

PULLING APART IN NEW YORK

AN ANALYSIS OF INCOME TRENDS IN NEW YORK STATE

Fiscal Policy Institute
One Lear Jet Lane
Latham, NY 12110
518-786-3156
www.fiscalpolicy.org

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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, David Kallick and Brent Kramer, also of the Fiscal Policy Institute staff, assisted Dr. Renwick in the analysis of the data presented in the report and in the editing of the final report. David Stone assisted with the preparation of the data charts and tables. 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 preparing a special run of data for New York City and the balance of the state. 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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One Lear Jet Lane
Latham, New York 12110
518-786-3156
Mauro@fiscalpolicy.org

11 Park Place, 7th Floor
New York, NY 10007
212-721-5624
Parrott@fiscalpolicy.org

Executive Summary

New York State has had many distinctions of which it could be proud. There is, however, at least one major national trend in which New York's preeminence is more of a danger sign than a blessing. This involves the widening gap that exists between the economic well-being of people at the top of the socioeconomic ladder and those below them on that ladder.

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 early 2000s, **New York had the widest income gap between rich and poor of all 50 states (high incomes were 8.1 times greater than low incomes), and the sixth widest gap between the rich and the middle class (high incomes 2.7 times greater than middle incomes).**
- The gaps between high-income and low- and middle-income families grew dramatically over the last 20 years. For most of the 1980s and 1990s, the richest families gained steadily while the poor and those in the middle held steady or lost ground. 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 20-year time period, only one state (Arizona) 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 43% in the early 1980s to 49% in the early 2000s, while the other 80% 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. **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 early 2000s that were 9 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 3.2 to 1 ratio) in New York City than statewide.

Evidence on the stagnation of wages for low-income workers coupled with the resurgence of growth in capital gains and bonuses for higher income families, suggests that income disparities in New York have grown even greater over the course of the current tenuous economic recovery.

Methodological Notes

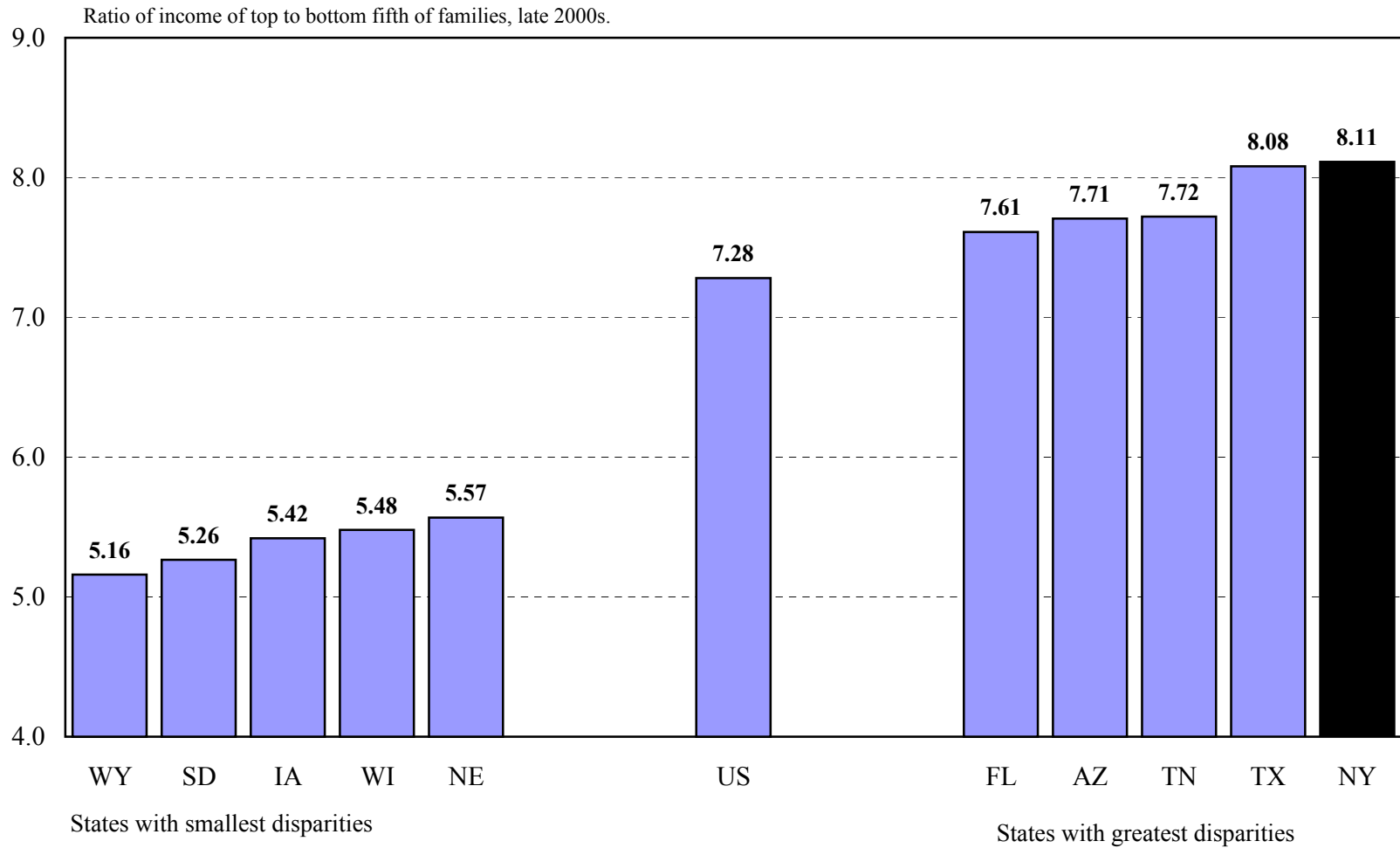
Most of the analysis in this report is based on a measure of after-tax incomes which includes “near-cash” public benefits and capital gains of families (two or more related individuals residing together) and comes from the U. S. Bureau of the Census’ Current Population Survey (CPS). Unlike previous reports,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

