James A. Parrott
Fiscal Policy Institute

Bolstering and Diversifying the New York City Economy

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I. New York City's Economy in the 1990s

If the Big Apple is New York's marketing symbol, the Coney Island Cyclone roller coaster is its economic metaphor of the last three decades. After a fairly steady climb out of the Great Depression through the 1960s, suburbanization, the decentralization of manufacturing, corporate flight, and a Wall Street slump drained 600,000 jobs from the city in the 1970s. After bottoming out with the 1975-76 fiscal crisis, the city began to move up again and regained 400,000 jobs from 1978 to 1989. Then the ride dropped down again, with the city losing 325,000 jobs from 1989-92. And now, nearly 7 years after hitting bottom in late 1992, the city has just regained its latest recession period job loss. (see Figure 1) These swings of 325,000 to 600,000 jobs represent 9-16 percent of New York's employment base and represent a combination of longer-term sectoral change, volatility in core industries, and the city's remarkable ability to re-make itself.

Within a span of three years after the start of the last recession in 1989, New York City lost over eight percent of its jobs. For New York City, that downturn started sooner, lasted longer and was much deeper than the relatively mild recession experienced nationally. Wall Street's restructuring in the aftermath of the October 1987 stock market crash and severe problems in the real estate and banking industries knocked the city's economy off kilter for several years. Corporate downsizing in the early 1990s prolonged the downturn. Only Boston and Southern California experienced protracted early 1990s declines that approached the severity of metropolitan New York's.

In many respects the city's economy in the 1990s resembles that of the 1980s. There has been a general continuation of the rising importance of its major export sectors including financial, corporate and entertainment services oriented to an increasingly international market, amidst the continued decline of manufacturing and distribution. The city was well-positioned as a location for the expansion of its dominant export sectors. The fortuitous macroeconomic environment, as well as regulatory and technological developments and changes in relative demand, favored New York. As the United States' premier international commercial and financial center, New York City has risen along with the fortunes of the nation's leading global businesses in the 1990s.

As the home to almost all of the 20 largest investment banks and securities firms, New York City has prospered as these firms have overtaken commercial banks as financial intermediaries. The recent demise of the Glass-Steagall barriers within the financial sector will most likely further favor New York City's dominance in investment banking. The Internet revolution generates more and more activity in New York City with its increasing commercialization and insatiable demand for "content". The rising share of consumer expenditures going for entertainment and tourism is another exogenous development that has fueled growth in the 1990s and will likely continue in the fathomable future.

Some aspects of the city's local market economy – that is, local and neighborhood services and most retailing -- are also similar in the 1990s to the previous decade. Although there have been some dramatic changes in the government funding on which these sectors heavily rely, employment in health and social services has continued to grow in the 1990s. Growth slowed but continued in hospitals while it has accelerated in other health service areas, especially home care.

As Table 1 indicates, goods production, transportation and wholesale distribution have lost over 160,000 jobs, or nearly 21 percent, since the previous business cycle peak in 1989. While the financial, insurance and real estate (FIRE) sector has 40,000 fewer jobs today than 10 years ago, within that sector the securities industry has 20,000 more jobs than in 1989 but the banking industry has lost about 55,000 jobs and the insurance industry almost 15,000. Three export-oriented service sectors -- corporate services, information services, and entertainment, culture and tourism -- each grew by 14-16 percent over the past decade, generating a combined net increase of 100,000 jobs. Health and social services grew the fastest of all sectors, increasing by 31 percent, a net gain of 115,000 jobs. Government employment, on the other hand, dropped by 41,000, or seven percent.

Indicative of the unevenness that has characterized the 1990s economy, industry average wages per worker increased at radically different rates between 1989 and 1998.[1] On a total basis for all workers in the city, real average wages grew by 21 percent. (see Table 2) However, two-thirds of workers are employed in industries where the average increase was less than half that 21 percent. Only two of the nine sectors shown on Table 2 had increases above that 21 percent average. The FIRE sector topped them all with a 74 percent increase, and the information services sector came in second with a 25 percent increase. The Wall Street securities industry alone accounted for 64 percent, or $18 billion of the $28 billion increase in real total wages between 1989 and 1998.

The city's total population has not changed much in the 1990s, with the 1998 estimate of 7.4 million only 100,000 higher than the 1990 number. However, there has been considerable population turnover in the 1990s. Net domestic outmigration has totaled about 1 million in this decade. (see Figure 2) This has been offset by net international migration about 800,000. The number of immigrants coming to New York City has risen steadily during the post-World War II period. During the 1990s, the average annual number of immigrants is over one-third greater than the average in-flows in the 1970s and 1980s. (see Table 3) The foreign-born share of the city's population has risen from 28 percent at the time of the 1990 Census to an estimated 35 percent today.

These migration trends are reflected in the changing racial and ethnic character of the city's population. As Table 4 indicates, the White, non-hispanic population declined by 11 percent from 1990 to 1998, whereas the Hispanic population grew by 15 percent and the Asian population by 35 percent. The Black, non-hispanic population declined slightly, by 0.7 percent. The White, non-hispanic population comprises 38 percent of the city's population and the Hispanic population is now almost 28 percent, followed by Black, non-hispanics with a 24 percent share.

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[1] Executive compensation has soared in the 1990s. According to Crain's New York Business, the average pay of the 100 highest paid chief executives in the New York City areas was $12.9 million in 1998, up by 34 percent from 1997.

