Inequality and New York City: Higher Heights, Local Policy Matters

for Inequality by the Numbers
Second Annual Workshop, June 2016
CUNY Graduate Center and the LIS Center

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A Fiscal Policy Institute Presentation
www.fiscalpolicy.org
June 7 2016
Overview: Examine income inequality at local level

- Income *inequality* (or, more appropriately in a NYC context, income *polarization* or *concentration*) is reflection of how private economic forces are mediated by government.

- How polarized are NYC incomes and what are the recent trends?
- Why does it matter?
- How does it persist?
- What can be done about it locally?
  - How do NYC’s policies contrast with NYS’s policies?
- What is the outlook for NYC income trends?
Why does income polarization matter at a local level?

- While economic forces operate at many levels, people experience them where they live and work.

- People also experience how government policies and institutions are shaped by polarization and how they might affect polarization.

- The persistence of high poverty rates despite moderate local economic growth and the decline in the middle class (and institutions, e.g., CUNY disinvestment) are perhaps the clearest manifestations of the polarization of incomes.

- In addition to broader impacts of concentrated incomes in limiting opportunities, high incomes bid up price of real estate and rents and put upward pressure on local cost of living.

- Real estate is the quintessential local economic factor—the economic and political power of real estate interests has far-reaching effects, and its control has substantial wealth and income generation potential.
1% U.S. income share rising sharply since 1970s after three decades of a semblance of "shared prosperity."

Source: Piketty and Saez’s analysis of the US income share (http://www.econ.berkeley.edu/~saez/index.html)
How does the 1%’s income share in NYC compare?

![Graph showing the trend of top 1% income share in New York State, New York City, and the United States from 1980 to 2014.](image)

Why is income polarization so much greater in NYC?

- From 1946 to 1977, the 1% share in NYS declined from 16% to 10%, then it started rising as it did for the U.S. overall. We don’t have data for NYC pre-1980 but expect that it tracked a little above the NYS 1% share.

- NYC is home to many individuals working in the finance sector who have benefitted from the growing financialization of the economy since the 1970s that has tremendously boosted the finance sector’s share of national income and corporate profits.

- NYC has long been home to many capital owners who have benefitted from the increased capital share of national income, and generally favorable federal tax policy changes since the 1970s.

- NYC’s economy has relatively high shares of corporate managers and highly-compensated lawyers and other professionals who have enjoyed large compensation gains.
Before discussing the recent trend further, here’s a snapshot of recent NYC economic performance (1 of 2)

- In context of historically weak U.S. recovery, NYC’s job growth has surpassed the nation’s. From 2009 to 2015, NYC job growth averaged 2.6% per year vs. 1.6% for the U.S. overall.

- Role of Wall Street bailout in moderating severity of the Great Recession in NYC.

- This is the 1st NYC recovery since 1960s not driven by Wall Street.

- Unemployment has declined to 5.4% but LF participation & EPOP higher than before recession; black & Latino unemployment higher than for whites.

- Over past 15 years, share of NYC’s 25+ workforce with a 4-year college degree rose from 35% to 48%, while those with high school or less fell to 33% from 45%.

- Some middle- and high-income job growth in recent years but still, bulk of recovery job growth in low-wage sectors.
New York City job growth since the recovery has been concentrated in low-wage industries.


287,226 jobs gained in low-wage industries.

Fiscal Policy Institute analysis. Employment from Current Employment Survey; average wages (2012$) from Quarterly Census of Employment and Wages. Low-wage industries are those with average wages below $45,000; High-wage industries have average wages above $75,000; Middle-wage industries are between $45,000 and $75,000.
Real median family incomes rose in 2013 and 2014, but are still about 5.5% below pre-recession levels in NYC and the U.S.

Source: American Community Survey data. Inflation to 2014 dollars using CPI-U.
Snapshots of recent NYC economic performance (2 of 2)

- The City of NY estimates a type of Supplemental Poverty Measure that reflects local housing costs and includes non-cash benefits and low-income tax credits. By this measure, poverty was 20.7% in 2014, up from a low of 19.0% in 2008.

- The population in City homeless shelters has doubled since the early 2000s to nearly 60,000 in December 2015, with a 55% increase since a City-State rental assistance ended in April 2011 under Cuomo and Bloomberg.

- For almost all household income levels, rents have increased much faster than incomes in recent years. For example, the share of low-income households (< or = 80% of area median income, AMI) that are severely rent burdened (gross rents at least 50% of income) rose from 40.2% in 2000 to 48.6% in 2014. (NYU Furman Center, May 2016.)

