

# STRESS AND THE CITY

New York is gripped by fear. Are we headed back to the bad old days of the 1970s?



BY DANIEL MASSEY AND MIRIAM KREININ SOUCCAR

THE FINANCIAL CRISIS DROVE Robert Lowenthal out of town last week, after six years in an Upper West Side townhouse. He packed up and moved with his wife to rural Pennsylvania. The idea of paying \$6,000 a month to live in a city he thinks is spiraling downward was just too much for the Internet entrepreneur.

"We're only seeing the beginning of a recession, and we're returning, and things could get really bad here," he says.

A palpable fear has descended on the city. It's not just the prospect of the worst economic decline since the Great Depression. On therapists' couches and the subway, at school drop-off and the gym, and even on Facebook, anxiety reigns. With layoffs mounting, bonuses shrinking and the city and state facing severe budget gaps, angst over what the future could bring is commonplace.

New Yorkers are popping

sleeping pills and making nightly calculations about how long their money will last.

Their apprehension blurs into fear for the future of the city, whose hard-won progress over 25 years suddenly feels terribly fragile. The dark, crime-ridden, near-bankrupt days of the 1970s loom large in the city's collective memory. Experts disagree over whether New York is poised to turn back the clock, but no one really knows how bad things will get.

"The city is at hope's edge right now," says Marian Salzman, trend spotter and partner at Porter Novelli Worldwide. "People are very, very anxious."

## JOB SECURITY IS BIGGEST WORRY

TOPPING THEIR LIST of worries is employment. A recent *Crain's* poll showed that 40% of New Yorkers are afraid of losing their jobs.

Until the fall, New York hadn't been hit nearly as hard as the rest of the country. Lehman's Brothers Holdings Inc.'s bankruptcy in September and the subsequent collapse of Wall Street changed all that. In recent months, job growth ground to a virtual halt, and in November the city lost 20,900 private-sector jobs.

Since its peak in September 2007, the securities industry has lost 17,800 jobs, but pain is spreading beyond Wall Street into other key industries, like publishing, retail and law. A December report by the Fiscal Policy Institute predicted the city will shed 10,000 jobs per month through the end of 2009. State Comptroller Thomas DiNapoli predicts the city will lose 175,000 jobs in the next two years, including 38,000 on Wall Street.

The comptroller's forecast has been the most dire, but may yet prove too optimistic. The 1987 stock market crash eventually cost the city 330,300 jobs, while the bursting of the tech bubble and the aftermath of the Sept. 11 attacks saw 222,700 jobs evaporate. The city could lose even more this time around.

"The unprecedented nature of the current economic crisis makes any forecast fraught with uncertainty, so it is conceivable that this downturn could be very long and

## WHAT'S IN STORE FOR 2009

The city's unemployment rate will hit 9%.

*Fiscal Policy Institute*

The city will lose 175,000 jobs, including 38,000 Wall Street jobs. *NY state comptroller*

Wall Street bonuses will be cut in half. *NY state comptroller*

City real estate transaction taxes are forecast to fall 29% in fiscal 2009. *City of New York's November 2008 Plan*

City business-tax revenues are forecast to drop 14% in fiscal 2009. *City of New York's November 2008 Plan*

Local residential construction will fall 43%, to 20,285 units.

*New York Building Congress*

Value of office-building construction starts in the New York area will decline 46%, to \$3 billion.

*McGraw Hill Construction*

Total volume of announced mergers and acquisitions in the city will drop 25%.

*Bernstein Research*

Nationwide, magazine advertising will fall 7%, network TV advertising will drop 7.5% and newspaper advertising will fall 10%.

*Coen Insider's Report*

Hotel occupancy nationwide will drop 5.3%.

*CoStar Group*

U.S. retail sales growth will slow to 2%, compared with 5% over the past 10 years.

*TNS Retail Forward*

About 100,000 nonprofits across the United States will close.

*Paul Light, NYU Wagner School professor*

U.S. IT spending will grow a paltry 0.5% in the first quarter.

*Farrester Research*

drawn out and result in a greater cumulative job decline," according to the Fiscal Policy report.

