Benefits Battles and Budget Cuts in a Weak Job Market

by Gregory DeFreitas

The first half-decade of the 21st Century closed with the weakest output gains in three years, still-sluggish job growth, falling real wages, increasing corporate rollbacks of employee benefits, and federal government budget efforts to scale back educational and health care programs. The latest government employment statistics appear to offer much positive news on several fronts. The volume of net new jobs last year rose by nearly 2 million, or about 1.5% over the past year (see Table 1). The total unemployment rate (seasonally adjusted) fell to 4.9% by yearend, half a percentage point lower than in December 2004. And the fraction of those unemployed who were jobless a half-year or more dipped as well. The same afternoon that these monthly figures were released, President Bush told an audience of Chicago corporate leaders that they showed: "The American economy heads into 2006 with a full head of steam. By cutting taxes on income we helped create jobs."[1]

"Danger time for America" is the rather different characterization of 2006 that *The Economist,* Britain's conservative business magazine, chose for its cover the very next week. Noting with alarm the country's heavy indebtedness and lack of adequate job or wage growth to fund continued consumer demand for new goods and services, the editors warns that: "When house prices flatten off, and therefore the room for further equity withdrawal dries up, consumer spending will stumble. Given that consumer spending and residential construction have accounted for 90% of GDP growth in recent years, it is hard to see how this can occur without a sharp slowdown in the economy."[2]

Indeed, from October through December of 2005, growth in the country's overall economic activity, as measured by gross domestic product has slowed markedly. Fourth quarter GDP growth, adjusted for inflation, managed to grow at an annual rate of just 1.6%. Overall, 2005 registered yearly real GDP growth of 3.5% -- well below last year's rise (4.2%).[3] The earliest, fragmentary economic data for 2006 has raised more warning signs. In February, new home sales suffered the biggest fall in nine years and sales of existing homes (85% of the housing market) fell for the fifth month in a row. Meanwhile, the oversupply of new homes inflated unsold inventory to a 10-year record. This imbalance has pushed median home sale prices down for four consecutive months and, coupled with the Federal Reserve's 14 straight interest-rate hikes since June 2004, now seriously threatens the broader economy.

If the quantity of new jobs has risen, it has done so at a slower pace than in any previous economic recovery. The 1.5% increase in jobs last year falls far below the average annual job growth rate in comparable recoveries (3.1%). Job growth since the 2003 White House tax cuts went into effect also fall some 2.9 million jobs short of the administration's own promises. Part of the stated justification for aiming most of the tax cuts at higher-income rather than low- to middle-income households was the White House claim that the cuts would help produce 5.5 million new jobs between June 2003 and December 2004 (4.1 million new jobs were expected from "normal" economic growth even without the tax cuts, but the latter were supposed to generate an extra 1.4 million). Instead, by the end of 2004, the job count over the previous 18 months was up by just 2.6 million. And much of that was from military and other government job creation; private sector jobs increased by only 1%.[4]

Have businesses ratcheted up their job-creating investment spending in response to the administration's steep tax cuts on dividends, capital gains, and top income brackets? Profits have certainly exploded: the after-tax corporate profit rate jumped to 9.6% of national income in the third quarter – the highest profit share since 1950! Business expenditures on new equipment and software grew only 6.2% in the final 3 months last year, sharply lower than the nearly 11 percent pace of the previous six months. Total nonresidential business investment spending in the final 3 months of last year was just 7.1% above its level in the first quarter of 2001 – and growing at a rate less than half that of the weakest previous business cycles.[5] Quarterly business expenditures in the new equipment and software category grew only 6.2% at the end of 2005, sharply lower than the nearly 11 percent pace of the previous six months. One especially high-profile example is that of Exxon Mobil, the world oil giant. Flush with a staggering $36 billion in annual 2005 profits, it seemed in an ideal position to start an investment and hiring surge. Instead, it has already redistributed $23.2 billion back to its mostly high-income shareholders. This is a marked change from the mid-'70s to mid-'90s, when the company's annual investment spending regularly exceeded its annual profits.[6]

