

# **THE AMERICAN JOBS ACT**

## *Impact on New York City's Economy*

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## **Introduction**

Since the financial crisis that began in 2008, the U.S. economy has faced many challenges including a recession and the associated deleveraging related to the housing crisis. Together, these events have created significant uncertainty, which is reducing consumer confidence and undermining growth and job creation.

For New York City, the impact of this downturn has been significant. While the City's unemployment rate of 8.8 percent is below the national rate of 9.1 percent, it is nearly double the City's 4.6 percent rate of October 2006.<sup>1</sup> Much of these employment losses have been realized in the financial services and manufacturing industries, while gains in education- and healthcare-related hiring have partially offset these declines.

As a result, it is clear that the City needs to generate further growth that will increase employment opportunities. A recent report by the Fiscal Policy Institute demonstrates the need for such action, as New York City's unemployed have been jobless for more than 40 weeks on average and nearly 30 percent have been without jobs for over a year.<sup>2</sup> While unemployment rates are down from their highs, 50 percent of the decline in the City's unemployment rate since late 2009 results from discouraged workers leaving the labor force.<sup>3</sup> According to this report, job losses are accruing at a rate 25 percent greater than at the start of the recession.<sup>4</sup>

These labor market problems are indicative of a local economy that, while possessing many positive attributes, is being dragged down by macroeconomic uncertainty and sluggishness in the national economy. The American Jobs Act, which President Obama transmitted to Congress on Monday, September 12<sup>th</sup>, has several provisions that will help address such problems and catalyze expansion. This report assesses this legislation's impact on New York City, including its potential for increasing jobs and local economic activity.

## **New York City's Economy**

The greater New York City metropolitan area, with a gross domestic product of nearly \$1.3 trillion, is the largest municipal economy in the United States.<sup>5</sup> Although facing challenging headwinds, the underpinnings of the City's economy are sound and resilient. The coincident economic indicator (CEI) issued by the Federal Reserve Bank of New York is at a value above 165 (see chart below). The CEI declined significantly during the recent recession (shaded in gray), but rebounded gradually by more than 10 points to its current value.<sup>6</sup> This is a promising sign for the local economy and job growth.

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<sup>1</sup> New York Department of Labor, *NYC Seasonally Adjusted Unemployment Rate History*.

<sup>2</sup> Fiscal Policy Institute, *The State of Working New York City 2011: Scant Recovery for Workers – Some See Gains but Recession Conditions Persist for Most*, July 20, 2011.

