NEW YORK STATE'S UNPRECEDENTED COVID-19 UNEMPLOYMENT CRISIS REQUIRES A COMPREHENSIVE, IMMEDIATE ACTIVE LABOR MARKET RESPONSE

A policy brief by James A. Parrott

January 13, 2022





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Acknowledgments

Funding support provided by the Robin Hood Foundation, JPMorgan Chase Foundation, New York City Workforce Development Fund, New York Community Trust, 21st Century ILGWU Heritage Fund, and Consortium for Worker Education. Thanks also go to Bruce Cory for editorial assistance, to Andrea Llinas Vahos and Brent Kramer for research support, to Isabella Wang for designing the report webpage, and to Kristin Morse and Seth Moncrease for general support.

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New York State's unprecedented Covid-19 unemployment crisis

The immediate imperative to contain the current wave of Omicron infections should not deter New York's leaders from acting now to decisively respond to our state's pandemic unemployment crisis.

The U.S. Senate failed to enact the President's urgently needed Build Back Better bill, and the moment has likely passed when one might expect to see additional Federal pandemic economic assistance. Nationally, Gross Domestic Product reached new highs and unemployment dropped to 3.9 percent in December. It is likely the Federal Reserve will soon raise interest rates to dampen consumer demand (and with it, employment growth), to rein in inflation. However, New York State's economy and its job market are lagging far behind.

Governor Kathy Hochul's responses to date, while supporting hotels and their workers and encompassing several other critical elements, do not address the full spectrum of dislocated workers and businesses. The Omicron wave has again set back recovery, but it was already very much a lagging and halting recovery in New York. The official State forecast doesn't see New York reaching its pre-pandemic employment level until 2024. Thousands of restaurants, neighborhood retail stores, and arts and entertainment activities and their workers have been battered by shutdowns and pervasive uncertainties.

There is no doubt that hundreds of thousands of economically dislocated New Yorkers still need assistance. New York also needs a clear workforce-oriented economic strategy to recover in the next year or two, not in the next three to five years. Portions of the \$12.8 billion in fairly flexible Federal fiscal relief that New York State has received should be used to fund both renewed economic assistance and a workforce-oriented economic strategy involving large-scale wage subsidy and a substantial workforce redeployment capacity. It should be clear by now that New York's Covid-19 ravaged labor market is not going to heal itself.

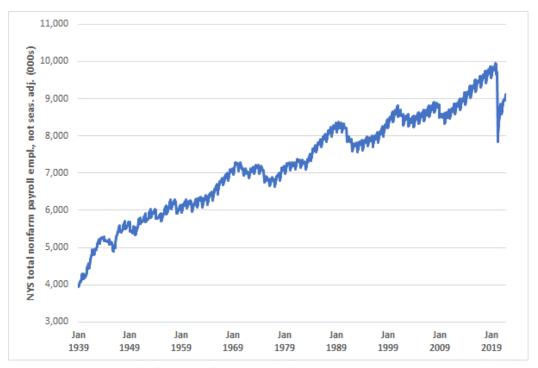
The Empire State's eight percent jobs deficit is the most severe in 80 years (see Figure 1). Our relative job loss is more than three times the national average (-8 percent vs. -2.5 percent). New York has 786,000 fewer jobs than it did 21 months ago. That is 21 percent of the nation's total jobs deficit. It's not just a New York City issue; the suburbs and Upstate combined have lost 7.5 percent of pre-pandemic jobs, a record by itself worse than 48 other states (Hawaii is the exception). New York's pandemic job losses as of November are much greater than in prior downturns: in New York City (-444,000); the Downstate suburbs (-163,000), and in Upstate regions (-178,000). Our recent report, New York State's *Lagging Recovery from the Covid-19 Pandemic*, documents the pandemic's impact on the state's workforce and businesses. Figure 2 shows how much worse New York's job deficits are than the nation's.

