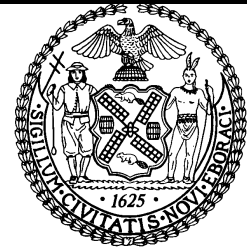


Economic Notes



New York City Office of the Comptroller

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1 Centre Street, NY, NY 10007

Vol. IX, No. 2

March 2001

CITY JOB MARKET TIGHT FOR TEENS

SUMMARY: Both the U.S. and New York City (NYC) economies improved after 1992. But NYC teenagers, i.e., youths 16-19 years old, recovered their place in the job market more slowly and erratically than the national average. As measured by the labor-force-participation rate, employment/population ratio, and unemployment rate, NYC teenagers lag the nation. Solutions require both public and private initiatives.

- **The City's youth labor-force-participation rate was 27.2 percent in 1998** (data for 1999 and 2000 are not yet available for NYC or other cities), slightly more than half the national average of 52.8 percent. This means nearly twice as many NYC youths are in the "not looking for work" category than are nationally. Those not looking for work include many would-be workers who are "discouraged" by prior attempts to find work.
- **Of seven large U.S. cities ("central cities"), NYC had the lowest youth labor-force-participation rate in 1998.** Houston, at 50 percent, had the highest. Of the 16 largest metro areas, the NYC primary metro area (eight counties) had the lowest youth labor-force-participation rate. St. Louis had the highest at 61.1 percent.
- **The City's youth employment/population ratio was 19.9 percent in 1998**, less than half of the national average of 45.1 percent. Of seven U.S. cities, NYC had the lowest youth employment/population ratio in 1998. Of the 16 largest metro areas, NYC's metro had the lowest youth employment/population ratio.
- **The NYC youth unemployment rate was 27.0 percent in 1998**, almost twice the U.S. average of 14.6 percent. The U.S. youth unemployment rate dropped to 13.1 percent in 2000. NYC had the second-highest youth unemployment rate in 1998 of seven U.S. cities, after the District of Columbia's 37.3 percent.
- **Of the 16 largest metro areas, the NYC metro had the highest youth unemployment rate, 26.6 percent**, followed by Miami at 20.6 percent. The Boston metro area had the lowest youth unemployment rate, 9.2 percent.
- **The gap between the City's youth unemployment rate and the nation's widened to a record high of 18.6 percentage points in 1997** before falling to 12.4 percentage points in 1998. The low labor-force-participation rate of NYC teens means the unemployment rate is understated compared with the nation or with other large cities with higher labor-force-participation rates.
- **In light of the current economic slowdown, this report urges immediate emphasis on summer jobs and apprenticeships.** The City needs to work closely with the private sector to ensure vocational readiness, ample summer jobs in 2001, more work-study and apprenticeship programs, and a focus on creating more entry-level jobs. The report also urges the development of a Comprehensive Employment Incentive Program (CEIP, pronounced "Keep") for job creation tied to training, and a program to attract specialized manufacturing.

This report examines labor-market condition for teenagers (16-19 years old) in NYC and around the nation between 1967 and 1998. The latest year for which data are currently available is 1998. The data shed light on recent trends and have implications for the current economic slowdown and for summer youth jobs and programs. Overall, NYC teenagers have had an unemployment rate that has persisted at twice the national rate of youth unemployment.

