Why Manufacturing Still Matters: A Conversation with Adam Friedman

by Alice Meaker

Adam Friedman is Executive Director of the New York Industrial Retention Network (NYIRN), a city-wide economic development organization that was established in 1997. NYIRN's mission is to strengthen New York City's manufacturing sector, to save manufacturing jobs and to foster sustainable economic development. It has established a network of over 100 local development groups, labor unions, real estate managers, bankers and other "stakeholders" interested in the preservation of manufacturing companies and jobs. This network acts as an "early-warning" mechanism to identify and help at risk companies. Prior to NYIRN, Mr. Friedman was Director of Economic Development for the Manhattan Borough President. In this capacity, he helped launch a number of industry-specific initiatives including the Diamond and Jewelry Industries Development Corporation and the 47th Street Business Improvement District. He was also president of the Garment Industry Development Corporation, which provides services to New York's apparel industry. During his administration, GIDC initiated numerous programs to upgrade the skills of workers and managers, and undertook studies of changes in technology and marketing in the apparel industry. Mr. Friedman is a graduate of Haverford College and Benjamin Cardozo School of Law.

He was interviewed in late January at NYIRN's Brooklyn offices by Alice Meaker.

Q: Why should we be concerned about industrial retention? Isn't this the post-industrial age?

AF: For a variety of reasons. First of all, New York has an incredibly diverse population. And when you have people with diverse skills you need to have kind of a diverse economic base to provide employment opportunities. Second, you don't want to put all your eggs in one basket. And we've seen that again and again and again, whether it was in Detroit with the auto industry and in Long Island with aerospace and the defense industry; you need a diverse economic base for stability. And then finally there's an issue about the quality of employment. The average annual wage in the manufacturing sector is $39,000. It tends to be a very unionized segment of the economy. Average wages in the retailing sector are about $21,000. So it provides very decent quality jobs.

NYIRN was formed about three years ago with the mission of strengthening New York's manufacturing base, retaining manufacturing jobs and building the capacity of Network participants. The way we operate is through this network of what is now well over 100 local development organizations and labor unions and real estate managers and all the stakeholders involved in the manufacturing sector. The idea is that everyone has different pieces of information and they would all act as an early-warning network helping to identify companies that are at risk and then working with us to develop remediation strategies and ways to help those companies. The problems are really so significant including the political issues that confront manufacturing. We felt it was really necessary to involve all the stakeholders to bring those political forces to bear on the issue.

Q: And those stakeholders are the members of the Network?

AF: Right, the local development organizations, labor unions, real estate owners, banks, utilities, private consultants, community-based groups.

Q: Who was instrumental in putting NYIRN together?

AF: Well, NYIRN is modeled on a similar effort that was developed in Chicago by the Midwest Center for Labor Research. And about four or five years ago the state provided them with a grant and they also hired a local private consultant to work with Mike Locker to assess the feasibility of replicating that Chicago project in New York. The Brooklyn Economic Development Corporation, the Greenpoint Manufacturing and Design Center and Pratt Institute Center for Community and Environmental Development were all involved in the origination of NYIRN. It has also happened in a bunch of other cities.

Q: What is NYIRN's relationship with the Industrial Technology Assistance Corporation? And how is your work different from theirs?

AF: We're an independent organization. We have a very strong collaborative relationship because we have very similar missions but we're much more a community-based organization. And we operate through this network. In addition they're a direct service provider. They provide technology assistance and some marketing assistance. What we do is we identify the companies and we assess their needs and then we may call in ITAC if we see a problem that's appropriate for them. Our role is to identify the companies and then to manage the intervention. ITAC is one of the direct service providers. But I'll tell you, over the past two years we've probably done a hundred referrals to ITAC, so we have a very strong relationship to them. This is one way of thinking about NYIRN's mission and how we build the capacity of members. We're like the marketing agent for all our network, so that if we identify a company that needs ITAC, we'll market ITAC's services. If we identify a company that needs to hire employees or upgrade the skills of its workforce we'll find the right (in most cases not-for-profit) training provider or employment organization and make that referral.