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¹ James A. Parrott, *New York State's Lagging Recovery from the Covid-19 Pandemic*, Center for New York City Affairs (CNYCA) at The New School, December 14, 2021. http://www.centernyc.org/reports-briefs/new-york-states-lagging-recovery-from-the-covid-19-pandemiced-tkndj

Figure 1

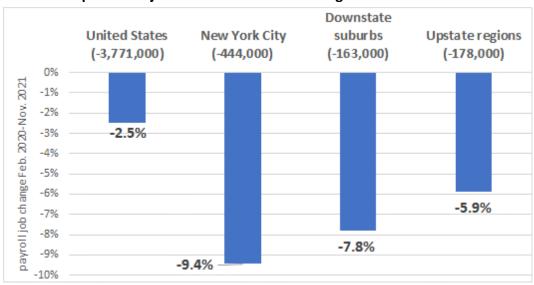
New York State's pandemic-induced job losses are the worst since the Great Depression



Source: CNYCA analysis of Bureau of Labor Statistics (BLS) Current Employment Statistics data.

Figure 2

New York's pandemic job deficits are 2-3 times as great as the nation's



Source: CNYCA analysis of BLS and NYS Department of Labor data.

The pandemic has changed the economy, and it has changed workers

Current widely experienced supply chain disruptions are just one manifestation of the pandemic-transformed economy. There are and will be others. Many businesses and jobs, including neighborhood mainstay retailers and restaurants, are not coming back. Many other jobs are changing in response to health concerns, worker preferences, technology, and the ways that other businesses are adapting. Some industries, such as health care that the Governor highlighted in her State of the State address, will expand faster than they were previously, and in different ways. The nature of employer demands for worker skills is changing and workers are reassessing their employment options and opportunities on a scale not previously seen.

And yet our labor and re-employment policy nationally and in New York essentially comes down to: "Everything will sort itself out just fine, it's only a matter of time." That mindset is risky at the national level; for New York, it is a recipe for a prolonged and racially disparate unemployment crisis. New York's economic history and the current reality are pretty clear on that score.

The pandemic's economic effects have been fundamentally lopsided. While hundreds of thousands of low-paid workers and small business owners in face-to-face service industries lost their livelihoods to protect public health, incomes have risen for the great majority of high-income earners not losing jobs. More than seven out of every 10 jobs lost in New York have occurred among the low-paid face-to-face industries where annual wages are about one-third of the \$153,000 average for workers in finance, tech, information, and professional services where most workers continue to work (safely and conveniently) on a remote basis. Wall Street and big tech companies are flourishing. On the other hand, those without a four-year college degree suffered more than two-thirds of pandemic job losses. Workers ages 18-24 were disproportionately affected, and dislocated workers were much more likely to be workers of color.² Essential workers in health and human services on the frontlines have seen their ranks thinned while job demands and health risks have mounted. Wages have risen by 6-11 percent in remote-working industries over the past year while few face-to-face workers outside of restaurants have seen higher wages.

The pandemic's lopsided economic impact

The pandemic's lopsided economic impact is clearly evident in the wide disparity between job loss and the growth in tax collections over the past two years. Through the first half of this fiscal year (April-September), State tax collections were nearly 25 percent greater than two years ago.³ Reflecting higher wages for finance and tech workers, income tax withholding collections were up by 15 percent compared to the same months in 2019 despite the fact that total employment was 10 percent less during this six-month period in 2021 vs. the same period two years earlier.

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² See *New York State's Lagging Recovery* for details on the demographic and industry characteristics of Covid-19 job displacements, Figures 12 and 13.

³ New York State Department of Taxation and Finance, *Monthly Tax Collection Reports*.

In addition to the deadly impact Covid-19 has had, taking the lives of 60,000 New Yorkers, the pandemic also unleashed a new strain of inequality. It is generating profound economic disparities that have compounded an already-top heavy income distribution on top of disturbing disparities in health outcomes by race, ethnicity, and community.