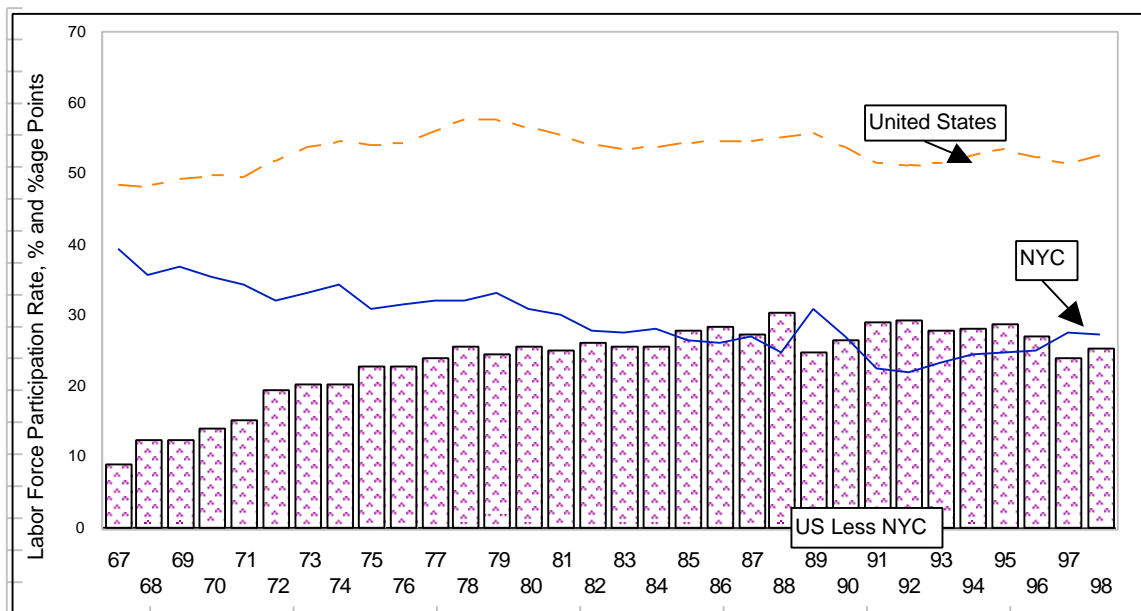
A. Youth Labor-Force-Participation Rate

The ratio of youths in the labor force (i.e., those either employed or actively looking for work) to all youths 16-19 years old is called the youth labor-force-participation rate. While this rate for the City increased in 1998 over 1992, it was only slightly more than half the national average rate.

1. NYC vs. Nation

The City's labor-force-participation rate for teenagers was 27.2 percent in 1998, almost half of 52.8 percent in the nation. The City's youth labor-force-participation rate deteriorated from its record high of 39.4 percent in 1967 to its record low of 22.0 percent in 1992. However, the gap between the City's rate and the nation's rate widened the most, 30.5 percentage points, in 1987. Since 1992, the City's youth labor-force-participation rate has been rising slowly and it reached its high of 27.6 percent in 1997, after which it fell to 1998's 27.2 percent rate. (See Chart 1.)

Chart 1. Youth Labor-Force-Participation Rate, NYC vs. U.S., Percent, 1967-1998



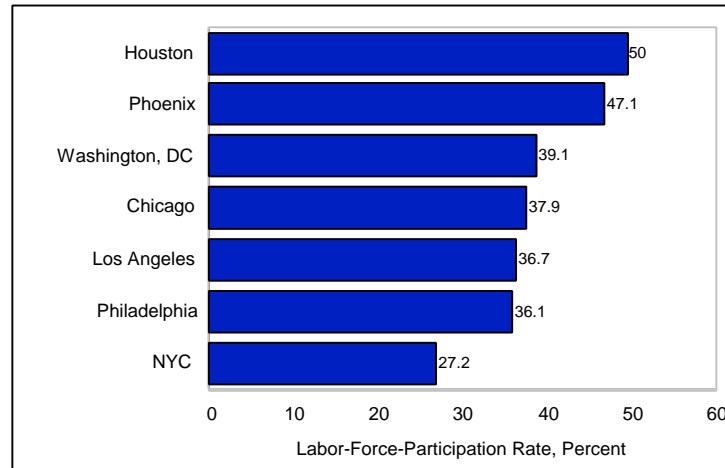
Source: NYC Comptroller's Office computation of differences, based on unpublished data from U.S. Bureau of Labor Statistics (BLS), March 2001. The bars represent the percentage-point differences between the U.S. and NYC rates.

The City's youth unemployment rate is more worrisome when this labor-force-participation rate is taken into account. The nation has a higher labor-force-participation rate than the City and a lower unemployment rate; the City has a much lower labor-force-participation rate, but a much higher unemployment rate. This implies that the City's youth unemployment rate might be construed as understated when compared with the nation's.

2. NYC vs. Other Large Cities

Compared with six other large cities ("central cities" in U.S. Census Bureau parlance, i.e., core incorporated cities rather than statistical aggregations of urban counties as described in the next section), NYC had the lowest teenage labor-force-participation rate. Philadelphia had the next lowest rate, 36.1 percent, and Houston had the highest rate, 50.0 percent. (See Chart 2.)

Chart 2. *Youth Labor-Force-Participation Rate, NYC and Six Other Large Cities, 1998*



