Summary of Floor Discussion

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Most of the discussion following the first session revolved around identifying the forces behind the region's early 1990s slump as well as the forces likely to affect the region in the years ahead. Special emphasis was placed on the desirability of looking at more detailed industry sectors.

The discussion began with an examination of why the regional economy fared so poorly in the early 1990s. Charles Steindel noted that there is no "smoking gun" explanation; rather, a combination of forces contributed to the region's weakness. Thus, he argued, it is difficult to point to any single policy action that will improve the region's performance. Frederic Mishkin then noted that a finer industry breakdown might reveal that many of what are currently identified as region-specific shocks (the residual) are really industry-specific shocks. Kenneth Kuttner agreed that a finer industry breakdown might be helpful, citing the entertainment sector—New York's Broadway versus Los Angeles' film industry—as an example of potential contrasts within broad industry groups; however, he noted that it is difficult to obtain local employment time series data by detailed industry. Kuttner also cited the region's fiscal problems in the late 1970s as an example of a *true* region-specific factor (which he characterized as a man-made disaster). Todd Clark joined the discussion by noting that he finds disaggregated industry data to be helpful in performing shift-share analyses.

In addition, Rae Rosen identified the FIRE (finance, insurance, and real estate) sector, in which the metropolitan region dominates the nation, as an example of possible reverse causality: she questioned whether the region's FIRE industries *follow* or *drive* the national industry. Howard Chernick added that a sharp divergence exists between employment and income growth and suggested that job growth may have been undercounted.

The conference participants then turned to a discussion of the session's two papers. Frederic Mishkin pointed out that the two papers differed in terms of the reported sensitivity exhibited by the New York region to the national economy. Kuttner and Sbordone, he said, found that the sensitivity had decreased over time because of a changing industry mix, whereas McCarthy and Steindel found in their rolling regressions that sensitivity had increased. Mishkin also identified another difference between the papers: the more structural nature of the Kuttner–Sbordone model relative to that of McCarthy and Steindel.

Charles Steindel responded that the discrepancy over this result may be less than meets the eye because, although Kuttner and Sbordone found that New York follows the nation much less closely over longer horizons, they also found that the region and the nation move together quite closely at cyclical frequencies. Kenneth Kuttner noted how their estimation techniques differed from those of McCarthy and Steindel. In particular, he suggested that the estimated employment elasticities presented by McCarthy and Steindel may have been influenced by an errors-in-variables problem because the authors report the coefficient on observed employment growth. In contrast, Kuttner pointed to his and Sbordone's use of frequency-domain filters to extract the unobservable aggregate, industry, and regional factors in the comovement, a technique that prevents their regression coefficient from experiencing the errors-in-variables problem.

The discussion ended following a question posed by Barbara Walter: How can government, business, and community leaders apply this research? Henry Raimondo noted that public finance planners need accurate forecasts to implement reasonable fiscal policies, which are used to maintain balanced budgets as required by law. Christopher Jones emphasized the importance of distinguishing cycles from longer term trends, since policymakers often react to cyclical shocks as if they were trends (and vice versa). Stephen Reintano then questioned the linkage between the local and national economies, noting New York City's unique nature. He pointed out that the city bears a greater resemblance to Paris and London, in terms of transit issues, than to other U.S. cities. However, Raimondo commented that national business cycles clearly affect the region and thus affect local mass transit ridership, traffic, and other factors; therefore, accurate forecasts may help planners.