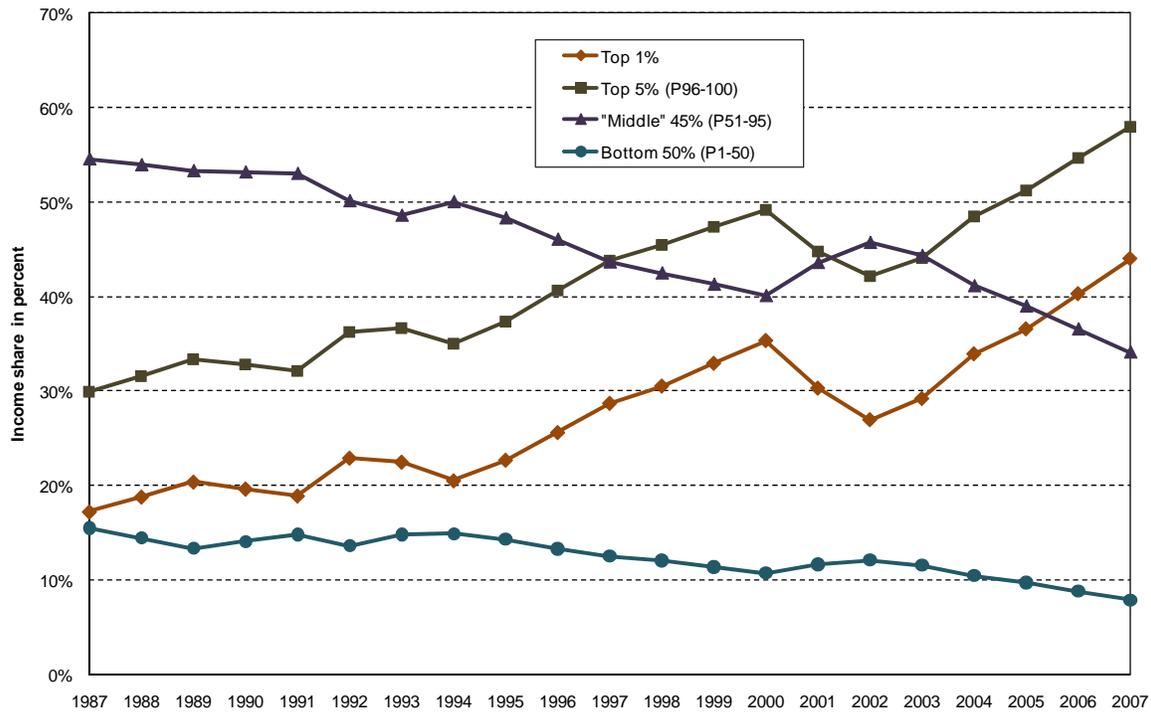


**Figure 9. The top 5% now have half of all NYS income, while the "middle" income share has fallen from 60% to 40% , 1980 to 2007.**



Source: FPI analysis of the NYS Department of Taxation and Finance personal income tax data.

**Figure 10. Over the past 20 years, the top 5% share of NYC income has really doubled, to about 60%.**



Source: FPI analysis of the NYS Department of Taxation and Finance personal income tax data.

But it is clear that with the very high unemployment and the wage losses suffered by hundreds of thousands of New York workers during the Great Recession, and given the very tepid recovery, that the combined incomes of the bottom 95 percent did not do very well in 2008, 2009, or 2010.<sup>7</sup>

## A note on the concentration of income by major income type

Incomes received by households included on individual income tax returns largely consist of wages and salaries, but also include pensions and various income flows related to the ownership of financial, real property, or business assets. These asset-related forms of income include dividends and interest from financial assets, rent from real property assets, and business income either from sole proprietorships, partnerships or limited liability corporations for which business income is taxed on personal income tax returns. Income tax returns also include realized capital gains—the net gains or losses from the sale of assets, whether financial, real property or business assets.

