Local Labor Markets, Income Inequality, and Institutional Responses: The Case of New York City

by Oren M. Levin-Waldman

Economists have reached a rare consensus in recent years that income inequality is on the rise. When it comes to this worrisome trend's causes, however, the consensus breaks down. One school of thought, the "structuralists," blames rising income inequality on basic changes in the economy, most notably a shift away from a high paying and highly unionized manufacturing-based economy requiring relatively few skills to a bifurcated, service-based economy paying either very well in some jobs or very little in others. At the high end of the service economy are high-tech jobs that require considerable skill and training. And at the low end are unskilled jobs in the retail and fast food sectors that pay at or near the statutory minimum wage. In response to the structuralist school, there is a more "institutionalist" school of thought that suggests that, while this all may indeed be true, much more is involved. Rising income inequality is not only a function of structural change, but of the decline of institutions as well. Whereas the former argues that the institutions of yesterday are no longer useful in today's economy, the latter maintains that given the structural changes that have occurred, accompanying institutional changes are even more critical. Institutional accommodation, however, has to include more than simply wage enhancing institutions like unions and the minimum wage. Rather it has to include programs and policies that prepare people to work in today's economy, as well as those that make labor force participation viable.

Most studies of income inequality look at aggregate national figures. But such studies may only mask what is happening at a more local level where the effects of income inequality may be more pronounced. One such example of this is New York City where, despite general prosperity and tight labor markets in recent years, that prosperity has not been shared by all nor have labor markets been tight for all workers. On the contrary, only those in the top fifth have reaped the benefits of the booming economy in recent years, with those in the top 5% doing the best. Up to 80% of New York City's population have not benefited much, and those in the bottom fifth have gained the least. Whereas labor markets have been tight overall, they have not been tight at all at the bottom of the distribution.

In this paper, I examine a large data bank of the U.S. Census Bureau to trace the distribution of income in New York City during the 1990s and to explore what factors may account for the more severe income inequality in New York City than elsewhere. While these two schools of thought provide a general context for understanding what is happening in New York—where all these changes have occurred and had marked impacts—their explanatory value on a micro level is actually quite limited. A look at the actual data suggests that rising income inequality is really a function of more specific problems that may not be as prevalent in other parts of the country. Those problems include particularly low levels of labor force participation and disproportionately large numbers of adults who have not completed more than an 11th grade education, especially among those at the bottom of the income distribution. Moreover, many of these labor market characteristics have been exacerbated with the 1996 changes to the nation's welfare laws. As a result of time- limited benefits, work requirements and severe reductions in the state caseload, there has been a large influx of people into the low end of the labor market, which has further suppressed wages at the bottom. While the rest of the country is by no means immune from these problems, they have been more pronounced in New York City.

An Economy in Flux

Most competitive market theorists blame rising inequality on structural changes in the economy that have resulted in a mismatch between good-paying jobs and the skills of available workers. The main culprit is technological change biased towards those with higher levels of education and skills. According to a leading view in this school of thought, the labor market is divided into a primary market where high premiums are placed on skilled workers, and a secondary market where unskilled workers are trapped in the lowest-wage service sector of the economy. The growth in wage inequality between the primary and secondary labor markets has been caused by increasing skills differentials between the two.[1] Institutionalists, on the other hand, hold rising wage inequality to be due to a shift in public policy and a corresponding decline in labor market institutions like unions and the minimum wage.[2] James Galbraith, in particular, maintains that the growth in income inequality is due to a shift in government policy, whereby the focus has been less on employment per se and more on fighting inflation. Even accepting, then, that inequality is the proximate result of the disruption caused by economic change, public policy has a role to play in easing that disruption. Wallerstein, for instance, suggests that the more centralized wage setting is—with minimum-wage setting as the most nominal form of centralized wage setting—the more equal will be

the wage distribution. The corollary is that when no such mechanism exists, chances are greater that the wage distribution will be unequal.

Moreover, once such institutions begin to deteriorate, rising income inequality is by no means an unexpected outcome. David Lee has shown in a recent study that decreases in the minimum wage tend to increase measured wage inequality, and that the minimum wage, or the failure of it to keep up with inflation, may account for as much as 80% of "within-group" wage inequality during the 1990s. Specifically, increased wage inequality in the bottom tail of the income distribution is attributable to the erosion in the real value of the minimum wage during the 1980s, and that the falling relative level of the minimum wage can explain 70 to 100% of increased inequality in the lower tail.[3] Fortin and Lemieux, in a 1997 study, also found that whereas the decline in unions contributed to increased wage inequality among men, the decline in the minimum wage contributed to increased wage inequality specifically among women.

The effect of all this would only tend to be more visible in a large city that has historically had a high union presence and that has indeed undergone many of the economic structural changes over the last few decades. On the structural side, the economic base of major urban centers like New York has changed a manufacturing-based economy to a service-based economy. Within the services, there has been a sharp division between the low-paying jobs in retail and food services generally requiring little skill on the one hand and high-paying jobs in high technology services and other professions generally requiring both high levels of education and specialized training on the other. Even though manufacturing never entailed great skill, and workers could enter factories with little more than a high school education and in some cases less, the wages of manufacturing wages tended to be bolstered by institutional structures. The most notable institutions that served to raise the wages of otherwise low-skilled workers in manufacturing were unions and the minimum wage. And yet, both these institutions have been in decline, and perhaps not coincidentally at the same time that the economic base of major cities has changed.

Unions have never been terribly strong in the U.S. compared to other industrial nations. Even at their peak in the 1950s, the fraction of workers unionized never exceeded one-third. But with the proliferation of right-to-work laws—the prohibition against the closed shop—in many southern states and the relocation of unionized industry during the 1970s and 1980s to those states from the industrial northeast, the number of unionized plants only declined further. Also, beginning in 1981, President Reagan sent a clear message to labor unions across the country that any form of union militancy would not be tolerated when he fired all striking air traffic comptrollers.[4] And his resistance to any minimum wage hikes in the 1980s meant that the wage floor was steadily eroded by price inflation: it fell (in inflation-adjusted dollars) relative to average wages, from 47% in 1981 to 35% in 1989, the longest and most sustained decline since the introduction of the minimum wage in the 1930s. Between 1979 and 1989, the value of the minimum wage fell from 104.3% of the poverty line for a family of three (assuming a single mother with two children) to 70.5% of the poverty line. Despite subsequent increases in the minimum wage the value of the minimum wage in 1996 was still only 78.1% of the poverty line and only 40% of the average wage level.

