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New York, Badly Battered but Stronger Than in the 1970's

By AMY CORTESE

Dislocations, pay cuts and job losses as the city tightens its belt.

It probably came as no surprise to most New Yorkers that the nation had officially slipped into a recession by spring, or that the terrorist attacks of Sept. 11 knocked the wobbly legs out from under an already shaky economy.

From Wall Street to Kew Gardens, the pain has been palpable. Just as nearly every resident of the city and surrounding area knew someone who lost a life in the World Trade Center, most know someone who has been directly affected by its economic aftermath — dislocations, pay cuts, job losses.

That giant sucking sound? It is the gasp of collective belt-tightening across the five boroughs. Statistics confirm the anecdotes. New York City lost 44,200 jobs just in October, the New York State Labor Department said. It could lose 50,000 more by mid-2002.

Economists and accountants have tried to tally the damage stemming from the attack, and though their figures do not always match, the costs are undeniably substantial. In addition to the physical damage and cleanup expenses estimated at $30 billion, the attacks could cost New York City some $20 billion in lost economic activity like retail sales and tourism services this year and $10 billion more next year, according to Economy.com, a research firm based in West Chester, Pa.

The $20 billion pledged by the federal government in emergency aid and billions more in insurance payments will help offset those costs, though only about half the federal assistance has actually been appropriated. A sharp falloff in tax revenue, however, will leave the state and city with yawning budget gaps not seen since the early 1990's. The city alone projects a shortfall of $1.3 billion next year and $3.6 billion in 2003.

That will keep New York's prospects dim even if the national economy emerges from recession, as economists predict it will in the second half of 2002. New York, they said, will endure a deeper and more protracted downturn than the rest of the country will feel. The gross city product, a measure of the city's economic output, declined 1.6 percent in the third quarter, compared with a 0.4 percent fall for the nation as a whole.

Some economists compare the situation in New York to that of cities hit by natural disasters, like Hurricane Andrew in 1992 or the earthquake in Kobe, Japan, in 1995. Initial slumps were followed by building booms that led revived economies, said Stephen Kagann, chief economist for Gov. George E. Pataki's office.

New York, however, will not be helped by a building boom, he said. Rebuilding the World Trade Center, as huge as such a project would be, is unlikely to have a significant impact on the economy, Mr. Kagann said. The original construction had 3,500 jobs at its peak, with maybe 1,500 more ancillary jobs created — together, only 0.2 percent of all jobs in the region. "The city's economy is simply too large for rebuilding to be a significant boost," he said.

If New York's situation is worse than previous American disasters, it is at least brighter than the economic trough New York dug itself into in the 1970's. That fiscal crisis, with sky-high unemployment, crime and energy costs, pushed the city to the brink of bankruptcy. New York is certainly better positioned today than it was 25 years ago — energy costs and unemployment rates are relatively low, for example, and the city is better managed.

Still, some city officials warn that the circumstances today are in many ways just as grim. Sharply lower tax revenue will require deep budget cuts, and some fear a return to high crime and fewer services.

New York's economy is more diversified today than it was in the 1970's, when manufacturing accounted for 18 percent of jobs. But it still relies heavily on financial services — banks, brokerage firms and insurers generate 24 percent of New York City's economic output and 14 percent of the city's tax revenue, according to the New York City Partnership, a business group.

More than 11 percent of the city's jobs in October were in financial services. That is down from a peak of 14 percent in 1987, according to Economy.com, but because those jobs pay so well, financial services accounted for almost 30 percent of all income in the metropolitan area in 1999, the latest data available. From 1992 to 2000, Wall Street alone was responsible for 39 percent of the growth in business and personal income tax for the city.

"What happens in financial services largely determines what happens to the New York economy," said Mark Zandi, chief economist at Economy.com.

What is happening in financial services is not encouraging. With stock markets plunging and public offerings drying up, bonuses for Wall Street professionals are expected to be down as much as 60 percent from record levels last year. Many financial firms had announced layoffs even before the terrorist attacks, but Sept. 11, said Mr. Zandi, "opened the floodgates." In October alone, the industry shed 24,800 jobs, according to the Bureau of Labor Statistics.

New York's other big employers — retailers, travel and tourism companies and business services like publishing — have also been hurt. The $34 billion travel and tourism industry could lose $7 billion to $13 billion in revenue by the end of 2003 and eliminate 25,000 jobs this year, according to the New York City Partnership.

Hotel occupancy rates fell from 80 percent before the attacks to as low as 30 percent after Sept. 11, said Economy.com, though they have since recovered somewhat. New York City retailers could lose $4 billion to $5 billion in sales in the 12 months after the attack, the partnership said.

Even with a speedy recovery for the national economy and a swift end to the war in Afghanistan, the New York City Independent Budget Office expects the city's economic growth to decline 0.6 percent this year and 1.8 percent in 2002. A slow national recovery and a prolonged war could lead the local economy to shrink 0.8 percent this year and as much as 5 percent in 2002.

Over the long term, the biggest issue facing the city is persuading businesses to stay in New York. Transportation disruptions and added security made the city, which had already ranked No. 1 nationally in relative business costs, even more expensive.

City officials — led by Michael R. Bloomberg, who will succeed Rudolph W. Giuliani as mayor next month — have told federal officials that their aid is needed quickly to begin restoring transportation services and rebuilding Lower Manhattan to entice companies to stay.

"It's not like we're going to turn into Tombstone, Ariz., overnight," said Lawrence J. White, professor of economics at the Stern School of Business at New York University. "But if New York is perceived as a riskier and costlier place to do business, that is going to have an effect."

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