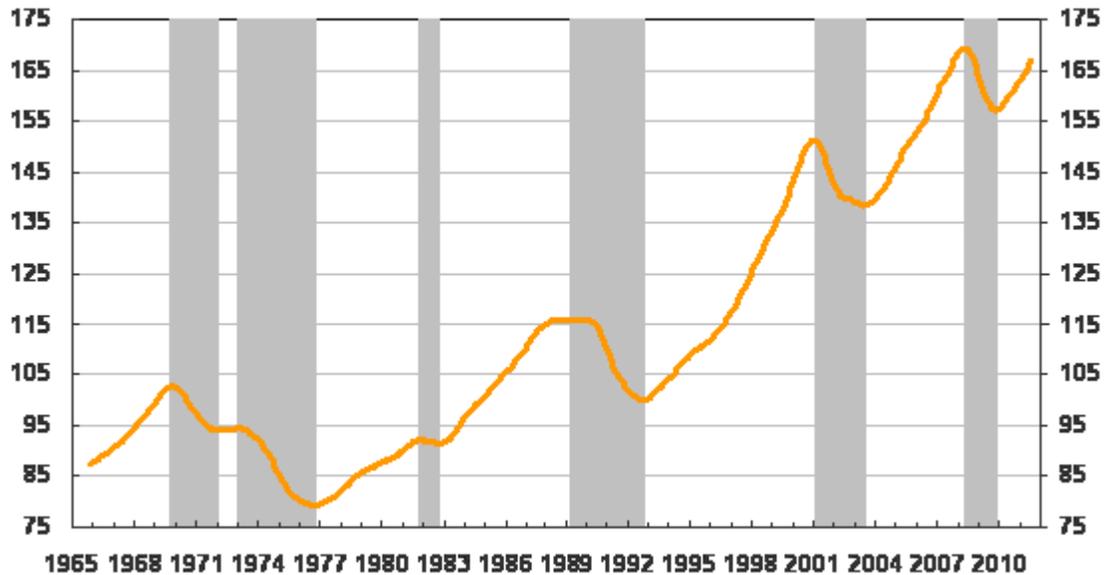
<sup>3</sup> *Ibid.*

<sup>4</sup> *Ibid.*

<sup>5</sup> Bureau of Economic Analysis, 2010 GDP by Metropolitan Area, released September 13, 2011.

<sup>6</sup> The CEI is a composite measure reported by the Federal Reserve Bank of New York that provides a monthly reading of economic activity. It is constructed from four data series: payroll employment, the unemployment rate, average weekly hours worked in manufacturing, and real (inflation-adjusted) earnings.

Chart 1: New York City Coincident Economic Index, August 2011<sup>7</sup>



While traditionally buttressed by the financial services industry, the City’s economy has seen growth in its education and healthcare sectors. In the last decade, such sectors have seen job growth of 23.18 percent and now employ 775,000 individuals.<sup>8</sup> Hospitality and leisure also remains a bright spot for the City, as employment has grown 24.15 percent in the last ten years, reflecting the continued impact of growing tourist visits.<sup>9</sup> In fact, in 2010, with an assist from a weak dollar, the City set a record with 48.7 million international and domestic tourist visits.<sup>10</sup>

These promising signs are moderated by declines in the financial services, information,<sup>11</sup> and manufacturing sectors. Financial services sectors have seen a 10 year decline in employment of 8.64 percent, while information industry jobs have declined by 18.83 percent and manufacturing has seen employment decrease by 52.24 percent.<sup>12</sup> Overall, employment has risen by only 1 percent in the last decade.<sup>13</sup>

In other areas, the local economy shows promise. After Silicon Valley, New York City had the highest number of patent awards during the 2006-2010 period.<sup>14</sup> And, while housing

<sup>7</sup> Federal Reserve Bank of New York. 1992 =100; Grey areas represent recessions.

<sup>8</sup> Office of the New York City Comptroller Advisory, *A Decade Later – NYC’s Economy since 9/11*, September 7, 2011.

<sup>9</sup> *Ibid.*

<sup>10</sup> Office of the New York City Mayor Press Release, *Mayor Bloomberg Announces New York City Drew A Record-Breaking 48.7 Million Visitors In 2010*, January 5, 2011.

<sup>11</sup> Based on the New York Department of Labor definition, the “Information” sector includes broadcasting, motion picture and sound, non-internet publishing, cable, and telecommunications industries.

<sup>12</sup> *Ibid.* 8.

<sup>13</sup> *Ibid.* 8.

<sup>14</sup> U.S. Patent and Trademark Office, *Patenting In Technology Classes Breakout by Origin, U.S. Metropolitan and Micropolitan Areas*, 2006 through 2010.

