

London vs. New York City

A tale of two preeminent

global cities.

CURRENT DISCUSSIONS about London and New York City focus on which city can best attract lucrative fees from hedge funds, derivatives or Initial Public Offerings. The underlying assumption is that the halcyon days of 2002 to 2007 will soon return, the financial services industry will once again be the “cash cow” of yesterday, and attention should focus on support for electronic trading, or on increasing available electrical supply. London’s financial services sector is of great importance both to the City itself and to the U.K., employing more than one million people (nearly half of whom work in London) and accounting for 11

DANIEL ROSE

percent of the U.K.'s total income tax, and 15 percent of its corporate tax revenues. In the United States, financial services represent 8 percent of GDP and more than 5 percent of all U.S. jobs. Obviously it is in each nation's interest for its financial sector to thrive.

Today, however, our problems are more complex than just those of the financial community. We face a slow and difficult economic recovery dominated by financial deleveraging and short-term deflationary risks, by massive public and private debt, high unemployment, frightened consumers and an aging labor force. Lack of trust—in government, financial institutions and civic leaders—is widespread.

The gross volume of financial transactions, the profits from the services provided and the numbers of those employed in the financial world are likely to be lower in the future than in the past. The worldwide shift of global wealth and the surge of competitive financial centers in Singapore and Shanghai, and those nearer home such as Dublin, Luxembourg and non-EU-regulated Geneva, Zurich, and Monaco present growing challenges. Hong Kong, Bermuda, Paris, and Dubai also seek larger pieces of the financial pie.

In this climate, steps that strengthen the financial services industry and also help maintain leadership standing in a globalized world are called for. London

and New York, both high cost-of-living cities, share problems—public safety and education, effective mass transit, appropriate middle class housing, sustainable development, improved air quality, and access to new “green” energy sources. Like loving siblings who share values but eye each other competitively, the two cities can agree to compete in some areas, cooperate in others and, above all, learn from the other's experiences.

First, London and New York must face their joint basic challenge: to be world-leading global cities in the 21st century. The two cities are widely agreed to be centers that attract, develop and nurture the human capital that generates economic value from ideas; have the physical and social infrastructure that supports the solid middle class that performs the work of society and an innovative, creative class that spawns new industries and modernizes old ones, and originates new products, new services and new ways of doing things; and serve as both the repository and the incubator of world-class cultural achievement.

Attracting, nurturing, and retaining the “best and the brightest” in all fields—financial services among them—requires many urban attributes. For a rich society, the easiest attribute should be the physical environment, yet New York is the world's only major city without effective mass transit to its airports; and Heathrow

(already at 99 percent of capacity) is considered among the least efficient airports in Europe. Education is an area in which New York and London should be pre-eminent, yet New York's public elementary school system is generally considered poor, and London does not take full advantage of the superb universities on its doorstep. Housing is likewise an area in which a rich nation should be able to keep its major city well-supplied. The middle class is leaving New York because of the cost and shortage of middle income housing, and London is only marginally better.

Although the problems are similar, each city will address them in its own way. Greater London's newly appointed Chief Economist, Bridget Rosewall, points out, "London's taxes go straight to the National Exchequer [the U.K.'s treasury department] and less than 10 percent is raised directly by the mayor. Money comes back to subsidize transport, economic development and so on, but only by negotiation with central government departments." New York's mayor must deal with an obstreperous city council and a dysfunctional state legislature whose antics would be suitable for a Gilbert and Sullivan comedy. A classic example is the repeal of New York City's lucrative and badly needed commuter tax, which reimbursed the city for expenses related to urban workers who live and pay taxes in the suburbs. That the repeal movement was led by a New York

City-based state legislator to help the re-election campaign of upstaters defies logic. Londoners who recall Britain's ancient "rotten boroughs" will understand what flows from the 98 percent re-election rate of New York State legislators.

London and New York are great international centers whose well-being is of huge importance to their inhabitants, their respective regions, and their respective nations. Let us explore the ways in which they are comparable, complementary and competitive, and how they can learn from each other.

COMPARABLES

At this moment of economic trauma, London and New York are each blessed with a mayor fully conscious of the short-term, intermediate and long-term economic challenges. Economics, "the science of the allocation of scarce resources," is the key to how their respective administrations will be remembered. Each administration must consume less and invest more, think less "today" and more "tomorrow." Mayor Boris Johnson's London Plan and Mayor Mike Bloomberg's PlaNYC are major efforts to plan for emerging needs two decades ahead. Each city has a population of eight million (London a bit less, New York a bit more) and each is expected to

add a million in the next twenty years. The impact on housing, energy, water supply, waste disposal and infrastructure will be profound—difficult to implement and challenging to finance. Each city has more than one third of its population foreign-born. London, with 40 percent, thinks of itself as cosmopolitan; New York, with 36 percent, thinks of itself as an American city with many foreign-born who are becoming American. Helping immigrants to enter the mainstream as quickly and effectively as possible is a continuing challenge. (Half the students in New York's elite public high schools—Stuyvesant and Bronx High School of Science—are now Asians.)

