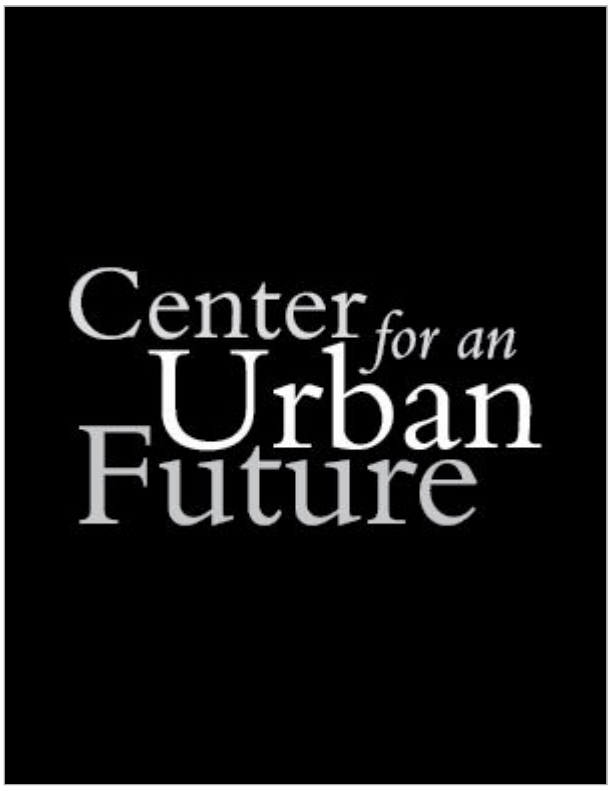


Commentary/Op-Ed - May 2002

New York State of Blind

If it doesn't work hard to attract the job-creating entrepreneurs of the future, NYC will lose its reputation as "The Greatest City in the World."

by Joel Kotkin

Sure, New York is still "The Greatest City in the World."

And Elizabeth Taylor is still "The Most Beautiful Woman in the World." Just ask her publicist.

To hear the city's boosters tell it, the Big Apple is still No. 1, and any evidence to the contrary can be dismissed as a temporary glitch resulting from the devastating events of September 11.

But the facts say something different.

The truth is, the city's economy was in trouble well before September 11, says John Gilbert, executive vice president ofRudin Management Company, which controls some 10 million square feet of New York real estate. "We were seeing big declines in April, May and June," Gilbert reports. "We were already on the way to hitting bottom before 9/11."

Even during the vaunted revival of 1990s, New York's economic growth rate lagged behind that of the nation and those of many other metropolitan regions. Since the late 1990s, the city has become an even more spectacular laggard, and now suffers one of the worst economic climates in the country. Between 2000 and 2002, for example, the city's overall job creation was negative--well below the national growth rate of 1.26 percent, and below those of all but a handful of other major metropolitan areas.

Although the city retains enormous intellectual, physical and economic assets, it is entering a perilous era of intense competition from other parts of the nation and the world. As it begins the 21st century, New York City--hit hard by the latest recession and still reeling from the terrorist attacks--can ill afford to indulge in its usual hubris.

Instead of continuing to recite the “Capital of the World” mantra that dominated the Giuliani years, the city would do better to acknowledge Plato’s observation, “Every city is in a natural state of war with every other.”

And as urbanism expert Witold Rybczynski and others have argued, the crisis of September 11 offers a “rare opportunity” to reinvent not just lower Manhattan, but also the broader city itself.

Part of the problem in New York is that the city’s economic development policies have long focused almost exclusively on high-end business services. While New York concentrated its efforts and directed its cash toward subsidizing the financial services industry, other sectors took root and flourished elsewhere. Today the nation’s largest retailer, Wal-Mart, functions more than perfectly well out of Bentonville, Arkansas. Virtually all of the country’s dominant high-tech companies--Microsoft, Apple, Dell, Cisco, Hewlett-Packard, Intel--are located either on the West Coast or in Texas. The nation’s largest port is now Los Angeles, which is also home to the nation’s biggest share of the garment industry--long a New York City mainstay.

For more and more industries, it can no longer be assumed that the key players need--or even desire--to locate in New York.

Some urban theorists, such as Susan Fainstein and Saskia Sassen, maintain that “global cities” such as New York canretain their prominence by serving as “centralized command and control” hubs, geographic centers for the trans-national flow of capital and information.

Yet recent experience has made such assumptions somewhat dubious. Indeed, throughout the 1990s, even high-end business services, particularly finance--those very industries New York has focused on retaining at its core--have continued to see employment shift toward the periphery of the greater New York area, and beyond.

John Shaw, president of Jefferies Securities, who works out of a Midtown high-rise, says that his firm had already decided to disperse its talent base well before September 11. The company’s strategist resides in Boston. Its chairman lives in Los Angeles. The CEO is in Stamford, Connecticut. Only a third of the firm’s 500-plus employees in greater New York currently work in Manhattan.

