NYC 2025 Overview

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INTRODUCTION

COVID-19 killed over 33,000 New York City residents and infected at least another 900,000. The pandemic permanently shuttered thousands of local businesses and threw nearly 350,000 residents out of work. Declines in business income, tourism, and transit ridership have already wreaked havoc on the long-term fiscal situation of the City and its key institutions, despite the critically-important influx of funding from the federal government. These blows have hit low-income communities and Black and Hispanic communities in our city particularly hard. Recovering from this devastating emotional and fiscal toll will be difficult, painful, and require long-term planning.

Beyond the urgent and immediate demands of recovery, New York City government will need to grapple with a quite different set of circumstances and threats than existed just a year ago. In particular, because of changes to the City caused by the pandemic, the continued economic growth and fiscal health of New York City can no longer be taken for granted. That means that today, post-COVID, improving the well-being of all New Yorkers — especially those who are now and have been historically disadvantaged — requires policies that both address economic and racial equity *and* build a prosperous and economically dynamic city.

WHY NEW YORK CITY?

New York City, by its nature, embraces multiple contradictions. We prize New York for its cosmopolitan diversity, and also for its idiosyncratic and homogenous neighborhoods; for its relentless dynamism and for its enduring landmarks; for its openness to newcomers and for its feisty lifelong residents (with their distinctive accents). New York's government must balance between the weight it puts on the interests of those who are here and in place, and those who would come here to revivify and change the City yet again.

The papers in this series share the assumption that, in the post-COVID era, that balance will need to shift modestly in the direction of dynamism and growth. While it is challenging for governments to focus on policies that aim to appeal to people who are not yet their constituents, voting and voicing their opinions, the ability of the City to improve the well-being of its current residents depends crucially on attracting new residents and new businesses. Otherwise, the inevitable out-migration of some city residents and businesses will lead to economic and demographic shrinkage. While a rising tide does not necessarily raise all boats, a stagnating or shrinking city provides fewer opportunities and benefits to those, generally the most disadvantaged, who remain. New York City relies upon high-income individuals to fund local government. In 2018, the top 1% of taxpayers reported 40% of taxable income in the City and paid over 43% of city income taxes; further, the top 10% of taxpayers reported more than

2/3 of taxable income and paid about 71% of all income taxes.[1] Even small out-migrations of these taxpayers could reduce significant economic activity and leave substantially less dollars for the City to address social needs. Hence, New York City needs to remain attractive to these taxpayers, as well as potential entrepreneurs to finance the significant local social welfare system currently in place. New York City will be attractive when quality of life is high, public services are efficiently delivered, and city leaders publicly recognize the importance of businesses operating in New York City and employing its residents. The public sector cannot provide the services residents demand absent the wealth generated from private businesses.

Because New York City is a city, part of a large multi-state metropolitan area, and subject to both the New York State and Federal governments' laws and regulations, the scope of action of its government is necessarily constrained. It can have no monetary policy, very little broad fiscal policy, no ability to influence national immigration, and only limited regulatory authority in many other domains. Nonetheless, the actions of city government exert tremendous influence on both growth and equity in the City, primarily through its control of land use, the quality and efficiency of provision of City service and amenities, and its procurement and employment policies. Local government in New York City directly employs nearly 14% of the total local workforce and accounts for about 10% of the total economy.[2] Related industries significantly influenced by procurement policies reach another 18% of the workforce, and 8% of the economy.[3] Within these domains, there is considerable flexibility for the City to prioritize economic growth and the equitable distribution of the gains from that growth.

