Center for an Urban Future

ENGINE FAILURE

With Economic Woes That Go Well Beyond 9/11, New York Needs a Bold New Vision To Renew the City's Economy

Inside

> "On the surface, New York appears to be in good shape to weather the current economic crisis. Yet the bitter reality is that in the longer term, New York continues to lose jobs to both its immediate periphery and other parts of the nation."

FOR MUCH OF ITS HISTORY NEW YORK HAS MANAGED TO CONFOUND both those who predicted its demise and those whose aspirations for the city possessed no limits. This is another one of those times.

As the city begins to emerge from the depths of its fiscal crisis, New York remains among the world's pre-eminent cities, with a storehouse of financial, human and cultural capital without equal anywhere on the planet. It possesses arguably unmatched concentrations of skilled labor and a growing population of energetic and entrepreneurially oriented immigrants. It remains the world's undisputed financial center and enjoys one of the lowest crime rates of any major American city.

Yet as much as New York still has going for it, the city now faces profound structural economic challenges that no amount of "Capital of the World" bravado can obscure.

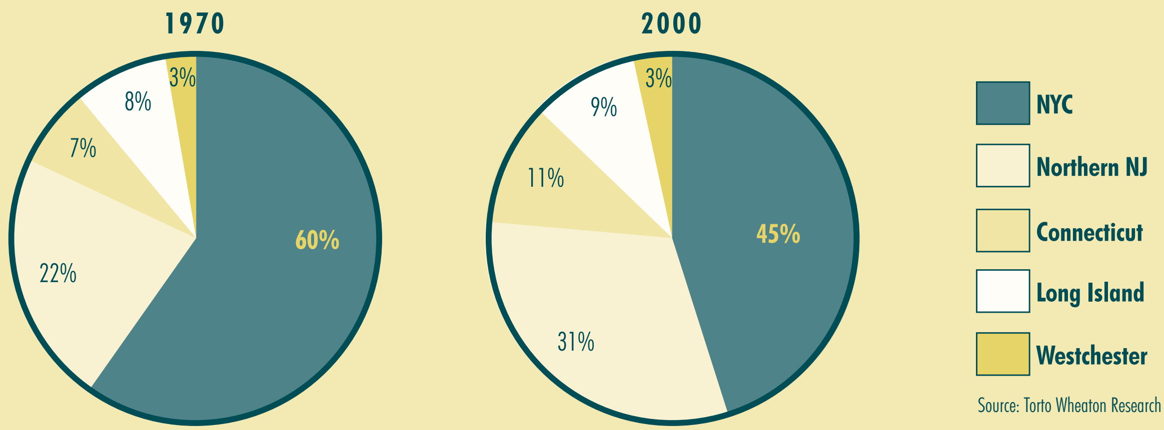
The hyper stock market boom of the late 1990s—and the employment gains it produced on Wall Street, in Silicon Alley and in a host of service sectors—temporarily deflected attention away from the city's economic vulnerability. But the long-term trends are inescapable:

- Many of the city's normally reliable industries, like finance, are expected to produce little, if any, employment growth over the next few decades;
- New York continues to lose jobs and market share in a variety of high-wage industries—including the important professional and business services sector—to the rest of the region and to other major metropolitan centers across the country.

Making matters worse, many of these troubling trends have been amplified and accelerated by both the after-effects of the September 11 attacks and advances in telecommunications technology. It has been clear for some time that 9/11 prompted several large corporations, from insurance giants and investment banks to law firms, to decentralize their operations throughout the region. But a new demographic analysis done for this report by William H. Frey of the Brookings Institution reveals that 9/11 also appears to be having a significant impact on the city's ability to attract and retain two of the demographic groups that were so critical to New York's success in the 1990s: young, educated people who moved to New York from other parts of the country and foreign-born immigrants.

Underlying these trends is the economic bottom line of recent decades: during both boom and bust, the city vastly underperforms the rest of the region and the United States as a whole. For instance, between 1969 and 2000—the two peak years for employment in the city—the five boroughs lost 75,000 jobs (a 2 percent decline) while the state gained 1.45 million jobs (a 20 percent increase) and the nation added 61.3 million (an 87 percent gain). Meanwhile, over the past two years, the city accounted for 97 percent of all job losses in the state.

MANHATTAN TRANSFER



The office services sector continues to be one of the strongest parts of New York's economy, but services firms are increasingly opting to locate—and grow—in other parts of the region and elsewhere in the country. As the graph above shows, New York City accounted for 60 percent of the region's office services jobs in 1970, but only 45 percent in 2000.

- Despite its storied past as an entrepreneurial center, New York lags seriously behind other cities as an incubator of growth companies and a recipient of venture capital. Too many of the city's fastest-growing entrepreneurial endeavors—from immigrant-owned manufacturers of specialty food products to innovative software and biotech firms—choose to expand elsewhere.
- Many other cities, including heavily urbanized places like Chicago and Los Angeles, have done much better than New York in retaining jobs in traditional industries like wholesale trade and manufacturing.

This report, funded by the Rockefeller Foundation and based on an eight-month study by the Center for an Urban Future, looks to provide a sober and comprehensive examination of the economic challenges facing New York City in the post-9/11 world. We believe this represents the first comprehensive attempt to assess the many long-term economic, demographic and political threats now facing the city. Most importantly, the report does not stop at diagnostics; it also suggests a new paradigm for growing the city's economy and creating both jobs and prosperity for residents of all five boroughs.

This work was built upon extensive data analysis, a comparison of how the city is faring on a variety of economic measures with its suburbs and with several other major American cities, focus groups with business leaders and roughly 100 interviews with business owners from an array of industries, the directors of business associations, real estate developers, ethnographers, local development officials and government officials from across the five boroughs. It also rests upon an historical analysis of economic trends affecting the city and an in-depth analysis of recent demographic trends affecting New York.

It's easy, and not entirely inaccurate, to blame some of the problems highlighted in this report on the terrorist attacks on the World Trade Center and continuing fears that New York remains a potential target for future assaults. But the inescapable truth remains that there are also long-term trends at work that the events of 9/11 only reinforced. Most of these have been developing for at least a decade—sometimes, even longer. And they will continue to impact job growth in the city's high-wage sectors for years to come.

These trends are part of a fundamental secular shift now confronting major cities across the nation and the world: the decentralization of industry. This process applies not only to industries blithely written off by the city establishment, such as wholesale trade and manufacturing, but to favored sectors like the securities industry and professional and business services, which includes everything from lawyers to advertising agencies.

Financial and business services, arguably the core industry of modern New York, serves as a chilling case in point. Even though the city has managed to retain a considerable share of the headquarters operations in these sectors, the bulk of new job creation is taking place elsewhere. For example, the number of new securities jobs created in New York State since the 1987 stock market crash is just three percent of the number created in the other 49 states. The city's share of jobs in the nation's security industry has fallen from 36 percent to 23 percent during this period.

On top of this, technological improvements are allowing many companies to increase revenues without increasing their workforce. "Forecasts for the next decade have the [New York] region as a whole experi-

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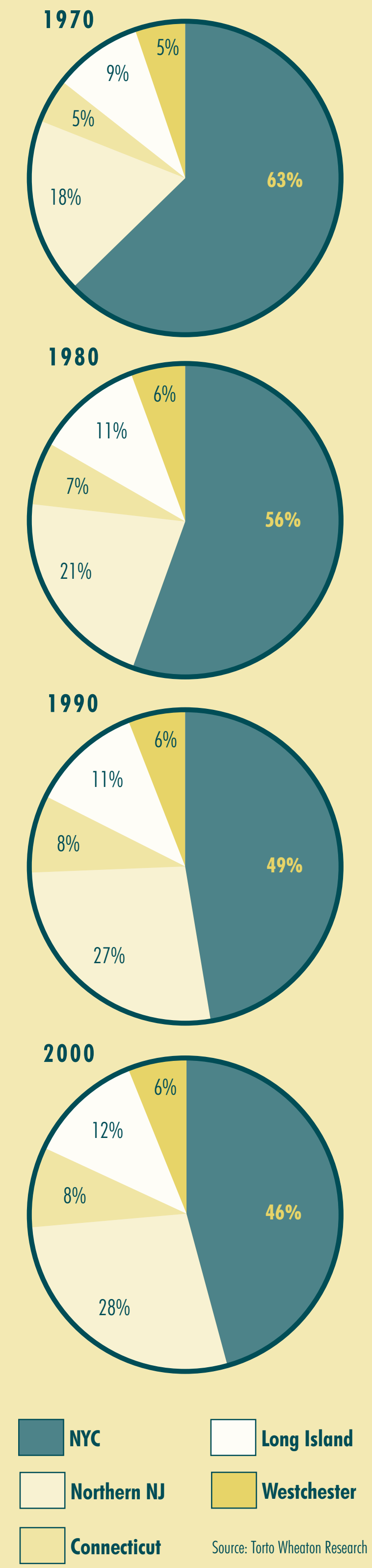
FIRE FLIGHT



New York City's share of the region's FIRE sector has been steadily declining for four decades.

MAJOR FINDINGS

The driver of New York's economy for the past half century, the FIRE sector, has been rapidly losing jobs and market share to the surrounding region and other major cities, and is not expected to provide any employment growth here over the next few decades.

- **Economists expect a decline** in the number of jobs in the city's finance and insurance industries over the next 30 years.
- **The city's share of** jobs in the nation's securities industry declined from 36 percent in 1987 to 23 percent in 2002. Since 1987, only 3 percent of all new jobs in the sector nationwide were created in New York State.
- **Between 1990 and 2002,** the securities industry grew by 248 percent in New Jersey, but by just 0.6 percent in the five boroughs. Meanwhile, in the 12 months after 9/11, the city's securities industry declined by 15.7 percent while New Jersey experienced a 5.3 percent gain.

Many of New York's other key industries—including professional and business services and the technology sector—have been badly trailing the rest of the region and the U.S. as a whole in new job creation for years, and these trends are only likely to accelerate in the future.

- **Professional and business services** is New York's largest sector, but during the last 12 years the sector grew nearly twice as fast in New Jersey, and nearly three times as fast in the U.S., than it did in the five boroughs.
- **In 1970, the city** accounted for 60 percent of the region's jobs in the professional and business services sector. In 2000, the city's share was down to 45 percent.
- **Many of the city's** most successful high-tech companies have moved to the suburbs. In 2002, only 8 of the 15 largest software firms in the region were located in the city.
- **Nationally, the number of** jobs in the wholesale trade sector grew by 13 percent during the 1990s, with urban centers like Chicago and L.A. participating in the growth. But in the five boroughs, the sector declined by 15 percent.
- **Manufacturing jobs declined by** 3 percent nationally during the 1990s, but by 33 percent in New York. Other large cities have also lost thousands of manufacturing jobs over the past few decades, but the sector still accounts for 18 percent of all jobs in L.A. and 17 percent in Chicago—versus only 6 percent in New York.
- **Many of the most** successful immigrant- and minority-owned businesses are opting to expand outside the city. In 1994, 10 of the 11 largest black- and Hispanic-owned firms in the New York area were located within the five boroughs. But by 2000, five of the top 11 were based in the suburbs.

As large firms decentralize, other cities have gained a needed boost from small, home-grown businesses. But despite its historic reputation as a center for innovation and opportunity, New York has become one of the worst environments for entrepreneurs and growing firms.

- **New York has the lowest** "growth company index" of any of the 14 labor market areas in the U.S. with populations of 3 million or more, according to a 2002 ranking by the National Commission on Entrepreneurship.
- **Out of the 50** largest American cities, New York was a disappointing 46th in a 2000 ranking of "entrepreneurial hot spots" by Cognetics, Inc., a Massachusetts-based think tank.
- **The city was home** to just five of the ten fastest growing companies in the New York region in 2001.
- **Venture capital investments have** been down across the board since the dot-com implosion, but the New York area experienced a larger decline in VC funding (74 percent) than any of the other 10 large regions in the U.S. between 2000 and 2002.
- **In the first two quarters** of 2003, only 31 percent of the venture capital funds invested in the New York metro region went to companies in the five boroughs.

September 11 appears to be having a significant impact on the city's ability to retain two of the demographic groups that were critical to New York's success in the 1990s: young, educated people who moved here from other parts of the country and foreign-born immigrants.

- **A new demographic analysis** done for the Center by William H. Frey of the Brookings Institution reveals that there was a significant spike in domestic out-migration from the five boroughs in the year after 9/11. The levels of out-migration now stand at the highest level since 1992.
- **In Manhattan alone, domestic** out-migration nearly doubled in the year after 9/11.
- **New Census figures suggest** that stricter federal immigration laws enacted after 9/11 caused the number of new arrivals nationwide to decline from 2.4 million in the 12 months ending in March 2001 to 1.2 million in the following year. As a major immigrant center, this could negatively affect New York. ❖

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encing little growth in the FIRE [Finance, Insurance and Real Estate] sector as technology continues to find substitutes for workers," says William Wheaton, of MIT-based Torto Wheaton Research, one of the nation's top office real estate market analysts.

With technology increasingly freeing firms to create or reallocate new positions in locations of their choosing, there has been a notable increase in the number of companies outsourcing high-end service operations, like software programming, elsewhere in the nation and overseas. At the same time, the expansion of broadband and wireless telecommunications technologies allows more people to work from home, miles away from their clients in Manhattan.

"Globalization and technology have changed economic realities of cities like New York," says Kathryn S. Wylde, president and CEO of the Partnership for New York City, the city's leading advocacy organization for businesses. "Only a handful of industries are now locked into location. There's real estate, there's utilities, but the driver industries are no longer locked into location. 9/11, I think, significantly exacerbated and accelerated this process."

This new economic reality has major implications for New York. "All of these circumstances mean that what we've taken for granted in the past we can't take for granted in the future," Wylde adds. "I don't think the city's economy—or the economies of any city—will automatically renew themselves. We've got to be more strategic than in the past."

Fortunately, New York has the tools to overcome these challenges. As this report demonstrates, many of the city's rich natural assets—from its entrepreneurial immigrant population and its dense concentration of academic research institutions to its diverse neighborhoods and its waterfront—have gone largely untapped by local economic development officials. These underused resources have significant potential for growth in the decade ahead.

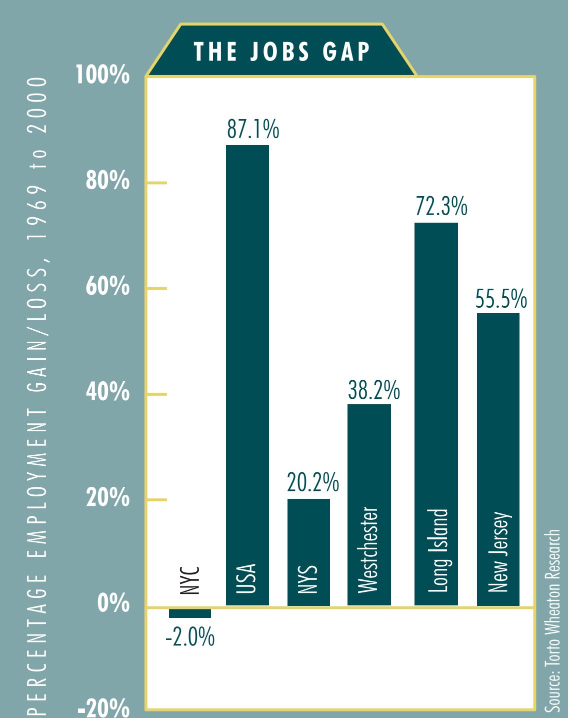
It's also heartening that other large cities like Los Angeles and Houston have overcome similar economic obstacles—including the 1992 riots in Los Angeles and the meltdown of Houston's energy industry in the 1980s—to become two of the most resilient urban economies in the nation today. New York has more in common with these cities than it might choose to acknowledge and could certainly learn from what city officials there did to remake their economies.

New York can recharge its economy. But it will require city officials to abandon failed policies of the past and embrace a new vision that stresses economic growth.

Above all else, New York needs to rethink the way it approaches economic development. Among other things, this means a shift away from the city's long-time overemphasis on a few favored sectors and approaches, such as financial and producer services, large-scale commercial development projects and near-exclusive focus on Manhattan's central business districts. Instead, the city should adopt a broader economic strategy to facilitate the creation of a better climate for growing small businesses, tap the potential of the boroughs outside of Manhattan and put New York's human assets to greater use.

