The Center for an Urban Future
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New York New Jobs

Why New York needs a new Jobs Policy

Change, the old saying goes, is the most permanent feature of New York City's landscape. Losing jobs by the thousands, as it turns out, comes in a close second…

Even with the unprecedented expansion of the financial services sector, the city is still 120,000 jobs shy of replacing the 360,000 jobs lost during the 1989-1992 recession. Reversing a half-century of employment losses is far too big a job to be accomplished in one stroke, no matter how bold or flashy. But it's too big a job to ignore.

That's why it is essential for New York City to finally create a real economic development strategy. It's true that government has made a difference in some areas, but it's time to rethink and refocus these efforts. That means moving the city away from an outdated development policy that too often has substituted tax breaks to big corporations for intelligent, targeted aid for a wider array of businesses.

We need to implement an updated, flexible policy that reflects the new dominance of small businesses and the recent jobs boom in specialized economic sectors. We must also recognize the need to view welfare reform in economic development terms, finding as many new ways as possible to move low-income New Yorkers into full-time work.

How can we deal with these challenges? Realistically. The Center for an Urban Future is launching a multi-year project called New York/New Jobs to address these problems by offering factual, reasoned analysis on job creation. This report lays the groundwork: It assesses current economic conditions, delineates policy areas for future focus and describes some successful models for job creation. In subsequent reports, the Center for an Urban Future will adopt a two-phase approach. First, we will compile known research and conduct our own fact-finding work so our reports bring solid analysis to inform the economic development debate. Then we will analyze that data, offering solutions based on the experiences of people who have already tested their theories in New York and elsewhere.

Plenty of New Yorkers have criticized the city's current job creation and retention strategies, which start with tax breaks to the finance sectors and end with workfare jobs. Few are offering alternatives. Our goal is to engage a coalition of diverse interests, creating a non-ideological jobs agenda that translates past successes into a realistic plan for the future.

Four Fundamental Flaws

Over the past year, the Center for an Urban Future has conducted dozens of site visits and more than 100 interviews to find local solutions to New York City's job quandary.

We discovered that New York's business and nonprofit sectors have been quietly developing effective middle-income job creation strategies and are successfully placing low-income people in permanent jobs. But these neighborhood-based and industry-driven innovations have been largely overlooked by the people guiding the region's economic development policy.

That's understandable. After all, the city's economy has soared in recent years and it has become easy to believe that the problems of chronic unemployment have faded away in this prosperous era. We'd all love to live in a Golden Age, but the reality is that the Wall Street boom has masked structural flaws in the economy. Inevitably, the financial markets will cool down and job losses will resume. Here's why:

During *the* boom, unemployment rates *have* remained high.

Despite New York's robust economic comeback in the 1990s, the city's unemployment rate has consistently remained well above the national average. From 1993 to 1997, New York City's average unemployment rate lingered at 9.1 percent compared with a national average of 5.8 percent. Unemployment fell through 1995, then rose through 1997, despite the Wall Street boom. Currently, local unemployment has dipped to a five-year low, but the rate is still almost 8 percent, compared with a national average of 4.6 percent. This is not a problem that can simply be attributed to the chronic unemployment that plagues other urban areas. New York City's unemployment rate is the highest among the nation's 20 largest metropolitan areas.

We've become addicted *to* Wall Street.

New York City's dependence on the financial services sector has reached a dangerous and unsustainable extreme. Despite employing only 5 percent of the workforce, the securities industry, by one analysis, has accounted for half of the increase in real earnings between 1992 and 1997. This windfall has spurred city tax revenues toward budget surpluses that topped $3 billion in the past two fiscal years—and driven half of all new job growth between 1995 and 1997, especially in sectors like restaurants and retail that benefit from heavy spending. But as everyone knows by now, the finance industry is bracing for a downturn. The city's own analysts forecast Wall Street profits to fall by $4.2 billion in this year alone.

The middle class *is* still being squeezed out *of the* city.

For the first time in the city's history, the size of the middle class has actually declined during an economic boom, falling from a high of 35 percent of the population in 1989 to 29 percent today. Income inequality in New York State is the highest in the country—the gap between the top fifth of income earners in the state and the bottom fifth grew by 127 percent since the 1970s.

At least 150,000 unskilled workers will soon enter *the* workforce.