Official employment projections affirm we have an unemployment crisis that won't end soon

In its FY 2022 Mid-Year Budget Update, the State's Division of the Budget projects that New York State will not reach its pre-pandemic employment level until 2024.⁴ New York City's Independent Budget Office recently updated its city jobs forecast, pushing out by a year-and-a-half the point at which the city's pre-pandemic jobs level will be reached to late 2025.⁵ That would consign low-income workers, workers of color, and young workers who have borne the brunt of pandemic job dislocations to unemployment rates in the 10-14 percent range for at least another two to four years. That "build back some day" scenario would likely entail considerable individual, economic, and societal costs. Following the past three most recent economic downturns, New York City's Black and Latinx workers endured several years of double-digit unemployment rates. For example, for the five years following the 2008-09 Great Recession, which had job losses far less severe than the pandemic's, Black unemployment averaged 13.4 percent and Latinx unemployment averaged 11 percent.⁶

Federal Covid-19 relief was substantial but it has mostly run out

New York State's people, businesses, governments, health care providers, and educational institutions have received \$283 billion in Federal Covid-19 relief funding since March 2020. Two-thirds of all of the relief funds have gone to individuals and businesses, but at this point, almost all of the assistance available to individuals and businesses has expired. The Federal Employee Retention Credit that had provided businesses whose revenue had fallen by 20 percent or more up to \$7,000 per employee per quarter ended on September 30, 2021.

When Federal unemployment benefits ended in early September, over 1.5 million New Yorkers lost aid that had been averaging \$500-\$600 weekly, and the last advance payment of up to \$300 per month (per child) in Child Tax Credits under the American Rescue Plan Act (ARPA) was paid out on December 15. The unprecedented scale of Federal aid had kept poverty from skyrocketing during the pandemic. The Child Tax Credit alone meant a 5.1 percentage point reduction in national child poverty compared to what the monthly poverty rate in November

⁴ NYS Division of the Budget, FY 2022 Mid-Year Update, p. 79.

⁵ New York City Independent Budget Office, *Modest Budget Shortfalls Projected, But Risks To Outlook Increase as Infections Surge*, January 2022.

⁶ New York State's Lagging Recovery, Figure 21.

⁷ Derek Thomas and James A. Parrott, *New York City's Covid-19 Federal Relief Funding: Implications for Human Services and Workforce Development*, Center for New York City Affairs at The New School, December 16, 2021. http://www.centernyc.org/reports-briefs/new-york-citys-covid-19-federal-relief-funding-implications-for-human-services-and-workforce-development

would have been in its absence.⁸ But the end of such assistance, despite the fact that there are eight percent fewer jobs today than at the pandemic's outset, means hundreds of thousands of New Yorkers face a bleak winter and an uncertain future when the State eviction moratorium expires on January 15. Funds under New York's \$2.4 billion emergency rental assistance program were largely paid out by the end of December, 2021, although only about a third of applicants were aided.⁹

Flashing warning signs in New York's labor market

The job market everywhere under Covid-19 is unsettled, with unpredictable interruptions and imbalances. Nationally, there were still 3.1 million workers unable to work in December because their employers were closed or had lost business due to Covid-19. Over 1.1 million people (nationally) had been prevented from looking for work in the previous four weeks due to the pandemic. Many workers, particularly women, nationally and in New York have cited caregiving and child-rearing responsibilities as factors in why they haven't returned to work. Since February 2020, 230,000 New Yorkers have dropped out of the labor force. Tens of thousands of older New York workers have either lost their jobs or left the labor force due to health concerns.

While labor force participation has not fully recovered at the national level, in New York City it was slightly higher in the third quarter of 2021 than in the pre-pandemic first quarter of 2020, indicating that the "great resignation" is much less of a factor here than in the nation overall. The overall employment rate is much lower relative to pre-pandemic levels in New York City than in the nation. For young city workers ages 20-24, the employment rate has plummeted from 56 percent to 45 percent during that time. ¹⁰ This substantial erosion in job opportunities for New York's young adults could undermine future skill levels and worker productivity and should be a paramount concern of City Hall and Albany policymakers.

