

Inequality and New York City Economic Structure

*for Inequality by the Numbers
Third Annual Workshop, June 2017
CUNY Graduate Center and the Stone Center*

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June 8 2017

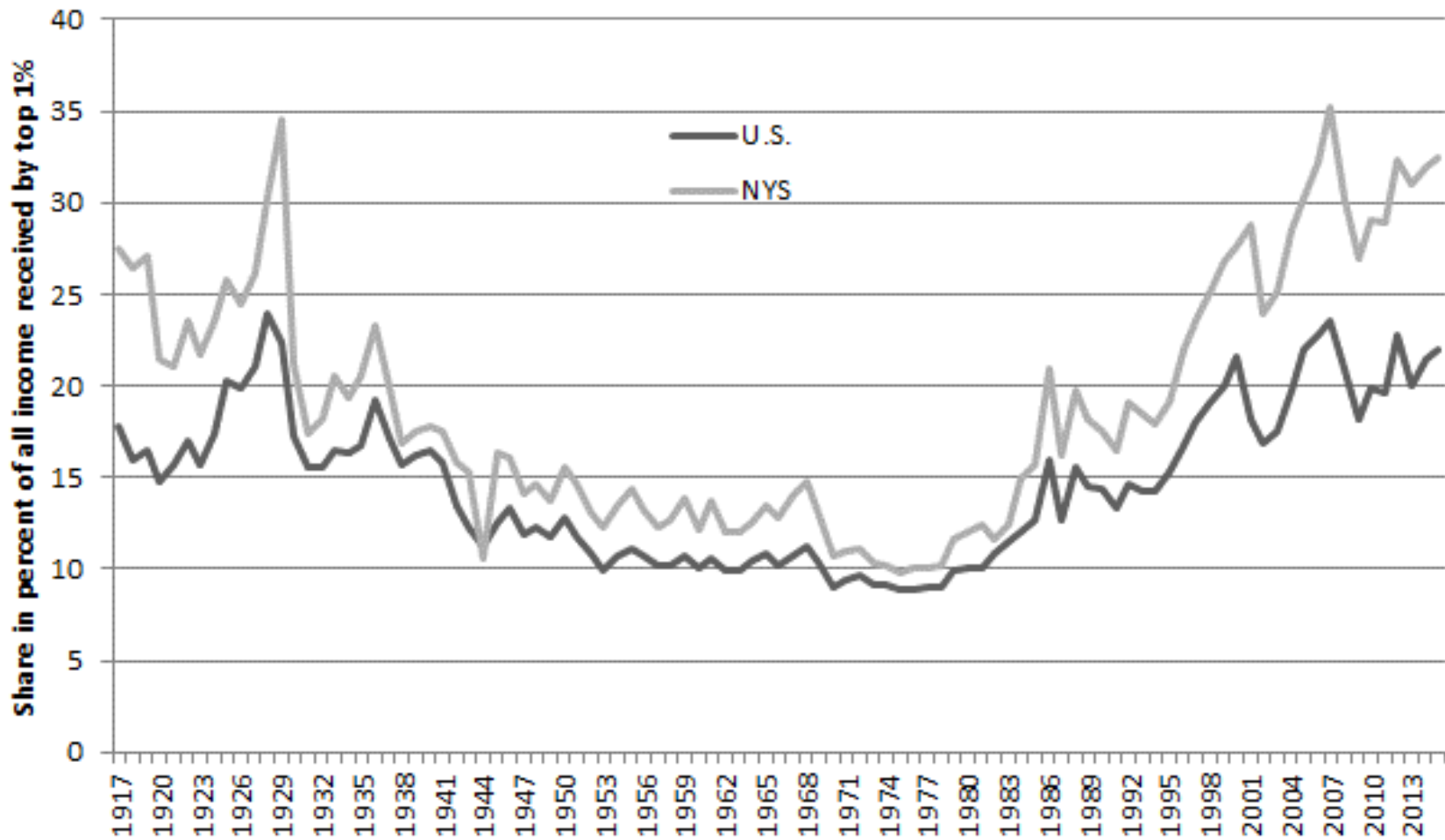
Overview: Changing economic structure in an age of polarization

- Income inequality/polarization/concentration is reflection of how market-based economic forces are mediated by government.
- How polarized are NYC incomes and what are the recent trends?
- How did NYC's economic structure change since 1980 and how did that affect wages and incomes?
- What can be done locally to address income inequality?
- How do NYC's recent policies contrast with NYS's policies?

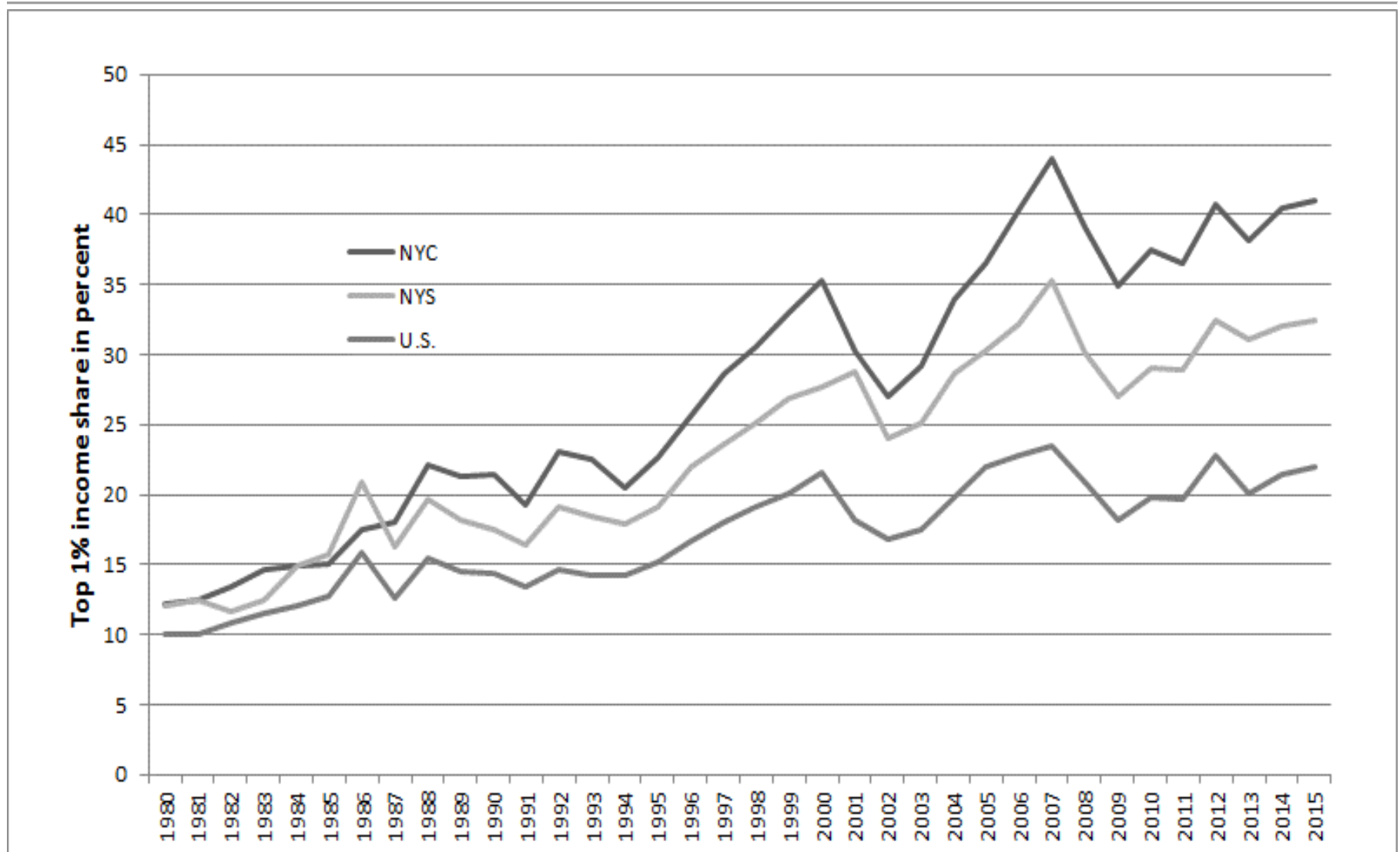
Why does income polarization matter at a local level?

- 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 decline in the middle class (and institutions) is perhaps the clearest manifestation of the polarization of incomes. E.g., CUNY disinvestment.
- In addition to broader impacts of concentrated incomes, 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.