Currently, New York City has more than 740,000 people on welfare and the mayor has vowed that anyone the city deems employable—at least 150,000 people—will be working in private-sector or workfare jobs by 2001. How those people will find work, or whom they might displace, are issues that neither the city nor the business community has seriously explored.

Obviously, no one can blame all of these problems on government, but the city has failed to do enough to promote healthy employment growth over the long haul.

New York has a powerful arsenal of economic development and human service agencies. Yet officials there have aimed both too high and too low, missing the mark of middle-income job growth.

New York's Current Jobs Policy:

When it comes *to our* overall economic development strategy, we aim *too* high.

For decades, New York City's economic development strategy has focused on convincing multi-billion dollar corporations to stay in the city by offering large real estate subsidies and tax abatements. According to the city Economic Development Corporation, the administration has negotiated $4.1 billion in financing deals and $203 million in direct city costs since 1990. Most of these benefits have gone to securities and media corporations. Since 1994, at least nine corporations that benefited from the deals have laid off staff anyway.

At the same time, small businesses—which employ more than 70 percent of all working New Yorkers—find themselves without similar city support. While the city does offer programs designed for small businesses, local business owners say these efforts are uncoordinated, difficult to apply for and none too plentiful.

Aiming too high & too low

When *it* comes *to* welfare reform, we're aiming *too* low.

New York's welfare rolls have declined by 415,000 since 1995, but the absence of a real connection between the city's workfare program and the private sector relegates many former welfare recipients to unemployment or subsistence wages.

The reason is simple. The Giuliani administration is committed to placing workfare participants in public sector mop-and-sweep jobs to teach them workplace skills. But in order to get off the dole for good, workers need skills that make them valuable to private sector employers. So far the city has shown little inclination to turn this public jobs program into a plan for private job development.

> A small investment *can be* leveraged *to* aid *an* entire sector, not just one company

What Needs to be Done

1. Encourage development *of the* city's various commercial *&* industrial sectors through targeted assistance.

The Giuliani administration has begun to eliminate some business taxes across the board, but New York's economic development strategy still relies heavily on tax deals to individual corporations. This policy must be balanced with a strategy that benefits whole economic sectors, rather than just one company.

New York, unlike most cities or even states, contains dozens of industrial and commercial sectors, forming a mosaic of distinct interests and divergent needs. A one-size-fits-all economic development policy won't work in a city with industries that range from fashion to aviation to computer software. Each of these sectors warrants the attention that individual companies like Bear Stearns and Condé Nast have garnered.

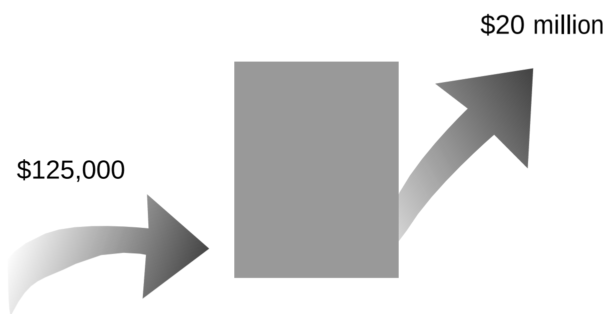
One key strategy to assist these other industries is to create groups that bring competitors together to pool resources and address sector-wide concerns. These so-called "sector intermediary" organizations engage a number of different participants in an industry, including unions, CEOs, government agencies and educational institutions. Once organized, these intermediaries can help members find government loans, get technical assistance and create a communal strategy for business expansion. It's attractive to government because a small investment—say $75,000—can be leveraged to aid an entire sector, not just one company.

The city's garment industry has profited from this approach for years. In a desperate effort to stem the tide of factory relocations and closings, the International Ladies' Garment Workers' Union joined forces with employer associations and city government to form the Garment Industry Development Corporation (GIDC) in 1984. GIDC has since grown into an umbrella group for approximately 4,000 small and mid-sized apparel makers and has successfully boosted overseas exports. This, in turn, has preserved thousands of entry-level jobs and allowed hundreds of small and mid-sized garment factories expand over the last decade.

Helped by a recovering economy and GIDC's efforts, the industry has now stabilized, and some businesses are reporting dramatically increased payrolls. The apparel industry is the city's largest manufacturing sector, employing nearly 77,400 people and producing $20 billion in sales annually.

