

THE FIVE BOROUGH



REPORT



Five Borough Institute Policy Roundtables *New Visions for Working New York: Strengthening New York's Economy*

"Get ready for hard times." This is the seemingly unified voice of political leaders, opinion makers and academics. The conventional wisdom is direct and simple: austerity in government spending is not just inevitable, it is necessary and the right, even courageous, thing to do.

Under this approach, there is no money for social welfare or capital projects. The question is not "to cut or not to cut," it is how much to cut, and how quickly. New York City's working communities will stand to lose the most. For this reason and others, the Five Borough Institute does not accept this approach. It is both unjust and wrong.

We propose to challenge these policies of contraction and shrinkage in a series of Policy Roundtables that will give voice to the needs of working New York.

The Roundtables will explore policies, programs and financing options in housing, job creation and economic development, infrastructure, education, and health care that the City could, and should, undertake now to rebuild its economic base and revitalize social and family life in our working communities.

The Policy Roundtables will bring together the labor, government, public policy, immigrant, activist, and private sector communities.

The goal of the Roundtable Series is to encourage development of alternative policies and programs which harness the wealth, productive capabilities and potential of all elements of the city for the benefit of its neighborhoods and working communities.

**Check our website (www.fiveborough.org)
and your mail for Roundtable schedules.**

Build it Here: Manufacturing in New York

Building Railcars in New York

by Robert E. Paaswell

New York City can be symbolized by its transportation systems. It has nearly one third of the nation's transit riders, more than 10% of the daily highway miles traveled nationally, three of the busiest airports in the world, and a global marine harbor. It can be considered a hub of rail transportation in the United States. It is the key location on Amtrak's Northeast Corridor linking Washington and Boston. It has the nation's busiest and most used subway system, and the nation's busiest commuter rail services. New York should be able to dictate the markets for transportation supplies, and it should be home to a broad spectrum of transportation-based industries.

Railcars: Made Everywhere but in the U.S. With 7,849 railcars, it might be assumed that the Metropolitan Transportation Authority- home to the subways, Metro North, the Long Island Railroad, and the Staten Island Railroad, would dictate how the railcar industry in the United States should work. Together with PATH serving New York and New Jersey and New Jersey Transit serving all of New Jersey- but especially linking to New York- there might be a logic in developing long-term relationships with regional and local manufacturers to insure a steady flow of new or replacement vehicles and major vehicle rehabilitations. This would be the same logic that has Parisian subway cars made in France, London subway cars made in England, and Tokyo subway cars made entirely in Japan.

But the names on American railcars are not from American manufacturers; they are from European, Asian and Canadian manufacturers, all of which, by Federal Law, must insure that over 50% of the content is made in the U.S. The transit railcar industry in the U.S., once symbolized by names like Budd, Morris-Knudsen and others, has all but disappeared over the last two decades. Faced with uncertain transit budgets, railcar lifetimes extended from 20 to 35 years, and decline in the steel industry, U.S. producers could no longer be competitive. As the railcar manufacturers left, the impact was felt by their suppliers and, of course, the communities where their workers lived.

The transit business is not like the auto business. Total annual production needs for the U.S. might be only in the thousands; in the auto business, we know, production is in the millions. But the values differ; each railcar costs \$1.5-\$2 million. One difficulty for manufacturers is that each rail transit property specifies railcars unique to its local needs. Overall length, width, seating, electronics, doors, suspension and propulsion systems are all tailored to the needs of the property; there is no U.S.

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 standard. Each procurement is unique. A manufacturer cannot make a one-car-fits-all for the U.S. They must wait for orders and specifications for every procurement. This awkward process, of course, adds to the costs of manufacturing railcars. Offshore manufacturers have stepped up instead to meet U.S. needs.

Why Local Manufacture Can Happen. Even with these complexities, it should be possible to restore the manufacturing of railcars to the U.S., and, as the home state of the biggest consumers of railcars, to New York State. There are a number of reasons why this might be worth pursuing now: first, *the MTA is likely to continue going through a period of stable, somewhat predictable budgets for some time.* Even in these uncertain times, the risk of a fiscal crisis that can undermine the capital budgets of transit systems in New York seems small. The integration of two major procurement tools- a five-year capital budget that identifies railcar procurement by year, and the ability to enter into a Full Funding Agreement with the Federal Government, can give manufacturers more certainty in the stability and continuity of production.

