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Economic Development Committee Jointly with the
Select Committee on Lower Manhattan Redevelopment**

An Exploration of the City's Role in Lower Manhattan Redevelopment

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Good afternoon, my name is James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI). For the past 4 months, FPI, together with the New York City Central Labor Council, has been convening the Labor/Community Advocacy Network on Rebuilding New York. Over 40 unions and community and environmental organizations have been participating in the discussions of this network. Thank you for the opportunity to testify today on FPI's views on the City's role in the redevelopment of Lower Manhattan.

I strongly support the City Council's efforts to ensure that the Lower Manhattan Development Corporation establishes meaningful processes to fully comprehend and act on the priorities, needs and concerns of New York City residents. Much more than just the physical reconstruction of Lower Manhattan is at stake. The stability and viability of the city's economy is very much in the balance in these discussions as we look for a way out of the current economic downturn that was substantially exacerbated by the economic fallout from the September 11 attacks.

The terrorist attacks of September 11 on the World Trade Center inflicted monumental human and psychological damage on our city, state and country. In addition, the September 11 attacks took an enormous economic toll. The Fiscal Policy Institute prepared two reports on the economic and employment impacts of the events of September 11. These reports were among the first to establish the general parameters of the job and economic losses triggered by September 11. A copy of our second report, released on November 5, is attached to my testimony. Among the highlights of the November 5 study are:

- (1) We estimated that as a direct result of the September 11 attacks, New York City would lose 105,200 jobs in the fourth quarter of 2001. This estimate includes 25,500 jobs that moved out of New York City in the wake of the attacks, and 79,700 jobs that likely are being lost entirely and involve layoffs.
- (2) Many of the industries where layoffs have been concentrated are predominantly low-wage industries. Sixty percent of the workers likely to be laid off have an

average wage of only \$11.00 an hour. Many of the affected jobs, while not offering extraordinarily high wages, were unionized and offered health coverage and other benefits and relatively high wages in the New York City context for workers with limited skills and/or education. In short, many of the 80,000 lost jobs were good jobs that will be hard to replace.

- (3) The industries hardest hit by lost jobs include restaurants, retail trade, hotel, air transport, building services, and apparel manufacturing. Many of the affected jobs are not located in Lower Manhattan.
- (4) In addition to these layoffs, the level of business activity has fallen off in a number of industries where workers have absorbed the impact primarily by working fewer hours (and being paid commensurately less) or, as in the case of taxi and limousine drivers, by receiving far less compensation for each hour worked. At least 76,000 workers in just three industries -- apparel manufacturing, taxi and limousine drivers, and graphic artists -- experienced sharp drops in their wages and earnings.
- (5) The industry hardest hit by reduced work volume in the wake of the attack was apparel manufacturing, which has much of its production based in Chinatown not far from the World Trade Center site.
- (6) The loss of 105,200 jobs in New York City represents approximately 2.4% of total local employment (including full-time, part-time and self-employment), and amounts to about one year's worth of job growth.

Data from the state labor department available subsequent to the release of our report indicate that almost all of the September 11 economic aftershock fell on New York City residents. Eighty-five percent of the unemployment claims filed in the weeks following September 11 that were related to the events of that day were filed by New York City residents. To underscore the fact that the economic victims were not exclusively located in Lower Manhattan, 26% were Brooklyn residents, 24% were Queens residents, and 11% were residents of the Bronx. We also know that many displaced immigrants, for a host of reasons, are not receiving unemployment compensation and have been forced into dire economic straits.

We are facing this economic devastation at a time when the local and New York State economies are in recession with few credible signs that an upturn is near at hand. While there is talk of the recession having come to an end at the national level, it's hard to find an economist who thinks that the next 6-12 months will see strong enough job growth to meaningfully reduce unemployment. That is not a very rosy outlook; locally, the prospects are more troublesome.

The city has already lost an estimated 125,000 jobs over the past year and we could lose another 50,000 before the end of this year. The latest data indicate that the unemployment rate for the city was 7.4% in December, up by nearly 2 percentage points over the prior 12 months. By the end of this year, the city's official unemployment rate could well be 8.5-9%, with unemployment rates for blacks and Hispanics 11-

14%. The latest data indicate that over 50,000 city residents filed for unemployment compensation last month, a level that was 38% higher than a year ago.

