# The State of Working New York

## The Illusion of Prosperity: New York in the New Economy

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**CHAPTER 6**

# A Strategic New Direction for New York State

As this report has documented, there are three troubling dimensions to New York State's economy: wages and incomes for most workers and families are declining in relation to the cost of living, the job mix and quality of individual jobs are changing in ways that are mostly unfavorable, and New York's economic growth has been slow and uneven.

As a result, while the New York economy has generated wealth, much of its is increasingly concentrated in a small segment of the population. The resulting polarization of society by income is a shaky foundation on which to build a strong economic future. More people are working, but are less able to provide for their families. Total income rises, but the state invests less in basic public goods such as education or transportation. It is a thin prosperity that keeps 25 percent of New York's children in poverty. Failing to invest in New York's human capital and physical infrastructure reduces the quality of life for all and constrains the state's future development potential.

New York can, and must, do better if it is to be a pace-setter for the nation. New York has a tradition of innovative leadership when it comes to public and social institutions. The State pioneered in making major investments in education and transportation, and it reaped the benefits for generations. New York put compassion into its Constitution in recognizing an obligation to lift up the poor. Now, New York needs to act boldly to continue its historical promise and potential.

New York's core institutions — government, business and labor — must work together to make our economy stronger and fairer. Many businesses pay decent wages and provide health, retirement and other important benefits, and invest in the skills of their workers. Increasingly, however, their ability to do that is undermined by businesses that have chosen to compete by driving down wages and cutting benefits. The playing field should be leveled up so that more New York companies compete on the basis of product quality, innovation and service — not by cutting corners at the expense of New York's workers and its responsible employers. Workers can play an integral role in changing the way New York's economy competes. But to do so, more workers want and need a collective voice to affect the economy through their workplaces.[1] Government must be called to account for allowing the erosion of the minimum wage and failing to maintain infrastructure investment and improve public education. Government policy can capitalize on New York's tremendous human and physical resources to promote economic activity that is shared by all New Yorkers in the following ways:

- **Restore Wages to a Decent Level**
  Government must protect its hardworking residents and responsible employers from those businesses that would compete by driving down wages and eliminating or reducing essential safety net benefits like health insurance and retirement plans.
- **Invest in People and Productive Capacity**
  Government must invest the tax revenues it is collecting from the unprecedented growth at the high end of the income distribution in ways that make it possible for all families to move up the socioeconomic ladder, and to make sound infrastructure investments that increase the economy's productive capacity.
- **Redirect Economic Development and Revitalize Upstate New York**
  New York State and its local governments must redirect their economic development policies to support businesses willing to compete on the "high-road" where decent wages and benefits are provided, and to revitalize the upstate economy.

In the sections that follow, specific proposals are discussed in each of these areas.

## I RESTORE WAGES TO A DECENT LEVEL

There are always some employers who will take advantage of their bargaining power to pay the lowest wages that they can get away with paying. This puts pressure on other employers to "compete" by reducing wages, eliminating benefits, and cutting back on worker training and other investments that have long run benefits but short run costs. The federal and state governments must make sure that the minimum wage is restored to a level which can serve as a meaningful floor at the bottom of the wage distribution. For all workers, efforts to encourage unionization and pay equity measures are necessary to restore wages to meaningful levels.

New York should consider the innovative measures being refined by state and local governments around the country, particularly laws that tie the receipt of government contracts and/or economic development subsidies to the payment of living wages. Government must also seek ways to even the playing field between responsible employers who provide health insurance and pension plans, invest in worker training, and fund joint labor-management committees and those that do not. For example, New York faces an important test later this year when its health care funding system comes up for renewal. Under this system responsible employers have paid dearly to subsidize businesses that do not provide health insurance.

**Establish a meaningful minimum wage.** The first minimum wage at the federal level was signed into law in 1938, after several states including New York had enacted their own minimum wage laws. Such laws protected responsible employers from the pressures that could be brought to bear by unscrupulous competitors while ensuring that all workers received a minimum acceptable level of compensation. Unfortunately, the minimum wage, particularly in New York, has been allowed to decline to a level at which it is unable to serve as a meaningful floor under the job market. It is essential that the minimum wage, at both the federal and state levels, be increased and indexed to changes in an objective measure such as the Consumer Price Index or Average Hourly Earnings.

