McDonough: New York City’s Economy

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Remarks by President William J. McDonough before the Conference of Facing the Jobs Challenge

I am pleased to have this opportunity to be here today at a conference that will focus on jobs, education and other issues critical to the long-run well-being of New York City.

We all hear a lot about what seems to be intractable problems -- some even called it a crisis -- in New York City’s economy and educational system. But I, for one, believe that this city has what it takes to generate high-paying jobs that will be staffed by a local work force trained with the requisite knowledge and skills.

I also believe, however, that New York, like many large municipalities around the world, faces a complicated challenge to anticipate and expand tomorrow's growth industries while letting go of the declining ones.

In the process, big cities like New York must find ways to alter or, if necessary, demolish entrenched bureaucracies, old ways of doing business, and ineffective incentives that create negative, often unintended, results. In many ways, leaders from business, government, academia and elsewhere will have to reckon with the fact that processes rooted in by-gone days no longer work.

To break these molds, it is up to us here today and many others as well, to make sure that the revolution of industrial change and development is understood and acted upon in a timely manner. The battles in this revolution will take place not only in our work establishments, but in our schools from kindergartens to university labs and in our homes, where future workers and leaders must be prepped to be flexible and productive.

Perhaps you might find it surprising that a central banker, someone paid to worry, does not see New York as headed toward a crisis in its economy as the millennium approaches. In this regard, history can be a great teacher. Great cities endure, in part, because they have both the natural advantages of favorable geography and sufficient flexibility in their systems of law, economics, finance and, sometimes, even culture to adapt to change. New York City has all of these advantages -- and more. Thus, I feel we are positioned not for crisis, but for advance.

New York City has been tested. The fiscal crisis of the 1970s, deterioration in the quality of life in the 1980s and the slow recovery from recession in the 1990s remind us that cities like New York have never-ending struggles. However, cities like New York always have been agents of change -- in financial services, the arts and media, and dozens of other sectors. Nothing about New York City in 1997 suggests to me that its leadership role won’t be as great or greater than ever.

On a cyclical basis, economic data covering 1996 and 1997 show clearly that New York’s economy has returned to a solid footing, with 1998 expected to be another solid year for the city’s businesses.

I have seen a number of estimates from regional economists that the city can expect to add some 45,000-50,000 jobs in 1998. Most of these will be generated in the large and diverse services and retail sectors. Among service industries, accounting, engineering, management consulting, and both temporary and computer services anticipate sizeable job gains. Many of these industries pay their workers very well.

In retailing, employment increases are anticipated in industries that benefit from rising income and tourism. How hot is New York City nowadays as a tourist attraction? Despite the highest hotel room rate in the country, averaging just under $200 a night, New York has the nation’s highest hotel occupancy rate.

For the first time in many years, employers in some industries report shortages of skilled or experienced workers. In some occupations, workers now demand and receive signing bonuses, pay differentials and other incentives to sign on or stay with a company. These shortages have led to more advanced training on the job for existing workers and broader outreach to prospective workers who might otherwise find jobs unavailable.

This upbeat cyclical picture becomes even brighter when light is cast on the city’s rebounding real estate markets. Those empty or partially-empty office buildings of just a few years ago in mid-town and lower Manhattan now have lights burning on all floors. Office vacancy rates in mid-town have dropped to the halcyon levels of the early 1980s and, in lower Manhattan, vacancy rates are coming down again. Building renovations go on, only now there is talk again about shovels going into the ground to construct new buildings.

Despite the slow, but persistent cyclical recovery of the city’s economy, we all have to pay attention to broader structural and trend issues that could make future, or rapid, cyclical advances in the years ahead hard to come by.

As a monetary policy maker, and as a resident of this city, I remain as concerned as ever about the growing disparity in income between the well-educated and fortunate among us -- whose economic well-being improved strikingly in the 1990s -- and the less-educated and less fortunate among us -- whose incomes and assets are too small and whose dependence on government safety nets is too large for them to enjoy the benefits of the city's better days.

In a sense, the city’s economic resurgence teases us a little bit. Some of the most rapid gains in employment seem to be taking place in occupations...
that pay below-average wages and provide few, if any, benefits.

