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Commentary/Op-Ed - September 2003

City Faces Severe Challenges to Economic Growth

This editorial based on the author's recent report *Engine Failure*, co-written with Joel Kotkin, originally appeared in *Newsday* on September 19, 2003.

by Jonathan Bowles

Two years after the Sept. 11 terrorist attacks, the glass is finally beginning to look half full again for New York City'seconomy. A quarter of all city businesses are planning to add jobs in the upcoming quarter and New York is sure to benefit--eventually--from the sustained rally on Wall Street and a national economy that is expected to grow at an explosive rate over the next year.

But it would be a big mistake to assume that the city's economic crisis is now behind it. In fact, New York faces structural economic challenges that go well beyond 9/11 and that, if unaddressed by city officials, are likely to stifle job growth in the five boroughs for a long time to come.

The bitter reality is that some of the city's most important sectors, like finance and insurance, are not expected to produce meaningful employment growth over the next few decades. At the same time, the city is increasingly losing jobs and market share in several other high-end industries to both the surrounding region and other parts of the nation.

Like it or not, it is no longer just manufacturing companies and Fortune 500 firms that are fleeing the city for cheaper locales. Fueled by globalization and advances in technology, securities firms, ad agencies, publishers and other high-wage service sectors are increasingly moving units out of the city, or opting to create the bulk of their new jobs elsewhere. For instance, though New York remains the nation's financial center, only three percent of securities jobs created nationwide since 1987 were in New York State. As a result, the city's share of the nation's securities jobs has fallen from 36 percent to 23 percent during that span.

New York also lags behind most other cities--and some of its own suburbs--as an incubator of growth companies, despite its storied past as an entrepreneurial hotbed. In 2001, the city was home to just five of the 10 fastest growing firms in the New York region. And in the first half of 2003, only 31 percent of venture capital invested in the region went to companies in the five boroughs.

New York has the inherent strengths to overcome these daunting challenges. The city still possesses a wealth of financial, human and cultural capital that most cities can only dream of. And even after nearly three years of recession, it remains well ahead of where it bottomed out in the early 1990s.

But the city won't succeed in the future by continuing to focus its economic development strategy primarily around Wall Street. Its long-time approach of doing whatever is necessary to retain large firms in industries like finance and expecting everything else to follow has left New York vulnerable to trends like the decentralization of industry, something that has been developing for at least a decade and that was magnified and accelerated by 9/11.

Overdependence on Wall Street has also caused the city to go from having one of the most resilient economies to one that fluctuates wildly with the ups and downs of the stock market and underperforms the U.S. economy during periods of both boom and bust. In both 1950 and 1960, the city's unemployment rate was significantly lower than the U.S rate, but in 28 of the last 32 years New York's year-end jobless rate has been higher than the national rate.

What's needed is a new, forward looking economic development strategy that's built around stimulating long-term growth in a number of industries, restoring entrepreneurial vitality, creating a more receptive climate for growing firms and improving the quality of life. As part of this, the city must view all five boroughs--and not just Manhattan's two office districts--as areas with potential for growth. And it should take advantage of many powerful city assets that have gone largely untapped in the past--from its entrepreneurial immigrant population to its dense concentration of academic research institutions.

Fortunately, the Michael Bloomberg administration has begun to embrace some of these ideas. It has smartly moved to de-emphasize corporate retention deals, embraced the concept that a high quality of life will determine the city's appeal to current and potential residents, and shown substantial interest in economic projects in Flushing, Long Island City and other areas outside of Manhattan.

The mayor has made some missteps as well, but these encouraging signs bode well for New York's future. Let's hope this is only the beginning of a new approach to economic development that aims to fuel a new wave of economic growth and restore vigor, diversity and stability to the city's economy.

CENTER FOR AN URBAN FUTURE
120 Wall Street, 20th Floor, New York, NY 10005

cuf@nycfuture.org