All figures have been adjusted for inflation and are expressed in 2002 dollars. Due to small sample sizes for some states, the report compares pooled data for three three-year periods: the early 2000s (2001, 2002 and 2003) to pooled data for the early 1980s (1980, 1981 and 1982) and the early 1990s (1990, 1991 and 1992). 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 a recessionary point in the cycle.

The people living in families in each state have been 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% 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

In this report, the term “rich” is used to refer to the 20% of families with the highest income; “middle class” refers to the middle 20% of families, “poor” refers to the 20% of families with the lowest income and “super-rich” refers to families in the top five percent.

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 families in the bottom fifth. For example, New York's ratio of 8.11 means that the average income of the top fifth of families (\$130,431) is approximately 8.11 times greater than the average income in the bottom fifth of families (\$16,076).

New York's Inequality Worst of All States

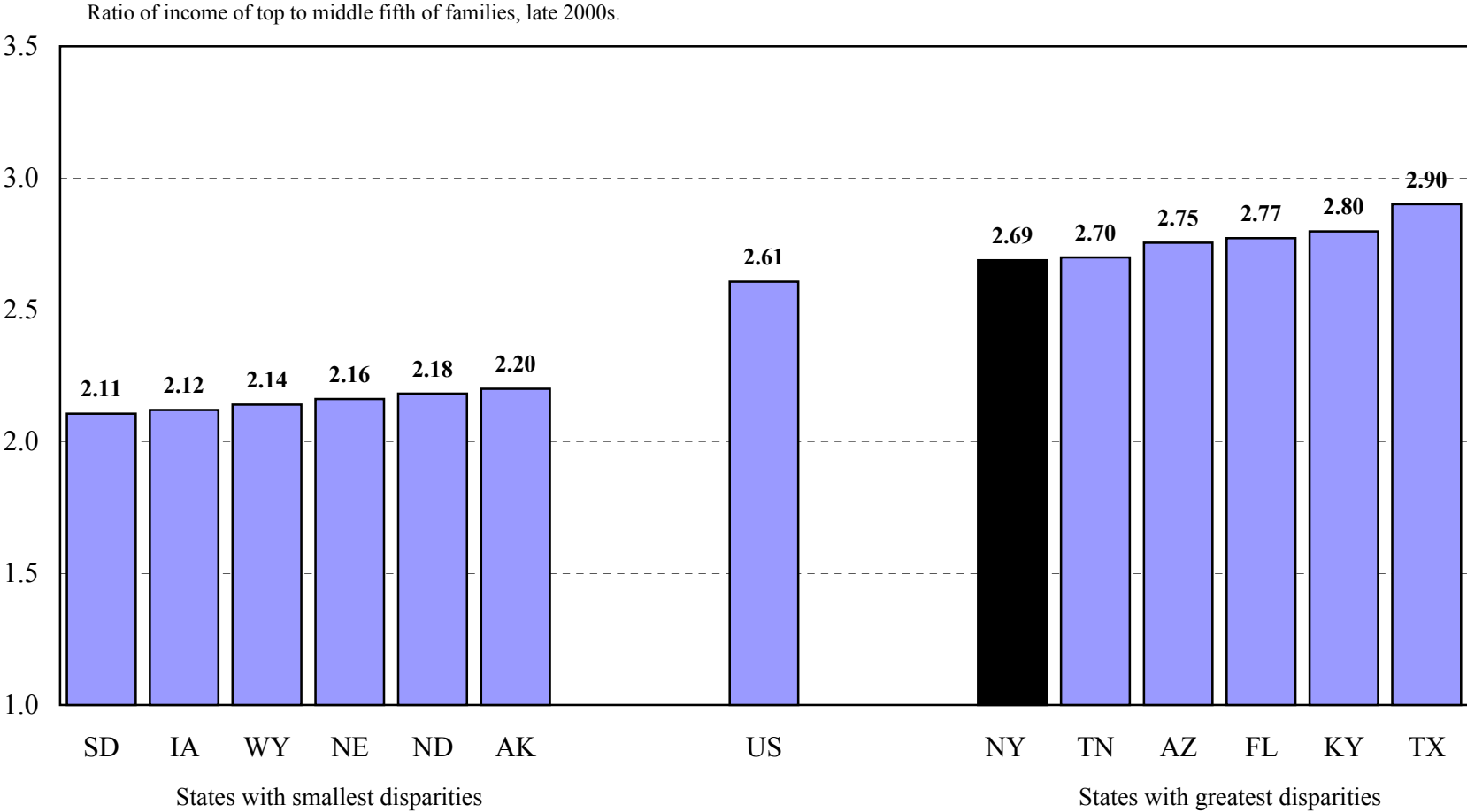
On measures of inequality between those at the top and those at the bottom of the income distribution, New York has either the most inequality of any state or runs a close second or third.

- ❑ The average income of the top fifth of New York families is 8.1 times greater than that of the bottom fifth. This is the biggest difference of all states.
- ❑ The top fifth of New York families received 49.1% of state income in the early 2000s. This was more than ten times the 3.9% share claimed by families in the bottom fifth. The top 5% of New York families received 22.0% of the total.
- ❑ The average income of the top 5 percent of New York families is 13.4 times greater than that of the bottom 20 percent. Only Texas and Arizona had a larger difference between incomes of the bottom quintile and the top 5 percent.

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 worst in the nation.