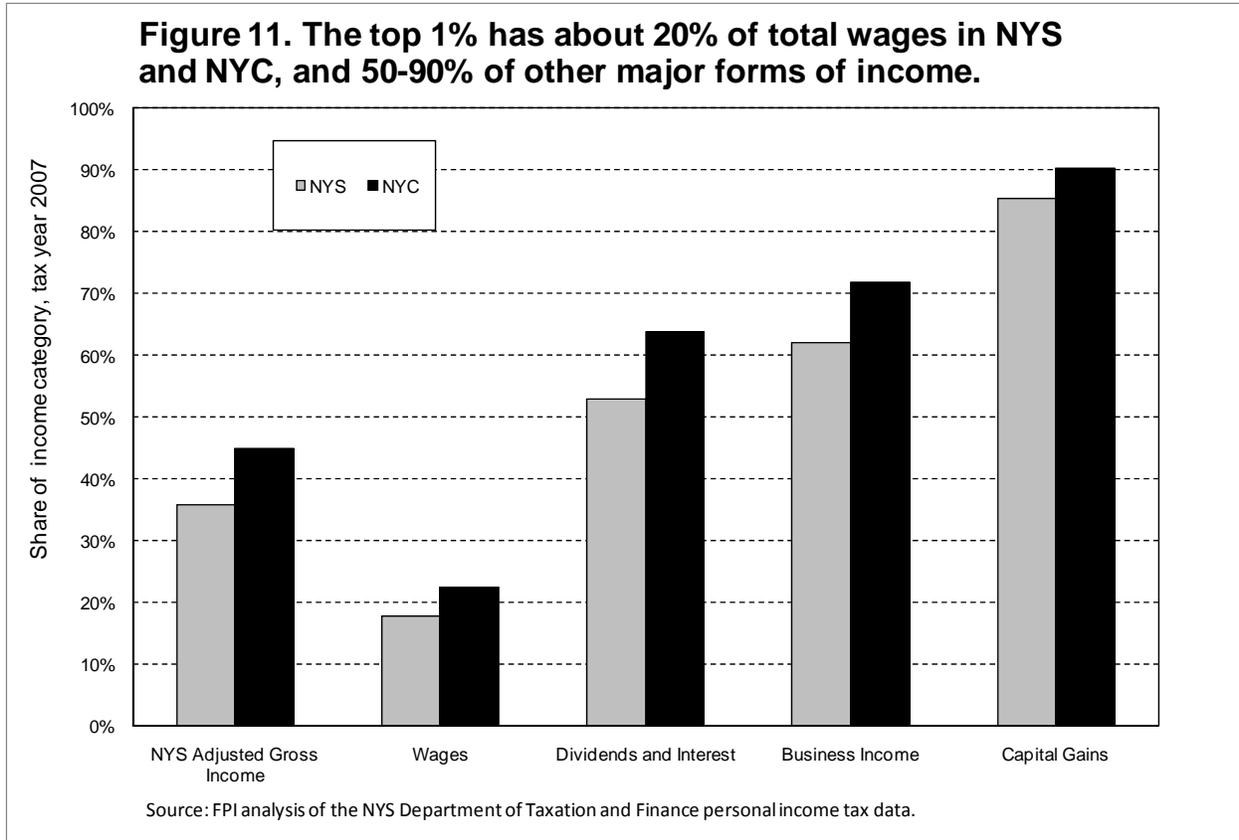
Wages accounted for between 61 to 76 percent of total income during the period from 1992 to 2007, depending largely on fluctuations in the amount of capital gains and business income. Much of the income of high income tax filers is variable from year to year, depending heavily on the performance of the financial markets and business income. Financial sector cash bonuses, which are included in wage income, are estimated by the New York State Division of the Budget to have increased from about \$7 billion in 1990 to roughly \$50 billion in 2007. Net realized capital gains totaled less than \$10 billion a year in the early 1990s but rose rapidly and steadily to \$64 billion in 2000. Capital gains then plummeted by nearly two thirds over the next two years before climbing over the next five years at a much steeper pace than in the 1990s. Capital gains reached \$118 billion in 2007. With the financial crash, capital gains dropped by more than half in 2008. Partnership and “S corporation” income was close to \$70 billion in 2007.<sup>8</sup>

The top one percent in New York, with 35 percent of state adjusted gross income, receives very high proportions of many of the major income categories, including about 20 percent of all wages; 50 percent of dividends, interest and business income; and about 90 percent of all net realized capital gains. See Figure 11.

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<sup>7</sup> Saez has noted that because of the stock market crash and falling Wall Street bonuses, the share of income going to the richest one percent fell from 23.5 percent in 2007 to 20.9 percent in 2008. In discussing this development he noted, “The Great Recession is unlikely to have a very large impact on top income shares and will certainly not undo much of the dramatic increase in top income shares that has taken place since the 1970s.” Emmanuel Saez, “Striking it Richer: The Evolution of Top Incomes in the U.S.,” (Updated with 2008 estimates), July 17, 2010. <http://www.econ.berkeley.edu/~saez/saez-UStopincomes-2008.pdf> . Income tax data for 2008 for New York were not available when this report was finalized in mid-December 2010.

<sup>8</sup> New York State Division of the Budget, *2010-11 Executive Budget, Economic and Revenue Outlook*, January 2011. In 2007, the finance and insurance sector employed 540,000 workers in New York. The \$50 billion paid in bonuses that year to those workers roughly equaled the total wages paid to the 900,000 New York workers in construction and manufacturing, or the 1.2 million workers in wholesale and retail trade, or the 1.2 million workers in the health care and social assistance sectors.



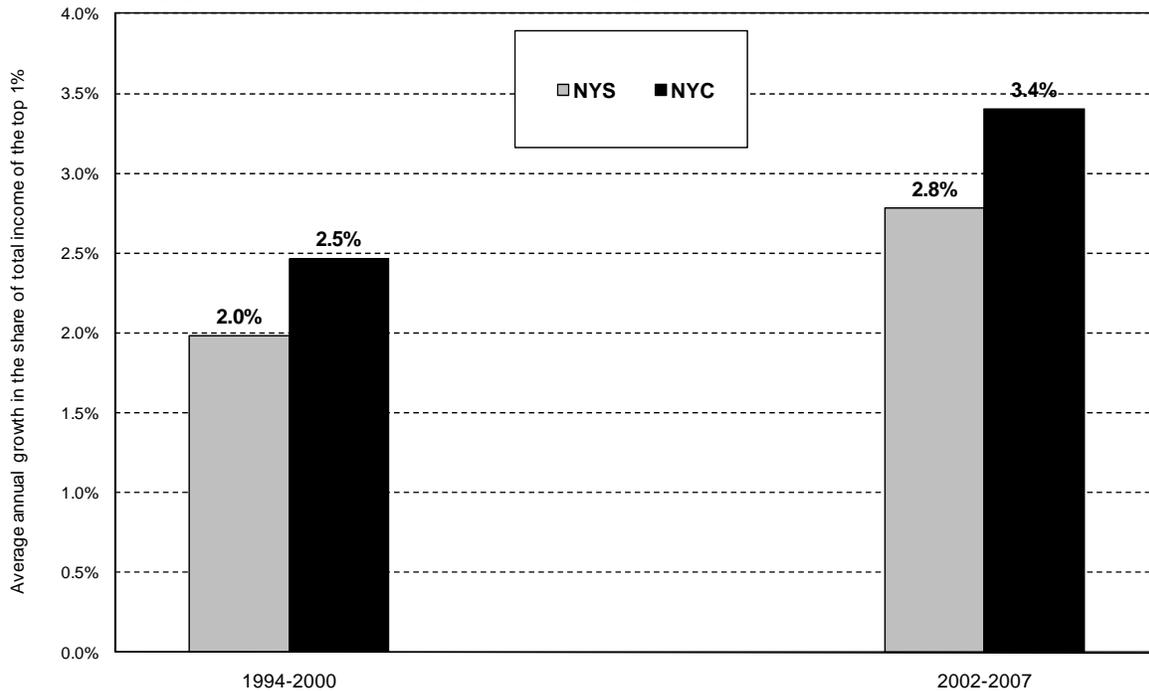
It should be noted that a significant part of finance sector income earned in New York State is received by out-of-state commuters who work in New York City and other parts of the downstate region. For example, nearly 30 percent of the wages and proprietors' income from New York City's finance and insurance sector goes to out-of-state commuters.<sup>9</sup> New York City's finance sector is the source of much of the income on which out of state residents pay New York state income taxes. In 2007, non-residents paid 17 percent of the New York tax liability incurred by tax filers with incomes over \$250,000.<sup>10</sup> Non-resident incomes are not included in the income analysis in this report.

