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NY economy may not suffer as badly as thought

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As Wall Street convulsed this week, New York was left pondering an economic disaster as three venerable financial institutions with tens of thousands of employees in the city were brought to their knees.

But the doomsday scenarios may not play out as some feared, now that Lehman Brothers Holdings Inc., American International Group Inc. and Merrill Lynch & Co. Inc. received important corporate and government backing that will preserve many jobs in the city.

And economic experts also note that the city's economic engine, while tied strongly to Wall Street, is so big and so diverse that the spate of investment bank failures won't pack the punch of either the stock market crash of the late 1980s, or the tech-bubble-pop that coincided with the Sept. 11 attacks.

"New York will survive," said James Parrott, chief economist at the Fiscal Policy Institute.

Economists, politicians, and regular New Yorkers have struggled for three days to assess the long-term damage cause by the collapse, or near collapse, of several of the city's major financial institutions.

One of the biggest blows, the Lehman bankruptcy appeared to be mitigated when the British bank Barclays PLC said it would acquire many of the failed company's assets and employees in the U.S.

Mayor Michael Bloomberg said the partial sale would rescue "the bulk" of Lehman's New York City work force.

"That's very good news because otherwise 10,000 people would have been off _ out of work and we would have had to deal with that," he said.

A disaster also appeared to have been averted at AIG as it avoided bankruptcy with a federal bailout. Merrill Lynch also likely avoided wholesale layoffs by selling itself to Bank of America.

It was unclear how many Merrill Lynch employees might be trimmed by the company's new owners, although Bloomberg suggested that he'd been assured that job losses in the New York City area would be light.

Despite the reprieves, layoffs are still undoubtedly coming, and as many as 100,000 people in the region may lose their jobs, experts said.

Earlier this summer, the city comptroller had estimated that 25,000 jobs could be lost from New York's securities industry through the spring of 2009, a downturn that would then cause the loss of as many as 37,500 additional jobs due to the overall drag on the economy.

"The economy has been decelerating," said state Department of Labor regional analyst James Brown, although he noted that growth was still taking place, the unemployment rate in the city's 3.5 million person work force was still low.

Parrott said that the number of job losses stemming from the current crisis is still stark, but nowhere near as bad as what happened during the last two recessions.

More than 329,000 jobs were lost in New York state during the downturn that began at the end of 2000 and ended in 2003. Some 544,700 jobs disappeared between 1989 and 1992.

The city is also in a better starting place, Parrott noted, with sound government finances and a much higher quality of life than it had during the late 1980s and early '90s, when crime was at an all-time-high, or in 2001, when its financial district lay in literal ruins.

"This is different in character, and maybe at this point the magnitude doesn't seem to be as great," Parrott said, although he added that the unique nature of the current crisis will make its overall impact hard to predict.

Asked to assess the potential damage caused by the recent trouble on Wall Street, Mitchell Moss, a professor of urban planning at New York University's Wagner Graduate School of Public Service, suggested that it could make for a bad fall for expensive restaurants in the suburbs, and a slow winter at Vail, the luxury ski resort in Colorado.

"When one of these firms goes under, it isn't like when a factory closes," he said.

Moss said many of the highly skilled workers who lose their jobs will quickly find other work, go into business for themselves, or be able to live off their savings for an extended period.

The real pain, he said, might be felt most in affluent suburbs in Connecticut and New Jersey, where many of the investment-bank employees live, spend their money, and pay taxes.

"Ridgewood, N.J., Garden City, on Long Island. Darien and Greenwich, Conn. ... these are the communities that are going to feel it," Moss said. "There are suburban school districts that will suddenly find themselves getting resistance when they want to raise taxes."