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New York—Today and Tomorrow

By Daniel Rose

“If you want to give God a good laugh, tell him your plans” goes an old folk saying, and that could refer to activities in New York in the days ahead.

The economic unknowns facing New York City are so many and so varied that forecasts are more apt to reflect hopes and fears than careful analysis.

What future office space needs the financial services industry will have, for example, or the print publishing industry and its affiliate, the advertising industry, are beyond knowing. How the macro-economic challenges of our national economy will work out; how New York City will deal with its deficits of \$6.6 billion in fiscal 2010, predicted to grow to \$9.6 billion by fiscal 2013; or even how our banks will deal with huge toxic loans on their books that have not yet been written down, no one can say.

What we can say is that New York City has immense resources: an unequalled critical mass of talented human capital and a history of flexibility and adaptability in times of crisis.

And we have a Mayor whose shrewdness, tough-mindedness and practical experience are well-suited to facing the short term, intermediate and long term challenges ahead.

For New York to thrive in absolute terms, and to maintain its leadership as the world's foremost global city, it must capitalize on its strengths, move resolutely against its weaknesses, and no longer indulge in wishful thinking that we can live indefinitely beyond our means.

Wealth must be created before it can be distributed, and we must do the first imaginatively and the second wisely. Creating and sustaining high-paying jobs and appropriate tax rates, while maintaining a high quality of life is our challenge in this difficult period.

Just as President Obama is trying to do nationally, New Yorkers must deal effectively with our immediate short term crisis without creating worse problems a few years ahead. At the same time, we must not "eat our seed corn" but must invest wisely now in infrastructure and capital projects (both human and physical) that will bear fruit in the future. Crises reshape economies, and as is said, "let's not let this crisis go to waste."

Mayor Michael Bloomberg understands clearly the five major challenges that 21st century New York must meet:

- I) To think “five boroughs” rather than Manhattan alone, since the outer boroughs are not mere bedrooms for Wall Street; “urban sub-centers” are the pattern for the future.
- II) To think occupational and professional diversity, with a “small business” orientation, without such heavy (and unhealthy) reliance on the financial services industry for employment opportunities and municipal revenue;
- III) To think “middle class” as well as “rich” and “poor,” since in the 21st century, a well-educated, hard-working and productive middle class is the backbone of a healthy society; and New York’s middle class is declining;
- IV) To think “Creative Class” as an engine for economic growth.

New York must continue to attract, nurture and, yes, produce, a critical mass of innovative, dynamic individuals whose human capital represents the 21st century equivalent of the agricultural, mineral, industrial and financial capital of the past;

- V) To think “quality of life.”

New York must maintain and strengthen public safety, high quality public education, appropriate physical infrastructure and other “quality of life” characteristics that are the sine qua non, the “that without which” of all great cities. And appropriate housing is high on the list.

To achieve these goals, all of which Mayor Bloomberg espouses, he needs the vocal support of an informed and involved public that understands the problems and endorses difficult choices and painful trade-offs that must be made if New York is to have the future we all wish for but cannot take for granted. We can do it, but, as Oliver Wendell Holmes said, “The mode by which the inevitable comes to pass is called effort.”

The First Challenge: Think “Five Boroughs”

Manhattan’s share of New York City’s non-governmental jobs has declined steadily from 67.6% in 1958 to 61.6% in 2008. This is due primarily to an explosion of new enterprises by immigrant entrepreneurs in the outer boroughs whose growth represents one of the city’s great economic hopes for the future.

Immigrants create more “start up” businesses than native born (more than half of Silicon Valley’s start-

ups were founded by immigrants), and while foreign-born individuals comprise a third of the city's population, they account for half of the self-employed. For example, some 90% of New York's taxi drivers are immigrants, and over a third own their own vehicles.

(Immigrants put in longer work hours and save a higher percentage of income than do the native born, and immigrant children in our public schools out-perform native-born children.)

The Bloomberg administration has actively encouraged such outer-borough growth and gets high marks for its intentions, but this exercise is a "work in progress" that justifies continuing attention and support. Better coordination, integration, promotion and funding of city efforts would be highly cost-effective.

Micro-lending, provision of professional advice, and a continuing review of onerous regulations about which small entrepreneurs complain, are areas to be expanded.

