Where Is The New York Economy Headed?
A Conversation with IBO Chief Ronnie Lowenstein

By Gregory DeFreitas

New York City emerged from the second pandemic year with a new mayor and a continuing challenge to regain all the jobs lost in the deep 2020 recession. With federal aid winding down, the city now faces difficult and expensive policy choices. To weigh the short- and long-term costs and benefits of alternative policies, both the public and private sector rely heavily on regular research reports from the NYC Independent Budget Office (IBO). Created by the city charter reforms that voters approved in 1995, the IBO is staffed by economists and fiscal policy experts authorized to conduct nonpartisan analyses of major executive and legislative initiatives. For more on IBO and to subscribe to its newsletter, visit: www.ibo.nyc.ny.us

Over the past 25 years, the IBO has been led by economist Ronnie Lowenstein. A Columbia PhD., she left a position at the New York branch of the Federal Reserve System to move to IBO in 1996. Shortly after retiring this February, she spoke with Gregory DeFreitas.

Q: At the start of this year, the *New York Times* said a new IBO report indicates that: "New York's Battered Economy Could Struggle for Years to Come." But then when I looked at the report, it seemed like, at least by 2025, you are thinking that things might begin to turn up a bit. Why?

RL: IBO expects the city's economic recovery to continue to lag that of the nation. The US is very close to recovering at least the number of jobs it originally lost. But the City has only regained a little more than a third of the jobs lost early in calendar year 2020 and IBO doesn't expect the City to recover the remaining jobs until late in 2025.

The question is why New York City's recovery is lagging. The City was hit a lot harder than most of the rest of the country because it was the original epicenter of the disease and because our local economy is particularly dependent on tourism. Many of the jobs lost were in the leisure and hospitality sector, which has been battered by the shutdowns, the absence of tourists, and the emptying out of offices. Fewer tourists and commuters also led to job losses in retail establishments. Midtown was left looking like a ghost town, with very few people on the streets—it actually felt eerie to be there early in the pandemic. There has been more street activity downtown, probably because there is more residential development in the area. While things have improved considerably since the early days of the pandemic, the latest numbers from the NYC Partnership show that well under half of Manhattan office workers are going into their offices on a routine basis.

Q: I went back and looked through some of your earlier reports, going back to 2000. Obviously this pandemic is unique, but in the 9/11 attacks and then the 2008 Great Recession we kept hearing predictions that Wall Street's doomed. I was looking at some numbers on employment in finance and insurance in the city in 2000. January was a little over 366,000. The next year and the beginning of 2002 was 337,000, so it was down about 30,000. But then it rose back and recovered, most of the jobs by early 2008. Then fell by about 40,000 jobs and then rose again. The latest numbers around 337,000. So it's a few thousand down, but still well above 300,000. So what do you make of that? Just think that, in the same period, manufacturing jobs fell by 70% -- while Wall Street fell only by 9%. And nobody talks about manufacturing anymore.

RL: I'm looking at IBO's Fiscal Outlook report, which was released in January: in 2019 (before the pandemic), the manufacturing sector in New York City had only 66,000 workers—less than 2 percent of total employment. In contrast, if you look back at 1950, New York had nearly a million workers in manufacturing. In short, the sector used to have a much bigger impact on the city's overall economy than it does today.

Q: Yes, but they're by and large a lot of still good-paying middle-class kind of jobs, and unionized. Could you just say a little bit in terms of why Wall Street, which is what -- 5% of city employment -- Why does it matter so much? After all, they had a good year, of course, last year

RL: Yes, Wall Street had an extraordinarily good year in 2021. Because individuals employed in the securities industry enjoy earnings that are many times greater than that of the average worker and because a large share of those earnings are spent locally, the industry has a major impact on the rest of the economy. Back in 1996 when I started work at IBO, the conventional wisdom was that the local economy was far too dependent on Wall Street, which is a very cyclical industry, with booms and busts that kept New York City's economy on a roller coaster ride. Over the years, the city's economy has become much more diversified than it used to be and doesn't necessarily rise and fall based on what's happening on Wall Street. Much of this diversification is attributable to two major sectors: tourism and tech. Tech has done well despite the pandemic-related downturn, but tourism—and especially international tourism—has really taken a beating.

Q: What about health care?

RL: The health care industry has long been a driver of the local economy. During the Great Recession, part of the reason the city did as well as it did was because the health and education sectors kept growing—they didn't lose jobs at all. It is important to note that was not the case in the recent Covid-related downturn: every major sector lost jobs on a Q4-to-Q4 basis in 2020. Health care (along with social services) lost a total of nearly 37,000 jobs in 2020, out of a total job loss of 615,000 for the year.