- The Furman Center’s Index of Housing Price Appreciation for residential units in NYC shows a 5.7% annual increase from 2010 to 2015. (While much greater than income growth, it grew 3 times as fast during the 2000 to 2006 housing bubble.)
While wages have risen since 2013, the highest paid got the largest increases.

"Full-time" (last set of bars) includes those usually working 35 hours a week or more. Inflation adjustment using NY metro area Consumer Price Index. Source: Fiscal Policy Institute analysis of Current Population Survey data provided by the Economic Policy Institute.
During the 1st 4 years of the recovery (2009-13), half of NYC income growth received by top 1%; 77% of growth to top 10%

- Top 1% in 2013 had incomes of $636,865+
  - 36,851 tax filers in the top 1%
  - $636,865 to $1 million: 15,087
  - $1 million to $5 million: 18,597
  - $5 million to $10 million: 1,852
  - $10 million and up: 1,315

- Top 1% share of all NYC 38.1% in 2013, rose to 39.7% in 2014

- Top 1% of households had high shares of all forms of income in 2013:
  - 19% share of wage income (avg of $1 million in wages)
  - 70% of all dividends and interest
  - 71% of all business income
  - 87% of all realized capital gains (avg. of $886,000)
  - Average income for all households in top 1%: $2,917,160
Along with 22,000 millionaires (by income), New York City has 79 billionaires (by wealth), the most of any city in the world

*Forbes March 1, 2016*

**New York Is The City With The Most Billionaires, Not Beijing**

New York City is still the world capital for the ultra-rich. Seventy-nine billionaires call the Big Apple home, holding a combined $364.6 billion in wealth. These include two of the world’s 10 richest people: industrialist David Koch and media titan Michael Bloomberg.

San Francisco is the only other U.S. city among the top 10 global cities with the most billionaires—S.F. has 28 billionaires with aggregate wealth of $75 billion.

NYC’s billionaires derive their wealth mainly from finance (mostly hedge funds), media and real estate.
Reversal of semblance of shared prosperity in New York State since the 1970s

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Business Profits per worker</td>
<td>61%</td>
</tr>
<tr>
<td>Labor Compensation per worker</td>
<td>34%</td>
</tr>
<tr>
<td>Median hourly wage</td>
<td>29%</td>
</tr>
<tr>
<td>20th percentile wage</td>
<td>25%</td>
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<tr>
<td>Median wage, workers with 4-yr college degrees</td>
<td>28%</td>
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Source: FPI analysis of BEA, Gross State Product data (all industries except finance, insurance and real estate); FPI analysis of CPS.
If NYC median family income had grown at the same pace as the increase in the city’s per capita gross city product, the 2014 level would have been about $97,000, about two-thirds higher than the 2014 actual.
In a Gini coefficient ranking of the nation’s 25 largest cities, New York City had the highest income concentration for the 2010-14 period.
Another way to look at relative income disparities is to use average income for quintiles and top 5% from ACS.

Ratio of average incomes, 2008-10

- United States
- New York City

Top 5% to the bottom 20%:
- United States: 13.3
- New York City: 19.0

Top 5% to the middle 20%:
- United States: 4.5
- New York City: 5.7

Middle 20% to the bottom 20%:
- United States: 2.9
- New York City: 3.3
Race/ethnic dimension to income polarization in NYC: average and median family incomes much higher for white, non-Hispanics than for blacks and Latinos
Blacks and Latinos are concentrated in the bottom 80 percent of family income distribution in New York City.
NYC’s high housing costs and overall cost of living strain the incomes of many poor and moderate income New Yorkers, particularly persons of color

- One-third of all New York City renters are “severely rent burdened,” meaning they pay 50% or more of household income for rent, fuel and utilities, according to the 2014 Housing and Vacancy Survey.

- 42% of NYC households lack sufficient income to meet minimum basic family needs for shelter, food, clothing, transportation, child care, health care, and taxes. [According to Overlooked and Undercounted. The Struggle to Make Ends Meet in NYC, Prepared for the Women’s Center for Education and Career Advancement, December 2014, by Diana M. Pearce. http://bit.ly/1s2brDd]
  - 61% of Latino households lack sufficient income
  - 49% of Asian & Pacific Islander households lack sufficient income, as do 47% of black households and 51% of households of “other race”
  - In contrast, only 24% of white non-Hispanic households lack sufficient income.

- 83% of households lacking sufficient income include one or more workers.
Local policy matters in affecting income polarization; for states but also likely for larger local governments.