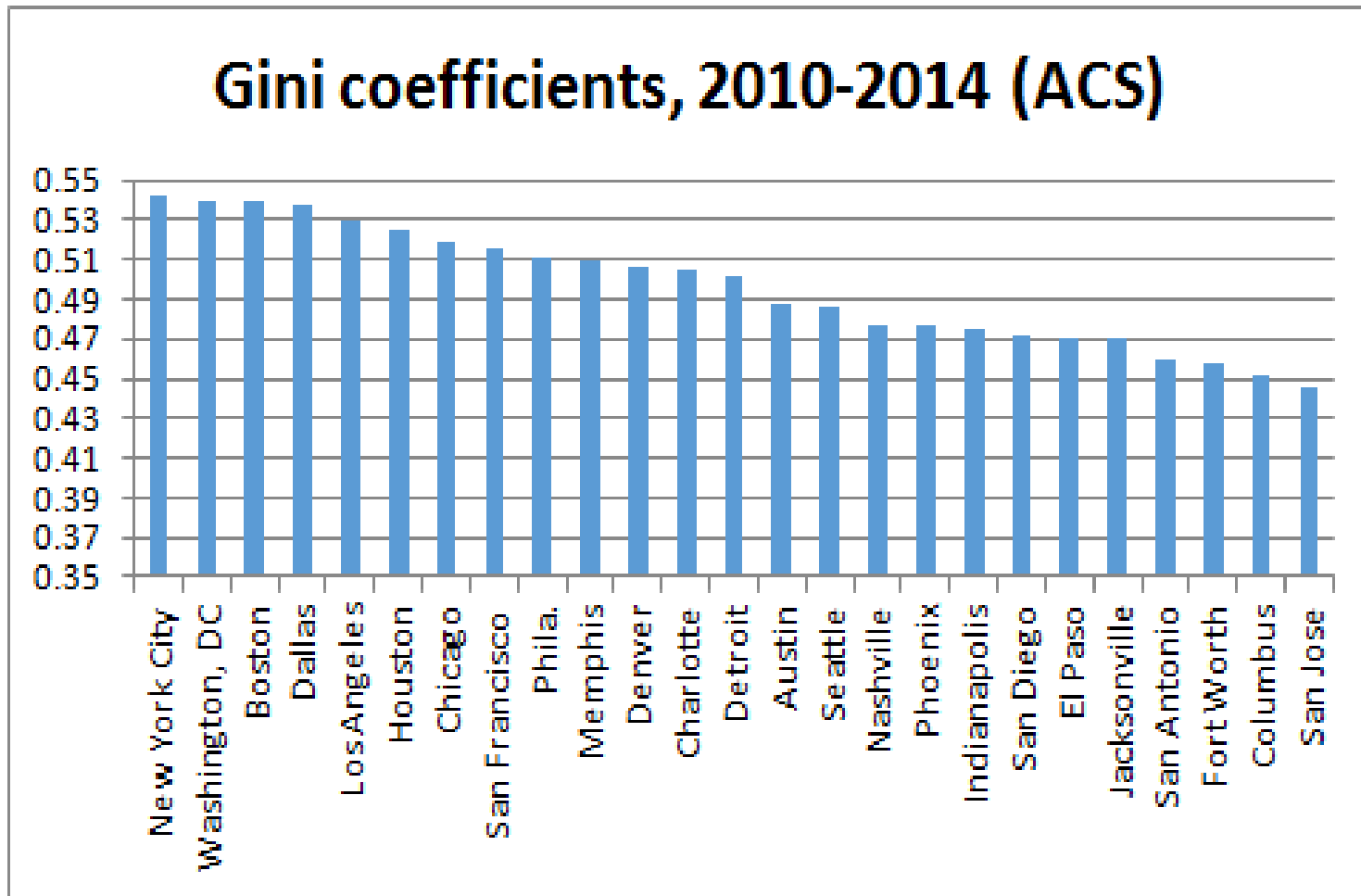
1% income share rises sharply after 1970s following three decades of a semblance of "shared prosperity"



How does the 1%'s income share in NYC compare?



In a Gini coefficient ranking of the nation's 25 largest cities, NYC had the highest income concentration for the 2010-14 period.



During the 1st 6 years of the recovery (2009-15), 54% of NYC income growth received by top 1%; 78% of growth to top 10%.

- Top 1% in 2014 had incomes of \$705,900+
 - Total tax filers in the top 1%: 37,273
 - \$705,900 to \$1 million: 12,188
 - \$1 million to \$5 million: 21,216
 - \$5 million to \$10 million: 2,169
 - \$10 million and up: 1,700
- Top 1% share garnered 40.5% of all NYC income in 2014
 - Average income for all households in top 1%: **\$3.4 million**, 15% greater than in 2013.
- Still, in this decade, there have been some income and wage gains for those in the middle and at the lower end of the income spectrum.

Along with 25,000 millionaires (by income), New York City has 82 billionaires (by wealth), the most of any city in the world

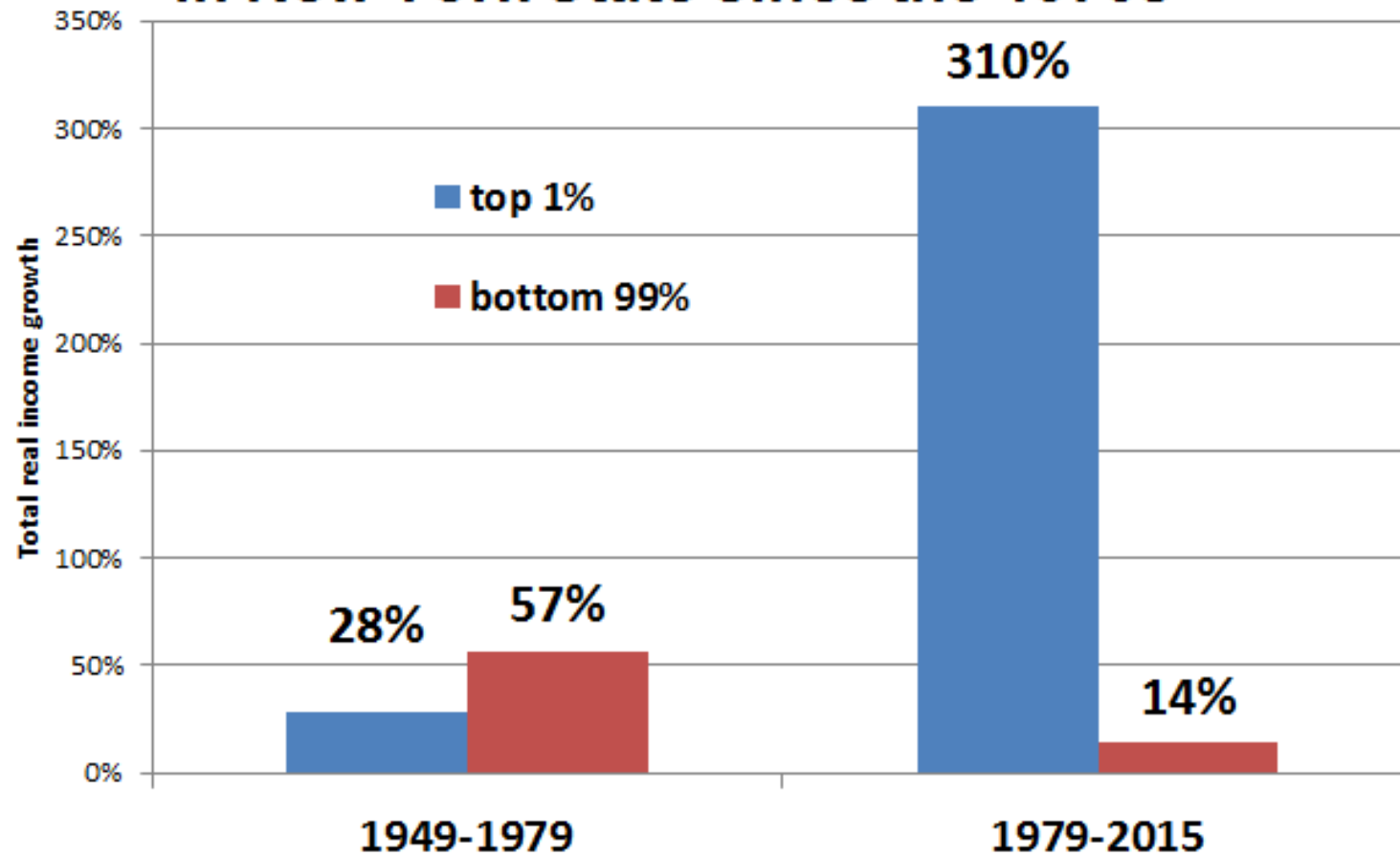
Forbes March 21, 2017

New York City is still the world capital for the ultra-rich. Eighty-two billionaires call the Big Apple home, holding a combined \$398 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 32 billionaires with aggregate wealth of \$87 billion.

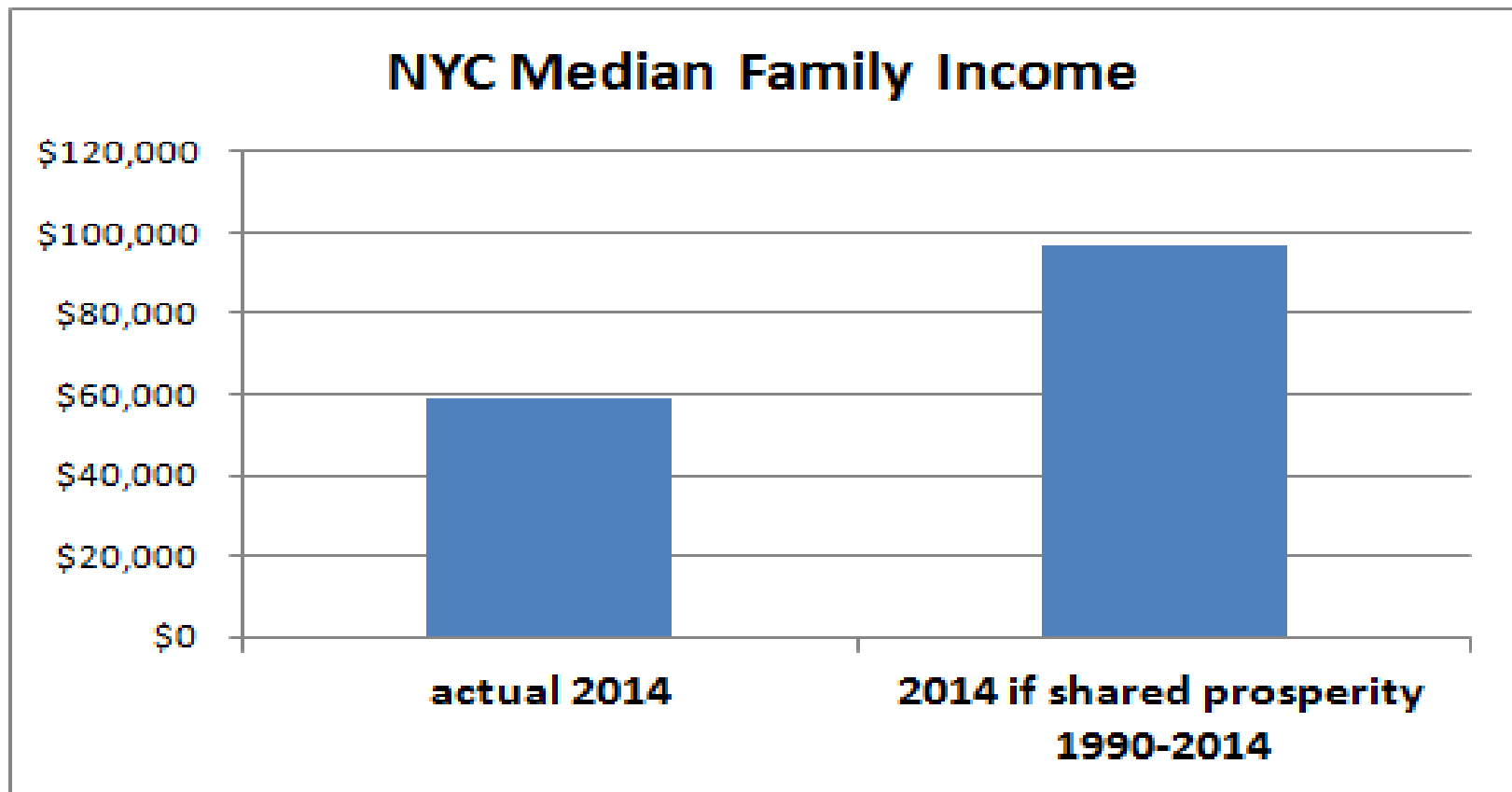
NYC's billionaires derive their wealth mainly from finance (mostly hedge funds), media and real estate.