The next factor arises from the fact that *significant changes are taking place in the transit industry itself.* Both railcars and buses, as well as terminals, yards, and shops, are being affected by the computer and information technology revolution. A new generation of vehicle is being built, a vehicle which can be operated by computers. Its components can "talk to each other" and to a central control. Maintenance will be done on modules which can be addressed by hand held computers. The electronics sparking these changes were developed, in the first instance, in the U.S. The standards through which these computers will talk to each other are being developed by U.S. organizations. And these components - some unique to railcars - can also be adapted to many types of vehicles, including trucks and buses. The industries that can supply these components to railcar manufacturers have a logical home in the U.S., and the skilled labor force that can produce them is here also.

There is another source of demand for this industry. *A new mode of transportation, Bus Rapid Transit (BRT), is being explored in many U.S. urban areas, including New York City.* BRT, like rail, will operate on City Streets in exclusive rights of way. But, unlike rail, it can leave this right of way and operate as a regular bus. To gain public acceptance and use, BRT will be designed like railcars with modern, comfortable cabins and low floors. It will, in effect, be a railcar body on a bus chassis. Unique vehicles, they can be quickly adapted and built by railcar manufacturers. They fit the need in many areas where public transit is expanding and the markets call for 21st century vehicles. In fact, they reinforce the fact that transit ridership has been increasing everywhere over the past five years, and this growth is expected to continue.

Boosting the Local Economy. But the strongest reason to relocate the railcar industry here is for its impact on the regional and local economies. Railcar and related manufacture

Region at a Glance

Persons Under 65 Years of Age Without Healthcare Coverage: Selected Years 1987-99



Source: Census Bureau

could grow into a billion dollar business and serve rail transit throughout the U.S. Because of their higher wages, the employment multiplier effects of manufacturing are two to three times that of service-based industries. The transit properties themselves are already training grounds for some aspects of manufacturing and rail car rehabilitation. A highly skilled labor force, to build and assemble the entire product, can add stability to the local economy. And the continuing dynamics of the computer generation can build links between entrepreneurs, colleges, trade schools, and manufacturers to ensure that the integration and testing of new high tech components can take place economically and rapidly. Building vehicles here would shorten the times of delivery, prototype testing, initial run in and evaluations, all of which are costly and often frustrating. Further, U.S.- and New York-based companies would spend and reinvest their profits here, not take them abroad. This will help those industries grow and diversify.

It is clearly time to rethink the role of manufacturing in New York and to begin with a product that is a quintessentially New York product.

Robert E. Paaswell is Distinguished Professor of Civil Engineering and Director, CUNY Institute for Urban Systems, CUNY

Reindustrialization Conference

The W. Edwards Deming Center at Columbia University will host a conference on "Shaping a Strategy for Reindustrialization: Prospects for the Fashion Industry". Clearly the U.S. is not going to be a source of low-cost labor, so what are possible bases for its continued and expanded participation in the sector? Do we have examples? This all day conference will explore the prospects for the Fashion Industry in New York and the rest of the United States. Presentations on the role of technology, education, government and the unions will be made, in addition to examples by leading suppliers, manufacturers and retailers. The meeting is open to interested members of the public and will take place at Warren Hall, Columbia University, Friday, April 12th, from 8:30 - 5:00 pm. Please RSVP to 212 854 1122 or deming@columbia.edu.

A High End Apparel Industry for New York City

By Nelson Fraiman and Carolyn Paris

Reducing wages costs by means of a global supply chain has been driving apparel production decisions for the last ten years. U.S. fashion retailers have based an increasing proportion of their production outside the U.S., primarily in China and other low-wage regions of East and South Asia, but also in the Caribbean basin and Central America and, to a lesser extent, in Eastern Europe, North Africa and South America. As additional low-cost production has come on stream, clothing prices have dropped.

At the same time, retailers are facing pressures from ever more sophisticated consumers to come up with a continuing series of attractive new offerings. Consumers are no longer willing to pay traditional retail prices for undistinguished merchandise that sits on the selling floor for an entire season and grows stale. Retailers have been scrambling to find ways to bring new styles forward more frequently and to cut their losses on less popular items. Large market operators and discount chains, such as Target and Kohls, are masters of the global supply game and are continually increasing the fashion component of their clothing selections at prices that pose major challenges to the traditional full-price department store and retail specialty outlets.

