The Center for an Urban Future
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New York New Jobs

The Sector Solution

Building a Broader Base *for* the New Economy

"Is New York Anti-Business?" On the surface, it seems like a crazy question. After all, New York City has committed more than $2 billion in tax abatements over the last six years to keep some of its largest job generators in town. On its face, the strategy has been a great success. New York is without a doubt one of the world's great global business centers and home to many of the country's largest financial and entertainment conglomerates.

But New York City also has one of the highest urban unemployment rates in the country, an economic foundation that most everyone agrees leans too heavily on Wall Street, and no blueprint for helping other kinds of local businesses grow. Meanwhile, public officials from California to Connecticut have spent the last decade actively diversifying their economies, building promising new industries and creating the kind of environment that smaller businesses need to take root and thrive. These strategies have cut government costs and are expected to ward off the worst effects of future recessions. Here's why New York needs to follow their lead:

The current boom won't last forever. Large tax abatements are often wasteful and don't guarantee a company will maintain its jobs—or even stay. It has been more than seven years since the city conducted a survey focused on business growth, and New York has no plan for developing promising sectors that, given meaningful attention, would be likely to grow in coming years. This report is a call for a new sector-oriented economic development approach premised on the idea that, working closely with industry leaders, a city can design smart policy that helps dozens of businesses at once. It is policy based on meeting the needs of a rapidly evolving economy. And it is policy that has been

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Why We Need A New Approach

In 1991, the city agreed to issue $30.7 million in tax abatements to Bear Stearns, an international investment house that threatened to relocate to cheaper environs out of New York. So it wasn't any great shock when City Hall, in September 1997, announced that the company had been given another $75 million to stay put in Midtown.

What was surprising was this fact: Bear Stearns got their latest windfall without even threatening to leave the city.

That, in a nutshell, is the problem with New York's economic development strategy. Public officials have become blind to many economic opportunities because of their insistence on focusing on massive corporations threatening to leave the city (see "Giving 'Til it Hurts," page 3). If they would only take a step back, they'd discover that those companies are but a small fraction of the city's economy-deserving of attention, certainly—but not where most people are employed and not the businesses with the most potential for growth.

Government figures show that in New York City, 99.7 percent of businesses have fewer than 500 employees and employ nearly three-quarters of the workforce.

The city's current economic development policy is a dangerous anachronism. New York's current boom is leaving many behind—the city has 7 percent unemployment, and a quarter of its population lives below the poverty line. For the first time since World War II, New York's middle class is actually shrinking during an economic expansion. Even worse, the city is woefully unprepared for the inevitable economic downturn. With its dependence on the finance, real estate and insurance sectors, New York City has bet everything on the financial services industry. This focus seems increasingly misguided given that Wall Street has already shown signs of a slowdown while upstart sectors, like high-tech, continue to be job generators.

Just ask Houston how well sector development policy works. Its economy was devastated by the drop in oil prices in the early 1980s. Or Pittsburgh, which reeled from an over-dependence on the moribund steel industry, or Los Angeles, which found itself in a gigantic hole when the defense industry began downsizing. Or New York, which suffered a deep recession in the wake of the 1987 stock market crash. Each of these cities discovered the hard way that a diverse economy is absolutely necessary for a healthy city.

Today, many of these places—except New York—have joined a business development movement focused on developing what economists refer to as sectors, clusters or industry-specific assistance.

So, what is a sector? Simply put, it's a scattered collection of businesses united by set of common commercial interests and challenges. With the shift to an information-based economy, much of the city's 1990s business boom has occurred in sector-based companies—not in the monolithic corporations. In New York, high-growth sectors include: aviation, software design, food manufacturing, film production and new media.

States as small as Rhode Island and as big as Florida are pursuing sector-based economic development plans, and so are cities as diverse as Cleveland, Ohio, and El Paso, Texas. Leaders at the highest levels of government are beginning to understand that a sector strategy is the most valuable and productive way to provide business assistance. One of them is Senator Jeff Bingaman, a New Mexico Democrat, who recently proposed a bill that would link national laboratories in his home state to local growth sectors. "When we think about creating jobs, we need to think about much more than taxes or the cost of labor," Senator Bingaman says. "I believe sectors provide a more accurate framework for thinking about encouraging companies, universities and government to see how they affect each other and how they might work together to improve everyone's ability to be innovative and productive."

"There is a growing suspicion that one-by-one assistance to individual firms is neither efficient nor effective," says Brian Bosworth, a principal of Regional Technology Strategies Inc., a consulting firm with a track record in many states, including New York. "One of the more compelling innovations in contemporary economic development is the proposition that resources be focused around groupings of firms." That means sectors.

The strategy, officials say, starts with a survey of the entire local economy, picking out industries that could use a boost to become more effective and weak spots that need addressing. Then a local group—typically a public/private economic development partnership or a chamber of commerce—works on projects such as researching market trends, tackling onerous regulations or formulating an export strategy. The precise way this is done isn't important; the important thing is that they listen to an industry's specific needs.

It sounds simple, but it can be amazingly effective. Take Oregon, where the mid-1980s recession was nearly as devastating as the Great Depression, in large part due to the collapse of the timber and milling industries. With a large investment in economic development, the state helped create new trade organizations that supported growing companies in diverse fields like plastics, micro-brewing, biotech and software development.

"The whole idea was to focus on high-tech and get off the over-dependence on forest products," says Janet Jones, who helped run the project. Oregon's economy has turned around, due in no small part to the efforts of Jones and her colleagues. The number of Oregonians employed in high-tech jobs soared from 35,000 in 1980 to 72,000 in 1998. Over the same period, the state lost 20,000 lumber jobs. "Oregon now has so many high tech jobs, the emphasis has shifted from recruiting to assisting the companies right here, and working with communities to manage their development," Jones says.

