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James Parrott is the Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI), a non-partisan public policy research organization dealing with New York fiscal and economic issues and workforce and economic development policies. FPI works with a broad range of human service, advocate and labor organizations to further the development and implementation of public policies that create a strong economy in which prosperity is broadly shared by all New Yorkers.

Parrott provides regular commentary on economies of New York City and New York state. He is the lead author in preparing FPI's biennial report, The State of Working New York. He is also one of the co-convenors of the Labor/Community/ Advocacy Network to Rebuild New York, a network of 60-plus organizations working to advance a progressive agenda for the economic redevelopment of Lower Manhattan in the wake of the September 11 terrorist attack.

Prior to joining FPI, Parrott was Chief Economist and Director of the Bureau of Fiscal and Economic Analysis for the Office of the State Deputy Comptroller for New York City (OSDC). From July 1997 through January 1998, Parrott was the Acting State Deputy Comptroller for New York City. In previous positions Parrott had been Chief Economist for the City of New York's economic policy office under Mayor David N. Dinkins and Executive Assistant to the President of the International Ladies' Garment Workers' Union (now U.N.I.T.E.).

While working for the City of New York, he was the principal author of Strong Economy, Strong City: Jobs for New Yorkers, an extensive economic development blueprint outlining strategies for several leading sectors. Among his many publications on the New York economy are The State of Working New York, The Illusion of Prosperity, and New York City's Economic and Fiscal Dependence on Wall Street. He is also the author of "Bolstering and Diversifying the New York City Economy", published this past summer in The Century Foundation volume, Rethinking the Urban Agenda: Reinvigorating the Liberal Tradition in New York City and Urban America.

He received his B.A. in American Studies from Illinois Wesleyan University and his M.A. and Ph.D. in Economics from the University of Massachusetts at Amherst.

**Testimony by James A. Parrott, Ph.D.  
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**Two Years After September 11:  
Assessing the State of New York's Recovery**

**Public Forum  
New York Congressional Delegation  
New York City Council Committee on State and Federal Legislation  
New York City Council Committee on Lower Manhattan  
Redevelopment**

**New York City  
September 3, 2003**

Good morning, my name is James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI). FPI has extensively analyzed the economic impact of the September 11<sup>th</sup> terrorist attack on the World Trade Center and closely follows the budgets and revenue trends for the City and the State of New York. We have also followed very closely the dimensions of the 2001-2003 recession in New York and the United States, most recently in a report issued earlier this week.<sup>1</sup>

From 1997 to 2000, New York City experienced an exceptionally strong economic growth, a growth that was boosted substantially by the dot-com frenzy and heightened activity on Wall Street. We now know that much of that was the result of unsustainable "bubble" conditions. The 2001-2003 recession in New York has been marked by the bursting of the dot-com and Wall Street bubbles. Still, there is no question that, given the nature of the September 11 attack and its aftermath that September 11<sup>th</sup> has made the New York economy substantially and profoundly worse over the past two years.

Since the peak month for employment in New York of December of 2000, New York City has lost 240,000 jobs through July of this year. At least 100,000, or 40 percent, of that job loss is a direct result of September 11. In the six months following September 11, FPI prepared, and worked with other organizations on, several reports on the economic impact of September 11. Our March 8, 2002, report found that the 73,900 workers lost jobs as a direct result of the terrorist attack. Adjusting this number to account for the jobs relocated outside of the city as a result of the attack and to take account of a substantial upward revision in March 2003 in the city's 2001 job loss by the State Labor Department yields a total job loss of the city as a result of September 11 of at least 103,500.<sup>2</sup>

The September 11 employment impact hit a broad range of industries from securities, to hospitality, restaurants, apparel manufacturing, and air transportation, among others. Jobs were affected not only in Lower Manhattan, but in all of Chinatown, midtown, and stretching out to the airports at both the northern and southern ends of Queens. In addition to lost jobs, the impact on workers includes reduced wages in industries where business volume declined significantly and workers were forced to accept reduced schedules (e.g., in apparel manufacturing) or reduced compensation (e.g., among taxi and limousine drivers).