There is a wide disparity in unemployment rates across states, and also across race-ethnic groups within New York State. These pronounced disparities suggest that factors such as the variance in business conditions related to our mix of industries and the continuing effects of past and present racial discrimination play a large role in explaining why particular workers are jobless. While much has been made nationally of record rates of job openings and workers quitting jobs, the latest state data show that New York State ranks lowest or second-lowest in job openings, hires, and quits.¹¹

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⁸ Columbia University Center on Poverty & Social Policy, *November Child Tax Credit payment kept 3.8 million children from poverty*, December 15, 2021.

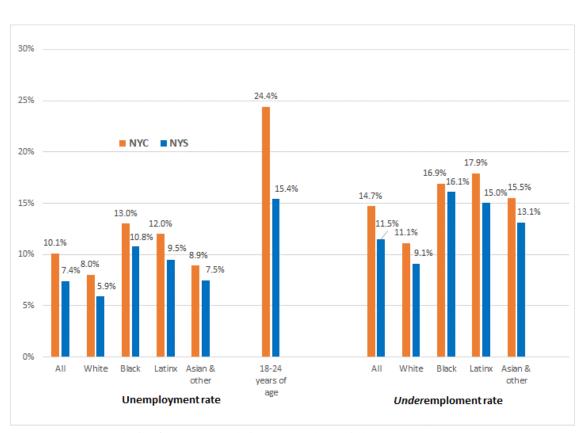
⁹ Columbia University, Center on Poverty & Social Policy and Robin Hood, *Poverty Tracker: The looming eviction crisis is likely to exacerbate racial and economic inequity in New York City and requires bold policy action*, January 2022.

¹⁰ Although the labor force participation rate for New York City workers 65 and older was higher in the third quarter of 2021 than in the first quarter of 2020, the 65+ share of the workforce would have been much higher than 6.8 percent if it had continued growing at the average annual rate it had in recent years. New York City labor force participation rates and employment-to-population ratios analyzed on a six-month moving average basis, CNYCA analysis of Current Population Survey data.

¹¹ Bureau of Labor Statistics, State Job Openings and Labor Turnover—October 2021, December 17, 2021.

Figure 3 shows the disparities in unemployment and underemployment rates between white workers and workers of color for the third quarter of 2021. For example, while New York State's unemployment rate for white workers was 5.9 percent, it was 10.8 percent for Black workers, and 9.5 percent for Latinx workers. Underemployment rates that add involuntary part-time work and discouraged workers to the regular unemployment rate are much higher, ranging from 13-18 percent for workers of color. The figure also shows that regular unemployment rates for New York's young workers, ages 18-24, are over 15 percent statewide and more than 24 percent in New York City.

Figure 3
New York City and State unemployment and *under*employment rates by race and ethnicity and for workers ages 18-24, third quarter 2021



Source: CNYCA analysis of Current Population Survey data, third quarter 2021.

Racial and other labor market inequities have mounted. Nearly half (47 percent) of New York's unemployed have been jobless for more than six months. ¹² The individual and societal costs of long-term unemployment are considerable and are mounting all across the state. Long-term unemployment is associated with an erosion of worker skills and productivity, permanently

¹² CNYCA analysis of Current Population Survey data.

lower wages, worse mental and physical health, higher mortality. A parent's job loss also hinders their children's educational progress and reduces their future earnings. ¹³

New York needs an active labor market policy to provide a more targeted response to connecting Covid-dislocated workers with promising job openings, one that provides additional skills training or education where necessary. There is not likely to be any additional Federal Covid-related economic assistance. We can expect much-needed physical investments as a result of the infrastructure bill, but New York needs to use the considerable Federal fiscal relief now in hand to repair and right-size our jobs base, the key to our human infrastructure.

To respond to New York's current unemployment crisis, an active labor market policy is needed

Some struggling small businesses might still be saved. A practical and workable solution is to provide wage subsidies on a targeted basis to workers and small businesses most in need. That should be coupled with greater State investment in workforce retraining programs to enable more residents to trade up to better jobs, including to fill openings in tech-related fields, health care, and other businesses that could grow provided they have a skilled workforce. Wider use of apprenticeship programs can play a critical role in boosting the earnings potential for non-college-bound young adults and meeting business needs for higher-skilled workers. This memo summarizes government's economic response to Covid's disruptions and outlines an active labor market response for New York.