Supporting sectors isn't about partisanship—plans like Oregon's have support from most Republicans and Democrats. And it's not about big government. The sector solution works best when government works as a catalyst to bring about change and then bows out gracefully. It means being savvy about the local economy, learning where investments can be most effective, and really listening to businesses and their concerns.

This report is part of a continuing research project by the Center for an Urban Future dedicated to exploring the merits of sector-based economic development strategies. The following pages describe how a sector approach works, why so many states and municipalities have begun to focus on sectors, how such a system creates jobs and invests fewer public dollars with greater impact, and why New York City has failed to absorb the merits of the approach.

Our inescapable conclusion is this: It is time for New York to do something it is famous for not doing—learning from others. ◆

COMPARE & CONTRAST

Over the past two decades, cities and states across the country have begun to balance their business assistance policies with an entirely new approach to economic development. Sector development policy focuses government resources on industries with the greatest potential for local growth and job creation. The strategy is a far more effective use of public dollars than the traditional one-shot tax abatement. But, importantly, sector development does not have to compete with the older strategy; it is often used as a complementary economic development tool.

TRADITIONAL TAX ABATEMENT	SECTOR SOLUTION
Public dollars spent on one company	Public and private dollars invested in an entire sector
Defensive response to a company's demands	Government-initiated investigation and response to an industry's needs
Large, one-shot tax abatements	Small, long-term investments
No guarantee of new jobs	Accountability measures to ensure new jobs are being created
Strategy largely determined by government	Strategy determined in collaboration with government, businesses and other local leaders
Central administration	Local administration

TAX ABATEMENTS: Giving 'Til It Hurts

For years, New York's chief economic development strategy has been to give tax breaks to large employers that are threatening to leave the city. Keeping a stock exchange or a major company in New York is important, but all this wheeling and dealing has some unsettling side effects.

For being a supposedly business-friendly strategy, these deals generate an awful lot of ill will. If NBC gets a big break, then ABC and CBS want one. If Bear Stearns benefits, why shouldn't CS First Boston? It may be kids-in-the-sandbox logic, but it's true: All the major companies eligible to receive breaks are vital to the city's economy, so if their competitors get a deal they wonder why they can't have one as well.

Not only is it impossible to satisfy every company under this plan, but it fosters endless bidding wars with our neighbors in Jersey City and Hoboken as companies threaten one by one to leave in order to get their break. The best New York can do in this zero-sum game is retain a company at a huge cost to the municipal budget. And in the worst case, we lose the company. For example, in June 1993, the city convinced MasterCard to keep its 450 jobs in New York

A Four-Step Plan

Simply hoping that new jobs will appear is no way to ensure a healthy economy, especially in today's world. Cities, counties and states focusing on key business sectors don't claim to have found a magic bullet-nothing in economic development is that easy. But they do say that the approach has revolutionized how government does business with businesses.

"Clusters and sectors are the only sensible way for government to think about the economy," says Joe Cortright, an economic consultant to the U.S. Department of Commerce. "Instead of thinking of 8,000 companies and 3 million employees you need to only think of sectors and their commonalties."

Adopting the sector solution is a surprisingly easy recipe for success—it has only four simple steps to discovering and acting on strengths to be nurtured and weak spots to be fixed. Don't be fooled, though. It takes time and a willingness to rethink basic assumptions for both government and businesses. And skipping ahead in the process can mean missing a potentially lucrative economic sector or failing to build a strong organization to carry out the plan.

The localities studied in this section have been experimenting with sector approaches for more than a decade. Each region featured in the following pages highlights one of the key steps. These pioneering cities and states went through the same basic process, although the sectors they focused on, the type of support they gave, and the agencies that actually did the work were all different. And they all experienced the same results: more jobs and increased economic security. Here's how they got there...

STEP 1 Question Basic Assumptions About the Local Economy.

The sector solution is not a new program or funding stream. Rather, it is a completely different way of thinking about how public dollars are invested to retain, attract and nurture companies. Local leaders in government, business and the nonprofit sphere must be willing to revise their basic assumptions about the area's economy and their role in improving it. The process starts with a giant step backward, asking some basic questions about the local economy:

How will anticipated future technologies and new regulations affect local businesses? Does the city or region's economy depend on an industry that is downsizing or is overly sensitive to economic fluctuations? Is a sector facing hurdles that could be best overcome with a group effort? How are institutions such as unions, trade associations and universities involved in the economy?

These kind of questions just do not come naturally to administrators and bureaucrats. In many parts of the country, the shifting economy of the mid-1980s forced creative and bold thinking. Cleveland was losing thousands of jobs to manufacturing decline. Washington state was grappling with massive defense industry downsizing. El Paso, Texas was rattled by the newly passed NAFTA agreement. In each case, new programs assisted job growth and helped to foster a stronger and more balanced economy.

In New York, we're fortunate enough to have the opportunity to begin our sector planning in relatively good times. But that doesn't mean we can rest easy. As they discovered in Arizona, recognizing structural weakness during a period of growth can keep a potential disaster from ever occurring and even provide a significant economic boost in relatively good times. But that doesn't mean we can rest easy. As they discovered in Arizona, recognizing structural weaknesses during a period of growth can keep a potential disaster from ever occurring and even provide a significant economic boost.

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CASE STUDY:
...Here's What Arizona Did In 1989

Arizona's future looked bright in 1986. The state had one of the fastest growing populations in the nation and a steady stream of new jobs. When things are this sunny, it can be hard to prepare for the inevitable rainy season. But that's exactly what Arizona's leaders had the foresight to do.