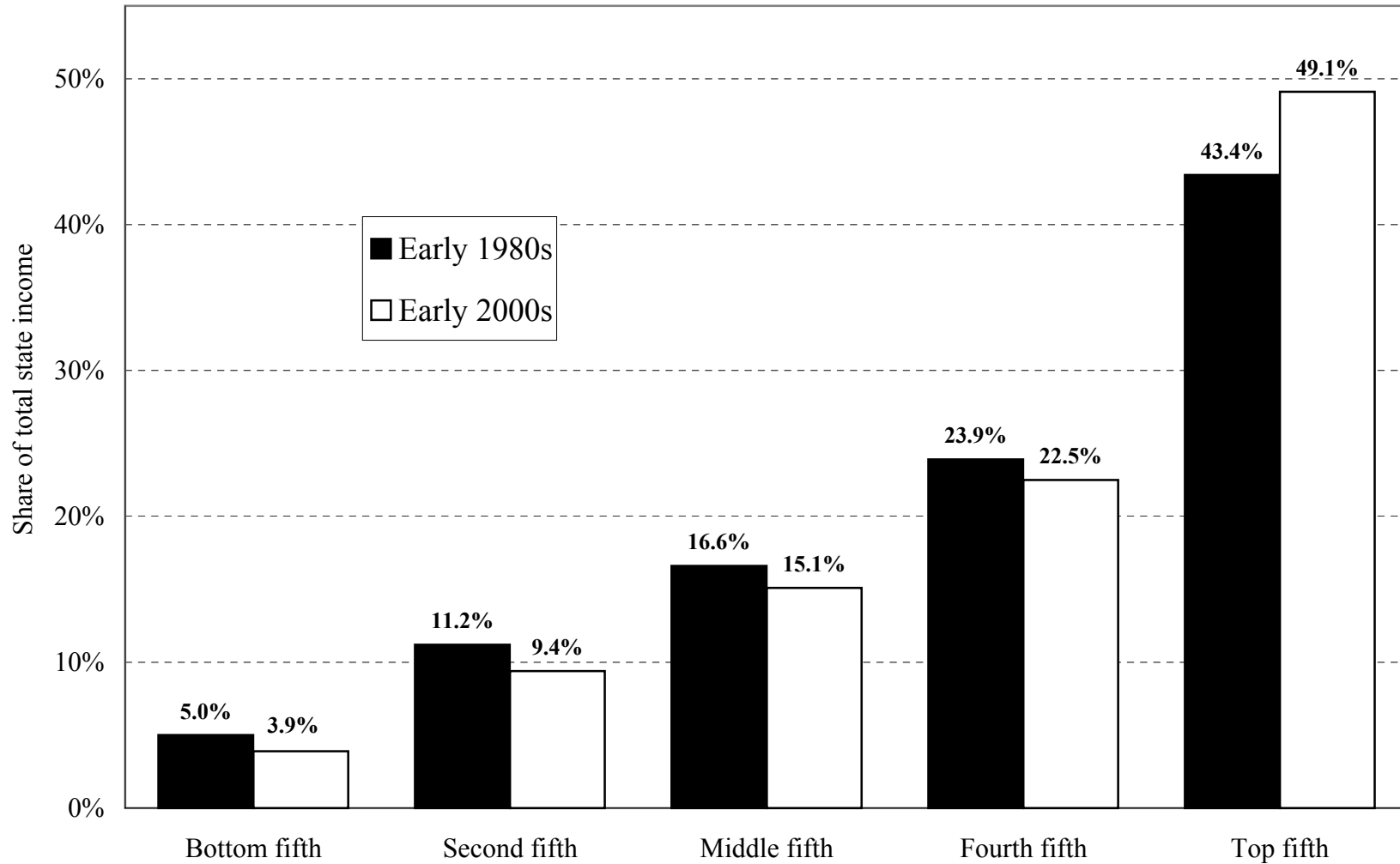
- ❑ The ratio of the average family income of the top fifth of New Yorkers to the average income of the middle fifth is 2.7 to 1. This is the sixth worst ratio in the nation, better than only Tennessee, Arizona, Florida, Kentucky and Texas.
- ❑ The gap between the middle income group and the top *five* percent of the population is even more severe — 4.5 to 1 — that is, the average income of families in the top five percent was 4.5 times greater than the average income of families in the middle 20 percent.