In aggregate terms, growth in the city's output, employment and wages closely matches rates achieved in the 1980s.[2] (see Table 5) New York City total income growth has been less through 1998 than in the 1980s, partly because much more of the wage growth that has occurred in the 1990s has taken place in the FIRE sector which has a high commuter penetration rate.

In some areas, there are clear differences between the 1980s and the 1990s. Unemployment in the City, at 7.0 percent through the first 9 months of this year, is still well above the national average of 4.4 percent for that period whereas in the late 1980s, the City's unemployment rate was generally in line with the nation's. (see Figure 3) Through the first half of 1999, the unemployment rate for Blacks was 10.8 percent and for Hispanics, 9.0 percent.

And while the construction industry has been in high gear recently, generally for the 1990s, new commercial construction has been far less than in the 1980s. According to the Real Estate Board, the volume of commercial office space in downtown and midtown Manhattan increased by 26 percent from 1979-89, but grew by only 1.7 percent from 1989-98.

Within the New York metropolitan region, the city is more dominant in the 1990s as the source of economic growth relative to the suburbs than it was in the 1980s. Overall, New York regional job growth trails the region's performance in the 1980s.[3] Among the seven Consolidated Metropolitan Statistical Areas in the

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[2] As opposed to the New York City economy, the New York State economy has performed much more poorly in the 1990s than in the 1980s. It has also lagged considerably relative to comparable, mature industrial states in the Northeast and Midwest. See, James Parrott, Alice Meaker, and Zofia Nowakowski, The State of Working New York. The Illusion of Prosperity: New York in the New Economy, New York: Fiscal Policy Institute, September 1999.
[3] See, Regional Economy. Review and Outlook for the New York-New Jersey Metropolitan Region, The Port Authority of New York and New Jersey, August, 1999.

Northeast and Midwest states, the New York region has had the weakest pace of job growth from 1992-1998. The Boston and Detroit regions have had the fastest job growth. (see Table 6)

To summarize in broad strokes the plus side of the city's economic picture:

- New York City's leading financial, corporate, information and entertainment export sectors have prospered and are well-positioned for continued growth;
- the city has been experiencing relatively strong private job growth in recent years and has surpassed its 1989 employment peak;
- total wage and output growth also have been healthy;
- while still higher than the national average, the unemployment rate has come down; and
- the city's economic strengths have generated sizable, record budget surpluses.

The conventional wisdom would say, "this is as good as it gets". Some might say, "this is a new economy and New York City is rising to the occasion". A "new economy" is touted that is characterized by information technology and globalization and that is said to demand higher skill requirements[4] and more "flexible" work arrangements. Proponents of the notion that we are in a "new economy" contend that it permits faster, non-inflationary growth that can be sustained over longer periods.

New technology and new ways of doing business occur in every period to some extent. New York City's economy has been transformed several times in

[4] For a contrary view on the proposition that skill requirements are rising faster than ever, see, Richard Rothstein, "Shortage of Skills? a High-Tech Myth," The New York Times, October 27, 1999, B9.

the course of its history. The question should be shifted from whether there is a new economy to is it better for the average worker and the typical city family? The benefits of the 1990s economy are highly concentrated and for most workers, job opportunities, wages, benefits and job security are less favorable than during previous economic expansions.

There are three areas that should be cause for considerable concern. These three developments are in many ways as much a product of the 1990s economy as the favorable trends reviewed earlier.

- **Wall Street Dominance Greater.** Wall Street, or the securities industry, which accounts for less than five percent of total City employment, has accounted for half of the direct economic growth (measured by the growth in real earnings) in the City in the 1990s expansion. When its multiplier impact is considered, Wall Street accounts for a large share of total job growth as well. The City's economic and fiscal dependence on Wall Street has been much greater in the 1990s than in the 1980s.

- **Erosion of Middle Income Jobs.** There has been a disproportionate decline of 275,000 middle income jobs in New York City in the 1990s that results from the continued decline of goods production and distribution, and the downsizing that has taken place this decade in banking, insurance and government. This decline in middle income jobs undermined the progress that Blacks and Hispanics had made in the 1980s in moving into the middle class.

- **Declining Labor Market Conditions Lead to the Erosion of Wages and Family Incomes**. Inflation-adjusted wages for most New York City workers fell from the previous business cycle peak in 1989 through 1998 and real incomes for all families but the richest 20 percent have lost ground compared to the late 1980s. In contrast, in the 1980s, although the income gap widened, middle income families had real income gains in New York City. New York's wage and income distribution trends are considerably less favorable than nationally. The gap between the rich and the poor and between the rich and the middle class is greater in New York State than in any other state. Furthermore, more people are working but unable to rise above poverty.

II. Wall Street and the New Economy

New York City has experienced relatively strong job growth in several export sectors in the 1990s and the number of Wall Street jobs has grown to a new all-time high in the last year. However, to develop a better picture of what is driving the city economy, we must look at the sources of income flows. Because the Wall Street sector pays such large salaries and bonuses, which together average $195,000 annually across all 165,000 employees in the industry, its economic impact locally is far greater than its 4.7 percent share of employment. From 1992 to 1998, Wall Street accounted for nearly half, 45 percent, of the growth in real earnings. (Earnings include wages, salaries and proprietors' income.) (see Table 7) Wall Street's 45 percent share was over three times the next largest share. Business services accounted for almost 13 percent of the earnings growth. Wall Street's share of earnings growth in the city during the 1983 to 1989 period was only 16.6 percent, about one-third its share in this decade. [5]

With the considerable revenue, profit and compensation flows it generates, Wall Street has a disproportionate impact on job growth in other sectors of the local economy. To gauge the multiplier effect on job growth that Wall Street has had in the 1990s, one should look at the effects of the *change* in output and not just the static picture.[6] From 1995 to 1997, Wall Street's total economic output grew by 50 percent, from $50 billion to $75 billion. In addition to the nearly 10,000 jobs added in the securities industry over that two-year period, the increased output in the Wall Street sector generated about 7,800 new *indirect* jobs in businesses that sell inputs such as legal services to Wall Street. Another 38,000 jobs were created by the consumption and housing expenditures of Wall Street workers.[7] Thus, Wall Street's total economic impact may have accounted for over 55,000 new jobs over this two-year period when citywide employment grew by 80,000.

