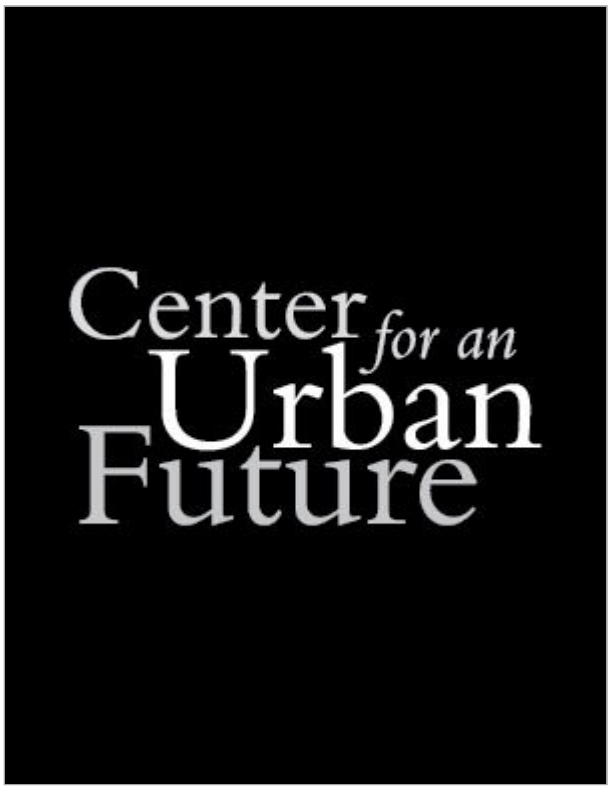


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Model Cities

Data shows New York's economic pulse has been flatlining for years. What urban wonks can learn from unlikely recovery zones in Los Angeles and Houston.

by Joel Kotkin

New York's economic policymakers probably don't spend a lot of time sitting around lamenting, "Why can't we be more like Houston?"

But maybe they should.

New Yorkers are not known for their willingness to look outside the City Limits for edification, but sometimes the experiences of other cities have important lessons for us.

Like New York today, Houston in the late 1980s and Los Angeles in the early 1990s were suffering from massive corporate downsizing and a devastating loss of civic direction. Yet under the leadership of strong, business-oriented mayors--Bob Lanier in Houston and Richard Riordan in L.A.--these two cities were able to stave off collapse by drastically remaking their economies. Today, even amid a stubborn national recession, both cities have been able to use their now highly diversified, small-business-oriented economies to stay on an even keel.

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

At the moment, however, Houston and L.A. are doing much more to leverage those assets into entrepreneurial strength. In several key indicators--including minority-business growth and expansion; the Inc. 500, Inc. magazine's annual ranking of the fastest-growing private companies in the United States; and the National Commission on Entrepreneurship's Growth Company Index--Houston and Los Angeles far outpace New York. New York would be better off seeking ways to boost its

standing in these areas than worrying about the relative prestige of museums and restaurants in Paris, or the number of celebrity sightings in London.

Houston may be the strongest case. Back in the 1980s, the city went through a near-total economic meltdown; between1982 and 1987, the area lost one out of every eight jobs. Dependent even more upon energy than New York is upon Wall Street, Houston's economy disintegrated when energy prices plummeted. "See-through" office towers--buildings with entirely vacant floors--replaced construction cranes as the metaphor for the city, which lost more than 200,000 jobs during this period.

Yet over the next decade, Houston reinvented itself and vastly diversified its economy. By the mid-1990s, the city had one of the highest rates of new-business formation in the nation. It had the third highest Growth Company Index--a measure of high employment growth--in the 1990s, according to the National Commission on Entrepreneurship's study of the 13 largest metro areas.

Houston's method for achieving this turnaround was a radical one: Unlike New York, which sees high real-estate prices as a summum bonum of economic development, Houston allowed "creative destruction" to take full force. Sagging real-estate prices helped draw a swarm of new entrepreneurs into the city.

Andrew Segal headed out to Texas to make his fortune after graduating from New York University Law School in 1994. Young, aggressive and full of entrepreneurial energy, Segal decided to stake his nest egg on properties in both Dallas and Houston--cities not fashionable at the time among the real-estate "experts" who saw Texas' oversupply of vacant office space as a disaster for investors.

But to Segal and others like him, Houston's predicament represented an enormous opportunity. "The whole real-estate infrastructure here was dead," Segal recalls. "These buildings had lost 90 percent of their value overnight in the oil bust. It was a totally open field."

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

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

Immigrants and minorities, who now compose roughly two-thirds of Houston's population, have built some strong economic institutions there--something they have not achieved in New York. Perhaps the most important of these is Metrobank--founded by local entrepreneur Don Wang--which now has over $840 million in assets and stands as Houston's fourth-largest bank.

"In the 1980s, everyone was giving up on Houston, but we stayed," Wang observes in his brightly painted office in the city's second Chinatown, a few miles from the swank Galleria area. "It was cheap to start a business here and easy to find good labor. We consider this the best place to do business in the country--even if no one on the outside knows it."

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

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

To a remarkable extent, he turned out to be correct. During the 1990s, Houston enjoyed one of the most buoyant economic expansions of any major American city, recovering all the jobs lost in the 1980s and then some. Even after the collapse of Enron, the city's economy has done somewhat better than the national average, outperforming those of most large metro areas and faring far better than New York's. Although some areas, particularly downtown, have seen an increase in vacancies as a result of the company's implosion, most other parts of the city have continued to do well, as smaller firms and the burgeoning medical sector have taken up the slack.

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

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

Yet despite these problems, Los Angeles was able to turn itself around. As in Houston, one key to its success turned out to be the economic decline itself: When older firms moved out of the city, new ones, particularly those run by immigrants, stepped in. The vast upsurge of new businesses came in a host of fields, including mainstays such as entertainment, but also new ones such as digital media. Most notably, there was actually a surge of blue-collar job creation, particularly in the garment, textile, food processing and warehousing sectors. Unemployment dropped dramatically.

As in Houston, one critical factor in the recovery was the presence of large, minority-owned banks. By 2001, four of L.A.'s six largest financial institutions were run by minorities and immigrants. These and a host of much smaller community banks--most run by first-generation Asian immigrants--financed much of the growth that took place in the mid-1990s, when most national and mainstream banks were busily writing off Los Angeles as a hopeless dystopia.

But government policy also made a difference. In sharp contrast to the actions of New York's leaders during the sameperiod, L.A.'s Riordan, elected mayor in 1993, believed it to be the job of the city government to help all businesses, large and small, high-tech and low. Organizing what became known as "mayor's business teams," Riordan dispatched scores of his most trusted people to help firms leap regulatory hurdles. Some of these businesses were located around the downtown core, but many were in outlying sections such as the San Fernando Valley, the Eastside and even hard-hit south Los Angeles.

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

Over the course of Riordan's eight years, the teams helped more than 3,000 businesses in an array of fields ranging from new media to food processing. This hard work has helped Los Angeles maintain a far more diverse economy than did many areas that depended on the stock market boom of the 1990s, such as San Francisco, Seattle and, of course, New York. As a result, the city has lost far fewer jobs--even in a bad economy and despite an unprecedented state budget crisis.

Houston and Los Angeles offer both specific and general lessons for New York. Using city resources to help a broad rangeof industries and neighborhoods is a notion that New York leaders have rejected for far too long. And focusing as Houston and L.A. did on such specifics as improving basic infrastructure and assisting small businesses could restore New York's long-lost status as an entrepreneurial hotbed.

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