The nation's economic and social problems tend to be concentrated in major cities, and this is nowhere more apparent than in New York City. New York State, for instance, has the second highest wage among the 50 states in the U.S., but is also one of the few states that has not raised its minimum wage above the federal level. For most of the 1990s, unemployment in New York City remained well above the national average and above the city's own levels during the late 1980s. Demographic and industrial shifts have left New York with a significantly larger low-wage sector. By the late 1990s, 46% of full-time city workers did not earn sufficient wages to lift a family of four above 150% of the federal poverty line. Meanwhile, wages at the bottom have only been further suppressed due to an influx of job seekers caused by the 1995-96 local and federal welfare reforms. The Fiscal Policy Institute estimated last year that after Mayor Rudolph Giuliani began implementing his own policy of caseload reduction in 1995, 140,000 to 170,000 new people entered this segment of the labor market on an annual basis. On top of this was an additional influx of 50,000 to 60,000 adults that left the public assistance rolls and 40,000 to 50,000 working age immigrants. Moreover, it is unlikely that any other city has experienced a similar surge in job seekers. A study of pooled 1994-97 CPS data by Mark Levitan concluded that the city has not benefited from the expanding economic pie. The share of NYC's adult population that has worked was nearly 11 percentage points below the national average. As the national unemployment rate was falling to a 4.9% low, in New York City it climbed to 9.4%. Levitan attributes the rise in large measure to the decline in welfare caseloads driven by the mid-90's workfare rules. Similarly, in her study of New York City's labor market, Heather Boushey observes that, while the local economy did do quite well on some measures—aggregate unemployment dropped and output rose—there were also large increases in the working poor and real wages fell, especially among women with no education.[5]

Recent studies have documented the declining fortunes of the middle class and stagnant wages in aggregate terms for years now.[6] But, on either end of this middle-income group, those in the top of the income distribution have seen their average real incomes increase while those in the lower-middle class have seen income decreases. Bernstein and Mishel note that although there has been a steady increase in income inequality since 1979, the rate of increase has not been constant. The sharpest increase occurred during the early 1980s and was followed by a flattening during the later 1980s. Then, in the 1990s income inequality began to re-accelerate. Similarly, Juhn, Murphy and Pierce show that although average weekly wages of working men increased by about 20% between 1963 and 1989, real wage gains were not spread equally across workers. Wages for the least skilled, as measured by the 10th percentile of the

wage distribution, fell by about 5% while the wages of the most skilled, as measured by the 90th percentile, increased by about 40%. The net result of this divergence has been an enormous increase in wage inequality.

A state-by-state analysis of income distribution has found that while income disparities became significantly greater during the late 1990s, New York State led the nation with the largest gap between the top fifth and the bottom fifth of families. My research on 1980-90 census data shows that income inequality, as measured by quintiles, was greater in New York City than in the rest of the state, but that it actually declined over the ten-year period. Between 1980 and 1990 the average income of those families in the first quintile increased by about 97% in both the state and the city, while it only increased by 15.8 in the top quintile in the state and 37.1% in the city. Still, the trend indicates that the top fifth of families did much better in New York City than the state as a whole. And yet, for those in the top five% of the income distribution, family income increased by 21.2% in New York City, compared to 0.1% in New York State.[7]

Nevertheless, the magnitude of increasing wage inequality has not been the same across the country. Between 1972 and 1990, the dispersion in wages between the 90th and 10th percentile of the male wage distribution increased throughout every region of the country. In New England, for instance, where the decline in the supply of skilled men was largest, wages of unskilled men increased by over 3 times as much as in the West, where improvement in the quality of the labor force was the smallest. In short, those regions where there was the greatest increase in wage inequality were also those with the least improvement of labor-force quality.[8] By implication, then, places where educational attainment on average has been less—that would have the effect of enabling workers to command higher wages—are precisely those places where income inequality will also be greater. And as the data will make clear in the next section, New York City may be a prime example of this.

Income Distribution Analysis

Data for this study is drawn from the March Current Population Survey (CPS) files for 1992-99. Collected by the U.S. Census Bureau, this annual supplement to the monthly CPS contains data on family characteristics, household composition, income from all sources, industry and occupation of the job held the longest during the year, weeks worked, whether individuals were looking for a job, and public assistance. While the CPS serves as a good basis for measuring income distribution in terms of general trends, it isn't without its limitations either. Unlike the traditional decennial census which tries to survey all households in the United States, the CPS is nothing more than a sample, and a small one at that. Broken down by locality, New York City has a sample size of roughly 1500-2000 households, including about 3000 individuals ages 15 and up. This doesn't mean that the survey is unrepresentative. Surveys performed by the census bureau tend to be among the most rigorous that are likely to be found.[9]

The CPS is a survey of households comprised of individuals. The total number of cases, however, is based on the total number of individuals within those households. A household can be made up of either one individual or several. In this study, I look at the distribution of income using the family income variable, which reports on individuals in families earning a certain total family income. It is true that looking at the family income variable doesn't take into account that families differ in size and that larger families, especially in lower quintiles of the distribution, may need more money than smaller families. Income inequality does vary depending on family size, with inequality being less in families of 3 or more than families with either 1 or 2 persons. On the basis of family income, individuals within the survey are divided into five quintiles of the family income distribution, as well as the top 5%. Income comparisons of New York with other major cities can be seen in Table 1.

