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Economic Development: Resolving the Parallel Universe Dilemma

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TOWARD A 21ST CENTURY CITY FOR ALL

PROGRESSIVE POLICIES FOR
NEW YORK CITY IN 2013
AND BEYOND

Economic Development: Resolving the Parallel Universe Dilemma

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The next mayor faces several challenges in the economic development arena: a climate of fiscal austerity; the imperative to create a legacy that distinguishes the new administration from its predecessors; and an obligation to steward continued growth while working to repair the economic distress and dislocation that still affect low-wage workers and the unemployed. If the next administration pursues both growth and equity goals in economic development policy, it can consolidate the achievements of Mayor Michael Bloomberg's administration while responding to the challenge made by many advocates and stakeholders that much more can be done. In addition to promoting growth, the new mayor can prioritize reducing poverty and connecting a new generation of New Yorkers to the middle class, rather than separating the quest for growth from the quest to improve economic well-being in the bottom third of the labor market.

Many things can be learned from the current administration, and many of its economic development initiatives should and will continue. Yet the next mayor needs to open a new play book on reconciling growth and equity by explicitly setting such goals as more evenly spreading income growth and greater economic mobility for low-wage earners. Luckily, a new administration does not need to feel around in the dark for solutions. Several cities – including Los Angeles, as outlined in Cecilia Estolano's companion essay – have pursued pro-growth strategies that focus on these things. Estolano's examples and others show how policies that embed community partnerships into the DNA of city government and promote basic workforce linkages into economic development projects can achieve both equity and growth.

This paper reviews the recent history of economic development policy in New York City and suggests four new “growth with equity” strategies:

- Replace discretionary and as-of-right subsidies to firms with investments designed to stimulate labor demand, including investment in public infrastructure;
- Use available public levers, including standards attached to economic development subsidies, to increase training, earning, and economic mobility opportunities for unemployed and low-wage workers, and connect them with the economic development agenda;

- Strengthen the city's core blue-collar employment base by bringing a deliberate equity vision to the management of the city's physical assets, especially industrial land; and
- Activate a career pathways system that links secondary schooling both with post-secondary education and training and with the labor market, particularly the new jobs that are being created.

1. Economic development policy: A recent history

When he entered office in January 2002, Mayor Bloomberg inherited a city reeling from the economic after-effects of the 9/11 attacks. Since the 1980s, New York City's economy had risen and fallen with the fortunes of the finance sector, which by 2001 accounted for 10 to 15 percent of total employment while producing 32.2 percent of wages earned (Bureau of Economic Analysis 2000-2011; New York State Department of Labor 2000-2011). The past three mayoral administrations had presided over a Wall Street-driven economy, organizing policy around the city's identity as the capital of global finance. After 2001, it became increasingly clear that finance might join insurance in secular decline. Moreover, 1.7 million people in New York City (20.5 percent) lived below the federal poverty threshold, and many households had at least one member who was working full-time. Both the city and the state had become more economically polarized (Fiscal Policy Institute 2001; Lander and Wolf-Powers 2004; Levitan 2003; Able and Deitz 2012).

During Bloomberg's first run for mayor, he vowed to end the inefficient use of tax expenditures on "retention" deals – subsidies reaped primarily by financial services firms whose need was doubtful and whose track record of meeting job creation and retention commitments was poor (Center for an Urban Future 2001; Good Jobs New York 2004; New York City Independent Budget Office 2011).¹ Bloomberg pledged to grow the economy by improving basic services to businesses, directing city resources to promising industry sectors beyond FIRE, and making the city a more attractive place for technology entrepreneurs and start-ups. Starting in 2002, his economic development team followed through on these objectives, curbing corporate retention subsidies and launching substantial new initiatives to grow key sectors of the knowledge economy. An implicit goal of the administration's livability, open space, and alternative transportation strategies was to draw and retain college-educated workers, now considered essential to urban and metropolitan prosperity (Glaeser and Saiz 2003; Moretti 2011). This too succeeded.

Finally, the mayor pursued an ambitious real estate development agenda, including both rezonings and city-sponsored or city-facilitated development projects that in some cases yielded important new amenities. As of September 2012, the city had regained the jobs it lost in the 2007-2009 recession and was positioned for more sectorally balanced growth going forward (New York State Department of Labor 2012).²

¹ Mayor Bloomberg's predecessors were well known for deals in which banks, brokerages, and related firms successfully negotiated deep tax abatements, exemptions or grants in exchange for keeping jobs in the city and promising new ones, only to leave the terms of these agreements unfulfilled without penalty in many cases. Between 1995 and 1997, for example, AIG, Bear Stearns, Merrill Lynch and Citibank each struck multi-million dollar retention deals with Mayor Rudolph Giuliani's administration that never met job retention and creation goals (Good Jobs New York 2009).

² The city lost 140,000 jobs during the 2007-2009 recession, but regained 190,000 as of August 2012.

Table 1: NYC Local Area Unemployment, 2007-2012

Labor Force, Employment and Unemployment, 2007-2012
(Annual Average)

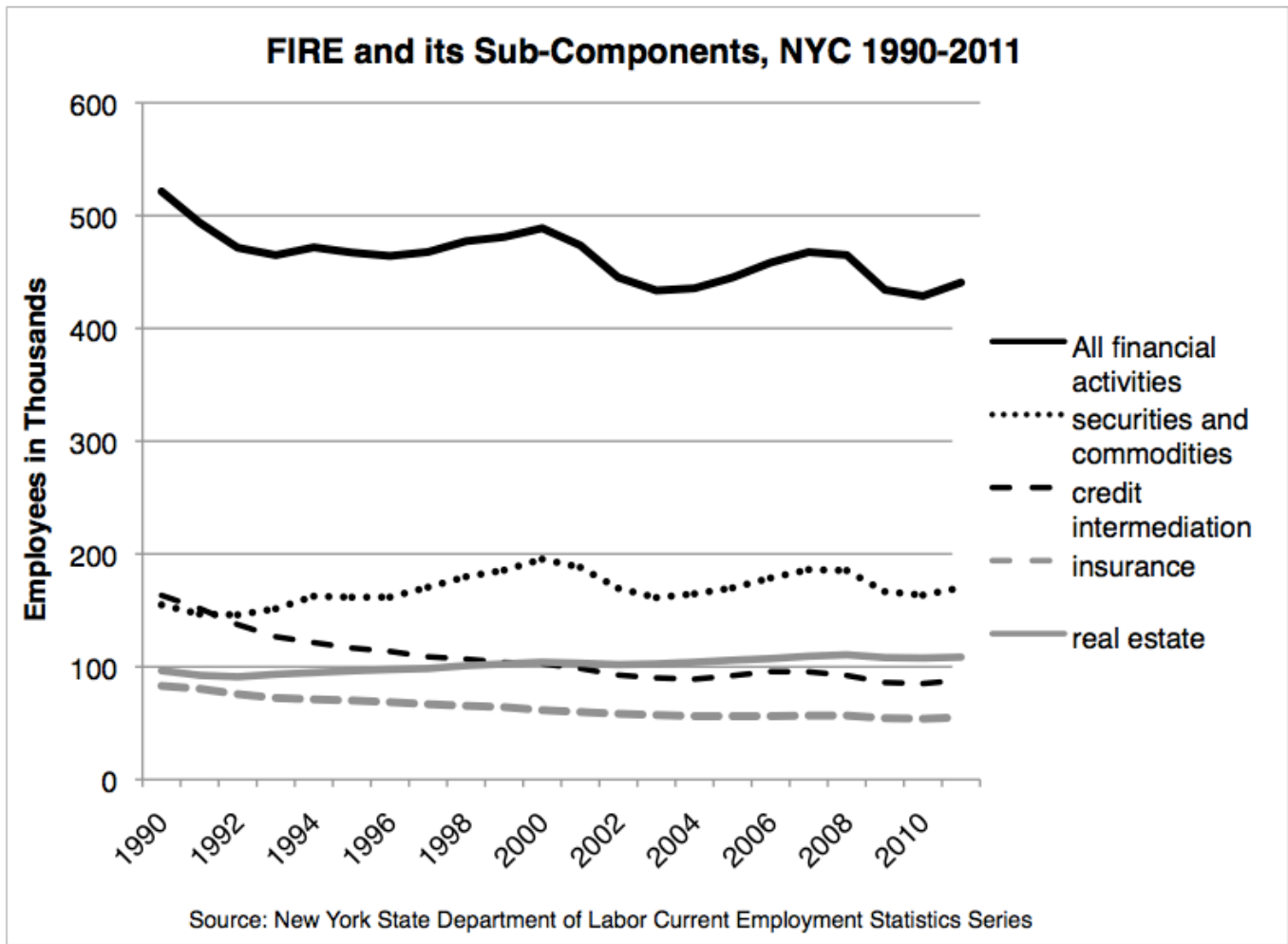
<i>Year</i>	<i>Labor Force</i>	<i>Employed</i>	<i>Unemployed</i>	<i>Unemployment Rate</i>
2012	3,953,700	3,623,500	370,000	9.2%
2011	3,945,900	3,592,200	353,700	9.0%
2010	3,964,900	3,586,400	378,500	9.5%
2009	3,973,800	3,607,100	366,600	9.2%
2008	3,914,200	3,700,200	214,000	5.5%
2007	3,863,800	3,673,500	190,300	4.9%