Where garment manufacturers typically employ 25 to 60 workers, too small to attract government assistance on their own, GIDC has made it possible for them to take advantage of public programs they might not otherwise know about. After discovering through a survey that more than 50 percent of the city's garment companies were interested in exporting their goods overseas, GIDC created Fashion

Sector
Leverage



The Garment Industry Development Corporation (GIDC) took an initial $125,000 in government grants and turned it into $20 million in export sales.

Exports/New York to help them do exactly that. In two years, GIDC turned two state export grants worth a total of $125,000 into $20 million in additional export business for 24 local companies. "Exporting is the only way a lot of our companies believe they can expand their businesses," says Gene Cleckley, director of GIDC's fashion exports program.

Jordan Fashions Corp., a manufacturer of bridesmaids' dresses, benefited from GIDC's export assistance in 1993 when it expanded its sales line to four countries in Europe. "It would have been possible for us to export without them," says Jordan's Ned Giordano, "but it would have taken us a much longer period of time, maybe three times as long." Giordano had to pay GIDC for its services, but because the alliance is subsidized, the price was significantly lower than it would have been otherwise.

In addition to providing export assistance, the industry insiders who staff GIDC give company chiefs assistance in domestic market forecasting, employee training and ownership transfer plans. Former GIDC President Bruce Herman says, "We put years into the companies we work with. In this sector you cannot provide a quick hit. You have to stay for the long haul."

Economic development officials and practitioners across the U.S. have paid attention to GIDC's sector-based successes. Representatives from Chicago's Candy Institute and San Francisco's Garment 2000 have studied the GIDC model for clues on how to jump-start sector strategies in their cities.

So why don't state and local agencies launch a full-scale effort to aid these alliances of small companies?

The state and the city have programs that intermediary organizations like GIDC are technically eligible for, but industry representatives say that since their organizations are not typical businesses, they are looked at with suspicion—and getting a response, they report, always requires the hard sell.

A recent example: The Empire State Development Corporation initially rejected a request by the New York New Media Association for assistance in setting up an export system to serve a group of Internet firms. "We eventually got the grant after a *Crain's* article was published about our rejection," says Lori Schwab, the association's former president. "Basically, ESDC was shamed into giving us the grant."

Working with intermediaries is the best way to assist large numbers of small companies in one shot, says Ira Rubenstein, executive director of the Environmental Business Association and chairman of the Emerging Industries Alliance. "We are the ones who know how to package things for small and medium-size businesses." ■

> "Small firms replaced *all of the* jobs *they* lost during *the 1989-1992* recession. Large firms, in contrast, *have* lost 109,000 jobs since 1989."

2 Reflect *the* growing dominance *of* small business *in* city economic development policy.

Most of the new jobs in the 1990s sprung up in companies with fewer than 500 employees. Yet for years, small businesses and other key job-generators within the city's economy have received scant attention from local economic development czars.

In 1996, these businesses comprised 99.7 percent of New York City's companies and provided nearly three-quarters of the city's 2.7 million private-sector jobs. By comparison, the big corporations that have been the focus of the administration's economic development strategy directly employ relatively few New Yorkers: Companies with more than 500 workers provided only 785,000 jobs.

This strength in the small business sector is an important recent development. For the first time in more than 30 years, small businesses in the early 1990s actually fared better than big corporations both during and after a recession. Small firms replaced all of the jobs they lost during the 1989-1992 recession and even added 17,000 more by 1996. Large firms, by contrast, have lost 109,000 jobs since 1989.

It is hard to understand why the city has not been more aggressive in providing assistance to small firms, but it certainly is not for lack of models. The limited business development efforts made by the city and private corporations have yielded considerable successes.

One of the best-documented examples is Silicon Alley, the city's new media sector. Today, New York City is home to more than 2,000 companies specializing in entertainment software, on-line services, website design and CD-ROM development—thanks, in large part, to a coordinated development plan hatched by city officials and the Chamber of Commerce's development arm, the New York City Partnership.

In 1993, with more than 20 percent of the downtown financial district space vacant, a group of city business leaders from companies including Con Edison, NYNEX, IBM and KPMG Peat Marwick began meeting at the Partnership to devise ways of revitalizing the area. They came up with the idea of courting high technology firms, like those springing up along Route 128 in Massachusetts and Silicon Valley in California.

