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Earnings Inequality: New York–New Jersey Region

In the past two decades, the earnings gap between upper income workers and lower income workers has grown significantly throughout the United States. This trend is fully evident in the New York–New Jersey region: from 1979 to 1996, regional earnings inequality widened by more than 50 percent. Moreover, despite the strong economic expansion of the past few years, earnings inequality remains above the levels experienced before the economic downturn of the early 1990s.

This issue of *Second District Highlights* presents an overview of earnings inequality in the region and its three major areas—New Jersey, the New York City metropolitan area,[1] and upstate New York. We find that the region's overall rise in earnings inequality over the past twenty years has been similar to the nation's. In the first half of the 1990s, however, the earnings gap grew at a faster rate in the region, with a particularly pronounced rise occurring in the New York City metropolitan area.

Defining a Simple Measure of Inequality

To assess earnings inequality, we look at the gap in annual earnings between workers who are near the top of the earnings distribution and workers who are near the bottom.[2] Our measure of this gap is the ratio of annual earnings at the 90th percentile of the earnings distribution to annual earnings at the 10th percentile.[3] For example, a 90th/10th percentile ratio of 4 means that the higher paid workers earn four times as much as the lower paid workers.

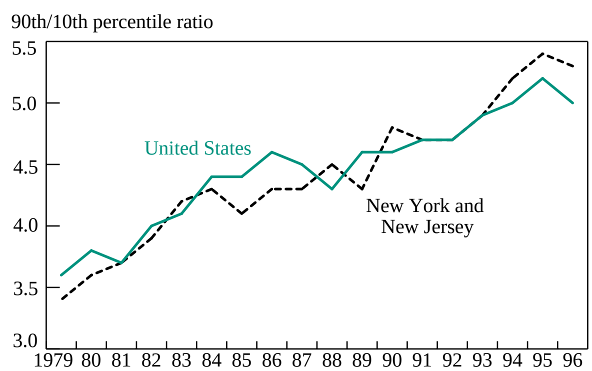
We calculate the 90th/10th percentile ratios for two categories of workers: year-round, full-time workers and all males aged 25 to 64 with any wage income.[4] In addition, we discuss the economic developments that may have contributed to changes in inequality and compare the patterns of earnings growth at the 90th and 10th percentiles over the 1979-96 period.

A National and Regional Trend

Among year-round, full-time workers—both men and women—the overall inequality trends in the region and in the nation are very similar, with earnings inequality increasing about 50 percent over the past two decades (Charts 1 and 2).[5] This widening reflects the fact that workers at both ends of the spectrum have experienced very different trends in earnings growth (Table 1).

Chart 1

National and Regional Earnings Inequality for Year-Round, Full-Time Male Workers

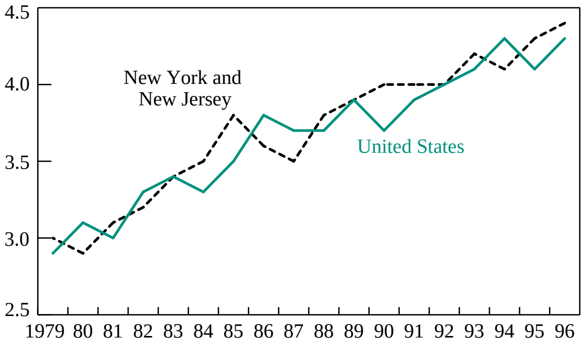


Source: Authors' calculations, based on the U.S Census Bureau's March Current Population Survey.

Notes: The year-round, full-time category consists of persons who report having worked fifty or more weeks (including vacations and other paid leave) during the previous year, with a usual workweek of at least thirty-five hours. Persons who report any self-employment income are excluded from the analysis.

Chart 2

National and Regional Earnings Inequality for Year-Round, Full-Time Female Workers



Source: Authors' calculations, based on the U.S Census Bureau's March Current Population Survey.

