BUILDING A LADDER TO JOBS AND HIGHER WAGES

A Report by the Working Group on New York City's Low-Wage Labor Market

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Building a Ladder to Jobs and Higher Wages is the product of The Working Group on New York City Low-Wage Labor Market. The Group was initiated in September 1998 by the Community Service Society of New York. The Working Group has brought together policy analysts from government and non-profit organizations, university-based scholars, specialists in worker training, and representatives from business and labor.

The Group setout to produce a report that presents a wide-ranging set of recommendations for policy makers in City Hall and Albany, as well as for business, labor and civic leaders, to expand economic opportunity for participants in the city's low-wage labor market. The report details a host of practical steps than can be taken to create more jobs, expand training and educational opportunities, and ensure that work is a path out of poverty. Our goal is to begin a process that will lead to the implementation of the report's recommendations. As in any position paper assembled by a wide range of input, consensus on every proposal would be impossible to achieve; therefore no specific proposal should be assumed to be supported by all the individual members of the Working Group. However, all participants in the process agree that these recommendations provide a sound basis for public dialogue and action to address a serious challenge facing New York City now and in the future.

The Working Group extends its gratitude to Heléne Clark, Ph.D. Director of ActKnowledge, Center for Human Environments, CUNY Graduate Center for her fine editorial work.

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EXECUTIVE SUMMARY

Jobs and pay have long been at the top of the public agenda. Recently, the stakes have gotten higher. Public policy - most notably, the adoption of an employment-based welfare system - is making new demands on the New York City labor market. More people need jobs and more of these jobs ought to pay family-supporting wages. Almost one-quarter million adult recipients remain on the city's public assistance rolls and most are expected to make the transition from welfare to work. As they enter the labor market they join the competition with high school graduates and dropouts, immigrants, and other members of the working poor in the hunt for a decent job. Is the city's labor market up to the challenge of providing an opportunity for living wage employment to all who want, and are now expected, to work?

From afar there would seem to be little reason to worry. New York City's welfare rolls are one-half of what they were in 1995 and payroll employment has been posting record gains since 1996. More city residents are working. Yet, a closer look reveals cause for concern.

More people are working, yet unemployment rates remain high. In the first six months of 2000 the New York City unemployment rate stood at 5.9 percent, well above both the national average for the same period (4.0 percent) and the 5.0 percent the city achieved in 1988, its low point in the previous business cycle.

More people are working, yet a relatively small share of working-age New Yorkers are employed. The proportion of city residents 16 through 64 years old with a job was 63.6 percent in 1999, 10.3 percentage points below the national average of 73.9 percent.

More people are working, but many more are employed in low-wage industries. From 1989 to 1999, employment in industries whose average annual wage was less than $25,000 grew by 81,000. Over the same period, employment in industries whose average wage was between $25,000 and $50,000 (the next rung up the wage ladder) fell by 66,300.

More people are working, but real wages for most workers have yet to recover to their pre-recession highs. Median inflation-adjusted earnings declined from the late 1980s through the mid-1990s, and are still 6.1 percent below their 1988-1989 level. For workers who depend on the low-wage sector of the economy, real wage declines have been even more dramatic. Weekly earnings tumbled by 14.7 percent, for example, for workers in less-skilled service occupations. Over the same period, only the top 20 percent of wage earners have enjoyed wage increases.

More people are working, yet more people are struggling to make ends meet. The poverty rate for New York City's working families with children jumped from 11.0 percent in the late 1980s to 19.2 percent in the late 1990s. Families that include at least one worker now constitute nearly half (47.3 percent) of the city's poor families with children. Measured by this report's standard of income adequacy, 150 percent of the federal poverty line, nearly one-third (32.9 percent) of New York's working families do not have a sufficient income.

The purpose of *Building a Ladder to Jobs and Higher Wages* is not simply to argue that the glass of the city economy is half empty. Its goal, rather, is to spark discussion, *and action*, to address the shortcomings in the labor market just described. *Building a Ladder* presents a wide-ranging set of recommendations to expand economic opportunity for participants in the city's low-wage labor market. It includes a host of practical steps that can be taken to create more jobs, expand training and educational opportunities, and ensure that work is a path out of poverty. Our expectation is that many of the report's recommendations will be considered for executive or legislative action in the years to come. We are confident that both the public and our political leadership will focus on these issues if they are presented with sensible, well-thought-out proposals that can bring tangible improvement to the city's residents.

The scope of *Building a Ladder* is ambitious. The report charts a broad direction for public and private policy. While we would urge the reader to see the report's proposals as a coherent whole, we recognize that no matter how persuasive our case, government and the private sector cannot do everything at once. We also acknowledge that decision makers and voters will prioritize among our proposals and other pressing civic concerns that we do not address, such as public education.

Costs are central to priority setting. The full report estimates costs when possible and identifies existing or new revenue streams that could pick up the tab. Successful policy making is mindful of whether the public is getting its money's worth. Unsuccessful policies are never a bargain. We honor that simple truth by including proposals that scrap money-wasting policies with initiatives that spend money wisely.

Smart policy making also recognizes the difference between short-term savings and long-term costs. Job training and job creation programs may be expensive, but they are sound investments if they foster steady work and keep people from long-term reliance on public assistance. Smart policy making can also see where a more ambitious and comprehensive approach can save money because it establishes coherence and builds connections between policies. Workforce preparation programs and economic development efforts are clear examples of where the separate pieces of labor market policy can be more intelligently integrated.

Building a Ladder focuses on four basic needs:

- ♦ Generating job opportunities for low-income New Yorkers
- ♦ Preparing people for living-wage jobs
- ♦ Making work a path out of poverty
- ♦ Providing a humane safety net

These issues are examined in depth in the four chapters that make up the main body of the report. Together, the chapters construct a comprehensive approach to achieve genuine economic development, an economy in which growth provides a basis for expanding opportunity for all New Yorkers. This summary presents key recommendations and supporting strategies to meet each of the needs listed above.

We begin with recommendations on how best to foster growth so more and better job opportunities open for workers at the low end of the labor market. The second set of recommendations focuses on workforce preparation in the context of the changing job market and suggests how current policy opportunities can create a better match between worker supply and employer demand. Third, we move to a discussion of how to provide support to low-wage workers so that more families can meet basic needs and move out of poverty through work. Finally, we recognize that even in a thriving economy there will be some people who, either temporarily or permanently, cannot work. Our final set of recommendations, therefore, addresses how to ensure that an adequate safety net is in place.

What about education?

Without question, quality education is fundamental to improving opportunities for those relegated to, or heading towards, the low end of the labor market. Literacy, numeracy, and problem-solving abilities are increasingly important for careers that lead to higher pay and benefits. Therefore, the quality of New York City's public schools and access to higher education are central to the future of low-income New Yorkers and their children.

However, education alone will not solve the problems of poverty and low-wage work. Rising education and skill levels without sufficient job growth will still result in high unemployment and depressed wages. A high school diploma or even a college degree cannot guarantee a job at a good wage when there are not enough of these jobs available. Already, rising poverty rates among New Yorkers with high school and college educations indicate that the demand side of the equation cannot be ignored.

For these reasons, and because education reform has become a high priority for a broad range of public officials and civic activists, the Working Group focused its recommendations on a critical, but far more neglected, set of policy concerns for low-wage workers.

Generating Job Opportunities for Low-Income New Yorkers

The place for heavy lifting in the area of job creation must be the private sector. However, a healthy private sector depends on an effective public sector. Strategic investments in physical infrastructure and key institutions are essential to providing capacity for growth in the private sector and expanding the job opportunities for low-wage workers. Well-crafted regulations and program initiatives can also provide incentives for private sector job creation and create the environment necessary for sustainable growth over the long term.

To fulfill the public sector's responsibilities in job creation, state and local economic policy needs to perform a complex balancing act. It needs to strengthen the underlying foundations of the economy—natural resources, physical infrastructure, and workforce capabilities. At the same time, government also needs to provide public services and maintain reasonable cost structures. Development policy should support the leading sectors of the economy, while maintaining a diversified economic base that can withstand business cycle fluctuations and changes in the global marketplace, as well as provide a broad array of job opportunities for a workforce with diverse skills.

A balanced approach to economic development would first enhance the productivity and competitiveness of the city's economy. The recommendations presented below have three overarching themes: 1) to enhance general productivity by building such foundations as a qualified workforce, adequate infrastructure, effective governance and quality of life; 2) to sustain growth over the long-term--economic growth that excessively depletes natural resources, damages the environment, fails to maintain physical infrastructure or widens social divisions undercuts prospects for future growth and development; and 3) to improve collaboration between New York City and its neighboring jurisdictions. Competition for jobs between the city and its suburbs creates a climate that inhibits collaboration on transportation improvements, land use policies, export promotion and other activities that can benefit the entire region.

Strategic investments in broad sectors of the economy, along with infrastructure improvements that provide the capacity for sustainable growth, are at the core of our recommendations. Taken together they would contribute to a balanced, diverse, and sustainable prosperity that would generate more and better jobs for workers with less than a college degree.

Implement a Public-Private Strategy to Develop Key Industry Sectors

Key Recommendations

1. ***Redirect economic development expenditures to programs that support a broad range of industry sectors with both small and large businesses.*** New York's economy thrives from clusters of firms that benefit from the city's status as a global center of trade, finance, culture and information. From the Fashion industry to New Media, New York's private sector engines are characterized by the concentration of firms with diverse specializations, supported by workers with a broad range of talents and world-class communication and transportation systems. More often than not, these sectors include networks of small companies and are constantly creating new firms that must survive in a highly competitive environment. In spite of this range of dynamic sectors, a disproportionate amount of economic development dollars flow to a few large firms that threaten to leave the city. A more constructive use of these resources would be to improve the city's competitive advantages through investments in key industry sectors. Other cities have achieved success through this approach, supporting research and development, workforce preparation, market promotion and other foundations to competitive industry sectors. In nearly every example, comprehensive strategies were developed by the top levels of government in partnership with leaders in the private sector.

2. ***Foster strong industry support organizations*** to assess and prioritize the needs of their sector and involve the industry in the design and delivery of economic development services. Industry-specific development corporations, trade associations, industry-union partnerships and informal industry organizations are in the best position to ensure that programs are responsive to industry needs and are implemented effectively. One means of strengthening and expanding the city's network of industry intermediaries is to create a competitive grant program to support existing industry organizations and encourage the formation of new intermediaries. Public resources can help leverage private funding to replicate the success of organizations like the Garment Industry Development Corporation, the New York New Media Association, the New York

Software Industry Association or the Greenpoint Manufacturing and Design Center.

3. ***Establish Industrial Districts that will support the development of manufacturing clusters.*** With a quarter-million jobs and a large number of growing, profitable firms, manufacturing is a particularly important source of living-wage job opportunities for workers in the low-wage job market. However, a shortage of affordable industrial space and the expansion of commercial and residential uses in industrial areas is forcing many firms to close shop or leave the city. Special industrial districts in parts of Long Island City, industrial areas near the Brooklyn waterfront, and other active manufacturing areas can provide a focus for integrated strategies that combine zoning protections, infrastructure improvements, industrial development incentives, and the technical assistance provided by organizations such as the Industrial Technology Assistance Corporation and the New York Industrial Retention Network. Chicago, which has developed a manufacturing strategy that is focused on designated industrial corridors, can be a model for a New York strategy.

4. ***Connect new technology and commercial centers to the low-wage workforce.*** The growth of technology and office industries provides an opportunity to establish thriving employment centers outside of Manhattan's Central Business District. Efforts to encourage the expansion of these industries, such as the city's Digital NYC program and the Group of 35 convened by Senator Charles Schumer, can help create a rich source of job opportunities for the low-wage workforce if they are combined with planning and workforce strategies that connect employment centers to low-income communities and workers. These strategies should include:

- Land use regulations and marketing programs that cluster activities in a few “borough downtowns” that minimize the displacement of manufacturing and affordable housing and that maximize their accessibility to the low-wage workforce.
- Community design and infrastructure enhancements that connect commercial centers to adjacent neighborhoods.

- Creation of Special Assessment Districts, in which a portion of the increased tax revenues resulting from the conversion of industrial to commercial space is earmarked for the development of industrial space or affordable housing in nearby locations.
- Employment programs that effectively train and place low-income job seekers with technology and office firms relocating to the outer boroughs.

Provide the Infrastructure Capacity for Sustainable Growth

Key Recommendations

1. ***Implement capital plans that give priority to three critical needs—transportation, schools and housing—that will expand the capacity for growth and help attract and retain a competitive workforce.*** While there are extensive capital needs across a broad range of activities, these areas command particular attention. Congestion on subways and highways and the lack of affordable housing threaten to put a choke hold on the region's economy, while safe, modern classrooms are a prerequisite for educating tomorrow's workforce. Immediate priorities include adopting a sound financial plan to implement the MTA's new five-year capital plan, increasing funding levels for school construction, and a renewed commitment to low and moderate-income housing in the city's capital budget.

2. ***Adopt debt reduction measures to expand the fiscal capacity for infrastructure investments***. As recommended by the New York City Comptroller, these include such actions as implementing a modest pay-as-you-go capital program, using a portion of city and state budget surpluses to retire outstanding bonds, and establishing an Infrastructure Improvement Fund to pool "one-shot" revenue sources.

3. ***Identify dedicated revenue sources for infrastructure improvements.*** To the extent possible, service improvements in areas such as transportation should be funded with revenue sources that are paid by constituents who derive a benefit from the expenditure and who can most afford to pay. Potential sources that meet these

SUPPORTING STRATEGIES

✓ ***Provide resources for community planning and development*** to help neighborhoods benefit from new infrastructure projects. Flexible grants and loans to develop community plans, which exploit new business opportunities, train for new employment openings and assist displaced businesses and residents, can help ensure that low-income New Yorkers benefit from infrastructure investments.

✓ ***Develop industry, union and community programs to improve minority/female representation in construction trades.*** Both the expansion of successful programs in New York City and the replication of model programs from other regions can improve access to well-paying careers for many low-wage workers.

criteria include a regional transportation tax that would replace the outgoing commuter tax and fund new subway and commuter rail services, paying for new facilities by capturing a portion of real estate values that increase as a result of the facility, and increased bridge and tunnel tolls during peak periods of auto use. The latter would not only provide revenue for alternative services; it would also reduce congestion by diverting some drivers to other times of the day.

Preparing People for Living-Wage Jobs

Worker training should be a "win-win" deal for both sides of the labor market. Employers benefit from added worker productivity and workers benefit from more job opportunities and from higher wages. But publicly-funded worker training programs have often fallen short of this promise. In many cases, this is because workforce development programs have operated independently of the needs of local employers and have not been integrated into local economic development policy. New York's implementation of the recently enacted Workforce Investment Act provides an opportunity to create a workforce development system that is responsive and effective.

However, the Workforce Investment Act (WIA) is not the only significant source of job training funds. With the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the welfare system has come to play a significant role in the labor market. While reforms in New York City have resulted in a large reduction in the welfare rolls and a significant increase in labor force participation, there is considerable room for improvement in how effectively the system functions to prepare people for family-sustaining jobs.

Make the Workforce Investment Act Work

Key Recommendations

1. ***Ensure that WIA focuses on clients.*** The Workforce Investment Board (WIB), which will oversee WIA locally, should commit to providing individual assessments of eligible participants and evaluating their education and training needs. The Memorandum of Understanding between the WIB and the operators of the soon-to-be-created One-Stop Career Centers should describe the expected provision of individual assessments, including those for education and occupational skills training.

Vouchers should be adequate to cover the costs of training and clients should not have to raise the difference.

2. ***Provide a "bridge" to the new system***. The voucher system should be tested before universalizing it; the WIB should work with providers and others to define special populations; community-based organizations should be permitted to provide services during the first year of WIA implementation.

3. ***Fund effective skills upgrading programs***. The WIB should look to proven worker skills upgrading programs, such as the Consortium for Worker Education and the Garment Industry Development Corporation, for models in expanding training for incumbent workers. These programs work because they bring together workers and employers to design appropriate training.

Make Welfare an Effective Work Preparation System

Key Recommendations

1. ***Individualize skill development***. Work activities should be tailored to the needs and capabilities of individuals receiving public assistance, in contrast to the "one-size-fits-all" workfare approach currently being pursued. This more case-oriented approach should be coupled with greater monitoring of individual progress in order to enhance job retention after welfare.

SUPPORTING STRATEGIES

✓ ***Give policy makers tools to make decisions about training programs***. Conduct periodic job - vacancy surveys to define areas of unmet labor need.

✓ ***Make sure the new system is properly evaluated***. More sophisticated performance measures, long-term evaluation studies, and strong oversight of WIA will better ensure an effective workforce development system.

✓ ***Ensure that One-Stop Job Centers are an effective tool for matching people to jobs***. Maximize linkages with local and suburban businesses to use the One-Stops as providers of an applicant pool.

2. ***Support access to higher education***. Welfare participants who graduate college are likely to secure decent-paying, stable employment. The Governor should

sign legislation that has recently passed both houses of the state legislature, which classifies college work-study and internships as allowable work activities for welfare participants.

3. ***Implement and expand community jobs programs.*** Real work at real jobs helps people obtain the work experience and skills they need to move into unsubsidized employment. The New York City Council first passed and then overrode the Mayor's veto of the Transitional Employment Program - legislation that would use federal Temporary Assistance to Needy Families (TANF) funds to provide 12-month transitional employment opportunities for welfare recipients. The Mayor should implement the law. In addition, lawmakers in Albany should expand and improve the design of the New York State Wage Subsidy Program along the lines of the Transitional Employment Program.

Making Work a Path Out of Poverty

Despite the strong pace of private sector job growth and rising labor force participation rates, an alarming number of families in New York City are unable to earn enough to achieve an acceptable standard of living. The problems these families face fall into two broad categories. First, there are inadequate benefit supports that enhance the capacity of low-wage workers - particularly single parents - to sustain employment. The lack of affordable, quality child care and health insurance coverage makes holding a job a difficult challenge. Work is not possible if a parent does not have a reliable child care provider. Uninsured workers are disproportionately low-income workers. If these workers go without proper medical care, their ability to stay healthy and work productively will suffer.

A second challenge is inadequate income from work. More people are working but their wages remain low, often too low to enable them to lift their families above the poverty line. A growing number and proportion of New York City workers have wages that leave them well below an adequate living standard. Government action to raise living standards has yet to fully respond to this problem. The purchasing power of the federal minimum wage has eroded over the past 30 years and is now about one-third below its 1968 level. New York, which has the second highest average wage among all 50 states, is one of the few high-wage states that has not raised its minimum wage above the federal level. Pay must be adequate to provide an effective incentive to work. Paychecks, along with wage supplements such as earned income tax credits, must be sufficient for workers to provide an adequate and acceptable standard of living.

Make Work Feasible

Key Recommendations

1. *The* ***city and the state should further improve the availability, affordability and quality of child care by***:
    - Replacing the current, bifurcated and unequal system of subsidized child care in New York City with a single agency that would give welfare recipients and low-income working parents equal access to an array of child care options, with eligibility and subsidies determined by income and not welfare status;
    - Investing in new and existing child care centers by funding new construction and renovation, increasing funds for training, professional development and better compensation of child care workers, and raising the rate of reimbursement to providers or regulated child care;
    - Making child care more affordable by increasing the number of subsidies available and creating a refundable city child care credit equal to the state credit.

WHAT'S ENOUGH TO LIVE ON?

Nearly everyone agrees that the national poverty threshold is no longer an appropriate measure of income adequacy. As the National Academy of Sciences points out, the federal government has not updated the poverty line to reflect the changes in household income, consumption, and expenditure patterns that have occurred since the poverty line was created in the early 1960s. Additionally, the poverty line does not take into account the above average cost of living in places such as New York. For example, in New York City, using the amounts specified by the US Department of Agriculture's Low Cost Food Plan and by the US Department of Housing and Urban Development's Fair Market Rents, the cost of food and housing alone equals the national poverty line amount.

What would be a better standard? A clear consensus has yet to emerge. We use 150 percent of the poverty line as our standard. In 1999, this standard specified annual incomes of $12,360 for one person, $16,590 for two-person families, $20,820 for three-person families, and $25,050 for four-person families.

2. ***Assure adequate funding for the state's Health Care Reform Act of 2000 that established Family Health Plus***, a much-needed initiative to broaden health insurance coverage through Medicaid. The state should fully access federal funding and permanently assume the local government responsibility for program expenses related to Family Health Plus. The state should use the same financial eligibility levels (250 percent of poverty) for all adults (those with and without dependent children) as for children. Coverage should also be extended to all legal immigrants.

3. ***The city should effectively implement the Mayor's recent commitment to increase Medicaid and Family Health Plus enrollments by 900,000 persons***. This initiative should help extend health coverage to many low-income workers.

Reward Work

Key Recommendations

1. ***The state should raise its minimum wage to $6.75 an hour*** and, to prevent its erosion relative to the general rise in wage levels, annually index its value using changes in the state's average weekly wage level. Elected officials in Albany should complete the effort begun in the 2000 legislative session when the Assembly passed just such an increase, a majority of State Senators co-sponsored a companion bill, and the Governor voiced his support for raising the state minimum wage. Ten states now have a minimum wage above the federal $5.15 hourly rate and five states have minimum pay standards at $6.00 an hour or higher. By January 2001, Massachusetts will have a minimum wage of $6.75 an hour and Connecticut's minimum wage will be at $6.40 an hour, rising to $6.70 a year later.

2. ***New York City should follow the lead of the state, which has steadily improved the statewide Earned Income Tax Credit, and create an EITC against its own personal income tax equal to 20 percent of the federal EITC***. The state and the city EITCs should not be contingent on the receipt of TANF or other non-general fund sources.

SUPPORTING STRATEGIES

- ✓ ***The city should expand the scope of its "living-wage" law*** to include more workers employed by city contractors, include the provision of benefits in its calculation, and extend the law to firms receiving city economic development subsidies.
- ✓ ***Since the welfare Earned Income Disregard can be an effective work incentive when properly structured, the state should make several improvements, including***: increasing the standard deduction to $200, setting the percent disregard factor at 50 percent, and extending its application to single individuals.
- ✓ ***To ensure that workers receive the compensation and protections to which they are entitled***, the state should improve the enforcement of minimum wage, overtime pay, and health and safety laws by: increasing the budget for enforcement agencies; encouraging private enforcement of wage and hour requirements; allowing private enforcement of health and safety laws; and assisting small companies in achieving compliance and remaining competitive without undercutting labor standards.
- ✓ ***The state should adopt pay equity legislation.*** Women working in female-dominated and minorities working in minority-dominated occupations suffer a pay gap. They earn less than workers with the same skills in occupations that are majority-male and majority-white. Pay equity legislation would make it illegal to pay different wages for comparable work.

Providing a Humane Safety Net

Even if all of the recommendations outlined above were implemented, there would still be a need for a humane social safety net. Employment-based approaches to the problems of low-income families are a better long-range solution than others, but they cannot serve everyone's needs all of the time. Unemployment Insurance (UI) is often the first program jobless workers turn to. But the system does not measure up to the demands of a changing economy and the new public policy environment. In addition, there will always be people in need of public assistance. Some have disabilities (or are caring for people with disabilities) that do not rise to the level of eligibility for the federal Supplemental Security Income (SSI) program, but that realistically preclude them from competing for, obtaining, and retaining a job. Others will need cash assistance on a transitional basis between jobs (if they do not qualify for unemployment insurance) or other changes in life circumstances. Finally, some continuing and cyclical unemployment is inevitable. Unemployment Insurance, public assistance, food stamps, and Medicaid are essential (albeit inadequate) supports for these New Yorkers. Our recommendations would put more people to work, at higher wages, but "ending welfare" is not a realistic goal.

Key Recommendations

1. ***New York State should follow the lead of several other states in modifying its unemployment system to***:
    - Increase benefit levels for low-wage workers, establish a dependent allowance as part of UI benefits, and change the Extended Benefits trigger to make it easier for the long-term unemployed to obtain extended benefits during periods of high unemployment;
    - Base eligibility on hours worked, not earnings, so as not to discriminate against low-wage workers;
    - Allow unemployed workers who are seeking part-time employment (often because of family obligations) to qualify for benefits;
  - Expand access to the UI system through such measures as immigrant-friendly services and by providing for representation of UI claimants as part of a larger outreach and education effort.

SUPPORTING STRATEGIES

- ✓ To help facilitate the transition to work***, the city should ensure access to food stamp and Medicaid benefits*** for households whose cash assistance is terminated.
- ✓ ***The city should ensure the fair administration of public assistance supports*** by: providing welfare applicants clear and accurate information about benefits and facilitating their application; initiating a "Customer Service Review" to avert wrongful case terminations; and revamping the enforcement of work participation rules to foster the acquisition of skills and the enhancement of employability.
- ✓ ***The city and state should institute mechanisms to track the implementation of policies that affect the welfare eligible population***. Periodic evaluations of program effectiveness should be conducted by independent, outside experts and include outcomes for those deterred from

2. ***New York State should restore the welfare grant to its 1990 value and index the grant to ensure that its purchasing power remains intact.*** The welfare grant has not been increased since 1990. It is woefully inadequate. Longer-term, the grant should provide recipients an income at least equal to that of the federal Supplemental Security Income program.

Conclusion

Building a Ladder provides a comprehensive approach to policy making. It suggests a variety of ways to strengthen the low-wage labor market. Some recommendations call for new policies, some outline ways to make existing programs work more effectively, and still others focus on making the most of new opportunities such as the Workforce Investment Act. Taken together, these recommendations address the challenges facing low-wage workers: job availability, adequate skills, health care and child care, earnings sufficient to sustain a family, and a safety net for hard times.

The proposals we offer are also feasible. They are grounded in the realities of New York City's economy and the current federal policy context. Welfare reform is betting on the labor market and has put the spotlight on low-wage work in a new way. Now, when good times and federal policies are giving states and cities more flexibility, public and private sector leaders have new opportunities for effective action. *Building a Ladder* calls on all of us to consider new approaches that will provide more jobs and higher wages.

CHAPTER ONE
INTRODUCTION

Our nation is enjoying the longest economic expansion in its history. Unemployment is at a 30-year low and real wages are rising. What's more, the benefits of the current prosperity are reaching many of those who were left behind in the 1980s. Although employment growth was sluggish and real wages fell in the earlier part of this recovery, in the last few years the pace of job growth has quickened and labor markets have tightened. Employers are now offering work to people who usually stand at the end of the "job queue." As a result, unemployment rates for such groups as Blacks, Hispanics, and those without a high school degree, have fallen dramatically and real wages are rising for those who occupy the bottom rungs of the wage ladder.[1]

But here in New York City the picture is decidedly more mixed. By aggregate measures of employment and income, our city has fully—albeit belatedly—partaken of this boom. Yet by other measures, the picture is not nearly so robust. The city's unemployment rate remains well above both the national average and the rate New York City achieved in the late 1980s. When compared to central city residents across the country, it is still the case that a relatively small share of working age New Yorkers is employed. Lingering joblessness is not the only problem New Yorkers (especially those in the low end of the labor market) face. Real wages for most city residents have yet to recover to their pre-recession highs.

These weaknesses in the local labor market continue, we should remember, in the context of a boom. But expansion is only one phase of the business cycle. Although

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[1] National trends in employment and earnings documented in Mishel, Lawrence, Jared Bernstein, and John Schmitt. Forthcoming. The State of Working America, 2000-2001. Ithaca, N.Y.: Cornell University Press.

there are no visible signs of recession on the horizon, this expansion is growing long of tooth. New York City seems particularly vulnerable to a shift in the economic winds. A stock market correction, for example, would be a body blow to the city's Wall Street-dependent economy.

Demographic change, industrial shifts, and a new policy environment are reshaping the New York City economy. The local economy at the end of the 1990s is not just a more "service-oriented," "high-tech," "Wall Street-driven," or "globalized" edition of the local economy at the end of the last round of boom times, the late 1980s. It is, in addition, an economy with a significantly larger low-wage sector. Measured against the prior business cycle peak, employment in the city's lowest-wage industries grew by 81,000 and real wages fell dramatically for less-educated workers and less-skilled occupations. By the late 1990s, 46 percent of full-time New York City workers did not earn enough to lift a family of four above 150 percent of the federal poverty line. At the same time, nearly a third of the city's working families with children lived below that modest standard of income adequacy.

Jobs and pay have long been a public concern. But today the stakes are higher. Public policy—most notably, the adoption of an employment-based welfare system— is demanding more of the labor market; more jobs that pay family-supporting wages. In New York City nearly one-quarter million adult recipients remain on the public assistance rolls and most are expected to make the transition from welfare to work. As they enter the job market they meet—and compete with—high school graduates and drop outs, college students who need work as they pursue their education, immigrants, and other members of the city's working poor in an already overcrowded labor market.

The danger is that, by increasing supply without complementary efforts to increase demand, expand worker training, and strengthen the floor upholding wage standards, the pool of jobless New Yorkers will expand and increase the pressure on already low-wage workers to bid down their asking price in order to obtain employment. Indeed, Chapter Two of *Building a Ladder* presents evidence that this is already underway. We find that:

1. *More New Yorkers are in the labor market*. The labor force participation rate (the share of the working age population either employed or actively seeking work) has climbed from 64.8 percent in 1994 to 68.2 in 1999.
2. *But unemployment remains high*. Although the city has regained all the jobs it lost in the last recession, New York's unemployment rate, which averaged 5.9 percent in the first six months of 2000, is well above the national average of 4.0 percent and the 5.0 percent the city achieved in 1988.
3. *When compared to central city residents across the nation, a small share of working age New Yorkers are employed*. Only 63.6 percent of New Yorkers between ages 16 and 65 have jobs. The average for city-dwellers across the country, by contrast, is 71.6 percent.
4. *Real wages for most New York City residents have yet to recover to their pre-recession highs*. Median inflation-adjusted earnings have fallen by 6.1 percent since 1988-1989. For workers who depend on the low-wage sector of the economy, real wage declines have been even more dramatic. Inflation-adjusted weekly earnings tumbled by 14.7 percent, for example, for workers in less-skilled service occupations.
5. *And more New Yorkers are working for low wages*. By the end of the 1990s, 45.8 percent of New York City's full-time workers did not earn enough to lift a family of four over 150 percent of the federal poverty line.[2]

[2] The federal poverty line is a set of family-size adjusted income thresholds that define whether a family is poor. In 1999, for example, a three-person family was poor if its total income was below $13,290. Each year the U.S. Bureau of the Census updates these thresholds to account for the rise in the U.S. Consumer Price Index.

The Working Group

The purpose of *Building a Ladder* is to spark discussion, *and action*, to address the shortcomings in the labor market just described. The report was drafted by the Working Group on New York City's Low-Wage Labor Market. The Group was initiated in September 1998 by the Community Service Society of New York. The Working Group has brought together policy analysts from government and nonprofit organizations, university-based scholars, specialists in worker training, and representatives from business and labor. Each of us has engaged in research and practical efforts to address problems facing workers and those in search of work in the low-wage labor market. All of us had reached the conclusion that more thought was needed about solutions.

The Group set out to produce a report that presents a wide-ranging set of recommendations for public sector policy making in City Hall and Albany to expand economic opportunity for participants in the city's low-wage labor market. The reader will find in the chapters that follow a host of practical steps that can be taken to create more jobs, expand training and educational opportunities, and ensure that work is a path out of poverty. Our expectation is that many of the report's recommendations will foster new initiatives by the public and private sectors.

Opportunities For Innovation

This is an opportune moment to press an ambitious agenda on jobs and higher wages. For one thing, the national debate about poverty and the public sector's role in addressing it has taken a far more constructive tone in recent years. Despite ongoing disagreements about the effects of welfare reform and the administration of welfare policy, there is a lot less talk about "dependency," the dysfunctional welfare system, and the moral character of public assistance recipients. Instead, there is more new thinking that is focused on making work a path out of poverty.

Also, state and local governments are receiving new sources of federal funding to address the needs of the poor. Each year New York State receives a $2.4 billion Temporary Assistance to Needy Families (TANF) block grant. The grant matches what New York would have received under the old welfare system if its caseload remained at 1994 levels. Since the rolls have been cut in half, New York (like other states) has had a "welfare windfall" that is now worth nearly $1 billion. An additional new source of funds is the Welfare-to-Work block grant that provided the city nearly $60 million in 1998 and 1999, respectively. Federal dollars that once went to fund the Job Training Partnership Act now fund the Workforce Investment Act block grant, which will provide $125 million annually to New York City. What these three block grant programs have in common is the enormous flexibility state and local governments have been given in how they use the money.

There are more than a few places where constructive talk and new funding have resulted in significant steps to address the needs of welfare recipients and low-wage earners generally. Many of the most promising models have found their way into this report's recommendations. For example, a number of states, including New York, have adopted or expanded Earned Income Tax Credits, devoted more funding to the provision of child care, and initiated new programs to provide health insurance to low-income families. Some states and localities have adopted innovative, if still modestly scaled, "community jobs" programs for the hard to employ. In the past few years, 10 states and the District of Columbia have adopted state minimum wage laws that exceed the federal floor.

New York’s implementation of the Workforce Investment Act is another place where new thinking can take advantage of federal flexibility. Worker training should be a “win-win” deal for both sides of the labor market. Employers benefit from added worker productivity and workers benefit with jobs and higher wages. However, publicly-funded worker training programs have often fallen short of this promise. The new federal legislation is not without its weaknesses, but it gives the state and city the opportunity to assemble many of the pieces needed to build a coherent system of training and job placement assistance and to coordinate training with economic development strategies. Our report offers a number of proposals for realizing that potential.

Finally, the more constructive environment creates new possibilities of building community-wide support on problems of common concern. Worker training, as just noted, is one area where the needs of employees and employers can be more effectively joined. Job creation is another. The place for heavy lifting in the area of job creation must be the private sector. Public investments in transportation and other infrastructure can provide additional capacity for growth in the private sector and expand the job opportunities for low-wage workers. Meeting the needs of small manufacturers who are being squeezed out of the city, and of businesses operating in low-income neighborhoods, are also of concern to both the public and private sectors. Living standards, in the end, are not just a “labor” issue. Family-supporting wages, access to health care insurance, and an adequate social safety net are foundations of stable lives and viable urban neighborhoods.

A Framework for Policy Making

The recommendations in the following chapters are more than just a “do list” for state and local lawmakers. They are derived from a framework that established four long-term policy objectives. The overarching goals that give shape to more detailed recommendations are:

- Achieving balanced economic development;
- Creating fair access to opportunity;
- Fostering work that is a path out of poverty;
- Providing a humane social safety net.

Balanced Economic Development

State and local economic policy is a complex balancing act. It needs to strengthen the underlying foundations of the economy—natural resources, physical infrastructure, and workforce capabilities. At the same time, government needs to provide public services and maintain reasonable cost structures. Development policy should support the leading sectors of the economy, but there is also a need to maintain a diversified economic base that can withstand business cycle fluctuations, changes in the global marketplace, and provide a broad array of job opportunities for a workforce with divergent skills.

A balanced approach to economic development would give priority to policies that build the foundations of regional productivity and competitiveness; a qualified workforce, adequate infrastructure, general business climate, and quality of life. A second element in a better balance is policies that sustain growth over the long term. Economic growth that excessively depletes natural resources, damages the environment, fails to maintain physical infrastructure, or widens social divisions is not true economic development. A third need is to improve collaboration between New York City and its neighboring jurisdictions. Competition for jobs between the city and its suburbs creates a climate that inhibits collaboration on transportation improvements, land use policies, export promotion, and other activities that can benefit the entire region.