Senators Ron Wyden, Cory Booker, and colleagues introduced the Jobs for Economic Recovery Act (S. 784) in March after ARPA was enacted. It would have provided Federal funding for a wage subsidy program to support a more equitable recovery. But support faded among lawmakers as jobs rebounded in some states and opposition among conservatives mounted to further Federal funding amidst rising inflation concerns. Such concerns also contributed to the recent failure in the Senate to enact President Biden's Build Back Better bill.

With little chance for additional Federal support, New Jersey and New York are stepping up programs to address the lagging recovery. In late September, New Jersey (where the pandemic jobs deficit is half that of New York's) announced a "Return and Earn" program that provides a 50 percent wage subsidy for up to six months and \$10,000 per worker receiving substantive on-the-job training. The New Jersey program also provides workers with a \$500 return-to-work incentive and supportive services, including childcare and transportation reimbursement to address barriers experienced by some workers in re-entering the workforce. 14

In early November, Governor Hochul announced \$250 million in economic assistance for the state's tourism sector, including \$100 million in \$2,750 one-time payments for 36,000 tourism sector workers, and \$100 million for a tourism return-to-work program providing employers up

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¹³ Austin Nichols, Josh Mitchell, and Stephan Linder, *Consequences of Long-Term Unemployment*, Urban Institute, July 2013.

¹⁴ https://www.nj.gov/governor/news/news/562021/20210927c.shtml

to \$5,000 per new full-time employee.¹⁵ With this added support, New York's tourism sector could eventually recover to a significant extent. And while New York has disbursed nearly \$625 million as of the end of November from a State-funded Small Business Recovery Fund¹⁶, the state's job recovery still lags far behind the nation, and many industries, businesses, and their workers face bleak prospects.

The Governor announced several critically important workforce initiatives in the State of the State address, including: raising pay for health care and human services workers, and expanding skill development and career opportunities for these essential workers; expanding apprenticeship programs; investing in education and skill development for incarcerated and formerly incarcerated persons; financially supporting non-degree workforce training at CUNY and SUNY; and establishing a new Office of Workforce and Economic Development to work with Regional Economic Development Councils and community colleges in more closely aligning workforce development programs with employer needs. The Governor laid out a vision for upgrading the state's public higher education system and shaping it to better prepare students for high-growth occupations. While these initiatives are laudable, if enacted they would unfold over the next two to five years. Unfortunately, nothing in her State of the State agenda responds to the urgency or scale of the current unprecedented unemployment crisis.

Wage Subsidy and Build Back Better Opportunities

An active labor market policy is needed that combines a targeted wage subsidy approach with substantial workforce investments to assist workers whose businesses are struggling to hold on, those whose jobs are not returning, and those seeking training or further education to qualify for better jobs. This will entail active outreach to dislocated workers, and a capacity to assess their abilities and aspirations and identify what training and supports are needed. An active labor market policy also requires a capacity to consult employers regarding their skill needs, identify and respond to labor market problems and developments, and anticipate emerging labor market opportunities. It requires a high degree of consultation at a local and regional level among employers, community colleges, workforce development providers, labor union training programs, labor market researchers, and government officials. Such consultation does not currently exist in New York that focuses on meeting the current unemployment crisis.

The State should invest \$400 million in a statewide wage subsidy program to aid 50,000 workers in returning to work and helping to retain as many as 8,000 small locally owned businesses. Many such small businesses, including many owned by persons of color or women, did not benefit significantly from Federal economic assistance and are struggling to stay in business as New York's rebound from necessary government-mandated social distancing business restrictions greatly lags the pace of recovery in other states. Hundreds of thousands of New York

¹⁵ "Governor Hochul Announces Major \$450 Million 'Bring Back Tourism, Bring Back Jobs' Inclusive Recovery Package," New York Governor's Press Office, November 8, 2021. The Governor's announcement also provided \$50 million for tourism marketing and business development activities, and included plans to introduce legislation to create a \$200 million program to aid businesses started just prior to or during the pandemic.

