

Labor, Capital, and Inequality in New York: A Functional Income Approach

By Mohamed Obaidy, Ph.D.

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Center for
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Affairs

About the author

Mohamed Obaidy is associate director and economist at the Center for New York City Affairs at The New School. The Center for New York City Affairs at The New School is an applied policy research institute that drives innovation in social policy.

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Executive Summary

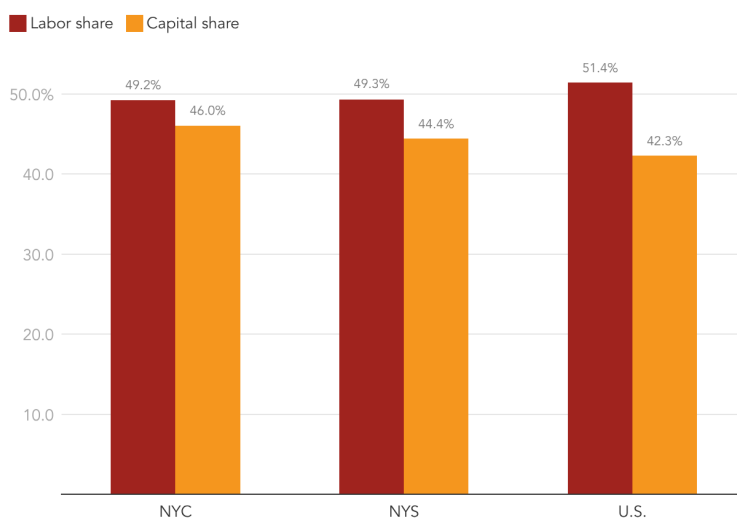
New York City is facing a political and economic moment defined by a basic contradiction. It is one of the richest local economies in the United States, but gains from that wealth are not broadly shared. Affordability is a central issue in the city's political economy.

In this report, I examine a distinct dimension of inequality: the distribution of income between labor and capital. While wage inequality describes how labor income is distributed among workers, functional income distribution examines how economic output is divided between compensation to workers (labor) and compensation to business owners (capital). This approach can reveal whether labor, as a collective unit, receives a growing or shrinking share of the economic output they help produce.

The report findings are clear. New York City is one of the most productive U.S. cities with the highest local GDP in the country. However, evidence suggests capital owners have increased their profit disproportionately to the increase of the city's overall economic pie.

Between 2001 and 2024, the labor share declined and the capital share increased in the United States, New York State, and New York City. But New York City stands out. By 2024, the city had a lower labor share and higher capital share than both the country and state. The city also experienced the largest decline in labor's share of -12 percent, and largest increase in capital's share, around 16 percent, over the full period. **Remarkably, from a functional income approach, New York City is one of the most unequal cities in the United States.**

NYC has the highest capital share in 2024



Source: CNYCA analysis of Bureau of Economic Analysis National Accounts Data.

The report shows this distributional shift is connected to the city's productivity-wage gap. In principle, when labor share declines, it means productivity is growing at a faster pace than wages. New York City workers have become more productive since 2001, but overall wage growth hasn't kept pace, especially for the bottom 90 percent. **While New York City workers are the most productive they've been in over 20 years, that has not translated into proportional wage gains.**

The evidence is consistent with a weakening of workers' rights, including unionization decline and a bargaining environment altered by globalization and outsourcing. The 1970s fiscal crisis also matters because it normalized a model of urban governance centered on fiscal discipline, wage restraint, and labor-cost control.

The report connects the labor-capital conflict to tax policy and what it means for the City's fiscal policy. Taxation is one mechanism through which unequal economic gains can be redistributed to workers through public resources. If a growing share of New York City's output is accruing to capital, then the City's fiscal policy becomes a critical tool for mitigating inequality. However, a growing profit share does not necessarily translate into more tax revenue if tax policy is not designed to capture the profit share.

The report shows that partnerships, proprietorships, and other unincorporated businesses are an important part of the economy not adequately taxed under the existing tax code. Therefore, policymakers must broaden their focus from "how much" tax to what and how income is being taxed and whether the tax base reflects where capital income is actually generated.

The report concludes with recommendations to address functional income inequality. To restore the labor share, policymakers can strengthen labor's position inside the production process through stronger labor protections, unionization support, higher wage floors, enforcement against wage theft and misclassification, and better job standards in low-wage sectors.

To mitigate inequality, policymakers can strengthen redistribution after production. The rising capital share points to the need for more progressive City taxation. As the Mamdani administration looks to increase taxes on the wealthy, it should also examine what and how income is taxed to best capture where capital income is generated in the economy today.

Introduction

New York City is facing a political and economic moment defined by a basic contradiction. The city remains one of the richest local economies in the United States, but the gains from that wealth are not broadly shared. Affordability is now the central issue in the city's political economy and the one facing Mayor Zohran Mamdani: housing costs remain high, and many workers remain economically insecure.

My recent work examines the widening wage gaps between low-, middle-, and high-wage workers and the polarization of the labor market (Obaidy et al. 2024; Obaidy 2026). In this report, I examine a different dimension of inequality: the distribution of income between labor and capital. While wage inequality describes how labor income is distributed among workers, functional income distribution examines how economic output is divided between compensation to workers (labor) and compensation to business owners (capital). This approach can reveal whether labor, as a collective unit, receives a growing or a shrinking share of their economic output.

This approach is rooted in the classical and post-Keynesian tradition in economics, which treats income distribution as a constitutive part of the production process rather than an outcome determined by differences in education, productivity or any other type of individual endowment. Under this framework, the distribution of income is shaped by institutional and political conditions governing bargaining power between labor and capital (Kregel 1978; Patnaik 2009). A functional income distribution analysis, therefore, can point to a broader toolbox of solutions to inequality.

The issues at stake extend beyond the measurement of inequality. For much of the postwar period, wage work was understood as a central pathway to economic security and upward mobility. That social contract is under strain in the economy today, where substantial new wealth is generated disproportionately through the ownership of capital, while most workers' income stagnates. Between 2019 and 2024, nearly two-thirds of the city's real income growth went to the top one percent, driven largely by business and investment income rather than wages (NYC Comptroller Office 2026c).

This is not only an economic problem. At a moment of deep political polarization and declining confidence in economic institutions, understanding who benefits from New York City's economic growth is central to understanding both the city's affordability crisis and the durability of its broader social contract.

1. U.S. and Regional Context: Labor vs. Capital Share, 2001-2024

While earlier macroeconomic models often treat the labor share as relatively stable over time, recent research from economists has documented the decline of the labor share in the U.S. and other advanced economies. Karabarbounis and Neiman (2014), for example, document a broad global decline in the labor share in industrialized countries since the 1980s, while Elsby, Hobijn, and Şahin (2013) show the decline is also observed in the U.S. Existing research is less certain about the causes. Autor et al. (2020) linked the decline to the rise of “superstar firms,” while Barkai (2020) points to changes in market concentration, globalization, and weaker worker bargaining power.

In this report, the labor share is measured as compensation of employees (including wages, salaries, and employer-provided benefits) as a share of GDP. In contrast, the capital share is approximated using gross operating surplus (GOS) as a share of GDP. GOS is not identical to corporate profit: it includes depreciation and other forms of business and capital-related income and as a result should be interpreted as a broad measure and proxy of profit or income derived from capital.

In a similar fashion, employee compensation includes very high salaries and bonuses, which are aggregate accounting measures and not direct measures of the income perceived by a particular social class or household. In this sense, the labor share also includes the wages of the highest earners in executive and managerial occupations.