Between 1991 and 1998, income inequality increased more in New York City than in the state as a whole or in the rest of the nation. Despite the small decreases in the ratio of the top fifth of families to the bottom fifth of families, income inequality was consistently higher in New York City than the U.S. as a whole. Whereas income inequality increased by 5.2% between 1992 and 1999 in New York City, it only increased by 2.5% in the rest of the U.S. And income inequality increased by a greater percentage in New York than in any other large city except Philadelphia.

A first look at these figures suggests that income inequality grew where average income among the bottom quintile either increased by only a very a small percentage, like New York City, or actually decreased, which was the case in Philadelphia. While average income among the top quintile increased by 32.8% in New York, average income among the bottom quintile increased by only 2.5%. One might argue that one of the reasons for the increased disparity between the top and bottom in New York is because the percentage increase among the top quintile's average income was substantially higher than the percentage increase among the bottom quintile's average income. In Baltimore where the disparity decreased, the percentage increase of the bottom's average income (26.7 percent) was substantially higher than the percentage increase of the top's average income (2.3%). Similarly, in San Francisco the percentage increase in average income among the bottom quintile (19.8%) was higher than the percentage increase in average income among the top (13.0%). On the other hand, in Philadelphia, however, where the top-to-bottom ratio increase was the greatest, the average income among the bottom quintile decreased by 31.4% while the average income of the top quintile increased by 7.4%. This would then suggest that a key ingredient in reducing income inequality is that at a minimum the average incomes of the bottom need to rise at a rate higher than the top. It might also imply that policies aimed at propping up the wages of those at the low-end have an effect, thereby lending some support to the institutionalist approach. It is perhaps worth noting that Baltimore, where income inequality

appeared to be among the lowest also has a living wage ordinance as but one institutional mechanism, which no doubt would serve to boost the incomes of those at the bottom. By contrast, New York City, where the cost of living tends to be extremely high, has a much narrower living wage ordinance, covering fewer than 2000 city workers.

In most likelihood, the gap between the top and the bottom is considerably larger than indicated in Table 1. But in spite of the top-coding, the average for the top fifth in 1999 was still 78% higher than that the maximum income earned by families in the fourth quintile, compared to 53.3% higher in 1992. In fact, as figures at the top of Table 3 demonstrate, relative to the other quintiles between 1992 and 1999, those in the fifth quintile saw their incomes rise dramatically. Even more dramatic still, was the increase among those in the top five% of the income distribution. In 1999, the average for the top five% of families was 226.7% higher than the maximum earned by those in the fourth quintile, compared to 125% higher in 1992. Although each quintile experienced real income increases, after factoring in cost of living increases the first four quintiles appeared not to have shared proportionately in the economic gains between 1992 and 1999. Measured by share of income held, families in New York City in the top held more than the nation as a whole while families at the bottom held less. Stated another way, only 20% of New York City families appear to have reaped the benefits of an expanding pie.

Explaining NYC's Inequality

Why is there much greater income inequality in New York City than in the rest of the nation, and why has inequality grown faster there as well? As noted earlier, the structuralist school of thought maintains that inequality has increased because those at the top are part of a highly skilled information-based economy, whereas those at the bottom work in a low-skilled market, and the demand for low-skilled workers has fallen over the years. To a certain extent, shifts in industries and occupations relative to similar shifts across the nation bear this out (Table 2). One study suggests that the only industry group that actually gained employment was that where average earnings were below $25,000 per year.[10] General demographic data on New York City's labor market can be seen in Table 2, with more specific breakdowns according to income group in Table 3 for both the beginning and end of this period.

Taken as a whole, several trends stand out. First, compared to the rest of the country, a much larger number of people are out of the labor force in New York City than in the rest of the country, and this is as true in 1999 during a period of economic prosperity as it was in 1992, a period of recession, despite small decreases in the number of non-labor force participants in both New York City and the rest of the country. Also compared to the rest of the country, more people in New York City have less than an 11th grade education and fewer people have finished high school and received any post-secondary education. It is also worth noting that in terms of concentration, New York City has a higher concentration of minorities relative to the United States as a whole.

Industry and occupation demographics in Table 2 bear out the general shift of the jobs base of the economy away from manufacturing—where many workers were able to earn enough to enter the second, if not the third quintile—towards services, which at the low-skilled end does not pay as well. In New York City the decrease in durable and non-durable goods industries has been even greater than in the rest of the state and the country. For instance, among the higher paying industries, durable goods and non-durable goods decreased by 1.3% and 2.0% respectively in New York City, compared to a decrease of 0.4% and 1.0% respectively in the U.S. as a whole. Meanwhile, retail sales increased by 1.8% in New York City compared to 0.1% across the country. During this same period, personal income of workers rose 46.5% in durable goods and 25% in non-durable goods, compared to 23.9% in retail sales.

In very simplified terms the data suggests that high paying industries are essentially being replaced with low-paying ones. In terms of occupations (not shown), precision, production and craft repair jobs (the hallmark of the manufacturing sector)— in which personal income rose 36% —fell by 1.7% in New York City compared to a 0.6% fall in the United States as a whole. Meanwhile, non-household Services — in which personal income rose only 5.7% — increased 1.3% in New York City compared to 0.1% in the U.S. as a whole. Stagnant wages at the bottom can, in part, be accounted for by the new reality that better-paying industries have a smaller share in New York City than elsewhere. As the local economy continues to create jobs at the bottom that do not pay well, those jobs that do pay better also require more education. Therefore, industrial and occupational shifts would appear to lend support to a changing economy biased to more skilled and educated workers. The data appears to support the view that these changes have been more pronounced in New York City. And in a labor market where a higher proportion of the labor force lacks the basic requirement of a high school degree, it isn't hard to see why income inequality in New York City has been more widespread.

Post-industrial shifts, however, have also brought other changes, most notably what Sociologist Roger Waldinger refers to as two distinct and largely nonwhite inflows. First there was the movement of displaced blacks from the technological backwater of the agrarian South. And second there has been the more recent wave of new immigrants from labor surplus areas of the developing world.[11] This, of course, suggests two ways to look at the issue of educational attainment. Either individuals failed to complete high school because of some breakdown in the moral fabric of communities, and perhaps some deficiency in the schools themselves that resulted in many students not being reached. Or there is a higher proportion in New York City with less than an 11th grade education because of the recent wave of immigration, many of whom may have come with little educational attainment to begin with.