This approach can provide New York with a break from the destructive impacts of the current economic monoculture and the tyranny of Wall Street's boom-bust cycle. It will also provide more opportunities for wealth creation throughout the city's diverse neighborhoods.

The blueprint we lay out for restoring New York's economic vitality is intended to address the future by returning to what has fueled the city's past greatness. A renewed focus on smaller firms, diverse industries, entrepreneurs and immigrants makes sense given the realities of the digital era. It also gives New York a chance to recover its rightful place as a premier incubator of entrepreneurship, opportunity and innovation. ❖



Between 1969 and 2000, the peak years for employment in New York City, the city actually lost jobs, while the region, the state and the nation added significant numbers of jobs.

PAST MASTERS

Once upon a time, New York's game plan for economic development—attract and retain top firms, create office space, maintain dominance in a few key sectors—produced big wins for the city. But the rules have changed, and the glory days are gone.

THESE STATISTICS SUGGEST THAT NEW YORK needs to adopt a new economic vision. This will not be easy, since so much of the city's self-image is tied up in the idea of corporate giantism and control of the commanding heights of the economy. As the late Japanese economist Jiro Tokuyama once observed: "The hardest thing is to unlearn the secrets of your past success."

New York's economic ascendancy was based not simply on Wall Street and corporate headquarters, but on a widely diversified economy. This economy flourished not just in mid-town high-rises, but also in workshops throughout the outer boroughs and many dynamic neighborhoods on the fringes of Manhattan. With a million industrial jobs, New York had arguably the largest, most varied manufacturing base in the world.[1]

This economy was remarkably balanced and gave New York one of the nation's most stable economies. Yet, since the 1950s, the city has embraced the view that as long as Manhattan dominated certain sectors, particularly financial and business services, the rest of the city would benefit from their spillover effect.

Between the mid-1950s and the mid-1970s, when the 500 largest firms in the nation added employees at twice the overall U.S. rate[2], this thinking held considerable merit. Under such circumstances, it seemed that as long as major corporations stayed in town, there was little reason to restrain increases in such things as personal income taxes and other fees, which tended to hit smaller firms and individual entrepreneurs the hardest. Giantism also informed the city's planning approach: the press for ever more high-rise office buildings, the devastation of unique industrial districts and the ladling out of subsidies for large "prestige" firms grew from the notion that the city's economic health rested largely on the presence of the best-known names in the corporate world.

The city clearly benefited from having so many of the top corporations anchored in Manhattan. But in its zeal to keep New York's status as the pre-eminent center for corporate headquarters and elite producer services, the city's policymakers badly neglected entrepreneurs and growing businesses—and mistakenly presumed that

STANDING ON ONE LEG

	Manufacturing		Wholesale Trade		FIRE		Services	
	1960	**2000**	**1960**	**2000**	**1960**	**2000**	**1960**	**2000**
NYC	30.2%	7.7%	23.8%	19.9%	12.5%	15.6%	19.4%	46.2%
L.A.	38.5%	18.0%	24.8%	25.9%	6.0%	6.6%	16.7%	37.6%
Chicago	38.7%	16.9%	23.6%	25.2%	6.6%	8.3%	16.7%	38.7%

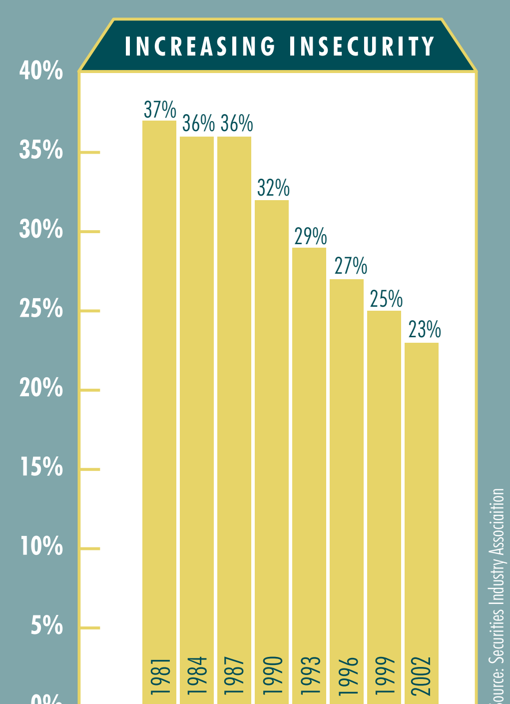
Source: U.S. Bureau of Labor Statistics

Over the past several decades, most cities have experienced a significant increase in jobs in the services sector and a similarly large decline in manufacturing employment. But the disparity has been much more pronounced in New York than in other large urban centers like Chicago and L.A. Those cities have managed to maintain a more balanced economy than New York. The following chart shows that the FIRE and services sectors today account for 62 percent of all jobs in New York, but only 47 percent in Chicago and 44 percent in L.A.

successful small businesses would need to remain in the five boroughs. Granted, many stayed in New York. But as the suburbs and other cities became more competitive, and as technology allowed companies and skilled workers to be more mobile, many other firms, including those with the greatest potential for growth, departed the city.

Perhaps because it succeeded so well in the old game, New York remains slow to adapt to the new rules. This was exemplified by the city's signature economic development strategy of the past two decades: offering multi-million dollar tax incentive packages as a way to retain large corporations that threatened to relocate units to the suburbs. Between 1988 and 2000, the city offered approximately $2 billion in retention deals to more than 80 large firms and financial exchanges. Roughly half of those firms reduced their workforce in New York or moved jobs out of the city anyway.[3]

This constituted defensive, not proactive, economic policy. And it had numerous negative consequences for entrepreneurs and small businesses. Among other things, the retention deals—along with massive city subsidies for new office developments—helped prop up commercial real estate prices to levels that were unaffordable to many small businesses and most startups.



New York City's share of the nation's securities industry jobs has dropped from 37 percent in 1981 to 23 percent in 2002, with most of the decline occuring over the past 15 years.

The number of new securities industry jobs created in New York State since the 1987 stock market crash is only 3 percent of the number created in the other 49 states.

Most critically, this big-is-best approach placed New York squarely on the wrong side of economic evolution. Once seen as the bedrock of stability, large companies were hit particularly hard by the wave of restructurings, bankruptcies and rising foreign competition that roiled the economic structure of the nation starting in the 1970s.

In 1974, the hundred largest industrial companies accounted for 36 percent of the nation's gross domestic product, but by 1990, that percentage had fallen by more than half. Their share of jobs fell by the same amount.[4] Since the 1980s, the vast majority of new jobs have come from firms with under 100 employees.[5]

As early as the 1960s, some cautioned that New York's economic development vision carried serious risks. Urban planners of that time warned that development plans to turn large sections of the city, such as lower Manhattan, into extended office districts, would prevent "economical rents for the incubation of new enterprise."[6] Since then, sporadically rising real estate prices has been one of the curses of running a small company in New York. Small firm-dominated industries such as apparel and printing have found themselves driven to the brink of bankruptcy—or out of the city—by boom cycle fluctuations in the real estate market.

New York's prosperity rests upon an increasingly narrow and tenuous base, as employment is concentrated within a few favored sectors. The FIRE sector represented 15.6 percent of the city's jobs in 2000. That's roughly twice as much as Chicago (8.3 percent) and L.A. (6.6 percent).[7]

Securities and commodities brokers accounted for an incredible 20.7 percent of personal income in the city in 2000, up sharply from 8.4 percent in 1990.[8]

The average FIRE wage in New York State ($108,561) is more than twice the second highest wage in the state (wholesale trade: $52,521), well over twice the average state wage ($45,727) and very nearly twice the average FIRE wage for the U.S. ($55,556).[9]

When times are good, brokers and traders provide a huge splash to the local economy, using their disposable income on restaurants, taxicabs, nannies, housekeepers and numerous other services. And the tax dollars generated by their hefty incomes allow local politicians to balance the budget while also funding pet projects and cutting taxes. But when the financial markets tumble, as happens at least once a decade, there is usually a huge ripple effect on the other sectors of the economy and a gaping hole in the city's budget.

Over-reliance on Wall Street and related sectors has also caused New York to go from having one of the most resilient economies, in which the city's unemployment rate was routinely lower than the national unemployment rate, even during recessions, to one that fluctuates wildly with the ups and downs of the stock market but features unemployment consistently higher than of the U.S. as a whole.

In 1950, the city's unemployment rate was 3.9 percent while the U.S unemployment rate was 5.1 percent. Ten years later, the city's unemployment rate was nearly half that of the nation's (3.0 percent versus 5.3 percent).[10] But since then, with only a few exceptions, the city's economy has underperformed the rest of the nation, often dramatically. Only once since 1970 has the city's unemployment rate fallen below 6 percent (in 2000, when it was 5.7 percent), while the national unemployment rate has finished a year below that mark 16 times, including 11 of the past 15 years.[11]

In recent decades, bear markets have driven the city into tailspins far more severe than the problems faced by most other parts of the country, and bull markets have not provided as much benefit to New York as elsewhere. Over the last 13 years (1990 to 2002), the average end-of-year unemployment rate was 8.2 percent in the city and 5.5 percent nationally. In 1992, during the depths of the recession, the city's unemployment rate was 3.5 percentage points higher than the nation's (11.0 percent vs. 7.5 percent). In 2000, at the peak of city's most recent economic surge, the unemployment rate was still 1.7 percentage points higher than the national rate (5.7 percent versus 4.0 percent). Today it is 8.1 percent, well above the national rate (6.2 percent).

The movement away from diversity has deprived the

FALLING BEHIND

Year	Unemployment Rate (Percent) National	NYC	Differential
1950*	5.1	3.9	-1.2
1960*	5.3	3.0	-2.3
1970	4.9	4.8	-0.1
1975	8.5	10.6	2.1
1980	7.1	8.6	1.5
1985	7.2	8.1	0.9
1990	5.6	6.9	1.3
1991	6.8	8.7	1.9
1992	7.5	11.0	3.5
1993	6.9	10.4	3.5
1994	6.1	8.7	2.6
1995	5.6	8.2	2.6
1996	5.4	8.8	3.4
1997	4.9	9.4	4.5
1998	4.5	8.0	3.5
1999	4.2	6.7	2.5
2000	4.0	5.7	1.7
2001	4.7	6.0	1.3
2002	5.8	7.9	2.1

Source: U.S. Bureau of Labor Statistics
*Source: Decennial Census

Throughout the 1950s and 1960s, New York City's unemployment rate was consistently lower than the national rate. But since 1970, the city's year-end unemployment rate has been higher than the national rate in 28 out of 32 years.

IS "FIRE" BURNING OUT?

From Wall Street brokerages and Silicon Alley technology firms to Chinatown garment shops and Jamaica air shippers, firms in New York's most critical economic sectors face an uncertain present and a perilous future.

TOO MANY OF NEW YORK'S LEADERS CLING to the notion that if a company wants to succeed, it must locate in New York. "This is still the city where you want to have your company if you want to be successful," Mayor Bloomberg said recently.[17]

Such notions might have been true in the 1950s, but times have changed. Over the past half-century most of the emergent industries—from the film and aerospace industries to semiconductors and biotechnology—have gravitated to those regions that appeared more hospitable to entrepreneurs and generally offered lower taxes, notably Sun Belt states like California and Texas.[18] Traditional locational forces are less of a factor than in the past. An industry anchored by history to New York does not necessarily need to remain here in the future.

On the surface, New York appears to be in good shape to weather the current economic crisis. After all, during the prolonged economic boom that ended in 2001, the city added more than 400,000 new jobs and nearly reached its postwar peak of 3.8 million jobs set in 1969. Even through nearly three years of recession, the city remains well ahead of where it bottomed out in the early 1990s, and most analysts think the worst of this cycle has passed.

Yet the bitter reality is that in the longer term, New York continues to lose jobs to both its immediate periphery and to other parts of the nation. This process

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city of more than jobs and stability. It also has left the city with less opportunity for upward mobility.

During the city's heyday, immigrants and other low-skilled workers often advanced from factory employees to owners, something that was particularly common in New York's largest employer, the garment industry.[12] Although living and working conditions were often dismal, this remarkably diverse economy stood New York well in the midst of the last century's worst economic downturn, the Great Depression of the 1930s. Both the white- and blue-collar parts of the economy survived the downturn in better shape than that of other regions. With the advent of World War II, the city's diverse economy, most particularly its port-oriented and manufacturing economy, reached virtual full employment and occupancy.[13]

Aided by the federal government, the city invested heavily in transportation, schools, roads and parks. "No city in America," noted Mayor Fiorello LaGuardia, "has invested more in the future than New York has."

LaGuardia's explicit goal was to create "the world's greatest experiment in social and political democracy" but its success lay upon the economy.[14] For many New Yorkers, work in the factories, docks and warehouses, now increasingly unionized, represented a means toward upward mobility. The worst slums on the Lower East Side, for example, started to lose population in the 1920s, as residents found better conditions either elsewhere in Manhattan or in the other boroughs.[15]

Many New Yorkers were still poor by contemporary standards, but they had hope of a better future as entrepreneurs continued to found new firms and expand older ones. The sons, and sometimes the daughters, of factory workers and clerks became lawyers, doctors and administrators or worked on Wall Street. Within a generation, a whole group of new Americans had entered the middle class.[16]

Given this success, it is not surprising that New Yorkers, and not just its elites, developed a powerful faith—some might even say arrogance—in the city's economic prowess. Yet over time, as the city's economic focus shifted away from the boroughs, small enterprises and diverse industries, New York developed critical weaknesses. These must now be addressed, and in short order. ❖

began in the 1960s and 1970s when Fortune 500 firms began to desert the city. Now the investment banks and securities firms—current mainstays of the Manhattan economy—are also increasingly shifting staff to offices in the suburbs and other regions. And very few of their new jobs are being created in the city.

At the same time, New York is losing more and more mid-sized service firms, fast-growing companies in a variety of sectors and many of the most successful immigrant-owned businesses. It also has been far less successful than other cities—and some of its own suburbs—in cultivating a meaningful technology sector. And it has failed to a far greater degree than other large cities, such as Chicago, Los Angeles, and Houston in holding onto more traditional wholesale trade and manufacturing jobs.

LARGE EMPLOYERS

The city has been losing Fortune 500 companies for decades. The losses have continued even as the city cleaned up its image during the 1990s. It was home to 42 Fortune 500 company headquarters in 2000, but only 39 in 2002. That's down from 77 in 1979 and 140 in 1955.[19]

A 2002 report by the Federal Reserve Bank of Chicago that examined the geographic distribution of companies employing more than 2,500 people found that the New York region still leads as the headquarters location for large companies. But it also showed that the area is gradually losing its dominance. In 2000, the New York Consolidated Metropolitan Statistical Area (CMSA) was home to 14 percent of large corporate headquarters, down from 16 percent in 1990 and 31 percent in 1955.[20]

Today, the dispersion of large employers to other regions is largely occurring among businesses in the FIRE and high-end business services sectors. But this mirrors an old pattern in which industries once concentrated in the Big Apple decided to spread their wings. Few remember, for instance, that as recently as a couple of decades ago New York occupied the predominant position in the worldwide energy industry. By the end of the century, notes Federal Reserve economist Bill Gilmer, New York had been almost completely supplanted by Houston as the major center for global energy operations.[21]

Similarly, retail slipped away from the city; once a dominant center for retail firms, New York today hosts not one main office of the nation's top twenty retailers, according to the National Retail Federation.

It's likely that these trends will continue. According to the Fed study, large metropolitan areas are generally losing ground to "second tier" cities such as Raleigh-Durham, Atlanta, Orlando and Houston. In 1990, the top five metro areas had 36 percent of large corporate headquarters, but in 2000 they had just 33 percent.

The city is also losing large firms to other places within the region. A new analysis by the Center for an Urban Future of data from *Crain's New York Business* reveals the city's share of the region's 200 largest publicly-held companies has been declining. In 1993, 127 of the region's 200 largest publicly-held companies (64 percent) were based in the five boroughs, but in 2001, the city was home to only 113 of the region's top-200 companies (57 percent).

WALL STREET AND THE FIRE SECTOR

New York has become increasingly reliant on the securities industry and the larger FIRE sector for employment, income and tax revenues, but the sector is producing little job growth in the five boroughs. And the future is not bright.