Source: New York State Department of Labor

Despite these advances, the city now, more than ever, needs to create opportunities for those who have not benefitted from growth. In 2012, New York City's unemployment rate was 9.2 percent, the same as in 2009, the year the nation came out of recession (table 1). The large discrepancy between payroll employment (employer reports of jobs located in New York City) and the labor force survey of how many residents have jobs suggests that the city's impressive job growth is not making enough of a dent in unemployment among city residents. New York City's poverty rate was 21 percent in 2011, higher than when Mayor Bloomberg took office, and the City's own adjusted poverty s conclude that the actual level is higher. Income inequality remains a serious concern, with the top 5 percent of the city's households bringing in 38 percent of all wage and salary income. Median family income in the city has actually declined 6 percent from 2008 to 2011 (Fiscal Policy Institute 2012). Despite Mayor Bloomberg's campaign promises and some shift in emphasis, ill-considered project-based subsidies have persisted, including subsidies for high-end real estate development that displaces uses of economic and social value to middle- and working-class New Yorkers. Relatedly, the practice of separating the administration's anti-poverty and social mobility initiatives from its economic development policies has resulted in missed opportunities to extend the prosperity enjoyed by the city's professional class into lower-wealth households and neighborhoods.

Starting in the era of Mayor Ed Koch, much of New York City's economic development activity centered on financial services. By 2000, this strategy was widely recognized as being in need of reform. Individual subsectors within Finance Insurance and Real Estate (FIRE) have followed different trajectories between 1990 and 2010, with employment in insurance and commercial and retail banking slipping steadily as securities and commodities (investment banking) fluctuated. Real estate industry employment has held steady at about 100,000 jobs, and was largely unaffected by the recent recession (figure 1). However, the secular employment trend for the financial services sector as a whole ("financial activities" in figure 1) is one of decline. A 2011 report by the New York State Comptroller's office found that one in three jobs lost during the recession in New York City was in financial services and that less than a quarter of these had been recovered by August of that year. In the securities sector, historically the largest wage generator, year 2011 employment remained 20,000 jobs beneath its year 2000 peak, and more job losses are forecast (Office of the State Comptroller 2011).

Figure 1



New York City's fixation on the finance sector had historically kept it from realizing opportunities to grow other dimensions of the economy. The city approached a crossroads in 2002. Entrepreneurs and technology-oriented investors did not view the city as an innovation hotbed, even though New York's Silicon Alley had helped start the digital revolution of the mid- and late-1990s and New York City was known for the vibrancy of its cultural sector. Investors who had taken an interest in New York City technology firms during the dot.com boom were withdrawing, leaving the city lagging behind its peers in venture capital investment. Office space for start-ups was expensive. Medical research took place in the city's universities, but spin-off firms commercializing academic discoveries acquired space elsewhere in the metropolitan region or moved to better-known urban biotech hubs. These hubs included Boston and San Francisco, areas where the benefits of agglomeration – such as knowledge spillovers and industry-specialized producer services – were more plentiful. Finally, precipitous declines in industrial employment, attributable in large part to national and global economic trends, were exacerbated by city government policies that destabilized the city's industrial real estate market and failed to recognize opportunities to support viable niche industries (Center for an Urban Future 1999, 2000, 2003; New York Industrial Retention Network 1999; Pratt Institute Center for Community and Environmental Development 2001).

Industrial diversification

In response to the perils of over-reliance on the finance sector and the riskiness of “one-off” subsidy deals, Mayor Bloomberg’s economic development team explicitly focused on diversifying the city’s economic base. Sector approaches, also known as industry cluster approaches, are an established best practice in the economic development field, and the administration pursued them vigorously, creating sector strategies in media, biotechnology, and fashion (Cortwright 2006; Fitzgerald and Green Leigh 2002). A typical sector strategy began by assembling or extensively interviewing key industry players. These stakeholders identified challenges and opportunities facing the sector, considered alternative future scenarios, and generated strategies with a high probability of bringing about the scenario that played best to New York City’s competitive strengths. The research and strategy phase then gave rise to a “suite of initiatives” designed to concretize the strategies.³