The federal minimum wage reached its high point in terms of purchasing power in 1968 when it was increased to $1.60 per hour. In July 1999 dollars, this would be the equivalent of $7.80 per hour.[2] (The New York State minimum wage reached its all time high in purchasing power in July of 1970, when it was the equivalent of $7.91 in July 1999 dollars.) A job at those wage levels made it possible for a worker to support a family. In the 1960s and 1970s, the earnings of a full-time, year-round worker receiving the minimum wage were enough to lift a family of three above the poverty line. That is no longer true. A person working full-time, year-round receiving today's minimum wage of $5.15 per hour will earn only 72 percent of the poverty line for a family of three, and have less than two-thirds of the purchasing power of a similar worker in 1968.

At the state level the situation is worse. New York's minimum wage is $4.25, more than 17.5 percent below the federal minimum. Since 1960, New York's governors and legislatures have usually moved to increase the state minimum wage in tandem with changes in the federal minimum wage. Yet New York has not conformed to the 1996 and 1997 federal increases. This is, by far, the longest period of time that New York has ever gone with a minimum wage below the federal minimum.

This situation is even more difficult to explain when one compares New York to other high wage states. Of the ten states with average weekly wages above the national average, New York is the only state with a minimum wage below the federal minimum. Among the five that have higher minimums, Connecticut's minimum wage will rise to $6.15 on January 1, 2000, and Massachusetts' will increase first to $6.00 on January 1, 2000, and then to $6.75 on January 1, 2001. Eight states have minimum wage levels above the national level.

Contrary to the conventional wisdom, most minimum wage workers are adults working full-time, and increasing the minimum wage by reasonable amounts (such as the four most recent increases that were all in the 40 to 50 cent range) neither reduced employment nor fueled inflation. The 1999 Economic Report of the President noted that, based on the many studies that have examined the issue, the "weight of the evidence suggests that modest increases in the minimum wage have had very little or no effect on employment".[3] Evidence also refutes the claim that state level minimum wage increases above the federal standard reduce employment.[4] In fact, a higher minimum wage can have long-term economic benefits since it makes employers more likely to improve efficiency.

Restoring the purchasing power of the minimum wage to its late-1960s level would require a higher minimum wage (something in the range of $7.65 per hour) than the Congress or the State Legislature is likely to implement immediately. On the other hand, if legislation were enacted to increase the minimum wage to that level in several "reasonable" steps, its value would be eroded by inflation by the time it was implemented. An alternative is to establish a target minimum wage of $7.65 an hour, to adjust that target annually for inflation, to increase the actual minimum wage by a fixed amount, say fifty cents per year, until it reaches that adjusted target, and thereafter to have the actual minimum wage equal the target.

**Encourage unionization and collective bargaining.** Unionization is critical, particularly within the expanding service and retail industries that offer low wages, to lift up wage levels and expand employer-provided health and pension coverage. In industries where employers fear that unionization will put them at a competitive disadvantage, industry-wide collective bargaining helps to take wages out of competition. In such cases, unions often develop industry-wide training and labor referral services that benefit both employers and workers. The State Legislature recently recognized that "it is essential to the well-being of New York State's economy that employers help ensure that working people are able to exercise their right to concerted activity in an unfettered and non-coercive environment."[5] The federal government, which has jurisdiction over the nation's private sector labor laws, must do all it can to provide all workers with the freedom to join a union. The State government should more systematically promote labor involvement in State-funded programs in economic and workforce development and related areas.

**Encourage pay equity.** As Chapter Two indicated, because many workers are employed in industries or occupations that have traditionally been dominated by women, they are paid less than workers in other industries or occupations with similar skill requirements and responsibilities. Pay equity policies seek to address those situations. The New York business community must take on this issue as a matter of both good business practice and moral imperative. New York State should enact pay equity legislation that requires employers to move toward pay structures based on merit, rather than gender or race. Through both private and public action, New York must ensure that workers' pay is equitable regardless of their gender or race.

**Outsourcing, privatization and the living wage.** In both the public and private sectors, the concept of outsourcing (usually called privatization in the public sector) has been used to reduce costs by farming out work traditionally done in-house by employees who were paid decent wages and provided with decent benefits. Outside contractors are often only able to provide the work involved at a lower cost by paying lower wages and/or providing less or no health insurance coverage. Cities and counties around the country have been addressing this problem by adopting "living wage" ordinances. These ordinances generally require organizations that receive public contracts to pay their employees a wage sufficient to keep a family of a certain size (usually three) above the poverty line. The logic behind these ordinances is that the government should not be creating (directly or indirectly) jobs that leave their holders in poverty and raise government costs for such things as food stamps, Earned Income Tax Credits and subsidies for uncompensated health care. New York State and its local governments should develop strong living wage ordinances. In addition, private employers who outsource work to drive down wages should not be eligible to receive government subsidies.