Growing income disparity has consequences that are felt not only in the economic system, but in the schools, hospitals and criminal justice system as well, where the fraying of the city's social fabric can be tallied in shattered lives.

Despite this continuing concern, I am heartened by a trend that gets far too little attention -- the expansion and growing prosperity of the city's middle class. Keeping the middle class vital and prosperous is critical to the continued economic well-being of the city. A thriving middle class forms the foundation for economic growth and stability, provides positive agents for change and fends off the economic, political and social decay that have stymied so many other cities around the world.

At the APEC meeting in Vancouver last week, Secretary of State Madeleine Albright said something that really caught my attention. The Secretary, providing a prescription for renewed economic expansion internationally, stated that "We must act with patience, persistence and principle to stabilize economies, promote good governance, bring down barriers to trade and engender a broad public conviction that open markets will open the door to prosperity not just for the lucky few, but for the hard-working many." The Secretary's words, while delivered to an international audience, apply equally well to New York City.

Over the past 15 years or so, New York City has made enormous strides toward improving the environment in which we live, work and do business. It hasn't been easy though.

The city's economy stayed precariously dependent on the profits of the financial and business services sectors while manufacturing disappeared or moved elsewhere.

As the nation's economy became increasingly export-driven and as changes in communications, information-processing technologies and work place organization made skyscrapers less necessary, many New York businesses and households questioned why they should be here.

Not brimming with the newest growth industries and overloaded with obsolete real estate, New York lost businesses, workers and households to newer suburbs, other newer cities and local governments elsewhere with new attractions for New York's companies.

Beyond a doubt, however, sometime in the 1990s, New York began to feel a positive change of fortune. I like to focus on four points:

(1) New York never lost its status as the nation's capital in finance and entertainment, and as a preeminent cite for corporate headquarters. A booming stock market, growing affluence domestically and abroad, and major improvements in the quality of life all contributed to making this capital city gleam again. In some ways, the gains on Wall Street, the fully-occupied office towers on the Avenue of the Americas, and the clean-up of Broadway serve as symbols of the revival of this city. So, too, do the revitalization of the Bronx and the economic resurgence of downtown Flushing.

(2) California, Texas, Florida and other sun belt cities may attract businesses, migrants and immigrants, but New York City remains this country's preeminent gateway city. As such, the city benefits enormously from diverse cultural richness and from the remarkable surge in entrepreneurship this diversity engenders. Newcomers to this town are crucial to the creation of new jobs. The small businesses they start, often serving niche markets, stabilize neighborhoods and strengthen the city's middle class. They bolster the tax base and give people both a greater stake in, and more optimism about, their communities.

(3) Improvements in the city's fiscal condition also have made a big difference. For the first time in many years, much needed and often postponed repairs to the city's infrastructure are being made. Importantly, this means that not only the roads, subways and bridges will be repaired, but there's a real chance that some of the problems with old and faulty school buildings will be addressed despite the voters' rejection of the bond issue.

(a) Several factors account for the improved structure of the city's budget. For one, the city has shrunk some of its government bureaucracy and unlike most other major cities, has gradually reduced municipal employment.

(b) In addition, the city economy's improved cyclical condition has shrunk the payouts to individuals in need.

(c) The cost of governing the city has become more manageable due, in part, to restraint in the growth of municipal workers' salaries and benefits, moderation in medical cost inflation and shrinking welfare enrollment. With the extra money available the city government can do the things it must, not only to repair the infrastructure, but to improve the quality of life.

(d) On the other side, continued robust profits on Wall Street have created a tax revenue windfall of perhaps $100 million this year alone. What's more, with employment up and tourism strong, sales tax revenues have been surprisingly hearty. For the first time in many years, there is talk of City Hall putting millions of dollars into its typically depleted rainy day fund.

(4) There's a new mind set in this city that just was not here in 1992 when I began my career at the New York Fed. Economists point out that consumer confidence in the city, as measured by The Conference Board, is at its highest level in years. Economists call it "confidence," I call it "attitude." New York has "attitude" again - that feeling that this is THE place, the BEST city in the world. "Attitude" is self-reinforcing: When we have it we want to stay here and prosper. When we prosper we get "attitude" and we make this the greatest city in the world.