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

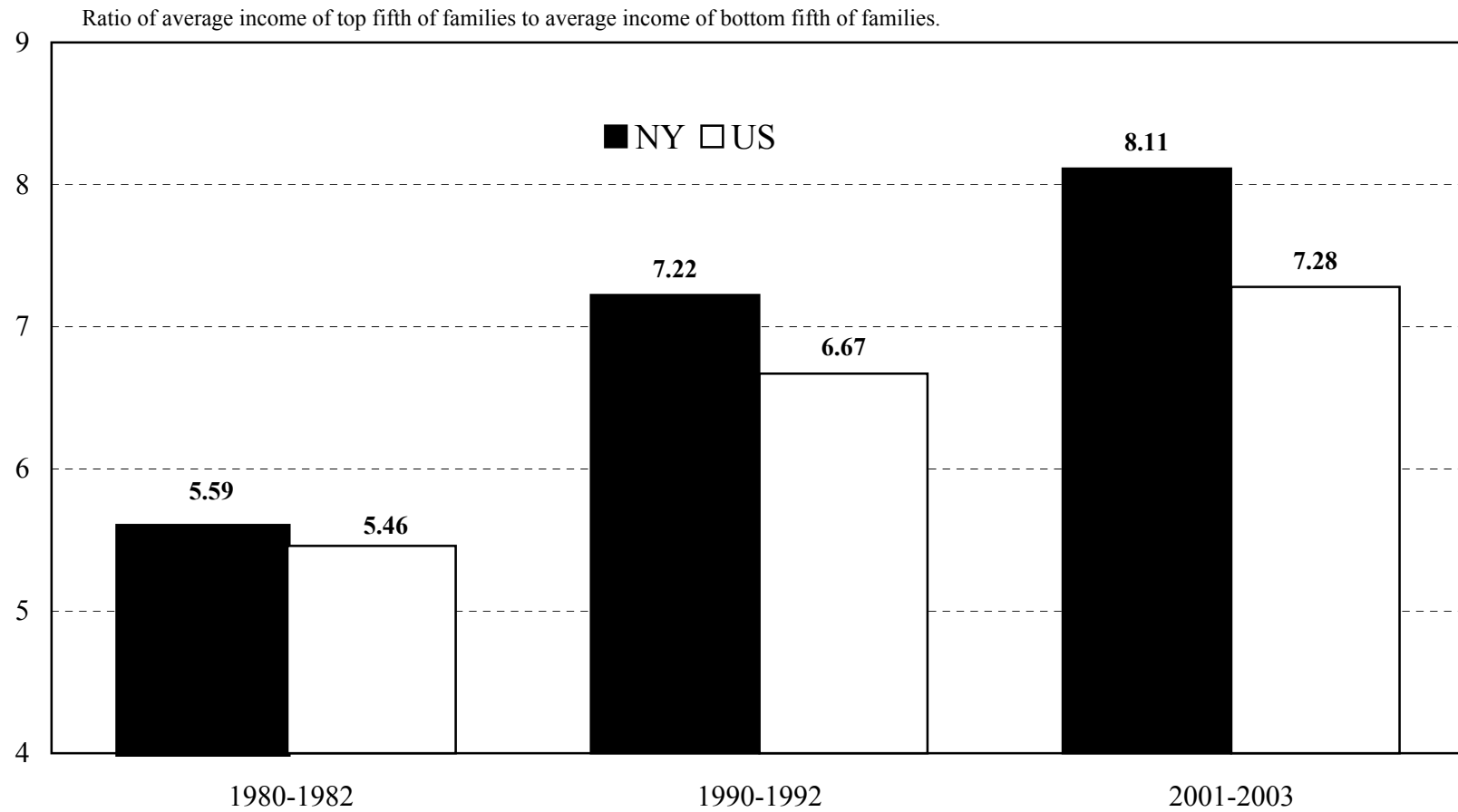


Note: These figures represent the relationship between the average income of families in the top fifth and the average income of families in the middle fifth. For example, New York's ratio of 2.69 means that the average income of the top fifth of families (\$130,431) is 2.69 times greater than the average income in the middle fifth of families.

Between the early 1980s and the early 2000s, only the top fifth of New York State families increased their share of total state income.