On the one hand, most of Wall Street's employment growth over the past couple of decades occurred outside of the city. Between 1990 and 2002, the securities industry grew by 248 percent in New Jersey (from 14,000 to 44,700) but increased by just 0.6 percent in the city (from 122,300 to 123,000). The numbers aren't much different over a longer time horizon: between 1970 and 2001, the FIRE sector grew by 7 percent in the city and by 140 percent in the suburbs.[22]

In addition, almost all of the tens of thousands of securities industry jobs that were lost over the past two years in the New York region occurred in the five boroughs. In fact, in the 12 months after 9/11, New Jersey actually experienced a 5.3 percent increase in the number of people employed as securities and commodities brokers—going from 41,200 jobs in September 2001 to 43,400 in September 2002. During the same period, the city experienced a 15.7 percent drop, from 142,500 to 120,100. (Going back two years, the city experienced a 20.3 percent decline in securities industry employment compared to a 0.4 percent drop in New Jersey.)[23]

New York is also losing out to other regions. According to a recent report by the Securities Industry

Despite its storied past and self-perception as an entrepreneurial hotbed, New York has one of the worst environments for small business growth among major cities in the U.S.

NJ'S STREET GAIN

	Number of Securities Industry Jobs in: 1990	2002	Net Gain	Percent Gain
NYC	122,300	123,000	+700	+0.6%
NJ	14,000	44,700	+30,700	+248%

Source: U.S. Bureau of Labor Statistics

Virtually all of the region's employment gains in the securities industry over the past 12 years occurred outside New York City.

NYC'S 9/11 LOSS

	Number of Securities Industry Jobs in: 9/01	9/02	Net Gain	Percent Gain
NYC	142,500	120,100	-22,400	-15.7%
NJ	41,200	43,400	+2,200	+5.3%

Source: U.S. Bureau of Labor Statistics

New York City has experienced a disproportionately large share of job losses in the securities industry since 9/11.

Association (SIA), New York now accounts for just 23.4 percent of all securities jobs in the U.S., a steep drop from the 1970s, when it had more than 40 percent.

Meanwhile, significantly fewer of the industry's new jobs are being created in New York. According to the SIA report, the number of new securities industry jobs created in the state since the 1987 stock market crash is only 3 percent of the number created in the other 49 states.

In the future, the city can probably expect more of the same. Economy.com, an independent economic research company, predicts declining employment in the city's finance and insurance jobs over the next 30 years.[24] George R. Monahan, Vice President and Director of Industry Studies for the SIA is even more blunt: "Firms already are easily shifting trading away from New York exchanges to ECNs [Electronic Communication Networks] and ATS [Alternative Trading Systems] marketplaces headquartered outside New York and those operations that support such trading. With that shift comes job relocations to neighboring states, Chicago, London or anywhere they can get cheaper best execution for their customers and lower costs for their firms and employees."

PROFESSIONAL AND BUSINESS SERVICES

Most economists and policymakers view the professional and business services sector as the city's most dependable source of new employment in the years ahead. But it's not clear if the growth will be anywhere near as spectacular as it was in the late 1990s. After all, the suburbs have been luring these high-end service jobs from the city and are increasingly the place where most of the new service jobs in the region are being created.

The city's share of regional employment in this sector fell from 60 percent in 1970 to 45 percent in 2000, according to Torto Wheaton Research, the MIT-based economic research firm. Over the past decade, New Jersey produced nearly twice as many new jobs in the professional and business service sector as the city. Between 1990 and 2002, the professional and business services sector grew by 33.4 percent in New Jersey (from 438,200 to 584,600) while it increased by just 16.9 percent

NJ'S WHITE COLLAR WIN

	Number of Professional and Business Services Jobs in: 1990	2002	Gain/Loss	Percent Gain/Loss
NYC	467,200	546,100	+78.900	+16.9%
NJ	438,200	584,600	+146,400	+33.4%

Source: U.S. Bureau of Labor Statistics

Jobs in the professional and business services sector are growing nearly twice as fast in New Jersey as they are in New York City.

NYC HIT HARD

	Number of Professional and Business Services Jobs in: 9/00	9/02	Gain/Loss	Percent Gain/Loss
NYC	594,500	539,900	-54,600	-9.2%
NJ	608,500	589,400	-19,100	-3.1%

Source: U.S. Bureau of Labor Statistics

New York City has experienced a disproportionately large share of job losses in the professional and business services sector over the past two years.

in the city (from 467,200 to 546,100). New York's share of job growth in the sector also lagged growth nationwide, as total U.S. employment in the sector increased by 47.6 percent (from 10.8 million to 16 million).[25]

New York has also seen much more severe losses in the sector since the dot-com implosion and the collapse of the stock market. In the two-year period between September 2000 and September 2002, the professional and business services sector declined by 9.2 percent in the city (a loss of 54,600 jobs) but only by 3.1 percent in New Jersey (a loss of 19,100 jobs). Nationally, the sector declined by 4.6 percent over the same period.[26]

Even in the midst of numerous comebacks—including New York's much-celebrated revival during the mid and late 1990s—the inexorable movement of high-end jobs to locales outside the region has continued. As we have seen earlier, New York's share of the nation's financial employment has dropped dramatically, with the major gains in such non-traditional financial centers as California's Orange County, Fort Lauderdale in Florida and Charlotte, North Carolina. Equally important, New York's share of the nation's professional and business services, such as public relations and advertising, has also fallen significantly.[27]

Madison Avenue, for instance, has lost some of its dominance as the pre-eminent home for ad agencies. The city's share of jobs in the nation's advertising industry fell from 12.7 percent in 1990 to 10.7 percent in 2002. During the same period, the city's share of the nation's publishing industry fell from 7.0 percent to 5.7 percent.[28] John Wiley & Sons and Matthew Bender, publishers that were long anchored in Manhattan, relocated a combined total of 1,000 jobs to the New Jersey waterfront in 2000 and industry giant S.I. Newhouse recently shifted between 250 and 500 back office jobs from his magazines in the New York area to Delaware.[29]

Even a handful of law firms have recently joined the exodus. Among them was Skadden Arps Slate Meagher & Flom L.L.P., the nation's largest law firm, which moved 150 jobs to White Plains.[30]

MID-SIZED AND GROWING COMPANIES

It isn't just large employers that are leaving for greener pastures. Despite its storied past and self-perception as an entrepreneurial hotbed, New York has one of the worst environments for small business growth among major cities in the U.S. And within the region, the suburbs have become formidable competition for many of the city's mid-sized and growing companies.

STUNTED GROWTH

Labor Market Area	Growth Company Index
Boston	177
Detroit	167
Houston	157
Arlington/Washington/Baltimore	156
Chicago	144
San Francisco	143
Los Angeles	131
Philadelphia	109
Seattle	102
Bridgeport	89
Newark	78
Miami	70
New York	56

Source: National Commission on Entrepreneurship

At a time when large corporations are downsizing and decentralizing, New York's future growth may be determined by the success of its home-grown firms. But during the 1990s, New York had the lowest "growth company index" of all Labor Market Areas in the U.S. with populations of more than 3 million. Based on Census figures, the index measures the number of growth companies in every region.

- The New York area was a lowly 46th in a 2000 ranking of the nation's 50 largest cities as an "entrepreneurial hot spot" according to Cognetics, Inc., a Massachusetts-based think tank. That's substantially below major cities like Los Angeles (36th), Boston (35th), Chicago (31st), San Francisco (24th), Washington (9th) and Atlanta (3rd). Phoenix earned the top spot.

- New York fared even worse in the National Commission on Entrepreneurship's 2002 ranking of high-growth companies by area. According to the NCOE study, New York has the lowest "growth company index" of any of the 13 labor market areas with populations of more than 3 million. The city's GCI was 56, compared to 177 for Boston, 157 for Houston, 144 for Chicago, 131 for Los Angeles and 109 for Philadelphia, among others.

- The city has consistently fared poorly in the *Inc.* magazine annual ranking of the top 500 small businesses in the U.S. In 2002, the city was home to only 11 of the *Inc.* 500 companies, down from 15 in 1998 and 14 in 1997. Even some smaller regions such as Atlanta, which had 13 companies on the list, did better than New York last year. More significantly, the rest of New York State (with 17 *Inc.* 500 companies) and New Jersey (with 25 companies on the list, mostly from the metro area) performed considerably better than the five boroughs.

- There is mounting evidence that the city is not even the most entrepreneurial spot in the region. The city was home to just five of the ten fastest growing companies in the region in 2001, according to *Crain's New York Business*. Just three of the 10 were based in Manhattan.

- In 1998, 63 percent of the *Inc.* 500 companies from New York State were based in the city. But just four years later, the numbers were nearly reversed: 61 percent were from outside the city.

TECHNOLOGY SECTORS

As recently as 2000, New York's Silicon Alley seemed poised to become one of the nation's high-tech hotspots. It received an enormous amount of attention from both the national and local media. But after the end of the dot-com bubble, it now appears much of the city's technology growth was inflated with hot air.

The city does have a modest-sized software sector, the building blocks of a formidable biotech industry and an incredible concentration of scientific research institutions, but continues to fall behind most other regions in developing a meaningful high-tech economy. New York consistently loses software and biotech firms to its suburbs and other metro areas that are perceived as having a better environment for entrepreneurs and growth companies. And despite its status as a global financial capital, New York lags behind many other regions in attracting venture capital.

To begin with, many of the most promising tech companies simply find the city too expensive. Entrepreneurs often choose to start up firms in the suburbs, while many of the most successful tech businesses have fled the city.

- In 2002, for instance, only 2 of the region's 5 largest software companies—and just 8 of the top 15—were based in the city.

- The city has just 27 biotech firms, tops in the state but far less than the San Francisco Bay Area, the Boston/Cambridge area, San Diego, and the Bethesda/Baltimore corridor, all of which have more than 100 firms.[32] Even worse, a 2001 study by the New York City Investment Fund concluded that while the city's academic research institutions spin off about 30 new biotech-related businesses every year, virtually all of them move to other regions because there are no affordable facilities for them in the city.

- New York has also seen larger declines in venture capital funding than almost every other major tech region in the U.S. In the fourth quarter of 1999, according to the PricewaterhouseCoopers MoneyTree Survey, the New York metro area attracted $1.95 billion in venture capital, more than any region other than Silicon Valley and New England. But by the fourth quarter of 2002, it had dropped to sixth, receiving just $202 million from VCs.

WHOLESALE TRADE AND MANUFACTURING

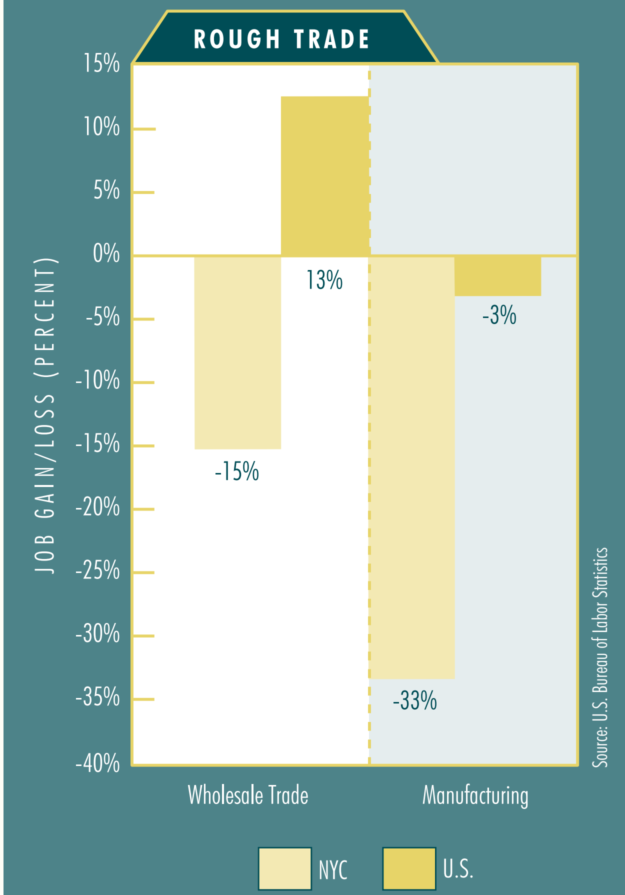
The days when a city's industrial sector could be counted on for year-over-year employment growth for most American cities are most certainly over. But New York's industrial losses have been more dramatic than those of its competitors.

Only a small handful of cities have managed to avoid significant losses in the manufacturing sector as companies have increasingly shifted production to less expensive factories overseas. But few cities have fared as badly as New York. Nationally, manufacturing jobs declined by 3.2 percent during the 1990s, but in New York the sector declined by 33.3 percent. Manufacturing accounted for 30 percent of the city's jobs in 1960, but only 6 percent by 2000. In L.A., manufacturing jobs have also declined every decade since the 1960s, but the sector still represents 18 percent of that city's workforce. In Chicago, 17 percent of all jobs are in manufacturing.[33]

Of particular concern, New York has done much worse than other cities in retaining jobs in its two largest manufacturing sectors: apparel and printing. For instance, in the 1980s, New York had the nation's largest apparel manufacturing industry. But today, Los Angeles has far more apparel jobs than New York. Between 1980 and 2000, the city lost 59 percent of its textile and garment manufacturing jobs while the sector increased by 36 percent in L.A. and 88 percent in Houston. Even in the last decade, when foreign competition further intensified, jobs in the city's apparel manufacturing sector declined by 53 percent while the decline in L.A. was just 20 percent.[34]

New York's printing industry shed 45 percent of its jobs between 1980 and 2000, compared to a 6 percent drop in L.A. and an 11 percent decline in Chicago. Meanwhile, printing jobs increased by 3 percent in Houston, 4 percent in San Francisco and 2 percent in Philadelphia.[35]

At the same time, much of what remains has been relocating to the suburbs. In 1997, the city accounted for 83.9 percent of all manufacturing jobs in the region (the New York PMSA), but by 2002 it only made up 80.3 per-



During the 1990s, the rest of the country vastly outperformed New York City in both wholesale trade and manufacturing.

cent—a rather dramatic shift in such a short period and an indication that the city is increasingly losing industrial businesses to its nearest neighbors.[36]

Equally disturbing, New York is losing even those blue collar sectors, such as wholesale trade, that have been adding jobs elsewhere. Wholesale trade jobs grew by 12.5 percent nationally between 1990 and 2000. But in New York, the sector declined by 15.3 percent during the same period.[37]

Nor can all this be ascribed to migration to suburbs or smaller towns. Heavily urbanized regions such as Chicago, Los Angeles and Houston all experienced growth in wholesale trade as New York suffered significant decline.

TOURISM & AIR TRANSPORTATION

New York will continue to be one of the world's premier tourist destinations long into the future. But there are some doubts that the tourism sector can be counted on for rapid job growth in the years ahead, or even if it will revisit the heights seen in the late 1990s anytime soon.

September 11, along with the specter of future terrorist attacks, is already having a major impact on the city's ability to attract international tourists—the free-spending visitors most sought after by retailers and city boosters. In 2001, the number of international tourists visiting the city plummeted 17 percent, versus 12 percent in the rest of the nation.[38] In 2002, the number of international tourists visiting the city was down another 11 percent.

The air transportation sector was also deeply affected by the events of 9/11 and is facing an extremely bumpy road ahead. In 2001, employment in Queens' air transportation sector dropped to its lowest level since 1975, according to a recent analysis by the Queens County Overall Economic Development Corporation. And the situation has only gotten worse since 2001. A staggering 22 percent fewer people in Queens were employed in the sector in the third quarter of 2002 than a year earlier.

Reductions in people traveling by air are also having a huge ripple effect on a range of businesses across the borough, from limousine companies and car services that pick up travelers at the airports to food service companies that stock the planes.

With economists predicting slow growth ahead in the airline industry and as companies continue to spend less on business travel—opting instead for teleconferencing and videoconferencing—it's unclear if the local air transport sector will regain its former swagger anytime soon. The ramifications could be huge, especially for Queens, where the transportation sector accounts for 13 percent of all jobs.[39] ❖

New York is losing even those blue collar sectors that have been adding jobs elsewhere. Wholesale trade jobs grew by 13 percent nationally between 1990 and 2000, but in New York the sector declined by 15 percent during the same period.

OUTBOUND TRAFFIC

After September 11, few New Yorkers felt as safe or secure as they had before the terror attacks. The trauma of that day impelled thousands to leave the city in the months that followed—creating another potential weakness in New York's economy.

NEW YORK'S SPECTACULAR RUN IN THE MID- and late-1990s had as much to do with the people it attracted—and retained—as it did with the stock market boom and the dot-com frenzy.