Arizona's economy had some problems lurking beneath the day-to-day good news. Economic growth was primarily in low-wage and volatile sectors like real estate, retail sales and tourism. Without a new economic direction, the state would eventually flounder.

Alarmed by the lack of support for higher-wage, technology-based jobs, a group of fifteen CEOs and young entrepreneurs began meeting every Sunday, charting out Arizona's economic situation and spinning some alternative visions to support industries that would provide better paying jobs. In 1989, having heard that the state legislature had allocated money for a study of the economy, the entrepreneurs approached the state and offered to contribute expertise and funding.

Three years later, the state launched Arizona Strategic Planning for Economic Development (ASPED), a coalition of business CEOs, economic development officials, university presidents and community leaders. The group never lost sight of its mission: Identifying small but growing sectors that could create higher paying jobs. The ASPED coalition spent the next two years canvassing the state to find out about key high-growth and high-wage sectors, eventually releasing a strategic plan that laid out nine areas of focus.

> "I was a $2 million company, and now I'm a $6 million company. We doubled in the last two years, all due to leads I get from the cluster work." — CEO Bob Breault

One of the biggest winners has been Tucson's optics industry, which received assistance in building an aggressive trade association that has developed an industry-specific analysis of needs, sent trade missions to 20 countries, and supported joint bidding on large contracts. Revenues from "Optic Valley" have risen from about $100 million in 1992 to $750 million last year—and the industry pays workers about $47,000 a year, nearly twice Arizona's $25,500 average." The story of the Arizona's optics industry is a prime example of the power of the cluster framework for collaborative action," says Arizona State University economics professor Mary Jo Waits. "Before the state embarked on its [sector] thinking, few economic development officials knew there were optic firms in the state."

Tucson's optics industry now has customers from around the globe. "I'm a small business in Tucson, Arizona. Without clusters I would just be a dot on the map," says Bob Breault, president of Breault Research Organization. "I was a $2 million company, and now I'm a $6 million company. We doubled in the last two years, all due to leads I get from the cluster work. Because we are now known as the Optic Valley, we have 23 companies looking to move here."

It's not just optics. All the state's economic planning is now designed with an eye to boosting the fortunes of key clusters.

Many businesses say that it wasn't tax breaks or real estate deals, but an overall attitude—the fact that they felt government focused on their concerns—that led them to stay.

STEP 2 Conduct a Detailed Survey of Economic Conditions.

To create a wide-ranging, effective sector strategy, it is crucial to devise an intensive process for learning about the local economy. Initially taking the form of a comprehensive survey, this broad and detailed assessment invariably uncovers growth in one or more major industries that have gone virtually unnoticed until brought under the microscope. New York City is typical when it comes to this kind of analysis: All the individual components of a sector survey have been completed at one point or another, but never all at once or with the aim of charting a new business development strategy.

The survey starts with standard economic data like industry concentration figures and average wages. To get a more complete picture, these numbers are augmented by interviews and focus group sessions with businesspeople. Next, this information is matched with broader measures of the city's well-being: things like workforce skills, crime rates, infrastructure, tax levels, existing educational institutions and regulatory issues.

Finally, the supporting institutions essential to sector growth are assessed. Often overlooked, these institutions include local community colleges and research universities, unions, lending institutions and supplier industries that provide the core services and raw materials to specific sectors.

The aim throughout the process is to find sectors with some of the following characteristics:

- pay good wages;
- face problems that could be solved with a group effort;
- are in a rapidly growing field;
- employ many people in the area;
- can take advantage of national and international economic trends and;
- will diversify the local economy.

The sector survey also creates a valuable process for politicians and bureaucrats to learn business needs, forcing city leaders to stop and listen to companies directly. This is critical. Most of the businesspeople interviewed by the Center for an Urban Future said that their biggest problem with government was that there was no forum in which to discuss their problems.

It's a common issue. Economist David Friedman conducted a survey of more than 400 companies in six clusters for the City of Los Angeles in 1993. "We found many businesses that said it wasn't tax breaks or real estate deals, but an overall attitude—when they felt that government focused on their concerns—that led them to stay," he says.

CASE STUDY:
...Here's What CALIFORNIA Did In 1993

Some regions of the country were fearful of the new economy emerging in the late 1980s. California was downright terrified. The Golden State was taking the full brunt of nearly every economic trend: punishing defense cutbacks, manufacturing declines, a severe recession and heightened NAFTA competition. More than 500,000 jobs were wiped out in less than seven years and the state budget was cut by a third.

Assemblyman John Vasconcellos, a San Jose Democrat, launched a commission to develop recommendations for how to respond to the situation, as did Republican Governor Pete Wilson. Both released reports with the exact same conclusion—there must be a long-term strategy focused around the state's key industries.

In 1993, the state's Democratic-controlled legislature and Republican governor together created the Economic Strategy Panel, charged with developing California's first statewide economic plan. The state was broken down into six regions; in each region two high-potential economic clusters were identified. The panel sent a team of practitioners and highly-placed elected officials on two-day tours to each region. Day One was an intensive rundown of past, present and future strengths and opportunities across the entire economic landscape. Day Two consisted of Q&A with company presidents and supporting institutions like universities, unions and banks.

California officials were surprised to discover Hollywood employed three times the number of people that had been estimated—and the vast majority of these jobs were in blue collar trades with an average salary of $45,000.

"We went south and in San Diego found that the cell phone industry was not just about industry giant Qualcomm, but 40 other companies as well," says Doug Henton of the Silicon Valley firm Collaborative Economics, a primary consultant to the panel. "We also found software and recreational equipment were huge industries."

