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Working Assets

Government should help employers hang on to their workers during tough times--it's certainly cheaper than unemployment checks.

by Bruce G. Herman

What if taxpayers had a choice: We could pay people unemployment benefits when they lost their jobs, or we could put the same amount of money into a program that required them to continue working for their benefits, allowed them to take home their full salaries and keep contributing to the tax base, and was likely to lead to continued employment?

Sound like the kind of magic fiscal conservatives would do if they had wands?

Well, guess what. We're talking about wage subsidies, and the time to start using them in New York City is now.

New York's economy was already in a recession when our city was attacked on September 11, 2001. The attacks accelerated the crisis, turning a downturn into a free fall--and we have yet to hit bottom. The magnitude of the city's job loss since the beginning of the current recession is staggering: Almost a quarter of a million jobs are gone--223,400 or 5.9 percent, according to the Fiscal Policy Institute--with no clear opportunity for recovery on the horizon. According to the Center for an Urban Future, in 2002 New York City accounted for 97 percent of the state's job losses, and an incredible 18 percent of the national job losses--even though the city has only 42 percent of all jobs in the state and 2.8 percent of jobs in the nation. More than 300,000 of our fellow New Yorkers are unemployed, and many have exhausted their unemployment benefits. Tens of thousands were never able to access unemployment benefits at all. And the current likely scenarios being discussed to deal with the fiscal crisis, especially Mayor Bloomberg's plan to lay off thousands of municipal workers, would only exacerbate the pain and cloud the future for more of New York's working families.

For those supply-siders who get hives at the mention of direct, demand-side, public investment in wages, and who wheezeat the words "deficit spending," it is time to revisit the economic lesson of the Great Depression: In times of slack private-sector demand, the way to stop the downward spiral is not to cut taxes and municipal services in the hopes that more money in people's pockets will trickle up to businesses--it is to invest public money in stimulating economic growth and labor-market demand.

Wage subsidies are one straightforward way to do that, and a program we ran at the Consortium for Worker Education (CWE), a nonprofit provider of workforce training and education programs, suggests that such an approach could be a quick, cost-effective way to keep people on the job, off the welfare rolls, and contributing to the tax base.

After September 11, 2001, CWE's assistance efforts included an employment-stabilization and job-creation program designed to provide wage subsidies to businesses. To this end, CWE created the Center for Workforce and Economic Development (CWED), which allocates wage subsidies to small and mid-sized businesses so that they can keep workers employed, rehire those who have been laid off, or hire new workers.

The program, which is still in progress but closed to new applicants, has produced substantial results over the past year. It meted out almost $15 million in grants to more than 300 employers to rehire, retain and/or promote over 3,000 workers, in industries including the arts and entertainment, transportation, health care, hospitality, food service, retail, construction, manufacturing, IT, communications and finance.

The grants provided wage subsidies of between 50 percent and 60 percent of an employee's base salary for a period of 90 days. This kind of cap not only sharply limits the public outlay involved, it also requires the employer to match the investment, compelling private firms to leverage the public funds--a far cry from the endless gravy train that many imagine. The grants were tailored to the needs of each industry, but the basic program applied effectively across the board--in other words, there was no need to reinvent the wheel for each sector that received assistance.

Accountability was another crucial element of the program. CWE did not simply write checks. It required businesses to provide detailed financial information, including tax returns and payroll records documenting a negative economic impact on their businesses directly following 9/11, to establish their eligibility before their applications were even reviewed. CWE then required monthly invoices from each employer whose application was accepted, to ensure that the subsidies were going to real employees. We monitored grantees in other ways as well, including collecting detailed demographic information about the individuals being employed, to prevent the system from being abused.

It is hard to argue with the results. Companies were offered an incentive of an additional 10 percent if they retained an employee, at their own cost, an additional 90 days after the end of the grant. Of the 74 companies that have reached that milestone, 91 percent have accessed the 10 percent incentive for at least some employees. Of those who responded to an exit survey, 69 percent said they continued employment for all subsidized individuals for 90 days beyond the term of the subsidy. And some 83 percent of respondents said their businesses were stronger than they were before the subsidies.

That's because, unlike unemployment or welfare checks, wage subsidies not only assist individuals, they benefit businesses.

Take for example Tech Sew Manufacturing, Inc. Immediately after the attacks, their employees, who depended on the transit system, were unable to commute to this Chinatown-based garment manufacturer. Transportation of raw material and finished products was also disrupted because of the numerous road closures and restricted bridge and tunnel access. Average monthly sales fell 34 percent. The $101,600 wage subsidy allowed Tech Sew to retain 25 workers. This enabled the company to continue to bid on new work as opportunities arose. They were not only able to keep their workforce intact through this difficult time, they have since added three new employees.

