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Sector-Based Strategies for Economic Development

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Good afternoon, my name is James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI). The Fiscal Policy Institute is a nonpartisan research and education organization that focuses on the broad range of tax, budget, economic and related public policy issues that affect the quality of life and the economic well-being of New York City and State residents. Thank you for the opportunity to testify today on sectoral approaches to economic development.

Chairman Sanders and the Economic Development Committee should be congratulated for calling this hearing to draw attention to an important approach to economic development that is actively pursued in many cities and states around the country and that was the basis for an ambitious New York City job creation strategy in 1993. For the past 8 years, however, a sectoral approach has been shunned by New York City's economic development agencies.

For the past eight years, the City's economic development efforts have consisted of little more than awarding tens of millions of dollars each to large financial and media corporations in the name of retention. Virtually all of the City's economic development resources had been used for this purpose. The criticism of this approach was the subject of an earlier hearing by this committee and I will not dwell at length on that this afternoon. Let me summarize the main drawbacks to this approach:

- Since the City does not have a good track record in rigorously analyzing corporate threats to leave, the City has become an easy target for the cottage industry of retention deal consultants;
- The City's retention efforts have not fostered a more diverse economic base;
- Small and medium-sized businesses have become increasingly alienated by the City's preoccupation with awarding the largest companies multi-million retention deals while nothing is done for small and mid-sized companies and the industries they tend to dominate;
- The City has been ignoring the economic development potential of small and mid-sized companies and the industries they tend to dominate;

- The City has focused on a narrow slice of the job market and has ignored the employment needs of most New York City residents and has failed to develop a comprehensive workforce development strategy; and
- The City's retention focus has only exacerbated the powerful forces of economic polarization rather than trying to foster a more broadly shared prosperity.

As the City's focus, hopefully, shifts from retention to sectoral approaches to economic development, I think it is helpful for this Council to better understand what happened in 1992-93 when the administration of Mayor David N. Dinkins developed the Strong Economy, Strong City program.[1] In the interest of disclosure, you should know that, at the time, as the Chief Economist of the City's Economic Policy and Marketing Group, I was one of those directing the development of this strategy. The Economic Policy and Marketing Group (EPM) was established in 1991 as part of the reorganization of economic development agencies and served as an in-house economic research and planning think tank for the Mayor and the Deputy Mayor for Economic Development.

The Strong Economy, Strong City strategy was conceived at a time when the city was in the midst of a severe recession. The unemployment rate was in double digits. The city had lost well over 300,000 jobs during the 1989-1992 recession, a recession that started sooner and lasted longer than the national recession, and was much more severe. Initially, the Dinkins administration focused on job retention and agreed to a number of subsidy deals with individual large companies. At the same time, however, it laid the groundwork for doing things differently and focusing on job growth.

EPM conducted a major assessment of New York City's economic competitiveness in 1991, and a blue ribbon commission chaired by Arthur Levitt , Jr. that looked at economic development strategies around the country urged that the City develop growth strategies. The City needed to move from defense to offense, from job retention to job creation, from aiding large companies one at a time, to devising strategies that assisted whole industries of small- and mid-size businesses.

At this time, in late 1992 and early 1993, the national "jobless" recovery was then underway. It was clear that for the city to generate enough jobs to bring the unemployment rate down over the next few years, a proactive job creation strategy was needed. We then began to engage leaders from business, labor, universities and the non-profit sector to devise strategies to create jobs, particularly for New York City residents.

The strategies that emerged as part of the Strong Economy, Strong City project largely had a sectoral focus because we saw that as the best way to retain and create jobs, and to more effectively leverage limited government economic

[1] New York City Economic Policy and Marketing Group, Office of Barry F. Sullivan, Deputy Mayor for Finance and Economic Development, Strong Economy, Strong City: Jobs for New Yorkers, September 21, 1993.

development resources. By a "sector", we meant a geographically concentrated cluster of specific industries and their respective suppliers and customers. These clusters often included educational and technical institutions. As the Strong Economy, Strong City report noted, businesses that are part of industry clusters tend to be more productive, innovative and faster to respond to changing markets because the opportunities for interaction with customers, suppliers and competitors are greater and because they are able to draw upon a sizable pool of skilled workers.