In addition to these impacts, Wall Street-related stock market gains are largely responsible for the robust taxable capital gains realizations received by city and state residents. Since capital gains realizations are not counted as part

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[5] From 1992-1997, securities accounted for 58 percent of the growth in New York State's gross state product, an indicator that includes corporate profits. The State of Working New York, p. 38.
[6] The Federal Reserve Bank of New York used a static multiplier approach. Jason Bram and James Orr, "Can New York City Bank on Wall Street?" Current Issues in Economics and Finance, 2nd District Highlights, Federal Reserve Bank of New York, July, 1999.
[7] Office of the State Deputy Comptroller, "New York City's Economic Dependence on Wall Street," Challenge, March-April, 1999, p. 17.

of personal income by the federal government's income accounts, the income growth measures frequently cited significantly understate the actual income flows received by New Yorkers. For New York State (detail is not available for the city), capital gains realizations have averaged $16 billion a year ($1997) from 1990-97, accounting for an average of 27 percent of the annual growth in adjusted gross income over that period. This share is nearly twice the 14 percent share nationally. Since stock holding is highly concentrated at the upper end of the income distribution, 7.1 percent of New York households received 85 percent of these realizations.[8]

Moreover, the unrealized appreciation in financial assets, or "wealth effect", has also been substantial in recent years and has further boosted consumption and real estate spending. Federal Reserve Chairman Alan Greenspan has noted that, largely as a result of the rise in stock prices, $12.5 trillion was added to the value of household assets nationally from 1994 to 1997. Greenspan's recent public comments suggest that he remains concerned that stock market-related asset inflation could destabilize the macroeconomic balance.

Even during the 1990s Wall Street boom, there have been reminders of the risks inherent in financial market volatility. A $500 million hole in the City's FY 1995 budget developed between June of 1994 and January of 1995 as the bond market reeled from a series of interest rate hikes by the Federal Reserve. Securities industry profits dropped by over 80 percent at the time and City personal and income tax payments associated with the industry plummeted.

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[8] The State of Working New York, pp. 14-15.

The Asian economic crisis that surfaced in mid-1997 and the Russian debt crisis the following summer jolted the financial markets and exposed their vulnerability to largely unregulated and apparently unmonitored emerging market lending. The Long Term Capital Management hedge fund debacle in the fall of 1998 revealed the dangerous degree of leverage that can develop when financial market speculation heats up. While alert action by Federal Reserve and Treasury officials, and their European counterparts, staved off further turmoil, the lesson for New York City is that it needs to be prepared for such bouts of financial market volatility whose timing is next to impossible to predict.

A more diversified city economy is the best hedge against financial market volatility.

III. Erosion of Middle Income Jobs

In the first three decades following World War II, the nation's families prospered and living standards grew steadily as the economy expanded and productivity rose. Since the early 1970s, however, not only has productivity growth slowed, but wage and benefit compensation growth have slowed even more. Increasing inequality since the early 1970s has meant that median wages for the "typical" worker have grown by even less than average compensation, or declined. Thus, whereas the country used to grow together, over the past three decades we have been growing apart.[9]

[9] Lawrence Mishel, Jared Bernstein, and John Schmitt, The State of Working America, 1998-99, Ithaca, New York: Cornell University Press, 1999.

One of the main factors behind this “growing apart” is the decline in middle income jobs. In New York City, as indicated earlier, the erosion in middle income jobs has been pronounced in the 1990s – goods production, wholesale distribution, banking, insurance, and government.

At the same time, a number of growing industries pay wages well below the average for all industries. Five of the ten largest growing industries in the last decade in New York city offered wages more than 25 percent less than the average wage in the economy, not including wages for securities industry.[10] Temporary employment services added 31,000 jobs from 1992-98, adding significantly to the contingent nature of the workforce. While some workers prefer nonstandard work arrangements, they generally earn significantly lower wages and benefits than their counterparts with similar skills who have regular full-time jobs. In New York State, only 3.6 percent of temporary workers could rely on their employers for health coverage.[11] Contingent work offers more limited advancement opportunities.

These sectoral changes have clearly affected New York City residents’ employment opportunities. According to a report prepared for the New York City Council, the city’s middle class has been shrinking over the decade. In the Council study, the middle class was defined as any household whose total income, adjusted for household size and inflation, was between 100 and 200 percent of the 1996 median income. The lower middle class is defined as those with incomes 80 to100 percent of the median.

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[10] The State of Working New York, 1999, p. 58.
[11] The State of Working New York, 1999, p. 32.

