Executive Summary

The current economic downturn is already the longest and the deepest recession since the 1930s. The downturn has been aptly termed the "Great Recession;" it has already claimed more than seven million jobs nationally. As of August 2009, 15 million Americans were unemployed. The nation is on the verge of double-digit unemployment, a condition that may last for several more months.

The Great Recession is largely the consequence of poorly regulated financial markets that went on a spree of excessive debt and risk-taking, destructive lending practices, and the use of ill-advised exotic financial instruments. The economic expansion from 2003 to 2007 was dominated by unsustainable and dangerous bubbles in housing and the financial markets, and was characterized by excessive borrowing by Americans struggling to maintain their standard of living while their wages failed to keep pace with productivity growth in the economy.

President Obama and congress appropriately authorized a $787 billion dose of stimulus to halt the economic freefall that occurred in the six months following the September 2008 financial market meltdown. Policy makers are still seeking effective corrective action to deal with the foreclosure crisis and the mountain of bad debts held by major financial institutions. Recovery will be hampered by continuing high joblessness and high debt burdens that are holding back household spending, the main driving force behind the national economy.

While New York State entered the recession later than the nation overall, New York began losing jobs rapidly in the six months following the September 2008 financial market meltdown. New Yorkers are now feeling the full brunt of the Great Recession.

- New York State's unemployment rate is expected to continue rising for the next few months and has already jumped by over four percentage points to 8.6 percent in July. New York City's 9.6 percent unemployment matches the national rate.
- Joblessness in New York State has increased by almost 400,000 since early 2008, affecting every region and workers in almost every industry.
- As tens of thousands have lost jobs, and many who have retained their jobs have seen a decline in pay and weekly hours, New York's families have reduced their consumer spending by more than eight percent.
- New York wages and incomes are projected to decline by record amounts in 2009, with total wages paid in New York dropping by 4.8 percent and total personal income falling by 2.7 percent.
- Declining incomes mean declining state and local tax collections, leading to crises at every level of public spending at the very moment that New Yorkers need the support only government can give.

More than in most prior recessions, the official unemployment rate in this downturn understates the real extent of job market weakness. The official unemployment rate does not reflect the steep rise in the number of discouraged workers or the equally steep increase in under-employment—workers who have been reduced to part-time status even though they want to work full-time. When these workers are factored in, the "real" unemployment in New York in the first half of the year was 14.1 percent, nearly three-fourths again as much as the official 8.2 percent unemployment rate for the first six months. Blacks and Hispanics in New York have been hit particularly hard.

- By the standard definition, the unemployment rate for black men for the first half of 2009 was 18.3 percent, and the "real" black male unemployment rate was a devastating 27 percent.
- The real unemployment rate was almost 19 percent for Hispanic women, 18 percent for black women, and over 17 percent for Hispanic men.

The economic insecurity of New York workers has escalated during the downturn as workers lose jobs, pay, and health insurance coverage. Retirement security is jeopardized both by declining employer-provided coverage and by sharp reductions in the value of individual retirement savings. Crushing household debt burdens and the slumping real estate market have contributed to a growing number of home foreclosures and personal bankruptcies among New York families. Some parts of the safety net, such as the federal food stamps program, are responding to heightened economic need, while other parts, such as New York's unemployment insurance system or the state's temporary assistance program, need to be revamped. These programs are doubly important since, in addition to helping families weather the economic storm, they also serve as "automatic stabilizers," pumping money into the economy during a downturn while reducing spending during an expansion.

While the economic downturn is claiming a heavy job toll and is exacerbating economic insecurity for many New York families, other states have fared even worse. The recession started later in New York, and the housing bubble was less pronounced in many parts of the state. As a result, the recession's cumulative effects—at least so far—have been somewhat less drastic in New York than in other states. Most upstate New York metropolitan areas have fared better in terms of jobs and per capita income growth than many of their counterparts around the country. In an analysis of the private sector job loss across all states during the recession, the Fiscal Policy Institute found that the single most significant factor was a state's foreclosure rate. Increases in state government spending over the past two years was less significant than the foreclosure rate, but still was associated with fewer lost jobs.

The federal stimulus package—the American Recovery and Reinvestment Act (ARRA)—has made a significant difference around the country in moderating job losses that might otherwise have occurred. Two components of the stimulus plan—state/local fiscal relief and aid to these unemployed and needy individuals—are having particularly beneficial effects in New York. The Empire State will receive about 10 percent of ARRA's overall $140 billion in state/local fiscal relief, and has used the first portions of that in the spring to close nearly one-third of the state's $20 billion budget gap for fiscal years 2009 and 2010. Federal fiscal relief enabled New York and other states to preserve public health, education, and other essential services and helped prevent additional budget cuts or tax increases that would have exacerbated the downturn.

New Yorkers will also receive nearly $5 billion under four major ARRA programs that provide temporary payments to the unemployed and needy individuals. These programs, together with three individual tax reduction provisions, will prevent an estimated six million Americans, including 419,000 New Yorkers, from falling below the federal poverty line in 2009.

Many New Yorkers are struggling economically during this downturn, but for many workers the prior economic expansion did not hold much good news either. Uncharacteristically for an expansion, median wages did not rise during that period. Today, median wages are only slightly above 1990 levels despite considerable productivity growth over this period.

