

# **A Rescue Plan for American Workers**

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## **Introduction**

Just a few months ago, Congress and the Bush Administration responded with unaccustomed speed to enact a \$700 billion rescue plan for America's financial sector. Hundreds of billions more have been committed by the Federal Reserve Bank. These actions may eventually prove successful in bailing out the sinking financial sector — we will have to wait and see.

But Americans whose economic meltdowns have been ignored for years were stunned and outraged by what many see as a "Get Out of Jail Free" card.

Now that a lifeboat has been provided to the country's largest financial institutions, Governor Corzine, Congress, and the incoming Obama Administration are crafting a "Rescue Plan for American Workers."

Even before the collapse of the stock market and house prices, the volatile global economy of the 21st Century had transformed the entire structure of work in the United States as rapid changes in technology and finance swept aside small and giant corporations and upended whole industries. Workers at all education and skill levels lost jobs and searched frantically for new opportunities.

Today's economy is even worse: a nightmare of rising foreign competition, changing job requirements, and shrinking demand for goods and services.

Millions need help now and millions more will need help in the months and years ahead.

Today, I will offer for your consideration:

- Some perspective on our nation's economic troubles and discuss where New Jersey stands now and will be in the coming year, and
- Outline short- and long-term solutions that will help us out of the mess and leave our workforce better off in the next decade.

How bad are the national and state economies? In blunt terms: Terrible and getting worse.

The nation's economy is breaking down like a 1978 Ford Pinto and the economy is beginning to look nearly as bad as it did 30 years ago.

The rough dimensions of our economic woes are all too familiar, **but** it is essential to reflect on the scope of the problem so that the solutions we choose as a nation are the right ones and large enough to help what ails our economy and our workers.

In October 2008, the nation's unemployment level jumped to 6.5 percent — the highest it has been in 14 years. November's report will be released this Friday and no one is expecting the news to be good.

The official unemployment rate excludes the growing number of unemployed individuals who have become discouraged and simply stopped looking for work — and part-time workers who want to work full time — so the realistic unemployment rate is near 10 percent.

- Over 1.2 million jobs have been lost this year — more than half that number coming in the past three months!
- 10 million Americans are unemployed — the highest level in 25 years.

All economic sectors and all regions of the country are feeling the pain. In the past few months alone:

- Factories cut 90,000 jobs — the most since July 2003;
- Construction companies shed 49,000 jobs;
- Retailers cut 38,000 workers;

- Professional and business services reduced employment by 45,000;
- Financial activities cut 24,000 jobs, with heavy losses in mortgage banking and at securities firms; and
- Leisure and hospitality companies axed 16,000 workers.

The only bright spots in the job picture — education and health care — continue to add jobs, but as the economy continues to deteriorate, even that will grind to a halt.

Unemployment and job insecurity are hitting low-skilled job seekers with inadequate training and education, as well as highly educated workers with years of experience.

Twenty years ago, blue-collar, manufacturing workers were at greatest risk of job loss. Now they are being joined on the unemployment line by thousands of white-collar workers and college graduates who have been drowned in the backwash of corporate mergers, acquisitions, and “downsizing” schemes.

To make matters worse, the average worker who loses his or her job today faces a much longer period of unemployment than they did 30 years ago. The percentage of unemployed people out of work for 15 weeks or more increased threefold — from just 13 percent in 1969 to 38 percent in 2008.

Alarming, one in five unemployed workers has been out of work for more than half a year. And the majority of those who did find another job took pay cuts.

Only **one in three** of the 2.1 million full-time workers who lost jobs in 2005-2007 got new jobs with the same or higher pay by early 2008.

While unemployment hurts people at all income and education levels, some get hurt more than others. Who are they?

- Younger workers and those with the least skills and education — often concentrated in urban communities.
- Older workers. Those who have jobs are postponing retirement as health and retirement benefits — for those lucky enough to have them — are diminished or eliminated.
- Workers who have spent entire careers in an industry, like manufacturing or finance, who must now find jobs in new industries.

Are we going to experience something like the Great Depression of the 1930s?

This recession will not match the misery of the Depression when unemployment exceeded 25 percent. However, unemployment could well rise above 8.5 percent next year and maybe even match the recession of 1982 when unemployment skyrocketed to 10.8 percent in one month, the highest levels of unemployment in 40 years.

In 1982:

- One in five Americans was unemployed at some time during the year;
- More than 4 million could not find work for an entire year;
- 12 million people were looking for work, and another 2 million had given up looking;
- Unemployment among minorities was twice the national average; and
- Half of minority youth could not find work!