Employment growth resumed in 2021 and IBO forecasts that New York City added over 212,000 jobs—roughly a third of the jobs lost the preceding year. We project that health care and social services accounted for over 45,000 jobs, more than one-fifth of the jobs gained.

Q: In your most recent report, IBO points out that almost all of the city union contracts expire this year.

RL: By the end of this fiscal year (June 30th), about half of all union contracts will have expired. And if there are no settlements by the end of next fiscal year, nearly all contracts will have expired. Although no one knows what the new agreements will look like, IBO used the pattern established in the *last* round of settlements to illustrate how much the *next* round could cost the city. In the last round of settlements, City employees—like me—received increases of 2.0 percent in year one, 2.25 percent in year two, and 3.0 percent in year three. If the same pattern were to be repeated, it would cost the city an additional $500 million during the current fiscal year, rising to $2.5 billion in 2025. Looking at what has been happening to inflation, however, raises of 2.0 percent to 3.0 percent probably won't look as good as they might have a few years ago.

Another important thing to note about the upcoming negotiations is that the City typically puts money aside in a labor reserve to help fund future contracts. Up until a few years ago, the City's labor reserve was sufficient to fund raises of about 1.0 percent a year. But when the recession hit, New York City needed to find ways to bring its budget into balance. Back in the spring of 2020, shortly after the first wave of the pandemic, the City was facing large out-year budget gaps. One of the things the City did to address the crisis was to pull funding for the first two years of the upcoming round of contracts from the labor reserve. Since those funds haven't been replenished, there is currently nothing in the reserve to help offset the cost of whatever agreements are reached for the first two years of the upcoming contracts.

Ronnie Lowenstein

Q: What about the schools? Didn't you do your dissertation on education? That's been something which at IBO you seem to have been especially interested in working on; I know you do reports on that.

RL: Although IBO has worked on education issues since the agency's inception in 1996, our initial research was primarily focused on fiscal issues related to education. In 2009, however, when Mayoral control of the school system was re-authorized for the first time, the scope of IBO's work was broadened to include reporting on education statistics and the agency was provided with additional funding. The change was prompted by considerable concern—and cynicism—over the quality of data reported by the Department of Education. The additional funds allowed IBO to build a massive database that includes variables such as student attendance, demographic characteristics, graduation rates and test scores.

Looking back, it was not that the data itself was flawed, but rather that the Department undermined its credibility by cherry-picking what data to release.

And to answer your first question, my dissertation was on the financing of public education across school districts in New York State—an issue that (unfortunately!) remains relevant.

Q: If you could generalize after 25 years, what do you think? Are we we getting better with the schools or is it still really worrisome for you?

RL: It's always been worrisome for me. Although some New York City schools are very, very good, there are still too many schools that are failing. There is also a great deal of segregation within the system. Although some observers expected that school choice would allow families to avoid low-performing schools and help promote integration, progress on both issues has been limited.

Q: I notice in the report you guys mention you're expecting, I think. an increase in city costs due to charter schools. Is that just to expand the charter schools you're expecting?

RL: This is primarily a question of accounting. Charter schools typically start with one or two grades and then add an additional grade each year until they reach their full complement of grades—for example, kindergarten through grade eight. In some years the Mayor's budget proposal has failed to include sufficient funding for existing charter schools that are still expanding or for charter schools that have already been authorized but haven't yet opened.

As long as we're discussing accounting, it is important to stress that New York City budgets on a Generally Accepted Accounting Principles (GAAP) basis—rules that are very strict. For example, the City must end each fiscal year with a balanced budget; it can't achieve balance by deferring a payment until the following year or by borrowing short term. The City produces four separate financial plans each year, which provide early warning when the fiscal outlook is deteriorating and changes are needed to ensure that the City ends its fiscal year in balance.

Q: IBO had to fight some real battles with Giuliani and Bloomberg.

RL: The battles were with the Giuliani Administration—mostly disagreements over the impact of tax cuts on City revenues and whether publicly-funded stadiums could 'pay for themselves'. There was a period in which nearly everything IBO published elicited a strong response from the Mayor. The Administration even raised questions about IBO data that showed that after adjusting for inflation, per pupil spending—total spending divided by the number of students—had declined. The story was covered in the New York Times. When the Times reporter asked a senior official of the Giuliani Administration why he questioned IBO's methodology, the response was that "the organization was political because some former officials of the Dinkins Administration work there". [1]

Mayor Giuliani was very determined to get rid of IBO. There are only two ways to do so: revise the City Charter, which requires a local referendum, or state legislation. Giuliani tried both.

