Why Did New York Workers Lose Ground in the 1990s?

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The news that poverty increased and median family income decreased in New York City over the 1990s has received wide attention (Table 1). From the start, though, these worrisome facts have been wrapped in "reassuring" claims that the cause of these trends is immigration. A *New York Times* front page article announced that "Immigration Cut Into Income in New York, Census Finds." Other area media ran similar stories.

This article will first show that immigration cannot explain the economic indicators, and the change in counting methods is probably not the explanation for the increase in poverty. We then identify three likely causes: (i) The lack of diversification in the New York economy which makes it overly sensitive to fluctuations in the financial market; (ii) Adverse changes in the industrial structure of the economy; (iii) Government policies that place direct downward pressure on low wages.

1. Immigration

One million two hundred thousand immigrants entered New York City in the 1990s. This large influx led some to conclude that the decline in median income and rise in poverty has been due to immigration. Regarding the precise mechanism by which immigration worked itself into the falling economic indicators, there are two views. One is that the numbers do not reflect the well being of long-term U.S. residents (the native born or immigrants who entered the country before 1989) who moved to better-paying jobs, perhaps out of the city. It is the immigrants who hold the low-paying jobs (which, from their vantage point, are high-paying jobs). The other is that long-term residents did lose ground, but this was because the immigrants increased the supply of low-skilled workers.

The question whether the decline in median wage is a statistical artifact that masks improvements in the wages of long-term residents or whether the wages of long-term residents indeed declined cannot be settled definitively at this time. The reason is that the first year in which the U.S. Census Bureau's Current Population Survey (CPS) started asking respondents their country of birth was 1994. A definitive answer will only be possible once the 2000 Census sample data is released. Nevertheless, the data contain strong indications that long-term residents did see their wages fall over the 1990s. Workers cannot change their occupations that easily, and increasing one's level of education attainment is equally difficult. Yet the opportunities before workers in low-paying occupations or with low levels of education diminished over the period. Long-term residents constituted a substantial fraction of these workers.

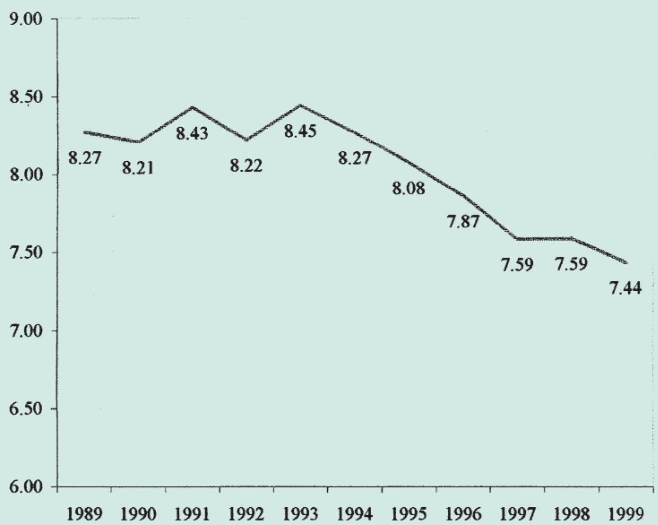
We define an occupation as "low wage" if the median wage of workers with this occupation was equal to or less than $8.12 in 1999. This is the hourly wage necessary (given full-time work, i.e., 2080 hours/year) for a 4-person family (2 children) to reach the 1999 Federal poverty threshold of $16,895. The largest low-wage occupations in 1999 were: nursing aides, orderlies, and attendants (26.4% of all workers in low-wage occupations), cashiers (13.4%) and textile sewing machine operators (9.7%). According to the CPS, 16.3% of all workers held low-wage occupations. Long-term residents were not absent from this group. In fact, 65% of workers who held these occupations in 1999 were long-term residents (38% native born, 27% foreign born). As Figure 1 makes clear, the median wage in these occupations declined by 10% from 1989-99 (it would be interesting to know how the median wage changed within single occupations, but the small sample size does not permit these calculations).

Table 1
Changes in Major Indicators of Economic Well-being, NYC, 1979-99

	1979-89	1989-99
Family Income	+15.0%	-6.0%
Wage Rate	+8.5%	-3.7%
Poverty Rate	-4.0%	+10.0%

Note: Income and Wage Rate statistics are inflation-adjusted medians.
Source: U.S. Census Bureau: CPS. CPI-RS.

