FISCAL POLICY INSTITUTE
Learning from the ’90s

How poor public choices contributed to income erosion in New York City, and what we can do to chart an effective course out of the current downturn

Labor Day, 2002
The problem – in short

For New York City, the 1990s began in a protracted economic recession and ended in boom. But even during the boom, the benefits of growth were highly concentrated at the top. Median family incomes have yet to return to the level of their 1980s cyclical peak, and the 1990s saw an increase in poverty.

City and state government made choices in the 1990s that contributed to these negative outcomes. How can public institutions in New York City make choices that contribute to better outcomes in this decade?
The argument – an overview

I. Income erosion is a serious problem for New York City

II. The problem can’t be explained away by immigration

III. The problem can reasonably be explained by a combination of: a) overdependence on Wall Street; b) an unfavorable change in the city’s job mix; c) state and local policies that have eliminated good jobs and pulled out planks in the wage floor

IV. The current economic downturn (resulting from the recession and 9/11’s economic impact) is hitting especially hard here

V. New York City needs an immediate counter-cyclical job-creation program, and concerted longer-term public efforts to diversify the economy and rebuild/raise the wage floor
I. Income erosion is a serious problem for New York City
Families in NYC fared worse in the ’90s than in the rest of the US

Between 1989 and 1999...

• Real median family income grew 9.5% in the US as a whole, while NYC median family income declined by 6.0%

• Poverty levels in the US as a whole declined from 13.1% to 12.4%, while poverty levels in NYC rose from 19.3% to 21.2%. (NYC’s poverty rate soared to 26% in the middle of the ‘90s. The tighter labor market at the end of the ‘90s helped bring down the poverty rate, in the city and nationally.)

• Median wages grew in the US as a whole by 5.7%, but declined in NYC by 3.7%

» Source: Census
Income polarization was more acute in NYC

- Among states NY has the widest gap between the rich and the poor and the second widest gap between the rich and those in the middle. In both cases, NYC’s income gaps are much wider than NY state’s.

- The average income of the top fifth of NYC families with children was $151,300 at the end of the ’90s. This was 17.1 times the average of families in the bottom fifth ($8,850). In the US, incomes of those at the top were ten times those at the bottom.

- For NYC, the average income of the top fifth of families was 3.8 times the average income of the middle fifth ($39,600). In the US, the corresponding figure was 2.9.

Source: Current Population Survey data analyzed by EPI
Except for the very highest-paid group, real wages in NYC even now lag behind or barely exceed levels reached during the 1980s.
Race still matters; for college educated, racial gap is often greatest.

Median hourly wages for selected race/gender groups, relative to white non-hispanics. NYC, 2000/2001
Source: Current Population Survey
II. The income erosion problem can’t be explained away by immigration

*The New York Times*

*Immigration Cut Into Income In New York, Census Finds*

By JANNY SCOTT

The surprising drop in median income in New York City that has puzzled demographers studying the results of the 2000 census appears to be traceable in large part to immigration, according to new census data that show income declines concentrated heavily in neighborhoods in the Bronx, Brooklyn and Queens that have become magnets for new arrivals.

The data, released yesterday, indicate that median household incomes rose across most of Manhattan in the 90’s, with especially big leaps in places including TriBeCa and parts of Harlem. Simultaneously, drops occurred in much of the Bronx, Brooklyn and Queens, often in neighborhoods like Jackson Heights and eastern Flushing, where longtime residents have moved out and been replaced by immigrants.

Blacks did less well. Although the median household incomes for all groups in New Jersey rose, when adjusted for inflation, the median for blacks alone rose by only 1.1 percent, to $36,513. The median for whites alone rose by 3.1 percent to $59,133; the median for Asians rose by 3.8 percent to $72,145; and the median for Latinos rose by 1.1 percent to $39,609.

“The income data are the result of an economy that has reinvented itself during the 1990’s,” said James W. Hughes, dean of the Edward J. Bloustein School of Planning and Public Policy at Rutgers University. “This was really the rise of the new information-age, knowledge-based economy, in conjunction with the sustained decline of old-line manufacturing.”
Immigration was high in both the ’80s and ’90s, but was accompanied by divergent economic results

• In the 1990s, 1.2 million immigrants entered the city, or 15.3% of the population. Median family incomes shrank. Poverty increased.

• In the 1980s, 950,000 immigrants entered the city, or 13% of the population. Median family incomes grew. Poverty declined.

» Source: Census
High ’90s immigration in different big US cities accompanied very different dynamics

- **NYC**: 15.3% of NYC’s 1999 population had immigrated here from other countries within the previous decade. Median family incomes shrank in the ’90s. Average unemployment was 8.2%. Poverty increased.

- **Los Angeles**: 15.4% of LA’s 1999 population had immigrated there from other countries within the previous decade. Median family incomes declined in the ’90s. Average unemployment was 8.9%. Poverty increased substantially.