Reversal of semblance of shared prosperity in New York State since the 1970s



Source: Estelle Sommeiller, Mark Price and Ellis Wazeter, *Income inequality in the U.S., by state, metropolitan area, and county*. Economic Policy Institute, June , 2016.

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.



What accounts for NYC's higher income concentration?

- Increased finance sector share of income flows in U.S. economy and the city's long-standing position as the nation's leading financial center.
- Concentration of corporate headquarters and related professional services (legal, accounting, management consulting, advertising)
- Home to inherited and new wealth with large stock holdings benefitting from rising profit share of national income.
- NYC's dense concentration of economic activity makes possible high real estate values that have created great wealth for commercial and residential property developers.

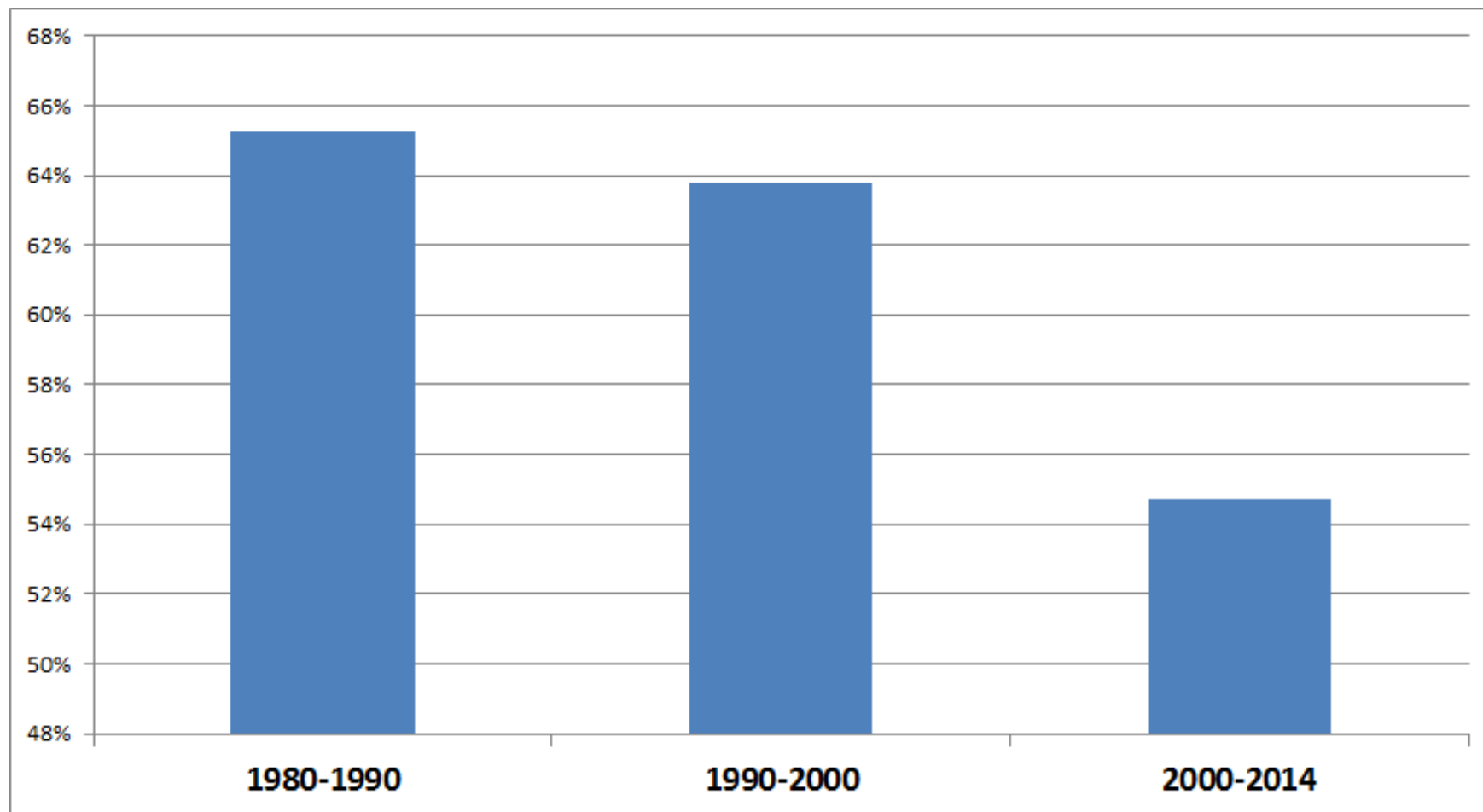
Rapid growth in finance share of total NYC wages

- Securities share of total wages in NYC nearly 20% in 2015, had been 10% in 1990 (and as high as 25% in 2007), while employment share 4-5% over past 25 years.
- Average annual wage in 2015= \$388,000 (had been over \$400K in 2007.)

Income sources for NYC's richest 1% in 2014

- For NYC's 1%, wages and capital gains each were 1/3 of 2014 income, dividends and interest were 10% and business income 21%.
- Top 1% of NYC households had high shares of all forms of income in 2014:
 - 40% share of all income
 - 21% share of wage income (avg of \$1.15 million in wages)
 - 71% of all dividends and interest
 - 71% of all business income
 - 87% of all realized capital gains (also avg. of \$1.15 million)
- 55,000 NYC households had combined income of \$1.9 billion (\$1 billion from capital gains), but paid zero NYC income tax because they reported sizable business losses.

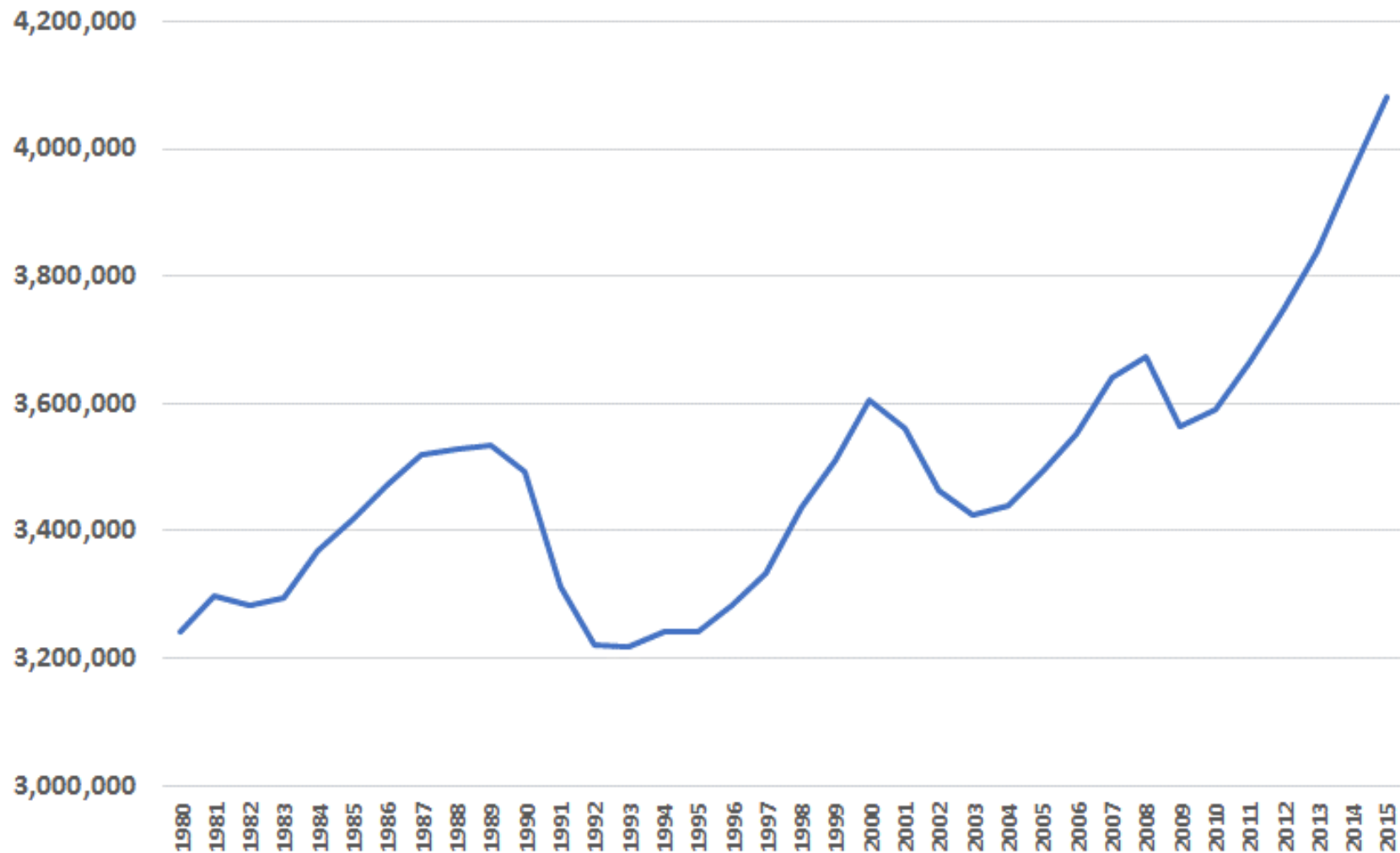
In 1980s & 1990s, NYC's 1% claimed nearly 2/3 of total income growth; since 2000, 1% share has eased to 55%.



