

## EVOLVING NEW YORK

**N**ew York City is seen today as the world's pre-eminent "global city." Its concentration of human and financial capital, its cultural attractions, and the energy and intellectual ferment of its populace are acknowledged throughout the world. Its advantages are formidable.

On the debit side, New York has become an increasingly difficult and expensive place in which to do business, raise families, and educate children. Middle-income workers and their families are moving to the suburbs, exurbs, and out of state—a continuing historic pattern—at a rate nearly equal to the inflow of newcomers. In addition, the city for some time has been losing market share in the industries in which it once led, lagging in business startups, and becoming unattractive to fast-growing smaller companies. These are not cyclical but structural problems that must be faced.

Other concerns are New York's dependence on a financial services industry under pressure to disperse geographically; and the fact that New York has the highest taxes in the nation, a scarcity of affordable housing, an inadequate public school system, and an undersized and outdated mass transit system that required the disaster of 9/11 to attract the major capital needed to expand.

In a broader context, New York shares the national challenge presented by the geographical and technological decentralization of the American workplace, and it wrestles with how to balance "lifestyle growth" with economic growth. Its local challenges include issues involving municipal, metropolitan, and regional coordination and gov-

ernance; subsidies for current consumption versus investment for the future; and the complex ramifications of demographic change.

Retaining and capitalizing on the city's strength while adjusting to or modifying its weaknesses will be difficult in a climate in which federal and state governments mandate expensive services they do not fund, in which both the federal and state governments extract from the city vastly more in taxes than the revenues they return in grants, and in which city and state politicians lack the courage or strength to live efficiently within their means.

The New York City of the future will be a dynamic and exciting place; in what way and for whom will be determined by how it addresses issues such as the city's continuing role as the world's financial center; its ability to house, educate, and serve others as well as the rich and the poor; its constructive steps to diversify its economy, stimulate healthy expansion in the outer boroughs, and bring its immigrant and inner-city poor into the economic and social mainstream; and— most important— its determination to live within its means.

#### DEPENDING ON FINANCIAL SERVICES

The importance of the financial services industry to every sector of New York life is reflected by the fact that contributions from that industry make up one-quarter of the city's payroll taxes.

Technological innovation, high operating costs, even higher local taxes, and, most recently, post-9/11 concerns for physical safety have contributed to the fact that the overwhelming job growth in the financial services sector over the past decade has occurred outside of New York. This tendency toward geographic dispersion of financial services is likely to continue.

New York, must, of course, nurture its financial sector, but it also should learn from the examples of other cities that have overcome severe diminution of their major businesses (such as Houston and Los Angeles). It must develop a highly diversified, small business-oriented economic base that is spread throughout the city—not concentrated in midtown or downtown Manhattan.

Rigorous and imaginative efforts to encourage startups in high tech, new media, communication and entertainment—as well as in fashion, the arts, biotechnology, and life sciences—should be high on everyone’s agenda, as should efforts to stimulate importing, wholesaling, and warehousing activities in the outer boroughs. Government, which should not try to pick winners, can coordinate industry efforts and information exchanges, can modify counterproductive regulations, and can provide appropriate infrastructure.

## HOUSING

New York’s housing problems—high costs and scarcity of affordable units—are to some extent self-inflicted wounds, but housing demand at the lowest economic levels is so great that it defies easy solution. To stimulate new affordable housing production, a recasting of the city’s outdated 1961 zoning resolution—a 900-page document riddled with loopholes and gray areas needing interpretation—would be a major first step. The resolution’s basis concept—strict segregation of uses—is no longer relevant, and some of its judgment calls, such as reserving a third of the city’s waterfront for heavy industry, are misguided.

Long overdue are appropriate increases of permissible development densities in underdeveloped areas with access to mass transit, an overhaul of New York’s byzantine regulatory practices and building codes, and a sensible revision of work rules for local construction trades.

Changing existing two-family zoning to three-family zoning would make available tens of thousands of inexpensive housing units for low-income immigrant groups, and proper code enforcement would make safer those units already converted illegally. In addition, small homebuilders in the outer boroughs, rather than high-rise developers in Manhattan, may provide an important answer to New York’s housing scarcity.

Fresh approaches to developing single-room occupancy structures and congregate housing for the elderly are needed, as is continuing assistance for middle-income families through 80/20 and 421a programs, as well as similar efforts.

## BLUE COLLAR V. WHITE COLLAR V. SPORTS SHIRTS

Fifty years ago, New York was home to 140 Fortune 500 companies; today, that number is down to 33. As the national economy continues its relentless shift from manufacturing to services, New York will never again boast the million industrial jobs it has in the 1950s. Since 1980, the city has lost 50 percent of its garment industry, 45 percent of its printing industry, and 15 percent of its wholesale trade.

As a high-cost area, New York cannot compete on the basis of price in the production of high-volume, standardized goods. But it can compete in design quality, customer service, and quick turn-around time, and those features should be encouraged and supported.

The talk of millions of square feet of new office construction in lower Manhattan ignores the millions of square feet of vacant office space available in New York today (at rents well below rents for new construction), and it assumes a degree of white-collar job growth that is unlikely to occur in the foreseeable future.

The far west side of Manhattan is rightly called the borough's "last frontier" for major commercial expansion, but the appropriate mix of uses would be best left to market forces, once improved mass transit is in place.

