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Associated Press

NYU economist: This economic crisis is different

By MICHAEL VIRTANEN 10.06.08, 6:06 PM ET

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ALBANY, N.Y. -An economist who has studied past recessions in New York said Monday the financial industry has come back each time, and she agreed that the only way out of the new one facing the state is to grow.

Rosemary Scanlon, a New York University professor and consultant who once worked as a deputy state comptroller, said the state's coming recession could go well beyond Wall Street and the finance sector. There is also potential for a severe recession nationwide that would be felt in all industries, though so far that's still just a possibility, she said.

"We are looking now at the likelihood of a recession in New York City and New York state," Scanlon told a gathering at the Rockefeller Institute of Government in Albany. "We're in for some, I think, rough days."

But this recession could be different from the last three over the past 40 years because of the estimated \$1.5 trillion in U.S.-denominated securities

now held by China.

Scanlon oversaw New York City finances at the state comptroller's office and was once chief economist for the Port Authority of New York and New Jersey. New York City lost 600,000 jobs in the 1969-77 recession, and a 1989-93 recession followed the October 1987 stock market crash. Another began in 2001, even before the World Trade Center towers were destroyed by terrorists, she said.

Her data showed Wall Street and insurance jobs representing only 9 percent of New York City employment, but about one-third of total wages in 2007 - \$97.5 billion out of \$291.5 billion. In 2007, average wages in the finance and insurance sector were \$285,600, or five times higher than the \$58,800 average in all other industries in New York City.

"We've been through dark days before. Every time the financial industry's come back. The difference this time is the great financial reserves in China," Scanlon said. "I don't know what it means."

As European and Asian markets dropped Monday along with more losses on Wall Street, the Canadian-born economist said another difference now is that the crisis is "a global situation." She said more bank mergers are likely and agreed with Carl Hayden, chairman of the State University Board of Trustees, that there is a way out of a recession.

"You have to grow your way out of it," Scanlon said.

Hayden faulted Gov. David Paterson's directives to cut the SUNY budget along with other branches of state government, saying the strong focus on education and training energized economies in China and Ireland, for example, and there is now "a massive competition worldwide" for intellectual capital that the United States no longer dominates. He said the state needs economic diversification and has come to rely too much on Wall Street.

"The future belongs to those who best create, nurture and commercialize intellectual capital," Hayden said. "You can't cut your way out of a recession."

Hayden pointed to the \$1 billion investment in the SUNY College of Nanoscale Science and Engineering in Albany that has resulted in cutting-edge research and 3,000 high-technology jobs, including 1,000 researchers representing 250 companies.

Instead of cutting funding for higher education and research, he said the state should remove restrictions on the ways the universities engage in "mixed use activities," where they can sell, lease or make other beneficial arrangements with their property without first having to get slow approvals from the attorney general and state comptroller.

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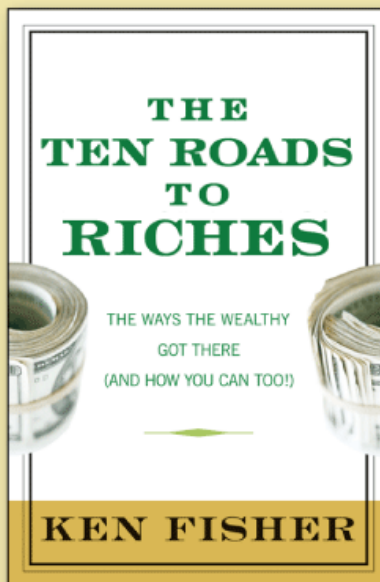
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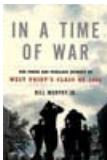
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