The last time New York City was in recession -- during the 1989 to 1992 period -- our recession was far longer and more severe than the nation's. The City lost 10% of its private sector jobs during that recession and the official unemployment rate soared as high as 13%.

The post-September 11 economic devastation has affected thousands of small businesses in New York City; hundreds have closed their doors entirely, many others are threatened with extinction from dramatically lower sales. The Small Business Administration and city and state agencies have been very active in trying to provide loans (and grants in the case of the state). These measures provide some help, but small business owners will tell you that what they need most are customers. In short, they need the economy to recover, sooner rather than later.

I would suggest that overall, it should be the City's highest priority to steer the local economy out of recession and in a way that addresses the inequities of the past decade. The city needs to be mindful of this priority as it considers how to close its \$4.5 billion budget gap. But certainly, the extensive resources placed at the disposal of the Lower Manhattan Redevelopment Corporation should be deployed in a manner that directly addresses the need to re-employ the predominantly low-income city resident workers suffering the economic damage from September 11 and to get the local economy moving again.

In this connection, it should be noted that the Consortium for Worker Education has undertaken, using federal funds and with support from the September 11 fund, an Emergency Employment Clearinghouse. The purpose of the Clearinghouse is to identify workers who lost their jobs as a result of the WTC attack, and to aid them in gaining re-employment as soon as possible. To do this, the Consortium is using a range of strategies that include skills upgrading, moving workers from industries with limited near-term opportunities to industries in need of new workers, and promoting the use of wage subsidies to help employers maximize job opportunities. The Lower Manhattan Redevelopment Corporation and the Consortium should join efforts to ensure that as many displaced workers find new jobs as soon as feasible.

It is necessary, I think, to make a distinction between providing financial aid to compensate affected businesses and providing a broader program of financial incentives to retain or attract businesses and jobs to Lower Manhattan. The first is really disaster relief and should go forward as expeditiously as possible, with the necessary disclosure and accountability. The second form of aid, however, involves the use of public resources for economic development purposes.

As a long-time student of economic development, I firmly believe that the best use of limited public resources is to maximize the re-employment of displaced workers and to make sure we build a 21st-century transportation infrastructure. The recession has substantially altered what had been a fairly tight commercial real estate market. We don't know now what the market supply and demand conditions will be like 3, 4 or 5

years from now as Lower Manhattan gets re-built. We don't know now what the best mix of commercial office, cultural, residential, tourist and other uses will be in Lower Manhattan, and how that area should be better linked to neighborhoods in Brooklyn and other parts of the city. Our focus should be on developing the best plan, and making sure we build a transit infrastructure that will serve our needs for decades to come. If we do those things right, there will be no shortage of interest in businesses and workers choosing Lower Manhattan.

Obviously, the City Council and City agencies such as City Planning, the Department of Employment, the Department of Transportation and Economic Development among others need to play a central role in developing those plans to ensure that city economic priorities are best served. The challenge of economic reconstruction involves much more than just re-constituting the business operations that were located in Lower Manhattan on September 10. The challenge is to develop an economic redevelopment vision that starts in Lower Manhattan but that takes in the entire city, and the region to an extent. This vision should not only aim to restore the economic vitality of Lower Manhattan but do that in a way that responds to the broader economic challenges of the 21st century, and of the post-September 11 environment.

The redevelopment of Lower Manhattan entails the use of tremendous public resources, not only the financial assistance provided by the federal government, but more importantly, strategically located city land and the city's unparalleled mass transit system. The city is best served, I think, by utilizing this challenge to also address pressing city economic development needs. These include the need for more industrial and geographic diversity within New York City, but also the critical need to develop better employment and career ladder opportunities for city residents.

Extensive research by the Fiscal Policy Institute has documented that even though the aggregate New York City economy grew strongly during the late 1990s, by the end of the decade the inflation-adjusted wages of low- and moderate-income workers were no higher than at the peak of the previous business cycle in 1989. The picture is the same when looking at family incomes. By the late 1990s, most New York's families were working more hours but 60% of all families had incomes that were no higher than at the beginning of the decade. All of the net gains in the local economy over the last decade, and they were substantial, were received by the top 40% of families, with the highest income group receiving by far the greatest gains.

As we work on redevelopment, we need to do more than just get back to where we were pre-September 11. We need to seriously act to reverse the polarization that characterized the type of development that we had in the 1990s.

Thank you for the opportunity to present our testimony.