During the fourth quarter of 2001, the period when the economic fallout from the Trade Center attack was concentrated, New York City's 2.1 percent job decline was three times the nation's job loss. In industries hardest hit, such as air transport and hospitality, New York City suffered job losses five times as great as did the nation.<sup>3</sup>

Calculating the total economic impact of the September 11 attack must account for, in addition to the lost wages, productivity and business activity that lost jobs represent, the damage to physical assets, health effects, clean-up costs, lost profits and losses to non-profit organizations, lost tax revenues. To my knowledge, there have been no fully comprehensive estimates of what the total economic impact has been. Fairly comprehensive estimates of the total economic impact by the New York City Partnership and the City Comptroller's Office range from \$83 billion to \$105 billion.<sup>4</sup>

Tax revenue losses suffered by the City and the State were estimated at \$8.8 billion by the City's Office of Management and Budget and the State Division of the Budget. The U.S. General Accounting Office reviewed these estimates and consulted a number of economists and fiscal experts and concluded that these revenue loss estimates were reasonably associated with the September 11 terrorist attack.<sup>5</sup>

In addition to these costs, New York City will endure a continuing, and I think substantial and permanent, cost related to the terrorist attack in terms of the effect on business location decisions. Because there will never be a return to the "normalcy" of the pre-attack era, our economy will pay a price for a long time.

It is difficult to definitively disentangle the economic effects of September 11 from the effects of the recession. In the absence of the severe recession we continue to feel, more of the 9/11-economic displacement might have come back. But there is also no denying that since business and consumer confidence is such a fundamental ingredient to our economic health, that 9/11 shattered that confidence and made an enormous difference in making the recession as severe as it has become. The build-up to the Iraq War and the War itself decimated consumer and business confidence earlier this year and lengthened the period of "jobless recovery".

The 240,000 jobs lost in New York City since the pre-recession, pre-9/11 employment peak, amount to a 6.4 percent job loss. That is more than three times

the nation's job loss since the beginning of 2001. This magnitude of job loss means that it will probably be at least 2009 before New York City regains its pre-recession, pre-9/11 employment level. And that is according to the latest economic forecast of the City's Office of Management and Budget.<sup>6</sup>

While the city's 6.4 percent job loss is not as bad as the 10 percent job loss suffered during the 1989-1992 recession, the wage and income loss suffered by New York City in 2002 in the wake of 9/11 have surpassed the worst of the last recession. In fact, the *drop* in total real personal income received in New York City in 2002 is estimated at four percent, making it a greater one-year slide than in any other year in the 32 years (back to 1970) for which data exist.<sup>7</sup>

Given the magnitude of the economic losses suffered by New York, the \$20 or so billion in federal aid to New York falls short. For example, in regard to lost tax revenues, very little of the \$8.8 billion in lost revenues has been offset by federal aid. Federal aid is needed to help counter the city's unemployment crisis that 9/11 had such a big impact on. Federal aid is needed to fund an emergency job creation program to put people back to work, to maintain the stability of our communities, to revitalize the local economy, and to rebuild our tax base.

Because the unemployment situation is truly a crisis, we should first look at the federal funds that are already in hand. As part of the federal funding to repair the economic damage wrought by the trade center attack, the Lower Manhattan Development Corporation (LMDC) still has about \$1.2 billion in federal funds. These funds could launch a **Liberty Jobs** program that would create or retain 60,000 jobs plus 10,000 more through a multiplier effect. All that is needed is agreement between the Mayor and the Governor who control the LMDC.

A proposal by a coalition of over 50 unions and community organizations, the Labor Community Advocacy Network to Rebuild New York (LCAN) (***Revitalize New York by Putting People to Work***<sup>8</sup>), calls for two types of **Liberty Jobs**. The first would involve partially subsidizing wages to stabilize employment at companies affected by September 11, or to lower the threshold for other firms to hire workers. The second type would be fully subsidized public service jobs in government agencies or nonprofits where workers would contribute to the city's social capital and improve the quality of life through such activities as upgrading parks, repairing schools, or expanding English classes or child care services.

Where possible, it would be preferable for the **Liberty Jobs** program to subsidize private jobs with the potential to become permanent when the subsidy runs out. However, private employment demand has been slumping for the past 31 months and as long as it remains weak, public service employment is the best option for the jobless.