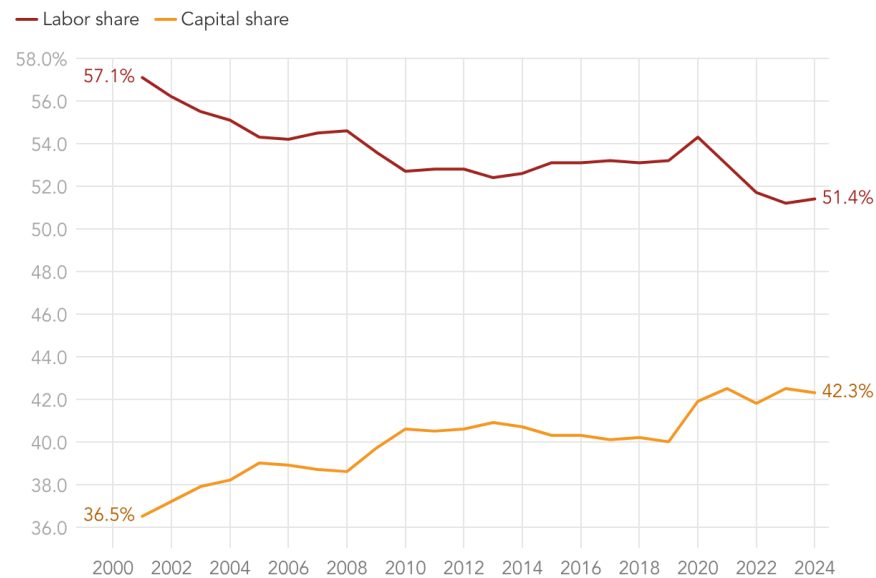
As Figure 1 shows, the labor share has declined nationally.¹ It fell from 57.1 percent of GDP in 2001 to 51.4 percent in 2024. That represents a 10.1 percent decline in labor’s share of output. Over the same period, the capital share rose from 36.5 percent to 42.3 percent of GDP, an increase of 15.7 percent. As the U.S. economy grew over this period, workers received a smaller portion of the income.

New York State followed the same pattern during this time period, but with a sharper decline in labor’s share. In 2001, labor compensation accounted for 56 percent of New York State GDP (Figure 2). By 2024, that figure had fallen to 49.3 percent, a decline of 11.9 percent. The capital share rose from 37.8 percent in 2001 to 44.4 percent in 2024 – a 12.4 percent increase. Although the proportional increase in the capital share was slightly lower in New York State than nationally, the level of the capital share is higher in New York State.

¹ Using the BLS measure of the labor share that includes proprietors’ income, Audoly et al. (2026) also document that the U.S. labor share is at its lowest since World War II.

Figure 1:

The U.S. labor share has declined for decades

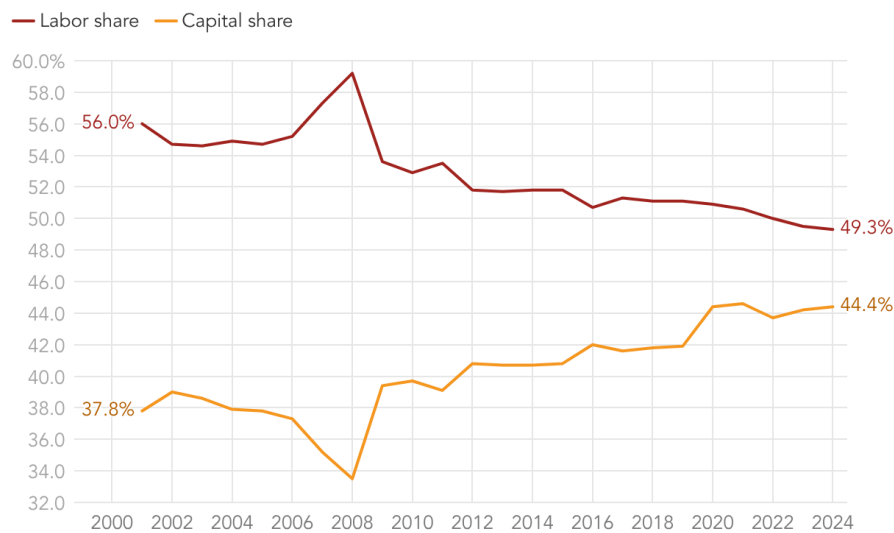


Note: The labor share includes wages, salaries and supplements. The capital share is proxied by the Gross Operating Surplus to ensure an equivalent comparison with New York State and New York City. Both series are expressed in percentage of Gross Domestic Product.

Source: CNYCA analysis of Bureau of Economic Analysis National Accounts Data.

Figure 2:

NY State's labor share mirrors the national trend



Note: Labor share includes wages, salaries, and supplements. The capital share is proxied by the Gross Operating Surplus. Both series are expressed in percentage of Gross Domestic Product.

Source: CNYCA analysis of Bureau of Economic Analysis National Accounts Data.

By 2024, New York State’s labor share was lower and its capital share was higher than the nation’s. The regional economy is mirroring the national shift toward capital income; it is also following this trend while already having a wider inequality between labor and capital income. Given the dominant role of the financial sector in the state’s GDP, this result may illustrate financialization’s role in exacerbating the uneven distribution shift between labor and capital (Jayadev and Epstein 2019).

Between 2001 and 2024, the labor share declined in all periods except 2013–2019 (Figure 3). This was when the capital share weakened slightly, but this reversal did not last. After Covid-19, the labor share again declined, falling at an annual rate similar to the pre-2008 period. The capital share, after slowing during 2013–2019, recovered its earlier growth rate after Covid-19, increasing 1.1 percent annually during 2019–2024.

Figure 3:



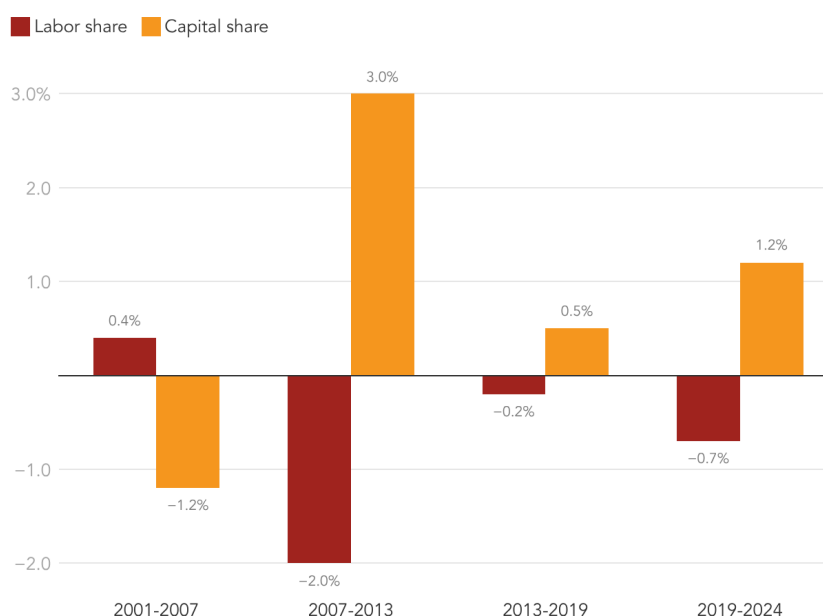
In New York State, the post-Covid period also reinforced the shift toward capital. The capital share grew faster after Covid-19 than it did in the pre-Covid expansion. Yet the fastest increase occurred right after the Great Recession during 2007-2013, when the capital share grew at an annual rate of 3 percent, roughly three times the national rate for the same period (Figure 4). As a result, the decline in New York State’s labor share

was more pronounced after Covid-19 than during the 2013–2019 period. New York State has experienced growing inequality after the pandemic.

Figure 4:

Labor and capital shares growth in NY State

Annualized growth rate over four time periods



Note: Growth rates are annualized to ensure comparability between different time-periods.

Source: CNYCA analysis of Bureau of Economic Analysis National Accounts Data.

These findings do not mean every individual worker lost income or every business benefited equally. Labor and capital shares are aggregate measures and don't capture the full distribution of wages, profits, firm size, and household wealth. They do capture the important shift in how economic output is distributed: across the U.S. and New York State, employers devoted a smaller share of value added to employee compensation in 2001-2024, while a larger share appeared in the gross operating surplus.

Over the last two decades, labor's share of economic output declined, while the capital share increased. This pattern is visible nationally, but it is more pronounced in New York State. A smaller share of economic output is being paid out in the form of wages, salaries, and benefits, while a larger share is accruing to capital income, or profit.