According to this analysis, at the end of the expansion of the 1980s, 35.2 percent of city residents had a middle class income. But by 1997, the share of residents in the middle class had dropped to 29.6 percent. And while the upper income share increased slightly to 14.3 percent in 1997, the lower class share rose from 41.1 percent to 46.1 percent. However, for Blacks and Hispanics, whose presence in the middle and upper income groups rose substantially during the 1980s, the 1990s have reversed much of that progress. In 1989, 37.0 percent of Black families were in the middle and upper income groups. By 1997, that share had fallen to 31.6 percent. For Hispanic families, 32.0 percent were middle or upper income in 1989, but by 1997, their share dropped to 25.1 percent. For Whites, the shrinkage from 43.0 percent to 33.9 percent in the share in the middle class from 1989-97 was roughly evenly split with half going to an increase in those in the upper class and half to an increase in those in the lower income group.[12]

There is evidence that Blacks have been disproportionately affected by the downsizing trends that have reduced the city's supply of middle income jobs. According to EEOC data compiled by NYU professor Walter Stafford, Blacks accounted for 35.9 percent of the decline in commercial banking employment from 1992 to 1997 although they represented only 22.5 percent of employment in 1992. Data on Mayoral agency employment for the same period, also compiled by Stafford, show that in the context of only slight overall reduction in total Mayoral agency employment, Black female employment fell by 15 percent and

[12] Thomas L. McMahon, Larian Angelo, Timothy A. Ross, and Regina Poreda Ryan, New York City's Middle Class: The Need for a New Urban Agenda, New York City Council, December,

Black male employment dropped by 10 percent. Blacks were disproportionately affected by the sharp reduction in social services agencies and did not gain as many of the net increase in jobs in the Police Department as did Hispanics, Asians, or White, non-Hispanics.

IV. Deteriorating Labor Market Conditions Lead to the Erosion of Wages and Family Incomes

Deteriorating labor market conditions, persistent low wages for many workers and relatively high unemployment, together with the sectoral employment shifts described in the previous section, have resulted in declining wages for most New Yorkers. As Table 8 shows, four-fifths of New York State residents experienced wage declines between 1989 and 1998, and the lower-earning half of the population experienced the highest rates of decline. At the same time, the top-earning decile of the population gained 6 percent in wages, not including bonuses. At the national level, the lowest-earning 30 percent of workers experienced higher wage growth rates than all but the top decile between 1989 and 1998.

Not surprisingly, then, New York City has a much higher degree of wage inequality than the nation. Table 9 indicates that the New York City Metro Area has a top-to-bottom wage ratio (90^{th} percentile divided by the 10^{th} percentile) of 6.8 for men, compared to 5.0 for the United States and just 4.3 for the upstate New York region. Women also experience higher wage inequality in the city than upstate or in the nation.

1998.

Changes in household income over the last decade mirror wage declines. As Table 10 suggests, only the top quintile of New York City households gained income between the late 1980s and 1990s. The remaining four quintiles with lower income all saw significant income declines. Because incomes have been falling for most New Yorkers, income inequality has increased dramatically since the 1980s. By the mid-1990s, the average income of the top fifth of New York City's families was twenty-five times greater than the average income of the bottom fifth, while in the United States it was just half that at 13.[13]

These trends in wages and incomes keep a significant number of New York City households in poverty. New York City's poverty rate of 24 percent, nearly twice the national rate, has stayed high in the in the 1990s and is much higher than it was at a comparable point in the business cycle in the 1980s. (see Figure 4). The poverty rate among New York City's children is over 34 percent.[14]

A rapidly rising number of city households have one or more members working full-time or nearly full-time, yet are not able to pull in enough income from working to lift their family above the poverty threshold. The number of working poor families in the city rose by 84 percent from the late 1980s to the 1995-97 period, a rate over three times that of the national increase. (see Figure 5). For the 1995-97 period, 650,000 New Yorker City residents lived in working poor households.[15]

[13] The State of Working New York, p. 10.
[14] Community Service Society, "Poverty in New York City: A CSS Data Brief", October 1999.

V. Rethinking the Urban Economy

Given the problems of lack of sectoral diversity, volatile growth, declining middle income jobs, and class and community polarization, is there anything that can be done at a local level to affect the economy's performance or re-shape its direction? In a globalized economy even nation-states are often unable to exert sufficient influence to address problems that are heavily rooted in the nature of economic change. Most nations choose not to try to regulate capital flows. The federal government can affect aggregate demand, although its capacity to do that has dulled, and the federal government shapes the economy in various ways through trade, antitrust enforcement, infrastructure, and labor market policies.

There are powerful constraints on what local public and private actors can do to reshape the economy. Business costs from operating in New York must be competitive, although costs should be measured against the productivity made possible by a New York City location. Too often, the emphasis is only on one side, the cost side, of this equation. Comparisons that only look at rents, taxes or labor or energy costs ignore the obvious fact that higher cost inputs are usually associated with higher valued outputs. Labor may cost more, but if it is more skilled, the value of its output will be greater. Agglomeration economies, those hard-to-measure benefits from operating in close proximity to competitors and suppliers that are characteristic of urban economies, are real and they do make a difference. None of this is to suggest that relative costs are not relevant, they certainly are, but only to emphasize that we need to think in terms of relative costs per unit of output.

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[15] The State of Working New York, p. 13.

That New York City is a high cost operating environment is universally appreciated. Less well understood is the fact that output per worker (gross product per employee -- admittedly a crude measure) is over two-thirds higher in New York City than the national average.