New York Could Do It

In this environment, should New York City try to participate in apparel manufacture at all? If so, what should industry players consider as they develop a strategy?

New York City is not going to be a competitor purely in terms of low wage cost – that much is clear. Where goods have commodity characteristics, that is, compete solely on the basis of price and durability, with perhaps a dollop of fashion tossed into the mix, the global supply chain specialists will win, exploiting a flexible and geographically diverse production base with a range of low-wage regions from which to choose.

On the other hand, New York City has a number of competitive advantages across the apparel production cycle. Bringing these together could make New York City an attractive base for high-end apparel and luxury good production. In this segment of the market, merchandise competes on the basis of design, quality of workmanship, stylishness, novelty, and prestige. Price is viewed in terms of the value delivered along these dimensions. Traditional economies of scale – producing large volumes of identical items – do not apply; instead, customers are more likely to respond to artificial scarcity and will line up for “exclusive” or “limited edition” offerings. Most of the value in this segment is based on design and marketing; it depends on the full production cycle, from inspiration and apparel design through to store design and customer service.

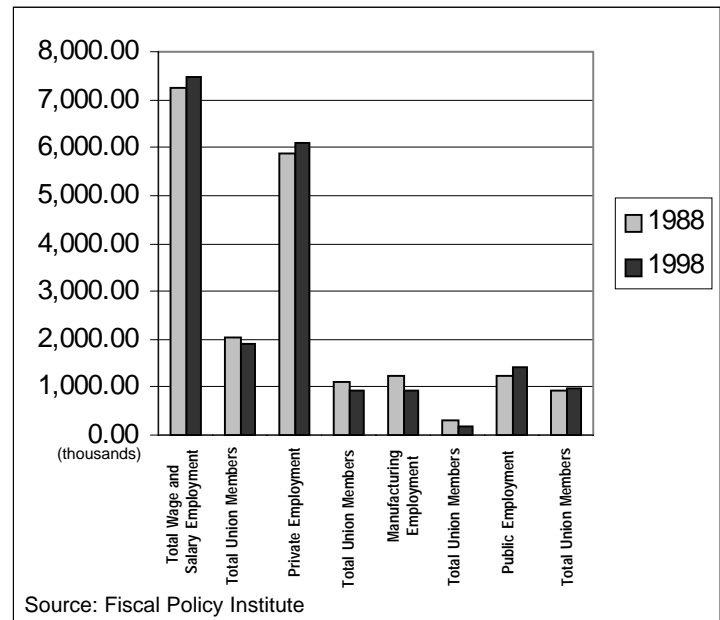
Approaching the business from this angle, New York City has a lot to offer:

— A sophisticated fashion design community, comparable to that of Paris and Milan, along with the associated media and event machinery and two world famous design schools, the Parsons School of Design and the Fashion Institute of Technology;

— Development and experimentation in high tech fabrics, which have special qualities for wearing or handling, or which require less sewing in garment assembly;

Region at a Glance

Union Membership and Employment In New York State, 1988 and 1998



— A traditional infrastructure of showroom space, financing techniques, and other assets and skills associated with the traditional “garment industry”;

— A highly sophisticated and well-to-do local market of consumers, ranging from the trendiest of young people taking part in the art or club scene, through the traditional or classic taste of people in the midst of career or family, to the currently underserved segment of older people who would still want to wear and use attractive things;

— A large population of highly motivated, literate, and skilled (or potentially skilled) craft workers, as well as available manufacturing space and other physical infrastructure for manufacturing; and

— Unequaled expertise in bundling design, manufacture, advertising and point-of-sale experience into brand value.

Some Models for New York

New York City can look to successful models for integrated approaches to apparel and luxury goods manufacturing and marketing based on factors other than low wage costs. Apparel and luxury goods production in northeastern Italy is widely cited as an example of how a regional cluster of small businesses, many of them family-owned, can operate successfully in a high-wage environment. Design and marketing are carried out by “name” companies, but manufacture is supported by subcontracting to local networks of highly specialized firms. The region as a whole gains the benefits of both economies of scale and vertical integration, even though batch size is small and ownership is dispersed. This “cluster” structure permits flexible production and fosters innovation. It seems to work best when it is working initially to satisfy local, or at least domestic, demand.