The highly variable nature of much of the income flowing to those at the top means that income concentration is particularly rapid during boom periods, such as those in the late 1990s and in the mid-2000s. The pace of concentration at the top was more than one third faster in the mid-2000s than in the late 1990s. In New York City, the share of all incomes going to the top one percent gained by an average of 3.4 percentage points a year between 2002 and 2007. For the state, the top one percent increased their share by 2.5 percentage points a year during that period.

<sup>9</sup> FPI estimate based on American Community Survey data for 2006-2008. Forty-eight percent of the wages and proprietors earnings from New York City's finance and insurance sector go to non-New York City residents--18 percent to suburban New York commuters and 30 percent to out of state commuters.

<sup>10</sup> New York State Tax and Finance Department analysis of Personal Income Tax returns.

**Figure 12. During the 2002-2007 expansion, income concentration outstripped that of the previously unprecedented period of 1994-2000.**



Source: FPI analysis of the NYS Department of Taxation and Finance personal income tax data.

## Income concentration in New York City: The local ramifications of national trends

That New York City has extreme wealth and extreme poverty, and lots of both, seems like a law of nature, older than the subway or the Brooklyn Bridge. While there's a lot of truth in that, the city has not always had the extremes to the extent it has them today. Except for maybe a handful at a time, the City never had so many super-rich. We don't know how much of total city income the top one percent had in the Roaring Twenties when the national numbers previously peaked. We do know that in 1980, it was about 12 percent, and in 2007, it was nearly four times that. There are about 34,500 households, representing about 90,000 people, in the city in the top one percent. On average, these households have annual incomes of \$3.7 million.<sup>11</sup> New York is also a city where 10.5 percent of its population—about 900,000 people, lives in “deep poverty.”<sup>12</sup>

“Deep poverty” is half of the federal poverty line; for a four-person family, that means an income of \$10,500.<sup>13</sup> An income of \$3.7 million translates into a *daily* amount of \$10,137—more than the average *annual* family income of many of those living in deep poverty (since all of them

<sup>11</sup> FPI analysis of state tax data.

<sup>12</sup> James Parrott, “City Poverty Jumped as the Economy Slumped,” *Gotham Gazette*, September 2010, <http://www.gothamgazette.com/article/Economy/20100927/21/3372>

<sup>13</sup> The federal poverty measure counts only cash income, and does not include non-cash benefits, such as food stamps, or tax credits.

have family incomes under \$10,500). According to state tax data, half of the households in New York City have incomes below \$30,000.

The city used to have a broad middle class, rooted in a vast manufacturing sector and mid-level positions in corporate headquarters as well as in education, government, construction and other good-paying blue-collar jobs. But manufacturing is about one tenth the size it used to be, and the city's labor market has seen the disappearance of thousands of middle-paying jobs and the growth in their place of moderate- to low-paying jobs, mainly in services.

Given its degree of inequality, if New York City were a nation, it would rank 15<sup>th</sup> worst among 134 countries with respect to income concentration, in between Chile and Honduras.<sup>14</sup> Wall Street, with its stratospheric profits and bonuses, sits within 15 miles of the Bronx—the nation's poorest county.

New York's economy generates incredible wealth because its dense concentration of businesses and its location at the center of an enormous regional labor market create what economists refer to as "agglomeration" economies—economies external to an individual company that derive from its close proximity to customers, suppliers, and competitors, and make it more productive. Information flows faster, business opportunities are greater, and labor recruitment networks are denser. For all major "export" sectors selling to national and international markets, value added per worker for New York City businesses is much higher than the national average. This productivity advantage makes possible higher profits and more generous labor compensation. However, many New York City workers are not able to fully share in this higher productivity due to structural changes in labor markets and certain economic policies.

Still, many people are very well compensated for their role in the city's high performance economy, and the city is fortunate that it has been able to retain many of these highly-paid workers as city residents. There are many talented, creative, and generous people among the highly compensated, and they contribute importantly to the life of the city. Certainly, the city's unparalleled cultural attractions, immense variety of restaurants and social opportunities, vastly improved public safety, and its overall vibrancy play an enormous role in retaining top paid workers.

Because the city has a mildly progressive personal income tax, high-income residents pay a lot in New York City taxes. However, when local sales and property taxes are factored in, it does not appear that high income residents pay more than their proportionate share in local taxes. In fact, as discussed later, they pay a smaller share of income in local taxes than residents in the middle of the income structure.

Does the fact that the top one percent do so well come at the expense of those below them in the income distribution? This is not an easy question to answer. Various national and local forces need to be considered. As Jacob Hacker and Paul Pierson so persuasively argue in their book, *Winner-Take-All Politics*, incomes have risen so high at the top because of national policy changes made, or because of policy "drift" where changes were not made in response to new

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<sup>14</sup> Central Intelligence Agency. World Fact book.  
<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2172rank.html>

pressures, that have favored the wealthy and institutions such as the largest financial companies that were in a position to benefit from those changes.<sup>15</sup>

The policy changes identified by Hacker and Pierson—such as financial deregulation and the failure to limit executive compensation—have tremendously benefited large financial firms and corporate executives, and those developments have had a substantial impact in New York City. National policies that allowed the purchasing power of the minimum wage to seriously erode and that reduced the power of labor unions have also made a significant difference in depressing wages for middle- and low-income workers.

