

## Chapter 5 — Recommendations

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In November 2006, the Fiscal Policy Institute brought together a comprehensive set of economic policy recommendations in *One New York: An Agenda for Shared Prosperity*. That discussion paper lays out a series of actions that New York State could take to help New York’s regions grow together, and to strengthen and expand the squeezed middle class.

Some conditions have improved since the publication of *One New York*. Governor Spitzer has laid out a four-step plan for making a historic investment in public education. This plan was adopted by the legislature with slight modifications, and the state’s school districts are now implementing its first phase. Labor unions, business leaders, and the state government have resolved the sticky issue of reforming workers compensation, with improved benefits, reduced premium costs for businesses, and tough anti-fraud measures to ensure greater compliance. And several thousand recipients of Empire Zone subsidies have been put on notice that they will be held to account for their promises of job creation or risk losing taxpayer subsidies.

In addition to positive policy changes, New York has seen improvement in several key economic indicators. Median wages and income are up, and there are signs of economic growth in some of the upstate areas that have been lagging.

But, as this report documents, many challenges remain. Here is a short list of proposals to address the concerns highlighted in this edition of *State of Working New York*.

### ***Sustain the growth in wages***

*Continue the step-by-step increase in the minimum*

*wage until it reaches a fair level, then index it for inflation.* Raising the minimum wage in three steps from \$5.15 to \$7.15 per hour has been a substantial help to workers, and has not harmed the economy. In fact, despite the predictions of opponents, jobs have increased in the industries most affected by minimum wage regulations. New York is now within reach of the fair standard standard for the minimum wage: \$8.25 in 2007 dollars, discussed in Chapter 3 in this report. The governor and legislature should raise the minimum wage to that level in reasonable steps, and then index it for inflation, so it automatically keeps up with the cost of living.

*Reform IDAs to ensure that economic development efforts support the creation of good jobs.* The status quo among New York’s Industrial Development Authorities (IDAs) is to offer subsidy packages to companies with little guarantee that the jobs will pay decent wages, have good benefits, offer opportunities for advancement, or even that the jobs will materialize at all. What’s required is a comprehensive reform to require transparency and accountability for IDA operations, establish wage and benefit standards, and include “clawback” provisions that require companies to give back a fair share of any benefits if they do not fulfill their job promises.

*Improve the quality of jobs together with the quality of the workforce.* New York already has a very well educated workforce, as indicated by the “mismatch” between educational attainment and the educational requirements of jobs. While continually improving education is inarguably critical, more also needs to be done to increase the supply of jobs that require better-educated workers. Programmatic assistance can be

given to employers and workers to encourage job and skill upgrading, while economic development subsidies can be linked to quality employment and career ladder opportunities. Improving job quality is good for workers, but it also results in increased productivity for businesses, as the research of Paul Osterman at the MIT Sloan School suggests.<sup>1</sup>

***Expand the base of upstate growth***

*Ensure the fiscal stability of upstate cities by reducing property taxes and leaning more heavily on the state income tax.* Even modest growth in upstate cities is reason for optimism: the decline of upstate's urban areas has been one of the most intractable problems in the state economy, and a revival of upstate as a whole will have to be centered around its cities. To sustain the recent growth in some upstate metropolitan areas, however, will require a reconfiguration of the fiscal balance, with state government paying for more and the local governments paying for less. The best approach would be: reduce the pressure on the property tax base by restoring the state's commitment to revenue sharing with localities; divide responsibility for Medicaid between the state and its local governments on a basis that takes county-to-county variations in the ability to pay into consideration; deliver on the multi-year commitment to fair education funding enacted earlier this year; and reform the state's STAR property tax initiatives in a way that is fair to urban areas. To do this, the state may very well need to lean more heavily on its graduated income tax, which is the state's fairest tax.

Reduced urban property taxes, improved public services, and expanding public investment in quality of life

would entice businesses and residents to the cities, where an extensive infrastructure to support them already exists.