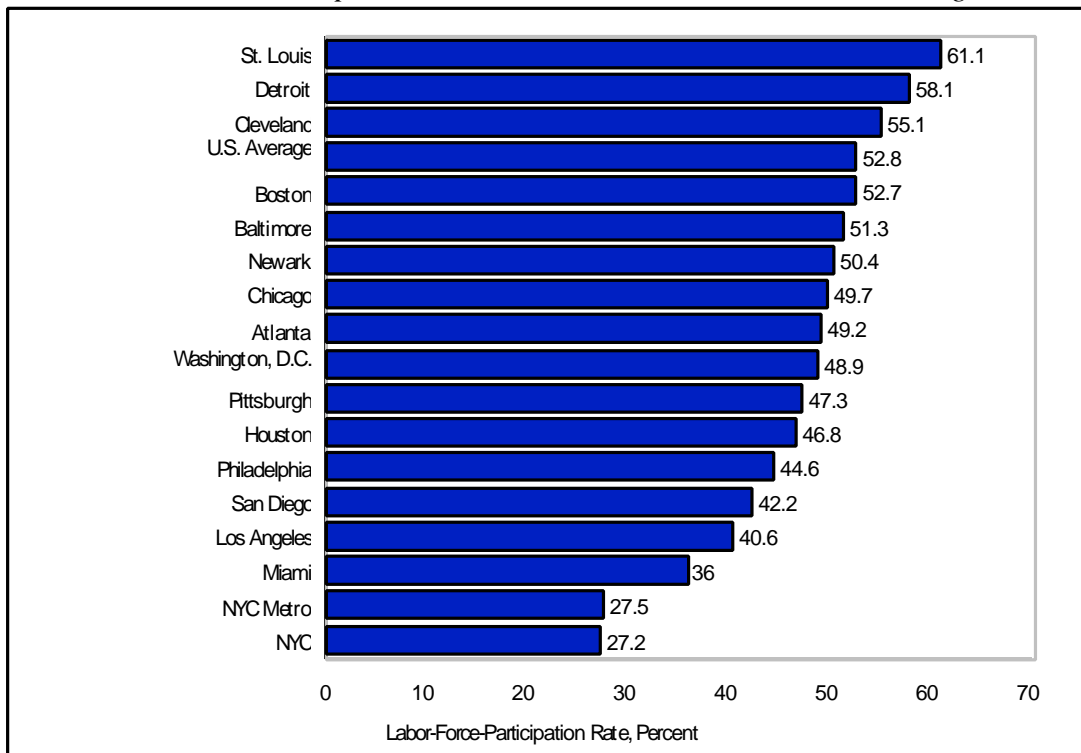
Source: Published data from the BLS. Cities = "central cities" as defined by the U.S. Census Bureau.

3. NYC Metro vs. Other Large Metro Areas

Compared with the 15 other largest metro areas, the NYC metro area (i.e., the primary metro area composed of the central city and three NY State counties to the north)¹ had the lowest labor-force-participation rate and St. Louis had the highest, 61.1 percent. (See Chart 3.)

1. "Metro areas" are statistical aggregations of urban counties first assembled in 1949 by the U.S. Budget Bureau (now OMB), and now by the U.S. Census Bureau, to describe urban spheres of socio-economic influence. The concept is of "a core area containing a large population nucleus, together with adjacent communities having a high degree of economic and social integration with that core." Typically jobs are located at the center of a metro area and workers live in surrounding counties as well as downtown. The aggregation is for most of the country called a "Metropolitan Statistical Area," or MSA. For very large metro areas such as the NYC metro area, the Census Bureau goes a step further and aggregates several MSAs such as Long Island and Northern New Jersey into a "Consolidated Metropolitan Statistical Area" or CMSA. The NYC CMSA extends from New Haven to Trenton. Within each CMSA, the building blocks are the "Primary Metropolitan Statistical Areas" or PMSAs. The NYC PMSA is composed of NYC's five boroughs or counties and three more counties to the north, i.e., Putnam, Rockland and Westchester counties. To complete the picture, New England has its own metro-area definitions, which complicates the NYC CMSA because five of its PMSAs are in Connecticut. The Boston metro area includes ten counties, of which three are in New Hampshire. See U.S. Census Bureau, *Statistical Abstract of the United States: 2000*, pp. 908-917.

Chart 3. *Youth Labor-Force-Participation Rate, NYC Metro Area and 15 Other Large Metro Areas, 1998*



Source: Published data from BLS. The NYC metro is the “PMSA,” composed of the five boroughs and three NY State counties immediately north of NYC. See note 1 on p. 3.

