

Hello and welcome to the Cost of Living Project. Before you click through the various hyperlinks that take you into the site, I wanted to encourage you to read this Introductory Statement, which explains the rationale behind the project, while also serving as a kind of user's guide to help you take advantage of the tools and resources that you will find here.

The rationale for the Project is clear and straightforward. As everyone recognizes, New York is a very expensive place to live and do business. Most would say, "Too expensive." Yet strangely, the high cost of living does not generate a great deal of controversy. It's rarely mentioned on editorial pages and almost never figures in political campaigns, except as a backdrop to justify increased subsidies or greater regulation. Rarely does anyone ask why everything costs so much in the first place. And that's a mistake. First, it means that too little attention is paid to fixing the problem. Second, it distorts the political debate in ways that lead to complacency and confusion.

The most obvious distortion involves income data. Based on government statistics, New York appears to be a relatively prosperous state.¹ According to the last census, for example, New York ranked 8th in the country in per capita income.² (2007 estimates ranked New York 7th.)³ But this data does not take into account the cost of living in the places, where most New Yorkers live. Correcting the data for cost of living, it turns out that according to one estimate New York actually ranked 28th in the country in real per capita income.⁴ And even that figure is misleading, because New York's per capita income is skewed upwards by the disproportionate number of very high income people, who live here. Using data for median household income,⁵ it turns out that New York ranked 19th in the country in nominal terms but using the same estimate, we ranked 38th in the country when corrected for cost of living.⁶ (2007 estimates

¹ Those who are more familiar with international cost comparisons will quickly recognize that the calculations to follow are analogous to the concept of purchasing power parity. For more information, see: <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/ICPEXT/0,,pagePK:62002243~theSitePK:270065,00.html>.

² See QuickFacts at <http://www.census.gov> for New York State.

³ This figure was created on the Census website by going to American Fact Finder, Data Sets, American Community Survey, 2007 Community Survey, Detailed Tables, State, All States, Add, Next, B19301 Per Capita Income, Add, and Show Result.

⁴ See http://www.hks.harvard.edu/taubmancenter/pdfs/fisc/complete_99.pdf. There is a cost of living deflator for all 50 states on page 117 of the document. At the time, New York State had the fourth highest cost of living at 13.2 percent above the national average. New Jersey, it is worth noting, had the third highest cost of living at 13.7 percent above the national average. Rankings were calculated by dividing income data by the cost of living deflator for all 50 states.

⁵ See QuickFacts at <http://www.census.gov> for New York State.

⁶ Again, rankings were calculated by dividing the cost of living deflator for all 50 states.

ranked New York 18th in nominal terms.)⁷ In other words, New York is anything but a rich state. In fact, for the average New Yorker, it's basically a poor state.⁸

Nowhere is the cost of living more onerous than in metropolitan New York. Here the comparisons with the rest of the country are simply astounding. A person earning \$50,798 in Chicago, for example, has the same standard of living as someone earning \$100,000 in New York City.⁹ In Washington, D.C., the equivalent figure is \$62,741. Not surprisingly, housing is the biggest factor. In Chicago, the cost of housing is 69 percent lower than in New York. In Washington D.C., the cost is 46 percent lower. But it's not just housing. Utility costs are also lower—29 percent in Chicago and 39 percent in Washington. And so are groceries—28 percent in both cities. The result is that New York City is far poorer in real terms than anyone seems to realize. Applying these cost of living differentials to the most recent census estimates, it turns out that the real standard of living in Washington, D.C. is 118 percent higher than in New York City.¹⁰ The real standard of living in Chicago is 75 percent higher. Ultimately, it turns out that New York City could well be the poorest large city in America.¹¹

Even the suburbs are not immune. A cost of living calculator that breaks down the data along different geographical lines finds that a person earning \$76,256 in Chicago has the same standard of

⁷ Follow steps from footnote 2. Substitute B19013 Median Household Income.