Chapter Three of the report responds to these many of these challenges. Infrastructure investments, along with industry-wide and neighborhood-level economic development policies, are at the chapter's core. Workforce development—a central component of economic development—is addressed in Chapter Four. That chapter also advances specific ideas for regional cooperation. Most important, perhaps, is the need to build links between worker-short suburbs and inner-city neighborhoods overstocked with job seekers. Taken together these proposals would result in a more balanced, diverse, and sustainable prosperity that would generate more and better jobs for workers with less than a college degree.

Fair Access to Opportunity

A fundamental aspect of *Building a Ladder* is fair access to its rungs. All participants in the economy—workers and employers, small and large businesses, women and men, all income groups, and all races and ethnic groups—should have equal access to employment and business opportunities. Attaining equal access also entails improving access for constituencies that have historically been excluded.

Public programs should be designed and administered to create a level playing field, for small and large business alike, to subsidies, tax benefits and services. An effective workforce development system should be readily accessible to individuals who wish to receive training and to businesses that are seeking assistance in finding employees or upgrading skills of current employees. Policy can do more to expand public access to information about employment opportunities for unemployed residents of low-income neighborhoods who are often outside the job information loop. Pay equity legislation can raise the earnings of women and minorities.

Access is a theme that runs through this entire report. Small business access to government assistance is addressed in Chapter Three's economic development proposals.

Greater access to training is a central element in Chapter Four's recommendations concerning state and city implementation of the federal Workforce Investment Act (WIA). Wider access to employment opportunities is the goal of Chapter Four's proposal that more firms be required to list job openings with the WIA-mandated "One Stop Career Centers." A recommendation about pay equity legislation is included in Chapter Five.

Work That is a Path Out of Poverty

Despite the strong pace of private sector job growth and rising labor force participation rates, an alarming number of families in New York City are unable to earn enough to achieve an acceptable standard of living. The problems these families face fall into two broad categories. First, there are inadequate social supports to enhance the capacity of low-wage workers—particularly single parents—to sustain employment. The lack of affordable, quality child care and health insurance coverage makes holding a job a difficult challenge. Work is not possible if a parent does not have a reliable child care provider. Uninsured workers are disproportionately low-income workers. They are sometimes forced to return to welfare in order to obtain Medicaid coverage. With more and more parents working, required to work, and/or desirous of work, it is in the public interest to enhance peoples' capacity to be both their family's breadwinners and care-givers.

A second challenge is inadequate income from work. As *Building a Ladder* documents in Chapter Two, inflation-adjusted wage rates for most New York City residents have not recovered to their pre-recession highs. Government action to raise living standards has yet to fully respond. The purchasing power of the federal minimum wage has been eroded over the past three decades and is now 30 percent below its 1968 level. To supplement low earnings for working parents, governments have made wider use of Earned Income Tax Credits (EITC). The state has recently increased its EITC and the city has passed legislation to institute an EITC locally. However, the disposable income of many low-wage workers still fails to provide an acceptable living standard. Pay must be adequate to provide an effective incentive to work. Paychecks, along with wage supplements such as earned income tax credits, must be sufficient for workers to provide an adequate and acceptable standard of living.

Support for workers and work that pays are the two issues addressed in Chapter Five. It details proposals for providing the child care and health insurance low-income workers need to stay on the job. It makes specific recommendations for a more effective EITC and a higher New York State minimum wage that would make work a path out of poverty.

A Humane Safety Net

Even if all of the recommendations in *Building a Ladder* were implemented, there would still be a need for a humane social safety net. Employment-based approaches to the problems of low-income families are usually superior to others, but they cannot serve everyone's needs all of the time. There will always be people in need of public benefits. Some have disabilities (or are caring for people with disabilities) that do not rise to the level of eligibility for the federal Supplemental Security Income (SSI) program, but that realistically preclude them for competing for, obtaining, and retaining a job. Others will need public assistance on a transitional basis between jobs (if they do not qualify for Unemployment Insurance) or other changes in life circumstances. Finally, some continuing and cyclical unemployment is inevitable. Public assistance, Food Stamps, and Medicaid are essential, albeit inadequate, supports for these New Yorkers. Our recommendations would put more people to work, at higher wages, but "ending welfare" is not a realistic goal.

Chapter Six contains a number of proposals for providing an adequate safety net. The Unemployment Insurance (UI) program needs to be reformed to respond to the demands of welfare reform and a changing world of work. It should be easier to qualify for UI and benefit levels for low-wage workers should be higher. Federal reform legislation was supposed to "uncouple" access to food stamps and Medicaid from the welfare system. It hasn't, and a high proportion of eligible families are not receiving these essential—and often work-enabling—public benefits. The chapter offers ideas that would revamp the UI system and ensure that more eligible families received the public benefits they need.

Welfare recipients in New York City are often subject to administrative procedures that seem to create new problems rather than help people cope with already difficult lives. An increasingly inadequate benefit level makes matters worse. It causes hardship and may do more to slow than hasten the transition from welfare to work. Chapter 6 details administrative changes that need to be made so that welfare better serves participant's needs. It also calls for an increase in the public assistance grant, so that recipients can live in greater dignity.

A TALE OF ONE CITY

Building a Ladder has a story to tell. But it is not a variant of the familiar tale of two cities. Simply put, the city has only one economy. Clearly, the well-being of low-wage workers cannot be advanced unless the larger economy thrives. Indeed, our proposals to address the needs of low-wage earners must be judged in the context of their effect on the whole.

The contributions low-wage workers make to that economy, however, are also of vital, if unrecognized, importance to its sustained prosperity. Industries at the cutting edge of the New York City economy stand on the shoulders of low-wage workers and the firms that employ them. The city's preeminence as a world center for business, tourism, and the arts depends on the quality of supporting industries such as hotels and restaurants. New York's fashion industry relies on hundreds of small apparel contractors who occupy a vital niche in a globalized system of production. Businesses across the city depend on building and protective services provided by firms employing low-wage earners. And the quality of life of families throughout New York depends on the availability of vital services, such as child care and health care.

Our proposals, if adopted, will make life better for low-wage workers and their families. They will also increase the capacity of the city economy to grow, foster the revitalization of low-income neighborhoods, and enhance the quality of urban life for all New Yorkers. Our city's future will in large measure be determined by how effectively we meet the challenges described in the pages that follow.

CHAPTER TWO
A CLOSER LOOK AT NEW YORK CITY'S LOW-WAGE LABOR MARKET

This chapter begins with a portrait of the low-wage labor force. It then turns its attention to developments in the 1990s. Over the decade low-wage workers have been adversely impacted by both supply and demand-side trends. On the supply-side, there are more competitors in the labor market. Despite recent job growth and a historically high proportion of city residents at work, high rates of joblessness continue to plague the lives of workers who depend on work at the low end of the job ladder. On the demand-side, there are fewer jobs available that pay family-supporting wages. As a consequence of these factors (and the lack of an adequate public policy response), real wages for the vast majority of city residents have yet to recover to their pre-recession highs. The various sections in this chapter provide some measurement of each of these trends that, in concert, have contributed to the growth of low-wage work in the past decade.

New York City's Low-Wage Workforce

Who works for low wages in New York City? Any definition is arbitrary. How low is low? The threshold used in this profile includes anyone whose average hourly wage was in the bottom 30 percent of the wage distribution, earning a wage of no more than $8.17 (current dollars) in 1989.[3] This includes anyone who worked at any time during the year. Because it includes persons who moved into or out of unemployment

[3] This profile is based on data from the 1990 Census, Public Use Micro Sample (PUMS). Although the data set is relatively old, the Census is the best source for detailed demographic information about small geographic areas. Clearly there have been both demographic and economic shifts since 1990. More recent data from the annual Current Population Survey suggest that: an increasing share of low-wage earners are Hispanic, non-citizens and high school graduates; a smaller share work in clerical jobs and a larger proportion work in service occupations; and fewer work in manufacturing while a growing share work in retail and service industries.

during the 12 months of that year, it also is representative of many of those who are not currently employed but who seek low-wage work.

Demographics:

Table 1 compares the demographic characteristics of the city's working age adults (individuals 18 through 64 years of age) who are low-wage workers to all New York's wage earners. The numbers are not hard to interpret, nor do they offer any surprises for readers familiar with New York City.

1. More low-wage earners are female. Women make up 51 percent of low-wage earners compared to 48 percent of all wage earners.
2. They are disproportionately people of color. Nearly seven out of ten low-wage earners are Black, Hispanic or Asian.
3. Although they are younger than workers generally, almost three-quarters of low-wage earners are 25 and over.
4. They are less well-educated. Nearly two-thirds of the city's low-wage earners hold no more than a high school degree.
5. A little more than half of low-wage earners were born outside the continental U.S. Three in ten low-wage workers do not hold American citizenship.
6. A relatively large share of low-wage earners lack English language proficiency. Over 17 percent report that they do not speak English well or at all.

Table 1
Who Are New York City's Low-Wage Workers?

	Low-Wage Earners	**All Wage Earners**
Gender		
Male	48.7%	51.7%
Female	51.3%	48.3%
Race/Ethnicity		
Non-Hispanic White	30.7%	45.0%
Non-Hispanic Black	23.8%	23.2%
Hispanic, any Race	34.1%	24.0%
Asian	10.9%	7.4%
Age		
18 through 24	27.6%	14.7%
25 through 34	28.8%	31.1%
35 through 54	34.0%	42.5%
55 through 64	9.6%	11.7%
Educational Attainment		
Less than High School	34.8%	20.6%
High School Degree	28.8%	25.6%
Some College	23.4%	25.2%
College or More	13.0%	28.6%
Citizenship		
Citizen, U.S. born	49.2%	61.0%
Citizen, born in P.R. or other outlying	7.3%	5.8%
Citizen, naturalized	13.0%	13.3%
Not a Citizen	30.6%	20.0%
Ability to Speak English		
Native English Speaker	48.7%	61.9%
Others: Very Well	21.5%	20.1%
Well	12.7%	9.5%
Not Well	12.2%	6.4%
Not at All	5.0%	2.1%

Source: Tabulated from US Bureau of the Census, 1990 PUMS

Location in the Economy - Industry and Occupation:

Although low-wage work exists in nearly every industry, over three-quarters of New York's low-wage earners are concentrated in three broad industry groups, services (35.8 percent), retail trade (24.0 percent), and manufacturing (15.8 percent). See Table 2.

Table 2
Percentage Distribution of Employment by Broad Industry Group

	Low-Wage Earners	All Wage Earners
Construction	3.8	4.4
Manufacturing	15.8	12.0
Transportation and Utilities	6.3	9.4
Wholesale Trade	4.1	4.1
Retail Trade	24.0	13.4
Finance, Insurance, and Real Estate	7.2	12.6
Services	35.8	38.9
Government Administration	2.2	4.9

Source: Tabulated from US Bureau of the Census, 1990 PUMS

Tabulations by occupation are provided in Table 3. They indicate that nearly two-thirds of the city's low-wage earners work in either service jobs (23.8 percent), administrative support (21.2 percent) or in manufacturing and transportation operative occupations (19.2 percent).

Table 3
Percentage Distribution of Employment by Broad Occupational Group

	Low-Wage Earners	All Wage Earners
Execs, Managers, & Administrative	5.2	13.3
Professional & Technical	9.6	19.0
Sales	12.9	10.0
Administrative Support	21.2	21.7
Service	23.8	15.9
Precision Production	6.9	7.6
Operatives	19.8	12.2

Source: Tabulated from US Bureau of the Census, 1990 PUMS

A more detailed look at both industries and occupations would find that low-wage service industry workers provide building services (as janitors), protective services (as security guards), private household services (as cleaners), and work in hotels (as housekeepers) and health care (as aids, orderlies, and attendants). Within the retail sector, low-wage workers are employed in eating and drinking establishments (as waiters and table busers), and in grocery, department, and clothing stores (as cashiers). Among manufacturing industries, most low-wage earners work in apparel making or other non-durable goods production (as machine operatives, assemblers, and laborers). Administrative support workers are employed throughout the economy. Low-wage earners in this occupation work as secretaries, typists, and receptionists.

New York City's Labor Market in the 1990s

The national recession at the beginning of this decade hit New York hard. The local economy, moreover, was slow to get off the mat. Since the mid-1990s, however, employment in the city has grown impressively. How has the boom affected employment and earnings in the low-wage labor market?

Here we detail the picture in broad strokes painted above. In brief, there has been a sharp increase in the number of people who are seeking work at the low end of the labor market and many of them are finding it in low-wage service industries. Yet unemployment rates among those demographic groups most dependent on the low-wage labor market remain high. There are not enough jobs - especially jobs with decent pay - to meet the needs of all those trying to make the transition from welfare to work, high school leavers (graduates and drop outs), new immigrants, and others who lack the skills required to bid for jobs on the upscale end of the wage ladder. Moreover, high levels of joblessness have been accompanied by (and, no doubt, contributed to) declining real wages. The combined effect of all these trends has been a dramatic expansion in the fraction of the city's workforce that is earning low wages as well as an increase in the proportion of working families with children that do not have an adequate income.

Supply and Demand:

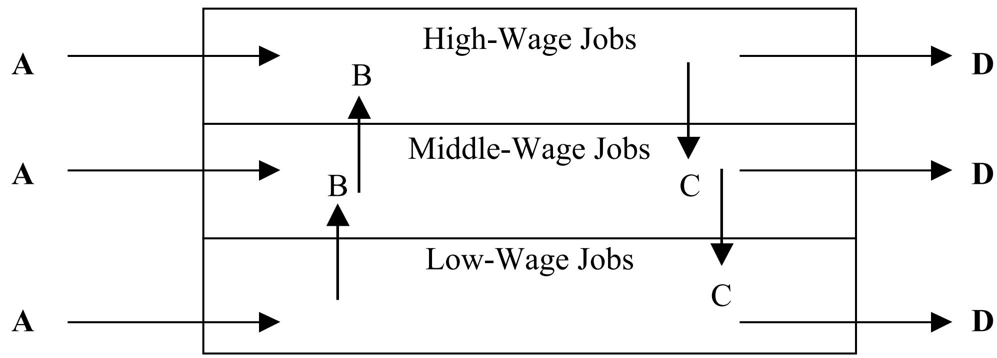
The flows of people in and out of the low-wage labor market are depicted in Figure 1. We estimate that since 1995, when the city's welfare rolls began their dramatic decline, 140,000 to 170,000 new people have been seeking work in this part of the labor market annually. Contributing to that influx are: 50,000 to 60,000 adults leaving public assistance (estimated from NYC Human Resources Administration caseload data provided to the author by the NYC Independent Budget Office); 40,000 to 50,000 working age immigrants (estimated from NYC Department of Planning, *The Newest New Yorkers 1990-1994, The Newest New Yorkers 1995-1996* and U.S. Department of Justice, Immigration and Naturalization Service, *Annual Report: Legal Immigration, Fiscal Year 1998*); and 30,000 to 40,000 young people exiting the city's high schools (estimated from NYC Board of Education data provided by Lori Mei, Deputy Director, Division of Assessment and Accountability). It is unlikely that any other city in the nation (with the possible exception of Los Angeles) is experiencing anything like this surge in job seekers.

The number of job opportunities available to meet this need is difficult to estimate directly. They include the increase in the number of jobs in low-wage industries and occupations as well as the vacancies created by people either moving up the wage ladder or out of the local labor force. The available data, however, do allow us to see, on an aggregate level, how successful job seekers are in finding employment.

Figure 1

LOW-WAGE LABOR MARKET DYNAMICS

Labor Force



Estimated Annual "Low-Wage" Labor Force Entrants

Former PA Recipients:	50-60,000/yr.
New Immigrants:	40-50,000/yr.
High School Leavers, Discharges:	30-40,000/yr.
Other New Entrants, Re-entrants:	?

Labor Market Categories

A. New entrants (and re-entrants) to the labor force.

B. Upwardly mobile: (e.g., significantly increased wages due to education, training and job promotions).

C. Downwardly mobile: (e.g., dislocated workers taking lower wage jobs).

D. Labor force separations (retirements, deaths, out-migrants, temporary withdrawals (e.g., for child care)

Low-Wage Industries:
- Restaurants
- Retail stores
- Supermarkets
- Home health care
- Child care services
- Garment manufacturing

Low-Wage Occupations:
- Kitchen worker
- Counter clerk
- Retail sales person
- Sewing machine operator
- Laborer
- Cleaner, Maid
- Home attendant
- Child care worker

Labor Force Participation:

The labor force participation rate is the percentage of the adult population that is either working or actively seeking employment (the "officially" unemployed). Labor force participation rises and falls with the business cycle. In recoveries, more people are working and more people are inclined to actively look for work when they think there is a strong possibility of finding it. New York City's labor force participation rate has grown rapidly since the economy began to expand in earnest and the city administration made cutting the welfare rolls a top priority. The growth in participation has been particularly rapid among those most likely to be working or looking for work in the low-wage sector of the economy. Table 4 provides the details by comparing 1999 with 1994, the year resident employment began to recover from the prior recession.

1. Labor force participation has grown more sharply for females than males (4.2 percentage points as compared to 2.1 percentage points).
2. Among both females and males, participation rates have been rising most dramatically for Hispanics (8.2 percentage points for Hispanic females and 4.7 percentage points for Hispanic males).
3. The rise in labor force participation is also most conspicuous among women and men with less than a high school education (6.2 and 7.4 percentage points, respectively).
4. Younger adults (persons age 20 through 34) have had the sharpest rise in participation among the age groups (4.1 percentage points).
5. The by-citizenship breakdowns indicate that U.S. citizens born in Puerto Rico have had the largest increase in labor force participation (6.2 percentage points).

Table 4
Labor Force Participation Rates
For Working Age NYC Residents, 1999 and 1994
(Percent of the population)

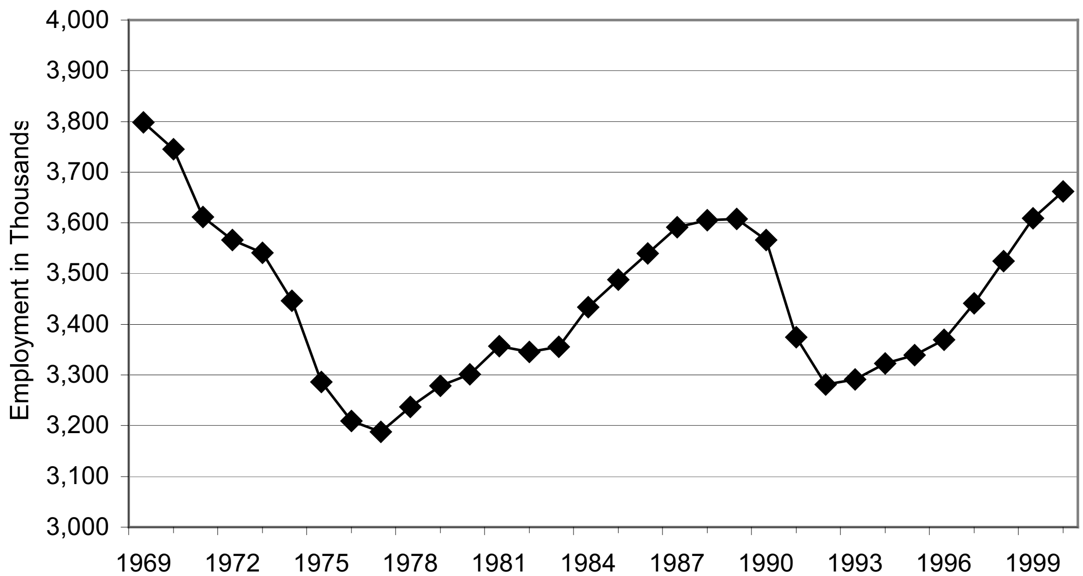
	1999	1994	Difference
Total	68.2	64.8	3.4
Female	60.7	56.5	4.2
Male	76.5	74.4	2.1
Females by Race/Ethnicity:			
Blacks	63.3	58.2	5.1
Hispanics	51.3	43.1	8.2
Whites	68.6	63.6	5.0
Males by Race/Ethnicity:			
Blacks	69.2	68.3	1.0
Hispanics	75.3	70.6	4.7
Whites	81.8	79.9	1.9
Females (25 through 64) by Education:			
Less than HS	41.0	34.8	6.2
HS Degree	58.1	58.2	-0.1
Some College	72.1	69.7	2.4
Bachelors or more	82.2	81.6	0.6
Males (25 through 64) by Education:			
Less than HS	73.7	66.3	7.4
HS Degree	81.5	80.5	1.0
Some College	85.5	83.8	1.7
Bachelors or more	91.3	90.6	0.7
Both sexes, by Age:			
16-19	26.8	25.1	1.7
20-34	72.5	68.4	4.1
35-54	77.1	73.7	3.4
55-64	53.3	52.0	1.3
By Citizenship:			
Not a Citizen	66.9	64.2	2.7
Naturalized Citizen	75.7	74.1	1.6
Citizen born in PR	53.1	46.9	6.2
Citizen born in US	67.7	65.1	2.6

Difference is the percentage point change.
Working Age refers to residents 16 through 64 years of age.
Source: Tabulated from the U.S. Bureau of the Census, Current Population Survey.

Employment and Unemployment:

By the standard of recent history, job growth in New York City has been impressive. After losing more than 325,000 jobs in the most recent downturn, New York City payroll employment returned to its pre-recession high in 1999.[4] See Figure 2.

Figure 2: NYC Payroll Employment

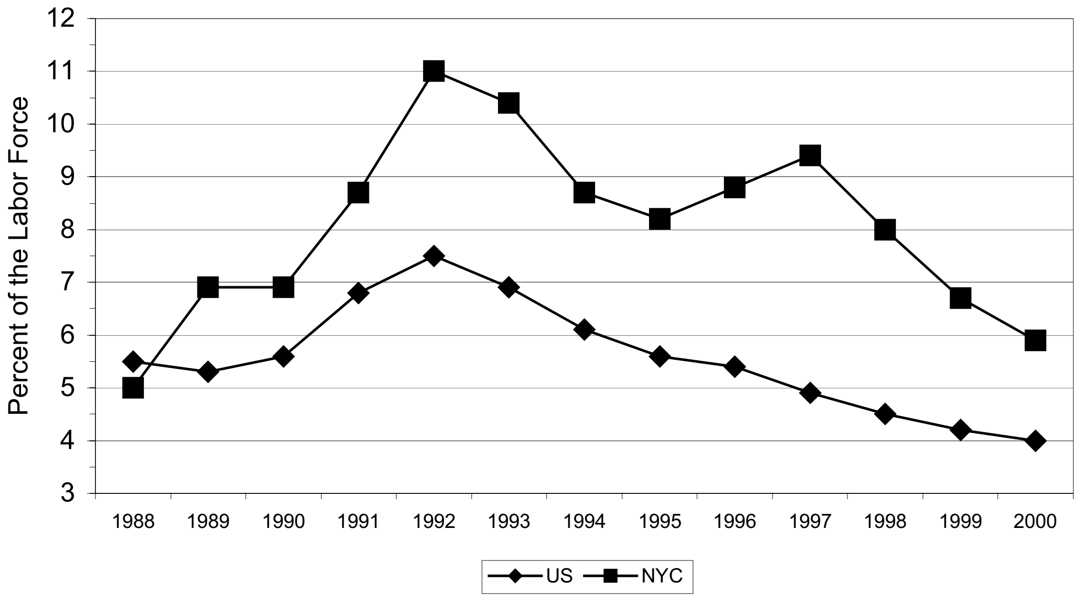


Note: 2000 is the average for the first six months of the year.
Source: US Bureau of Labor Statistics

But this good news needs to be put in the context of the rising tide of job seekers. New York City's unemployment rate remains high, averaging 5.9 percent in the first half of 2000, compared with the national average of 4.0 percent. As Figure 3 illustrates, the city's unemployment rate has improved in recent years and the 2000 average is considerably lower than the 9.4 percent spike registered in 1997. Yet, the unemployment rate is well above the 5.0 percent recorded in 1988, a comparable point in the city's last economic expansion.

[4] Neither the recovery of the 1980s nor that of the 1990s, it should be noted, has restored the city's employment levels to those achieved in the 1960s.

Figure 3: Unemployment Rates, US and NYC



Note: 2000 is the average for the first six months of the year.
Source: US Bureau of Labor Statistics.

The citywide unemployment rate is not only high; it is also an average that masks wide disparities among New Yorkers. People bring different assets with them in their hunt for a job. They vary in schooling and occupational skills. They also face differing barriers to employment. Some are well connected and others are poorly connected to social networks that provide information about employment opportunities. Table 5 provides unemployment rates for 1999 by a variety of demographic characteristics. Unemployment rates are highest for those demographic groups that are overrepresented in the low-wage labor market.

1. The unemployment rates for Black men, Black women, and Hispanic women are near or above double digits.
2. Women with less than a high school degree face a 13.6 percent unemployment rate.

3. Nearly a quarter of the teen and nearly 8 percent of the 20 through 34 year age group labor force is unemployed.
4. Among citizenship groups, Puerto Rican-born citizens have the highest rates of unemployment.

Table 5
Unemployment Rates for Working Age New Yorkers, 1999
(Percent of the Labor Force)

	Rate		Rate
Total Female	7.2	***Total Male***	6.4
Females by Race/Ethnicity:		**Males by Race/Ethnicity:**	
Blacks	9.9	Blacks	12.4
Hispanics	10.3	Hispanics	7.4
Whites	3.7	Whites	3.3
Females (25 through 64) by Education:		**Males (25 through 64) by Education:**	
Less than HS	13.6	Less than HS	8.7
HS Degree	6.1	HS Degree	5.1
Some College	5.6	Some College	4.2
Bachelors or more	3.0	Bachelors or more	3.7
Both sexes age 16 through 64:			
By Age:		**By Citizenship:**	
16-19	22.9	Citizen born in US	7.1
20-34	7.7	Citizen born in PR	9.1
35-54	5.0	Naturalized Citizen	5.1
55-64	6.2	Not a Citizen	7.1

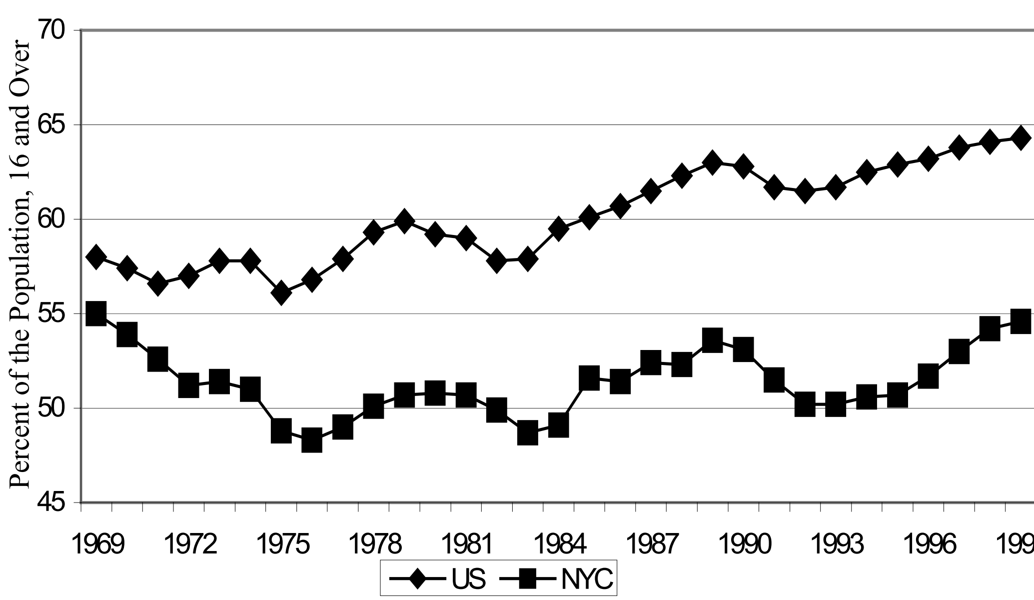
Note: Working Age refers to residents 16 through 64 years of age.
Source: Tabulated from the U.S. Bureau of the Census, Current Population Survey.

Share of the Working Age Population with Employment:

Unemployment rates capture only one aspect of joblessness. To be counted as unemployed by the Bureau of Labor Statistics a person must be jobless, available for work, and have taken "specific actions" to find work in the four weeks prior to the Bureau's monthly survey. The unemployment rate, therefore, does not reflect the relatively large share of working age New Yorkers who are neither employed nor actively seeking employment. A more appropriate measure for taking into account all forms of joblessness is the employment-population ratio, the fraction of the working age population that has a job.

Economic expansions raise the fraction of the population at work. And a higher proportion of New York City residents 16 and over were employed in 1999 than in any time since the late 1960s - 54.6 percent. That progress, however, needs to be seen in the context of national trends, shown in Figure 4. In 1967, 57.3 percent of the U.S. population 16 and over was employed. The U.S. employment-population ratio has climbed steadily since the mid-1970s as more women entered the paid labor force. By 1999, the national employment population ratio had risen by 7 percentage points to 64.3 percent.

Figure 4: Employment-Population Ratios for NYC and US



Source: US Bureau of Labor Statistics.

Table 6 offers a comparison of the proportion of working age (age 16 through 64) New Yorkers (labeled NYC) with jobs to the overall national averages (labeled US) and averages for residents of all central cities in the U.S. (labeled CC) for 1999.[5] The table allows for two kinds of comparisons - differences between groups in the same geographic area (e.g., Hispanic vs. Black New Yorkers) and comparisons of the same groups between geographic areas (e.g., Hispanic New York City residents vs. all Hispanic central city residents). The first kind of comparison by and large mirrors the pattern evident in the unemployment rates; those groups most dependent on the low-wage labor market have the lowest employment-population ratios. For example:

1. A markedly smaller share of both Black and Hispanic men and women are employed than Non-Hispanic Whites.
2. Employment-population ratios are lowest for New Yorkers with the lowest levels of educational attainment.
3. A relatively small proportion of teens and older workers are employed compared with workers 20 through 54 years of age.

The comparison of New Yorkers against national populations indicates that, even within sub-groups of the population, a relatively small share of New York City residents are working. These disparities are typically largest for those groups that are overrepresented in the low-wage labor market. For example, a smaller fraction of both male and female New Yorkers in each of the race/ethnic groups tabulated are employed compared with the all U.S. and all U.S. central city average. While the employment-population ratio for Black men was 60.6 percent in New York City, 65.7 percent in all central cities and 68.6 percent in the nation as a whole, the differences across

[5] The data in Table 6 differ from that usually reported by the Bureau of Labor Statistics (and given in Figure 2) in that the working age population excludes individuals 65 and over.

geographical areas among White men are much narrower. A similar pattern holds for the tabulations by education and age; the disparities are greatest for the most disadvantaged groups.[6]

Table 6
Employment-Population Ratios for Working Age US, All Central City and NYC, 1999
(Percent of the Population)

	US	CC	NYC		US	CC	NYC
Total Female	67.6	65.8	56.3	***Total Male***	80.5	71.6	71.6
Females by Race/Ethnicity:				**Males by Race/Ethnicity:**			
Blacks	65.6	63.5	57.0	Blacks	68.6	65.7	60.6
Hispanics	56.1	54.5	46.0	Hispanics	79.7	77.9	69.7
Whites	70.4	72.0	66.1	Whites	83.0	83.4	79.1
Residents Age 24 through 64:							
Females by Education:	**US**	**CC**	**NYC**	**Males by Education:**	**US**	**CC**	**NYC**
Less than HS	45.5	44.3	35.4	Less than HS	71.2	70.9	67.3
HS Degree	67.3	65.5	54.6	HS Degree	83.9	80.3	77.4
Some College	75.2	75.4	68.0	Some College	87.4	85.0	81.9
Bachelors or more	80.0	80.4	79.7	Bachelors or more	91.5	90.7	88.0
Residents Age 16 through 64:							
By Age:	**US**	**CC**	**NYC**	**By Citizenship:**	**US**	**CC**	**NYC**
16-19	44.7	38.0	20.6	Not a Citizen	66.6	65.5	62.1
20-34	78.2	76.0	66.9	Naturalized Citizen	75.4	74.5	71.8
35-54	81.5	78.7	73.3	Citizen born in PR	61.5	54.6	48.3
55-64	57.7	56.2	50.0	Citizen born in US	74.6	72.7	62.9

Working Age refers to residents 16 through 64 years of age.
Source: Tabulated from the U.S. Bureau of the Census, Current Population Survey.

[6] The by-citizenship tabulations show a different pattern, one that is complicated by the fact that an unusually high proportion of the "Citizen born in US" group in New York is composed of native-born African-Americans and Hispanics, groups with low employment levels.

Looked at as pieces of the same puzzle, the data on labor force participation, unemployment, and employment suggest that job growth in the city, while strong by historical standards, is not strong enough to meet the needs of a new historical context -- most notably welfare reform -- that is bringing unprecedented challenges to the city economy. Despite record-breaking rates of employment growth, joblessness remains a problem for those seeking work in the low-wage sector of the labor market.

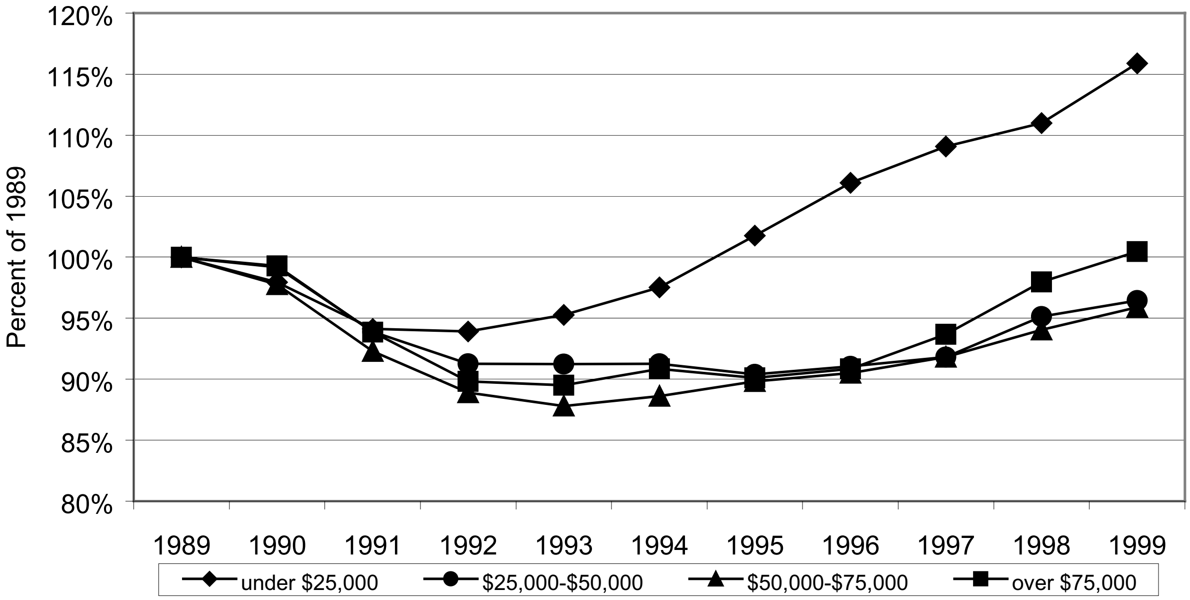
A Changing Economy

High levels of unemployment place downward pressure on wage rates. But New York's growing low-wage workforce is not just supply-side-driven; a result of a new influx of less-skilled job seekers. Even if job seekers are willing to accept jobs at declining wages, there have to be employment opportunities to bid on. Throughout the decade job growth has been disproportionately located in industries at the bottom rungs of the wage ladder. Compared to the peak of the last business cycle, there are more jobs in low-wage industries and, because there are fewer jobs in the middle tiers of the industry wage distribution, industries where average annual wages are below $25,000 account for a rising share of total industry employment. [7]

Figure 5 plots employment growth by four groups of industries defined by their average annual earnings in 1999: industries whose average earnings were below $25,000; industries whose average earnings were between $25,000 and $50,000; industries whose average earnings were between $50,000 and $75,000 and industries whose average earnings were above $75,000. Figure 5 indicates that the only industry group that has gained employment relative to its pre-recession high (1989) is the lowest wage group.

