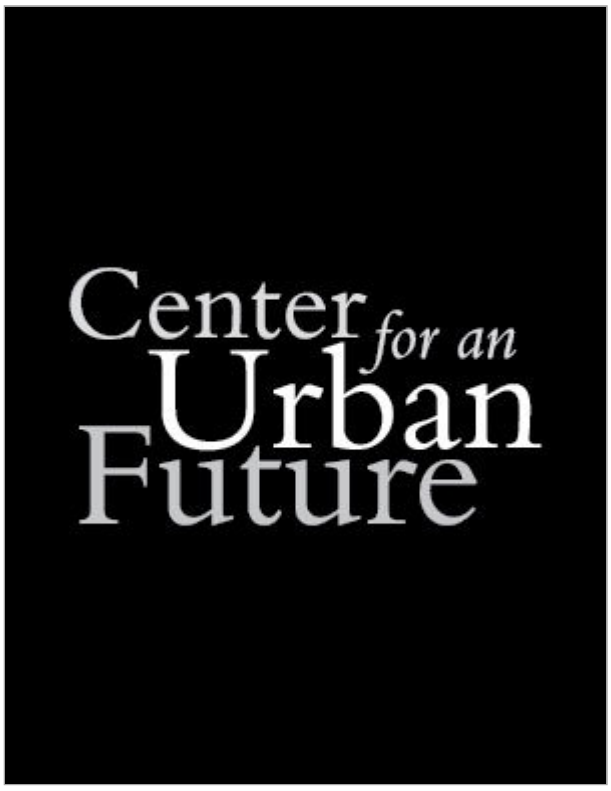


Testimony - June 2002

A Case For a Sector-Based Economic Development Strategy

Testimony of Center Research Director Jonathan Bowles before the New York City Council's Economic Development Committee.

by Jonathan Bowles

Good afternoon. My name is Jonathan Bowles and I am the research director of the Center for an Urban Future, which is a non-partisan policy institute that issues reports about economic development, workforce development and other issues important to the future of New York City.

Thank you for inviting me here today. I am grateful to have the opportunity to testify before this committee about an issuethat is so important to the city's economic future. Over the past few years, the Center for an Urban Future has issued more than a half dozen reports that highlight the benefits of sector-based economic development. We have written about successful sector strategies in states like Connecticut and California, and we have issued detailed studies about some of the obstacles facing important, but often overlooked, sectors of the city's economy--including garment manufacturing, air cargo, printing, biotechnology, information technology and the arts.

All of the sectors that I mentioned are important in one way or another to the city's economy, as are other industries like investment banking, advertising, tourism, insurance, film and retail. Some supply more jobs than others, some generate more tax dollars, some are relatively small but have huge potential for growth, some are on the decline but provide well-paying jobs that are crucial for a city with a enormous number of new immigrants and people with limited educational skills.

But while it has become increasingly apparent that New York City needs a diverse economy with a number of healthy industries, the city’s economic development policies have ignored many of these important sectors. In fact, the city’s economic development policies of have too often been narrowly focused on just a few sectors--or rather, on a handful of the largest companies within those few sectors. Over the past decade, for instance, the city's economic development leaders came to be overly dependent on a defensive strategy that essentially consisted of laying back and responding with tax breaks

or other subsidies when a large business decided it needed financial assistance in order to remain in the city.

By focusing so many resources and so much staff on retaining a small number of large companies, the city's economic development dollars have been going to only a fraction of 200,000 companies in the five boroughs—-most of which are small businesses. At the same time, the city was often unprepared to deal with many legitimate problems threatening to weaken other important sectors. And it made it difficult for the city to aggressively court growing emerging industries.

When the city did focus on other sectors, it often did so with a one-size-fits-all approach to economic development--ignoring the fact that most sectors face unique challenges and have unique needs. The city rarely went out and listened to what companies really need from government. For instance, our report on the air cargo sector found that highway gridlock was the single greatest problem holding back this industry. Another report we did found that manufacturing companies in the five boroughs were being hurt by the city's own land use policies and the diminishing supply of industrial properties. We also found that a lack of skilled workers was one of the most important issues affecting the city's information technology industries. And our biotech report cited the lack of lab facilities for start-ups and growing companies.

We've advocated a sector strategy for economic development, partly because the city's longtime economic development strategies haven't been working and partly because sector strategies have worked in numerous other cities and states.

A sector strategy begins with the notion that many sectors are crucial to the city's economic well-being, and that a number of sectors--not just the one or two largest--require attention from government. And instead of a one-company-at-a-time approach, a sector strategy involves government working side by side with industry leaders to help an entire sector become more competitive—-an end result that will be much better for the city in the long run than the current strategy of bribing a few companies to stay in the city for 10 or 15 years.

It's based largely on understanding the most pressing challenges facing the many firms, both small and large, within asector. That means assigning staff to work closely, and on a regular basis, with a number of key players within a sector--including business associations and a smattering of business owners or executives. By understanding the common problems and opportunities of firms in a given sector, government can develop policies that address industry-wide obstacles to growth. And by working closely with sectors, government can respond to challenges before the issues become so bad that companies are forced to consider moving out.

Even when government can't completely solve the major problems facing a sector, companies in that sector would get the feeling that government is at least trying to address their needs. Currently, there's a incredibly high level of frustration with city government among small and medium sized businesses. It's not just because taxes are high. It's because these companies see city government giving tax abatement packages to a handful of large firms and doing little to even understand the problems facing the overwhelming majority of businesses in the city.

A sector approach doesn't mean the city is picking winners. It means the city would be giving attention to important industries that have typically been overlooked by economic development officials.

It doesn't mean government must pour hundreds of millions of dollars into projects to help a number of different sectors. In fact, public sector financial support would often be small and city support would have to leverage private sector investments. It might entail strengthening zoning laws to protect manufacturers in an area where real estate conversion pressures are putting undo financial pressures on viable companies; helping industry leaders develop effective workforce training programs in conjunction with community colleges; providing marketing assistance to small arts organizations, offering financial incentives that encourage developers to create cluster buildings that benefit a number of companies in the same sector, or providing export assistance to production companies. One of the most helpful things that some cities and states have done is provide seed grants to help companies within a sector create a strong industry association.

The main thing is that these efforts will be driven by what the industry actually needs and the programs will be designed with

the cooperation of people within the industry. With a sector strategy, this can happen.

To be sure, the city has done some of these things--like the Plug 'n' Go program in lower Manhattan, the Greenpoint Manufacturing and Design Center, the creation of the Garment Industry Development Corporation, the relocation fund for printing companies.

But, for the most part, these have been isolated examples. It's time for the city to adopt a new, forward looking economic development strategy. A sector-based economic development strategy is the right place to start.

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