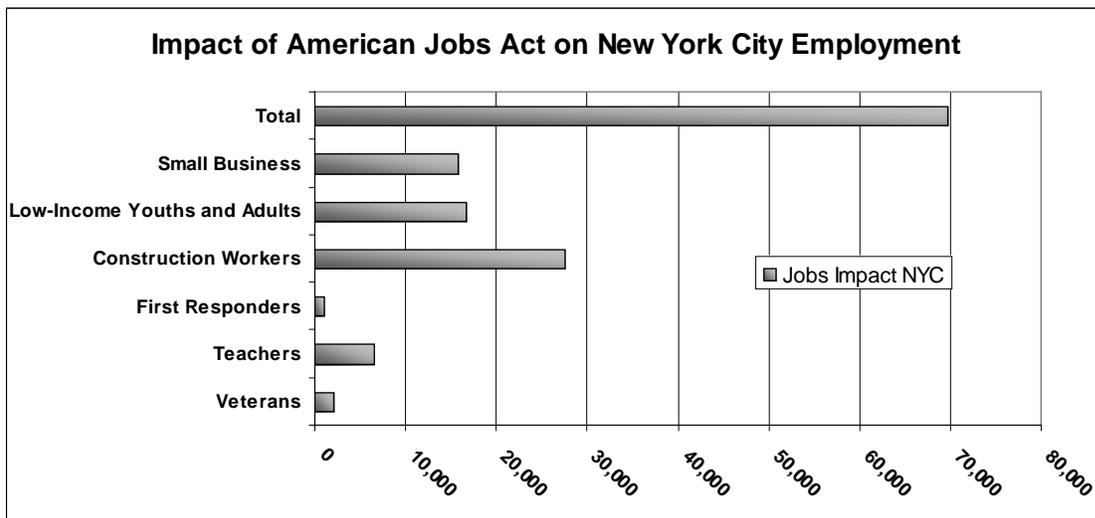
prices have fallen significantly since 2007, the New York metropolitan area has experienced a smaller decline than national levels, down only 3.6 percent year-over-year.<sup>15</sup> In terms of office space, a barometer of the business climate, the vacancy rate declined by 1.4 percent to 9.4 percent.<sup>16</sup>

Together these signs suggest that while substantial employment challenges persist, the City’s economy has many positive aspects to build on. With a slight push from sound fiscal policies and incentives, the City’s economy is poised to make further progress in regaining lost ground.

**The American Jobs Act**

In order to drive this needed growth and job creation, the American Jobs Act reduces taxes for individuals and businesses and makes investments in infrastructure. By increasing after-tax income, consumer demand will increase, stimulating economic activity across the spectrum. It is estimated that the legislation, if enacted, would increase employment in New York City by nearly 70,000 jobs. Employment growth would occur among key demographics, including veterans (2,098), educators (6,552), first responders (1,057), construction workers (27,516), small businesses (15,769) and low-income youths and adults (16,696).

**Chart 2: Impact of American Jobs Act on New York City Employment<sup>17,18</sup>**



<sup>15</sup> Standard & Poor’s/Case Shiller Home Price Index, July 2011.

<sup>16</sup> Cushman and Wakefield, *Manhattan Office Report*, Second Quarter, 2011.

<sup>17</sup> Estimates are based on White House State-by-State Summary, which was extrapolated to New York City based on the ratio of the city/state population of approximately 42 percent. The rationale for such approach is that federal funding distributions generally rely on population-based formulas.

<sup>18</sup> Estimate for small business job creation is based on payroll projections assuming a 3 percent one-year growth rate. Conservatively, it is estimated that one-sixth of the payroll growth would be used for new hires at an annual salary of \$65,000, which is a job creation requirement used by Small Business Administration.

In addition to the jobs created through direct investments and hiring tax incentives, the Act would indirectly generate thousands of additional employment gains in the City as firms purchase goods and services from local businesses, who in turn would hire additional employees to meet new demand.

Below, the Act's key provisions are discussed and their potential impact on New York City is assessed.

### *Helping Strengthen New York City's Small Businesses*

New York City has an estimated 466,862 small businesses and the American Jobs Act includes targeted assistance to this sector.<sup>19</sup> The legislation targets three tax cuts at entrepreneurs, with an emphasis on quick-acting relief so that these firms can hire and invest. The President is proposing a full holiday on the 6.2 percent payroll tax that firms pay for any growth in their payroll up to \$50 million above the prior year, whether driven by new hires, increased wages or both. To focus the benefit of this tax cut on small businesses, the payroll tax relief would be capped at applying to \$50 million in new wages. With an annual payroll of nearly \$205 billion, New York City's small businesses stand to save up to \$381 million on this provision alone.<sup>20</sup> It is estimated that this hiring tax credit would create 15,769 new jobs among New York City's small businesses.