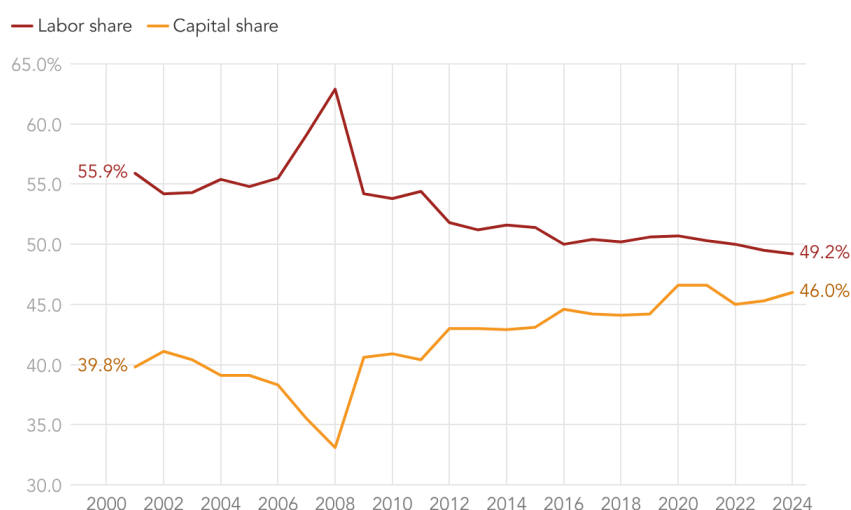
2. New York City: Growth, Productivity, and the Shift Toward Capital

Compared with the U.S. and New York State, the city has the lowest labor share and the highest capital share. In 2024, labor compensation accounted for 49.2 percent of the city's GDP, while the capital share reached 46 percent. Between 2001 and 2024, the city experienced the largest decline in labor share and the largest increase in capital share compared with New York State and the U.S. The labor share declined by 12 percent over this period, while the capital share increased by 15.6 percent.

New York City is one of the most productive U.S. cities with the highest local GDP in the country. However, over the past two decades, evidence suggests that capital owners have increased their slice disproportionately to the increase of the city's overall economic pie.

Figure 5:

NYC's labor share decline is higher than the U.S.



Note: Series are expressed in percentage of GDP. The NYC capital share is derived from New York State's Gross Operating Surplus. See Technical Appendix for details.

Source: CNYCA analysis of Bureau of Economic Analysis National Accounts Data.

The period after the 2007-2008 global financial crisis (GFC) was especially consequential. New York City's labor share declined sharply after 2008 and never returned to its pre-crisis level. History demonstrates that economic recoveries can restore output and profits faster than they restore labor's claim on income. While the city largely recovered and surpassed GDP levels from the crisis, the recovery did not fully rebuild labor's share of output.

The post-Covid period complicates the story somewhat. Compared with the U.S and New York State, New York City recorded the lowest annual growth rate in the capital

share after Covid-19, at 0.8 percent, and the lowest annual decline in the labor share, at 0.6 percent (Figure 6). In this regard, the post-Covid shift was less severe in New York City than at the state or national level. But this should not be interpreted as a reversal. The capital share continued to grow, and the labor share continued to decline.

Figure 6:



The same pattern was visible during the 2013–2019 expansion. At the national level, the labor share increased modestly, and the capital share declined. In New York State and New York City, however, the opposite occurred. Even during a period of national labor-share recovery, New York’s distributional pattern remained tilted toward capital. However, the labor share declined at a slower rate in New York City during 2013–2019 when the minimum wage doubled, compared to 2007–2013 and 2019–2024. This pro-labor policy helped create a buffer for the bottom distribution of the labor share. After Covid-19, New York City experienced slower growth in inequality between labor and capital compared to the U.S. and state.

Industry-level labor share dynamics

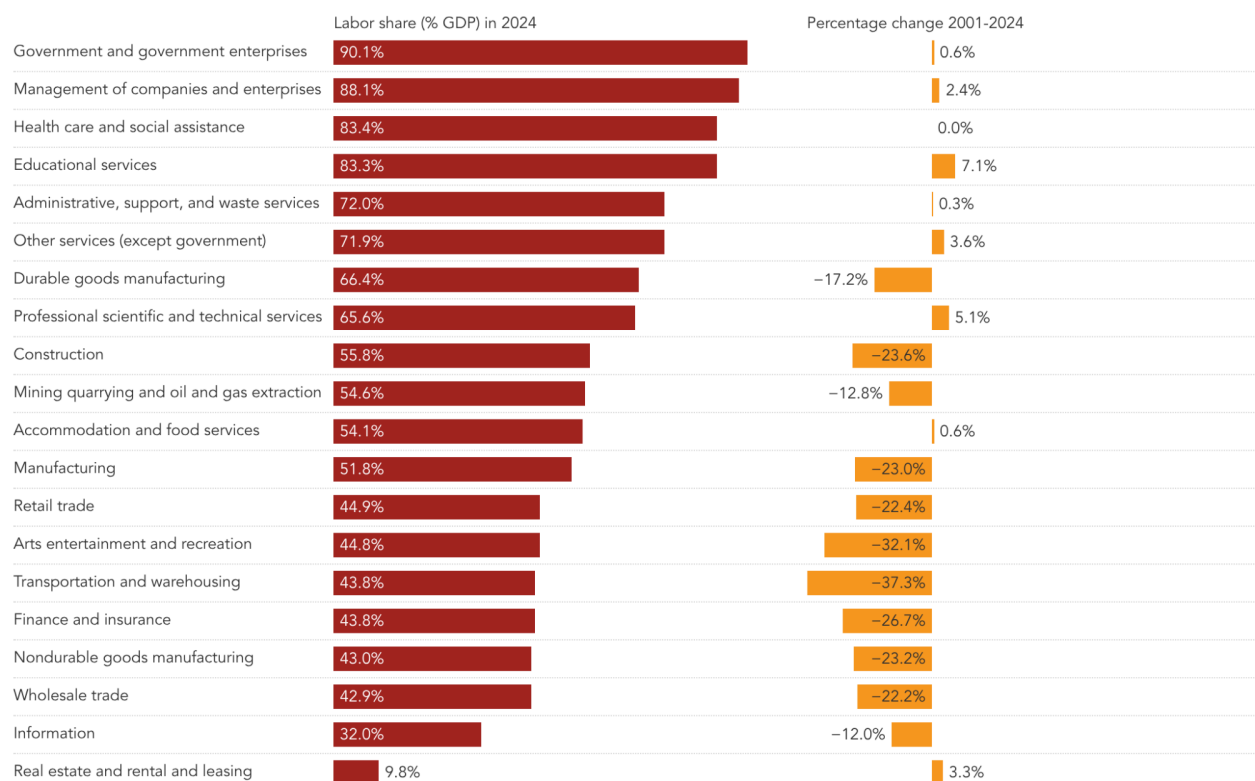
The aggregate decline in New York City’s labor share also raises a question: is the shift driven by one or two sectors, or is it visible across a broad set of industries? The available industry-level labor-share data suggest that the pattern is broad based but

uneven. Some industries experienced large declines in labor's share of GDP, while others remained relatively stable or even saw modest increases.

The most pronounced declines between 2001 and 2024 occurred in transportation and warehousing; arts, entertainment, and recreation; finance and insurance; construction; manufacturing; retail trade; and wholesale trade. As Figure 7 shows, transportation and warehousing recorded the largest decline and saw its labor share fall to 43.8 percent in 2024. Arts, entertainment, and recreation declined to 44.8 percent. Finance and insurance, one of the most important sectors in New York City's economy, fell to 43.8 percent. Construction dramatically declined to 55.8 percent, while manufacturing fell to 51.8 percent. Retail and wholesale trade also experienced large declines.

Figure 7:

Labor share by industry in NYC



Source: CNYCA analysis of Bureau of Economic Analysis National Accounts Data.

The finance and insurance sector deserves particular attention, but also some caution. Its labor share rose sharply before the financial crisis, reaching 79.1 percent in 2007, before falling to 51 percent in 2013 and 43.8 percent in 2024. This suggests a major post-crisis shift in the internal distribution of value added in a sector central to the city's

economy. But the finance sector is difficult to interpret for two reasons. Compensation, bonuses, profits, interest income, and financial-sector accounting can move sharply over the business cycle and tend to be volatile. This is also a high-compensation sector where the labor share does not represent typical earnings. Thus, it does not capture the real class conflict over income distribution. The decline is meaningful, but should be read as evidence of a large distributional shift within the sector rather than as a simple story of one-to-one wage loss.