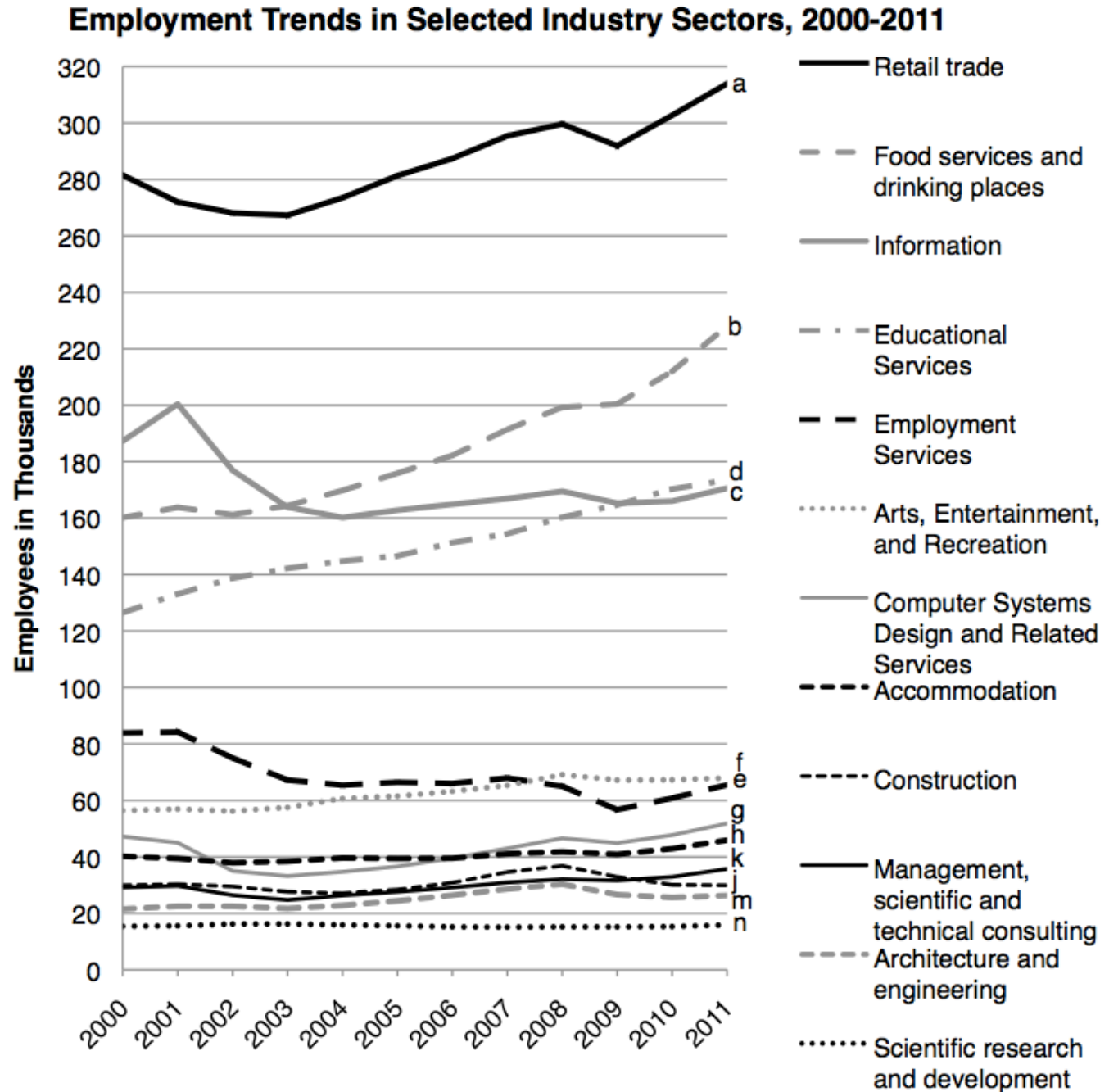
Particularly in the technology and media arena, these policies have yielded results. In an analysis of projects funded through the city’s Industrial Development Agency (the most important extender of discretionary funding), the City’s Independent Budget Office found that subsidies to financial service and information firms in Manhattan, which accounted for the majority of the value of economic development projects initiated during the mayoral administrations of Ed Koch, David Dinkins, and Rudolph Giuliani, represented a smaller share of such assistance under Bloomberg (New York City Independent Budget Office 2011). Wall Street remains a heavyweight, but employment in other industries has grown (figure 2). A May 2012 report by the Center for an Urban Future hails a new “tech eco-system” in the city, one that rests on the city’s competitive advantage in software, applications, and content. Jobs in information technology grew 60 percent in the five boroughs between February 2003 and February 2012. Tech-related venture capital deals have grown significantly, and tech companies are choosing to relocate to the city from other places.

A highlight of the Bloomberg administration’s economic diversification efforts is its initiative to catalyze a center for the applied sciences that will act as both university campus and commercial incubator. Officials structured Applied Sciences NYC as a global competition among educational institutions, and in December 2011 the administration announced that it had chosen Cornell University, which had worked with the Technion-Israel Institute of Technology and the design firm Skidmore, Owings & Merrill to present an integrated vision for a ten-acre site on Roosevelt Island. The campus, known as Cornell NYC Tech, will be organized around three sectorial “hubs”: media, health, and the built environment. The city is providing land for the \$2 billion project as well as investing \$100 million to demolish an abandoned hospital and install telecommunications infrastructure, creating “a wired greenfield” on which the university will build a facility that the mayor prospectively describes as a “beehive of innovation and discovery” (Schola 2012, 5). While it is not yet clear what Cornell NYC Tech will become (it will not be complete until 2017), or how the sectorial hub strategy will be put into practice, the administration has

³ The fashion study, for example, yielded plans for a subsidized loan fund to help emerging designers finance initial production runs and training and mentoring programs for individuals showing promise in the key strategic area of fashion management (NYCEDC, *FashionNYC2020*, n.d.). The media strategy (NYCEDC, *MediaNYC2020*, n.d.) included the development of high-quality, ready-to-use office space (including incubation space) and, again, targeted seed capital for start-ups provided through a city-subsidized, but privately-managed vehicle.

created a promising template for the clustering of academic knowledge with entrepreneurial energy in a dense urban environment. There is widespread anticipation that Cornell NYC Tech could make New York City a serious competitor with suburban Silicon Valley for high-tech hub status is a significant development for the city's economy.