Each has a theater district with more than twelve million tickets sold annually. Broadway specializes in expensive, blockbuster musicals (which make their way to London), while the West End, in addition to imports, features smaller offerings often flowing from a subsidized National Theatre. An increasing number of plays travel from London to New York, since a production costs four to five times as much to launch on Broadway as on the West End. A growing “off Broadway” reflects the need to cater to lower-budget audiences. Each city has wonderful museums of modern art. New York's MOMA, with a fine permanent collection, attracts 2.7 million visitors annually, many of them tourists.

London's Tate Modern, with imaginative shows, attracts 3.9 million, many of them locals.

In the three Fs—film, fashion and food—London and New York are world leaders. New York's film activity has been significantly greater but London's is rising rapidly; the fashion palm goes to New York; but food is important in both. Star chefs are now major celebrities on both sides of the Atlantic. In London, “name” chefs charge high prices in smaller restaurants; New York stars charge somewhat less and make it up in volume in larger settings. (In both cities, great chefs today serve dazzling original creations, but some of us miss the dowdy old Hotel Connaught, with its excellent traditional Grill, or New York's Caramel-inspired Le Pavillon.) Billionaires are attracted to both cities. Before 2008, New York had seventy-one, largely American, while London had thirty-six, largely foreign. Each city boasts fine art galleries and auction houses. New York has been pre-eminent but London has made great strides in the past decade, and it is too early to forecast the full impact of the current downturn. Both cities have outstanding museums, opera houses, concert halls, athletic stadiums, great parks and libraries that attract the creative class, as well as tourists.

“Climate change” threatens to become a real-world problem for both cities, which

Londoners recognize but most New Yorkers do not. For older New Yorkers, the term “ecology” refers to endangered species, and “flood plain” refers to New Orleans. Younger New Yorkers are more alive to the problem. London seeks to reduce its carbon emissions by 60 percent by 2025. Most New Yorkers are not sure what carbon emissions are.

The world’s leading financial institutions have offices in both cities. London’s top income tax rate is now 50 percent, as is Manhattan’s total of federal, state and local taxes; Switzerland, Singapore and Hong Kong have rates half as much, and in Dubai (where few people want to live) the rate is zero. London has twice the percentage of its population engaged in manufacturing than New York does, but both are low compared to other cities. New York’s energy costs (60 percent higher than the national average) are a factor. Manufacturing wages are higher than wages in health care and personal services, which are growing in both cities.

As a general rule, provision of infrastructure should precede economic demand, while provision of office space and highest quality housing should follow economic demand. Vacant offices and unsold condos help no one. Economic diversification is crucial, all agree; its implementation merits highest priority for both cities. History has many stories of “one-company towns” or “one-industry

cities” that came to grief, and the reliance that both London and New York place on financial services is unhealthy.

LESSONS

In some ways, of course, “we are what we are.” New York prides itself on its fierce energy, a sense of “now-ness” and openness to all possibilities, London on its appreciation of “high culture” and history and its openness to foreign influence. And, of course, London is its nation’s capital, while New York is not even capital of its state.

Some of my older British friends believe the introduction of American breakfast meetings to London was an act of barbarism. Some of my younger American friends cannot understand why their London counterparts consider vacations sacrosanct even when business emergencies arise. New York audiences regard standing ovations as mandatory; Londoners feel most are undeserved. Broadway audiences are sober at curtain time; West End theaters have bars. London and New York can both learn from Singapore’s public toilets, which are the world’s best, and from the bicycle provisions in many world-class cities.

New York crime-fighting strategies under Mayors Rudy Giuliani and Mike Bloomberg, implemented by their Police Commissioners Bill Bratton and Ray

Kelly, have proved their validity beyond question. Murders here are down from 2,200 in 1990 to some 500 this year, and even graffiti has disappeared. These tactics, if introduced to London, could dampen that city's soaring crime rate. An American equivalent of the Financial Services Authority, England's sole regulator of financial services, should be considered. London's new Forensic Audit Panel, which reviews critically municipal expenses and operational efficiencies, is an excellent step New York can take, too.

London's sophisticated traffic controls could be applied in New York, just as London's varied use of its waterfront has stimulated New York thinking. London has exorbitant taxi fares (and better taxis) and an Underground system that stops at midnight. New York has an excessively litigious business climate and onerous post 9/11 restrictions on immigrants. London's congestion pricing has stimulated debate in New York, and London's competitive bidding for municipal bus services would work well in New York.