To promote the plan, the Partnership group developed one flashy concept: the New York Information Technology Center (NYITC), a building dedicated to fostering new multimedia businesses. At the same time Mayor Giuliani was working with downtown business leaders on crafting the Downtown Plan, a package of tax and lease abatements to encourage new firms to move to lower Manhattan.

The Alliance for Downtown New York sold the

NYITC concept to the Rudin development family in 1995, convincing them to retrofit the old Drexel Burnham Building at 55 Broad Street with the most advanced network wiring available. Firms that began moving into the building included start-ups as well as leading technology companies. Since the building opened, there have been two mergers and six expansions. A handful of tenants have even outgrown the space and moved elsewhere in Manhattan.

The real estate deals offered under the Downtown Plan and the visible success at 55 Broad Street soon encouraged other developers and new media start-ups to head downtown. The movement was accelerated by an EDC and Alliance sponsored program called Plug 'n' Go that helps landlords make their buildings palatable to technology-driven businesses through cheap rents and customized office space. Firms that benefit from this program have been small, typically employing an average of 15 people. All of these programs together are directly responsible for recruiting more than a third of the 600 high-tech firms now located in lower Manhattan..

The strategy is not new. The city employed similar efforts with food distributors at Hunts Point in the South Bronx 35 years ago. Unfortunately, Silicon Alley has been one of the only neighborhood-based, sector-specific industry development projects that the city has sponsored since then.■

3 Stop *the* flight *of* manufacturing jobs.

Manufacturing, once the dominant assembly line of jobs for New York City's working class, has long since been left for dead by politicians and planners. New York's manufacturing peaked at a little over 1 million jobs in the 1950s, and the city has been steadily losing thousands of jobs every year since.

While few people seriously believe that manufacturing will regain its former prominence in the city, the sector still employs 270,500 people. That's almost the same number of people working in the securities, TV, radio and motion picture sectors combined.

The importance of maintaining manufacturing should not be overlooked. At an average of $12 an hour, manufacturing jobs are some of the best middle-income jobs in the city, offering wages that are 30 percent higher than those in the retail sector. And other cities have had considerable success in wooing factories back into town. In the last three years Los Angeles developed 30,000 new manufacturing jobs; Houston added more than 20,000 during the same period.

Although most of New York's heavy industry is long gone, a new generation of entrepreneurs in high-skill niche industries are building businesses throughout the five boroughs. Ten years ago, David Sweeny, then the director of a local

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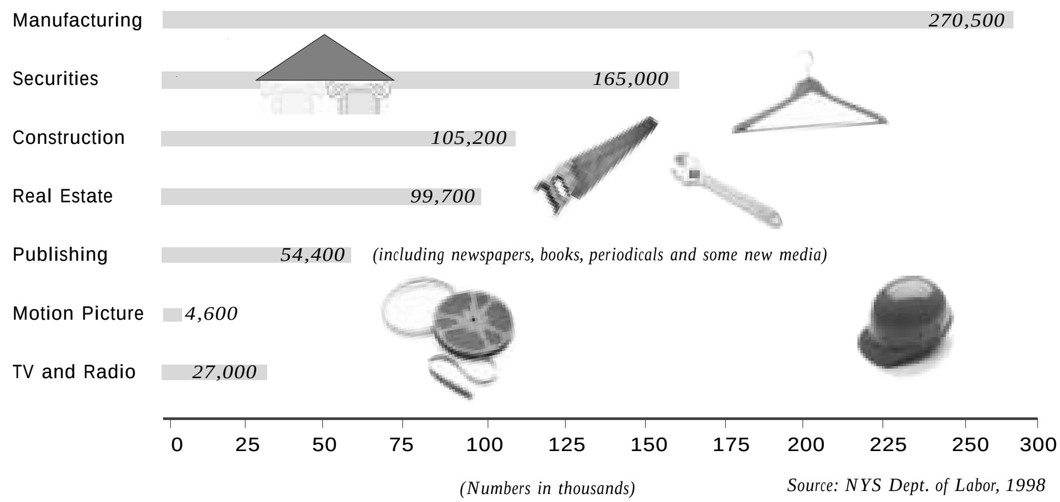


development corporation in Brooklyn's largely post-industrial Greenpoint section, stumbled across one of the city's few pockets of manufacturing growth. On the shores of the polluted Newtown Creek, Sweeny found a dozen businesses squatting in an abandoned factory. The entrepreneurs were making a good living selling high-end wood products, including furniture and architectural details.