*Reduce health care costs to give business a chance.* The high cost of health insurance is squeezing businesses hard. Big companies, especially in manufacturing, are bearing tremendous added costs compared to their competitors in Canada, Europe and Japan. Small businesses have trouble buying coverage at a reasonable rate, and risk going under or losing valuable employees. And matters are only getting worse: the cost of family health insurance premiums rose 59 percent in New York between 2000 and 2005, more than four times the overall inflation rate. A national approach to universal health coverage is the obvious answer. Rather than wait for action from Washington, however, New York can lead the way by addressing health care costs and extending coverage at the state level. This year's state budget includes \$200,000 to fund an independent study of different possible approaches to universal health care. That's a good start, but the governor and legislature should follow up expeditiously on this study to implement a plan that gets health care costs under control while providing quality care to all New Yorkers.

New York's proposal to make sure all children in the state have access to health care will be a step in the right direction, if it can win the necessary approval in Washington. In addition, changing the way the state pays for uncompensated care could improve the business climate and help reduce the disincentive for companies to provide health care. And greater pooled drug purchasing on behalf of government programs, the

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<sup>1</sup> Paul Osterman, "Improving Job Quality: Policies Aimed at the Demand Side of the Low Wage Labor Market," Presented on June 22, 2007 at the W.E. Upjohn Institute on Employment Policy Conference, "A Future of Good Jobs? America's Challenge in the Global Economy."

uninsured, and interested private groups is one of the central ways to reduce cost without sacrificing quality.

***Reverse the flight from the social safety net***

*Crack down on employers who misclassify workers as “independent contractors.”* Misclassification of workers has reached crisis proportions, threatening to rip a bigger hole in the safety net. Misclassification of worker weakens social insurance and labor standards built up over decades, from Social Security (where employers avoid their share of payments) to workers compensation and unemployment insurance (where employers weaken the system and leave employees unprotected) to paid leave and overtime (where workers simply lose out). With nearly 10 percent of all workers now classified as independent contractors, the Spitzer administration has shown interest in mounting an aggressive enforcement approach. This would be a welcome change, and would help reverse a deeply troubling trend.

*Modernize Unemployment Insurance to give workers a chance to find good jobs.* Fewer than half of all unemployed New Yorkers receive Unemployment Insurance benefits, and those who do receive a maximum benefit that is hardly sufficient to support a family while looking for work. As a result, far too many New Yorkers who lose their jobs are forced to take whatever job comes their way, even if it is below their skill level and pays less than they were making. That’s not good for the economy, it’s not good for the state, and it’s not good for the workers. As this report shows, unemployment benefits were critical in supporting incomes and purchasing power in many regions of the state during the last downturn. Increasing the maximum weekly

benefit—stuck since 1998 at \$405—and expanding coverage to benefit more low-wage and seasonal workers (such as hourly educational employees who get laid off in the summer) would help, too. Money to support the retraining of unemployed workers is a critical part of the package as well. This added expense could be financed by increasing the portion of an employee’s annual wages to which the UI tax is applied. Currently, the tax applies only to the first \$8,500 of an employee’s wages, a “taxable wage base” that has not been adjusted since 1999.

*Follow through on the promise of the Economic Security Cabinet.* Governor Spitzer’s Economic Security Cabinet has outlined an impressive agenda for reversing the flight from the social safety net and improving conditions for low-income New Yorkers. Improving the basic welfare grant, which has remained the same for 17 years, would seem like a natural start. Some expansions of state affordable housing programs already have been made, and further improvements are needed. Enacting a system for paid family leave is an area that is ripe for action. And making significant improvements and new investments in the state’s workforce development programs would help reverse the polarizing trends in the economy by bringing up the skill level of workers on all rungs of the economic ladder.

These are only a few of the proposals that would address the issues raised by this edition of *State of Working New York*. A comprehensive set of proposals—from smart agricultural policy to a green energy plans to ways to encourage small business growth—are available in *One New York*.

