

**Testimony by James A. Parrott, Ph.D.
Deputy Director and Chief Economist
Fiscal Policy Institute**

**Hearing before the New York State Assembly
Standing Committee on Cities**

**New York City's Unemployment Crisis and the Need for an
Emergency Job Creation Program**

**New York City
May 22, 2003**

Good morning, my name is James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI). The Fiscal Policy Institute is a nonpartisan research and education organization that focuses on the broad range of tax, budget, economic and related public policy issues that affect the quality of life and the economic well-being of New York City and State residents.

Thank you for the opportunity to testify today. This New York City Summit is very timely. Bold strategies are urgently needed to address the worsening economic situation in New York City. Since the City's economy has been the unparalleled driving force behind New York State revenues for at least the last decade, this has to be an urgent State priority as well as a top City priority.

The overwhelming focus in the media and among elected officials has been on the City and the State budget deficits. Yet, as an economist who closely follows the economy and state and local budgets, I contend that the unemployment crisis is having a much greater adverse impact on living standards for the average family in New York City than the effects of the budget crisis.

New York City's economy has been in recession for the past 28 months. For all New Yorkers, this is without a doubt the most severe economic downturn since the prolonged and deep recession of the early 1990s. Employment has fallen by over 210,000 from its peak in December of 2000 through March of this year, the latest month for which data are available. This is an employment drop of 5.6%, four times greater than the employment drop nationally.

The official unemployment rate in New York City averaged 9.0 percent for the first three months of this year, double what it was in the rest of New York State and much higher than in the nation as a whole. The number of City residents

unemployed during the first quarter of this year stood at 332,000, a greater number of people without jobs than in the rest of the state put together. The City accounts for 40 percent of the state's labor force, but 55 percent of the number of unemployed.

Steep job losses have hit almost every major industry in New York City. Blue-collar jobs in manufacturing, transportation and construction have been lost in numbers as devastating as the loss of professional, technical and other white-collar jobs in the finance and the dot.com sectors. Service and sales jobs have been hit in hospitality and retail trade. Very few industries have been spared. The list of industries with double digit job declines is staggering: securities (-17%), motion pictures (-14%), air transportation (-19%), telecommunications (-28%), computer systems design (-40%), manufacturing (-21%), advertising (-25%), and employment services (-17%)¹.

Job losses and shorter work weeks have cut deeply into wage income. During the first half of 2002, total private sector wages paid in New York City declined by 10.1 percent compared to the first half of 2001.²

Since the federal government has failed to adequately extend unemployment compensation benefits, most of those losing their jobs have lost the benefit of that safety net even though the economy shows no signs of recovery.

Rising unemployment is a threat to all workers, but particularly to low- and moderate-income families, many of whom are only a paycheck away from hardship or poverty. According to the Economic Policy Institute, for families in the lower 40% of the wage scale, the decline in family earnings in a recession is twice as great as for higher paid workers.³

When workers living from paycheck to paycheck lose their job, they often quickly fall behind in their rent or mortgage payments. Credit card debt mushrooms. Signs of financial distress and economic hardship abound. Hunger and homelessness have climbed sharply, and personal bankruptcies have risen by 25 percent over the past two years in the city.

Extended joblessness takes a heavy toll on the physical and mental health of the unemployed. Family and community well being suffers. Mass unemployment is also bad for consumer confidence and local businesses of all sizes as well as for the City and State treasuries.

For various reasons, the social and economic safety net available in the City is a far cry from what it had been in other economic downturns over the prior two or three decades. In a report released last December that compared the current recession with the early 1990s recession, we found that several major components of New York's social and economic safety net, particularly unemployment

insurance, food stamps and public assistance, are providing much less of a cushion during this downturn than during the last recession.⁴

To the average person in New York City, the economy is clearly not in good shape. In a recent Quinnipiac University poll, 89 percent of New York City voters perceived the New York City economy to be "not good" or "poor".⁵

Traditionally, we have looked to Washington to use powerful fiscal and monetary policy levers to lift us out of recession. Unfortunately, our president's "stimulus" plan won't boost much besides the bank accounts of the well-heeled and work for tax accountants. New York State and local officials have no choice but to use the resources at our disposal to effectively counter the recession. Unlike during most downturns when fiscal stresses preclude bold counter-cyclical action on the part of the city, the resources to support large-scale local job creation are at hand.