Figure 1: Median Hourly Wage, Low-Wage Occupations*, NYC

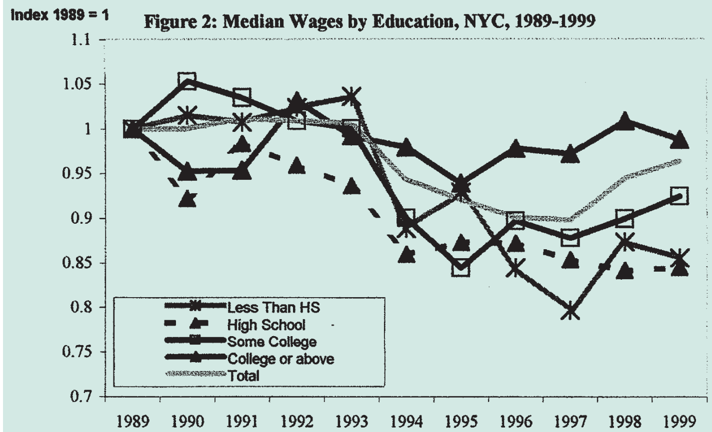


Source: Fiscal Policy Institute analysis of CPS data.
* Low wage occupations are those for which the (1999) median hourly wage rate is less than or equal to $8.12 – this is the hourly wage necessary (given full-time work, i.e., 2080 hours/year) for a 4-person family (2 children) to reach the 1999 Federal povery threshold of $16,895.

It would seem that, since the majority of those who hold low-paying occupations are long-term residents, the fall in the median wage in these occupations must reflect a fall in their median wage. This is not necessarily so. Theoretically, it is possible for the median wage of low-paying occupations to decline and for the wages of long-term residents who hold these occupations to increase (or stay the same). But it is not likely. When some jobs within an occupation are filled at lower wages, this puts downward pressure on the wages of all workers within that occupation (occupations are fairly narrowly defined in the CPS, as is clear from the occupations listed above).

Another indication that the wages of long-term residents declined over the 1990s comes from the fact that the median wage of workers with low levels of education declined precipitously between 1989 and 1999. The decline, depicted in Figure 2 below, was 14% for workers with less than a high school degree and 16% for those with just a high school degree. Long-term residents make up 65% of those with less than high school education, and 75% of those with only a high school education. Again, while it is possible that the wages of long-term residents increased, this would be inconsistent with market forces. When some jobs with a particular education level requirement are filled at lower wages, this puts a downward pressure on the wages of all workers within that education category.

Figure 2: Median Wages by Education, NYC, 1989-1999



Source: Fiscal Policy Institute analysis of CPS data

The decreases in wages in low-paying occupations and for workers with low levels of education also challenge the assertion that the increase in the poverty rate in New York City is due merely to the better response rate to the census among the poor. When the wages at the bottom decrease, poverty must increase.

What's missing from the analysis of the effect of immigration are both a historical and a comparative perspective. In a historical perspective the figure of 1.2 million immigrants over a decade, or 15.3% of New York City's population in 1999, is not particularly high. In the 1980s, 950,000 immigrants entered the city and accounted for 13% of the City's population in 1989. Yet, while the order of magnitude is the same, Table 1 makes clear that the movement of major indicators of economic well-being over the 1980s was remarkably different. In spite of the high level of immigration, both median family income and the median wage increased, while the rate of poverty decreased.

That increasing levels of immigration are compatible with rising median wage and decreasing poverty also becomes clear when the performance of the New York economy is compared with the performance of other cities over the 1990s. As Table 2 indicates, Los Angeles experienced a substantial decrease in the share of new immigrants, 6.2%. Yet median family income decreased in Los Angeles by 10.4%, and the rate of poverty increased by 16.9%. In both Chicago and Houston the share of new immigrants increased, yet median family income increased as well and poverty decreased. The correlation figures in Table 2 show that there is no clear relationship between the change in the share of immigrants and the change in median family income (correlation coefficient of-.074) or in the rate of poverty (correlation coefficient of -.006).