How did the structure of NYC's economy change in the post-1980 era of income polarization?

- Under this heading, look at sector and occupational changes, and how those changes translated into wages and incomes.
 - Wages are 2/3 of all NYC incomes.
 - For the bottom 95%, wages constitute 93% of all income.
- And then consider the policy developments (both action and inaction) that influenced particular forms of economic change.
- This is a narrative headed toward discussing how local policy levers can be used to better respond to economic changes that exacerbate polarization.

NYC employment since 1980: net 25% gain to new high with three downturns moderating in severity



NYC's significant sectoral job shifts since 1980

- Manufacturing's share fell from 30% in 1950 to 16% in 1980, then continued falling to 5% by 2000 and < 2% in 2016.
- Finance and insurance employ. rose in 1980s, and while it's added some jobs since 2010, it's share has dropped from 12% 1990 to 8% in 2015.
- Steady growth since 1980 in professional services (law, accounting, management consulting, advertising); with share rising from 7 to 10%.
- Substantial growth in priv. educ., health care and social assistance; but unique drivers. Combined +444K with share from 14% in 1990 to 22%.
- Low-wage leisure & hospitality grew the fastest, doubling employment (+220K) from 1990 to 2015.
- Local gov't employment (bulk of all gov't), slightly lower in 2015 than in 1990 and share of all jobs declined from 13.2% in 1990 to 10.6% in 2015.

Using occupational data to hone in on job changes by wage level for NYC resident workforce

Group 21 detailed occupations into four wage tiers.

- High-wage managers and professionals: executives, managers, doctors, lawyers, engineers and computer scientists.
- Middle-wage other professional and technical: teachers, nurses and other health assessment & treatment, financial and insurance sales and sale supervisors, police and fire fighters.
- Middle-wage blue collar: machine operators, precision production, construction trades, drivers, and laborers.
- Low-wage service: admin. support, food preparation, sales, clerks and cashiers, private household and personal service, building service, nursing and health aides.

Rising share of middle- and high-wage professional and managerial jobs for NYC residents, 1980-2014

	1980	1990	2000	2010/14
All Occupations <i>share of all occupations</i>	2,898,880 100.0%	3,246,874 100.0%	3,281,629 100.0%	4,170,356 100.0%
High-wage MGRS, DRS, LAWYERS & ENGINEERS <i>share of all occupations</i>	432,940 15%	582,121 18%	611,928 19%	787,588 19%
Middle-wage OTHER PROF & TECHNICAL <i>share of all occupations</i>	499,300 17%	698,617 22%	777,073 24%	973,674 23%
Middle-wage BLUE COLLAR <i>share of all occupations</i>	670,140 23%	625,492 19%	579,611 18%	649,926 16%
Low-wage SERVICE <i>share of all occupations</i>	1,296,500 45%	1,340,644 41%	1,313,017 40%	1,759,168 42%

Decade of 1980s saw fastest growth in middle- and high-wage professional and managerial jobs; since 2000, growth shaped by surge in low-wage service jobs

	absolute change			percent change		
	1980-1990	1990-2000	2000-2010/14	1980-1990	1990-2000	2000-2010/14
All Occupations	348,000	34,800	888,700	12%	1%	27%
High-wage MGRS, DRS, LAWYERS & ENGINEERS	149,200	29,800	175,700	34%	5%	29%
Middle-wage OTHER PROF & TECHNICAL	199,300	78,500	196,600	40%	11%	25%
Middle-wage BLUE COLLAR	-44,600	-45,900	70,300	-7%	-7%	12%
Low-wage SERVICE	44,100	-27,600	446,200	3%	-2%	34%

Significant NYC occupational changes since 1980

Occupational groups	1980-1990	1990-2000	2000-2012
High-wage			
Executive, administrative & managerial	109,800		140,200
Prof. speciality, incl. doctors, lawyers & engineers	39,400	38,500	35,500
Middle-wage			
Teachers, professors, and social workers	81,900	59,900	144,200
Technicians, incl. health and engineering	31,100		
Sales supervisors in real est., finance	58,200		
Construction trades			
Precision production	-29,300		
Machine operators	-63,600		
Drivers, transp. workers and material movers			63,000
Laborers & other materials handlers			70,300
Low-wage			
Sales, clerks and cashiers			89,000
Administrative support, incl. clerical	-44,900	-109,200	
Priv. household and personal service		48,500	105,000
Guards, cleaners & building service	35,000		67,000
Food preparation services			101,300
Health and nursing aids	38,800		100,400

Note: significant changes are those that represent +/- 1% of total employment at the beginning of the period

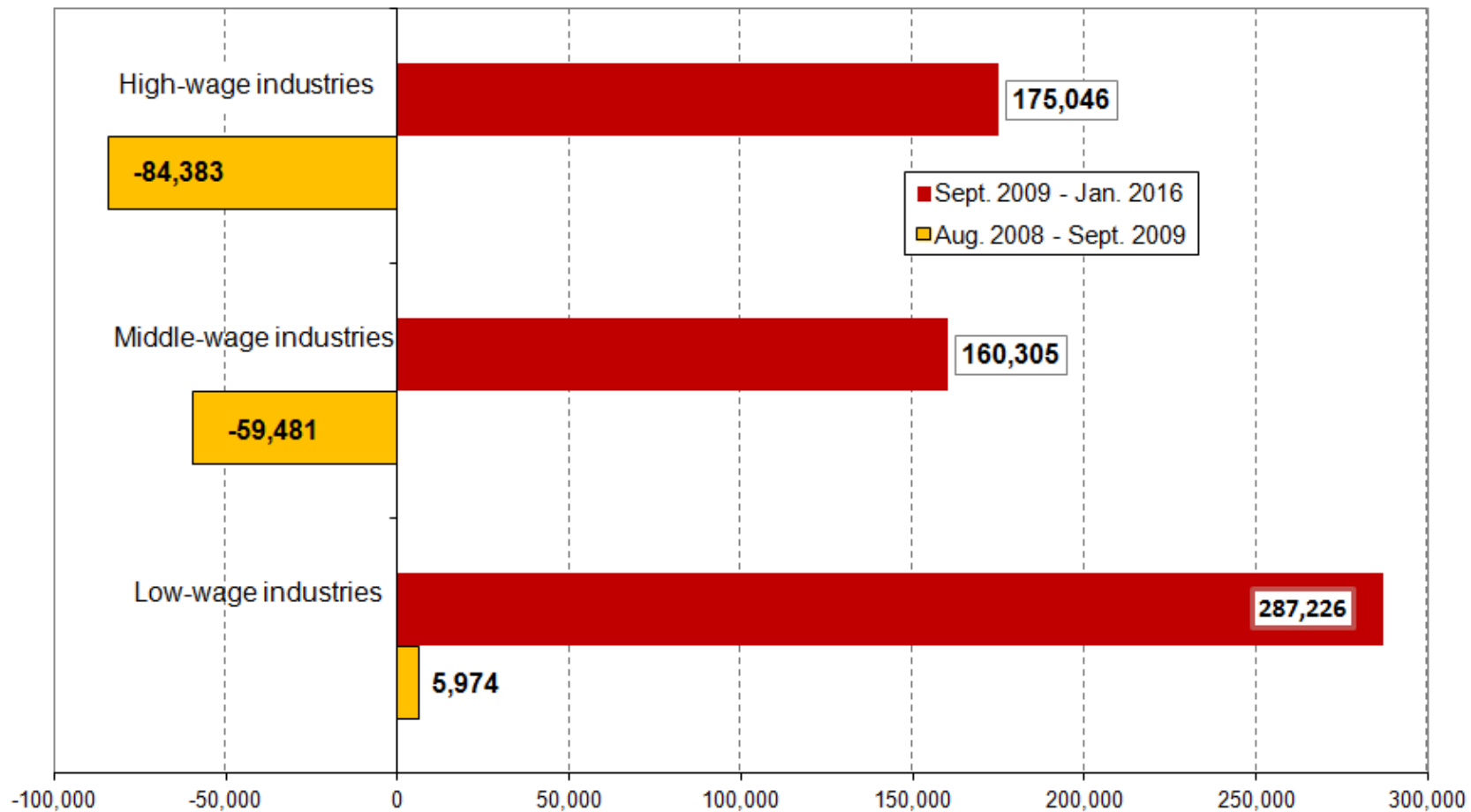
Transformation of work in an era of income polarization

- Consolidation within commercial banking; financialization and soaring compensation within securities sector
- Global professional services
- Corporate downsizing, decline middle management and admin
- Long-term decline in manufacturing, exacerbated by real estate pressures
- Growth in health, education and social assistance
- Growth in leisure and hospitality (tourism)
- Deteriorating quality of many blue and white collar jobs: reduced pay, benefits and rise in non-standard work arrangements

Relate economic changes to policy changes post-1980

- Financial deregulation
- Globalization, increased foreign investment, not regulating trade
- Letting barriers to unionization remain
- “Policy drift” in not responding to “fissuring” of the workplace
- Allowing the minimum wage to falter
- Fostering economic competition among states

New York City job growth since the recovery has been concentrated 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.