As part of the federal funding to repair the economic damage wrought by the trade center attack, the Lower Manhattan Development Corporation (LMDC) still has about \$1 billion in federal funds that could be used to prime the local economic pump. These funds could launch a **Liberty Jobs** program that would create or retain 60,000 jobs plus 10,000 more through a multiplier effect. All that is needed is agreement between the Mayor and the Governor who control the LMDC.

A proposal by a coalition of over 50 unions and community organizations, the Labor Community Advocacy Network to Rebuild New York (LCAN) (**Revitalize New York by Putting People to Work**⁶), calls for two types of **Liberty Jobs**. The first would involve partially subsidizing wages to stabilize employment at companies affected by September 11, or to lower the threshold for other firms to hire workers. The second type would be fully subsidized public service jobs in government agencies or nonprofits where workers would contribute to the city's social capital and improve the quality of life through such activities as upgrading parks, repairing schools, or expanding English classes or child care services.

Where possible, it would be preferable for the **Liberty Jobs** program to subsidize private jobs with the potential to become permanent when the subsidy runs out. However, private employment demand has been slumping for the past 28 months and as long as it remains weak, public service employment is the best option for the jobless.

Liberty Jobs can help revitalize Lower Manhattan and communities throughout the city suffering from the trade center attack and the prolonged recession. Without this program, mass unemployment and the attendant ills it causes will fester at unacceptably high levels for years to come.

In addition to the **Liberty Jobs** emergency job creation plan, the LCAN proposal calls for two initiatives that would represent a significant reorientation of New York City's economic development strategy.

- 1) **Make Rebuilding a High-Road Zone.** As we invest vast public resources in making Lower Manhattan and selected parts of the city good places to do business, we must also make sure that the jobs that are created there are good jobs. Creating a "high-road" zone would be a way to make sure businesses that benefit from public investment also create good standards for salaries, benefits, and work conditions for workers.
- 2) **Establish Sector Groups to Diversify the City's Economy.** For too long, the city's economic development strategy has centered on firm-by-firm deals. Instead, New York's economic development efforts should pursue a proactive diversification strategy guided by sectoral groups made up of business, labor, community, and university leaders. The LCAN proposal calls for \$5 million in funding that could be provided by the LMDC to establish a competitive grant process to encourage industries to form collaborative sectoral initiatives. (This could be modeled on the State's Strategic Industries Grant Program that existed in the early 1990s.)

The Labor Community Advocacy Network's proposal combines short- and long-term economic strategies to counter the recession and to re-orient City economic development policies toward a job-based strategy for economic diversification and high-road growth. I urge the Assembly to carefully examine this proposal and to push for its implementation.

Thank you for the opportunity to present the views of the Fiscal Policy Institute.

Endnotes

¹ Job loss figures are calculated on a seasonally adjusted basis from December of 2000 to March of 2003. (Seasonal adjustment of State Labor Department data by Fiscal Policy Institute.)

² Private sector wage data from the State Labor Department's Covered Employment wage series (ES 202).

³ Heather Boushey, "The Needs of the Working Poor," Testimony before the U.S. Senate, Committee on Health, Education, Labor and Pensions, February 14, 2002.

⁴ James Parrott and Oliver Cooke, Tale of Two Recessions: The Current Slowdown in NYC Compared to the Early 1990s, Fiscal Policy Institute, December 3, 2002. Available at <http://www.fiscalpolicy.org/TaleTwoRecessions.pdf>.

⁵ Quinnipiac University poll, May 7, 2003. (<http://www.quinnipiac.edu/x5927.xml>.)

⁶ Labor Community Advocacy Network to Rebuild New York (LCAN), Revitalize New York by Putting People to Work, A Jobs-Based Strategy for Economic Diversification and High-Road Growth, March 13, 2003. Available at www.lcan.org/Text/LCAN_jobs.pdf.