Figure 2

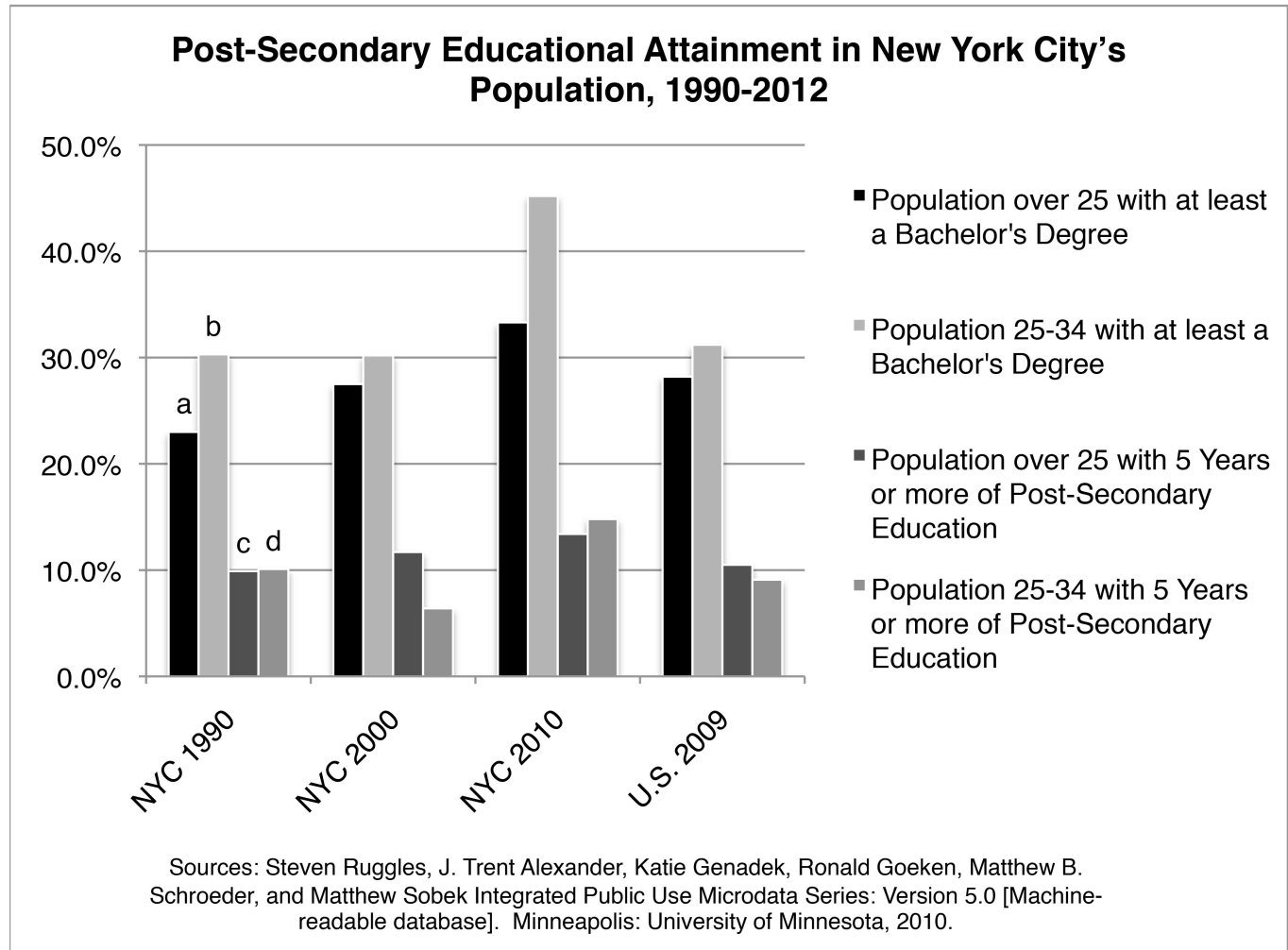


Source: New York State Department of Labor Current Employment Statistics Series

Talent recruitment

Whether the goal is to attract software entrepreneurs or a new generation of fashion merchandising executives, each of Bloomberg's sectoral initiatives contained a strong, deliberate "talent recruitment" component. The talent recruitment effort featured partnerships with the education sector, which itself accounted for an astonishing 32 percent of all net gain in private employment in the city between 2000 and 2011 (New York State Department of Labor Current Employment Statistics 1990-2011). The media sector initiative partnered with Fordham University on a Venture Fellows program, and the fashion sector initiative worked closely with Parsons the New School for Design on a Fashion Campus program aimed at college students. A broader set of "livability" strategies aimed at the attraction and retention of a skilled workforce. The rezoning of waterfront neighborhoods for market-rate housing, the explosion of bicycle and pedestrian infrastructure, the development of affordable workspace for entrepreneurs and "creatives," the facilitation of the celebrated High Line linear park on Manhattan's west side – each of these moves was made with college-educated Generation X and Generation Y professionals clearly in view.

Table 2: Post-secondary educational attainment in New York City's population, 1990-2012



The focus on livability has paid dividends. After losing college graduates in the coveted 25- to 34-year-old age group during the 1990s, New York City gained almost 224,000 of them between 2000 and 2010,

predominantly through migration.⁴ The percent of individuals aged 25 to 34 in the city with a bachelor's degree or more has soared to 45 percent, far outstripping the educational attainment rate in the general adult population in the city as well as that of the population aged 25 to 34 in the U.S. (table 2).⁵ An amenities strategy aimed at educated young people is one that the Bloomberg administration was well-positioned to pursue, given New York's pre-existing diversity and cultural richness. However, by focusing on quality public space, on neighborhood commercial corridors, on greening the city's infrastructure, and on leveraging the assets of density and spontaneity, Bloomberg and his staff clearly made a large impact on the city's human capital stock.

Real estate mega-projects

More than industry diversification or talent recruitment, however, the most visible and well-known economic development policy legacy of the Bloomberg administration has been a raft of real estate mega-projects on city- or state-owned land or land subject to significant value creation through zoning changes. As discussed below, land has sometimes been rezoned and/or deeded to developers with little thought to how the city could use its leverage (as investor, land owner, or regulator) to ensure that development benefits a wide range of stakeholders. But in other cases, such as the redevelopment of Governor's Island and Brooklyn's Coney Island, master planning, public engagement, and attention to issues like housing and jobs for low- and moderate-income residents have played larger roles, often as the result of concerted advocacy from labor and community groups. While the city's property-led economic development orientation has come under criticism both in concept and with respect to particular projects, the Bloomberg administration deserves credit in several instances (notably Coney Island) for using its leverage to promote more balanced development outcomes and encourage policies like local hiring.⁶ The administration's active real estate development agenda has also created new employment in retail, hospitality, and building services.

2. The Parallel Universe Dilemma

Just as the portrait of growing industries in figure 2 is a testament to recent accomplishments, it also speaks volumes about their narrow-bore demographic focus and the work yet to be done. Job growth in

⁴ Author's analysis of IPUMS data, between 2005 and 2010. Each year an average of 8.7 percent (between 44,000 and 52,000) of the college-educated 25- to 34-year-olds in New York City had moved to the city from elsewhere within the previous year. Many of these educated migrants, particularly those who came to the city to attend graduate programs, presumably moved again in subsequent years and thus were living elsewhere in 2010. If even half stayed, this would account for 65 percent of the growth in college educated 25- to 34 year olds in the city between 2000 and 2010. If 75 percent had stayed, they would account for 98 percent of the 2000-2010 net growth. This analysis was complicated by the fact that migration data was unavailable from 2000-2005 and by the fact that the Census Bureau asks respondents only where they resided in the previous year, not (as it once did) where they resided five years before. However, data suggests that New York City is "importing" more educated workers than it is "producing."

⁵ More than half of the city's 5-percentage point growth in college graduates from 2000-2010 was accounted for by people in the 25 to 34 age range.

⁶ The logic of a property-led strategy is understandable: in an anti-government climate, it leverages private investment, it produces visible physical improvements, and it uses the tools (land use regulation and property tax incentives) that local government has at its disposal. Detractors of property-led economic development argue that it biases city government institutions toward facilitating opportunity for (and sometimes granting windfalls to) real estate investors and that officials make a mistake when they equate real estate value increases with prosperity and wealth creation. A property-led paradigm often marginalizes or ignores poor and middle-class renters, including small businesses that rent their premises (Fainstein 2001, 2005; Lander and Wolf-Powers 2004; Mele 2000; Wolf-Powers 2005).

computer systems design, engineering, and consulting is largely growth in professional positions. Job growth in retail, tourism, and personal services increases low-wage jobs with few opportunities for economic mobility (table 3). Together with the continued decline of more stable, better-paying blue-collar positions, these divergent growth trajectories (of the knowledge economy on the one hand and the low-end service economy on the other) tend to worsen economic polarization.

Table 3: Wage characteristics of high-growth jobs in NYC, 2012

Current Wages of High-Growth Jobs in New York City, 2012

<i>Job Category (SOC Code)</i>	<i>Total Jobs 2012</i>	<i>Growth 2000–2012</i>		<i>Mean</i>	<i>Annual Wages (\$)</i>		
		<i>Jobs</i>	<i>% Change</i>		<i>Median</i>	<i>Entry*</i>	<i>Experienced*</i>
Food Preparation and Serving Related Occupations (35-0000)	254,570	114,940	49%	\$26,260	\$21,620	\$17,050	\$30,870
Building and Grounds Cleaning and Maintenance Occupations (37-0000)	130,780	30,130	20%	\$34,040	\$34,110	\$20,620	\$40,750
Personal Care and Service Occupations (39-0000)	173,680	77,030	54%	\$28,090	\$23,050	\$18,700	\$32,780
Retail Salespersons (41-2031)	111,150	55,180	52%	\$28,270	\$22,770	\$17,270	\$33,770
All Occupations (00-0000)	3,656,720	56,988	2%	\$61,270	\$45,540	\$22,810	\$80,510

*Entry wage: The mean (average) of the bottom third of wages in an occupation.

**Experienced wage: The mean (average) of the top two-thirds of wages in an occupation.

Source: NYS DOL Occupational Employment Statistics Survey

Local government is certainly constrained in trying to address inequalities arising in part from large-scale economic restructuring (Peterson 1981). However, policy in recent decades has been characterized by a lack of motivation to use the tools that are available, as well as the continued use of fiscally unsound subsidy practices and frequent disregard for neighborhood-based businesses. As a result, the City's considerable economic development progress in recent years coexists with severe poverty and with the chronic disconnection of thousands of residents from the formal economy. Mayor Bloomberg acknowledged the challenges faced by non-college-educated New Yorkers in the service economy, and his administration took steps to address them. But they treated the quest for new sources of economic growth in the city and the effort to improve economic opportunity for its lower-income residents as separate, even distant, enterprises. The two endeavors have consistently resided in parallel universes, to the detriment of both. One feature of this distancing of economic policy from anti-poverty policy is the tendency to regard economic development subsidies uncritically, assuming that they are necessary and prudent, while subjecting anti-poverty programs to demanding performance standards. Another feature is the missed chance to leverage subsidized growth to build employment and advancement opportunities at all levels of the income spectrum.