[7] The data in this section derive from employer Unemployment Insurance filings. They provide employment and average wages for detailed (three-digit SIC code) industries located in New York City.

Figure 5: Change in NYC Employment, By Industry Wage Interval



Source: Tabulated from ES-202 data provided by the U.S. Bureau of Labor Statistics.
Note: 1999 data are preliminary

Even in the period since 1995, when all of the industry groups were expanding, the pace of growth was most robust for the lowest wage group of industries (13.9 percent against 11.5 percent for the next most rapid, highest wage industry group).

Table 7 below provides more details. In 1999, total average employment in New York City stood just about where it did in 1989, at a little more than 3.5 million jobs. The only industry wage interval that experienced any appreciable job growth was the less than $25,000 group. The largest absolute decline in employment occurred in the interval that accounts for a bit more than half of total employment, industries paying $25,000 to $50,000. Employment at the high end (industries with average salaries over $75,000) of the wage distribution was virtually unchanged, as downsizing in banking and insurance offset the growth of employment in the securities and computer services industries.

Table 7
Changes in New York City Employment,
By Industry Wage Interval

	Employment (in thousands)		
Ave. Annual Wage	1989	1999	Difference
Less than $25,000	508.9	589.9	+81.0
$25,000-$50,000	1,862.8	1,796.5	-66.3
$50,000-$75,000	482.6	462.8	-19.8
More than $75,000	638.1	641.0	+2.9
All Industries	3,532.9	3,509.9	-23.0

Notes: Average annual wage is total industry wages divided by average industry employment. Difference in employment is the absolute change. Employment in intervals does not sum to all industry totals due to rounding and BLS confidentiality requirements.
Source: Tabulated from ES-202 data provided by US Bureau of Labor Statistics.
Data for 1999 are preliminary.

Table 7 offers an important caution. The lowest-wage industry group has become a larger share and the next rung up the wage ladder ($25,000 to $50,000) industry group has become a smaller share of total employment. The decline in these middle-income jobs may affect the ability of today's low-wage earners to move up to better paid jobs over time.

To a large degree these differences in employment growth are symptomatic of the long–term structural change from an economy based on the production and distribution of goods to the provision of services. Table 8 (below) adds a new dimension to Table 7 by distinguishing the effect (within each wage interval) of changes of employment in the goods and allied industries sector (where employment declined by 145,981), the service sector (where employment grew by 182,629), and government (which saw a 38,847 drop in payrolls).[8]

[8] Government employment and earnings data are not broken out by detailed industry. Therefore, all public sector employment is grouped in the $25,000 to $50,000 interval.

Almost all of the growth of employment in the lowest wage interval is accounted for by growth in low-wage service employment. The declines in the next two highest intervals reflect the sharp drop in goods and public sector employment. The employment "growth" in the highest wage interval results from a modest expansion in upper-tier service-sector jobs.

Table 8
Changes in Employment by Industry Wage Interval and Economic Sector, 1989 to 1999

Wage Interval	***Change in Employment***
Less than $25,000	**+80,920**
Production of goods and allied industries	+215
Provision of services	+80,705
Government	0
$25,000-$50,000	**-66,282**
Production of goods and allied industries	-96,117
Provision of services	+68,682
Government	-38,847
$50,000-$75,000	**-19,781**
Production of goods and allied industries	-43,977
Provision of services	+24,196
Government	0
More than $75,000	**+2,944**
Production of goods and allied industries	-6,102
Provision of services	+9,046
Government	0
Sector Totals:	
Production of goods and allied industries	-145,981
Provision of services	+182,629
Government	-38,847

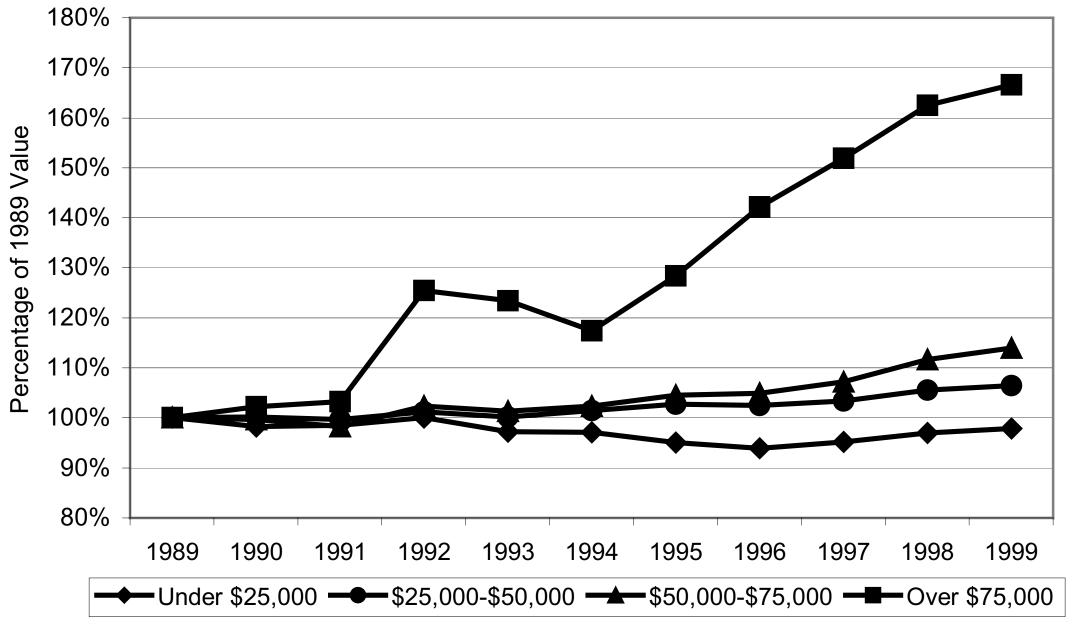
Notes: Production of goods includes agriculture, mining, construction, manufacturing, transportation and public utilities, and wholesale trade.
Provision of services includes finance, insurance and real estate, retail trade, and services.
Government is total public sector employment.
Source: Tabulated from ES-202 data provided by the U.S. Bureau of Labor Statistics.

Declining Real Wages in Low-Wage Industries and Rapid Growth at the Top:

Industry-level data not only identify how employment has been shifting, but can also locate where real wages have been rising and falling. While total industry-level earnings have risen by an average of 24.5 percent over the 10-year period, there is a wide disparity in earnings growth across the intervals. Wage increases have been greatest for the best paid (65.1 percent) while the lowest paid industry interval suffered a 2.2 percent decline in inflation-adjusted earnings. Industries with average annual earnings above $75,000 now enjoy 41.9 percent of all wage and salary income although they account for only 18.4 percent of total employment. The distribution of earnings growth over this period has been even more lopsided; *the highest-earning interval enjoyed 85.0% of the total increase in wages and salaries.*

As Figure 6 - which tracks changes in average pay over the decade - indicates, the pay gap between the industries with the highest pay and the other three groups of industries with lower average earnings is not a lingering effect of the last recession. It has steadily grown since 1994.

Figure 6: Change in Average Wage, By Industry Wage Interval

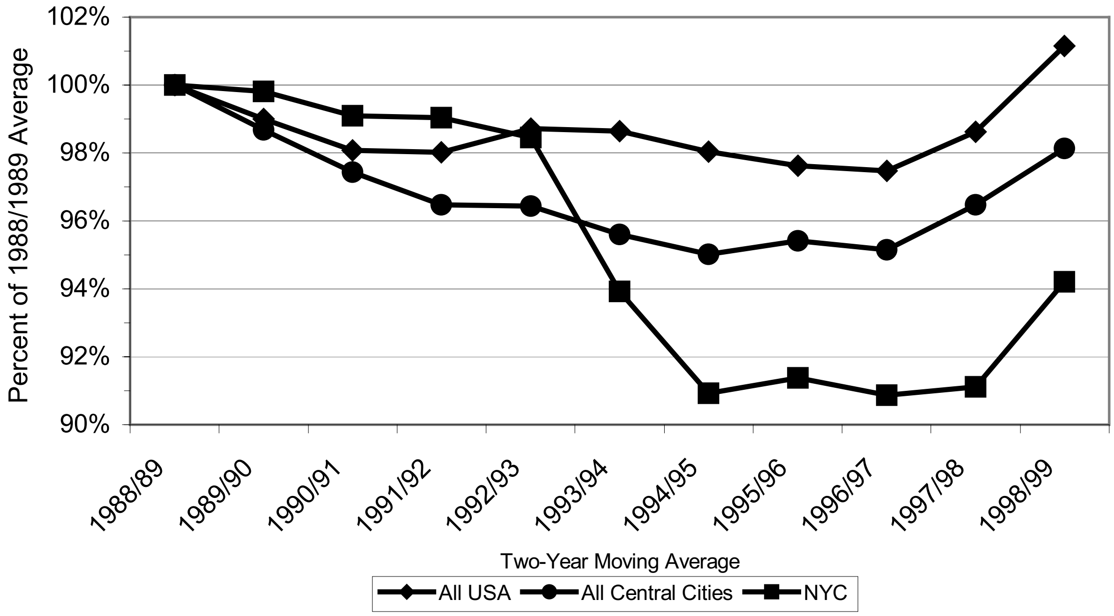


Source: ES 202 data provided by the U.S. Bureau of Labor Statistics.
Data for 1999 are preliminary.

Real Wages of NYC Residents:

Although employment is growing rapidly in the lowest-wage industrial sector, real wages there have not recovered to their pre-recession levels. Is this business cycle peak-to-peak decline confined to workers in the very lowest-wage industries? This section looks at wage rates for residents of New York City to further explore the location and extent of the wage decline. Figure 7 puts that data in the national context. From the business cycle peak in 1988-89, the changes in inflation-adjusted median weekly earnings for full-time workers for the total U.S., all central city resident and New York City groups, were roughly similar until 1992-93 when wages for New Yorkers tumbled. While median earnings across the nation now exceed their 1988-89 peak, median earnings for city-dwellers in the U.S. are 98 percent, and New York City residents only 94 percent, of their prior levels.

Figure 7: Changes in Real Median Weekly Earnings for Full-Time Workers



Source: Tabulated from the U.S. Bureau of the Census, Current Population Survey.

Among New Yorkers, whose wages have fallen? Table 9 provides some answers, reporting median real weekly earnings (expressed in 1999 dollars) for New York City residents at the last business cycle peak (averaging annual data for 1988 and 1989) and the last two years for which data are available (averaging 1998 and 1999). With few exceptions, real wage rates have not recovered to their late 1980s levels. Citywide, median earnings declined by 6.1 percent.[9] While women's wages are relatively close to their late-1980s rates, men have experienced a sharp (nearly 13 percent) decline in real earnings. A more detailed look finds that the sharpest declines and most uniform pattern of divergence emerge in the education and occupation categories. Workers with less education and workers in less-skilled occupations have suffered the most dramatic real wage declines over the decade.

[9] This decline is not a result of lower levels of education among city residents. Educational attainment within the resident workforce rose, modestly, from 1989 to 1999.

Table 9
Real Median Weekly Earnings of
Full-Time NYC Wage & Salary Employees
(In 1999 dollars)

	Two-Year Average		Percentage Change
	1988-89	1998-1999	
All	$581.93	$546.43	-6.1%
Females	$529.89	$520.27	-1.8%
Males	$651.21	$567.27	-12.9%
Females by Race/Ethnicity			
Black	$468.95	$494.66	5.5%
Hispanic	$406.75	$391.95	-3.6%
White	$654.92	$674.04	2.9%
Males by Race/Ethnicity			
Black	$550.14	$517.85	-5.9%
Hispanic	$462.73	$404.17	-12.7%
White	$793.40	$773.82	-2.5%
Females (25 through 64) by Education			
Less than HS	$336.47	$288.47	-14.3%
High School	$474.26	$421.30	-11.2%
Some College	$576.08	$530.29	-7.9%
Bachelor or Higher	$774.49	$776.95	0.3%
Males (25 through 64) by Education			
Less than HS	$491.21	$359.85	-26.7%
High School	$602.57	$528.92	-12.2%
Some College	$710.98	$589.17	-17.1%
Bachelor or Higher	$921.88	$923.84	0.2%
Both Sexes, by Occupation			
Managers & Professionals	$814.22	$792.31	-2.7%
Sales	$571.38	$532.44	-6.8%
Administrative Support	$517.50	$503.45	-2.7%
Service	$425.99	$363.42	-14.7%
Craft and Repair	$650.47	$594.48	-8.6%
Operative, Assembler, Laborer	$429.39	$376.49	-12.3%

Notes: Data are for wage and salary employees 16 through 64 (unless otherwise noted) years of age whose usual weekly hours were 35 or more.
Source: Tabulated from the U.S. Bureau of the Census, Current Population Survey.

These data, it should be noted, are significantly different from the by-industry earnings data, discussed in the previous section, that suggest that real earnings have been rising in most industries. Several factors may account for this discrepancy. First, the industry-level data provide average wage rates; these are more highly influenced by the high earnings at the top of the industry job ladder than the median wages reported in this section. Second, many of the high-wage earners captured in the industry data (which measures employment located in the city) are commuters and are not included in the wage data for New York residents.

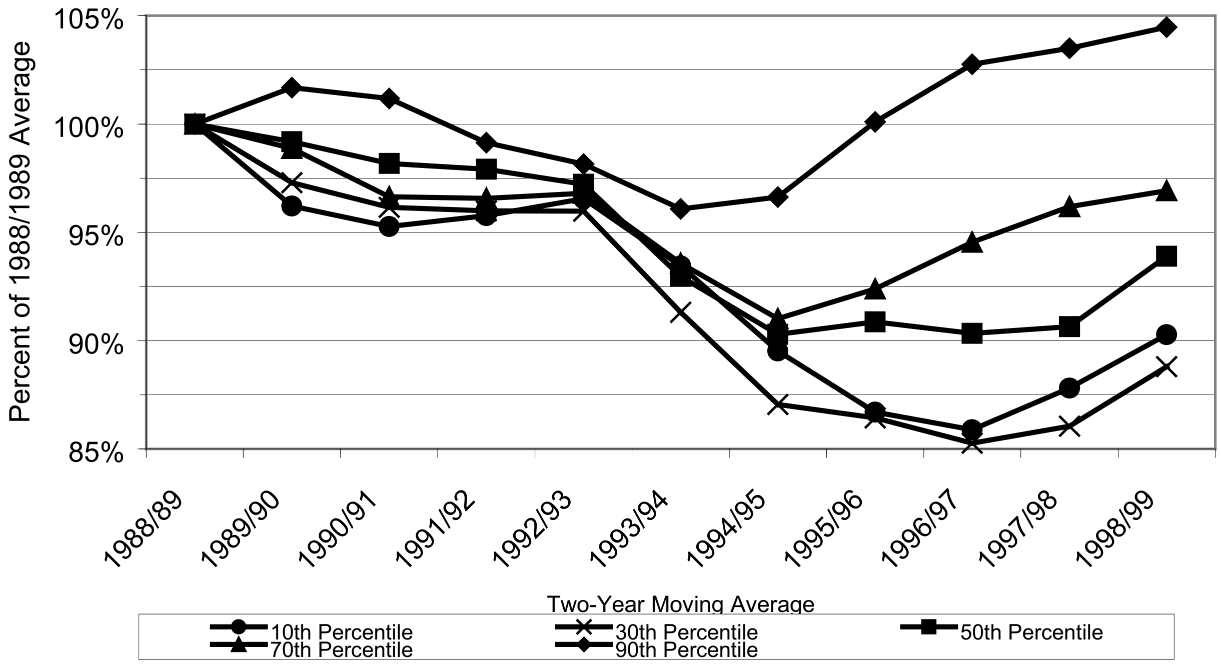
> **What about the underground economy?**
>
> Because our statistical portrait relies on surveys conducted by government agencies, it does not reflect New York City's considerable underground economy. Do our data, then, exaggerate the problems we describe? The answer is yes and no. Clearly many thousands of New Yorkers either by choice or because they have no alternative engage in economic activity which may be perfectly legal (sewing dresses, minding children, cleaning houses) but is conducted outside the scope of tax, labor, and immigration law. If this activity were measured we would find more work and more income.
>
> But that is only half the story and no cause for complacency. We would likely find that hourly wage rates are lower and health and safety conditions are deteriorating. Avoiding taxes may increase take home pay, but it is a high price for ineligibility for the benefits that depend on work like the Earned Income Tax Credit, Unemployment Insurance, Workers Compensation, and Social Security. The costs to the public at large include the detrimental impact illegal work has on those who are playing by the rules: the wages of workers who must compete with off the books work; the viability of business that must compete with firms that are evading the law; and the tax burden on those who pay more because others are evading their share.
>
> The underground economy is not an informal safety net; rather, it is a threat to working conditions and living standards.

1. *Wages by Race/Ethnicity*: Among women, median, inflation-adjusted wages did not change dramatically from 1988/1989 to 1998/1999. Among men, Hispanics experienced a 12.7 percent decrease while decreases for Blacks and Whites were less severe.

2. *Wages by Education*: For both women and men, workers who have at least a Bachelors degree held their own over the decade. In sharp contrast, all the other education categories (except for women with some college) suffered double-digit declines in real weekly earnings. Women with less than a high school degree were earning 14.3 percent less per week in 1998/1999 than they had in 1988/1989. The decline for men with less than a high school degree was 26.7 percent.
3. *Wages by Occupation:* The change in real wages for major occupational groups parallels the by-education pattern. The sharpest decreases in real earnings are found in the lowest-paid occupations. Service workers and less-skilled blue collar workers (operatives, assemblers, and laborers) saw their wages decline by 14.7 percent and 12.3 percent, respectively.

Figure 8 provides another take on wage rates. The figure depicts real wages at five percentile cut-offs relative to their average value in 1988/1989. It suggests that weekly earnings declined sharply for the majority of New York City wage and salary employees during the last recession and well into the subsequent recovery. It also clearly indicates that only the highest wage earners have seen their wages rise above their pre-recession levels and that workers at the bottom of the wage scale (measured by the 10^{th} and 30^{th} percentiles) suffered both the steepest declines and weakest recoveries.

Figure 8: Changes in NYC Real Weekly Earnings, By Selected Percentile



Source: Tabulated from the U.S. Bureau of the Census, Current Population Survey.

The increasing numbers and proportion of city workers who are working in low-wage industries and the sharp and widespread declines in real wages have eroded the ability of a significant fraction of workers to earn a family-supporting wage. Table 10 indicates (1) that an increasing share of full-time workers do not earn enough (even if working 50 weeks a year) to lift their families to 150 percent of the federal poverty line (FPL) and (2) that an increasing share of working families with children live below that standard of income adequacy.

Table 10
New Yorkers with Insufficient Income

Percent of Full-Time Workers with Earnings Below 150% of FPL		
	For a Family of 3	**For a Family of 4**
1988/1989	23.9	41.0
1998/1999	30.6	45.8
Difference	6.7	4.8

Percent of Working Families With Children With Total Income is Below 150% of FPL	
Late 1980s	21.3
Late 1990s	32.9
Difference	11.6

Notes: Difference is the percentage point difference. Late 1980s is the average of annual data for 1987, 1988, and 1989. Late 1990s is the average of annual data from 1996, 1997, and 1998. Data for full-time workers assumes a 50-week work year. Working families are families that include a member who worked full or part-time for all or part of the year.
Source: Tabulated from the U.S. Bureau of the Census, Current Population Survey.

Conclusion

The data in Table 10 are the quantitative punch line to the various supply and demand-side processes that are increasing the proportion of the New York City labor force that is trying to make ends meet at low-wage jobs. But all these numbers do not add up to a complete account of how and why this has happened. The missing piece is public policy. We have touched on government's acts of commission, such as welfare reform, that have contributed to an influx of job seekers at the low end of the labor market. What the chapters that follow address are the public sector's acts of omission, the many ways that government has failed to respond to the ramifications of policy choices and economic change. State and city decision makers cannot turn back the clock on either federal policy making or the evolution of the city economy. Yet, there is much both the public and private sector can do to generate better jobs, prepare the workforce for more skilled occupations, make work a path out of poverty and provide an adequate safety net.

Having described the problem in a general form, we now turn to specific solutions.

CHAPTER THREE

GENERATING JOB OPPORTUNITIES FOR LOW-INCOME NEW YORKERS

Strategies to promote job creation must be at the center of any comprehensive approach to righting what is wrong with New York City's low-wage labor market. Clearly, employment opportunities depend on a robust private sector. And just as clearly, public sector economic development policy has a profound impact on the long-term ability of the city's business sector to thrive and generate jobs.

The "right" role for government is a complex balancing act. State and local economic policy needs to strengthen the underlying foundations of the economy--natural resources, physical infrastructure, and workforce capabilities. But government also needs to provide public services and maintain cost structures that are competitive with similar places. There is a need to support the leading sectors of the economy and also a need to maintain a diversified economy that can withstand business cycle fluctuations and changes in the global marketplace. Finally, there is a fundamental responsibility to build an economy that enhances opportunities for people at all income levels and that ensures fair access to these opportunities for women and for all racial and ethnic groups.

The ability of state and city governments to meet all of these objectives is tightly constrained by the realities of the global economy and the limits of governmental authority. Business activity is highly mobile, states and localities are constitutionally required to maintain balanced budgets, and political boundaries divide the economic assets of metropolitan areas among numerous municipalities. While these realities will always necessitate trade-offs, economic policies often exacerbate the problem by failing to articulate fundamental principles and priorities. In this context, economic health can be narrowly defined and important objectives are often ignored. In particular, short-term growth in total jobs and income generally receives the greatest emphasis, while too little attention is given to long-term economic health and access to economic opportunities by all members of the community.

To achieve sustainable growth with expanding opportunities at all wage levels, the city requires a multi-faceted approach that provides the private sector with the capacity and incentives to expand living wage job opportunities. In particular, resources need to be redirected to two complementary sets of actions:

- *Industry Sector Strategies* to enhance productivity and diversify the city's economic base.
- *Infrastructure Investments* to create the capacity for sustainable and equitable growth.

These are strategies that can be implemented within the constraints of a responsible fiscal policy that maintains competitive tax rates and public services. While these strategies emphasize actions that can be taken by the City of New York, they cannot be successful without supporting actions by the State of the New York and by private industry and labor unions. Success will also be enhanced to the degree that the federal government and other states and municipalities can be joined in cooperative efforts.

I. Implement A Public-Private Strategy To Develop Key Industry Sectors

The Problem

New York, like every other city in the nation, engages in a variety of economic development activities. The list of tools is a familiar one, including taxes, infrastructure, zoning, and workforce development. But these are only the most obvious. Indeed, it is hard to imagine any public sector responsibility - from sanitation to education - that does not affect the ability of the private sector to prosper. What is missing, here in New York, is a *strategy*. The city's policies are largely reactive, overly focused on the financial sector and too often limited to the largest firms. As a result, we are losing opportunities to support the development of a more diverse local economy that would offer more and better jobs for workers who lack a college degree or specialized skills.

Increasingly, states and cities from California to Hartford, Connecticut have come to realize the folly of a business development strategy exclusively linked to growing one sector of the economy. But in New York City, Wall Street securities firms nab an outsized share of the attention of elected leaders and economic development officials. Support for the securities firms must remain a priority, but over the past few decades a dangerous dependence has arisen on this one sector. The securities industry generates a vastly disproportionate share of the city's wage increases and tax revenue. This leaves the city with an economy that is vulnerable to the fortunes of an increasingly volatile financial market.

Large firms, which in New York are concentrated in finance, media and corporate services, have more political clout than small firms and city policy often reflects that imbalance. But the majority of New Yorkers are employed by small businesses, which are increasingly becoming the job engine for the five boroughs. In 1996, businesses with fewer than 500 employees provided nearly three-quarters of the city's 2.7 million private-sector jobs. By comparison, larger corporations provided 785,000 jobs.

Another salient feature in assessing the contribution of small businesses in New York is their increasing strength. For the first time in more than 30 years, small businesses in the early 1990s actually fared better than big corporations both during and after the recession. Small firms replaced all of the jobs they lost during the 1989-1992 recession and even added 17,000 more by 1996. Large firms, by contrast, have lost 109,000 jobs since 1989.[8]

Probably most important from the perspective of low-wage workers is the ability of small businesses to produce middle-income wages for New Yorkers and a real job ladder. A case in point is the still resilient manufacturing sector, where average annual wages typically fall in the $25,000 to $50,000 range.[9] This sector employs nearly 250,000 New Yorkers, the same number of people working in high-end service industries such as motion pictures, legal services, engineering, and management services combined.[10]

Despite the staying power of manufacturing and other small businesses, they could be doing much better. Many of these firms are run on an entrepreneurial drive that has always categorized New York firms. But a growing number of firms are unable to expand because of skyrocketing real estate costs, a poor supply of well-trained workers, or little knowledge of how to export their goods.

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[8] New York City Office of the Comptroller, *Small Firms Drive NYC Boro Job Growth*, Economic Notes, Vol. V., No. 6, November 1997.
[9] ES 202 Data provided by the U.S. Bureau of Labor Statistics.
[10] Calculated from NYS Department of Labor, *Nonagricultural Employment in New York City*, June 2000.

Reaching small firms, in and out of manufacturing, is essential to any economic development strategy that attempts to create new jobs in addition to retaining ones that currently exist. But, for a myriad of reasons, economic development assistance is rarely accessed by small businesses.

Here's why:

Service Delivery: It is very difficult to deliver economic development services to a large number of small businesses. The administrative cost of providing a low-interest loan, tax benefit, or technology assistance is as great for a small company as a large company. Consequently government organizations tend to focus on larger businesses and our economic development resources do not reach our growth engines. Small businesses do not have the capacity to navigate the bureaucratic system. Managements tend to be lean and need to be focused on getting and selling goods and services, not searching for a government program.

Disenfranchisement and Alienation: Despite the general public perception that businesses have great access to government and influence over government decision making, small business owners often feel disenfranchised. Government often seems inaccessible and is only visible when a plant is inspected or a truck or sidewalk is ticketed. When owners do seek assistance, it is often a frustrating experience because of apparently unnecessary program requirements and paperwork. This sense of alienation is increased by apparently disparate treatment of larger financial service firms threatening to leave the city.

Programs of Marginal Benefit: Many government programs tend to be of marginal benefit because they lower short-term costs through tax benefits, low-interest loans or other subsidies without improving the long-term competitiveness. The short-term fixes tend to be easier to deliver and satisfy the "one size fits all" needs of a centralized agency without sufficient expertise in the actual business world.

Probably most ineffective are government’s large tax incentive packages that are granted to large corporations threatening to leave the city. The folly of these one-shot abatement deals is the minimal benefit they bring. Reams of research and surveys have been compiled from everyone from the conservative Cato Institute to *Fortune* magazine that disprove the importance of tax incentives in corporate relocation decisions. Businesses are very clear in stating the most importance assets of a region are good schools, affordable housing, and the quality of the workforce.

The Answer

Across the country government officials and planners are adopting a new model of business development. The model referred to here as a sector strategy focuses on economic development assistance to an entire industry rather than granting large tax incentives to individual companies. A sector approach is a low-cost strategy that will allow city officials to effectively target assistance to small businesses. The sector approach is based on the notion of providing help to entire industrial sectors rather than individual firms. It takes the emphasis off of defensive tax abatements given to big corporations threatening to cross the Hudson and places it on strategies to improve the competitiveness of industries so they want to stay.

What’s more, the sector approach enlists groups of client companies in the development and delivery of services. They build networks within industries and between industries and government. In other words, rather than government telling business what to do, businesses work collaboratively with government to determine the most efficient and inexpensive assistance available. A sector approach will:

- Increase access to government;
- Improve the long-term competitiveness of companies in target industries;
- Increase the resources available for economic development purposes by leveraging private resources; and
- Generate sufficient good will and value to allow government to seek reciprocal commitments of jobs for residents.

The approach is simple in concept, but requires a change in mindset and a long-term commitment from government leaders and their partners in the private sector. The change in focus requires public officials or a public/private partnership to sit down with representatives of an entire sector, rather than individual firms, and determine what their needs are and how public funds can help. Once the dedication to help an entire industry is established, examples abound of smart public sector investments such as funding research on market trends for the sector, creating research centers at local universities or business incubators for start-up firms, and establishing an export consortium that helps detect foreign markets.

Models And Lessons

There are several successful examples of the sector strategy in New York. The New York New Media Association in New York received a grant from the state's Empire State Development Corporation to document the level of, and potential for, growth in the industry. This study, conducted by Coopers and Lybrand, has paid off handsomely for everyone in the industry. Detailing the phenomenal surge and profitability of the upstart sector benefited individual companies that were able to interest venture capitalists with the hard numbers contained in the report. In Brooklyn, the Greenpoint Manufacturing and Design Center provides space for over 40 woodworking companies. The co-location of these companies has encouraged them to collaborate such that they share equipment and have access to services that they could not afford if they operated in isolation. But these projects are the exception, not the rule, in New York.

As New York City continues to rely heavily on Wall Street and a major tax abatement strategy, competing cities, states and regions have moved more decisively to a sectoral strategy. Oregon has reduced its reliance on the forest industry and moved towards high technology, Cleveland and Baltimore have focused on tourism to offset their dependence on the declining manufacturing sector, and St. Louis has made the transition from a declining defense industry to biotechnology and telecommunications. Silicon Valley is the most prominent example of a deliberate regional strategy to sustain growth by supporting key industry sectors. Its success has been a model for similar approaches in a host of other metropolitan areas, from Los Angeles-Long Beach to the greater Washington, D.C. region.

> The Garment Industry Development Corporation (GIDC) was established in 1984 to provide services to New York City's apparel industry. GIDC is governed by a board of directors which includes representatives of the employers, the union and city government. GIDC has established two training facilities with state-of-the art computer-programmable sewing equipment. GIDC also provides export and technology assistance, general business assistance and advocacy. Through its board, GIDC serves as a vehicle for the industry to set priorities, to market programs and engage in ongoing discussions with city government.

Lesson One: Identify Potential

Each of these places has employed a standard set of processes for discovering and supporting their key sectors of growth. First, they survey their landscape of industries to determine their strengths and then services and programs are re-aligned to meet the needs of high growth and high wage sectors. California is good example. Overwhelmed by the massive job losses of the early 1990s recession and defense cutbacks, the state pulled back and identified a number of likely high-growth areas that were previously off the public sector radar screen.

In a bipartisan effort, Republican Governor Pete Wilson and the Democratic state legislature created the Economic Strategy Panel, charged with surveying the entire state for high-growth areas of the economy. The panel sent a team of practitioners and highly placed elected officials on two-day listening tours in each region of the state. The panel results were a mix of business testimonials from the listening tour and hard data about potential industry growth.

One of the biggest of California's successes was in a seemingly unlikely sector – Hollywood. Everyone, politicians included, considered the entertainment industry a small elite group of major film studios. But panel members were shocked to find that the industry employed nearly 200,000 people in primarily middle-income jobs such as set designers, carpenters, caterers, and plumbers. Additionally most of the jobs were found in the newer small film production outfits, not the big seven studios.

With the size and importance of the entertainment industry understood, government then set out through the Strategy Panel to determine its needs. Again, the surprising finding was not that industry leaders wanted tax cuts or regulatory reforms as much as they were desperate for well-trained employees. Many companies were forced to import one-half of their employees from abroad to acquire the necessary high technology skills required for special effects and other film techniques. Government did not spend additional money to address workforce concerns, but instead re-shifted current spending. Entire agencies such as the Employment Training Panel (the state agency charged with job training) and school-to-work offices began directly working with the industry to establish relevant training and educational curriculums.

Lesson Two: Integrate Sectoral Strategies with Land Use Planning, Infrastructure Investments and Workforce Development

A key to the success of industry sector strategies is their ability to improve the coordination of economic development policies. This is not only true for business assistance, promotion, and incentive programs. It applies equally to the more fundamental components of economic development, including land use planning, infrastructure investments, and workforce development. When the focus shifts from individual firms to whole sectors, the importance of coordinated actions to improve space availability, transportation and telecommunications capacity, and workforce availability become apparent. There is also an organizational structure to synthesize these actions, so that infrastructure investments support real estate policies, and education and training programs support business assistance and promotion strategies.

The emphases vary from region to region, but most sector strategies generally link economic development to related policies. Joint Venture Silicon Valley is an example of a regional sector strategy that has integrated business assistance, regional promotion, development improvements, tax policies, workforce development, and education reform to support clusters of technology industries. This multi-faceted program grew out of an initiative that began with a process that examined the needs of the Valley’s key industries and developed an array of initiatives to meet both economy-wide and sector-specific objectives. North Carolina’s Research Triangle used its assets in higher education to forge an economic development strategy that linked high technology industries to the research and workforce development capabilities of higher education. The entire state of North Carolina has been in the forefront of using its community college system to help foster the development of regional industries through industry-specific training programs.

Industry strategies that have a major emphasis on infrastructure and physical development often merge industry and "place-based" strategies. Chicago's Industrial Corridors Program targets 22 industrial areas to preserve the city's manufacturing base. The program develops strategies suited to the industries in each corridor using a portfolio of policy tools. Key elements of these strategies include land use protections for industrial uses and tax-increment financing (TIF). The latter finances infrastructure improvements within the corridors by dedicating a portion of property tax increases to priority projects. In the San Francisco area, a large real estate parcel provided the impetus for a public-private strategy to support the biotechnology industry. As a result, the Mission Bay project has been a major success from both a real estate and economic development perspective.

Lesson Three: Use Sectoral Strategies to Improve the Success of Economic Development Zones

New York State has, since the late 1980s, placed much of its hope for spurring economic growth in low-income communities on the Economic Development Zone (EDZ) program. EDZs are designated (by the state's Empire State Development Corp.) in neighborhoods that are characterized by poverty, unemployment, and general economic distress.[11] Businesses moving into or remaining in an EDZ are eligible, through the year 2004, for a variety of tax incentives and benefits: wage tax credits, investment tax credits, sales tax refund, zone capital credit, utility rate reductions, low-interest loans, and business assistance. After over a decade in operation, the EDZ program in New York cannot be said to have made much economic impact. In the early 1990s, several critical audits led to the establishment of the Economic Development Zone Review Commission

[11] The current EDZs in New York City are: Hunts Point and Port Morris in the Bronx; Brooklyn Navy Yard, East New York, and Southwest Brooklyn; East Harlem; Far Rockaway and South Jamaica, Queens; and Staten Island.

and the adoption of reforms by the state legislature in 1993. Three years later, an audit by the NY State Comptroller's Office found little evidence of improved program evaluation in a number of New York City zones. In the most recent 1998 State Comptroller's audit, some improvements were found in program monitoring, and a new statewide system for evaluating program effectiveness was being developed by an independent consultant.

Evidence on more successful EDZs in some other states suggests that properly designed and implemented programs can play a useful role as part of a job creation strategy. EDZs have spread to 35 states since the mid-1980s. A recent major research survey by Wilder and Rubin (1996) assessed the sizable number of studies of zones' employment and investment effects. There is wide variability in job creation and investment rates among different zones within a single state, as well as between different states. But there is a consistent finding of some temporal relationship between establishment of EDZs and increased economic activity in the zoned area.