In addition, the Act would cut the payroll tax in half to 3.1 percent for employers on the first \$5 million in wages, providing broad tax relief to all businesses but targeting it to the 98 percent of firms with wages below this level. This provision would be additive to the tax holiday. For instance, a City construction firm with 50 workers earning an average of \$50,000 a year, with a total payroll of \$2.5 million, would receive a payroll tax cut of 3.1 percent of its total payroll, or about \$80,000.<sup>21</sup>

To incentivize businesses to invest in their operations, the legislation also proposes to extend 100 percent expensing, the largest temporary investment incentive in history. This allows all firms – small and large – to take an immediate deduction on investments in new plants and equipment. It is estimated that this would result in more than \$450 million in new spending. Such expenditures would indirectly boost the local economy by encouraging businesses to spend money in the community on capital improvements and equipment upgrades.

In addition to the tax incentives, the President's plan also contains several administrative, regulatory and legislative measures that would assist smaller companies, which were recommended by the President's Jobs Council.<sup>22</sup> The administration will soon announce plans to accelerate government payments to small contractors, helping put money in their hands faster. By establishing an online portal for small firms, the plan will also help small businesses more readily access government services. As part of the President's Startup

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<sup>19</sup> U.S. Census Bureau, *Statistics of U.S. Small Businesses*, 2008.

<sup>20</sup> *Ibid.* Estimate is based on assumption of one-year payroll growth of 3 percent.

<sup>21</sup> White House, *Summary of American Jobs Act*, September 2011.

<sup>22</sup> *Ibid.*

America initiative, the administration will work with the Securities and Exchange Commission to minimize small business barriers to capital formation. Finally, the President's plan calls for Congress to pass comprehensive patent reform, increase federal bonding guarantees to help small businesses compete for infrastructure projects, and remove withholding requirements that hinder entrepreneurs' ability to create and maintain jobs.

#### *Ensuring New York City's Veterans Get Jobs They Deserve*

With 17,000 unemployed veterans in New York City, 2,000 of which served in the wars in Iraq and Afghanistan, particular attention must be paid to this community.<sup>23</sup> If half of the businesses in New York City with more than 500 employees hire just one veteran, that would provide 2,098 jobs to New York City's veterans. Included in this plan is a Returning Heroes Tax Credit of up to \$5,600 for hiring unemployed veterans who have been looking for a job for more than six months, and a Wounded Warriors Tax Credit of up to \$9,600 for hiring unemployed workers with service-connected disabilities who have been looking for a job for more than six months. For a \$50,000 per year job, this would reduce City employers' cost of hiring a veteran by 10 to 20 percent.

#### *Strengthening NYC's Schools and Keeping Teachers in the Classroom*

For teachers, the legislation is proposing \$30 billion to prevent layoffs of up to 280,000 teachers nationwide. By requiring that funds be drawn down quickly, these resources would help states and localities avoid and reverse layoffs now. For New York state, this will provide nearly \$1.55 billion and support up to 15,500 educator and first responder jobs.<sup>24</sup> In New York City, this could support up to 6,552 education-related jobs.

The President's plan will support state and local efforts to retain, rehire, and hire early childhood, elementary, and secondary educators (including teachers, guidance counselors, classroom assistants, afterschool personnel, tutors, and literacy and math coaches). New York City recently announced that 777 school workers will be laid off this year, including 438 school aides and 82 parent coordinators.<sup>25</sup> This will adversely affect the quality of education in the City's schools. Many of these jobs could be saved through the resources made available by the Act. In addition, there are 3,700 City education positions that are targeted for reductions in the next two years and this funding could help prevent these losses.<sup>26</sup>

The President is also proposing a \$25 billion investment in school infrastructure that will modernize at least 35,000 public schools – projects that will create jobs, while improving classrooms and upgrading our schools to meet 21<sup>st</sup> century needs. New York will receive \$2

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<sup>23</sup> Senator Kirsten Gillibrand, *Report on Veterans Unemployment*. Report can be found at: <http://gillibrand.senate.gov/imo/media/doc/Veterans%20Unemployment%20Report.pdf>

<sup>24</sup> White House, *American Jobs Act State-by-State Summary*, September 2011.