- **Chicago**: 10.1% of Chicago’s 1999 population had immigrated there from other countries within the previous decade. Median family incomes grew in the ’90s. Average unemployment was 7.5%. Poverty went down.

- **Houston**: 13.8% of Houston’s 1999 population had immigrated there from other countries within the previous decade. Median family incomes grew in the ’90s. The average unemployment rate was 6.9%. Poverty declined.

- **Phoenix**: 19.5% of Phoenix’s 1999 population had immigrated there within the past decade. Median family incomes grew in the ’90s. The average unemployment rate was 4.6%. Poverty rose.

- **Sources**: Census 2000; BLS
Statistical analysis of the ten largest US cities reveals no correlation between the share of new immigrants and: 1) the change in median family income; 2) the change in the poverty rate; or 3) the unemployment rate.  \{The values are:  \(-.074; -.006; \text{and } -.281\) respectively.  \(1\ or\ -1 = \text{perfect correlation}\}
III. Three major factors contributed to income erosion in the 1990s.

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

Ramifications of over-dependence on Wall Street
Wall Street’s wide swings have a pronounced impact on NYC employment trends.

- Wall Street is a high revenue, high compensation industry.
- Following the Oct. ’87 stock market crash, financial sector restructuring directly accounted for 35% of the decline in total wages paid in NYC from 1987-91.
- NYC’s weak economy during this period contributed to high unemployment in the early and mid-1990s.
Dependence on Wall Street also helps explain why the 1989-1992 recession was longer and deeper than the national downturn.

[Diagram: Employment Growth: New York City vs. US]

* National Recession are Shaded

Source: NYS DOL.

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In the 1990s, NYC became even more dependent on Wall Street.

• Wall Street directly accounted for 70% of total city output growth in the 1990s. This is up sharply from the 1980s when Wall Street’s share was 18%.

• The city is increasingly vulnerable, both fiscally and economically, to a Wall Street downturn.

• The sector’s extraordinary compensation levels (2000 avg. is $248,500) contribute to growing income polarization.
III b.

New York City’s loss of middle wage jobs
Between 1989 and 1999, NYC lost on net over 68,000 middle-wage jobs (-3.7%) and gained over 52,000 low-wage jobs (6.4%).

NYC Employment 1989-1999
Percentage Change by Wage Tier
Source: NYS Department of Labor

<table>
<thead>
<tr>
<th>Wage Tier</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Employment</td>
<td>-6%</td>
</tr>
<tr>
<td>Low-wage industries (wages &lt;$30,000)</td>
<td>-4%</td>
</tr>
<tr>
<td>Middle-wage industries (wages between $30,000 and $60,000)</td>
<td>0%</td>
</tr>
<tr>
<td>High-wage industries (wages &gt; $60,000)</td>
<td>2%</td>
</tr>
</tbody>
</table>
NYC has not effectively supported existing industries that have potential to provide middle income jobs; e.g.,

- Seven of the nation’s ten largest cities either gained or maintained steady manufacturing employment in the 1990s. NYC lost 30% of its manufacturing employment during the same period.

- Throughout much of the ‘90s, high-paid film production jobs grew steadily. However, in the last two years, the city has seen a sharp drop in motion picture related employment. NYC needs a comprehensive strategy in order to address the local effects of a national problem-runaway film production.
NYC made progress at developing new technology-based industries but more should be done.

- Despite recent sharp declines, more than 35,000 new computer related jobs alone have been created since 1989.

- Additional opportunities exist to bolster emerging industries, such as transit-based technology, green building technology and others.
III c. The negative impact of government policies on New York City’s wage floor
NYC and NYS Governments exacerbated recession & put downward pressure on low-wage labor market

- Cut government jobs
- Pushed welfare recipients into low-wage jobs
- Encouraged growth of low-wage jobs
- Failed to raise minimum wage
Cuts in Government Jobs

- Cuts in the early 1990s made the recession worse
- Cuts throughout the decade of jobs at all levels of government eliminated solid middle-income jobs

<table>
<thead>
<tr>
<th>Government Employment In New York City</th>
<th>1989</th>
<th>1999</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Government</td>
<td>628,444</td>
<td>571,875</td>
<td>(56,569)</td>
<td>-9.0%</td>
</tr>
<tr>
<td>Federal, civilian</td>
<td>77,271</td>
<td>63,799</td>
<td>(13,472)</td>
<td>-17.4%</td>
</tr>
<tr>
<td>Military</td>
<td>26,919</td>
<td>15,884</td>
<td>(11,035)</td>
<td>-41.0%</td>
</tr>
<tr>
<td>State</td>
<td>54,030</td>
<td>46,574</td>
<td>(7,456)</td>
<td>-13.8%</td>
</tr>
<tr>
<td>Local</td>
<td>470,224</td>
<td>445,618</td>
<td>(24,606)</td>
<td>-5.2%</td>
</tr>
</tbody>
</table>

Source: Commerce Dept.
Welfare Recipients Pushed into the Low-Wage Job Market

City government increased its rejection rate for welfare applicants from 27% in 1994 to 54% in 1997 and 75% in 1998.