Effective private, non-profit entities such as the Central Park Conservancy (\$70 million annual budget), the Prospect Park Alliance, and Friends of the High Line have been a boon to New York and could be replicated. The time has come for Britain to realize the importance of a philanthropic, non-profit sector, especially when the government is

broke. This will require a change in public consciousness, but it is long overdue. Boris Johnson's new Mayor's Fund for London is a promising start. Government subsidized operations (like the National Theatre) run against the American grain (as our naïve discussions of national health care reveal), but they merit consideration. Much of off-Broadway's best work is supported by non-profit groups.

"Jane Jacobs thinking" and "Robert Moses thinking"—maintaining the fabric and character of a city on the one hand while providing necessary infrastructure on the other—are both necessary. In New York today the excessive power of community and single-issue groups working against the general public interest often stymie important university, hospital and other expansion. The defeat of the immensely important Westway underground highway still rangles. London, Warsaw, Dresden and other cities rebuilt quickly after the Second World War. After 9/11, New York's model could have been Pericles' rebuilding of the Acropolis, instead of our currently planned embarrassment.

PlaNYC, the Bloomberg administration's vision of New York in 2030, is imaginative and far-ranging. What the city really needs, however, is a comprehensive reconsideration of its out-dated zoning concepts (floor area ratios, air rights trans-

fers) to stimulate the kind of development, especially in housing, New York needs and can have.

Terrorist threats are always with us. The New York Police Department's intelligence and counter-terrorism unit, admired by other U.S. police departments, should be emulated. Britain's ubiquitous closed-circuit television cameras seem destined to be applied here as well.

JOINT CHALLENGES

Each city should focus on its regional, as well as its metropolitan, problems. New or improved subway, bus, commuter rail, light rail and ferry projects are needed, especially for dense areas with inadequate mass transit, high poverty levels and low auto ownership. New York's population density is twice London's, and 55 percent of New Yorkers use public transportation vs. only 37 percent of Londoners. London's Tube costs three times what New York's subway does. New York's air conditioned subway cars are cooler in summer than London's, but air conditioning is scheduled for the Tube in 2010.

Each city must demand vastly greater efficiency from its public sector, to assure better services and lower—not higher—taxes. “Doing more with less” would be an excellent motto. Each city must press its national government for appropriate tax-

tion and financial regulation practices that achieve legitimate public goals but do not strangle the financial sector to the benefit of foreign markets. New York's powerful public sector unions must be brought back into the real world, and their off-the-scale pension and health benefits and overtime payments should reflect the practices of the federal government and the other states (which also have forty-hour work weeks rather than New York's thirty-five-hour week). Defined contribution pension plans should replace Defined Benefit pension plans for all new government employees, and 401(k)'s should be encouraged, as they are for everyone else.

Both cities face governance issues, but New York State's chaotic conditions are of mythic proportions. Calls for a constitutional convention to reform New York State government have come from former governors Mario Cuomo and George Pataki and former mayor Rudy Giuliani, among others. Substantial cuts in state spending, wage freezes for all public employees, caps on local property taxes, term limits for elected state officials, non-partisan political redistricting, major legal tort reform, and re-thinking of the operations of the state's autonomous public authorities like the M.T.A. call desperately for open discussion and review. Governor Paterson should be encouraged to submit without delay legislation for an early convention.

Recent studies by McKinsey and others detail the steps London and New York must take to improve their competitive positions in regard to each other and to the rest of the world. Commissioned respectively by Mayors Boris Johnson and Mike Bloomberg, these studies spell out the micro and macro steps needed; informed, involved citizens of each city should enthusiastically support their constructive suggestions.

Lowering New York's strangling taxes (which, per capita, are roughly double those of America's other large cities) is mandatory if the city is to thrive. The cutting of public expenditures that must accompany such tax cuts requires a degree of political courage not normally apparent in New York.

and clearly in order to gain public support for painful but necessary choices. The encouragement of small and medium-size business enterprises and the creation of start-ups are crucial. Financial services are important, but they are but one of many components of a diverse economy and vibrant society in a globalized world. That London and New York will each retain a pre-eminent international role seems certain; but, as Oliver Wendell Holmes, Jr., one of America's wisest jurists noted, "The mode by which the inevitable comes to pass is called effort." An aroused citizenry in each city must make that effort.

CONCLUSION

Neither London nor New York can rest on its laurels or assume that the past will automatically be reflected in the future. Each must vigorously capitalize on its strengths, address its weaknesses and "run scared." And each must restore public trust in the character and competence of public leadership. Difficult trade-offs (such as Heathrow's third runway vs. environmental impacts, and New York's current public services vs. the need to cut expenditures) must be presented to the public frankly