

INTRODUCTION

Andrew F. Haughwout

On March 31, 2022, the Federal Reserve Bank of New York hosted “The Future of New York City: Charting an Equitable Recovery for All,” the Bank’s first public event with an in-person component since the onset of the COVID-19 pandemic two years earlier.¹ The global pandemic was a historic blow to both New York’s people and its economy. This event focused on charting a path to an inclusive recovery, featuring presentations and discussions on topics including why New York City has thrived through pandemics, depressions, wars, and recessions; how to foster a recovery that reduces urban inequality; and big ideas from local innovators. The event was the culmination of nine months of planning and featured a long list of distinguished participants from the academic, business, government, press, and nonprofit communities.²

In this introduction to our special conference issue of the *Economic Policy Review*, we offer highlights of all the papers presented at the conference as well as the opening remarks and keynote discussion, and we preview the three presented papers that are included in full in the issue.

The day began with a welcoming speech by New York Fed President John C. Williams. Williams described the conference as marking a new era for how we think about living and working in the city. Explaining that the New York Fed had recently adopted and operationalized a flexible work model, he described this approach as best for the New York Fed, for the city, and for the Second Federal Reserve District because it supports direct engagement both within the Bank and between the Bank and the communities it serves.

Williams went on to remind the audience that the COVID-19 pandemic had hit New York City early and hard, leading to widespread hospitalizations and a devastating death toll. Huge numbers of jobs, especially in the leisure and hospitality industry, were lost amid general economic dislocations that were steeper and more sudden than any the city had ever seen. Since that time, the city has staged a quick, but incomplete, recovery: as of the date of the conference, city employment was roughly two-thirds its pre-pandemic level and was lagging

Andrew F. Haughwout is the interim director of research and head of the Research and Statistics Group at the Federal Reserve Bank of New York. Email: andrew.haughwout@ny.frb.org.

The views expressed in this introduction are those of the author and do not necessarily reflect the position of the Federal Reserve Bank of New York or the Federal Reserve System.

<https://doi.org/10.59576/epr.29.2.1-5>

the nation. The job shortfalls were especially acute in sectors that depend on visitors and commuters, like leisure and hospitality. Nonetheless, with jobs and residents increasingly returning, Williams noted a palpable energy in the city.

The challenge of building an equitable recovery is the challenge of building a stronger economic foundation so that everyone can fulfill their economic potential, both in New York and around the country. Williams pointed to the need to tackle poverty and infrastructure gaps, two themes that would appear repeatedly in the rest of the day's proceedings. He noted that the New York Fed is proud to play a key role connecting and convening experts and stakeholders from around the city and the country, providing a catalyst for collaboration and creative solutions. Declaring that the Bank will continue its work in this arena, he invited these stakeholders to partner with us. "Together [we will] shape a bright future for this great city."

The first panel, which featured two academic economists and three practitioners, involved different aspects of how work locations are changing post-pandemic. Harvard Professor Edward Glaeser opened the panel with a discussion of how pandemics have historically affected cities, pointing out that cities had evolved to specialize in service-producing industries. In New York, for example, the early days of the pandemic struck workers in in-person services jobs, such as waiters and baristas, very hard, leading to high case and death rates in the "outer borough" neighborhoods where these workers lived. Many of these businesses closed quickly, leading to large job losses, especially in sectors that employ less-skilled urban residents. Massive federal intervention provided income support to these households, keeping them afloat and avoiding the worst-case scenarios that some were anticipating for the pandemic's economic effects on low-income households.

In order to assess the relative impact of the pandemic across cities, Glaeser and his coauthor David Cutler constructed an index of four key economic outcomes—two related to the housing market and two to the labor market. In this comparison, New York's steep job losses and housing market decline in the first year and a half of the pandemic place its performance second-worst among cities, just ahead of New Orleans. Sunbelt cities like Austin, Texas, are near the top of the performance index.

Glaeser concluded his remarks by reminding the audience that it would be a mistake to count New York out, as it has survived many crises in the past. Citing evidence ranging from the departure of the British in 1783 through the crash of 1929 to the deindustrialization of the 1970s, Glaeser described how New York has reinvented itself and remained a dominant city. Smart policy choices can help support the city as it transitions to a new steady state, probably one with fewer offices and more residential activity.

The second panelist, Professor Nicholas Bloom of Stanford University, focused on the likely future of working arrangements, in particular how this future could affect residential locations and demand for office space in New York. Bloom began by noting a fivefold increase in the number of days worked fully at home, from 5 percent to 25 percent of days worked, since the beginning of the pandemic. He said that hybrid workers now make up 29.6 percent of the workforce, while just 55.6 percent of workers are in-person full time. A key question for the future of New York is whether these arrangements will "stick," and Bloom's answer is a resounding "yes." Citing evidence from surveys of employers and employees that he and his coauthors have conducted, Bloom noted that hybrid work has benefits for both groups: employers get more work from their employees along with a small positive effect on productivity, while workers get more free time and express a willingness to pay for the

work-from-home (WFH) option equal to 8 percent of their pay. A remaining challenge is to get the benefit of at least occasional face-to-face interactions in the office while preserving the value of the WFH option. These considerations led Bloom to predict that the post-pandemic workplace will be a structured hybrid environment, with firms indicating which days are to be worked in the office and which have a WFH option. These changes will portend only modest reductions in firm demands for office space. As of the conference date, firms were predicting only about a 1 percent reduction in their total office space, in the face of much larger reductions—in the neighborhood of 40 percent, or two days a week—in employee use of office space.

