

Pulling Apart in New York:
An Analysis of Income Trends
in New York State



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Acknowledgments

The primary author of this report is Trudi Renwick, an economist with the Fiscal Policy Institute and a nationally recognized expert on issues related to poverty and family incomes. Frank Mauro, James Parrott, Jo Brill, Michele Mattingly and David Dyssegaard Kallick, also of the Fiscal Policy Institute, assisted Dr. Renwick in the analysis of the data presented in the report and in the editing of the final report. Special thanks are due to Elizabeth C. McNichol of the Center on Budget and Policy Priorities and Jared Bernstein of the Economic Policy Institute for sharing with us the data from their new state-by-state analysis of income trends, and for preparing a special run of data for New York City. This project would not have been possible without the support of the Ford and Charles Stewart Mott Foundations and the many labor, religious, human services, community and other organizations that support and disseminate the Fiscal Policy Institute's analytical work.

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Executive Summary

There is plenty to be proud of about the New York State economy. Compared to other states, New York's productivity is very high, the workforce is highly educated, and financial resources are strong. But, one major national trend in which New York's preeminence is more of a danger sign than a blessing is the widening gap between people at the top of the socioeconomic ladder and the people below them.

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

- In the mid 2000s, **New York had the widest income gap between rich and poor of all 50 states (high incomes were 8.7 times greater than low incomes), and the fourth widest gap between the rich and the middle class (high incomes 2.8 times greater than middle incomes).**
- The gaps between high-income and low- and middle-income families grew dramatically over the last two business cycles. Since the late 1980s, the richest families gained steadily while the poor and those in the middle barely advanced. For a few years in the late 1990s, a sustained period of growth tightened the labor market enough that people at the bottom and the middle finally saw meaningful increases in their paychecks. However, **over the entire 17-year time period, only four states experienced greater growth in the income disparity between the rich and the poor than New York.**
- The richest 20 percent of families increased their share of total personal income in New York State from 42 percent in the late 1980s to 47 percent in the mid 2000s, while the other 80 percent of New York families saw their combined share of total income shrink. Within the top quintile, the richest 5 percent accounted for almost all of the increase. Their share of state income grew from 16 percent in the late 1980s to 21 percent in the mid 2000s. **The state's income pie grew over the past two decades, but the fortunate 5 percent at the top cut a larger slice as well.**
- **Income inequality is even more pronounced in New York City where the top income quintile had average incomes in the mid 2000s that were 9.5 times greater than the average income of the families in the bottom fifth.** The gap between the rich and those in the middle was also greater (a 3.3 to 1 ratio) in New York City than statewide.

Methodological Notes

Most of the analysis in this report is based on a measure of after-tax incomes which includes “near-cash” public benefits of families (two or more related individuals residing together) and comes from the U. S. Bureau of the Census’ Current Population Survey (CPS). This report uses an income measure that takes into account federal tax liabilities and noncash transfers including FICA, the federal Earned Income Tax Credit (EITC), and the cash value of food stamps, subsidized school lunches, and federal housing subsidies. Capital gains, state taxes, state tax credits and state noncash transfers are not included in the analysis.

All figures have been adjusted for inflation and are expressed in 2005 dollars. Due to small sample sizes for some states, the report compares pooled data for three three-year periods: the mid 2000s (2004, 2005 and 2006) to pooled data for the late 1980s (1987, 1988 and 1989) and the late 1990s (1998, 1999 and 2000). Comparisons among the three time periods chosen are appropriate because they are similar points in the business cycle. In each case, the economy was at or near the peak of a business cycle.

The people living in families in each state were divided into five groups, each with 20 percent of those individuals. These 20 percent groupings are referred to interchangeably as particular fifths or quintiles of families or of individuals living in families. So, for example, the 20 percent of individuals in the highest income families are referred to as the top fifth, the top 20 percent or the top quintile of families. The analysis is done using equal quintiles of individuals rather than equal quintiles of families in order to avoid bias stemming from differences in family sizes

Most wage data cited in the report is from the Economic Policy Institute’s analysis of Current Population Survey monthly data. Some wage and income data for high income New Yorkers are from analyses of New York State personal income tax returns done by the NYS Division of the Budget and the Independent Budget Office.

New York's inequality is the worst of all states.

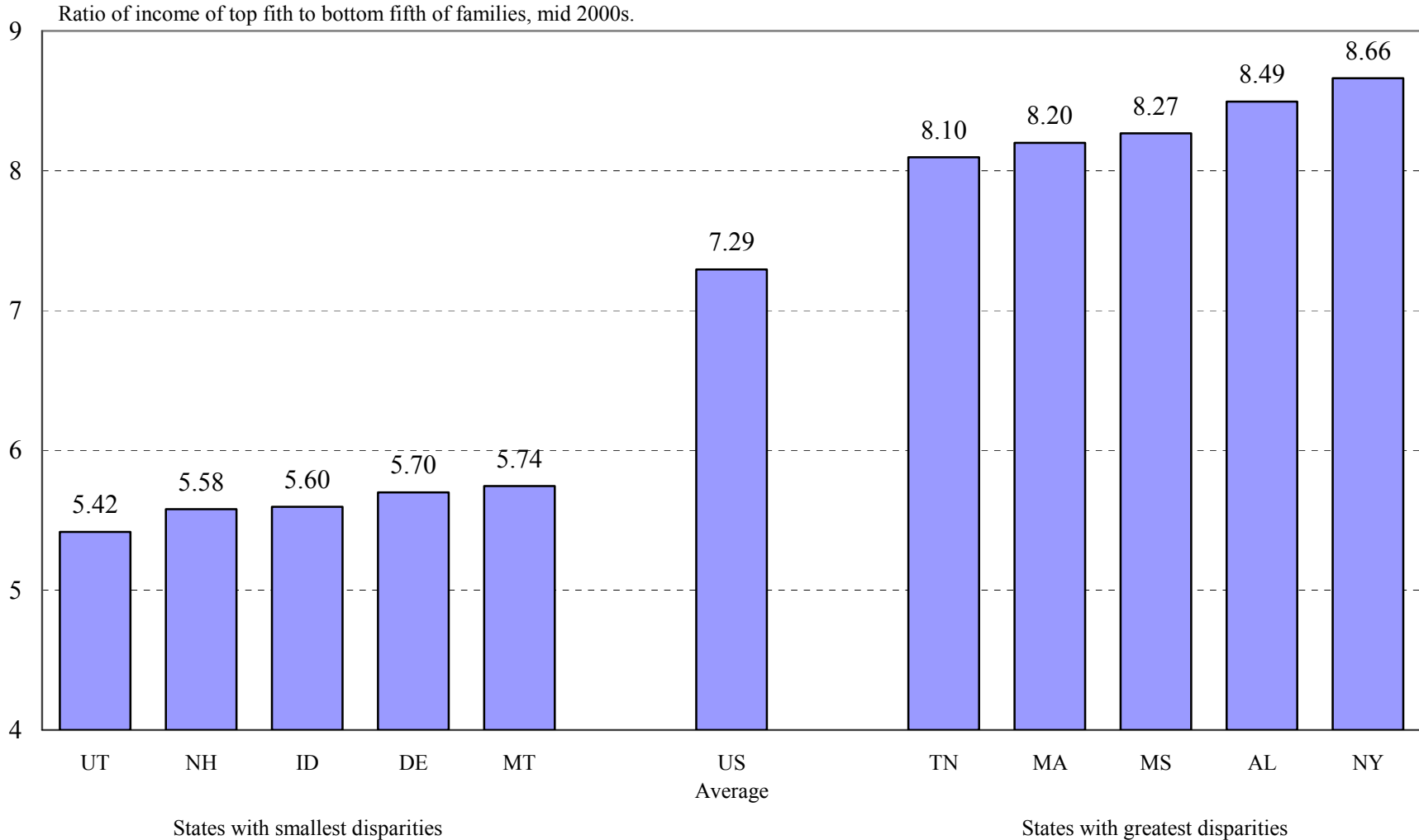
On measures of inequality between those at the top and those at the bottom of the income distribution, New York has either the most inequality of any state or runs a close second or third.

- The average income of the top fifth of New York families is 8.7 times greater than that of the bottom fifth. This is the biggest difference of all states.
- The top fifth of New York families received 46.7 percent of state income in the mid 2000s. This was almost nine times the 5.2 percent share claimed by families in the bottom fifth. The top five percent of New York families received 21.2 percent of the total.
- The average income of the top five percent of New York families is 15.4 times greater than that of the bottom 20 percent. This is the biggest difference of all states.

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

- The ratio of the average family income of the top fifth of New Yorkers to the average income of the middle fifth is 2.8 to 1. This is the fourth worst ratio in the nation, better than only Oklahoma, Mississippi and California.
- The gap between the middle income group and the top *five* percent of the population is even more severe—five to one. That is, the average income of families in the top five percent was five times greater than the average income of families in the middle 20 percent. Again this is the biggest difference of all states.

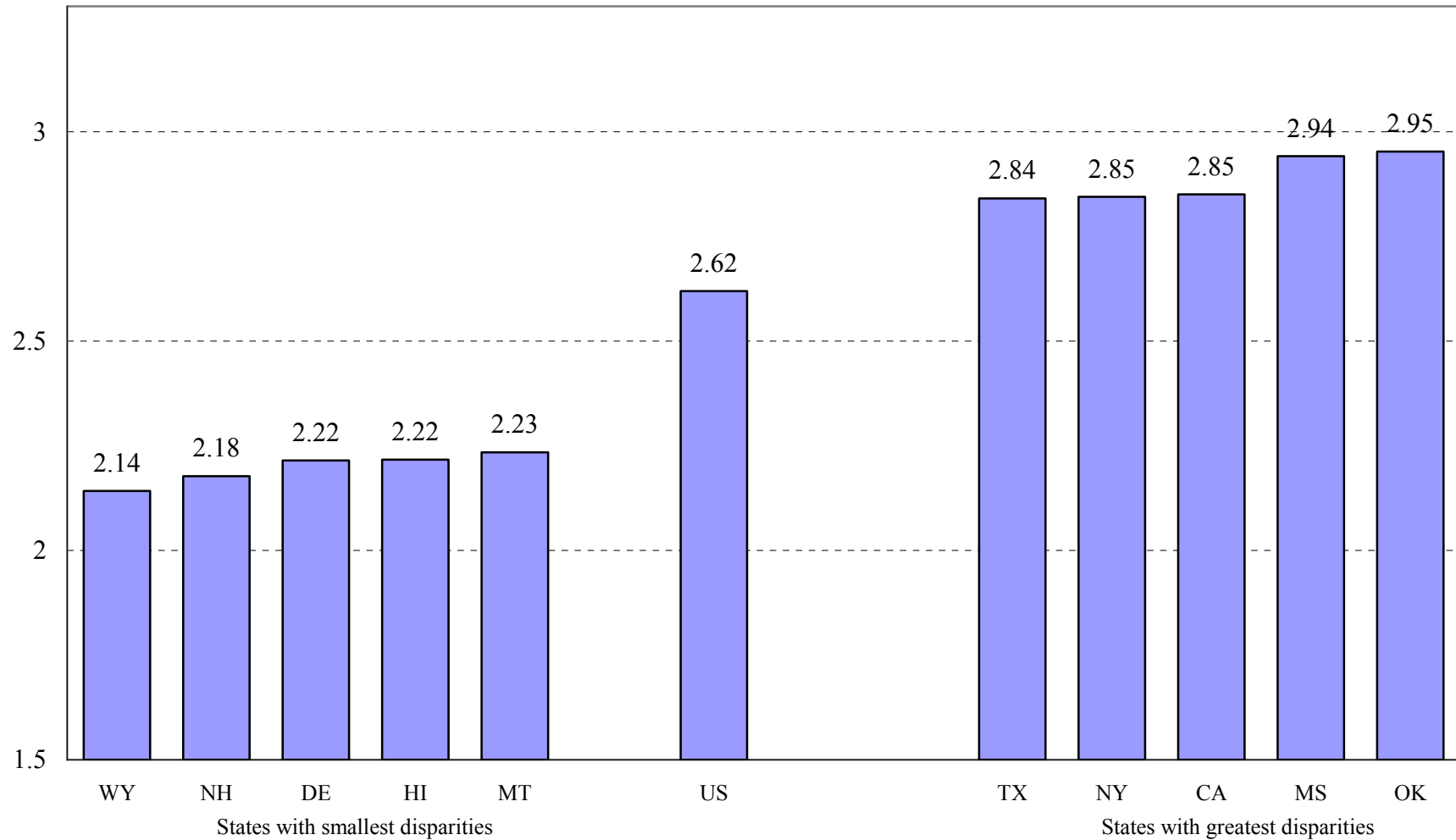
New York has the widest income gap between rich and poor of all 50 states.



Note: These figures represent the relationship between the average income of families in the top fifth and the average income of the families in the bottom fifth. For example, New York's 8.66 means that the average income of the top fifth of families (\$148,192) is approximately 8.66 times greater than the average income of the bottom fifth of families (\$17,107).