**Liberty Jobs** can help revitalize Lower Manhattan and communities throughout the city suffering from the trade center attack and the prolonged recession. Without this

program, mass unemployment and the attendant ills it causes will fester at unacceptably high levels for years to come.

In addition to the **Liberty Jobs** emergency job creation plan, the LCAN proposal calls for two initiatives that would represent a significant reorientation of New York City's economic development strategy.

- 1) **Make Rebuilding a High-Road Zone.** As we invest public resources in making Lower Manhattan and selected parts of the city good places to do business, we must also make sure that the jobs that are created there are good jobs. Creating a "high-road" zone would be a way to make sure businesses that benefit from public investment also create good standards for salaries, benefits, and work conditions.
- 2) **Establish Sector Groups to Diversify the City's Economy.** For too long, the city's economic development strategy has centered on firm-by-firm deals. Instead, New York's economic development efforts should pursue a proactive diversification strategy guided by sectoral groups made up of business, labor, community, and university leaders. The LCAN proposal calls for \$5 million in funding that could be provided by the LMDC to establish a competitive grant process to encourage industries to form collaborative sectoral initiatives. (This could be modeled on the State's Strategic Industries Grant Program that existed in the early 1990s.)

LCAN's proposal combines short- and long-term economic strategies to counter the recession and to re-orient City economic development policies toward a job-based strategy for economic diversification and high-road growth.

Thank you.

<sup>1</sup> Fiscal Policy Institute, *The State of Working New York 2003: The Impact of the 2001-2003 Recession on the Empire State*, September, 2003.

<sup>2</sup> See Fiscal Policy Institute, *The Employment Impact of the September 11 World Trade Center Attacks: Updated Estimates based on the Benchmarked Employment Data*, March 8, 2002. The March 8 report estimated that the city lost 73,900 jobs during the fourth quarter of 2001 where workers likely were laid off., and another 13,000 jobs that were relocated outside of New York City in the wake of the attack. As the text notes, when the 2002 "benchmark" employment revisions were released in March 2003, the State Labor Department revised upward New York City's loss of jobs in 2001 by about 50,000, with most of this revision attributed to the second half of the year. A conservative estimate of the share of this revision attributed to September 11 would be one-third, or 16,600. Adding together the 73,900 dislocations from the March 8 report, the 16,600 from the 2002 benchmark revision and the 13,000 relocations totals 103,500 jobs lost to New York City.

<sup>3</sup> Fiscal Policy Institute, *Tale of Two Recessions: The Current Slowdown in NYC Compared to the Early 1990s*, December 3, 2002, p. 3.

<sup>4</sup> New York City Partnership and Chamber of Commerce, *Economic Impact of the September 11<sup>th</sup> Attack on New York City*, November 2001, revised Feb. 11, 2003; City of New York, Office of the Comptroller, *The Impact of the September 11 WTC Attack on NYC's Economy and City Revenues*, Oct. 4, 2001. A November 2002 study by analysts at the Federal Reserve Bank of New York reports a total labor and capital loss from the September 11 attack in the \$33 billion to \$36 billion range. However, among other things, this study only considered lost wage earnings through June 2002, did not include lost tax revenues, lost profits, non-profit organizational effects, or costs to the hospital system, and did not include an estimate for the health effects in its total. "Jason Bram, James Orr, and Carol Rapaport, "Measuring the Effects of the September 11 Attack on New York City," *Economic Policy Review* (Federal Reserve Bank of New York), November, 2002, pp. 5-20.

<sup>5</sup> U.S. General Accounting Office, ... (July 2002))

<sup>6</sup> See New York City Office of Management and Budget, "Monthly Economic Conditions," June 6, 2003.

<sup>7</sup> See *The State of Working New York 2003: The Impact of the 2001-2003 Recession on the Empire State*, p. 8.

<sup>8</sup> Labor Community Advocacy Network to Rebuild New York (LCAN), Revitalize New York by Putting People to Work, A Jobs-Based Strategy for Economic Diversification and High-Road Growth, July 11, 2003.