There is nothing inevitable in the operation of markets that generates extreme polarization in the distribution of economic rewards. Policy choices regarding the institutional framework that determines how markets operate and how government taxes have everything to do with the distribution of economic rewards.

Also, the presence of a lot of high-income residents and high-value businesses, however, does have an effect on the local cost structure, particularly in driving up the price of housing and commercial and industrial space in a city with tightly constrained availability of land. City land use policies over the past quarter century have placed a premium on encouraging what is called “the highest and best use,” meaning the use that can pay the highest price. This pervasive orientation has priced out manufacturing employers and other small businesses in favor of high-end commercial office or luxury residential developments. The thousands of highly-compensated employees on Wall Street and related businesses can afford to bid up the price of brownstones, cooperative apartments and condominiums, but this has the effect of making housing more costly and less affordable for the middle class. The cost of home ownership in New York City, adjusted for inflation, soared by 156 percent from 1990 to 2007.<sup>16</sup> This has added to the pressures on middle-income families and made it harder for many to remain in the city.

If extreme inequality is bad for sustained economic growth, then one might expect that New York City’s economy has had slower growth than the nation as a whole. In fact, New York City has grown faster than the nation over the past decade, and the city’s payroll employment loss was not as severe as the nation’s job decline during the Great Recession. Also, in the first 10 months since employment bottomed out at the end of 2009, the city’s job gains have exceeded those of the country as a whole.<sup>17</sup>

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<sup>15</sup> Jacob S. Hacker and Paul Pierson, *Winner-Take-All Politics. How Washington Made the Rich Richer and Turned Its Back on the Middle Class*, New York: Simon & Schuster, 2010.

<sup>16</sup> FPI analysis of 1990 Census and 2007 American Community Survey data. The cost of home ownership is calculated for households with a mortgage or home loan.

<sup>17</sup> However, by various measures of economic well-being—including unemployment, duration of unemployment, wage trends, poverty, public assistance, mortgage foreclosure—the Great Recession exacted a heavy toll on most New Yorkers. See, James Parrott, “New York City’s Tale of Two Recessions,” *Challenge*, May/June 2010, pp. 32-48, and James Parrott, Testimony, “Oversight—New York City Poverty 2010: A Look at the Impact of the Recession on Communities, People and the Administration’s Poverty Reduction Plan,” Before the New York City Council Committee on Community Development, Oct. 28, 2010.

[http://fiscalpolicy.org/FPI\\_Testimony\\_ImpactOfRecessionOnPovertyPlanNYC.pdf](http://fiscalpolicy.org/FPI_Testimony_ImpactOfRecessionOnPovertyPlanNYC.pdf)

New York City's growth, however, is not primarily a function of local economic forces. Many of the leading sectors in the city's economy, particularly finance, are oriented to national and international markets. Growth is driven by much broader forces than the state of local consumer demand. For example, job losses in the city's finance sector turned out to be much less than initially feared in the immediate aftermath of the September 2008 financial market crash because of the massive taxpayer bailout and the Federal Reserve's low interest rate policy intended to spur recovery. These developments helped Wall Street firms moderate job reductions and make possible record Wall Street profits in 2009, profits that were three times the previous record. Despite extreme income polarization, New York City's economy is able to draw resources in from around the country and the globe and fuel modest local economic growth. However, the broader effect of stagnant incomes and heightened economic insecurity for most Americans and New Yorkers translates into slow growth and a tepid recovery.

### **If incomes had grown together since 1980**

As noted earlier, from 1980 to 2007, real incomes for those in the bottom half of the income distribution declined while those in the middle income range rose but at only one third of the 2.1 percent annual growth in total income. Over this period, the real incomes of those in the top one percent grew by almost seven percent annually, over three times as fast as overall income growth. And the next four percent within the top five percent saw their incomes rise slightly faster than the pace of total income growth. Figure 13 shows these calculations and indicates the average income for each of the four income groupings in 2007 constant dollars.

What would have happened to the average incomes of each group had all incomes gained by 2.1 percent a year and each group had maintained their 1980 income share? The average income of the bottom half would have doubled from \$14,000 to \$28,000. The "middle" 45 percent would have seen their average incomes rise by 43 percent, twice the growth that was realized. This would have pushed the average incomes of the "middle" 45 percent to over \$100,000 in 2007, instead of the \$72,300 level they did reach. And the top five percent would still have seen a substantial income gain of almost \$150,000, putting their incomes on average at \$343,300 instead of their actual 2007 incomes of \$764,700. (See Figure 13.)

If all groups had grown together rather than apart, the highest earners still would have enjoyed the biggest income gains, they just would not have seen "super-charged" income gains. And the living standards of the bottom 95 percent would have been substantially higher, a factor that likely would have translated into faster overall economic growth since a more broadly dispersed pattern of economic rewards would have boosted consumer spending and productivity-enhancing investments in higher education. Further, if financial deregulation had not fostered the enrichment of the finance sector at the expense of the rest of the economy and intensified income concentration, we might have avoided the 2004-2007 financial market and housing bubbles, and possibly averted the calamitous Great Recession.