¹⁶ Office of the New York State Comptroller, Covid Relief Program Tracker, accessed Dec. 23, 2021.

workers, the vast majority of whom have now run through their unemployment benefits, are not working because their employers can't afford to bring them back while business recovers slowly. A State program that subsidizes up to 75 percent of hourly wages (up to \$25/hour) for 90 days would help jumpstart a return to work, helping both small business owners and their workers.

To incentivize businesses to retain workers whose wages are subsidized under this program, up to one-third of the wage subsidy would be withheld until the worker has been back at work for at least 180 days. The program could also provide a bonus equal to 10 percent of subsidized wages to businesses that retain a worker for a year following the end of the subsidy. Assuming an average wage of \$20 an hour, the wage subsidy would cost \$6,825 per worker. The program would be targeted to locally owned and minority- or female-owned small businesses in the most adversely affected industries (food services, retail, personal services, arts, entertainment and recreation, transportation, construction, and manufacturing) across the state that suffered a revenue loss of 20 percent between the months of April-September of 2021 compared to the same months in 2019.

The program would be run with outreach assistance provided by business associations, labor unions, and community-based organizations, coordinated through regional Workforce Development Boards or the Regional Economic Development Councils. The Consortium for Worker Education (CWE, serving New York City) and its statewide counterpart, the Workforce Development Institute (WDI) are well-positioned to help serve a coordinating function in working with local business organizations, community-based and labor union-related training programs, and CUNY and SUNY community colleges to provide the outreach, implementation assistance, technical support and program accountability.

During the post-9/11 economic crisis, CWE operated a Congressionally funded New York Citywide wage subsidy and emergency re-employment program reaching 18,000 workers. The program included training and placement services involving a large number of locally owned businesses across many industries around the city and was highly effective and well-administered. Both CWE and WDI have extensive experience coordinating an array of training programs and working with both union and non-union employers, and with community colleges and other workforce program providers. New York State and New York City should closely coordinate in designing and implementing this program, involving the appropriate State and City agencies as well as SUNY and CUNY institutions.

A large-scale wage subsidy program addresses New York's lagging recovery, helps retain struggling locally owned and minority- and female-owned small businesses and puts workers who have exhausted unemployment benefits back to work. When these returning workers then spend their wages, other local businesses and workers will also benefit. As noted before, nearly half of New York's jobless are long-term unemployed.

Wage subsidy programs have been utilized for decades around the country, including in New York City and State, both as a response to high unemployment labor market conditions, and to help disadvantaged workers overcome barriers to gaining skills and succeeding in career-advancing jobs. In its review of 40 years of subsidized employment programs, the Georgetown Center on Povety and Inequality concluded that subsidized jobs programs have a wide range of

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 $^{^{17}}$ The cost of this scale of wage subsidy program would be \$400 million (50,000 workers at \$6,825 = \$341 million) including funds to cover the retention bonus and administration and technical support.

benefits in not only generally raising earnings and employment for participants but also in reducing the need for public assistance, boosting workers' school completion, raising school outcomes for the children of workers, and reducing long-term poverty. Most evaluations that assessed benefits in relation to costs found them to be "highly cost effective." ¹⁸

In the aftermath of the 2008-09 Great Recession, the American Recovery and Reinvestment Act (ARRA) provided \$1.3 billion to expand or create wage subsidy programs in 39 states that created more than 260,000 subsidized jobs, mostly in the private sector. A Rockefeller Foundation-funded assessment of programs in Wisconsin, California, Florida, and Mississippi found that, among other things, wage subsidies particularly benefited the long-term unemployed and participants with significant barriers to employment, and that programs helped employers address their workforce needs. ¹⁹ Another evaluation of the ARRA subsidized jobs programs echoed many of these findings and concluded that the programs supported local economies by putting money into the hands of workers most likely to spend it, and that it was particularly effective in enabling low-income parents and youth to re-connect to the labor market and in building new skills. ²⁰ A random assignment evaluation prepared for the U.S. Department of Health and Human Services of a subsidized employment program for young adults in New York City found large improvements in employment and earnings. ²¹