One of the biggest successes was in an unlikely place: Hollywood. The panel's members considered the entertainment industry a small, elite group of studio executives and well-compensated actors. They were surprised to discover the industry employed 164,000 people—three times their estimate—and had payroll expenditures of more than $7.4 billion. Furthermore, the vast majority of the jobs were for tradesmen like plumbers, electricians, special effects techies and production shop workers: blue-collar jobs with an average salary of $45,000.

Elected officials and other panel members were even more shocked to find out that many special effect and animation companies spent thousands of dollars to recruit more than half of their labor force overseas because too few LA residents possessed the skills necessary to do the work. The answer? The state's job training arm, the Employment Training Panel (ETP), was redirected to take its cues from the industry.

Today, ETP, an agency that for years was derided as ineffective, has increased the amount of subsidized training for entertainment jobs and helps up to 2,500 people a year learn flexible high-tech skills. "The Employment

STEP 3 Target Government Help Where It Can Do the Most Good.

After a sector analysis shows what needs to be done, the next step is to get started. With help, the business volume in a sector can soar. Unfortunately, there is rarely someone looking out for an unorganized industry. In other cases, a business cluster may have a strong trade association, but the mission is limited to lobbying government. A successful cluster plan, on the other hand, nearly always requires much more, including collaboration between firms.

That's why government needs to lend a hand as a catalyst. If there is no representative for the cluster, the locality can provide start-up funds to develop one. And if a group already helps the industry, the economic development agency can support it by funding new projects, sharing its survey findings, or connecting the group to appropriate resources.

Of course, government agencies and nonprofit coalitions can't do everything for an industry. One of the most important factors in a successful sector strategy is a willingness on the part of the owners and managers of the firms themselves to rethink their business too. For example, a group of food manufacturers could pool resources to market their products abroad, or a printer coalition could work with common vendors to benefit from ordering in bulk. Smart collaboration has a place next to competition in today's global economy.

In our research, we've found that there's no one answer to the question of what a cluster needs. Some could use a hand with an overview of industry market trends. Others are squeezed by high rents in an expensive city and need business incubators for small, nascent businesses. Local universities can be called on to help provide special training to ensure a prepared workforce. A consortium to help detect foreign markets, pay for trade trips, and assist in marketing products abroad could be key for an export-oriented industry. And, as noted above, just having government pay attention to local companies is important.

> "Between bureaucratic red tape and political turnover, local and state agencies cannot be counted on to provide the continuity and close connections that individual companies need. It's government's responsibility to find a partner to handle the day-to-day operations."

STEP 4 Over Time, Let Government Bow Out Gracefully.

The cliché that 'the best thing government can do for business is get out of the way' is true in working to nurture growth in an economic sector. Once high-growth and high-wage industries are on the radar screen, it's government's responsibility to find a partner to handle the day-to-day operations. Between bureaucratic red tape and political turnover, government agencies cannot be counted on to provide the continuity and close connections that individual companies need.

So who should take over when it's time for government to reduce its role? There's no one right answer. It can be a trade association, a public/private organization, an alliance of businesses, universities and community groups, or a program run out of a local chamber of commerce or economic development agency. It all depends on what kind of organization is already focused on the sector and what the survey shows the sector's needs are.

Government still plays an important role, however. Business coalitions and private/public ventures are naturally predisposed to promoting their own interests; a public agency can provide a necessary balance by keeping a dispassionate eye on the sector's progress and ensuring that public and private subsidies are showing results. Government should also continue to survey the local economy when changes warrant another look, monitoring which sectors need to be added to the region's mix of priorities. And, of course, government responds to sector needs for services such as zoning and public transportation. In essence, government involvement is critical for getting a sector strategy off the ground, but then it must bow out and do what it does best—provide a measure of accountability and provision of basic services. ◆

CASE STUDIES:

...Here's What CONNECTICUT Did In 1998

If you're searching for help with developing a state business development plan, you couldn't do much better than to look to Connecticut. The state's unemployment rate is at an unheard of 2 percent—less than half of New York state's 5.1 percent and far below the 7 percent unemployment rate in New York City.

Part of the credit goes to local business and nonprofit groups from New Haven to Hartford that have implemented sector-based approaches to economic development. State government got into the act four years ago and has followed a strict path of moving programs to the private sector once they've been identified.

Soon after entering office, Republican Governor John Rowland assembled a group of top corporate executives from the state's most important industry clusters. This assembly crafted a plan built on small business growth and a cluster-oriented approach that called for more inter-firm collaboration; in 1998, Rowland passed a $3 million bill to seed sector efforts. Today, the state has begun "cluster activation" in a few key industries, including software, aerospace, manufacturing and biotechnology. In each case, the state has funded the creation of a new industry organization or helped improve the existing one.

Although the state funds the launch of these programs, it doesn't oversee them. Responsibility is shared with the privately-run business retention arm of state government, the Connecticut Economic Resource Center. Created by the state's utility and telecommunications companies in the heart of the recession in 1993, CERC is funded almost entirely with private dollars and now conducts key functions like devising and implementing business marketing strategies for Connecticut and handling nearly 10,000 calls a year from businesses looking to relocate or expand in the state.

CERC is also helping initiate business collaboration in key industry sectors, develop cluster initiatives in five inner cities throughout the state, and track progress on all of these projects. Unlike most state agencies, CERC can move very quickly in its response to business requests. "It's not the people but the process," explains Jeff Blodgett, the director of research at CERC and former state agency staffer. The feeling amongst businesses and even high level government officials is that CERC can respond in the flexible, nimble fashion that government was never designed for.