Table 2: Changes in Immigration, Median Income and Poverty, Ten Largest Cities, 1989-1999

	Total New Immigrants Entered	Percentage of Population New Immigrants 1989	Percentage of Population New Immigrants 1999	Percentage Point Change 1989-1999	Change in Share of New Immigrants	Change in Median Family Income	Change in Share of Individuals Below Poverty Level
New York City	1,224,524	13.0%	15.3%	2.3	17.5%	-6.1%	9.8%
Chicago	291,785	7.4%	10.1%	2.7	35.8%	7.2%	-9.3%
Dallas	174,351	1.3%	14.7%	13.4	1068.3%	-1.2%	-0.9%
Detroit	25,720	1.2%	2.7%	1.5	119.1%	15.6%	-19.5%
Houston	269,438	10.3%	13.8%	3.5	33.6%	3.0%	-7.4%
Los Angeles	569,771	21.6%	15.4%	-6.2	-28.8%	-10.4%	16.9%
Philadelphia	63,624	2.8%	4.2%	1.4	49.2%	-5.3%	13.0%
Phoenix	257,325	4.4%	19.5%	15.1	344.7%	4.8%	11.4%
San Antonio	47,309	3.3%	4.1%	0.8	25.0%	18.5%	-23.5%
San Diego	117,609	10.4%	9.6%	-0.8	-7.4%	4.0%	9.1%
Correlations:							
Seven Largest Cities						0.039	-0.175
Ten Largest Cities						-0.074	-0.006

Source: U.S. Census

That the decline of the median wage and the increase in poverty cannot be explained by immigration is also clear from Table 3. Despite immigration, the supply of workers with low levels of education has decreased over the 1990s. Why did the wages of these workers decline in spite of the decrease in their number?

Table 3: Educational Attainment of New York City Workers, 1989-99

	1989	1999	Change
Less Than HS	442,648	441,915	-733
High School	828,249	751,231	-77,018
Some College	518,618	681,357	162,739
College or above	710,312	913,008	202,696

Source: CPS

2. Explaining the Income Erosion

Three major factors contributed to wage and income erosion in the 1990s:

- Over-dependence on Wall Street.
- Unfavorable changesin the city's job mix.
- Government policies that have torn up several planks in the wage floor.

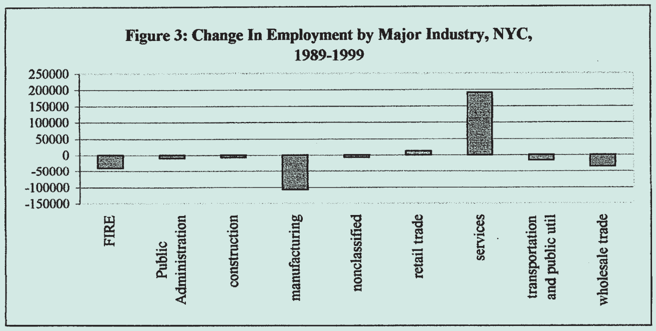
Wall Street

In the 1990s Wall Street's earnings grew enormously, and this sector came to dominate New York City's economic and fiscal fate even more. Seventy percent of total city output growth from 1992 to 2000 was due to Wall Street. Wall Street has of course been a huge presence in the City even before 1990. Over the 1980s Wall Street's share of output growth was "only" 18%. Compensation levels in the sector are extraordinary. They were $248,500 on average in 2000. Thus, when the Stock Market crashed in October of 1987, the effect on the city economy was massive, and it lingered well into the beginning of the 1990s. While stock prices recovered within a few months, the financial industry and the banking industry underwent major restructuring that included cost cutting measures in the brokerage industry and mergers in banking. From 1987 to 1993 the number of managers employed by securities firms decreased by 24%.[1] The ripple effect of this retrenchment was enormous, not only in terms of job and income losses but also in its effect on the city budget. At the beginning of the 1990s the city faced a severe loss of revenues, and the result was job cuts in the city work force.