Joining with the woodworkers, Sweeny paid the city one dollar for the old mill building, took it over and turned it into the jointly owned and managed Greenpoint Manufacturing and Design Center (GMDC). With the help of a $1 million grant from the city, they were able to renovate the crumbling red-brick factory and fill it to capacity with 68 businesses that employ 400 people in a working-class neighborhood.

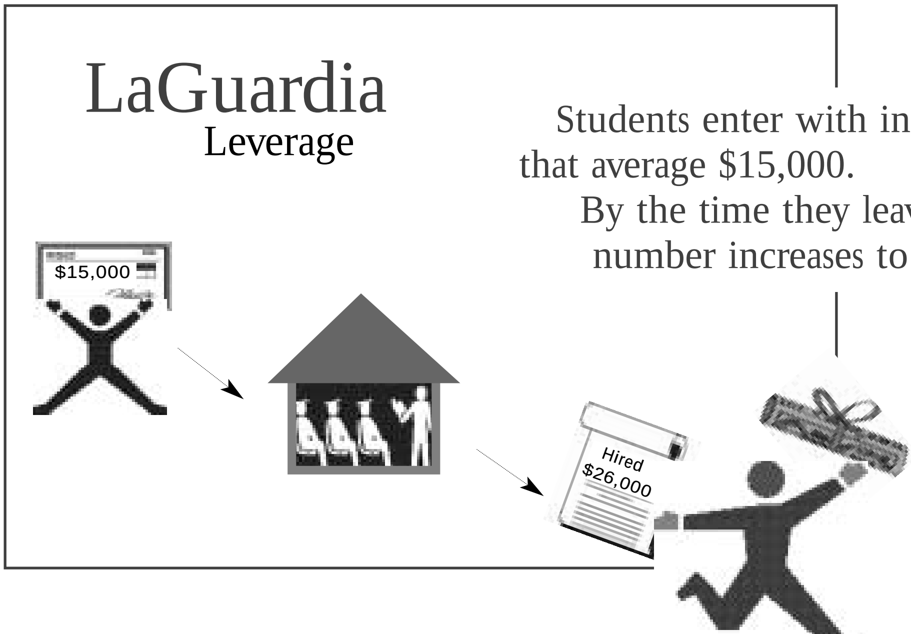
Now GMDC provides a number of services vital to the businesses located there, including group purchases of expensive high-tech machinery, in-house training, exposure to new technologies and English courses for immigrant workers.

But despite their successes, these businesses face a dim future. That is because the city has no plan to preserve and foster them. Manufacturing businesses demand large amounts of low-cost industrial space, and they frequently cannot compete with people and stores who are willing to pay up to three times more for the same rental space. In a telling survey, the New York Industrial Retention Network found that 58 percent of manufacturing owners and managers felt that the real estate market has become increasingly inhospitable to them in the past year. Only 4 percent thought conditions for their business improved.

Today, city planning officials are fashioning an agenda that leaves little room for manufacturers and moving toward eliminating what few zoning advantages these businesses still have.

In Greenpoint, Sweeny knows 40 local entrepreneurs looking to expand and move into new space. He has eyed two abandoned factories across the street from GMDC, but both deals have been thwarted by owners who tell him that they are taking their chances, waiting for the city to rezone their property for residential development.

One owner went so far as to sign off on the sale of his building to GMDC and accept a large deposit on the property, only to rescind the offer two months later. The owner has since illegally converted the factory into residential loft rentals—so far without any threat of city intervention.■



4 Use community colleges *as* job centers *for* welfare recipients.

Criticizing New York's two-year colleges for their academic failures has become a favorite sport of local politicians and editorial writers. With an acknowledged record of academic problems, the City University of New York is an easy target. But what the critics forget is that CUNY can be a cheap, effective stepping stone for welfare recipients and low-income New Yorkers looking to move into real jobs.