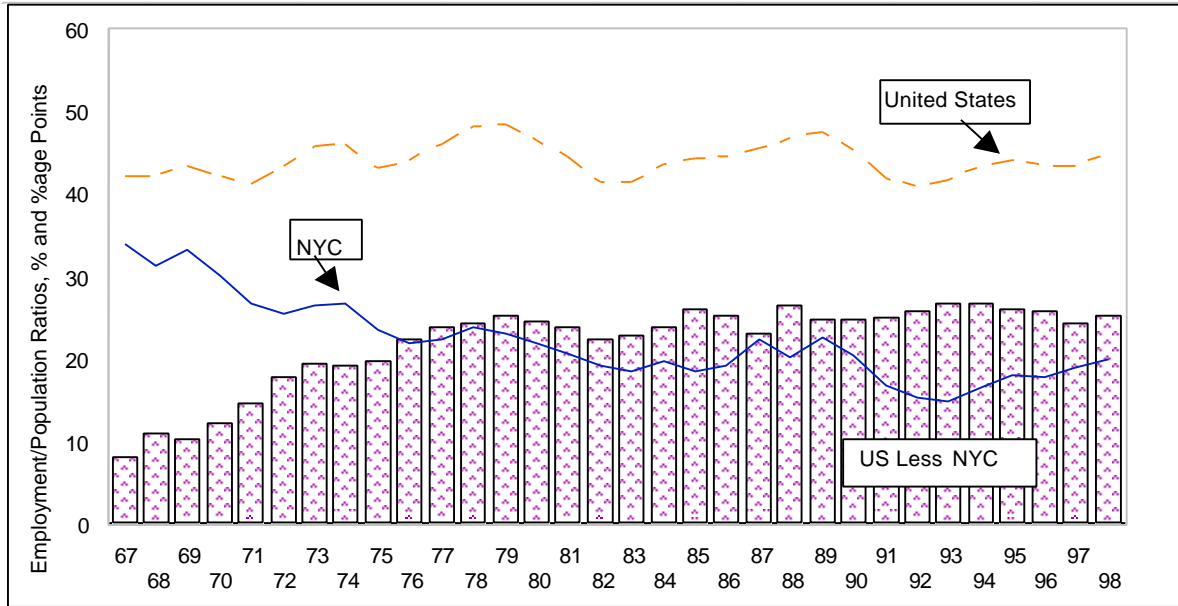
B. Youth Employment/Population Ratio

The teenage employment/population ratio measures the number of teenagers employed as a percent of the total teenage population.

1. NYC vs. Nation

The 1998 employment/population ratio for the City was 19.9 percent, less than half the U.S. ratio of 45.1 percent. In 1992, this ratio was 15.3 percent for the City and 41.0 percent for the nation. (See Chart 4.)

Chart 4. Youth Employment/Population Ratio, NYC vs. U.S., 1967-1998

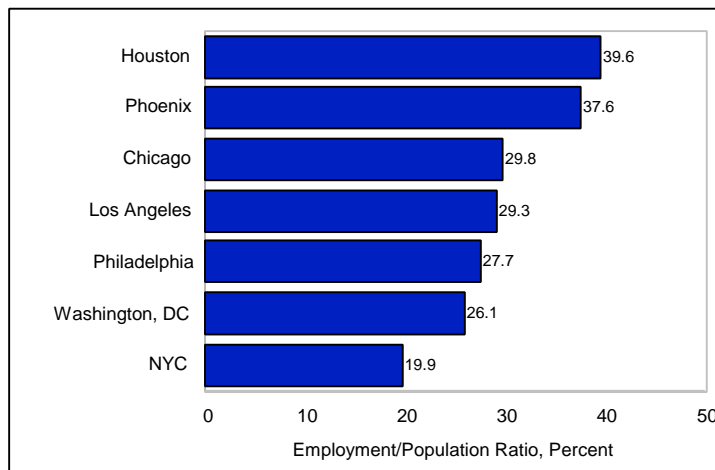


Source: See Chart 1.

2. NYC vs. Other Large Cities

Compared with six other large cities (i.e., "central cities," or incorporated core cities), NYC had the lowest employment/population ratio and Houston had the highest, 39.6 percent. (See Chart 5.)