Other industries show a different pattern. Health care and social assistance remained essentially flat, with a labor share of 83.4 percent in both 2001 and 2024. Government and government enterprises remained highly labor-intensive, with the labor share rising slightly to 90.1 percent. Educational services increased to 83.3 percent. Professional, scientific, and technical services also increased modestly to 65.6 percent. The institutional structure of these industries may play an explanatory role. Health care and education contain large nonprofit sectors, while government, by definition, does not distribute profits to private owners the same way as conventional for-profit firms.

The decline in the labor share is not universal. It is concentrated in several important private-sector industries, especially those where capital income, market power, asset ownership, or post-crisis restructuring likely play a large role. While the evidence does not establish a causal “nonprofit effect,” the contrast is suggestive enough. Some sectors in which the labor share remained highest are precisely those in which the production process is less directly organized around distributing residual earnings to private capital owners.

Real estate and information stand out, but for a different reason. The labor share levels are low, especially real estate and rental and leasing, where labor compensation accounts for only a small portion of value added. This is not surprising given the capital-intensive nature of real estate and the role of rents, depreciation, and property income in gross operating surplus. Information also has a relatively low labor share compared with many labor-intensive service sectors.

New York City’s declining labor share is not simply the result of one particular sector. It reflects large declines in several important private industries, alongside stability or increases in others. Furthermore, the functional distribution of income depends a lot on the institutional organization of production.

A growing gap between worker productivity and worker compensation

Since 2001, New York City workers have become more productive. But that increase has not been matched by comparable wage growth, especially for workers outside the top of the wage distribution.

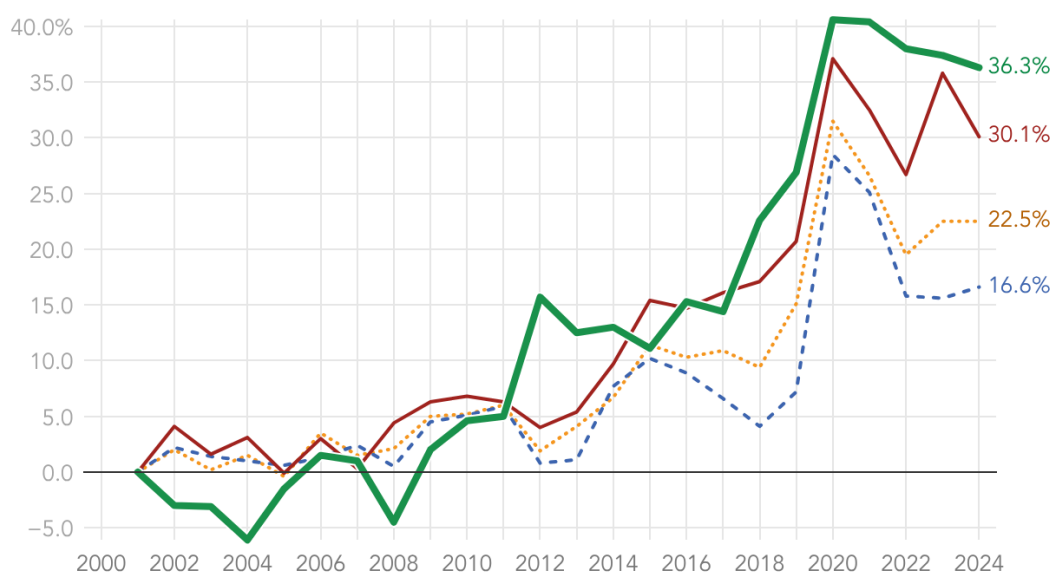
As Figure 8 shows, average real hourly productivity in New York City increased by 36.3 percent between 2001 and 2024. Over the same period, the average real hourly wage for all workers increased by 30.1 percent. At first glance, this suggests some wage growth alongside productivity growth. But the picture changes once the top of the wage distribution is excluded. When the top 10 percent of wage earners are removed, the average real hourly wage increased by only 22.5 percent. The median hourly wage grew even more slowly, increasing by just 16.6 percent between 2001 and 2024. This happened despite the historic increase in the minimum wage between 2013 and 2019.

Figure 8:

Wage and worker productivity growth in NYC

Cumulative growth in real wages compared to labor productivity

— Average hourly wage (all workers) — Average hourly wage (excluding top 10%) - - Median hourly wage — Average hourly productivity (all workers)



Note: Each series shows cumulative growth relative to its 2001 level. Average hourly productivity is estimated as New York City real GDP, measured in chained 2017 dollars, divided by average annual hours worked by New Yorkers. Real hourly wages are adjusted for inflation using the CPI-U-RS. Because each line is measured relative to its own 2001 level, the figure shows how much each series has grown since 2001, not the dollar level of wages or productivity.

Source: CNYCA analysis of Current Population Survey Outgoing Rotating Group microdata; Economic Policy Institute; Current Population Survey Extracts; Bureau of Economic Analysis GDP by county-level database.

The average wage for all workers is pulled upward by high-wage earners who experienced very fast wage growth since 2001 and the highest wage growth compared to the rest of wage earners (Obaidy 2026). Most workers did not receive wage gains commensurate with the increase in hourly productivity. New York City workers produced more output per hour, but gains were not distributed evenly through wages.

The post-Covid period shows more mixed results. Between 2019 and 2024, average and median hourly productivity increased by 7 percent and 9 percent, respectively. Meanwhile the average hourly wage excluding the top 10 percent increased by only 6 percent. The post-Covid labor market did generate some real wage gains for workers in the middle of distribution, likely reflecting tight labor markets and wage growth in some lower- and middle-wage sectors. But those gains came after two decades in which productivity growth outpaced the wage growth experienced by most workers.

While New York City's economy became more productive, productivity growth has not translated into proportional gains for the bottom 90 percent of wage earners. This is consistent with the declining labor share. If output per hour rises faster than the typical worker pay and if labor compensation falls as a share of GDP, then a growing portion of the city's economic gains are captured outside wages and labor compensation. Workers help produce economic growth, but distribution of that growth increasingly favored capital income and high-end compensation.

This productivity-wage gap is not unique to New York City. National literature has documented the divergence between productivity and typical worker pay in the U.S. (Mishel and Bivens 2021). Since the city is often described as a highly productive, high-wage economy, it is important to highlight how a high-productivity city can have a distributional problem when the gains from productivity growth are captured disproportionately by capital owners and workers at the top of wage distribution.

3. Explaining the Shift: Labor Market Power, Globalization, and Institutional Change

The decline in the U.S., New York State, and New York City's labor share did not happen in a vacuum. The distribution of income between labor and capital is shaped by many forces: technology, industry composition, firm profitability, globalization, financialization, public policy, and strength of labor institutions (Stockhammer, 2013).²

² Stockhammer credits the fall of the labor share to four factors: globalization, technological change, financialization, and the retrenchment of the welfare state. He adds – similar to Dube (2026) – the increasing market power of firms.

Evidence nationally and globally points to a decline in workers' bargaining power since the late 1970s. Stansbury and Summers (2020) argue that reduced worker power helps explain several major macroeconomic trends, including sluggish wage growth, rising profitability, and a declining labor share of income. Western and Rosenfeld (2011) show that unions historically shaped wage norms beyond unionized workplaces themselves, meaning that union decline affects not only union members but the broader wage structure. These findings matter for New York City because the city remains one of the most unionized labor markets in the country.

In New York City, the weakening labor position can be understood through three overlapping developments. First, unionization has declined, especially in the private sector. Second, globalization and outsourcing have placed downward pressure on workers' bargaining leverage and contributed to a sectoral restructuring in the labor market. Third, the institutional legacy of the 1970s fiscal crisis helped normalize a model of urban governance centered on fiscal discipline, and wage restraint or labor-cost control. These forces helped create an economic and institutional environment in which capital could claim a growing share of output, unlike labor, which has been repressed by these institutional factors.