Likewise, the unemployment rate's decline has failed to revive a low employment-population rate: only 62.8% of the adult population holds a job of any kind, compared to 64.5% in 2000. Over 2 million potential jobseekers appear to have given up and dropped out of the labor force since early 2001. And the fraction of teenagers with jobs (36.5%) has been stuck for two years at its lowest level since 1948. The large number of labor force dropouts has made the official unemployment rate a less reliable indicator of labor market strength or weakness. Moreover, new questions are being raised about whether the government's employment data undercount job market dropouts. A new study by John Schmitt and Dean Baker finds substantial overestimation of employment-population rates drawn from the government's monthly Current Population Survey.[7] The fraction of the population that fails to respond to C.P.S. interview requests has risen from a 4% non-respondent rate in the 1970s to over 10% today. After adjusting for non-respondents, the study estimates that the official statistics overstate the true employment-population rate by 1.4 percentage points for the full population, by 7.4 percentage points for young African-American men ages 20-24, and by 9 percentage points for young Latinos that age.

What about the overall *quality* of payroll jobs, at least as measured by real pay and employee benefits? According to government figures, wages and benefits of civilian employees nationwide rose 3.1% last year – the lowest increase in nine years. Inflation (about half of it due to rising energy costs) continues to wipe out any paper income gains: average real hourly earnings shrank by –0.5% in 2005.[8] Even in traditionally high-wage regions like the New York metropolitan area, average pay levels have dropped, after inflation adjustment. According to a study by the regional office of the U.S. Labor Department, between the first quarter of 2002 and the same period in early 2005, the average real wage fell by 3.2% in Nassau County, 4.2% in Suffolk, and 2.9% in the city, except for Manhattan.[9] Wall Street bonuses appear to have pulled up the Manhattan average enough to post a 5.4% rise in average pay in that borough alone. Both employer resistance to pay raises and the above-average metro area inflation rate here (up 11.1% over the same period in which the national average was just 8.1%) combined to drive down the typical worker's purchasing power.

New York Still Lags Nation's Slow Pace

New York State employers reported to the Labor Department that they added 62,900 new jobs last year, a 0.7% annual increase (Table 1). However, this is less than half the national rate and the state job count is still 164,000 below the number at the same in 2000. Compared to the rest of the state, New York City's jobless rate is over half a percentage point higher. But it has fell over the 12 months through December from 6.3% to 5.7% (see Table 2). In New York City, over the 12 months ending in December, another 34,600 net new payroll jobs were created. This 1% increase was markedly slower than the national pace and still left New York's total job count (3.65 million) over 174,000 jobs short of the December 2000 level.

Which sectors of the city's economy have expanded, and which have kept contracting over the past year? As Figure 1 reveals, nearly all the net job growth is accounted for by just two sectors: services and finance/insurance/real estate (FIRE). Some 40,400 new service positions were added, mostly in a few key subsectors: 17,000 new jobs in education and health care; 15,000 in business services, and another 6,300 in hotels, bars and restaurants. The latter benefited from the city's record-breaking year for tourism. Aided by a favorable dollar exchange rate against major currencies, New York drew over 41 million visitors in 2005, many from abroad. Broadway theaters alone recorded a 10% jump in gross receipts over the year. Combined with an extra 8,000 securities-related jobs, these gains outnumbered the job losses that plagued almost every other major sector, from manufacturing to government to information services.

Nearby in the Long Island suburbs, the total job count rose by 10, 100 last year, to a total of 1.27 million – about 20,000 jobs above the pre-recession payroll level in 2000. But this 0.8% job growth rate lagged behind both the national and the New York City pace over the same 12 months. And it was largely confined to services, where every major subsector except hospitals added new positions. As Figure 3 shows, all other sectors either lost jobs or managed only small numeric gains.