Chart 5. Youth Employment/Population Ratio, NYC and Six Large Cities, 1998

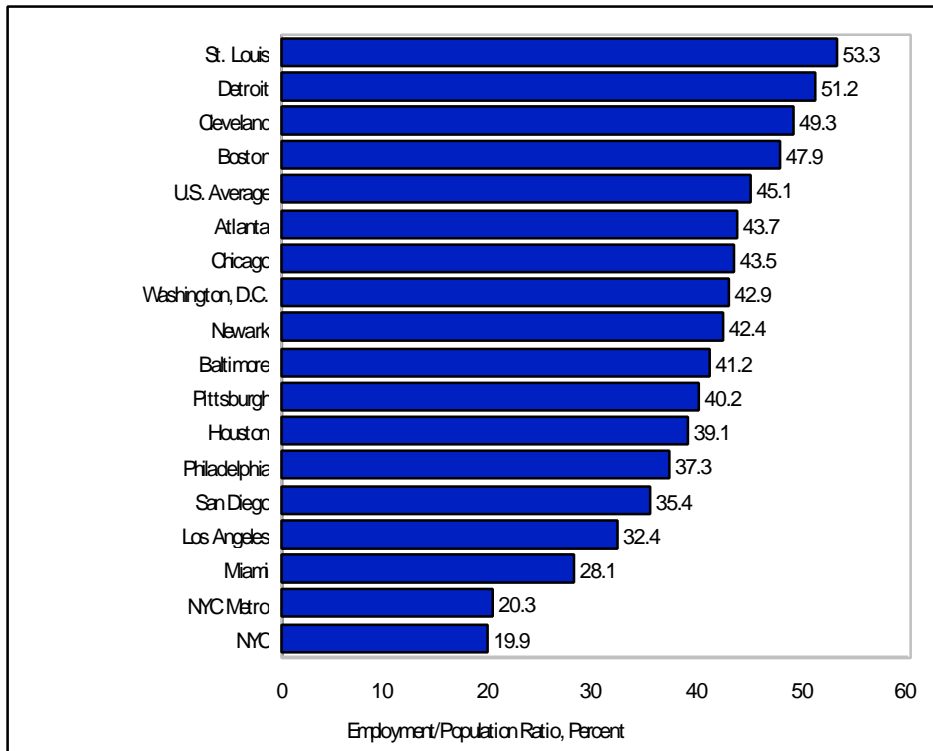


Source: Published data from the BLS. Cities = "central cities" as defined by the U.S. Census Bureau.

3. NYC Metro vs. Other Large Metro Areas

Compared with 15 other large metro areas (see definition in note 1 on p. 3), the NYC metro area had the lowest employment/population ratio, 20.3 percent. St. Louis had the highest ratio, 53.3 percent. (See Chart 6.)

Chart 6. *Youth Employment/Population Ratio, NYC, NYC Metro and 15 Other Large Metro Areas, 1998*



Source: See Chart 3. For definition of metro areas, see note 1 on p. 3.

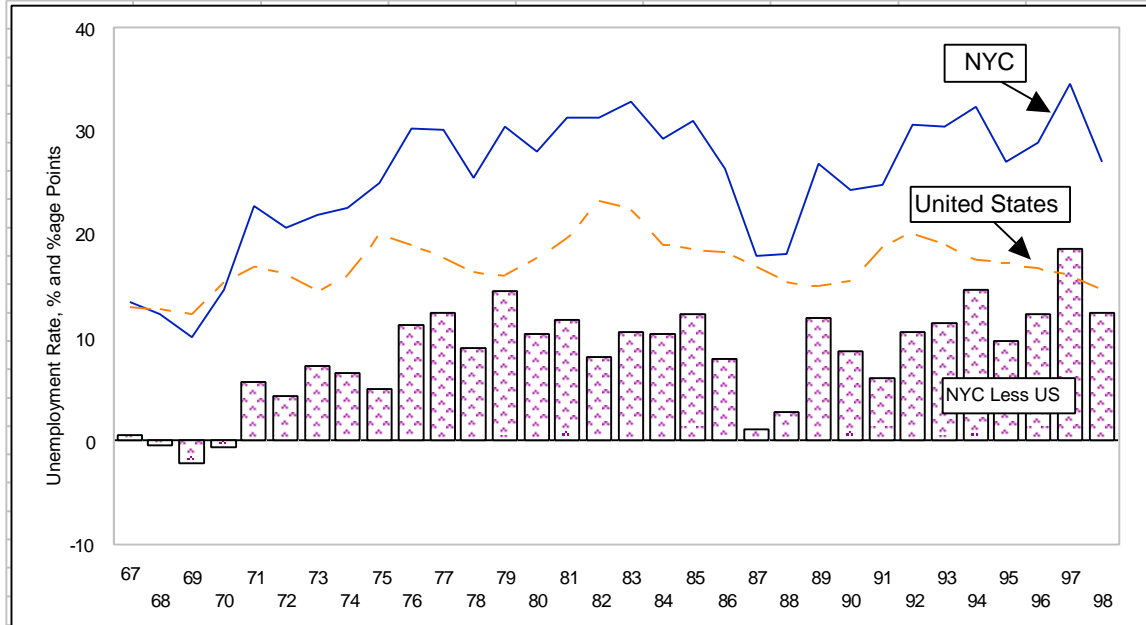
C. NYC's Youth Unemployment Rate

The latest civilian data show that the City's teenage unemployment rate remains high despite improvement in the economy. The City's lowest teenage unemployment rate since 1967 was 17.9 percent in 1987. The rate rose after 1987, reaching a record high of 34.6 percent in 1997.

1. NYC vs. Nation

Although the City's youth unemployment rate dropped to 27 percent in 1998, it was almost twice the national rate of 14.6 percent. Also, the gap between the City's teenage unemployment rate and the nation's has widened. This gap, which had narrowed to one percentage point in 1987, widened again to a record high of 18.6 percentage points in 1997 before it narrowed to 12.4 percentage points in 1998. (See Chart 7.)