Policy makers do need to address cost pressures associated with regulatory structures such as in the energy and housing construction areas, and the quality and competitiveness of privately-provided but still partly regulated infrastructure, notably telecommunications.[16]

While significant, the constraints on local action are far from total. There are several arenas where strategically applied local effort, through government or other institutions, can address the major problems of lack of economic diversity, volatile growth and class and community polarization. Local and state government policies and practices either determine or largely shape such areas as infrastructure development, economic development, fiscal policy, land use, housing, and education. Government and private actors -- whether business, labor or non-profit organizations -- also have the capacity to influence more amorphous structures like labor market institutions and regional cooperation.

What is the objective of existing local economic intervention? It seems to be to foster large financial and media corporations and to reduce taxes, ostensibly in order to retain and expand local employment. As discussed later,

[16] With respect to local energy costs, see, "The High Price of NYC Power," Economic Notes, New York City Office of the Comptroller, September 1999. For housing costs, see, Jerry J. Salama, Michael H. Schill and Martha E. Stark, Reducing the Cost of New Housing Construction in New York City, A Report to the New York City Housing Partnership and Chamber of Commerce and the New York City Department of Housing Preservation and Development, 1999.

prevailing practices are questionable in achieving the ultimate objective of retaining and expanding employment.

The objectives of local economic intervention can be stately more broadly:

- promote diversification and expand productive capacity;
- foster the development of good-paying jobs;
- build critical links between city residents and opportunities; and
- improve quality of life on a community/neighborhood level.

Prevailing economic interventions by local and state government include subsidizing large financial and media companies through tax breaks and low cost energy, and sometimes through major cash grants. Recent government practices also emphasize promoting commercial development in midtown and downtown Manhattan, mainly through tax subsidies. The current City administration has stressed the economic benefit of crime reduction, which is considerable, and certainly deserves credit for taking on organized crime's influence in the Fulton Fish Market and the commercial carting industry.

However, the City has been indifferent, or worse, toward small business, and the commercial development needs outside midtown and downtown, and its policies have been hostile to many manufacturing businesses. Recent prominent examples of the latter include the tepid response to the situation of commercial printers being displaced from Tribeca and the long-standing desire to re-zone light manufacturing space for large retail and other uses.

There has been little effort on the City's part to learn from the experiences of local development corporations, or community and labor organizations involved in economic development, including programs that have promoted better links between neighborhood residents and economic opportunities.

The Mayor's recently released, but not well-publicized, Strategic Policy Statement includes several commendable items under the heading "Economic Growth and Opportunity".[17] The Mayor's Statement highlights the need to expand the city's economic capacity (housing stock, commercial space, transportation infrastructure) but is silent on the need to lessen the city's dependence on Wall Street and does not address the fact that many working people remain in poverty because of low wages.

Up until the last year or so, the Mayor repeatedly touted the number of corporate "retention" deals completed under his direction, deals that largely benefited the largest financial and media corporations. Given that, it is puzzling that the Mayor's Strategic Policy Statement criticizes the efforts of previous city administrations to "target" economic development assistance to particular types of businesses, and disparages city leaders for "throwing money at [businesses] when they threatened to move away."[18]

It is also ironic that the charter reform enacted in 1989 that was supposed to result in greater political representation for Brooklyn and Queens, the most populous boroughs, has not, in recent years, worked out that way. With a Board of Estimate under which the borough presidents held some bargaining leverage, such traditional outer borough concerns as manufacturing and the development needs of the boroughs, most likely would have received more attention. Staten

[17] Mayor Rudolph W. Giuliani, Strategic Policy Statement, City of New York. June 1999, pp. 43-54.

Island, on the other hand, which supposedly was unduly favored under the Board of Estimate, finally secured a commitment to close Fresh Kills and may get a $50 million-plus minor league baseball stadium.

Several of the economic interventions made by local government, past as well as present, have been of mixed, or downright dubious, value. The way the City has approached corporate "retention" deals, in particular, warrants wholesale re-examination. Over the past six years, the City, together with the State as the "junior" partner, has expended over $2 billion in tax, low-cost energy, and cash resources to "retain" primarily large financial and media corporations that "threatened" to run away from the city. This practice started in earnest in the mid-1980s when the City enticed Chase Manhattan Bank and Bear Stearns to help anchor Brooklyn's Metrotech development. It intensified in the early 1990s when the Dinkins Administration felt especially vulnerable given the steep recession-related job declines and feared a recurrence of 1970s-scale corporate flight.

The big corporate players readily learned how to tap the retention spigot, by claiming the need to maintain a level playing field with their competitors who received such deals or by committing to expand employment in the City in exchange for even greater subsidy. Thus, all three major television networks received subsidies as well as all three major daily papers and virtually all of the largest securities firms.

Big ticket retention deals persisted through the 1990s, even after the City's economy recovered and Wall Street and the media companies prospered more

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[18] Ibid., pp. 43-65.

than ever before. In late 1998, the City and the State agreed to subsidize the construction of a new building for the New York Stock Exchange (NYSE) in a deal whose total value of an estimated $1 billion includes several hundred million dollars in cash from the City treasury. This followed a stretch of eight years when the securities industry, which constitutes the membership of the NYSE, amassed $60 billion in profits and provided an equal sum in bonuses to its New York City employees.

It is widely perceived that the NYSE never seriously considered leaving New York City. Although the City wisely did draw the line at extending retention deals to law firms, it utterly failed to capitalize on the fact that once it had locked in a few major firms in a given industry, it would be a highly questionable proposition for a major competitor in that industry to move elsewhere. The City's approach to corporate retention has engendered considerable resentment from the city's small and medium-sized companies while corporate leaders and editorial pages (with the exception of The Wall Street Journal) have maintained a complicit silence. In the area of corporate subsidy accountability generally, the City has demanded little and has received less than it has sought.