New York State has the resources to implement an active labor market policy—it needs the will and a strategy now

A wage subsidy program accompanied by greater State investment in worker redeployment and workforce retraining programs would have multiple benefits. It would preserve businesses and jobs and enable more residents to trade up to better jobs, including to fill openings in tech-related fields, health care, advanced manufacturing, and other businesses that could grow provided they have a skilled workforce. Wider use of apprenticeship programs can play a critical role in boosting the earnings potential for non-college-bound young adults and meeting business needs for higher-skilled workers. Program funds could support innovative initiatives that place hard-to-employ workers in growth sectors, and sectors needed for an equitable recovery. This could include channeling young adults into mid-level tech careers, preparing workers for clean energy and other jobs to ameliorate climate change, developing new national models for the child care and elder care sectors, investing to support urban manufacturing of electric vehicles deployed by public agencies, and providing technical assistance support to expand worker cooperatives, among others.

¹⁸ Indivar Dutta-Gupta, et.al., *Lessons Learned from 40 Years of Subsidized Employment Programs*, Georgetown Center on Poverty and Inequality, Spring 2016.

¹⁹ Anne Roder and Mark Elliott, *Stimulating Opportunity: An Evaluation of ARRA-Funded Subsidized Employment Programs*, Economic Mobility Corporation, September 2013.

²⁰ LaDonna Pavetti, Liz Schott, and Elizabeth Lower-Basch, *Creating Subsidized Employment Opportunities for Low-Income Parents: The Legacy of the TAND Emergency Fund*, Center on Budget and Policy Priorities and CLASP, February 16, 2011. See, also: MDRC, *Subsidized Employment: A Strategy for Bad Economic Times and for the Hard-to-Employ*, February 2013.

²¹ Danielle Cummings, Mary Farrell, and Melanie Skemer, *Forging a Path: Final Impacts and Costs of New York City's Young Adult Internship Program*, Manpower Development Research Corporation, August 2018.

These programs should be part of a broader commitment to effectively address systemic problems at the root of racial and gender pay inequities and promote the full range of career choices needed by young New Yorkers. These workforce investments must occur alongside stable housing access, an equitable, and appropriately career focused, K-12 and higher education system, and a broadening of affordable, accessible and quality child care to enable parents, particularly mothers, to re-engage in the labor force.²²

The workforce training and placement program components of an active New York State labor market response will require an additional \$400 million (\$320 million for training 40,000 workers and \$80 million to place 50,000 workers), in addition to the \$400 million for the wage subsidy program (serving 50,000 workers). This total investment of \$800 million will allow New York to assist a total of 140,000 workers in reconnecting to jobs and enable tens of thousands of those workers to move up to better jobs.

Funding to build and operate the wage subsidy program, the labor market outreach and coordination system, and expanded workforce development programs should be a top priority for State policy makers. Fortunately, there are sufficient resources available to the State through the \$12.8 billion in Covid-19 Federal fiscal relief to finance this active pandemic labor market response. Moreover, such an investment is a key purpose for which the American Rescue Plan funds were intended.

This active labor market policy is market-oriented and geared to support New York's businesses in meeting changing skill and workforce demands, and it enables many workers to "build back better" by enhancing their skills and improving their career opportunities. New York needs this investment to effectively respond to the current unemployment crisis and the profound economic and labor market polarization and changes wrought by Covid-19. This investment is essential if we are to return to the pre-pandemic low unemployment rate environment that is a precondition for a more broadly shared prosperity.

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²² The modest \$75 million child care investment included in the Governor's State of the State address falls far short of what's needed to establish universal access to affordable and quality child care provided by a highly-skilled adequately-compensated workforce.