Provision of standard municipal services to the outer boroughs, such as sanitation and transportation, are also important. Not so long ago, comedians joked that Mayor Robert F. Wagner had a secret weapon for

snow removal in Queens. It was called “Spring.” And even today, the city’s transportation authorities seem preoccupied with world class train stations and developments in Lower Manhattan, but largely ignore the crowded and inadequate subway and bus services to the outer boroughs. We can do better.

The Second Challenge: A Diversified Economic Base

The most perplexing question for New York is not how much of its finance industry will move to other places (not much) but how much will evaporate altogether. Nationally, the share of GDP coming from finance reached a peak of 8.3%, and observers believe that will decline to 7% or lower. (It was 5% a generation ago.) Much of that loss will come from Wall Street, which at the height of the boom supplied 9% of the City’s jobs but one-third of local wages.

Where the warm bodies will come from to fill the millions of square feet of proposed new office buildings in lower Manhattan and the West Side is not clear. In the film *Field of Dreams*, the theory was “if you build it, they will come,” but experience in Las Vegas and Miami reveals otherwise (at least not right away). Current office rents in Manhattan are far below those necessary to support new construction.

Fortunately, New York already has a diverse and

innovative economy reflecting a broad range of creative industries, including high tech, media and communication, design, arts, entertainment, tourism, fashion, music, film and TV, international trade, health care and medical research, specialty manufacturing and so forth, with bio-tech and “green” activities expanding.

These provide high paying employment, tax revenues and the excitement that makes New York the stimulating place it is, with its elevated “urban metabolism.”

It is interesting to note that manufacturing accounts for 3.2 per cent of all private sector jobs in New York City, vs. 12.7 per cent in Los Angeles, 11.3 per cent in Chicago, 10.6 per cent in Houston and 7.1 per cent in Boston. Since manufacturing wages tend to be much higher than those of our growing service industries, attention should focus on what manufacturing activities might be encouraged here, given our seaports, airports and rail access.

The Third Challenge: Think “Middle Class”

New York cannot function with only the rich, the nomadic young (who depart when they start families), foreign immigrants, and the local poor; but that is the direction in which our demographics are heading.

More people with B.A. degrees left New York last year than entered.

We need the book editors, web designers, lab technicians, architects, nurses, paralegals, actors, university professors and all those other skilled and educated people who make modern society work.

A Brookings Institution study found that New York City has the smallest proportion of middle-income families of any metropolitan area in the nation, and that the number of middle-income neighborhoods here is shrinking.

The high cost of living is the single most cited reason that so many middle-class New Yorkers leave when they start families. Studies show that a similar standard of living that costs \$50,000 a year in Houston, \$51,430 in Charlotte, \$53,630 in Atlanta, 63,421 in Chicago, \$69,196 in Philadelphia, \$72,387 in Boston and \$95,489 in San Francisco costs \$123,322 a year in Manhattan.

New Yorkers pay the highest costs in the nation for housing (three times the national average) and dramatically higher costs for virtually all other services or purchases. And NYC's taxes are roughly 50% higher than those in America's other large cities.

An important factor in the successful evolution of New York University from a routine “commuter” college to a world-class university was due to its provision of cheap housing for its professors and students, and Columbia University, too, keeps its best professors by providing cheap housing.

Our universities, institutes and research centers are more important to the life of the city than most New Yorkers realize, and appropriate housing strengthens them significantly.

There are, of course, many factors involved in the City’s costs and many difficult trade-offs to be considered; but, at the end of the day, we must try to keep our middle class in New York. They are the ones who are “voting with their feet” at, for example, the high pension costs New York City employees have, compared to the rest of the nation or to the federal government.

They are the ones aware that New York’s teachers unions make it virtually impossible to fire a demonstrably incompetent or dysfunctional teacher or to hire high school teachers of physics, math, chemistry or biology who have majored in those subjects in college.

Second only to high housing costs, better educational

opportunities elsewhere for their children are cited by many of those with children who leave.

Albert Einstein once noted that, in the real world, there are neither rewards nor punishments, only consequences. And we live with the consequences of the conditions we create.

The Fourth Challenge: Nurture the Creative Sector

Plato was first to say that “Buildings do not make a city. People do.” And he could have been speaking of the imaginative, educated individuals who give tone and character to world class cities of the 21st century and who drive the new economic paradigm where knowledge, innovation and creativity are the key.