Still, general trends do not tell the whole story. While low educational attainment and low labor force participation are problems more pronounced in New York City, they are exacerbated even more in the bottom two quintiles, as shown in Table 3. For the data on New York City's labor market doesn't merely tell a story of a city set apart from the rest of the nation, but a story of those at the bottom of the income distribution not benefiting at all from the overall prosperity of the 1990s. On the contrary, the general demographics only mask the acuteness of these problems at the bottom of the income distribution. Labor force non-participation and low educational attainment is considerably higher in the first quintile, and while the relative percentages decrease from 1992 to 1999, the pattern is nonetheless consistent. Still, labor force participation dramatically improves from the first to the second quintiles.

Relative to non-whites, the percentage of whites in the fifth quintile (75.5%) is greater than in the first. The percentage of blacks in the bottom quintile increased by 4.0% from 26.5% in 1992 to 30.5% in 1999. Overall, whites only account for 68.3% of the New York City population. Specifically, the percentage of blacks in the bottom quintile (27.1%) is proportionately larger than in the top quintile. Overall, blacks only account for 22.9% of the population in New York City. And with regards to gender, there are proportionately more females among the bottom (69.6%) than among the top (50.8%). The percentage of females in the bottom quintile actually decreased 5% from 72% in 1992 to 67% in 1999. Overall, however, females account for 56.5% of the population in New York City. That there is a difference of 13.1% between the percentage of females in the first quintile and the percentage of females overall would appear to lend support to studies in recent years showing the feminization of poverty. It is true that the number of females drops in this period even in the first quintile where there is the greatest percentage of women. Nonetheless, the percentage of women in the first quintile in 1999 is still higher than the other quintiles, thereby lending credence to the notion that poverty is more concentrated among women. Or on the basis of descriptive statistics it would appear that the first quintile is more likely to be populated by women than by men.

Why, at a time of tight labor markets, would labor force participation stay so low, especially at the bottom end of the income distribution? Factors affecting labor force participation may include age, skills, preparation and expected and/or perceived returns to work. The structural changes in the economy have no doubt been biased towards those with greater skills and education. A survey of small business, for instance, revealed that despite the fact that small businesses were hiring new workers in the year following the 1996 welfare reform, few of them were hiring former welfare recipients. The principal reason was that recipients lacked both an employment history and a general education that might suggest a minimal skills proficiency enabling them to perform some basic tasks.[12]

In the case of family members with small children, labor force participation may be affected by the availability of affordable child care that will have direct bearing on whether work is perceived to actually yield a return, or at least significant enough to justify the costs associated with work. Again while certain structural changes have created labor market entry barriers for some, thereby resulting in high degrees of non-labor force participation, the fact that a high proportion of workers in New York City would have less than an 11th grade education belies an institutional and policy failure to adapt to the structural changes. As a result, there appears to be a segment of the population that does not possess the skills and traits that make them attractive to employers.

The data is clear that the high percentage of those with less than an 11th grade education is a key characteristic of New York City's labor market. While the number of these less-educated adults is higher overall in New York, the number of those with less than an 11th grade education almost doubles in the first quintile (50.2% v. 28.6). Though fewer people have less than an 11th grade education in the second quintile, the percentage of those with this level of education still runs 10.4% higher (39.4) than the city. The percentage of those with less than an 11th grade education decreased between 1992 and 1999 from 54.1% to 47.7% in the first quintile, but in the second quintile the decrease was essentially inconsequential (40.4% v. 40.2%). Despite the decrease in the first quintile, the percentage of those completing high school only increased by 0.4% from 25.5% to 25.9 percent. At the other end of the income distribution, the percentage of those with a bachelor's degree increases 16.1 to 24.2% from the fourth to the fifth quintile. And for those with either a graduate or professional degree, the percentage increases from 8.9 to 19.6%. The percentage of those in the fifth quintile in the higher education categories is quite significant, when compared to the overall percentage of 12.8 and 7.5% with bachelors and graduate or professional degree respectively.

Despite the drop in the number of females in the first quintile, by 1999 there still was a larger percentage of females in the first quintile than in the city overall. The issue isn't so much how many females are concentrated in the bottom quintile as how many of those families in those quintiles are female headed. Table 4 breaks the data down further by comparing female heads to male heads on the key issues of labor force participation and educational attainment, and it is based on pooling together the 1998 and 1999 files.

In the first quintile, female heads are 7.5% less likely to be working and 7.4% more likely to be out of the labor force than male heads. Similarly they are less likely to be working and more likely to be out of the labor force than the quintile as a whole. In the first quintile, female heads are 7.5% more likely to have less than an 11th grade education and 7.4% less likely to have graduated high school than male heads. And when compared to the quintile as a whole, similar patterns exist. Also within the first quintile, the percentage of female heads who are black is higher than the quintile as a whole and male heads. And in the second quintile, female-heads are still less likely to be working and more likely to be out of the labor force than both non-female heads and the quintile as a whole. In the second quintile, the percentage of female heads who are black is 14.5% higher than the percentage of male heads and 8.6% higher than the quintile as a whole who are black.

These comparisons, then, lead one to believe that there is a strong correlation between both being out of the labor force and having less than an 11th grade education and being a female family head. While statistical tests establish a relationship, they don't test for the effects of all the factors that may help us explain why income inequality is greater in New York City than the rest of the nation. They do not really sort out the extent to which some variables over others may explain more—or even less— of why one is either more likely to be in the first quintile or out of the labor force. To determine which variables are more likely to predispose one to either being in the first income quintile or out of the labor force, I performed a logit regression analysis on these two dependent variables. Since New York City has bigger nonwhite populations than the rest of the nation, it may be reasonable to assume that race may be a factor affecting whether one is either likely to be in the first quintile or out of the labor force, especially in relation to other variables. In percentage terms, relative to whites there are more blacks in the bottom quintile than in the top (Table 3). To what extent, then, is race a factor in explaining rising income inequality and what exactly is the relationship between race and either being in the first quintile or out the labor force? Age is chosen as an independent variable for the obvious reason that those over 65 and retired are with out a doubt going to be out of the labor force, and as such they may be more likely to be in the first quintile as a result. It is already known from the data that New York City has a higher proportion of those with less than an 11th grade education and, in the first quintile a higher proportion of families that are headed by females. Given these characteristics, it seems reasonable to test these variables in an attempt to determine which will have a greater probability in resulting in one either being in the first quintile or being out of the labor force. The regression specifically tests the proposition that when controlling for the effects of race and age, the lack of education and being a female head of a family are more important factors. Moreover, these are factors impinging on the institutional aspects. Results are in the Appendix Table.

