New York's Down, But Not Out

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The news that unemployment rates in the New York metropolitan area surged yet again in November was a grim reminder that the recession has not yet run its course. In 1992, the region could well lose another 100,000 jobs before the cycle of growth resumes. With all this economic bloodletting, is there any reason to be hopeful about the New York area's future?

The answer is clearly yes. New York may be down, but it's not out. Despite the severity of the recession, the New York region possesses remarkable strengths that could provide the foundation for sustained economic growth in the mid-1990s and into the next century. But this potential will be realized only if decision makers understand the character of New York's strengths and are prepared to make the investments needed to capitalize on them.

During the last two decades. the metropolitan area has become more and more integrated into an expanding global economy. This trend is reflected in the growth of Manhattan's international financial activity, higher levels of international traffic at Kennedy and Newark airport, the growth in suburban manufacturers' export sales and a surge in foreign investment throughout the region.

As the world economy has become more integrated, this regions global role has become more specialized. But New York's specialization is not based on strengths in one or a few industries - such as Detroit enjoys in autos or Houston in oil. It is based instead on the type of work done here.

The city is a center for the generation, packaging and communication of ideas that shape how goods and services are produced and marketed throughout the world. These include the products of corporate research and development: strategies formulated in the regions multi-national headquarters: new financial products, innovative medical treatments: designs for apparel and furniture, and the work of authors, playwrights, architects and composers. The people who produce this intellectual output are only a small percentage of the regions work force - but they provide much of the energy that drives its economy.

Another great source of strength is the thousands of firms that turn new ideas into high-value goods and services. They include New Jersey specialty chemical companies, Manhattan high-fashion apparel Firms and Long Island electronics firms: investment banks, engineering firms, publishers and theatrical production companies. The variety of goods and services they produce is almost infinite. What they have in common is that they are not mass-produced, but are tailored to the needs of specific customers or small groups of customers.

New York also has the world's richest array of services that support the creation of intellectual capital and its use in high-value production - attorneys, management consultants, advertising agencies, air express companies, the colleges and professional schools that provide skilled labor, and many others.

Together, this "intellectual capital sector" accounts for ' about a quarter of all employment in the metropolitan area. and it generated much of the job growth the region enjoyed in the 1980s. The growth of jobs and earnings in this sector also helped fuel growth in the '80s of the regions local service sector all the businesses from neurosurgery to newspapers to neighborhood groceries that cater to the region's residents.

But the New York region's increasing specialization in intellectual capital has a darker side as well. Routine production and distribution - including functions as diverse as petroleum refining, low-end garment manufacturing and the processing of insurance claims - have declined sharply. These activities tend to be highly standardized and cost-driven, so they migrate to where costs are lowest.

In the 1990s and beyond, New York's ability to thrive in an increasingly integrated world economy - and to alleviate the problems caused by poverty - will depend on its ability to sustain the growth of its intellectual capital sector and on its success in extending to its poorest citizens the new opportunities that growth will create.

To achieve these objectives, state and city governments will have to redefine their investment priorities. They must invest more in human resources - in literacy programs, libraries and job training. They must maintain adequate funding of schools while restructuring them to be more responsive to children and parents. They must accelerate the modernization of the infrastructure that links region to the world economy - notably its airports, airport-access systems and telecommunications networks.

The region also has other assets that it can use to enhance its standing as a world center of intellectual capital. Among the most valuable of these is the area's diverse and growing immigrant population. Just as refugees from pogroms and potato famines helped in earlier eras to reinvigorate New York's economy, so today are newcomers from Hong Kong and Haiti, St. Petersburg and Santo Domingo. They represent an enormous infusion of talent, and they enrich immeasurably our connections to the global economy.

Investing more aggressively in these areas will not be easy for the region's financially strapped governments - but it is not impossible. Many new infrastructure investments can be financed by user fees, others by the private sector.

Investing wisely

Job training can be financed by redirecting unemployment insurance and welfare funds now used to subsidize unemployment and dependency. And public funds can be shifted away from programs that may no longer make sense, such as development subsidies that simply add to the oversupply of office space.