At the CUNY Graduate School of Journalism, where students were preparing last month to graduate into what could be the worst job market ever, it seemed as if every interaction was colored by frustration over the economy. "Even before she said hi to me, one of my classmates said, 'Did

## Prescriptions for sleep aids rose more than 7% in the fall

you hear the news about the Viacom layoffs?" says Jessica Firger, who has yet to find full-time work despite an exhaustive job search.

As frustration mounts, it has become common for Ms. Firger and her classmates to air their gripes on Facebook.

"People are feeling very stifled by the situation," Ms. Firger says. "They just don't know what to do."

Even those who are working are feeling the pain. Firms across the city have eliminated cost-of-living increases. Many have reduced workers' hours. And most significantly, the state comptroller predicts that when the dust settles, Wall Street bonuses in 2008 will be about half of what they were in 2007, when they totaled \$33.2 billion. A new math has developed among Wall Streeters, who now go home at night and crunch numbers on spreadsheets, running through different scenarios of how long they will be able to stay in their homes or keep their kids in private schools.

The axing of jobs and bonuses will contribute to an estimated 4.3% drop in New York City tax revenues in fiscal 2009, according to City Comptroller William Thompson. Already the mayor and governor have ordered massive cuts to fill gaping budget gaps caused by the falloff.



## NEW YORKERS ON THE COUCH

AT THERAPISTS' OFFICES—ground zero for an anxious city—patients are worried sick. Shrinks report their patients are increasingly turning to the use of call girls and massage parlors to ease tension. Prescriptions filled for anti-anxiety drugs, antidepressants and sleep aids have surged as New Yorkers struggle to cope with uncertainties brought on by the financial crisis.

"If we looked to diagnose the city, I would say it has an anxiety disorder," says Mel Schwartz, a psychotherapist with practices in the city and Westport, Conn.

In September and October, prescriptions for sleep aids rose more than 7%, to 366,870, compared with the same two-month period last year, according to Wolters Kluwer Health, a provider of medical information.

Prescriptions for anti-anxiety drugs rose 5%, to 317,268, and antidepressants were also up 5%, to 926,654.

Anecdotal evidence from psychiatrists, psychologists and sleep doctors suggests the economic crisis is to blame.

Jonathan Alpert, a psychotherapist in midtown, has seen a 10% rise in patients since Lehman's collapse, mostly due to increased traffic from Wall Street executives.

"People are coming in and mentioning wild scenarios, like they need to pull their kids out of private school, sell their condo and move in with their in-laws in the Midwest, and they haven't even lost their jobs yet," Mr. Alpert says. "There's just acute panic."

Alan Hilfer, chief psychologist at Maimonides Medical Center in Brooklyn, says a patient who works in finance comes in each week and gives him a thumbs-up, indicating that he's survived another week with a job.

"There's a tremendous amount of anticipatory anxiety that something is going to happen," Mr. Hilfer says. "People are waiting for the other shoe to drop."

For Tim Hill, that shoe dropped seven months ago when he was laid off from his position in hedge fund sales at Lehman. At first, he was shocked. But as the financial world crumbled around him, he enjoyed long weekend trips to visit his grandparents. He worked out at the gym. He went to Europe. All the while, his employed friends worried

about losing clients' money, their own money and their jobs. Soon, Mr. Hill started to think he was one of the fortunate ones.

"People have said to me, 'You're lucky you got out when you did,'" he says. "People who have their jobs are just frazzled. It's been hard to be working in the last three months."

That gloom has resulted in shifts in behavior, both sharp and subtle. The city, long high on the boom times when two-bedroom apartments went for \$2 million and preschool birthday parties cost \$2,000, is rapidly becoming a different place. Natalia Gedanke, a mother of two in Brooklyn Heights, now sees a lot more moms than nannies at pickup at P.S. 8, because the moms have been laid off. When dads appear at the school, everyone wonders if they, too, have been fired, but no one dares to ask.