**Figure 13. Actual income shares and average household incomes, 1980 and 2007, NYS**

	1980	2007	1980 NYS AGI per return	2007 NYS AGI per return	Total % change	Annual % change
<b>NYS AGI</b>	<b>\$301,509</b>	<b>\$633,733</b>				2.8%
Top 1%	10.0%	35.0%	\$446,507	\$2,730,973	511.6%	6.9%
Next 4%	12.0%	14.0%	\$133,952	\$273,097	103.9%	2.7%
Top 5%	22.0%	49.0%	\$196,463	\$764,672	289.2%	5.2%
"Middle" 45%	60.0%	42.0%	\$59,534	\$72,826	22.3%	0.7%
Bottom 50%	18.0%	9.0%	\$16,074	\$14,045	-12.6%	-0.5%

**Hypothetical income shares and average household incomes in 2007, assuming the 1980 income shares**

	2007 NYS AGI per return with 1980 shares	Total % change	Annual % change	Hypothetical minus actual 2007	Hypothetical versus actual 2007	Hypothetical 2007 versus 1980 actual
Top 1%	\$780,278	74.8%	2.1%	-\$1,950,695	-71.4%	\$333,771
Next 4%	\$234,083	74.8%	2.1%	-\$39,014	-14.3%	\$100,131
Top 5%	\$343,322	74.8%	2.1%	-\$421,350	-55.1%	\$146,859
"Middle" 45%	\$104,037	74.8%	2.1%	\$31,211	42.9%	\$44,503
Bottom 50%	\$28,090	74.8%	2.1%	\$14,045	100.0%	\$12,016

Notes: All figures are in 2007 dollars. (New York AGI in 1980 was \$119,795 million in 1980 dollars.) There were 6,752,605 returns filed in 1980, and 8,121,887 in 2007, overall a 0.7% annual increase in the number of returns. Source: FPI analysis.

## How can we account for increased income concentration?

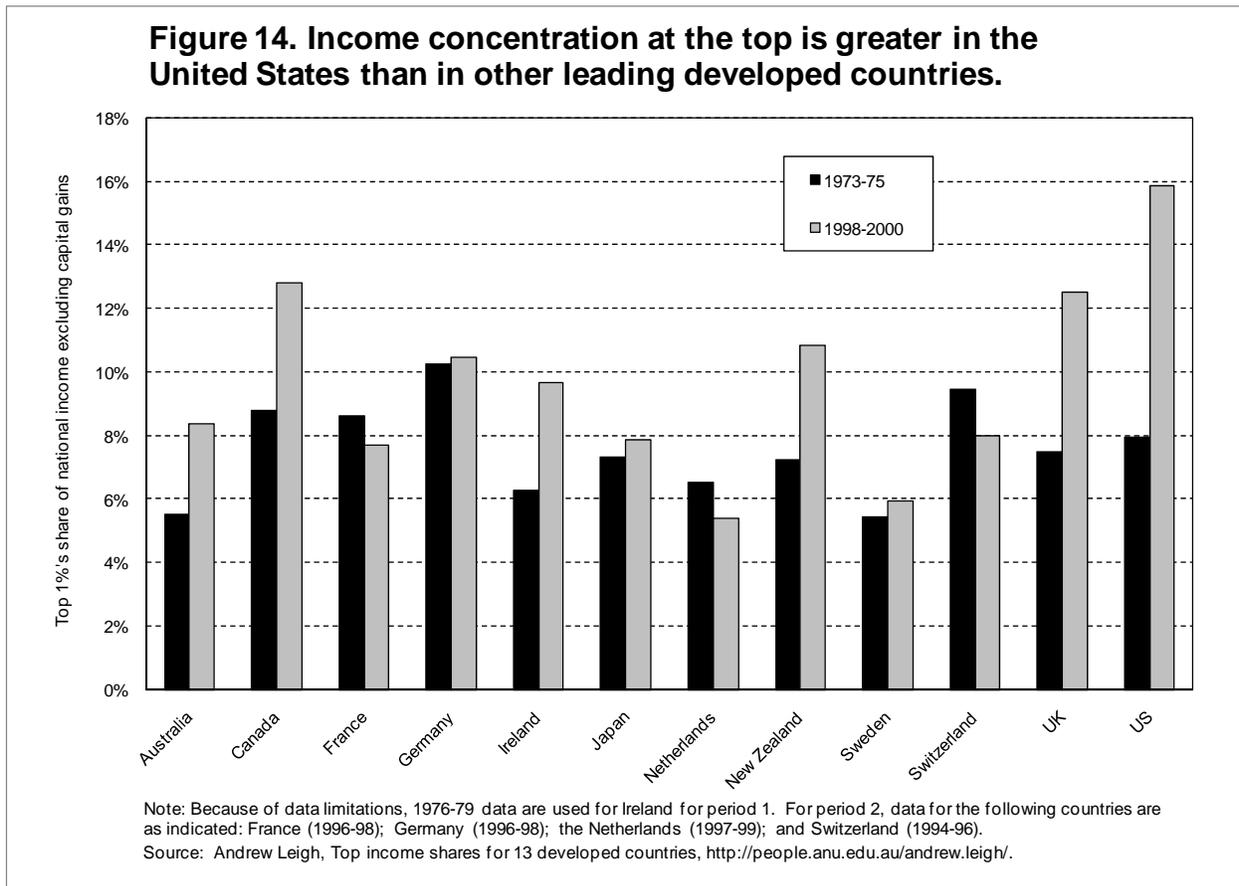
As Hacker and Pierson have noted, it is often argued that skills-based technological change (SBTC) largely explains income distribution trends over the past two decades. It is thought that the steady advance of technological change raises skill requirements and the economic rewards to those who pursue higher education and the skills needed to master new technologies. Those lacking higher education see the demand slacken for their limited skills and their wages fall accordingly.

There is a certain appeal to the SBTC explanation. It is consistent with basic notions of returns to individual investments in education. While intuitively appealing, this explanation is not up to the task of accounting for the intensified degree of income concentration that has taken place. As noted earlier, the share of the age 25-64 workforce with a four-year college degree or better grew considerably in New York City and New York State since 1990 to reach more than one third of

the workforce, yet income gains have been concentrated among a much smaller segment of the population. In addition, inflation-adjusted annual earnings of college-educated young workers have fallen from 1990 levels—clearly education alone is not a sufficient answer.