Fiscally unsound subsidies

In one of his first acts as mayor-elect, Bloomberg returned a retention subsidy received by his own company, thus sparking optimism that the much-reviled practice might become a thing of the past (Fitzgerald 2002). Subsidies to the financial sector have declined under Bloomberg. Furthermore, clawback provisions in incentive deals are now stronger and more likely to be enforced (Ledebur and Woodward 2003).⁷ Nevertheless, “one-off” incentive packages to firms and developers remain deeply entrenched. Alongside initiatives to promote industrial diversification and innovation, a steady stream of “deals,” including retention deals for companies already in the city, has continued.⁸ City officials organized numerous discretionary subsidies to projects (as in the Gateway Center and Yankee Stadium projects, described below) and to firms (\$128 million in aid was pledged in 2012 to Fresh Direct to assist with a move from Queens to the Bronx) without producing compelling evidence of net fiscal benefit or exploring alternative uses for foregone revenue.^{9 10}

Many of these discretionary projects were characterized by complex, off-budget financing mechanisms involving Payments in Lieu of Taxes designed to directly reimburse bond investors rather than the city treasury. While these kinds of arrangements do not by definition bode ill for the taxpayer, detailed, relatively conservative fiscal analysis of two projects (Yankee Stadium and Atlantic Yards) by the New York City Independent Budget Office concluded that the cost of tax expenditures outweighed their benefits in both cases (New York City Independent Budget Office 2009a, 2009b). Advocates have similar concerns about tax exemptions and publicly subsidized financing for the Hudson Yards project on Manhattan’s west side (Parrott 2005; Alegre 2012).

As-of-right tax breaks for commercial property development also cause concern, having risen significantly in recent years. The largest of these is the Industrial and Commercial Abatement Program (ICAP, formerly the Industrial and Commercial Incentive Program or ICIP), administered by the Department of Finance. A 2008 study of the ICIP by the city’s Economic Development Corporation (EDC) found that just 20 percent of the taxes foregone under this program were associated with projects that had been “induced” by the incentive. In other words, the city did not need to make 80 percent of the tax expenditures to catalyze the property investments they subsidized (Brindisi and Ehrenberg 2008). Meanwhile, as developers consistently pay no taxes on new construction or on the added value accruing to renovations, the city’s tax burden is shifted to smaller businesses and individual tax payers. While general information about trends in tax expenditure through ICAP is available to the public, information

⁷ Clawbacks entitle government entities to recover economic development subsidies and sometimes to impose penalties, in cases where companies do not meet agreed-upon performance requirements. In 2010, the Bloomberg administration quietly accepted \$24.7 million in recapture fees and penalties from the Pfizer Corporation, which had received a \$46 million retention package from the Industrial Development Agency in 2003 but then cut jobs in the city (Damiani 2010).

⁸ Assistance extended by the New York City Industrial Development Agency (IDA), which is part of EDC, includes mortgage recording tax exemptions, sales tax exemptions, energy tax savings and savings from tax-exempt bond issues and Payments in Lieu of Taxes or PILOTs. Through fiscal year 2011, the 312 projects on IDA’s docket that were initiated during the Bloomberg years had received \$262.7 million in assistance and would receive \$209 million more in fiscal years 2012 and 2013 (New York City Economic Development Corporation 2012a). Property tax exemptions not involving PILOTs, which can also be significant in size (and which EDC does not factor into its project-based cost/benefit analyses), are provided through the Department of Finance and are not publicly reported. Many large tax expenditures approved during the Bloomberg years, such as those for Hudson Yards, Yankee Stadium, and Atlantic Yards, will materialize over the next 20 to 30 years and are not fully reflected in accounts through 2013.

⁹ New York City’s portion of this offer amounts to \$81 million, with the rest coming from the borough, state, and federal governments.

¹⁰ Most projects going before the city’s Industrial Development Agency are now required to include a fiscal cost/benefit analysis.

on individual transactions is not, so it is not possible for groups concerned with subsidy accountability to monitor this program in the way they study many subsidies administered by the EDC and the Industrial Development Agency.¹¹

Worker displacement and loss of public space in low-income neighborhoods

While Bloomberg's ambitious five-borough development program created new destinations and boosted job growth in some sectors, it also imposed high costs on low- and moderate-income neighborhood residents and small businesses. South Bronx residents lost a beloved park to a well-connected baseball team when a 2005 memorandum of understanding between city and state officials set in motion a land seizure that accompanied a subsidy deal worth more than a half-billion dollars (Damiani, Markey and Steinberg 2007; Wolf-Powers 2010). At City Point in downtown Brooklyn (formerly Albee Square Mall) and Gateway Center in the Bronx (which replaced the Bronx Terminal Market), city agencies have presided over the displacement of thriving locally-owned businesses to accommodate subsidized projects involving national retailers, ignoring both the economic and the social value of the firms that lay inconveniently in their path (Fainstein 2010). In northeastern Queens, the city announced overlapping plans in 2012 to create a commercial destination in Willets Point, expand the National Tennis Center, and build a new Major League Soccer facility – all with little regard for the 10 to 30 acres of scarce parkland that would have to be “alienated,” or for the displacement of businesses that employ hundreds of workers. More broadly, the city pursued many projects that created hardship for industrial and manufacturing businesses without advancing a coherent strategy for retaining and growing blue-collar jobs. Even as city officials mounted initiatives to reignite manufacturing, they failed to take basic enforcement actions against landlords who illegally converted industrial space. Furthermore, city officials did not adequately support the 16 “Industrial Business Zones” or IBZs they created in 2005.¹²

Growth without equity

Despite reforms, the Bloomberg administration's economic development policy included instances of lavish subsidy to projects which, in addition to being of questionable merit when judged on fiscal criteria alone, destroyed jobs and damaged neighborhoods unnecessarily. The administration successfully crafted ambitious job-creating projects spearheaded by real estate developers and technology entrepreneurs while treating incumbent blue-collar jobs and smaller-scale entrepreneurs at best as a side project and at worst an impediment. The administration has also celebrated private sector wealth generators as virtual heroes while often showing low regard for public sector employees – teachers,

¹¹ In response to advocacy and legislation, the city has grown more transparent in its reporting of economic development subsidies and on its estimation of their costs and benefits (New York City Economic Development Corporation 2012a, 2012b; Good Jobs New York 2012). Local Law 69, passed in 1993, required the EDC to report on its business retention and economic development agreements, but the reports provided under this law had shortcomings that prevented analysts from meaningfully assessing fiscal impacts (New York City Independent Budget Office 2001). Local Law 48, enacted in 2005, revised reporting requirements to correct these problems, but the reports were not machine-readable and still difficult for analysts to use. In 2010, the City Council directed the EDC via Local Law 62 to post data online in a “commonly available non-proprietary database format” (New York City Independent Budget Office 2011). As noted above, however, ICAP does not fall under this law, nor do arrangements involving Payments in Lieu of Taxes (PILOTS). In service of even greater transparency, the next mayor should adopt a unified economic development budget that includes currently missing tax expenditures extended through the Department of Finance and through PILOTS arrangements.

¹² The creation of IBZs was a marked improvement on past policy, but zoning still allows commercial businesses and hotels in IBZs (despite a 2009 pledge to change IBZ regulations to exclude them), and the administration has dedicated few resources to technical assistance and infrastructure in the districts.

daycare workers, transit workers, healthcare providers – whose work makes the pursuit of wealth possible. The administration made no progress in twelve years on reducing poverty and inequality. Recent data from the Census Bureau indicate that as of 2011, one in five New Yorkers lived in poverty, the same proportion as when Mayor Bloomberg took office in 2002. Poverty decreased in the middle 2000s, but grew again between 2009 and 2011, outpacing the national rate of poverty growth. Median household income has declined and 44 percent of renters are “housing poor” since the beginning of the recession (paying at least 35 percent of their income for housing) (Roberts 2011; New York City Center for Economic Opportunity 2013).