- Policies like minimum wages can affect labor market earnings.
- Education, starting with early childhood, plays an important role in intergenerational mobility, and is largely determined at state/local level.
- Recent research, such as that by the *Equality of Opportunity Project*, is adding to our understanding of the relation of local factors to intergenerational mobility. E.g., among factors associated with upward mobility:
  - progressivity of tax credits and state income taxes
  - less segregation by income and race
  - lower levels of income inequality
  - better schools, and
  - lower rates of violent crime
NYC has a regressive local tax burden (income, sales and property tax) with low and middle income households paying a higher share of their incomes in NYC taxes than the wealthiest 5%, 2011.

<table>
<thead>
<tr>
<th>Household income groups</th>
<th>NYC taxes as share of household income</th>
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<tbody>
<tr>
<td>Lowest 20% (up to $9,211)</td>
<td>10.5%</td>
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<tr>
<td>Second 20% ($9,212 to $20,062)</td>
<td>11.0%</td>
</tr>
<tr>
<td>Middle 20% ($20,628 to $38,340)</td>
<td>8.9%</td>
</tr>
<tr>
<td>Fourth 20% ($38,341 to $71,014)</td>
<td>7.8%</td>
</tr>
<tr>
<td>Next 15% ($71,015 to $174,399)</td>
<td>6.5%</td>
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<tr>
<td>Next 4% ($174,400 to $598,412)</td>
<td>5.8%</td>
</tr>
<tr>
<td>Top 1% ($598,413 and above)</td>
<td>5.1%</td>
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While the City's income tax is mildly progressive, residential property and sales taxes are regressive. The result: the top 5% pay a smaller share of NYC taxes than their share of all income, 2011.

In many areas since taking office in 2014, Mayor Bill de Blasio has acted to benefit the poor and middle class.

- Bloomberg left all *public sector collective bargaining contracts* unsettled, affecting 340,000 NYC employees. At a time when unions under attack in many places, de Blasio settled contracts covering nearly 75% City workers by end of his 1st year.
  - For 2010-13, NYC government wages increased an average of 1.5% (nominal) annually (< inflation). For 2014 & 2015, average increase of 3.1%.
  - Conservative forces unleashed vitriolic attack against de Blasio, alleging fiscal irresponsibility.
  - de Blasio budgets have fully paid for modest collective bargaining increases, increased reserves and made significant investments, without increasing taxes.

- **Minimum wage policies**: City lacks authority to act on its own, but State did enact $15.
  - 34% of NYC workers will benefit from $15 minimum wage; City estimates poverty (and near poverty) will be reduced by 750,000.
  - In significant contrast to NYS, Mayor de Blasio has committed in the Adopted Budget to fund wage floor increases for 80,000 workers in contracted nonprofit human services sector (Governor did not budget for this, and so far balks at doing it.)

- De Blasio delivered on his signature campaign promise for *universal pre-kindergarten* (UPK) in his 1st year. Importance for increasing lifetime earnings as well as saving moderate income families on private preschool costs.
From FY 2013 to FY2016, City-funded human services spending has far out-paced state and federal funding.

Source: July 2013 and January 2016 NYC financial plans. Funding, by source, for NYC human services. Note: Data are inflation-adjusted.
Other de Blasio policies benefitting low-income populations, communities of color, and immigrants

- In addition to *restoring and increasing funding in a range of human service areas* (e.g., homeless prevention, immigrant, youth and senior services), de Blasio and his HRA Commissioner, Steve Banks, reversed two decades of punitive “welfare reform” policies.

- In the *criminal justice* area, NYPD “stop-and-frisk” practices have been dramatically scaled back and significant training and other investments have been made to address poor conditions at the Rikers Island correctional facility.

- de Blasio-appointed members of the Rent Guidelines Board approved the first-ever rent freeze for rent-stabilized housing in 2015 (Over 1.3 million rental units, 61% of the total, are rent-regulated.)
Great contrast in fiscal policies pursued by Governor Cuomo and Mayor de Blasio

- For past 3 fiscal years, NYC city-funded spending has risen 4.9% annually, while NYS state operating expenditures have been subject to a self-imposed 2% spending cap.

- Governor has been shrinking state government and the combination of flat state aid to localities and a rigid local property tax cap (the lesser of 2% or inflation) has squeezed NY’s local governments. [Since 2010, NYS has seen the largest decline in state & local gov’t employment in the U.S.]

- To use up tax revenue growth beyond that needed to fund 2% spending growth, the Governor sizes tax cuts accordingly ($3B in FY 2016).

- In contrast, the Mayor has invested growing City tax revenues in restoring and expanding services to meet needs (human services, UPK, more police), fixing problems (Housing Authority, Rikers), and building reserves.
In a range of policy areas affecting income disparities, de Blasio policies also contrast with those of his two predecessors, Rudy Giuliani and Michael Bloomberg

- Giuliani and Bloomberg terms included periods of economic growth but neither systematically promoted policies to reduce income disparities.