They reflect the creative sector of the economy whose ideas spawn new industries and modernize old ones, who originate new products, new services and new ways of doing things in science and technology, art and design, culture and entertainment, and the many knowledge-based professions. They staff the new, idea-driven industries that range from software, communications devices and biotechnology to culture and entertainment and, often the convergence of the two.

And every job created in the “innovation sector” leads

to 3.5 jobs created overall.

Until fairly recently, New York had little to fear from competition elsewhere in attracting the world's "best and brightest." That is no longer the case.

Every major city in the world is striving to increase its share of creative workers, and in China and India especially, massive resources are being applied, not only to develop their own but to re-attract to their shores their brain power that has come here. In Europe, cities like London are making major efforts that we can study.

The Fifth Challenge: Quality of Life

Physical safety, which is at the top of all lists of requirements for the good life, gets extraordinarily high marks in New York City, a tribute to Mayors Giuliani and Bloomberg, and to their lieutenants, Bill Bratten and Ray Kelly. We must never revert to the "bad old days."

Public education today gets high marks at the university level, fair marks at the high school level, but poor marks at the elementary level. Although conditions are improving, public perception is that our schools have a long way to go to equal those elsewhere; but continuing mayoral control of our

public schools holds out hope for the future.

Shortages of affordable housing, especially for the middle class, are widely seen as New York's Achilles Heel.

The time clearly has come for large scale rental housing development in the outer boroughs in the form of a new version of the 1955 Mitchell Lama rental housing program which passes along to middle class renters the benefits of real estate tax exemption, low financing costs and limited profits for developers.

Huge savings, resulting in even lower rents, could be achieved if these housing units could be built "non union" rather than "union" since union work rules and regulations stifle productivity and add some 20% to construction costs.

We must get the maximum amount of housing out of the dollars available. Higher developmental densities at existing transit hubs in the outer boroughs are indicated, to help us create the new housing we need.

The subject of rental housing vs. ownership is complex, but rental is preferable for young people who are mobile, for families whose needs change and for those who are better off with the flexibility renting permits.

The union/non-union question goes against New York traditions and customs, but the dollars-and-cents impact on middle class rent charges is substantial.

This is an example of the painful trade-offs we must face.

Conclusion:

New York City is facing a difficult period, but past experience shows that the City can rebound stronger and more vital than ever. Not by inertia, however, but by “taking arms against that sea of troubles and by opposing, end them,” by steps mentioned previously. That rebound will be faster and easier if an informed public actively supports its leadership in positive and concrete actions.

Two additional examples would be to support Mayor Bloomberg in two important initiatives he espouses: “congestion pricing” and reintroduction of New York City’s commuter tax. Both these programs could gain enthusiastic public acceptance if they were to be marketed appropriately.

“Congestion pricing,” which works so effectively in London, Oslo, Singapore and wherever else it has been tried, was unfortunately presented to New Yorkers essentially as an environmental effort to reduce gasoline

consumption and to improve air quality (for which no one wants to pay). Had it been made clear that every penny flowing from congestion charges would be applied to improved subway and bus service to the outer boroughs, a powerful constituency would have been created.

The reinstatement of the successful commuter tax, which helps the City to defray the substantial costs commuters impose on the City, is another “no brainer.”

First introduced in 1966 with the advocacy of Mayor John Lindsay, this source of revenue brought to New York billions of sorely needed dollars, until it was revoked in 1999 by our dysfunctional State legislature, prodded by New York City Democrat Sheldon Silver to help an embattled political crony in Rockland County. The commuter tax can and should be reinstated.

Another area in which Mayor Bloomberg needs public support is in his efforts to rein in our municipal unions and to bring their off-the-scale pension benefits, unproductive work rules (such as stopping at 4 PM), and excessive overtime payments in line with practices elsewhere.

One possible outcome of the present crisis is a restructuring of our union arrangements, with some relationship between benefits and increases in productivity.

New York can of course transcend its present difficulties.

We need only the leadership (which we have) and the political will (which we can muster), to focus on the long term general good (meaning investment) rather than primarily on our own short term benefits (meaning consumption).

In ancient Greece, young men assuming leadership positions took a vow to transmit their city to future generations “enhanced if possible, but in no case diminished,” and that is not a bad guide for us today.

(Daniel Rose’s talks can be found on www.danielrose.org)