Budget and Benefits Battles

In early February, the White House proposed a $2.77 trillion budget for the coming 2007 fiscal year. Even without including the high military costs of continuing operations in Iraq, the defense budget is slated for a $28.5 billion (+6.9%) increase, to a total of $439 billion. Another 3.3% in spending is proposed for domestic security.
The White House is now seeking another $60.8 billion of supplemental funding for Iraq which, if approved, will bring the total bill so far to over $315 billion – nearly 6 times higher than the pre-war costs announced by the administration's budget director. A state-by-state analysis of the 2003-06 costs of the Iraq invasion and occupation estimates the costs to New York State taxpayers has been about $26.5 billion. The war's costs so far to New York City have been $9.9 billion and to Long Island $6.1 billion.[10]

In sharp contrast to the increased military spending, steep cuts are planned in education, training, health care, income support, veterans benefits and many other annually appropriated domestic programs of considerable importance to many families. A detailed analysis by the Center on Budget and Policy Priorities estimates that, relative to the 2006 baseline over the five years 2007-2011, planned reductions would include:[11]

- -$5.2 billion (-12%) in Education Department funding for Pell Grants aiding college students, -$5.5 billion (-13%) for Special Ed., and -$286 million (-13.6%) for Adult Basic and Literacy Education (including complete elimination of Vocational Education after 2007);
- -$7.6 billion (-21%) in Labor Department funding of employment and training programs, including the Job Corps, the Employment Service, the Workforce Investment Act, ex-prisoners training, and dislocated worker retraining programs;
- -$3.9 billion (-13.4%) in Health & Human Services Department funding for Children and Family Services, including Head Start, -$1.9 billion (-29%) in Low-Income Home Energy Assistance, and –$13.3 billion (-13%) for the National Institutes of Health;
- -$3.3 billion (-23.4%) in E.P.A. funding for State and Tribal Environmental Assistance grants;
- -$984 million (-27%) in the Energy Department's Energy Conservation program; and
- -$3.5 billion (-9.6%) in Veterans Medical Care and Hospital Services.

The administration defended these steep cuts as essential to control mounting budget deficits, now projected to reach $423 billion in 2006 (or 3.2% of GDP) and a total of $2.2 trillion over the next 5 years, according to the Republican-led Congressional Budget Office. In 2007 alone, about $247 billion (9% of the budget) must be reserved to pay off interest on the government debt. It has not gone unnoticed among most economists that the huge 2001-2003 Bush/Cheney tax cuts have so far cost the government an estimated $860 billion in lost revenue, or over $920 billion with interest costs included. On top of the losses from these tax cuts, according to a new study by the U.S. Commerce Department, I.R.S. cuts in its auditing staff and increased tax cheating enabled over a trillion dollars of income to go unreported and untaxed in 2003 – a 37% jump since 2000. Investors, the self-employed, and farmers were the worst offenders.[12] The 2007 budget also largely ignores the high costs of protecting middle-income Americans from impending income tax hikes by the alternative minimum tax, despite bipartisan pledge to begin what could be a $800 billion 10-year fix. And the White House and the Republican-controlled Congress are now seeking another $285 billion in largely high-income tax cuts over the next 5 years.

The currently planned White House tax and social spending cuts will, if enacted, force individual states either to bear higher costs to maintain comparable services or to make painful service cuts themselves. Like the federal government, New York State is also burdened with a huge accumulated debt. But, the current fiscal year is expected to end with a modest budget surplus of $2 to $4.5 billion (out of a $106 billion total budget). The election-year response of Governor Pataki and his Republican-dominated State Senate appears to be new multiyear, multi-billion dollar income tax cuts. Elimination of the marriage tax penalty, child tax credits, and property tax rebates have won bipartisan backing. Far more contentious is the governor's proposal to cut the top rate on the personal income tax (from 6.85% down to 6.75%) and ending the state's share of the estate tax (which only affects estates of at least $1 million). About one-fourth of the plan's benefits would be captured by New Yorkers making $200,000 or more, and fully half the benefits would flow to the richest 10%.[13] But low- and middle-income New Yorkers would be hit with the main burden of a sales *tax increase*, if the governor's succeeds in his planned rollback of the long-promised elimination of state sales taxes on small clothing purchases (under $110).

In addition to the regressive sales tax hike and income tax cuts, the Pataki budget proposes some $431 million in reduced Medicaid expenditures next year. Coming on top of the Bush/Cheney 5-year plan to cut $36 billion in federal Medicare payments to states -- of which New York will lose about $770 million – the health care system fears the worst service and job cuts in at least a decade. Long Island's 22 hospitals may lose about $125 million in reimbursements, according to estimates by the NY State Healthcare Association. A new round of hospital closures and layoffs is one likely consequence. Last year, the state's largest Catholic hospital system, St. Vincent's Medical Center, filed for bankruptcy. Over the past decade of hospital privatization, 33 hospitals across the state have had to shut down.

