Center for
New York City
Affairs

Wage Increases Would Quicken Lagging NYS Recovery

Testimony before the Assembly Standing Committee on Labor

Subcommittee on Emerging Workforce

Assembly Hearing to Address the Persistent Increase in People Leaving the Workforce, Focusing on the Factors Contributing to This Trend and Potential Solutions and Workers and Affected Industries

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Summary

Facing a weaker jobs recovery from the Covid-19 pandemic than any other major industrial state – one now slowing further as the Federal Reserve cools the economy with aggressive interest rate hikes – New York's policy makers should move to bolster the low-wage end of the labor market by increasing the State minimum wage and shoring up compensation for child day care providers that working households rely on heavily.

Dr. James Parrott, director of economic and fiscal policies at the Center for New York City Affairs (CNYCA) at The New School, made the case for these measures in recent testimony (November 22, 2022) to the State Assembly Standing Committee on Labor and Subcommittee on Emerging Workforce.

"In a labor market with many job openings, low-wage industries like accommodation and food services have the highest rate of job openings openings and are characterized by considerable churn, with levels of both quits and hires greater than in any other industry," Parrott testified. He cited research showing that "raising wages could ameliorate high quit rates, effectively raising the costs of changing jobs for workers. Raising wages would also attract workers and increase hire rates." He pointed out that State minimum wage increases in the pre-pandemic years did not come at the expense of business profitability.

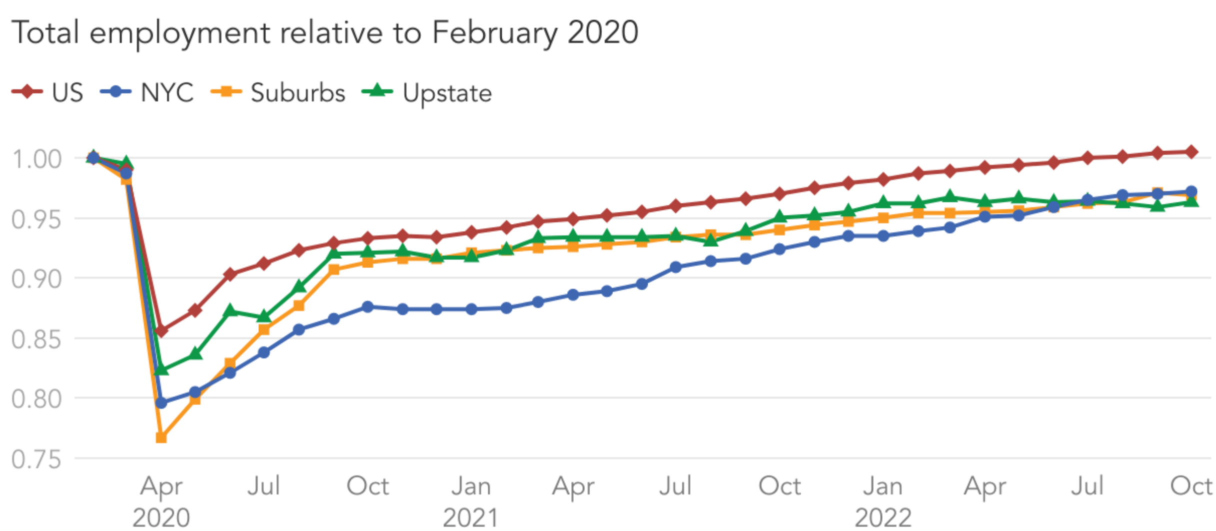
Higher wages would also help reduce the deep current shortage of child care workers (there are over 7,000 fewer statewide now than pre-pandemic) while enabling "tens of thousands of New York workers to enter or re-enter the labor force," he said.

Since the onset of the pandemic, I have been closely examining the effects of Covid-19 on workers, industries and New York's economy, and have written several extensive reports, and biweekly economic updates, and given scores of presentations and interviews on the COVID-19 workforce impact in New York State and City.[1]

New York State's recovery from pandemic-induced job losses still lags the nation. The state's October total employment level was 309,000 or 3.1 percent below its pre-pandemic February 2020 level. The nation overall and several large states, including New Jersey, now have more jobs than at the start of the pandemic. No other large industrial state has a larger pandemic jobs deficit over the past 32 months than New York's 3.1 percent deficit.