Declining unionization and workers' bargaining power

New York City is a highly unionized economy compared to the rest of the U.S. In 2024, the unionization rate was 20.5 percent, more than double the national rate of 9.9 percent. However, 20.5 percent is low for the city. In 2001, 27.7 percent of New York City employees were union members. New York City's unionization rate has declined by 25.9 percent in a little over twenty years (Milkman and Van Der Naald 2025).

The picture is even weaker when public sector workers are excluded. In 2024, New York City's private-sector unionization rate was only 13.7 percent. This matters because the labor-capital distribution analyzed in this report is especially shaped by the private sector, where profits, capital income, and business surplus are generated and distributed. As a result, many private sector workers do not have collective bargaining institutions that help raise wages, stabilize benefits, and give workers a stronger claim on the income they produce.

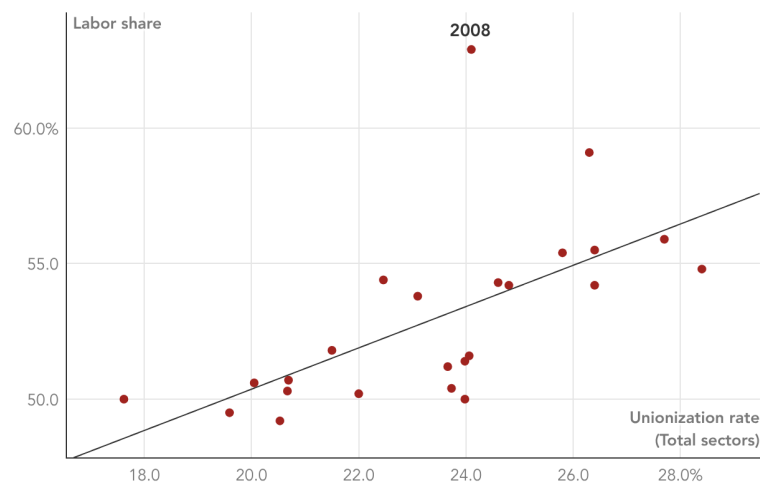
In New York City, years with higher unionization rates tend to be associated with a higher labor compensation share of GDP (Figure 9). Conversely, years with lower unionization rates tend to be associated with a higher profit share (Figure 10). These bivariate relationships should not necessarily be interpreted as causal estimates. Unionization, labor share, and capital share are all shaped by broader macroeconomic conditions and industry changes. But the relationship is consistent. When workers are

more organized, they are better positioned to secure a larger share of output. When worker organization weakens, capital is better positioned to capture a larger share.

Figure 9:

Low labor shares associated with low unionization

NYC between 2001-2024



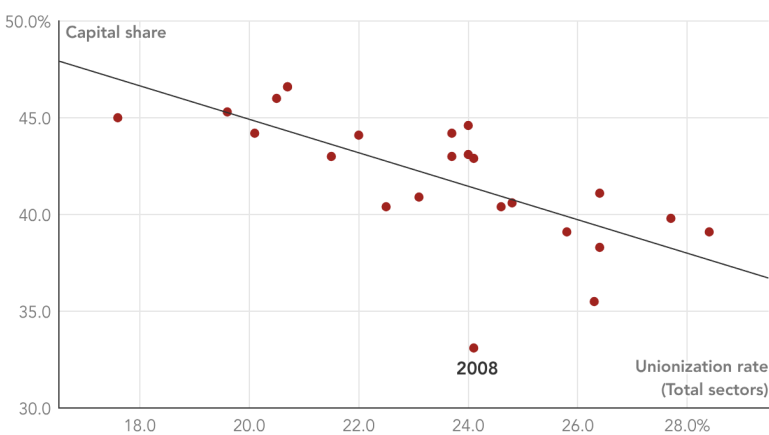
Note: Each dot represents the level of labor share and unionization rate in a given year. The outlier corresponds to 2008 where the labor share became significantly higher at 63.0 percent despite a drop in unionization rate from 26.3 percent in 2007 to 24.1 percent in 2008. This is mostly due to the collapse of the capital share during the Great Recession.

Source: CNYCA analysis of Bureau of Economic Analysis National Accounts Data; And Milkman and Van Der Naald, 2025.

Figure 10:

High capital share associated with lower unionization

NYC between 2001-2024



Note: Each dot represents the level of capital share and unionization rate in a given year.

Source: CNYCA analysis of Bureau of Economic Analysis National Accounts Data; Milkman and Van Der Naald (2025).

The union density decline matters for the labor-capital divide. Unions not only raise wages for members, they shape wage norms, benefits, scheduling practices, and expectations across entire industries and labor markets. When unions are stronger, employers in non-union firms may still face pressure to match union standards. When unions weaken, those spillover effects weaken as well. As a result, unions act as an anchor the same way minimum wage acts as a floor to bargain for higher wages. This helps explain why the decline of organized labor can affect the wage structure even outside unionized workplaces (Western and Rosenfeld 2011; Rosenfeld 2014).

For New York City, this is especially important because the economy is highly polarized (Obaidy 2026). It contains very high-paying sectors, but also large low-wage service sectors where workers often have limited bargaining power. In such an economy, unionization can serve as a counterweight to polarization. It is one of the few institutional mechanisms that can shift income distribution back toward workers.

Globalization, outsourcing and sector restructuring

Unionization decline is also connected to broader changes in the U.S. and world economy. Since the 1980s and 1990s, globalization changed the bargaining environment facing workers and firms. Greater trade openness, outsourcing, and offshoring increased firms' ability to reorganize production across regions and countries. This weakened workers' bargaining leverage, especially in tradable sectors where employers could credibly threaten to relocate jobs or outsource tasks.

Autor, Dorn, and Hanson's (2013) work on the "China shock" finds that rising import competition reduced employment, labor force participation, and wages in local labor markets more exposed to Chinese imports. Other research suggests offshoring can weaken unions by reducing the bargaining power of organized labor and lowering the wage benefits associated with union membership (Munch and Olney 2024).

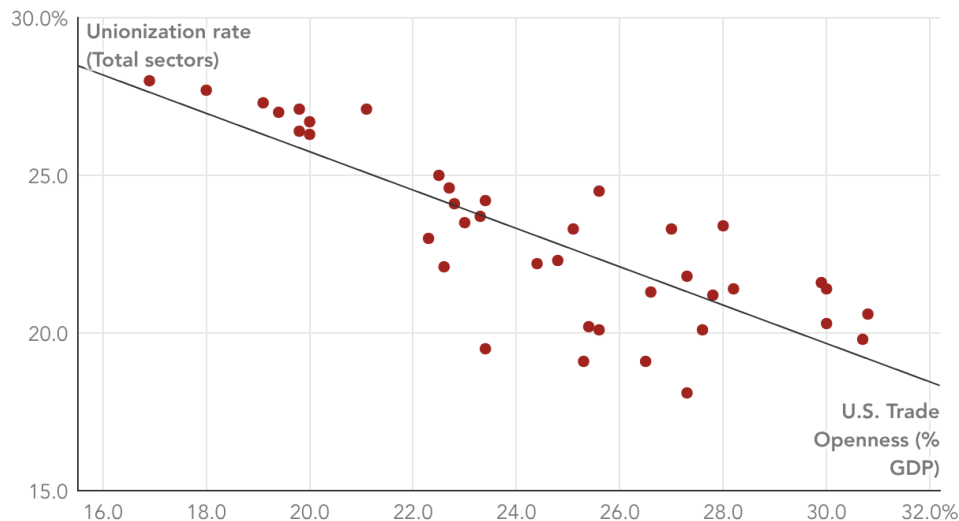
Analyzing data on trade openness, measured as the sum of U.S. exports and imports as a share of GDP, and unionization in the New York metropolitan area, shows a clear negative association between globalization and unionization over the 1986–2024 period (Figure 11). As trade openness increases, the unionization rate in the New York City metropolitan area declines.³

³ This analysis should be read with caution because it uses national trade openness and metropolitan-area unionization. It is best understood as an illustrative measure of the broader period of globalization in which local labor institutions weakened. It also uses the NYC metro area instead of NYC because of a much longer time-series available at the metro level, which increases the statistical power of the relationship with trade openness.