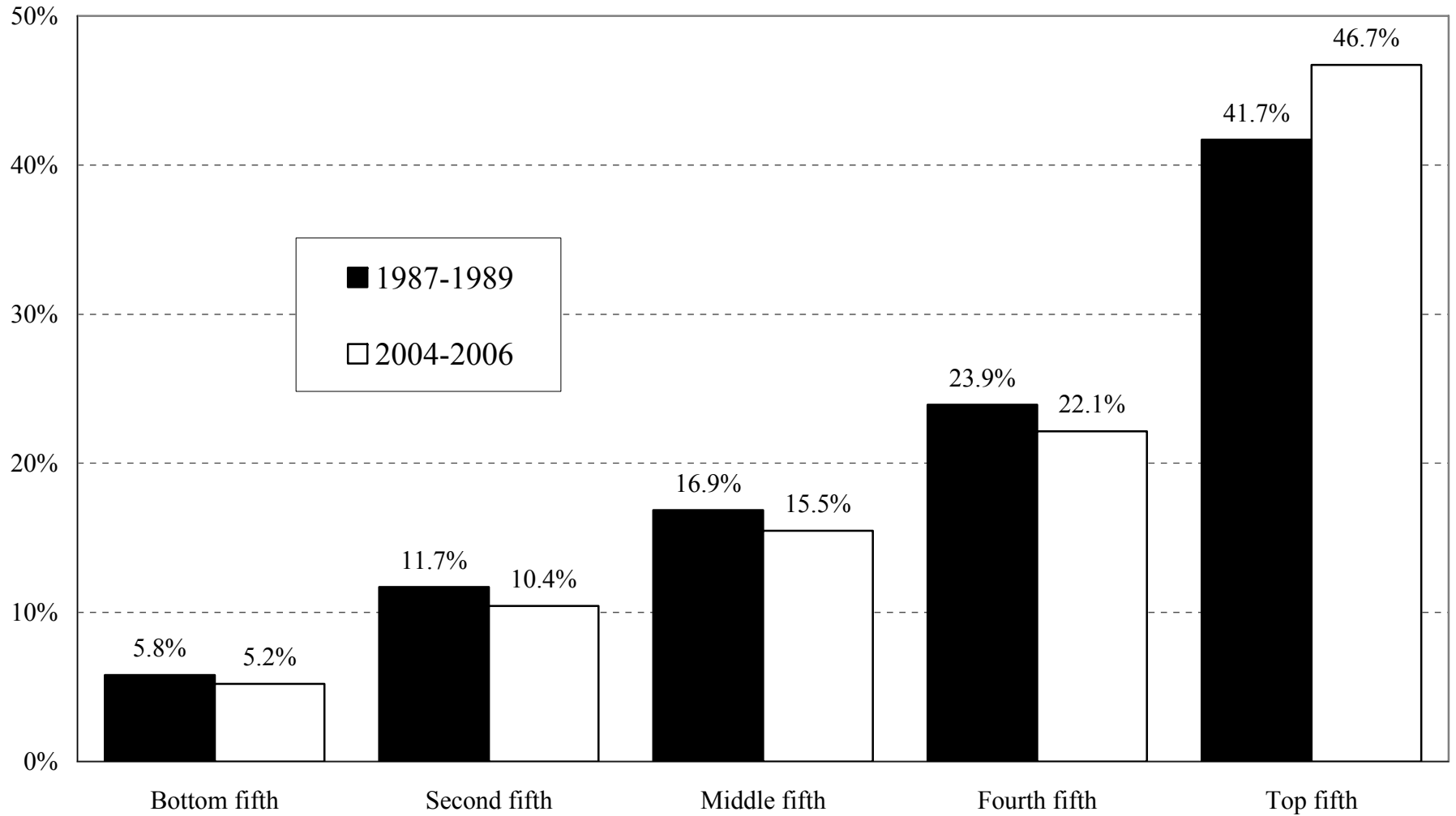
New York also has one of the widest gaps between the top and the middle income groups.

Ratio of income of top fifth to middle fifth of families, mid 2000s.

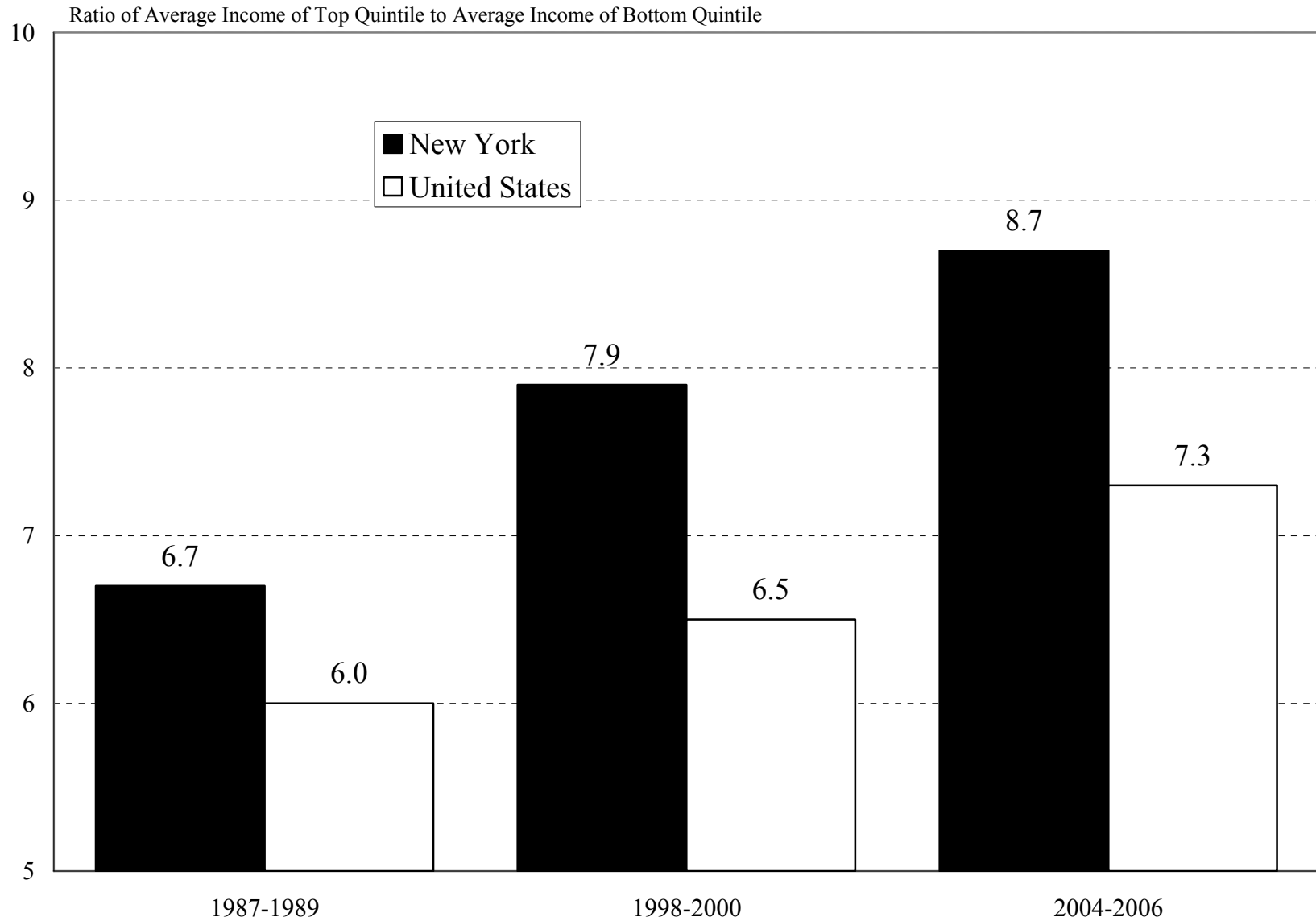


Note: These figures represent the relationship between the average income of families in the top fifth and the average income of the families in the middle fifth. For example, New York's 2.84 means that the average income of the top fifth of families (\$148,192) is approximately 2.84 times greater than the average income of the middle fifth of families (\$52,080).

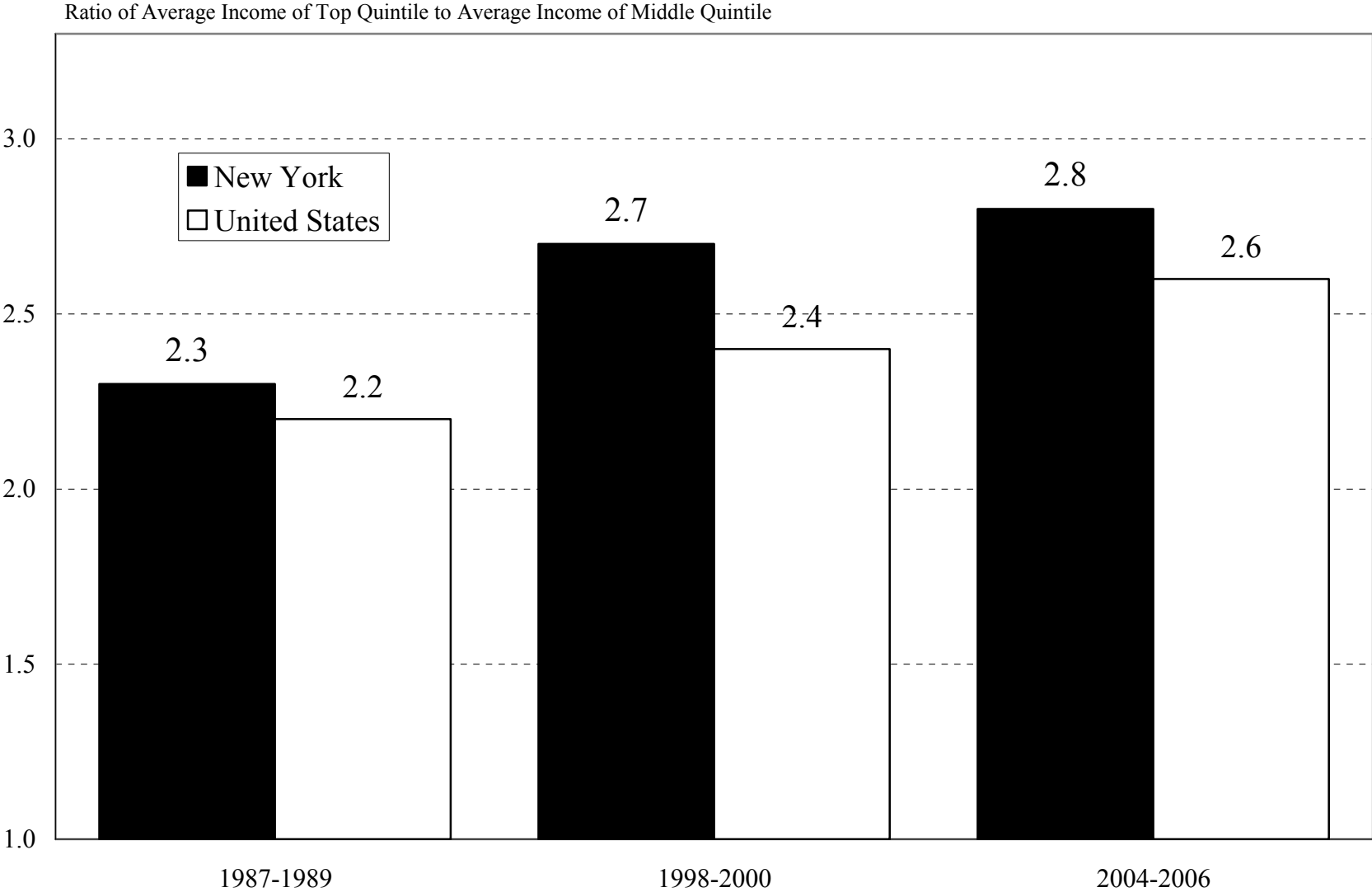
Between the late 1980s and the mid 2000s, only the top fifth of New York families increased its share of total income.



While income inequality grew in both New York and the nation as a whole, New York's grew more.



Also rising: The ratio of average income of the richest fifth of New York families to average income of the middle fifth.

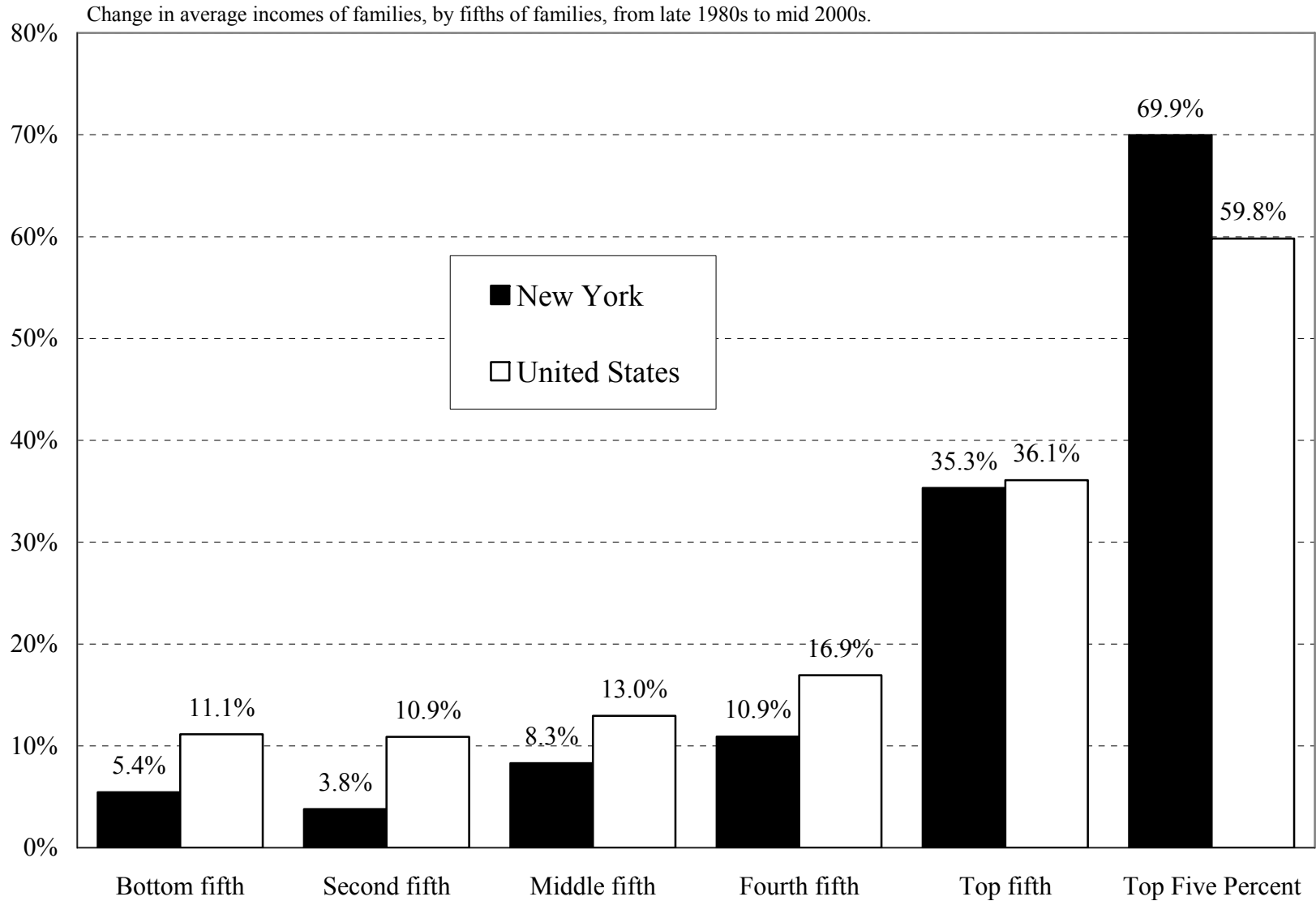


The rich got richer while poor families saw minimal improvements.