## II INVEST IN PEOPLE AND PRODUCTIVE CAPACITY

The preoccupation with cutting taxes at all levels of government reflects a short-sighted perspective that enriches the consumption of the already rich, rather than making essential social investments in our families, our children and a stronger economic foundation. Government can and must invest those resources in ways that facilitate the development of a strong middle class by allowing hard-working but low and moderate income families to move up the socioeconomic ladder in much the same way that their predecessors did for decades before the emergence of our current attachment to the creed of "government of, by and for the comfortable." Particularly during the current period of welfare policy transformation, it is critical that government invest in those New Yorkers who face barriers to employment to ensure that all share the benefits of a more equitable economic system.

**Provide all of the state's children with a sound basic education.** The economic future of working families in New York depends to a large extent on the quality and level of their education from kindergarten through college. While New York's public education system is exemplary in many respects – 31 of New York's high schools placed among the nation's top 100 public schools in a recent study[6] – access to high-quality public education must be expanded to ensure all the state's children receive a sound basic education.

In its recent annual report on the educational status of the state's schools, the Board of Regents observed that while "signs of progress (in student achievement) are encouraging, … too many schools have not yet shared in these successes" and that most of these are schools "faced with the challenge of educating large numbers of children placed at risk by poverty, inability to speak English well, and recent immigration." Throughout their report, the Regents document what they characterize as "a dismaying alignment of disadvantaged students (disproportionately children of color), schools with the poorest educational resources (fiscal and human), and substandard achievement."[7]

New York has a responsibility to ensure that all children receive a sound basic education. And, it must recognize that extra help is necessary to accomplish that objective in schools with high concentrations of children placed at risk by poverty and limited English proficiency. This will require a substantial infusion of additional resources and the distribution of those resources in a way that levels up the quality of education in schools that serve the neediest children.

Compounding the need for school finance reform is the fact that the Regents have established stringent new academic standards and have instituted a series of rigorous exams at the 4th, 8th and 11th grades to determine compliance for those standards. These new standards and the accompanying exams are intended to increase the capacity of all schools to achieve excellence. But this will only work if the state provides the resources necessary to "ensure that all students receive the help they need to meet the standards, ensure adequate and cost-effective funding for special education, support alternative education, provide staff development and instructional materials focused on higher educational standards, and improve school facilities."[8]

**Ensure a high quality, affordable and accessible system of higher education.** New York has led the nation in high-quality, accessible and affordable higher education. But in recent years this commitment has eroded. Funding reductions have threatened the ability of the SUNY and CUNY systems to provide quality education. In 1997, New York was the only state showing a 10-year decline in appropriations for education, while Connecticut and New Jersey both increased education spending by 39 percent. These funding cuts raised the cost of a public education to a SUNY student by 53 percent from 1991 to 1997.[9] At the same time, SUNY and CUNY have deteriorating equipment and library resources. Funding for public higher education must be restored as the first step toward providing opportunities for all New Yorkers to get the education they need to succeed in today's economy.

**Build and maintain an effective workforce development system.** With the passage last year of the federal Workforce Investment Act (WIA), there is a new opportunity to link workforce training with economic development. New York State must ensure that the Workforce Investment Boards (WIBs) that will be established to set performance standards and define strategies for workforce development in each of the state's regions bring together representatives of all of the local workforce development stakeholders, including labor, community, and education institutions in addition to employers. As a part of their development of employment and training strategies, the WIBs should focus on reducing barriers to employment and developing skill levels. The WIBs should guarantee living wage compensation as a return on skills investment, and promote job retention upon entry into the workforce. Finally, to promote career development and prevent 'slippage' in wage-related career advancement, WIBs should act to develop skills certification as a benchmark of training investment, and promote horizontal and vertical career ladder development.

Success of the WIA will require commitment to building strong regional partnerships with community-based organizations, labor and worker organizations, and local educational institutions. WIBs should work with community-based organizations to identify the employment needs of participants and address barriers to employment through the provision of training and education programs and comprehensive support services, such as child care, substance abuse, and counseling programs. They should engage unions, which play a significant role in securing entry to employment, improving workplace productivity, establishing appropriate compensation rates, and creating effective career training and career ladders. Local educational institutions, such as community colleges, also need to play an important role in developing skills training programs and establishing universal, portable skills certification. In some cases WIBs may also support the development of new labor market institutions, geared to promoting improved economic productivity and workforce compensation standards in targeted sectors.