The Upstate pandemic jobs deficit is now actually greater, at 3.7 percent, than for New York City (-2.8 percent) or the suburbs (-3.1 percent). See Figure 1.

Figure 1
While the U.S. has regained all of its pandemic job losses, the pandemic jobs deficit is about 3 percent for New York City, the Suburbs and Upstate New York



Source: BLS and NYS DOL, Current Employment Statistics, seasonally adjusted non-farm employment.

The state's job losses stem mostly from the decline in lower-paid, face-to-face industries most immediately affected by public health busines restrictions. Leisure and

[1] These materials are on the Center's website: http://www.centernyc.org/covid19-economic-impact.

hospitality accounts for 101,000 of the state's 309,000 pandemic jobs deficit, followed by retail trade (-51,000), private educational services (-49,000), other services (-28,000), construction (-27,000), and wholesale trade (-23,000). State government employment is 15,500 below February of 2020, and total local government jobs in the state are off by 12,500.

New York State's pace of job growth has slowed in recent months, likely as a result of the Federal Reserve's aggressive policy to raise interest rates and slow the economy. For the past three months, the state's job growth has averaged less than half of the monthly average for the prior year-and-a-half.

Considering the state's continuing jobs shortfall compared to early 2020, it is puzzling why job openings remain at a very high level relative to job seekers. Has there been a mass exodus from the workforce, and if so, what is driving that? I have analyzed data on jobs and workers from the state and federal labor departments, and have tried to make sense of sometimes seemingly contradictory data. Here is a summary of what I have found:

- The national narrative on whether or not there has been a "Great Resignation" on the part of workers over the past two years applies least of all in New York State, according to the BLS data on job openings, quits and hires.[2] For September of 2022, and much of the past year, New York has ranked 50th (i.e., lowest) among all states in the rate of job openings, hires, quits, and total separations. For example, in September the national quit rate was 4.0 percent; in New York, it was 2.9 percent.

- Over the past year, from September 2021 to September 2022, the rates of job openings, hires and quits have declined more in New York State than at the national level. The rate of total separations in New York also declined, but slightly less than at the national level (-0.3 percent vs. -0.4 percent.)

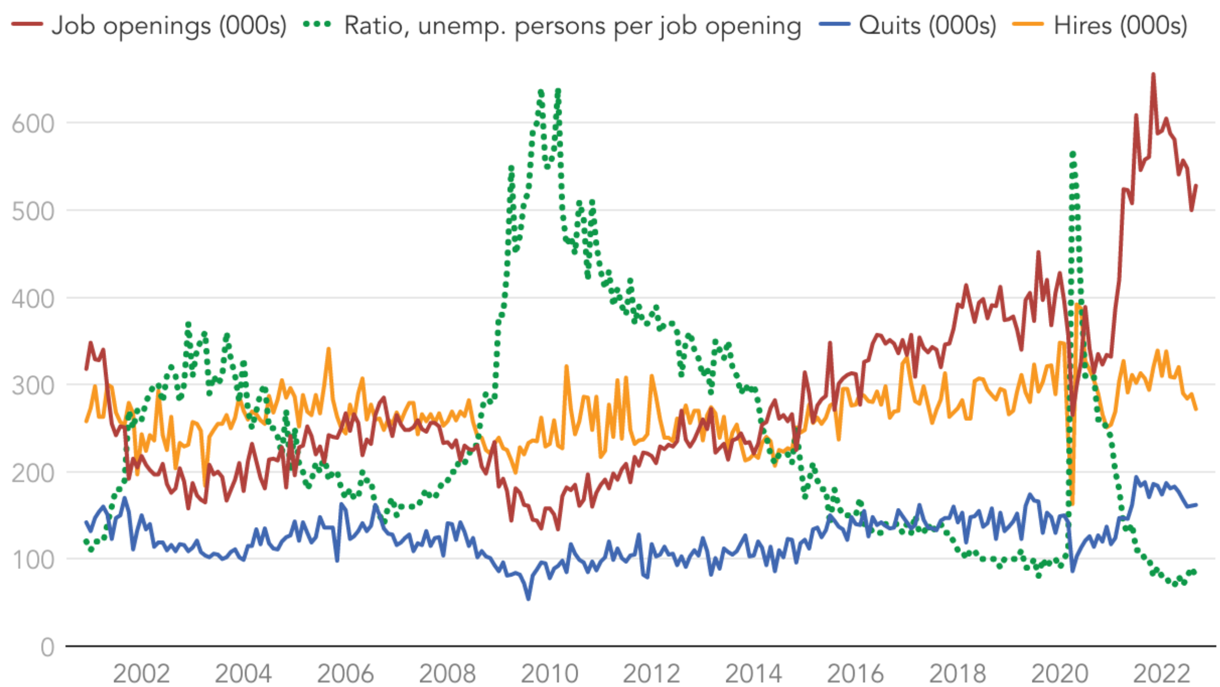
- It is not surprising that since many parts of the economy were shut down for several months, there has been a degree of "reshuffling" with workers changing employers and sometimes, careers, as businesses rush to hire workers back and workers face a much wider field of job openings. (The ability of some workers to pursue jobs on a remote basis far afield from New York added to this "reshuffling.")