For the Hartford-based aerospace industry, the state's cluster funding and CERC's organizing role has been a godsend. "As component part manufacturers, we are at serious risk of global competition with the big guys. So we have to work together as a cluster to stay competitive," says Doug Rose, president Aero Gear Inc. "The state was right there in the initial stages and gave us the enticement to get started."

Initially, a series of small grants were administered through the consulting firm Mt. Auburn Associates and CERC. Early grants helped establish a trade organization; later money created a jointly run training program with in-house classes on precision manufacturing techniques. State monies were also used to bring in high-priced consultants to help small component part manufacturers understand how to compete as an industry.

Each of the state-funded projects was essential to maintaining the industry's middle-class wage jobs. But the need for business to administer programs was always part of the arrangement. In fact, government dollars were slowly phased out over a period of three years—all of the aerospace projects are now fully funded by the companies themselves. "Government's role was bringing people together who ordinarily wouldn't come together," Rose concludes. "Now everyone is so energized the project

...Here's What MASSACHUSETTS Did In

Boston always knew that it was home to one of the largest collections of research hospitals in the world. But until the state undertook a sector analysis of the region in 1995, the growing medical device industry went virtually unnoticed. Today, thanks to the aggressive marketing of several new sector-based programs, the state's exports of devices such as heart valves and precision scalpels have jumped 69 percent—more than double the industry's national average—and nearly three-quarters of the local companies are planning to expand.

Manufacturers of medical devices located throughout Boston provide high-wage jobs to a wide swath of residents, from high school graduates in production jobs to Ph.D. scientists. After a statewide survey brought the industry to the attention of the governor's working group on business clusters, the group funded a study that revealed that there were more than 240 medical device companies employing 22,400 people in the Boston area—and that the industry had no internal organization.

Navigating the delicate process of bringing medical device CEOs together is no role for government, so the state turned to the nonprofit Massachusetts Technology Collaborative, which had built a reputation as a bridge between universities, government and business around economic development projects. After more than a year of hard work, the Massachusetts Medical Device Industry Council (MassMEDIC) trade organization was born.

"Thank goodness for Governor Weld for bringing us together so we could recognize the inherent need of working together," says David Fleming, CEO of Genzyme Corporation, a growing pharmaceutical and medical device company. "MassMEDIC gave us a voice."

MassMEDIC's part-time staff person began by showing the disparate companies they had common hospital clients, distributors and suppliers, but little or no competition since they produced different products. Soon, the group helped arrange international trade shows and sessions where up-and-coming companies could meet and give pitches to more than 200 venture capitalists.

But MassMEDIC's most impressive success to date may be the 1996 debate in Congress over Federal Drug Administration reform, including accelerating the year-long approval process for new medical devices. MassMEDIC began an intense lobbying campaign focused on its home state senator, Edward Kennedy. With Kennedy's long history of successfully championing health care policy and his new understanding of industry concerns, he was able to push through legislation requiring the FDA to put efficiency ahead of red tape in a bill signed into law by President Clinton in 1997.

New York: How to Get There From Here

So where is New York City in the midst of this nationwide sector soul searching?

Off the map.

New York City suffers from many ailments that can be improved with a sectoral economic development strategy, yet it has no citywide plan. And so while neighboring counties and states—and even some nascent programs here in the city itself—move forward, political squabbles and a complacent attitude keep New York City from reaping the benefits of a sector strategy.

"New York talks about, but never does, strategic planning—period," says Michael Salvato, a New York-based consultant to the Federal Economic Development Agency. "With sectors you facilitate more than direct service. Government should play the strategic role as convener and get the private companies, nonprofits and universities to better align their resources to be responsive to the local economy. This is what the economy of the 21st century will look like."

New York has an overwhelming need for planning with a sector focus. Beneath the Wall Street sheen, New York has one of the most fragile economies in the nation. "The city is completely tied to Wall Street. If you have a major downturn you're finished," says *New York Times* business essayist Joel Kotkin. "New York has always fallen into this boom-bust economic mentality. It's a manic depressive economy with huge highs and lows."

> "New York has a manic depressive economy with huge highs and lows. It suffers from all the ailments that can be improved with a sectoral economic development strate-"

Worse yet, the current boom is only a rumor to many city residents. Despite employing only 5 percent of the workforce, the securities industry has accounted for half of the city's increase in real earnings over the last five years. New York City's unemployment rate, standing at 7 percent in the third quarter of 1999, is the highest among the country's 20 largest cities. And for the first time since World War II, the size of the middle class has actually declined in the midst of an economic boom.

A History of Failure

Three very different mayors—Koch, Dinkins and Giuliani—have all favored large tax incentives to major corporations over a more sensible and relatively inexpensive sector strategy. There are a handful of reasons why. First, New York has one of the densest and most diverse economies in the country, making analysis and action difficult. Second, few elected officials have put pressure on the mayor's office to assist promising sectors outside of Manhattan. City councilmembers have become so focused on local social service, nonprofit and health care institutions that business development has suffered.

And finally, the massive concentration of media outlets in the city has distracted urban leaders from a balanced economic approach. Local reporters and national media from Newsweek to the Today show see Manhattan's superheated economy at close range. "The media outlets in New York report on every little success in the economy," Kotkin says. "A mass hypnosis sets in, and everyone has bought into the idea that the city is invincible. You don't see the long-term consequences and fundamental problems with the focus on one economic sector."

The one time New York did attempt a citywide economic plan was in 1992, as the Dinkins administration cast about for ways to climb out of a deep recession. A full-blown survey of the city's economy was created, detailing the city's current and potential strengths—apparel, jewelry, film and TV production, recycling, biotechnology, software, health care, nonprofits, telecommunications, tourism. The report also laid out low-cost strategies for outreach to each sector.