In some areas, policies pursued or developed in the past exhibited considerable merit and warrant revisiting for the lessons they offer. In 1982, as the City emerged from the fiscal crisis, the City and the State joined with business supporters on a regional basis to commit to restoring the viability of the New York City Transit Authority and the commuter railroads. That commitment involved developing a series of five-year capital plans under which $34 billion has been expended over the past 18 years to refurbish this essential infrastructure, with the financing coming from business taxes and City and State capital resources. As the next five year MTA capital plan is debated, the biggest question is the lack of sufficient capital resource commitment from the State and the City to expand the system.[19]

While the City's land use policies have generally been hostile to the needs of small and medium-sized manufacturers, in the 1980s the City committed $70 million to renovating the Brooklyn Army Terminal for manufacturing use and developed a zoning plan for the Garment Center side streets that helped preserve space for manufacturing.

In a conscious effort to move beyond the corporate retention approach to economic development, the Dinkins administration in 1993 developed an industry-focused approach that relied on self-help partnerships with industry stakeholders to develop and implement strategies to enhance the competitiveness of several industry clusters. Although the program was officially scrapped by the incoming adminstration in 1994, some of the strategies have been pursued by the software, biotech, film and television production, and apparel industries.[20]

Economic policies like the early 1980s commitment to rebuild the MTA and the Koch Administration's decision on the Army Terminal should be kept in mind as innovative policies are considered for the next decade. At the same

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[19] H. Carl McCall, A Guide for Evaluation the MTA's Proposed Capital Program for 2000-2004. Office of the State Deputy Comptroller, September 1999.
[20] New York City Economic Policy and Marketing Group, Strong Economy, Strong City: Jobs for New Yorkers, City of New York, September 21, 1993.

time, it is important to avoid the pitfalls that have plagued previous approaches, such as those that lacked an appreciation for the limits of the business tax burden or those that relied on redistribution without addressing skill development or asset building.

A broader approach to economic development and economic policy in the city can effectively address many of the criticisms of past approaches by emphasizing:

- expansion of the city's productive capacity and increasing the number of and access to employment opportunities;
- innovative, private-sector oriented strategies responsive to small business;
- industry diversification to ameliorate some of the risk inherent in the city's reliance on the volatile financial sector;
- a labor market strategy that can address the deterioration of labor market conditions for many low income residents; and
- the need to invest in neighborhoods throughout the city.

Private sector leaders -- from businesses of all size ranges, labor unions, community-based organizations, immigrant associations, and other non-profit and civic organizations -- need to play a central role in working with the city to address this broad range of economic priorities.

VI. Opportunities

There are several areas where debate and progressive policy development and organizing and mobilization can make a difference in economic well-being. Initiatives in these areas can have a discernible and beneficial impact.

While they are not capable of fundamentally remaking the New York economy, they have intrinsic merit and will improve the lives of those in the middle and lower end of the earning scale. And since their achievement would most likely require effective political collaboration of business, labor, community, and immigrant organizations, other benefits important to the city's future undoubtedly would flow from that collaboration.

The strategies outlined here can be grouped into five broad categories.

1. Diversify and expand productive capacity and the availability of capital
2. Improve the operation of labor market
3. Invest in and support communities
4. Sensible fiscal policies
5. Promote regional solutions to regional problems

A. Diversify and Expand Productive Capacity

The City now commits considerable tax expenditure and budget resources to its policy of "retaining" large financial and media corporations. Yet it is highly questionable whether these subsidies are actually needed to keep these firms in the city. Netzer noted that arguments against retention deals are often made when economic times are good.[21] While some retention deals may be justified, the vast majority of these firms would never leave, even if they were provided incentives by another city. These public resources

[21] Dick Netzer, "The Outlook for the Metropolitan Area," Economic Policy Review, Federal Reserve Bank of New York, February, 1997.

should be redirected to firms and industry sectors that may actually benefit from them.

- Expanding Productive Capacity. The majority of jobs in the city are provided by small and medium-sized employers. One of the most effective ways for the city to foster the development of good-paying jobs is to expand the productive capacity of these firms either through technology transfer programs, technology assistance, or assistance with marketing – particularly to export markets – financing, and general management practices. Because of their size, many of these firms are ill-equipped to focus their resources on these areas, even though there is potential for expansion.
- Land Use. The current real estate boom has posed great challenges to smaller firms seeking space to expand or relocate. With the commercial vacancy rate lower than it has been in years, rents have increased to prohibitive heights for some firms, driving them across the Hudson or out of business. Many firms forced to leave the city for affordable rents prefer to remain here, close to their suppliers and markets. Often these firms are in the process of expanding their operations, and they would stay if they were able to assemble space that is both suitable and affordable. These are the firms to which the city should be directing its retention efforts. Many of the city's incentive programs are targeted to firms who own their space, while the majority of small firms rent their space. Several approaches should be taken to address the real estate challenges of

smaller firms in the city, including: revamp EDC’s incentive programs to make them accessible to smaller firms who rent their space, and re-institute the Business Relocation Assistance Corporation (BRAC) so firms who must relocate will have an incentive to remain in the city. Many clusters of industrial firms provide desirable environments for manufacturers and should be protected against the disruption that comes with residential and commercial encroachment. Strengthening zoning regulations would be a first step, but site-specific developments dedicated to particular industry clusters would be another option.