A new toddlers' gym, where semester-long programs cost more than \$500, recently opened in the neighborhood. But it had to drop its prices because classes weren't filling up. "A year ago, there would have been lines trying to get their kids into these classes," Ms. Gedanke says. "Now, even the moms who were the most upscale in the neighborhood are saying, 'It's too expensive.'"

## CITY'S COLLECTIVE SPIRIT SAGS

**I**NDIVIDUAL ANXIETY is one thing, but experts say a collective cloud is also hanging over the city. Even those unaffected thus far have neighbors or friends who have been hurt, leading to fear that the crisis will soon hit home.

"In terms of the psychological climate, it's like the energy has been sucked out of people," says Mr. Alpert, the psychotherapist. "There is almost a defeated look on the streets here."

The nonstop barrage of bad news, capped last month by reports of the \$50 billion Bernard Madoff fraud, has created the sense that the city itself is in decline.

Experts say the pessimism is worse than that felt after Sept. 11. While the terrorist attack dealt the city a crippling blow, the collective response wasn't one of resignation. Though residents feared another attack, there was also the feeling that the worst hit came that Tuesday morning. The city came together in a spirit of determination and was supported by an outpouring of support from across the nation and beyond.

"There was depression about what happened and tremendous anxiety about whether it would occur again," says Dr. Charles Goodstein, clinical professor of psychiatry at New York University Langone Medical Center. "But there was also a pulling-together feeling that lifted the city. I don't think the sense of pessimism was the same as I'm hearing now."

The collective psyche has taken such a hit that any sign of deterioration in the city is seen as the beginning of the end. Throughout the five boroughs, vacant lots primed for new buildings stand empty, new luxury condo developments are only half sold, and some types of crime are on the rise, fueling fear that the city could be returning to the 1970s.

Developer Don Cogsville is worried about emerging communities like Harlem that have attracted private equity firms and big-name developers in recent years. A project by Vornado Realty Trust has stalled and another is being spearheaded by General Growth Properties, a company in steep financial trouble. He wonders if vacant sites are going to become part of the urban landscape once again. "It's reminiscent of the Seventies, when there were holes in the ground all over the city," he says. "How's that going to affect Harlem?"

## SOME READY TO PACK UP AND FLEE

**S**OME PEOPLE are going so far as to leave the city, raising the specter of urban flight—one of the most damaging features of New York's decline in the 1970s. Mr. Lovenheim, the Internet entrepreneur, is convinced the city will deteriorate quickly and that crime will inevitably spike. He was no longer willing to pay exorbitant prices to live in the city.

"A year ago, paying \$6,000 a month in rent seemed like it was reasonable," he says. "Now, it doesn't. Between September and October, the economics of what you spend and where you spend it got subjected to a completely different set of rules."

He relocated despite protests from his wife, Christina Zabih, who is from Barcelona and has never lived anywhere but in a big city.

"If there are more of those bus driver incidents or riots like they're having in Greece right now, I'd rather read about it from Pennsylvania," he said, referring to Brooklyn bus driver Edwin Thomas, who was stabbed to death by a passenger last month.

Chris Lewis is contemplating moving because of a different kind of fear: that he might not be able to pay his mortgage or health insurance. The former vice president of product development in prime brokerage at Credit Suisse lost his job in December just days after the bank announced it was cutting 5,300 positions.

"I was just staring blankly, worrying about what I would do, how I will find a job in this market, how I'll pay my health insurance," he says.

Hours after his dismissal, Mr. Lewis was already toying with the idea of moving back home to India, or to Hong Kong or Singapore, where he'd heard of a few openings.

Recently, Harpreet Singh Toor, chairman of the Sikh Cultural Society in Richmond Hill, Queens, has begun making regular trips to Kennedy Airport to drop off day laborers who are returning to India because there's no work for them here.

The willingness of people to leave doesn't mean we're going to see mass flight from the city, but the outflow of residents will have an effect. Between 1970 and 1980, the city recorded a net loss of 823,159 residents, or more than 10% of its total population, as corporations fled town and New Yorkers moved to the suburbs. That loss would have been much worse had it not been for the 800,000 immigrants who arrived during the same period.