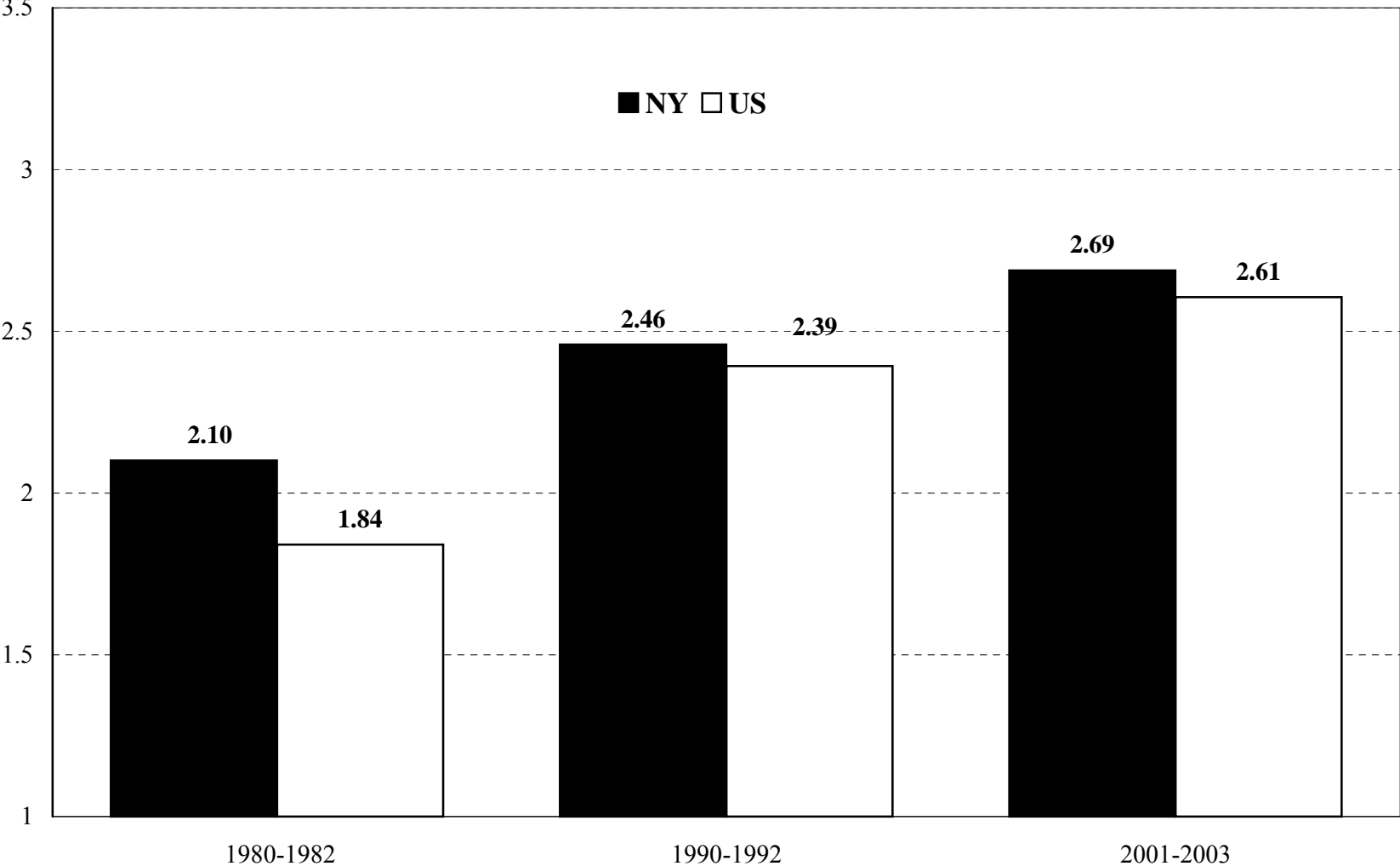


While income inequality has grown in both New York and the nation as a whole, New York has gone from having an income distribution very similar to the nation as a whole to having greater income inequality.



The ratio of average income of the richest fifth of New York families to the middle fifth has also been rising.

Ratio of income of top fifth to middle fifth of families, early 1980s to early 2000s.



The Rich Get Richer While Poor Families See Minimal Improvements

In the early 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* \$51,205 (or 65%) to \$130,431 from the early 1980s to the early 2000s. This was five times faster than the growth of average income of the poorest fifth of New York families that increased by only \$1,901 (or 13.4%) to \$16,076.
- The ratio of the average family income of the richest to the poorest New Yorkers has grown steadily from 5.6 to 1 in the early 1980s to 7.2 to 1 in the early 1990s to 8.1 to 1 in 2001-2003. Only Arizona had a greater change than New York between the early 1980s and the early 2000s.
- While New York has had a relatively unequal income distribution for a long time, its place at the top of the list is of recent vintage. Traditionally, income inequality in the United States was thought of as a Southern phenomenon. In the early 1980s, for example, New York had the greatest income inequality of any northern industrial state, but it ranked “only” 11th among the 50 states. At that time, seven of the 10 states with more unequal income distributions were from the South. Only two of those states (Louisiana and Texas) remain in the top ten today, while others, such as Georgia that went from 5th to 40th, have greatly improved their relative ranking in terms of top-to-bottom income inequality.
- 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 early 1980s, the average income of the top five percent was 7.8 times greater than that of the poorest 20 percent of families; by the early 2000s this ratio was 13.4 to 1.