The timing, of the report's release however, was extremely poor. The administration decided to sit on the survey results until September, making the plan a campaign issue in a contentious re-election battle. When Dinkins left office, so did the plan's chance of being championed by a new mayor. Anything that has even sounded like a sector-focused policy has been buried ever since.

It's especially unfortunate that New York City continues to ignore the need for a more comprehensive business development strategy, because the state is now providing technical and financial assistance for such work. A small policy division in the Albany-based Empire State Development Corporation (ESD) that has built up a decade worth of expertise in sectoral strategies is working with and releasing seed grants to any county interested in the new approach. New York City's surrounding counties have wasted no time plugging into this new wave of thinking: Long Island, Westchester and Orange County are all receiving state support (see "The State of Long Island," page 12). The city's plan-less approach to economic development is becoming increasingly obvious as regions from Suffolk to Sacramento implement balanced growth strategies that are paying off. ◆

SCATTERED EFFORTS: SCATTERED SUCCESS

Since there has been little interest in sectors from City Hall, the city's massive business development agency, the Economic Development Corporation (EDC), has not keyed into the strategy. EDC is both the first place where most expanding or relocating corporations look for assistance and the one agency that has a citywide view of the economy. Without the agency's involvement, a successful sector plan for New York is unlikely.

In the past four years, most of EDC's activity has been focused on major corporate retention deals that have benefited less than 40 Manhattan-based companies. This reactive, firm-by-firm focus may be necessary in the short term, but it cannot substitute for a thought-out strategy to assist thousands of business at once.

With no strategic plan, most business assistance in the city is in the hands of a mishmash of city agencies, local development corporations, business improvement districts and business associations.

With no strategic plan, most business assistance in the city is in the hands of a mishmash of city agencies, local development corporations, business improvement districts and business associations. This cacophony of aid becomes white noise, leaving many businesses with the impression that City Hall is not interested in helping them stay in the city.

A limited number of sector-oriented programs have sprung up from this confusing landscape, succeeding despite the city's inattention. These intermediaries come in many forms—ranging from a strong trade association to a local chamber of commerce—but they all share the common goal of addressing the growth needs of a specific industry that has been ignored such as diamond and jewelry, biotechnology or food manufacturers. These efforts were created by a need emanating from companies—many of them employing fewer than 50 people—bursting to grow in a city with high costs and nowhere to turn for targeted assistance.

A Borough Chamber Targets Food Manufacturers—Much of New York's on-the-ground sector assistance work happens at the borough's chambers of commerce and economic development corporations. The best example is the MetroTech-based Brooklyn Chamber of Commerce, which is increasing its sector focus. This year the group established "Brooklyn's Kitchen," a program that gives marketing assistance to the borough's food manufacturers, which employ approximately 7,000 people. The assistance comes in the form of one-on-one consulting with food exporters that have the potential of growing their business nationally and internationally.

A Borough President Targets Diamond & Jewelry Merchants—Always an important part of the city's economy, small diamond and jewelry merchants were largely ignored until 1992, when the Manhattan borough president's office released a study that documented the over 26,000 thousand well-paying jobs and millions of dollars in profits the industry brings to New York. The study also cited a number of problems that threatened the ability of New York firms to compete nationally and internationally.

With a seed grant from the borough president, the Diamond and Jewelry Industries Development Corporation was created, a citywide organization for members to discuss their concerns, set priorities, communicate with public officials and work with local government to develop programs. The successful development corporation has since morphed into an equally helpful 47th Street Business Improvement District, which has increased security and maintained capital improvements for the city's main diamond and jewelry district.

City CEOs Target Health Care—Four years ago, investment banker Henry Kravis passed the tin cup and gathered a million dollars each from fifty of the city's largest corporations and top venture capitalists to create a new breed of inner-city venture capitalism called the New York City Investment Fund. The fund's core group of financiers and corporate volunteers then broke into six sector working groups: manufacturing, media, retail, health care and science, education and information services, and the FIRE industries of finance, insurance and real estate.

The fund's most impressive sector work has been the "discovery" of the clinical trials management business in the field of health care. In 1999, the fund helped five nonprofit medical centers establish the Biomedical Research Alliance of New York to secure a far bigger share of the huge international market for testing new drugs and medical devices. The alliance has secured contracts with more than 20 major pharmaceutical companies that are now siting trials at some 70 hospitals in New York, generating hundreds of new jobs.

Although helpful, these various kinds of sector programs are unconnected from one another, rarely sharing effective strategies. Additionally, they are limited by geography and resources, reaching only a portion of the firms that could be assisted. Each has one or two staffers at most to serve an entire industry. And each is constantly frustrated by problems that could be easily addressed with a city strategy and commitment. The real estate concerns of garment manufacturers for example are

Today's Business Leaders Need a Civics Lesson

By Joel Kotkin

If we make the city more friendly to business, business must reinvigorate its commitment to the city. History shows that a city's business leadership must play an important role in civic affairs, or that region will face long-term decline.

"A business aristocracy that hoards its own privileges at the expense of the exercise of power marks the decline of modern liberal democracy in the West," said sociologist E. Digby Baltzell, the renowned urban sociologist. Baltzell's point doesn't mean business should dominate all decision-making, but one fact is inescapable: Engaged commercial elites are inevitably the prime drivers behind economic growth and wealth creation.

In 19th century New York, business leaders promoted and paid for some of the city's most significant projects, including Central Park and Columbia University. Although a huge gap separated New York's ruling circles from the vast majority of that city's residents in the nineteenth century, many projects promoted by the elites—such as the Croton water system, the paving of Broadway, and the new sewer and police systems—improved the lives of the working and middle classes.