[2] BLS, *State Job Openings and Labor Turnover-September 2022*, November 17, 2022.

- As the chart below shows, New York workers have not been quitting in numbers far greater than in several other periods over the past 20 years (e.g., mid-2001, early- and mid-2006, spring and late-2017, and mid-2019). And in all of those periods, as is the case at present, the number of hires far exceeded quits – evidence that workers were changing jobs in periods with an ample number of job openings.

Figure 2

Job openings, hires, quits, and unemployed per job opening, NYS, 2000-2022



Note: The ratio (in green) has been multiplied by 100 to match the scale. A result of 600 should be read as 6.
Source: BLS, Job Openings and Labor Turnover monthly data.

Are New York workers leaving the labor force, and if so, why? Unlike with the job openings and quits, where we only have data for the state overall, we can examine labor force trends at a regional level within New York.

- For the nation as a whole, labor force participation was 1.1 percentage point lower in October (2022) than in February of 2020 (seasonally adjusted). In New York State, however, the labor force participation rate was only 0.5 percentage point lower in October than in the pre-pandemic month of February 2020. But the overall figure for the state masks disparate trends in New York City compared to the rest of the state.

- New York City's labor force participation rate was unchanged at 60.5 percent, but the size of its labor force declined by about 300,000 over the period from February 2020 to October 2022, the consequence of an even greater population decline based on data from the joint federal-state Local Area Unemployment Series (LAUS).[3]

- We don't have labor force participation rates for the suburbs and Upstate, but the LAUS data indicate a decline in the suburban labor force of about 7,000 (-0.3 percent) over this period, and a falloff of nearly 46,000 (-1.8 percent) in the size of the labor force in the Upstate metropolitan areas. The labor force declined in all 12 of the Upstate metro areas. The largest proportionate labor force declines occurred in Glens Falls, Elmira, Binghamton, Utica-Rome, Kingston, and Dutchess-Putnam.

- Labor force declines help explain the low unemployment rates of 3.2 percent in the suburbs and 3.5 percent in the Upstate metro areas during the third quarter of this year. Workers not actively seeking jobs are not counted as in the labor force or unemployed. In New York City, unemployment is much higher than before the pandemic (6.2 vs. 3.8 percent) and unemployment is much higher for Black (9.8 percent) and Latinx workers (7.5 percent) than for white workers (3.5 percent). [4]

- New York is not alone in experiencing labor force decline. The Washington, D.C. area has also experienced significant labor force declines since the onset of the pandemic. The District of Columbia's labor force fell 6.2 percent, Maryland's dropped by 4.6 percent, and Virginia's declined by 2.8 percent. In the Midwest, Ohio's labor force has shrunk by 2.5 percent since the start of the pandemic.

Two conclusions are evident from the data reviewed thus far:

(1) While the number of job openings has declined slightly over the past year, the number of openings still exceeds the number of those officially counted as unemployed (525,000 vs. 432,000 for the third quarter of 2022).

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[3] https://dol.ny.gov/local-area-unemployment-statistics

[4] CNYCA analysis of the Current Population Survey, Q3 2022.

(2) There has been some falloff in the labor force Upstate and in the suburbs; in New York City the labor force decline likely stems from a population decline.

What can be done to attract workers back into the workforce? Raising wages for low-paid workers addresses labor force participation both directly and indirectly.