Figure 11:

Globalization weakened the NYC labor movement

NYC metro area between 1986-2024



Note: Each dot represents the level of trade openness and unionization rate in a given year. U.S. trade openness is calculated as the sum of export and imports divided by GDP. A higher ratio means a greater trade integration with the rest of the world - as globalization is generally defined. The series used for unionization rate is for NYC metropolitan area. This choice is motivated by the longer time-series available for unionization which provides a more robust sample for the association with trade openness.

Source: CNYCA analysis of World Bank World Development Indicators data; Unionstats.com data.

Globalization has exposed some sectors to more international competition and increased the ability of firms to reorganize production, which contributed to the decline of unionized employment in tradable parts of the economy. Globalization not only led to a decline in these jobs, it also helped shift the city toward a service economy divided between high-paying tradable activities (such as in finance and information) and lower-paid non-tradable services (such as food services, retail, and care work).

The growth of outsourcing adds another dimension to this transformation. Tasks and activities once performed within large firms – like cleaning, security, administrative and other business services – are increasingly provided by separate contractors. Workers employed by contractors may no longer share directly in the productivity, wage structures, career ladders, or rents generated inside the high-productivity firms whose operations they support. This separates lower-paid workers from high-productivity firms and sectors generating a large share of the city's economic surplus (Parrott 2025).

The city remains a strong economic powerhouse, but the institutional and sectoral structure of that power does not guarantee that workers broadly share in the gains.

The legacy of the 1970s fiscal crisis and the governance of austerity

The weakening of labor's bargaining power in New York City has a local institutional history. The 1975 fiscal crisis marked a turning point in City governance. It reshaped the relationship between public finance, labor relations, and urban policy. In its aftermath, fiscal discipline, balanced budgets, wage restraint, service cuts, and investor confidence became central principles of City governance (Phillips-Fein 2017).

Public-sector unions remained important actors in New York City politics and labor relations. But the crisis reduced their bargaining leverage and changed the terms of negotiation. Labor costs became a central object of fiscal adjustment. Wage freezes, layoffs, pension debates, service cuts, and productivity demands became part of the City's response to fiscal stress. The lesson institutionalized after 1975 was that labor compensation and public employment could be treated as adjustable variables when the City faced budgetary pressure.

The Taylor Law, enacted in 1967, provided a framework for public-sector labor relations and organization, but restricts one of labor's most powerful bargaining tools: the strike. In a city where the public sector remains a major source of union density (as of 2025, 65.5 percent of public sector workers are unionized), these legal constraints change the balance of power for government workers (Milkman and Van Der Naald 2025).

This has implications beyond the public sector. Fiscal discipline does not necessarily operate through municipal layoffs or wage freezes alone. It can determine wages indirectly through procurement, contracting, reimbursement rates, and decisions about how public services are organized. The City relies heavily on nonprofits and other contractors to provide essential services. Many of these organizations depend heavily on City contracts, such that public expenditure directly influences their capacity to raise wages and improve working conditions.

When the City pays contracted services at levels that do not fully reflect labor costs, fiscal restraint can be transmitted from the City budget to the wages of workers in the private sector providing publicly funded services (Parrott 2025). When the public sector is constrained by austerity, it can weaken the broader wage floor, normalize fiscal arguments against labor demands, and reinforce the idea that worker compensation must be subordinated to bond-market confidence and budget balance.

The 1970s fiscal crisis ultimately helped consolidate a model of urban governance in which fiscal oversight, managerial control, and investor confidence placed limits on labor's bargaining power. This legacy did not single-handedly cause the decline in New York City's labor share between 2001 and 2024. But it shaped the institutional

environment in which workers and unions negotiated. It made wage restraint and labor-cost control more politically legitimate, especially during periods of fiscal stress.

Wall Street Profits and NYC's Fiscal Dependence on Capital Income

Wall Street is central to New York City's labor-capital conflict by connecting its distributional structure to its fiscal structure. The securities industry generates large profits and high compensation, while providing state and local tax revenue. Wall Street is not only an example of concentrated capital income and high-end labor compensation, it is where capital income enters the budget.

In 2025, the Wall Street bonus pool reached \$49.2 billion, with average bonuses at \$246,900. Securities-industry profits reached \$65.1 billion (NYS Comptroller's Office 2026). This feeds into personal income taxes, business taxes, and other revenue sources linked to high-end compensation and financial-sector activity.

Wall Street profits help finance public services, but the fiscal space they create depends heavily on a volatile sector where gains are highly concentrated among capital owners and top earners.

This is why the relationship between gross operating surplus, corporate tax bases, and business tax design is crucial. If a growing share of New York City's output accrues to capital, but the taxable income associated with that surplus remains highly cyclical or does not translate proportionately into local revenues, the City may face greater difficulty financing stable long-term public investment to rebalance the labor-capital divide.

4. Policy Mismatch: A Growing Capital Share and Limited Corporate Tax Effort

If New York City's capital share has increased over time, a crucial policy question follows: how does business surplus growth relate to the revenue income that ultimately appears in the City's business tax system? This issue is different from the conventional debate on whether New York City's business and corporate taxes are "too high" or "too low." The purpose here is to understand whether growth in the broader pool of business and capital-related income generated in the city translates into a correspondingly large and stable local tax base.

Income generated through market processes and public revenue are deeply connected (Murphy and Nagel 2002). If a growing portion of economic output accrues outside of employee compensation, taxation is one mechanism through which those gains can be converted into public resources. Those resources can then finance essential public goods and services, and other investments improving living standards.

To examine this issue, I evaluate how the income reflected in the City's business tax system has evolved relative to the broader surplus generated by the city's economy. I do so by comparing tax-implied business income with New York City's firms' gross operating surplus (GOS).⁴

GOS is broader than taxable income and includes forms of capital-related income that do not map directly onto the local business tax system. This approach follows the logic of the Independent Budget Office's (IBO) tax-effort framework, which compares tax collections with underlying taxable resources, including household income and business capital value added (Belkin and Wade 2000; Belkin 2018). The methodology, however, does not replicate the IBO's measure. The purpose here is narrower – to compare a tax-implied business income base with the broader growth of gross operating surplus in New York City.

Figure 12 presents the results of this analysis. "Corporate income" is the ratio of tax-implied corporate income to the city's GOS. "Total business income" is the ratio incorporating all business income, from corporate and unincorporated businesses covered by the Unincorporated Business Tax (UBT), which provides a broader measure of the income reflected in the business tax system. Tax-implied corporate income represented about 9.1 percent of GOS in 2001 and 11 percent in 2021. The ratio increased substantially before the GFC, but subsequently fell and remained considerably below its mid-2000s peak.

Total business income, on the other hand, represented 19.6 percent of GOS in 2001 and reached nearly 40 percent around the GFC before declining. By 2021, it represented 22.2 percent of GOS.

The difference between the two ratios shows that corporate taxation alone provides an incomplete picture of the business income reflected in New York City's tax system. A substantial portion of business income tax comes from outside the conventional corporate sector. Partnerships, proprietorships, and other unincorporated businesses are an important part of the economy, especially in sectors such as professional

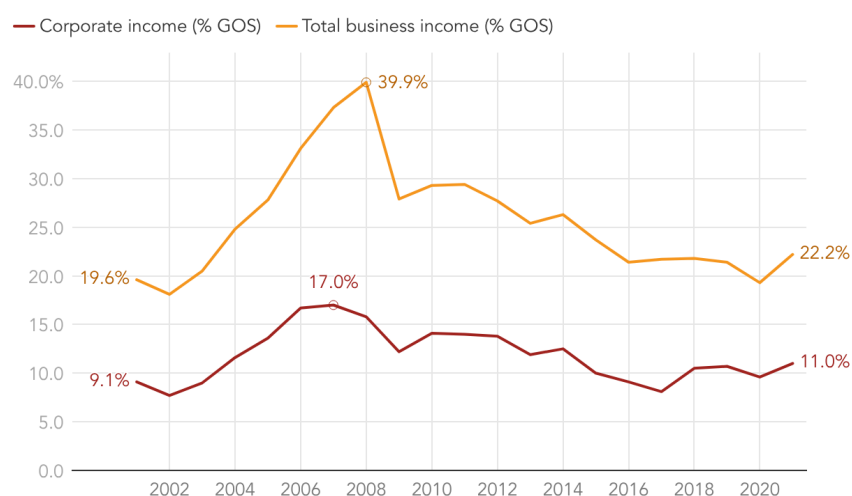
⁴ Details on the construction of these measures, applicable tax rates, and the treatment of the 2015 reform are provided in the Technical Appendix.

services and real estate. Looking only at corporate taxes understates the breadth of business income represented in the local tax system.