How does New Jersey compare to the nation? Is New Jersey worse off, or better off than other states?

Every state economy is suffering. New Jersey's 6 percent unemployment rate is below the national average, but that could change as the ripple effects of the financial meltdown continue to spread across the Hudson River.

As of October 2008, **22 states** had higher unemployment rates than New Jersey. Unemployment was a bit lower in New York at 5.7 percent and in Pennsylvania at 5.8 percent.

But New Jersey's unemployment rate was lower than Connecticut (6.5 percent), North Carolina (7 percent), Georgia (7 percent), Florida (7 percent), Ohio (7.3 percent), California (8.2 percent), Michigan (9.3 percent), and Rhode Island (9 percent).

I am optimistic that the New Jersey economy, while battered, will not experience as bad a recession as many other states and will come out of it more quickly.

Why? Because the core elements of our state's economy are strong and Governor Corzine and the legislature have already taken positive steps to address the crisis.

Let's begin with the foundation of New Jersey's economy.

Our core strengths — a highly educated and skilled workforce, access to domestic and global markets, and a robust infrastructure — put New Jersey in a good position to emerge even stronger than before.

### **Workforce/Education**

The quality and availability of the workforce and our educational system have been and continue to be critical advantages of doing business in New Jersey.

- New Jersey is in the top five in high school graduation rates, and people with college degrees;

- New Jersey is seventh in the nation in the number of Ph.D. scientists and engineers per 1,000 workers; and
- The Kaufman Foundation ranked New Jersey in the top five on the State Innovation Economy Index in 2008.

### **Global and Domestic Markets**

Our large global and domestic markets remain compelling reasons for companies to remain, expand, and move to New Jersey.

It is for these reasons, among others, that 15 of the world's top 25 pharmaceutical companies have either world or North American headquarters or significant operations in New Jersey.

More than 1,400 multinational businesses from more than 40 countries have facilities in New Jersey. And many of the world's most prestigious and profitable brands have major facilities here.

Since 2006, the New Jersey Economic Development Authority, which I chair, has supported 92 major companies that have chosen to relocate to New Jersey and plan to create nearly 16,000 new jobs, with an average annual wage of \$71,000.

- 65 percent have relocated from New York, and 14 percent have relocated from Pennsylvania;
- 27 percent were life sciences companies, and 41 percent were in manufacturing; and
- 31 of the companies have relocated to our largest urban communities.

### **Infrastructure**

- New Jersey's air, rail, and road transportation systems keep us connected to the domestic and global marketplace. In a flat world, a premium is still placed on the ability to travel and move goods from one part of the globe to another.
- New Jersey is number one in the United States in transportation, warehousing, and highway connectivity and number two in the United States for railroad service, according to independent business publications.

Turning to policy, Governor Corzine's administration and the legislature are forcefully addressing the crisis and taking steps to make our state more competitive as the national economy recovers.

The Governor's plan was announced in mid-October, and most components have already been adopted by the legislature. The plan includes emergency relief to low- and moderate-income people with energy assistance, food stamps, and steps to stem the tide

of home foreclosures. It also contains tax reforms, incentives, and public spending to stimulate private- and public-sector job creation.

Let me highlight a few of these important governmental actions.

First, Governor Corzine directed the New Jersey Economic Development Authority to assist consumers and businesses with major initiatives to ease the tightened credit market, to create new jobs with incentives to business, and to retain jobs that are already in the state.

Through the Main Street Assistance Program, New Jersey will invest \$500 million of state-managed funds in New Jersey banks in guaranteed, interest-bearing instruments at competitive interest rates. These investments will enable those community banks to make more loans available to New Jersey businesses.

The New Jersey Economic Development Authority will also create a \$50-million fund to provide credit enhancement and loan participations. This fund will leverage over \$300 million in lending throughout the state utilizing new lines of credit and loan guarantees.

Under the Invest New Jersey Program, the state will provide a \$3,000 grant for each additional job created by New Jersey businesses and retained for one year. The same businesses will be offered a sales tax credit for qualifying capital investments.

- Up to \$50 million will be available in this program with benefits limited to \$500,000 per company.
- If the program reaches its full potential, it can support the creation of over 16,000 jobs.

## **Tax Policy**

Additionally, Governor Corzine and the legislature adopted several important tax policy changes including allowing businesses up to 20 years to retain benefits of tax losses and removed other tax provisions that penalize New Jersey companies vis a vis other states.

## **State Public Works Spending**

New Jersey is also investing \$5.1 billion in infrastructure projects that will generate over 40,000 jobs in the near term and create hundreds of thousands more in the decades ahead.