- In a labor market with many job openings, low-wage industries like accommodation and food services have the highest rate of job openings and are characterized by considerable churn, with levels of both quits and hires greater than in any other industry. National data indicate that quit rates in accomodation and food services are more than twice the overall quit rate (5.7 percent vs. 2.7 percent). Retail had the second highest quit rate (3.7 percent) in September.[5]

- A statistically rigorous analysis reported recently in the Bureau of Labor Statistics (BLS) ***Monthly Labor Review*** empiricially confirmed the "Great Resignation" phenomenon in showing that quit rates over the past two yeas were significantly higher than during the 2001 dot-com recession or the 2008/09 Great Recession. The analysis, in part, attributed the higher pandemic quit rates to greater job opening and hire rates.[6]

- The BLS statistical analysis concluded that raising wages could ameliorate high quit rates, effectively raising the costs of changing jobs for workers. Raising wages would also attract workers and increase hire rates.

- The State's Division of the Budget (DoB) concurs that raising wages is an appropriate means to address New York's labor shortage. In its September 30, 2022 "Report on New York's Minimum Wage Increases Scheduled for 2023," DoB cites the lagging recovery of low-wage jobs Upstate, and the much higher recent level of job openings in the Upstate region for lower-skill/lower-wage labor as support for increasing the State minimum wage for the Upstate region.[7]

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[5] BLS, *Job Openings and Labor Turnover, September, 2022*, Nov. 1, 2022. Elise Gould, blog post on November 1 JOLTS release, Economic Policy Institute, https://www.epi.org/indicators/jolts/

[6] BLS, "Empirical evidence for the 'Great Resignation,' *Monthly Labor Review*, November 2022, https://www.bls.gov/opub/mlr/2022/article/empirical-evidence-for-the-great-resignation.htm#_edn49

[7] New York State Division of the Budget, *Report on New York's Minimum Wage Increases Scheduled for 2023*, September 30, 2022. https://dol.ny.gov/system/files/documents/2022/10/minimum-wage-2023.pdf. The DOB report concludes: "Amid an unprecedentedly tight Upstate labor market, and evidence that employers are raising wages in order to hire and retain workers, this report recommends

Some New York employers have already raised wages as an effective way to recruit and retain workers in the context of the "Great Resignation." In addition to the increase in the Upstate minimum wage to $14.20 taking effect at the beginning of 2023, the Legislature and the Governor should enact legislation to phase in further increases in the State minimum wage in New York City, the suburbs, and Upstate to reach $21.25 by 2026, and index it thereafter on an annual basis by the combined increase in the Consumer Price Index and labor productivity. (This is the same method used by DoB in recommending increases in the Upstate minimum wage.)[8]

Raising wages for low-wage home health care, nursing home, and child care workers statewide will help increase labor forece participation both directly and indirectly. It will not only be effective for recruiting and retaining workers in these industries. It will also help to increase labor force participation for household members not now in the workforce due to care-giving responsibilities.

In the latest Bureau of the Census Household Pulse Survey, over 800,000 New Yorkers reported that the reason they were not working was because they were caring for children not in school or childcare (350,000), or they were caring for an elderly person (490,000). In both cases, the percent of those not working in New York citing these reasons were greater than at the national level (caring for children, 5.3 percent in New York vs. 4.4 percent nationally; caring for an elderly person, 7.5 percent in New York vs. 2.0 percent nationally).[9]

Raising wages for these home health care and child care workers would attract more workers to these sectors and enable tens of thousands of New York workers to enter or

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that the Upstate minimum wage rise by the sum of both consumer price inflation … and nonfarm business labor productivity growth." The report also notes that reduced immigration, long Covid incapacitating 1.8-4.1 million workers nationally, and a Covid-induced accelerated rate of retirement have contributed to record high levels of job openings.

[8] Legislation in both chambers has recently been amended to enact a phased increase in the State minimum wage that would reach $21.25 on January 1, 2026 in New York City and the three large suburban counties (reaching $20.00 Upstate on that date), and be at a level of $21.25 plus indexing based on the growth in consumer prices and labor productivity statewide on January 1, 2021. A7503C (Joyner), and S3062D (Ramos).

[9] U.S. Bureau of the Census, *Household Pulse Survey, Week 50*, October 5-17, 2022.

re-enter the labor force, helping to ease the current labor shortage, in addition to providing a needed boost to the state's economy.