<sup>25</sup> New York Times, "777 School Employees Will Be Let Go, in the Largest Layoff Under Bloomberg," August 23, 2011.

<sup>26</sup> Office of the New York City Comptroller Advisory, *Impact of American Jobs Act on New York City*, September 9, 2011.

billion in funding to support as many as 26,300 jobs.<sup>27</sup> Funds could be used for a range of emergency repair and renovation projects, greening and energy efficiency upgrades, asbestos abatement and removal, and modernization efforts to build new science and computer labs and to upgrade technology in our schools. The President is also proposing a \$5 billion investment in modernizing community colleges, bolstering their infrastructure in this time of need while ensuring their ability to serve future generations of students and communities. New York could receive \$235 million in funding in the next fiscal year for its community colleges.<sup>28</sup>

### *Preserving First Responders Jobs*

The President's plan includes \$5 billion to support the hiring and retention of public safety and first responder personnel. While New York City came close to closing 20 fire houses this year, these cuts were avoided. However, budget pressures will continue mounting and these funds can offer a safety valve for retaining such jobs in the City. It is estimated that New York stands to receive up to \$250 million to maintain up to 2,500 first responder jobs.<sup>29</sup> In New York City, this could support up to 1,057 first responder-jobs. With New York's first responders responsible for a growing range of terrorism and homeland security threats, now is not the time to cut these positions.

### *Reenergizing the City's Construction Industry While Modernizing Infrastructure*

Putting the City's unemployed construction workers back to work is critical for the economy. New York City's construction industry has seen employment drop from 128,612 in 2008 to 108,895 in 2010<sup>30</sup>, while the number of projects has fallen from 2,993 in July 2002 to 2,213 in July 2011.<sup>31</sup> Although 2010 unemployment for New York City was 8.5 percent, the rate for the City's construction sector was 14.6 percent.<sup>32</sup>

The AJA will provide \$50 billion in immediate investments for highways, transit, rail and aviation, helping to modernize an infrastructure that now receives a grade of "D" from the American Society of Civil Engineers and putting hundreds of thousands of construction workers back on the job. Of the investments for highway and transit modernization projects, the President's plan will make immediate investments of nearly \$3 billion in New York that could support a minimum of approximately 38,800 jobs within the state.<sup>33</sup> In New York City, this could support up to 27,516 construction-related jobs. The City has a recent history of undertaking major infrastructure projects including the World Trade Center Transportation Hub, the Trans-Hudson Express Tunnel, the Fulton Street Transit Center, the extension of the No. 7 line subway, and the construction of the Croton Water Filtration Plant

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<sup>27</sup> *Ibid.* 24.

<sup>28</sup> *Ibid.* 24.

<sup>29</sup> *Ibid.* 24.

<sup>30</sup> *Ibid.* 26.

<sup>31</sup> New York Economic Development, *Manhattan and CBD Office Real Estate Vacancy and Rental Rates; Home Price Index; Construction Statistics*, August 25, 2011.

<sup>32</sup> *Ibid.* 26.

<sup>33</sup> *Ibid.* 24.

in the Bronx. Several of these large-scale projects remain in progress and could make use of federal funds for their continued advancement.

The President will work administratively to speed infrastructure investment through a recently issued Presidential Memorandum developed with his Jobs Council directing departments and agencies to identify high impact, job-creating infrastructure projects that can be expedited in a transparent manner through outstanding review and permitting processes.

*Create New Pathways for New Yorkers Looking for Jobs.*

Across several sectors and demographics, there are currently 350,400 New York City workers unemployed. In addition to providing incentives for businesses to begin hiring them again,<sup>34</sup> the legislation offers the most comprehensive reforms to the unemployment insurance (UI) system in 40 years, helping those without jobs transition to the workplace.