Q: Do you provide assistance to all manufacturing companies, even the larger ones like Swingline and Farberware, which recently closed their doors. Or do you try to target your services to particular kinds of firms?

AF: I really think we work with manufacturers across the board, which isn't to say there isn't some selection going on. NYIRN actually grew out of the Swingline and the Farberware and the Taystee Bakery situations. Had the city and the state intervened earlier, had they seen the warning signs, those companies might have been saved. We were tangentially involved when Swingline decided to move. We are working with some very large employers now to try to keep them in the city. We haven't targeted our efforts by size. I would say we tend to have a stronger network within unionized companies because some of our outreach is through labor organizations and also because we do look for high road entrepreneurs and we'll probably commit more of our resources to work with an employer who is a decent employer, makes a decent product and has real chance for success. I think every economic development organization has to prioritize in some way like that because the demand for your services so far exceeds supply.

Q: What kinds of manufacturers are likely to be successful in New York?

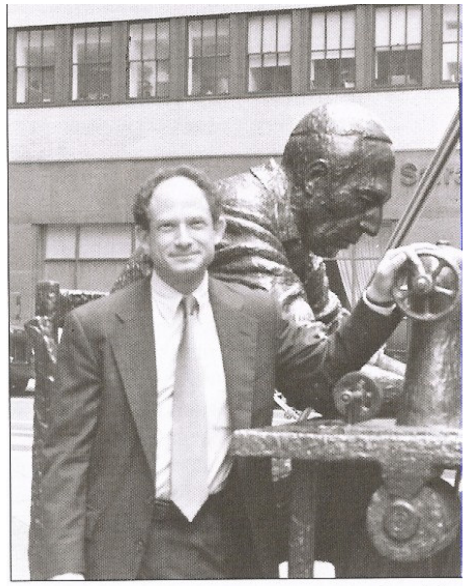
AF: Ones that are very design-oriented and play to New York's strengths. New York has an incredibly diverse market, it has an incredible wealth of design talent and very highly skilled workers. The classic example of this is the diamond jewelry industry where you have this intensive use of space. Diamonds don't take up a lot of space, but diamonds are very highly value added. And there's a real strong design element. It's like the perfect market exists here. And if you look at how much of the United States' industry is here, the location quotient is twelve. Which means that New York has twelve times the employment in that industry as opposed to if it was evenly dispersed across the country. It's a very, very high concentration and it plays to New York's strengths: it's multicultural, it depends on financing and foreign trade, it does well in a community that is very accepting and tolerant of diversity. Many people in the diamond and jewelry industry are orthodox Jews and then there's a whole other Asian Indian part of the industry, so it fits in with New York's own diversity.

Q: Right, and then there are some very different kinds of manufacturers that have thrived here in the city such as the garment industry, printing - for a while anyway - and the food industry, which you did a report on recently.

AF: Yes, but you just said that they're different kinds of industries and I would think that there really are some common threads: the extent to which they really are integrated into the needs and operations of their clients. With the printing industry, the guys in advertising and public relations and art design check the work in progress and they look "is this the right blue." And the guys editing financial documents go down and proofread the galleys as they're coming right off the presses. An example on apparel – this is true. I remember a guy who tells a good story. He did relatively high-end dresses, but not the top end of the market by today's standards. He sold to Bergdorf Goodman's and one day he got a call and they needed twelve dresses. He got into a cab, went over to his factory in Queens, and brought the twelve dresses back. There's something about the cultural elite and the mystique of New York that really depends on having access to that kind of production. So that just kind of illustrates that the manufacturers who are left in New York are incredibly tightly integrated into the needs of their clients.

Q: What are some of the findings of your report on the food industry?