New York State's child day care services industry was hit hard by the pandemic, losing 27,400 jobs in April 2020 due to the government shutdown of the economy. Despite high demand today, as of October 2022 the capacity of New York State's child day care services industry is only 91 percent of its pre-pandemic level. [10] Some childcare workers have reported leaving the industry for higher wages in fast food and other far less-demanding industries. However, child care facilities are less able to increase wages, because of market pressures to keep childcare affordable for working families and because of State and City contracts and systems that limit their income per child enrolled.

To recruit and retain the 7,100 workers needed to get this industry back to pre-pandemic levels – or more, given the popular demand to increase accessibility and affordability for more families – the Legislature and the Governor can enact legislation to provide emergency increases in childcare workers wages in existing public contracts, and also restructure the payment system in the long-term so that childcare workers wages are competitive for recruiting and retaining workers.

By increasing the State minimum wage and raising the compensation for child care workers, New York State could make a substantial impact in addressing the statewide labor shortage. New York's experience over the past decade shows that raising wages at the bottom has multiple positive effects.

- The doubling (near-doubling Upstate) of the minimum wage between 2013 and 2021 delivered the largest wage increases among New York workers for those in the bottom third of the wage distribution.[11]

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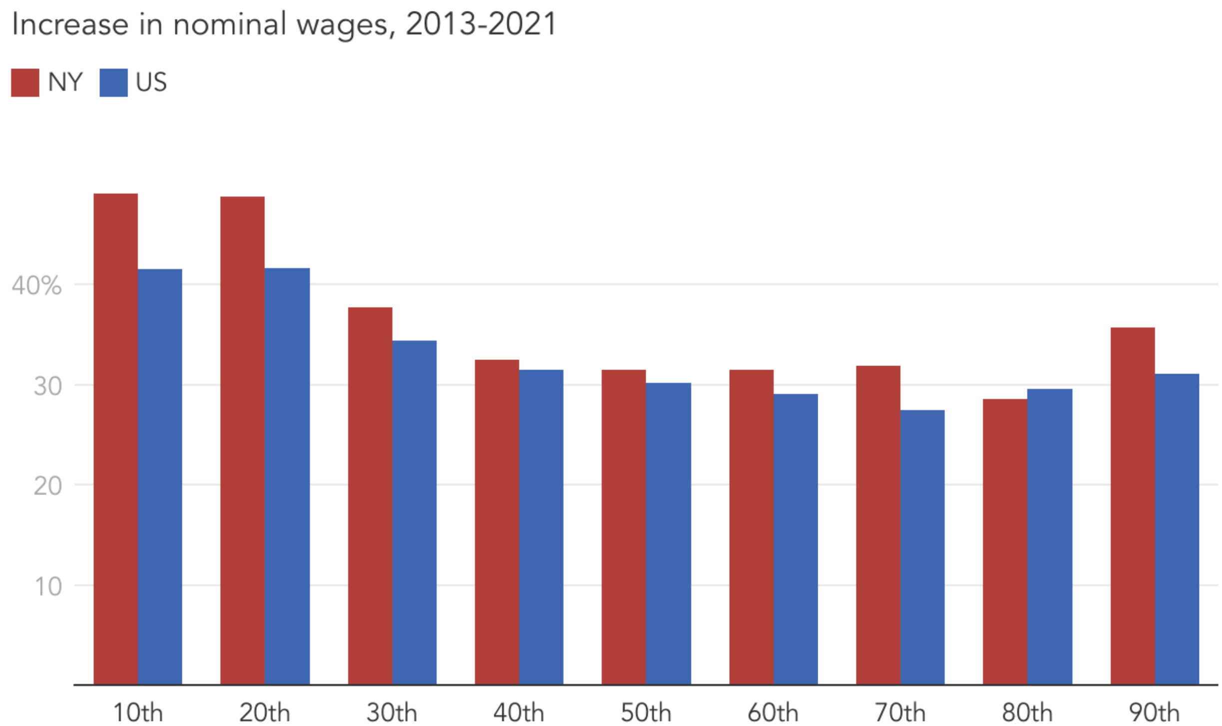
[10] BLS, Employed and Office of Employment and Unemployment Statistics: Education and Health Services - Child Day Care Services, November 21, 2022. https://beta.bls.gov/dataViewer/view/timeseries/SMU36000006562440001

[11] CNYCA analysis of Current Population Survey wage data from the Economic Policy Institute.