Local policy-influenced real estate development (both commercial and residential) evolved in a way that favored particular forms of economic change.

- Local real estate industry long wielded considerable influence in City (and State) land use choices involving re-zoning and mega-development projects. Choices since 1960s favored higher-valued commercial office development at expense of manufacturing.
- Post-fiscal crisis economic development paradigm added in greater reliance on property tax breaks for both office and residential projects.
- It also allowed private developers to reap all of the resulting value creation. Local government not able to channel any of the created value for public purposes or even to fund infrastructure.

How did these changes in economic structure affect wages and incomes?

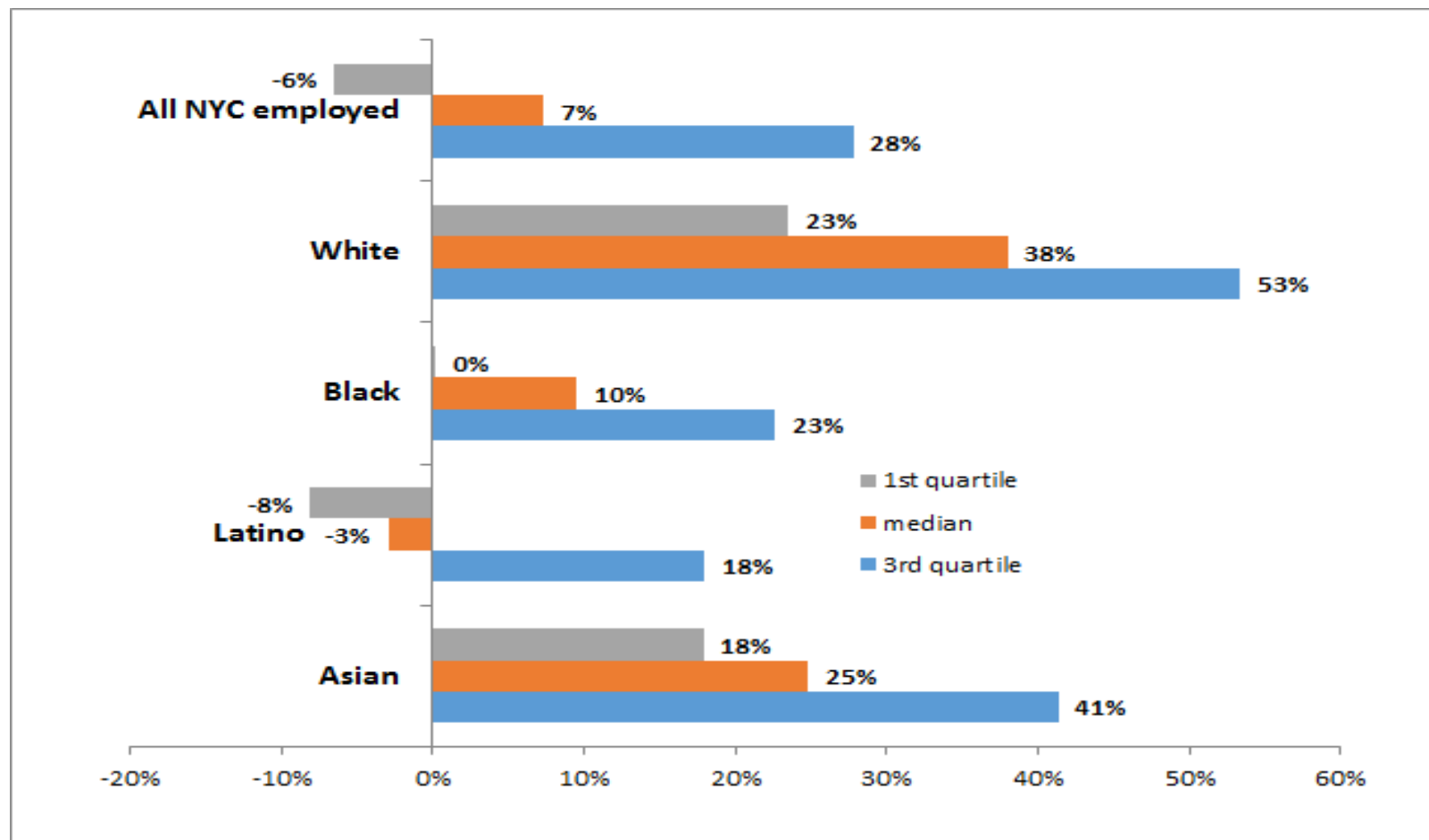
- One broad measure is the trend in inflation-adjusted median family income. Also look at trend in median wages by occupation.
- Since NYC undergoing significant transformation in racial/ethnic composition, look at by race/ethnicity. [NYC also experiencing significant influx of immigrants across the major racial/ethnic categories but nativity is not separately analyzed here.]
- One caveat: because of dramatic employment and population decline in the 1970s (both leading up to and after the 1975 fiscal crisis), 1980 income values (technically 1979 incomes) were unusually low, partially accounting for the sizable income gains reported for the 1980s.

Changing NYC job structure & labor practices reflected in trend in median family incomes by race/ethnicity

<i>2015 dollars</i>	1980	1990	2000	2010	2015	change in median income				
						1980-1990	1990-2000	2000-2010	2010-2015	1980-2015
All NYC families	\$55,551	\$66,938	\$61,616	\$59,794	\$63,232	20.5%	-8.0%	-3.0%	5.7%	13.8%
White non-Hispanic	\$70,574	\$89,309	\$89,934	\$94,584	\$100,151	26.5%	0.7%	5.2%	5.9%	41.9%
Black non-Hispanic	\$41,916	\$56,100	\$52,936	\$51,097	\$56,948	33.8%	-5.6%	-3.5%	11.5%	35.9%
Latino of any race	\$34,552	\$43,988	\$44,113	\$43,541	\$43,006	27.3%	0.3%	-1.3%	-1.2%	24.5%
Asians and all other non-Hispanics	\$57,184	\$65,699	\$59,197	\$59,794	\$60,876	14.9%	-9.9%	1.0%	1.8%	6.5%

Source: FPI analysis of 1980-2010 Census microdata provided by IPUMS, 2015 ACS microdata from IPUMS.

Disparities by race/ethnicity also evident in NYC resident full-time worker earnings, especially at low-end, 1980-2014



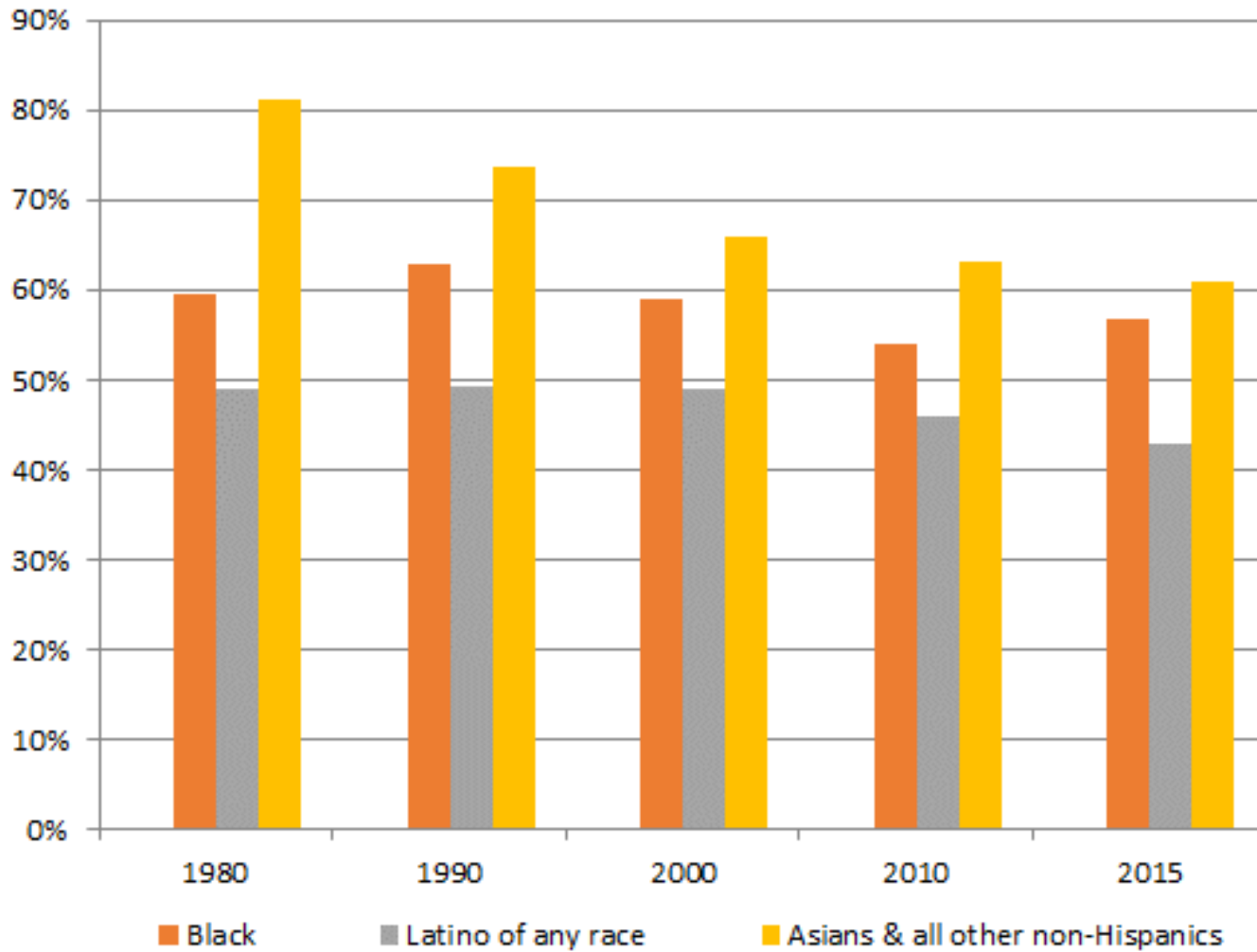
Rise in Latino and Asian shares of NYC population; flattening of white non-Hispanic share