It is perplexing that the growth of jobs located in New York City has not lowered the unemployment rate of the city’s residents, a divergence that has led to consternation among labor economists. A small portion of it may result from technical factors originating in the different sampling frames (establishments for the payroll employment survey, households for the resident employment survey) (Bram and Orr 2012; McGeehan 2012).¹³ Another logical cause would be an increase in commuting, whereby non-residents fill new jobs in New York City; however, according to analysis done at the Federal Reserve Bank of New York, payroll employment exceeds household employment in the wider metropolitan area, casting some doubt on this explanation (Bram and Orr 2012). Labor force growth in the city, particularly among college-educated 25- to 34-year-olds filling newly created jobs, may also explain part of the divergence. In any case, it seems clear that incumbent New Yorkers are benefitting less from hiring in the city than would be anticipated given payroll employment growth.

The administration did not ignore all the challenges that low-income New Yorkers face. The city’s Center for Economic Opportunity (CEO), created by Bloomberg, pursued (or consolidated into its mission) a variety of initiatives aimed at poverty reduction, focusing particularly on young adults, families with young children, and the working poor. In all, CEO funded 40 initiatives across 20 city agencies, often supplemented by private foundation funding.¹⁴ Particularly in workforce development, CEO-funded projects improved on the standard menu of services available under the federal Workforce Investment Act (New York City Center for Economic Opportunity 2010). Other experiments produced important knowledge, although they were less successful at reducing poverty (Bosman 2010). However, the administration distanced economic development policy from its anti-poverty efforts, reinforcing a governing narrative that associated the city’s prosperity with wealth accumulation by professionals, investors, and “creatives” while often conceiving of smaller, more marginal businesses and individuals struggling to participate in the mainstream economy as lying outside its purview (New York City Economic Development Corporation 2012).¹⁵ Often, small businesses had negative experiences with

¹³ For example, self-employed individuals switching into salaried positions leave the unemployment rate unchanged, and multiple job-holders are counted twice in the payroll survey and only once in the household survey.

¹⁴ Examples of successful programs include the Accelerated Study in Associate Programs, a CUNY-led effort to remove barriers to full-time study and completion for community college students; sector programs at CUNY community colleges aimed at helping out-of-school youth re-enroll in school or access industry-certified training; a Department of Small Business Services-sponsored program Advance at Work, which offers career coaching and other services to employed individuals earning less than \$14 per hour who want to advance their careers; and an effort to leverage state funding for the expansion and improvement of pre-kindergarten programs in city schools. Many of these programs have been evaluated by researchers (City University of New York and New York City Office of Economic Opportunity 2012; New York City Center for Economic Opportunity 2010; Youth Development Institute, n.d.).

¹⁵ Two exceptions to this were the HireNYC program, discussed below, and LINK (Leveraging Innovations and our Neighborhoods in the Knowledge Economy), which encompasses several efforts to connect low-income residents to opportunities and to support small business growth. EDC launched LINK in the Summer of 2012, and its components are in various stages of development.

city officials. Street vendors were the object of punitive and inconsistent regulation (NYC Independent Budget Office 2010). Meanwhile, taxi drivers continued to struggle under a leasing system that, in defining them as independent contractors, precluded them from obtaining health or retirement benefits and consequently allowed garages and brokers to transfer business risk almost exclusively to them. Proprietors of small-scale businesses who objected to being displaced to make way for mega-projects were met with high-handedness (Pinsky 2011).

As the mayor celebrated and advanced favored economic development projects regardless of their fiscal and social cost, the administration's largest and most visible anti-poverty initiatives, such as the conditional cash transfer programs operated by Opportunity NYC, rested on the premise that getting poor individuals to behave in their own best interests was more important to their economic success than providing them with access to good jobs or to quality housing and medical care. Moreover, the performance of social innovations and experiments designed to help people escape poverty was subject to intense scrutiny, with outcome measurement and cost-effectiveness analysis accounting for significant portions of the project budgets. Testing interventions for efficacy is good public policy, and the administration deserves credit for evaluating programs rigorously. But the stringent atmosphere of performance management in programs aimed at low-income New Yorkers existed in marked contrast with the rarified world in which subsidy flowed to development companies and other firms. Unlike poverty policies, economic development projects were axiomatically assumed to deserve taxpayer support. In this parallel universe, tax expenditures, below-market land sales, and subsidized financing arrangements were rarely subjected to cost/benefit tests.

New York City has graduated from its promotion of financial services and property development above all else and is now supporting job creation in a range of knowledge industries. At the same time, poverty and lack of opportunity persist and are worsening. Blue-collar work has declined in the city for a variety of reasons, many of them impervious to local economic development policy. Nevertheless, there is much for the next mayor to do from the perspective of those who consider it a priority to create paths of upward mobility for the two-thirds of New York City's residents who are not middle-class professionals and managers.

3. What the Next Mayor Could Do to Address the Parallel Universe Dilemma

There is no reason why growth in resident employment should not accompany job growth in the city (i.e., growth in payroll employment), nor is there any reason why work should not adequately support a standard of living that enables all New Yorkers to enjoy their city. The next mayor can and should explicitly set more evenly-spread job growth, more evenly-spread income growth, and greater economic mobility as the goals of his or her economic development program. Routes toward these goals include curtailing both discretionary and as-of-right tax expenditures in favor of investments designed to stimulate labor demand; holding subsidized firms to higher standards around hiring, wages and workforce development; investing in both physical and human capital; and better aligning the multiple components of the workforce development system with one another and with new jobs that are being created. These proposals are described in detail below.

Replace discretionary and as-of-right subsidies to firms with investment in public infrastructure and the adoption of labor demand strategies

Theoretical treatments and empirical analyses of economic development incentives attest to the economic inefficiency of most tax expenditure and grant programs (Bartik 1991, 2004; Peters and Fisher 2002; Story 2012). This research finds a local complement in reports documenting the millions of dollars in revenue foregone each year in New York City. Studies tracking “one-off” subsidy agreements have estimated that subsidized projects meet or exceed job creation and retention goals less than 50 percent of the time; that jobs associated with subsidies tend to be low-wage, part time and seasonal; and that the largest tax expenditures benefit projects mounted by companies whose need for subsidy is unproven (ALIGN 2011; Fiscal Policy Institute, Good Jobs New York and National Employment Law Project 2011; Damiani and Steinberg 2006; New York Jobs with Justice and Urban Agenda 2010; Fiscal Policy Institute 2005).¹⁶ Some economists are more optimistic than others about the potential of economic development subsidies to correct market failures (Bartik 2004, 2007; Felsenstein and Persky 1999, 2004; Lester, Lowe and Freyer 2011). But even these economists find that subsidies are much more likely to generate growth with positive social welfare effects when unemployed or low-income workers are the beneficiaries of job growth and when newly created jobs pay mid-level wages.¹⁷

To stimulate demand for labor, policy makers should consider alternatives to conventional types of tax incentives. Targeted tax credits that incentivize employers to hire by offering abatements for increasing payroll are one such measure. Another is transitional employment underwritten by the public sector. Research by respected economists has shown each of these to be significantly more cost-effective than non-targeted tax abatements (Bartik and Bishop 2009; Neumark 2011). The next mayor should thus claim revenues that would be foregone if dedicated to conventional tax expenditures and redirect them toward two new efforts: the EMPLOYNYC Tax Credit and INFRASTRUCTURENYC.