The first regression tests for the effects of being male, being a female head of a family, being older than 65, being black, and having less than an 11th grade education on the dependent variable of being in the first quintile, while the second adds to the mix being out of the labor force. The third regression, then, tests for the effects of being male, being a female head of a family, being black and having less than an 11th grade education on the dependent variable of being out of the labor force, while the fourth adds to this mix being in the first quintile. With each variable set to a value of 1, regression coefficients are displayed for the four different equations in the Appendix Table.

Clearly there is a relationship between being in the first quintile and being out of the labor force. One who is out of the labor force is more likely to be in the first quintile for the obvious reason that this person isn't earning a living. One is also more likely to be out of the labor force if in a family in the first quintile of the income distribution. But at the same time it is an apparent chicken and egg type of question. One may be out of the labor force because one is in the first quintile, which, of course, leaves room to speculate as to the reasons why.

While New York City has a bigger black population than the rest of the nation, race appears to have a relatively weak association with the probability of one being in the bottom income quintile, at least compared to the other explanatory variables. Rather, the strongest factor that will predispose one to being in the first quintile is being a female head of a family, followed by having less than an 11th grade education. And when non-labor force status is controled in the second regression, race is no longer statistically significant. Rather the important variables in all four regressions are low educational attainment and being a female head of a family. People in the first quintile lack resources, as evidenced by the effect of having less than an 11th grade education, to obtain the requisite skills to command wages that will place them in higher quintiles. That low educational attainment is a strong factor in either being in the first quintile or being out of the labor force also appears to be consistent with the more general literature on returns to education.[13] But it is also consistent with other findings that a key reason why welfare recipients weren't being hired by small businesses that were otherwise doing considerable hiring was because many lacked a basic education.[14] That is, one in the first quintile who is lacking in education and skills may perceive there to be no real returns to working and consequently opt not to participate in the labor force. This suggests that labor force participation is driven by income quintile — or what one might be able to expect in terms of earnings. One is also more likely to be in the first quintile if one has a low educational level. That is, the more one can expect to earn, the more likely it is that one will be in the labor force. Earnings, of course, are a symptom of other things. One is more likely to be in the first quintile if one is a female heads, which is followed by having an education of less than 11th grade.

Implications

The results of this study suggest that income inequality in New York City is driven by a combination of factors. The structure of the economy relative to the rest of the nation has changed in such a way that those lacking in human capital resources are bound to be left out. New York City has a greater percentage of individuals with less than an 11th grade education and a greater percentage of individuals who are not participating in the labor force. It would be reasonable to conclude that these characteristics may, in part, explain why incomes of those at the bottom have barely increased at all. Ultimately, the data supports the conclusion that income inequality in New York City is a product of structural forces, and these structural forces may also explain why income inequality has been greater in New York City than in the nation as a whole. And to the extent that they are a source of greater income inequality, a more institutional response is required.

Labor force participation is, of course, driven by a variety of factors, but at least in New York City, it is in large measure driven by educational level and whether one is a female head. Female heads and those with low educational levels are less likely to be

in the labor force. This, of course, should be surprising to nobody. In an information-based economy biased towards those with more education—as evidenced by the fact that those in the top quintile have proportionately higher levels of education—these individuals will qualify for jobs only at the lowest end of the wage scale. As single mothers, the wages they earn do not begin to cover any number of costs associated with work. For them, work simply does not pay: adults not in the labor force are also more likely to be in the first quintile. Moreover, female heads appear to be disproportionately represented among the ranks of the first quintile. Labor force participation, in short, is in part driven by skills and educational levels, which, in part, are affected by whether one is a female head or not.

Earnings, of course, are a symptom of many other things. But the fact that a large number of the poor, especially in the bottom quintile, are female heads suggests the need for a range of family friendly policies. Those with less than an 11th grade education may opt to be out of the labor force because the jobs they qualify for are most likely at the low end of the wage scale, thereby reducing the returns to work. The results of this study in no way negate technological changes as a basis for growing income inequality, but given that reality it does point towards a range of institutional policies. Policymakers need to consider new educational programs that will enable the working poor to function at the level of high school graduates. A high school diploma does not guarantee that workers possess the skills necessary to function in today's knowledge-based economy. But it does signify a minimal level of accomplishment that at a minimum may assure greater access. In short, it removes a barrier to labor force entry. The larger question, however, is why such a high proportion of individuals in New York City never achieved more than an 11th grade education.