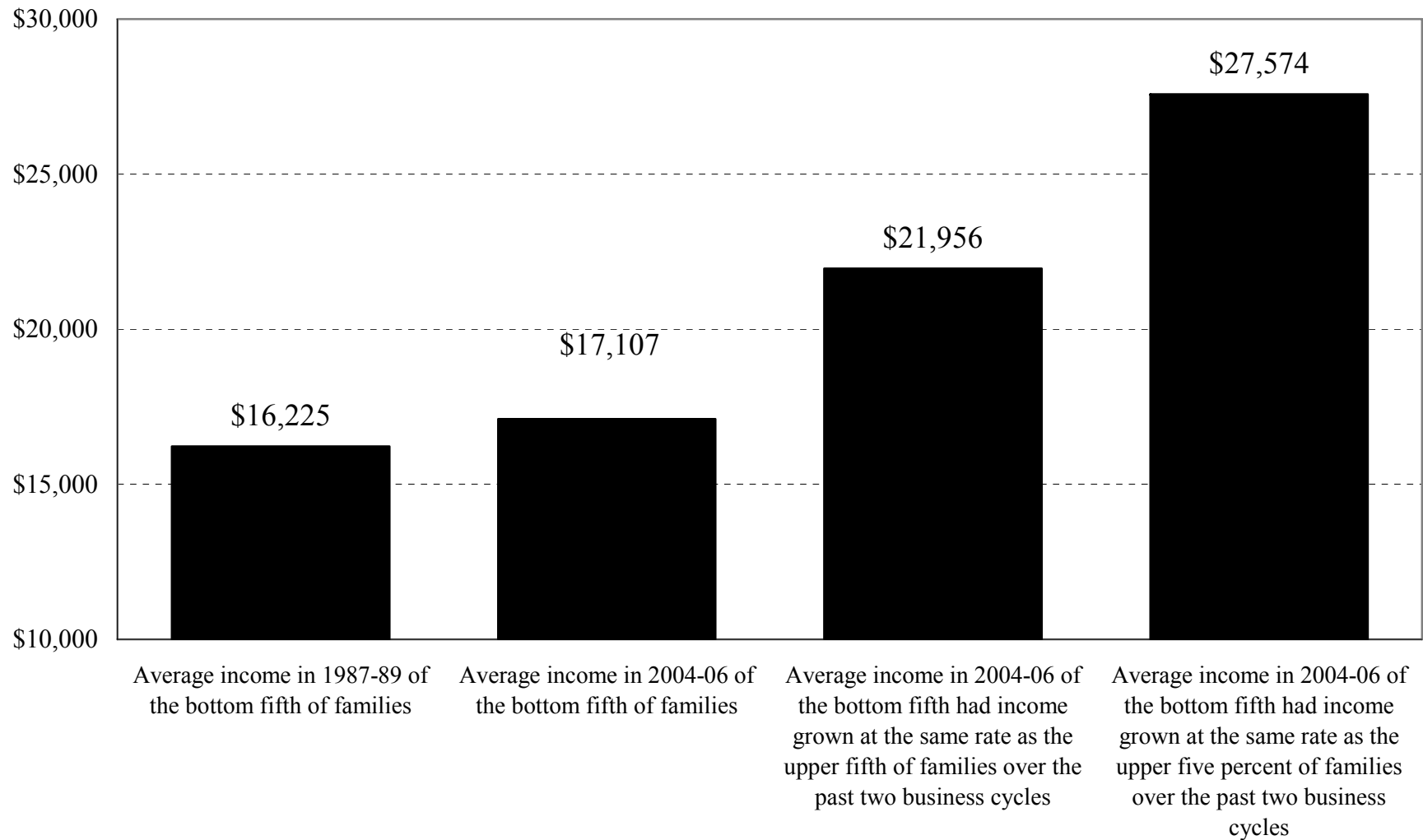
In the late 1980s, New York income inequality, as measured by the ratio of the average income of the top fifth of families to the average income of the bottom fifth of families was just slightly greater than the nation as a whole. However, New York's income inequality has worsened over time and has grown much more quickly than in most other states.

- The average income of the richest fifth of New York families, even after adjusting for inflation, *increased* \$38,681 (or 35 percent) to \$148,192 from the late 1980s to the mid 2000s. This was six times faster than the growth of average income of the poorest fifth of New York families that increased by only \$882 (or 5.4 percent) to \$17,107.
- The ratio of the average family income of the richest to the poorest New Yorkers grew steadily from 6.75 to 1 in the late 1980s to 7.95 to 1 in the late 1990s to 8.66 to 1 in 2004-2006. Only Oklahoma, Mississippi and California had a greater change than New York between the late 1980s and the mid 2000s.
- The growth in the ratio of the average income of the top five percent of New York's families relative to the poorest 20 percent is even more disturbing. While in the late 1980s, the average income of the top five percent was 9.5 times greater than that of the poorest 20 percent of families; by the mid 2000s this ratio was 15.4 to 1.

Income inequality grew in New York because over the past two economic expansions, the incomes of the rich grew six times faster than the incomes of the poor. Nationally, the incomes of the rich grew only three times faster than the poor.



If income for the poorest New York families had grown at the same rate as it did for the top fifth, the average income of families in the lowest quintile would have been almost \$5,000 higher in 2004-06. If income for the poorest families had grown as fast as income for the top five percent of families, the average income would have been \$10,000 greater.



New York families in the middle of the income distribution experienced slower growth than the rich and the super-rich.

The poorest families were not the only ones that did not fare as well as those at the top of the income distribution. Those in the middle class also failed to match the income growth at the top. New York was one of 35 states in which the average income of the families in the top quintile grew faster than the average income of the middle quintile over the past 17 years. As measured by the ratio of the average income of families in the top quintile to the average income of families in the middle quintile, in the late 1980s, 11 states had greater inequality between the rich and the middle than New York. In the mid 2000s, only three states had greater disparities than New York.

- The ratio of the average income of the richest fifth of New York families to the average income of the middle fifth worsened—from 2.3 to 1 in the late 1980s to 2.8 to 1 in the mid 2000s. Only five states experienced a greater change in this ratio.
- During these two decades, average income of families at the top increased by 35 percent while the average income of families in the middle quintile grew by 8 percent, less than one fourth the rate of families at the top.
- Average incomes for the families in the top five percent of the income distribution, grew by 70 percent over this period. This was more than eight times the growth rate for families in the middle.
- As a result, the ratio of the income of the top *five* percent of families to the average income of the middle 20 percent of families grew steadily from 3.2 to 1 in the late 1980s to 5 to 1 in the mid 2000s.
- Between the late 1980s and the mid 2000s, the share of total state income received by each income group fell for every group except the top quintile. The share of the middle fifth fell from 16.9 percent to 15.5 percent over this period while the share of the top five percent grew from 16 percent to 21 percent.

Average New York State Family Incomes, by Fifths

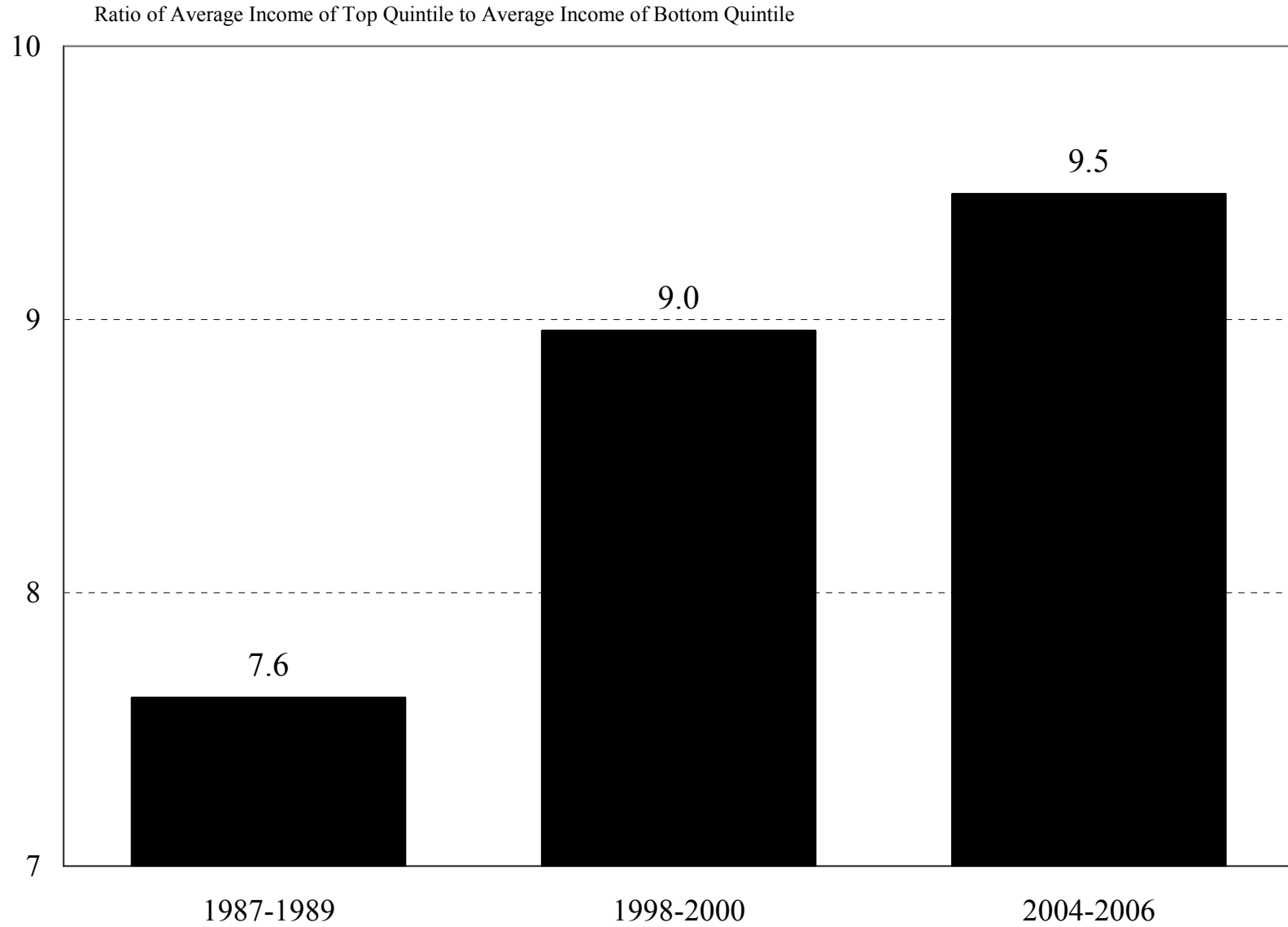
in 2005 dollars							
	Bottom Fifth	Next-to-bottom Fifth	Middle Fifth	Next-to-top Fifth	Top Fifth	Breakdown of Top Fifth	
						80th to 95th Percentile	Top Five Percent
New York State							
1987-1989	\$16,225	\$32,341	\$48,097	\$65,903	\$109,511	\$93,121	\$154,567
1998-2000	\$16,878	\$33,123	\$50,378	\$70,925	\$134,162	\$102,740	\$216,769
2004-2006	\$17,107	\$33,567	\$52,080	\$73,098	\$148,192	\$108,875	\$262,679
New York City							
1987-1989	\$13,284	\$24,749	\$38,874	\$57,459	\$101,177		
1998-2000	\$13,869	\$25,676	\$39,397	\$60,841	\$124,249		
2004-2006	\$14,115	\$26,430	\$40,496	\$60,028	\$133,508		

New York City has a significantly more unequal income distribution than the rest of the state.

For this report, the Economic Policy Institute completed a special analysis of data for families in New York City. This analysis found that New York City's income distribution is more unequal than that of New York as a whole.

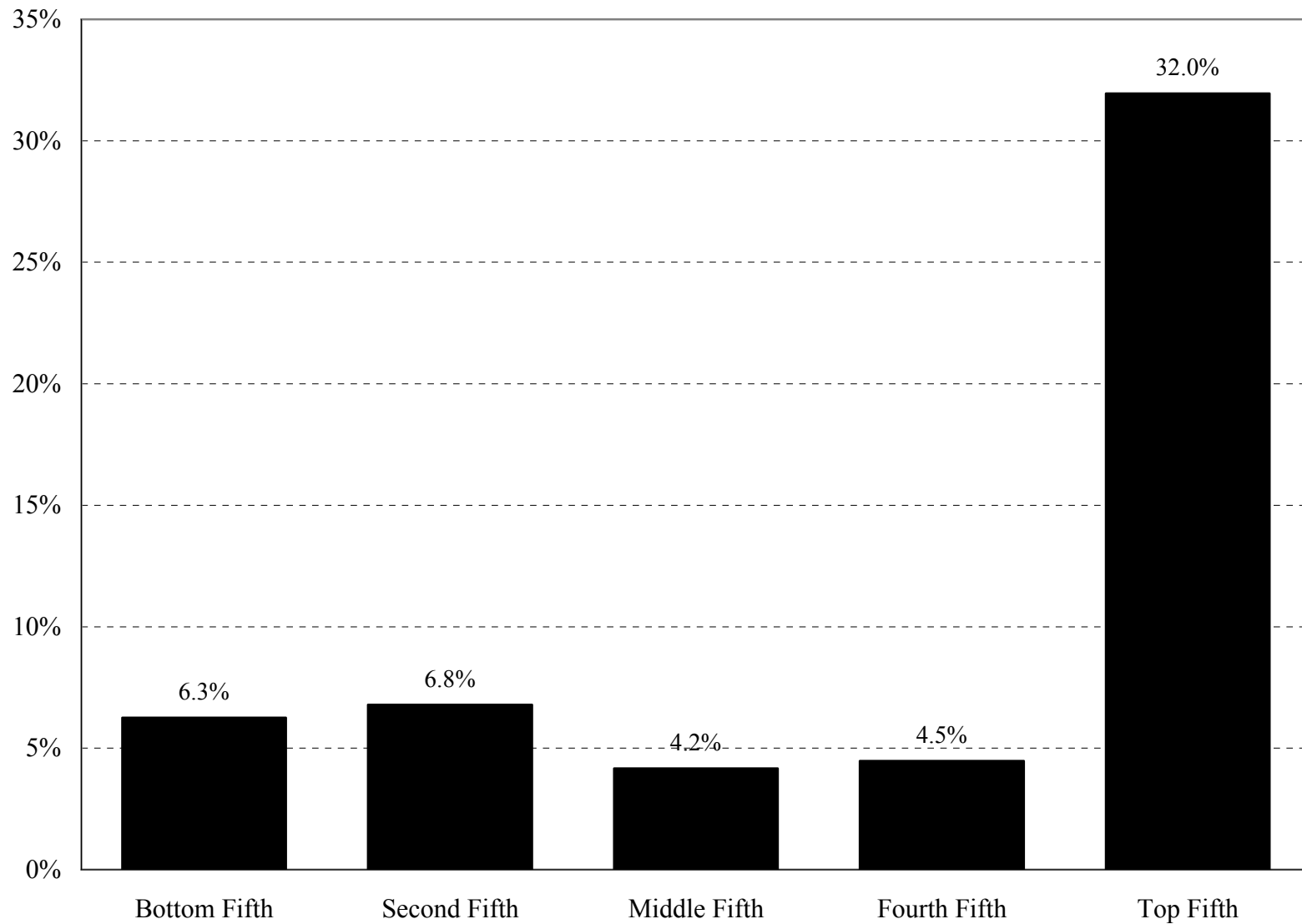
- Families in New York City's top income quintile had average incomes in the early 2000s that were 9.5 times greater than the average income of the families in the bottom fifth.
- Income inequality has grown in New York City over the past two economic expansions:
 - Between the late 1980s and the late 2000s the top-to-bottom ratio in New York City grew from 7.6 to 9.0.
 - Over these 17 years, the average income of the top fifth of families grew five times faster than the average income of the poorest fifth of families.
- New York City also suffers from a large gap between the average incomes of the richest families and the average incomes of families in the middle of the income distribution and this gap has grown.
 - In the mid 2000s, the average income of the top quintile of families was 3.3 times the average income of families in the middle quintile.
 - This top-to-middle ratio grew from 2.6 in the late 1980s to 3.3 in the mid 2000s

