New York City's Economy — Some Longer Term Issues

By RICHARD A. DEBS
First Vice President and Chief Administrative Officer
Federal Reserve Bank of New York

Remarks at a panel discussion sponsored by Bernard M. Baruch College, Macy's, and The Committee on the Public Interest in New York City on November 7, 1975

As you know, this conference was organized sometime ago, and the general topic then was "challenges and opportunities of doing business in New York City". At the time I accepted the invitation to participate, I had in mind—as I'm sure most of us did—discussing the longer term problems and prospects for the basic economic health of our city. Although there were many pressing short-term problems brewing at that time, I had hoped that at least the more critical ones would have been settled by now so that we could by this time focus on the longer term. Unfortunately, that hasn't happened. Our short-term problems are obviously still very much with us, and they become even more critical with every passing week. Because these problems have been most demanding of our time and energy, none of us have had very much time to think about the longer term.

Nevertheless, I would like to take these few minutes to do just that—to focus on the longer term to see what we might hope for in the years ahead, but also perhaps to put into a better perspective some of our more pressing short-term problems. In talking about the city's financial and economic problems, I find it useful to separate them into three different, but related dimensions, somewhat parallel to the three principal types of financial statements.

To begin with, the most immediate, most acute, and shortest term problem the city faces is a problem of financing—a funding problem. This is a question of where and how the city can fund itself over the next few months. Given the levels of its short-term expenditures and income —over which there can be relatively little control within the short period we are talking about—the problem is one of cash flow.

The next dimension of the city's financial and economic problem centers on the budget and the need to balance it. Obviously, the budget problem is inextricably linked with the cash flow problem, but is quite distinct from it, just as the annual profit and loss statement is linked to, but is distinguishable from, a flow-of-funds statement. For our purposes, they must be distinguished because they require different kinds of solutions. There is no doubt that the challenge of balancing the budget is an immediate challenge and, in that sense, an immediate problem, but it cannot have an immediate solution. It is clear that the city needs time to achieve a balanced budget, although major steps have already been taken in that direction. The story of how we arrived at our present position on the budget is complicated but basically well known to all of us here. Without indulging in recriminations or trying to assign responsibilities, the important point is that we need to focus on how we can balance the budget as fast as possible. And we must recognize that it cannot be done overnight.

The third dimension of the city's financial problem, as I see it, is related to its longer term, basic economic situation. Again this is distinct both from the immediate cash flow problem and from the budget or "profit and loss" problem. It is, instead, analogous to a balance-sheet problem in that it involves analysis of the city's tangible and intangible longer run economic assets and liabilities. And it is this longer run situation that I'd like to talk about for a few minutes.

First of all, I think it's useful to emphasize the fact that —quite apart from the greatly publicized recent problems of an unbalanced budget and the cash flow crisis—the city has for some years now suffered from an underlying economic problem. In several ways, New York shares this problem with other older cities generally, many of which have experienced a deterioration in their basic economic health over recent years. This deterioration can be measured by declines in jobs and in population, either absolutely or in relative terms. It is also reflected in various measures, some very intangible, of the "quality of life". The reasons for this general tendency—which really has to do with what I would call "natural" forces—are to be found simply in the evolution of the economic structure of our society. For example, the further development of transportation and telecommunications facilities has diminished the value of being located physically within large cities such as New York. Moreover, as the scale of cities has grown with growth in the general population, there have been increasing costs of congestion within the large cities. Over the years, there has also been a rising proportion of old and deteriorating physical plant, both publicly and privately owned. Such forces, by themselves, could be expected to cause problems for large cities in terms of economic growth over time. However, with good planning, such forces should be manageable and do not fully account for the acute crisis in which this city now finds itself.