Q: Can you pinpoint when he turned against IBO? Did one report set him off, or did he just want total control and no oversight?

RL: Giuliani wasn't the first mayor to oppose the establishment of IBO. Think about it: if you were the Mayor or the Speaker of the City Council, how enthusiastic would you be to use city money to fund an organization that is independent of either the executive or legislative branches of government?

Q: Did they say: we've got the City Comptroller so that's all we need.

RL: Alan Hevesi, who was Comptroller when IBO was established, routinely said that IBO wasn't needed because its work duplicated that of his office. And when John Liu became Comptroller, he proposed incorporating IBO into the Comptroller's office because both offices were independent. (I'd like to add that—despite the proposal—there was no acrimony between the two offices and that in his current role as a State Senator, Liu has been very supportive of IBO.)

Q: So what was your argument against the Comptroller's argument that they were independent?

RL: The argument I made was that even if Comptroller Hevesi saw himself as independent of the Mayor, there was no way to guarantee that his successor would similarly view the office as independent. Moreover, City Comptrollers run for office representing a particular political party; even if they view their office as independent, it isn't nonpartisan.

Q: I looked at some articles from that time where they quoted you and you were very frank in rejecting economic claims for the city subsidizing stadiums for the Mets and Yankee. You said they don't lead to long term economic growth or jobs.

RL: The economic literature on the impact of new sports stadiums is very clear—sports stadiums don't lead to additional economic activity or increase tax revenues. They can, however, redistribute economic activity from one area to another, which was a big argument against moving Yankee stadium from the Bronx to the West Side of Manhattan.

I'm not personally against sports stadiums. My family are all sports fans! For them and for many New Yorkers, the City's teams are a major public amenity (particularly when the teams are doing well.) There may be good reasons why a locality decides to subsidize a stadium, but that decision should not be based on the assumption that the stadium will pay for itself.

Q: Yes, wasn't that also the argument with Bloomberg, wanting to put a big stadium on the West side?

RL: The Bloomberg Administration was seeking to put a stadium on the West Side of Manhattan as the centerpiece of the City's bid to host the 2012 Summer Olympics. Another major component of New York's Olympics bid was the extension of the #7 subway line from Times Square to 11^{th} Avenue and 34^{th} Street. London was ultimately chosen to host the games. But the extension of the #7 line, funded by the City itself, became a catalyst for other development in the area.

Q: You led IBO through the Great Recession in the fall of 2008. Were you guys at IBO reeling like others from Wall Street's collapse?

RL: When Lehman went bankrupt, I really feared that the financial system could freeze up or collapse. That wouldn't just be a problem for New York City—its impact would be felt across the country and world-wide. I still recall the pictures of Lehman employees carrying their belongings in cardboard boxes out of the firm's headquarters in Manhattan.

Looking back, however, New York City fared much better in the Great Recession than many economists had feared. The City lost fewer jobs than it had in other recent downturns and recovered those jobs more rapidly than the rest of the country. One reason the City fared relatively well was that the federal government rescued the financial industry, at that time the main driver of the local economy. But there were other reasons as well. The subprime mortgage crisis led to relatively few foreclosures in New York City, in part because more than two-thirds of City residents are renters rather than homeowners. Another reason that the City lost fewer jobs than expected was that its education and health care industries continued to add jobs throughout the downturn.

Q: Yes, it was more of a V-shaped rapid recovery then, wasn't it?

RL: For New York City, recovery from the financial crisis and Great Recession *was* V-shaped, with the City regaining its 2008 pre-recession levels of employment in roughly two years. The situation was very different at the national level; total employment in the U.S. didn't regain its pre-recession peak until the middle of 2015.

Q: Anything else to add?

New York City's economy looks very different today than it did when I joined IBO in 1996. Although the local economy is always changing, some shifts have been accelerated by the Pandemic. For example, even if international tourism returns to its pre-Covid peak, I don't expect business travel to bounce back the same way because so many businesses have enjoyed the savings associated with remote meetings. Along the same lines, many employees and organizations have thrived while working remotely. But declines in the number of commuters to the City will have an impact on City restaurants and retail establishments, along with the value of the commercial buildings that comprise a major share of the City's property tax base.

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[1]David Firestone, *City Spending Less Per Pupil, Report Shows*. *NY Times* (1/14/1997.)