

# Introduction to This Issue

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*Charles Steindel*

This special issue of the *Economic Policy Review* presents the proceedings of “The Metropolitan Economy in the National and World Arenas,” a conference held at the Federal Reserve Bank of New York on November 13-14, 1996. The conference was prompted by concerns about the economy of metropolitan New York: most notably, concerns about employment levels that are still well below their previous peaks and local government budgets that remain under strain despite more than five years of national economic expansion. Participants included Federal Reserve and academic economists, local policymakers, and business and community leaders.

The conference was divided into three sessions: the first was devoted to assessing the overall performance of the region’s economy, the second to a discussion of trends in major local industry groups, and the third to local government policy options. The sessions were moderated by James Hughes of Rutgers University, New York City Deputy Mayor Fran Reiter, and Robert Kiley of the New York City Partnership.

The papers in the opening session—the first by Jonathan McCarthy and Charles Steindel, the second by Kenneth Kuttner and Argia Sbordone—found that there is no easy explanation for the sharp contraction in the regional economy in 1989-92. The slump was considerably larger than can be accounted for by the weakness in the national economy at that time, even when nationwide weakness in the financial and manufacturing sectors is con-

sidered. The authors of both papers assigned most of the major movements in the local economy (in 1989 and at other times) to unspecified “local shocks.”

While much about the region’s economic fortunes remains unclear, McCarthy and Steindel pointed out that income measures in the region have been considerably stronger than employment and that the relatively slow pace of national employment growth in the 1990s created an environment in which rapid employment growth in the area would have been possible only under unusually favorable circumstances. The discussion at this session noted that further investigation of the local factors at work in the area is desirable, possibly through examination of more detailed industry data. The hazards of forecasting the region’s economy when such a large part of its history remains unexplained were also noted.

In the second session, the paper by Matthew Drennan examined the performance of three major regional industry sectors: goods production and distribution, producer services, and consumer services. Drennan found that, measured by income generation, the performance of these regional sectors in the 1990s has kept pace with that of their national counterparts. Income growth in these regional industry groups can be readily explained by national and international factors. In other words, Drennan suggested that a crucial part of the region’s economy shows little or no recent deterioration and the region’s economy overall appears well integrated with the national and world

economies. Nonetheless, regional employment, aggregated across the three sectors, has fallen significantly in the 1990s.

Next, James Orr's paper looked at job losses and gains in regional industries in the context of the "restructuring" movement. He found that, although the net job loss in the area has been large, the layoff wave appears to be ebbing and the service sector continues to grow.

In the latter part of the second session, a panel discussed specific developments in several major regional industries. Lawrence Radecki noted the potential for job losses if local banks shrink branch networks. However, the other panelists—Mitchell Moss on manufacturing, Richard Cantor on securities, and Thierry Noyelle on business services—found that the New York region retains a strong national and international position in many areas, although significant challenges are apparent. In the general discussion, telecommunications was mentioned as a sector whose New York area firms were in a position comparable to that of the sectors examined by the panelists. Concerns were expressed that little was said about growth opportunities for lower skilled and lower income workers in the area, although warnings were raised about the limited effectiveness of government intervention. A number of participants emphasized the long-run importance of improving education.

In the third session, the paper by Dick Netzer assessed the region's future and identified policies that might improve the local outlook. He was cautiously optimistic about the general outlook. In evaluating specific

policies, however, he was skeptical about the benefit of spending substantial sums to improve personal transportation in the area—as opposed to improving goods-transport systems. Although he agreed that substantial cuts in the local tax burden could increase growth in the area, he doubted whether local governments could afford such widespread cuts. Instead, he argued, it would be more beneficial for authorities to look for ways to reduce the cost of doing business in the area, possibly by reducing taxes levied on intermediate goods and services purchased by business. Although the participants agreed with much of Netzer's analysis, some reiterated the need to develop policies that could generate job growth in the poorer, urban parts of the region.

Overall, the basic thrust of the papers presented at the conference was that the region, viewed in the aggregate, retains considerable resiliency, with fairly strong income growth and some recent recovery in employment. Major sectors of the region's economy have been holding their own against national and international competition. It is clear, however, that the region's continued ability to generate income and retain jobs in high-skill, high-wage sectors has not been reflected in job growth at the lower end of the spectrum. Much of the discussion noted that while it may be desirable to pursue policies that help reduce the general cost of doing business in the area, attention should also be paid to improving job opportunities for lower income workers.

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