Notes: The year-round, full-time category consists of persons who report having worked fifty or more weeks (including vacations and other paid leave) during the previous year, with a usual workweek of at least thirty-five hours. Persons who report any self-employment income are excluded from the analysis.

Table 1

Percentage Growth in Earnings: Year-Round, Full-Time Workers

	Men			Women		
	1979-1996	1979-1989	1989-1996	1979-1996	1979-1989	1989-1996
United States						
90th percentile	10.1	9.4	0.6	27.7	17.8	8.4
10th percentile	-20.6	-13.9	-7.8	-13.6	-11.6	-2.3
New York–New Jersey region						
90th percentile	25.7	19.2	5.4	37.5	32.1	4.1
10th percentile	-21.0	-6.7	-15.3	-7.0	0.4	-7.4

Source: Authors' tabulations, based on data from the U.S. Census Bureau's March Current Population Survey.

In the region, the real earnings of male year-round, full-time workers at the 90th percentile *climbed* 26 percent (from $63,700 to $80,000) from 1979 to 1996.[6] During the same period, earnings at the 10th percentile *fell* 21 percent (from $19,000 to $15,000). The trend was similar for women over the 1979-96 period: at the 90th percentile, earnings increased from $39,300 to $54,000, while at the 10th percentile, earnings slipped from $13,200 to $12,300.

The nation also experienced divergent trends at the top and bottom of the distribution, although its 90th percentile gains were less striking than the region's. For example, from 1979 to 1996, earnings for year-round, full-time male workers at the 90th percentile rose 10 percent (from $63,600 to $70,000); at the 10th percentile, they dropped nearly 21 percent (from $17,600 to $14,000).[7]

Decade-by-Decade Comparison

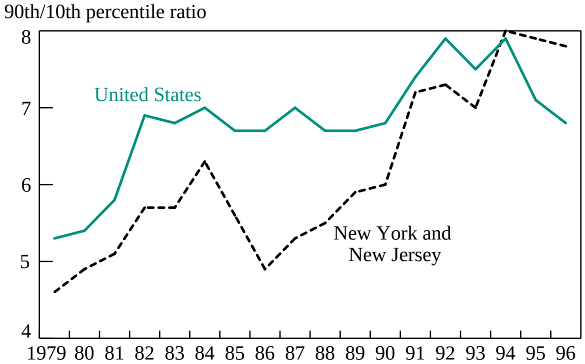
Despite the broad similarity in earnings inequality between the region and the nation, there are some differences in how inequality among male workers has progressed from decade to decade. During the 1980s, when the region experienced a relatively strong economic expansion, the decline in earnings for year-round, full-time male workers at the 10th percentile was much milder in New York and New Jersey than in the nation (Table 1). Consequently, for much of the decade, male earnings inequality rose more slowly in the region.

At the start of the 1990s, however, the recession hit New York and New Jersey more severely and for a longer period than other areas of the nation, increasing the regional split between high- and low-income workers relative to the national gap. Although by 1996 the region's job recovery was well under way, total declines in earnings for full-time male workers at the 10th percentile in the region between 1989 and 1996 were nearly double the nation's. By contrast, during this period, full-time male workers at the 90th percentile in New York and New Jersey saw their earnings grow considerably faster than did the same workers nationwide.[8]

These decade-to-decade differences are more pronounced for workers in the all-male category (Chart 3). This group is especially sensitive to business cycle swings because, unlike the year-round, full-time group, it includes individuals who work part time and/or have been unemployed for part of the year. These workers tend to have limited skills and experience. Even during periods of economic growth, they are likely to earn lower wages than other workers, and they typically suffer the greatest earnings losses during recessions.

As Chart 3 shows, in the first half of the 1980s, when the region was booming, earnings inequality for all male workers in New York and New Jersey was significantly below the national level. Around the start of the 1990s—when the severe regional downturn began—the inequality gap between the region and the nation began to close. By 1994, the regional level of inequality for all male workers had surpassed the national level. Although the level of

Chart 3
National and Regional Earnings Inequality for All Male Workers



Source: Authors' calculations, based on the U.S Census Bureau's March Current Population Survey.