Bloom's data on home values suggest that it is people, not firms, that are moving out of city centers, as the need to be close to work to economize on commute time is relaxed by hybrid and WFH. In support of the argument, he showed a map revealing what he and his coauthors have dubbed the "Donut Effect": reductions in home prices in the center of New York coupled with increases in the suburban ring. He predicted a 5-10 percent reduction in population for New York, coupled with a substantial reduction in the number of office workers in the city on a given day. This reduction in office workers is a threat to commuter-supported businesses, tax revenues, and the business model of public transit agencies, all of which will be a big concern.

The ensuing discussion included Alexander Heil, Chief Economist at the Citizens Budget Commission, and Chris Herd, Founder and CEO of FirstBase. It was moderated by Steve Todd, Nasdaq's Global Head of Workplace and Founder of Open Sourced Workplace.

The lively and provocative discussion covered many points, with the panelists generally agreeing that the hybrid and WFH arrangements were here to stay. This new reality presents major challenges for the transportation industry, which needs better mechanisms to match supply and demand, although this may be politically difficult. These changes also provide a challenge for urban service workers, many of whom rely on commuters to spend in restaurants and on other consumption opportunities in the city. While constraints in firms' ability to adjust their use of space make a major realignment in the office sector unlikely, an adjustment will still be required, and this adjustment will be made smoother if policy can support more flexible uses of space. Chris Herd indicated that he could imagine a future with considerably less connection of workers to cities, given that WFH during a pandemic, when people are homeschooling their kids and not able to take advantage of the extra free time and close proximity to friends, likely understates the value of WFH in a more typical environment. While this suggests that WFH and detachment from commuting could grow further, Herd views New York, with its many attractions, as likely to remain a "great place to be." During lunch, Jack Gutt, the New York Fed's Head of Communications and Outreach, led a discussion with Christopher Coes, Principal Deputy Assistant Secretary for Transportation Policy at the U.S. Department of Transportation, and Tom Wright, President and CEO of the Regional Plan Association. The discussion focused on transportation planning and policy in the region.

These discussions dovetailed perfectly with the day's other two panels, which featured the papers included in this special conference volume of the *Economic Policy Review*. In the first paper, Gilles Duranton and Jessie Handbury offer a model of the ways in which hybrid work affects the level and location of activity in a city. Starting from a standard urban model, they draw on the most recent evidence to show how key features of hybrid work—reduced commuting cost, coupled with an increase in the demand for residential space—might be expected to affect cities. The paper provides an outstanding lens through which to consider

what urban economics can tell us about how the changes in work arrangements described in the morning panel may play out; it is bound to be cited in the future as an early look at how the various factors could evolve. In the conference, the authors were joined by Marc Morial, President and CEO of the National Urban League, and Kathy Wylde, President and CEO of the Partnership for New York City, in a discussion moderated by *Wall Street Journal* Reporter Lauren Weber. The practitioners brought insights from their own work to add to the discussion.

The third panel focused on the next two papers included in this volume. The first, by Ingrid Gould Ellen and Noah Kazis of New York University's Furman Center, provides a detailed look at the potential for office–residential conversion to relieve the city's affordable housing shortage. The paper was quite prescient, as a great deal of academic and policy discussion focused on precisely this question in subsequent months. In the second, Lance Freeman of the University of Pennsylvania contributes a piece on racial equity planning, an important reminder of the need to incorporate explicit equity criteria into zoning changes like those discussed in all three panels if cities are to improve outcomes for those most in need. The discussion, led by Andrew Haughwout of the New York Fed's Research Group, included Rafael Cestero, CEO of the Community Preservation Corporation, and Christine D'Onofrio, Director of Poverty Research for the Mayor's Office for Economic Opportunity. Both brought their experiences to bear on these two related papers, and all agreed on the importance of making progress in this area.

NOTES

¹ View the event page, including agenda and session recordings, at https://www.newyorkfed.org/newsevents/events/regional_outreach/2022/0331-2022.

² See the full list of speakers at https://www.newyorkfed.org/newsevents/events/regional_outreach/2022/0331-2022#speakers.

FEDERAL RESERVE BANK OF NEW YORK
ECONOMIC POLICY REVIEW

The *Economic Policy Review* is published by the Research and Statistics Group of the Federal Reserve Bank of New York. The views expressed are those of the individual authors and do not necessarily reflect the position of the Federal Reserve Bank of New York or the Federal Reserve System.

Series Editor: Julian di Giovanni. Editorial Staff: Robert Powell, Trevor Delaney, Maureen Egan, Anna Snider, and Peter Stevens. Design Staff: Theresa Izzillo, Alyona Botogoeva, and Laura Gharrity.

Economic Policy Review articles may be reproduced for educational or training purposes, provided they are reprinted in full; include credit to the author(s), the publication, and the Bank; and include the publication's disclaimer.

©2023 The Federal Reserve Bank of New York

www.newyorkfed.org/research
Follow us on Twitter: [@NYFedResearch](https://twitter.com/NYFedResearch)