Lessons for the state's EDZ policies can also be drawn from the federal Empowerment Zone program. In 1994, New York City was selected as one of just six cities nationwide to pioneer the Empowerment Zone (EZ) program championed by the Clinton Administration as the centerpiece of its urban policy. The city's zone consists of the Upper Manhattan EZ (Central, East, and West Harlem, Washington Heights, and Inwood) and a much smaller South Bronx portion centered around Yankee Stadium. A federal grant of $100 million was matched by the state and the city, creating a total 10-year investment pool of $300 million.

With the assistance of McKinsey and Company, the Upper Manhattan Empowerment Zone (UMEZ) has developed an integrated investment strategy to improve the effectiveness of investments and assistance programs. Among its fundamental premises are the following:

- Business Recruitment: UMEZ analyzed a wide range of industries and identified four with the greatest potential impact on employment and the best "fit" with Upper Manhattan's strategic assets. Each represents opportunities to connect to key regional business clusters, thereby boosting local job creation and providing opportunities for local businesses to export goods and services beyond the local market. These industries are: Tourism and Entertainment, Retail, Health Services, and Business Services.
- Small Business Development: The vast majority of Upper Manhattan's businesses are micro businesses in need of capital, technology, and technical assistance to grow and retain greater levels of wealth. An urgent priority is to diversify the base of businesses beyond those serving primarily local residential markets, and support those in high-growth emerging industries capable of exporting goods and services to the broader New York region.
- Workforce and Infrastructure Development: Businesses need workers with 21st century skills. Workers need access to support services to enable their participation in the city's competitive workforce. Residents, workers and visitors need a quality physical environment. And many of the community's 1000 nonprofit institutions need to be strengthened through technical skills development, technology, and other resources if they are to continue to lead and sustain Upper Manhattan's transition to a new economy.

To implement this strategy successfully, the UMEZ will still need to resolve political differences that are impeding the implementation of development projects.

However, the strategy provides a framework for sustainable growth, and some progress has already been achieved. For example, the UMEZ's Business Resource and Investment Services Center, after initially providing minimal technical assistance, has begun using Small Business Administration loan guarantees and other government assistance to support some Harlem small businesses.

The state EDZ program can benefit from the lessons of the national Empowerment Zone (EZ) program and successful state initiatives. The best models are those with a long-run plan to support those commercial and industrial sectors with the greatest potential for aiding job growth and community development. This strategic underpinning, combined with well-designed incentives and a transparent decision making process, enhances the potential to facilitate local business and community cooperation in creating comprehensive economic growth.

The recommendations below provide a framework for sector strategies that can combine business assistance, workforce development, infrastructure improvements, and land use planning to create more effective job creation policies. They are designed to work in tandem with the infrastructure and workforce development recommendations described later in the report. By putting small businesses on a level playing field with large firms, and providing a structure for supporting industries that have living wage jobs that do not require high levels of educational attainment, the jobs generated by these strategies will also do a better job of enhancing economic opportunities for low-wage New Yorkers.

Recommendations: **Redirect economic development expenditures to programs that support a broad range of industry sectors with both small and large industries**. The city has committed $2 billion in tax breaks to large corporations threatening to leave the city since 1994. This emphasis on corporate retention deals has been a centerpiece of city economic development policy for decades, and has diverted both financial resources and city talent from pursuing more strategic investments. A first step toward implementing sector-based strategies is to adopt a new policy mindset that supports the city's businesses through proactive programs and investments rather than reactive deals whose effectiveness are highly suspect.

Implementing a sector economic development strategy requires changes in both the delivery of economic development services and the process for decision making. It requires a willingness to make relatively long-term investments in projects that may not show immediate benefits and or quantitative results.   It also requires leadership from both the public and private sectors to create the political will and public support to resist the pressure for retention deals and maintain the focus on developing a broad range of industry sectors. To galvanize public and private support, the city could e*stablish a Council for the 21st Century*, with leadership from the top levels of both the public and private sectors, to develop strategic priorities and provide program coordination and technical assistance

In addition to high-level leadership, any successful sector strategy must also develop effective mechanisms for local service delivery. In New York this means that the mayor's office must be supportive and exercise leadership for the strategy, but coordination and service delivery should occur at the borough level, possibly through borough chambers of commerce.

Cooperation among state and city agencies is also a key element for success. Currently, the Empire State Development Corporation supports sector organizing and research through technical assistance and targeted grant making. Areas such as Westchester County and Long Island and even city-based programs such as the Garment Industry Development Corporation have benefited from small but well-targeted grants. But the city has yet to focus on a citywide strategy and Empire State Development Corporation's knowledge and assistance could go a long way to move the city forward.

The final partner to be included is higher education. Regardless of the industry, a college or graduate degree is increasingly essential for New York's workforce to be competitive. The location of over a hundred post-secondary institutions in the five boroughs should be a source of strength, but there is little to no connection between the City University of New York and the private institutions and the various economic sectors. This disconnect could be overcome by establishing a common point of entry for businesses to connect and partner with higher education.

Create and support strong industry support organizations to assess and prioritize the needs of their sector and involve the industry in the design and delivery of economic development services. By creating or supporting industry-specific development corporations, trade associations, or informal organizations, the client-companies assess and prioritize their needs and participate in program design and implementation, including marketing the program to their colleagues and members. They get vested in *their organization* that is *delivering their programs*.

This industry control also creates the possibility of providing services that impact more on the long-term competitiveness of the companies. Since services are tailored to the needs of specific industries and are delivered by peers or someone with whom the owners have a greater degree of confidence and trust, they can begin to address issues which relate to production and operations, marketing, and other core issues.

Industry-specific collaborations can be created either through organizations or the support of trade groups, or through industry-specific buildings, which encourage the clustering of related companies. The first step is for the city to expand support for existing industry-specific organizations such as the Garment Industry Development Corporation, the Greenpoint Manufacturing and Design Center, and the Diamond and Jewelry Industries Development Corporation (DJIDC). Second, implicit in an industry-specific strategy is the selection or targeting of certain industries for assistance. This should proceed in at least two ways. The city must, on a policy level, assess the potential for growth and the benefits to growth in various industries and then proactively reach out and help organize these industries. For example, the Diamond and Jewelry Industries Development Corporation and Business Improvement District started with policy analysis by the Manhattan Borough President that identified that industry as presenting growth opportunities and an organizing effort to help disparate groups within the industry to collaborate on several joint projects.

The city should also develop a mechanism such as a grant program to encourage industries to undertake collaborations. For example, the city might develop a request for proposals, which provides grants to collaborative efforts which improve the long-term competitiveness of several companies through training or technology acquisition or sharing.

Establish Industrial Districts that will support the development of manufacturing clusters. With a quarter million jobs and a large number of growing, profitable firms, manufacturing is a particularly important source of living-wage job opportunities for workers in the low-wage job market. However, a shortage of affordable industrial space and the expansion of commercial and residential uses in industrial areas is probably the most significant challenge facing New York's manufacturers today. Special industrial districts in parts of Long Island City, industrial areas near the Brooklyn waterfront, and other active manufacturing areas can provide a focus for integrated strategies that combine zoning protections, infrastructure improvements, and industrial development incentives.

The main rationales for establishing special districts are that they provide a strategic focus for economic development activities and create a level of confidence for business owners and developers to invest in the area. There is no simple formula for selecting and creating the districts, but the city would benefit from a comprehensive planning process to designate Industrial Districts that would provide a higher level of protection to existing industrial businesses and create a focus for proactive strategies. Specific policies to support a districting strategy include the following:

- *Define and maintain consistent land use policies:* Competing uses should be strictly limited to maintain confidence that a district will maintain its intended character.

- *Create financing mechanisms to create new industrial space:* These can include an Industrial Development Tax Credit, similar to transferable tax credits that have been used to develop low and moderate income housing. They can also include a Trust for Industrial Space, a nonprofit entity that could acquire and renovate manufacturing space.

- *Develop needed infrastructure:* Sustaining thriving industrial districts will require investments in upgrading and modernizing the infrastructure that supports the movement of people, goods and power between the district and the region. Tax increment financing, described above for the Chicago Industrial Corridors program, is one means of funding new infrastructure.

- *Provide necessary business support services:* Relocation assistance, in particular, may be important to convince companies to relocate into a district. Technical assistance, energy programs, telecommunications services, and other forms of assistance may be especially important to certain industries. Not-for-profit organizations, such as the Industrial Technology Assistance Corporation (ITAC) and the New York Industrial Retention Network (NYIRN), are often the most effective vehicles for this assistance in industries consisting primarily of small firms with little organization at the industry level.

Connect new technology and commercial centers to the low-wage workforce. Driven by the space crunch in Manhattan, technology and commercial activities are beginning to relocate in some outer borough locations. New initiatives, such as the city's Digital NYC program and the Group of 35 convened by Senator Charles Schumer, are beginning to add public support for this trend. With sufficient demand and adequate planning, there is an opportunity to expand employment centers outside of Manhattan's Central Business District.

These developments create both opportunities and risks for low-income New Yorkers. New commercial activities can be a rich source of job opportunities, but they can also threaten to displace manufacturing jobs with high-skill office jobs that are beyond the reach of most low-wage workers. To insure that new technology and commercial centers improve the low-wage labor market, strategies that support their development should also improve access to new job opportunities and minimize the displacement of manufacturing and affordable housing. These strategies should include:

- Land use regulations and marketing programs that cluster activities in a few "borough downtowns." This will minimize displacement in other areas and, by locating near transit hubs, maximize their accessibility to the low-wage workforce.

- Community design and infrastructure enhancements that connect commercial centers to adjacent neighborhoods. This could include public spaces or street designs that provide benefits to residents as well as enhance the attractiveness of the community.

- Creation of Special Assessment Districts, in which a portion of the increased tax revenues resulting from the conversion of industrial to commercial space is earmarked for the development of industrial space, affordable housing or infrastructure in nearby locations.

- Employment programs that effectively train and place low-income job seekers with technology and office firms relocating to the outer boroughs.

Revise the New York State Economic Development Zone legislation to give zones a strategic focus and more effective tools. Specific changes should include the following:

- Require that each zone adopt a long-run, comprehensive, sector-based development plan to: (a) identify, protect, and assist expansion of the area's key industries, (b) encourage clustering of related firms, and (c) discourage real estate speculation that seriously threatens such clusters.

- Adopt new structures to increase the transparency and democracy of the processes by which new EDZs are defined and existing EDZs are operated. The current system of control by appointed officials needs to be reformed to invite participation in the decision making process by business and community groups in each zone. Active outreach efforts are needed to increase the involvement of church groups, immigrant organizations, labor unions, tenants organizations, and other groups.

- Refine incentives to increase their effectiveness, including increasing minimum hourly wage rates from 135 percent to at least 150 percent of the minimum wage for any firm seeking EDZ incentives; requiring a minimum full-time employment duration of three months before a firm can count an employee toward an incentive; providing firms with wage credits for contributions to worker child care and health insurance; and establishing Clawback provisions[12] to recapture tax credits if, after three years, the average number of qualified jobs falls below a minimum required threshold.

- Intensify monitoring of actual job impacts of public programs by requiring multiple site visits each year to all EDZs by qualified evaluators, independent audits measuring net job growth, and annual reports.

- Build and maintain an up-to-date Geographic Information Systems database of all the city's business establishments. At a minimum, a database useful for detailed planning purposes requires, for each business site, current information on: the address, floor space, energy usage, industry, specific products and services, employment, sales

[12] "Clawback" provisions are statutory requirements that give the state the authority to recoup tax credits and other benefits if a business does not meet a minimum threshold for new jobs created or other public benefits targeted by the legislation.

volume and payroll, and recipiency of government assistance.

II. Provide The Infrastructure Capacity For Sustainable Growth

Just as investments in new equipment and facilities are critical to the profitability of a private firm, investments in infrastructure are essential to the continued economic health of a city, state or region. These investments not only affect the growth capacity and competitiveness of an economy, they also shape the development of a region, helping to determine *where* economic activity takes place and *who* is likely to reap the largest benefits. In the case of the New York City region, the condition, capacity, and configuration of subways and commuter railroads, highways and bridges, ports and airports, water systems and waste management facilities, telecommunication networks, school buildings, and hospitals are major determinants of the pace, location, and type of job growth that occur here.

To understand the importance of investments in the city's infrastructure, we need only to look at how they have shaped the city over the last two decades. It is hard to envision the city's current economic expansion without the $22 billion that the city and state invested in the metropolitan area's subways, buses, and commuter rails between 1982 and 1996. The frequent breakdowns and unreliable service that characterized transit service in the late 1970s and early 1980s sapped the productivity of the city's workforce and symbolized a city in decay. Similarly, the remarkable revival of declining neighborhoods in the South Bronx, Central Brooklyn, and other low-income areas would not have been possible without an unprecedented city commitment to housing construction in the 1980s.

While it is difficult to quantify the number of jobs generated by capital expenditures, a substantial body of evidence supports the conclusion that the right investments can be cost-effective levers of job creation. For example, a 1994 study for

Con Edison found that the job potential from investments that directly improve productivity, such as capital investments in telecommunications or transportation, far exceeded the potential of comparable expenditures on tax reductions, crime prevention, or education.[13]

Another study, this one of transit investments in Chicago and Philadelphia by Cambridge Systematics, estimated that every dollar invested in the transit systems of these cities increased economic output by $6 in Chicago and by $9 in Philadelphia.[14]

Clearly, not every project will result in a sufficient payback to justify the expense, and the limited fiscal capacity of city and state governments require judicious choices in what to build and how to pay for it. However, a sound capital investment strategy needs to be a cornerstone of economic development strategy. To maintain and improve the city's productive capacity, both new and existing physical assets require substantial long-term funding.

The Benefits and Risks for Low-Income New Yorkers

The merits of proposed infrastructure projects are generally debated in terms of their aggregate impacts on the city's economy and quality of life. Simply put, will the project generate enough jobs, profits, tax revenues, or consumer benefits to justify the price tag? Unfortunately, the implications for low-wage workers and low-income communities seldom receive adequate consideration. For these constituents,

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[13] Hamilton, Rabinovitz & Alschuler and the New York University Urban Research Center for Con Edison, An Assessment of Policy Actions in Economic Development in New York City and Westchester County, March 1994. The assessment modeled the probable economic impacts of different policy scenarios. In these, a $300 million annual investment in telecommunications technology resulted in a 7% increase in employment over the baseline case, compared to increases of less than 2% for all the other interventions tested.

[16] Cambridge Systematics, Inc., Lasting Economic Benefits of Public Transit Investment, Phase 1 Final Report, prepared for the Metropolitan Transportation Authority, 1997.

infrastructure projects can be a double-edged sword. Among the benefits of the larger economy are a number of potential advantages for low-income workers:

- *Immediate job opportunities from construction activity:* Even before projects are completed, the task of building a new school or reconstructing subway tracks requires construction workers, technicians, truck drivers, and clerical workers. Purchases by construction companies and new spending by these additional workers creates additional job opportunities for manufacturing workers, retail clerks and others. For example, the construction of the Port Authority's Airlink to Kennedy Airport will create the equivalent of 4,150 full-time jobs and $200 million in wages over the course of construction. A large portion of these construction-related jobs offer high wages without requiring college degrees.
- *Permanent job opportunities from a growing economy:* Infrastructure improvements add jobs by making companies more productive and by making the city more attractive to new firms. The skill requirements and wage levels of the new jobs depend on the particular industries that are most affected. For example, an improvement that benefits manufacturing or tourism is likely to generate a relatively larger number of low to medium-skill jobs than projects that largely benefit financial and corporate service industries.
- *Direct service benefits:* Many projects can benefit workers directly with improved transportation service, more affordable housing, better parks, and other quality of life enhancements. Some of these also improve economic opportunity. For example, a new subway line can make thousands of additional jobs more accessible to residents of low-income communities, and modern school buildings can support better education for future members of the workforce.

- *Community development supported by new services and facilities*: Refurbished housing, a new school, improved bus and subway service - all of these can enhance the attractiveness of a community. This can translate into increased jobs or higher wages from new commercial development. It can also increase property values for homeowners and small businesses in owner occupied space.

For each of these benefit categories, there is a corresponding limit or risk. Women and persons of color remain underrepresented in the construction trades, and are unlikely to benefit fully from construction-related employment. In addition, many infrastructure investments can actually decrease job opportunities for low-income city residents. The classic example is the interstate highway system. Heavily subsidized by the federal government, it was a major factor underlying postwar U.S. growth. However, it also hastened the flight of jobs from cities to inaccessible locations in the suburbs. Similarly, some investments, such as highways or facilities in affluent neighborhoods, offer most direct service benefits to higher-income residents. Finally, infrastructure projects have as much potential to disrupt community economies as they do to enhance them. Construction can displace families and businesses, and increased property values can push out low-income renters.

To improve conditions for low-wage workers, an infrastructure strategy needs to be cognizant of these potential benefits and risks as well as its impact on aggregate economic growth. In general, this does not require a trade-off between what is good for the larger economy and what is needed to strengthen the low-wage labor market. Fundamental investments in schools, housing, transit, and other needs can grow the economy while they expand opportunities for low-wage workers, and a more diversified economy would bring a more stable business cycle. However, it does imply that several dimensions of economic impacts be evaluated, not simply the contribution to job and income growth.

An Infrastructure Agenda for Sustained Growth and Broader Prosperity

The capital plans of the City of New York, the Metropolitan Transportation Authority (MTA), the Port Authority and state agencies are deliberate, sizable investment strategies that reflect the priorities of political leaders and system managers. For example, the City of New York spent $47 billion on its capital program from 1980-1997 based on 10-year capital plans that are updated every two years. The plans are prepared by the Department of City Planning and the Office of Management and Budget after considering statements of needs and priorities submitted by city agencies. The plan provides a framework for annual capital commitments that are part of budget negotiations between the Mayor and the City Council. Public authorities and state agencies also make infrastructure investments that are based on agency plans and approved by the legislature and the Governor, in the case of state agencies, or by boards that are largely controlled by elected officials.

In the 1980s and 1990s, these plans were largely designed to catch up with deferred maintenance and replace obsolete facilities. Bridge maintenance and school repair and construction were expanded substantially. New water supply and wastewater facilities were also constructed, partly in response to federal and state mandates. However, two accomplishments of the last two decades stand out, both because of the scope of the resources committed and for what they say about the social and economic needs and the political dynamics of the time:

- *New York's subways, buses and commuter rails were restored to a state of good repair as the result of a joint commitment from state and city officials and the active support of both business and labor;*

- *A bold commitment by the city's political leaders and the grass-roots efforts of community-based organizations rebuilt dozens of deteriorating neighborhoods through the rehabilitation and construction of low and moderate-income housing.*

The first was implemented through a series of four five-year capital plans by the Metropolitan Transportation Authority with dedicated revenues and increased support from both state and city funding. The second was funded with over $4 billion of city funds at a time when the federal government was scaling back its commitment to low and moderate-income housing construction. Through innovative public-private partnerships, these funds supported the efforts of community-based organizations in reclaiming large sections in all five boroughs and added thousands of units of affordable housing.

These collaborative efforts provide a basis for a new strategy that will meet the city's economic needs in the first part of the next century. While these tasks are still far from complete, they have achieved enough success that the city must now confront the needs of a growing economy and population. Transit ridership is at its highest level since 1970 and many subway lines are operating well over capacity. Enrollment in New York City's public schools topped 1.1 million in 1999, up from 940,000 a decade ago, and many children are being squeezed into hallways, auditoriums, and other alternative classroom space, often in deteriorating, unsafe buildings. Commercial, industrial and residential space are all scarcer than they have been since the last peak in the 1980s. The city's solid waste burden continues to grow and the demands for electric power and telecommunications capacity have never been higher.

If the infrastructure agenda of the last generation was to restore systems to a state of good repair and rebuild deteriorated neighborhoods, the agenda of the next generation is one of modernization and expansion. While there are extensive capital needs across a broad range of activities, a few command particular attention:

- *Modernizing and expanding New York's transportation system*: Unlike other regions, the New York area has added no new capacity to its transportation network in nearly

40 years. It is becoming increasingly clear that this will eventually prevent further economic expansion. Many subway lines, bridges, and tunnels cannot handle any more rush-hour commuters. Increasing truck traffic is clogging highways and city streets, and the port and airports need to handle growing volumes of both freight and passengers. In addition, there is a continuing disconnect between the residential locations of unemployed workers and the employment locations in outer-ring suburbs where job growth is greatest.

- *Providing safe, modern classroom space for a growing school age population*: With immigration swelling the number of school children and with many existing school buildings in a state of disrepair, New York's public schools have a space crisis. The physical environment is not the most important aspect of improving education, but safe, modern classrooms provide the context in which quality education can take place. In spite of the attention that has been given to crumbling school buildings and the lack of classroom space, there is a substantial shortfall in capital funding for school rehabilitation and construction, continuing problems in meeting current construction schedules, and an outmoded technological infrastructure.
- *Expanding the supply of affordable housing:* New York City is ranked the most unaffordable housing market in the country, when measured by housing costs as a share of personal income. The New York City Partnership, the State Comptroller and others have demonstrated that New York City's housing market imposes a major constraint on the economy.[15] The loss of affordable housing is striking, with the

[15] In No Room for Growth: Affordable Housing and Economic Development in New York City, Office of the State Deputy Comptroller for the City of New York, October 1999, the State Comptroller reported that New York City ranks near the bottom of major cities in supplying new housing, and that 64% of surveyed firms reported that the recruitment and retention of employees is difficult because of housing. In Reducing the Cost of New Housing Construction in New York City, Jerry Salama, Michael Schill and Martha Stark (Report for the New York City Partnership & Chamber of Commerce, the New York City Housing Partnership and the NYC Department of Housing

number of apartments renting at less than $500 declining from 929,000 in 1991 to 416,000 in 1999.[16] Improving the incentives for private sector housing is critical, along with expanded support for low and moderate-income housing development.

These priorities are also consistent with the goal of improving job opportunities for low-income New Yorkers. Low-wage workers and the unemployed are most likely to be isolated from job opportunities and to use subways and buses to commute to jobs and look for work. Children of poor families are far more likely to be in public schools than private schools, and the schools in the worst condition are mostly in low-income neighborhoods. The working poor have also been the largest beneficiaries of the city's housing program as it has stabilized working class neighborhoods and expanded opportunities for home ownership. Within these broad priorities, both the effectiveness and the distribution of benefits will depend on decisions over which projects to fund, how to fund them, how they are managed and constructed, and what type of planning and programs accompany them. City and state capital programs require both the right strategic priorities and processes that deliver both long-term growth and a more inclusive prosperity.

Implementing an Expanded Capital Program

Without question, this agenda will require the city, state, and regional agencies to commit to a higher level of capital investment. Some of the leading initiatives, and their estimated costs, include the following:

Preservation & Development: New York University School of Law, 1999) demonstrated that the cost of construction is the highest in the nation and that state and city regulations contribute considerably to this cost differential.

[16] Coalition for the Homeless, Housing in a Growing City: New York's Bust in Boom Times, June 2000, p. 10.

- *Second Avenue Subway and MetroLink*: Following two years of growing support from a broad range of civic, business, and labor organizations, the MTA has included \$1.05 billion in its 2000-2004 capital program to begin work on a full-length Second Avenue subway. This would be the first major expansion of the subway system since the 1930s, but continued financing is by no means assured. Regional Plan Association's (RPA) Metrolink proposal, which triggered the recent campaign for the subway, would be built on the Second Avenue subway, to extend new service to the Bronx, Brooklyn and Queens. This new system would provide the transit capacity to bring a quarter-million new workers into Manhattan each morning, relieve the overcrowding on the Lexington Avenue and Queens Boulevard subways, and bring subway service to previously inaccessible neighborhoods in Manhattan, the Bronx and Queens. *Estimated Cost: \$8-10 billion for a full-length Second Avenue subway and \$13 billion for the full MetroLink proposal.*
- *East Side Access*: This project, also included in the MTA's recent capital program, would deliver Long Island Rail Road commuters to Grand Central Terminal via the 63rd Street tunnel. Seventy thousand commuters bound for East Midtown would save 45 minutes in travel time daily. *Estimated Cost: \$6 billion.*
- *New Hudson River Commuter Rail Tunnel*: This project, under study by NJ TRANSIT, the Port Authority, and the MTA, would add new capacity for NJ TRANSIT and Amtrak trains running into Penn Station. Options to connect the tunnel to Grand Central are also under consideration. *Estimated Cost: \$3-5 billion.*
- *Hudson River Freight Tunnel*: This project, sponsored by New York City Economic Development Corporation (EDC) would connect the city, Long Island, and southern New England rail freight network to the rest of the country. This would help to increase rail's

share of regional goods movement from the current 2% towards the national average of 40%. It will get tractor-trailers off of our expressways and streets, reducing congestion and improving air quality. It could also help support the development of a containerport on the Brooklyn waterfront. *Estimated Cost: $2 billion.*

- *Port Improvements*: Both the Port Authority and New York City EDC have been developing Port Master Plans. The Port Authority Plan calls for dredging and port facility investments to enable New York and New Jersey to win the battle to be the Hub Port for the East Coast. EDC is focused on revitalizing the Brooklyn Port, which has a much deeper channel than Newark and Elizabeth, in conjunction with the development of a rail freight tunnel. *Estimated Cost: $6 billion.*
- *Gowanus Tunnel*: The Gowanus Expressway is a Robert Moses-era elevated highway that has blighted Sunset Park, Bay Ridge, and Red Hook for nearly 50 years. The elevated structure is nearing the end of its useful life and must be replaced. RPA has proposed that the elevated highway be replaced with a bored tunnel. A tunnel would have a longer useful life, be a more modern transportation facility, and would have lower maintenance costs. It would open the Brooklyn waterfront up to a wide range of development opportunities. *Estimated tunnel costs: $3 billion.*

In addition to these project-specific costs, there are the capital costs of ongoing maintenance and state-of-good-repair, and the costs of school construction and new housing. Three comprehensive sources—New York City's Ten-Year Capital Plan, the City Comptroller's 1998 study of the city's capital needs, and the MTA's 20-Year Capital Needs Assessment - provide some order-of-magnitude estimate for comprehensive costs:

- The MTA Capital Needs Assessment estimates that it will cost *$57 billion* over a 20-year period to modernize the region's current transit network and keep it in a state-of-good-repair. It will require an additional *$20 billion* to construct several important new capacity expansions to the system, including the full MetroLink proposal and East Side Access.

- Maintaining bridges and highways will cost another *$12 billion* over 10 years, according to the City Comptroller's report.
- The City Comptroller also estimates that it will require *$28 billion* over the next 10 years to rehabilitate, modernize, and add enough classroom space to the city's schools. This is $15 billion more that what is in the city's current Ten-Year Plan.
- The city's Ten-Year Plan calls for additional *$4 billion* in city funds for new and rehabilitated housing, about the same amount that was spent from 1989-1999. This is in addition to any federal and state funding.
- All other capital needs are estimated to be *$27 billion* by the Comptroller and *$22 billion* in the current Ten-Year Plan. Water and wastewater systems represent the largest remaining items.

Clearly, addressing capital needs of this magnitude will require intelligent planning, project selection, and construction management. There is also little doubt that these needs will require additional sources of revenue. Without modernizing and expanding our infrastructure capacity, however, the city will not be able to continue to create new job opportunities. Balancing infrastructure needs and fiscal capacity is a difficult endeavor, but can be achieved with sound policy and sufficient political will. Recommendations to develop an effective and affordable capital strategy include the following:

Recommendations: **Adopt capital plans that give priority to three critical needs—transportation, schools and housing**. As described earlier, these three areas are most essential to continued economic vitality. These priorities imply several immediate policy changes, including:

- Adoption of a sound financial plan for the MTA's new capital program. The current financing proposal requires the MTA to issue more than $20 billion in bonds over the next five years, putting enormous strains on the operating budget and leaving the future of new projects in doubt. A more balanced and sustainable financing structure will require increased support from New York State, whose support declined from 19% of the MTA's capital expenditures from 1982-1996 to 7% in the last half of the 1990s. New dedicated revenue sources, as discussed below, will also need to be identified.

- Higher funding levels for school construction. According to the City Comptroller report, school construction projects are currently funded at less than 50% of total need, compared to 60-90% for most other city agencies.

- Renewed strong support for low and moderate-income housing. City funding for affordable housing has declined from $789 million per year in the late 1980s to $222 million per year since 1994. Even with other policy actions to increase housing construction by the private sector, affordable housing for lower-income residents is unlikely to expand without public funding.

Within these broad priorities, improvements to the capital planning process are needed to establish clearer criteria and a more effective selection process. Major projects should be required to complete a comprehensive cost-benefit analysis that will assist in prioritizing projects across functions. For example, in addition to costs, project evaluations should show job creation potential and impacts on housing costs and property values for constituents at different income levels. By screening projects against a consistent set of criteria and providing estimates on economic impacts, the city will have a stronger basis for prioritizing projects and evaluating their cost-effectiveness. It will particularly help in evaluating the relative merits of projects in different program areas, such as housing, transportation or education.

Adopt Debt Reduction Measures. To control costs and help maintain debt levels within the city's and state's fiscal means, there are several efficiency measures that can be adopted. The City Comptroller has proposed several recommendations for reducing debt service, including:

- A modest $200 million per year pay-as-you-go capital program to reduce outstanding debt by $1.8 billion by 2007;
- Using a portion of city's budget surpluses to retire bonds coming due over several fiscal years;
- Establish an Infrastructure Improvement Fund with "one-shot" revenues, such as the sale of assets, mortgage liens on in-rem housing and tax arrears; other ideas, such as the alternative school schedules to maximize the use of existing classroom capacity and congestion pricing[17] at transportation facilities are concepts that should be explored to reduce the costs of new infrastructure.

Identify Dedicated Revenue Sources for Infrastructure Improvements. Even with debt reduction and efficiency measures, new sources of revenues are needed to address the city's infrastructure needs. From both a political and equity perspective, the best revenue sources are those that are paid by constituents who derive a benefit from the expenditure and who can most afford to pay. In spite of the resistance to new fees or taxes, a political consensus is possible if constituents are convinced that the investments will result in clear and substantial benefits. Shorter commutes of up to an hour a day are a powerful argument for new transit investments, as are the productivity improvements and

[17] Congestion pricing uses higher tolls or fares during times when the demand is greatest (i.e., the morning and evening rush hours) or discount fares during off-peak times to encourage users to travel when there is excess capacity on the highways and transit systems. This approach, which is used by commuter railroads, phone companies, airlines, power companies, and virtually every other system with limited capacity, is seldom used for auto traffic. New technologies, such as EZPass and MetroCard, make it far easier to implement differential pricing. Higher rush hour tolls at bridges and tunnels or offpeak discounts on the subway system would reduce rush hour congestion by encouraging a portion of travelers to use the system at times when traffic flows more freely or trains are less crowded.

higher real estate values for businesses and property owners. Revenue streams that are dedicated to pay for improved service and that capture a portion of increased economic value make sense in both economic and political terms. Some possibilities for dedicated revenue streams include the following:

- A regional transportation tax to replace the outgoing commuter tax: As endorsed by the New York City Partnership and others, the $360 million that was collected from a 0.45% tax on commuters could be dedicated to East Side access by the Long Island Railroad, the Second Avenue subway and other transportation improvements that clearly pay large dividends to commuters.

- Tax-increment financing: A new subway station or public facility can greatly increase real estate values in the vicinity of the new facility. As described in the discussion of Industrial Districts, tax-increment financing uses a portion of increased real estate taxes to pay for the facility, thereby capturing a portion of the value that accrues to property owners from the public investment. Different forms of this mechanism have been used successfully in other cities around the country.

- Toll revenue: Increases in bridge and tunnel tolls can be dedicated to bridge maintenance and to transit improvements that provide an alternative to auto use. For example, new subway lines would provide an attractive alternative for many commuters who currently drive into Manhattan. Other auto users would benefit from reduced congestion on highways, bridges, and city streets. An increase could be limited to peak periods, providing users with more options and providing the congestion relief by encouraging drivers to travel at off-peak times.

Enhancing Benefits for Low-Income New Yorkers

As described earlier, infrastructure investments have particular benefits and risks for low-wage workers and other New Yorkers of modest means. A capital agenda that supports long-term job growth and a diversified economy is a pre-requisite for a strategy to improve job opportunities, wage levels, and quality of life for these constituents. However, this cannot be the end of the story. Projects that improve economic growth can still be disproportionately harmful to poorer neighborhoods, and difficult entry to the construction trades can limit the benefits for women and minorities. On the other hand, if combined with policies that address these issues, the economic activity generated by strategic infrastructure investments can be harnessed to revitalize low-income communities and break down employment barriers.

The following policy actions can establish a stronger link between these investments and improved conditions in the low-wage labor market. The first has to do with improving the *infrastructure planning* to better address community needs. The second would integrate *community development* with infrastructure projects, and the last would addresses *employment access* in the construction industry.

Recommendations: **Require regions and municipalities to submit long-term growth plans as a pre-requisite for the receipt of state highway, school, and other infrastructure funding.** More than a dozen states, including New Jersey, Maryland and Pennsylvania, now have statutes that provide either voluntary or mandatory guidelines for municipalities to produce growth and development plans that are consistent with statewide economic and environmental goals. Known as "smart growth" plans, they are designed primarily to improve land use decisions and limit suburban sprawl. However, these plans also have a direct bearing on the selection of infrastructure projects. Projects such as new roads or sewer systems that permit the development of open space are discouraged, while investments in existing infrastructure that anchors growth in cities and town centers, such as mass transit or bridge repair, are encouraged. Most states with smart growth laws also have provisions that require some form of public participation in the planning process.

A smart growth statute for New York State could include provisions that require municipalities, counties, and regions to submit long-term development plans that specify the location and type of growth that land use and infrastructure decisions will support. With a strong public participation provision, this approach could increase the likelihood that issues such as economic development, affordable housing, and quality of life in poorer communities are incorporated in city and regional plans. And if state infrastructure support is conditional on an approved plan, infrastructure projects are much more likely to limit harm to low-income neighborhoods and encourage job creation in locations that are accessible to low-income residents.

Provide resources for community planning and development in neighborhoods impacted by new infrastructure projects. An extended subway line, a waste transfer facility, a water filtration plant, or a new highway can all change the economic and social fabric of a neighborhood. Whether the impacts are primarily positive or onerous, the facility triggers the need for new community planning. If there is a prospect for new jobs, then there may be a need for new kinds of job training to have access to these jobs. If small businesses or affordable housing will be displaced, then there needs to be a plan to help the community adapt to these changes.

Assisting communities to plan for these changes, and targeting business and workforce development assistance to take advantage of new opportunities, can help these places obtain their share of the economic benefits. A good example of the type of investment that could result is the Port Authority's investment in an Aviation Institute at York College in Jamaica, Queens. The investment, triggered by the Authority's planned construction of the JFK Airlink, will provide residents with education and career training to take advantage of a growing number of airport jobs. Another type of action could be relocation and technical assistance for small businesses that would be displaced.

One option for institutionalizing this form of assistance is to set aside a small percentage of construction funds for major infrastructure projects for community development initiatives. Modeled after the "Percent for the Arts" program that reserved one percent of project funds for arts and beautification projects at new facilities, a community development set aside could leverage economic and community improvements with a minimal increase in project costs.

Develop industry-union programs to improve minority/female representation in construction trades. Hiring practices in the construction industry have traditionally limited the number of women and minorities in well-paying trades such as electricians, carpenters, construction equipment operators and other fields. While some progress has been made, much more needs to be accomplished. An expanded infrastructure agenda, with a corresponding increase in construction-related employment, would provide a more fertile environment for cooperative endeavors by trade unions, industry associations and government to develop training and hiring mechanisms that would lead to a more diverse construction workforce.