AF: We just finished this study and we focused solely on food manufacturing – not retailing, not wholesaling. There are about 15,000 employed in the food industry. That's up 1,500 jobs over the past seven years and, based on our interviews with owners, they are projecting continued growth of probably another thousand jobs over the next two years. Why is this happening? It sort of illustrates the prior point. New York is this great big test kitchen and there's an incredibly diverse marketplace in New York. Entrepreneurs are developing and producing products in response to their particular local market, very often ethnic food products. And then they're trying to take their products to a regional and national market. One of the surprising findings of the study is that 49% of the companies derive at least 40% of their sales from outside the New York region. Nineteen percent, that's one out of every five companies, derive 70% of their business from outside New York. That means you have all these New York food companies that are shipping their products, their chocolate cake, their rugalach, their smoked fish outside of New York. So even New York's food industry is export-oriented.



Adam Friedman at garment workers' memorial on Seventh Ave

And I think what that shows is how you have local entrepreneurs who come up with new products. One of the other findings was that New York was overwhelmingly rated as a great place to learn about new product development and market trends. They're developing their products here because of the diversity of New York's markets and then crossing over and becoming regional and national companies.

And the two primary challenges they face are real estate and marketing. We identified 1,300 jobs that are at risk because of companies that expect that they won't be able to renew their leases or will have to relocate within the next three years. We work with dozens now, and finding space for companies is extremely tough. The vacancy rates are falling throughout the city in manufacturing areas and rents are increasing.

The other major issue was that these are overwhelmingly small, family-owned companies. Eighty-five percent of the businesses are family-owned. And as you would expect management is pretty lean and they don't have internal capacity to do market research and then to pursue market leads – to go out and make calls, to go out and do trade shows. So developing that capacity is a real need for them.

Q: What are some of the main challenges facing manufacturers in the City today?

AF: Overwhelmingly real estate, real estate and real estate. New York's manufacturing sector has declined dramatically over the past three decades. It went from approximately 900,000 jobs in around 1960 to somewhere around 250,000 today -- which is still very significant. A lot of that loss was due to foreign competition and probably to a great degree was inevitable. But the losses that we're seeing today are companies that want to stay here, believe they can be competitive in New York's high-cost environment, but can't find room to grow.

Q: How can the City and State address these challenges?

AF: There's macro stuff and there's micro stuff. On the macro level first of all, there has to be some acknowledgement that manufacturing is important and space is in short supply. If you were to pose that question to the Department of City Planning, I think they would say there's a surplus of manufacturing space. That's not our experience, that's not the experience of most manufacturers. There needs to be just recognition that there's a problem here. So the next step after that is that, once you recognize there's a shortage, how do you maintain the space that exists and how do you develop new quality space.

With regard to maintenance – in New York, manufacturing buildings can be converted as-of-right to office use or other commercial uses. And that's what's really squeezing manufacturing in Long Island City and in Manhattan, the two prime industrial areas. Forty percent of the manufacturing jobs are still in Manhattan, and what we're seeing is the conversion of that space – so for example the printing district in lower Manhattan. Trinity Church, which is one of the main owners of buildings in the printing district, recently announced that it was converting well over two million square feet of manufacturing space to office use. In other cities, that's just not the case. If you look at Chicago they have planned manufacturing districts so that manufacturing districts really are for manufacturing uses and you cannot convert to office use as of right. I think Seattle also does that and Portland. So that's part of the track we'd like to take, seeing that the City really needs to go through a planning process and identify how much space is really needed for manufacturing over the next couple decades and begin to look at how to set aside that space which is appropriate for manufacturing.

Q: Aren't there conflicts between the need of manufacturers for affordable space versus the need for more housing in the city?