States will be required to design more rigorous reemployment services for the long-term unemployed and to conduct assessments to review the longest-term claimants of UI to assess their eligibility and help them develop a work-search plan. These reforms are proven to speed up UI beneficiaries' return to work. The President will expand "work-sharing" to encourage arrangements using UI that keep employees on the job at reduced hours, rather than laying them off. When combined with the Act's tax credit of up to \$4,000 for hiring workers who have been looking for a job for over six months, such UI reforms could help put the 360,000 long-term unemployed workers in New York and 190,000 City residents get back to work.<sup>35</sup>

In New York City, more than 50 percent of unemployed individuals have been out of work for more than 26 weeks, while nearly 30 percent have been unemployed for more than 52 weeks. The Act's mix of incentives and training initiatives will at a minimum mitigate further increases in long-term unemployment and at best reduce these rates over the near- and mid-term for New York City's out-of-work individuals.

Alongside these reforms, the President is reiterating his call to extend unemployment insurance, preventing 6 million people looking for work from losing their benefits and extending what the independent Congressional Budget Office has determined is the highest "bang for the buck" option to increase economic activity. This would prevent 141,200 people looking for work in New York from losing their benefits in just the first 6 weeks.<sup>36</sup>

The Act also proposes a new Pathways Back to Work Fund to provide hundreds of thousands of low-income youth and adults with opportunities to work and to achieve needed training in growth industries. Pathways Back to Work could place 7,900 adults and 31,600

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<sup>34</sup> New York State Department of Labor, Local Area Unemployment Statistics Area. Data can be found at: <http://www.labor.ny.gov/stats/laus.asp>

<sup>35</sup> *Ibid.* 24; *Ibid.* 26.

<sup>36</sup> *Ibid.* 24.

youths in jobs in New York.<sup>37</sup> In New York City, this could support up to 16,696 jobs for these individuals.

### *Keeping New Yorkers in Their Homes*

President Obama also has included reforms to the Home Affordable Refinance Program at Fannie Mae and Freddie Ma, which was designed to help homeowners affected by the housing crisis. With the recent economic slowdown and many homes worth less than their value, this proposal will help more people refinance their mortgages at interest rates that are now near 4 percent. According to the President, this could help homeowner's save more than \$2,000 a year, resulting in more money that they could back into the economy. For New Yorkers, this would provide significant relief as more than 17 percent of single-family homes in the New York Region are worth less than what is owed on the mortgages.<sup>38</sup>

In addition, the legislation proposes \$15 billion for a national effort to put construction workers on the job rehabilitating and refurbishing hundreds of thousands of vacant and foreclosed homes and businesses. New York could receive about \$213 million to revitalize and refurbish local communities, in addition to funds that would be available through a competitive application.<sup>39</sup>

### *Putting More Money in the Pockets of Every New York City Worker and Family*

The American Jobs Act will expand the payroll tax cut passed last December by cutting workers' payroll taxes in half next year. As with the payroll tax cut passed in December 2010, the American Jobs Act will specify that Social Security will still receive every dollar it would have gotten otherwise, through a transfer from the General Fund into the Social Security Trust Fund.

A typical household in New York City, with a median income of approximately \$50,000, will receive a tax cut of around \$1,550.<sup>40</sup> The New York City Comptroller's Office estimated that this payroll tax cut would provide a total benefit of \$4.8 billion to New York City workers and create or preserve 25,000 jobs during 2012.<sup>41</sup> This extra money will be used by many to purchase goods and services, providing an immediate stimulus to the City's retailers, restaurants, and vendors.

## **Conclusion**

New York City's economy's is at a turning point, with hopeful signs of strength on several fronts, but an underlying weakness that pervades the labor market. To overcome these hurdles, incentives and smart investment are necessary to spur consumer demand and ramp up hiring. The American Jobs Act does this in a way that prioritizes key economic sectors

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<sup>37</sup> *Ibid.* 24.

<sup>38</sup> Zillow.com

<sup>39</sup> *Ibid.* 24.

<sup>40</sup> *Ibid.* 24.

<sup>41</sup> *Ibid.* 26.

including small businesses, veterans, educators, first responders, and construction workers. Doing so not only will drive short term employment gains, but will provide New York City's economy with broad-based dividends for years to come.