Recent research has established that apprenticeship programs for construction trades are most effective when they are jointly operated by trade unions and employers. Graduation rates increase overall, and graduation rates increase more for women than for men.[18] New York City has a history of joint union-industry programs to build on, and other cities and regions can provide important lessons for improving existing arrangements. With greater job security for existing workers, a period of expanded capital construction would be an opportune time to make improvements in program structure, expand outreach and take other actions to improve access for women and minorities.

An example of successful collaboration on this issue is Project Rebuild, a program that combined the resources of a supportive housing developer (Common Ground Community Housing Development Fiduciary Corp.) and the New York City Construction and Building Trades Council. The project trained and placed residents of supportive housing in union wage jobs after completion of a 12-week comprehensive pre-apprentice training program.

In another encouraging development, the Building Trades Council recently reached agreement with Tishman Construction to set aside at least 10 percent of new apprenticeships to graduates of the city's vocational high schools, which are predominately African-American, Latino or members of other non-White groups. Both of these examples provide models that can be expanded or replicated to diversify membership in construction trades on a larger scale.

[18] Bilingsoy, Cihan, *The Union Factor in Apprenticeships Training*, submitted for publication in Industrial and Labor Review in September 1999, and Gunseli Berik and Cihan Bilingsoy*, Do Unions Help or Hinder Women in Training? Apprenticeship Programs in the U.S.*, August 1999, to be published in Industrial Relations. These papers did not examine the impacts of programs on minorities.

CHAPTER FOUR

PREPARING PEOPLE FOR LIVING WAGE JOBS

Inadequate skills stand between many participants in the low-wage labor market and jobs that would provide them and their families with a livable income. As important as becoming more skilled may be to these workers, it's hard for them to buy the training they need. They don't have the money, or the access to financing, or the time, or the information required to obtain new skills. At the other side of the labor market, employers constantly worry about the quality of their workforce. This coincidence of need ought to result in a win-win solution, where firms train workers and reap the benefits of higher productivity and workers pursue training as a path to higher pay.

Often, it doesn't. Private sector employers under-invest in training. It's not that training really doesn't increase worker productivity - it does - just like investment in new equipment. But unlike fixed investments, workers don't belong to their employers. They can take their new skills with them to a new job with a different employer. The risk to individual employers of losing the benefits of skills they have paid for leads to a systematic shortfall in employer-sponsored training.

The argument for government-sponsored training programs rests on the social benefit that results when the public sector tries to make up for private sector under-investment. If improved skills lead to increases in productivity, then wages should rise. Rising incomes then lead to a "public benefit," which is reflected in higher income tax collections and reduced government subsidies to individuals and families. Improved productivity of the workforce has the additional benefit to state and local governments of making a region more economically competitive.

Publicly-funded training has become a more urgent need as more of the workforce is working in low-wage jobs and public policy is committed to moving more people with few skills into employment. Except in cases of severe labor shortages, private firms are unlikely to provide training for the low-skilled unemployed or to individuals who need to move from welfare to work. Typical jobs for this segment of the labor force tend to have high turnover, and some of the workers who are going into them may be more difficult to train, and, thus, a greater risk, than those who have spent more of their adult years in a job. Effective government training programs are necessary if welfare to work is also to be a journey out of poverty.

The challenge to government, then, is to develop a workable system of employment training and placement assistance that addresses the diversity of workforce development needs represented by New York City's labor force. Unfortunately, government has in the past fallen short of meeting this challenge due to inadequate funding, inflexible federal mandates, inadequate or inappropriate performance standards, and poor coordination among a multiplicity of programs that have evolved in a haphazard fashion.

In New York, the implementation of the new Workforce Investment Act (WIA), welfare reform, and a re-examination of the public education system together provide an historic opportunity to rethink the city and state workforce development systems. Of these three workforce development systems, this report focuses on the Workforce Investment Act and welfare reform. They have immediate impacts on low-wage workers: WIA addresses workforce development needs for groups ranging from dislocated workers to disadvantaged youth, while federal legislation has (at least potentially) transformed welfare into a work preparation system as well as a program providing income support.

> The following discussion does not address the very critical issue of quality education and its role in improving opportunities for those relegated to, or heading towards, the low end of the labor market. While literacy, numeracy, and problem-solving abilities are increasingly important for careers that lead to higher pay and benefits, education alone will not solve the problems of poverty and low-wage work. Because education reform has become a high priority for a broad range of public officials and civic activists, the Working Group has focused its recommendations on another set of policy concerns for low-wage workers.

Although federal law established both WIA and the new welfare system, they have done so in a way that provides state and local government with a high degree of latitude as to how law takes the form of program design and implementation. For example, the way the state and city governments interpret WIA's reliance on connecting workers to training through a voucher system will have profound implications for both workers and the community-based organizations that are the predominant providers of training services in New York City. Under welfare reform, state and local officials can place emphasis on different activities (such as workfare versus employment training or education or activities) to achieve the federal mandate that a certain proportion of the caseload is engaged in "work activities."

Given the flexibility within these programs, government officials can have a tremendous impact on outcomes by making this or that administrative decision. Many of our recommendations are, therefore, focused on programmatic detail rather than on the development of proposals for new programs which, like those in place already, are often only as good as their administrative implementation. In addition, unless noted otherwise, these recommendations do not call for new state or city spending beyond the federal block grants that fund WIA and TANF-related programs.

I. Making The Workforce Investment Act Work

In 1998, Congress passed the Workforce Investment Act to replace the Job Training Partnership Act (JTPA), the workforce training system that had been in place since 1983. JTPA was designed to provide assistance to those with "significant barriers to employment" and included a patchwork of programs overseen by local Private Industry Councils. JTPA has been criticized as fragmented, duplicative, and insufficiently responsive to the needs of those (employers and workers alike) whom it was meant to serve.

The Workforce Investment Act establishes a more comprehensive system of workforce training that includes the job search and job matching assistance that was available through the "Employment Service." It is supposed to be more customer-driven, featuring "One-Stop Career Centers" where individuals can be assessed and referred to appropriate programs. People can qualify for services under the program even if they do not experience "significant barriers" to employment, but need to improve skills to obtain a job or to rise out of poverty or off the welfare rolls. With some exceptions, individuals are granted vouchers to purchase training with eligible providers.

WIA offers an opportunity for the state and city to make significant improvements in the workforce training system. However, the extent of the improvements hinges on how the new system is implemented at the state and local levels. Unfortunately, New York City is off to a slow start. Although the new system was to be up and running by July 1, 2000, at the time of this writing the New York City Workforce Investment Board (the successor to JTPA's Private Industry Council) had yet to finalize the five-year plan it must submit to the state. Below, we address key areas where the actions of the state and the city will make a real difference in whether WIA actually transforms New York's training system.

Priority Setting: Moving Beyond "Work First"

With such a broad set of responsibilities, local Workforce Investment Boards need to establish program priorities. One central issue is whether, or to what extent, the principle of "work first," which emphasizes moving people into jobs and limiting access to education and training, provides a framework for the services offered to the broad range of adults serviced by WIA. While these policies have their place when tailored to meet the individual needs of some adults seeking WIA services, we believe that the priority for WIA should be to increase the job skills and competitiveness of the city's workforce through more intensive services, including education and training funded by WIA.

This should not be a problem. The broad mandate of the Act was described by Congress as follows:

> . . . to provide workforce investment activities, through statewide and local workforce investment systems, that increase the employment, retention, and earnings of participants, *and increase occupational skill attainment by participants, and, as a result, improve the quality of the workforce,* reduce welfare dependency, and enhance the productivity and competitiveness of the Nation. [Emphasis added.] Workforce Investment Act of 1998, Pub. L. 105-220, Section 106.

Clearly, intent of the law is to establish a first class workforce development system that includes a commitment to continually improve the skills level and, in turn, the competitiveness of the workforce.

But WIA then specifies a three-step, sequential eligibility system designed to ration training services. First, "core" services (such as job search, access to basic eligibility information, and initial assessments of skills levels) are to be universally available to all adults regardless of income. Second, "intensive" services (such as more in-depth assessments, counseling, and case management) are to be made available to those who are unemployed and to those who are employed but are in need of additional services to hold on to their jobs or move into employment that leads to " self-sufficiency." Actual "training," the third category of services, is available to those who received intensive services but were still unable to obtain or retain employment.

The U.S. Department of Labor's regulations governing WIA clarify that there is no prescribed menu of services that must be offered that would artificially limit access to training by making "work first" activities, such as extensive job search, a necessary prerequisite to receiving training.[19] It is in the hands of the local Workforce Investment Board (WIB) to determine which level of services will be the priority for the One-Stops to follow as they steer city residents of all income and work experience levels into WIA activities. Without significant policy direction from the local WIB, the goal of pursuing career advancement and training could easily be lost as a priority in the day-to-day operations of the One-Stop Career Centers.

For example, the One-Stops will have to decide what type of employment - at what wages and in what occupation - an individual must be unable to obtain in order to qualify for intensive services. Will a dislocated worker with substantial skills and work history be expected to seek and accept any job available in the local area, regardless of the loss of income that might result to the worker and his or her family? Will individuals with minimal skills and sporadic work histories be required to seek work regardless of how limited their current labor market opportunities might appear?[20] Will those

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[19] See 64 Fed. Reg. 18662 (April 15, 1999), Sections 663.165, 663.240.
[20] For an excellent analysis of these and other key questions, see Steve Savner, *Implementing the Sequential Eligibility Rules for Training Services Under the Workforce Investment Act of 1998*, 5 Workforce Investment Quarterly, 21 (1998).

individuals who want to move up and into a better field be allowed to pursue upgrade training full time?

While job search and other work first policies have their place when properly designed to meet the needs of the individual, the problem for many low-income families and dislocated workers in New York City is not an inability to find *any* job. The real challenge is to find a job that pays wages that can support a family in New York City, provides a chance for stability and advancement, and a reasonable package of fringe benefits. What is needed, therefore, is training and education that will help them move beyond entry-level jobs.[21]

Recommendations: **The required "memorandum of understanding" (MOU) between the local WIB and the One-Stop Career Centers should include the following items:**

a) A commitment to provide individual assessments of eligible participants, including an evaluation of their education and training needs, along with a detailed description of the expected provision of individual assessments, including assessments for education and occupational skills training.

b) A commitment to maximize education and occupational skills training for those who would benefit from such services.

c) A commitment to contract with community-based organizations that specialize in training immigrant workers and others with special needs.

d) Verification requirements to insure that One-Stop Career Centers provide the necessary authorization for an individual to seek education and training services.

Under no circumstances should WIA services be withheld from participants who refuse a job offer when the work is not "suitable" as broadly defined under the federal guidelines that apply to the Unemployment Insurance program.

Expanding the Job Matching Role of WIA's One-Stop Career Centers

[21] This conclusion is supported by the many evaluations of work first efforts. For example, according to the Manpower Demonstration Research Corporation, "job search programs usually failed to make a lasting difference; by the end of five years, the control groups members usually had 'caught up' to the program group and were almost as likely to be employed or on welfare." Bloom, Daniel, After AFDC: Welfare-to-Work Choices and Challenges for States (New York: Manpower Demonstration and Research Corporation), 1997.

The WIA-mandated One-Stops have a broad mandate to provide workers and employers job search and job matching services. The local WIBs, through these One-Stop Centers, have the ability to meet employer needs and expand worker access to jobs by playing a leadership role in connecting workers and employers across the barriers of physical and social distance.

The Need for Greater Job Access

Supply and demand are never evenly matched in the labor market. At any given time, there are workers who are searching for jobs and there are employers with vacancies to fill. The coincidence of unmet demand and underutilized supply is, in part, a natural result of a dynamic economy - employers are expanding and contracting their workforces as business conditions change and workers are moving from job to job as new opportunities present themselves. Added to this "churning" are other causes of "mismatches," such as imbalances between the skills held by job seekers and the skills sought by employers. In this section we address mismatches that are created by distance.

Physical distance between job seekers and employers can be a cause of unemployment. In the New York metropolitan area there has been a growing mismatch between job seekers living in inner-city, low-income neighborhoods and job growth (and vacancies) in outlying suburbs. Access to employment is also hampered by social distance, in particular the barriers created by differences in race and ethnicity. These barriers block information and everyone loses. Employers lose opportunities to employ good workers. Job seekers miss out on jobs. The proposals offered here create mechanisms by which workers and information about workers can move more effectively, alleviating mismatches, and making for a more "efficient" labor market.

Reverse Commuting Programs

As with most other U.S. metropolitan areas, economic activity in the New York City region has been decentralizing since the end of World War II. Urban areas at the region's core - New York City's outer boroughs, Newark, Jersey City - have hemorrhaged jobs during most of this period. The fastest growing areas have been at the exurban edge of the region, a boundary that is being constantly redefined as new office parks, industrial space, and residential development are built farther from the region's center. Even with relatively strong job growth for New York City in the current expansion, the outer suburbs have grown at twice the city's rate since 1992.

This disparate growth, combined with a lack of affordable housing in much of the region's suburbs, has contributed to vast differences in adjacent labor markets. For example, unemployment in the first half of 2000 was 7.4 percent in the Bronx, but only 3.1 percent in Westchester County. In Brooklyn, unemployment was 7.1 percent while it stood at 2.7 percent in Nassau County. Suburban employers are desperate for qualified workers for a wide range of occupations while inner-city communities have thousands of available workers who do not know about suburban job opportunities or are unable to get to them.

With the demands of the 1996 welfare regulations, welfare-to-work programs have given increased attention to the potential for linking city residents to suburban employers. A program that focuses specifically on expanding the geographic boundaries of job opportunities is *Bridges To Work,* a national demonstration program of Public-Private Ventures funded by the Department of Housing and Urban Development. In six metropolitan areas, projects combine placement mechanisms, transportation services, and limited support services to connect low-wage inner-city workers with suburban job openings. While there is no explicit targeting of the type of job, it does specify that jobs must pay at least $8 per hour for the program to provide meaningful employment benefits. There are specific Temporary Assistance to Needy Families (TANF) and Federal Transit Administration (FTA) grants for job access and reverse commute programs, and every metropolitan area must produce a Job Access and Reverse Commute Transportation plan to guide these grants.

Some regions, such as Chicago, have had successful programs in place for years. However, other programs have shown the limits of these efforts. With many suburban jobs inaccessible by public transportation, it is difficult to fund transportation solutions that have a large volume of workers and employers. The cost of transportation and child care often make it infeasible to travel long distances for very low-paid jobs. Even when transportation problems are overcome, the same skill barriers that frustrate job placement efforts with city employers must still be addressed.

The experiences from these programs and demonstrations provide some valuable lessons for addressing job access in community development strategies. These lessons include the following:

- Improving labor market information and transportation linkages to suburban jobs can be effective tools in improving employment and earnings for inner-city residents, but there is no single model that has proved most effective. Success hinges on the degree to which programs address the particular needs of employers and clients in targeted labor markets.
- To be most effective, transportation and information improvements should be linked to job training, child care and other support services.

- Wage levels for target jobs must be high enough to compensate for higher transportation costs, longer commuting times, and child care needs.
- Institutional, administrative, and cultural barriers are often as critical as geographic barriers in developing sustainable partnerships of employers, community organizations, and service providers.

New York City has one advantage that other regions lack in developing job access and reverse commute strategies. Because of its well-developed mass transit system, residents from upper Manhattan, the Bronx, Brooklyn, and Queens have transit access to suburban employment centers such as White Plains, Stamford, and Mineola. Schedules, fares, and inadequate bus feeder systems are still impediments, but the infrastructure for large-scale reverse commuting is in place.

Recommendations: **Dedicate a portion of TANF surplus to supplement the FTA's Job Access and Reverse Commute Transportation grants**. In the last fiscal year, the New York region received $1 million in FTA funding to support programs that improve the access of TANF recipients and other low-income populations to jobs and employment services. Only three projects were funded, one targeted to New York City residents and the others to Nassau and Westchester County residents. New York State currently has a surplus of over $1 billion in federal TANF funds, a portion of which could be used to supplement FTA job access funds.

Include guidelines in the state's Workforce Development System to encourage collaborative actions by municipalities, Workforce Investment Boards, and service providers. These should include a provision to integrate separate labor market information systems into a regional system. The state should also give funding priority to counties and municipalities that develop joint strategies that address transportation and institutional barriers between communities with high unemployment and employers in tight labor markets. One potential outcome is a set of compacts, such as a New York City-Nassau compact or a Bronx-Westchester compact, that would develop solutions to structural barriers that limit job access for particular constituents or in particular transportation corridors.

Anti-Discrimination Strategies to Improve Access to Jobs

> **Opening doors for job applicants with criminal records.**
>
> The problems faced by job applicants with criminal records are not news to the providers of job training and search assistance facilities, or to the job seekers themselves. There are, however, some fairly simple strategies that can have a profound impact on an applicant's ability to get a job. New York law prohibits most employers from asking questions relating to an arrest or detention that did not result in a conviction. Employers may not deny an application for employment based on a prior conviction (unless there is a direct relationship between the offense and the job). In addition, an employer's failure to hire applicants with criminal histories may be a violation of federal anti-discrimination law.
>
> *Recommendation: Job training centers, one-stops, and other training and education providers should be trained in the applicability of these protections.*

Access to employment depends on who you know, not just on what you know. Many employers - particularly small firms that hire into less-skilled occupations - use social networks to fill job vacancies. Rather than using "open to the public" mechanisms such as help-wanted advertising or listing their vacancies with the old Employment Service (or the new One-Stop Career Centers), these businesses pass information about job opportunities via word of mouth from incumbent workers to their social contacts. As long as labor supply is plentiful, this method of hiring has some advantages for employers; their employees are recruited into the work of identifying good job candidates.

But this method has its downside. For one thing, employers are restricted to a limited pool of potential applicants. For another, network hiring excludes job seekers who are outside the information loop. Because information is restricted to social networks, and we live in a largely segregated society, the difference between insider and outsider can become one of race. Network hiring patterns, moreover, often reflect employer attitudes. Employers, like nearly everyone, are influenced by racial stereotypes. The networks they prefer reflect their preconception of what kind of person is likely to be a good worker. In New York City, this system acts to limit access to employment in a number of industries for African American and Hispanic job seekers.

Policy Models

Employment discrimination is against the law. But anti-discrimination law is hard to apply in a world of small employers and informal practices. The degree to which closed hiring practices can be opened to excluded groups largely depends on the ability of policy to create incentives for employers to use more formal and public methods in hiring workers. Closed systems restrict information. The policy innovations described below provide models for opening access to information.

First Source: Boston's "Jobs and Living Wage Ordinance," adopted in 1998, established a minimum wage that firms who provide services to the city of Boston must pay their employees. In addition, the ordinance mandates that firms that receive "assistance" - grants, loans, tax incentives, bond financing - sign First Source Hiring Agreements with one or more approved, nonprofit job registry and referral services or Boston's One-Stop Career Centers. The Agreement obligates firms that receive assistance to provide five days of "advance notice" of any job vacancy that is not to be filled from within the organization to the One-Stop or referral service. The Agreement does not require firms to hire any applicant referred by these organizations.

Sole Source: Portland, Oregon, has taken a different approach. The city has developed a "linkage program" that works to connect entry-level job opportunities with low-income communities. Linkage is created by the Portland Development Commission.

Like other economic development agencies, the Commission develops packages of economic incentives, such as tax abatement, loans, and assistance with land assembly, to encourage business to locate or expand in the city. In addition, the Commission places requirements on firms. Businesses that receive financing or tax abatement must agree to use the Commission-sponsored linkage program - JobNet - as its sole source for a negotiated list of entry-level positions. (Businesses receiving other aid must only agree to consider job candidates offered by JobNet.) Firms that renege on the agreement face financial penalties such as losing their tax abatement.

This approach targets and controls labor market information. JobNet acts as a broker between the hiring firm and its network of some 200 agencies, including the Employment Service, community-based organizations, social service agencies, and educational institutions that are engaged in training and job matching activity. Linkage programs like these also provide information to employers by screening and then referring candidates for the openings.

RECOMMENDATIONS: **Expand information about jobs by requiring that all job openings at firms employing more than 10 workers, that are not to be filled from within the organization, be listed with the state's system of One-Stop Career Centers.** Laws obligating employers to make use of public labor exchanges are common in Europe. This proposal mandates that firms inform the public exchange of an opening. The requirement should be as easy to satisfy as possible. Covered firms should be provided simple, one-page forms that can be mailed or faxed to a local telephone number. The information could also be transmitted through a Web site-based email system. After posting notice with the One-Stop, the firm would be free to spread word of its opening in any manner it chose. It would have no obligation to hire from any particular source.

Create requirements that firms receiving public subsidy make first use and sole use of publicly sponsored labor exchanges. Public posting of job openings is a minimal obligation that all but the smallest of firms should be required to fulfill. Firms that receive public subsidy should have a greater obligation, one that can grow progressively with the size of its subsidy and the size of the firm. Firms with more than 50 employees that receive any form of public subsidy should, following Boston's example, be required to list their job openings with the One-Stop Centers five days before they make use of other means of recruitment. Following the Portland model, firms that receive significant levels of direct financial aid (tax abatements, loans, etc.) above some minimum (say $100,000) should be required to hire an agreed upon list of entry level positions from the state's new One-Stop system.

Mitigating the Impact of a Voucher System on Clients and Community-Based Organizations

The Workforce Investment Act changes the way individuals access training and education programs and the way service providers are paid for providing these services. Under the old JTPA system, the federal, state and local governments contracted with service providers to provide specific services to a set number of individuals who meet specific eligibility requirements. Clients were assessed at various intake centers and referred to contracted training and education programs depending on their interests and needs. Under WIA, individuals will go to a "One-Stop Center," where they will be assessed for their eligibility to receive WIA-funded training services. If eligible, they will receive a voucher - the dollar amount to be determined by the One-Stop - which the individual can use to "buy" training services from a list of "Individual Training Account-certified" (ITA) training providers.

The Act does allow states to permit local workforce investment boards to use contracts to ensure two types of training not amenable to a voucher system: employer-connected programs, for job-specific training by or in collaboration with employers; and programs for special populations, to serve low-income adults with multiple barriers to employment, including people with language or cultural barriers, ex-offenders, the homeless, and other "hard-to-serve" populations defined by the state. But, because the widespread use of vouchers is new and untested, we are concerned that a rapid implementation of this new system will cause major disruptions both for clients whose vouchers may not cover the cost of the programs they want to attend, and for the community-based service providers who won't be able to survive the uncertainties and financial burdens of a voucher system.

Concerns

1. A voucher system has only been successfully implemented on a large scale where most of the service providers are colleges and other educational institutions rather than community-based organizations. In New York City, much of the training services available to low-income job seekers have historically been provided by community-based organizations. Community-based organizations, however, will face enormous difficulties under a voucher system, where planning and budgeting will be difficult and cash flows unpredictable. Unlike colleges and proprietary schools, they do not have such institutional resources as standing instructional staff and classroom spaces, which make it easier for these institutions to deal with uncertainty about how many voucher-bearing job seekers will cross their door each month. The consequences of a poorly managed transition to vouchers will be disrupted services to clients and a reduction of program effectiveness.
2. The use of vouchers may change the fundamental nature of the system, not just the mechanism for payment of services. Clients' receipt of services provided through an ITA, "cashed" by way of a voucher, changes the process for choice of providers from one that emphasizes availability, price and value, to one that may be driven by advertising and marketing.
3. New York City has not fully to grappled with some of the mechanical questions that must be answered in order for a voucher system to be in place by the city's implementation deadline - questions such as the potential dollar amount of a voucher for different job seekers, training programs, and industries; how the city will ensure that vouchers are delivered equitably; what happens to a client who chooses to leave

(or is dismissed from) a program (will she get to take her voucher with her, and if so, will it retain its full original value?); whether there will be a limit on the number of vouchers a person can get; and whether the vouchers will be time-sensitive (i.e., if you can't find or complete a program in an allotted period of time, does the voucher expire?).

4. Many programs won't be able to accept vouchers. WIA excludes community-based programs and non-degree conferring adult education programs at community colleges from "initial eligibility"(eligibility during the first year of WIA implementation) to accept ITA vouchers – even though such programs have been among New York's best performing training providers. Unless New York City comes up with a streamlined process for bringing those programs into the WIA system more quickly, job seekers will be greatly limited in where they can choose to spend their vouchers.

Recommendations: **The city Workforce Investment Board should move ahead cautiously, as it sets up this new system, so as not to drive out high performing providers and limit customer choice**. We recommend the local WIB consider a discrete but comprehensive test/evaluation of the use of vouchers and the consequential administrative process before they become a universal part of the new workforce development system.

We urge the local WIB to work with the provider community and those organizations that represent clients to define the term "special populations" as broadly as possible under the law. There will be populations that will not accommodate easily to a voucher system, such as ex-offenders, non-English speakers, the disabled, the homeless, and other particularly hard-to-serve populations. The law allows the state to continue servicing "special populations" under a contract system.

The local WIB must move as quickly as possible to establish eligibility criteria that will permit community-based organizations to provide services during the first year of WIA implementation. Those criteria should be inclusive rather than exclusive, with those programs taken off the list that fail to adequately perform the first year. Such performance standards should, however, take into account the nature of the population served, so that programs do not bypass the hard-to-serve for fear of failing to meet performance standards.

Voucher amounts must reflect the real cost of job preparation and training, and clients must not be required to raise the difference.

Providing Training for Incumbent Workers

All firms have some form of training for incumbent workers, whether it is formalized or not, and many well-managed companies recognize the benefits of a well-educated, well-trained work force, and invest significant amounts of funds in their employees' education and training. More typically, as we have explained, employers are likely to under-invest in training their own employees because of cost considerations, fears that other employers will "poach" and lure trained workers away, and uncertainty about whether training will benefit them or some rival firm.

The net effect to society of this under-investment by employers is that workers are less skilled and less productive than they would be if employers invested a "rational" amount in training their own employees. In addition, a lack of internal training opportunities cuts off career ladders, leading to costly employee turnover and less upward economic mobility. This outcome provides a justification for public subsidies to private employers for worker training.[22]

Under-investment in skills upgrading is a particular problem as the economy is made up of fewer unionized manufacturing jobs, where entry-level workers could have

[22] Public funds are currently used to provide incumbent worker training via several programs. These include: on-the-job training (OJT), which subsidizes wages for workers from target populations; workplace literacy programs such as those run by the Consortium for Worker Education (CWE); funds earmarked for retraining workers in the health industry; and economic development skill training, which can include employees at all levels of a firm and is typically used for purposes of attracting or retaining firms. The New York State Higher Education Services Corporation is also running a pilot program, "INVEST," to pay tuition for certain public assistance recipients to enroll in non-credit courses in institutions of higher education.

the expectation of rising up the scale of skill and pay as they became experienced. With many changes in the economy that have led to sharply lower private-sector unionization rates, outsourcing, and downsizing, these internal job ladders have become more difficult to access and define. In addition, in an environment where "work first" has become the overarching principle for addressing the needs of low-income adults, under-investment in skills upgrading increases the likelihood that a greater number of people will be working but consigned to dead-end jobs.

Potential

Incumbent worker training can form a critical component of strategic economic development policies. For many firms, the availability of assistance with incumbent worker training is a significant factor in making decisions to locate or expand in a particular area. Thus, well-managed and easily accessed incumbent worker training programs can foster economic growth, so that not only individual employers and workers will benefit, but industries and regions as well.[23]

Experience with publicly-funded incumbent worker programs suggests that they work best when they are organized by industry sector, since this approach allows smaller firms to share training resources. Sector-based training strategies can also evolve into broader partnerships that benefit the participants in other ways. For example, the Garment Industry Development Corporation, which started as a center for training garment workers in 1984, now offers services ranging from international marketing to assistance enhancing productivity.

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[23] National Council for Urban Economic Development, April 1999. Incentives: A Guide to an Effective and Equitable Policy, p. 39.

Successful programs also tend to be products of partnerships between employers and other parties, such as unions and community colleges.[24] Unions working with employers are effective in identifying employee candidates for training and in designing internal job ladders to which training can be tailored. Community colleges have proven their ability to respond to demands of employers and offer a broad range of adaptable courses taught by faculty experts.[25]

In New York, a number of programs have been, or are being, developed that can provide models for sector-based incumbent training. For example:

- Using a "Train the Trainer" approach, the Garment Industry Development Corporation provides on-site training programs to New York apparel manufacturers to upgrade and diversify shop-floor skills.
- The Consortium for Worker Education (CWE) has run a number of training programs in conjunction with employers. Most recently, it has developed a demonstration project to train entry-level workers in the city's growing specialty baking industry as artisan bakers. The program, which has been funded for two years, is a collaborative effort among employers, the Bakery, Confectionery, Tobacco and Grain Millers International Union, and the CWE, and will provide training to 150 unskilled workers, including both new entrants and current employees of participating firms.
- Cooperative Home Care Associates (CHCA) in the Bronx is a worker cooperative providing workers to health care agencies. Training at CHCA exceeds state and federal minimum requirements, thus CHCA healthcare

[24] For an extensive discussion of the value of partnerships in structuring training programs, see State of Wisconsin, Department of Workforce Development, High Performance Partnerships: Winning Solutions for Employers and Workers, April 1999.

[25] See, for example, David Gruber, We're Education…You're Semiconductors: Improving Worker Skills Through Employer-Community College Partnerships, Public-Private Ventures, January 2000.

workers are better trained than are those from other home health care services and can command higher wages. The organization partners with Bronx Community College to provide continuing education to employees. While 85 percent of CHCA's employees were receiving some form of public assistance upon entry to the program, CHCA has lower turnover than most agencies providing nursing aides because of the higher pay and opportunities for career enhancement.[26]

Recommendation: **New York State and New York City should use incumbent worker training funding strategically to expand the successes of existing training partnerships and, in conjunction with employers, unions, and community colleges, establish new industry-wide efforts to create career ladders.** Now that local Workforce Investment Boards have significant employer representation, there is a new opportunity to link incumbent worker training to economic development.

Making Periodic Job Vacancy Surveys Part of New York State's Implementation of the Workforce Investment Act

The Workforce Investment Act promises to create a comprehensive, "customer-driven" system of job matching and worker training. But customers - job seekers and employers - can only drive the system if they are informed shoppers. The Act recognizes this need in a number of ways. State Workforce Investment Boards are required to assist governors in the development of a statewide employment statistics system. The federal legislation also mandates that the state workforce development plans contain current and projected employment opportunities by occupation along with the skills necessary to obtain these opportunities. Local plans must do the same. In addition, the One-Stop Centers are required to make high quality employment statistics available to job seekers

[26] Joan Fitzgerald and Virginia Carlson, *Ladders to a Better Life*, American Prospect, June 19-July 3, 2000.

and employers. And finally, the Act allows states to use a portion of their block grant funds to conduct the research necessary to fulfill these responsibilities.

The existing labor market information is incomplete. We know that at any given time there are workers who are unsuccessfully seeking employment and data about unemployed workers, albeit limited, are obtainable from the monthly Current Population Survey. But there are no comparable measures of unmet labor demand, the extent to which employers are actively and unsuccessfully seeking employees. Currently, those who participate in workforce development rely on projections of job growth or estimates of number of future openings by occupation or industry. These are helpful but they do not, in themselves, or even in conjunction with data about the unemployed, serve to identify what industries and occupations face shortages of qualified workers.

Policy Models

Job vacancy surveys are conducted on a regular basis in Australia, the United Kingdom, the Netherlands, South Africa, Canada, and New Zealand. Over the past 30 years the U.S. Bureau of Labor Statistics has also conducted employer surveys to determine the nature and extend of job vacancies. Since May 1993, the University of Wisconsin-Milwaukee Employment and Training Institute has conducted biannual vacancy surveys in partnership with the city of Milwaukee, Milwaukee Area Technical College, Milwaukee Public Schools, and the Private Industry Council.

Recommendation: **The Workforce Investment Boards should contract with independent research organizations to conduct annual job vacancy surveys of a representative sample of local employers.** To encourage participation, the questionnaire should be simple and the firm-specific information employers provide should be confidential. For each business establishment, the survey would include basic information such as firm size, location, and industry.

In addition, it would ask employers to provide specific information about:

1. The number of jobs open to applicants from outside the company for immediate hire.
2. Rate of pay in the open positions.
3. Whether the positions offer health insurance.
4. Whether the positions offer a pension.
5. Job experience required.
6. Level of education or specialized training required.
7. How long the position has been open.

Designing Meaningful Performance Measures and Incentives for the Workforce Investment Act of 1998

Concerns over quality and accountability were a primary motive in federal action to replace JTPA with WIA. The Workforce Investment Act specifies a number of performance indicators that state and local governments must track and report to the public. While the indicators are not much different than what had been reported under JTPA, requirements under WIA are more stringent: training providers must meet state and local minimum performance criteria, and information on provider performance must be made readily available to customers using vouchers to choose providers. Performance indicators under WIA (for adult, dislocated worker and youth aged 19-21) include: entry into unsubsidized employment; retention in unsubsidized employment after six months; earnings received in unsubsidized employment after six months; and attainment of credentials relating to educational and occupational skills. In addition, WIA will require customer satisfaction indicators for employers and participants.[27]

[27] The core indicators for youth, aged 14-18, are different: attainment of basic skills; work readiness or occupational skills; attainment of a high school diploma or equivalent; and placement in postsecondary education, advanced training, military service, employment or qualified apprenticeship.

The tightening of performance standards is an important step in improving accountability in the job training system. However, the state should take additional steps to overcome problems inherent in a performance standards system. These problems include:

- **Potentially conflicting goals**. As with many other government programs, government-sponsored job training poses a conflict between getting the greatest benefit (such as productivity growth) for the taxpayer dollar and helping those who are most in need - this is the trade-off between efficiency and equity.[28]
- **Measured outcomes that do not necessarily reflect social goals.** The placement of participants in jobs does not tell us whether *employability* was increased, in a cost-effective manner, by participating in the training program; yet, that is how programs are frequently evaluated because it is easier to observe.
- **Little relationship between goals and measures**. Not only do outcome measures differ from the larger goals of training programs, but also there is evidence that the performance measures used by JTPA programs (and thus WIA) are not related to desired outcomes. While society may value long-run employment and earnings gains, performance measures are typically short-run.[29]
- **Performance standards may lead to manipulation by administrators**. The use of short-term employment and earnings levels as outcome measures can lead providers to pick persons who are most likely to succeed in training programs. These participants improve measured outcomes but receive little of value from the

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[28] Heckman and Smith find that "targeting the most disadvantaged (i.e., the bottom 20% of the skill distribution) substantially decreases the social efficiency of the [JTPA] program" while "serving the remainder of the skill distribution of current participants results in little, if any, loss of efficiency". *Assessing the Performance of Performance Standards in Government Bureaucracies*, by James Heckman, Carolyn Heinrich, and Jeffrey Smith, American Economic Review, May 1997, p.392.

[29] ibid., pp. 390-391.

programs. Another form of manipulation that may be induced by performance-standards systems occurs when administrators manipulate the data by delaying the reporting of negative outcomes.[30] Thus outcomes look better but there has not been any increase in socially beneficial activity.

We make the following recommendations to strengthen the accountability of the state's workforce investment system:

Recommendations: **Address the equity-efficiency trade-off.** Policy makers should be careful to assign explicit and appropriate weights for different equity and efficiency measures so that program goals are consistent and not at cross-purposes.

Develop more sophisticated measurements so that training providers, who are delivering efficient services, but whose performance may not meet simple criteria such as a minimum placement rate, are retained in the program.

Monitor performance systems. The incentive to manipulate data exists and should be dealt with by implementing independent audits of local workforce areas as well as training providers. Performance levels should not be used as a substitute for good hands-on management.