The EMPLOYNYC Tax Credit would be a wage subsidy to firms and organizations to hire graduates of the city’s employment readiness and vocational training programs, including those funded by the Center for Economic Opportunity. Several efforts funded by the Center for Economic Opportunity currently offer paid internships in conjunction with soft skills development and/or sector-specific skills training. The proposed effort would bring current initiatives to scale and link them explicitly with economic development objectives.

The INFRASTRUCTURENYC program would hire unemployed New Yorkers for periods of six to eight months to work in city departments, non-profit organizations, and private contractors tasked with repairing and improving the city’s public goods and its public realm: streets, storm water infrastructure, sidewalks and medians, parks and playgrounds, libraries and senior centers.¹⁸ Some could employ workers already qualified in design, construction, and engineering, recruiting them from career and technical high schools and from programs at City University of New York (CUNY) two-year and four-year

¹⁶ New York State government has also come under fire for the magnitude of its economic development-related tax expenditures (Fiscal Policy Institute 2010).

¹⁷ The multiplier effect of high-wage jobs is potentially greater. However, higher-wage jobs are more likely to be filled by immigrants, and thus to exert little impact on local unemployment and poverty rates.

¹⁸ Recognizing the important role of public sector employment in promoting middle-class livelihoods across the city, INFRASTRUCTURENYC should not, as some public service employment programs have done, drive attrition in the incumbent civil service workforce. This defeats the purpose of a public service employment program by prompting a net loss of well-paying positions from the labor market.

colleges. This initiative would be a vehicle for the juncture of job growth strategy with efforts to make the city more sustainable and resilient environmentally. Financing new infrastructure will be politically complex, given the already-high levels of public debt. However, it is worth pursuing, not only to shore up aging public capital stock, but also to avoid the damage to individuals' lifetime earnings profiles that have been shown to result from prolonged periods of unemployment.¹⁹ If there is a potential revenue stream from infrastructure investment (such as energy savings from building retrofits) an enterprising mayor might find a way to put private financing into the mix, as the city of Chicago is attempting to do with its Infrastructure Trust.

In addition to increasing employment, earnings, and tax revenues at a time of high unemployment and worsening poverty, these two initiatives, if they perform as expected based on past evidence, will also have significant long-run earnings effects (Bartik 2001a, 2001b). This is because direct job experience, particularly if supplemented with support services, increases employees' soft skills, helps them build networks of acquaintances, and prepares them for unsubsidized work later on, much as (parent-subsidized) college-level interns gain skills and contacts through internships. If well-run (there would certainly need to be much attention paid to ensuring this), these initiatives would complement the sustainability and neighborhood redevelopment agendas begun during the Bloomberg administration, and extend them into communities that have seen less capital investment than other, higher-priority neighborhoods over the past twelve years.

Use available public levers to increase training, earning, and economic mobility opportunities for unemployed and low-wage workers

Linkage policies

This paper urges a sea change: the replacement of wasteful corporate and development subsidies with investments focused on increasing labor demand and immediately reducing unemployment. However, economic development deals, both discretionary and as-of-right assistance, are unlikely to vanish. This produces an opportunity for the next mayor to establish expectations of projects that do involve city subsidy. In the past, much of the city's economic development spending has subsidized low-wage jobs in which (as currently structured) wage and skill mobility opportunities are limited. But as the example of Community Redevelopment Agency of Los Angeles demonstrates, elected officials can leverage the city's roles as landowner, regulator, convener, and consumer of goods and services to improve outcomes for disadvantaged workers and communities even as they promote growth. Workforce linkage policies – measures that set or encourage standards for companies and projects receiving economic development subsidy (including city-owned land offered at a concessionary price) – should be pursued aggressively and thoughtfully by the next administration (Wolf-Powers, Reiss and Stix 2006).²⁰

The HireNYC program is a linkage policy that has already flourished in New York. Through this project, staff at the Economic Development Corporation and Department of Small Business Services linked major

¹⁹ The long-term effects of extended unemployment for individual workers, particularly for those displaced during recessions, are documented in Davis and von Wachter 2011, Jacobson, LaLonde and Sullivan 1993, and Kletzer and Fairlie 2003. Long-term unemployment (unemployment lasting at least six months) has reached an unprecedented high during this recession (Burtless 2012).

²⁰ The Los Angeles case also demonstrates the important role that social activists, including organized labor, can play in shaping and implementing linkage policy.

city economic development projects to the workforce system, sponsoring employee recruiting and screening events and convincing employers to prioritize city-assisted local hiring as a cost-optimization measure (New York City Economic Development Corporation 2010). But there is room for more workforce-centered linkage policies, more systematically implemented, more integrated into the way the city conducts business with developers and their tenants. These initiatives may also bring added benefits to companies by reducing project delays, lowering workforce recruitment costs and labor turnover, and minimizing the frustrations and uncertainties associated with project-specific Community Benefits Agreements.

As with social innovations under Mayor Bloomberg, workforce linkage policies under the next mayor should undergo rigorous, comprehensive evaluation. The next mayor should pilot linkage policies adopted in other cities and scrutinize them to learn how they perform in New York City's idiosyncratic context. As an example, a report evaluating three Center for Economic Opportunity (CEO) initiatives operated by the city's Department of Small Business Services found that the inclusion of vocational training as part of a program with strong employer links was consistently associated with higher placement, higher hourly wages, and greater weekly hours after placement. Therefore, it may make sense to formulate and then test a policy under which subsidized businesses and developers make contributions to a fund that supports the successful training efforts pioneered by the CEO and links individuals with jobs – either in the developers' projects or elsewhere (a similar policy has existed in Boston for more than a decade). Does such a policy reduce poverty and unemployment? Does it delay or threaten the financial viability of otherwise profitable projects? A study would provide insight. Living wage policies should also be pilot tested, at varying levels of coverage and intensity, and the results examined.²¹ Evaluations performed with rigor and integrity can inform decision-making about which linkage policies to continue beyond the pilot stage.

Human capital development

While linkage policies engage the demand side of the labor equation, interventions and improvements on the supply side are more crucial in many ways. Two facts are well-established among scholars and policymakers in workforce development. First, secondary education must do better to prepare students for a world where they will increasingly need post-secondary credentials (though not necessarily four-year college degrees) to succeed in the labor force.²² Second, despite the logic of aligning secondary education with post-secondary education, supportive services, workforce development for adults, and economic development (to ensure that secondary and post-secondary training articulates with employer demand), these activities are poorly integrated in most labor markets. A recent report by the New York City Comptroller's Office estimates that only 21 percent of New York City public school students go on to obtain a two- or four-year college degree within six years of graduating high school (New York City Comptroller's Office 2012). In many ways, New York City is poised for the institutional and systems

²¹ While the effect of living wages on local economies continues to be a highly controversial issue, a number of respected studies show that living wage laws have reduced poverty in other cities with minimal disemployment effects (Neumark and Adams 2003; Lester and Jacobs 2010).

²² For example, the Bureau of Labor Statistics projects that 45 percent of job openings between 2004 and 2014 will be for positions that require some postsecondary education (e.g., a certificate) but less than a four-year college degree. Fewer and fewer jobs, though, are available to individuals with high school only (who account for 26.3 percent of New York City's population age 18 to 64) or people with less than a high school degree (who account for 21 percent).

change that would help to produce a better alignment between secondary and post-secondary education in the city, to the benefit of less-skilled workers. The next mayor should take charge of this process.

Particularly during his third term, Mayor Bloomberg oversaw significant prioritization and expansion of occupational preparation efforts within the city's public secondary and post-secondary education systems. At the Board of Education, administrators dramatically expanded Career and Technical Education (CTE) programming, designating eleven new dedicated CTE high schools, including an Academy for Software Engineering. At CUNY, post-secondary certificate programs and vocationally-oriented degree programs gained new attention, and CUNY established an Office of Workforce Partnerships as a point of contact for employers (Goldstein 2012).