- Targeted Workforce Development. The City should facilitate the development of regional partnerships within industry sectors. These partnerships would include firms, labor, community colleges, training consortia and community groups. Industry standards for skill development would be established, so workers and prospective employees can benchmark their achievement in a way that is meaningful across firms and provides an intelligible way for workers to navigate their way to higher employment. Strategic communication between employers, labor, community colleges and training providers ensures that the skills being developed match the skills in demand. By collaborating with one another, firms within an industry are likely to build a network for learning about best practices for improving productivity. Including community groups in these partnerships helps ensure disadvantaged populations gain access to the labor market.

- Infrastructure. New York City needs to maintain an efficient infrastructure capable of supporting high value-added production and services and to foster improved quality of life on a neighborhood level throughout the city. The City also needs to make strategic investments to expand the productive capacity of the city's economy. In the transit area, while the airport transit links are essential, the City should be leading the way in seeking the improvement and expansion of New York City Transit to facilitate the expansion of commercial development in the outer boroughs. The recent preoccupation of the city with massive public subsidy of sports stadiums is misguided, in part because such public investments are widely perceived to be poor economic development investments.[22] Such resources should be devoted to more beneficial development.
- Pension fund investment. The City's five major public sector pension funds have an estimated current value of $90 billion. Without compromising their fiduciary responsibilities or politicizing the investment selection process, these funds could expand their investments in New York City, providing venture capital and investing in communities.[23]

B. Improve Worker Education, Skills and the Operation of the Labor Market

While it sounds self-evident to say that the economic future of working families in New York depends to a large extent on the quality and level of their

[22] New York City Independent Budget Office, "Double Play: The Economics and Financing of Stadiums for the Yankees and the Mets," April 1998.
[23] Examples to follow.

education from kindergarten through college, there is far from unanimous support for making the necessary investments and improvements in the city's public school and public university systems. Some observers even argue that the city's export industries do not need to rely on the local education systems for their workforce. According to this argument, corporations can simply import needed workers from elsewhere.

Our rapidly changing economy poses a challenge for workers, particularly those with families, to upgrade their skills. This situation is compounded by the tendency of most employers to under-invest in skills training. Our economy has too few career ladders that provide opportunities for upward mobility.

There are a host of areas where labor markets do not function as effectively as they could in terms of providing workers with adequate compensation to sustain a family, or providing access to affordable child and health care. Equal access to employment opportunities continues to be a significant issue for New York City's extremely diverse population.

- Public Education. Access to high quality public education should be expanded to ensure that all the city's children receive a sound basic education and an opportunity to attend CUNY. For the non-college-bound, meaningful school-to-work opportunities should be provided.
- Workforce Development. With the passage last year of the federal Workforce Investment Act, there is a new opportunity to link workforce training with economic development. The new Workforce Investment

Boards (WIBs) should foster the participation of all public and private stakeholders, including labor, community, and educational institutions in addition to employers. These organizations have developed creative and effective approaches to linking communities to labor market opportunities. WIBs should prioritize three critical workforce development areas: reducing barriers to employment and developing skills, establishing effective standards and a monitoring system to ensure living wage compensation as a return on skills investment, and promoting creative labor market strategies to foster career advancement. Local government can encourage such efforts by promoting community-business-labor partnerships, establishing linkage programs for corporations receiving City incentives, and acting as an advocate for residents on local Workforce Investment Boards.

- Contingent Work. Across the country, businesses have sought to reduce costs through hiring workers on a contingent basis with lower wages, few benefits, no job security and no training or career ladders. For example, the temporary employment industry has been one of the fastest growing in the city in the 1990s. To address this concern, New York should require a comprehensive review of contingent work in the state, as is currently legislated in Rhode Island and North Carolina. Following the lead of neighboring states Connecticut, Massachusetts and Pennsylvania, New York should also introduce legislation to require equal pay and comparable benefits for part-time and contingent workers doing the same work as permanent employers. Finally, New York State's Task Force on Independent Contractors has recommended a system to make fair determinations of worker classification in order to address the misclassification of workers as independent contractors that deprives workers of rights established by labor and employment law.

- Living Wage. Over forty cities and counties have enacted living wage ordinances as a means to raise the living standards of low-wage workers. These ordinances mandate that companies receiving city monies, either as a contractor or through economic development subsidies, must pay their employees enough so they can maintain above-poverty living standards. In a time when the number of working poor is on the rise, the city should be setting an example for employment practices. The public sector should not be subsidizing or implicitly endorsing employment that offers only poverty wages and that increases government costs for such things as food stamps, Earned Income Tax Credits and subsidies for uncompensated health care.

  The City's 1996 living wage ordinance affects only a tiny fraction of all workers in the city. It should be expanded to cover more workers and raise the living standards of those who are losing ground in this economic expansion. There is no evidence that enacting a living wage ordinance has hurt the workers it intends to help, nor that costs to the local jurisdiction have increased significantly as a result.

- Make Work Pay. For welfare reform to live up to its promise, a mix of approaches is needed to enable former public assistance recipients as well as members of the working poor generally to become self-sufficient. In addition to an increased minimum wage and an expanded living wage, the City and the State need to ensure that low-income workers are spared from paying New York City income taxes. To enable low-income workers to stay in the workforce, the supply of affordable childcare should be increased and health insurance coverage should be expanded.
- Expand Job Access. Concerted efforts, both short- and long-term, are needed to ensure that Black and Hispanic residents have greater opportunities to participate in the leading sectors of the city's economy. Corporate leadership is needed to demonstrate that women and men of all races and nationalities have the opportunity to participate in the city's dynamic, high value-added businesses. Investment in quality education should be made so that residents can be employed in skilled occupations in these sectors once they enter the labor market.