Evaluation Study. WIA calls for states to conduct system evaluation studies. As part of the ongoing evaluations, the state should contract with an independent research firm to track a sample of participants and a control group in order to assess how the system and providers are improving outcomes for participants. A comprehensive analysis of how the system is serving the working poor should also be part of the evaluation. This would be a useful complement to the performance-standards accountability system.

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[30] *Measuring Government Performance: Lessons from a Federal Job Training Program*, by Pascal Courty and Gerald Marchke. American Economic Review Papers and Proceedings, May 1996, pp. 383-388.

II. Making The Transition From Welfare To Work

Welfare reform has charged public assistance programs with a new responsibility. Not only are they to provide income support, they must also become an important element in the nation's workforce development system. What follows is a discussion of welfare's new role. Chapter Six takes up welfare in the context of the ongoing need for a social safety net.

Despite the dramatic decline in the welfare caseload in recent years, there remain nearly 250,000 adults who currently receive public assistance in New York City. The welfare system plays a critical role in the relationship between poor New Yorkers and the lower-wage labor market. Welfare policy and practice can determine whether city residents at the lowest income levels secure the skills and supports they need to compete effectively for living-wage jobs or are thrown into a low-wage market for which they are ill-equipped and unlikely to succeed. Current city policy has focused on reducing the welfare rolls, but has not made the leap to transforming welfare into an effective work preparation system for those who have a demonstrated need. We believe that providing support for people in need, in conjunction with opportunities for training, education and employment, would prove the more humane and ultimately more fruitful long-term strategy.

Current Policy Fails to Prepare Welfare Recipients for Meaningful Jobs

Federal welfare reform, as embodied in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), modified existing welfare work requirements by (1) requiring a larger percentage of public assistance recipients to participate in work-related activities, (2) mandating that they participate for a greater number of hours per week in these activities, and (3) significantly narrowing the range of activities which would count towards meeting this work requirement.[31] Education and training activities are less likely to be countable, and employment and "workfare" – that is, programs that require welfare recipients to engage in work activities as a condition of receiving their public assistance grants – are clearly favored. New York State, with its Welfare Reform Act of 1997, closely tracked this federal formula regarding the work rules legislation. Nevertheless, New York City still retains substantial discretion over the nature and extent of work activities for public assistance recipients. Unfortunately, the city has acted aggressively to mandate work participation by recipients well beyond the numbers required by law, and has sharply cut back on authorizing allowable activities other than employment and workfare.

The city's focus on "work first" policies persists despite the fact that more than half of the recipients of public assistance in New York City over the age of 15 have not completed high school.[32] Nearly one-third have significant difficulties reading and/or speaking English.[33] These figures pose a critical challenge to welfare-to-work efforts at a time when living-wage employment increasingly requires post-secondary education or specialized training.[34]

Virtually every advance in educational attainment enhances the ability to secure employment, the longevity of employment, and the level of earnings. Most dramatic are

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[31] See 42 United States Code §607, as amended by the PRWORA.

[32] See, e.g., Leaving Welfare: Findings from a Survey of Former New York City Welfare Recipients, HRA Working Paper 98-01, September 1998.

[33] U.S. Census Bureau, Public Use Microdata Samples (PUMS), 1990.

[34] For example, the Bureau of Labor Statistics' "Tomorrow's Jobs," in the 1998-1999 Occupational Outlook Handbook, projects that "[O]f the 25 occupations with the largest and fastest employment growth, high pay, and low unemployment, 18 require at least a bachelor's degree," and warns that "[L]abor force groups with lower than average educational attainment…will continue to have difficulty obtaining a share of the high paying jobs unless they raise their educational attainment." See also Katherine Newman, *Dead-End Jobs – A Way Out*, The Brookings Review, Fall, 1995. See also The Wage Premium for Skilled Jobs Is Growing, Progressive Policy Institute, which notes, first, that "since the 1970's, only those with a college degree have seen their wages go up, while especially those with a high school degree or less, have seen real wages fall." Furthermore, "[I]n the 1970's, a high school dropout was 3.5 times more likely to be unemployed than a college graduate. In the 1980's and 1990's, that ratio has increased to 4.5." Anthony Carneval and Donna Desrochers, in Getting Down to Business: Matching Welfare Recipients' Skills to Jobs That Train, (Princeton, N.J.: Educational Testing Service, 1999), observe that "Unequivocally, skill demands are rising across the board…"

the data concerning the impact of attending and especially of graduating from college. Welfare recipients who graduate college are by far the most likely to secure decent-paying stable employment that enables them to permanently leave the welfare rolls.[35] But other levels of education or skills attainment, from basic literacy to high school, are critical as well.[36]

On the other hand, available evidence demonstrates that workfare plays virtually no constructive role in helping people move to living-wage employment. It is nevertheless the most heavily relied upon work-related activity in New York City,[37] largely because of the city's position that welfare recipients have a moral obligation to repay society through work for the assistance that they are receiving. Thus, work assignments are not designed to enhance employability but to enforce repayment of a moral debt. Indeed, studies suggest that workfare assists very few people in securing employment – many people receive assistance for relatively short periods of time and soon return to employment, regardless of the activities they may have been assigned while on welfare.[38] Workfare: (1) teaches virtually no new skills, (2) assists almost no one in obtaining employment, either at the assigned worksite or elsewhere, (3) undermines the efforts of regular employees to improve wages and conditions, (4) inevitably replaces paid employees with the work of unpaid welfare recipients, and (5)

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[35] See, e.g., Marilyn Gittell, with Margaret Schehl and Camille Fareri, From Welfare to Independence: The College Option, Howard Samuels State Management and Policy Center, March, 1990.

[36] Gayle Hamilton, Evaluating Two Welfare-to-Work Program Approaches, (New York: MDRC, December 1997). The MDRC study is analyzed and discussed in Sharon Parrott, Welfare Recipients Who Find Jobs: What Do We Know About Their Employment and Earnings? , (Washington, D.C.: Center on Budget and Policy Priorities, November, 1998). See also Julie Strawn, Beyond Job Search or Basic Education: Rethinking the Role of Skills in Welfare Reform, (Washington, D.C.: Center for Law and Social Policy, April, 1998). Strawn's survey of research on basic education programs raises questions about the efficacy of such programs, standing alone, for long-term employment at decent earnings. However, her research clearly demonstrates that education and/or skills training must be central components of any successful welfare-to-work initiative. She states that, for recipients in general, low basic skills "stand out as both the most common barrier to steady work and, by far, the strongest single predictor of whether a recipient works at all…"

[37] In 1998, the Mayor's Management Report for Fiscal 1999, among the activities in which recipients were engaged, listed 34,161 recipients in workfare and 3,491 in education or training.

[38] See, e.g., LaDonna Pavetti, *Who Is Affected by Time Limits?*, in Welfare Reform, An Analysis of the Issues, ed. Isabel Sawhill, The Urban Institute Press, 1995.

achieves caseload reduction more by means of sanctions than by helping people obtain employment.[39] In addition, workfare erects barriers to individuals who wish to obtain additional education and training because those activities must be scheduled around workfare assignments, with the attendant difficulties in finding appropriate child care and transportation.

In this context, the efforts in New York City to minimize education and training activity and to maximize workfare must be viewed as a lost opportunity. Welfare recipient participation in literacy, English-as-a-Second-Language (ESL), and basic education programs offered by private, not-for-profit providers has been sharply curtailed and the number of welfare recipients in the CUNY system has dropped from over 28,000 in 1994 to a current level of about 7,000.

Ultimately, federal and state legislation should mandate that a range of education and training activities can be countable as participation in work, and should facilitate participation in these activities. In addition, remedial federal legislation is needed to address the barriers to providing education and training to recipients in households without children. Currently, there are limits on local discretion for these recipients because the list of countable activities is so narrow and the participation rate is set at 90%.

Recommendations: **The city should significantly expand recipient participation in education and training activities**. Because the city is comfortably meeting the federally-imposed participation rates in "countable" activities for families with children, it has ample discretion in making additional assignments elsewhere.[40]

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[39] See, e.g., Liz Krueger, Liz Accles, and Laura Wernick, Workfare: The Real Deal, (New York: Community Food Resource Center, 1997).

[40] The participation rate for federal fiscal year 1999-2000 is 35%, but the PRWORA provides that the rate is to be reduced by the percentage of caseload reduction since 1995, putting New York's rate at closer to 10%.

The city should more fully utilize its authority to make work assignments in countable areas other than workfare. Among the countable activities for adults with children are vocational education and an undefined category called "community service."[41] Each of these is under-utilized by HRA, and could be used to permit recipients to meet their participation requirement in a wide range of activities.

The city should comply with the law regarding recipients without high school degrees or English language skills. Recipients under 20 years of age who lack a high school diploma or the equivalent *must* be assigned to educational activities.[42] In addition, HRA must "encourage and may require" any adult recipient who lacks basic literacy to engage in educational activities.[43] Enforcement of these mandates would assist these groups of recipients in pursuing essential basic education.

Policies at all levels of government must be modified to permit, if not encourage, access to two- and four-year colleges. In particular, the state should enact legislation ensuring that hours spent in work-study or internships would count towards weekly work requirements. This legislation, introduced by State Assembly member Roberto Ramirez as bill A 8475, has passed both the Assembly and the Senate but has not been signed by the Governor as of this writing. Ultimately, participation in college itself should be viewed and counted as a work activity.

The decision to place welfare recipients in workfare, education and training, or other activities should be based on an individualized assessment of the recipients capabilities and needs. Successful programs moving individuals from welfare to work have tailored work activities to the clients' particular circumstances. The individualized approach to assignments can address the client's strengths, weaknesses, skills, education and preferences.

The city should commit to ongoing oversight of each recipient's progress, especially to address problems that may arise. If the goal is to enhance employability, then continuing interaction with the recipient during the course of a work assignment is essential.

[41] Community service is not defined in federal or state statute or regulation. However, both levels of government have indicated that a broad range of activities can permissibly be defined as community service.
[42] Social Services Law §336-a(4). The only exception to this rule arises in cases where educational activities are inappropriate for the particular individual.
[43] Social Services Law §335(2)(b).

An Alternative to Workfare: Publicly-Funded Transitional Employment

Welfare reform's work participation requirements can be used to bolster recipients' employability. To date however, programs that are designed to provide those now expected to work with documentable job experience and marketable skills are the exception rather than the rule in the new "work-first" policy environment. In many states and cities, welfare administrators have relied on robust labor markets and bare bones interventions such as job search assistance to move people into employment.

New York City's emphasis on workfare - work in exchange for a welfare check - is in one sense an exception to the national pattern. Work Experience Program participants are doing real work, work often formerly done by regular city employees. But like many other welfare to work programs, WEP is not designed to provide recipients with a new marketable credential of either work experience or job skills.[44]

Most policy makers recognize that tight labor markets are a cyclical, not permanent, feature of the landscape. And many have come to realize that as the welfare rolls have plummeted, those who remain on public assistance are individuals with the most barriers to employability. Furthermore, the federal government has given states the ability to use portions of their TANF block grant, Welfare-to-Work block grant, and WIA block grant for publicly-funded employment programs.[45] In response, a number of states and cities are turning to publicly-funded transitional employment programs.[46]

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[44] Task Force on Sensible Welfare Reform, Welfare Reform in New York: A Report on Implementation Issues in New York City, January 1999.
[45] Johnson, Clifford and Steve Savner. Federal Funding Sources for Public Job Creation Initiatives, Center on Budget and Policy Priorities and Center on Law and Social Policy, December 1999.
[46] See, for example, Publicly-funded, Transitional Jobs for the Hard to Employ; a resolution adopted at the 67th Annual Conference of Mayors, June 11-15, 1999.

Potential

Publicly-funded jobs programs can provide skill-enhancing employment to welfare recipients and other low-income job seekers. These programs offer time-limited positions (six to 18 months) in private nonprofit and public sector institutions in return for a wage. Beside the dignity of a "real" job, participants are considered employees and are therefore eligible for Workers Compensation, Unemployment Insurance, and the Earned Income Tax Credit. Well-designed programs combine work experience with mentoring and training (including GED and ESL); continued access to supportive services (such as child care); eligibility for public benefits (such as Medicaid); and job search activities. In many programs, participants are not considered to be public assistance recipients and are therefore not exhausting their five-year welfare time limit. Research indicates that:

- Well-designed programs provide welfare participants who lack work experience with motivation and self-esteem, an understanding of workplace culture, and networks that can support job retention and career advancement.
- Publicly-funded transitional employment programs increase the employability of the very disadvantaged.
- Programs which combine paid work with training and education are the more likely than workfare-style programs to increase participants' post-program employment and earnings.[47]

[47] See Cohen, Marie, Work Experience and Publicly-Funded Jobs for TANF Recipients, Welfare Information Network; Johnson, Clifford and Anna Lopez, Shattering the Myth of Failure; Promising Findings from Ten Public Job Creation Initiatives, Center on Budget and Policy Priorities, December 1997. Stawn, Julie, Beyond Job Search or Basic Education Rethinking the Role of Skills in Welfare Reform, Center for Law and Social Policy, April, 1998; Brown, Rebecca, Evelyn Ganzglass, Susan Golonka, Jill Hyland, and Martin Simon, Working Out of Poverty: Employment Retention and Career Advancement for Welfare Recipients, National Governors' Association.

Beside these direct benefits to participants, publicly-funded employment programs have other advantages over workfare activities. Programs can require that participants receive pay comparable to others working in that job title, so that publicly-funded employment presents less of a displacement threat to workers in permanent, unsubsidized positions. Because programs typically place participants in public or nonprofit organizations they can enhance the capacity of those sectors to meet public need. Indeed, the work performed as a result of these programs is often quite significant to the community served. Finally, now that the federal entitlement to cash assistance has been abolished, publicly-funded employment programs should be a tool in government's anti-cyclical arsenal. Programs that are modestly scaled in good times can be "at the ready," expandable in times of high unemployment to provide paid work to the jobless.[48]

Examples

Current state and city initiatives include:

- Washington State's Community Jobs Initiative, which began in June 1998, is expanding to serve up to 3,300 participants by June 2001. The Initiative provides "hard to employ" welfare recipients with part-time work, for up to nine months, at the state minimum wage of $6.50 per hour. Participants are also eligible for the state welfare program's earned income disregard which significantly boosts their income. The local agencies that administer the program provide work sites and case management as well as education and training.
- Vermont provides a Community Service Employment program for long-term welfare recipients who reach the state's two-year time limit. Since 1995,

[48] Johnson, Clifford and Anna Lopez, Shattering the Myth of Failure; Promising Findings from Ten Public Job Creation Initiatives, Center on Budget and Policy Priorities, December 1997.

Vermont has placed hundreds of participants into time limited public and non-profits wage-paying jobs.

- Pennsylvania's Governor Ridge has called for up to 16,000 wage-paying transition jobs for people who have been on the welfare rolls for over two years. Participants would be paid the minimum wage for 20 hours of work per week and would engage in an additional five hours of training activities.
- Wisconsin Governor Tommy Thompson has proposed a change in that state's welfare law that would permit local "W-2" agencies with the ability to create up to 2,500 wage-paying jobs for welfare recipients.
- The Seattle Jobs Initiative places hard-to-employ residents in closely supervised jobs paying $8.00 per hour. The program emphasizes both on-the-job and off-site training that is linked to participants' work experience. Work place supervisors receive training and ongoing guidance on how to help participants master work-related skills.
- Baltimore's Office of Employment Development has established a transitional jobs program for 1,100 hard to employ public assistance recipients. These six-month jobs will average 25 hours per week and pay $6.10 per hour.
- The Philadelphia@Work program will place up to 3,000 welfare recipients into transitional jobs over the next two years. These public and private nonprofit sector jobs will pay the minimum wage for 25 hours of work per week. Another 10 hours will be devoted to training, education, and job search. Participants who find work before six months receive paid bonuses of up to $650 when they secure an unsubsidized job.

- Detroit's Private/Public Service Employment Program will provide 2,400 hard to employ recipients with six month jobs paying the prevailing wage for that position. The program offers employers fully subsidized employment in exchange for commitments to retain participants as regular employees when they leave the program.[49]

Recommendations: **Implement the New York City Transition Employment Program**. In March of 2000 the New York City Council overrode a mayoral veto of the Transitional Jobs Program. The Mayor should meet his obligation to establish the program. The Transitional Employment Program provides 7,500 jobs, over three years, in the city's public and private nonprofit sectors. The placements are one year in duration. Beside work experience, participants are assured at least eight hours a week in training and education, as well as other needed support services. Participation is open to people on public assistance or others who are long-term unemployed. The positions pay $7.50 an hour and program participants are eligible for the Earned Income Tax Credit.

Expand and improve the design of the New York State Wage Subsidy Program. In 1999, Albany lawmakers enacted the New York State Wage Subsidy program. The legislation established a pilot program, funded at $12 million. In 2000 funding was increased to $45 million. There are important differences between the program design of the current state program and the Empire State Jobs Program, a bill sponsored by Assemblyman Roberto Ramirez (A. 7632) and Senator Nicholas Spano (S. 4469). The latter bill has stronger provisions on training and education, wages, accountability to the State Department of Labor, and employment that serves community needs than the Wage Subsidy program. The design of the Wage Subsidy program should be improved and funding should be expanded to the level envisioned by the Empire State Jobs Program, about $55 million per year.

[49] Johnson, Clifford M. and Lana Kim, Washington State's Community Jobs Initiative, Center on Budget and Policy Priorities, September 7, 1999 and Clifford Johnson, Publicly-Funded Jobs for Hard-to-Employ Welfare Recipients, Center on Budget and Policy Priorities, August 18, 1999.

Costs and Benefits

Because these are relatively small-scale demonstration projects, the costs of these programs are modest. The Transitional Jobs Program would cost a total of $160 million over four years, about $40 million of which would be city funded. The remaining costs would be covered by state and federal matching funds.

Revamping the New York State Wage Subsidy program along the lines of the Empire State Jobs program requires a New York State appropriation of $110.5 million over its first two years of operation (or $55 million annually). Because the program can utilize federal block grant funds and participants will no longer be recipients of cash support from public assistance programs, the annual cost to the state treasury will be about $30 million each year.

The cost of these programs, moreover, should be measured against the costs of supporting a welfare recipient who participates in a WEP assignment. For example, the additional cost to New York City of the Transitional Jobs Program is only $1,293 per full-year participant. That added expense can be compared to the immediate increase in income to job program participants. A single mother with two children on welfare receives about $8,705 annually in cash assistance and Food Stamps. The same family would earn $14,175 and be eligible for a $4,079 federal Earned Income Tax Credit. An $1,293 expenditure would therefore result in a $9,549 increase in family income.[50] None of this, of course, includes the long-run gains in income participants may receive as a result of the program or the long run savings to the taxpayers of providing people with some of the tools they need to sustain steady work.

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[50] Testimony by Maurice Emsellem, National Employment Law Project, before the New York City Council, February 15, 2000.

CHAPTER FIVE

MAKING WORK A PATH OUT OF POVERTY

Despite the strongest pace of private job growth in decades, rising labor force participation, and robust total income gains, an alarming number of New York City families are unable to earn enough to achieve an acceptable standard of living. Developments in the economy and the labor market along with public policy changes have contributed to the sharp rise since the late 1980s in the number of working households with low incomes. There are now over 1.1 million New Yorkers in working families with incomes less than 150 percent of the federal poverty line.[51]

There are several barriers to making work a path out of poverty. First, inadequate social supports, particularly for child care and health insurance coverage, form barriers to making work a feasible choice for some adults. The lack of affordable child care and the substantial increase in the number of New Yorkers without private health insurance or Medicaid coverage operate to hinder labor force participation. Work is not feasible if a parent does not have a reliable child care provider. Low-income working adults are also at high risk of being uninsured because low-wage employers often do not provide health insurance and government has failed to respond. If these workers go without proper medical care, their ability to stay healthy and work productively will suffer.

Second, wages for many workers simply remain too low. Although broad economic forces - such as changes in the industrial composition of jobs, the growing use of contingent workers, and declining unionization - have increased the number of workers with low earnings, public policies that could raise the living standards of such

[51] Pooled data from the March Current Populations Survey for 1995-97 analyzed by the Center on Budget and Policy Priorities.

workers have been slow to respond. The federal minimum wage was raised in 1997 to $5.15 an hour, yet the purchasing power of the minimum has been eroded over the past 30 years and is now about one-third below its 1968 level. To supplement low earnings for working parents and offset Social Security and Medicare taxes, governments have made wider use of Earned Income Tax Credits. However, even with a newly enhanced New York State Earned Income Tax Credit, the disposable income of many low-wage workers still fails to provide an acceptable living standard.

Finally, for many low-wage workers, working conditions have been eroded over the years and have been exacerbated by welfare reform-related pressures. While no solid data exist on the extent of the underpayment of wages, enforcement officials indicate that it is a chronic problem that deprives hard-working employees of wages they are owed, pulls down wages for the low-wage workforce generally, and gives unscrupulous business owners an unfair competitive edge over law-abiding employers.

To address these work disincentives and the inadequate living standards faced by a rising population of working poor in New York City, we are guided by four core principles:

1. **Workforce participation must be supported**. With more and more parents working, required to work and/or desirous of work, public policy must ensure adequate, affordable child care and health care coverage. It is in the public interest to enhance peoples' capacity to be their family's breadwinners as well as the primary caregivers for their children.
2. **Work must pay**. Pay must be adequate to provide an effective incentive to work. Paychecks, along with wage supplements such as Earned Income Tax

Credits (net of payroll taxes), must be sufficient for workers to have an adequate and acceptable standard of living.

3. **Workers are entitled to timely and full payment of their wages and have a right to safe working conditions**. Further, public policy should prevent unfair competition on the basis of cheap, sweatshop labor.
4. **Responsibility for making work a path out of poverty must be shared by the public and private sector**s. The policy objective is to strike an effective balance between requirements placed on employers (especially the minimum wage) and taxpayer-financed provisions (especially the Earned Income Tax Credit).

Below we present our recommendations in three categories: Making Work Feasible, Making Work Pay, and Making Work Fair and Safe.

I. Making Work Feasible

Low wages prevent many in the labor force from escaping poverty in part because members of the working poor cannot afford quality child care and medical care.

Child Care

Assuring the availability of affordable, high-quality child care is an essential component of a strategy to promote employment and self-sufficiency among low-wage workers, and to enable families currently relying on welfare to move into the paid labor force permanently. Equally important, quality child care helps children to develop and grow educationally, socially and emotionally, and ensures later school readiness. But there exist several significant, interrelated problems relating to the organization, funding, supply, affordability, and quality of subsidized child care for low-income New Yorkers that need to be addressed.

Organizational Problems. There is no unified subsidized child care system in New York City. The city operates a bifurcated child care system, with two separate agencies that have different objectives in subsidizing care for low-income families. Families carrying out workfare assignments or working in low-wage jobs supplemented with welfare payments receive Temporary Assistance to Needy Families (TANF) - financed child care subsidy payments from the city's Human Resources Administration (HRA). HRA requires parents to arrange care as quickly as possible to enable participation in welfare work activities. The subsidy payments to welfare recipients, plus those receiving transitional benefits (see below), are in the form of vouchers, almost 90 percent of which are used to pay for informal child care, including that provided by relatives, neighbors and friends. Until recently, the city imposed no standards on informal care providers.

Low-income working families not receiving welfare payments, on the other hand, enter the Agency for Child Development (ACD) system, part of the city's Administration for Families and Children. Care through this system is likely to be provided in nonprofit child care centers under contract with ACD or in regulated family day care homes that are monitored by social services agencies in conjunction with the Department of Health.[52] While such formal care is considered to be far superior to informal care, subsidized slots through ACD are in short supply. Over 60,000 children are served through the ACD program, but more than 30,000 children are on waiting lists.[53] Lacking benefits, parents with children on waiting lists piece together informal and often unreliable and inferior arrangements. Moreover, because funding for child care subsidies is capped, only a fraction of the working families in the city who are financially eligible ever receive ACD subsidies.

Continuity in child care is essential to parents remaining productively employed and making a permanent transition from welfare to paid employment. But as welfare recipients move off the rolls into private employment more quickly and families generally lose TANF-funded child care, they often are unable to access the ACD system. Newly employed workers who have left the welfare rolls are entitled to one year of transitional TANF-funded child care benefits. But because caseworkers often do not inform recipients of their continued eligibility, these benefits effectively cease for most welfare recipients entering the workforce. HRA is beginning to use the same

[52] In addition, ACD also manages a subsidy payment program, with regulated family child care and centers accounting for the vast majority of care being purchased.
[55] Independent Budget Office, *Subsidized Child Care*, Inside the Budget*,* May 30, 2000.

computerized enrollment and payment system as ACD with the aim of eventually facilitating greater interaction between the two agencies. But much more needs to be done to ensure continuity of care. Parents should not have to reapply for care in order to move from HRA-subsidized to ACD-care, or when they become eligible for transitional benefits.

Funding Problems. While not all of the problems of child care in New York are due simply to inadequate funding, the amount being spent is not adequate to meet the needs of low-income New Yorkers. In particular, funding should be increased to develop more formal (center- or family-based) child care, including construction of new facilities.

Part of the problem facing New York City in particular is that it does not receive its fair share of the federal child care money distributed in the state. Roughly half of the money the city spends on child care comes from federal and state sources, with much of the new federal money funneled through New York State's Child Care Block Grant to municipalities that was established when the welfare system was reformed.[54] While the city's share of statewide child care spending has been at least 75 percent in recent years, the city now receives less than half of the state block grant.[55]

The total state Child Care Block Grant has more than doubled in the last two years and, with the passage of the fiscal year 2000-2001 state budget, now reaches $764 million. The sharp increase in funding has provided an unprecedented opportunity to pay for needed reforms and programs, but much of the money has been very broadly allocated, with minimal specifications on how it is to be spent. Moreover, increases in child care spending have largely been financed by the growing size of the TANF surplus,

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[54] TANF monies spent on child care are first transferred to the block grant and then allocated to communities.

[57] For state fiscal year 1999-2000, New York City received 46 percent of the total state block grant, down from 53 percent in the previous budget (Independent Budget Office, *Subsidized Child Care*, Inside the Budget, May 30, 2000).

a source of funds that could be greatly reduced when the federal TANF grant to New York State is re-authorized in 2002.

Supply Problems. More money has been allocated in recent years to parents on welfare who are mandated to participate in welfare work assignments, and the most recent state budget provides for increases in child care subsidies. But relatively few funds have been made available to increase the supply of child care, especially formal, center-based care or family day care.[56] Given inadequate funding over many years, the supply of formal child care is insufficient, particularly in some of the city's poorest neighborhoods, such as Washington Heights and East New York.[57] The recent city and state budgets have increased capital funds for child care centers.[58] But even greater amounts of capital money need to be committed annually for many years to strengthen and expand capacity so that all low-income families who qualify for subsidies have the option of formal, regulated child care.

Affordability Problems. The problems of low-income New Yorkers affording quality child care are many. A fundamental problem is that the amount of money available for child care subsidies in formal centers of family programs is limited. Over 30,000 children are on the waiting list for ACD-subsidized care, and many more families have children eligible for subsidies even though they are not on the waiting lists. The Citizens' Committee for Children estimates that over 100,000 New York City children

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[56] As the Child Care that Works Campaign reports, "there has been almost no expansion of child care supply in New York City since the 1970s, even as the number of working parents has skyrocketed." (A Multi-Year Proposal to Expand Child Care/Early Learning in New York).

[57] Citizens' Committee for Children, Child Care: the Family Life Issue in New York City, May 2000.

[58] Of the hundreds of millions of dollars in new child care funding provided by the most recent New York State budget, only an additional $15 million is earmarked for capital projects. Over the next four fiscal years, the capital plan of New York City allocates $7.9 million for the renovation and construction of child care facilities. Additionally, in the latest city budget the City Council added $25 million to create an equity fund that is to leverage additional funds for constructing child care centers over the next three years.

ages 0 to 5 are currently eligible for but do not receive child care subsidies.[59] In recent years, the swelling of the TANF surplus has permitted the state to increase its funding of child care subsidies, though the unmet need is still great.

Even if they receive benefits, many working low- and moderate-income families are increasingly having difficulty affording quality child care or early learning programs and services. After remaining the same for 10 years, the sliding fee scale, which determines the appropriate amount of contribution to cost the parent must make, was finally updated in 1999, though the current income thresholds determining eligibility for public subsidies have not been altered since 1990.[60] Credits against federal and state income taxes for child care expenses alleviate the cost for many families, but no such credit against the New York City personal income tax exists, in spite of the substantial burden of city taxes on low-income families.

Quality Problems. Numerous studies have shown that there are many long-term benefits of providing more children with the opportunity to participate in high-quality child care/early learning programs staffed by professionally trained adults.[61] Children who participate in such programs have enhanced language, math, and social skills. Additionally, they have a reduced need for costly interventions such as special education or remedial services, complete more years of education, and have higher earnings in adulthood.[62]

The quality of subsidized child care in New York suffers because the schedules of the maximum reimbursement for child care slots set by New York State are too low. The

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[59] Citizens' Committee for Children, Child Care: the Family Life Issue in New York City, May 2000.
[60] Purnick, Joyce. "Rewarding Hard Work With Penalty." *New York Times*, July 6, 2000.
[61] See, for example, University of North Carolina's recently completed Cost, Quality and Outcomes Study, a national study of more than 800 preschool children, which found a strong link between quality child care and achievement through the second grade of elementary school.
[62] The Citizens' Committee for Children reports that "a $1 investment in quality preschool education can return $6 in lower costs of later special education, public assistance and crime programs." Child Care: the Family Life Issue in New York City, May 2000.

state bases its current reimbursement rates on a 1999 market survey, but the subsidy is set at only 75 percent of the market rate. Child care centers struggle to make do with these low subsidy levels which do not reflect the full cost of providing care, and as a result quality may be compromised.

Professional development and training are also crucial to improved quality, and additional funding should be allocated to aid early education providers in improving their skills and remaining current with advances in early education. In spite of child care's importance as a profession, salaries are very low, resulting in high rates of staff turnover. Recent city and state budgets have included funding initiatives, but more spending on child care quality is needed. [63]

Given the importance of affordable, quality child care being available to all low-income New Yorkers, we make two general funding recommendations: 1) that New York State seek every opportunity to expand child care funding through full use of available TANF, Child Care Development Block Grant (CCDBG), Title XX and state funds to meet the various child care spending needs discussed in this section of the report, and 2) that New York City receive its fair share of state funds, in accord with its child care spending needs.

In addition, we make the following specific recommendations to address the problems of the organization, supply, affordability, and quality of the current state of child care:

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[63] The recent New York City budget provides $9.6 million to fund the recently enacted Local Law 31, which enhances quality standards for all publicly subsidized family and group family child care homes by increasing the number of inspections of many providers and mandating 15 hours of training of all caregivers. The recent state budget implements a $40 million recruitment and retention program aimed at reducing staff turnover, over half of advocates' goal of $73 million.

Recommendations

Create a more efficient and effective unified child care system in New York City.

The child care needs of working families and welfare recipients for the most part overlap, and the city would benefit from a more coherent and coordinated approach to subsidizing care. Current efforts to facilitate greater interaction between the HRA and ACD systems are a step in the right direction if they eventually result in a single city child care agency to manage various streams of child care funds and provide publicly subsidized child care. Establishment of this agency would eliminate the inefficiencies of the current duplication of services. It also would provide the continuity of services as families move from welfare to jobs by establishing uniform eligibility, application, and enrollment procedures to low-income families in need of child care services. It would give welfare work participants and low-income working parents equal access to the array of child care options. The agency would also assume regulatory responsibility over informal care, which some families might still choose.

Recommendation: **Replace the bifurcated, duplicative and unequal ACD and HRA systems with one New York City agency which would manage all child care funds and programs and provide options for formal, center-based child care for all low-income New Yorkers, regardless of whether they receive welfare assistance.**

2. Expand the supply of quality child care.

All parents, both those on welfare and those who qualify for public subsidies, should have the option of choosing formal, regulated, center-based care or family-based care if it meets their needs. Care should be available from infancy to after-school programs for school-age children in need of supervision, and options for parents who work unusual hours and shifts must also be developed. To these ends, in general we recommend substantial increases in city and non-city spending on child care to construct new and renovate existing formal child care centers, with public funds being used to leverage private sources of capital financing. The New York State Child Care Coordinating Campaign has estimated that if every dollar of government money were to generate three dollars of money from lending institutions and other private sources, $35 million in government spending on child care capital projects would increase the supply for child care by 38,000 slots.

Recommendation: **New York State and New York City should invest new funds for the renovation of existing child care centers and construction of new facilities, leveraged with private funds from lending institutions.** The most recent state budget commits only an additional $15 million for facilities construction and renovation statewide, far short of advocates' goal of the $35 million in annual state funding of child care capital needs.

3. Make quality child care affordable.

Making quality child care affordable to all low-income families is not an inexpensive goal given that full-time child care in a licensed center costs more on average than tuition at public universities. Subsidies for regulated care should be given an entitlement, available to all whose incomes qualify, and we recommend continual funding increases to move toward this goal in the long run. We also recommend the creation of a refundable child care income tax credit for New York City.

Recommendations: **Provide more subsidies for regulated child care for all families with qualifying incomes.** The state's fiscal year 2000-2001 budget is expected to fund additional subsidies for 28,000 children statewide (Child Care That Works Campaign), but the increased spending on subsidies ($119.5 million) has been financed by the swelling of the TANF surplus. Because it is likely that the TANF surplus will greatly shrink if not entirely disappear in the near future the state should commit to using its own dollars to fund make even greater increases in child care subsidies for eligible families.

Establish a refundable New York City child care credit equal to the existing state credit. The New York City Council estimates that 153,000 households would benefit, at a cost to the city of $33 million per year. The city's adopted budget for fiscal year 2001 had included a proposal to establish a child and dependent care credit against the city's personal income tax, but the New York State Legislature, which must approve changes in city tax law, has not passed the necessary enabling legislation.

4. Increase funds to promote the quality of both formal and informal child care providers.

High-quality child care that provides early educational opportunities is costly to provide, though in the long run children with such care are in less need of costly remedial education. To promote quality subsidized child care, we recommend increasing subsidy rates through a better method of determining the cost of providing quality child care and allocating greater funds for increased compensation and professional development of child care workers.

Recommendations: **Improve the method of determining "market rate" reimbursement to child care centers and index for inflation in order to better reflect the cost of providing quality care.** While the state updated its survey of child care costs last year, reimbursement is set at only 75 percent of the median rate. This percentage should be increased to 100 percent and the survey should be updated annually to reflect the true cost of providing quality child care.

Increase the allocation of funds for staff training, professional development, and increased compensation for child care staff. The $40 million recruitment and retention program in the recent state budget is an important initiative, though child care advocates recommend at least $73 million of funding annually to enable child care centers to attract and retain qualified professionals.

Health Care Coverage

Health insurance coverage should be part of the basic social contract. Yet, 3.2 million New York State residents were uninsured in 1998, an increase of one million since 1991. According to The Commonwealth Fund, the share of New York City's working-age adult population without health insurance increased from 19.8 percent in 1991 to 27.2 percent in 1998.[64] New York City accounts for three of every five people uninsured in the state. Over one million working-age New York City adults lack health coverage.