In New York City, income inequality continues to grow.



The incomes of the richest families in New York City grew by 32 percent over the past two economic expansions—five times as fast as the growth of incomes at the bottom.

Change in average incomes of families, by fifths of families, from late 1980s to mid 2000s.



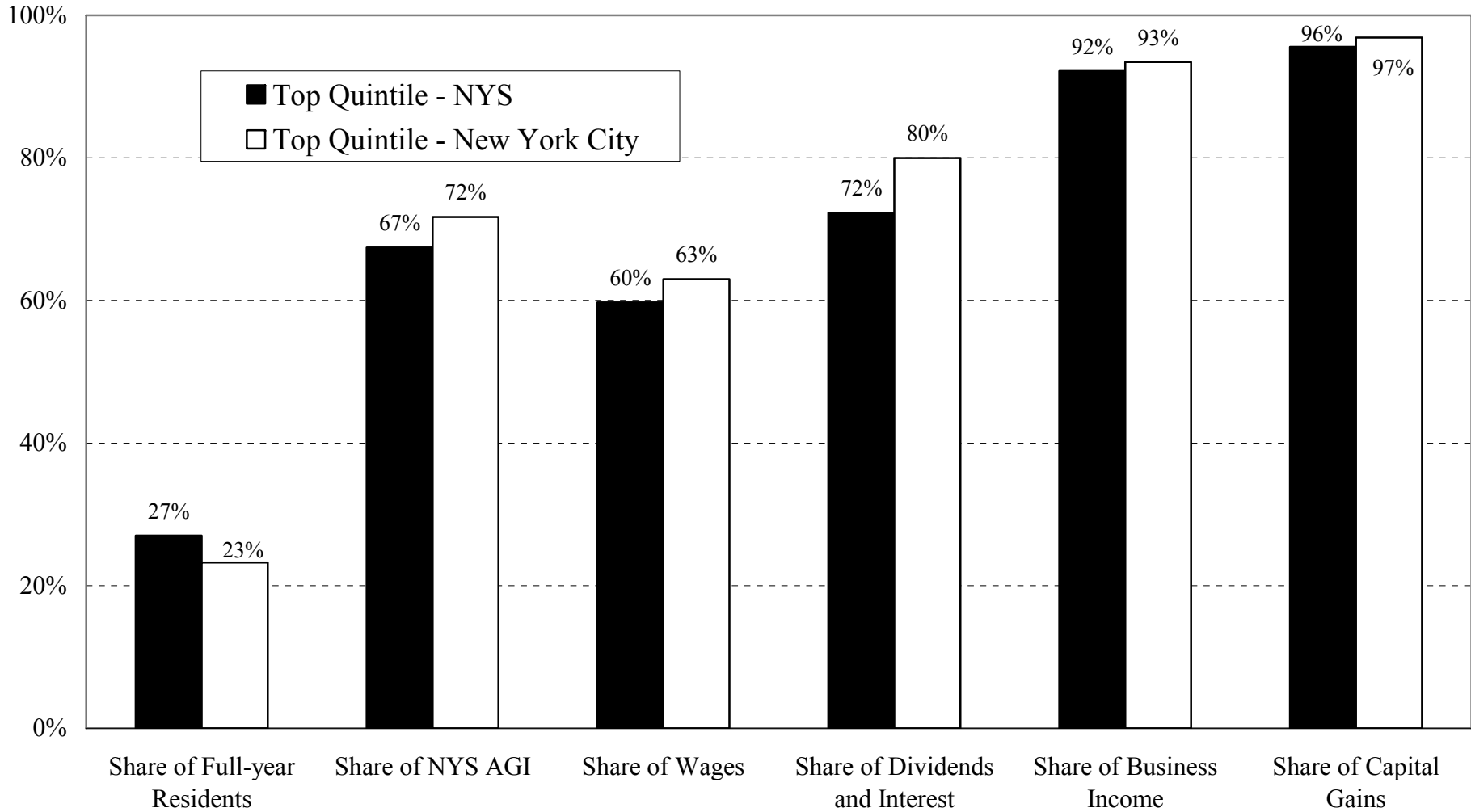
Data from tax returns reveal that the very highest income New Yorkers receive an extraordinary share of income, wages and capital gains.

Most of the analysis in this report is based on data from the Current Population Survey. While this data enables a comparison between New York and other states, it probably understates the degree to which income is concentrated at the very top of the income distribution because it does not include estimates of capital gains. An analysis of the 2005 Personal Income Tax Sample File done by the New York City Independent Budget Office permits a closer examination of the shares of various kinds of income for the highest income New Yorkers.¹

- The top 20 percent of New York tax filers in 2005 received 67 percent of the New York State Adjusted Gross Income (NYSAGI) reported by full year New York State residents; 47 percent of wages; 75 percent of dividends and interest; 91 percent of business income and 96 percent of capital gains.
- Even among this highest income quintile, income is concentrated at the very top. The top one percent of New York tax filers in 2005 (about 221,000 individuals filing 76,000 returns) received 29 percent of NYSAGI; 16 percent of wages; 49 percent of dividends and interest; 59 percent of business income and 81 percent of capital gains.
- For New York City residents, income is similarly concentrated at the very top. The top 20 percent of full year New York City resident tax filers received 72 percent of AGI; 63 percent of wages; 80 percent of dividends and interest; 93 percent of business income and 97 percent of capital gains.
- The top one percent of New York City tax filers (32,000 returns representing 82,000 New York City residents) received 37 percent of AGI; 20 percent of wages, 59 percent of dividends and interest, 70 percent of business income and 86 percent of capital gains.

¹ These estimates come from a NYC Independent Budget Office analysis of the 2005 Personal Income Tax Sample File from the Office of Tax Policy Analysis, NYS Department of Taxation and Finance. This data set is not directly comparable with the Current Population Survey (CPS) data used in the main part of this report. The Tax Department sample data shows income for full year resident tax filers (single, married filing jointly and heads of household) while the CPS analysis is based on families (households with more than one person). As described in the methodological notes, the CPS income estimates are adjusted for federal tax liabilities, federal tax credits and the cash value of food stamps, housing subsidies and free and reduced price lunch while the tax department income estimates are pre-tax, pre-benefits.

The distribution of capital gains and business income in New York is more highly skewed than wages. The top 20 percent of New York tax filers received virtually all capital gains income in 2005.



Source: Independent Budget Office analysis of NYS Personal Income Tax Sample File from the New York State Department of Taxation and Finance.

Many factors contribute to income inequality.

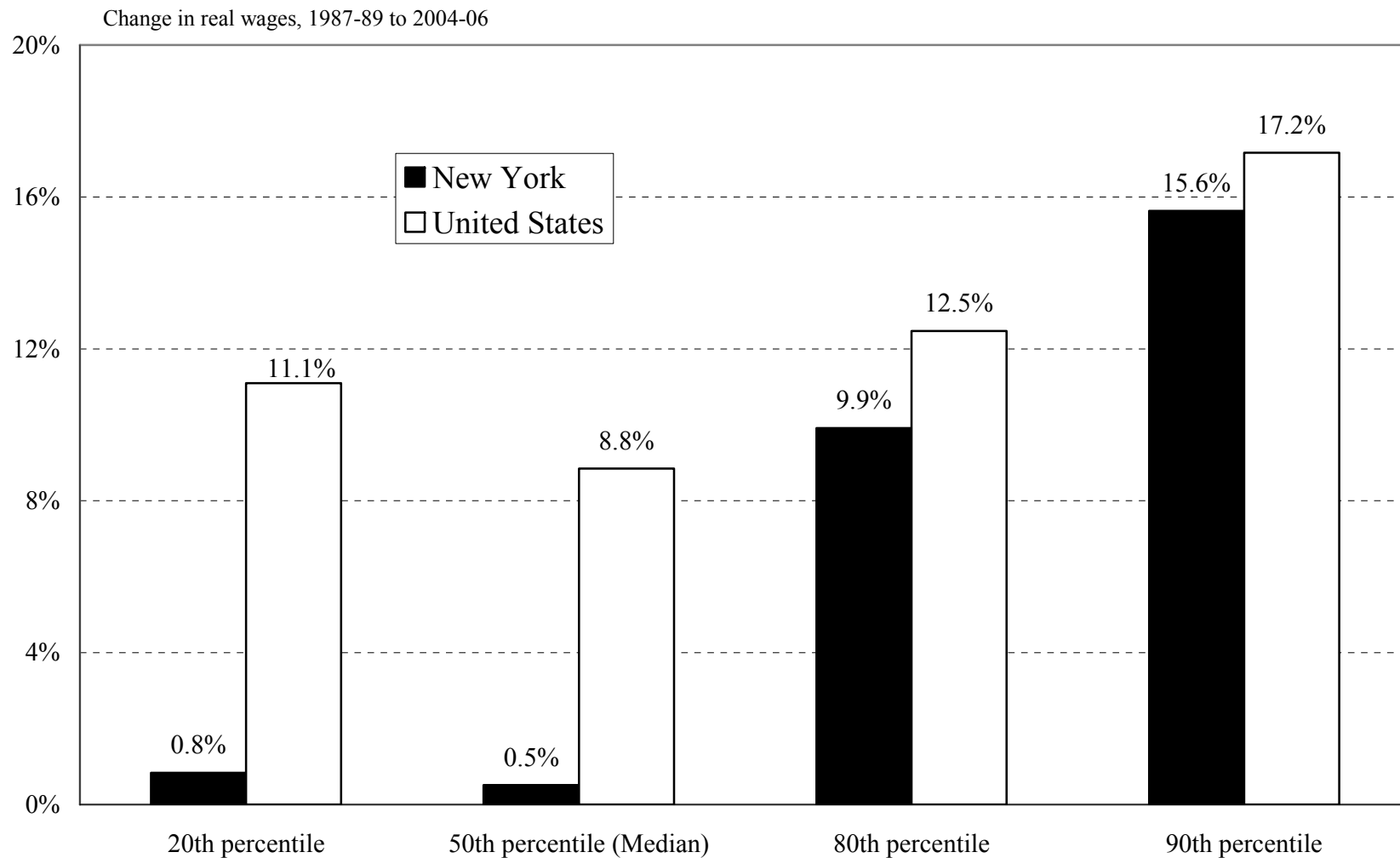
Researchers have identified three factors that have contributed to the large and growing income gaps in most states.

- 1. Wage Inequality.** The growth of income inequality is due primarily to the growth in wage inequality. Real wages at the bottom and middle of the wage scale grew only minimally over the last two decades. The wages of the very highest paid employees, however, increased significantly. Several factors contributed to increasing wage inequality including globalization, the decline of manufacturing jobs, the expansion of low-wage service jobs, and the weakening of labor market institutions—the lower real value of the minimum wage, fewer and weaker unions, and lax labor standards enforcement.

Multiple factors led to an erosion of wages for workers with less than a college degree—approximately the lowest-earning 70 percent of the workforce. Many of these trends are attributable to government policies. In some cases, such as trade liberalization, this has involved what government has done. In other cases, such as the erosion of the minimum wage as a floor under the low end of the wage scale, this has been the result of what government failed to do.

