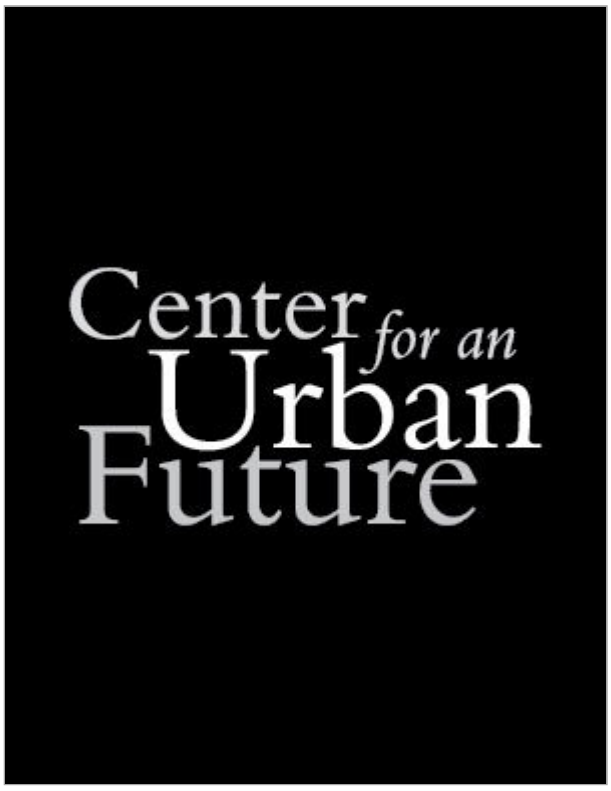


Commentary/Op-Ed - May 2001

Economic Development: An Overview

A look at economic development issues likely to face New York's next Mayor

by Jonathan Bowles

It is easy to argue that New York City's economy is in much better shape than it was a decade ago. The city has 503,000 more jobs than it did at the end of the recession in 1992, and the average unemployment rate in 2000 -- 5.8 percent -- was at its lowest level since 1988. Yes, there has been a recent downturn in the stock market, but Wall Street had several years of record gains and the city quickly became one of the nation's pre-eminent centers of the digital economy. In addition, tourists from all over the world have been flocking to the five boroughs like never before.

While much of this phenomenal growth has been a function of the nation's booming economy, the dramatic crime reductions achieved by the Giuliani and Dinkins Administrations played a key role in convincing businesses to move to New York, or to stay here. A handful of targeted business tax cuts in recent years also helped to create a more favorable climate for businesses.

Yet, despite the phenomenal growth of the city's economy, the last several years will likely go down in history as a missed opportunity when it comes to economic development.

New York's economy today is more vulnerable to the ups and downs of the stock market than ever. Though Wall Street accounted for only 4.9 percent of the city's job base in 2000, it made up a whopping 19 percent of total city wages, up from 13.3 percent in 1992. While the administration attempted to help the city's fast-growing new media industry with a variety of programs, including the effective Plug 'n' Go program in Lower Manhattan, it was extremely slow to realize the potential of the biotech industry and all but ignored the needs of the city's manufacturing industry. Until recently, it also failed to grasp one of the biggest problems plaguing both small businesses and large corporations, from software firms to printing companies: the lack of affordable space.

Perhaps most disappointing, the Giuliani Administration squandered a chance to develop a better business infrastructure outside of Manhattan's two main business districts, something that could have helped to expand prosperity to the other boroughs and, at the same time, alleviate some of the real estate pressures facing businesses in Manhattan. Though the administration is now beginning to do this in places like Long Island City, for too long its major economic investments outside of Manhattan generally involved sports stadiums, which create few jobs. And today, despite an overall strong economy, Brooklyn and the Bronx still have among the highest unemployment rates in all of New York State.

The city's next class of elected officials cannot take these issues lightly. With the city's population continuing to grow, it willbe more important than ever to ensure that the city retains existing business, creates new jobs and diversifies the economy.

The following will be important economic development issues over the next few years:

RETAINING A SAFE BUSINESS ENVIRONMENT

Reducing crime is usually considered more of a public safety issue than an economic development issue. However, businesses throughout the city cite the substantial reduction in the city's crime rate as one the best things that the Giuliani Administration has done to improve the city's business climate and keep companies from fleeing to the suburbs.

The declining crime rate has helped New York hold onto employees and entrepreneurs that used to prefer the quality of lifein the suburbs. It also encouraged more business activity in Hunts Point, East New York, Harlem and other neighborhoods that long have had to deal with the stigma of high crime rates.