But that all changed in the closing decades of the 1800s, when the blue bloods lost political power to the Democratic organizations controlled by the city's immigrants. Ed Costikyan, a Democratic reformer and civic historian, says the powerful men who dominated New York—the Rockefellers, Vanderbilts, Fricks, Morgans—largely withdrew from the scene, seeking to erect private monuments to their economic power rather than construct great public buildings.

"For the most part business didn't care about the governance of the city," explains Costikyan, now a lawyer in private practice. "They didn't care much who was mayor. If they really wanted something, they'd just ask for it, but that was about it."

Costikyan traces the current decline of civic elites in big cities to the 1930s and the rise of a federal bureaucracy that increasingly supported city governments through tax revenue, pushing private contributions to civic welfare into the background. After aid to cities rose by more than 300 percent during the 1970s, it dropped under Reagan, and as the Washington lifeline became ever weaker, taxes and borrowing by local government rose, making the cities even less competitive.

At the same time, the rapidly-shifting global marketplace has made it less likely that today's billionaire is eager to embrace the role of responsible urban citizen. "Globalization has changed people's loyalties," observes Mike Bowlin, president of ARCO, a key player in Los Angeles' business/civic establishment. "Twenty years ago ARCO had Los Angeles in its heart, and we were more of a regional company. Today our operations are all over the country and the world. So the shareholders have to ask, why is Los Angeles more important to you than Singapore?"

Many of today's corporate executives grew up in the "me" culture of the 1960s and reject out of hand the old standards of noblesse oblige. Costikyan argues that

THE STATE OF LONG ISLAND: NEARLY DEFENSELESS

By 1993, Long Island's public and private leaders recognized a need for some new thinking. Suffolk and Nassau counties had lost 25,000 jobs in three years to the recession and military cutbacks, and the region had few other industries to fill those shoes. With help from the state's Empire State Development Corporation, the assembly of Long Island's many chambers of commerce, the Long Island Association (LIA), crafted a comprehensive sector strategy.

Over the past six years, LIA has helped fuel growth in five clusters: biotechnology, graphic communications, electromedical equipment, electronics, and software. LIA found that locally, each of these industries was typically at the 'boutique' level: small start-up firms employing one or two people. By establishing vibrant trade organizations, assisting with access to capital and helping with marketing efforts, the LIA has helped these important high-tech industries bring close to 15,000 new jobs on Long Island since 1995.

To hold itself accountable for its work, LIA has set a goal of creating 28,000 jobs in five years in the appointed five clusters. "It's not enough to just know what your growth sectors are," says Dr. Pearl Kamer, chief economist at LIA. "The [job targets] put us on record. It keeps everybody focused on these clusters."

By far, LIA's biggest accomplishment has been workforce retraining. From emerging high-tech firms looking to compete with Silicon Alley to large defense corporations changing their focus to commercial products, there was a desperate need for employees with the right skills. Recognizing the need to retrain the

the changing character of New York City's economy, increasingly dominated by Wall Street financial interests, has even further weakened the ties of business elites to the city. Such giants as J.C. Penney, W.R. Grace, American Airlines, Mobil and Atlantic Richfield have all followed the national tide to the South and West. Other companies routinely threaten to leave—whether they intend to or not—to get generous tax abatements from city government.

And Wall Street, which remains the bulwark of Manhattan's economy, is by nature a "transactional" community, with most of its funds and profits originating from investments elsewhere. So its ties, Costikyan observes, "tend to be pretty tenuous."

It doesn't have to be this way. In some places, such as Cleveland, strong business leadership has worked to stave off economic collapse. With the support of some 90 leaders from companies such as TRW, Nestle and Bank One, the organization Cleveland Tomorrow initiated a series of economic development reforms and downtown projects like the Rock and Roll Hall of Fame that eventually helped Cleveland recover from a long period of decline.

In New York, the New York City Partnership, founded by David Rockefeller, helped to build nearly $2 billion of low-to moderate income housing over the last twenty years. But such corporate-led efforts became increasingly problematic as the decade drew to a close. Even though many members of the city's old-money establishment retain roles of civic leadership, the city's latest beneficiaries of the boom economy aren't civic leaders.

Part of the problem is size of the city. In contrast with New York and Los Angeles, many smaller cities and metropolitan areas have developed effective leadership. A classic example is the Research Triangle area of North Carolina, where almost three decades ago a group of local business, government, and academic planners set out to develop an eight-mile-long series of industrial parks within close range of Duke, the University of North Carolina and North Carolina State. Because of their scale, mid-size cities benefit from a more tight-knit leadership. "We have a great sense of common purpose that holds us together here," says Pat Davis, a Seattle port commissioner.

That common purpose isn't always so easy to see in mega-cities such as New York and Los Angeles. But their ability to compete with smaller cities will hinge on the capacity to reinvigorate the local elite. That elite must be willing to be reinvigorated and that's the challenge.

If New York is willing to be responsive to the needs of business leaders by devising a sector-based economic development strategy, will these leaders be willing to accept the mantle of civic leadership?

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"If New York is willing to help local businesses, industry leaders must be willing to take civic responsibility."

COUNCIL EMERGING INDUSTRIES: ENTREPRENEURS NEED ASSISTANCE NOT POLITICS

There's no better example of the chaotic nature of New York City's sectoral development efforts than the Emerging Industries Fund, originally proposed by the City Council more than three years ago as a way to generate seed capital for upstart software, new media, biotechnology and photonics companies. Establishing start-up funds was suppose to be a smart way to ensure that New York would have a stake in these 21st century industries. It didn't turn out that way.

