DECIPHER

An Internal Publication of the Department of City Planning

Volume I, No. 3 June 1992

NYU Professor Debunks Economic Myths

By Mitchell L. Moss

The City Planning Commission recently heard the last of a series of seven panels on issues of relevance to the preparation of the Planning and Zoning Report required by the revised City Charter. Mitchell Moss, director of the Urban Research Center at New York University, was the first speaker at the first panel, held in Spector Hall on March 9. The topic was "The Economy." Professor Moss has revised his remarks for publication in DeCiPher.

The City of New York faces special challenges in economic development as it prepares for the next century. The forces that allowed New York to flourish in the 1980s — the deregulation of financial services and the boom in commercial real estate — are now history. New York City needs a new economic development agenda that builds upon the city's unique assets while serving an increasingly integrated global economy. It is essential to recognize that economic development policies are often governed by myths that are no longer useful as guides for public intervention.

Let me describe the four myths of economic development:

1. The myth that businesses leave New York City solely because of high taxes. Firms have been leaving New York City for more than 100 years. In the 19th century, manufacturing firms moved from Manhattan to Brooklyn (then an independent city) and to New Jersey, where they could acquire large parcels of land at lower cost than in New York. In the 1950s, the major commercial banks moved their credit card operations to Long Island, where they could gain access to a skilled labor force and inexpensive office space at a lower cost than in New York City. In the 1970s, many corporate headquarters moved to Westchester County and Fairfield County, Connecticut, in order to reduce commutation time for executives living in the suburbs. In the 1980s, many financial services firms moved their back offices to sites in New Jersey, Delaware and Florida, where they could take advantage of cheap space, tax incentives, nonunion labor, and low-cost energy.

New York City is, and has always been, a high-cost city when compared with other domestic cities such as Dallas, Tampa and Denver. The City of New York will never be able to compete for office activities on the basis of cost; rather, the city must compete on the basis of value — the City of New York offers a superior mix of labor, a better telecommunications and transportation infrastructure, and a more attractive milieu for innovative and information-driven industries, than other locations in the United States.

2. The myth that real estate development is equivalent to urban economic development. During the last decade, employment in financial services and in advanced business services, such as law, advertising, accounting and management consulting, grew dramatically. These office jobs generated an intense demand for large office buildings, capable of accommodating mainframe computer systems, advanced telecommunications systems and high-capacity energy systems. As a result, we witnessed a shift from the Wall Street area to the perimeter of lower Manhattan, where space was available for the construction of buildings with 40,000 to 50,000 square feet of office space per floor.

The boom in office construction is over, in New York City and the nation. Today, there is almost 60 million square feet of vacant office space in New York City, much of it in older buildings unable to serve modern telecommunications-intensive office functions. The City of New York should recognize that the creation of new commercial office space is not a priority for government. It is time to reconsider the wisdom of building four million square feet of office space in Times Square. Emphasis should be given to recycling older office space to serve new uses and to facilitating the absorption of new but vacant office space.

3. The myth that telecommunications technology will eliminate the need for the central city. New communications technologies are no substitute for face-to-face interaction, the principal way in which information is produced, processed, and distributed in the City of New York. New telecommunications technologies certainly make it possible to work at home, to move activities to low-cost sites, and to communicate electronically rather than in person, but they have not and are not likely to eliminate the need for person-to-person contact. The trading room of most financial institutions is a remarkable combination of human density and capital-intensive technology that links the activities in one room to similar rooms around the world.

Telecommunications has made it possible for information and ideas generated in New York to be converted into services and products that are marketed around the world. This occurs in fashion, culture, finance, advertising and biomedical research. In an era when our public infrastructure — the roads, sewers, water mains and subways — are in disrepair, the privately financed telecommunications infrastructure has been a distinct asset to New York's economic competitiveness.

4. The myth that the federal government will solve the problems of big cities. In a presidential election year, it is appealing to think that new leadership in Washington will produce a set of policies to renew urban America. However, cities account for less than one-third of the presidential vote and are increasingly perceived by most Americans as centers of crime, homelessness, drugs and poverty. Given the federal deficit, it is misleading to think that there will be a infusion of federal money to deal with the problems of the cities.

Rather than depend on the federal government, the City of New York should formulate its own economic development plan and seek funds from state and regional agencies that can reinforce its economic development priorities.

In looking to the future, New York City's economy will increasingly depend on "intellectual capital" industries, those that apply information and intelligence to the creation of new services and products whether it be in advertising, biomedical research, finance, the arts or manufacturing. New York City's economy will depend on a diversity of sectors that share a common attribute: they rely on human talent and know-how to generate ideas and innovations that can be marketed around the world.