A huge crop of young, creative and highly educated people migrated to the city from other parts of the country, new immigrants flocked to the five boroughs in near-record numbers and the long-established pattern of out-migration to the suburbs slowed as more New Yorkers chose to remain in the city. But recent Census reports indicate a stark reversal in the past year, suggesting that in the post-9/11 environment New York could have a difficult time continuing to lure and keep the "human capital" that has set it apart.

An analysis of Census data done for the Center for an Urban Future by William H. Frey, a demographic expert at the Brookings Institution, finds that there has been a significant spike in domestic out-migration from the five boroughs in the year after 9/11 and a dramatic drop in foreign immigration to the U.S. during the same period. Both trends are troubling at a time when the fate of New York, like every city, increasingly depends on how its residents, and those who might want to come here, perceive the city as a place to live and work.

In the digital age, locational choice has been expanded dramatically by telecommunications technology and globalization. Firms follow concentrations of people possessing the skills they need, not vice-versa; demographics, not clusters, are the engines of economic destiny. And the bottom line is that the ability to place work within firms, and between companies, depends fundamentally on where the most productive agglomeration of talent can be found.

Or, as the late Japanese entrepreneur Soichito Honda observed, "More important than gold or diamonds are people."

If the most critical aspect behind New York's future lies with its people and their aspirations for the future, how they feel about the city is critical. Even immediately after 9/11, New Yorkers were notably more optimistic about their city than they were in the early 1990s. But feelings around the city have begun to change over the past year. According to a *New York Times* poll taken in June 2003, only 30 percent of the city residents questioned said they believed that New York would be a better place to live in 10 to 15 years—compared to 54 percent of those polled by the *Times* less than a month after the World Trade Center attack.[40]

More importantly, Frey's analysis shows that while the mass departures from New York that some predicted after 9/11 never materialized, September 11 is having a notable impact on the city's ability to attract and retain people. In the year ending in July 2002, domestic out-migration from the five boroughs totaled 152,000, up from 132,000 the previous year and 119,000 in 1999.

The levels of out-migration now stand at the highest level since the early 1990s. "The obvious conclusion is that people who might have done so otherwise are now more reluctant to move to New York and people already living in New York who are mobile might have relocated because of the uncertainty as a result of the attack," notes Frey. He adds that while this may not necessarily be the start of a long-term trend, "our first data set suggests that people are worried about this."

Tellingly, the most significant losses after September 11 occurred in Manhattan, an indication that the city was attracting, and retaining, fewer of the highly educated young professionals so critical to the city's boom during the late 1990s. In the borough, domestic out-migration nearly doubled in the year after 9/11—going from a net loss of 14,600 people in 2000-2001 to 28,800 in 2001-2002. The city's rocky economy is clearly a contributing factor, but Frey believes that 9/11 is probably more to blame given that Manhattan showed no significant change in out-migration between 2000 and 2001.

"Manhattan has had a net out-migration during the past decade, but the people moving into the borough were disproportionately young professionals," said Frey. "These people have been so important to New York City's vitality and economic vibrancy. If you lose those folks, you lose the edge that the city has had."

The other big danger comes from a marked decrease in rates of immigration. New Census figures suggest that the stricter federal immigration laws enacted after 9/11 caused a decline in new arrivals nationwide, a development that, if allowed to continue, could have a far-reaching impact on New York's economy. According to Frey, about 1.2 million new immigrants arrived in the country in the 12 months ending in March 2002, compared with 2.4 million the previous year.

New York's extraordinary success in attracting new immigrants over the past 30 years is one of the main reasons it did not lose population as did Philadelphia, Detroit, Cleveland, Baltimore and so many other cities. Instead, due largely to foreign immigration, New York's population grew by 4 percent in the 1980s and 9 percent in the 1990s.[41]

"New York recovered from the huge out-migration that began in the 1970s because we've maintained immigrant growth," says Joe Salvo, director of the Population Division for the city's planning department. "So many other cities never recovered from that population loss."

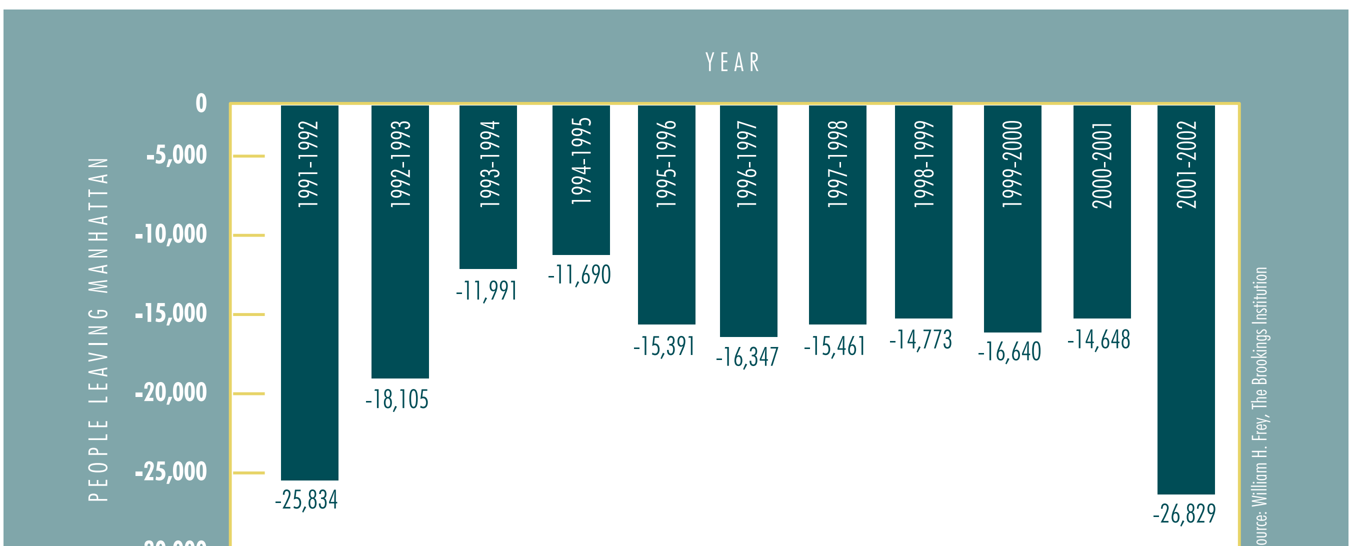
New York, like other major cities, is also increasingly losing immigrants to its suburbs and to growing cities in the South and West. According to a report for the Urban Land Institute by James H. Johnson, Jr., between 1990 and 2000, the foreign-born population increased by 65 percent in small metropolitan areas (less than 1 million people) and 50 percent in medium-sized metro areas (1 million to 5 million), but only 35 percent in large metro areas (more than 5 million).

Similarly, within the New York area, successful immigrants are moving out of neighborhoods like Flushing and Jackson Heights and into the suburbs. "Ninety-five percent of the people who live in [Flushing] today were not here five years ago," says Fred Fu, president of the Flushing Chinese Business Association. "They live here only because they need to. They move to Great Neck, Manhasset and other places in the suburbs."

In addition, an increasing number of immigrants are jumping straight to New York's suburbs, bypassing the city altogether. In the early 1990s, 37 percent of all immigrants to the New York region settled in counties outside the city, up from 13 percent in the early 1970s.[42]

Over time, another critical issue may be in retaining middle class families—including immigrants—in the city. Census data reveals that even in the boom times, the city continued to hemorrhage middle class families who left for the suburbs. The data suggests that the city tends to attract a certain number of younger people, but that when they mature, perhaps get married and have children, they tend to leave in large numbers, mostly for the suburbs as well as other parts of the country.

As suggested above, some of these trends are unavoidable. Yet the longer that New York City can hold onto middle class families and upwardly mobile immigrants, the better chance the city economy has to bolster its economic diversity and entrepreneurial dynamism. In contrast, if the city retains only a short-run narrowly-based appeal for young people, who then leave in large numbers later in life, it may find itself without a sufficiently stable base of workers and entrepreneurs. ❖



POINT OF DEPARTURE

Domestic out-migration from New York City dramatically increased in the year after September 11, rising to levels not seen since 1992. The spike was particularly pronounced in Manhattan, as the figures above indicate. (Figures are from July to July.)

New York's problems did not begin with the terrorist assault on 9/11. Following the pattern of the last three decades, the end of the late-1990s boom cycle hit New York harder than most major cities. Yet any analysis of the city's future would be remiss if it did not confront the consequences of 9/11, not only for New York but for other major cities as well.

There may be a new sense of dread about urban locations. In an environment where high-profile targets—from office towers and large airports to commuter hubs like Grand Central—provide temptation for terrorists, relocation to the vast, unremarkable anonymity of the hinterlands could be seen as more attractive.

This is borne out by surveys that have been conducted since 9/ll. Although many Americans were psychologically affected by the terrorist attack, the people most directly impacted were those who live in major cities. This is particularly true in New York, where the worst attacks took place and security concerns, exacerbated by the ensuing wars in Afghanistan and Iraq, are most profound.[43]

In New York, fewer large employers have permanently relocated out of the city than initially forecast, and the lion's share of firms that initially moved employees out of Manhattan in the immediate aftermath of 9/11 have returned at least some workers to the city. But several major large securities firms with a significant presence in Manhattan have chosen to decentralize their operations throughout the region. To reduce their vulnerability to future terrorist attacks, these firms have shifted entire units of employees that were long based in the city to White Plains, Stamford, Jersey City and other suburban locations that are perceived to be safer than the middle of Manhattan.

David Shulman, senior real estate analyst for Lehman Brothers, says that this is a profound, and probably unavoidable, move of financial and other business service firms out of the city.

Among the firms that have decentralized staff throughout the region:

- Before the terrorist attacks, Morgan Stanley was planning to become the anchor tenant of an office tower it was developing in Times Square. But soon afterward, the firm sold that property to Lehman Brothers and decided to move 2,200 of its 12,000 New York staff to the old Texaco headquarters in Westchester.[44]

- American International Group, a mainstay in lower Manhattan for decades, is reportedly relocating hundreds of employees to Jersey City. Hundreds more will go elsewhere, according to *Crain's New York Business*, as the insurance company plans to move out of nearly all the roughly 400,000 square feet it rents at 160 Water Street.

- The New York Life Insurance Company in February announced that it would relocate 1,000 Manhattan-based employees—roughly a quarter of its New York workforce—to Westchester. The decision was reportedly made to diversify its operations in case of another disaster.[45]

Some companies are transferring employees to other regions entirely, prompted by pressure from the Federal Reserve Board and other regulatory agencies to establish staffed backup offices a sufficient distance from Manhattan. Although local politicians forced the federal regulators to abandon plans to require securities firms to set up offices at least 200 miles from the city, companies are still taking steps to achieve greater redundancy in their operations.

For instance, the Bank of New York reportedly shifted 80 positions involved in clearing and settlement of government bonds from Manhattan to Orlando and another 60 to a former backup site in Maywood, NJ. In addition, Morgan Stanley relocated 150 jobs to a new office in Baltimore. As many as 600 Morgan Stanley employees could eventually work there, according to a report in *Crain's*.

With their Manhattan centers destroyed, some firms, as well as individuals, may see dispersing as critical to corporate and individual security, even as part of their obligation to shareholders. The past decade's advances in telecommunications technology—particularly the Internet—make such dispersion far more feasible than even a decade ago.

Terrorism, Shulman points out, is already forcing firms in high profile cities like Chicago and New York to pay higher insurance premiums for their workers and properties, as well as forcing them to create more elaborate security and communications systems. Cities have profited greatly from agglomeration, the geographic clustering of firms within industries, but according to Shulman, "Terrorism demolishes agglomeration economies."

Even more important than financial considerations are the sentiments of individual workers, particularly those with families and children, who are increasingly reluctant to labor in a terrorist target. John Shaw, president of Jefferies Securities, a Manhattan-based trading firm, notes that since 9/11 many of his top-drawer colleagues pressed him to work in offices elsewhere in the region. Thirty-five people from his Manhattan office already have been granted transfers to the company's Stamford facilities.

"It tipped many people over the fence towards moving to the suburbs," Shaw notes. "Now people are thinking about living a different way of life."

Shaw suggests that these trends are compelling in part because there already are so many other reasons—such as good schools, open space and affordable housing—for people to move away from the central city. This is why his firm for years has allowed for dispersed work. "There are a lot of people who love this business but want to be elsewhere," he says. ❖

RESTARTING THE ENGINE

NEW YORK HAS THE ABILITY, AND THE INHERENT strengths, to overcome these obstacles and remain the premier urban center of the United States and the entire world. But it would be a big mistake to assume that the city's current economic problems are merely cyclical and that another major rebound is inevitable once the stock market rebounds and the national economy kicks into high gear. We believe instead that the secular, long-term issues of economics, demographics and security discussed above are likely to endure.

At the same time, the prolonged economic crisis and the enduring impact of 9/11 also present a unique opportunity to fashion a dramatically new approach to economic development in New York. It is time to discard failed policies of the past and to create a new vision for economic development capable of restoring vigor, diversity and stability to the city's economy.

This vision should begin with the premise that blindly following the post-1950s strategy of ever-intensifying real estate speculation, over-concentration on selected sectors and "Capital of the World" rhetoric will erode the city's overall competitiveness even further, strain the city's fiscal resources and widen the gap between the rich and poor. Instead, what's needed is a strategy focusing on those things that will stimulate long-term economic growth across the diverse neighborhoods and industries of the city.

In this report, we attempt to lay a foundation for a new economic development strategy. Rather than providing a point-by-point action plan, we identify many powerful New York assets that could fuel a new wave of economic growth and create a more resilient economy. To fully take advantage of these assets, we have set forth a handful of basic principles that should drive future economic development decisions. They include:

1. Wall Street is Important, but the City Needs to Cultivate Additional Sources of Economic Growth

For years, New York's economic development policies have come to be too narrowly focused on just a few targeted sectors, particularly finance. The strategy has resulted in an extremely volatile economy and left New York especially vulnerable to economic and demographic trends affecting all urban centers. More than anything else, the city's government and business leaders need to move away from this doomed strategy and create a new vision for economic growth that views economic development from the broadest possible perspective: geographic, demographic and sectoral, allowing for growth to take place in ways that are natural to the city's economy and the skills of its population.

2. Create a Climate for Growing Businesses and Entrepreneurs to Thrive; Don't Target Specific Firms

Compared to many other cities, New York is not producing or holding onto enough fast-growing businesses. One reason is that over the years, the city has neglected smaller firms with potential to grow by failing to address the fundamental issues hampering business growth in the city, such as permitting, business taxes and policies that spur exorbitant real estate speculation.

DOES BLOOMBERG MEAN BUSINESS?

The writing has been on the wall for some time, but New York's leaders have long resisted suggestions to alter the city's approach to economic development. Even through the end of the Giuliani administration in 2001, the city's economic game plan was less an affirmative strategy for future growth than a singular determination to retain the large firms long considered the secret to the city's success and the ultimate validation of its long-term importance.

Fortunately, there are now signs that things are beginning to change. Mayor Bloomberg and his administration are taking a more assertive and creative approach to economic development than any other administration in decades.

The Bloomberg administration has de-emphasized corporate incentive packages as a centerpiece of the city's economic development strategy, aggressively pushed for new housing development and waterfront revitalization, and supported major new transit projects and initiatives designed to improve the flow of traffic in business districts. They also have shown substantial interest in economic projects in Flushing, Long Island City, downtown Brooklyn and other areas outside of the city's central business districts.

The administration has also reorganized its two main economic development agencies to focus more on developing long-term strategies and to target businesses and industries that were often overlooked in the past. The Economic Development Corporation (EDC), long criticized for focusing most of its resources on a handful of corporate retention deals and a few large-scale commercial development projects, created industry desks to work with firms in several key sectors and has begun to aggressively market the city to firms in other regions. Meanwhile, the long-maligned

CUF's vision for rethinking economic development in New York City

3. Take Advantage of the City's Natural Assets

Many of the city's greatest assets have been untapped or taken for granted by economic development officials. But these assets—including the city's growing immigrant population, its unparalleled concentration of academic and scientific research institutions and its underused waterfront—represent a tremendous opportunity for growth in the years ahead.

