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Testimony of
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Before the

**New York City Council
General Welfare Committee**

The Impact of the American Recovery and Reinvestment Act on New York City

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Mr. Chairman, my name is James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute. Thank you for the opportunity to testify today.

The Great Recession has taken a heavy toll on New York City residents, and the high costs of the recession to the average family will continue for at least another two to three years. New York City has lost roughly 150,000 to 200,000 jobs so far in this recession.¹ While the unprecedented financial sector bailout measures taken by the federal government have moderated New York City's job loss in this recession, the city's Main Street economy is suffering along with most of the country.²

The December unemployment rate was 10.6 percent, and the number of people unemployed has soared to 415,000, more than double the jobless number before the downturn. Our current unemployment rate is double the 5.4 percent average rate during 2006 and 2007.

Unemployment is never evenly distributed across New York City. While some neighborhoods, like the Upper East and West Sides in Manhattan, might have unemployment rates in the five percent range, in Harlem and northern Manhattan, the South and Central Bronx, and Central Brooklyn, official unemployment is close to or more than 15 percent, and in the neighborhoods of East New York Brooklyn, unemployment is 20 percent.³ In December, the average unemployment rate in the Bronx was 13.9 percent, and in Brooklyn it was 11.2 percent. Unemployment was at least nine percent in the other three boroughs.

It is also very clear from our research that unemployment rates are higher in lower income neighborhoods of New York City.⁴ Unemployment rates in the lowest income neighborhoods—those with median incomes from \$20,000 to \$30,000—have an average unemployment rate of over 15 percent, more than twice the rate existing in the highest income neighborhoods.

Certain populations within New York City have been particularly hard hit by rising joblessness during the recession. Unemployment rates are higher for men, blacks, and Hispanics. For the fourth quarter of 2009, we estimate that the black male unemployment rate was 15.9 percent, and that for black females it was 13.7 percent, for Hispanic males, 13.1 percent, and for Hispanic females, 10.7 percent.⁵

All of the unemployment rates mentioned up to this point are based on the official measure, which excludes from the calculation the under-employed and workers who are so discouraged about prospects for finding a job that they have dropped out of the labor force. When these workers are included, the “real” unemployment rate in New York City is more like 17 percent than 10.2 percent. For blacks and Hispanics, real employment is in the 22 to 23 percent range.⁶

Finally, let me wrap up this recitation of dismal unemployment data by noting that in a recession where long-term unemployment (defined as workers unemployed for more than six months) is at record levels in the U.S., long-term unemployment is even worse in New York City. During the fourth quarter of 2009, 46 percent of the 400,000-plus unemployed city residents had been unemployed for more than six months. More than one in six (17 percent) had been jobless for over a year.⁷

Other indicators reinforce this picture of severe economic distress being experienced by many New York City households. Personal and business bankruptcies in the city have shot up in line with national trends, and mortgage foreclosures are wreaking havoc in those parts of the city (particularly central and eastern Brooklyn and Southeast Queens) where subprime mortgage and other predatory lending practices were widespread.

Against this bleak backdrop here in New York City as well as across the country, the federal Recovery Act (formally known as the American Recovery and Reinvestment Act, or ARRA), made a decisive difference in averting another Great Depression. In the months following the September 2008 financial meltdown, the U.S. economy was in freefall—GDP growth plummeted, job losses skyrocketed, and consumer spending fell off a cliff everywhere.

The Recovery Act, the \$788 billion package of a range of spending measures and tax cuts geared mainly to moderate- and middle-income families, passed in February 2009. The stimulus started to have a substantial effect on the economy beginning last spring, and its impact will continue through 2010 with a few funding streams continuing into 2011. The Recovery Act had a lot to do with the positive growth seen in GDP in the second half of 2009 and most analyses find that employment levels were 2 million or so higher than they otherwise would have been.⁸

We have tried to identify the major spending streams affecting New York City—not only the funding that is reflected in the City’s operating or capital budgets, but also the various spending streams (and tax cuts) affecting individual New Yorkers, governmental authorities such as the Metropolitan Transit Authority and the Housing Authority, and the mainly education, research and human services contracts going directly to New York City entities such as universities, medical schools and non-profit human service providers.

As the attached table indicates, we find that as of November, and in some cases, December, Recovery Act spending coming to New York City totaled nearly \$10 billion. Ultimately, the total will be considerably greater—this includes only funds expended or obligated through the end of 2009, and in some cases through roughly the end of October 2009.

