

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

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Executive Summary

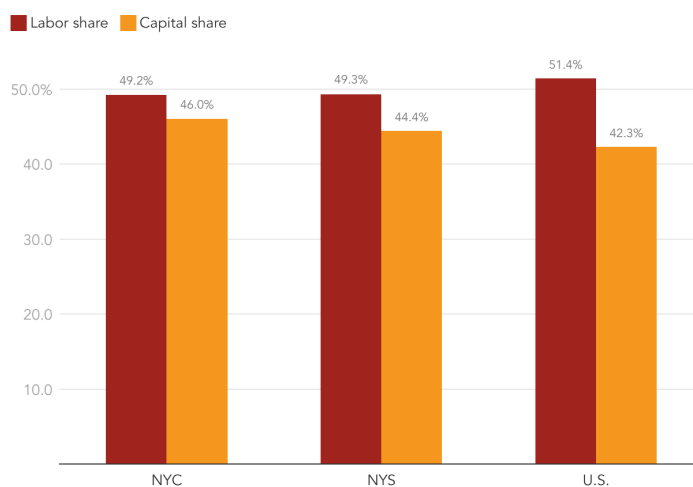
New York City is facing a political and economic moment defined by a basic contradiction. It is one of the richest local economies in the United States, but gains from that wealth are not broadly shared. Affordability is a central issue in the city's political economy.

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.