RELYING LESS ON TAX BREAKS

Over the past twelve years, successive administrations in City Hall have entered into more and more "retention deals" -- tax incentive packages designed to retain companies who threaten to move their jobs to New Jersey, Connecticut or other locations outside of New York. The city has committed to provide nearly $2 billion in tax breaks and other subsidies during this period to several dozen large commercial firms and financial exchanges, but there is little indication that the city's taxpayers have been getting their money's worth. In fact, an embarrassingly large percentage of the companies benefiting from these deals have later laid off employees, moved jobs out of the city or merged with other companies.

To its credit, the city has increasingly tied city incentives to the actual creation of new jobs and imposed penalties on those firms that don't fulfill job promises. Still, these deals continue to serve as the signature economic development program of a city in which 99 percent of all businesses have fewer than 500 employees and the overwhelming majority of those businesses do not receive any incentive packages.

Some say that city officials have little choice but to keep entering into retention deals because the loss of a major employer would be a powerful blow to the city's economy, not to mention a devastating political blow to any mayor. Yet, over the past decade or so, the city has done little to develop a long term solution that would eventually allow it to compete with New Jersey and other states without having to enter into costly tax incentive deals.

ENCOURAGING NEW OFFICE DEVELOPMENT OUTSIDE OF MIDTOWN AND DOWNTOWN

These days, city businesses, both large and small, may not need tax cuts as much as they need affordable space. There simply have not been enough affordable facilities available in any of the city's most accessible business areas. And the city's high real estate prices have made Jersey City, where real estate prices are considerably lower, awfully attractive.

Until recently, the Giuliani Administration only attempted to offer tax incentives as a way to compete with New Jersey. Butthis kind of plan is only a stop-gap measure. Over the past year or two, the administration has finally begun to develop a game plan to spur new office construction outside of Manhattan, principally with a proposal to rezone a 37-block area of Long Island City.

Developing an attractive business district outside of Manhattan could help the city compete with New Jersey for new media companies, biotechnology firms and other service related businesses that want to remain on this side of the Hudson but cannot afford to pay the going real estate prices in Manhattan. Having a more affordable business district could also enable the city to retain businesses without having to offer exorbitant tax incentives.

The next mayoral administration, as well as the City Council, will have to figure out ways not only to spur new office construction in Long Island City, Downtown Brooklyn and other areas, but to develop an attractive infrastructure to support each new business district. After all, even if the price is right, most companies are not going to want to move out of Manhattan unless their new neighborhood has enough basic services -- like restaurants, copy stores and coffee shops, plus high speed telecommunication connections, sidewalks and adequate street lighting -- to support the needs of the companies and their employees. The trick may be to focus on a very small number of neighborhoods that have the greatest potential to achieve a critical mass of firms, particularly areas that have decent transportation links and a smattering of services, and which require minimal public infrastructure investments.

DEVELOPING A SECTOR-ORIENTED ECONOMIC DEVELOPMENT STRATEGY

Several other cities and states have successfully implemented a sector-oriented economic development policy, one that caters to many sectors of the city's economy, not just one or two of the largest sectors. In New York City, this would mean addressing the obstacles faced by most of the 200,000 businesses located within the five boroughs, not just the firms that are big enough and influential enough to blackmail city officials with threats to relocate.

The idea behind a sector strategy is to provide targeted support to promising industry sectors and the many companieswithin those sectors. This would include a range of activities to encourage sector growth, such as providing job training programs aimed at software companies, loans or grants to help local academic institutions defray the cost of building incubators for biotech start-ups, and zoning protection for growing food manufacturers outside of Manhattan. It means supporting more programs like the Plug 'n' Go program that helped dozens of high-tech companies locate in specially outfitted buildings in Lower Manhattan.

This kind of economic development strategy is not simply an alternative to providing tax incentives; it would help diversify the economy. In New York, sectors with growth potential include finance, media, new media, film production, software design, aviation, food manufacturing, design and biotechnology.

RETAINING MANUFACTURING JOBS

One of the biggest challenges of the next group of city officials will be to ensure that the hundreds of thousands of New Yorkers with limited educational and language skills have ample opportunities to make a decent living and support their families. For the past several decades, countless immigrants and other New Yorkers who lack the skills to get jobs on Wall Street or in other parts of the city's economy have depended on the city's manufacturing sector for relatively well paying jobs.

However, the Giuliani Administration has done little to help this important sector, despite the fact it still employs nearly 250,000 people within the five boroughs.