Among the well educated, too, there is an enormous degree of income polarization. Those with the highest incomes do not simply have the best education. Something else must be at work since education, however important on an individual level, simply cannot serve as a compelling explanation for increased income concentration.

Moreover, skills-based technological change has occurred throughout the developed world. Yet no other country has seen the heightened polarization of incomes that has taken place in the United States. In the early 1970s, the richest one percent in the United States had a share of total income that was roughly in line with several other developed economies, including Canada, France, Japan, and the United Kingdom. By 2000, however, the top one percent's share had risen much higher in the United States than in any other country. In Germany, there was almost no change in the income share of the top one percent. France even saw a decline in the share going to the richest one percent, and by 2000 that share was half what it was in the U.S. Japan's top one percent received a slight gain in share, but that share also was only half that of the U.S. in 2000. Income concentration increased in Canada, New Zealand, and the U.K., but by far less than the rise taking place in the U.S. (See Figure 14.)



Rather than SBTC or other economic factors as the explanation for growing income concentration, Hacker and Pierson point to the political sphere and several national policy changes involving labor markets and labor unions, financial deregulation and taxation. Policy developments in these areas were largely unique to the U.S.

The failure in the 1980s to raise the minimum wage floor to keep pace with inflation put downward pressure on wages at the low-end of the labor market. Failure to reform labor laws to allow workers to more freely choose whether or not to organize unions undercut the wage bargaining power of unions and limited wage gains and fringe benefit improvements for millions of workers. Ultimately, the weakening of labor unions paved the way for businesses to garner an increasing portion of the fruits of productivity growth for corporate profits rather than compensate employees in a manner that long permitted wages and productivity to grow in tandem.<sup>18</sup>

The many steps taken since the 1970s to deregulate financial markets have become much better understood recently for the role they played in contributing to excessive speculation and poorly designed and unregulated financial innovations, and eventually, to the 2008 financial collapse. Deregulation gave financial institutions virtually a free hand to combine commercial and investment banking operations, increase leverage, and sell exotic financial instruments such as derivatives without regard for effective risk management. In financial bubble periods, whether based on commercial real estate lending in the 1980s, tech company stock in the late 1990s, or securitized subprime mortgages in the mid-2000s, financial firms reaped enormous profits and paid their top bankers and traders unheard of bonuses. Nationally, in 2004, nearly 20 percent of the super-wealthy (the top one tenth of one percent) worked in finance; 40 percent were CEOs and other executives.<sup>19</sup>

Among the biggest contributors to income concentration have been changes in federal tax policy to reduce top tax rates or capital gains tax rates—as Presidents Ronald Reagan and George W. Bush did—and maintaining glaring loopholes as has been the case with the treatment of a portion of the management fees (“carried interest”) received by hedge fund managers as capital gains rather than ordinary income in order to take advantage of preferential capital gains tax rates. Piketty and Saez found that the average effective federal income tax rate on the top one percent fell by one third from 1970 to 2004, and the average effective federal income tax rate for the top one hundredth of the top one percent dropped from 75 percent to 35 percent.<sup>20</sup>

States have much more limited rein to affect labor or regulatory policies. However, in the case of tax policies, states and some localities, like New York City, have considerable latitude. And in fact, several tax policy changes enacted at the state level in New York have eased the tax burden at the top. New York’s top state personal income tax rate was 15 percent in the early 1970s and in several steps it was reduced to 6.85 percent, the level that existed prior to the enactment in

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<sup>18</sup> Deregulation in a number of industries has been found to weaken unions and contribute to rising wage inequality. Nicole M. Fortin and Thomas Lemieux, “Institutional changes and Rising Wage Inequality: Is there a Linkage?” *The Journal of Economic Perspectives*, Spring 1997, 75-96.

<sup>19</sup> Hacker and Pierson, *Winner-Take-All Politics*, p. 46.

<sup>20</sup> Thomas Piketty and Emmanuel Saez, “How Progressive is the U.S. Federal Tax System? A Historical and International Perspective,” *The Journal of Economic Perspectives*, Winter 2007.

2009 of a temporary surcharge. Whereas the carried interest received by hedge fund managers is taxed at the lower capital gains tax rate at the federal level, New York City exempts carried interest altogether from taxation under its unincorporated business tax.<sup>21</sup>

## Can we grow together instead of pulling further apart?

Today, while economic output has begun to inch up from its low point, the pace of the nascent recovery is expected to remain subdued for some time. A bleak job market outlook, stagnant or declining wages, and high household debt burdens all put a significant drag on the economy. The bursting of the housing and financial bubble that led to Great Recession occurred against the backdrop of an economy with an increasingly shaky foundation characterized by faltering wages and family incomes and heightened income concentration at the top.

The Great Recession dramatically worsened an already highly polarized economy. Millions lost their homes, the single largest source of wealth for the vast majority of families. Retirement and college savings plunged. The vast number of home mortgages that are “under water” has not only put families under financial stress but also limited the ability of workers to go where the jobs are.

As a result, the pace of the economic recovery will likely be restrained. Policy changes are needed at the state and national level both to stimulate more robust growth and to reverse this excessive income polarization. Not all of these are politically possible in the immediate term, but it is hard to see how the economy can fundamentally improve in the absence of significant changes that move us toward more broadly shared prosperity.

The kinds of policies that would help include:

- **Increasing the minimum wage.** The lowest-wage earners are the ones most severely affected by the polarized economy. Putting a strong floor under wages is a time-tested way to improve the living standards of low-wage workers.
- **Strengthening enforcement of labor law.** Wage and hours laws need enforcement in order to be respected. New York State has made large steps toward better enforcement of the law and recuperation of wage theft by employers, but further investments in enforcement are an important way to shore up the wage floor.
- **Expanding living wage agreements.** In certain instances, workers are covered by laws that require employers to pay workers a living wage that is above the minimum. This is often in connection with public funds being used, as a way of guaranteeing that government money is not subsidizing a polarized economy. A measure in the New York City Council to require that businesses subsidized by the City pay a living wage has been fiercely opposed by the Mayor.