The ripple effect can go well beyond the directly subsidized employees, or even the company receiving the subsidy.

The Queens Theater in the Park received a wage subsidy of $80,000 through CWED's program, which allowed them to return 13 staff members, whose hours had been cut back, to full-time status. This in turn allowed the theater to go forward with 12 performances which were in jeopardy of cancellation, and a festival that was slated to be significantly scaled down.

“We were able to employ all those artists, plus we have a large part-time casual labor force that only works if there’s a show,” explains Jeffrey Rosenstock, the theater’s executive director. “We use an average of five stagehands and seven front-of-house workers--box office staff, ushers, etc. As for the ripple effect--the person who was hurting the most was my vendor, the guy who fills my vending machines. He also did a lot of the airport hotels, so he was really suffering. Then there’s the trolley driver, who shuttles people from the subway to the theater, the car services--a lot of people who would have lost work and didn’t.”

And for the supply-siders in the crowd, carefully crafted, well-monitored wage subsidies also put more money in people’s pockets, as well as into the public coffers.

Unemployment Insurance in New York state covers half of an employee’s wages or salary, up to $405 per week--roughly the same percentage that CWED’s wage subsidies provided workers, who earned up to $810 a week or $42,120 a year. Although unemployment benefits are taxed, those receiving them would be taxed on half as much money, and likely at a lower rate, than they were at full salary. In addition, basic unemployment benefits are available for 26 weeks (not including a possible 13-week extension)--more than twice as long as CWED’s wage subsidy lasted--and, after that, without additional public investment in training, placement and other services, the next stop is welfare. Once all benefits are exhausted, as they were by so many following 9/11, these former workers are no longer paying taxes, or buying consumer goods, or, often, paying their mortgages, car loans or other debts. And the jobs they once held frequently evaporate for good, weakening businesses, which results in more layoffs, and ultimately, bankruptcies.

This is already happening. Sectors such as air transport, food services, hospitality and apparel manufacturing have not recovered from the steep job loss that occurred as a result of the economic aftershocks of the terrorist attacks. And according to the Fiscal Policy Institute, many industries not directly impacted by the attacks have fared no better: Employment in the computer-services sector is down by 40 percent; advertising employment is off by 25 percent. But even for the most directly affected businesses, recovery is possible. One company with feet in two hard-hit industries, Flying Food Group, lost 15 percent of its airline-food business--several million dollars in revenue--when airports were closed after 9/11. It was forced to lay off 125 people, and as tourism dropped, the company’s losses continued. A wage subsidy allowed Flying Food Group to retain 47 workers, which carried it through its most difficult period, after which it was able to increase its workforce to over 100 at company expense.

Happy endings are unfortunately the exception, not the rule, in the current economy. And as if the official 8.8 percent unemployment rate wasn’t sobering enough, the truth is that even those numbers do not reflect the depth of the work crisis in the city. Incomes, especially wages, have taken a disproportionately large hit: The total private-sector wage decline was 10.1 percent from the first half of 2001 to the first half of 2002, while job decline for this period was 5 percent. Many communities, particularly communities of color, are experiencing double-digit unemployment, exhausted benefits, and limited prospects for new employment. Mortgage foreclosures are on the rise, and there are now a record 76,000 individuals and families in the city’s homeless services shelter system. The number of families in temporary housing has increased 85 percent since 2000, to 9,200. Hunger is also growing.

Something must be done, and now.

CWE is one of very few organizations in the city currently using wage subsidies--in part because the idea meets with somuch reflexive resistance from those who see them as another government handout. As it has become clear, however, that traditional job training support for dislocated workers is often not enough to find them new jobs in the current climate, there are those who have begun to open their minds to the idea. CWE’s 9/11 relief program was funded through a direct federal allocation--a total grant of $32.5 million--almost half of which went to wage subsidies. It was made possible by bipartisan support from the New York state congressional delegation, as well as advocacy from the labor and business communities.

There are substantial resources, both public and philanthropic, including more than $1 billion in community-development block grants at the Lower Manhattan Development Corporation, that have been allocated to assist in New York's recovery, and which could provide direct help to many more businesses and individuals if more of those who administer these funds made the mental leap.

Wage subsidies have great potential as a tool to help address the needs of both businesses and workers who remain adversely affected by 9/11, as well as possible application in the larger jobs crisis. Now is the time to look seriously at that potential, and to start putting our resources into programs that put New Yorkers back on the job.

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