4. Use More of the City's Geography

New York officials should view the entire city, not just the Manhattan central business districts, as rich in opportunities for economic growth. Currently, too much of New York's economic development resources have gone into large-scale commercial developments in midtown and downtown Manhattan. For far less money, the city could help improve the business climate in a myriad of small "urban villages" throughout the five boroughs that are now choked off from further growth by lack of real estate capacity or overtaxed infrastructure. Likewise, the other boroughs represent an opportunity for significant new residential development, which would help lower housing costs and help New York hold onto individuals and families.

5. People are Key to New York's Future

City officials need to support policies that enable New York to continue to attract high-skilled and creative people and retain middle-class New Yorkers. This means continuing to focus on quality of life issues, and crucially following through with plans to significantly increase the city's housing stock. The high cost of housing in New York has been a major obstacle to attracting and retaining highly skilled college graduates, scientists, teachers and other professionals, and is one of the reasons most frequently cited by company CEOs in deciding not to base their operations in New York.

6. Use Scarce City Resources, First and Foremost, for Those Things That Make Life Better and Businesses More Productive Across the City

Tough times require fiscal discipline and difficult choices. The use of city lending capacity to build vast amounts of new office space—much of which may not be needed and could well require long-term subsidization—flies against both emerging economic realities and many more pressing city needs. Priority should be given to the maintenance of basic services such as police, sanitation, public transit, education and parks, as well as infrastructure projects that make it easier for people, and goods, to move throughout the city.

In the sections that follow, this report details the extraordinary opportunity that could be realized by following these principles and documents how other cities have successfully implemented key parts of this economic paradigm. There are clearly obstacles, but there are also signs of encouragement: the Bloomberg administration is making significant progress (see "Does Bloomberg Mean Business?" on opposite page) and this new vision for New York's future growth is clearly within reach. ❖

Department of Business Services has been restructured to focus specifically on helping small businesses—and renamed the Department of Small Business Services.

"For the first time ever, New York City has a very well thought-out economic development strategy that they're about to implement," says Kathryn S. Wylde, president of the Partnership for New York City. "I'm very enthusiastic about the way the city is now approaching this. They're developing new approaches and treating the private sector as a partner rather than as the enemy or adversary, which has been the historic approach."

On the down side, Bloomberg has been openly dismissive of the city's manufacturing industry, he has incensed small businesses by sending out an army of ticket agents and sharply increasing fines for everything from parking violations to illegal awnings, and his decision to cut sanitation services have negatively impacted the quality of life all over the city. Perhaps most alarming, his administration's sustained push for millions more square feet of office space in downtown and midtown Manhattan, new sports facilities on the public dime and other outmoded development gambits are in many ways a carbon copy of the "think big" strategies of the past.

Yet, as a self-made billionaire who came into office without the usual political debts to dominant actors like the real estate industry, Bloomberg is better positioned than any city leader in decades to make the structural changes New York's economy needs to grow and thrive in the 21st century. His focus on development opportunities outside of the two Manhattan business districts, and intuitive grasp that the quality of life and quality of city services—from law enforcement to education—will determine New York's appeal to current and potential residents, bode well for the city in the future. ❖

BACK TO THE FUTURE

New York became a world-class city not through tax breaks and subsidies, but by fostering entrepreneurial spirit and supporting small business development. A hundred years later, the same formula could spark Gotham's second golden age.

THE CENTER FOR AN URBAN FUTURE'S NEW vision for New York's future economic growth begins with a simple concept: start small.

At a time when large firms are likely to continue decentralizing their operations and adding most of their new jobs elsewhere, New York's future growth will depend, in large part, on whether it can restore its entrepreneurial vitality and create a better environment for smaller firms to grow and prosper.

There's no getting around the fact that small businesses are an integral part of the city's economic landscape: more than 98 percent of the city's 214,000 businesses have fewer than 100 employees, and 96 percent have fewer than 50.[47]

New York boasts an incredibly entrepreneurial population, but sadly has become one of the nation's least conducive environments for entrepreneurs and growing businesses. According to dozens of successful entrepreneurs and small business owners interviewed for this report, the city's attitude towards small businesses ranges from indifference to outright hostility. As a result, entrepreneurs increasingly view New York as an inhospitable place to start and grow a business, a sentiment typically shared by the venture capitalists that fund high-potential start-ups. And while the city is home to an entrepreneurial population—from its pioneering immigrants to its innovative knowledge workers—New York too often loses growing firms and startups with vast potential to the suburbs and other regions.

"It is shocking that New York doesn't have such an entrepreneurial environment given the nexus of ideas and capital that we have in the city," says Jack Hidary, a New York-based entrepreneur who is founder and managing director of Vista Research, an independent financial research company. "Cities that have these assets are traditionally the places that foster innovation. But innovation has not had a seat at the table in the New York City economic game… New York is stuck in a paradigm that continues to pay homage to two pillars of our old temple: financial services and media. And the temple is bare."

The distressing results underscore a dramatic failure of city leaders to appreciate the importance of ovrecoming the barriers faced by, entrepreneurs and small, growing firms.

First, real estate costs are generally much higher in the city than in the surrounding region as well as other cities, a serious problem for virtually every kind of small firm, particularly start-ups and immigrant businesses. The city often offers tax incentives and subsidies to help defray these costs for large employers in favored fields like finance and media, but small businesses rarely benefit from these programs, particularly firms that rent their space. In fact, the city's longtime practice of subsidizing the real estate costs of large employers—a big part of the city's "Capital of the World" strategy—has the unintended effect of distorting New York's real estate market in ways that actually inhibit the development of new businesses and the retention of lower-margin industries.

Joan Bartolomeo, longtime president of the Brooklyn Economic Development Corporation, says that real estate costs may be the largest obstacle facing new and growing businesses in the five boroughs. "New York is unique because the cost of starting up is so high, especially if you're renting space," she notes.

The most recent example of this was the stock market-driven expansion of dot-com firms in Silicon Alley, which drove a rapid increase in rents and occupancies throughout many of New York's older industrial districts, driving out tenants, some of them permanently. In the late 1990s, prices rose precipitously—from as low as $8 a square foot to as much as $40 or $50—as many "new economy" firms chose locations in old industrial areas rather than concentrate in traditional, high-priced office districts like Midtown and around Wall Street.

Even though office vacancies have ballooned over the past couple of years, real estate experts say that the displaced industrial firms will not be moving back in. Jim Stein, a commercial broker at Cushman & Wakefield, believes that landlords accustomed to getting $35 a square foot in rent are never going to accept the $8 to $15 rents that most industrial users can afford. "It's not going back [to industrial users]."

Though new economy companies contributed to rising real estate costs, those same costs also have severely inhibited their growth. Venture capitalists admit that they frequently encourage—or insist—that the new media, software or biotech firms they fund avoid locating in Manhattan. Their investment dollars, they say, should be spent on developing products and expanding business opportunities—not on overvalued rents. Rents are also high in regions that have attracted clusters of technology-related businesses, like Cambridge and Silicon Valley, but at least firms in these places do not have to compete with "Capital of the World" tenants that drive up rents and expectations among landowners and lenders.

There's a strong inverse relationship between real estate prices and entrepreneurial activity. Not surprisingly, the greatest period of entrepreneurial growth in the city's recent history occurred during the early

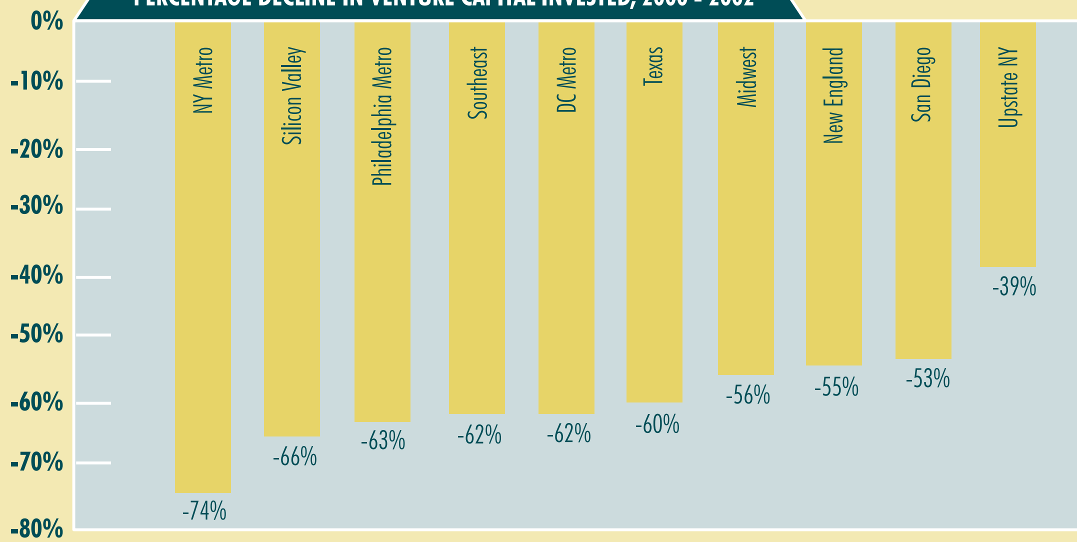
RANKING AMONG ALL REGIONS IN ATTRACTING VENTURE CAPITAL

4th Quarter 2000		4th Quarter 2002	
Region	**Amount of Venture Capital Invested**	**Region**	**Amount of Venture Capital Invested**
1. Silicon Valley	$7.4 billon	1. Silicon Valley	$1.5 billon
2. New England	$2.5 billion	2. New England	$491 million
3. NY Metro	**$2.1 billion**	3. Southeast	$399 million
4. Texas	$1.5 billion	4. Texas	$307 million
5. LA/Orange County	$1.4 billion	5. DC Metro	$253 million
6. DC Metro	$1.3 billion	**6. NY Metro**	**$202 million**

Source: PricewaterhouseCoopers MoneyTree Survey

New York's High-Tech Bust: Every region has had a difficult time attracting venture capital investments since the burst of the dot-com bubble, but the New York region experienced a larger decline between 2000 and 2002 than any other.

PERCENTAGE DECLINE IN VENTURE CAPITAL INVESTED, 2000 - 2002



Source: PricewaterhouseCoopers MoneyTree Survey

1990s, a period when there was a glut of vacant office space around the city, particularly in lower Manhattan. Emerging new media firms chose to locate downtown, not because of government handouts, but because rents were affordable and most of the entrepreneurs lived in the city.

Businesses in New York also face a daunting regulatory environment, in which firms are required to get licenses and permits from as many as a half-dozen agencies, most of which are understaffed and few of which coordinate with each other. It's no wonder that a cottage industry of fixers and go-betweens has developed in the city: businesses hire these individuals to help them wade through the maze of bureaucracies in applying for permits, licenses and other dealings with the government.

"I do an awful lot of business in California, but I can do business there in one-hundredth of the time it takes me here," says Edward Blakely, dean of the Milano Graduate School of Management and Urban Policy at the New School University. "In California, the city agencies have training on helping people do business."

Even before the widely reported ticket blitz unleashed this year by the Bloomberg Administration, small businesses have said that one of the most frustrating parts of doing business in New York is the often excessive fines and fees they are issued by overzealous and unsympathetic inspectors. "We are treated as cash cows," says Sung Soo Kim, president of the Korean American Small Business Center.

Just ask Loren Michelle, who owns a small but growing catering company in Carroll Gardens. She says the city's recent parking ticket blitz prompted her to use two employees, instead of one, in the company's delivery vans. "One of them just watches the van or drives around when cops come around," says Michelle, who says that while it only takes five minutes to unload the van outside a client's building, officers just won't cut her any slack. "That's just assumed in the cost of doing business here. As a business owner, you'd just as soon go to upstate New York and not have to deal with this."

Some say the excessive ticketing and encounters with unsympathetic and unreasonable bureaucrats make more of a negative impression on business owners than getting socked with tax increases. "If you get the feeling that you can't win with the city, that's going to drive businesses crazy more than tax increases," says Robert Altman, an attorney with Szold and Brandwen, a firm that represents numerous small businesses. "That's what will drive them away."

For too long, city officials have sent signals that they aren't aware, or don't care, that growing companies are fleeing to the suburbs. Neighboring states like New Jersey and other cities have been aggressively courting growth firms and, more importantly, building the infrastructure to support growing sectors of the economy, New York's economic development officials have essentially let these businesses fend for themselves.

The city's support for growing sectors largely has been limited to large-scale real estate projects, like the development of a film production studio in the Brooklyn Navy Yard. Though this is useful, the city hasn't been willing to do many of the small things that could pave the way for growth, from simply bringing together high-tech entrepreneurs with university researchers and venture capital firms to aggressively marketing the city's ethnic food production or crafts-oriented furniture sector.

NEW YORK'S ENTREPRENEURIAL ASSETS

One hopeful sign amidst the current downturn in the city's economy can be seen in the growing numbers of new businesses being started all over the five boroughs. In the years ahead, entrepreneurs like these could help stimulate a new wave of economic growth in New York and make up for employment stagnation in sectors like finance. The challenge for New York's government officials and private sector leaders lies in cultivating a more receptive environment for entrepreneurs and growing firms.

> "It's shocking that New York doesn't have such an entrepreneurial environment given the nexus of ideas and capital that we have in the city. Cities that have these assets are traditionally the places that foster innovation. But innovation has not had a seat at the table in New York City's economic game."

New York possesses important assets to speed the transition to an entrepreneurial economy. The city has a plethora of creative and entrepreneurial people critical to the building of new firms and services. The powerful infrastructure bequeathed by the past—libraries, universities, theaters, even the subway system—all make New York a potential entrepreneurial hot spot.

More important, the 1990s did bring evidence of entrepreneurial revival in the city, particularly around the "knowledge-based" firms in media-related industries and culture-related fields. Although many of the startups formed in the 1990s ultimately went out of business, it left the city with a better entrepreneurial infrastructure. Long a center of international finance, New York now has venture capitalists, attorneys, accountants and business consultants experienced in developing start-ups in the city itself. "That's what we were missing in the 80s: the infrastructure," adds Hidary. "We are much better positioned doing a start-up today in New York than in 1990."

The urban space today may face a competitive disadvantage in such areas as large-scale technology development, corporate bureaucracies or mass manufacturing, but in the digital age, cities like New York are supremely positioned as lures for creative people, artists and artisan industries. The combination of well-educated young business professionals, artists and immigrants, many with artisanal skills, makes New York an ideal place for creating unique, design-oriented products.

The headquarters of increasingly global media—from newspapers to radio and television—have become clustered primarily in New York. But perhaps more important for the city's future may be the fate of the smaller media firms in New York, which actually create most of the products used by larger firms.

One example of this growth is @radical.media, a firm that develops media for television and movie production. Company founder Jon Kamen considers his location, a squat 1930s vintage factory on Hudson Street in Manhattan, a critical asset—despite the many regulatory and cost problems that come with it. The key, Kamen explains, lies in the city's rich reservoir of graphic, film and other artists, who provide the company with both its full-time staff and a rich pool of contract employees.

"You need the closeness," he says. "In a creative community, social existence is very much part of the exchange of ideas—the communities of a New York, L.A., London or Sydney give exceptional opportunities for that. The role of cities is intellectual exchange. Only cities have the critical mass to make this kind of company a success."

This "creative community" remains one of New York's great entrepreneurial assets—not only for industries like media, but also for a wide array of service and light manufacturing firms. As economist Hugh O'Neill has observed, cities still possess many of the critical prerequisites for a thriving artisan industrial base—a large local market, a world-class design community, a growing population of economically motivated, and, in some cases, highly skilled immigrants.[48] When those assets outweigh the negatives—high business costs and taxes, costly housing and other personal expenses, the risk of crime and so forth—the stage is set for sustainable growth.

Cities today may face a competitive disadvantage in such areas as large-scale technology development, corporate bureaucracies or mass manufacturing, but in the digital age, cities like New York are supremely positioned as lures for creative people, artists and artisan industries.

Firms making such things as specialty food products, mannequins for the garment trade and printers servicing the financial service industry all have good logical reasons to locate in New York. Many of these businesses, such as the printers in New York's Varick Street printing district, see themselves as part of the burgeoning "knowledge value" economy—media, Internet, advertising—that increasingly dominates the area.

"When push comes to shove, the ability to be local and to see what is going on is more important than the 'global village' aspect of communications," says veteran printing executive Stuart Leventhal. "The downtown area is more of a centralized communications area—you have the design firms, the photographers, and ad agencies…to many of us printers, if you leave this district, you might as well be in Idaho."