(rising immigrant shares within each not shown)

	1980	1990	2000	2010	2015
Number, all NYC families	1,771,000	1,742,000	1,863,000	1,851,000	1,863,000
<i>shares of all families</i>	100.0%	100.0%	100.0%	100.0%	100.0%
White non-Hispanic	54.0%	44.8%	35.5%	33.1%	32.5%
Black non-Hispanic	22.7%	24.8%	24.7%	23.8%	22.0%
Latino of any race	19.7%	23.6%	26.4%	28.4%	28.6%
Asians and all other non-Hispanics	3.6%	6.9%	13.4%	14.8%	16.9%

Source: FPI analysis of 1980-2010 Census microdata provided by IPUMS, 2015 ACS microdata from IPUMS.

NYC median family incomes relative to whites, 1980-2015



What can be done to reduce income inequality?

- Certainly, most policy levers at national level: labor market institutions, industrial and trade regulation, fiscal policy, human capital investments, etc.
- Federal actions under Pres. Obama starting to have some effect.
- 2017 Economic Report of the President:
 - Obama's policies delivered most significant reduction in market-generated inequality since Great Society programs;
 - Combined effects of tax policy and the Affordable Care Act's taxing of the rich to pay for expanded health coverage cut by 20% the ratio of average income of top 1% to bottom 20%.

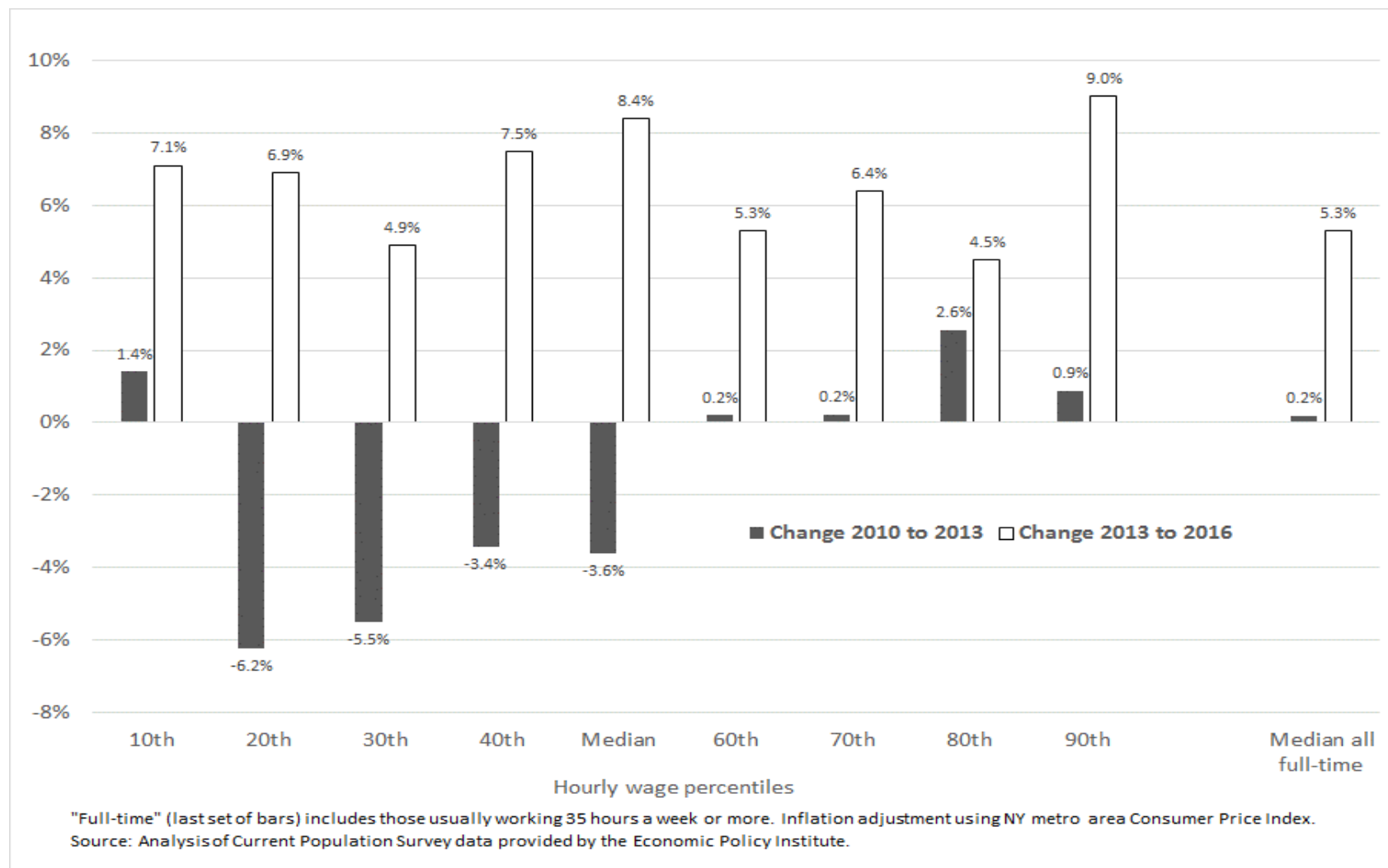
Local policy matters in affecting income polarization and opportunities for mobility; for states but also likely for larger local governments.

- 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

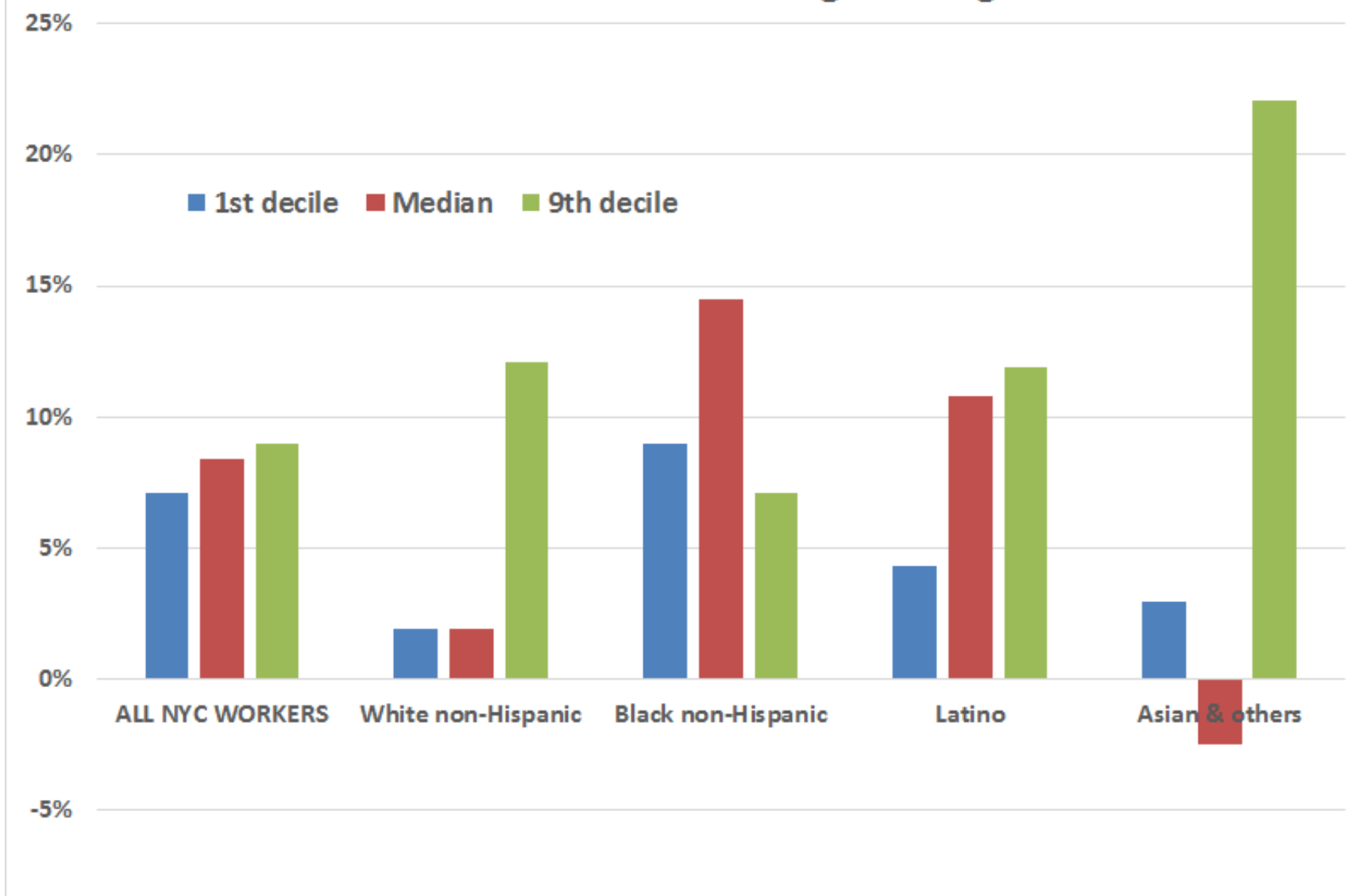
Kim Phillips-Fein's new book, Fear City, details the attack on NYC's liberal order and expansive government during and after the 1975 fiscal crisis.