Workers Compensation, an increasingly popular political target in election years, is also slated for cutbacks in a new bill being considered in Albany (S.6461/A.9561). If enacted, it threatens to limit the duration of benefits to permanently disabled workers, potentially slashing payments to those with career-ending injuries by as much as one-half. The State Insurance Fund would be permitted to contract with HMOS, thereby limiting injured workers' choice of doctors.

Both the governor's and lawmakers' spending plans ignore the latest ruling of a state appeals court in favor of the Campaign for Fiscal Equity's 12-year court fight to improve ailing urban schools. The Appellate Division of the State Supreme Court ruled that the state should budget $4.7 to $5.6 billion more for New York City schools over the next four years to remedy their persistent underfunding. Current plans in Albany are to spend only $1.1 billion extra on schools next year across the entire state. And the governor may again appeal this latest court ruling, further stalling city school funding improvements.

Local Labor Policy Responses

As the White House and some statehouses move to downsize the public safety net, employers across the country are increasingly and aggressively attempting to scale back their worker benefits packages. General Motors is only the latest big firm to seek sharp cuts in its health care costs. It has announced an offer of early-retirement buyouts of 113,000 employees, plus another 20,000 at its quasi-independent parts supplier, Delphi. At the same time, Delphi is threatening to seek a bankruptcy court's permission to slash it wages and benefits. Like their corporate counterparts, public sector employers are demanding that workers bear more of the burden of skyrocketing health insurance premiums. New York City Mayor Michael Bloomberg has already made worker concessions on health insurance to be a central demand in City Hall's continuing negotiations with hundreds of thousands of transit workers (Transport Workers Union Local 100), teachers, and other municipal workers (District Council 37, AFSCME). Unmistakable signs or worker resistance to such concessions was evident both in the transit workers' costly 3-day Christmastime strike shutting down the city transit system, and in their vote narrowly rejecting an initial contract including required worker contributions to insurance premiums.

Faced with mounting challenges to their pay and benefits, new coalitions of unions, community groups, and sympathetic public officials have been attempting to counterattack, with some notable local successes. For example, last fall the New York City Council, the city's main legislative body, voted overwhelmingly to pass into law (over Mayor Bloomberg's veto) the Healthcare Security Act. The new law requires most large nonunion grocery retailers to contribute $2.50 - $3 per worker hour toward employee healthcare costs. It covers employees in stores with 35 or more employees or at least 10,000 square feet of grocery floor space. On Eastern Long Island, Suffolk County's legislature passed its own version of this law with a veto-proof 17-to-1 majority. The law, covering the county's 6 Wal-Marts plus other warehouse-style retailers, was championed in a vigorous campaign by the Long Island Federation of Labor and its member unions, by advocacy groups for the working poor, and by the Working Families Party.[14] Republican lawmaker Paul Tonna explained his vote in support with the words: "Wal-Mart has profited off the public sector to the tune of billions of dollars."[15] New legislation just introduced in the State Assembly and dubbed the "Fair Share for Health Care" bill, would extend a health care mandate to a far wider set of nonfarm, non-manufacturing employers statewide.

Across the country, minimum-wage workers continue to suffer steady erosion of their purchasing power every year that the federal government resists lifting it above $5.15 per hour. Adjusted for inflation the federal minimum is now some 20% lower than when it was last raised in 1997, and it is $2.85 below its peak in 1968.[16] Critics, led by the lobbying might of low-wage retail and restaurant trade associations, have long claimed to lawmakers that minimum wage increases will force employers to shrink the job pool for young and less-skilled workers. Seventeen states and the District of Columbia have taken matters into their own hands to finally raise their own local minimum wage levels above the low federal floor. In January 2005, New York became one of them by raising the state's legal minimum to $6 an hour, with further increases phased in to $6.75 this January and to $7.15 in 2007. Has the result been anything like the job declines predicted by minimum wage opponents? Not according to a new study by the Fiscal Policy Institute. Based on government payroll data by industry, they found that employment since January 2005 has grown at above-average rates in retail trade and food services, the sectors most affected by higher pay for low-wage employees.[17]