⁸ Note that an analysis of more recent data by Bettina Aten, an economist at the Bureau of Economic Analysis, estimated an even larger cost of living deflator for New York. She found that the 2006 cost of living in the state was 31.8 percent above the national average. Applied to 2007 median household income, this would give New York a real median household income of \$40,602, the lowest in the country. The next lowest would be Mississippi with a real median household income of \$45,309. For an example of this methodology, see http://pwt.econ.upenn.edu/workshop2008/aten_estimates_state_metro_2005.pdf. She has also published data using a methodology that attenuates the results. The 2006 data (and attenuated results) can be found at: http://www.bea.gov/scb/pdf/2008/11%20November/1108_spotlight_parities.pdf.

⁹ See <http://www.payscale.com/cost-of-living-calculator> and input data. Please note that this data does not coincide with Census tract data. Rather, it represents a best effort by the Council for Community and Economic Research, which collects the data, to determine costs for these localities. For more information see <http://www.coli.org>. Also note that practitioners agree that methodological issues affect the accuracy of the data, but for the purposes here, the numbers clearly tell an important story. Footnotes 10 and 11 apply these cost of living differentials to income estimates for the principal city and for the metropolitan statistical area associated with that city. The cost of living comparisons were current as of March, 2009.

¹⁰ This calculation uses 2007 estimates of per capita income in the American Community Survey. (See footnote 3.) The census tract chosen is principal city. This figure is then divided by the cost of living differential. Thus in the case of Washington, D.C., \$40,379 is divided by .62741. This yields \$64,358, which is 118 percent higher than the New York City per capita income figure of \$29,523. The Chicago figure divides \$26,229 by .50798. This yields \$51,634, which is 75 percent higher. Alternatively, the cost differential could be applied to per capita income for the metropolitan statistical area. In the case of Washington, D.C., \$40,899 is divided by .62741. This yields \$65,187, which is 94 percent higher than the figure for the New York metropolitan statistical area, which is \$33,418. In the case of Chicago, \$29,606 is divided by .50798. This yields \$58,281, which is 74 percent higher.

¹¹ The two poorest large cities in America appear to be Detroit and Philadelphia. Using data for the principal city, the calculation for Detroit would be \$15,284 divided by .45417. This yields \$33,653, which is 14 percent higher than the figure for New York City. Using data for the metropolitan statistical area, the calculation would be \$27,098 divided by .45417 which yields a figure of \$59,665. This is 78 percent higher than the figure for the New York metropolitan statistical area. The Philadelphia calculation for principal city income would be \$20,542 divided by .56205, which yields \$36,548. This is 24 percent higher than the figure for New York City. The calculation for metropolitan statistical area income would divide \$30,283 by .56205, which yields \$53,880, which is 61 percent higher.

living as someone earning \$100,000 in Nassau County.¹² Once again, housing is the biggest factor. In Chicago, the cost of housing is 42 percent lower than in Nassau County. The cost of utilities is 16 percent lower.

Why? Why does everything cost so much in New York? And what if anything can be done about it? Traditionally, people who complain about economic policy in New York focus on taxes. There is no question that taxes in New York are too high and have been for a long time. Clearly, they discourage economic activity. But can high taxes explain the yawning disparities in cost of living? It's a hard case to make. The reason is that the tax differential between New York and elsewhere, while large on a relative basis, is not so large on an absolute basis. According to data maintained by the Tax Foundation in Washington, D.C., the combined state and local tax burden in New York exceeded the national average by 2.3 cents per dollar over the last decade.¹³ The New York City Independent Budget Office calculated numbers that were similar if slightly higher, when it looked at taxes among the nation's 10 largest cities. In the case of Chicago, the tax differential was 2.5 cents per dollar. Obviously, it's difficult to see how that translates into a cost of living differential that is greater than 49 cents.^{14 15} So if taxes do not adequately explain New York's exorbitant cost of living, what does?

The premise of this website is that a major driver of New York's high cost of living is excessive and poorly designed regulation.¹⁶ Evidence for this line of reasoning is more inductive than deductive, given that available information on the cost of regulation is minimal.¹⁷ Even so, a consensus has developed at the highest levels of economic policymaking that regulation plays a crucial role in determining economic outcomes, and it's essential, therefore, to get the regulation right. Thus the World

¹² See <http://cgi.money.cnn.com/tools/costofliving/costofliving.html>. Input data at site.

¹³ See <http://www.taxfoundation.org/taxdata/show/471.html>. 2.3 cents figure is calculated by adding up the percentage differences and dividing by 10.