## SHOPPING FOR FUN AND PROFIT

Vibrant retail activity improves the quality of urban life, is an important source of municipal revenue, and is a factor in attracting the 40 million annual tourists that are so important to New York City's economic and cultural life.

The city is seriously under-retailed, with 265,000 retail jobs employing 33 out of every 1,000 residents; in Nassau-Suffolk, the ratio is 58 per 1,000; and in Bergen-Passaic, it is 56 per 1,000. Retailing in the outer boroughs deserves support because it makes those areas more livable and because it is a major source of entry-level employment for young people.

Additional municipal parking facilities would help small outer-borough retailers compete more effectively with suburban big box stores.

## EDUCATING THE POPULACE

Traditionally, two of New York's glories were its police force and its public school system. By the 1980s, however, conditions had so deteriorated that the city's crime rate was a national scandal, and City College, which a few decades before had produced Nobel Prize winners, was granting degrees to some students described by one City College dean as "functionally illiterate."

Since then, the turnaround in the crime rate has become an internationally recognized triumph, with homicides down from 2,200 per annum in 1990 to fewer than 600 today. But the city's public school system still has a heartbreakingly high percentage of fourth graders who are unable to read and almost the same percentage of students who drop out of high school before graduation.

For the first time, New York's mayor has been granted effective control of the school system, and his energetic chancellor has pledged dramatic reforms. Mayor Michael Bloomberg and Chancellor Joel Klein have expressed their commitment to changing the culture of the school system from one of low expectations and defensiveness to one of accountability and high achievement, and their first steps have been promising.

Recent dramatic success at the undergraduate and graduate levels at New York's municipal colleges is a testament to what can be achieved by tough-minded administrators insisting on high standards for admission, retention, and graduation. Today, a degree from City College is, once again, a worthwhile credential; five years ago, it was not. If the same turnaround could be achieved at the elementary and high school levels, the impact on city life would be dramatic.

## THE DOLLARS AND CENTS OF CULTURE AND ENTERTAINMENT

Culture and entertainment activities employ more than 150,000 workers in New York and add over \$15 billion a year to local coffers. More important, such activities are significant factors in the quality of life that help the city attract the educated, sophisticated workforce that is its hallmark.

Government and philanthropies should encourage and support cultural groups to strengthen their viability. In today's real estate market, a shortage of space for rehearsal, performance, and arts exhibits, and for affordable office space for cultural nonprofit organizations, is a growing problem that merits attention.

#### FREE FLOW OF IDEAS, CAPITAL, AND GOODS— WHAT ABOUT PEOPLE?

Transportation access—once one of New York City's major competitive advantages— has today become an increasing disadvantage. The city's subways, commuter rail lines, and highway system are sadly out of date. In 1992, the John F. Kennedy International Airport was the country's busiest cargo airport and ranked seventh in passengers. In 2001, it ranked sixth in cargo and 14th in passenger traffic.

Change is on the way; the application of 9/11 federal aid to mass transit is triggering long overdue improvement of access to lower Manhattan, one-stop mass transit to the city's airports is now in sight, and Manhattan's first subway expansion in two generations will eventually open up the west side of midtown to overdue development.

The introduction of tolls on the East River bridges and the reintroduction of a commuter tax would each raise \$500 million a year. Congestion-based road pricing for automobiles—already successful in London, Singapore and Oslo— would raise additional revenue, and if those sums were applied to debt service on mass transit capital expenditures, the impact on life in New York would be momentous. Better transportation into and within the city would not only improve the quality of life but also would help to reverse the decline of various business activities.

#### PEERING INTO THE CRYSTAL BALL

The remarkable resiliency of New York, demonstrated so clearly when the city came close to bankruptcy in 1975 and again when it faced the trauma of 9/11, shows that New Yorkers can do what they must.

And when their feet are held to the fire, politicians will acknowl-

edge that wealth must be produced before it can be redistributed, that government services can be provided efficiently, and that overtaxed businesses will flee to lower-cost suburban or out-of-state locations.

The tax-borrow-spend policies of the administrations of New York City mayors Robert Wagner, John Lindsay, and Abraham Beame wrought havoc with New York business and with the stable, middle-class communities of the outer boroughs. What happened once can happen again.

Today, New York State's income taxes are five times the national average; sales taxes in New York City are double those of most states; the city's property taxes are more than one-third higher than the national average; and New York State has a higher ratio of public employees to residents than any other state. The state's semi-independent authorities and public benefit corporations, shielded from public scrutiny and saddled with over \$105 billion of debt, are rife with inefficiency and cronyism. New York State's general obligation bonds have the dubious distinction of receiving the poorest rating of any state in the nation from Moody's Investors Services.

New York City's unionized municipal employees' salaries are among the highest in the nation, while the productivity of these employees is among the lowest. The privatization of many government services—from garbage collection and hospital and prison administration to the provision of children's services—which is so successful in other cities, would lower costs and improve service. Tying municipal salary raises to productivity increases would be another approach.

The city's advantages are extraordinary; its problems are manageable when it faces up to them; and, barring the unforeseen, the future should be bright. The application of vision, energy, and competence in the years leading up to World War II made New York City the world's first 20th century city. Today, it has within its power the ability to become the world's 21st century city.

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