LONG-TERM CONSEQUENCES OF THE COVID-19 YEAR

During the long and hard year of COVID-19, Americans made many changes in their lives that are likely to have very specific consequences on New York City. The immediate effects of these changes — high unemployment rates, especially among lower-income New Yorkers; shuttered retail stores; declining commercial rents; closed entertainment venues; increased visible homelessness; disheveled public spaces —

[1] "New York City Residents' Income and Tax Liability: 2006-2018," Independent Budget Office of the City of New York, https://ibo.nyc.ny.us/fiscalhistory.html.
[2] 'Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2020," *Office of the New York City Comptroller*, 397, https://comptroller.nyc.gov/wp-content/uploads/documents/CAFR2020.pdf; "BEA Data: Gross Domestic Product", *U.S. Bureau of Economic Analysis*, https://www.bea.gov/data/gdp/gross-domestic-product.
[3] 'Occupational and Industry Data," *New York State Department of Labor,* https://dol.ny.gov/occupational-and-industry-data; 'GDP-by-Industry," *U.S. Bureau of Economic Analysis*, https://apps.bea.gov/iTable/index_industry_gdpIndy.cfm.

have appropriately led to steps toward immediate relief. It is unclear to what extent many of these immediate consequences will have resolved in the short term. Our focus here is on the medium and longer term. Some of the recent changes, brought about by the need to avoid crowds and social contact — the usual lifeblood of the City — lasted for such a long time that they are likely to have influenced paths of decisions going forward in many dimensions. Consider three.

Remote Work

By March 2020, 95% of businesses in New York City had implemented remote work policies for employees.[4] In response, employees invested in home offices and grew comfortable with a range of technologies that facilitate remote work. Some decamped for locations outside the City altogether. While many people would like to return to in-person jobs, fewer are enthusiastic about returning to daily commuting. Further, employers in New York City expect 56% of office workers will retain some part-time remote work options.[5] One recent study predicts that about 1/5 of workdays will be remote after the pandemic; such a shift would permanently alter spending in New York City's main business districts.[6]

This shift in the location of work has already had, and will likely continue to have, effects on the rents of office space in the Manhattan business core. Declines in in-person employment will have cascading effects on the infrastructure that supports office work, including restaurants and shops that cater to office workers in these business districts. These effects could spiral further. Much of the benefit of working in the central business core is simply the simultaneous presence of so many other workers. If fewer people are physically present, the benefit to those who remain declines. While some economic activity may shift as a result to workers' residential areas, it is unlikely to compensate entirely for declines in business districts.

The rise of remote work is also likely to influence residential mobility. The influx of high earners to cities is a relatively new phenomenon. It can largely be attributed to the rise in female labor force participation and the increasing number of high-skilled two-earner couples, for whom the costs of commuting to a home in the suburbs are doubled. If remote work becomes easier, the costs of moving out of the City — or to

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4 GLG Surveys, "Survey: COVID-19 Impact," *Partnership for New York City*, March 2020, https://pfnyc.org/wp-content/uploads/2020/04/GLG_Partnership_NYC_COVID19_Final-Report.pdf.
5 "Return to Office Survey Results Released – March 2021," *Partnership for New York City,* March 11, 2021, https://pfnyc.org/news/return-to-office-survey-results-released-march-2021/.
6 Jose Maria Barrero, Nicholas Bloom, and Steven J. Davis, "Why Working From Home Will Stick," *University of Chicago, Becker Friedman Institute for Economics Working Paper* no. 2020-174 (April 22, 2021), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3741644.

other parts of the City — become much smaller. High earners can leave the City and live (and pay taxes elsewhere), making the commute to midtown only occasionally.

Residential mobility and remote work can also lead to firm mobility. The possibility of remote work substantially reduces the cost to a firm of relocating to another physical site. In the past, a large-scale relocation would require large numbers of employees to uproot themselves over a short period of time. With remote work, a firm can relocate gradually, and its employees can remain productively engaged even without moving for some time.