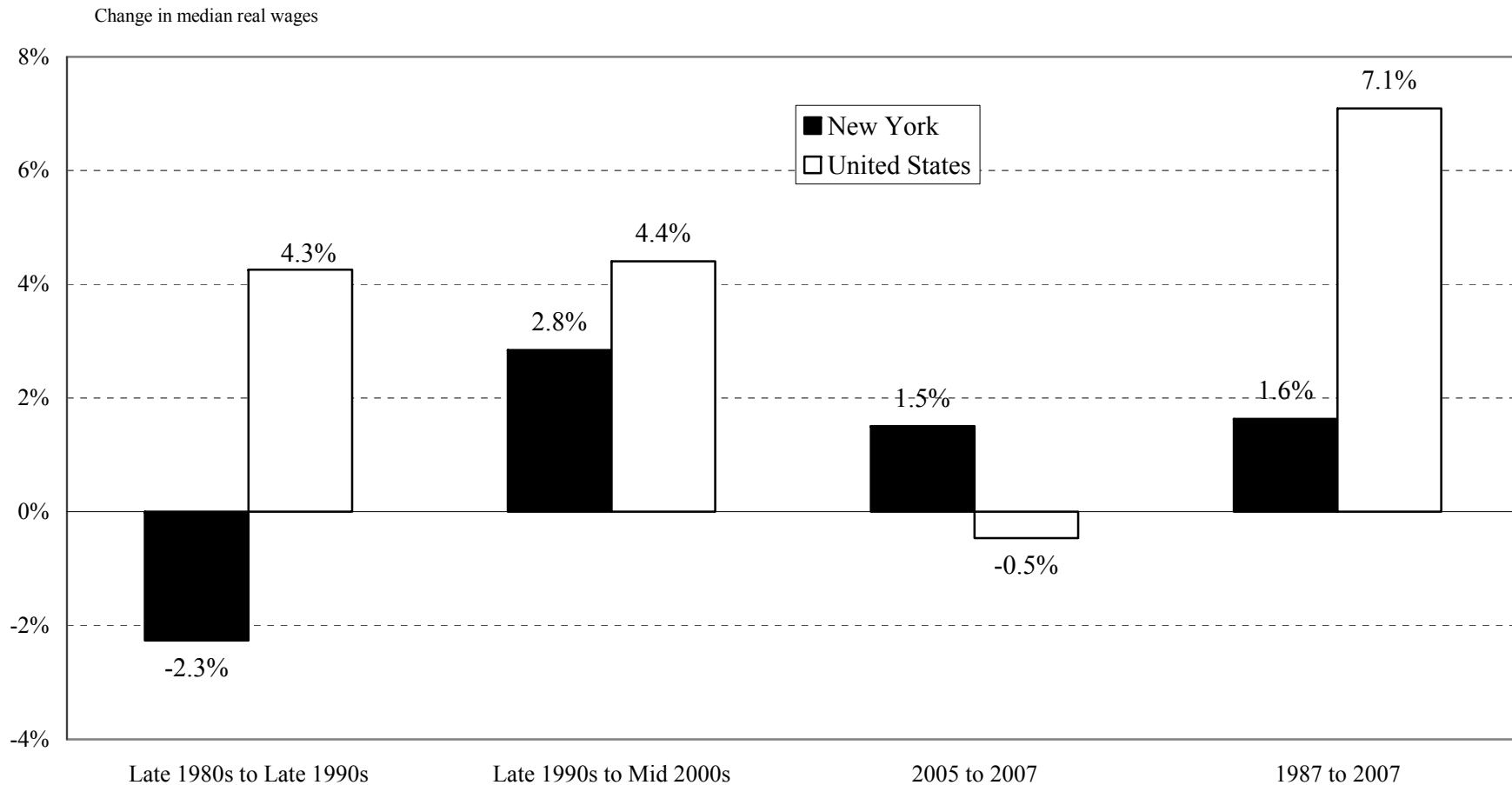
- **Structural Change**—From 1990 to 2008, New York lost 448,400 manufacturing jobs and gained twice that number of jobs in services. The pace of the elimination of manufacturing jobs has not slowed in recent years—jobs in the sector have been lost at an even slightly higher annual rate since 2000 than in the previous decade. The average wage in the ten manufacturing industries with the biggest job losses between 1990 and 2008 is 18 percent higher than the average in the ten industries with the largest employment gains during that same period.
- **Unionization**—New York has the highest degree of unionization of any state in the nation (although this distinction belonged to Hawaii during one of the past five years). However, the percent of the state’s workforce that was unionized has declined over time, dropping from 28.2 percent in 1990 to 25.2 percent in 2007. In 2007, 15.8 percent of the private sector workforce was unionized—again, the nation’s highest rate.
- **Minimum wage**—The latest period of income inequality data included in this report (2004-2006) reflects the first two steps of the three-step increase in the state minimum wage: from \$5.15 to \$6.00 an hour on January 1, 2005, to \$6.75 an hour on January 1, 2006, and to \$7.15 an hour on January 1, 2007. However, adjusted for inflation, New York’s minimum wage is still well below the peak level of the early 1970s.

**Nationally, wages rose between the late 1980s and 2004-06, at all levels of the wage distribution.
But in New York, only the wages of the highest 20 percent of earners saw significant gains over this same time period.**



Source: Economic Policy Institute - Current Population Survey Data using CPI-RS to convert nominal wages to 2007 dollars.

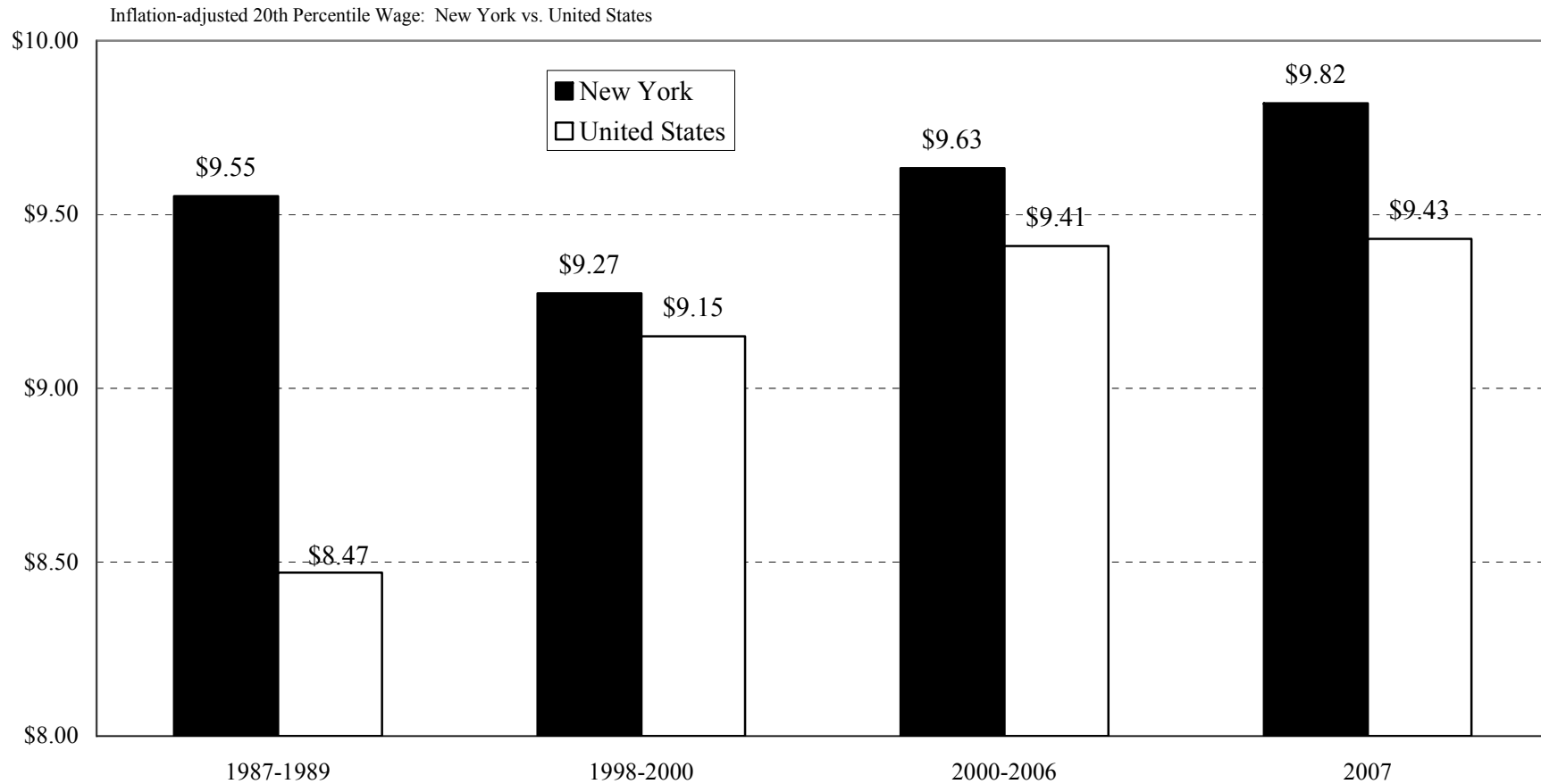
Median wages for New Yorkers fell during the 1990s and grew more slowly than the median wages nationally during the first years of the most recent expansion. Since 2005, however, median wages grew in New York while declining for the nation. Over the entire 20-year period, New York's median wage growth was only a fraction of the wage growth experienced nationally.



Source: Economic Policy Institute - Current Population Survey Data using CPI-RS to convert nominal wages to 2007 dollars.

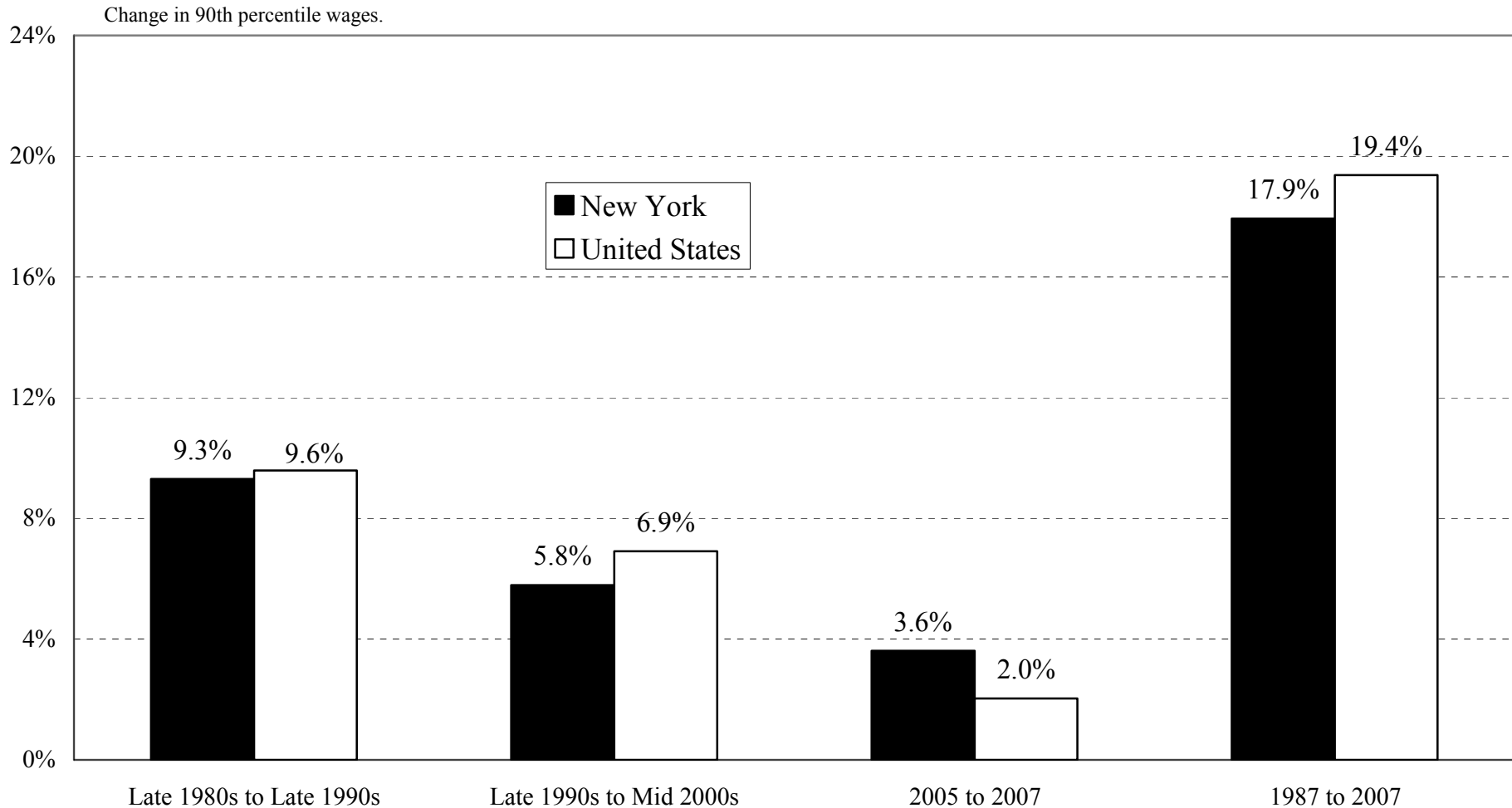
In 2004-06, the hourly wage of a typical low-wage New York worker was only one percent higher in real terms than in 1987-89.

Nationally, such a worker experienced an 11 percent wage gain over the same period. Since 2005, low-wage workers' wage growth in New York has exceeded the national average.



Source: Economic Policy Institute - Current Population Survey Data using CPI-RS to convert nominal wages to 2007 dollars.

On the other hand, wage income of New York households at the higher end of the spectrum grew rapidly during all three periods. Between the late 1980s and 2007, wages at the 90th percentile increased 18 percent. According to data from the NYS Department of Tax and Finance, increases were quite dramatic further up the wage scale, with growth of 38 percent at the 99th percentile, and 65 percent at the 99.9th percentile, between 1994 and 2004.



Sources: 90th percentiles wages from Economic Policy Institute - Current Population Survey Data using CPI-RS to convert nominal wages to 2007 dollars. For Department of Tax and Finance data analysis, *see* State of Working New York, 2007, p. 34.

Many factors contribute to income inequality—continued.

2. Investment Income Inequality. Besides wages, the other major source of income is investment income such as dividends, rent, interest and capital gains. Since investment income primarily accrues to those at the top of the income structure, any expansions of investment income—as occurred during the economic expansions of both the 1990s and the mid 2000s—will lead to greater income inequality. The bursting of the stock market bubble in 2001 had a large impact on high-income families and lessened inequality.

Capital gains are particularly important to New Yorkers. According to the NYS Division of the Budget, the portion of the income reported on New York State personal income tax returns that was from capital gains increased from 4 percent in 1994 to 13 percent of total income in 2006, growing in dollar terms from \$12 billion to \$83.2 billion over this twelve-year period. Positive capital gains income fell between 2000 and 2002 by more than \$40 billion and represented only 5.1 percent of income in 2002. Since that time, capital gains rebounded and are projected to reach \$101.8 billion, almost 14 percent of income by 2009. While the top one percent of taxpayers, as determined by their NYSAGI, accounted for 39.8 percent of adjusted gross income in 2006, they accounted for fully 75.5 percent of capital gains realizations.