“There are a lot of people who love this business but want to be elsewhere,” Shaw says. “They don’t want to shlep to New York City. We get people to work for us who we couldn’t get elsewhere by giving them other lifestyle options.”

Even a commitment to spend $500 million or more to help build a new trading floor for the New York Stock Exchange will not guarantee the city’s long-term domination of the financial-services industry, as “financial bulletin boards” on the Internet are likely to increasingly replace the need for traditional trading floors.

If the presence of a traditional physical institution, such as an exchange, no longer determines where a company or a sector will locate, what does? The presence of enough workers and entrepreneurs with the right skills and knowledge to feed a diverse, vibrant economic base. This includes skilled workers not only in finance, but also across a wide range of fields such as advertising, graphic arts, entertainment and New Media--essentially the artisan businesses of the post-industrial era.

These skilled workers--particularly the young and single--still do migrate to New York. New York County has among the highest concentrations of well-educated people in the country, behind a few suburban counties and Valhallas such as Boulder, Colorado. Yet overall the city’s skill base is fairly low; as high as Manhattan stands among the best-educated places in the nation, the Bronx sits close to the bottom.

One of the key questions city officials and economic development experts need to ask is, How can these people be best

persuaded to continue to migrate to and stay in New York?

Without a precise study, it is not possible to garner what these individuals, and the entrepreneurial ventures that they often found or work in, really want or need. But recent experience shows that they are attracted to preserved “human scale” neighborhoods, such as Chelsea and DUMBO in New York, as well as similar areas in Boston, Seattle, Chicago and Santa Monica, California. And among those who choose New York, the city’s artistic and cultural offerings are often cited as a main attraction.

It is also clear that many of them need relatively cheap, flexible space to work in, at least initially. The fields they gravitate toward are mainly composed not of mega-corporations, but of small firms, which have become the real job engines in the city’s economy. This was true in the early stages of the 1990s boom--when small businesses created roughly 100,000 jobs and bigger firms just 22,000--and it is true today, when 89 percent of New York firms have fewer than 20 employees. So building an environment that is hospitable to entrepreneurs and small businesses is crucial as well.

If for these reasons alone, the city’s future lies not in large, new high-rises designed to accommodate major corporate clients who can take huge blocks of space, but in using the whole city’s geography to develop more districts similar to those that are already succeeding, and which will collectively form a more economically diverse region.

The “next” New York has to be a bit more like the rest of the country, including its traditional rival, Los Angeles, where the functions of the core city are being dispersed among dynamic, smaller “downtowns” such as Beverly Hills, West Los Angeles, Santa Monica, Pasadena, Glendale and even the oft-joked-about “beautiful downtown Burbank.”

In this multi-polar New York, rather than striving to be “The Financial Capital of the World,” lower Manhattan would be one of many thriving districts--including many in the outer boroughs--with their own centers, histories and cultures. These smaller centers naturally would have a greater range of options and rent levels than traditionally available in places such as lower Manhattan and Midtown.

“We have to get back to the blocking and tackling,” believes Rudin’s John Gilbert. “You need to look more at accommodating a small firm with 110 employees than expecting to get a large employer who’s going to buy a huge amount of space.”

The city must also focus on livability and maintaining basic city services, Gilbert says. Good restaurants, shops, festivals and clean cityscapes are critical elements in the recovery. “You have to, first and foremost, make...[a place] livable,” Gilbert says. “Cities are not built for computers. You have to have a joie de vivre.”

That’s food for thought at a time when efforts to address New York’s economic woes are all but certain to include theslashing of city services across the board, while at the same time the city and state have earmarked $500 million in federal recovery money for economic incentives to lower Manhattan’s 150 largest companies-the majority of them financial services firms.

Ultimately, says Alice O’Rourke, president of the New York New Media Association, change will require not only a new geography and new city policies, but also a transformation in the city’s consciousness. “There has to be an appreciation of the importance of the entrepreneurial infrastructure we have built up over the past decade,” she says. “It’s important to make a dent in a city that has become so super-sized and dominated by a handful of giant corporations.”

The time for that transformation is now. New York remains easily the most important and exciting city in America, but in order to thrive in the future, the city must find a way to blend its intrinsic strengths with the demands of the new millennium.

Although Mayor Bloomberg has come out in favor of fostering a mixed-use, 24-hour community in lower Manhattan, so farhis administration, like its predecessors, seems mainly to be focused on keeping high-rise office buildings filled with large corporations. But, as it copes with its current crisis, New York can not remain fixated upon the mid-20th-century paradigm of New York--the “Capital of the World,” with its arrogance and massive towers. Like all places in the Digital Age, New York can

have a great future only if enough ambitious, talented and committed people choose to come there. Proclaiming itself “The Greatest City in the World” will no longer suffice; New York will succeed in retaining that title only by reinventing itself as a truly great place to live and work in the 21st century.



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