My findings point toward needed adjustments of existing wage policies. Incomes of those in the bottom two quintiles need to be raised. Income subsidies and wage policies can no doubt increase the returns to work and perhaps attract more into the labor market. Because the top-to-bottom ratios were less in those cities where the average incomes of those at the bottom rose at a higher rate than did the average incomes of those at the top, policy aimed at narrowing the income gap centered around wage policies intended to boost the incomes of those at the bottom of the income distribution perhaps ought to be given strong consideration. For those in the first quintile, wages can be raised through increases to the Federal minimum wage, passage of a citywide minimum, or passage of a living wage ordinance. As already mentioned, the decline in the value of the minimum wage may be a contributing factor to income inequality. And yet, there is still the view that increasing the minimum wage may adversely affect the poor, thereby resulting in even less labor force participation.[15] This might suggest the unintended consequence of exacerbating precisely the problem the policy at hand is attempting to fix. New studies, however, suggest that these concerns may well be overstated and that increases in the minimum wage do not have the adverse employment effects so often predicted by the traditional textbook models.[16]

Another argument against wage policies implemented at the local level is that they could have the unintended consequence of driving industries out of the city, thereby exacerbating many of the structural changes that have already occurred, namely capital shift.[17] But again, there may be evidence to suggest that this concern is exaggerated as well. In studies of the effects of living wage ordinances where they had been implemented, Pollin and Luce found that living wage ordinances did not lead to any real disemployment effects; nor was there a tendency to shift jobs to suburban communities.[18]

Income can also be raised through tax credits and income subsides. All families in the first two quintiles qualify for the Earned Income Tax Credit (EITC). The EITC is a refundable credit that low-income families with children qualify for when they work. Those with two children were eligible for a maximum credit of around $3816 in 1999 so long as their income fell between $9500 and $12,500. But one only qualifies if one works. There are also two major problems with the EITC. One is the phase-out rate, which accelerates as one moves up the income scale. The phase-out begins at $12,500 and ends at $30,580. As this happens, the poor are effectively taxed. The other problem is that the EITC is a flat credit, which isn't adjusted based on geography, though there is a differential between having one child or two. Those qualifying for the EITC receive the same credit regardless of whether they live in a high cost-of-living city like New York or a low cost-of-living area like the rural South. Various states, including New York, have sought to rectify this by passing their own state level EITCs. Because income inequality is even higher in New York City, local officials might want to consider the adoption of a city-wide earned income tax credit that would effectively place those working in low-wage jobs at least at the poverty level for a family of four.

Aside from the structural problems, there is the larger question of to what extent the EITC is known about or taken advantage of. Data from the CPS does not provide a reliable estimate of how much the credit is used. From the CPS it appears that fewer than 10% in the first quintile and fewer than 20% in the second quintile in 1999 took advantage of the credit. And yet, more than 75% of the first quintile were out of the labor force. Similarly, 55% of the second quintile were out of the labor force in 1999. At a minimum, greater effort needs to be made to reach out to low income families so that they will make greater use of the credit. Even assuming that more workers were to realize that they are eligible for the credit, it is essentially meaningless unless steps are taken to get these people into the labor force in the first place. Because perceived returns to work affects labor force participation, greater publicity of the EITC along with a separate citywide EITC in conjunction with other wage policies would help to make work more attractive, even work at the bottom of the wage scale.

All this, however, raises the question of whether income inequality at the local level can adequately be addressed by relying on existing policies. Or do local officials need to think in terms of more comprehensive urban policies? Each locality, after all, has its

own unique set of characteristics, requiring that policies be specifically tailored to their respective and particular needs. Local officials, then, need to be in the forefront of assessing income inequality in their area and developing their own comprehensive strategies for containing it. They need to devise their own educational policies in conjunction with tax credits and other income maintenance policies. Among those questions for future research is whether living wage ordinances, in the growing number of cities where they have been passed have had the effect of narrowing the income inequality gap.

Table 1: Ratio of Incomes of Top and Bottom Fifths of Families: US, NYC & Other Cities

	1991			1998			
	Average Income of Bottom Fifth of Families	*Average Income of Top Fifth of Families*	*Top-to bottom Ratio*	*Average Income of Bottom Fifth of Families*	*Average Income of Top Fifth of Families*	*Top-to-bottom Ratio*	*Percent Change 1992-99*
All US	$7563	$88432	11.7	$9340	$132752	14.2	2.5
New York	5255	92951	17.7	5387	123452	22.9	5.2
Baltimore	11345	89425	7.9	14371	91482	6.4	-1.5
Denver	10132	96005	9.5	10717	138850	13.0	3.5
Philadelphia	7906	102195	12.9	5425	109802	20.2	8.3
San Francisco	10273	112578	11.0	12306	127196	10.3	-0.7

Source: Author's calculations based on CPS files for 1992-1999. NOTE: Each year's CPS records income received in past year.

Table 2: General Characteristics of New York City's Labor Market

	New York City			**United States**		
	1992	**1999**	**Diff**	**1992**	**1999**	**Diff**
Annual Income	$37910	$45861	21.0%	$39171	$54540	39.2%
Labor Force(%)						
Working	49.9	50.2	0.3	59.4	62.4	3.0
Unemployed	5.0	3.7	-1.3	4.9	3.3	-1.6
Not in the Labor Force	44.9	44.2	- 0.7	35.3	34.3	-1.0
Education (%)						
Less than 11th Grade	29.8	29.3	- 0.5	23.9	21.4	-2.5
12th Grade, no diploma	3.9	2.8	-1.1	1.9	1.5	-0.4
High School graduate	30.3	26.5	-3.8	33.5	31.1	-2.4
Some college	13.3	15.5	2.2	17.3	18.1	0.8
Associate Degree	4.0	4.4	0.4	5.4	6.7	1.3
B.A. degree	11.4	13.7	2.3	12.2	14.4	2.2
Grad/Profsnl. Degree	7.4	7.2	-0.2	5.9	6.7	1.2
Industry						
Construction	2.8	2.3	- 0.5	4.3	4.6	0.3
Manufacturing	8.1	4.8	-3.3	11.1	9.8	-1.3
Transport, Commctn.	4.8	4.9	0.1	4.4	4.7	0.3
Wholesale Trade	1.5	1.7	0.2	2.6	2.6	0.0
Retail Trade	8.4	10.2	1.8	12.2	12.3	0.1
Finance, Real Estate	5.2	6.4	1.2	4.2	4.3	-0.1
Services	23.4	24.1	0.7	23.6	25.1	1.5
Public Administration	2.7	2.1	- 0.6	3.2	3.2	0.0
Never Worked	42.7	42.4	- 0.3	31.7	31.0	0.7