In 1997, the Council budgeted $25 million for the project, but the money was never spent. For two long years, protracted battles ensued between the mayor, City Council and the city agencies charged with administering the fund. Arguments ranged from who would get credit for the fund to how the money was to be allocated. Finally, in the fall of this year, the Council, Mayor's office and the city's Economic Development Corporation came to an agreement. The $25 million would be dispersed by an advisory board stacked with appointees of the mayor and city councilmembers.

The money is expected to be some help to smaller businesses that typically have less access to capital. Upstart new media firms "can always use angel investors," says Jason McCabe Calacanis, editor of the Silicon Alley Reporter, adding

Economic Guides

With virtually every region of the country trying out a sector plan, a new industry of consultants has arisen that can serve as a key resource in beginning a new program. Most are competent; some excel. The good ones understand that a sectoral plan is an organizing tool and a process: one part research and two parts action. Here are four of the best:

Mt. Auburn Associates: Based in Somerville, Massachusetts, Mt. Auburn has been working in the field of economic strategic planning for more than 15 years. The firm has built a reputation as one the country's most creative sector analysts, specializing in a ground-up approach that includes both business and neighborhood leaders. Mt. Auburn has worked extensively across the country and in virtually all of the Northeastern states. They have a long track record in New York, working in a dozen regions from Brooklyn to Essex County. The group has published a very helpful series on sector strategies for the Ford and Mott Foundations that details both public and private approaches. See: www.mtauburnassociates.com

Collaborative Economics: Nestled in California's Silicon Valley, the country's premiere sector consulting firm specializes in "strategic leadership." The company is generally called in when top business leaders and the governor or mayor have agreed to work together, but aren't sure of the first steps. Collaborative Economics has helped engineer statewide cluster strategies for Arizona and California and has written "Grassroots Leadership," a book that uses case studies to explains current economic changes and how to organize around them.
See: www.coecon.com

Regional Technology Strategies: With offices in North Carolina and Massachusetts, RTS is known to bring a solid theoretical foundation to all of its projects. The company has published reports, guidebooks and articles and held international conferences, as well as performing in-the-field economic restructuring efforts with CEOs, state planners and college presidents. RTS is particularly adept at building new industry consortiums and linking them to educational institutions. Currently, RTS is working with the Empire State Development Corporation in Albany to improve state workforce strategies along sector lines. See: www.rtsinc.org

Battelle: Ohio-based Battelle is one of the country's largest non-profit research organizations. The company is know for pioneering new discoveries in the hard sciences, but has also established a formidable consulting arm focusing on technology. Over the past ten years, Battelle's Technology Partnership Practice has assisted various non-profits, state governments and cities (including New York City) in developing, implement-

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Recommendations

At the moment, things are going so well in New York, it may seem an odd time to suggest major changes in the way the city frames its economic development policy.

In fact, it's the perfect time for a change.

For years, experts have maintained that there are serious problems with the way the city deals with business. They're right. Under New York's current antiquated policy, the city is not supporting companies that need assistance while giving prosperous corporations huge tax breaks if they give the slightest inclination they are moving across the river.

We may not feel it now, but it's a policy that could have disastrous long-term effects on the city's economy—it might bust our boom. Focusing assistance on one company at a time neglects the dozens of high-growth small business sectors and fails to address many of the core issues that even the Fortune 500 set are concerned about. With no real economic plan the city leaves itself vulnerable—as it has for over a century—to a perennial cycle of boom and bust that other states have prepared against.

The Center for an Urban Future is proposing to re-focus New York's efforts by providing help to growing sectors of our economy, not just individual corporate behemoths. It won't require opening our wallets any wider, but it will require that we open our minds to a new economic order—and, unfortunately in New York, that's often the hardest thing to do. Here are the Center's recommendations:

1 *Create* an Economic Status Report for New York City

The mayor and the City Council must conduct a bipartisan, non-political and realistic assessment of the city's economic conditions. Amazingly, this has never been done in a comprehensive fashion. The city should conduct an annual sector-based survey, an "Economic Status Report," to be released twice a year in conjunction with the Mayor's Management Report. Given that the economy has a major impact on the quality of life in the city, an Economic Status Report is likely to quickly become a scorecard as valuable as the MMR.

An ESR would not drain resources or require a huge staff. Other cities and states that have done one usually bring on just two to three staff people to coordinate new sector tracking work and synthesize economic data already collected by other agencies

Importantly, the new ESR shouldn't just be published, filed and forgotten. It must be the central document used for planning the city's economic development policy.

2 *Get* business leaders *involved*

In conjunction with the ESR, the mayor's office should convene a business cabinet composed of the city's most dynamic and influential business leaders. The group, to be led by the Deputy Mayor for Economic Development, should meet periodically to discuss the results of the ESR and how best to direct the city's economic development efforts. This strategy has been very successful in Massachusetts and Connecticut, allowing these states to hear directly from sector leaders what policies make sense.

3 *Switch* to a sector-based development approach

New York must move a greater portion of its resources from tax abatements to smaller sector-based grants.

This is not to say the city should abandon its efforts to keep big businesses from fleeing—just that we must be more prudent about how we give away these millions. The time has come for the city to shift its thinking from corporate retention to business support. These grants are needed to construct incubator space, underwrite export assistance and provide targeted training.

4 *Partner* with public/private enterprises

Wherever practical, the city should replace direct government assistance to business with public-private partnerships that support themselves. Grants to sectors are intended as short-term pump-priming measures, not as long-term corporate welfare.

After the city has provided the necessary assistance, it then needs to step away. In its place, the city should help clusters of companies—which are often fractious and competitive with each other—create trade associations and economic development agencies. Only through such vibrant intermediaries can businesses begin helping themselves and more directly articulating their needs to their public officials.

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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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