In January, Nassau County joined nearby Suffolk County and New York City is enacting a "living wage" law to raise the pay of thousands of low-wage workers. The will increase minimum wages for workers contracted by the county to $9.50 an hour, beginning next year, then rising to $10.50 in 2008 and to $12.50 by 2010. In addition, covered employers must either ensure worker health benefits or raise the hourly wage aenough above the minimum by an amount no less than the health benefits supplement rate. Covered employers are defined as: any county contractor who furnishes services to the county in excess of $25,000. In signing the new bill into law, Nassau County Executive Thomas Suozzi said:

"Workers who day in and day out perform some of the hardest tasks in the county deserve to do better. This bill will raise incomes, it will raise spirits, and it will raise interest in doing business with this County. It will allow some workers who are living on the edge to do a better job of providing for themselves and their families. It is a win-win situation for everyone involved."[18]

Figure 1
NYC Job Growth by Industry: Dec. 2004 – Dec. 2005
(in thousands of jobs, and percent change)

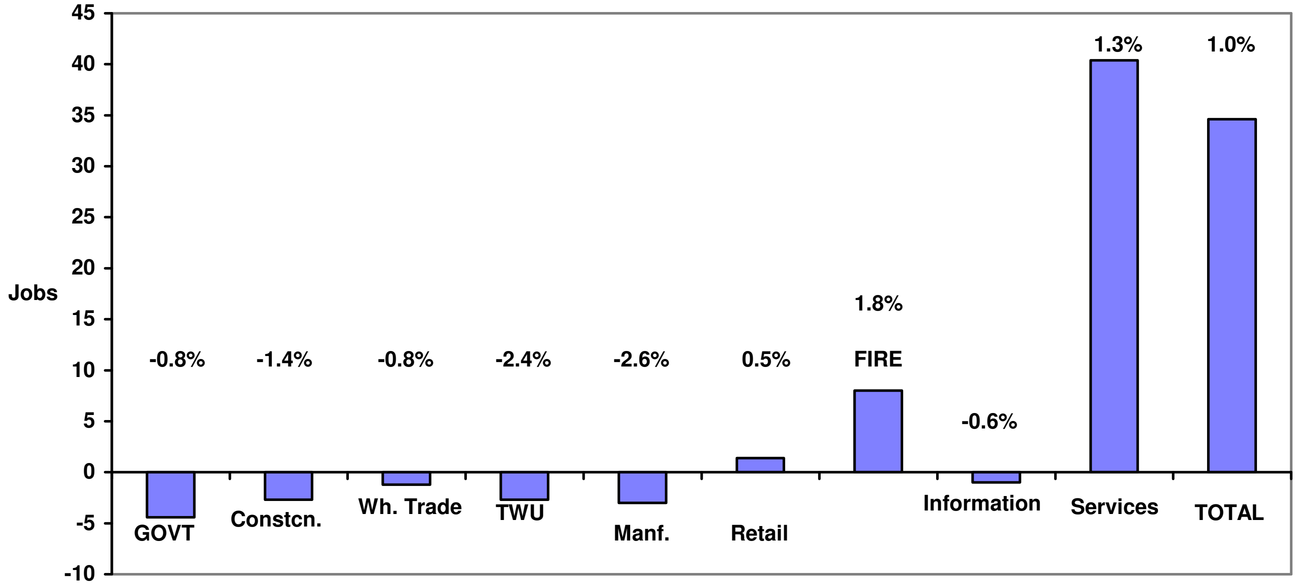
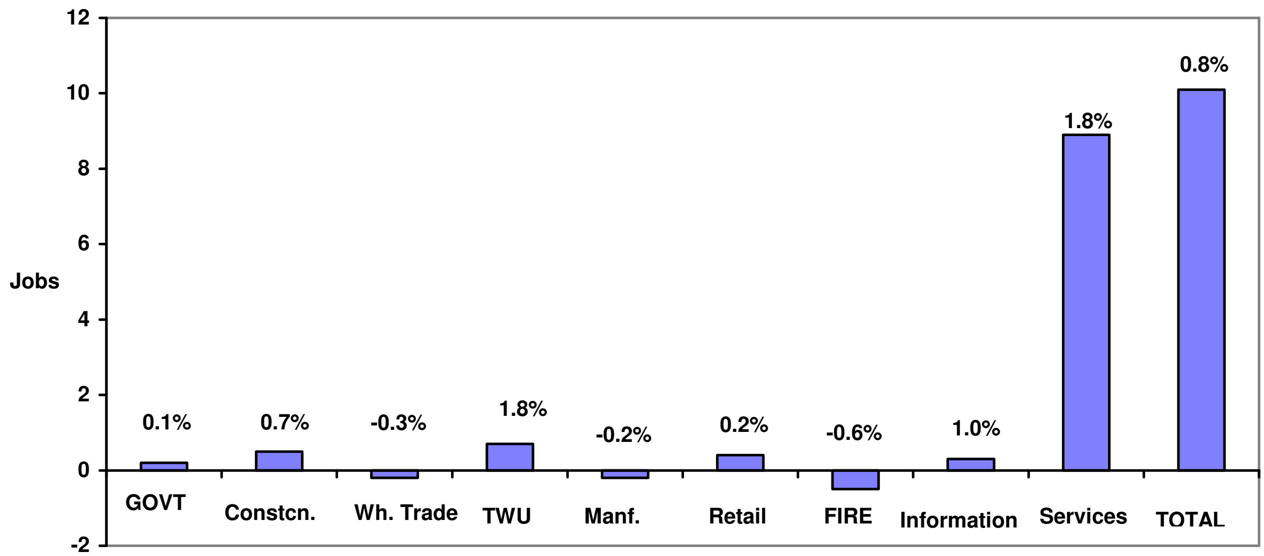