Chart 7. Youth Unemployment Rate, NYC vs. U.S., 1967-1998



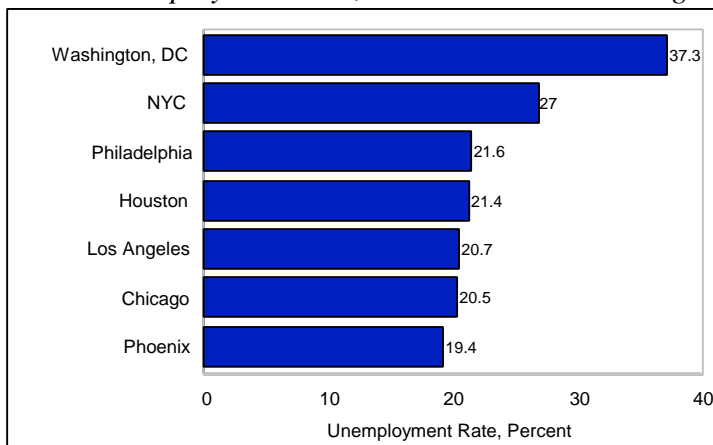
Source: See Chart 1.

The City's teenage unemployment rate was at its lowest on record, 10 percent, in 1969. The rate rose to its peak, 34.6 percent, in 1997. This rate has been above 20 percent in the City since 1970, except for 1987 and 1988, when it was about 18 percent. On the other hand, the national rate of teenage unemployment has been below 20 percent since 1967, except for the recession years of 1982, 1983, and 1992, when the rate was in the 20-22 percent range.

2. NYC vs. Other Large Cities

Compared with six other large U.S. cities ("central cities," or incorporated core cities), NYC had the second-highest teenage unemployment rate, 27.0 percent. Washington, DC had the highest, 37.3 percent, Phoenix the lowest, 19.4 percent. (See Chart 8.)

Chart 8. Youth Unemployment Rate, NYC and Six Other Large Cities, 1998

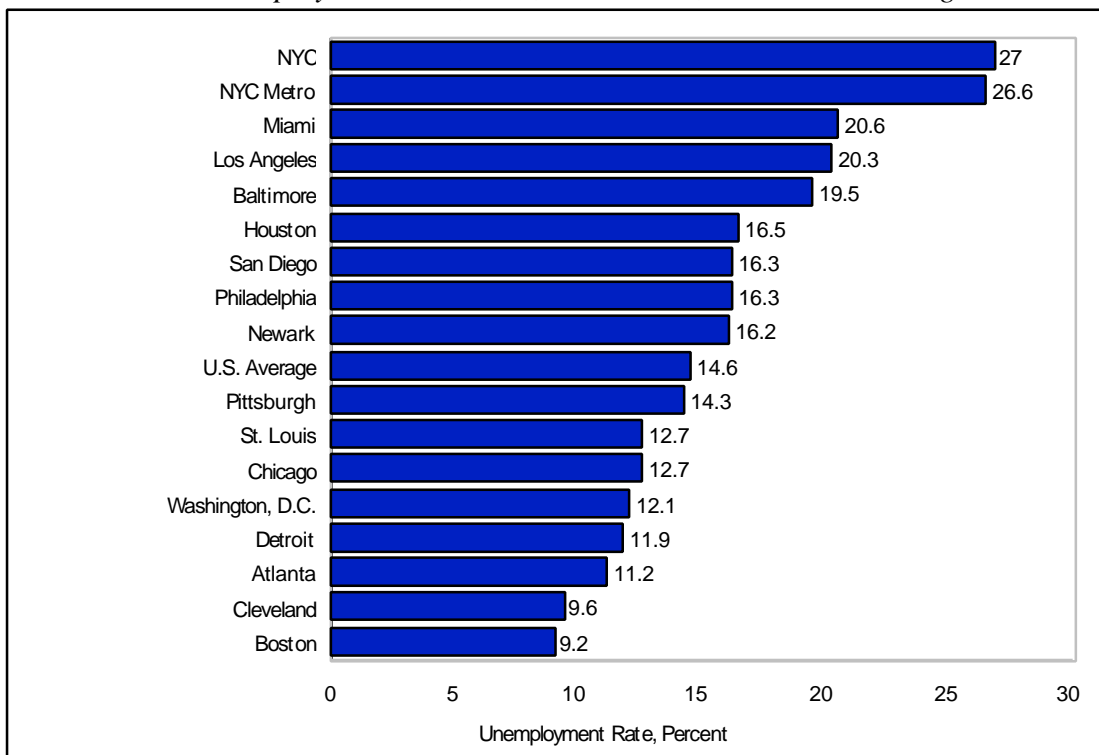


Source: Published data from the BLS. Cities = "central cities" as defined by the U.S. Census Bureau.

3. NYC Metro vs. Other Large Metro Areas

Also compared with 15 other large metro areas, the NYC metro area had the highest unemployment rate among teenagers. After the NYC metro area (and NYC), Miami had the highest rate of teenage unemployment rate, 20.6 percent, and Boston had the lowest rate, 9.2 percent. (See Chart 9.)