Governor Corzine's plan will accelerate planned school and transportation construction projects, including widening of the New Jersey Turnpike and the Garden State Parkway, and building a new rail tunnel to bring workers into and out of Manhattan.

These infrastructure investments not only create new jobs, but also improve public safety, boost productivity, and reduce traffic congestion.

### **Green Jobs**

Finally, implementation of the Governor's Energy Master Plan will generate thousands of new jobs in energy efficiency projects and in the development and manufacturing of renewable energy facilities and equipment in New Jersey.

The state's public utility companies and a wide spectrum of community organizations, non-profits, and educational institutions are already gearing up to meet this challenge and put people to work.

Additionally, the New Jersey Economic Development Authority's \$60-million Clean Energy Manufacturing Fund will also draw more private-sector investment to New Jersey.

### **Federal Action**

New Jersey cannot get out of these problems alone. A national and worldwide economic crisis will require strong national action.

A first step toward providing relief to unemployed workers was enacted during the lame-duck congressional session when unemployment benefits were extended above the current 26-week limit — with another 26 weeks in states with high unemployment rates.

This not only helps 2 million people, but it is a very good investment in the economy — every dollar in Unemployment Insurance generates \$1.64 into the economy.

Much more needs to be done — and done soon.

There is a widespread consensus among liberal and conservative economists that a very large economic stimulus must occur, including Republican Martin Feldstein, Chairman of the Council of Economic Advisors under President Reagan, and Princeton economist and Nobel Laureate, Paul Krugman.

We need to act boldly and quickly in order to stimulate demand, restore confidence, and keep the economy from spiraling further downward.

Each additional 1 percent increase in unemployment costs the United States and state treasuries billions in lost revenue and increased social costs mount as more people rely upon safety-net programs such as Unemployment Insurance, food stamps, and so on.

President-Elect Obama has made it clear that he intends to call upon Congress to undertake a vast stimulus package to create and save 2.5 million jobs or more. He's meeting with 40 of the nation's governors today in Philadelphia to get their recommendations.

Congressional leaders have pledged to move legislation quickly on his plan in 2009.

Number one on the list will be large investments in job-creating infrastructure projects. Government investments in public works projects have played a key role in America's economic growth from great canal and rail projects of the 19th Century to the innovative public works programs of the New Deal, the construction of the interstate highway system in the 1950s and 1960s, and the space program in the 1970s. These government investments created the foundation for entirely new industries that supported permanent employment growth for decades.

Some critics have argued that public works projects do not create jobs fast enough to help an ailing economy. But there are thousands of backlogged highway improvements and mass transit expansions that have already been designed, approved, and are "ready to go" within weeks.

And the direct, boots-on-the-ground, job creation sparked by these long-delayed improvements would extend far beyond the construction industry, boosting employment among suppliers in manufacturing, retail, and professional services!

There are three additional policy and budget initiatives that have not gotten much, if any attention, but should be added to the President-Elect and Congress' list of urgent actions:

### **One-Stop Career Centers**

We must bolster the capacity of our One-Stop Career Center system, which has been called the emergency rooms of a sick economy.

Today, these centers are overwhelmed doing their job — registering people for assistance, helping them find a job, and arranging education and training. It is anticipated that more than 20 million unemployed job seekers will pour into these One-Stop Centers this year, an increase of 40 percent over 2007.

Since 2000, funding for these frontline agencies has been cut by 14 percent. The President and Congress must reverse this as soon as possible.

### **Public Service Employment**

Another remedy for rising unemployment that should be given serious consideration is direct government job creation in the form of public service employment jobs.

Thousands of short-term community projects could be quickly mounted in cities and towns around the country — cleaning up parks, highways and public housing projects, weatherizing homes and apartments, fixing potholes in streets, and helping teachers in public schools and day care centers.

The federal government under President Carter allocated more than \$10 billion to public service jobs and employed over 700,000 Americans in the late 1970s.



Although the public service employment jobs program had its share of critics, researchers who carefully evaluated the program found that it provided valuable benefits to communities under financial stress.

The Obama economic team and Congress should revive public service employment because it is the most direct way to help low-income and less well-educated job seekers. And, public service employment jobs can be deployed rapidly and generate immediate benefits for unemployed workers and the economy.

### **Youth Programs: Summer Jobs and Youth Conservation Corps**

Congress should also create significant summer youth jobs programs, including a young adult green jobs corps and community improvement projects.

Unemployed youth in communities with high concentrations of high unemployment should get the lion's share of resources.

Because unemployment is likely to soar for young people, especially in our urban communities, we need programs that will help them make some money while gaining experience and education.

