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**Hearing before the New York City  
Rent Guidelines Board**

**New York City's Economy and  
the Situation of Low- and Moderate-Income Households**

**New York City  
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Good morning, my name is James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI). The Fiscal Policy Institute is a nonpartisan research and education organization that focuses on the broad range of tax, budget, economic and related public policy issues that affect the quality of life and the economic well-being of New York City and State residents. Thank you for the opportunity to testify today.

New York City's economy has been in recession for the past 28 months. For all New Yorkers, this is without a doubt the most severe economic circumstance since the prolonged and deep recession of the early 1990s. Employment has fallen by 225,000 from its peak in December of 2000 through February of this year, the latest month for which data are available. This is an employment drop of 5.9%, four times greater than the employment drop nationally. The official unemployment rate in New York City rose to 9.2% in February, a full three percentage points higher than in the nation. In Brooklyn, the unemployment rate was 10.1 percent and in the Bronx, it was 11.3 percent in February.

As is usually the case, New Yorkers of low and moderate incomes, the overwhelming majority of whom are renters, have been particularly hard hit by the economic slowdown and the economic aftershocks of the September 11<sup>th</sup> World Trade Center attack. According to the 2000 Census, 70 percent of the city's total of 3 million households rent their housing units. Households with incomes under \$50,000 comprise 61 percent of all city households, but 80 percent of these low and moderate-income households are renters.<sup>1</sup>

As much as people point to the steep job losses suffered by professional and white collar workers in finance and in the dot.com sector, industries that

predominantly employ blue collar, service and clerical workers have lost jobs at twice the rate of all other industries in New York City. Together, in construction, manufacturing, retail trade, transportation, administrative and support, and hotels and restaurants, the number of jobs fell by 9.0 percent from December of 2000 to December of 2002, while all other industries in New York City saw a 4.6 percent job decline.<sup>2</sup>

As a recent report by the Community Service Society has shown, relative to their share of the labor force, white collar workers (executives, managers, professionals and technicians) are under-represented while blue collar, administrative support and sales workers are over-represented among the unemployed.<sup>3</sup>

In the current economic environment, it will be a serious financial struggle for most low and moderate income households in New York City to cope with higher rents. For the bottom 60 percent of New York families, the recession of the early 1990s and the weak economy of the middle part of the 1990s severely eroded average family incomes. It took several years of strong economic growth in the city during the latter part of the 1990s, for families in the bottom 60 percent of the income distribution to just get back to where they stood at the peak of the previous business cycle in 1989.<sup>4</sup> Now, with two years of steep job declines in 2001 and 2002, we face the prospect of further job losses in 2003 and slow job growth over the next 3 to 4 years.

Hourly and weekly pay is not keeping pace with inflation. Even at the peak of the late 1990s expansion, real hourly wages were less for most New York City workers than at the peak of the prior business cycle in 1989.<sup>5</sup> Given the national trend during the recession, it is almost certain that real wages in New York City have declined over the past year. The Labor Department recently reported that real median weekly wages fell by 1.5 percent nationally from the first quarter of 2002 to the first quarter of 2003.<sup>6</sup>

As noted before, there are 3 million households in New York City. Officially, the Labor Department estimates that 341,000 city residents are unemployed. Signs of financial distress and economic hardship abound. Homelessness has climbed sharply, and personal bankruptcies have risen by 25 percent over the past two years in the city. And to top it off, households of modest means are getting hit with a 33 percent subway fare increase that for the average family will mean an additional cost of about \$500 a year to get back and forth from work.

Rising unemployment is a threat to all low-wage workers, many of whom are only a paycheck away from poverty. According to the Economic Policy Institute, for families in the lower 40% of the wage scale, the decline in family earnings in a recession will be twice as significant as for higher paid workers.<sup>7</sup>

For various reasons, the social and economic safety net available in the City is a far cry from what it had been in other economic downturns over the prior two or

three decades. A seriously frayed safety net makes it that much harder for struggling families to pay the rent. In a report released last December that compared the current recession with the early 1990s recession, we found that several major components of New York's social and economic safety net, particularly unemployment insurance, food stamps and public assistance, are providing much less of a cushion during this downturn than during the last recession.<sup>8</sup> Although the following comment from a report released last spring by the United Way of New York City was written with September 11-dislocated workers in mind, it could apply as well to all unemployed workers in the city: "For many of the economic victims of the September 11 attack, the most critical problem now and in the months ahead will be the inability to pay their rent, and the subsequent threat of eviction."<sup>9</sup>

The lack of affordable housing coupled with continued job declines could be contributing to the increase in net domestic out migration from New York City recently reported by the Census Bureau. Either more people are leaving the city or fewer people are coming. From April 1, 2000, to July 1, 2002, domestic out migration exceeded net international migration into the city by over 68,000.<sup>10</sup> Substantial out-migration during the last recession weakened the local real estate market for several years in the early and middle part of the 1990s.

In summary, New York City is in the midst of a severe economic downturn that has cost nearly 6 percent of jobs and is taking a heavy toll on the finances and economic well being of low and moderate-income households that rent in New York City. It may take four or five years or longer before New York recovers the jobs that have been lost over the past two-plus years. It is also likely that the wages and incomes of low and moderate-income New York City residents will remain under intense pressure for the next few years.

Thank you for the opportunity to present the views of the Fiscal Policy Institute.

## Endnotes

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<sup>1</sup> Households with incomes under \$25,000 comprise 35.3% of the total, and of these, 84.7% are renters. U.S. Census 2000, SF3, Table HCT011.

<sup>2</sup> The Fiscal Policy Institute has prepared, and assisted in the preparation of, a number of reports on the economic and employment impacts of the September 11<sup>th</sup> terrorist attack. Based on our analysis of the latest, revised State Labor Department employment data, FPI estimates that the city lost between 100,000 and 110,000 jobs in the fourth quarter of 2001 as a direct result of the attacks. The layoffs were concentrated in several industries not all of which are usually associated with Lower Manhattan: restaurants, retail trade, air transport, wholesale trade, hotels and building services. Our analysis has shown that the bulk of those laid-off worked in predominantly low-wage occupations, e.g., 60% worked in occupations with average wages of \$11 an hour.

<sup>3</sup> Mark Levitan, A Portrait of Inequality, Unemployment and Joblessness in NYC, 2002, Community Service Society, February, 2003.

<sup>4</sup> Fiscal Policy Institute, Pulling Apart in New York: An Analysis of Income Trends in New York State, April 23, 2002.

<sup>5</sup> Fiscal Policy Institute, Learning from the '90s, September 1, 2002.

<sup>6</sup> David Leonhardt, "As Companies Reduce Costs, Pay is Falling Top to Bottom," New York Times, April 26, 2003, C1.

<sup>7</sup> Heather Boushey, "The Needs of the Working Poor," Testimony before the U.S. Senate, Committee on Health, Education, Labor and Pensions, February 14, 2002.

<sup>8</sup> James Parrott and Oliver Cooke, Tale of Two Recessions: The Current Slowdown in NYC Compared to the Early 1990s, Fiscal Policy Institute, December 3, 2002.

<sup>9</sup> United Way of New York City, Beyond Ground Zero: Challenges and Implications for Human Services in New York City Post September 11. March 2002.

<sup>10</sup> U.S. Census Bureau.