Such locational advantages—access to customers, unique markets, workers and public transportation—are critical to the growth of such small-scale industrial firms. These assets should be enhanced so these firms can grow, helping to both create new jobs and free New York from the economic monoculture that threatens its long-term future. ❖

BEYOND THE BOROUGHS

New York's economic problems aren't unprecedented: in the 1980s and '90s, Houston and Los Angeles faced similarly daunting challenges, and overcame them by diversifying their economies and supporting small businesses. Can we take the hint?

NEW YORKERS ARE NOT KNOWN FOR THEIR willingness to look outside the city limits for edification, but sometimes the experiences of other cities have important and relevant lessons for us. Like New York today, Houston in the late 1980s and Los Angeles in the early 1990s were suffering massive corporate downsizing and a devastating loss of civic direction.

Yet under the leadership of strong business-oriented mayors, Bob Lanier in Houston and Richard Riordan in Los Angeles, these two cities were able to stave off collapse and rebuild their economies from the ground up. Today, even amidst a stubborn national recession, both cities have been able to use their highly diversified, small business oriented economies as a way to stay on an even keel.

Some might thumb their noses at such comparisons. New Yorkers may prefer to look at other global cities like London or Paris as models. Yet in reality, New York is more like Los Angeles and Houston than it may want to believe:all three cities are highly immigrant-dominated, magnets for young people with ideas.

At the moment, however, those two cities are doing much more to leverage those assets into entrepreneurial strength. In several key indicators—minority business growth and expansion, the *Inc.* 500 list of fast growing companies and the NCOE index of growth companies—Houston and Los Angeles far outpace New York's performance. New York would be better served to seek ways to boost its standing in these areas than worry about competition over museums, restaurants and celebrity sightings with Paris or London.

Houston may prove the strongest case. Back in the 1980s, the city went through a near-total economic meltdown; between 1982 and 1987, the area lost one out of every eight jobs. Dependent even more on energy than New York is on Wall Street, Houston's economy disintegrated when energy prices plummeted. "See-through" office towers replaced construction cranes as the metaphor for the city. The city lost over 200,000 jobs during this period.[49]

Yet over the next decade, Houston re-invented itself and vastly diversified its economy. By the mid-1990s, the city had one of the highest rates of new business formations in the nation. It had the third highest "growth company index" in the 1990s, according to the National Commission on Entrepreneurship's study of the 13 largest metro areas.

New entrepreneurs swarmed into the city, in part to take advantage of sagging real estate prices. Unlike New York, which sees high real estate prices as a *summum bonum* of economic development, Houston allowed "creative destruction" to take full force. Entrepreneur Andrew Segal headed out to Texas to make his fortune after graduating from New York University Law School in 1994. Young, aggressive and full of entrepreneurial energy, Segal decided to stake his nest egg on properties in both Dallas and Houston, cities not fashionable at the time among the real estate "experts" who saw in Texas' oversupply of "see-through" office towers a disaster for any investor.

But to Segal and other savvy investors—including legendary Bass Brothers advisor Richard Rainwater—Houston represented an enormous opportunity.

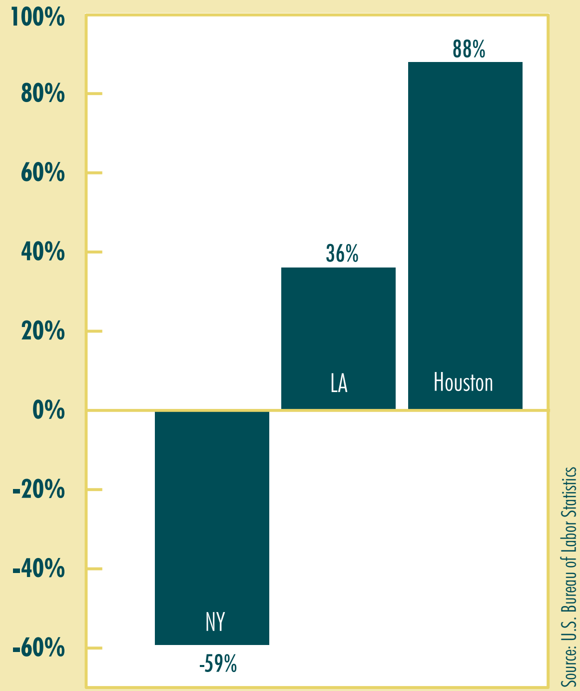
Since then Segal has accumulated four million square feet of space in Houston. Segal says most of his growth has come not from oil companies or other traditional bulwarks of Houston's economy but from a new generation of small firms covering everything from trade and media to food processing and specialty chemicals. "There's the beginnings of explosive growth here," he maintains. "People still look for oil companies that can buy up big blocks of space. What I did is turn my focus on smaller companies and startups because that's where the growth is."

Segal and other observers credit three factors for Houston's recovery: the city's entrepreneurial culture, immigrants and the six-year tenure of Mayor Bob Lanier.

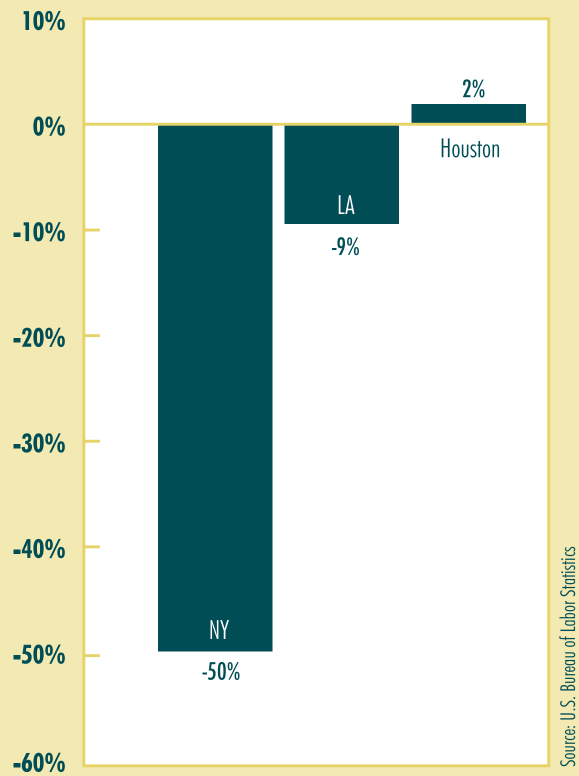
In sharp contrast to New York, Houston's immigrants and minorities—who now comprise roughly two-thirds of the city's population—have built some strong economic institutions. Perhaps the most important is Metrobank, which was founded by local entrepreneur Don Wang and now is Houston's fourth largest bank, with assets over $840 million.

THREE SECTORS, SIMILAR SUCCESS

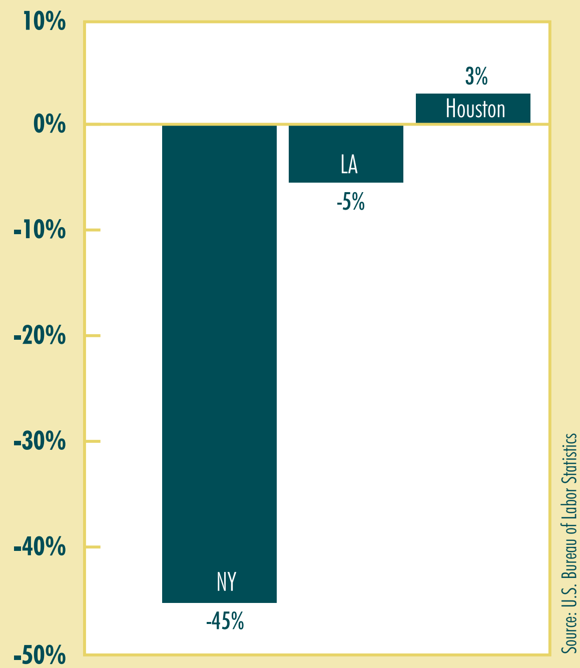
Manufacturing jobs are down nationwide, but other major cities fared much better than New York in several key industrial sectors. As these three graphs reveal, Los Angeles and Houston significantly outperformed the New York area in three key industrial sectors: apparel manufacturing, food processing and printing.



Percentage Employment Growth in the Textile/Apparel Manufacturing Industry, 1980-2000



Percentage Employment Growth in the Food/Kindred Industry, 1980-2000



Percentage Employment Growth in the Printing Industry, 1980-2000

"In the 1980s, everyone was giving up on Houston, but we stayed. It was cheap to start a business here and easy to find good labor," Wang observes. "We consider this the best place to do business in the country, even if no one on the outside knows it."

Finally, government played an important role here. In 1992, Bob Lanier, a former developer, became mayor. Like New York's Rudy Giuliani, he concentrated on reducing crime, but he also made bringing services to the city's varied neighborhoods a priority. Lanier focused mainly on infrastructure—roads, sewers, cleaning the streets and other essential services—and gave no overwhelming preference to any part of the city. Not only did the downtown recover, but many of the neighborhoods of the city came back as well.

Lanier took a similar approach on business. His administration focused largely on making it easy for companies to start with a minimum of interference from City Hall. He tried to diversify Houston's economy and create wealth across a broad spectrum of communities. Lanier claimed his primary goal was to improve the neighborhoods. "First you bring back the residents and then the commercial flows, and then the jobs come back." To a remarkable extent, he succeeded.

During the 1990s, Houston enjoyed one of the most bouyant economic expansions of any major American city, recovering all the jobs lost in the 1980s and then some. Even after the collapse of Enron, the city's economy has performed somewhat better than the national average, most large metros, and far better than New York's.[50] Although some areas, particularly downtown, have seen rising vacancies as a result of the company's implosion, most other parts of the city have continued to do well, as smaller firms, and the burgeoning medical sector, have taken up the slack.

Los Angeles, by all accounts, did not recover as well, nor has it withstood the current recession nearly as comfortably as Houston. Yet the city, which shares liberal politics and high costs with New York, did stage a remarkable comeback from what may be considered an even deeper crisis. The first blow was structural, a meltdown of the once dominant aerospace industry in the aftermath of the Cold War. The second was a massive escalation of costs mostly imposed by state government in Sacramento. The third came from a substantial withdrawal of Japanese capital following the onset of that nation's long recession.

Adding to these problems, Los Angeles suffered the worst riots in modern American history in May 1992. Fires, a major earthquake and floods all added to the area's devastation. By 1993, Los Angeles had lost 400,000 jobs, its unemployment rate was close to 10 percent and a large number of large established companies—such as Lockheed—were deserting the city.[51]

Yet despite these problems, Los Angeles was able to turn around. As in Houston, one key element lay in "creative destruction"—when the older firms moved out of the city, new ones, particularly those run by immigrants, stepped in. The vast upsurge of new businesses came in a host of fields, including mainstays like entertainment, but also new ones like digital media. Most notably, there was actually a surge of blue-collar job creation, particularly in garments, textiles, food processing and warehousing. Unemployment dropped dramatically.

One critical contributing factor to the recovery—largely missing from New York—was the presence of numerous large minority-owned banks. By 2001, four of the L.A.'s six largest financial institutions were run by minorities and immigrants.[52] These and a host of much smaller, community banks run largely by Asians financed much of the growth that took place in the mid-1990s even as most national and mainstream banks were busily writing off Los Angeles as a hopeless dystopia.

But government policy also made a difference. In sharp contrast to New York's leaders during the same period, Los Angeles mayor Richard Riordan, elected in 1993, saw the job of the city government to help all businesses: large and small, high-tech and low. Organizing what became known as "Mayor's Business Teams," Riordan dispatched scores of his most trusted people to help a vast array of firms cut through regulatory hurdles. Some were located around the downtown core, but many were in outlying sections like the San Fernando Valley and south Los Angeles.

"What the business teams did is make firms feel welcome in L.A. and expedite things," explains Riordan, a retired venture capitalist and native of Flushing. "It didn't matter to us whether they were large or small and we actually went after manufacturing firms because they created the jobs we needed."

Over Riordan's eight years, the "Business Teams" helped more than 3,000 businesses in a vast array of fields, from new media to food processing. This helped L.A. maintain a far more diverse economy than areas that depended on the stock market boom of the 1990s, such as San Francisco, Seattle and, of course, New York. As a result, it has suffered a much less severe job loss even in a bad economy, and despite the state's budget crisis.[53]

Houston and Los Angeles offer both specific and general lessons for New York. The notion of using city resources to help a broad diversity of industries and neighborhoods is one that New York leaders have rejected for far too long. The specific focus in both cities on such things as basic infrastructure and small businesses could restore New York's long-lost status as an entrepreneurial hotbed. ❖

IF THEY CAN MAKE IT HERE...

A steady flow of foreign immigration to New York has helped ward off the substantial population loss other East Coast cities have faced. But city policy could do much more to turn immigrant businesses into engines of economic growth.

NEW YORK'S RAPIDLY GROWING IMMIGRANT population represents another under-utilized asset that could prove critical to New York's economic growth in the decade ahead.

New immigrants throughout the five boroughs already make an enormous contribution to the city's economy, despite encountering sometimes-overwhelming obstacles and receiving virtually no support from government. "This is a sector of the economy that has been largely ignored," says Joyce Moy, director of the LaGuardia Community College Small Business Development Center. "The recent Census data has opened up the eyes of many politicians and the corporate sector in terms of the potential market, yet they have not reached out to support the ethnic business community."

The city's foreign-born population has swelled in recent years, generating new businesses and pumping life into New York's economy during both good times and bad. This is visibly apparent today, with immigrant neighborhoods like Flushing, Jackson Heights, Washington Heights and Sunset Park showing far greater resilience than those areas whose economic standing was more closely tied to the 1990s "bubble economy"—notably much of Manhattan below 96th Street. On Main Street, in Flushing, Roosevelt Avenue in Corona or St. Nicholas Avenue in Washington Heights, there is little sign of an economic downturn. Commercial rents remain high and vacancies are few.

"If you come to Jackson Heights on a Saturday, you'll think you're in Times Square," says Ernesto Cury, owner of a Jackson Heights accounting firm and president of the Hispanic Chamber of Commerce of Queens. "You won't believe the pedestrian traffic. You get immigrants from other parts of the region coming here to buy goods that you can't get anywhere else."

Still, much of this is happening despite significant obstacles that make it extremely difficult for immigrants to start and grow businesses in the city. Compared to other large cities, too few immigrant-owned business in the city grow beyond the mom and pop stage. In addition, too many of the most successful home-grown immigrant businesses flee the city for the suburbs. For instance:

- In 1994, 10 of the 11 largest black- and Hispanic-owned firms in the New York area were located within the five boroughs. But by 2000, five of the top 11 were based in the suburbs.[54]
- In 2002, only 12 companies in the Hispanic Business 500, a ranking of the largest Hispanic-owned firms in the U.S., were based in the five boroughs. In comparison, 20 were based in New York's suburbs. Los Angeles County placed 43 firms on the list.
- The U.S Economic Census Survey of Minority and Women-Owned Business Enterprises (SMOBE) finds that New York's minority business community has a lower rate of start-ups and remains smaller than counterparts in cities such as Miami, Houston, and Los Angeles.

New York can do a lot better. Unlike mass manufacturers or large financial services firms, which do not necessarily have to be in a high-cost environment like New York, immigrant businesses, more often than not, need to remain in, or at least close to, the city. Most of them rely on a workforce that primarily hails from the five boroughs, and the bulk of their customers are typically based in or around the city as well.

With such strong ties to the city, the question is usually not whether the most successful businesses will relocate to more affordable locations overseas or down South, but whether they will remain in the five boroughs or move to the surrounding region. Unfortunately, New York has been losing a number of these firms to its nearest neighbors.

Immigrant entrepreneurs deal with the same barriers that frustrate other business owners in New York, from exorbitant real estate costs to bureaucratic red tape. But by most accounts, immigrants typically face other challenges that make it even more difficult to start and grow a business.

"Most people we deal with are not fully literate in any language, have very little capital, speak only Spanish and have no experience running a business in the U.S.," says Dennis Reeder, president of the Washington Heights and Inwood Local Development Corporation. "A lot of them start their own business because they can't get a job. They're mostly cash businesses and they come from a culture where there are no laws and no licenses or permits needed to start a business."

Beyond language, educational and cultural barriers, immigrants have an especially hard time getting access to the capital they need to start or expand a business. Banks still largely shy away from lending to immigrants, who more often than not haven't developed any credit history. And there are only a few micro-enterprise lenders out there filling the void.