At the local level, government cannot impose an economic strategy on any sector. Industry representatives, ideally an industry self-help group, needed to be full partners in the strategy development process. Government's role was to play a supporting and enabling role. Rather than spending millions in retention subsidies to individual corporations, under a sector strategy, government resources would be used for such things as to launch an industry self-help group, to invest in an industry incubator or technology center or in a venture capital fund, or to initially fund services such as export promotion that all firms in an industry could take advantage of. A sector strategy should begin with an analysis of the competitive position of a local cluster of firms, and identify barriers, challenges and opportunities that can be addressed and the solutions that will serve several companies at the same time.

Sector-based strategies were the centerpiece of Strong Economy, Strong City. Altogether, economic strategies were advanced in 14 areas, including 10 industry or cross-industry clusters. These strategies were expected to generate more than 110,000 jobs (75,000 direct and 35,000 indirect jobs) over the ensuing four years above and beyond what was expected to be added to the local economy as a result of national economic growth.

Four key criteria were used to select target industry clusters:

(1) Export orientation--businesses that sell goods or services outside the city;
(2) Concentration of small businesses--new and existing companies that usually get ignored by City government;
(3) Industry and borough diversity--New York City needs a stronger base of diverse industries and industries in all boroughs should be targeted ; and
(4) The need to maintain a spectrum of job opportunities--while the long-term objective is to generate high skill, high wage jobs, consideration needs to be given to fostering job retention and creation in industries that generate employment opportunities for workers with limited skills and education.

Time does not permit a discussion of the Strong Economy, Strong City strategies in each area, but let me just mention the 10 industries selected:

(1) biotechnology
(2) software
(3) apparel
(4) jewelry

(5) film and television production
(6) recycling-related manufacturing
(7) health care
(8) non-profits
(9) retail (both neighborhood and regional)
(10) tourism

This was, by design, a very broad range of industries: manufacturing as well as high technology, cultural and tourism as well as neighborhood-based, blue collar as well as service. And unlike the recent focus on the retention of large financial and media corporations, the Strong Economy, Strong City strategy aimed to create jobs all across the spectrum of occupational opportunities available to New York City residents.

This need to provide a broad range of jobs helped motivate our focus on various manufacturing industries and on retail. However, we also thought at the time, and I still believe, that many of the city's manufacturing companies have the potential to survive and even grow if provided the right kind of assistance and if the City would more actively aid companies facing severe real estate pressures. Too often, the City has turned its back on local manufacturers and the jobs they provide to tens of thousands of recent immigrants and workers with limited skills and education.

Keep in mind that the Strong Economy, Strong City strategies were put together nearly 10 years ago. Much has changed in the local, national and global economy since then. Updated and new strategies are needed. The competitive assessments must reflect the economy of 2002. Various stakeholders in each sector would have to be engaged. Comprehensive workforce development planning should be part of any sectoral program. Particular focus should be given to developing career ladders within industries to help entry-level workers climb into the middle class.

To create a Strong Economy, Strong City strategy for 2002, ideally, the City would reconstitute an EPM-like in-house research and strategic planning capacity. The City cannot afford to continue sitting back and waiting for interested parties, who usually turn out to be the largest corporations or big real estate developers, to come through the door with their own self-interested proposals. The City should size up the talents and potential of its economic players and come up with a winning game plan.

As you can see from the bibliography of sectoral research reports based on the local economy that FPI recently compiled (a copy of which is attached to this testimony), there has been no shortage of research in this area. What's still needed are two critical ingredients: (1) more effective ways to engage industry stakeholders so that they provide the backing necessary to get promising strategies off the ground; and (2) a supportive City government willing to be both catalyst in putting together stakeholders and strategies and provider of various forms of financial supports to entire sectors to leverage industry investments.