A second model takes advantage of higher-cost local manufacture to permit in-season production in response to real-time information about what is selling and what isn’t. This is the model successfully implemented by the Spanish apparel com-

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pany Zara. Zara goes into each season with only 50-60% of its season offerings committed. The balance of each season's offering is scheduled for manufacture during the season and can be readjusted or pre-empted based on day-to-day market intelligence; the entire production cycle from design to store delivery can be as short as 10 days or two weeks. In addition, Zara delivers new inventory to its stores twice a week and makes only a limited run of each style. Zara customers have learned to shop frequently and to buy now if something pleases them – it might be gone next week! Zara's end-of-season markdown sales represent a much smaller proportion of sales than is typical for its competitors.

In the United States, Tiffany and Coach have been successful by pursuing an integrated strategy in which design, high quality (often U.S.) manufacture, and consistent marketing across all channels convey strong brand image, with a characteristically American mix of fashion with tradition. The quality and brand image, carried through to the stores and sales interaction, support premium pricing which is nonetheless viewed by consumers as representing fair value for what they get. The American consumer feels comfortable paying for luxury when the product promises years of use – the shopper feels prudent while making an extravagant expenditure.

Technology Makes It Happen

A further piece of the puzzle can be provided by technology. Technological innovation can foster production in a high-wage environment in at least two ways – by increasing worker productivity, and thus effectively reducing labor cost, and by supporting mass customization. The concept of mass customization – where customers can order products cut to their size or made to their unique specifications – is well suited to the luxury sector but requires not only that products be made efficiently but also that they be delivered quickly. Paying a premium price for a uniquely tailored good feels right only if you actually get it before you have changed shape or changed your mind.

In all these cases, there is benefit in locating design and manufacture close to the market – not only for the obvious reason that shipping expense is reduced, but to make market response faster and sufficiently accurate to support premium pricing: Local manufacturing, if strongly driven by a responsive design cycle and supported with good marketing and merchandising, could make sense for New York City.

Nelson Fraiman and Carolyn Paris are with the Columbia University Business School.

Worth a Look...

The State of Working New York 2001; Working Harder, Growing Apart

The updated version of this report, issued by the Fiscal Policy Institute, addresses the current harsh realities of working life in New York and the gradual declines that lead to them. Chapters include the uneven economic growth of the various regions of the state, increasing family income polarization, deteriorating wages and working conditions, and the dominance of the "low-road" economic model. The report also features a detailed look at regional employment changes throughout New York State, and a new appendix which illustrates the economic impact of the September 11th attacks.

For the complete report:
<http://www.fiscalpolicy.org/SOWNY/links.stm>

Foreign Born Immigrants in America, 1990 & 2000

"Between March and September 2001 the Demographic Analysis-Population Estimates Research Project [part of the Census Bureau] examined the historical levels of the components of population to address the possibility that the 1990 Demographic Analysis understated the national population and assessed whether demographic analysis had not captured the full population growth between 1990 and 2000." The report specifically addresses the Bureau's underestimate of the growth of the U.S.'s immigrant population. Interesting findings include the fact that in 1990 the residual foreign born were less likely to be male (48.4%) than in 2001 (54.2%) and that, of the residual foreign-born, 26.8% were from Mexico in 1990 compared to 44.5% in 2001.

For the complete report:
<http://www.census.gov/population/www/documentation/twps0061.html>

State of New York City's Housing & Neighborhoods 2001

This report contains a wealth of up-to-date information on New York City's population, the conditions of our neighborhoods and the current housing stock. This three part report covers many of the issues in housing today such as housing creation, affordability, quality, and value, as well as data on mortgage lending and foreclosures in the city. The report also addresses broader housing-related issues, such as race and ethnicity, business and employment, crime, immigration, poverty, and public schools.

For the complete report:
<http://www.law.nyu.edu/realestatecenter/housingNYC2001/intro.html>

The Five Borough Report 404 Riverside Drive, Suite 4D, New York, NY 10025
phone: (718)263-2918 e-mail: email@fiveborough.org website: www.fiveborough.org
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