Figure 12:

Significant business income is not being taxed through NYC corporate tax policy

Business tax base-to-GOS ratio in NYC between 2001-2021



Note: Corporate income is estimated as the ratio of tax-implied corporate income to the City's Gross Operating Surplus (GOS). Total business income is defined as the ratio incorporating all business income - including corporate and unincorporated businesses covered by the Unincorporated Business Tax (UBT).

Source: CNYCA analysis of NYC Department of Finance Statistical Profiles data; Bureau of Economic Analysis National Accounts Data.

The increase in the ratios before the GFC and its subsequent decline are not a reflection of the City's willingness to tax business income at a lower rate. Recessions generate business losses that can be carried forward and reduce taxable income in subsequent years even as broader measures of economic surplus recover.

A growing capital share does not automatically translate into an equally stable local taxable income base. It depends on how business income is generated, how firms are legally organized, where income is sourced, and how the tax code defines taxable activity (Belkin and Wade 2000).

Figure 12 shows that a large amount of business income would be missed by looking only at conventional corporate taxation. In this case, the legal organization of business activity matters for how economic surplus enters the local system. Sourcing rules also add another layer of complexity; firms in New York City frequently operate across city, state, national, and international boundaries, while the business tax system must determine what portion of their income is attributable to economic activity in the city. For example, the Business Corporation Tax relies on market-based sourcing, while

other business taxes apply different sourcing rules (NYC Comptroller's Office 2025). In an economy increasingly dominated by services, finance, professional activities, intangible assets, and firms operating across multiple jurisdictions, these rules become more important for tax revenue and income (re)distribution.

These findings suggest that a redistributive policy agenda should first focus on whether the business tax system reflects the modern organization of profit and business income rather than narrowly focusing on statutory rates. To address functional income distribution through taxation, policymakers must broaden their focus from “how much” tax to what and how income is being taxed and whether the tax base reflects where capital income is actually generated.

5. Conclusion and Recommendations

Despite New York City's increased labor productivity and economic growth, income distribution remains deeply unequal, both between labor and capital and within the labor share itself, where wage gains have concentrated among high-wage earners. Policies to restore the labor share can operate on two fronts. First, policymakers can strengthen labor's position inside the production process. This can include stronger labor protections, support for unionization, higher wage floors, enforcement against wage theft and misclassification, better job standards in low-wage sectors, and public investment that strengthens workers' economic security and bargaining power.

Second, policymakers can strengthen redistribution after production. This means looking beyond the narrow question of statutory business tax rates and examining what income is taxed, how it is taxed, and whether the tax base reflects where capital income is actually generated. Sourcing rules, entity form, tax expenditures, enforcement, and fiscal reserves all matter for whether rising capital income contributes reliably to the City's public capacity.

These policy interventions are warranted given the city's declining labor share and comparatively weak labor share compared to the nation and the state. They are also made more urgent by the current historical moment, punctuated by artificial intelligence (AI) and the Trump administration's policy actions.

For example, AI could increase productivity, reorganize white-collar work, and change the structure of high-wage employment (NYC Comptroller's Office 2026a). If AI raises output per worker but weakens workers' bargaining power, displaces middle-income office jobs, or concentrates gains among firms, shareholders, and top earners, it could deepen the distributional patterns documented in this report.

The same is true of how the Trump administration's actions changed global economic architecture. Tariffs, supply-chain fragmentation, geopolitical conflict, immigration restrictions, and federal-state relationships can all reshape the city's economy. A less stable global economy may increase costs for consumers, disrupt firms, and expose workers to new forms of insecurity. At the same time, firms may respond to uncertainty through wage restraint, automation, restructuring, or relocation.

Additionally, the Trump administration's threats to federal funding and reductions in social spending affect the social infrastructure that supports workers' economic security. Cuts to social services weaken workers' effective reservation wage and make it harder for low- and middle-income New Yorkers to resist precarious or low-paid work.

In the face of these emerging challenges, the city's central economic challenge is not simply to grow, it is to ensure that growth and public investment raises living standards and produces a more balanced distribution between labor and capital. The Mamdani administration's affordability agenda responds to these distributional problems. Policies that reduce the cost of living, raise wages, strengthen labor protections, expand housing, improve transit, and support care work can rebalance the distribution of economic resources and power to workers in the city.

But the City cannot build a durable redistributive agenda on temporary revenues, one-shot budget actions, or optimistic growth assumptions. Projected budget gaps show that redistribution must be paired with serious fiscal planning (New York City Comptroller's Office 2026b). Restoring labor's share requires more stable revenue, including a business tax structure that reflects how modern business income is generated and organized.

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Technical Appendix

1. Data coverage, geography, and units

The analysis covers the period from 2001 to 2024, subject to data availability. The functional income distribution estimates use data from the U.S. Bureau of Economic Analysis (BEA), while the wage and hours analysis uses Current Population Survey Outgoing Rotation Group (CPS ORG) microdata. The business tax analysis covers 2001 to 2021, the latest period for which the required New York City Department of Finance (DOF) tax liability data are consistently available.

New York City is defined as the five counties corresponding to the five boroughs. Where BEA data are available only at the county level, the five counties are aggregated to construct New York City totals.

2. Gross domestic product

Gross domestic product (GDP) measures the value of final goods and services produced within a geographic area. The analysis uses current-dollar GDP. For New York City, GDP is calculated by aggregating county-level GDP across the five boroughs:

$$GDP_t^{NYC} = \sum_{c=1}^5 GDP_{ct} \quad (1)$$

where c denotes the five New York City counties and t denotes the year.

3. Labor compensation and the labor share

The labor share measures the portion of economic output paid to employees through wages, salaries, and employer-provided benefits. I use BEA compensation of employees rather than wages alone because compensation provides a broader measure of the income workers receive through employment.

The labor share is calculated as:

$$LS_t = \frac{Compensation_t}{GDP_t} \quad (2)$$

For New York City:

$$LS_t^{NYC} = \frac{\sum_{c=1}^5 Compensation_{ct}}{\sum_{c=1}^5 GDP_{ct}} \quad (3)$$

The same approach is used for the United States and New York State using the corresponding BEA aggregate data.

Industry-level labor shares are calculated as:

$$LS_{it}^{NYC} = \frac{Compensation_{it}^{NYC}}{GDP_{it}^{NYC}} \quad (4)$$

where i denotes industry.

These measures are aggregate accounting measures. They do not capture how labor compensation is distributed among workers. In particular, compensation includes the salaries, bonuses, and benefits of highly paid workers and executives.

4. Gross operating surplus and the capital share

The capital share is approximated using gross operating surplus (GOS). GOS is the national-accounts measure of the surplus remaining after compensation of employees and taxes on production are accounted for. It includes corporate profits, proprietors' income, rental income, and consumption of fixed capital, among other components. It is therefore broader than corporate profits and should not be interpreted as a direct measure of profits received by shareholders.

For the United States and New York State, GOS is available directly from BEA data. The capital share is calculated as:

$$KS_t = \frac{GOS_t}{GDP_t} \quad (5)$$

Labor and capital shares do not necessarily sum to 100 percent because GDP also includes taxes on production and imports less subsidies and other accounting components outside compensation and GOS.

A. Construction of New York City gross operating surplus

An aggregate GOS series is not directly available for New York City. I therefore estimate NYC GOS using industry-level BEA data rather than applying the aggregate New York State capital share to New York City GDP.