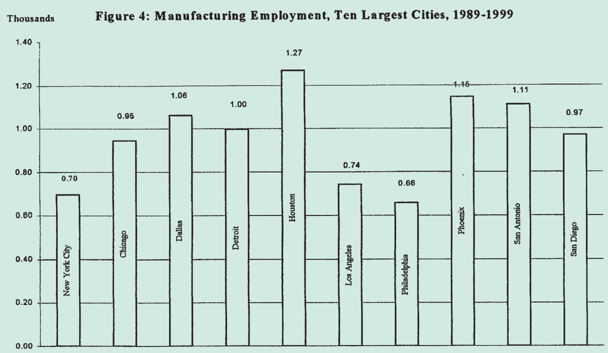
Changes in the City's Job Mix

Define a low-paying industry as one where the average wage is less than $30,000 and a middle-wage industry as one with an average wage of between $30,000 and $60,000 (1999 dollars). Then, between 1989 and 1999 New York City lost over 68,000 jobs in middle-wage industries, or 3.7% of the total of such jobs, and gained over 52,000 jobs in low-wage industries, or 6.4% of the total of such jobs.[2] Some of these negative developments were due to market forces. But not all of them. And what is critical is how the local government responded to these changes. As Figure 3 demonstrates, the industry that suffered the greatest loss of jobs in the 1990s was manufacturing. Some of these losses have no doubt been due to foreign competition. Yet the losses in New York City were the greatest among the ten largest cities except Philadelphia (see Figure 4).

The extra push that manufacturing received in New York may have come from the City's policy of encouraging the conversion of manufacturing plants to other uses. According to a study by the Pratt Institute:



Source: Bureau of Labor Statistics, ES 202



Source: BLS.

> "An increasing number of properties in manufacturing and mixed-use zoning districts are being converted to non-manufacturing uses such as commercial and residential space through variances granted by the New York City Board of Standards and Appeals. The cumulative effect of these ad hoc land use changes has been to dramatically chip away at the crucial core stock of manufacturing space in New York City."[3]

Minimum Wages and Government Job Cuts

During the 1990s the government played a direct role in the labor market, and when it comes to the losses experienced by middle and low-wage New Yorkers, the government's role may have been decisive. During the 1990s the New York City and New York State governments cut government jobs, pushed welfare recipients into low-wage jobs, encouraged growth of low-wage jobs, and failed to raise the state's low minimum wage.

To compensate for a loss of revenues during the 1989-92 recession city taxes were raised, but not sufficiently to close the gap. Instead, in 1990/91 the Mayor and Council eliminated 10,000 government positions and in the following year an additional 11,000 were eliminated. In addition to hurting these workers and their families, this exacerbated the already severe early 1990s recession. And the reduction in services was immediately evident in streets that were filthy and in city parks that often deteriorated to an appalling state. (Desperate to do something, the city settled on tax breaks to large corporations: Bear Stearns $30 million in 1991, Prudential $106 million and Bertelsmann $11 million in 1992.) As Table 4 indicates, the loss of government jobs, paying relatively good wages and benefits, continued at all levels of government.

Table 4: Government Employment In New York City

	1989	1999	Change	% Change
Total Government	628,444	571,875	(56,569)	-9.0%
Federal, civilian	77,271	63,799	(13,472)	-17.4%
Military	26,919	15,884	(11,035)	-41.0%
State	54,030	46,574	(7,456)	-13.8%
Local	470,224	445,618	(24,606)	-5.2%

Source: Commerce Dept.

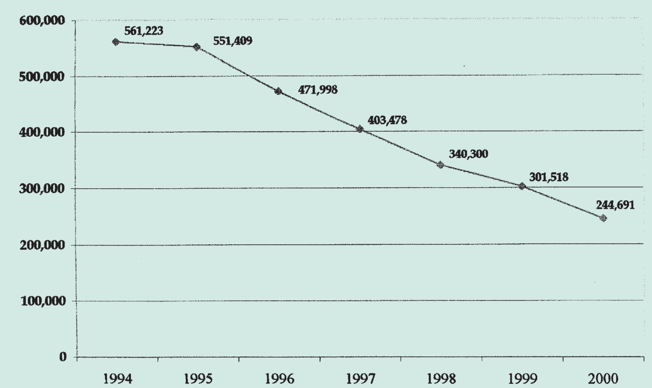
Welfare provides workers their last defense against job offers that are too low. Over the 1990s this defense was greatly weakened. The Giuliani Administration implemented its own version of welfare reform with a vengeance beginning in 1995. In 1994, 72% of all welfare applicants were found eligible. By 1997 this figure was reduced to 46%, and in 1998 it was only 25%. Giuliani's efforts, together with new national welfare mandates, tore the safety net and pushed 250,000 destitute workers into the low-wage job market between 1995 and 2000 (Figure 5).