3. Government Policies. During the periods compared in this study, changes in federal taxes most affected families at both ends of the income scale. Earned income tax credit expansions boosted the incomes of low- and moderate-income working families and federal tax cuts disproportionately benefited the wealthy. As discussed in the methodological notes, this analysis of income distribution used a definition of family income that includes the cash value of some noncash transfers, and federal tax credits and obligations.

When the same analysis is done using the traditional Census Bureau definition of income that does not take into account these factors, New York's inequality measures are even starker. The fact that these pre-tax data show larger income gaps than the after-tax data that are the main focus of this report demonstrates that while changes in a number of government policies have served to widen income gaps further, the overall effect of federal government tax and benefit policies—such as the progressive federal tax structure and supports for low-income families—is to reduce income gaps.

Evidence suggests that the trend towards increasing inequality in New York has continued throughout the most recent period of economic expansion.

Our report analyzes data through 2006—the most recent year for which state data on income, taxes and benefits are available. This period marked the mid-point of the recent expansion. Since then, income inequality has continued to grow nationally and in New York State.

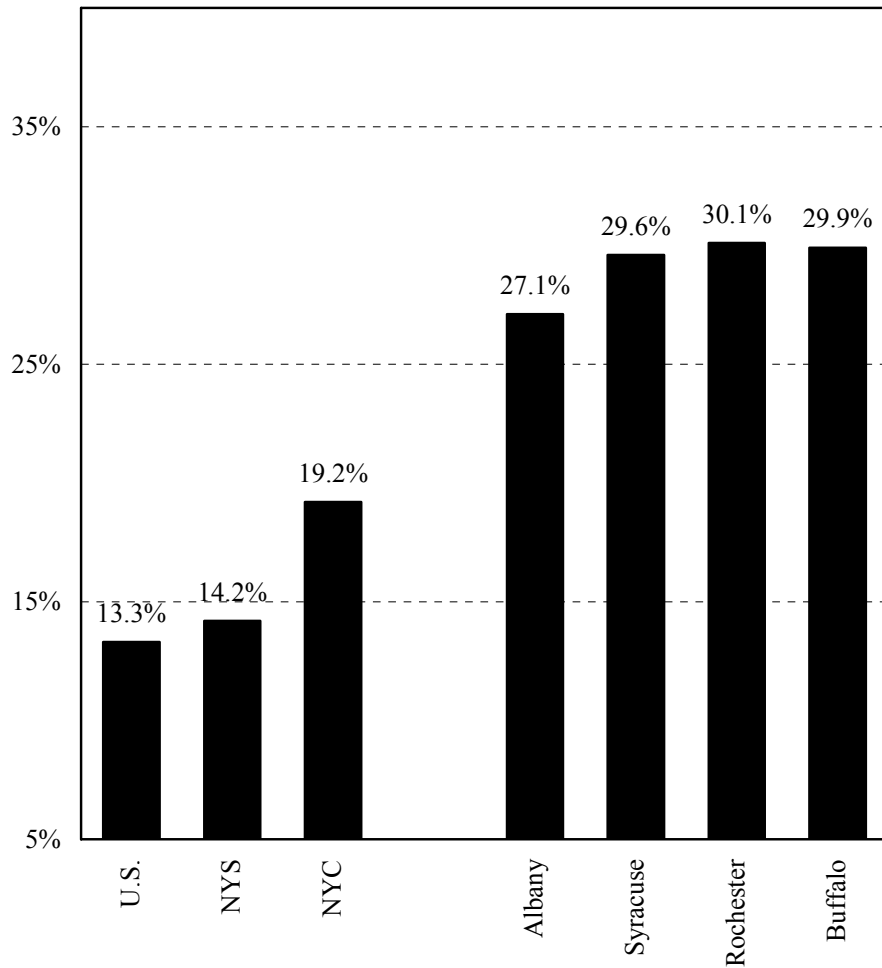
The economic recovery—which was characterized by exceptionally weak job creation—failed to broadly distribute the benefits of a growing economy.

- New York did not gain back the 273,000 jobs lost during the recession (March through November 2001) and ensuing “job loss” recovery (November 2001 through May 2003) until January 2007.
- Workers have not been sharing fully in the fruits of the expanded production of goods and services. In New York, economic output and output per worker increased by 9 percent from 2001 to 2006, while average real wages increased by only 4 percent, mainly as a result of gains by high wage workers.
- Real wages for workers in the middle of the wage distribution were no higher in 2007 than they were in 2001. Low-wage workers (20th percentile) received a modest real wage increase (1.9 percent) between 2001 and 2007 with high-wage workers (80th percentile) gaining twice as much (3.8 percent).
- According to the NYS Division of the Budget, the New York State Adjusted Gross Income (NYSAGI) of New Yorkers with annual incomes greater than \$200,000 almost doubled between 2003 and 2007.
- New York’s poverty rate remained around 14 percent despite the economic expansion. In 2006, poverty rates in Buffalo, Syracuse and Rochester were estimated at around 30 percent, double the statewide poverty rate.

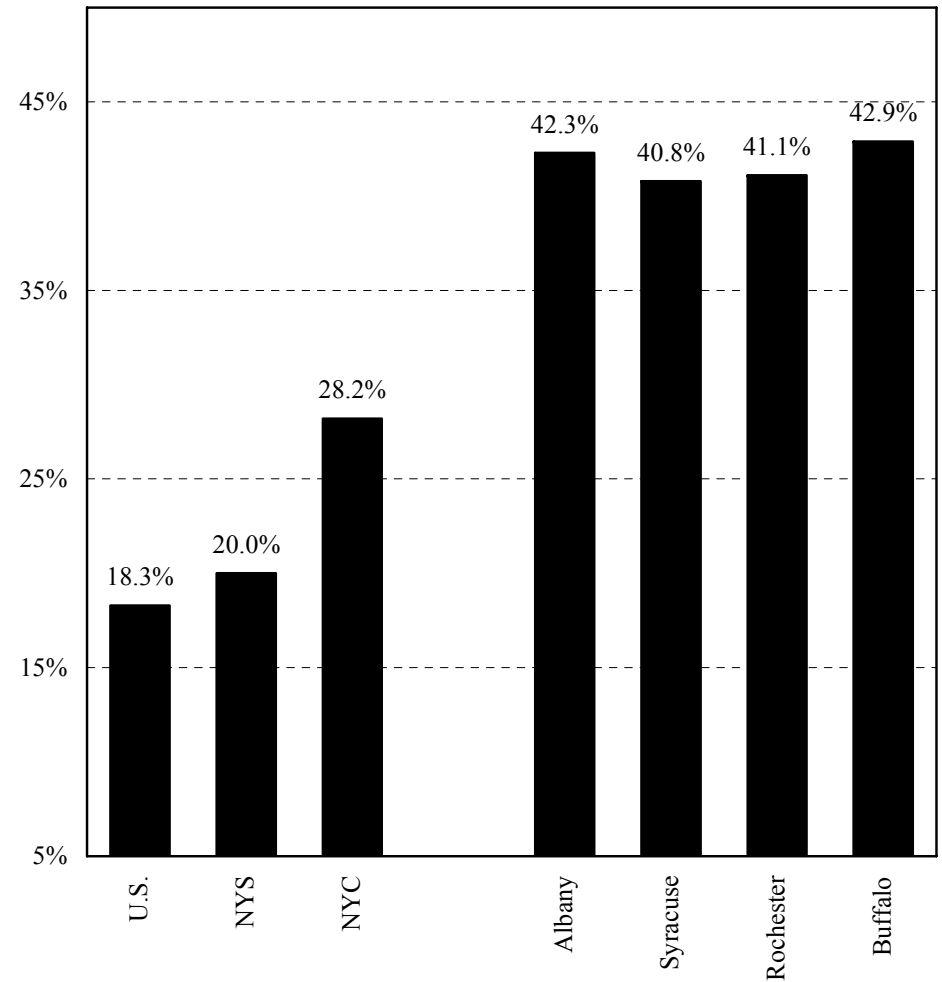
For a more complete statistical picture of this and other aspects of New York’s economy in the most recent period, see the Fiscal Policy Institute’s September 2007 report, *The State of Working New York*.

Poverty rates are much higher in the major upstate cities than in New York City—and higher than the national average.

Percent of population with income below the poverty line: 2006



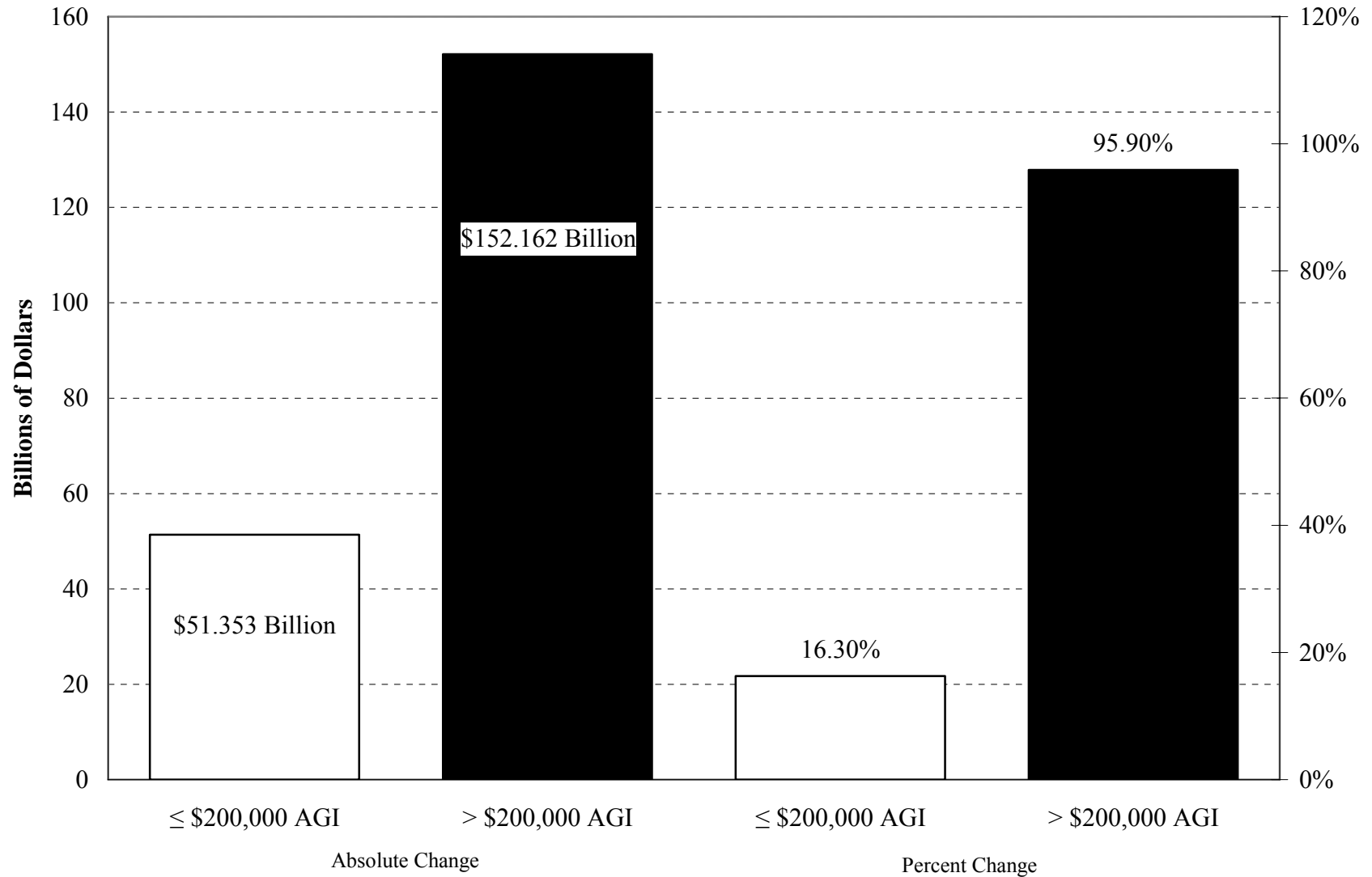
Percent of children in families with incomes below the poverty line: 2006



Source: American Community Survey: 2006

The latest data from the New York State Division of the Budget shows that income growth since 2003 was concentrated among the top five percent—those earning more than \$200,000 a year.

Change in New York State Adjusted Gross Income: 2003-2007



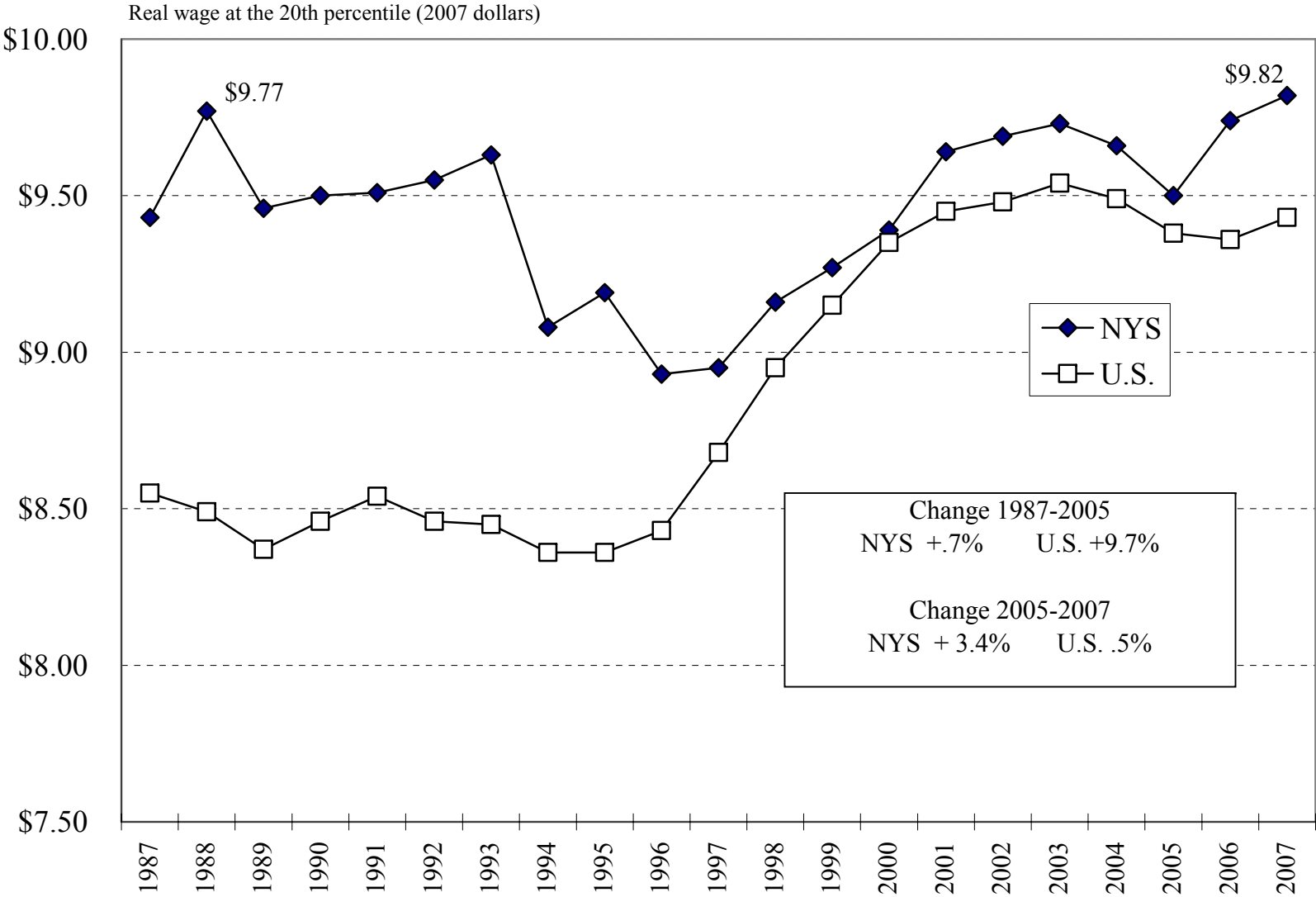
Low-income workers in New York enjoyed some wage growth in the last couple of years, partially as a result of the 2005 increase in the state minimum wage. The increase in the state minimum wage did not reduce employment in the retail and food services industries.