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 39 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 20 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 early 1980s, 19 states had greater inequality between the rich and the middle than New York. In the early 2000s, only five 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 2.1 to 1 in the early 1980s to 2.7 to 1 in the early 2000s. Only five states experienced a greater change in this ratio.
- ❑ During these two decades, average income of families at the top increased by 65% while the average income of families in the middle quintile grew by 29%, less than half the rate of families at the top.
- ❑ Average incomes for the super-rich, the families in the top five percent of the income distribution, grew by 94% over this period. This was more than three 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% of families has also grown steadily from 2.9 to 1 in the early 1980s to 4.5 to 1 in the early 2000s.
- ❑ Between the early 1980s and the early 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 16.6% to 15.1% over this period while the share of the top 5% grew from 16.8% to 22.0%.

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. This also means that the income distribution in the rest of the state is not as unequal as it is in New York City or in New York state as a whole.

- Families in New York City's top income quintile had average incomes in the early 2000s that were 9 times greater than the average income of the families in the bottom fifth.
- The average income of the top 5% of New York City families was 14.6 times greater than the average income of families in the bottom fifth
- Income inequality has grown in New York City over the past twenty years:
 - Between the early 1980s and the early 2000s the top-to-bottom ratio in New York City grew from 6.1 to 9.0.
 - During this same time period, the ratio of the average income of the top 5% to the average income of the bottom fifth of families grew from 9 to 15.
 - Over the two decades covered by the analysis, the average income of the top fifth of families grew almost six 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 early 2000s, the average income of the top quintile of families was 3.1 times the average income of families in the middle quintile.
 - This top-to-middle ratio grew from 2.4 in the early 1980s to 3.1 in the early 2000s
 - The average income of the top 5% of families was 3.4 times the average income of the middle fifth of families in the early 1980s, growing to 5.1 times the average income of the middle fifth of families in the early 2000s.

Income Inequality has also been growing outside New York City over the past two decades.

- Average income for families in the top fifth of the “outside NYC” income distribution had incomes that were 6.9 times greater than the average income of families in the bottom fifth.
- The average income for families in the top 5% of the income distribution had incomes 11.8 times the average income of the families in the bottom fifth
- Both these ratios have increased over the past two decades
 - The top-to-bottom ratio grew from 5.0 in the early 1980s to 6.9 in the early 2000s
 - The top 5%-to-bottom ratio grew from 6.9 in the early 1980s to 11.8 in the early 2000s
 - Average income for families in the bottom fifth grew 20% over the two decades, less than one third the 67% growth of the average income of the top fifth
- The average income of families in the top fifth was 2.5 times the average income of families in the middle fifth. This ratio grew from 2.0 in the early 1980s to 2.5 in the early 2000s.

Many Factors Affect Inequality

Researchers have identified several 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 have grown only minimally over the last two decades. The wages of the very highest paid employees, however, have grown significantly. Several factors have contributed to increasing wage inequality including globalization, the decline of manufacturing jobs and the expansion of low-wage service jobs, immigration, and the weakening of labor market institutions — the lower real value of the minimum wage and fewer and weaker unions. These factors have 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 has failed to do.

- ❑ **Structural Change** — From 1981 to 2001, New York lost 556,000 manufacturing jobs and gained more than twice that number of jobs in services. The average wage for the 15 industries with the greatest employment declines between 1992 and 2000 was 50% above the statewide average wage.
- ❑ **Unionization** — While New York has the highest degree of unionization of any state in the nation, the percent of the state's workforce that was unionized declined from 28.2% in 1990 to 25.3% in 1999. Over the past five years New York has been able to maintain its 25.3% union density despite sectoral shifts.
- ❑ **Minimum wage** — While the latest period of data included in this report (2001-2003) reflects New York's belated 2001 move to conform its state minimum wage to the federal minimum of \$5.15 an hour, the real value of the minimum wage during this period was far below its late 1960s level. Since then, the New York legislature, over the governor's veto, passed a 3-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. The impact of these increases is not reflected in the data used in this analysis.
- ❑ **Median Wages** — As a result of these sectoral shifts and the decline in unionization, the median hourly wage of New York workers did not grow during the 1990s. From 2000 to 2002, New York's median wage increased but has declined since 2000. For the period 1990 to 2005, New York's real median hourly wage grew a scant 1.5%. Nationally, median wages grew 9.1% over this same period.