Chart 9. *Youth Unemployment Rate, NYC, NYC Metro, and 15 Other Large Metro Areas, 1998*



Source: See Chart 3. For a definition of metro areas, see note 1 on p. 3.

The City's youth unemployment rate becomes more worrisome when the labor-force-participation rate is taken into account. Although the City has a much lower labor-force-participation rate than the nation, it has a much higher unemployment rate. This implies that the City's unemployment rate is, by one standard, an understatement of the employment problem for this group. Labor-force-participation rate data are analyzed in the following section.

D. Policy Implications: Recommendations

Three contributing reasons for NYC's high youth unemployment rate are: (1) The expectation by today's employers of work-ready employees with skills. (2) The high level and changing nature of skills required by the City's employers. (3) The lack of sufficient entry-level and low-skilled jobs. These problems require short- and long-term programs.

1. Short-Term Remedies: Gearing Up for Immediate Response

The immediate challenge for the City is to deal with the potential double-pincer effect, because of the downturn, of more teenagers looking for work and fewer employers offering jobs:

- *Help Students Become Ready for the Workplace.* The concentration of high-skilled professional jobs in

the City has set a high minimum standard for the entry-level applicants. This makes it difficult for youngsters to find jobs if they have not acquired basic reading, writing, computer, and telecommunications skills. To bring all students a step closer to the workplace, an especially sharp focus is needed to help students who do not wish to go on to college, to ensure that they have skills to offer to obtain an entry-level job. In the short term, this may mean courses on workplace readiness. In the longer term, it may require taking steps to ensure that vocational programs are linked to concrete employment prospects.

- *Support a Public-Private Effort to Create More Summer Jobs.* A specific and productive way to introduce students to the workplace, and employers to students (without requiring the employers to make a long-term commitment), is through summer jobs. The economic downturn threatens summer-jobs programs. A special promotional and awareness effort by the City government and by NYC business associations is needed to ensure that the summer-jobs programs are fully functioning in the summer of 2001. **To play a part in this effort, the official web sites of State and City agencies should have a direct link to programs that offer a path to summer jobs.**
- *Sponsor More Apprenticeships for Out-of-School Unemployed Teenagers with local industries and unions.* Public-private apprenticeship programs are useful and should be promoted, especially for demographic groups with consistently high unemployment rates, such as black and Latino teenagers. In the longer term, work-study programs for high schools would provide a needed connection between the workplace and the schools.
- *Attract, Keep, and Grow More Entry-Level Jobs.* The City government must continue to implement policies that encourage businesses to locate and grow in NYC. For unemployed teenagers, the greatest need is for more entry-level and low-skilled jobs, to lower barriers to the workplace. Such jobs are most likely in the expanding retail sector or in pockets of specialty-niche manufacturing businesses.

2. The Longer-Term Problem

A concerted longer-term effort is needed to bring the teenage unemployment rate down, to close the gap between the City's rate and the nation's. This is a problem with a history, and some existing economic-development programs in NYC have had a focus on job training and job creation. The steady decline of manufacturing in the City and the economy's increasing reliance on skilled services for its growth in jobs and incomes make job training especially important. Job training is needed both to increase the number of NYC residents who are working and independent, and to make the City economy a viable competitor with other services centers. But the big job-training programs have suffered from big problems:

- *Job-training programs have failed to ensure that a job existed at the end of the training.* Commonly, the customer was seen as the trainee, independent of the employer that might hire the trainee. The trainers were not accountable, nor were the trainees. It did not work. The Federal Workforce Investment Act (WIA), enacted in 1998 and effective July 2000, recognizes this problem and empowers local boards with substantial business representation to take charge of training programs to ensure they produce employable graduates.² But its eligibility conditions are restrictive because the programs are targeted at the poor, the unskilled, and the unemployed. The WIA programs need broader applicability, to include people who need training but do not qualify for the WIA. Many teenagers fall in this category.
- *Job-creation programs have lacked accountability for creating jobs.* Commonly, employers have been given tax abatements in return for promises to retain or increase jobs in the City. The cost to the City's taxes has ranged upward from \$2,000 per job, and in some cases exceeds \$50,000 per job. Several studies have shown that these promises have in many cases not been kept; yet the employers

2. More information on the WIA is available at www.nab.com.

have continued to benefit from the tax abatements. Not only did some employers not create new jobs or retain existing ones; some have in fact reduced their payrolls with large layoffs or moveouts to suburban locations. Some programs have performance standards built into their agreements, but they are after-the-fact.³ By contrast, New Jersey has a program that rewards employers only after they create the jobs, and the cost per job is less than for many NYC programs. This program is called the Business Employment Incentive Program, commonly known by its acronym "BEIP." Under this program, employers do not receive a reward for creating a new job until after the new employee is on the payroll and has had income taxes collected. According to the State of New Jersey, the cost per verified BEIP-subsidized job created is \$11,000.⁴