Many immigrants end up using cash savings, or contributions from relatives, to start businesses. But thousands are forced to turn to loansharks—or *prestamistas*, as they are commonly known in Latino communities—that typically charge at least 25 percent interest per month. Dennis Reeder estimates that loansharks account for a third of all business financing deals in Washington Heights—amounting to about $10 million a year.

A startlingly high share of the city's immigrant business owners operate on a cash basis, and eventually run into financing problems because of this. According to Ernesto Cury, who worked as a bank officer in New York for years before starting his accounting firm in Jackson Heights, immigrants initially don't open up a banking account because they need a social security number to do so. No matter how successful their businesses eventually become, they are often denied bank financing down the road—when they're looking to borrow funds to expand the business—simply because they don't have the proper records to demonstrate the firm's success.

"The biggest problem we have is educating our business people as to the advantages and disadvantages of participating in the economic system," adds Cury. "Ninety percent of the applicants for bank loans in this neighborhood don't qualify, because they don't show enough money in their records. But most of them probably drive a Lexus and have a couple of kids in private school. It's because they do most of their business in cash and operate underground."

There may not be simple solutions to these problems. But right now there isn't even an appreciation of the significant obstacles that immigrant businesses face by the city's economic development officials.

Unlike many other cities, New York's population has increased over the past two decades, largely due to new immigration.

Still, immigrant-owned businesses, and ethnically-oriented neighborhoods like Flushing and Washington Heights, could provide an enormous impetus to New York's future growth. Many of these firms offer unique goods and services that could find potential markets outside the region. What they need is a more friendly business environment, and access to capital resources so they can grow.

Immigrant-owned businesses and ethnically-oriented neighborhoods like Flushing and Washington Heights could provide an enormous impetus to New York's future growth.

"Most of these businesses don't get above a certain size, partly because they don't have access to resources that are available," says LaGuardia's Moy. "Some of this is due to lack of understanding of American business culture, some is not having information properly disseminated and a lot of it boils down to access to capital."

Moy suggests that city economic development agencies could do a better job of partnering with the grassroots business resources already in existence in communities around the five boroughs, like the small business development centers based at colleges around the city or the many Business Outreach Centers throughout the five boroughs. "The technical assistance required by these communities is pretty in-depth," she says. "It's not enough to put on a one-hour seminar or do a one-day blitz through a neighborhood. These communities really require follow up and relationship building…in order for you to develop credibility in these communities."

It is critical that the city find ways to promote these kinds of business. No process seems likely to halt the growing movement of upwardly mobile immigrants into the suburbs[55], but New York could do much more to stimulate the growth of minority and immigrant business. If not, an ever-greater percentage of immigrant-owned business likely will continue to move outside the city, robbing it of its historic role as a center of newcomer enterprise.

New York would be wise to follow the leads of other regions that have had great success in expanding their immigrant-led growth. Los Angeles, for example, has turned large sections of its central core into a center for a wide range of immigrant-dominated warehousing, manufacturing and specialty wholesale districts far beyond anything that exists in New York. Within the heart of the city, L.A. boasts thriving districts specializing in garments, food, jewelry and toys. L.A.'s garment district, now the nation's largest, is a hodgepodge of recently arrived nationalities—Persian, Israeli, Korean, Chinese, Iraqi, North African, Mexican—that has actually spread over large sections of the central core.

For over 50 years, New York's policies have been oriented toward eliminating or restricting such districts. Los Angeles, by contrast, has encouraged the creation of a bustling outlet for immigrant entrepreneurial energies. The area is not only a design and manufacturing center, but also a retail center on a scale not seen in New York since the early 20th century. "What we have here is a *souk*," or a bustling Middle Eastern marketplace, suggests Iraq-born Uri Harkham, referring to one of the major property owners in the district. Harkham is also an owner of several major garment-making firms. "It's open to everyone and it's the kind of place you can go to buy something for $3 or $300."

These businesses have helped revive large areas that were devastated by Los Angeles' downturn in the early 1990s. One district, known as "Toytown," has transformed itself over the past twenty years from a fallow district to one with low vacancy, rising land prices and a thriving commercial area that boasts more than 70 separate enterprises, several billion in sales and employs some six thousand workers.

Similar successes have taken hold in other parts of the country including Houston, where immigrants have built a thriving wholesale district in the Harwin corridor, a few miles outside of the central district. Once a forlorn strip of office and warehouse buildings, the area has been transformed into an auto-oriented *souk* for off-price goods including cut-rate furniture, novelties, luggage, car parts and electronic goods. These shops, owned largely by Chinese, Korean and Indian merchants, have grown in number from roughly 40 a decade ago to more than 800, sparking a boom in a once depressed real estate market. Over the decade, the value of commercial properties in the district have more than tripled and vacancies has dropped from nearly 50 percent to single digits.

These success stories speak volumes not only about New York's relative failures as a center of immigrant enterprise, but also potential winning strategies. Certainly hard-hit sections of lower Manhattan—which once incubated many such districts—could be revitalized by this kind of immigrant-led activity. So could other well-located sections of the city. ❖

ASSET MANAGEMENT

Like any economic venture, New York City has to use all of its resources to the fullest in order to be successful. Two assets with currently untapped value are the city's abundant coastline and formidable research community.

NEW YORK HAS MANY OTHER HOMEGROWN resources that presently are not well exploited. Two of these are the city's high-caliber scientific research institutions and miles of unused waterfront.

One of the biggest missed opportunities over the past several decades has been the failure to harness the potential of the city's scientific research institutions.

New York has among the world's largest concentrations of leading scientists and top-flight research institutions—from Columbia University and New York University to Memorial Sloan Kettering and the New York Blood Center. All told the city's research institutions receive more than $1 billion a year in federal research grants, with eight of the city's research institutions ranking among the top 100 recipients of funding from the National Institutes of Health.[56]

These universities and nonprofit research centers, like similar institutions in other cities, serve as the intellectual engine behind emerging industries like biotechnology, nanotechnology and information technology. But New York has failed to exploit its institutions for economic development the way many other cities have. For instance, cities like Boston, San Diego and regions like the San Francisco Bay Area and North Carolina's Research Triangle have built significant parts of their economies around the innovative work being done at their local research institutions. In New York, the institutions are all but invisible.[57]

"New York is one of the scientific capitals of the world, but you wouldn't know that," says Dr. Michael Crow, formerly the executive vice provost at Columbia and now the president of Arizona State University.

Much of the blame lies with the institutions themselves, which generally haven't exhibited much commitment to local or regional economic development. Instead of collaborating on large projects that could enhance the overall scientific capabilities of the region, like the development of a research park, the institutions have been more interested in competing with each other. Most have put more energy and resources into selling patented discoveries to companies outside New York than generating locally-based start-ups; those that did push for the creation of start-ups often demanded absurdly high royalty payments from the founding scientists. Only Columbia has invested significant resources in research parks or incubators.

Nor, to be fair, have these institutions gotten much help from either the city or the state. "There's no recognition that science and technology is any value at any level to New York City," says Crow. "The metro area is not building a science-driven element to its economy on the scale it should. You're not getting the firm birth rates and technology innovation that Boston, San Diego, Austin and many other places are getting."

Some small, strategic steps could make a big difference. For starters, the city could help facilitate linkages between the research institutions and the private sector, including investors. It could do more to help connect the various institutions on major projects. And it should fight to ensure that the city is included in the

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SMART MONEY

Institution	2001 Ranking
Columbia	11
Cornell	28
Yeshiva	35
Mount Sinai	36
NYU	40
Memorial Sloan-Kettering	67
Rockefeller	71
NYS Psychiatric Institute	84

Source: National Institutes of Health

Eight of the top 100 recipients of research grants from the National Institutes of Health are based in the five boroughs, underlining New York's unmatched concentration of top academic medical research institutions. The chart above lists each New York institution's national ranking, measured by the amount of NIH grants received in 2001.

ESCAPE FROM MANHATTAN

To most of the world, Manhattan—home to Wall Street, the Empire State Building and two of the nation's largest office districts—is New York. But in the 21st century, the outer boroughs will be where the action is.

FOR DECADES, NEW YORK'S ECONOMIC development policies have all but overlooked the other four boroughs' potential for growth. To thrive in the new century, New York needs to do a better job of tapping into this potential and must begin to use all of its geography more effectively.

The boroughs are the nurseries of New York's economic future. They are where many recent immigrants now cluster, seeking affordable housing and commercial rents. Increasingly, they have become a primary destination for younger, upwardly mobile professionals seeking a less congested, more cost-effective locale. The boroughs also are home to several industries that help give the city's economy some semblance of diversity—from food manufacturing and air transportation to woodworking and graphic design.

The boroughs are also the nurseries of future New Yorkers, in the most literal sense. In contrast to Manhattan, which has among the lowest rates of child-bearing families in the nation, the other boroughs remain heavily family-oriented; their population of families with children between the ages of 5 to 17 is over 50 percent higher than Manhattan's.[58]

For all these reasons—space, the presence of children, lower rents and economic diversity—the boroughs represent both the greatest challenge, and the best hope, for New York's continued evolution. It is only there, notes Lehman Brothers analyst David Shulman, where the city can hope to nurture and maintain a strong middle class. "The boroughs," he insists, "are the future."

In tapping the boroughs, the city has the chance to recover the vision underlying the original act that brought them together at the turn of the 20th century. Manhattan has always been the historic core and business center, but the other boroughs enjoyed distinct identities as communities rather than a dumping ground for those who could not afford to live on the central island. Brooklyn in particular was a dynamic center for industry, commerce and families.

At first, its magnificent investment in water works, bridges and, most of all, the subway system allowed the consolidated New York to use its newly expanded geography to great effect. Industry thrived not only in Manhattan, but also along the littoral edges of the Bronx and Queens as well as the Brooklyn waterfront. The city became both a world business capital, concentrated in Manhattan, but also a thriving center of specialized industry, successful neighborhoods and incubator of upward mobility.

The later shift towards a monoculture, with an obsessive, single-minded focus on "Capital of the World" grandeur, hit the outer boroughs the hardest. Groups like the Regional Plan Association routinely called for the development of downtown Brooklyn[59], but when it came to investment of public and private funds, it was Manhattan that usually won out. "Manhattan has been the main focus of the city's economic development policy, with Times Square being a major preoccupation for years," says John Mollenkopf, director of the Center for Urban Research at the CUNY Graduate Center.

At the same time it was usually the industrially-oriented economies of the boroughs and less central parts of Manhattan that suffered the most grievous losses, and their neighborhoods where infrastructure was allowed to deteriorate unchecked. One of the repercussions was sluggish growth in the personal income generated in the boroughs. By 2000, Manhattan accounted for 46.5 percent of the city's personal income, up from 31.5 percent in 1970. Meanwhile, Brooklyn, Queens and the Bronx all saw their share decline significantly—from 25.7 percent to 19.8 percent in Brooklyn, from 26.1 percent to 20.6 percent in Queens, and from 13.4 percent to 8.5 percent in the Bronx.[60]

Even the form of "regionalism" espoused by master builders like Robert Moses and put into place in the post-war era exacerbated these problems. Moses' vision essentially benefited the Manhattan core, connecting it by a network of expressways and commuter trains to the burgeoning periphery. The boroughs were thus hemmed in between a dynamic Manhattan and suburban communities that grew largely at their expense.

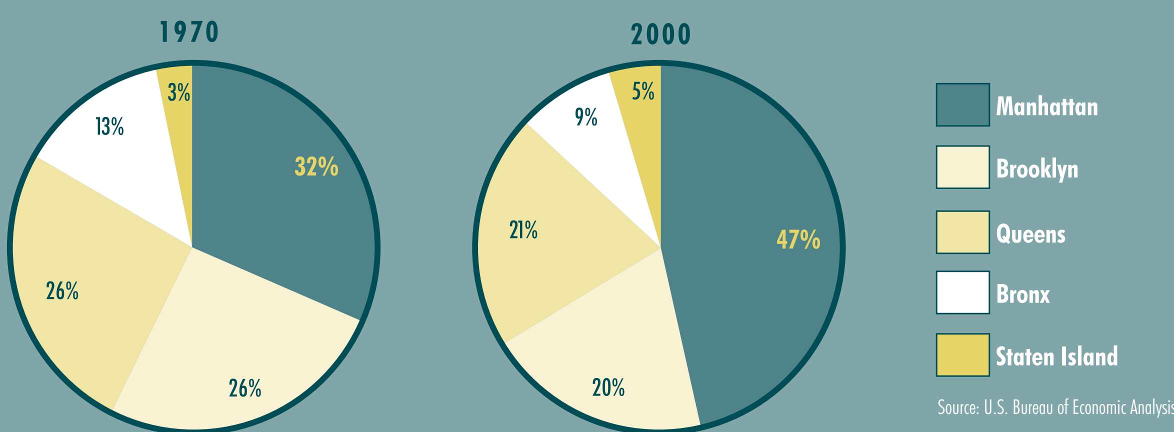
To some extent, these developments were unavoidable. The shift out of the city to the suburbs, after all, was a national phenomenon. But in New York, the abandonment of the boroughs created a peculiar bifurcation within the city itself: as Manhattan dominated the economy more and more, it became ever more expensive and exclusive, pushing both middle class families and many businesses to the periphery.

Today New York has an opportunity to slow, and even reverse, this process. The movement of immigrants into the boroughs has brought a demographic dynamism to these areas that has not been seen in nearly a half century. At the same time, there has been a noticeable movement of middle-class, upwardly mobile people into certain parts of Brooklyn. In contrast to the Koch era "renaissance" of the 1980s, which journalist Ken Auletta bitterly saw as "confined to a relatively few blocks of mid-town Manhattan"[61], the boomlet of the 1990s did reach deeper into the outer boroughs.

One positive sign has been a strong rate of business startups in many outer borough neighborhoods. Although Manhattan remains by far the densest center for new business in the city, the most dramatic growth in recent years has been in the other boroughs. Indeed between 1997 and 2001, the number of new businesses established in Manhattan actually dropped, while rising nearly 20 percent in all four of the other boroughs.[62]

Historically, the highly centralized structure of New York's economy facilitated the city's growth, and to

BETTER BUSINESS BOROUGHS



At the end of the 1960s, the boroughs outside of Manhattan contributed significantly to the city's economy, with Brooklyn and Queens accounting for nearly the same share of personal income earned citywide as Manhattan. But since then, Manhattan has come to dominate the city's economy. Between 1970 and 2000, Manhattan's share of personal income earned citywide grew from 32 percent to 47 percent, while Brooklyn, Queens and the Bronx all suffered a decline.

	Number of Businesses Established in 1997	Number of Businesses Established in 2001	Change Between 1997 and 2001	Percent Change
Manhattan	27,876	25,624	-2,252	-8.1%
Brooklyn	10,656	12,896	+2,240	+21.0%
Queens	10,719	12,637	+1,918	+17.9%
Bronx	2,966	3,410	+444	+15.0%
Staten Island	1,912	2,207	+295	+15.4%

Source: New York State Department of State

The boroughs outside of Manhattan could help bolster the city's economy in the years ahead. Between 1997 and 2001, every borough but Manhattan experienced an increase in the number of new businesses established.

some extent, this is still true today. Yet, as the centralized nature of the city's economy has made New York unique in a suburbanized world, it has also made the city uniquely vulnerable to de-clustering effects taking place throughout the economy.

One possible solution for New York would be to cultivate numerous centers, or "urban villages," that can provide alternative locations for businesses that cannot afford, or do not need, a central Manhattan location. Around the country, cities like L.A., Houston, Atlanta and Dallas have developed multiple centers for residents, businesses and cultural activities. The overall effect is to provide entrepreneurs and residents, including immigrants, with a greater range of choice and flexibility. This would allow entrepreneurs, for example, to start businesses without necessarily locating in central Manhattan. Instead they could start in convenient locations elsewhere with lower rent costs but sufficient infrastructure to support their fledgling enterprises. This form of multi-polar development maximizes a city's geography. It did so in New York's early 20th century heyday and can once again.

Until recently, the city's top economic development officials rarely even tried to sell Manhattan-based businesses on Brooklyn, Queens or the other boroughs. Fortunately, this Manhattan-or-the-highway approach is beginning to change. Among other things, the Bloomberg Administration is smartly working to help develop viable—and more affordable—business districts in downtown Brooklyn, Long Island City and Flushing. (See "Does Bloomberg Mean Business?" page 18) As Manhattan continues to be an absurdly expensive place to live and work, the other boroughs have a tremendous opportunity to lure more entrepreneurs, growth companies, back offices, cultural institutions and residents to their often vibrant and highly livable neighborhoods.