Experts disagree over whether the current crisis will result in a net population decline for the city. Immigration growth, an important component in the city's development, has been virtually flat for more than a decade, and demographers say it could drop. "Coming to New York as a foreigner became less palatable after 9/11, and now who would come here for economic opportunities?" asks Andrew Beveridge, a sociologist at Queens College. "People are always moving out, but people aren't going to move in, so we could have a population decline."

Mayor Michael Bloomberg has laid out detailed plans for the city to prepare for a total of more than 9 million residents by the year 2030, but Mr. Beveridge thinks that goal is becoming increasingly unlikely.

"There will be fewer young kids coming to New York because there won't be enough jobs for them, and the people with kids staying in New York are under stress now," he says. "We don't know how this will all play out, but it's no longer the rosy future of PlaNYC 2030."

Joseph Salvo, Population Dji-

sion director of the Department of City Planning, is more optimistic. He says that even if New Yorkers leave, others will replace them.

"I don't have a crystal ball, but if you look at history, we have not seen an example in 50 years where things have not come back," he says. "Look

## Paying \$6,000 a month in rent no longer seems reasonable

at the mood of the city in the '70s, look at the mood of the city after 9/11. The city came back, and I expect it to come back again."

But others say that the crisis is unprecedented and that history may be an imprecise guide. Private school consultant Emily Glickman says some of her clients have pulled their applications for next year and are thinking about moves to the suburbs. She expects this trend to escalate. "It was always hard to raise kids in the city, but it's harder now," she says. "Private school is now a stretch for many parents, but public schools are having more and more problems with budget cuts and overcrowding."

## VIOLENT CRIME ON THE RISE

**A**LONG WITH FLIGHT, crime was one of the most damaging aspects of the city's decline in the 1970s, and some see worrying signs. Murder was up 6% and robberies 2% as of late December, over the year before. Bank robberies, which tend to rise during tough times, were up 54%.

"When you see something and think it's a blip, you have to act because it may be the beginning of a very bad trend," says Julia Vitullo-Martin, a senior fellow at the Manhattan Institute. "You want the people in charge to get on top of it and not say, 'Don't worry about it.' We are not back to the 1970s, but we are teetering on a sense of chaos that we haven't had in New York in some time."

The Police and Fire departments' academy classes have been threatened. NYPD Commissioner Ray Kelly has suggested his department might have no choice but to conduct its first round of layoffs since the 1970s fiscal crisis. In the '70s, the NYPD lost nearly 30% of its workforce, falling from 31,000 officers in 1972 to 22,000 in 1980. The cuts were blamed for a 5.5% drop in felony arrests that year, despite a 16% rise in felony complaints.

Threatened cutbacks to the city's police force—which currently numbers roughly 36,000—won't reduce its strength to anything close to those 1970s levels, but they nevertheless sow fear among New Yorkers that things will get worse. Homelessness is also rising, with a record 9,720 families in city shelters at the end of November, up 13% from May. Advocates are worried that state cuts to homeless prevention services will make the problem even worse. And other anticipated cuts to municipal services, like transportation, libraries and after-school programs, have many thinking back to the 1970s.

"My worry is that when you start having big municipal budget cuts, can you maintain services at a level where things aren't just going to fall apart and have that '70s cycle of downward mobility?" asks Philip Kasnitz, a sociology professor at the City University of New York Graduate Center.

Many people are starting to fear for their personal safety, even though experts say there's no definitive link between crime and a down economy. In a shocking sign of panic, a few New Yorkers say they know people who are going so far as to consider buying guns to protect themselves from an anticipated crime wave. Ms. Salzman, the trend spotter, whose colleague was recently mugged on the subway, is still having nightmares about the November murder of Mr. Thomas, the Brooklyn bus driver.

"I don't think that would have happened a year ago," she says. "It was a different city then."

Even though robberies in Greenwich Village were down last year, the neighborhood was on edge the past few months after a spate of violent muggings. A brazen attempted afternoon robbery last month on bustling Broadway at West 71st Street had residents blaming the economy. And the gruesome beating that killed Ecuadorian immigrant José Sucuzhañay left some wondering whether immigrants and other groups will be targeted.