In 2010, the current mayor launched an Office of Human Capital Development (OHCD), aiming to create a hub for the multiple city agencies concerned with the workforce: the Human Resources Administration, Department of Youth and Community Development, the Department of Education, CUNY, Small Business Services (which oversees the "second chance" workforce development system, serving older youth and adults), and the Economic Development Corporation. However, the following quotation from Jobs for the Future's June 2012 paper on career pathways systems change remains applicable:

For most low-skilled adults, attaining a post-secondary credential that results in related, well-paid employment is very challenging, in part because of the way education and training services are organized and delivered in most communities. Few "systems" are designed around the career advancement and related employment needs of low-skilled adults. Instead, there is a collection of programs and initiatives, each with its own different governance, funding streams, rules, and culture. (Claggett and Uhalde 2012)

The next mayor may wish to elevate the Office of Human Capital Development (OHCD) to the deputy mayor level. The logic of this would be a fully-empowered OHCD staff whose members could work with the education, economic development and human services agencies to develop a high-performing career pathways system for the city.²³ OHCD is a potential a fulcrum between EDC's sector strategies and curriculum development efforts, so that curricular material and structured internship opportunities at the career and technical high schools and CUNY synchronize with emerging occupations in media, bioscience, environmental engineering and green building systems. The point, however, is not the empowerment of any one particular agency or office but the need to take a comprehensive and serious approach to career pathways, and to back that approach up with executive authority and adequate funding.

If the new system works well, it will be possible to identify and pursue connections between the career pathways system and the workforce linkage policies discussed above. For example, both curriculum and internship programs at the new High School for Construction Trades, Engineering and Architecture can link directly to the local hiring and minority apprenticeship programs associated with city-sponsored and city-subsidized real estate projects.

²³ Outstanding career pathways systems involve the engagement of employers in high-demand sectors, contextualized learning, "stackable" education and training options that earn students credentials with labor market value, multiple exit and entry points, intensive wraparound services including academic and career counseling and, if needed the combination of basic skills education with post-secondary technical training. (Claggett and Uhalde 2012).

Raising the floor

Increasing human capital is critical, but it alone will not combat the problems of stagnating wages, income inequality and lack of employment benefits in many jobs. The city should revisit the proposal to require paid sick days, expeditiously implement health exchanges under new federal health care legislation, and advocate with Governor Cuomo and the state Congressional delegation to raise the state and federal minimum wage and focus economic policy on equity in addition to growth (McGahey 2012). The new mayor should also acknowledge the role that public sector employment plays not only in supporting a high-functioning city, but also in creating and sustaining middle-class jobs. Thomas Kochan's paper speaks to the importance of approaching collective bargaining with the goal of honoring their work and recognizing the important role of their livelihoods in sustaining the city's working-class neighborhoods and not scapegoating and marginalizing public sector workers.

Strengthen the city's core blue-collar employment base in the management of the city's physical assets, especially land

Jobs that provide a path into the middle class are continuing to shrink. While raising the floor and investing in skills for retail and low-skill service sector workers is one component, renewing manufacturing, distribution, working waterfront, and other sectors (including the public sector) that provide a road into the middle class is an essential step. A plan for comprehensively addressing the industrial sector – home to some 200,000 jobs – is presented here as a model for how addressing industries on the sectorial level can pay dividends. This approach could also be used to focus on other critical middle-income sectors such as construction.

Observing the rise of high-end services as the mainstay of the city's economy, many believe that the industrial job base has been eclipsed entirely. However, a visit to the Brooklyn Navy Yard, on the Brooklyn waterfront just a half-mile from the Manhattan Bridge, dispels this impression. Industrial firms in this successful 300-acre industrial park are at the vanguard of the "new urban manufacturing": inventing, prototyping and creating products such as architectural metalwork, graphics and digital printing technologies, niche fashion and interior furnishings, and specialty food and beverages. The success of the Navy Yard is only one facet of a creative response to a rising demand for local, custom- or batch-produced goods; New York City has a large edge in niche manufacturing because of the scale of its market. "Industrial" also continues to mean the mending and moving activities. Businesses both inside and outside the Navy Yard are thriving, such as those that repair and service boats and trucks, that service buildings and increase their energy efficiency, and that store and distribute goods.

Starting with the announcement of a comprehensive industrial policy in 2005, the Bloomberg administration departed from its predecessors by welcoming New York City's industrial sector as an economic asset. The policy combined a new land use policy centered on Industrial Business Zones (IBZ) with proposed initiatives in infrastructure planning, transportation, marketing, and new real estate development. The goal was to clearly signal the administration's support for deterring residential conversion in 16 primarily industrial outer borough areas (freeing firms from the pressure of speculation and illegal conversion that had destabilized many of them), to improve the physical and regulatory infrastructure for enterprises in the IBZs, and to spur the development of new industrial space suited to changing needs. The administration consistently invested capital in the Brooklyn Navy Yard and

oversaw the development or renovation of several other city-owned parcels for industrial use. In 2011 the Economic Development Corporation created an “industrial” desk to oversee a new suite of initiatives including a special program to finance and support food manufacturers.

The next administration can improve on this framework in several ways. First, it can create a physical and regulatory environment in which industrial businesses can stabilize and plan for the future. The physical integrity of IBZs is currently compromised by the city’s inadequate zoning resolution, under which hotels, superstores, and large offices can locate in industrial areas. Second, the next administration should stop illegal residential conversions early and enact penalties that deter conversions. Third, it should sufficiently fund IBZ staff and promote cross-agency planning to tailor hard infrastructure investments, traffic and sanitation enforcement, workforce development, and other city services to the needs of each individual IBZ. In short, the new mayor should redouble the city’s commitment to the IBZs and ensure that agencies and personnel have both the mandate and the resources to support and grow industrial activity in the city at an important moment (Byron and Mistry 2011; Clark 2012).

Building on the success of the Brooklyn Navy Yard Development Corporation, the mission-driven public/private entity that presides over the Navy Yard, the new mayor should also charter a similar entity with authority and stewardship over all city-owned industrial assets. This Industrial Development Corporation would be charged with managing New York City’s industrial real estate portfolio as a whole (including the Brooklyn Army Terminal, Bush Terminal, and land in and around the Hunts Point food markets in the Bronx), guided by a commitment to stabilizing and growing employment in the industrial sectors where New York City retains or can develop a comparative advantage. A single-purpose entity would be able to leverage public financing with private investment and capitalize rent rolls across all its properties so that it can offer low-rent spaces to industrial employers. This strategy could even help foster non-industrial development by being a vehicle for the preservation and/or relocation of active firms within their current neighborhoods, such as in the Garment Center, the city’s couture district, where a workable solution for space preservation eluded agreement and prevented a much-desired rezoning during the Bloomberg years.

4. Conclusion

New York City as a whole is on firmer footing economically than at the beginning of the last decade, and the Bloomberg administration deserves much of the credit for this. Bloomberg’s economic development team, using a variety of tools, helped create a city that offers more to start-up firms as well as a city that attracts and retains more college-educated workers from around the country and the globe. However, precious fiscal resources continue to be wasted on inefficient deals and projects, while persistent poverty and unemployment signify the disconnection between the economy’s growth and a large segment of New York City’s population. Too many economic development projects are undertaken as though businesses and developers are the most important clients, and low- and moderate-income New Yorkers are relatively invisible.

The next mayor should name this parallel universe dilemma and address it by making more evenly-spread job growth, more evenly-spread income growth, and economic mobility key priorities for his or her

economic development policy. There is a rich variety of assets with which to work, including the city's capital budget, its two- and four-year colleges, and its increasing desirability as a place for entrepreneurs to live and locate their operations. Bringing these resources to bear against the backdrop of a new, more inclusive vision for growth, the next administration can and should promote economic well-being and advancement for a greater number of the city's residents.

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