Figure 2
Long Island Job Growth by Industry: Dec. 2004 – Dec. 2005
(in thousands of jobs, and percent change)



Source: NYS Dept. of Labor: nonfarm payroll job data from CES establishment survey in Nassau & Suffolk counties. Year-to-year changes, not seasonally adjusted. Note: FIRE = Finance, Insurance & Real Estate; TW U= Transport, Warehousing & Utilities.

Table 1
Number of Nonfarm Jobs (in thousands) by Place of Work: 2000-2005

	Dec. 2005	Dec.2004	Dec. 2000	% Change 2000-2005	% Change 2004-2005
U.S.	135,044.0	133,187.0	133,308.0	1.3%	1.5%
NY State	8,667.5	8,604.6	8831.4	-1.9	0.7
New York City	3,647.2	3,612.6	3821.4	-4.6	1.0
Long Island	1,274.0	1,263.9	1253.8	1.6	0.8

Source: Establishment data (not seasonally adjusted) from US Dept. of Labor & NY State Dept. of Labor. Note that the data reflect regular revisions made by the Dept. of Labor.

Table 2
Civilian Labor Force, Employment & Unemployment:
New York City, Long Island & All U.S., Dec. 2004 – Dec. 2005
(in thousands, not seasonally adjusted)

	Labor Force		Employed		Unemployed		Unemp. Rate	
AREA	Dec. 2005	Dec. 2004	Dec. 2005	Dec. 2004	Dec. 2005	Dec. 2004	Dec. 2005	Dec. 2004
U.S.	149874.0	147877.0	142918.0	140278.0	6958.0	7599.0	4.6%	5.1%
NYC	3737.7	3738.6	3523.5	3502.8	214.2	235.8	5.7	6.3
Brooklyn	1054.5	1056.2	989.8	984.0	64.7	72.2	6.1	6.8
Bronx	504.1	505.2	466.8	464.1	37.3	41.1	7.4	8.1
Manhattan	879.6	878.3	834.8	829.9	44.8	48.4	5.1	5.5
Queens	1072.9	1072.9	1016.9	1010.9	56.0	62.0	5.2	5.8
Staten Island	226.6	226.1	215.2	213.9	11.4	12.2	5.0	5.4
Long Island.	1486.8	1473.2	1427.7	1410.8	59.1	62.4	4.0	4.2
Nassau Co.	702.5	696.0	675.0	667.0	27.5	29.0	3.9	4.2
Suffolk Co.	784.3	777.1	752.7	743.8	31.6	33.3	4.0	4.3

Source: CPS household survey data from NY State Department of Labor, 2006. Note that the data reflect regular revisions made by the Dept. of Labor.

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NOTES

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