For each industry i and year t , I first calculate the industry-specific GOS share in New York State:

$$g_{it}^{NYS} = \frac{GOS_{it}^{NYS}}{GDP_{it}^{NYS}} \quad (6)$$

I then apply the corresponding New York State industry GOS share to that industry's GDP in New York City:

$$\hat{GOS}_{it}^{NYC} = g_{it}^{NYS} \times GDP_{it}^{NYC} \quad (7)$$

or equivalently:

$$\hat{GOS}_{it}^{NYC} = \left(\frac{GOS_{it}^{NYS}}{GDP_{it}^{NYS}} \right) GDP_{it}^{NYC} \quad (8)$$

Estimated citywide GOS is then obtained by summing across industries:

$$\hat{GOS}_t^{NYC} = \sum_i \hat{GOS}_{it}^{NYC} \quad (9)$$

The estimated New York City capital share is:

$$KS_t^{NYC} = \frac{\hat{GOS}_t^{NYC}}{GDP_t^{NYC}} \quad (10)$$

This industry-level construction is important for interpreting the results. The NYC capital share is not obtained by applying New York State's aggregate GOS-to-GDP ratio to New York City GDP. Instead, the GOS share is first estimated separately for each industry and applied to the corresponding industry in New York City before the estimates are aggregated.

As a result, the NYC measure incorporates differences in industrial composition between New York City and New York State. For example, industries such as finance, real estate, professional services, health care, and government have different GOS shares and different weights in the city and state economies. The resulting NYC capital share can therefore differ from the aggregate New York State capital share even though New York State industry-level GOS ratios are used as the basis of the estimate.

This remains an imputed measure. It assumes that, within a given industry and year, the relationship between GOS and value added in New York City is reasonably approximated by the corresponding New York State industry relationship.

5. Productivity and wages

Hourly labor productivity is calculated as real New York City GDP divided by estimated total annual hours worked.

Total annual hours are estimated from CPS ORG microdata using workers' usual weekly hours and CPS person weights. Weekly hours are annualized and aggregated across employed New York City residents:

$$Hours_t = 52 \sum_j w_{jt} h_{jt} \quad (11)$$

where h_{jt} represents usual weekly hours worked by worker j , and w_{jt} is the corresponding CPS weight.

Hourly productivity is then:

$$Productivity_t = \frac{RealGDP_t^{NYC}}{Hours_t} \quad (12)$$

The wage measures are also constructed from CPS ORG microdata. The report compares average hourly wages for all workers, average hourly wages excluding the top 10 percent of wage earners, and median hourly wages. Nominal wages are adjusted for inflation to allow comparisons over time.

The productivity and wage measures should not be interpreted as identical concepts. Productivity measures aggregate output per estimated hour worked, while the wage measures describe different points or groups within the wage distribution. Their comparison is used to assess whether broad wage growth has kept pace with the growth of output per hour.

6. Tax-implied business income

To examine the relationship between the growth of business surplus and the income reflected in New York City's business tax system, I construct two tax-implied income measures using New York City Department of Finance business tax liability data.

The first measures tax-implied corporate income, using liability attributable to the net-income bases of the General Corporation Tax and Business Corporation Tax, while also incorporating the Banking Corporation Tax before the 2015 corporate tax reform. The second adds income implied by the Unincorporated Business Tax (UBT) liabilities to estimate income generated through a broader range of business forms, including partnerships, proprietorships, and other unincorporated businesses.

The purpose of these measures is not to reconstruct economic profit directly. Rather, they approximate the amount of business income implied by reported tax liabilities and compare its evolution with the broader GOS measure used in the functional income distribution analysis.

A. Tax-implied corporate income

The corporate measure uses only liability attributable to the relevant net-income tax bases. This differs from using total tax liability, which can include liability generated through capital bases, fixed-dollar minimum taxes, and other tax bases without a direct income counterpart. Because New York City's corporate tax system changed in 2015, the construction differs before and after the reform.

For 2001–2014, tax-implied corporate income includes income implied by the General Corporation Tax (GCT) and the former Banking Corporation Tax:

$$CorporateIncome_t = GCTIncome_t + BankIncome_t, t < 2015 \quad (14)$$

GCT implied income is estimated from liability attributable to the net-income base:

$$GCTIncome_t = \frac{GCT_t^{NI}}{0.0885} \quad (15)$$

where GCT_t^{NI} is GCT liability attributable to the net-income base.

Before the 2015 reform, banking corporations were taxed separately under the Banking Corporation Tax. When DOF separately reports liability attributable to the entire-net-income and alternative-entire-net-income bases, banking income is estimated as:

$$BankIncome_t = \frac{Bank_t^{ENI}}{0.09} + \frac{Bank_t^{AENI}}{0.03} \quad (16)$$

where $Bank_t^{ENI}$ represents liability under the entire-net-income base and $Bank_t^{AENI}$ represents liability under the alternative-entire-net-income base.

For later pre-2015 years in which DOF combines these two income-base liabilities because of disclosure restrictions, the combined amount is divided by the 9 percent entire-net-income rate:

$$BankIncome_t \approx \frac{Bank_t^{CombinedIncome}}{0.09} \quad (17)$$

This produces a conservative estimate of implied banking income because part of the combined liability may have been generated under the lower alternative-entire-net-income rate.

Beginning in 2015, New York City's corporate tax reform incorporated banking C-corporations into the Business Corporation Tax. For 2015–2021, corporate implied income is therefore calculated using the net-income-base liabilities of the Business Corporation Tax and the remaining General Corporation Tax:

$$CorporateIncome_t = \frac{COR_t^{NI}}{0.0885} + \frac{GCT_t^{NI}}{0.0885}, t \geq 2015 \quad (18)$$

where COR^{NI} represents liability attributable to the Business Corporation Tax net-income base.

The 8.85 percent rate is used as the principal statutory rate for this approximation. Actual rates vary for some classes of taxpayers, including financial corporations, qualified manufacturers, and some small businesses. The resulting series should therefore be interpreted as an approximate tax-implied income measure rather than an exact reconstruction of reported taxable income.

B. Tax-implied unincorporated business income

New York City's Unincorporated Business Tax applies to taxable income generated by unincorporated businesses, including partnerships and proprietorships.

Tax-implied unincorporated business income is estimated as:

$$UBTIncome_t = \frac{UBTLiability_t}{0.04} \quad (19)$$

where 4 percent is the statutory UBT rate.

The UBT-based measure is broader than the corporate-income measure because it captures business activity organized outside conventional C-corporations. This is particularly relevant in New York City, where partnerships and other unincorporated entities play an important role in sectors such as professional services and real estate.

As with the corporate measure, UBT-implied income should be interpreted as an approximation. Credits, exemptions, deductions, allocation rules, and other provisions can cause the income implied by tax liability to differ from both reported taxable income and economic income.

C. Total tax-implied business income

The preferred broad measure combines corporate and unincorporated business income:

$$TotalBusinessIncome_t = CorporateIncome_t + UBTIncome_t \quad (20)$$

I compare both measures with estimated New York City GOS.

The narrower corporate ratio is:

$$CorporateRatio_t = \frac{CorporateIncome_t}{\hat{GOS}_t^{NYC}} \quad (21)$$

The broader total-business-income ratio is:

$$TotalBusinessRatio_t = \frac{TotalBusinessIncome_t}{GOS_t^{NYC}} \quad (22)$$

Figure 12 reports both series. Presenting them together shows how the relationship with GOS changes once income generated through unincorporated businesses is included.

DOF tax liability data are reported in thousands of dollars. The raw liability values are converted to the same monetary unit as the GOS series before the ratios are calculated. This ensures that differences in reported units do not affect the estimated ratios.

These ratios should not be interpreted as estimates of the percentage of economic profits that New York City taxes or “captures.” Gross operating surplus and taxable business income are different concepts. GOS includes depreciation and other forms of capital-related income that do not necessarily have a direct taxable-income counterpart. Taxable income is also affected by deductions, credits, net operating losses and loss carryforwards, legal entity form, apportionment rules, and the sourcing of income across jurisdictions.

The ratios are therefore used more narrowly to examine how the business income reflected in New York City’s tax system evolves relative to the broader business surplus generated by the city’s economy. In particular, they illustrate why an increase in the capital share does not automatically translate into an equivalent increase in the local taxable business-income base.