

# from Beaver Pelts to Derivatives

Why New York City thrives.



BY MITCHELL L. MOSS

It's no accident that New York City has more billionaires than any other city on earth, according to Forbes magazine. New York is a wealth-creating city. Ever since Henry Hudson sailed into New York Harbor almost 400 years ago, the energy force shaping New York has been the desire to "make it," to succeed by the one measure understood by everybody: money. Unlike Boston or Philadelphia, which were founded by religious groups seeking freedom, New York, then known as Nieuw Amsterdam, was founded by a private firm, the Dutch East India Company which established the trading post that has grown into the New York of the 21st century.

## Reinvention through Innovation

Each generation of New Yorkers finds a new way to generate wealth by creating products and services—whether it's machine-made ladies' undergarments, the Bloomberg terminal, or derivatives based on Russian T-bills. New York is not a city that stands still, like Pittsburgh, which watched the steel industry move abroad, or like Detroit, which surrendered the American automobile market to foreign manufacturers.

New York has continually reinvented itself: from trading beaver skins to refining sugar, from financing the nation's railroads in the late nineteenth

century to inventing MTV and the music video in the twentieth century. Our wealth is based on our capacity to adapt to new technologies of distribution and production. We should thank our founding fathers for moving the nation's capital to that hub of humidity, Washington, D.C. Unlike every other major international city, London, Moscow, Paris, and Tokyo, we are not our nation's capital. That has been a blessing for the city—allowing a spirit of creativity, competition, and innovation to flourish here, unimpeded by the self-importance of federal policy makers and lobbyists.

## Across Time and Technologies

in the eighteenth century, we converted raw materials into finished goods that were shipped by sea; in the twenty-first century, we develop ideas and information that flow instantaneously around the world through optical fiber and satellite. What distinguishes New York from all other cities is the fact that we have never relied on one single industry. We have lived by our wits—largely because we never had the wealth of raw materials that were the foundation for so many other cities.

We built a book publishing industry by getting ships from England to

# new york city



WITH SO MANY RICH INDIVIDUALS IN ONE PLACE, PUBLIC RECOGNITION IS INCREASINGLY BASED ON WHAT YOU GIVE, NOT WHAT YOU HAVE. THIS, OF COURSE, IS WHY WE HAVE SUCH A SPECTACULAR ARRAY OF MUSEUMS, DANCE COMPANIES, PERFORMANCE SPACES, UNIVERSITIES, AND HOSPITALS. IN NEW YORK, THE RICH DON'T JUST COMPETE IN BUSINESS; THEY COMPETE IN THE WORLD OF PHILANTHROPY AS WELL.

carry the bookplates then used by printers; we created a world-class fashion center by processing cotton into finished apparel; we invented the sound motion picture when all movies were silent; and made New York the premier financial center by constantly finding new ways to finance debt for governments and businesses. Unlike Seattle which is tied to high tech and biotech, Houston which depends on oil drilling and refining, and Northern California which depends on the computer and software industry. New York City is not a one industry town. From our earliest days, we served global markets: exporting oysters from Gravesend Bay and furs and pelts from the Hudson Valley. Today, the world's largest privately owned translation company, TransPerfect, Inc., is headquartered in midtown Manhattan and draws upon the city's multi-lingual labor force to provide round-the-clock translation for the world's leading multinational firms.

## The Flow of Wealth

Throughout the history of New York, every immigrant group has found an economic niche enabling them to escape the confines of poverty. In the nineteenth century, the Irish gained control of the city's piers and docks. Loading and unloading steamships provided jobs and the basis for new

maritime-related businesses. William Grace, who was elected Mayor in 1880, started out in the shipping business on Manhattan's Westside piers. And the tugboats of New York harbor are still controlled by the Moran family, which began by purchasing a tugboat to guide steamships in and out of New York Harbor in the 1800s.

When financial services were deregulated, the families that dominated Wall Street faded away, but not the industry itself, which went through a fundamental transformation. The privately-owned family firms that once defined the world of investment banks and stock brokerage: Loeb Rhodes, E. F. Hutton, Kidder Peabody, and Hayden Stone, could not compete in a world of competitive brokerage fees and interest rates. They have been replaced by global players like UBS, AXA Financial, Bank of America, Citicorp, and JP Morgan Chase. Brainpower replaced bloodlines in banking and finance. This has led to a new generation of wealthy financial wizards whose success is based on mathematical algorithms and quantitative skills rather than family connections and pedigree.

In sharp contrast with other cities, New York's wealthy households prefer to live in the city, not in the surrounding suburbs. Their time is too valu-

# new york city

able to spend 20 hours a week commuting. With the dramatic improvements in New York City's safety and parks, living in New York City is especially attractive to "power couples"—the high income married professionals who, while outsourcing their childcare, still want to see their kids before they leave for work in the morning.