Table 3: Characteristics of NYC Labor Market by Income Group

	1st Quintile		2nd Quintile		3rd Quintile		4th Quintile		5th Quintile	
	1992	*1999*	*1992*	*1999*	*1992*	*1999*	*1992*	*1999*	*1992*	*1999*
Income										
Upper Income Limit	$9745	10747	21763	23146	36740	40100	60617	69486	258999	470583
Average Income	$5255	5387	15260	16351	28892	31165	47193	53039	92951	123810
Share of Income (%)	2.8	2.3	8.1	7.1	15.2	13.6	24.9	23.2	49.0	53.9
Labor Force (%)										
Working	15.2	16.3	39.4	40.9	55.7	57.1	65.7	67.7	73.5	76.7
Unemployed	5.7	5.8	6.8	3.8	5.5	4.6	5.3	2.5	2.2	1.9
Not in Labor Force	79.1	77.9	53.7	55.4	38.7	38.3	29.0	29.9	24.0	21.3
Race (%)										
White	70.4	62.9	70.1	65.6	66.2	69.2	70.6	71.3	80.6	73.0
Black	26.5	30.5	22.3	25.2	22.2	21.1	22.7	19.7	14.7	17.1
American Indian	2.5	0.7	0.2	0.8	0.1	0.5	0.0	0.3	0.0	0.7
Asian/Pacific Islander	5.9	5.2	8.4	10.1	9.2	6.0	8.7	4.7	9.2	5.5
Gender (%)										
Male	28.0	33.0	41.4	45.3	50.3	47.4	48.4	49.3	50.4	49.3
Female	72.0	67.0	58.6	54.7	49.7	52.4	51.6	50.7	49.6	50.7
Education (%)										
Less than 11th Grade	54.1	47.7	40.4	40.2	23.8	28.6	18.5	19.9	12.0	10.2
12th Grade, no diploma	5.4	4.1	4.4	3.8	3.9	2.6	3.0	2.6	2.5	1.0
High School graduate	25.5	25.9	33.9	30.3	34.1	29.8	34.3	27.3	23.5	20.4
Some college	8.6	12.7	10.1	11.7	15.0	19.6	17.7	19.7	14.9	14.8
Associate Degree	1.0	2.3	1.6	3.5	5.4	2.8	5.7	6.1	6.2	7.4
B.A. degree	3.4	5.6	6.3	8.4	12.4	11.5	12.7	18.7	22.3	24.7
Grad/Profsnl.Degree	2.0	1.7	3.2	2.1	5.3	5.1	8.2	5.7	18.5	21.4

Table 4: Characteristics of Female Family Heads v. Male Heads: NYC, 1998/99

	First Income Quintile			Second Income Quintile		
	Male Head	*Female Head*	*Total*	*Male Head*	*Female Head*	*Total*
Labor Force (%)						
Working	22.2	14.8	16.9	43.9	36.5	40.5
Unemployed	7.8	7.8	7.8	5.8	2.8	4.6
Not in Labor Force	70.0	77.4	74.8	50.3	59.1	53.9
Education (%)						
Less than 11th Grade	45.5	53.0	50.3	42.1	39.9	41.2
12th Grade, no diploma	2.8	4.6	3.9	3.7	3.9	3.8
High School Graduate	30.0	22.6	25.2	28.6	25.7	27.4
Some College	10.4	11.5	11.1	11.7	15.3	13.2
Associate Degree	1.6	3.1	2.5	2.9	4.1	3.4
B.A. Degree	6.9	4.2	5.2	9.5	8.4	9.0
Graduate/Profsnl. Degree	2.8	1.0	1.6	1.5	2.9	2.1
Race (%)						
White	63.5	66.8	65.6	69.9	61.5	66.5
Black	25.9	31.2	29.3	19.7	34.2	25.6
American Indian Aleut, Eskimo	0.9	0.1	0.4	1.0	0.6	0.8
Asian/Pacific Islander	9.7	1.9	4.7	9.4	3.7	7.1

NOTE: With the exception of the education comparisons in the second quintile, all differences on the basis of Chi-square tests are significant at the 95% confidence level. The data in this table is pooled only for the years of 1998 and 1999.

Appendix Table: Regression Results

Factors associated with being in the lowest Income Quintile

MALE	FMHHLD	ELDER	BLACK	LOWED	Constant	
1339	1.5146	.6581	.1783	1.0163	-2.6888	
(.1110)	(.0000)	(.0000)	(.0232)	(.0000)	(.0000)	
MALE	FMHHLD	ELDER	BLACK	LOWED	NLF	Constant
.2560	1.4861	.0726	.1536	.6516	1.3778	-3.2355
(.0028)	(.0000)	(.4202)	(.0586)	(.0000)	(.0000)	(.0000)

Factors associated with being Out of the Labor Force

MALE	FMHHLD	BLACK	LOWED	Constant	
-.6539	.3308	.0031	1.4636	-.5536	
(.0000)	(.0000)	(.9628)	(.0000)	(.0000)	
MALE	FMHHLD	BLACK	LOWED	FIRSTQN	Constant
-.7046	.0183	-.0316	1.3270	1.4179	-.6390
(.0000)	(.7895)	(6437)	(.0000)	(.0000)	(.0000)

Oren M. Levin-Waldman is the Henry J. Raimondo Professor in the Institute of Urban Research and Public Policy, New Jersey City University. He is the author of The Case of the Minimum Wage: Competing Policy Models *(Albany: State University of New York Press, 2001).*

REGIONAL LABOR REVIEW, vol.4, no. 1 (Fall 2001): 36-46.