AF: This issue of competing uses is a real serious problem. But you also have to realize two things. One, there's a lot of real estate that's abandoned because it's brownfields in New York. In Maspeth you have the Phelps-Dodge site, which is like 40 acres of basically vacant land incredibly close to Manhattan. There are sites like that throughout the city. So we need to develop programs to remediate the environmental problems at those sites. Other states are far ahead of New York, New Jersey in particular, in developing standards for remediation and developing programs to implement remediation. The other issue is a manufacturing area doesn't exist in a vacuum. It needs a certain critical mass of companies to become viable. We learned that in housing, you don't just stick an apartment house in the middle of nowhere. You've got to think in terms of communities and how do you re-build a community. The same is true of manufacturing and the same is probably true of the information industries. As we go about this process of trying to accommodate all our competing space needs we should probably be thinking about how to recreate communities. If we're forced to relocate the printers now, we need to develop other printing clusters so the companies that relocate there can maintain the competitive advantages and the relationships of being clustered together. When we think about helping manufacturers relocate we should be thinking in terms of entire communities like the garment industry and the printing industry.

Q: Is that what's happening with the printing industry? Are they being relocated all together in a new location?

AF: It's happening... One hopes. There's a bunch of efforts under way. We're involved with several of them, including an effort to help them move to the old Farberware building in the South Bronx and then Long Island City. That's really what they want. I don't know that it's being undertaken in any sense with City support. [Since the interview, the city has agreed to provide relocation funds, as the result of City Council intervention, but there is still no planning process.] You know there isn't any planning process that's going on saying, "Here are three communities that really would be appropriate for printing, let's try to encourage them to move there." But I think the printers obviously feel more secure moving into a community where there already are other printers there because they know they can find services, they know their clients can get there, the community has been tested, and there's greater security.

Q: Stricter zoning protection has been suggested several times over the years but never been implemented. Are there any alternative ways to address the real estate needs of manufacturers, short of strengthening zoning regulations?

AF: Well that's interesting. So we have this administration that believes very much in the broken window theory. We must be rigorous in our enforcement of even minor infractions of the law so they don't lead to greater infractions. We should be really rigorous in our enforcement of zoning. The city is barely enforcing the zoning resolution for this special district in the garment center. It's underfunding the office of midtown enforcement which has jurisdiction over that. You're seeing illegal residential conversions not only in the manufacturing areas but in the industrial parks which are the areas that the city has prioritized for industrial use. That clearly should not be the case. So I wouldn't let that go.

Next, there are a whole bunch of programmatic initiatives the city could be embarking upon. First of all it needs to work with the federal government to change the legislation for the IDA, the Industrial Development Agency. That's the vehicle by which the city can issue triple tax-exempt bonds to provide low-cost financing for industrial development. The two problems with that current program are, first, that it's capped at $10 million per project. Well it sounds like a lot of money but $10 million in New York just does not buy a lot of development. You can see how there's a real bias as a result of that cap against urban areas where development is more expensive. And then second, the whole thrust of that program is to owner-occupied projects so that if you are a developer and you realize the need for more manufacturing space and you want to go out and build a building and then lure companies to it, you cannot get IDA financing, it's for owner-occupied buildings. That may be a fundamental policy mistake because it requires the manufacturer to tie up his capital in real estate as opposed to putting his capital into equipment or marketing or training or other operating expenses. That's a bias that's incorporated throughout federal law and city policy as well. And maybe it really needs to be examined. In some cases ownership is a good thing. In some cases it really may not be appropriate.

Q: The city provides very hefty subsidies to large companies that threaten to leave the city. These retention deals tend to bypass the small manufacturing firms we've been discussing. Did the city used to have a wider range of programs available to provide assistance to manufacturers?

AF: A difference is… no, not a difference between administrations but the problem you're getting at is: Why do they tend to go to the large companies? Think of the administrative costs which are the burden of these programs. If every company came in and said, "I want a tax abatement," how could you begin that process? It's like a really top-heavy administrative process and you can see why it just favors large corporations.

Q: It's top heavy because you need to deal with each company on an individual basis?

AF: Right. And the city would probably say "Well you know these companies employ so many people it makes sense to allocate our resources this way." But there's rarely ever a finding that "but for this tax benefit" this company would leave. In many instances there's been an admission up front, "We're not considering leaving." I can't judge the veracity of that at all, but if the company isn't considering relocating, why did we do that? What's the policy rationale?

Q: It's blackmail?