¹⁴ Admittedly, a counter argument could be made that taxes reduce capital investment, which in turn reduces productivity, which in turn reduces the standard of living. The counter-counter argument would be that high prices should attract investment, and if that is not happening, and prices remain high, an impediment must be standing in the way. Most likely, that impediment is regulation.

¹⁵ Consider these statistics as well. Using Taubman data, and excluding Alaska and Hawaii, the cost of living for the 10 most expensive states in 1999 was 8.98 cents above the national average. The tax differential that year was 0.32 cents above the national average. Nine of the states were in the Northeast, from Maine to Pennsylvania and New Jersey. But it's not the cold weather. The cost of living in both Michigan and Minnesota was 5 cents below the national average. Using Aten data, and again excluding Alaska and Hawaii, the cost of living figure for the 10 most expensive states in 2006 was 16.71 percent above the national average. The tax differential was 0.49 cents. See footnote 4 for Taubman data. See footnote 8 for Aten data. See <http://www.taxfoundation.org/taxdata/show/335.html> for tax data.

¹⁶To those who would cite the global financial crisis as evidence of the need for more regulation, the best rejoinder perhaps would be Walter Bagehot's time-honored maxim: "Money does not manage itself." Simply put, some forms of economic activity need to be regulated more than others.

¹⁷ The Pacific Research Institute produces a study called the U.S. Economic Freedom Index that includes an effort to measure the cost of regulation. Overall, New York finishes last in this index, although interestingly not in the regulation category. On closer review, it turns out that the variables used to score the impact of regulation give little weighting to issues that are especially important to New York, such as land use. Some of the variables, it should also be noted, are extraneous to matters strictly economic. The 2008 index can be found at <http://liberty.pacificresearch.org/publications/us-economic-freedom-index-2008-report-2>. The 2004 index is also available on their website.

Bank in Washington has created a website <http://www.doingbusiness.org> that among other features “provides objective measures of business regulations and their enforcement across 181 economies and selected cities at the sub-national and regional level.” The intent of the website is to encourage best practices. The Organization of Economic Development in Paris has also turned its attention to regulatory reform. Thus it promotes a turnkey methodology called the International Standard Cost Manual¹⁸ that makes it possible to measure how much it costs to comply with a specific rule or regulation. A copy of the manual can be downloaded from this home page. Over time, this is the kind of auditing exercise that needs to be performed throughout New York State at all levels of government.

Perhaps the most important feature of this website is the bulletin board entitled Sounding Off! As it says, the purpose is to give people an opportunity to post “ideas, facts, research and more....” How much does it cost in time and labor, for example, for a condominium developer in Queens to comply with the City Environmental Quality Review process? Or how many permits does a business owner need to open a grocery store or dry cleaner? And how does that affect investment decisions? Or what is the additional cost to purchase health insurance in New York compared with other states?

And it needn’t just be information from business people. The bulletin board is also an ideal forum for academics or government researchers to post information as well. Have you performed a cost-benefit analysis that shows that a particular energy regulation costs far more than any benefit it provides? Has someone produced a new study that sheds light on the relative merits of infrastructure investment or smart growth? Perhaps you were inspired to perform an audit based on the International Standard Cost Manual and would like to post the results. These kinds of postings are all welcome. Ultimately, the purpose is to create a library of relevant information that can be accessed by people in the public debate from legislators to government officials to journalists.

As stated at the outset, the failure to take into account the City and State’s excessive cost of living creates complacency and confusion. The complacency results, when we think that we are doing better than we are. The confusion results, when we do not properly recognize how this impacts our politics. A good example is the balance of payments deficit between New York State and the federal government. The mechanics of the deficit are easy enough to understand. Because federal income taxes are progressive, and per capita income in New York is high in nominal terms, we are taxed at a higher rate than other states. The result is that we send more federal taxes to Washington, D.C. than we receive back in the form of federal outlays.¹⁹ Missing in the whole debate, however, is a discussion of New York’s high cost of living. If high per capita incomes reflected genuine prosperity, the deficit would probably not be controversial. After all, the purpose of the progressive income tax is to transfer money from people who are more fortunate to those who are less fortunate. But that is not what is happening here. In this case, the federal government is taxing New Yorkers as though we were rich, when in reality we are not. The question is what to do about it? Up until now, the preferred strategy has been to lobby Congress in the hope of additional aid. But so far, the results have been less than satisfactory. The premise of this website is that a better strategy would be to figure out why the cost of living in New York is so high, and then fix the problem ourselves.