**Provide the training and support services necessary for the welfare to work process to reduce poverty.** New York State and its local social services districts must invest the State's TANF Block Grant funds in ways that foster self-sufficiency and do not reduce welfare caseloads in shortsighted ways. Federal funding streams stemming from the welfare block grant should be used exclusively for purposes related to providing adequate public assistance and facilitating successful labor force participation, such as childcare or skills development.

It is important for the state to have a comprehensive workforce development program in place to assist those entering the labor market. State welfare policy should not lose sight of the fact that some individuals are not able to sustain themselves and their families through paid work in the labor force and that society has an obligation to care for those people. Many working poor families rely on public assistance when they are unable to work and an increasing portion of adults receiving public assistance are working in workfare programs where their wages are set at the level of the welfare grant. The welfare grant should be raised since its real value has declined by more than 50 percent since the mid-1970s, putting significant downward pressure on the wages of New Yorkers in the lowest paid jobs.

**Make health insurance more widely available without penalizing responsible employers.** While the State has expanded health insurance coverage for children under the Child Health Plus program, over 420,000 low-income parents in New York lack health insurance.[10] Many low wage jobs do not provide coverage and New York's current Medicaid rules will not cover a working parent with two children who makes as little as $5.80 an hour, a wage that is 84 percent of the poverty level. The 1996 Federal welfare reform law severed the link between welfare and Medicaid, and allowed states to expand Medicaid coverage by raising the income ceiling and changing what is counted toward the asset test. New York State should take advantage of the opportunity to expand health care coverage to low income adults in a way that does not place at a disadvantage responsible small businesses that provide health insurance.

**Invest in a strong physical infrastructure.** A strong economy cannot be built on a crumbling foundation. Far-sighted public infrastructure investments, such as the Erie Canal in the early nineteenth century and the Thruway in the 1950s, were vital in building the Empire State's economic capacity. To facilitate long-term economic growth, the state must ensure that there is adequate investment in infrastructure, rebuild public schools, refurbish the state's highways and bridges, and expand the downstate mass transit system.

**Invest in transportation systems that improve the efficiency of the entire economy.** The five-year capital plan of the state's Metropolitan Transit Authority (MTA) is currently up for renewal. Approximately $30 billion has been spent over the last 15 years in rebuilding the New York City Transit system after it had fallen into an advanced state of disrepair during the City's fiscal crisis of the middle and late 1970s. Now the need is not only to continue making investments to keep the subway system and the commuter railroads in good operating condition, but to initiate long overdue investments in expanding the system. The Second Avenue subway and related connecting service in Brooklyn, Queens and the Bronx, service connecting the Long Island Railroad to Grand Central Station, extending subway service to LaGuardia Airport, and extending midtown subway service to the Hudson River are among the proposals being considered. The MTA needs a five-year capital plan that lays the foundation for expanding the system to ensure the continued economic vitality of the metropolitan area. The MTA should also work with transportation officials in New Jersey and Connecticut to plan the investments to integrate and establish a truly regional transportation network. Lack of affordable transportation is also a significant barrier to employment for low income and inner city workers. The state should support transportation initiatives to facilitate greater mobility for low-income people seeking work such as reverse commute programs.

## III. REDIRECT ECONOMIC DEVELOPMENT AND REVITALIZE UPSTATE NEW YORK

Current economic development policies focus heavily on "retention" deals involving the largest financial, media and accounting corporations. Over the past five years, over $2 billion in tax breaks, below-market energy contracts, and other subsidies have been given to large corporations that threaten to leave New York City despite the obvious financial success they have enjoyed. These substantial economic development resources should be redirected to promote genuine job creation and retention, to foster the creation of quality jobs with decent benefits, to diversify the state economy and lessen the dependence on the volatile Wall Street sector, and effectively and to productively utilize New York's tremendous human and technological resources.

**Foster cooperation among business, government and labor.** Tripartite cooperative industry development efforts are often essential in providing the institutional infrastructure needed for firms to thrive and pay decent wages with good benefits. A number of models of such partnerships already exist, in and out of state. In state, the Garment Industry Development Corporation is a non-profit union-industry-government partnership that provides a range of training, marketing and technology assistance to small and medium-size apparel firms in New York City. The SEIU 1199 New York Hospital and Health Care Training and Upgrading Fund is another example of a joint labor-management commitment to develop new skills, in this case for workers affected by restructuring in the health care industry.