AF: Well, there's a whole school of thought and I'm not sure exactly where I come down on this. But look, if we provided basic municipal services, if we had a good school system, and the roads were paved and the subways worked and it was safe, you wouldn't have to give companies tax abatements. We just need basic municipal services.

Q: A report just published in Oregon – like many reports before it – finds that corporate tax incentive packages don't play a significant role in determining where companies locate.

AF: The best strategy might be to give every CEO a co-op on Central Park West, because they're not going to move.

Q: In the food industry report you suggest a sectoral approach to economic development. Could you characterize a "sectoral approach," how it's different from a trade association, and in this approach what would be the role of government, labor and business?

AF: Well, a difference with a trade association is that they tend to be membership-driven. So they may not be working with the whole industry. On the other hand I don't know that a trade association couldn't do this. A trade association could go out and compete for government funding and agree to provide services for anyone in that industry. And in fact the New York New Media Association was launched with a grant from the Empire State Development Association. And that's just one example. There is a real history of trade associations working with government to provide services. It's really very similar. The idea is that the development and the implementation of the program would be governed by the industry and the people from the industry would thereby become vested in the program, would help design it, would that way be confident of the quality of the program that they're getting. If the program wasn't working, they would pull it because they're funding it. And you've kind of reduced the administrative costs that we were talking about a minute ago by using trade associations and existing networks. So it's a way of delivering services to a large number of small companies.

Q: And is there a role for labor to play in a sectoral approach?

AF: Oh sure. If you go back to the models of this, the Garment Industry Development Corporation was really spearheaded by labor and the trade association. What they bring to bear is they're stakeholders and they really do know the industry and they know what's happening to the membership and they know what's happening to the companies as well. While labor and management may disagree, there are a lot of areas where their interests coincide. For example, lobbying around land use policy is an area where they coincide. The ILGWU was I think very forceful in its advocacy around creating a garment center special district and it would not have happened but for their advocacy.

Q: In that project how did labor interface with the business community?

AF: Originally, the largest local within the ILGWU, which was Local 23-25 and represented workers largely in Chinatown and the garment center, jointly funded with the largest of the trade associations a study to look at the issues facing the industry. And one of the recommendations at the end of the study was setting up this entity [the Garment Industry Development Corporation]. They both took ownership of the project. Both the industry and the union committed to providing the funding for the corporation for its first couple of years.

Q: Did the State or City governments play a role in establishing GIDC?

AF: The City contributed funding, matching what industry and labor did. They each chipped in $50,000 a year for three years I think. And they participated on the board of directors. Which doesn't sound like a high cost thing, but it really was important because it meant that all three parties had to talk regularly and just by virtue of the fact of having to sit down with somebody you become somewhat accountable. It opens up a channel of communication. And I think it fostered greater understanding between the parties about each other's goals and objectives and needs and sort of made them more realistic.

Q: Are there other models of taking a sectoral approach in other cities that have been effective or that you think we can learn from?

AF: In Chicago, the Midwest Center has set up a candy institute. Apparently there is a very high concentration of candy companies and jobs in Chicago and the institute provides training and marketing assistance.

Q: We hear about the importance of regional approaches to economic development. Do you have any thoughts about what a sectoral approach would look like if we applied it regionally to include Westchester, Long Island, going outside the city?

AF: It probably shouldn't look any different. In some ways, I wonder if, just thinking about this for the first time, a sectoral approach wouldn't help overcome some of the regional barriers. Because while you have governments with tax jurisdictions that tend to compete, trade associations and unions often exceed political boundaries and it might be a way of actually unifying regions.

Q: Do you think that it's worthwhile to try to keep manufacturing firms within Manhattan, or should we primarily focus on the Bronx, Queens and Brooklyn?

AF: That's a really good question. I don't know if I'm answering it. I think the answer is yes. It's real costly. Everyone admits it's real costly. But look, what year is this – 2000. So we've now had at least two, if not three decades of incredibly intense real estate pressure in New York City, and yet 40% of the manufacturing jobs are still in Manhattan. We're working now with a company that does absolutely state of the art electronic equipment. This company employs about 15 people. They sell internationally to national standards laboratories, airlines, defense departments and they're located in a 4,000 square foot loft in Chelsea.