¹⁸ See <http://www.oecd.org/dataoecd/32/54/34227698.pdf>.

¹⁹ There is considerable disagreement on the size of the deficit. Gov. David Paterson has cited a figure of \$86.9 billion for 2007. See http://www.state.ny.us/governor/press/pdf/press_1029081.pdf. The final FISC report produced by Sen. Daniel P. Moynihan and the Taubman Center cited a figure in 1999 dollars of \$16.189 billion. See Page 24 at http://www.hks.harvard.edu/taubmancenter/pdfs/fisc/complete_99.pdf.

A second example of confusion involves lobbying. Time and again, we are told that the legislature in Albany is dysfunctional. Editorial writers decry the pay-to-play culture. And there is no question that lobbying has become a growth industry in Albany and elsewhere. Between the year 2000 and 2007, for example, the State Commission on Public Integrity reports that the amount of money spent on lobbying increased from \$66 million to \$171 million.²⁰ This merely accentuated a trend that was already well in place. But again something is missing in the debate. In this case, it's the question, "Why?" Why are there so many interest groups willing to spend so much money to influence government? The common sense answer, of course, is they believe that the money is well spent, and by all appearances they are right. Thus the *Washington Post* cites a K-Street lobbyist, who boasts that the return on investment for the average client at his firm is greater than 100 to 1.²¹ Even if only partially correct, this demonstrates the ability of government to distort economic outcomes and pick winners and losers. And that's the problem. As long as regulatory intervention pays for itself among those who reap the benefits, it's not clear what traditional good government measures can realistically achieve. The premise of this website is that a better strategy would be to identify the laws and regulations that make the cost of living in New York so high and then take the necessary measures to change or repeal them.²²

The effort to reduce New York's high cost of living will take time. By their nature, the costs of regulation are difficult to measure. But it's also the case that the rewards of this effort will be substantial. A reduction in the cost of living of just one percent in New York State would increase the real income of New Yorkers by \$11 billion a year.²³ Larger reductions would obviously have an even greater impact. The purpose of this website is to set that process in motion. And with that thought in mind, please take the time to browse through the various offerings here. Click through the cost of living calculators to see how different cities and regions compare with New York and with each other. Visit the Additional Resources section to find links to academic centers that focus on regulation, as well as suggestions for further reading. And above all, visit the Sounding Off! forum, where you can join with like-minded citizens to shine a spotlight on the high cost of living in New York and make suggestions on how to bring about real and meaningful reform.

Thank you for visiting. And thank you for your help.

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²⁰ See http://www.nyintegrity.org/pubs/annual_report_2007/ann_rept_07.html. Figures are calculated in constant dollars. Note that the number of lobbyists during this time increased from 2,930 to 5,357. Information provided by agency communication. Further, note that the average annual increase since 1978, as determined by a financial calculator, is approximately 11.8 percent.

²¹ See article by Jeffrey Birnbaum entitled, "Clients' Rewards Keep K Street Lobbyists Thriving." Article can be found at: http://www.washingtonpost.com/wp-dyn/content/article/2006/02/13/AR2006021302239_pf.html. Birnbaum writes, "The Carmen Group Inc, a mid-sized lobbying firm ... said, it collected \$11 million in fees and delivered \$1.2 billion in assistance to its clients – a ratio of less than 1 to 100. The payoff is large but fairly typical of modern-day lobbying, said David Carmen, the firm's president."

²² For those tempted to think that the fiscal imbalance could be resolved by indexing federal taxes to the cost of living, take pause. According to the Taubman numbers, 19 states have a cost of living higher than the national average. (Three of these are at par, if rounded off.) That leaves 31 states with a lower cost of living. According to the Aten numbers, only 13 states have a higher cost of living. Therefore, any political fix, at least as far as the U.S. Senate is concerned, would seem unlikely at best.

²³ See <http://www.bea.gov/regional/gsp/>.