Overall, increased comfort with remote work technologies will make both firms and individuals more responsive to other attributes of economic and social conditions in the City; in economic terms, more elastic. Yet the rise of remote work does not need to be a body blow to the future of New York. It could also generate new opportunities, if properly addressed. Remote work makes it easier for people to live outside New York City and remain engaged in jobs within the City. That means that housing affordability will improve, especially for middle income households. If the benefits New York offers — in its cosmopolitanism, density, energy, and amenities — remain attractive, more people, rather than fewer, may choose to live within commuting distance of the City and contribute to its vitality and its economy. If the City continues to offer opportunities for in-person networking, serendipitous encounters, and unique experiences while maintaining adequate quality of life issues, prior research suggests that remote work may be a complement to, rather than a substitute for, city life. The NYC 2025 project includes papers on the advantages New York City has that may help in its recovery, how the City can address neighborhood changes, what policies the City might pursue to encourage intelligent adaptive reuse of office space, and the importance of public spaces such as libraries to recovery for all New Yorkers.

Internet Retail

Alongside the rise in remote work over the past year has been a rise in internet shopping and an acceleration in the ongoing decline in brick-and-mortar shopping. Shopping has always been a key attraction and feature of cities, making up a significant share of the local economy. Retail also employs a significant number of workers. Prior to the pandemic, New York City had about 345,000 retail jobs; in the second quarter of 2020, this number had abruptly fallen to 232,000 jobs.[7] These jobs tend to be low-paying jobs (the 2019 average wages were $46,500, compared to City average wages of $96,000),[8] meaning low-income workers personally bore the brunt of job losses resulting from the pandemic.

[7] "Quarterly Census of Employment and Wages," *New York Department of Labor,* https://statistics.labor.ny.gov/lsqcew.shtm.
[8] Ibid.

A continued decline in in-person shopping generates a cascade of troubling consequences for New York City. The most immediate result to the City itself is a decline in sales tax revenues from local businesses, followed by a decline in property tax revenues as storefronts stay empty. Empty storefronts, in turn, can have further negative consequences. Without a lively streetscape, there is less reason for residents, commuters, or tourists to remain in or visit the City. Fewer occupied storefronts reduce people's sense of safety and may lead to an increase in crime.[9]

The rise in online shopping also imposes direct costs that may not be fully captured in the prices of goods sold. Delivery trucks add to congestion, impede cyclists and pedestrians, and emit pollution. While *South Dakota v. Wayfair Inc.* established that internet retailers needed to collect and remit sales taxes if states levied such taxes, tax liabilities based on online shopping are more difficult for governments to monitor and audit.

While internet shopping is fast and easy, many people enjoy the experience of physically browsing stores and happening on unexpected finds and bargains. New York City's large scale and density should be able to support a diversity of idiosyncratic shopping experiences that can be competitive with the ease and flexibility of on-line shopping. Here, too, this threat can be turned into an opportunity. Internet shopping will likely have a particularly devastating effect on the long-term viability of boring and predictable shopping experiences. If New York can continue to support unpredictable, experience-rich shopping choices, it may draw more in-person shoppers. At the very least, New York City needs to consider the lost jobs from retail that may be permanent and where these workers may work instead, as well as the future use of the physical storefronts that may be empty and unproductive for the near term.

Corporate Travel

A third sector that has been devastated by the pandemic has been tourism. Within this sector, analysts anticipate that leisure tourism will rebound quickly, but business tourism may be altered permanently. Tourism is a key industry for New York City and, although business tourism is a relatively smaller share of the industry in New York than in some other cities, a decline in business visitors would have a significant impact.

[9] Tom Chang and Mireille Jacobson, "Going to Pot? The Impact of Dispensary Closures on Crime," *Journal of Urban Economics* 100, (April 21, 2017), https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5703207/. Pages 120-136 find increases in crime when medical marijuana dispensaries and restaurants close due to fewer "eyes upon the street" from reduced foot traffic.

A loss of business tourism would reduce tax revenue and, because business tourists are often high spending tourists, would also lead to job losses in hotels and restaurants. Again, however, New York could position itself to be in a good place within a shrinking sector. If travel budgets are constrained, locational amenities could become more rather than less important. Evidence from the growth of the internet suggests that increasing the number of online interactions leads to a broader scope of contacts and more, rather than less, personal interaction.