Out of state, the Wisconsin Regional Training Partnership (WRTP) is a model labor-management-community effort that provides training and technology services to durable-goods producing companies in the Milwaukee area. WRTP also coordinates school-to-work youth programs, dislocated worker retraining for higher-skilled occupations, and programs that enable employers to hire central city residents.

More attention needs to be paid to developing career ladders for new entrants into the labor market so that they can acquire skills and progress toward a rewarding career. In New York City, the Teachers Union's Career Ladder program enables paraprofessionals in public schools to earn a college degree tuition free, and many become teachers themselves.

**Foster the application of skills and new technologies in a wide range of business settings.** New York has not realized its full potential in terms of technology transfer and entrepreneurial development. The state did not move as effectively as it could have to facilitate the redeployment of the considerable human and technology resources that were displaced by the military and corporate downsizing that devastated several regions of the state. There are, however, examples of promising approaches that can be built upon, replicated and expanded. In the wake of losing its military contracting base, Long Island business and civic leaders working through the Long Island Association identified several technology-related industries with significant growth potential and supported the development of related incubator facilities developed through local universities and other research institutions.

**Foster more effective land use and reuse.** Better land use policies are needed to ensure the availability of affordable and workable space for specialized manufacturing operations (like financial printers) that function most effectively in proximity to their customers. This means finding ways to allow such firms to stay in

Manhattan despite its heated real estate markets, rather than having them leave New York City, and sometimes New York State, altogether. In all parts of the state, the challenge is to ensure that incentives are not used to foster urban sprawl but rather to creatively reuse brownfields and other developed areas in central cities and inner ring suburbs. Urban sprawl results in costly and unnecessary duplication of physical infrastructure, and makes it harder for inner city residents to access job opportunities.

**Foster interstate cooperation in the tri-state region.** Rather than working together to coordinate such obvious economic development priorities as improved regional transportation systems, political leaders in New York, Connecticut and New Jersey often have worked at cross-purposes. This failure hampers the region's competitiveness and wastes limited public resources when it leads to bidding wars to influence corporate location.

**Develop and implement a comprehensive revitalization plan for the upstate cities.** Upstate's inferior economic performance in the 1990s is troubling on several accounts. It is depressing incomes and living standards, and fueling the out-migration of a skilled working-age population. This outmigration, in turn, will only lead to further disinvestment and the continued erosion of the job base.

If a comprehensive revitalization plan is not soon developed and implemented, the upstate region could be headed for a protracted period of weak growth. A national economic downturn would further complicate upstate's predicament, risking a continued brain and skill drain. While the upstate economy has become a matter of great concern, no one has developed a clear and logical assessment of the reasons for the region's under-performance. Some observers have said high taxes and high energy costs are the problem, but both of these costs are much higher downstate than upstate, and downstate's economy has rebounded much more strongly. Others have pointed to the long term decline of manufacturing, upstate's traditional base, but manufacturing in the mature industrial states of Ohio and Michigan, which has much in common with Central and Western New York, increased employment in the mid-1990s. While high commercial airfares are a real problem, it is not clear how much of the region's under-performance can be attributed to this problem.

A comprehensive revitalization plan for the upstate economy must foster effective business-government-labor-community collaborations that fully exploit each region's technological and entrepreneurial potential and enhance the quality of life for area residents. Such a plan must also recognize that the upstate economy can not be revitalized unless the cities of upstate New York are revitalized. A necessary step in this direction is for the State to restore its commitment to Revenue Sharing, a program that Governor Nelson Rockefeller originally referred to as Urbanaid, because of its recognition of the mismatch that exists between the cities' tax bases and their service responsibilities. During the 1990s, however, no major state program was cut more than Revenue Sharing during bad times and restored as little in good times. These cuts have placed the cities in the untenable position of having to both cut services and increase property taxes to balance their budgets. New York should gradually restore its traditional commitment to sharing eight percent of state tax revenues with local governments on a formula basis that recognizes need, tax effort and ability to pay, as well as the overburden faced by the cities.

In a variety of ways that bode ill for the state of working New York, the recovery of the 1990s has been uneven and inconsistent. As documented in this report, large segments of working New York are being bypassed by the current good times. To turn things around, government must stake out a strategic new direction that can improve the lot of working New Yorkers in realistic and responsible ways, while making the economy stronger and fairer. The policy ideas set forth in this chapter represent one contribution to the dialog that must occur if New York State is to stake out such a strategy and to secure a sustained and broadly shared prosperity for all New Yorkers.