3. Longer-Term Remedies: A New Plan, "CEIP," for Creating Jobs for NYC Residents

To sum up the previous section, a major problem with existing NYC job-creation programs is the disconnect between the incentive and the desired corporate behavior. To address this problem, the Comptroller proposes a new three-part program for NYC, to be called the *Comprehensive Employment Incentive Program (CEIP, pronounced "Keep!")*. It would provide employers with the incentive to hire and train NYC residents. The first part relates to job creation, the second to training, and the third to linkage with related new programs already being implemented:

- *For job creation*, CEIP would encourage **small-business employers** (500 employees or fewer, as defined by the Small Business Administration) to **create new jobs for City residents**. It would do this by **providing employers with a tax credit** (against the employer's income or property taxes) **of up to 75 percent of the City personal income taxes withheld from the new employees, or \$2,000** (whichever is lower) **per new employee per year, for five years**. The tax credit would reward the employer for creating the job.
- *For training*, employers who participate in the job-creation program would also be required to have an acceptable plan for paying for the training of their workers. Under CEIP, **employers would be reimbursed for the cost of providing training to their NYC-resident employees through a tax credit of up to \$2,000 per employee per year**. The tax credit would be to the employer and would depend on how large a share of the employee's tuition the employer pays. This provision would support the job-generating role of small businesses, which have been the main source of the City's new jobs. It would have the additional advantage of encouraging more interactions between businesses and educational institutions, which has been a key to the success of high-tech centers like Route 128 and Silicon Valley. CEIP would create incentives for employees to undertake training that leads to a job. It would allow employees to select which program to attend (among options agreed to by the employer). It would allow the employer to set the terms for reimbursement of tuition (some businesses may choose to pay the full cost of tuition only to students who receive a "A" or "A-" in their course). Finally, it would encourage employers to provide a job or promotion after the training.
- *For ease of administration*, CEIP would be **added to and made an integral part of the offerings of the new Workforce Investment Board (WIB) One-Stop Centers**. CEIP would expand eligibility of visitors to the One-Stop Centers, since eligibility for the WIB training vouchers may be severely restricted, for example to those unemployed or the unskilled. CEIP would thereby facilitate the work of the WIB One-Stop Centers, of which the first is now in place in Jamaica, Queens. With businesses cutting back on their in-house training programs, CEIP could assist poor and middle-class workers burdened with the need to pay for their own continuing education and not otherwise covered by the WIA.

3. Some NYC economic development programs are described in www.ci.nyc.ny.us.

4. BEIP is described in www.jcedc.org.

4. Attract Specialized Manufacturing to New York City

Manufacturing was an important source of low-skilled jobs for New York City, accounting for 30 percent of jobs in the City in 1950. These jobs have since been lost to low-cost developing countries. As a result, manufacturing represented only 6.5 percent of the City's jobs in 2000. While the City's cost structure may not be attractive to mass-production operations, the City could still attract high quality and customized manufacturers with a package such as the following:

- *Designate some areas as industrial communities.* These designated areas should be entitled to apply for changes in zoning, easing limitations on industrial activities.
- *Encourage the creation of industry clusters in designated areas and develop place-specific economic programs for these industries in these designated areas.*
- *To stimulate export activities and retain and attract manufacturing businesses, eliminate the property and the payroll factors in the income-allocation formula for manufacturers.*

The third of these proposals requires explanation. All corporations doing business in the City unless specifically exempted must pay a general corporation tax. This is based on the entire net income of the corporation, or, in the case of a corporation operating outside of the City, on the portion of the net income that is attributed to the City. The City currently uses an apportionment formula that consists of the proportion of payroll, property, and receipts attributable to the City, as follows:

$$[(\text{NYC Receipts}/\text{Total Receipts}) + (\text{NYC Property}/\text{Total Property}) + (\text{NYC Payroll}/\text{Total Payroll})] / 3$$

For example, if ABC Manufacturing has 75 percent of its payroll and property in NYC, but sells only 50 percent of its goods in the City, it will have $[(.75+.75+.5)/3] = 66.7$ percent of its income allocated to the City.

This formula discourages ABC from exporting, and punishes businesses that undertake most of their productive activities in the City. Why should a multi-state business like ABC be taxed more for simply producing more of its goods in the City, even though it may derive a small share of its revenues from sales in the City?

To encourage manufacturers to locate in the City and engage in export activities, **the City should drop the payroll and property factors in the income-apportionment formula for manufacturing employers.** In the case of ABC, only 50 percent of its income would be allocated to the City under the new proposal, as opposed to 66.7 percent under current law. If ABC decided to undertake 100 percent of its activities in the City, but exported 80 percent of its goods to other jurisdictions, the income allocated to the City would be 20 percent, as opposed to 73.3 percent under current law.