Because New York wages performed especially poorly in this decade, most New York workers have not seen meaningful wage gains since 1990. White women and college-educated women are the only groups to have seen significant wage gains. Median wages fell nearly 10 percent for black men and nearly five percent for black women. Median wages rose only 3.3 percent for men with a bachelor's degree or better, and fell by double digits for men who didn't complete college or high school. Median wages for women in those categories fell by 7 percent.

Income inequality is at an all-time high in the United States. Still, it is rather staggering to note that over three quarters of income gains in New York between 2002 and 2007 went to the wealthiest four percent of taxpayers, who now receive 44 percent of all income. Meanwhile, although there were significant increases in the state's minimum wage since 2004, the purchasing power of the state's minimum wage is still 20 percent below the 3-person federal poverty line and well below levels that existed through the 1960s and 1970s.

Under Governors Spitzer and Paterson, the New York State Labor Department has started to vigorously enforce state labor standards. Enforcement efforts have identified 85,000 workers misclassified by their employers as independent contractors in an effort to skirt compliance with mandatory social insurance programs such as unemployment insurance and workers' compensation. Curbing such labor abuses not only benefits exploited workers, it also helps law-abiding employers by leveling the playing field among businesses when it comes to compliance with long-standing labor standards.

Significant improvement in New York's economy in the wake of this Great Recession hinges heavily on recovery at the national level and smart policy leadership aimed at sustainable growth. Several federal actions are prerequisites:

- While ARRA, President Obama's stimulus package, halted the economy's freefall, even when gross domestic product picks up the country is likely to be in for many months of "jobless recovery." Another substantial round of stimulus spending will be necessary to put millions of people productively back to work.
- The federal government has invested hundreds of billions of dollars in rescuing large financial firms from certain ruin. The government now needs to ensure that the finance sector acts more decisively to resolve the foreclosure crisis still threatening millions of homeowners and communities across the country.
- Robust financial regulatory reform is critical to restoring reasonable credit market access necessary to allow the economy to function properly and to prevent ill-advised and excessive leveraging, risk-taking and use of poorly understood financial instruments.

Restructuring the health-care system will be critical to the health of millions of uninsured and under-insured Americans, and the global competitiveness of American businesses. The system must become more cost-effective, of better quality, and capable of providing universal health care. The number of New Yorkers without health insurance rose to 2.7 million in 2008 (14.1 percent). During the 2001 to 2003 downturn, New York made impressive progress in expanding health coverage—bringing down the state's uninsured rate at the same time it soared nationally—but that feat came at considerable expense. It is doubtful that the state could repeat that given the current economy. Despite progress, the lowest that the state's uninsured rate has gotten in this decade was 12.7 percent in 2004. Even that is far too high.

There are also several important actions that New York's state and local governments can take to help propel New York toward a strong and sustainable recovery.

- The first order of business should be to update New York's unemployment insurance system. Today, unemployment insurance in New York provides a maximum benefit lower than all of our neighboring states and, unlike many states, New York does not provide a special allowance for low-wage workers.
- If there is a second round of federal stimulus spending, New York will likely gain new jobs from that. Meanwhile, if Governor Paterson signs legislation passed by the assembly and senate, a new public-private initiative, Green Jobs/Green Homes New York, will direct private investment into residential energy efficiency retrofits that will save New Yorkers money on their utility bills and is projected to create thousands of new jobs. The employment opportunities stemming from the stimulus and this new initiative should be targeted to high unemployment communities.
- State and local government subsidies for development projects should always be linked to job standards, including family-supporting wages and benefits, with clearly defined mechanisms in place to ensure transparency and accountability in the use of these tax dollars.
- The state should adequately invest in its system of public higher education—SUNY and CUNY—to maintain the productivity of the state's economy and provide critical opportunities to workers seeking to re-train and further their education.
- Progress made in recent years by state government in vigorously enforcing labor standards to curb worker misclassification and other abuses should be continued, as should the involvement of labor and community groups in enforcement of labor standards. Labor standards enforcement means not only that workers' legal rights are respected but also that law-abiding employers will face their

competitors on a level playing field.

- The purchasing power of New York's minimum wage should be restored to its 1970 peak value, allowing a full-time worker earning the minimum wage to support a family of three above the federal poverty level.

- The state's safety net programs, such as the basic cash assistance grant, should be strengthened so that vital resources are available to the poorest New Yorkers who need them, especially during the economic downturn.

- Paid family leave—already enacted in New Jersey—should finally become a reality in New York, easing the strain on New York workers juggling jobs and family caregiving responsibilities.

New York State and local governments continue to face serious budget challenges, but leaning too heavily on spending cuts can offset the positive economic effects of federal stimulus funds. Also, to the extent that tax or fee increases are proposed to moderate budget reductions, those increases should make New York's overall tax structure more, rather than less, progressive. The combination of state personal income tax reductions in the 1990s together with increases in local sales and property taxes in recent years has made New York's tax structure more regressive.

Federal, state, and local governments should keep one final issue clearly in mind as they take actions to move the economy out of the recession. Occupational projections indicate that a disproportionate number of new jobs in the United States will be low-wage, paying less than 150 percent of the poverty level. While there is no doubt that individual workers are likely to achieve more success in the labor market with a college education, it is far from clear that the economy on its current track will produce a sufficient supply of high quality jobs to accommodate all who receive post-secondary schooling. Public policies and private practices are needed to raise the skill requirements of jobs, and to increase the pay for the large majority of jobs that will not require a college degree.