- **20th Percentile Wages** — A typical low-wage New York worker received an hourly wage in 2005 that was no higher in real terms than in 1990. Nationally, such a worker experienced a 10.7% wage gain.
 - **80th Percentile Wages** — On the other hand, New York workers at the higher end of the wage spectrum have benefited from much faster growth in wages. Between 1990 and 2005, the wages that define the upper quintile of workers in New York grew over 8%.
- 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 1990s — will lead to greater income inequality. The bursting of the stock market bubble had a large impact on high income families in the early 2000s and lessened inequality. Capital gains are particularly important to New Yorkers. Between 1994 and 2000, the portion of the income reported on New York State personal income tax returns that was from capital gains is estimated by the NYS Division of the Budget to have increased from 4% to 12.6% of total income, growing in dollar terms from \$12 billion to \$64 billion over this six year period. Positive capital gains income fell between 2000 and 2002 by more than \$40 billion and represented only 5.1% of income in 2002. Since that time, capital gains are estimated to have rebounded to \$52 billion or 6.5% of income in 2004 and are projected to reach \$72.5 billion, 12.7% of income by 2005. According to New York State Tax Department, over 79% of the \$36 billion in capital gains income reported by New York resident taxpayers in 1998 was attributable to richest 3% of taxpayers with incomes over \$200,000. Unlike early editions of this report, the analysis summarized here includes capital gains.
- 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 included noncash transfers, capital gains, and 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 government 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 current tenuous economic recovery.

Our report analyzes data through 2003 — the most recent year for which state data on income, taxes and benefits are available. This period marked the end of the recent recession. Since then, economic trends and changes in federal tax policy have combined to extend the trend of growing income inequality both nationally and in New York State. The economic recovery — which has been characterized by exceptionally weak job creation — has failed to broadly distribute the benefits of a growing economy.

- ❑ As of June 2005, New York had gained back only half of the 273,000 jobs that it lost during the recession (March through November 2001) and the ensuing “job loss” recovery (November 2001 through May 2003).
- ❑ 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 6% from 2001 to 2004, while average real wages increased by only 1.8%.
- ❑ Real wages for workers in the bottom half of the wage distribution were no higher in 2004 than they were in 2001. Only high-wage workers (80th percentile) received a modest real wage increase (2.3%) between 2001 and 2004.
- ❑ The average wage for sectors that lost job share over the 2000 to 2004 period was \$64,382, more than two-thirds higher than the average wage of \$38,074 for the sectors that gained job share.
- ❑ Between 2000 and 2004, according to data from the Census Bureau’s new American Community Survey, there was a net decline of 70,000 families with middle incomes between \$35,000 and \$150,000 in New York State. Two-thirds of these families went to the lower (below \$35,000) bracket.
- ❑ After hovering at 14% for the five years from 1999 to 2004, New York’s poverty rate increased to 15% in 2004.

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 January 2006 report, *The State of Working New York. Treading Water in a Tenuous Recovery.*

The Results Are Dramatic and Demand Action. They Cannot Be Explained Away.

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

Excuse #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.)

Excuse #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.

Excuse # 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.

There Is Much That Government and Business Can Do to Push Back Against this Trend.

New York State can:

- Restore the purchasing power of the minimum wage by gradually increasing the purchasing power of the minimum wage to its late 1960s level and then indexing the state minimum wage to changes in the cost of living.
- 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 strengthening the Family Health Plus program and increasing outreach for the Child Health Plus program and improving the availability of 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.
- Stop the movement toward greater regressivity in New York's state and local tax systems.

The federal government can:

- Restore the purchasing power of the federal minimum wage.
- Reform labor laws.
- 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.

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: Growing Together Rather than Pulling Apart

Unlike previous editions of this report, over the time periods selected for analysis in this report, every income group experienced at least some growth. While incomes at the top grew much more robustly than incomes at the bottom, every group had higher real income in the early 2000s than in the early 1980s or early 1990s. Since each of these periods represents the “bottom” of the business cycle, this means that while incomes have gone up and down with the business cycle over the past two decades, all average incomes, including for those at the bottom of the income distribution, have grown from the bottom of one business cycle to the bottom of the next.

Over these 21 years, income inequality has 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 one state (Arizona) has seen 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.