Another Commonwealth Fund report finds that most of NYC's uninsured workers, have low incomes and have been without health coverage for a year or more. Because public assistance households are more likely to receive Medicaid, working increases the risk of being uninsured for adults in low-income families, according to The Commonwealth Fund.[65]

New York made progress in 1996 when it extended public health coverage to *children* in low-income households. Children are now covered by Medicaid and/or the Child Health Plus (CHP) program, if family income is less than 250 percent of the federal poverty level. The state recently took another step forward by enacting the Health Care Reform Act of 2000 (HCRA 2000), which established Family Health Plus (FHP). When (and if) fully implemented in October 2002, FHP will extend free, comprehensive health insurance for low-income state residents who are: citizens (or immigrants who arrived before 1996 or who have resided in the U.S. for at least 5 years); between 18 and 65 years

[64] Unpublished analysis of data from the Current Population Survey, by The Commonwealth Fund, 2000.
[65] The Commonwealth Fund, Survey of Health Care in New York City, March 1998.

of age; not eligible for Medicaid; and do not have other, equivalent heath insurance. Parents or guardians of minor children will be eligible if their family income is below 150 percent of the federal poverty level. Childless adults will be eligible up to 100 percent of the federal poverty line.

By the end of 2002, Family Health Plus is expected to provide coverage for 600,000 adults who would otherwise be without medical insurance. This is significant progress but as many as 2.5 million state residents will remain uncovered. Clearly, several next steps are needed.

Recommendations: **Assure adequate funding for the Health Care Reform Act of 2000**. The state must vigorously press the federal Health Care Financing Administration to obtain the waivers and approvals it needs to fully access federal funding. In addition, New York State should eliminate local government responsibility for program expenses. This burden is a disincentive for New York City and other local governments to conduct the kind of public outreach needed to extend coverage to more low-income adults.

Further expand publicly subsidized health insurance to low-income adults by broadening the reach of Family Health Plus. The data suggest that participants in the city's low-wage labor market are among the least likely to be covered by medical insurance. The state should offer coverage for all legal immigrants. New York can also extend health coverage to more adults by using the same financial eligibility levels for all adults (those with and without dependent children) as for children. Coverage should be provided to adults in families that earn up to 250 percent of the poverty line, without any resource test.

Raising the eligibility level could bring health insurance to up to 500,000 additional New York State residents. Obviously this will not be cheap. Assuming a very high participation rate, we estimate that the additional costs of all our proposals to the state would equal $1.25 billion annually. If the new funding streams created for HCRA 2000 (these include a portion of the state share of the tobacco settlement and a 55 cent per pack increase in taxes on cigarettes) prove inadequate, the state should consider both devoting a larger share of the settlement and a further increase in the tobacco tax.

Recommendation: **The city should effectively implement the Mayor's recent commitment to increase Medicaid and Family Health Plus enrollments by 900,000 persons.** This initiative should help extend health coverage to many low-income workers.

When fully implemented by the end of FY 2005, this program could increase city expenditures by $230 million annually.[66]

[66] Review of the Financial Plan for the City of New York: Fiscal Years 2001-2004, Office of the State Deputy Comptroller for the City of New York, July, 2000, p. 27.

II. Make Work Pay - Reward Work Fairly

Public policy should assure that work affords an adequate standard of living. Current reality falls far short of this goal. Combined income from full-time minimum wage work plus Earned Income Tax Credit (EITC) wage supplements (after payroll taxes) is below the federal poverty line for families with children. This shortfall is particularly severe for families with more than two children. But, even assuming it once was, the national poverty line is no longer an appropriate measure of adequacy. As the National Academy of Sciences has noted, the federal government has not updated the poverty line to reflect the changes in family income, consumption, and expenditure patterns that have occurred since the poverty line was created in the early 1960s. Additionally, the poverty line does not take into account the above average cost of living in places such as New York.[67] For example, in New York City, using the amounts specified by the U.S. Department of Agriculture's Low-Cost Food Plan and by the U.S. Department of Housing and Urban Development's Fair Market Rents, the cost of food and housing alone equals the national poverty line amount.

What is an adequate living standard? While there seems to be a consensus that the poverty line is not an appropriate standard of minimal adequacy, there is no consensus in support of a single alternative. We use 150 percent of the poverty line as our minimal adequacy standard, with the understanding that the income to be compared with this standard is income net of child care and health care expenses. We estimate that for 2000 the standard would specify annual incomes of $13,424 for one person, $17,370

[67] Citro, Constance F. and Robert T. Michael, Eds. Measuring Poverty, A New Approach. National Academy Press: 1995.

for two-person (one adult, one child) families, $20,585 for three-person (one adult, two children) families, and $26,375 for four-person (two adults, two children) families.[68]

While we make a number of recommendations in this section, we recognize that adequate Earned Income Tax Credits and a higher minimum wage are the foundation programs for making work pay since they have the broadest impact on the incomes of low-wage workers. Given recent progress in Albany on the state EITC, our ideas about what is left to do emphasize raising the minimum wage. The other recommendations in this section, while important, are more limited in their impacts and effects. The need for some, such as the earned income disregard and the living wage approach, would be less critical if the minimum wage and EITC were raised to levels that yielded an adequate living standard. Pay equity across gender and race and/or ethnicity is a concept that needs greater attention precisely because it involves fundamental issues of equity; however, because it is less immediately achievable, our overall recommendations do not include pay equity as a major priority at this point.

1. ***Raise the Minimum Wage to Restore its Lost Value***

Legislation establishing a federal minimum wage was signed in 1938, after several states, including New York, had enacted their own minimum wage laws. Such laws were intended to ensure that all workers received a minimum acceptable level of compensation and to protect responsible employers from the pressures that could be brought to bear by competitors who sought to derive a business advantage at the expense of workers.

[68] Our adequacy standard is a very modest standard and arguably should be higher. For a household of four, for example, our standard is only 84 percent of the Bureau of Labor Statistics, Lower Living Standard for New York City. New York State used the Lower Living Standard as its adequacy measure when it reconfigured the welfare grant in the 1970s.

However, the minimum wage has not been indexed to inflation and has been raised only infrequently. Consequently, the real value of the minimum wage has declined to the point where it falls far short of the goal of allowing full-time workers to achieve a modest standard of living without reliance on public benefits. The federal minimum wage, which covers the great majority of New York workers, is one-third below the level of the late 1960s. In 1968, a full-time minimum wage worker earned 20 percent above the federal poverty line for a family of three. Today, such a worker's earnings leave her 20 percent below the poverty line for a three-person family. In today's dollars, the $1.60 an hour minimum wage of thirty years ago is equivalent to nearly $8.00, well ahead of the current federal minimum wage of $5.15.

Since the minimum wage serves as a floor under the wage distribution, most low-wage workers would benefit from an increase in the minimum wage. There are several gauges of the erosion of wages for New York City's low-wage workers:

- Weekly wages, adjusted for inflation, in 1998/99 for New York workers at the 30^{th} percentile of the workforce were 10 percent below the level reached at the previous business cycle peak in 1988/89;
- Over one-quarter (26 percent) of all New York jobs paid less than the hourly equivalent of the poverty line (for a four person family), a much higher percent than in 1989 (19.8 percent) in contrast to the national trend of a two percentage point decline in the share of jobs paying poverty wages;

- There has been an 80-plus percent increase in the number of working poor families in New York City from the late 1980s to the 1995-97 period, an increase more than three times greater than the national increase.[69]

In New York City, 84 percent of minimum wage workers are adults. Considerable recent evidence refutes claims that any increase in the minimum wage reduces the total number of jobs,[70] or that employment drops in states that raise the state minimum above the federal minimum.[71] A 1998 Levy Institute survey of small businesses found that less than one-third of one percent reported having reduced employment because of the 1996-97 minimum wage increase.[72] Evidence at the national level also shows a critical link between higher wages and the decline in the welfare caseload. According to the President's Council of Economic Advisers, an estimated 10 percent of the declines in the welfare caseload is due to the incentives created by increases in state and federal minimum wages.[73]

While the President has proposed and Congress is considering a $1.00 increase in the federal minimum to $6.15 an hour, 10 states and the District of Columbia have minimum wage mandates higher than the federal minimum.[74] The minimum wage is currently $6.50 an hour in Oregon and Washington State. In both states, minimum wage increases were approved by the voters in statewide ballot initiatives. Setting a significant

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[69] Pooled data from the March Current Population Survey for 1995-97 analyzed by the Center on Budget and Policy Priorities.
[70] President's Council of Economic Advisers, The 1999 Economic Report of the President, p. 112.
[71] David Card and Alan B. Krueger, Myth and Measurement: the New Economics of the Minimum Wage, Princeton, New Jersey: Princeton University Press, 1997.
[72] Oren M. Levin-Waldman, *The Minimum Wage Can be Raised: Lessons from the 1999 Levy Institute Survey of Small Business*, Policy Notes, 1999/6. The Jerome Levy Institute of Bard College.
[73] President's Council of Economic Advisers. "The Effects of Welfare Policy and Economic Expansion on Welfare Caseloads: An Update," August 1999.
[74] The 10 states with higher minimum wage levels are: Alaska, California, Connecticut, Delaware, Hawaii, Massachusetts, Oregon, Rhode Island, Vermont, and Washington.

precedent for the nation, the Washington initiative also requires that the minimum wage be increased annually for inflation beginning January 1, 2001.

Among New York's neighboring states, Connecticut's minimum wage is $6.15, with an increase to $6.40 set for January 1, 2001, and an increase to $6.70 to take effect on January 1, 2002. In Massachusetts, the current minimum of $6.00 an hour will increase to $6.75 on January 1, 2001. New York, which has the second highest average wage among all 50 states (Connecticut is highest), is one of the few high-wage states that has not raised its minimum wage above the federal level.

The New York State Assembly passed a measure in the recently concluded session to increase the state's minimum wage to $6.75 an hour. The legislation would index the state minimum annually thereafter by the increase in the state average weekly wage. Although a majority of State Senators co-sponsored a companion bill, it was not brought to a vote before the session ended. While it is not clear if the Governor would have signed legislation raising the state minimum wage to $6.75 an hour, in the spring he did voice his support for raising the state minimum wage.

Recommendation: **To begin to restore the value of the minimum wage, New York State should raise its minimum wage to $6.75 an hour and, to prevent its erosion through inflation, annually index its value by the increase in the state average weekly wage.** This would give New York State a minimum wage in line with Massachusetts, Oregon and Washington.

How would a higher minimum wage benefit those who earn it? Table 1 provides a before-and-after comparison of total net earnings (wages plus the EITC minus payroll taxes) of a full-time, full-year worker making the minimum wage. The table measures (for different families) the ratio of those earnings over our (150 percent of the federal poverty line) adequacy standard. With the current minimum wage no family reaches even two-thirds - and a two-adult, two-child family is at less than half of - the adequacy standard. A $6.75 minimum would put smaller families over three-quarters, but no higher than 81 percent, of the adequacy standard. The increase would still leave the largest of the families in the table below 60 percent of the adequacy standard, as the minimum wage gets spread over more need and the family bumps up against the EITC's "family cap."

The limitations of even a $6.75 minimum wage suggest that: first, over time, (and keeping in mind competitive pressures that may result if a wide disparity opens up with neighboring states) New York State should raise the minimum wage above $6.75 in 2000 dollars;[75] and second, more needs to be done to expand the EITC.

[75] A proposal introduced in the state legislature this year to raise the state minimum to $7.65 would bring a family of three supported by a full-time minimum wage worker to about 82 percent of the adequacy ratio.

Table 1: Adequacy Ratios for New York City Minimum Wage Workers, 2000

A. With Current Minimum Wage: $5.15

Family Composition	Wages	EITC	Payroll taxes	**Total Net Earnings***	150% of Poverty Line	**Adequacy Ratio ****
1 Adult	$9,012.50	$128.56	$689.46	**$8,451.61**	*$13,424.47*	**63.0%**
1 Adult + 1 child	$9,012.50	$2,882.43	$689.46	**$11,205.47**	*$17,786.22*	**63.0%**
1 Adult + 2 children	$9,012.50	$4,416.13	$689.46	**$12,739.17**	*$20,791.12*	**61.3%**
2 Adults + 2 children	$9,012.50	$4,416.13	$689.46	**$12,739.17**	*$26,168.96*	**48.7%**

B. With Proposed Minimum Wage: $6.75

Family Composition	Wages	EITC	Payroll taxes	**Total Net Earnings***	150% of Poverty Line	**Adequacy Ratio ****
1 Adult	$11,812.50	$0.00	$903.66	**$10,908.84**	*$13,424.47*	**81.3%**
1 Adult + 1 child	$11,812.50	$2,882.43	$903.66	**$13,791.27**	*$17,786.22*	**77.5%**
1 Adult + 2 children	$11,812.50	$4,762.80	$903.66	**$15,671.64**	*$20,791.12*	**75.4%**
2 Adults + 2 children	$11,812.50	$4,762.80	$903.66	**$15,671.64**	*$26,168.96*	**59.9%**

Assumptions:
One worker, 35 hour week, 50 weeks/year (annual hours=1750)
State EITC 22.5% of federal (current law)
EITC Schedules provided by CBPP.
Payroll taxes: FICA (6.2%), Medicare (1.45%)
Estimated 2000 poverty lines are based on the percentage increase in the Consumer Price Index from the first 7 months 1999 and first 7 months 2000. (Change factor = 1.032.)

***Definitions**:*
** Total Net Earnings = Wages + EITC - Payroll taxes.*
*** Adequacy Ratio = Total Net Earnings divided by 150% of the federal poverty line.*

2. Improve and Enhance Earned Income Tax Credits

A higher minimum wage would help make work pay, but the benefits of a higher minimum wage need to be augmented with Earned Income Tax Credits (EITCs). Low-income tax filers in New York currently receive EITCs against their federal and state income tax liability, though there are shortcomings with each tax system's credit. In addition to reviewing some of the needed reforms of the federal EITC, we make specific recommendations; first, that recently enacted increases in the New York State EITC become permanent and second, that New York City establish an EITC equal to 20 percent of the federal credit.

The EITC is a credit against personal income tax liability that is available to low-income workers, and, up to a specific income level, the amount of the credit increases with each dollar of additional earnings from work. The federal credit was established in 1975, and New York is one of 14 states plus the District of Columbia that now offer an EITC against state income tax liability. The federal and New York State EITCs are refundable, meaning that if the EITC exceeds pre-credit tax liability, the tax filer (individual or household) receives the excess credit as payment from the government (in addition to having tax liability eliminated). In other cases, the EITC offsets a portion of income tax liability.

Earned Income Tax Credits are an important policy tool to help low-income workers. EITCs have been shown to be an effective mechanism for decreasing the incidence of poverty among those who work, raising living standards of the poorest workers, and providing an incentive to leave welfare and increase earnings. Because EITCs are indexed for inflation, their benefits do not diminish over time. Moreover, as a program that helps those who work, EITCs are politically popular. Finally, the availability of EITCs reduces the regressiveness of the tax system created by flat taxes such as the Social Security payroll tax, sales taxes, and the property tax.

New York State's EITC and the New York City credit, which is awaiting state approval, are equal to specific percentages of the federal EITC. This simple structure makes the state and local credits simple and cost effective to administer. It also makes it easy for those who qualify to understand and access them. However, the underlying federal credit has several structural shortcomings that need to be addressed so that they are not reproduced in the state and city credits. We provide a short discussion of the federal credit before presenting our specific recommendations for the state and city credits.

How the federal EITC works: The amount of the federal EITC increases with each dollar of earnings up to a specified income level at which the credit reaches its maximum value. The credit stays at the maximum up to a second income level and then is phased out for each dollar of earnings above this amount. For example, for the 1999 taxpaying year, households with two or more children received the maximum credit – $3,816 – when their incomes reached $9,540; for each additional dollar of income above $12,460, the credit was reduced by roughly 21 cents.[76] For 1999, families with earnings under $26,298 with one child or $30,580 for two or more children generally qualified for some amount of a federal credit. Workers without dependent children qualify for a much smaller credit – up to $347 for 1999 for those between ages 25 to 64 whose incomes were below $10,200.

[76] For 1999, households with one child received the maximum EITC ($2,312) if their income fell between $6,920 and $12,460.

Shortcomings of the federal credit: The EITC has a "family cap." The maximum EITC benefit does not increase sufficiently for a second child and does not increase at all for a third or subsequent children. The poverty rate for children in families with three or more children nationwide is more than twice has high as the poverty rate for children in smaller families.[77] The amount of federal EITC needs to be adjusted for the number of dependent children of recipients, similar to the way in which family size affects the amount of taxable income.

A second problem concerns the timing of the payment of EITC. While federal law allows for advance EITC payment for families with dependent children, most workers receive their entire annual EITC in a single lump sum payment after they file their tax return. There are a variety of reasons for the low participation in the EITC advance, including employers who are unwilling to process the credit in this way and workers who are unaware that advance payments are available. The federal government should take steps to make sure that the option of receiving the EITC in advance is known and provided by employers to all households and individuals receiving the credit. The availability of this option should also be extended to those without dependent children.

Finally, the EITC, as it currently exists, falls significantly short of benefiting the working poor who participate in welfare, work-for-benefits programs because such workers are barred from receiving EITC supplements. Consideration should be given at the federal level to eliminating this inequity when Congress reauthorizes welfare legislation in 2002.

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[77] Should EITC Benefits Be Enlarged for Families with Three or More Children? Center on Budget and Policy Priorities, July 2000.

The EITC against New York State tax liability: In recent years, New York State has enhanced the value of its Earned Income Tax Credit, though the most recent change included a stipulation regarding funding that may make the EITC temporary.

The last two state budgets have increased the state EITC. As part of the enacted budget for fiscal year 1999-2000, New York State increased its EITC from 20 percent to 22.5 percent of the federal EITC in tax (calendar) year 2000 and to 25 percent in the following year. The most recent budget increases this percentage to 27.5 percent in 2002 and 30 percent in 2003.

The terms of the enacted EITC increases also seek to take advantage of federal regulations, issued in the spring of 1999, which permit states either to pay for refunds issued under state and local EITCs using their TANF (Temporary Assistance to Needy Families) block grant money or, alternatively, to count EITC refunds as part of federal welfare legislation's required state "maintenance of effort" welfare spending. As per the most recent budget, the refunds to be paid to low-income New Yorkers due to the EITC enhancement will count as maintenance of effort spending. The terms of the budget also stipulate that if the federal government "materially reduces or eliminates" either the TANF block grant or the state's ability to utilize TANF monies (through either direct or maintenance-of-effort spending), the New York State EITC is to revert to being 20 percent of the federal credit. Given the steep decline in the caseload since the TANF block grant was established by federal welfare legislation in 1996, there is a strong possibility that the TANF block grant will be significantly reduced when it is re-authorized in 2002. This would roll back the most recent increase in the state EITC.

Recommendation: **The recent increases in New York State's Earned Income Tax Credit should not be made contingent upon the receipts of TANF or any other non-state funding sources.** About 1,100,000 wage earners statewide benefited from the increases in the state EITC. The need to increase the state EITC in order to supplement the wages of low-income workers in New York is great enough to justify making the increase permanent and there should be no funding pre-conditions that might make it temporary.

The EITC against New York City tax liability: The need to create an Earned Income Tax Credit against New York City liability is also great. Recent attempts by local lawmakers to establish a city credit have been modest in comparison to the need, yet even these have thwarted by inaction in Albany.[78] The need for a city EITC is particularly urgent because many low-income, working city residents pay the local personal income tax (PIT) even though their incomes are too low to incur either New York State or federal tax liability. For example, a family of three (single parent and two children) with an income level of $21,500 in 1999 paid no federal and state income taxes yet incurred $244 in city PIT liability, assuming the standard deduction is taken. For 1999, the New York City Independent Budget Office (IBO) estimates that 127,000 households (including 149,000 adults and 236,000 children) together paid $20.7 million in city taxes-on average $162 per household - yet no state or federal incomes taxes.[79]

The persistence of large numbers of city residents paying city but not state and federal income taxes is primarily a result of the lack of any indexing for inflation in the city's tax system, particularly the lack of any indexed credit targeted at low-income filers. As a result, the maximum amount of adjusted gross income that most households can earn without having to pay city taxes - the "zero-liability threshold" - has not increased in

[78] Changes in New York City taxes must be approved by the New York State Legislature and signed into law by the Governor.
[79] Unpublished analysis by the New York City Independent Budget Office, 2000.

nominal terms and thus has fallen in real (inflation-adjusted) terms. For example, since 1989, a single parent with two dependents incurs city PIT liability if his or her income rises above $15,000 a year; in 1998, the tax kicked in at an inflation-adjusted income level 26 percent lower than in 1988.

The federal EITC, and the New York State credit that is based upon it, on the other hand, are indexed for inflation. As a result of the EITC's inflation indexing, the zero-liability threshold with respect to state and federal taxes has been increasing in recent years, in contrast to the city thresholds.

It is unfair for the city to place a tax burden on low-income workers who are too poor to pay state and federal income taxes and whose income levels are not much more than the federally defined poverty line. Taxing the wage earnings of the working poor also runs counter to a public policy of encouraging labor market participation to increase the earnings of low-income households.

What is needed is a reform of the New York City personal income tax that removes from the city tax rolls residents who do not pay state and federal taxes and subsequently adjusts the "zero-liability threshold" to keep up with both inflation and changes in the state and federal thresholds. Such a reform would also make sure that the city tax burden facing many low-income families does not increase over time. A refundable tax credit for low-income New Yorkers has the potential to eliminate the city tax burden for those too poor for state and federal taxes and boost the take-home pay of even larger numbers of the working poor and near poor.

A city EITC would be highly effective in removing many poor or near-poor New Yorkers from the city tax rolls. IBO finds that by 2001 - the year in which the current phase-in of PIT cuts will be complete - a refundable city EITC modeled at 20 percent of the federal credit in combination with a non-refundable child care credit would remove over 100,000 of the 109,500 filers who under current law are expected to pay city but not state or federal income taxes. In addition, a refundable EITC would benefit many city residents who under current law are too poor to incur even city tax liability as well as those who pay only small amounts of state income tax. For 2001, the IBO estimates that the cost to the city of a 20 percent EITC in terms of foregone PIT revenue and refund checks would be $229 million.

In the spring of 1999, both the Mayor and the City Council had endorsed the creation of a city EITC, with the Mayor proposing an EITC of 5 percent of the federal amount and the City Council proposing an EITC of 10 percent of the federal amount. The Mayor's proposal was adopted in the city budget, and the terms of the adoption included the condition that the city EITC would be established only if the city received a portion of federal TANF funds to pay for the refunds that would be made. Partly because of this stipulation, the State Legislature never gave its necessary approval.

The program of tax cuts in the recently adopted city budget for fiscal year 2001 once again included a city EITC of the same magnitude - 5 percent of the federal credit - with provisions for TANF funding. But before adjourning from their recent legislative sessions, the State Senate and Assembly failed to reconcile their different versions of the enabling legislation needed to enact the city EITC.

Recommendation: **New York City should create an EITC against its own personal income tax equal to 20 percent of the federal EITC without any stipulations as to the financing of the credit.** While the EITC that the city tried to establish is a step in the right direction, it is far too small to offer substantial benefits to those who qualify for the federal and state EITCs, and it would remove from the tax rolls far

> too few of the working poor city residents who currently are burdened by city but not state and federal taxes. While the city should maximize the use of non-city funds to pay for this and other recommendations, the creation of the city EITC (like the enhancement of the state credit) is far too important to be made contingent upon the receipt of TANF or other non-city funds. Not considering the possible use of TANF funds to pay for EITC refunds, this EITC recommendation would cost the city an estimated $229 million annually. Six hundred thousand households in New York City, containing approximately 1.4 million adults and children, would benefit.

How would these proposals affect minimum wage workers? Table 2 provides adequacy ratios for New York City workers earning the current $5.15 minimum and the proposed $6.75 minimum as if a 30 percent state EITC and a 20 percent New York City EITC were now in effect. At the current minimum wage, no family would be above two-thirds of adequacy. At the proposed $6.75 minimum, smaller families income would be increased to slightly over 80 percent of adequacy, although the net earnings for a family of four would remain below two-thirds of adequacy. A before–and-after comparison, which measures the impact of the state and city increases can be made by inspecting the appropriate columns in Table 1 against Table 2. The increases in the adequacy ratios due to a more generous state and new city EITC are very modest, ranging from zero for a childless adult to 5.1 percentage points for a family of one adult and two children (at the higher minimum wage rate).

Several messages emerge from these tables. One is that recent increases in the state EITC are no substitute for an increase in the state minimum wage. Another is that flaws in the federal credit limit the effects of increases in state and local EITCs. A third is that families that depend on a minimum wage job and the EITC may need other forms of income support. The next section in this chapter considers one form of income supplementation - changes in state welfare law that would allow more low-wage earners to receive public assistance. Chapter Six addresses problems that poor families have maintaining access to a second form of income supplementation, Food Stamps.

Table 2: Adequacy Ratios for New York City Minimum Wage Workers with NYS and NYC EITC Proposals, 2000

A. With Current Minimum Wage: $5.15						
Family Composition	Wages	EITC	Payroll taxes	**Total Net Earnings***	*150% of Poverty Line*	**Adequacy Ratio ****
1 Adult	$9,012.50	$157.42	$689.46	**$8,480.47**	**$13,424.47**	**63.2%**
1 Adult + 1 child	$9,012.50	$3,529.50	$689.46	**$11,852.54**	**$17,786.22**	**66.6%**
1 Adult + 2 children	$9,012.50	$5,407.50	$689.46	**$13,730.54**	**$20,791.12**	**66.0%**
2 Adults + 2 children	$9,012.50	$5,407.50	$689.46	**$13,730.54**	**$26,168.96**	**52.5%**
B. With Proposed $6.75 Minimum Wage						
Family Composition	Wages	EITC	Payroll taxes	**Total Net Earnings***	150% of Poverty Line	**Adequacy Ratio ****
1 Adult	$11,812.50	$0.00	$903.66	**$10,908.84**	**$13,424.47**	**81.3%**
1 Adult + 1 child	$11,812.50	$3,529.50	$903.66	**$14,438.34**	**$17,786.22**	**81.2%**
1 Adult + 2 children	$11,812.50	$5,832.00	$903.66	**$16,740.84**	**$20,791.12**	**80.5%**
2 Adults + 2 children	$11,812.50	$5,832.00	$903.66	**$16,740.84**	**$26,168.96**	**64.0%**

Assumptions:
One worker, 35 hour week, 50 weeks/year (annual hours=1750)
State EITC 30% of federal + 20% NYC EITC.
EITC Schedules provided by CBPP
Payroll taxes: FICA (6.2%), Medicare (1.45%)
Estimated 2000 poverty lines and EITC schedule are based on the percentage increase in the Consumer Price Index from the first 7 months of 1999 to the first 7 months of 2000. (Change factor = 1.032.)

***Definitions**:*
** Total Net Earnings = Wages + EITC - Payroll taxes.*
*** Adequacy Ratio = Total Net Earnings divided by 150% of the federal poverty line.*

3. **Expand and Improve Welfare Wage Supplements**

Welfare wage supplements can be an effective strategy to ease the transition from public assistance to work. Since they allow low-wage public assistance recipients to combine income from welfare with their earnings from work, they encourage employment as well as provide sustenance for those who endure low pay and intermittent work.[80] One form of supplementation, Earned Income Disregards (EIDs) has been established throughout the country as states redesigned their welfare programs in the wake of federal welfare reform. However, in New York, poor administration, design flaws and limitations prevent the EID from being an effective tool. Below we explain how the current welfare EID system works and make recommendations to improve it.

The Current New York State Welfare EID: How it works: All welfare recipients who earn wages can receive the first $90 per month of earned income with no effect on their welfare payment. This "work expense deduction" acknowledges that there are costs associated with employment (transportation, clothing, meals, etc.) that should be covered before their welfare is reduced or they lose eligibility entirely. For households with children currently in receipt of public assistance, an additional 47 percent of earned income is deducted. For example, a mother with two children and no earnings or other sources of income would receive $577 per month in welfare benefits. If she begins to work, earning $500 per month, only $217 of her earnings is countable against her monthly welfare grant.[81] Thus, she would continue to be eligible for $360 from public

[80] See Manpower Demonstration Research Corporation (MDRC), Reforming Welfare and Rewarding Work: The Final Report on the Minnesota Family Investment Program. MDRC, The Family Transition Program: Implementation and Early Impacts of Florida's Initial Time-Limited Welfare Program, April 1997; MDRC, Making Welfare Work and Work Pay: Implementation and 18-Month Impacts of MFIP, October 1997; Abt Associates, The New York State Child Assistance Program: Five Year Impacts, Costs and Benefits, October 1996.
[81] The $217 in countable income is derived from [$500-$90]-[($500-$90) x .47].

assistance ($577-$217). The family's total income from welfare ($360) and work ($500) would now equal $860, quite a bit higher than either work or welfare alone.

Recommendations:

REMOVE INEQUITIES IN THE PROGRAM:

Enable childless recipients to fully benefit from the EID: Currently the 47 percent disregard is not available to households without children. This is a particularly burdensome penalty because adults with no dependents receive little help from the EITC. The full disregard should apply to all.

Allow applicants to fully benefit from the EID: Current New York State welfare law requires that, for the purposes of determining eligibility, only applicants who have been in receipt of public assistance for at least one of the immediately preceding four months would have the 47 percent disregard applied when determining their eligibility. Thus, earning levels that would disqualify an applicant from receiving benefits would not disqualify a current recipient from continued eligibly for benefits. To raise the living standards for all indigent workers, and provide consistent rewards for work, the same EID rules should be applied to both applicants and recipients.

Fix the standard of need test: Eligibility for welfare cash assistance is lost when gross wages, prior to the disregard, reach 185 percent of the welfare standard of need (currently for a family of three, $577 x 1.85 = $1,067 per month). This applies even when net wages, after the disregards, are less than that threshold. This can create disparate treatment: someone who earns more at a job may lose welfare eligibility and is, therefore, worse off than someone who earns less and receives income from both work and public assistance. The 185 percent welfare standard of need test should apply to net, not gross, income.

OTHER NEEDED CHANGES:

Suspend time limits: Currently, as long as recipients receive any welfare payment, the clock is ticking on their 60-month life time limit to federal TANF-funded welfare even if they are employed. This flaw in the federal TANF program undermines the EID's positive work incentive effect. In the absence of a change in federal welfare law, we recommend that New York State follow the example of

Illinois and provide entirely state-funded cash assistance to low-income working families who would otherwise qualify for TANF-funded welfare. This program would stop the federal clock for those who are struggling to make ends meet through work. And it would allow workers to receive a cash grant (as opposed to the voucher-based, New York State Safety Net Assistance). Since some people may never be able to achieve full self-sufficiency through employment, a state-financed program would both continue to offer support and maintain the incentive to work.

Strengthen the Disregard: The standard work expense deduction (of $90) should be set high enough to accomplish the goal of encouraging and rewarding work. The work expense deduction has not been increased since 1990. The rate should be updated to reflect current costs of transportation, clothing and other expenses. A disregard of $150 - $200 would accomplish this. California and Florida deduct $200 - $225 of the initial earnings.

The 47 percent disregard is not specified directly by New York's welfare law. Rather, it is based on the relationship between the welfare grant level and the federal poverty guidelines. We recommend that the percentage disregard be a fixed percentage that does not change when the grant level is increased or decreased. California's and Florida's programs offer 50 percent disregards. In addition, the Federal SSI program for disabled and elderly uses a 50 percent disregard as well. The state should adopt a 50 percent disregard.

Ensure use of the disregard program: The benefits of EIDs can only be realized when recipients know about them. Many of our proposals would simplify EID eligibility, which would help recipients understand the workings of the program. EIDs must also be applied correctly and in a timely manner by caseworkers. In 1999 only 9 percent of welfare recipients were combining paid work with welfare, not much more than the 7 percent that combined work and welfare before the new EID program was implemented. Caseworkers, despite their new Job Center titles of "financial planners," often do not tell applicants or recipients about these rules or explain how they can be advantageous. Many cases are closed rather than re-budgeted when recipients find employment. We recommend that all recipients and applicants be informed of their eligibility for the EIDs and that caseworkers counsel recipients on how the EIDs will benefit them.

It is fairly difficult to estimate the costs of our recommendations to enhance and improve the New York State EID program. The changes that would eliminate inequities affect relatively few current or potential welfare recipients. Suspending the TANF time clock for workers would not result in a major new expenditure by the state because recipients who exhaust their eligibility to TANF-funded assistance are already entitled to the exclusively state and city-funded Safety Net Assistance voucher program. The cost of enhancing the disregard depends in large part on our final recommendation, which is to ensure that people who are entitled to the benefit receive it. However, the use of EIDs, and thus the price of implementing our recommendations, would be sharply reduced by the other proposals in this report that could enable welfare recipients or would-be applicants to obtain jobs that pay adequate wages. But until such strategies take hold, revision of EIDs is a relatively inexpensive and easy to implement strategy that has been proven effective in other states.

4. Improve New York City's Living Wage Law

More than 40 cities and local governments around the country have passed "living wage" laws that usually require local government contractors to pay their workers an hourly wage significantly above even the highest state minimum wage ($6.50 in Oregon and Washington), and often include benefits and other requirements. One of the main rationales for local living wage laws is that government resources should not be going to businesses that pay wages so low that their workers require public subsidies such as medical assistance (Medicaid) or food stamps. Interest in living wage approaches has increased as a result of the failure of the federal minimum wage to keep pace with inflation and with the heightened erosion in living standards for a growing number of workers. A growing number of localities also extend living wage requirements to companies receiving economic development assistance or that lease public property for private purposes.

Living wage laws can be important mechanisms for raising the living standards of some low-wage workers. Most living wage provisions require public contractors or economic development subsidy recipients to pay hourly wages in the $9 - $10 range, sometimes a higher amount if health insurance is not provided.

In 1996, New York City enacted a variation of a "living wage" ordinance that applies to four categories of workers employed by for-profit businesses that contract with the city: security, temporary work, cleaning, and food service. The existing law is really a "prevailing wage" law, because unlike other living wage laws, which establish a minimum acceptable hourly rate, the law requires that wage rates be determined for separate categories of work by the City Comptroller based on a survey of employers. Wage levels under this ordinance currently range from about $7.50 an hour for security guards to over $15.00 an hour for certain building cleaners and cooks. There is no current inventory of contracts under this ordinance and limited information on enforcement.

There is precedent for extending New York's living wage law to cover more workers whose employers voluntarily receive public contracts or subsidies. Living wage initiatives have recently passed in Los Angeles, Boston, Chicago, Cook County (Illinois), Detroit, Portland (Oregon), Pasadena, San Jose, and San Francisco. The Boston ordinance requires city contractors to pay $8.23 an hour beginning in 1998, to be adjusted for inflation each year thereafter, and has significant oversight authority and strong penalty provisions of up to $300 per day per violation. In San Jose, the resolution requires a minimum wage of $9.50 an hour for contractors that provide health benefits and $10.75 if benefits are not paid. The San Jose resolution also includes language requiring retention of employees after a contract changes hands.

Recommendation: New York City should expand the scope of its "living wage" law to include more workers employed by city contractors, include the provision of health and other benefits in its calculation, and extend the law to firms receiving city economic development subsidies and their contractors.

5. Foster Pay Equity

In New York City, there is a pay gap between men and women and between minorities and non-minorities. On average, men in New York City earned nearly $60 more per week than did women in 1997, whites earned $121 more than did blacks, and natives earned $135 more than did non-natives. This pay gap is due to many factors, including differences among men and women, and minorities and non-minorities, in the skills and educational backgrounds they bring to the job and the types of jobs they have. There are two sets of policies in place that are designed to address the pay gap. Affirmative Action policies seek to remedy discrimination in the hiring and promotion of women and people of color and in equalizing access to higher education. The Equal Pay Act addresses the pay gap by requiring that workers be paid similarly for the same work. However, even with these policies, the pay gap still remains.