In many ways, these natural forces of change seem to have been reinforced by governmental policies that have set in motion flows of businesses, jobs, and people that have tended to weaken the underlying economic strength of the city. For example, many Federal and state road construction programs have, in effect, subsidized the suburban areas by facilitating transportation and encouraging the emigration of businesses and families to the suburbs. At the same time, the relatively high levels of welfare benefits and public services have led to what, in effect, has been a subsidized in-migration of poor rural families, many of whom have only limited skills for coping productively with urban life. This pattern of population movement simultaneously increased the cost of social services in the city, and it also reduced—at least in the short run—the average economic productivity of its work force. No doubt the urbanization of this largely rural population will in the long run greatly benefit the nation. In the meanwhile, however, its costs have been borne disproportionately by New York and other similar cities. These costs have been reflected in disproportionately high tax rates, and these in turn—by driving out businesses, jobs, and relatively well-off taxpayers—have served to erode further the city's economic base. And, at the same time, of course, this has aggravated the more immediate problem of the city's budget.

What are the solutions to these kinds of problems—problems that are caused by government policies? Obviously, we can look for the answers in the government policies themselves. Without in any way trying to be exhaustive, it's easy to point to a few areas for obvious consideration.

In the first place, at the level of the Federal Government, the first thing that comes to mind is the possible federalization of our welfare system. In a nation whose population enjoys a high degree of mobility, a welfare system that permits disparate rates of support, and exerts an uneven burden on taxpayers, is bound to create severe problems and inequities in particular localities—and that has been the case in New York City.

Another area that needs some rethinking is the possible regionalization of some governmental services that are now paid for primarily by the city. Of course our problem in New York is complicated by the fact that our local region crosses state lines. But there is already a precedent for regional approaches—such as the MTA—and transportation obviously comes to mind as a possibility.

Another possibility deserving exploration is the assumption by the state of functions now paid for by the city that are treated as state functions in other parts of the country. For example, there has been mention of the court system and the penal system.

The fourth area that comes to mind relates to the policies of the city itself. To what extent have public policies of the city had the net effect of eroding its economic base? One policy that is often mentioned in this connection is the controversial subject of rent control. There are many sides to this question, but it certainly deserves further close analysis and study from an economic point of view. There are many other public policies that need reexamination, and indeed many of them are being looked at anew. One of the very basic questions, of course, relates to tax policy, and here, as with many of these other issues, we are faced with a dilemma. On the one hand, it is clear that a burdensome level of taxes will encourage the movement of businesses and population from the city. At the same time, tax revenues are an essential ingredient in coping with the city's immediate budgetary problems.

This is a most important issue. One of the challenges we face is that some solutions to the city's narrow budgetary problems may well prove inconsistent with solutions to its longer term problems. If at all possible, we should try to avoid short-term budgetary solutions that would worsen the longer term economic situation. And of course, in the longer run, any measure that weakens the city's economic base will ultimately feed back on the budgetary position adversely. It is not difficult to imagine a vicious cycle of budgetary changes that could in the end worsen budgetary problems even further. And this is especially relevant when we consider the capital budget, which is clearly an investment in the future.

Seen in this longer term prospective, it will not be easy to find satisfactory solutions to the immediate budgetary problems that the city faces. Simply increasing revenues by raising taxes, or simply cutting expenditures by reducing services, if nothing else is done, will have a long-range adverse effect. The real trick, and the real solution, to the budget problem as well as the long-term problem is to maintain the services—and the capital expenditures—that are essential to the city's longer term economic health but at a reduced cost. We should not let ourselves be deluded that the only way to reduce costs is to reduce output. Our aim should be to lower costs by increased productivity, increased efficiency, and the use of operations improvement methods. If we are able to do that in the shorter term, we should be able to preserve our economic base from further deterioration in the future. At the same time, of course, we urgently need to go to work on some of the longer term problems—problems that require changes in governmental policy—to strengthen further our economic base over the longer run and put us back on the path of long-term economic growth. There is no doubt that the city has the potential for the needed growth. Our basic assets are strong. While there has been some deterioration, it has been from a very high base. There is still much underlying strength in the city and, given the chance, that strength can show itself once again in the years ahead.