Table 2
Earnings Inequality: Year-Round, Full-Time Workers
Ratio of 90th Percentile Earnings to 10th Percentile Earnings

	Men			Women		
	1979	1989	1996	1979	1989	1996
United States	3.6	4.6	5.0	2.9	3.9	4.3
New York–New Jersey region	3.4	4.3	5.3	3.0	3.9	4.4
New Jersey	4.0	4.5	5.1	3.1	4.0	4.3
New York City metropolitan area	3.7	4.6	6.8	3.0	4.0	4.8
New York State[a]	3.3	3.6	4.3	2.5	3.5	3.6

Source: Authors' tabulations, based on data from the U.S. Census Bureau's March Current Population Survey.

[a] Excluding the New York City metropolitan area.

inequality has declined since then, it has not fallen as steeply as the nation's.

Earnings Disparities within the Region

A look at earnings disparities in the region's three major areas—New Jersey, the New York City metropolitan area, and upstate New York—reveals that the New York City metropolitan area has been the biggest source of inequality in the region. Indeed, in the metropolitan area, the 90th/10th percentile ratio for year-round, full-time male workers rose from 3.7 to 6.8 from 1979 to 1996 (Table 2). By contrast, the increase in earnings inequality in New Jersey and upstate New York has been roughly proportional to the nation's.[9]

The relatively high degree of inequality in the earnings of the metropolitan area's workers owes much to the strong performance of the financial services industry and the severe regional downturn of the early 1990s. Steady growth in the profits of Wall Street firms has helped raise the earnings of workers at the upper end of the spectrum: from 1989 to 1996, earnings at the 90th percentile increased 8 percent in the metropolitan area compared with 0.6 percent in the nation. By contrast, a weakening in the economy during the early 1990s caused workers near the bottom of the earnings spectrum to experience disproportionately large earnings losses. From 1989 to 1996, earnings at the 10th percentile decreased 27 percent in the metropolitan area compared with 7.8 percent in the nation.

How has the recent economic recovery in the region affected earnings inequality? In 1996, there was a slight drop in earnings inequality among male workers, largely because of small earnings gains at the 10th percentile. Inequality among female workers, however, continued to rise. The region's strong performance and its favorable job developments will likely boost the earnings of workers at both ends of the spectrum.[10] Thus, although earnings losses among low-income workers should ease, improvements near the top of the spectrum could keep the earnings gap from narrowing significantly.

—By David Brauer, Beethika Khan, and Elizabeth Miranda

Notes

1. For this analysis, we define the metropolitan area as New York City and Westchester, Rockland, Putnam, Nassau, and Suffolk Counties.

2. Our analysis of regional earnings inequality is based on tabulations from the U.S. Census Bureau's March Current Population Survey, which reports earnings during the previous year along with information on individual characteristics of workers, including age, sex, and education. Annual earnings are equivalent to wage and salary earnings, which the Census Bureau defines as the income an individual receives for work performed as an employee during the year. Figures presented here include paid vacation and other time off, overtime pay, commissions, and tips, but do not include employer-financed benefits. Persons who report any self-employment income are excluded from the analysis.

3. If you are a worker in the 90th percentile of the earnings distribution, 10 percent of the population earns more than you and 90 percent of the population earns less. If you are in the 10th percentile, 90 percent of the population earns more and 10 percent earns less.

4. Examining year-round, full-time workers and all male workers separately enables us to focus on discrete aspects of earnings inequality. Inequality can arise from two sources—differences in wage rates or differences in the number of hours worked during the year. By controlling for hours worked, the year-round, full-time category isolates wage rate effects. By contrast, the category encompassing all male workers also factors in differences in the number of hours worked at the 90th and 10th percentiles.