But what the table does convey is that the Recovery Act has had a very substantial and beneficial impact in New York City. New York City individuals and families have received the benefit of \$3.8 billion in reduced federal taxes, unemployment benefits, food stamps, the \$250 payment going to retirees, the disabled and veterans, Pell grants, and the Back to School Allowance funded under the Recovery Act’s TANF Emergency Contingency Fund.

The City budget has benefited in various ways so far totaling about \$4.25 billion. The Mayor’s Preliminary Budget for FY 2011 itemized the ARRA funds passing through the City budget.⁹ Over \$400 million has gone to the city’s Housing Authority to fund long-overdue renovation needs. The Metropolitan Transit Authority received roughly one billion in capital funds as well as an additional amount for transit security.

So far, we have been able to determine that about \$435 million is going via direct federal and state contracts to New York City universities, medical schools and non-profit human service providers. These contracts are funding a wide range of activities from medical research to homeless prevention services and Head Start programs.

Many private businesses and non-profits are benefiting in other ways from Recovery Act spending because most capital projects are contracted out to private construction companies, and many human services funded under the City budget are provided by non-profit agencies under contract to the City. The accounting reflected in the table only considers the direct spending effect. Indirect effects and the spending of wages and salaries received by affected workers further add to the overall economic impact of Recovery Act spending, making it more than one-and-a-half times as great in total.

Our estimate of the annual Gross Domestic Product (GDP) of New York City is about \$600 billion. Thus, the overall impact of Recovery Act spending in New York City is equivalent to about 2.5 percent of city GDP—that is \$10 billion times 1.5 for a total economic impact of \$15 billion, which is 2.5 percent of \$600 billion.

Using a method similar to that followed by the President’s Council of Economic Advisers, we estimate that Recovery Act spending in New York City meant that the employment level at the end of 2009 was roughly 70,000 higher in New York City than it otherwise would have been.¹⁰ This estimate encompasses jobs retained as well as those created.

Current projections are that any recovery in the national or New York economy will be very gradual and that unemployment will remain high for at least the next two to three years. In order to make up for jobs lost during the recession and to keep up with the growth in the labor force over time, New York City will need to add well over 400,000 jobs over the next five years. If we achieved that—which is something that no one is projecting at this point—our unemployment rate would come down to only a little under six percent by the end of 2014.¹¹

The implication is clear that New York City faces an enormous economic challenge. Our top priority should be to make sure that our federal government continues to pursue an aggressive program of deficit-financed stimulus to expand spending by consumers and businesses and to relieve the fiscal pressures bearing down on state and local governments. Our nation desperately needs the continuation of the major categories of the Recovery Act—among others, the increased federal share of Medicaid, increased federal education aid and other measures to provide fiscal relief to state and local governments, federally-funded extended unemployment benefits, assistance in paying for COBRA coverage for the unemployed and an extension of COBRA coverage, and continued benefits to vulnerable individuals and families suffering under the weight of this Great Recession. Additional funds should be channeled into the Recovery Act's TANF Emergency Contingency Fund, and such funds should help further expand transitional employment programs in New York.

There also needs to be a robust job creation program that includes targeted wage subsidies, public service jobs geared to high unemployment communities, and additional infrastructure investments to provide not only a short-term economic boost, but to enhance our long-term economic growth. One area where the initial Recovery Act fell short was in not directly providing mass transit operating aid that could have helped moderate the current fiscal crisis seen at the Metropolitan Transit Authority.¹²

Both the City and the State face enormous challenges in balancing their budgets. It is critical for budget balancing actions to minimize further harm to the economy and vulnerable populations and to not exacerbate the unemployment situation. It is also important that the City use its Recovery Act bonds, and other City subsidies, to support good jobs that pay prevailing wages to construction workers and living wages to other affected workers.

Thank you for the opportunity to testify today.

Endnotes

¹ According to data for December 2009 released by the NYS Department of Labor on January 21, 2010, and seasonally adjusted by the Fiscal Policy Institute, New York City lost roughly 150,000 jobs between the August 2008 peak level reached in the city and December 2009. On March 4, 2010, the state labor department will release revised employment estimates for the past two years. Preliminary indications are that the city's cumulative job loss in this recession will be revised upward by 25,000 to 50,000.

² See FPI's *New York City: A Tale of Two Recessions, While Wall Street Recovers, New York City's Main Street Economy Remains Mired in the "Great Recession"*, November 19, 2009.

http://www.fiscalpolicy.org/FPI_NewYorkCitysTwoRecessions_20091119.pdf.