It is particularly important given the City's economic and fiscal dependence on the financial sector [2], that the City should seek to diversify its economic base. This is not to take away from the importance of the financial sector. It's just that the City should be using its limited economic development resources to try to make its economy more diverse so that it is less tied to the volatile swings that characterize the financial sector.

New York City's economy is once again mired in recession with little hope for a sharp snapback that will bring back the 130,000 jobs lost since December of 2000. The city's unemployment rate is already an alarming 8% and is headed higher, particularly in our low-income communities. Two-thirds of the job loss New York City has suffered since the beginning of 2001 is the direct result of the attacks on the World Trade Center. WTC-related dislocated workers were disproportionately low-income and well over half were immigrant workers. The hard-fought economic gains many low-income house-holds managed to finally eke out of the late 1990s economic boom are rapidly eroding.

Tens of thousands of dislocated workers are exhausting their unemployment insurance benefits. Several thousand workers who remain employed have seen their earnings fall sharply as a result of weakened business conditions. An alarming number of dislocated and under-employed workers risk eviction, foreclosure and personal bankruptcy. These conditions will worsen in the months ahead since New York City remains mired in recession with no recovery in sight.

Against this bleak economic backdrop, the creation of tens of thousands of good-paying jobs in New York City must receive the highest priority. Unfortunately, this is not the focus of the Lower Manhattan Development Corporation or of most of the discussions regarding rebuilding priorities. Job creation, however, is the top priority of the Labor/Community/Advocacy Network to Rebuild New York (LCAN), a network convened over the past 8 months by FPI together with the New York City Central Labor Council. LCAN is a diverse group of over 60 labor, community, environmental justice, immigrant advocate and service organizations.[3]

LCAN has urged that $1 billion of the $2.7 billion in federal Community Development Block Grants (CDBG) monies provided to New York to repair the economic damage inflicted by the WTC attacks should be used to create 75,000 jobs. This should include 25,000 public sector jobs to upgrade city facilities and public spaces, and enrich our human capital. Examples of public sector jobs include the maintenance and repair of schools and parks, adding universal accessibility to wheelchairs, and providing services such as counseling and other social services needed during

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[2] For a thorough discussion of this dependence, see "New York City's Economic and Fiscal Dependence on Wall Street", Office of the State Deputy Comptroller for the City of New York, August 1998.

[3] Labor Community Advocacy Network to Rebuild New York, Policy Statement, April 24, 2002. Available at: www.lcan.org.

recovery. Fifty thousand private sector jobs are needed. Wage subsidies averaging $10,000 per worker to private and non-profit employers would allow a dramatic expansion of the wage subsidy approach pursued by the Emergency Employment Clearinghouse.

Economic development resources should encourage retraining, skills upgrading, literacy and English language training in order to ensure there is access to good career paths for women, people of color, immigrants and others who have been dislocated. Job creation opportunities should be part of a sectoral strategy, choosing sectors that have potential for growth and making sure there are good entry-level jobs, career ladders, and living wages and benefits. For example, if tourism becomes a major industry downtown, we need to ensure that New York City residents receive the training necessary to take good-paying jobs in hotels and cultural institutions. We also need to make sure that employers who benefit from a tourist-oriented economic development strategy provide good health and retirement benefits and that they invest in developing clear career ladder opportunities for workers to advance into the middle class.

The redevelopment of Lower Manhattan entails the use of tremendous public resources, not only the financial assistance provided by the federal government, but more importantly, strategically located city land and the city's unparalleled mass transit system. The city is best served, I think, by utilizing this challenge to also address pressing city economic development needs. These include the need for more industrial and geographic diversity within New York City, but also the critical need to develop better employment and career ladder opportunities for city residents.

Thank you for the opportunity to present this testimony.