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<sup>21</sup> Fiscal Policy Institute, *Re-thinking the New York City Business Tax Treatment of Private Equity Fund and Hedge Fund Carried Interest*, April 15, 2008.

- **Increasing labor union membership.** Unions were central to the expansion of the middle class in the post-war years, and de-unionization was a key factor in the erosion of mid-level wages and increase in polarization since 1980. Project labor agreements, card-check requirements, and—although it has slipped off the federal agenda in recent months—the passage at the federal level of the Employee Free Choice Act would all help increase union membership and thereby increase the wages of low- and mid-level workers.
- **Making investments in economic growth.** In a recession, the federal government must temporarily step in and increase spending to keep the economy moving as the private sector is shrinking. And states must not constrain growth by cutting spending. Smart investments in job creation are an important way to get the economy moving again, and wage standards and card-check neutrality are important ways to make sure the jobs that are created help narrow rather than expand polarization in the economy.
- **Helping small businesses grow.** It is increasingly clear that access to capital is one of the significant factors constraining the growth of small businesses. At a time when the government is lending money to large banks at extraordinarily low rates, making sure that small businesses with good credit can borrow money should not be a heavy lift, and it could provide significant opportunity.
- **Providing real assistance on home foreclosures.** The failure of the federal government to provide effective assistance to people losing their homes is a tragedy for millions of families and a drag on the economy. Requiring banks to allow families that default on their home loans to rent the home at a fair market rate would provide banks an incentive to avoid foreclosure, and would allow people to stay in their home, thereby preventing deterioration of the neighborhood if they do fall into default.
- **Investing in public higher education.** One of the best ways to deal with a slack labor market is to expand the ranks of people in higher education. Doing so takes them out of the labor market and improves their skills so they can re-enter at a higher level when the economy has improved. The CUNY and SUNY systems play this important role in New York State, providing affordable and high-quality education. Funding to CUNY and SUNY should be increased, not cut, to allow the systems to continue to provide good education as enrollment expands—as one would hope it would—in this weak labor market. Expanding affordable and quality public higher education is critical to improve opportunities, but it is clear that it is not sufficient as a counterweight to income concentration.
- **Implementing fair federal, state, and local tax policies.** The people who have benefited so richly from the extraordinary concentration of wealth documented here should have no difficulty in paying their fair share of taxes and still maintaining a very comfortable lifestyle. While it is true that top earners pay the most in taxes, they are paying less than their proportionate share given their extraordinarily high income.

- At the state level, the top one percent pay a smaller share of their income in New York State and local taxes than all of those less well-off, from the upper-middle, to the middle, to the poor. See Appendix A.
- The story is similar in New York City. While the top one percent has 44 percent of city income and pay slightly over half of all local personal income taxes, they only pay one third of total New York City personal income, city sales, and local residential property taxes. See Appendix B.
- At the national level, the income and estate tax changes agreed to by President Obama and the Republican leadership will provide 34 percent of tax cuts going to all New Yorkers to the richest one percent. On average, the richest households will receive a tax cut averaging \$124,000 in 2011. The middle fifth of New Yorkers will average a \$1500 tax cut, and the poorest 20 percent will get less than \$300 on average. See Figure 15.

**Figure 15. Impact of Proposals to Cut Taxes (Income, Estate & Payroll) in 2011 in New York**

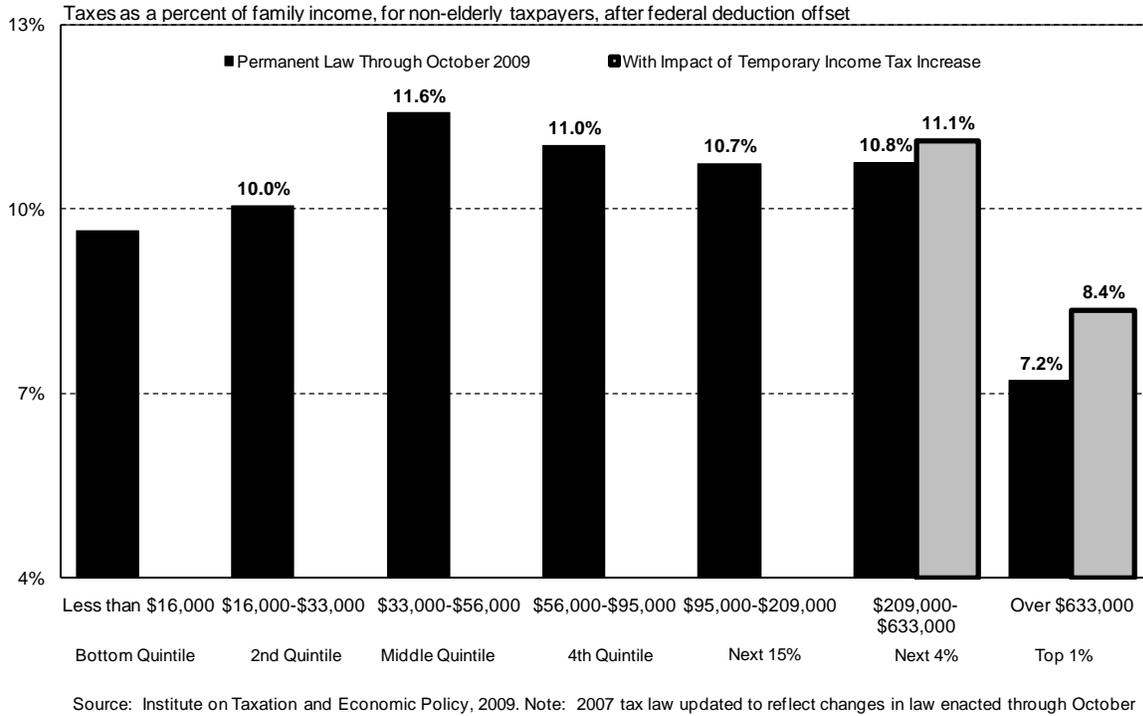
State Taxpayers		Obama's Plan		Republican Proposals		Compromise Plan	
		(Permanent Bush income tax cuts for those below \$200k/250k, estate tax cut, permanent EITC and child credit expansion, Making Work Pay Credit)		(Permanent Bush income tax cuts for everyone, estate tax cut more, no EITC or child credit expansion, payroll tax cut)		(Two years Bush tax cuts for everyone, estate tax cut more for two years, two years of EITC & child credit expansion, payroll tax cut for one year)	
Income Group	Average Income	Average Tax Cut	Share of Tax Cut	Average Tax Cut	Share of Tax Cut	Average Tax Cut	Share of Tax Cut
Lowest 20%	\$10,685	-\$387	3.3%	-\$155	0.9%	-\$288	1.6%
Second 20%	\$24,911	-\$883	7.5%	-\$752	4.2%	-\$874	4.8%
Middle 20%	\$44,161	-\$1,282	11.0%	-\$1,442	8.1%	-\$1,500	8.3%
Fourth 20%	\$73,184	-\$2,089	17.9%	-\$2,655	14.9%	-\$2,658	14.6%
Next 15%	\$131,700	-\$4,612	29.6%	-\$5,937	24.9%	-\$5,911	24.4%
Next 4%	\$316,604	-\$7,859	13.5%	-\$11,015	12.3%	-\$11,015	12.1%
Top 1%	\$2,283,486	-\$40,180	17.2%	-\$123,890	34.7%	-\$123,890	34.1%