The city’s approach to welfare reform pushed 250,000 adults into the low-wage labor market between 1995 and 1999.

This made former welfare recipients desperate to take jobs at any wage and pulled down wages for other low-wage workers.
NYC’s unemployment rate rose sharply from 1994-97 (while the national rate fell) when the city pushed former recipients into the labor market.

Unemployment: New York City vs. US
Seasonally Adjusted

Shaded Areas are National Recessions

Source: BLS
Government Encouraged Creation of Low-Wage Jobs

• Private social service jobs grew by 61% between 1989 and 2000 to over 110,000. (Over sixty percent of funding for private social service agencies comes from government.)

• Contracted social service providers typically pay low wages (half of the private sector average).

• Up to 33,000 workfare workers are forced to work (at what is the equivalent of sub-minimum wage levels) in jobs previously or currently done by city employees.

• While government reduces its workforce and Business Improvement Districts increase theirs, many street cleaners working for BIDs start at minimum wage with no benefits; their city counterparts start at $13.00 with family benefits.
Failure to Raise the Minimum Wage Kept the Wage Floor Low

Minimum Wage Relative to Average Wage for High-Wage States

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

* Calculation based on 40-hour work week.
Source: US Dept. of Labor and BLS.

- Minimum wage workers in NY are poorer than in any other high-wage state

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Lessons from the ’90s: What We Could Have Done

• Overdependence on Wall Street
  NYC could have nurtured new high-road businesses and helped existing ones to grow, diversifying the economy

• Unfavorable change in mix of jobs
  NYC could have established a sectoral approach to economic development, and identified specific opportunities to raise wages

• Weakening of wage floor
  NYC and NYS could have established a living wage/minimum wage, improved welfare policy, strengthened unemployment insurance, and balanced budgets without government layoffs
IV. The Current Context

NYC’s Economic Downturn
After the Boom
New York’s Downturn...

...was sharper than the downturn nationwide because:

- *a bursting dot-com bubble heavily impacted NYC*
- *September 11 gave a stumbling economy a shove in the back*

September 11 Attacks Hit the Economy Hard

75,000 people lost jobs due to 9/11 attack:

- Largest job loss in Restaurants, Air Transport, Retail Trade, Building Services, Hotels
- 60 percent of jobs lost were in low-wage occupations
- Rate of job loss in major industries most affected was double the national rate for the same industries
Inadequate Government Response to this Economic Crisis

People in New York’s Neighborhoods are suffering

* No state extension of Unemployment Insurance
* Increase in personal bankruptcy
* Risk of evictions and foreclosures

$21 billion was allocated by Washington for rebuilding after the terrorist attack. Only a tiny fraction of this money is being used to re-employ and train workers. Why isn’t more federal funding being used to create jobs, build affordable housing, and otherwise help people in neighborhoods around NYC?
Where is Federal Economic Assistance Money Going?

* Economic development funds have been restricted to a very narrow definition of the affected area

* over $1 billion has gone in grants to Lower Manhattan businesses, oriented primarily toward benefiting real estate interests rather than toward creating jobs

* uneven assistance has been given to downtown residents and workers

* there is still no direct job-creation program for displaced workers
Policy Recommendations
“$1 Billion for jobs”

Counter the recession with job-creation

• Out of $2.7 billion in federal rebuilding money for economic development, use $1 billion to replace 75,000 lost jobs and stimulate economic growth

• Create 25,000 public service jobs

• Use wage-subsidies to create 50,000 jobs in nonprofit organizations and private sector.
“Push up on the bottom”

Establish an effective floor under the labor market

- make the welfare eligibility process fair and raise benefit levels
- use federal welfare funds to create wage-paying transitional jobs
- raise and rigorously enforce the minimum wage
- establish a city living wage
- when the city contracts social services, it should ensure that there are sufficient funds to pay a living wage to contract workers
- extend and improve unemployment insurance

Foster the development of career ladder opportunities for workers to earn higher wages
“Make more jobs in the middle”

Invest in infrastructure and essential public services, not firm-by-firm subsidies

- transportation
- public schools and community colleges
- energy
- parks and cultural institutions

Diversify the economy through sectoral strategies

- Reestablish an in-house city think tank to make economic policy more informed and strategic
- Create sectoral “self-help” groups to guide strategy in targeted sectors
- Focus job-training and creation, workforce development, and marketing on targeted sectors