

# **The Impact of the Economic Crisis on the Bronx Workforce**

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# ***Macro picture: historic structural recession, deep and long, U.S. and global***

- Three sources of ***structural*** economic decline: broken financial system, collapsing housing market, and collapsing consumer spending (exacerbated by massive wealth destruction).
- Recession officially started in December 2007; record 2.6 million jobs lost in first year; the pace of layoffs is rising.
- Unemployment will increase to 9% or higher by the end of 2009. U.S. unemployment 11% in 2010 without Stimulus II.
- Keep in mind that the Black unemployment rate often runs twice what it is for white, non-Hispanics. Already, Blacks males, 13.4%.
- GDP 4<sup>th</sup> Q decline 5+%, and GDP is likely to contract further in first 2-3 quarters of 2009.
- Only dramatic national actions will prevent this from being an “L” shaped recession.

# ***New York lagged the nation in entering the recession, but is catching up quickly.***

- NYC lost 33,000 private jobs between Aug. and Nov.
- IBO forecasting loss of 243,000 jobs (6.4%) through the end of 2010.
- Both high wage and low wage jobs will be hit. Huge increase in unemployment among highly educated workers.
- Hardest hit will be finance, professional and administrative.
- Unemployment claims in NYC up 60% from a year ago.
- NY unemployment rate shot past 6% on its way to 9%. Black unemployment could reach 14%.
- Many low- and moderate-income people will suffer from foreclosures, job loss, wages that fail to keep up with inflation, and service cuts. Social safety net tattered.

# ***Adjust to a smaller finance sector in New York.***

- **50,000 finance jobs or more could be permanently lost.** Big 3 (Goldman, Morgan Stanley, JP MorganChase) now bank holding companies; less leverage possible.
- **Diminished revenue impact.** Will pay little tax next 4 years, tighter regulation will limit excessive risk-taking, profits, bonuses and taxes.
- **Imbalance between finance and the “real” economy will be corrected.** Finance share of corporate profits rose from 10% in 1980 to 40% in 2007.
- **Foreign Policy magazine named NYC the #1 Global City for Business.** New York has many competitive strengths besides finance.
- **Value-added per worker much higher than nat’l avg. in many sectors.**
- **Dense urban areas more environmentally sustainable and efficient.**
- **Market adjustments will occur.** Real estate prices will fall, finance workers will adapt, new companies will start up or come to NY.
- **Smaller finance sector will be good for NYC and the broader economy, and will help moderate income polarization.**

# ***Bronx outlook***

- Unemployment already up to 8.3%, headed higher
- 2,000 foreclosures 1<sup>st</sup> 9 months of 2008
- Poverty already 28% (ACS 2005-07), child poverty 40%
  
- Bronx likely to fare better than NYC overall ... largely because of high concentration of health, social and educational services ... less vulnerable in downturn.
- But 1 in 6 residents works in either financial or professional and administrative services ... will get hit.
- 60,000 Bronx residents (11.4%) work in retail ... mixed.

## ***President Obama's ARRP—Restore effective government role in the economy.***

- **American Recovery and Reinvestment Plan (\$825B, 5% GDP).** More needed than just short-term cyclical stimulus. It includes:
    - Substantial state fiscal relief (about \$200B)
    - Extended unemployment ins. and help with health ins.
    - Increased food stamps, heating assistance, SSI, TANF
    - Education aid: from preschool to college.
    - Green jobs program and alternative energy development.
    - Long-term investments in R-and-D and infrastructure, including public housing, transportation, schools, mass transit, national parks, etc.
- ⇒ Big 1<sup>st</sup> step, but also housing and restore middle class.

# ***Bronx and all of NY face four “troubling trends” in the job market***

- Deterioration in job quality
  - Wage-productivity gap
  - Rise in number of working poor—too many jobs pay low wages
  - New York has the widest income gap between rich and poor and rich and middle
- ⇒ Use economic development leverage, ARRP and enforcement to address

# ***45 states face budget falls with combined gaps through 2011 of \$350B***

- NYS facing 2-year gap of \$15.4 billion.
  - 2009-10 gap of \$13.7B is ¼ of general funds.
  - Steep cuts in health, education, human services and most areas of state expenditure.
  - Proposed wage cuts for both state workers and human service workers. New pension tier.
  - Higher education tuition hiked and health insurance assessments hiked to close the gap.
  - Taxes, fees and revenue increases of \$5B, but no progressive income tax increase.
- ⇒ “Is this shared sacrifice”? Low- and middle bear the brunt of spending cuts, but top 5% who have 42% of the income and received all of '02-'09 gains, are being asked for very little. Contrary to Governor's claims, no evidence they will leave.

***Once-in-a-lifetime opportunity to shift the direction away from polarization and toward an expanded gov't role that creates the basis for shared prosperity.***

- Unprecedented downturn; worst since Great Depression.
- Taking an enormous toll in job losses, business failures, foreclosures, and wealth destruction...creating unprecedented hardship and justifiably intense anger.
- But, “a crisis is a terrible thing to waste”—it creates unique opportunities.
- There has been a mainstream shift away from “free markets” in favor of strategic government intervention and investment.
- Opportunity to reverse polarization and lay the basis for broadly shared prosperity—the only hope for sustained and sustainable economic growth.
- Promote government investments in social and physical infrastructure, and effective regulation of finance sector.
- Balance NYS & NYC budgets, in part, through progressive tax changes.



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