Q: And they want to stay there?

AF: And they want to stay there.

Q: Why do they want to stay there? Is there a reason for them to be in Manhattan instead of Long Island City?

AF: Their workforce is drawn from throughout the city. I don't know that this is true – maybe there's an argument that the higher the skill level of your workforce, the more you have to draw from a very broad pool and maybe you need to be able to draw citywide and Manhattan is more accessible citywide. But I don't know that they have to be in Manhattan. Now if you go back to the other examples we were talking about – fashion, printing, jewelry – they are in many ways really part of the high-tech, high-culture, that energetic buzz in Manhattan, in part because of design, in part because of mystique, in part because this is where cutting edge ideas are developed. And that's as true for dot-coms as any other sector. I mean doesn't it amaze you that here you have this industry – the new media industry – which is dedicated to the universal access to information from any point on the globe and what's the first thing they do? They develop silicon alley, which is a geographically defined community, so that they can all have beer parties together. You know, it shows they're really no different from any of the old industries that wanted to cluster together so that the flow of information is quicker.

The point was about saving manufacturing in Manhattan. I think manufacturing is evolving so that arguably you could have the more design-oriented pieces of its operation in Manhattan and move some of the production outside. Maybe we should be thinking about how to make the city work as a whole. Why do financial services firms insist on being located in Manhattan, why is that true of the dot-coms? If we really had a strategy that supported growth in downtown Brooklyn and Long Island City and other areas, the imperative to be in Manhattan wouldn't be as great.

Q: You were talking earlier about the labor force of the electricity measuring company and how they are very highly skilled. Is that characteristic of the labor force in manufacturing, or is it broader?

AF: It's broader; it definitely runs the gamut.

Q: Is it mostly white men fitting the stereotype of manufacturing?

AF: No, not at all. It's incredibly diverse. And it's really careers open to talent and entrepreneurial risk-taking. Every time I go to a manufacturer – you can predict when they're going to say this – they'll introduce you to the plant manager who started pushing a broom there and has moved up the ranks. That's very, very typical. I was very involved in the jewelry industry and what often happens is somebody apprentices himself to a master cutter or a trader and, four years later, he's got his own company. And they expect that to happen. That's how industry grows in that sector and I think that's very true throughout manufacturing. In the food industry, which we're working on now, we're predicting that 1,000 jobs are going to be created in this industry over the next two years. Employers want people with basic work readiness skills, not any specific vocational or technical training.

Q: So it could be providing a lot of jobs for people coming off welfare who haven't been working for a while?

AF: Definitely, it's incredibly fortuitous that this is all happening together at the same time. But on the other hand, in metalworking, in a lot of areas – woodworking – everyone has to be able to read a ruler and do calculations and do very precise measurements. So there's a whole other series of skills that are required there. I've been in tool and dye shops that do incredibly precise metalworking. Very highly skilled people. A typical printer could be earning \$65,000-\$75,000 and they are highly in demand. Demand for these people exceeds supply and the union and the trade association have very good, extensive training programs. They cannot train enough people fast enough.

Q: Is this a lost cause? Five years from now, in New York City, will there be any manufacturing?

AF: Oh definitely, there will always be manufacturing here. And it's definitely worth fighting for. I don't know – I wonder how other sectors of the economy would be impacted by the loss of manufacturing. Certainly restaurants and tourism would be. It's certainly true of a lot of the companies that depend on large reproductions in media and publications, in publishing, advertising, that depend on access to printers and graphic artists. There's an incredible synergy. Diversity really means having a manufacturing sector. And that is important for other elements of our economy.

Alice Meaker is Project Director of Good Jobs New York, a joint project of the Fiscal Policy Institute and Good Jobs First.

REGIONAL LABOR REVIEW, vol. 3, no. 1 (Fall 2000): 22-28.