

Summary of Floor Discussion

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The third session's discussion focused on the policies that state and local governments in the metropolitan region could pursue to improve the region's outlook for the future. The participants also commented on some issues raised in the conference's previous sessions.

Glenn Hubbard opened the discussion by reacting to Dick Netzer's paper with the observation that, as a general matter, the recommendation to state and local government officials when considering tax policies is to "do no harm." Hubbard also characterized Netzer's paper as one that explored the relative efficiencies or effects of the various forms of tax. He noted that it was obvious from economic theory that taxes on intermediate inputs—such as those on utilities—should be closely examined as candidates for reduction.

Howard Chernick also reacted to Dick Netzer's paper, by querying him on the relative effects of different taxes on the economy, including shifts from firms to individuals, in Netzer's search for the most efficient tax cuts. Chernick wondered whether there were tax cuts that could be made without reducing the expected revenues from that tax. Netzer responded that in most cases the lowering of the tax would not be recouped by an increase in that particular tax revenue stream, except perhaps in the very long run. However, Netzer acknowledged that, as a practical matter, he was focusing on tax cuts that would involve relatively small net losses or tax cuts that were likely to be revenue-neutral.

Next, a conference participant commented on a statement in the Netzer paper that state and city effective tax rates are 20 percent above the national average measured as a percentage of regional product. The participant noted that, at the same time, the state does export federal tax dollars to the rest of the country in significant quantities each year. The participant wondered whether government officials, and the business community in the region, are giving enough attention to how national tax dollars are being allocated.

The discussion then turned to several issues raised in the earlier sessions at the conference. Glenn Hubbard noted the difficulty of distinguishing the contribution of national economic changes from that of regional economic movements. He felt that it was important to continue these efforts to untangle the past for three reasons: to understand more about the process of change, to be able to assure policymakers that the world does not end when dramatic change occurs, and to sort out regional shocks as a way of shedding light on mistakes in public policy that might have unnecessarily reduced economic growth. For example, on the issue of growing wage inequality, Hubbard felt that this was a national issue, rather than one that might be considered regional in nature. He added that he found it difficult to extrapolate from the findings to determine whether the New York region should be compared with a Cleveland, Ohio, or a London or Singapore. Robert Kiley cast his vote for a comparison with international cities, on

the grounds that the strengths of the city lie more in competing in the global marketplace.

Kiley then spoke about the importance of bridging the communication gap between economists, who seek to understand and explain the effects of policy on the performance of the economy, and policymakers, who are looking for practical recommendations for actions that can be taken to improve economic growth in the short and medium terms.

William McDonough observed that part of Kiley's point is that policymakers wish to identify actions that will have relatively large impacts in a relatively short time period. Unfortunately, noted McDonough, more rapid eco-

nomie growth is more likely to be the culmination, over many years, of numerous smaller actions, none of which may be particularly dramatic or politically popular. Nonetheless, he added, it is important to find ways to present valuable economic information in ways that noneconomists can understand. It is also important to formulate from that information specific policy recommendations that a region might follow to improve, even if only at the margin, its prospects for economic growth. In conclusion, McDonough remarked that members of the Federal Reserve Bank of New York looked forward to working with the other conference participants in this effort.

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