### **Long-Term Solutions**

As we cope with the immediate crisis, we also need to begin to address several long-term standing problems that undermine our workforce and our economy.

Even before the collapse of the economy in 2008, it was clear that there were serious weaknesses in our public policies that required systemic reform. The basic realities of today's workforce today are radically different from the workforce in the latter part of the 20th Century.

- In the later 20th Century, most jobs were permanent and labor markets were stable. Now, jobs are more likely to be temporary or contingent. The labor market is volatile.
- In the later decades of the 20th Century, "one and done" education — getting a high school or college degree — was sufficient to get a good, middle-class job. Today, people must update their skills on a regular basis and engage in lifelong learning.
- Twenty or so years ago, most workers had defined benefit pensions and employer-provided health care. Today, few workers have defined benefit pensions and fewer have employer-provided health care and must contribute more to it.
- And in the later part of the 20th<sup>h</sup> Century, people had an expectation that they could retire at age 65 or sooner. Now, many Americans believe they will never be able to afford to quit working.

Addressing these new realities will require a new paradigm — a new way of thinking.

It will also require returning to old values, such as honoring the importance and dignity of **all** work, and adhering to the principle that everyone who wants to work ought to be able to find a job and find help when they need it — not a hand out, but a hand up.

We must ground our new workforce policy with the understanding that today's economy is radically different from the industrial one that existed in the mid-1930s, when much of our nation's workforce development policy framework was formed.

Our outdated Unemployment Insurance system, geared to addressing short-term job loss among 20th Century manufacturers, cannot possibly serve workers who live in a 21st Century world of independent contractors, virtual corporations, flextime, consultants, alternative workweeks, and home-based businesses.

Our nation's workforce development system is reactive and under-funded. Modest — often inadequate — assistance to individuals is provided only after someone loses their job.

Getting help is unnecessarily complex and provides different levels of assistance to workers based on whether they lose a manufacturing job due to foreign trade or one in the service or public sectors.

While it is welcome news that Unemployment Insurance was extended for those who are eligible for it, the bad news is that just over one in three Americans are eligible for Unemployment Insurance, compared to 50 percent who were covered 20 years ago.

Unemployment Insurance programs should be expanded to cover more low-income and part-time workers, and self-employed workers. Unemployment Insurance must also be connected with effective reemployment services and access to retraining to help unemployed workers obtain new jobs with appropriate salaries and benefits.

A revitalized workforce development system must provide workers with better information about the job market and better-coordinated government, educational, and non-profit services. Services should aim to prevent unemployment when possible and ease the transition to new jobs when it's not.

Workers also deserve more advance warning of job cuts from their employers. Heldrich Center research found that 4 in 10 workers receive no advance notice of layoff! Another 13 percent receive a single week's notice.

Employers should be fined when they refuse to comply with state and federal notice rules because their failure to notify their workers drives up costs for families, communities, and society.

In order to have a more productive and competitive workforce and to compete globally, our nation's vast array of education and training programs must do a much better job of understanding and responding to the changing dynamics of the labor market and the needs of employers.

Educators must be more responsive to the needs of employers. We've made a lot of progress in New Jersey and there is more to be done.

There must also be increased opportunities for lifelong learning. Significant tax incentives should be made available to employers and individuals to establish flexible lifelong learning accounts and other opportunities for continuing education and training. In the knowledge economy, training should not be the emergency response to a job loss, but part of an individual's ongoing workforce development and career advancement.

The Trade Adjustment Assistance Act — sometimes called the “gold standard” in worker adjustment — must be expanded. Currently, it covers “trade-affected” dislocated workers who manufacture articles, but does not cover workers from the service or public sectors.

Finally, we must provide workers with a portable health insurance benefits. Our new health care system should build on the employer-based system for those who have it and add basic benefit options for those whose employers do not provide it.

Reforming our health care system is not just a matter of fairness, but also an urgent priority to make our economy and our business more competitive internationally.

## **Conclusion**

Taken together, the short- and long-term rescue plan for American workers is very ambitious, but we need to move as quickly as possible to get it underway.

Governor Corzine and the New Jersey legislature have taken important steps to cushion the blows on our fellow citizens and build for the future.

Washington policymakers have shown they can assist the nation's troubled financial sector.

I am confident that next month, Washington policymakers will demonstrate the same degree of urgency in helping the construction worker, retail clerk, bank teller, and others scrambling for a fresh start and new opportunities.

The current economic crisis requires bold, quick actions!

In our efforts to cope with a serious economic crisis, let us urge our policymakers to find the wisdom and foresight to undertake the long overdue reform of the American workforce development system.

Thank you.