(a) When Pat Riley was coaching the Knicks, he described the difference between coaching in New York and coaching anywhere else. Riley said that, "All over the country, spectators go to games to watch their favorite team play. In New York, they go to games to watch their team win." That's "attitude."

If New York is to keep its "attitude," it must remain a locomotive for both the U.S. and the global economies.

In doing so, New York's businesses, government and educational establishments must be leaders in the integration of state-of-the-art technologies into their operations. (And those operations, those ways of doing things, must themselves be state-of-the-art.)
What’s more, all of us must think like, act like, do business like, and govern like one fully integrated region rather than as a city plus a lot of competing suburbs. Our metropolitan area is an eco-system -- an eco-nomic system with mutually dependent parts and an eco-logical system in which the success of the whole depends directly on the health of all of the parts. It’s now up to our leaders to recognize this reality and work for the mutual benefit of all of us who call this region home.

In a related way, changes in customary work arrangements will change the role, and even the physical appearance of the city and its suburbs. Virtual offices, flexible hours, and at-home work, all made possible by modern technologies and innovations in the use of labor and other factors of production will change historical patterns of land use, the characteristics of the buildings that will be constructed and housing patterns throughout our region. Clearly, more and more workers will spend more and more hours outside Manhattan’s office towers over the years ahead. A large number of these workers will be working productively and gainfully either at remote facilities in the suburbs or from their homes further and further away from Manhattan.

Of course, the extent to which the region’s work force can fulfill this vision will depend critically on its training, education and skills. In this city and elsewhere as well, a lot of work has to be done to make the school system more responsive to the new eco-realities. A tremendous burden will be placed on the leadership of schools, school districts and central boards of education to transform calcified and lumbering school systems into modern establishments of learning, skill development and critical thinking.

I am confident, though, that New York City has at least begun to make the changes required by today’s changing exigencies.

At a conference hosted by my Bank a few weeks ago, Chancellor Rudy Crew said something that’s worth noting. A senior-level school administrator bemoaned the strictures placed by the teachers union on activities in New York City schools. "The union ties our hands," the administrator said, "and they make it just about impossible for us to teach effectively." After a brief pause, the Chancellor responded, "You know what? You’re right. Union rules can get in the way. But so do 1,000 other things. Sir, I’m not impressed by those things or by your complaint. Your job remains the same no matter how tough it can become. You have to teach students to read, to perform mathematical operations and to think critically. There will be tests and your kids had better pass them. If they don’t, please don’t tell me why and don’t give me excuses. There will always be obstacles. I pay you to overcome them."

The Chancellor’s message brought home to me that for the first time in memory, the city’s most senior school official has set standards and will do whatever it takes to enforce them.

The Chancellor’s message also served to highlight a variety of trends in education in this town that leave me breathing a little easier. Let me list six of them:

1. Everywhere I go lately, I hear talk about "standards." It’s becoming clearer that educators around here know which core competencies they want students to master and they’re setting standards of performance in reaching them.

2. Technologies are not only getting into schools, they’re becoming a bigger and bigger part of in-class and at-home instruction.

3. Active learning has really taken hold. Performance-based assessments are becoming increasingly prevalent and the old paper and pencil exam is becoming less important.

4. School-to-career programs are expanding and getting better. Both schools and businesses seem to be placing higher priority on internships and other programs that ease students’ transition from school to work.

5. Arts are creeping back into curricula after many years of cuts and neglect. Arts help students develop a whole-brain approach to problems; they also provide enrichment that’s every bit as important as some academic subjects.

6. Both CUNY and SUNY have set higher academic standards, and are again becoming prominent feeder-pools of workers in some of the city’s most important occupations.

With manufacturing in a long-term decline and municipal employment shrinking, the traditional routes to the middle class are gone. Thus, education has become the linchpin for the success of the city’s economy. It’s now up to the educators to provide the means for students to succeed in today’s job market, with its emphasis on communication, keyboard and problem-solving skills.

At the conference here today you will have an opportunity to explore the links between education, work force development and the long-term viability of the region’s economy. This is important work and I wish you luck in carrying it out. But as Rudy Crew reminded us, the time for making excuses is gone and we’ll be expected to get the job done. Let’s go to work.