New York State's minimum wage went up in three steps between January 2005 and January 2007, rising from \$5.15 to \$7.15. In July 2007, the federal minimum increased from \$5.15 to \$5.85. The federal minimum will increase again in July 2008 to \$6.55 and to \$7.25 in July 2009. By law, New York's minimum wage will increase from \$7.15 to \$7.25 in July 2009 when the federal increase takes effect.

The 2004-2006 data used for the bulk of this report do not include 2007, the year in which the state minimum wage reached \$7.15 and in which the federal minimum also rose. A separate analysis reveals that from 2004 to 2007, the average wage of a New York worker in the bottom 10 percent of the state's wage distribution increased by 1.4 percent to \$7.84 when adjusted for inflation. This was a modest increase, but it contrasts with the comparable wage at the national level, which effectively stayed flat throughout this time at \$7.77. At the 20th percentile, New York workers averaged a wage of \$9.82, which reflects a 1.7 percent inflation-adjusted increase between 2004 and 2007. Again, this favorably compares with the national average of \$9.43, which represented a decline of 0.6 percent over the same time span.

Contrary to predictions that increasing the state minimum wage would hurt employment, the number of jobs in the retail trade and food services industries—the largest employers of minimum-wage workers—grew by 3.3 percent between December 2004 (the month preceding the first wage increase) and December 2007. Total employment in the state increased by 3.0 percent during this period. While these figures are lower than the national averages (4.8 percent and 4.4 percent, respectively), the ratios of change of low-wage industry employment to total employment are comparable (1.10 for New York State and 1.09 nationally). In other words, the number of jobs in these heavily minimum-wage industries grew just as fast statewide relative to total job growth as it did at the national level.

Since 2005, low-wage New Yorkers benefited from the increase in the state minimum wage. In 2007, New Yorkers at the 20th wage percentile finally surpassed their 1988 wage level.



Source: Economic Policy Institute.

**The results are dramatic and demand action.
Typical justifications are at odds with the facts.**

Rather than trying to understand and address the causes and consequences of these trends, some say that the results do not show a problem. Others try to explain away the results.

Justification #1. Americans constantly move up and down the income scale so a gap between the top and the bottom is not a problem. The families in the bottom fifth today aren't the same families who were in the bottom fifth decades ago.

The reality:

- Low-income families and individuals with less education have the lowest income mobility. In the 1970s, 1980s and 1990s, about half the families who started in the bottom fifth remained there 10 years later and many of those who did move up the income ladder did not move far: half of them rose only to the second-lowest quintile. (See Larry Mishel, Jared Bernstein, and Sylvia Allegretto; *State of Working America; 2004-2005*.)
- The ability of Americans to move up the income ladder has not increased as inequality has increased. In fact, recent research has shown that income mobility in the United States declined in the 1980s and the 1990s. (See Daniel Aaronson and Bhashkar Mazumber, "Intergenerational Economic Mobility in the United States, 1940 to 2000," Federal Reserve Bank of Chicago, Working paper 2005-12, November 2005; and Katherine Bradbury and Jane Katz, "Are Lifetime Incomes Growing More Unequal?" *Regional Review*, Fourth Quarter, 2002.)

Justification #2: It is not a problem that the rich are getting richer faster because everyone is doing better. All have shared in the growth in income and wealth. The poor are not really badly off.

The reality:

- In New York, as in many other states, the rich have gotten richer while the incomes of poor and middle class families have remained stagnant or increased only slightly.
- The distribution of wealth in the United States is more unequal than the distribution of income. For example, a recent study found that, in 2001, the wealthiest 20 percent of the U.S. population held 84 percent of wealth, while the remaining 80 percent of the population held less than 16 percent.
- Poor families face serious problems paying for housing and utilities, putting food on the table and obtaining health insurance. A recent Urban Institute survey found that half of the low-income families surveyed reported food-related problems; close to one third reported difficulties paying their rent, mortgage or utility bills and some 37 percent of the low-income adults surveyed lacked health insurance.
- Even if the poor *are* better off now than 20 years ago, inequality *by itself* subverts stability, democracy, and community. A badly unequal state cannot be a healthy commonwealth.

Justification # 3. The widening of the income gap is the result of demographic changes such as smaller family sizes and is the natural result of differences in education, skills and work effort.

- **The reality:** One demographic trend that has some impact on the rise in income inequality among households is the growing percentage of households composed of single individuals. This analysis includes only families; thus it is not skewed by the inclusion of teenagers and other young single workers.
- Incomes analyzed in this study have been adjusted to reflect family size, therefore the increasing inequality cannot be explained away as the result of changes in family size.
- The income gap has also grown for families with similar amounts of education and within age groups. A study by the RAND Corporation found that changes in age and educational make-up of the population have served to reduce inequality rather than increase it. That is, if the age and educational composition of the population had been held constant at the 1975 level, inequality would have been higher in 1993 than the level actually observed.

Justification # 4. Income inequality is really about immigration.

The reality:

- Immigration has not been a major factor in creating income inequality in the state, and in New York City, immigrants been a significant factor in reducing income inequality by expanding the number of families in the middle of the income distribution.
- Looking at *family income*, in New York City, people living in immigrant families (families with at least one immigrant adult) are more likely to be in the middle of the income distribution than families where all adults were born in the U.S. And in upstate New York, immigrant families have exactly the same family income at every economic level as families with no immigrant adults. In the downstate suburbs, immigrant families are earning less than U.S.-born families. But the median income for immigrant families in the downstate suburbs was a healthy \$71,000, looking at a 5-year pool of data ending in 2005. Statewide, the median for immigrant families is slightly lower (\$45,000) than for U.S.-born families (\$53,000).
- Looking at *wages*, immigrants at the same educational level earn consistently lower wages than their U.S.-born counterparts. Statewide, immigrants are less likely than U.S.-born workers to have graduated from high school, although almost as likely to have completed college (32 percent compared to 38 percent). Earning lower wages at the same education levels may be a modest factor in reducing wages for some New Yorkers, but it is not likely to be a major factor.
- For particular categories of workers—construction workers and African American men with less than a high school education have frequently been the focus of concern—the combination of strong immigration and weak enforcement of labor laws creates conditions that can reduce wages or displace workers.

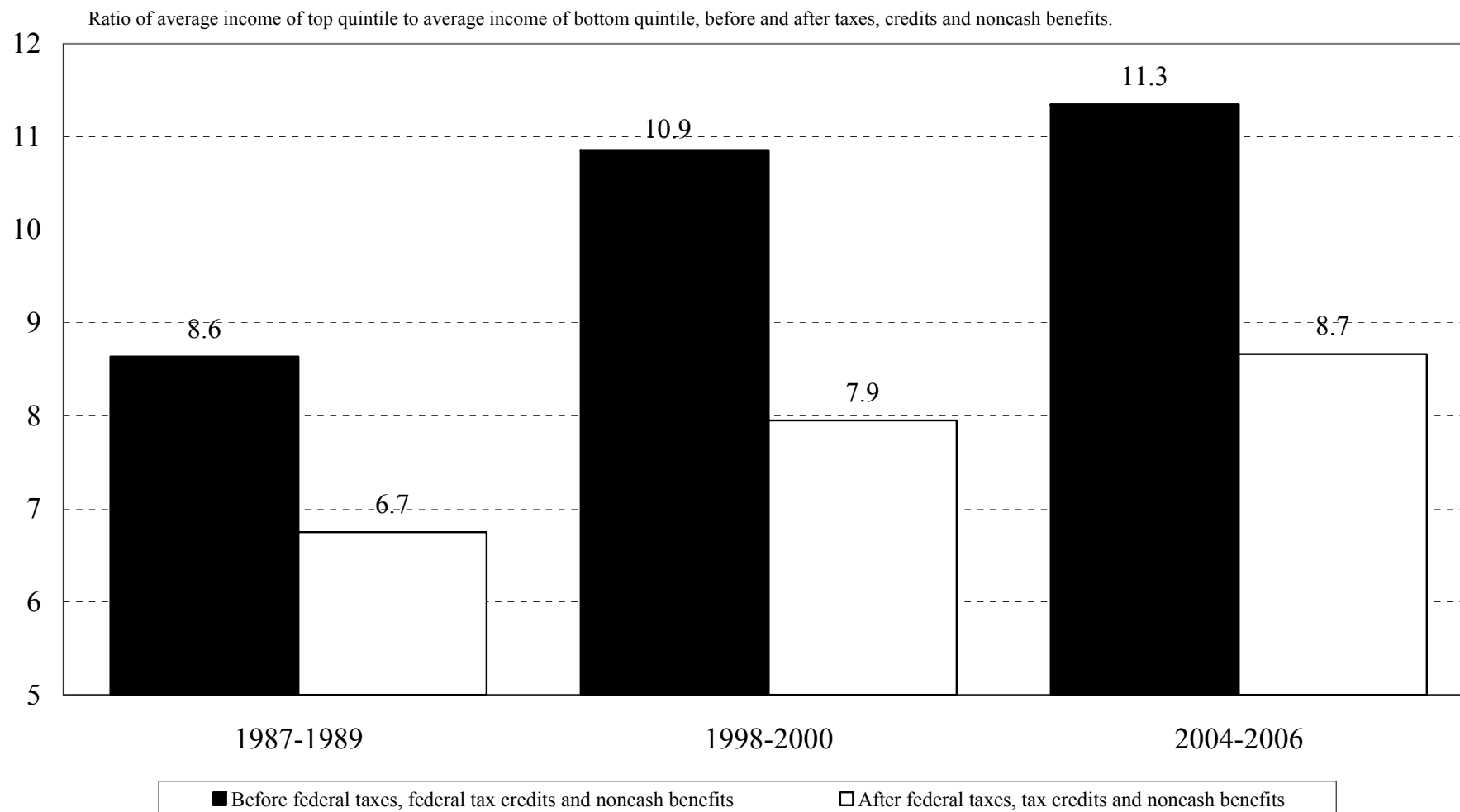
Federal tax policies and benefits reduce the degree of inequality in New York.

The primary analysis in this report is based on a measure of income that includes both federal tax payments, federal tax credits and the cash value of food stamps, housing assistance and subsidized school lunches. Comparing the results using this measure of income to the results using an alternative measure (income before taxes and noncash benefits) provides a means to assess the impact of federal tax and benefit policy on income inequality. In all three periods included in this analysis, these policies have reduced the degree of income inequality in New York.

- Consideration of federal taxes and benefits reduces New York's top-to-bottom ratio (the average income in the top quintile divided by the average income in the bottom quintile) from 8.6 to 6.7 in 1987-89, from 10.9 to 7.9 in 1998-2000 and from 11.3 to 8.7 in 2004-2006.
- New York continues to rank first in inequality for 2004-2006 when the alternative income measure is used.
- For the bottom quintile, changes in federal taxes, credits and benefits increased average incomes by over \$600 between the late 1980s and 2004-2006. Pre-tax/benefit average income increased only marginally (from \$16,609 to \$16,725) but post-tax/benefit average income rose from \$16,225 to \$17,107.
- The next-to-the bottom quintile experienced no growth in pre-tax, pre-benefit income between the late 1980s and 2004-2006, but saw an increase in post-tax/benefit average income of \$1,200—from \$32,343 to \$33,567.
- The middle quintile experienced income growth, both pre-tax and post-tax, but benefited from a reduction in average federal tax burden of approximately \$800 between the late 1980s and 2004-06. The top-to-middle ratio (average income of the top quintile divided by the average income of the middle quintile) was reduced from 3.2 to 2.8 by federal tax policies.
- While average taxes increased for both the top fifth of families and the top five percent of families between the late 1980s and 2004-06, average taxes fell for both groups between the late 1990s and 2004-06. Average taxes as a share of average income fell for both of these groups of families over the 17-year period.

Unfortunately, the income estimates in this report do not reflect the impact of state taxes and state tax credits on family income. Including New York's relatively generous Earned Income Tax Credit and Child and Dependent Care Credits in the analysis would increase the average income of families in the lower two quintiles.

Income inequalities are tempered by federal tax policies and noncash benefits.