- Nothing inevitable about the austerity response to the fiscal crisis.
- Leaders of large NYC banks & corporations joined with Pres. Ford's conservative economic brain trust to use the city's debt and budget crisis to rollback expansive government and liberal impulses undergirding government economic intervention.
- In many ways, the local manifestation of the Washington offensive that set in place the policy regime enabling income polarization.
- CUNY was one of the targets. Free tuition ended, but the institution prevailed. EOP research shows that it has one of the highest bottom-to-top mobility rates of any university in the country.

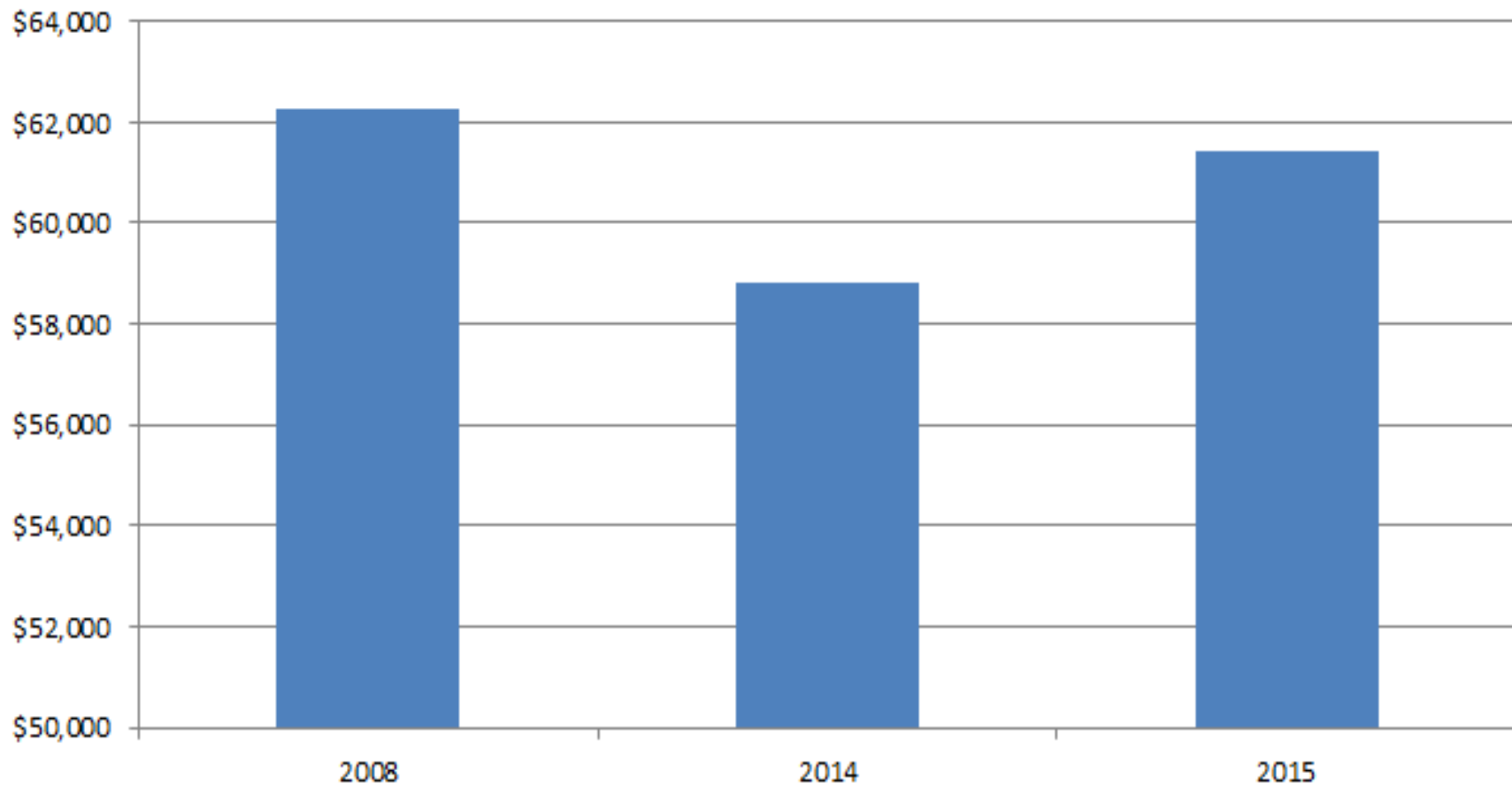
Real NYC hourly wages have risen across the board since 2013; w/ 8.4% median increase > U.S. 2.8%



NYC median black and Latino wages rising 2013-16



NYC median family income rose 4.4% in 2015, but still lagged the 2008 level (\$2015)



NYC local efforts to regulate labor practices

- Paid sick days
- Paid family leave
- Establishment of NYC Office of Labor Policy and Standards
- “Freelance” isn’t free act requiring written agreements
- Regulating scheduling practices in fast food and retail
- Curbing wage theft, etc.

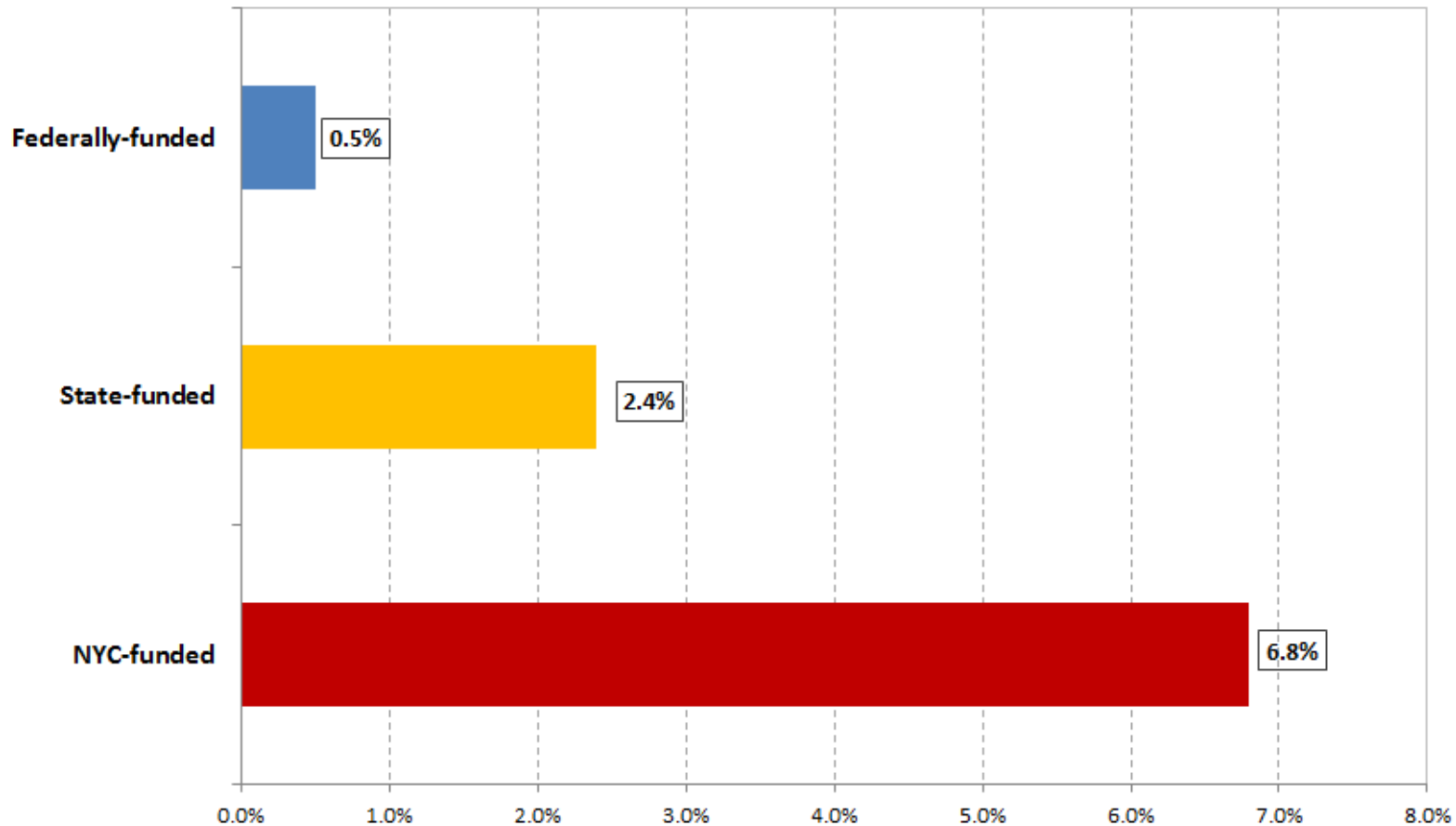
In many areas since taking office in 2014, Mayor Bill de Blasio has acted to benefit the poor and middle class.

- 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, 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 has committed to fund wage floor increases for 80,000 workers in contracted nonprofit human services sector (Governor did not budget for this, and balks at doing it.)
- De Blasio delivered on his signature campaigning 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.