During the 1990s the pace of the privatization process, by which the city government hires private contractors to provide public services, increased significantly. This was particularly evident in the social services sector. Between 1989 and 2000 the number of private social service jobs increased to 110,000, a 61% increase. While not all these private workers produce governmental services, over 60% of funding for social service agencies comes from government. Another sector that saw increased privatization was sanitation. The number of Business Improvement Districts, or BIDs, organizations that provide sanitation services in select neighborhoods, more than doubled. There are so few social service jobs in the public sector, that a direct comparison between wages in the public sector and the wages that contractor pay is not possible. But it is clear that the wages that contractors are too low. In 1999 the average annual wage paid in the private human services sector was $20,392.[4] In sanitation a direct comparison is possible. The starting hourly for a city sanitation worker is $13 with full benefits. The BIDs often pay the minimum wage or near the minimum wage, and often with no benefits.

The 1990s saw also a new phenomenon that came with welfare reform. The replacement of government employees with individuals who are forced to work, and not for a wage but for a welfare check. By law, these forced workers are not permitted to unionize and are not eligible to receive the earned income tax credit. In 1999 the city employed directly 33,000 workfare workers in jobs previously or currently done by city employees who work alongside them.[5]

Finally, despite its image as a high-wage state, New York's minimum wage has been stuck for years at just $5.15. The state's minimum wage workers are paid less, relative to the state's average wage, than in any other high-wage state. Of course, a low minimum wage has a direct downward impact on the wages of low-wage workers in general. It also has a direct impact on the rate of poverty.

Figure 5: Adult Welfare Recipients, NYC, 1994-2000



Source: NYC Human Resources Administration

Table 5: Minimum Wage Relative to Average Wage for High-Wage States

State	Average Weekly Wages, 2000	Current Minimum Wage	Minimum Wage Weekly Earnings as Share of Average Weekly Wages *
Washington	$713	$6.90	38.7%
Delaware	$705	$6.15	34.9%
California	$792	$6.75	34.1%
Alaska	$675	$5.65	33.5%
Massachusetts	$852	$6.75	31.7%
Connecticut	$874	$6.70	30.7%
Maryland	$699	$5.15	29.5%
Michigan	$712	$5.15	28.9%
Illinois	$732	$5.15	28.1%
New Jersey	$840	$5.15	24.5%
New York	**$864**	**$5.15**	**23.8%**

** Calculation based on 40-hour work week.*

Source: U.S. Department of Labor and BLS.

3. What Can Be Done?

For New York City workers in the 1990s, government failed them. Not only did it neglect to shield them from market forces, its policies constituted a further attack on their wages. However, it is not too late for the government to be part of the solution in the first decade of the new century. The lessons of the 1990s are these:

First, a recession is the wrong time to cut city jobs and city services. The city is now in a recession exacerbated by the World Trade Center attack. Although apparently not as severe as the recession of the early 1990s, the current recession is nevertheless very similar in its effect on the city economy and city budget. Increasing taxes on residents and commuters who can afford them is preferable to retrenchment.[6] The city should also take steps to diversify its economy through a sectoral approach that would lead to the creation of higher paying jobs. But perhaps the most effective, because it is the most direct, route to increasing low wages and thus decreasing poverty is to strengthen the legal wage floor. The minimum wage should be raised. Unemployment insurance benefits should be increased and their duration extended to cover the long-term jobless. Welfare benefits should be improved and the administration of welfare must be made fairer. If such measures are undertaken in time, census takers in 2010 will find a far less polarized New York work force.

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NOTES

1 Brett Ilyse Graff, "Employment trends in the security brokers and dealers industry," *Monthly Labor Review* (9/2002):. 20-29.

2 James A. Parrott, "Bolstering and Diversifying New York City's Economy," in John Mollenkopf and Ken Emerson, Eds., *Rethinking the Urban Agenda* (New York: The Century Foundation Press, 2001): pp. 41-61.

3 The Pratt Institute Center for Community and Environmental Development, *Making it in New York: The Manufacturing Land Use and Zoning Initiative* (Brooklyn: Pratt Instiitute: 2001).

4 Sarah Crean, *Labor Market Trends and Issues in the New York City Non-Profit Social Service Sector*. A report by the Fiscal Policy Institute for the Institute for Business Trends Analysis, Borough of Manhattan Community College, CUNY (8/02.).

5 Community Voices Heard, *The Work Experience Program (WEP): New York City's Public Sector Sweatshop Economy* (Brooklyn: CVH, 8/2000).

6 See Moshe Adler, Oliver Cook and James Parrott "Do Tax Increases in New York City Cause a Loss of Jobs? A Review of the Evidence" *State Tax Notes* (2/4/02) <http://www.fiscalpolicy.org>