NOTES

[1] See, eg., Juhn, Chinhui, Kevin Murphy and Brooks Pierce. 1993. "Wage Inequality and the Rise in Returns to Skills." *Journal of Political Economy*. 101,3:410-442.; Katz, Lawrence F. and Kevin M. Murphy. 1992. "Changes in Relative Wages, 1963-1987: Supply and Demand Factors." *Quarterly Journal of Economics* 107:35-79.
[2] Craypo, Charles and David Cormier. 2000. "Job Restructuring as a Determinant of Wage Inequality and Working-Poor Households." *Journal of Economic Issues*. 34,1 (March):21-42; DiNardo, John and Thomas Lemieux. 1997. "Diverging Male Wage Inequality in the United States and Canada, 1981-1988: Do Institutions Explain the Difference?" *Industrial and Labor Relations Review*. 50, 4 (July):629-650; Galbraith, James K. 1998. *Created Unequal: The Crisis in American Pay*. New York: The Free Press; Palley, Thomas I. 1998. *Plenty of Nothing: The Downsizing of the American Dream and the Case for Structural Keynesianism*. Princeton: Princeton University Press; Piore, Michael J. 1995. *Beyond Individualism*. Cambridge, MA: Harvard University Press; and Wallerstein, Michael. 1999. "Wage-Setting Institutions and Pay Inequality in Advanced Industrial Societies." *American Journal of Political Science* 43, 3 (July):649-680.
[3] Lee, David S. 1997. "Wage Inequality in the United States During the 1980s: Rising or Falling Minimum Wage." *Quarterly Journal of Economics*. 114, 3:997-1023.
[4] Dubofsky, Melvyn. 1994. *The State & Labor in Modern America*. Chapel Hill: The University of North Carolina Press; and Levin-Waldman, Oren M. "The Rhetorical Evolution of the Minimum Wage." *Rhetoric & Public Affairs*. 3,2 (Summer):131-153.
[5] Boushey, Heather. 2000. "Report on New York City's Low-Wage Labor Market: The Potential for Self-Sufficiency" unpublished manuscript (August); and Levitan, Mark. 1999. *New York City's Labor Market, 1994-1999: Profiles and Perspectives.* New York: Community Services Society of New York.
[6] Danziger, Sheldon and Peter Gottschalk. 1995. *American Unequal*. Cambridge, MA: Harvard University Press; and Phillips, Kevin. 1990. The Politics of Rich and Poor: Wealth and the American Electorate in the Reagan Aftermath. New York: Harper
[7] Bernstein, Jared, Elizabeth C. McNichol, Lawrence Mishel and Zahradnik. 2000. *Pulling Apart:A State by State Analysis of Income Trends*. Washington: Center on Budget and Policy Priorities and Economic Policy Institute.
[8] Topel, Robert H. 1994. "Regional Labor Markets and the Determinants of Wage Inequality." *American Economic Review*. 84, 2 (May):17-22.
[9] Still, there are some limitations to the CPS data that need to be addressed. One problem is that it understates the disparities between the top and bottom because the CPS topcodes the income variable. Various researchers have tried to get around the top-coding problem by using 10-50-90 percentile levels to analyze distribution rather than quintile distribution. This would avoid the top-coding problem largely because those over the 90 percentile level, whose incomes mostly exceed the top code would be eliminated. Eliminating cases, however, is a luxury of a large sample. A sample of a locality culled from the larger sample tends to be very small, with little room to make it much smaller. Moreover, the smallness of the sample may result in such figures being meaningless. In a sample run on the basis of the 10-50-90 levels, the smallness of the sample actually resulted in findings at those levels being meaningless. Because the sample size is so small, the distribution at the 10th percentile level on the personal earnings variable did not produce a number that would yield a ratio. And yet, to eliminate the top tail of the distribution so that ratios will be more accurate only underscores that any analysis of income inequality based on the CPS understates the extent to which there is inequality. That one approach may result in greater dispersion over another does not alter the basic fact that there is income inequality. Still, the pooling of data wouldn't necessarily capture the variation between years. The larger point, however, is that while there will be variation depending on the measures used to measure income inequality, each measure will show there to be income inequality and that inequality to have increased during the 1990s. Even though the top-coding has the effect of understating the extent to which there is income inequality, the data based on quintile distribution nonetheless makes it clear that there is a pattern and that pattern has been consistent over time.
[10] Fiscal Policy Institute. 2000. Building a Ladder to Jobs and Higher Wages: A Report by the Working Group on New York City's Low-Wage Labor Market. Albany and New York: Fiscal Policy Institute.
[11] Waldinger, Roger. 1987. "Changing Ladders and Musical Chairs: Ethnicity and Opportunity in Post-Industrial New York. *Politics & Society*, 15: 369-401.
[12] Levin-Waldman, Oren M. 2001. The Case of the Minimum Wage: Competing Policy Models. Albany: SUNY Press.
[13] Card, David and Alan B. Krueger.1992a. "School Quality and Black-White Relative Earnings: A Direct Assessment." *The Quarterly Journal of Economics*. (February): 151-200; and 1992b. "Does School Quality Matter? Returns to Education and the Characteristics of Public Schools in the United States." *Journal of*

Political Economy. 100, 1:1-40; Card, David and Daniel. Sullivan. "Measuring the Effect of Subsidized Training Programs on Movements In and Out of Employment." *Econometrica*. 56, 3: 497-530; and Freeman and Holzer, *op. cit*.

[14] Levin-Waldman, Oren M. 2000a. "Testing the New Welfare: Lessons from a Survey of Small Business." *Policy Sciences*. 33:55-71.

[15] Burkhauser, Richard V. and T. Aldrich Finegan. 1989. "The Minimum Wage and the Poor: The End of a Relationship." *Journal of Policy Analysis and Management*. 8,1:53-71; and Finegold, David. 1998. "Is the Fair Labor Standards Act Fair to Welfare Recipients?" *Journal of Labor Research*. 19, 2 (Spring):245-262.

[16] Card, David and Alan B. Krueger. 1998. "A Reanalysis of the Effect of the New Jersey Minimum Wage Increase on the Fast-Food Industry with *Representative* Payroll Data." NBER Working Paper # 6386; and Card and Kruger. 1995. *Myth and Measurement: The Economics of the Minimum Wage*. Princeton: Princeton University Press; Levin-Waldman, Oren M. 2000c. "The Effects of the Minimum Wage: A Business Response." *Journal of Economic Issues*. 34,3 (September):793-800.

[17] Peterson, Paul E. 1981. *City Limits*. Chicago: University of Chicago Press.

[18] Pollin, Robert and Stephanie Luce. 1998. *The Living Wage: Building a Fair Economy*. New York: The New Press.