C. Invest in and Support Communities

New York City is a city of neighborhoods. Yet, too often city government is not responsive to the needs and desires of local communities. The result is that economic opportunities for city residents are often short-changed and the quality of neighborhood life and sense of community is not what it could be.

- Community-Based Planning. While the City Charter does specify a procedure to develop 197-a plans as a formal mechanism for community based planning, this avenue is extremely time-consuming and beyond the scope of many communities without financial and technical assistance. The 197-a planning process should be encouraged and supported by City Planning and self-identified community priorities should be accommodated in land use decisions.

- Community Economic Development. The City should work through local development corporations and community development corporations to more effectively promote local economic development with links to the export sector as well as capital development and access on a neighborhood level. Such efforts are critical to creating access to good-paying jobs, increasing community-owned and managed commercial development, and supporting the entrepreneurial activity of city residents.
- Promote Neighborhood Quality of Life. Some of the city's economic development challenges fall disproportionately on a few communities. For example, with the closing of the Fresh Kills landfill, the City has come to rely on truck-based exports of most of its 23 tons of garbage per day. The majority of this garbage travels through a few neighborhoods of Brooklyn and the South Bronx. Residents of these neighborhoods must endure more air and noise pollution, greater risks to residents' safety and higher asthma rates, and greater challenges to the local economic development of these communities. Brownfield conditions in old industrial neighborhoods prevent much-needed industrial space from being developed. Providing a more direct channel by which these communities

could propose solutions would enhance the economic vitality of these neighborhoods.

D. Sensible Fiscal Policies

Sound fiscal practices are essential for local and state government to provide needed public services and infrastructure in a manner responsive to the needs of the economy, which retains the confidence of citizens and businesses, and to weather the inevitable economic downturns without compromising service delivery or ability to meet debt service. Too often, especially in recent years, budget-makers have been reckless in reducing taxes without regard to the impact on government's ability to fund services and make infrastructure investments.

- Rationalize Tax Policy. While the state and local business tax burden can affect business location decisions,[24] one does not get the sense that policy-makers at the local or state levels have pursued well-thought out tax reduction strategies designed to maximize the economic development bang for the “tax cut buck”. The State, over the past five years, has enacted tax cuts that will reduce state revenues by 25 percent. Yet, these tax cuts have not been well-targeted to aid economic development and they are likely to produce significant budget gaps should Wall Street falter. Furthermore, the state cuts have undermined the state's ability to fund the expansion of the mass transit system needed to increase the city's economic capacity.

[24] See, Timothy J. Bartik, Who Benefits From State and Local Economic Development Policies?, Kalamazoo, Michigan: W. E. Upjohn Institute for Employment Research, 1991.

- Utilize Sound Analysis to Support Tax Changes. While it might have been reasonable tax policy to reduce the City hotel tax by one percent in 1994, the Mayor has frequently vastly over-stated the effect of the reduction by attributing the entire increase in hotel occupancy to the tax cut. In a similar vein, the Mayor has touted the upcoming reduction in the sales tax on clothing as a move that will create several thousand retail jobs in the city. To make informed decisions among alternative choices, the public policy discussion needs to be based on credible analysis.

E. Promote Regional Solutions to Regional Problems

The long-term viability of the New York metropolitan region depends on effective cooperation across the myriad political boundaries. Among the issues that can be addressed effectively only at a regional level are transportation, land use, air and water quality, labor demand and supply, and recreation.

- Make the Governance Structure of Regional Organizations More Responsive to Regional Residents. The few regional institutions there are, such as the Port Authority and the MTA, do not have the right governance structures to adequately reflect the needs of regional residents.
- Utilize Regional Taxes or Fees to Finance Regional Systems. Since the State eliminated the New York City commuter tax earlier this year, consideration should be given to imposing a regional transit tax for all commuters with the revenues dedicated to MTA capital purposes.

- Demonstrate Leadership in Region Cooperation. Now that it is well-established that written regional cooperation agreements are totally ineffectual, elected officials need to overcome their customary differences and begin to seriously address working together to build a stronger and more equitable regional economy.

VII. Concluding Thoughts

It is obvious these proposals are not directed at the macroeconomic forces that play a major role in determining what happens in our economy. If we can agree that our major export sectors are in fairly good shape, at least over the course of an entire business cycle, focus can then shift to smaller businesses, to workers, and to their communities. A diversified focus on economic development will bolster the local economy's productive capacity.

These are suggestions for shaping a popular agenda that can make the city economy work better and in a manner that benefits more of its residents. Collective action on several fronts will be needed to make any of this happen, and if such efforts are joined together then collective actions around economic policy issues could become a part of a broader force for democratic and progressive change in New York City.

There are at least four core constituent groups for this strategy: Labor, immigrants, small business, and community organizations representing Blacks and Hispanics. The fragmentation among and within these groups is substantial, and it may take some time to forge working alliances. But there are some hopeful signs. There are several new leaders within Labor and a willingness to be more aggressive and innovative in both workplace and political organizing. The Ad Hoc Coalition for Real Jobs brought together several organizations active among workfare workers and D.C. 37 in support of a City Council bill to create 10,000 transitional jobs as an alternative to workfare. Small business, advocate organizations and labor representatives are active once again on behalf of smarter city policies with respect to manufacturing. Coalitions are taking shape to mount other economic development-related campaigns in the months ahead.