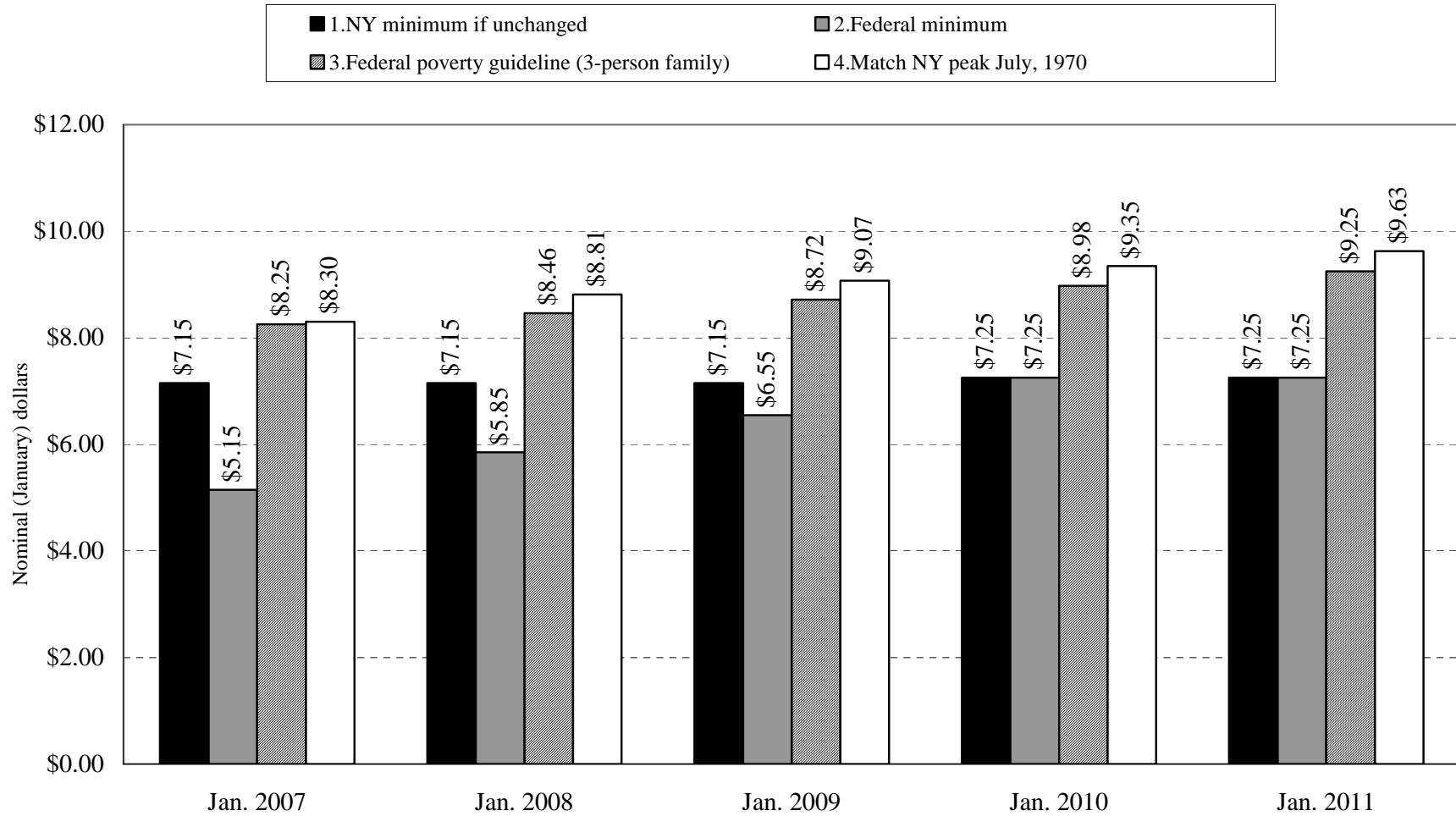


**There is much more that government and business can do
to push back against this trend.**

New York State can:

- Increase state support for pre-K through college education and increase opportunities for post-secondary education for low-income New Yorkers of all ages. New York should increase the state share of funding for elementary and secondary education.
- Raise the state minimum wage to restore the purchasing power to its early 1970s level and then index the state minimum wage to changes in the cost of living.
- Restore progressivity to the state personal income tax and stop the movement toward greater reliance on regressive property and sales taxes.
- Enforce labor laws and stop the illegal misclassification of workers as independent contractors.
- Improve the unemployment insurance system as it relates to low-wage and contingent workers, particularly those with families, in terms of both qualification requirements and benefit levels.
- Make welfare reform work by liberalizing the earned income disregard, making affordable transportation alternatives available, establishing transitional employment programs and increasing welfare grant levels.
- Provide supports for low-wage workers by continuing to strengthen Medicaid, Family Health Plus and Child Health Plus and expanding access to food stamps and affordable child care.
- Stop giving subsidies to firms that create low-wage jobs that increase need for government income supports (Food stamps, EITC, etc.) and that compete unfairly with responsible employers that provide good wages and benefits.
- Use government economic and workforce development resources to promote the development of career ladders and skill upgrading to provide more opportunities for upward mobility and wage gains for workers while promoting worker retention and increasing labor productivity.

To restore the minimum wage to its July 1970 purchasing power, New York would have to increase its minimum wage to \$9.63 by January 2011.



Year-to-year projections assume 3% annual increase in CPI.

The federal government can:

- Fully fund the No Child Left Behind Act and strengthen assistance for post-secondary education for students of all ages.
- Strengthen the Food Stamp program by increasing the minimum benefit and stopping the erosion of benefits due to inflation.
- Increase federal funding for child care, to ensure that the increased demand for child care as a result of the more stringent TANF employment requirements does not reduce the availability of subsidized child care for other low-income working families.
- Allow states to expand public health insurance programs to families and individuals who cannot afford to pay the full cost of private health insurance.
- Federally fund an extension of unemployment insurance benefits when the economy slows sharply.
- Restore the purchasing power of the federal minimum wage and index it to inflation.
- Reform labor laws to enhance enforcement of minimum wage and other labor standards and eliminate barriers to unionization.
- Restore federal funding for worker training and education.
- Make sure that international trade agreements do not require American plants to compete with plants that are paying sub-poverty wages, totally ignoring worker safety considerations, and polluting the environment.
- Improve and fully fund the Trade Adjustment Assistance programs for workers displaced by trade agreements.
- Make the federal income tax more progressive by not extending the higher-income tax breaks due to expire in the next few years.

Corporations can:

- Stop increasing the pay gap between the top executives and line workers and middle managers.
- Stop using contingent work arrangements, part-time work arrangements and so-called independent contractors to avoid paying fair wages and benefits.
- Use the bully pulpit of trade associations and chambers of commerce to place peer pressure on irresponsible employers who drive down wages.

Conclusion: New York can grow together—rather than continuing to pull apart.

Over these 17 years, income inequality increased in New York and in most states in the nation because incomes at the top grew much faster than incomes at the bottom and the middle. Only three states saw a greater disparity in growth between these two groups over the past twenty years than New York. New York maintains the dubious distinction of being the state with the most unequal income distribution between top and bottom.

The new CBPP/EPI report highlights the risks of growing inequality—which range from the broadly philosophical to the mundane and pragmatic. As that report explains, there are important negative implications for the effective functioning of our economic system when everyone who contributes to the growth of the economy does not share in the resulting prosperity. The reality of recent trends, particularly in New York, has been far from that ideal.

There are also important negative implications for our political and social systems. The widening gulf between the rich and the middle class, and between the rich and the poor, reduces social cohesion, trust in societal institutions, and participation in the democratic process. And, the latter phenomenon can lead to public policies that exacerbate rather than ameliorate the causes and the consequences of income inequality. As Justice Louis Brandeis said, “You can have wealth concentrated in the hands of a few, or democracy. But you cannot have both.”

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

UNITED STATES

Average Income (2005 dollars)*				
	Bottom Quintile	Middle Quintile	Top Quintile	Top 5%
Late 1980s	16,303	44,650	97,104	138,093
Late 1990s	18,575	49,785	121,087	191,658
Mid 2000s	18,116	50,434	132,131	220,700
* Income is post-tax and includes the the value of the EITC, the cash value of food stamps, subsidized school lunch, and housing subsidies.				
Change in Average Income (Dollar changes in bold are statistically significant at the 90% level)				
<i>Long-term change: Late 1980s to Mid 2000s</i>				
	Bottom Quintile	Middle Quintile	Top Quintile	Top 5%
Dollar Change	1,814	5,784	35,027	82,607
Percent Change	11.1%	13.0%	36.1%	59.8%
Annual Dollar Change	107	340	2,060	4,859
<i>More recent change: Late 1990s to Mid 2000s</i>				
	Bottom Quintile	Middle Quintile	Top Quintile	Top 5%
Dollar Change	(459)	649	11,044	29,042
Percent Change	-2.5%	1.3%	9.1%	15.2%
Did average incomes change at the same pace?*				
	Top vs. Bottom	Top vs. Middle	Top 5% vs. Bottom	
Late 1980s to Mid 2000s	Top grew faster	Top grew faster	Top grew faster	
Late 1990s to Mid 2000s	Top grew faster	Top grew faster	Top grew faster	
**Was the difference in percentage changes significant at the 90% level? If not, the quintiles grew at the same rate.				

Income Ratios				
(Calculated by dividing the average family income of the Top Quintile or Top 5% by the average family income of the Bottom or Middle Quintile)				
	Top to Bottom	Top to Middle	Top 5% to Bottom	Top 5% to Middle
Late 1980s	6.0	2.2	8.5	3.1
Late 1990s	6.5	2.4	10.3	
Mid 2000s	7.3	2.6	12.2	4.4
Change in Income Ratios				
(Changes not statistically significant at the 90% level are labeled n/a)				
	Top to Bottom	Top to Middle	Top 5% to Bottom	Top 5% to Middle
Late 1980s to Mid 2000s	1.3	0.4	3.7	1.3
Late 1990s to Mid 2000s	0.8	0.2	1.9	
Rankings of Income Ratios*				
	Top to Bottom	Top to Middle	Top 5% to Bottom	Top 5% to Middle
Mid 2000s				
Change from Late 1980s to Mid 2000s				
Change from Late 1990s to Mid 2000s				
* Rankings are from largest to smallest, such that 1st signifies the most income inequality or the greatest increase in income inequality. Rankings labeled as n/a indicate that changes in income ratios were not statistically significant at the 90% level.				

NEW YORK STATE

Average Income (2005 dollars)*				
	Bottom Quintile	Middle Quintile	Top Quintile	Top 5%
Late 1980s	16,225	48,097	109,511	154,567
Late 1990s	16,878	50,378	134,162	216,769
Mid 2000s	17,107	52,080	148,192	262,679
* Income is post-tax and includes the the value of the EITC, the cash value of food stamps, subsidized school lunch, and housing subsidies.				
Change in Average Income (Dollar changes in bold are statistically significant at the 90% level)				
<i>Long-term change: Late 1980s to Mid 2000s</i>				
	Bottom Quintile	Middle Quintile	Top Quintile	Top 5%
Dollar Change	882	3,984	38,681	108,112
Percent Change	5.4%	8.3%	35.3%	69.9%
Annual Dollar Change	52	234	2,275	6,360
<i>More recent change: Late 1990s to Mid 2000s</i>				
	Bottom Quintile	Middle Quintile	Top Quintile	Top 5%
Dollar Change	230	1,702	14,030	45,910
Percent Change	1.4%	3.4%	10.5%	21.2%
Did average incomes change at the same pace?*				
	Top vs. Bottom	Top vs. Middle	Top 5% vs. Bottom	
Late 1980s to Mid 2000s	Top grew faster	Top grew faster	Top grew faster	
Late 1990s to Mid 2000s	Top grew faster	Same rate	Top grew faster	
**Was the difference in percentage changes significant at the 90% level? If not, the quintiles grew at the same rate.				

Income Ratios (Calculated by dividing the average family income of the Top Quintile or Top 5% by the average family income of the Bottom or Middle Quintile)				
	Top to Bottom	Top to Middle	Top 5% to Bottom	Top 5% to Middle
Late 1980s	6.7	2.3	9.5	3.2
Late 1990s	7.9	2.7	12.8	
Mid 2000s	8.7	2.8	15.4	5.0
Change in Income Ratios (Changes not statistically significant at the 90% level are labeled n/a)				
	Top to Bottom	Top to Middle	Top 5% to Bottom	Top 5% to Middle
Late 1980s to Mid 2000s	1.9	0.6	5.8	1.8
Late 1990s to Mid 2000s	0.7	n/a	2.5	
Rankings of Income Ratios*				
	Top to Bottom	Top to Middle	Top 5% to Bottom	Top 5% to Middle
Mid 2000s	1st	4th	1st	
Change from Late 1980s to Mid 2000s	5th	6th		
Change from Late 1990s to Mid 2000s	20th	n/a		
* Rankings are from largest to smallest, such that 1st signifies the most income inequality or the greatest increase in income inequality. Rankings labeled as n/a indicate that changes in income ratios were not statistically significant at the 90% level.				

NEW YORK CITY

Average Income (2005 dollars)*			
	Bottom Quintile	Middle Quintile	Top Quintile
Late 1980s	13,284	38,874	101,177
Late 1990s	13,869	39,397	124,249
Mid 2000s	14,115	40,496	133,508
* Income is post-tax and includes the value of the EITC, the cash value of food stamps, subsidized school lunch, and housing subsidies.			
Change in Average Income			
<i>Long-term change: Late 1980s to Mid 2000s</i>			
	Bottom Quintile	Middle Quintile	Top Quintile
Dollar Change	831	1,622	32,331
Percent Change	6.3%	4.2%	32.0%
Annual Dollar Change	49	95	1,902
<i>More recent change: Late 1990s to Mid 2000s</i>			
	Bottom Quintile	Middle Quintile	Top Quintile
Dollar Change	246	1,099	9,259
Percent Change	1.8%	2.8%	7.5%
Did average incomes change at the same pace?			
	Top vs. Bottom	Top vs. Middle	
Late 1980s to Mid 2000s	Top grew faster	Top grew faster	
Late 1990s to Mid 2000s	Top grew faster	Top grew faster	

Income Ratios (Calculated by dividing the average family income of the Top Quintile or Top 5% by the average family income of the Bottom or Middle Quintile)		
	Top to Bottom	Top to Middle
Late 1980s	7.6	2.6
Late 1990s	9.0	3.2
Mid 2000s	9.5	3.3
Change in Income Ratios		
	Top to Bottom	Top to Middle
Late 1980s to Mid 2000s	1.8	0.7
Late 1990s to Mid 2000s	0.5	0.1



The Fiscal Policy Institute is a nonpartisan research and education organization that focuses on tax, budget, and economic issues that affect the quality of life and the economic well being of New York State residents.

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