Source: Citizens for Tax Justice, "Compromise Tax Cut Plan Tilts Heavily in Favor of the Well-Off," December 9, 2010.

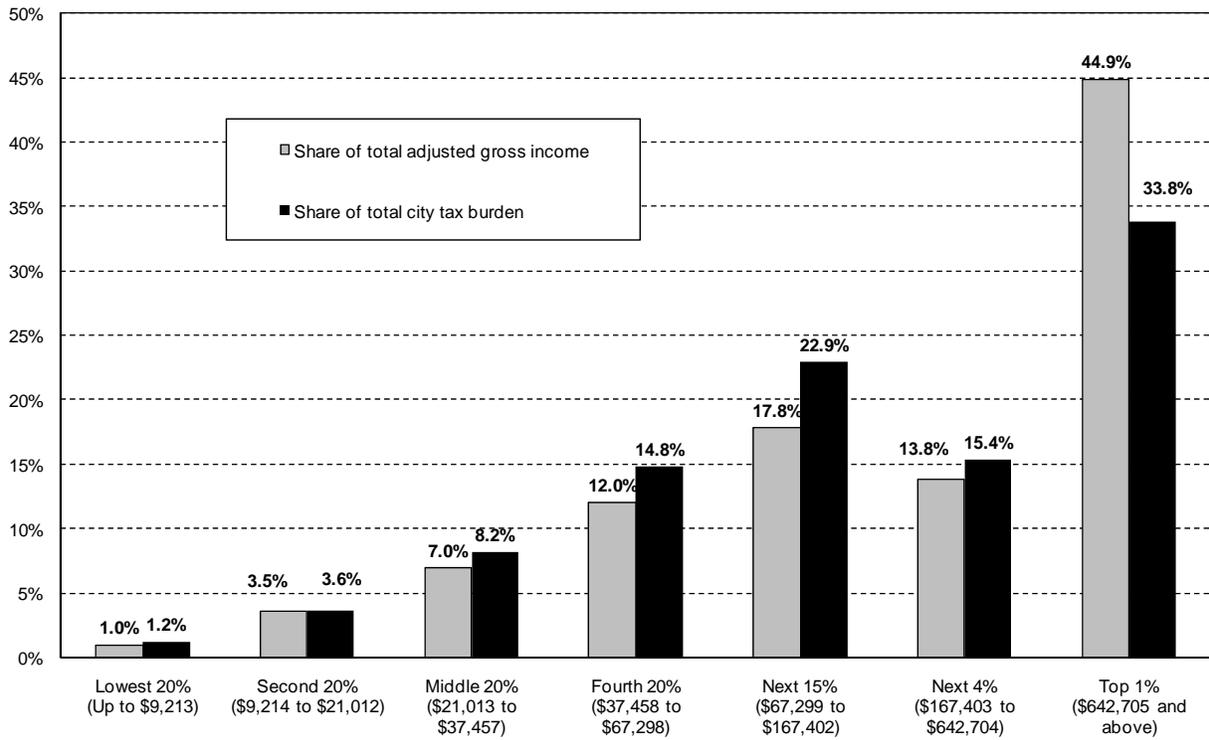
The New York and national economies are on the verge of growing further apart when we know our economy performs best when all segments of the workforce grow together. There are many reasons to be concerned about New York's extreme income concentration. Among the most pressing is that the pronounced polarization in the distribution of the rewards of economic growth is holding back the nascent recovery. Growth is stalled because our system of rewarding economic effort is out of kilter—the average worker is not paid for the productivity he or she generates and incomes flowing to those at the top are far out of proportion to what they contribute to our economy.

*The Fiscal Policy Institute ([www.fiscalpolicy.org](http://www.fiscalpolicy.org)) is an independent, nonpartisan, nonprofit research and education organization committed to improving public policies and private practices to better the economic and social conditions of all New Yorkers.*

**Appendix A. Overall, the wealthiest 1% of households pay a much smaller share of their income in state and local taxes than do all other New Yorkers, even with the temporary income tax increase.**



**Appendix B. Income group shares of city personal income, residential property and sales taxes, New York City, 2007.**



Source: FPI analysis of NYS Tax and Finance data.



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