For the past 35 years, LaGuardia Community College in Long Island City, Queens has been moving thousands of low-income New Yorkers into permanent, living-wage jobs. Every student who enters LaGuardia is automatically enrolled in the two-year school's cooperative education program. The program hasn't attracted much attention, but it has an impressive job placement record. Students enter with incomes that average $15,000. By the time they leave, that number increases to $26,000.

By contrast, the city's workfare program sends the poor into high-cost, publicly-subsidized service assignments—not private sector wage employment. That's a losing strategy if the city is to find jobs for the 150,000 recipients who are due to enter the workfare program over the next three years.

LaGuardia's success is based on the simple notion that all the school's efforts must be focused on meeting the needs and expectations of employers. The school was the first public two-year institutic in the United States to establish a mandatory work curriculum, and it now has the largest program in the country. "Because we are so committed to business we receive instantaneous feedback. No other college has this kind of external pressure on them," says Dean Harry Heinemann. The pressure is intense. Faculty members are required to spend 25 percent of their time working with employers. Students are graded, and can be failed, by employers.

LaGuardia's staff demands that students immerse themselves in the world of work. Approximately 2,000 students each year are placed in both paid and unpaid internships with organizations like Citibank, Bear Stearns, the Port Authority, Bellevue Hospital and Bergdorf Goodman. Real work experience is supplemented by an intensive curriculum that includes job-specific course work, career counseling and work preparedness training. This combination of approaches works. Fully 91 percent of co-op graduates continue their education or go on to work after graduation.

This business-first approach to learning has increasingly brought employers knocking on LaGuardia's door. In addition to providing companies with student employees, LaGuardia now trains the staff of more than 85 employers, including the Ford Foundation, the law firm Skadden, Arps and the city's own Department of Environmental Protection.

So far, recent press and mayoral criticism of CUNY students hasn't scared off private sector partners. "Our relationship with employers is strictly a business relationship," says Heinemann. "We tell employers to assess students as though they are any other employee. We want them to use the same yardstick." This bottom-line approach is the reason the co-op program is able to maintain close relationships with more than 500 employers through economic booms and busts. LaGuardia makes an economic, not philanthropic, pitch to employers. Students provide cheap temporary help, and an inexpensive way for companies to test future employees.

Increasingly, experts across the country are coming to realize that this real job training approach is far more effective in moving poor people into jobs than the public-sector focused welfare-to-work strategy that the city now promotes. There are currently 2,300 welfare recipients at LaGuardia eligible for the co-op program, and although many take a few years to graduate, there is often a living wage job attached to their diploma.

As an outside evaluator of the co-op program, Joan Mark, noted that the city government would do well to look at LaGuardia as a welfare-to-work model. "Work-based learning is their mandate," says Mark, executive director of Cooperative Education and Career Services at Pace University. "LaGuardia can play a significant role in workforce development in New York City." Unfortunately, in the clamor over remediation, government has ignored the lessons of this homegrown innovation.■

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New York New Jobs
Spring Lecture Series

The Center for an Urban Future is sponsoring a series of panel discussions on alternative economic development policy solutions. What follows is a preliminary list of forum topics and speakers. For more information on the series and updates on speakers, please call 212.479.3344.

The Center for an Urban Future
is a policy institute dedicated to aggressively pursuing solutions to the most critical problems facing cities.

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Three sessions.
Tuesdays, 10 a.m.-12 noon.
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March 2 — Diversifying New York's Economy: A Look at Alternative Sectors and Policies

Moderator, Professor Robert Beauregard, Milano Graduate School of Management and Urban Policy. Panelists: James Parrott, Fiscal Policy Institute; Professor John Mollenkopf, CUNY; Sara Garretson, Industrial Technology Assistance Corporation; and city government policymakers.

April 13 — Building Ladders into the Local Economy for Low-Income New Yorkers

Panelists include Raymond Bowen, President, LaGuardia Community College; Patricia Swann, President, LEAP, Inc.; and other community economic development leaders, government policymakers and academic analysts.

May 4 — New Strategies for Improving New York City's Small Business Environment

Panelists include Adam Friedman, New York Industrial Retention Network; Ira Rubenstein, Environmental Business Alliance and Association of Emerging Industries; small business owners; and government leaders.

Center for an Urban Future

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