## OFFICIALS PREPARE FOR TOUGH TIMES

**O**VER THE PAST FEW MONTHS, Mr. Bloomberg has grown feisty when comparisons to the 1970s are brought up.

"We are not going back to the days of losing control of our streets, when crime ran rampant," he said at a December press conference. "We're not going back to days when we stopped picking up our trash and the city started to hollow out, people were leaving, and buildings were burning and foreclosures were all over the place. I do think we're going to have some difficult times, but I also remain optimistic."

During the height of New York's financial crisis in 1976 and 1977, Stephen Berger supervised the city's budget and was instrumental in designing a financial plan that enabled New York to re-enter the credit markets. Now chairman of Odyssey Investment Partners, Mr. Berger thinks the city is actually worse off today than it was then. Yes, the city was a mess, he says, but the problems were basic business ones that could be fixed through financial controls and reporting systems.

Today, it's going to take more than better bookkeeping, Mr. Berger says. Wall Street accounts for 5% of employment in the city, and 23% of revenues. But the city won't be able to lean as heavily on Wall Street for a long time. Already, the city has had to return \$800 million to companies that over-estimated prepaid taxes. Some of the largest financial institutions may not pay taxes for years because of massive losses.

"This time it's much worse, because it cannot be fixed administratively by getting your ducks in order," Mr. Berger says. "What we have here is a fundamental structural change in the underlying economy which is going to require a structural change to fix. If you don't have it on the revenue side, you need it on the spending side."

Both the city and state are looking at tax increases to make up some of the anticipated revenue shortfalls, but the bulk of the massive budget

gaps confronting the city and state will be plugged by cutting spending. Mr. Berger says a major rethinking of service delivery is needed, though he admits that it would take time to root out inefficiencies in high-spending fields like health care and education. For now, both the mayor and the governor have called for across-the-board cuts. To save \$1.4 billion, the mayor last month ordered all city agencies to cut their budgets for fiscal 2010 by 7%, on top of a 5% cut he mandated in November and a 2.5% cut instituted for the current fiscal year. Revenue estimates keep on getting revised—downwards.

"The economic outlook continues to deteriorate with every new forecast," says state Comptroller Thomas DiNapoli. "We don't know how long the recession will last, or how deep it will be, but it's clear that New Yorkers should brace themselves for possibly the worst fiscal crisis since the 1970s."

Yet for most, the crisis won't mean jumping ship. The flight from New York in the '70s mirrored a national move away from cities precipitated by a decline in manufacturing.

"In recent years, the reverse phenomenon has been in effect," says James Parrott, an economist at the Fiscal Policy Institute. "People have been attracted to big cities, New York first among those."

Today, the city is very different from the gritty, inhospitable place it was 30 years ago. Growth in areas like education and health care have softened manufacturing losses and helped diversify the economy. New York is an attractive cultural hub, with a revitalized Times Square, vastly improved transportation hubs and vibrant neighborhoods in the outer boroughs. And despite a recent uptick in murder and robbery, overall crime is down more than 70% compared with just 15 years ago.

"New York has turned a major corner since the '70s," says Kenneth Jackson, a professor of history at Columbia University. "A lot of the things that made the city attractive in the '90s are still there. There's a sense of excitement and vitality that still isn't in most American cities and that's going to stay."

In fact, some say that though the next year or two might be very difficult, a downturn will ultimately be good for the city. Residential rental prices are falling, and those that can are rushing to get better deals. As commercial rents fall, companies that might have been unable to afford the city before can now think about relocating here. Overall, the city will become cheaper and lose some of its veneer of conspicuous consumption.

But for now, in the midst of the crisis, that silver lining is hard to see. In December 2007, Mr. Hill, the former Lehman employee, attended lavish holiday parties at places like Chelsea Piers, where the investment bank held its gala. One year later, Lehman is gone and Mr. Hill instead went to a pink-slip party, where he plunked down \$20 for a pink bracelet that gave him entrée to recruiters, \$2 Budweisers and chatter with his fellow unemployed. ■