- For the most part, Bloomberg continued Giuliani’s punitive approach to public assistance recipiency. Despite steep income drop for low-income working families and high unemployment during and after the 2008-09 recession, there was no increase in public assistance rolls under Bloomberg.

- The City’s tax structure became more regressive as Giuliani gave huge property tax breaks to Wall Street and other large companies and Bloomberg raised property and sales tax rates, and gave huge property tax breaks for Hudson Yards.

- Giuliani sought to privatize NYC’s public hospitals and Bloomberg left office with all municipal labor contracts unsettled. Bloomberg opposed living wage expansion and undermined union standards for child care and school bus workers.
However, Mayor de Blasio has not gotten around to making City’s tax structure more progressive.

- Except for introduction of a modest City EITC in mid-2000s, no major progressive changes since 1990 despite income polarization.

- Fix residential property tax inequities. Many tools exist to make it less regressive and to minimize creating undue burdens. Requires NYC-Albany cooperation.

- Expand low-income tax credits and reduce credits for the rich.
  - Recognize limits to increasing top rate because of higher NYS top rate.
  - Limit unincorporated business tax credit for millionaires.

- Reform business tax expenditures that have tripled since 2001.
  - Evaluate and rationalize current panoply of tax breaks, especially real estate tax breaks, that have evolved over decades.
  - Eliminate the unnecessary Hudson Yards property tax breaks and carried interest exemption on City’s unincorporated business tax.

- Pied-à-terre tax on super-luxury condos since non-residents don’t pay income tax, or add “mansion” tax (a new higher bracket on the transfer tax).
The real estate sector and the local dimension of income polarization

- With strong job growth, declining crime, re-zonings under Bloomberg and more in the works with de Blasio, and the city’s attractiveness to immigrants and tech companies, NYC real estate is booming.

- $1 trillion in transactions since 2005, half residential, half commercial.

- According to Forbes, most NYC real estate billionaires have doubled their net worth since 2007.
  - E.g., the net worth of Stephen Ross of the Related Companies, a key investor in Hudson Yards, has grown from $4.5B to $12 B since 2007.

- Oligarchs from all over have fueled the super luxury end of NYC’s condo market. See http://nyti.ms/22KZ3KU and http://prospect.org/article/heights-privilege.
More on the impact of the real estate sector

- In a 2013 NYT article about 432 Park Avenue, billed as the “tallest residential building in the Western hemisphere,” I was quoted: “Manhattan’s superluxury condo boom presents an unobstructed view of accelerating polarization.” [http://nyti.ms/1Ubi2fK](http://nyti.ms/1Ubi2fK)

- Perhaps the biggest impact of NYC’s real estate wealth can be seen in Albany politics and the continued Republican control of State Senate. This has helped perpetuate certain real estate tax breaks and confounded tenant advocates seeking to strengthen rent regulation laws.

- The expiration of the state’s “millionaire’s tax” at the end of 2017 likely will factor in campaign fundraising activities as the entire State legislature is up for re-election this fall.
The outlook for NYC income trends

- The phased-in state minimum wage, reaching $15 by the end of 2018, will have very positive effects for over one-third of NYC’s workforce. [for an insightful analysis of the potential impact on New York businesses and the broader economy see this report from Berkeley economist Michael Reich and colleagues: http://bit.ly/1UvAZ8D]

- While New York City’s high income concentration and wage stagnation (up until recently) have undoubtedly slowed consumer spending, the city’s growth has attracted in-migrants and new businesses and its role as a safe haven for the global 1% have spurred local economic activity.

- Continued job growth and low unemployment (assuming the Fed does not tip the economy into recession) should help make possible income gains in the middle and at the bottom, as well as boost high incomes.

- As the minimum wage rises, NYC will be a leader in raising pay for contracted nonprofit human service workers (a large sector nationally.)
More on the outlook for income trends

- The expansion of UPK, more constructive efforts to assist public assistance recipients, and other initiatives in education, mental health, and human services should have positive long-run payoffs.

- It’s too early to tell whether the Mayor’s ambitious efforts to promote more affordable housing will help ease the city’s overall housing affordability problem. His efforts are also accelerating gentrification.

- There is no solution in sight to the severity of the city’s residential and school segregation challenges. [In a better world, there would be regional approaches to both affordability and segregation.]

- It very good news that it seems clear by now that NYC can thrive without an excessively booming Wall Street sector.

- Wealth distribution is much more polarized by race than incomes; it is positive that City is proposing a City-administered individual retirement savings plan.