RESPONDING TO THESE THREATS

As this description suggests, New York City faces a set of threats that are real and substantial, but that can be overcome with appropriate strategies. The most important principle to guide these strategies is to increase the flexibility with which the City responds to change. In the past, changes to cities took effect over decades; the COVID-19 year may precipitate change on the scale of years. No one knows how the change will play out or where the new growth opportunities will come from. Reducing governmental rigidities and erring on the side of allowing change rather than resisting it is crucial. Further, City leaders need to welcome business retention and growth as a fundamentally positive and necessary step towards righting the City's overall economy. Also, the City needs to use the fiscal stimulus money smartly so that it does not find itself next fiscal year in a significant hole requiring significant spending cuts or tax increases. The City's public spending needs to be rationalized and services economized where possible. Papers in this collection include an analysis of New York City's tax system and what leaders might consider to keep the City competitive, how land use and zoning might be reformed in response to recent but also long-term threats to the City, and how the City's public pension funds might be directed to benefit all its residents. These types of reforms are most important for those with fewer resources.

Second, New York needs to take active steps to restore and even increase its amenities and quality of life. These improvements can and should be designed to benefit all New Yorkers. But the continued economic success of the City depends on its ability to retain its middle-income residents and to attract outside commuters and tourists to spend time here. As remote work — and place-based jobs in the communities that remote workers move to — become more prevalent, fewer people who can easily move will become ever more demanding of its public services. Their decision to stay in the City or move away will be, even more than today, driven by their sense of public safety, the quality of public schools, the availability of parks and cultural institutions, and the ease of transit within the city. The NYC 2025 initiative includes papers on how the City can address homelessness, what the City can do to make nonprofits better providers of human services that often address these quality of life concerns, how the City can remove constraints that hamper housing development and affordability, and how the City can address criminal justice to make the entire City safer while also protecting communities from potential abuses.

Third, the increased elasticity of firms and workers in a world of remote work makes it more imperative than ever that the City make the most efficient use possible of its budget. People who are dissatisfied with what they get for the taxes they pay will have more opportunities than ever to jump ship. New York City has to improve the efficiency of delivery of City services. It needs to deploy data, good business practices, better procurement policies, and other innovations, so that it can maintain and increase service delivery to all while spending less than it does now. Papers on how the City uses data and technology to improve management and policies, and also what mechanisms the City actually has to address these concerns, deal with this. Improved use of data and technology can make it easier for businesses and people to navigate and access government.

Fourth, while a stagnating city cannot do much for anyone, considerable evidence suggests that economic growth in cities does not necessarily benefit all city residents. Indeed, in cities that grow only by attracting highly-skilled workers from outside, opportunities for local residents may stagnate. Analyses that look at the well-being of low-income children across cities, for example, find that their later success depends on the share of local residents who are employed, and not at all on the rate of growth of the city as a whole. Fortunately, New York City has many inherent assets that can help translate economic growth into growth across the economic spectrum. The City has a high rate of private sector unionization, including in traditionally low-wage industries such as the hospitality and tourism sectors, which are natural directions for promoting economic growth. It also has a very high rate of non-profit employment and much of this employment is tied to City contracts. In addition to a paper that addresses the significance of economic recovery intentionally coupled with equity, other papers look specifically at how City contracting with nonprofits might be improved to ensure better service delivery.

Finally, the City needs to ensure that it remains attractive to newcomers — and allows longtime residents to invest in opportunities. That means making it easy for people to start businesses, find housing, and access appropriate schooling and job training. The City's actions encourage and impede that kind of progress. We need to loosen regulations that stand in the way of economic development and provide access to new kinds of services that better connect would-be entrepreneurs with capital and start-up sties, would-be career advancers with appropriate job training, and would-be residents with housing options. The project includes a myriad of papers that address housing issues, because this remains a key policy concern for current and future residents of the City.