Substantial City-funded human services investments

- Under the previous administration, there were steep cuts in human services spending in the years following the Great Recession. From the onset of the recession until 2012, inflation-adjusted City funds spending on human services fell by nearly 10% despite elevated unemployment and hardships.
- In de Blasio's preliminary FY 18 budget, human services spending will have grown by 39% (\$1.1B) since FY 2013, almost twice the growth in City funding spending elsewhere in the budget. That's an inflation-adjusted 30% increase.
- Most of that increase has been for various homeless services (shelters and prevention), but some has also gone for after-school and summer youth employment programs, and for staffing in senior services.
- A significant funding increase has also occurred for the human services contract workforce. By 2020, the annual increment in funding for wage increases at nonprofit providers will total \$240 million (raises from 9-50%). This includes \$93 million for the recently proposed 2% annual COLA for three years.

City-funded portion of human services spending has far out-paced the growth in state & federal funding, FY 2013-18.



Source: July 2013 and January 2017 NYC financial plans; and Comptrollers Annual Financial Report.

Note: Annualized funding growth FY13-18 in nominal terms.

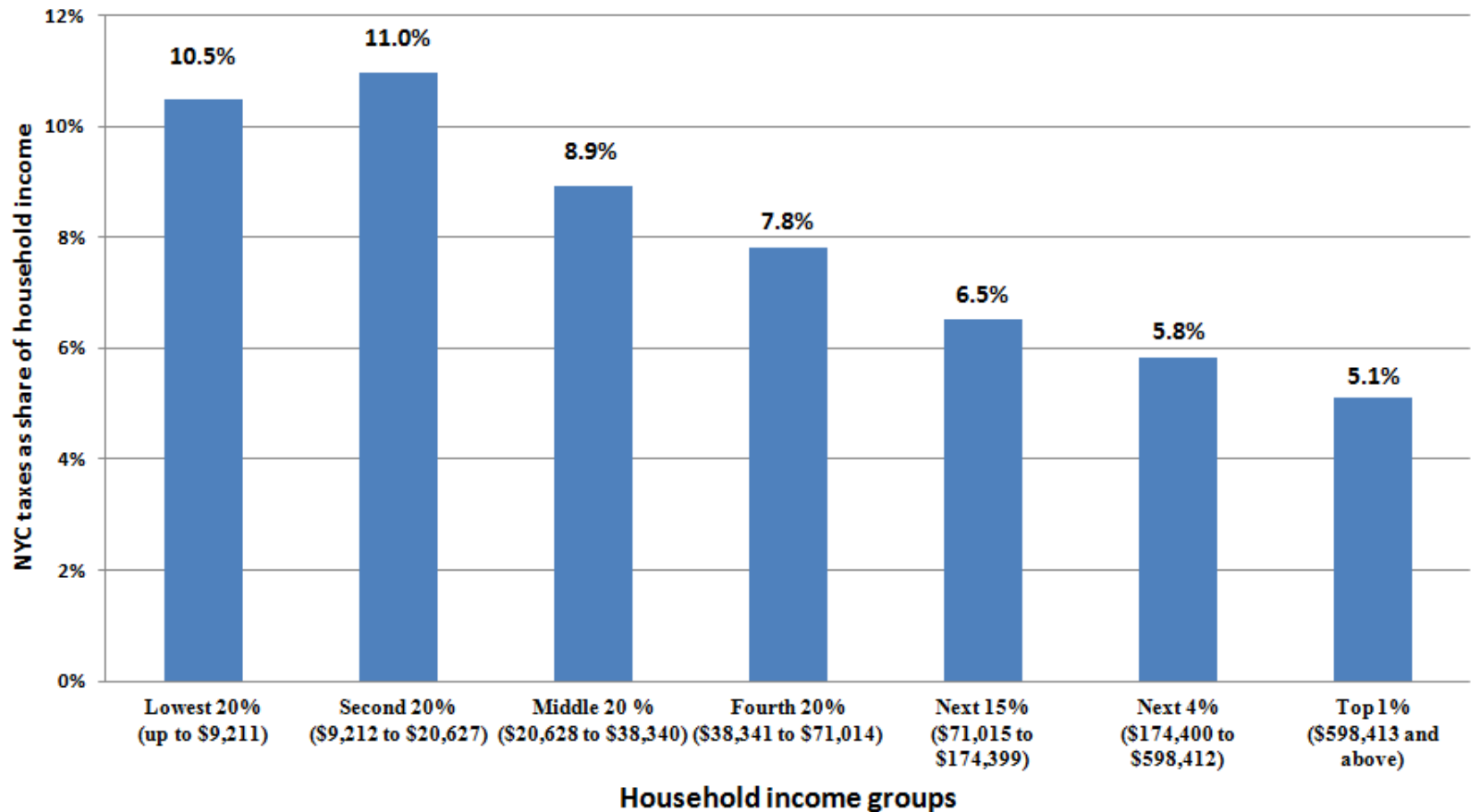
Great contrast in fiscal policies pursued by Governor Cuomo and Mayor de Blasio

- 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.
- 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.

However, Mayor de Blasio has not gotten around to making City's tax structure more progressive.

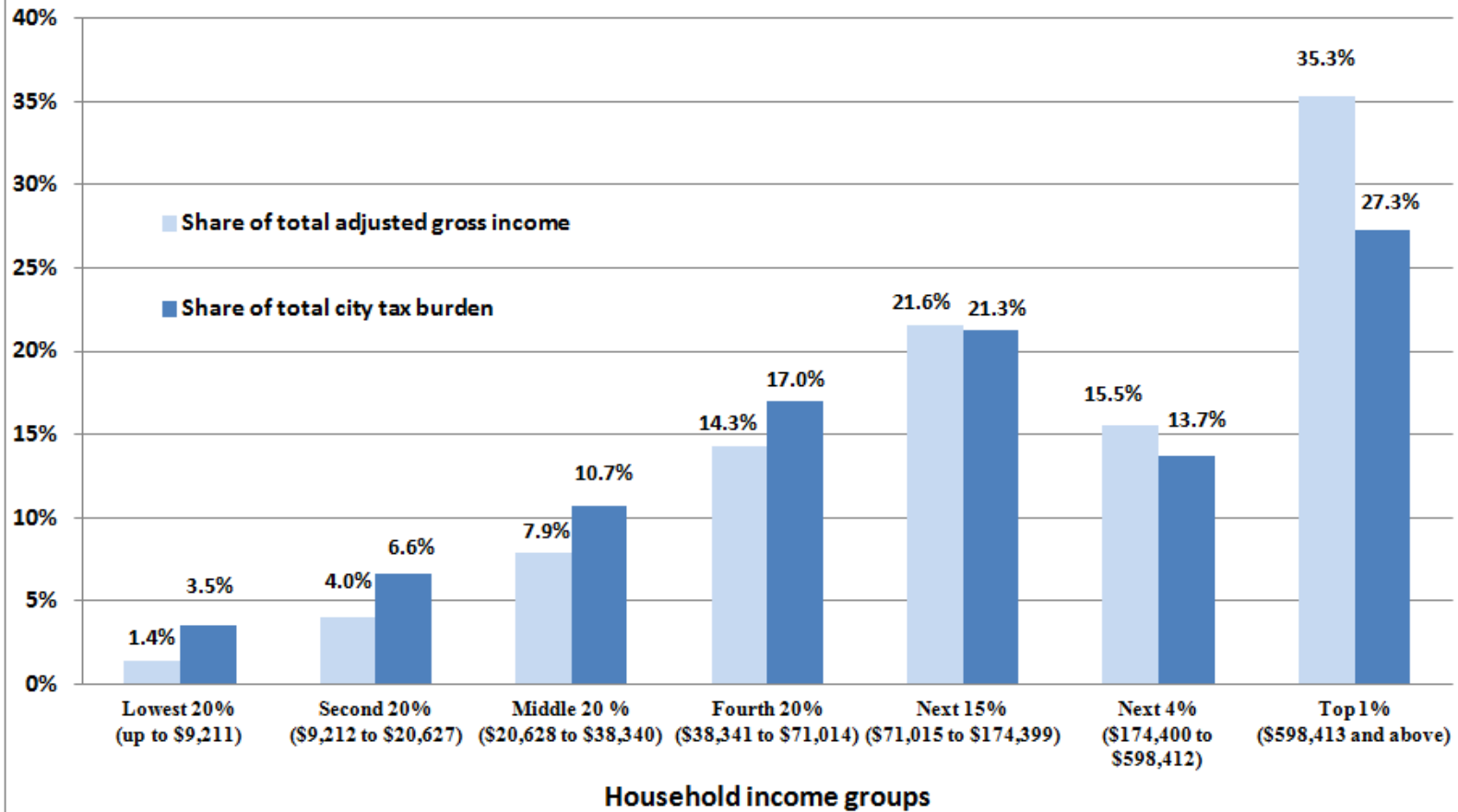
- Except for introduction of a modest City EITC in mid-2000s, no major progressive changes since 1990 despite income polarization.
- Fix residential property tax inequities. Many tools exist to make it less regressive and to minimize creating undue burdens. Requires NYC-Albany cooperation.
- Expand low-income 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 UBT.
- 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).

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.



Source: Fiscal Policy Institute estimates based on NYS and NYC tax data for NYC residents, 2011. Includes Unincorporated Business Tax

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.



Source: Fiscal Policy Institute estimates based on NYS and NYC tax data for NYC residents, 2011. Includes Unincorporated Business 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, many 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 \$7.4 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>.

Concluding thoughts on local policies

- Local wage and labor policies can lift those at the bottom
- Some latitude for progressive tax policies
- Budget policies to reduce poverty, including through investing in indirect contract workforce
- Consciously invest in expanding opportunities for upward mobility
- Exploit opportunities to leverage real estate development
- Criminal justice reforms to reduce incarceration and legal policies to protect rights for immigrants and low-income communities

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