## The Urban Frontier

Contrary to conventional wisdom, the rich are no longer confined to Manhattan's upper eastside, which increasingly looks like a naturally occurring retirement community. The Park Avenue to Fifth Avenue corridor may be packed with the wealthy, but their offspring prefer to live downtown, anywhere between Union Square and the southern tip of Manhattan. The wealthy of New York are located in Riverdale in the Bronx, Forest Hills Gardens, and Douglaston in Queens, Brooklyn Heights, parts of Ocean Parkway in Brooklyn, and Staten Island's Todt Hill, which is the highest point in the entire city at 408 feet above sea level.

One of the remarkable trends in New York is the way in which architects and developers take advantage of the improvements in public safety and create new places that were once too desolate or dangerous in which to live. Just look at the emergence of Bond Street in NoLita where new housing sells for \$3,000 a square foot or to Soho and West Chelsea where every industrial building has been converted into luxury housing during the past twenty years.

In fact, no other state has such a large number wealthy households living within its major cities. In New Jersey, all of the state's "rich Americans," as listed in Forbes magazine, live in suburban communities, not any of the Garden State cities. In California, most of the "rich Americans" live in San Mateo, Palo Alto, Malibu, Beverly Hills, or San Marino, not big cities like Los Angeles or San Francisco.

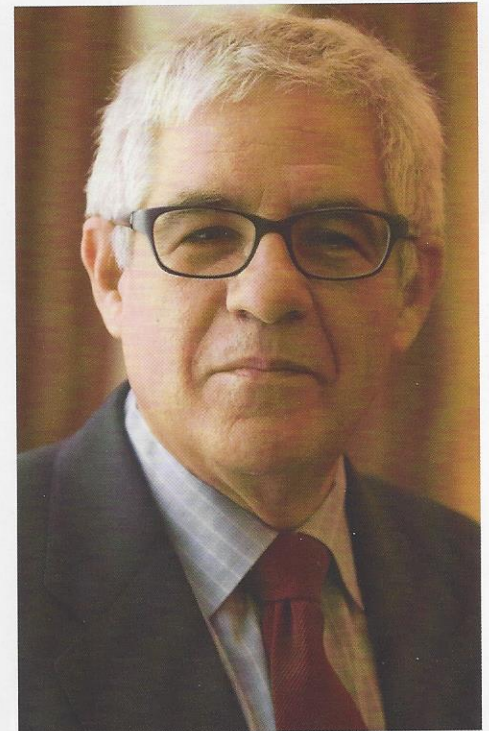
One trend that has endured for more than a century is the way in which successful business people—who have made it elsewhere—eventually move to New York City. More than a century ago, John Rockefeller moved his Standard Oil empire to Manhattan. And Andrew Carnegie may have started in the coal fields of Pennsylvania, but he ultimately relocated to New York City. More recently, Mort Zuckerman, (who was born in Canada) started out in Boston but quickly realized that the opportunities for success in New York were far greater. And does anyone believe that George Steinbrenner, a Cleveland native, would have become a household name if he had not purchased the New York Yankees? Even the Australian Rupert Murdoch recognized that New York provided a unique platform for directing his global media which encompasses everything from The

New York Post to The Wall Street Journal and FX TV to MySpace.com

## The New Social Compact

There are enormous social consequences stemming from the large concentration of wealthy households in New York City. Not only do they pay a disproportionate share of the city's income tax, they also provide the leadership and philanthropic base for our cultural institutions and medical centers. With so many rich individuals in one place, public recognition is increasingly based on what you give, not what you have. This, of course, is why we have such a spectacular array of museums, dance companies, performance spaces, universities, and hospitals. In New York, the rich don't just compete in business; they compete in the world of philanthropy as well.

Of course, we still have more than one million people living below the federal poverty line in New York City. And that's why the rich in New York are willing to pay taxes and support the non-profit organizations that serve the poor. They understand that the city cannot abandon those most in need. There is a reason New York City spends so much on the homeless, on helping families at risk, and on health care for the poor. By maintaining a stable social system, the economy is able to function—and no group has a bigger stake in the city's



continued well-being than those who have made it here. Not much has changed since the philosopher Paul Bourget noted more than 100 years ago: "In Boston, they ask how much does he know? In New York, how much is he worth? In Philadelphia, Who were his parents?"

Professor Mitchell Moss is a longtime Rothman customer, and the Henry Hart Rice Professor of Urban Policy and Planning at New York University's Robert F. Wagner Graduate School of Public Service. Mr Moss's essays have appeared in *The New York Times*, *New York Post*, and *The New York Observer*, among others. His articles are available at [www.mitchellmoss.com](http://www.mitchellmoss.com).