In an increasingly multi-polar economy, these areas can gain by being both "bedroom communities" and close to "where the action is." In the future, New York, with its subway system, could embrace and even perfect this new paradigm of multiple nodal neighborhoods. Existing subways lines could be seen not simply as linking the rest of the city to midtown or downtown, but connecting each of New York's various emerging "urban villages" with each other and the core. Instead of a distinct hierarchy of place, New York could transform itself into a model archipelago of varied, thriving and diverse places—once again a city, as a writer in the 1940s put it, of "a thousand cities."[63] ❖

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state's multi-million investment in university-related research parks and incubators.

Another largely untapped asset is the city's magnificent waterfront.

Even from Dutch times, New York's harbor defined the city, and it was the harbor that keyed New York's rise to national dominance in the 19th century. Traders, financiers and insurers all clustered together in the packed streets to arbitrage not only goods but also information. These 19th-century entrepreneurs provided the "seedbed" for the city's later development into the nation's burgeoning information, financial and trading infrastructure as well as its window on the world.

In recent decades, as historian Fred Siegel has noted, the city has "turned its back" on the harbor, under-investing in its physical facilities and neglecting its commercial possibilities.

In the information age, the waterfront remains important not only for physical commerce, but also as a magnet for knowledge workers seeking an exciting physical location and a connection to the city's past. Other cities, from Baltimore to Buenos Aires, have benefited economically from reinventing their waterfronts. Even in the interior, places like San Antonio have used river systems to help redefine their urban character, attracting both tourists and knowledge workers.

But aside from a few projects, like the ongoing development of Hudson River Park, for decades New York has taken a pass on opportunities to open more of its 578-mile shoreline for recreation, development and transportation. New York remains one of the only major cities in the world that hasn't made its waterfront a central part of economic, housing and tourism strategy. Miles of waterfront in all five boroughs—including land of potentially tremendous value in lower Manhattan and the East Side—remain physically cut off from the public. After years of declining maritime activity, much of the waterfront lies dormant, or is used as a dumping ground for less productive municipal uses.

To his credit, Mayor Bloomberg seems intent on starting a new chapter for the city's waterfront. He has made waterfront development a priority for his administration, and a key component of his plan to stimulate housing development across the city. These are encouraging signs, but many thorny issues remain unresolved and thus far the administration has largely failed to embrace a role for industry on targeted sections of the waterfront. ❖

HERE TO HELP

What can city government do to speed New York's economic renewal? Rather than focus on tax breaks or zoning changes, the key is to maintain high quality services like police and fire protection, transit, and waste removal—in short, the things government does best.

ONE OF THE BEST THINGS THE CITY COULD DO for all the boroughs is to maintain high levels of basic services like police, sanitation and education, and invest in infrastructure projects that spur private development and make it easier for people and goods to move throughout the city. Arguably, these are the things that government does best.

"Government needs to invest in the broad preconditions for success: infrastructure, education, housing," says CUNY's John Mollenkopf . "It's better at doing this than picking winners."

When the city has focused on these things, the payoff has been significant. For instance, the Giuliani administration's laser-focus on reducing crime was crucial in helping New York attract a record number of tourists in the late 1990s and it encouraged businesses to invest in Hunts Point, East New York, Harlem and other neighborhoods that long have had to deal with the stigma of high crime rates. Likewise, the city's reconstruction of Smith Street in Boerum Hill—with new sidewalks and lighting—literally helped pave the way for a flurry of private investment in what has become a more hip and vibrant alternative to Manhattan's Restaurant Row.

Yet, these small, strategic investments in neighborhoods around the five boroughs have been few and far between. For years, city officials have had a nearly exclusive focus on subsidizing large commercial development projects, from office towers to minor league baseball stadiums. To its credit, the Bloomberg administration has given some signs of breaking this cycle. They have attempted to lay the foundation for organic development in Long Island City, Flushing and downtown Brooklyn. The administration also has made education and housing development—both keys to retaining the middle class—top priorities.

But it's not yet clear whether these welcome initiatives represent real new thinking or are just isolated episodes of innovation. It is sad, for example, that the administration is focusing significant energies—and preparing to commit scarce city resources—on mammoth commercial projects like the Olympics and the development of up to 40 million square feet of office space on Manhattan's far west side.

The danger is that these mega-projects could make it difficult for an already fiscally-strapped city to afford other investments that are needed more or could produce a larger payoff.

New York does not need to invest in new office space as much as find the best way to use the space that it already possesses. David Kinkaid, president of Chicago-based Equity Office Properties Trust, the nation's largest office real estate investment trust, suggests that it's more important to keep the city competitive. *Prima facie* notions that firms "naturally" need to be in New York must be replaced by less fevered analyses that focus on the city's potential competitive advantages over the coming decades. "Cities should not take a 'build it and they will come' approach," says Kinkaid. "They should instead concentrate on the infrastructure that attracts people first."

One of the most pressing problems that demand attention from city officials is the mounting difficulty in moving both goods and people throughout the region. Rampant congestion on city highways and roads is making the city—and the region—more costly and less productive. Routine delays on the Van Wyck Expressway in Eastern Queens, for example, have already prompted some airlines to shift a portion of their cargo business from JFK Airport to other airports outside New York. Meanwhile, chronically crowded subway trains are negatively impacting the quality of life for thousands of New Yorkers.

"I think this puts an artificial cap on the economic potential of the city," says Robert Yaro, director of the Regional Plan Association. "You can't add jobs and attract people if [the city is] inefficient."

Freight movements within the city have been increasing and are expected to go up by 3 percent a year in the future. Yaro says that the city won't be able to compete if it doesn't deal with the congestion issue. He says that the city is already losing distribution businesses, "because it's an impossible place to move goods." ❖

NEW VISION FOR NEW YORK

WRITING ABOUT NEW YORK IN THE 1950S, Jane Jacobs observed: "A metropolitan economy, if it is working well, is constantly transforming many poor people into middle class people . . . greenhorns into competent citizens . . . Cities don't lure the middle class, they create it."[64]

In order to build that middle class and keep people in the city, they need compelling reasons to stay, or fewer reasons that compel them to leave. They need government not to provide bravado or more trophy buildings but to deliver improvements in crime reduction, as well as other key city services—education, transit and sanitation. These services are critical to the day-to-day lives of New Yorkers, and do much to determine how businesses operate and whether they can thrive.

Ultimately, it boils down to defining the prime mission of the city. To some, the function of the city seems to be to project a sense of sophistication and superiority. Centrality is everything. Winning recognition as "Capital of the World"—as demonstrated by grandiose projects and trumpeted by relentless public relations—becomes the primary goal of public policy.

We do not suggest that New York should relinquish this notion of its importance as a leading, even the preeminent, world city. "New York," as the Harlem Renaissance poet James Weldon Johnson put it, "is the most fatally fascinating thing in America. She sits like a witch at the gate of the country."[65]

Yet even as we embrace this idea, we believe the firmest basis for New York's future lies not in its fantastic image but with the cultivation of its grassroots economy, families, businesses and neighborhoods. These constitute the basis for all vital urban expressions, whether the Harlem Renaissance, Jane Jacobs' Hudson Street or the newer, underappreciated New York paradigms playing out every day in places like St. Nicholas Avenue, Roosevelt Avenue, Main Street and other parts of the "thousand cities" that comprise New York.

The more the various people of New York feel rooted in the city, and their neighborhoods, the more likely they are to keep a business or raise their children here, or invest in the city, even if they themselves eventually move elsewhere. It is in this critical measurement of human connections, in the small facets of urban greatness, that we can envision an economy that will take New York successfully into its fourth century and beyond. ❖

The Center for an Urban Future's vision for restarting New York's economic engine begins with the following basic principles:

1. **Wall street can't do it alone: Restore New York's economic diversity**
2. **New York needs new sources of economic growth: Create a better climate for growing businesses and entrepreneurs**
3. **Take advantage of the city's natural assets: Focus on largely untapped resources like New York's growing immigrant population and the city's vaunted academic and scientific research institutions**
4. **Use more of the city's geography: View the entire city, not just the Manhattan central business districts, as an area of opportunity**
5. **People are key to New York's future: Special attention needs to be paid to things that attract high skilled people and retain middle class New Yorkers**
6. **Do what government does best: Invest scarce resources on basic services and infrastructure projects that make New York more efficient**

VOICES FROM THE FRONT

In the course of researching this report, the Center interviewed more than 100 individuals with intimate knowledge and experience doing business in New York City, from immigrant business owners and venture capitalists to real estate developers and neighborhood economic development specialists. Their opinions, observations, stories and insights framed the findings and conclusions of this report. Here are a few highlights of those conversations, offered in hope that their voices will add to the urgency all concerned New Yorkers should feel about the direction of our city's economy and what can be done to reverse course.

IN SPRING 2003, Borders opened a new bookstore on Broadway and Wall Street, returning to lower Manhattan less than two years after its store in the World Trade Center was destroyed on 9/11. Downtown residents and economic development officials celebrated the chain's return, but Borders ran into several bureaucratic hurdles that added extra costs and nearly delayed the store's grand opening. The biggest obstacle was gaining city approval for its new sign, which exceeded size limits in the neighborhood's zoning code. Despite significant help from the Bloomberg administration, the local community board and downtown rebuilding officials, the entire process still took more than six months, an eternity for any business. For David Rayner, Borders' director of real estate for the Northeast region, the process highlighted the difficulty of doing business in New York City.

THE FOLLOWING IS FROM a roundtable discussion CUF sponsored and moderated at @radical.media in January 2003. The speakers below are Joyce Healy, CEO of Visual Graphic Systems, a manufacturer of specialty signs; Stuart Leventhal, president of Lexicon, a printing company; Jon Kamen, CEO of @radical.media, a media company; and David Hochman, senior principal of Battelle's partnership practice.

CUF: What's the hardest thing about being in New York as a business?

JH: Real estate—every New Yorker's preoccupation. We moved from 20,000 square feet to 45,000 square feet and we're still out of room… We have a long-term lease, and a very good one, but there are ten more years to go and we know there is no way we're going to be able to renew where we are [on the far west side of Manhattan, where the city is planning for a new high-rise office district]… New York City policy is incredibly driven by real estate. And the best and highest use for land is not for manufacturing.

SL: Clearly the incentive structure favors the finance, insurance and real estate sectors. Those sectors have driven up the price those companies are able to pay for space. The incentive structure affects market equilibrium in real estate.

JK: Everyone still wants to live in Manhattan. They want to be close to restaurants, theatres, entertainment, et cetera. So whatever new building there might be or renovations, they tend to go towards residential. The development people who just want to build housing are pushing some of the small manufacturers over in the 20s and 30s near 10th and 11th avenues. There is not enough room.

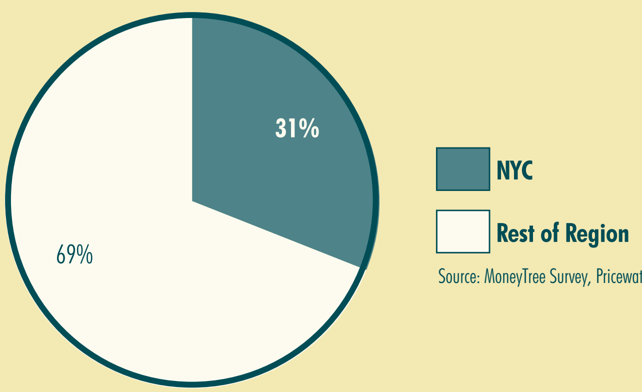
DH: I think one of the problems is, despite all the stresses in our manufacturing/service economy, the city's never been hungry enough to really want these things. It's a question of where you direct your resources. We did a project in New York during the Giuliani administration and we went in to talk with the mayor's policy director about what could be done to make the city friendlier for small, technology-based businesses. The answer we got back was, 'The mayor's strategy is that we will make the city happy and attractive for corporate headquarters and types that want to bid up the square footage… Small companies will take care of themselves. Everything else will follow because we will have set an example that big companies are comfortable investing big dollars here. That will get everybody else to come.'

Everyone involved in the process was extremely helpful to Borders—the councilman, people at city agencies, the mayor's office. But the process itself is relatively complex. We had to hire a law firm, a licensed New York engineer, a licensed New York architect and an expeditor to file permits and stand in line. If it takes six months with everyone actively trying to help, how long would it take if there was opposition or bureaucratic indifference?

In some communities, the national sign company we work with can send a rep one night to appear before a zoning board to explain what they need and the board will vote and pass a resolution. It may take one meeting or two meetings and you're done. But in Manhattan, because of the labyrinth of government agencies, you need a whole team of knowledge professionals to get through the process. And because of the size of the agencies, it takes time to work through them.

New York is a fairly daunting market, unless a company is focused and targeted on the urban market and indigenous to the New York area. It has a chilling effect—the cost structure of Manhattan is a common theme among retailers. The party inducing the retailer always touts huge sales volume from the city, but it's hard to bring profit to the bottom line because of the huge cost structure in the city. For those reasons, it's important to reduce the cost of development. One of the answers is for the city to decide where it wants to stimulate retail growth and then do a new master plan…take a look at the existing ordinances and ask if they are really conducive to stimulating retail development and where they're not see where the process can be streamlined. —David Rayner

SHARE OF REGION'S VENTURE CAPITAL INVESTED IN NYC, FIRST TWO QUARTERS OF 2003



Source: MoneyTree Survey, Pricewaterhouse Coopers

Venture capital firms invested $593 million in companies in the New York region during the first two quarters of 2003, but only 31 percent of the funds ($185 million) went to companies in New York City, an indication that more of the region's companies judged to have the greatest high-growth potential are located outside the five boroughs.

Entrepreneur Jack Hidary offers an explanation for New York City's declining share of venture capital investment in the region. "We, as a city, have been complacent. We have been resting on our laurels. We have not taken the appropriate steps to ensure a healthy and diverse economy for our city, and a pipeline of innovation that attracts capital, knowledge workers, service industry workers and generates economic growth. We need an active program, not just for retention, but for new fresh capital tied to innovation, tied to growth. That will create jobs in the city. That will create a culture of a knowledge economy in the city's."

AS THESE STORIES ILLUSTRATE, New York has become a difficult environment both for venture-backed growth companies and existing small businesses. In the years ahead, the city needs to pay more attention to these important segments of the economy. In our research, we also heard from numerous business advocates about the need to foster small business growth in neighborhoods across all five boroughs and to integrate immigrant-owned firms into the city's economic life.

"The city doesn't do anything to encourage the growth of small businesses. The city should give grants to local organizations to provide business counseling. Businesses need hand-holders. Business counseling would be of immense benefit—classroom training would not work. Nobody comes to classes."
—Dennis Reeder, president, Washington Heights and Inwood Local Development Corporation

"Why are the city offices for all licenses and small business services in downtown Manhattan? Why can't Queens Borough Hall do the licensing for businesses in Queens? The impact would be tremendously positive."
—Ernesto Cury, president, Hispanic Chamber of Commerce of Queens

"If you focus in at the local level, immigrants have a substantial effect on economic development. The immigrants themselves generate economic vitality which spins off economic opportunities for others."
—Joe Salvo, Population Division, NYC Planning Department

"The city government has not allowed any new street vendors for the last eight years. Eight years! A person could not get a new license unless you were a veteran of a foreign war. Street vendors are trying to make a living. They are most often immigrants. I'm not saying that they're able to make a really good living doing this, but some of them do; they find a niche and they're really good at it."
—Brian Singer, Church Avenue Merchants Association

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This report was written by Jonathan Bowles and Joel Kotkin, edited by David Jason Fischer and designed by Julia Reich. Demographic analysis conducted for the Center by William H. Frey of The Brookings Institution. Special research assistance by Noemi Altman and Erika Ozuna. Additional research by Juan Rivero and Stephanie Jenkins. We also acknowledge the contributions we received from Andrew Segal, Boxer Property Management; Michael Schill, NYU's Furman Center for Real Estate and Urban Policy; Jon Kamen, @radical.media; Joan Bartolomeo, Brooklyn Economic Development Corporation; and Nancy Carin, Business Outreach Network.

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This report was funded by the Rockefeller Foundation. Additional program support was provided by the New York Community Trust, the Bernard F. and Alva B. Gimbel Foundation, and the Taconic Foundation.

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