Figure 3

Boosted by New York State's rising wage floor, wages rose most for workers at the low-end of the wage spectrum from 2013-21



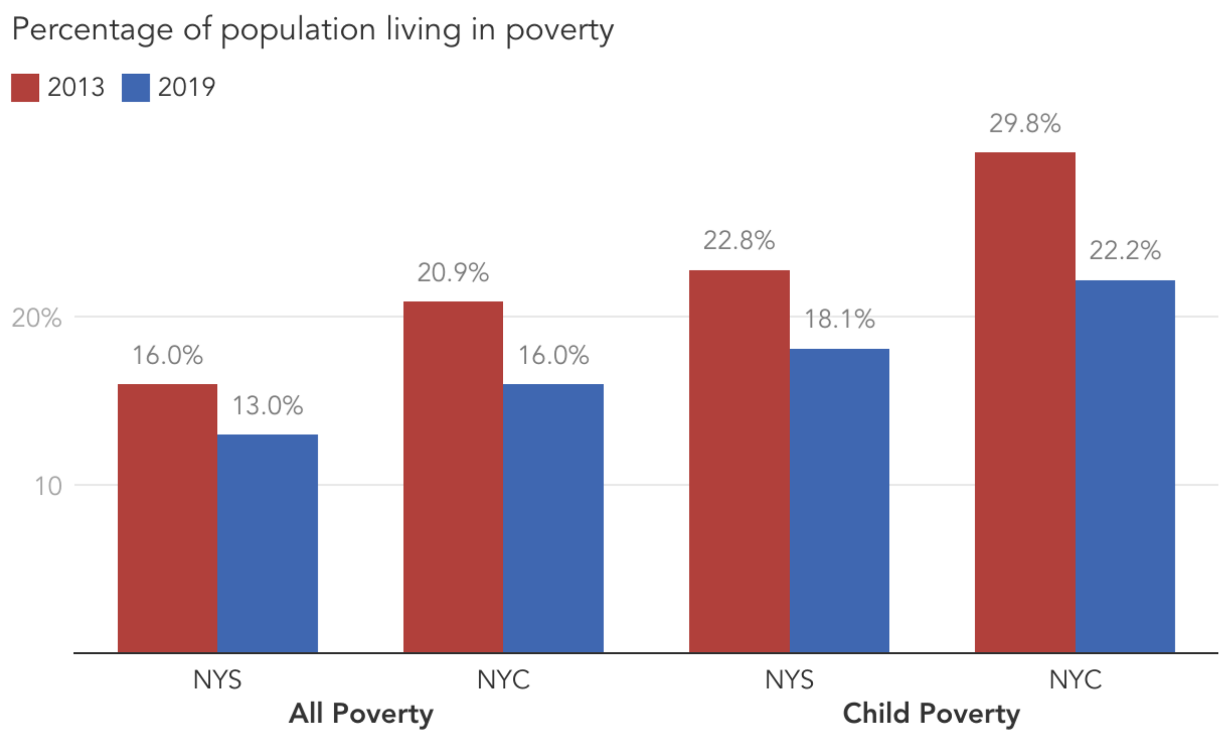
Source: CNYCA analysis of Current Population Survey wage data from the Economic Policy Institute.

- These wage increases for the state's lowest-paid workers reduced the number of persons living in poverty by 20 percent, and brought down the number of children living in poverty by 25 percent between 2013 and 2019.[12]

[12] CNYCA analysis of American Community Survey data, 2013 and 2019.

Figure 4

Strong wage gains for New York's lowest-paid workers helped reduce poverty by significant amounts between 2013 and 2019



Source: CNYCA analysis of American Community Survey data.

- Steady increases in the wage floor starting in 2013 boosted the state's job growth pre-pandemic, and did not come at the expense of business profitability. U.S. Bureau of Economic Analysis data show that business profits grew faster than wages and salaries from 2013-21, and industries with the highest shares of workers affected by minimum wage increases all experienced 50 percent-plus profit growth during this period.[13]

[13] CNYCA analysis of Bureau of Economic Analysis data from the Gross State Product series. Business profit growth in the restaurant and food services industry, the industry with the largest share of low-wage workers, rose 153 percent.