³ See Fiscal Policy Institute, *New York City in the Great Recession: Divergent Fates by Neighborhood and Race and Ethnicity*, Dec. 2009. http://www.fiscalpolicy.org/FPI_NeighborhoodUnemployment_NYC.pdf. The Wall Street Journal and the New York Times developed interactive maps for their websites based on FPI's neighborhood unemployment estimates by gender and race/ethnicity. See,

http://s.wsj.net/public/resources/documents/st_nyjobs_20091215.html, and

<http://cityroom.blogs.nytimes.com/2009/12/29/a-localized-breakdown-of-joblessness-in-new-york/>.

⁴ See *New York City in the Great Recession: Divergent Fates by Neighborhood and Race and Ethnicity*.

⁵ FPI's February 9, 2010, *Briefing on Mayor Bloomberg's Preliminary FY 2011 New York City Budget* contains FPI's estimates for fourth quarter 2009 unemployment rates by gender and race/ethnicity, education, and age, and estimates of the duration of unemployment and of an alternative unemployment rate that includes the underemployed and discouraged workers. See http://www.fiscalpolicy.org/FPI_NYCBudgetBriefing_20100209.pdf.

⁶ See our briefing on the preliminary FY 2011 budget for these data.

⁷ Ibid.

⁸ See, for example, President's Council of Economic Advisers, *The Economic Impact of the American Recovery and Reinvestment Act of 2009, Second Quarterly Report*, January 13, 2010.

⁹ See http://www.nyc.gov/html/omb/downloads/pdf/jan10_fed_stim.pdf. The Medicaid and Local Education funding reflected in our table are as reported by New York State.

¹⁰ See President's Council of Economic Advisers, *The Economic Impact of the American Recovery and Reinvestment Act of 2009, Second Quarterly Report*, January 13, 2010, pp. 13-21. This employment estimate results from adjusting the CEA's fourth quarter 2009 average estimate for the New York State employment impact by the CEA's estimate for December 2009, and by applying New York City's March 2009 share of New York State employment to the adjusted CEA estimate for New York State.

¹¹ See pp. 50-51 of FPI's *Briefing on Mayor Bloomberg's Preliminary FY 2011 New York City Budget*.

¹² Subsequent to the Recover Act's passage, Congress did act to permit up to 10 percent of mass transit capital funds under ARRA to be used for operating purposes. To date, the MTA has refused to exercise that option, thereby intensifying the current operating budget pressures.

Recovery Act (ARRA) Funding in New York City, 2009	
As of Nov. 2009, except for NYC budget (FY 2010) and direct contracts.	ARRA \$
Direct to Individuals	\$3,774,900,000
Making Work Pay Tax Credit	\$767,400,000
Food Stamps	\$837,800,000
Unemployment Insurance	\$1,760,600,000
\$250 Economic Recovery Payments	\$282,600,000
Pell Grants	\$40,700,000
TANF Emergency Contingency Fund (Back to School Allowance)	\$85,800,000
For Local Government & Schools	\$3,337,800,000
Medicaid	\$1,918,500,000
Education	\$1,419,300,000
Other City Budget Impact	\$306,512,624
Community Development	\$48,315,183
Children's Services	\$54,484,085
Social Services	\$14,855,000
Aging Home Delivery / Meals	\$4,140,990
Workforce Investment Administration	\$60,062,710
Criminal Justice / Justice Assistance Grants	\$17,079,973
Ferry Transit / Maintenance	\$14,742,876
Tax Credit Assistance Program	\$38,200,000
Additional Programs	\$54,631,807
Major Infrastructure Programs	\$632,200,000
Weatherization	\$91,500,000
Clean Water & Drinking Water	\$219,500,000
Highway	\$321,200,000
NYCHA	\$423,284,000
MTA	\$1,030,488,000
Mass Transit Capital	\$940,488,000
Transit Security	\$90,000,000
Direct Federal Contracts to NYC Universities, Medical Schools, and Non-Profits (contracts of \$2M or greater)	\$433,860,000
Direct NYS Contracts to Non-Profits (selected contracts)	\$629,460
TOTAL	\$9,939,674,084

Sources: Direct to Individuals: NYS Economic Recovery & Reinvestment Cabinet; estimates by Fiscal Policy Institute using state figures through Nov. 2009 from the Center on Budget & Policy Priorities. Local Govt. & Schools: NYS Economic Recovery & Reinvestment Cabinet. Other City Budget Impact & Major Infrastructure Progs.: NYC OMB, Jan. 2010. NYCHA & MTA: Recovery.gov; NYS Economic Recovery & Reinvestment Cabinet. Direct Federal Contracts: Recovery.gov. Direct NYS Contracts: Office of the State Comptroller, Open Book New York web site.