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 1 5, 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 1 . 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 Yor s Battered Econor y Cou d trugg e for Years to Cor e But then when I oo ed at the report it seer ed i e at east by you are thin ing that things r ight begin to turn up a bit hy

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.

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Q I went bac and oo ed through sor e of your ear ier reports going bac to Obvious y this pander ic is unique but in the attac s and then the Great Recession we ept hearing predictions that a treet s door ed I was oo ing at sor e nur bers on er p oyr ent in finance and insurance in the city in January was a itt e over he next year and the beginning of was so it was down about But then it rose bac and recovered r ost of the obs by ear y hen fe by about obs and then rose again he atest nur bers around o it s a few thousand down but sti we above o what do you r a e of that Just thin that in the sar e period r anufacturing obs fe by whi e a treet fe on y by And nobody ta s about r anufacturing anyr ore

RL I m looking at IBO s Fiscal Outlook report, which was released in January in 201 before the pandemic, the manufacturing sector in New York City had only ,000 workers—less than 2 percent of total employment. In contrast, if you look back at 1 50, 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 arge a ot of sti good paying r idd e c ass ind of obs and unionized Cou d you ust say a itt e bit in terr s of why a treet which is what of city er p oyr ent hy does it r atter so r uch After a they had a good year of course ast 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 1 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 hat about hea th 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 3 ,000 jobs in 2020, out of a total job loss of 15,000 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 r ost recent report IBO points out that a r ost a 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: hat about the schoo s Didn t you do your dissertation on education hat s been so ething which at IBO