5. To account for job differences by gender, we look at male and female year-round, full-time workers separately. Our analysis of the all-workers category is restricted to men because the trends in earnings for all women are heavily influenced by long-run increases in their labor force participation rates.

6. Real earnings, as measured in 1996 dollars, are deflated by the consumer price index, adjusted to reflect its current treatment of owner-occupied housing. If, as some studies report, the consumer price index overstates inflation by 1 percent or more annually, performances at the top and bottom would be substantially better. The relative difference in earnings, however, would not change.

7. For an analysis of the causes of earnings inequality, see David Brauer, "The Changing U.S. Income Distribution: Facts, Explanations, and Unresolved Issues," Federal Reserve Bank of New York Research Paper no. 9811, 1998.

8. Trends in earnings growth for female workers were roughly similar to those for men, except that the earnings of females at the 10th percentile increased slightly in the 1980s.

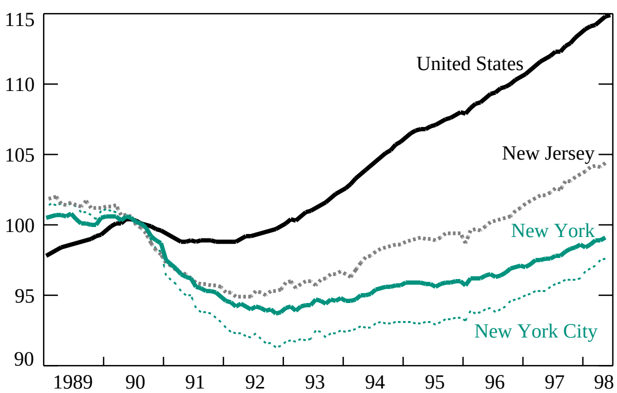
9. In upstate New York, however, the level of earnings inequality among both male and female year-round, full-time workers has been consistently lower than in the nation. The lower level can be attributed to smaller earnings growth near the top of the distribution.

10. For a review of the region's employment trends, see James Orr, Rae D. Rosen, and Mike DeMott, "New York–New Jersey Job Recovery Expected to Continue in 1998," *Current Issues in Economics and Finance*, vol. 4, no. 3 (March 1998).

Economic Trends in the Second District

Payroll Employment

Index: 1990 = 100 (seasonally adjusted)

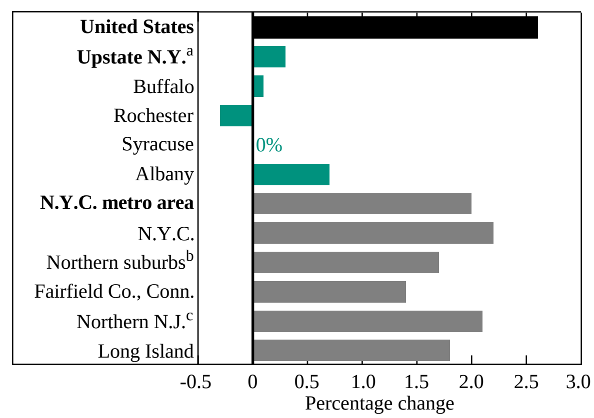


Sources: New York, New Jersey, and Connecticut Departments of Labor; U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of the Census; Federal Reserve Bank of New York.

[a]Upstate N.Y. comprises the four metropolitan areas listed as well as Binghamton, Elmira, Glens Falls, Jamestown, and Utica-Rome.

Job Growth in the Nation and Selected Metropolitan Areas

March-May 1997 to March-May 1998



[b]The northern suburbs of N.Y.C. comprise Dutchess, Orange, Putnam, Rockland, and Westchester Counties, N.Y., and Pike County, Pa.

[c]Northern N.J. comprises Bergen, Essex, Hudson, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Union, and Warren Counties.

The views expressed in this article are those of the authors and do not necessarily reflect the position of the Federal Reserve Bank of New York or the Federal Reserve System.

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