Pay equity policies seek to remedy some of the remaining problems. Pay equity addresses the case where people are paid differently for jobs that are comparable in skill requirements and job difficulty. The labor market is very segregated, both along gender and race lines. This enables employers to pay workers different wages based on the gender and race of most of the jobs' occupants, although the skill requirements of the jobs may be identical to jobs that pay higher but where the occupations are male and/or non-minority. For example, in New York City, 32 percent of women work in occupations where over 50 percent of the jobholders are women, while only 10 percent of men work in occupations with over 50 percent male occupants. This segregation leads to pay gaps: women in female-dominated occupations in New York City earn $133 less per week than did other female workers, while men in male-dominated occupations experience no wage penalty.

Pay equity remedies the wage penalty for working in a female- or minority-dominated occupation through requiring that firms reevaluate their pay scales to ensure that they are based on the qualifications and requirements of jobs, rather than the race or gender of job occupants. Implementation begins with a study that gives points, based on a uniform set of criteria, to jobs within a firm based on their skill and tenure requirements. These points are used to determine if jobs typically held by women or minorities are underpaid. Pay equity plans generally are implemented over a few years' time and no worker's wages are cut. The pay equity plan seeks to introduce a pay structure based on merit, not the gender or race of the job occupants.

Pay equity is a policy that has the capacity to help low-wage workers and close the pay gap while not being overly expensive for employers. In New York City, the implementation of a pay equity plan in every firm would raise the wages of the least paid workers to a greater degree than higher paid workers; pay equity would reduce the rate of workers earning low wages from 27 percent of all women to 11 percent. The AFL-CIO reports that in New York State, if women were paid as much as comparably skilled/tenured men, single mother's earnings would rise an average of $4,789 annually and their poverty rates would fall from 21.2 percent to 10.5 percent. Studies done by the Institute for Women's Policy Research show that implementing pay equity within a civil service, where the pay scale is restructured to address the systemic undervaluing of traditionally female or minority jobs, have cost no more than 3.5 percent of the wage bill while leading to improvements in the gender earnings ratios.

Recommendation: **Enact the "Fair Pay Act" (A6832) sponsored by Assemblywoman Catherine Nolan. This is a pay equity bill that would make it illegal to pay different wages for "equivalent" work.** Implementation would come through individual court actions: workers would have to bring a case against an employer if they felt that their labor was being "undervalued" relative to other workers, given the skill, tenure, and difficulty of the jobs they perform, rather than the government requiring all firms to reevaluate their pay structure.

III. Making Work Fair And Safe

All workers are entitled to timely and full payment of their wages and have a right to safe working conditions. Without adequate working conditions and adequate jobs, welfare recipients making the transition from welfare to work and other low-wage job seekers will not be able to attain an acceptable living standard. The jobs typically held by former welfare recipients and low-wage workers tend to be poorly paid with high turnover rates and few traditional employment protections, such as effective labor standards enforcement for minimum wage and overtime, and health and safety laws. (Many low-wage jobs also lack health and pension benefits, and generally have few paid vacation days and holidays that most workers take for granted.)

While there are several issues in the area of workplace fairness that warrant careful attention by policy makers,[82] our focus in this section is on better enforcement of *existing* workplace laws.

Existing workplace protections that provide for minimum wage and overtime compensation and healthy and safe workplaces are woefully under-enforced for low-wage workers. The agencies established to enforce wage and hour and health and safety laws - the New York State Department of Labor and the U.S. Department of Labor - lack the resources to pursue meritorious claims that come in their doors on a daily basis. Private sector enforcement is almost nonexistent in the wage and hour context for low-wage workers because the potential wage recoveries are often low. Health and safety law

[82] Workfare participants, for example, have limited employment protections and are denied the right to organize unions. In some instances, local governments have relied on temporary help agencies to place welfare recipients into jobs. This can result in unstable work opportunities at low pay and with few benefits. And with the greater prevalence of "contingent" jobs - i.e., work that is temporary, part-time, contracted, or otherwise different from the standard of a permanent full-time job - many workers are denied, sometimes lawfully, sometimes not, traditional protections such as wage and hour standards.

does not provide for private enforcement, leaving enforcement completely in the hands of the chronically underfunded Federal Occupational Safety and Health Administration.

Adequate labor standards enforcement is even more of a challenge in industries with large concentrations of immigrants. In immigrant-dominated industries such as the garment, janitorial, landscaping, and home care industries, the lack of enforcement is compounded by immigrants' fears of deportation or other adverse immigration consequences for themselves and their families.

This is occurring in the context of the push to move welfare recipients into the workforce. Because it is not legally certain that workfare workers have the same labor and employment rights as other workers, their presence in the workforce creates a downward pressure on wages and other working conditions for all workers. Like workfare workers, other "contingent" workers, such as temporary, contract, and on-call workers, lack employment and labor protections, due in part to employer misclassification and worker ignorance about legal coverage. This situation creates a "race to the bottom," where unscrupulous employers seek out the most exploitable workers who will not complain of unpaid wages and hazardous working conditions.

By increasing enforcement of minimum wage and overtime compensation and health and safety requirements for low-income workers, all workers will benefit, in the form of improved standards of living and cleaner and safer workplaces. In addition, an important result of enhanced enforcement of existing laws is that unprincipled employers evading the law will no longer be permitted to engage in unfair competition, a central goal of labor standards.

Assisting viable (and often small) businesses in following the law and becoming more efficient should be part of an enforcement strategy. For example, the Garment Industry Development Corporation, based on an alliance between labor, business and government, provides training on substantive legal requirements and technical assistance with general business strategies and operational efficiencies.

Recommendations:

1. **Stepped-up enforcement of minimum wage and overtime and health and safety laws is needed.** In addition to increasing the budget for enforcement agencies, this can be accomplished by building on the garment industry enforcement task force and creating additional task forces targeting specific, chronically exploited workforces, such as janitorial, home care, taxi, and others.

2. **Private enforcement of wage and hour requirements should be encouraged by federal and state labor departments in conjunction with local and state bar associations, which could provide much-needed training and referral functions.** In addition to increased enforcement of existing laws, health and safety law could be amended to provide for individual enforcement.

3. **Public and private organizations should assist small businesses in understanding the requirements of the law, how to comply, and in improving business efficiency to remain competitive without undercutting labor standards.**

CHAPTER SIX

PROVIDING A HUMANE SAFETY NET

Even under the best of circumstances - a strong labor market and effective policies designed to expand job opportunities - an employment-based anti-poverty strategy cannot offer sustenance for all. Those who cannot make ends meet through work face a patchwork of federal, state and city safety net programs that provide income and benefits to those without other means of support. Federal programs such as Social Security Disability Insurance and Supplemental Security Income (SSI) provide for those with long-term disabilities that make work a challenge. New York State Disability and Workers' Compensation cover workers with temporary disabilities or who are injured on the job. Unemployment Insurance is provided by New York State to protect workers from economic devastation during periods of unemployment. Federally-funded Food Stamps insure that families, regardless of their source of income, have enough to eat, and Medicaid coverage provides access to health care for the very poor.

New York's constitution requires that the state provide for those with no other means of support. The state's public assistance system is expected to fulfill this mandate through two major programs: the Family Assistance Program, which provides cash assistance to families with children under 18 years of age, and the Safety Net Assistance program, which provides cash (or voucher-based) assistance to the poor whose needs are not otherwise met by any other assistance program. More commonly known as "welfare" these programs are the last resort for many New Yorkers.

The growth in employment opportunities, coupled with a welfare administration that has made caseload reduction its number one priority, have drastically transformed our public assistance system. We now have a welfare caseload that is half of what it was only five years ago. However, the transition out of welfare into (hopefully) steady work is not always smooth or one-directional. People have setbacks in their lives and personal crises such as disabilities, domestic violence, and homelessness that make sustaining self-sufficiency through employment either temporarily or permanently impossible.

Those left on, or returning to, the welfare rolls fall into three broad categories. The first are workers who do not qualify for work-based insurance programs such as unemployment insurance, temporary disability insurance, or Workers' Compensation and must turn to public assistance for help while looking for new jobs, recovering from disabilities, or awaiting long-term federal disability assistance. Their stays on welfare are short, but welfare payments are critical in providing a subsistence level of income until other programs are available to them or they find work.

The second category comprises those who have significant barriers to work. This includes people with long-term physical or mental disabilities, or those who face temporary personal problems such as domestic violence, homelessness, or substance abuse, as well as others who are caring for severely ill or disabled family members. This has become a sizable proportion of the public assistance population. According to a mayoral report, 29 percent of recipients are unable to work due to disabilities and other problems, and an additional 13 percent are being evaluated for their ability to work.[83]

A third category of welfare recipients is composed of those that have great difficulty in finding employment because they lack a high school degree, have little work experience, or are not fluent in English. Their stays on welfare can and should be used to

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[83] *Guiliani Proclaims Success on Pledge to Curb Welfare,* The New York Times, December 29, 1999.

gain skills, work experience and basic education. (Chapter Four of this report speaks to the issues that confront this group.)

We believe that the policies recommended in *Building a Ladder* - those that will increase earnings, provide supports to low-wage workers such as child care and health care, and better prepare low-skilled workers - will further winnow the welfare rolls. Labor market conditions conducive to employment for lower-skilled workers, coupled with government policies that make work pay, have the potential to make work a better option for supporting families than welfare and thus reduce the rolls. This will leave us with a welfare population that is significantly different from the one that was described in the welfare reform debates that led to the 1996 reforms. The city and state need to acknowledge this transformation and rethink the safety net system.

As New Yorkers face the upcoming debate over federal and then state reauthorization of the welfare reform legislation, we need to assess the progress of welfare programs and reexamine what should be provided to the city's most vulnerable residents. Other components of the "safety net" require reexamination and reform as well. Benefits such as Food Stamps and Medicaid are not reaching thousands of needy New Yorkers who are eligible for them. Unemployment Insurance (UI), our traditional safety net for workers, must be retooled to accommodate the labor market shift to more contingent, temporary, and low wage employment.

In this chapter we outline five major recommendations to provide a more humane safety net to insure the well-being of the most vulnerable New Yorkers:

1. Raise benefit levels and broaden access to Unemployment Insurance;
2. Increase the public assistance grant;
3. Improve access to city-administered Food Stamps and Medicaid;

4. Ensure access to public assistance and enforce welfare work rules fairly;
5. Evaluate new welfare policies.

1. Raise Benefit Levels and Broaden Access to Unemployment Insurance

The unemployment insurance system (UI) was created as part of the New Deal to replace a portion of unemployed workers' earnings while they look for a new job. Access to an adequate unemployment check is critical to all unemployed workers, particularly for those working in low-wage jobs that tend to have high turnover due to seasonal and other business factors. As presently configured, the system does not measure up to the demands of a changing economy and the new public policy environment. Because benefit levels are based on prior earnings, they are too low for low-wage earners. And many workers who are now or should be eligible for benefits do not have effective access to them.

Weaknesses in the system are most apparent during economic downturns. According to the New York State Department of Labor, over 90 percent of all UI recipients encountered difficulty during the last recession meeting their expenses after exhausting benefits, including health care, housing, and the cost of food.. More than half of all recipients who exhausted their benefits had to reach into their savings and borrow money from friends and relatives to make ends meet. And one in four workers who exhausted unemployment benefits ended up on public assistance.

Raise Benefit Levels

In New York, the UI benefit is set at 50 percent of a worker's average weekly wage over a base period up to a maximum (as of September 2000) of $400 per week. For low-wage workers, the weekly unemployment insurance benefit falls well below the poverty threshold. For example, a woman working at the $5.15 per hour minimum for 35 hours per week earns $180 per week. Her UI benefit would equal a mere $90. Workers in straits like these must often rely on welfare to make ends meet.

Recommendations: **Benefit levels should be set at more than 50 percent of the average weekly wage for low-wage workers.** Lower-income families spend a greater portion of their incomes for necessities than do others and therefore need more than half their average weekly wage to survive a spell of unemployment. This could be accomplished by establishing a range of benefit/wage ratios (for workers with some minimum number of usual weekly hours) that begins at 70 percent and progressively declines to 50 percent for higher wage earners.

Create a dependent allowance as part of UI benefits. Thirteen states have established a supplemental benefit for recipients with dependents. For example, Massachusetts pays $25 per week for each dependent child.

Expand Access

Unemployment benefits are not available for the vast majority of unemployed workers. In 1998, only 35 percent of unemployed New Yorkers received unemployment benefits, a percentage that has fallen significantly over the past 20 years both nationally and in New York. The low recipiency rate is due to several factors, including strict qualifying requirements in the UI law that disproportionately impact the growing numbers of low-wage and service sector workers. Moreover, those who qualify for UI often fail to apply due in part to lack of information about their rights and problems of access related to administration of the program. In fact, according to government surveys, less than two-thirds of job losers (i.e., those most likely to qualify for UI) apply for unemployment benefits and only one-half end up receiving them.[84]

[84] Wander, Stephen A. and Andrew Stettner, *Why are many jobless workers not applying for benefits*? Monthly Labor Review, June 2000.

The state's use of the "Insured Unemployment Rate" to trigger extended benefits in times of high unemployment is another barrier. The insured unemployment rate, which only includes workers covered by UI, activates extended benefits more slowly than the "Total Unemployment Rate" the state can use as an alternative trigger. The problem of access to UI benefits thus has to be addressed on several levels. The first need is to change the law so that more low-wage workers can qualify for benefits.

Recommendations:

Use hours not earnings to determine eligibility. A 1998 change in the New York law made it more difficult for some low-wage workers to earn enough to qualify for benefits. As the federal Advisory Council on Unemployment Compensation recommends, eligibility for UI should be based on hours worked, not earnings, so as not to discriminate against low-wage earners. Washington State has done so. So should New York.

End "Work First" in the UI program. The state UI law requires that by the 13th week of unemployment, the UI recipient must accept *any* job for which she is qualified that pays 80 percent of her previous wages. This approach pressures the unemployed to accept lower-wage work and, in times of high joblessness, will drive down wage rates.

Drop penalties for those seeking part-time work. Unemployed workers, without a history of part-time work, can be disqualified for UI in New York just because they are looking for part-time rather than full-time work. This provision adversely affects women who must juggle work and family responsibilities.

Change the Extended Benefits Trigger. In periods of high unemployment extended benefits provide an additional 13 weeks of UI to workers who have exhausted their initial 26 weeks of benefits. The state should adopt the "Total Unemployment Rate" trigger, which would both make it easier for the long-term unemployed to maintain benefits and bring significant federal funding to the state UI system.

Even without changes in the law, a great deal can and should be done to expand access to the UI system by increasing the "take up" rate of those who qualify but are not applying for UI. For example, in 1996 the Department of Labor documented that although women who leave work due to domestic violence qualify for unemployment benefits in New York, only a handful of the thousands that might qualify for benefits had made their way to UI offices.

Recommendations: **Build public awareness.** While New York law is relatively favorable in covering individuals who leave work for both work-related and non-work related reasons, the state has not adequately educated the public on these broad rights to UI. The state could do much more outreach to government agencies and community groups that work with low-wage earners to publicize these rights.

Maintain in-person contact. The introduction of the "Tel-Claim" system is closing local UI offices across the state. While telephone systems may help lower costs and expand services to certain groups of workers, for many other workers it has the opposite effect. Immigrant workers, workers who may have doubts as to whether they qualify for benefits, and others still require the in-person contact necessary to successfully navigate the UI system.

Provide more foreign language service. In contrast to the Food Stamp and other benefit programs, the UI system also does not have in place a program to provide bilingual services in any language other than Spanish.

Assure adequate representation. Access to representation has had a dramatic affect on the ability of those who are initially denied UI benefits to receive ultimately them. While there are excellent models in New York to provide representation to appeal a denied UI claim, these programs are only able to handle a small fraction of the need. Thus, resources should be made available to provide representation of UI claimants as part of a larger outreach and education effort.

2. Raise the Public Assistance Grant

The New York State Constitution, Article 17, section 1, provides that the State of New York and its political subdivisions must meet the needs of its poorest residents. It is the duty of state and local social services officials to provide adequately for those individuals and families who do not have sufficient funds to support themselves.

The current welfare grant does not measure up to this mandate. Since 1975, the purchasing power of the grant (which, unlike some other public benefits, does not rise automatically with the cost of living) has fallen from 110 percent to 49 percent of the federal poverty guidelines. The state has not increased the grant level since 1990.

Food Stamps don't fill the growing gap. The maximum a family of three in New York City could receive from the grant ($577) and Food Stamps ($335), comes to only $912, or 77 percent of the federal poverty guideline.[85] See Figure 1, where the value of the public assistance grant (PA) and the combined cash value of the grant and Food Stamps (PA+FS) are given as a percentage of the federal poverty guideline (FPG).[86] Rather than providing a safety net so that people in difficult circumstances can work to put their lives in order, the inadequate grant only serves to make basic sustenance a daily struggle. A meager welfare check is not an incentive to get off welfare and build a better life instead; it saps the ability of people with little means to focus on the future.[87]

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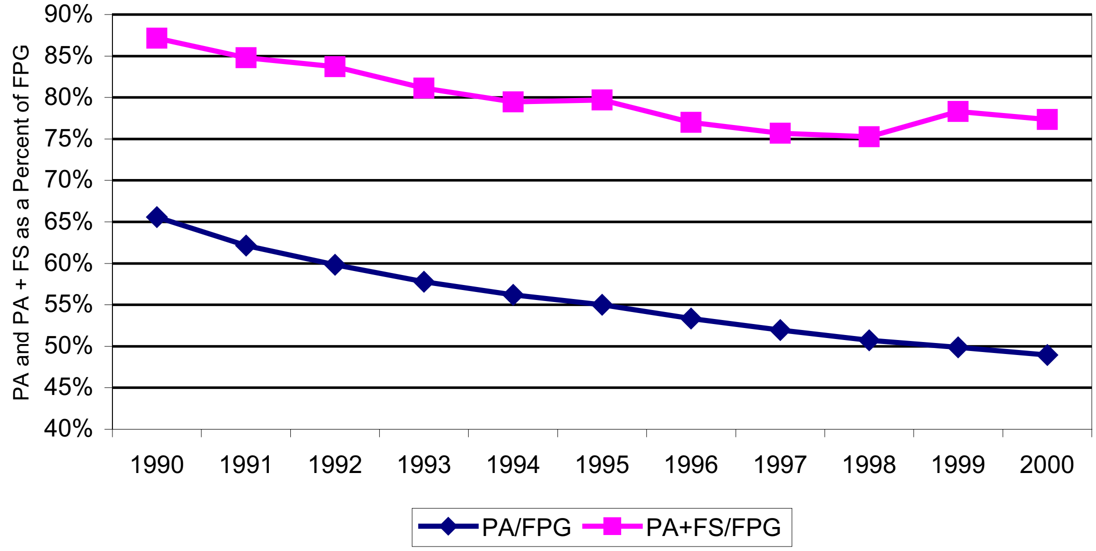
[85] The maximum Food Stamp Allotment for a three-person family will rise to $341 on October 1, 2000.

[86] The federal poverty guidelines issued by the U.S. Department of Health and Human Services are quite similar to the federal poverty lines issued by the U.S. Bureau of the Census but they are used for different purposes. The poverty line is used for statistical purposes, while the guidelines are used to determine eligibility for means-tested programs. In 1999 the poverty line for a family of three was $13,290 and the guideline was $13,880.

[87] This hardship has long-term as well as immediate consequences. More than half of the state and city welfare population are children. A childhood in poverty is strongly linked to poor health, increased mortality, abuse, neglect, and school drop out during childhood and to unemployment and low wages in adulthood. See Duncan, G.J. and Brooks-Gunn, J., eds. Consequences of Growing up Poor. New York: Russell Sage, 1997.

Figure 1: The Declining Value of Public Assistance



Source: Community Food Resource Center.

Other states have recognized that increasing the grant does not lead to increasing "dependency." Since the passage of federal reform legislation in August of 1996, 15 states have increased their welfare benefit levels. And six states now have benefit levels above New York City's. This includes Wisconsin, the state that has "led the nation" in reducing its public assistance rolls.

Table 1
State Maximum Grant Levels for a Single-Parent Family of Three

State (City)	Grant
New York City	$577
New Hampshire	$600
Vermont	$622
California	$626
Wisconsin	$673
Hawaii	$712
Alaska	$923

Source: State Policy Documentation Project, June 2000.

Another benchmark that can be used to assess the adequacy of the welfare grant is Social Security's Supplemental Security Income (SSI) program, which provides income support to disabled individuals. As the most employable exit the welfare system, the public assistance and SSI populations are becoming ever more similar in the challenges they face. The federal government has established a national floor for adequacy of the SSI grant, and New York State, along with most states, supplements federal payments. In New York State the combined federal-state payment for a disabled individual was $599 in 2000 (in contrast to $352 for an single individual on welfare) bringing them (without other forms of support such as Food Stamps) to 86 percent of the poverty guideline.

Recommendation: New York State should restore the welfare grant to its 1990 value and index the grant to ensure that its purchasing power remains intact. Longer-term, the grant should provide recipients an income at least equal to that of the federal Supplemental Security Income program.

Restoring the grant to its 1990 value would increase the monthly welfare benefit for a three-member family by 33 percent, from $577 to $773 a month. This would still be only 66 percent of the federal poverty guideline ($1,179). For 2000, a grant of that size plus Food Stamps would equal just 94 percent of the FPG, well below the standard of income adequacy used elsewhere in this report. Further increases will be needed. Thus we urge the legislature not only to continue to progressively raise the grant until it equals the SSI equivalent, but to also consider what future increases are needed to provide public assistance and SSI recipients with sufficient income to meet their basic needs.

3. Improve Access to City-Administered Food Stamps and Medicaid

State and local social services officials administer the federal Food Stamp and Medicaid programs as well as Public Assistance. Food Stamps remains a foundation of this country's "safety net" for meeting the nutritional needs of low-income people. Families may have incomes up to 130% of the Federal Poverty Line and still qualify for benefits. Medicaid (and in the future, Family Health Plus) covers the cost of health care of the poorest New Yorkers who do not have employer provided health care and cannot afford to purchase health insurance privately. Federal law allows families with children who leave the welfare rolls for work to keep their Medicaid coverage for up to six months regardless of their earnings and up to a year if their incomes fall below 185 percent of the federal poverty guidelines.

In recent years, the city's policies have aggressively discouraged participation in these two programs.[88] Human Resources Administration (HRA) Commissioner Jason Turner has made clear the high priority he attaches to ending “dependency” on all forms of public benefits, not only welfare. By denying families access to Medicaid and Food Stamps, the city and state are missing a critical opportunity to help welfare reform succeed. Benefits such as Food Stamps and Medicaid should be viewed as supports that aid in the transition to work and that make it possible to sustain work in low-wage jobs.

[88] We hope that the Mayor’s new initiative to increase enrollment in Medicaid will affect practices within the Human Resources Administration.

Oddly enough, it costs the city little to retain these benefits. The federal government pays for Food Stamps and the city picks up only 25% of the Medicaid bill for families.

The opportunity for poor people to obtain these critical benefits is lost at two points. First, when needy individuals are diverted from applying for cash welfare assistance, and second, when welfare recipients find employment and leave welfare. While the city welfare bureaucracy has historically made the application process for benefits onerous, problems at application have worsened with the Giuliani Administration's launching of the "job center/diversion" program. This practice is designed to deter needy people from starting or completing the application process. The federal Food Stamp agency and a federal court have found that it has resulted in systematic violations of law.[89] Where the diversion program has been phased in, the city reports that the application rejection rate has jumped to 75 percent at the offices where the program is operating.

The results of this policy are evident in both state and city-sponsored welfare evaluations. A study by the Rockefeller Institute of January 1997 welfare leavers found that of those who found work, most had incomes low enough that they should have continued to receive Food Stamps, yet only 27% continued to receive them.[90] An HRA study of welfare leavers found that only 14 percent of those who worked after their case was closed received Medicaid, though virtually all were legally entitled to that benefit.[91]

Recommendations: **Inform welfare applicants about all available public benefits and facilitate their application.** Applicants should be given clear and detailed information regarding all public benefit programs including their eligibility for Medicaid, Child and Family Health

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[89] *Judge Rules Against City on Welfare*, Nina Bernstein, The New York Times, July 25, 2000.
[90] Maxwell, Terry, *After Welfare: Work and Benefit Use after Case Closing*, The Nelson A. Rockefeller Institute of Government, July 1999.
[91] *Leaving Welfare: Findings from a Survey of Former New York City Welfare Recipients*, New York City Human Resources Administration Working Paper 98-01, September 1998.

Plus, and Food Stamps. Applications for all programs should be accepted at the Job Center (welfare center) regardless of the eligibility for cash assistance.

Ensure access to benefits that welfare leavers are eligible for. Since most welfare leavers continue to be eligible, the city should not automatically terminate the Food Stamp and Medicaid benefits of households whose cash assistance is terminated. In many cases, the agency will have enough information to reassess eligibility and benefit amount. However, if the agency does not have enough information to make a determination, it should request additional information from the household. The city should assume that welfare leavers want to keep their Medicaid and child care transitional benefits and take steps to keep them enrolled. These benefits can facilitate the transition to work only if recipients know about them and understand how they will help them.

4. Ensure Access to Public Assistance and Enforce Welfare Work Rules Fairly

While some of the caseload decline is due to economic improvement, there is substantial evidence that much of the reduction in rolls has occurred because welfare administrators have either barred the door to or cut people off from benefits for which they are financially eligible. The principle goal of "diversion" is to keep people off the rolls. According to HRA officials, applicants are offered alternatives to public assistance. Yet, many applicants have reported that diversion has taken the form of refusing to allow people to file applications, pressuring them to withdraw their applications, denying benefits for reasons that don't exist under the law, and failing to provide written notice, including notice of hearing rights.

Welfare recipients who are able to successfully apply for benefits often find their benefits reduced or stopped entirely in error or for minor administrative infractions. These problems have been exacerbated by workfare related sanctions.[92] Under current city policies, all adult recipients who are not disabled, caring for newborns, or over age

[92] A *Rigid Enforcement of Workfare Rules at Heart of Welfare Cuts*, New York Times, April 15, 1998.

60 are to be either working in the private sector in jobs (that do not pay enough to make them ineligible for welfare), or are working off the value of their welfare grant in a city workfare assignment. Recipients must abide by these strict work rules or risk losing their welfare grant. Recipients who have been found in non-compliance with any component of the work rules are sanctioned for a designated period of time by a termination of their benefits if they are single individuals or by a pro-rata reduction in the household grant if they are part of a family.

At the same time the number of fair hearings requested by recipients and applicants has exploded. Fair hearing requests as a percent of total caseload has grown from 14.5 percent in 1994 to 44.9 percent in 1999.[93] Clients win 83 percent of the fair hearings held resulting in the state directing the city to begin or restore benefits.

The imposition of a sanction for alleged non-compliance with a work rule should be regarded as a failure of the system rather than a successful means of enforcing work, cutting case loads or reducing expenditures. A high percentage of sanctions result from agency errors and poor communication. Many recipients do not sufficiently understand what is expected of them or the risks of non-compliance. Sanctions are often imposed for circumstances beyond the individual's or family's control. The highest sanction rates are found among recipients with serious barriers to compliance, such as physical or mental health difficulties.[94]

Conciliation (for work-related issues) and conferences (for all other issues) are, as required by state law, processes available for the informal resolution of disputes arising out of these types of decisions. But many recipients and advocates do not utilize these

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[93] As reported in the NYC Mayor's Management Report, 1999.
[94] See Welfare to What: Early Findings on Family Hardship and Well-Being, Children's Defense Fund and the National Coalition for the Homeless, November, 1998.

processes because they are seen as rubber stamps of initial agency decisions or because workers refuse to schedule such meetings. HRA has initiated Mandatory Dispute Resolution (MDR), which attempts to resolve some of these issues, but MDR is provided only when a Fair Hearing has been requested, and is structured in a manner that may lead to the termination of benefits or restricted access to the Fair Hearing itself if its rigid requirements are not met. If trained staff, whose objective was problem solving in a non-punitive context, were assigned to conduct conciliation and conferences, the number of hearing requests and sanctions might be reduced and client continuity in assigned activities might increase.

Recommendations: **Inform welfare applicants about benefits and facilitate their application.** Applicants should be given accurate information regarding public assistance programs. Instead of the city's current policy of "don't ask, don't tell," applicants who enter city welfare centers should be counseled by "financial planners" (the new title the city has given welfare workers) regarding their eligibility for public assistance and other benefits such as child care assistance and immediate cash assistance to meet emergency needs.

Enforcement of work participation rules system must be re-oriented. The purpose of enforcement should be to support recipients in acquiring needed skills and enhancing their employability.

The city should initiate a "Customer Service Review" to take another look at all cases scheduled to be closed due to noncompliance. The review process should include an attempt to contact the family to try and determine what the problem is and whether it can be resolved. This review should take place prior to closure, and closure should not occur if the review determines that there has been an error in fact or policy, or if the parent has a good cause reason for a failure to comply, or if the parent now agrees to comply.

5. Evaluating Welfare Policies

While reduction in the rolls due to a reduction in the number of needy people is a goal that all sides of the welfare debate can agree on, too little is known about the outcomes for families that leave the rolls - or never enter them. The limited information available about those who leave welfare suggests that many are still unemployed and needy and that those who are employed often do not have an adequate income. The city and state have failed to collect comprehensive statistics or make their administrative data available to researchers. City welfare officials have provided data about those who leave the welfare rolls on only a single occasion, a study issued in September 1998 with data about families who left the rolls in November 1997.[95]

This paucity of information should be of grave concern. There is no reliable data made available on a regular basis from which to assess the effectiveness of the government policies designed to reduce the rolls and move recipients into jobs.

Recommendation: The city and state should institute mechanisms to track the implementation of policies that affect the welfare eligible population and collect the data necessary to assess their effectiveness. Toward that end:

Administrative sources of data, compiled by the Human Resources Administration and other agencies must be improved and expanded. Caseload data kept by the city is unreliable and incomplete and cannot be used for systematic research and evaluation.

Sufficient resources need to be allocated to refine administrative systems to collect appropriate data, carry out evaluation, and make information and findings available to the public.

Evaluation should include studies conducted by an outside evaluator such as a university or research firm. Many states have already undertaken independent evaluations and have been able to improve outcomes based on the results.

[95] *Leaving Welfare: Findings from a Survey of Former New York City Welfare Recipients*, New York City Human Resources Administration Working Paper 98-01, September 1998.

Research design must include evaluation of outcomes of former recipients as well as those deterred from applying for benefits. Former recipients and potential recipients should be followed for at least one year to measure longer term effects of living off of welfare

Survey data, administrative records and research results must be shared with the public.

CHAPTER SEVEN
CONCLUSION: THE PRACTICALITY OF THINKING BIG

Chapters Three through Six of *Building a Ladder* have provided a wide array of specific proposals for generating jobs, developing skills, enhancing the capacity of low-wage earners to sustain their families through work, and maintaining a safety net for the times when work is not possible. How can New Yorkers move this ambitious agenda forward?

We have tried to make our recommendations detailed ones. Eventually broad policy objectives become concrete realities in the form of new or expanded programs. *Building a Ladder's* proposals are often based on models that have proven themselves either locally or in other states and cities. Our recommendations also include the steps needed to realize them. Where possible, *Building a Ladder* has identified the legislation that needs to be adopted, the administrative changes that should be implemented, the executive orders that need to be issued, and where private-sector institutions need to forge new partnerships. While its usually easier to get people to agree on broad objectives than specifics, the advantage to making detailed recommendations is that it is clearer who needs to do what to make them happen.

The downside of detail, however, is that the forest can get lost in the trees. *Building a Ladder* is not a menu of alternatives. Rather, it is an argument for a comprehensive approach. A fundamental premise of *Building a Ladder* is that New York does not simply have a welfare-to-work challenge, or an immigrant absorption issue, or a skills mismatch, or a jobs gap, or a de-industrialization and "disappearing middle" problem. The new policy context, exemplified by welfare reform, should direct our focus to the common denominator of the recent immigrant, the welfare leaver, and the young worker looking for an entry-level job. They are all participants in the low-wage labor market. And the New York City economy, even in the context of unprecedented national prosperity, does not provide enough family-supporting jobs for all those who want and are expected to work. Each of the specifics in the familiar list of woes is, to a large extent, an aspect of that one central fact.

A one-problem-at-a-time approach may seem practical but it is not good policy making if the price of piecemeal efforts is either missed opportunities to coordinate initiatives or programs that prioritize one constituency over another. The former may result in a whole that is less than the sum of its parts. The latter may simply reshuffle the order of who stands where on the unemployment line

Many people would agree, for example, that more job training would improve the earnings potential of low-wage workers. But we would caution against relying on a "if we train them, they will come" approach. Investing in training will bring a bigger return to workers, employers, and the public if it directly supports economic development strategies or it complements reverse commuting programs.

Programs that serve diverse populations need to be tailored to specific needs. And the report supports programs that would open job openings to historically excluded groups. But *Building a Ladder* has emphasized the value of across-the-board programs that expand opportunities for all low-income New Yorkers. We see little value in focusing on one specific group if it means that others are forced to wait their turn.

Fostering a Comprehensive Approach

Of course, different constituencies in the city and across the state will perceive the urgency of each of the report's recommendations differently. Decisions about what to do next need to be taken and they will be based on particular agendas and a varying sense of what is achievable in differing time spans. The upshot is that, while many people may be convinced that a comprehensive approach makes sense, one will not emerge unless there is a mechanism to foster it. What is needed is an institution that has the visibility, leadership, staff resources, and a mandate to keep the "low-wage labor market issue" in clear focus.

There are several ways this could occur. One is to build on Chapter Three's proposal for a Council on the 21st Century. That chapter describes the need for a Council, made up of top levels of the public and private sectors, that would be created by the Mayor for the purpose of developing strategic priorities, and providing program coordination and technical assistance to economic development efforts. The Council's mandate could be broadened beyond economic development, to include priority-setting and coordination between economic development programs and other areas of labor market policy.

A second approach would be to build on the institutional infrastructure erected by the Workforce Investment Act. WIA-mandated Workforce Investment Boards (WIBs) include many of the necessary constituencies: business, labor, as well as training and service providers. In addition, the WIBs are required to develop a base of knowledge about the local economy, so that workers can make informed choices about training options and employers' needs for workers with particular skills can be met. A broader set of responsibilities can be assigned to the New York City WIB, in effect transforming it from a Workforce Investment Board to a Labor Market Policy Board.

This is well within both the spirit and letter of the Workforce Investment Act. The WIB could take on a larger role in the coordination of training and economic development activities. It could, for example, lead sector-wide development efforts. The capacity of the WIB to track labor market trends and report to the public on labor market problems could be enhanced, if the city or state provided funding for the WIB to either hire the necessary staff or contract out the work to local universities or research organizations.

A third institutional model is that of a private sector-led citizen's committee. With the backing of prominent private sector leaders and a top-flight staff of experts, such a group could effectively evaluate problems, measure progress, identify solutions, and advocate for needed change.

Each of these models has differing capacities to provide leadership. Organizations that are government-sponsored may have the ability to affect policy directly through the administration of programs. Private sector efforts may have greater license to advocate for controversial proposals. In the end, mayoral committees, an expanded mandate for the local Workforce Investment Board, and a private-sector watchdog committee might all be complementary approaches.

Ultimately, it matters less where these efforts begin than what they become. If any of these institutions include the requisite constituencies, if they develop the needed expertise, if they are willing to provide leadership as advocates for better policies, they could play a significant role in moving the broad agenda *Building a Ladder* has detailed toward reality.

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