More than any other industry, the city's manufacturers -- including printers, garment manufacturers, woodworkers, bread making firms, metal fabricators -- have been hit hard by the city's real estate crunch. Unable to pay as much in rent as dot coms, law firms, artists or virtually any other office or residential tenant, in the past few years scores of manufacturers have been squeezed out of the few remaining industrial enclaves of Manhattan, such as the Midtown Garment Center, the Hudson/Varick printing district, Chinatown and the far west side of Chelsea, as well as many parts of North Brooklyn.

Many people mistakenly believe that industrial businesses that can no longer afford rents in Manhattan will simply move to the other boroughs. However, from Hunts Point to Sunset Park, vacancy rates are at or near all-time lows and real estate prices are sky-high. According to Greiner Maltz, a Queens-based real estate company, the overall vacancy rate for industrial facilities in Queens was 6.93 percent last summer, down from 13.47 percent in 1995. The overall vacancy rate for industrial buildings in Brooklyn was 8.26 percent last summer, down from 15 percent in 1996.

More than a dozen manufacturers have already been forced to relocate out of the city, not because of taxes or energy costs, but because they simply cannot find affordable facilities in the city. Among other things, manufacturing advocates call for stronger zoning protections to prevent speculative warehousing of industrial buildings and significant rent increases. In addition, many companies would like to see the city restore BRAC, a city-funded relocation grant program whose funding was cancelled in 1997.

INFRASTRUCTURE

While the city's relatively high tax rates are one of the problems business executives cite as a reason to relocate their firms out of New York, many also consider the quality of city schools and the condition of the city's transportation and telecommunications infrastructure. Without a doubt, company executives require good schools for their employees' families as well as to provide their firms with a skilled work force in the future. In addition, they do not want their employees spending hours getting to and from work on crowded subways or congested highways. And they want high-speed telecommunications connections that do not break down regularly.

Unfortunately, New York City has a long way to go in all of these areas. Upgrading the city's aging infrastructure has never been a top priority of the Giuliani Administration.

Among the projects that deserve the attention of the city's elected officials are constructing the Second Avenue subway, providing better public transportation access in Brooklyn and modernizing the city's public schools. In addition, there is an urgent need to address chronic highway congestion on the Van Wyck Expressway, a problem that is threatening the future strength of the city's air cargo industry at JFK Airport. Delays on the Van Wyck have already caused some air cargo companies to shift business, and jobs, to other airports.

AFFORDABLE HOUSING

Housing is not usually thought of as an economic development issue. But it has become one as apartment prices have skyrocketed in recent years and threatened the city's ability to continue to attract hordes of skilled, creative people from diverse backgrounds -- the human capital that has become the most important ingredient of the New Economy.

Apartment prices in New York do not have to be on par with the suburbs, but they have to be reasonable if the city expectsto hold onto its vital base of artists, scientists, woodworkers, designers, software writers, chefs, doctors and other creative workers and professionals. Yet New York has only begun to address this crisis.

WORKFORCE TRAINING AND HIGHER EDUCATION

In the Information Age, it is skilled talent, just as much as computer hardware, which is powering growth. Yet, New York City has one of the least equipped workforces in the nation. Local businesses have been having a hard time finding qualified staff in the city. They have begun contracting work out abroad and recruiting workers from elsewhere to move into the city. So far, the city has done little to respond to this skills crisis.

Increasingly, states and cities across the nation are understanding that higher education and business development strategies should be connected. North Carolina, for instance, designated its community colleges as the official training arm for the entire state. Any company creating 12 jobs or more is guaranteed customized business training at the nearest college. But while most states are using public colleges as their economic engine of growth, in New York City, our public colleges are more often attacked.

NEIGHBORHOOD DEVELOPMENT

Not every neighborhood in the five boroughs has the potential to be the next central business district or high-tech center, but many areas could achieve significant growth over the next few years with the proper attention and support from government, industry and community organizations. Planning officials should identify opportunities for growth and City Hall should engage community boards, local Council Members and community leaders to devise strategies for sustainable growth.

SMART PLANNING

A city as densely populated as New York would seem to scream out for smart planning, but other cities and regions have done a much better job than New York of developing strategic plans for future development. Individual projects in the city are generally done on a piecemeal basis, often causing more problems than benefits. And because the city rarely involves communities in planning specific projects, developments often run into vociferous community protests and lawsuits.

The next administration will have its hands full with major crises: a housing shortage, a lack of commercial and industrial real estate, and a failure to develop an effective, long-term solid waste management plan. All of these problems call for smart, citywide planning initiatives that involve the participation of local officials and community organizations.

RELATED PRESS

Why CRE Should Want The Wall (No, Not THAT One)

BISNOW, by Cameron Sperance, September 21, 2017

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

cuf@nycfuture.org © All Rights Reserved.