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Commentary

The paper by Edward L. Glaeser offers an insightful and entertaining overview of almost four centuries of the economic growth of New York City. First, I will address some of the themes I took away from the history sections of the paper. Then I will turn to the modern era and comment on a basic point I think the paper misses in the description of both the historical record and the modern era: the role of New York's vibrant neighborhoods.

The author's first theme is New York City's four-centuries-plus record of sustained economic and population growth. During this period, New York has outperformed Boston (and Philadelphia) to become the nation's leading city and metropolitan area. Geography has played a key role. New York has a great natural harbor connected to a long navigable river, the Hudson, something that Boston lacks. In addition, New York's central location on the east coast offered advantages over Boston's periphery location to the north. At the dawn of major industrialization, New York was the hub of what emerged as a hub-and-spoke transport system stretching up and down the coast and inland. Moreover, given New York's initial transport cost advantages at the time and its slightly larger population, the city benefited from a noticeable "home-market effect," as described in the recent economic-geography literature. For industries exhibiting scale economies, a larger home market becomes a source of local demand that helps escalate local production scale.

Glaeser describes how these advantages helped New York become America's center for manufacturing in the sugar, garment, and publishing industries well into the twentieth century. Even today, New York's presence in two of these industries continues, evidenced by a high concentration of firms engaged in the haute-couture fashion and upscale magazine publishing industries. For publishing, New York's initial advantage was its high-volume port connections with England, allowing the city to receive most first copies of new books published there. New York publishers could then pirate versions of these books for sale in the city's local market and the rest of the country. As for pirating, it had none of those Puritan scruples slowing down commerce.

The author also describes the waves of immigration from Europe to New York, which swelled the city's population and helped meet the demand for workers in the factories and centers of commerce. The reason why so many immigrants chose to stay in New York, however, is not fully explained; Glaeser contends that they "did not want to spend the time and money to travel further." While it is plausible to believe that an immigrant who had traveled for months would be tempted to stop where the boat dropped him off, one could argue that he would only stay for an extended time if New York's advantages made doing so attractive. Besides a strong labor market demand, New York City offered immigrants ethnic neighborhoods. Each neighborhood had a network of contacts to aid in finding housing and jobs. These rich and colorful neighborhoods and networks are well described in historical accounts as well as in the literature set in New York. The

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richness of the city's dense neighborhoods is a theme that continues into the modern era.

Glaeser's discussion of the modern era focuses on New York City as a financial capital where face-to-face contact and immediacy of information are critical. The point he misses is that this immediacy of information and ability to make face-to-face contact exist in other industries as well, especially those where the creative side is critical. The table shows some of the major industries in New York. For each industry, the location quotient is given—the ratio of New York's (Manhattan County's) share of national employment to its share of total national private employment. For example, for headquarters, the location quotient is 1.6, that is, New York's 3 percent share of headquarters employment divided by its 1.83 percent share of all national employment.

The table reveals that with the exception of FIRE (finance, insurance, and real estate), New York is not really a headquarters capital—its share of national headquarters employment (and its share of headquarters establishments) is only modestly above its share of general employment. The literature asserting that the city's economic base is driven by headquarters is misguided. What New York does have is finance, as emphasized by Glaeser, and services, such as advertising. New York is by far the nation's leading advertising agency city, with an even greater concentration of sales than employment. New York City is also a center for the arts. These activities have two key features: first, they are New York's leading exports; second, the creative activities such as advertising, theater, and fashion are located in dense neighborhoods, where people in these businesses interact at the neighborhood level. New York's success today is based in large part on its dense commercial neighborhoods, where face-to-face meetings and the exchange of information are essential.

Location Quotients of Selected Major Industries in New York

Industry	1997 Quotient
Headquarters	1.6
FIRE headquarters	5.5
Financial services	6.4
Securities brokers	13.4
Business services	4.1
Advertising	8.0
Arts	3.8+

Source: Aarland et al. (2005).

Notes: The location quotient is defined as New York's (Manhattan County's) share of national employment in industry *x* divided by its share of total national employment. The numerator of the arts quotient excludes arts employment in the twelfth and fifteenth congressional districts. FIRE is finance, insurance, and real estate. The arts category includes performing arts, publishing, museums, and broadcasting.

Consider advertising. New York has more than 1,000 advertising agencies. These agencies are clustered throughout southern Manhattan, although some clusters remain on or near Madison Avenue. For these agencies, networking with others in the creative design of ad campaigns is critical. Networking can be formal, such as asking another agency to contribute work for a campaign, or informal, such as exchanging ideas over coffee or lunch.

The key questions are why advertisers are so concentrated in New York and what role New York's neighborhoods play. We do not know all the answers, but several things are apparent. One attraction of New York is its "buzz"—a great labor market of young, creative, and ambitious people. For advertisers, the people they sell to—broadcasters—are there as well. But what New York also offers is an array of dense advertising agency neighborhoods from which to choose. Arzaghi and Henderson (2005) uncover two fascinating aspects of these neighborhoods. The implied benefits of having more neighbors nearby dissipate over space incredibly quickly. The authors find strong positive effects of having more neighbors within 500 meters, some between 500 and 750 meters, but none beyond 750 meters. Clusters of advertising agencies on one side of Manhattan do not network with agencies on the other side. What are firms willing to pay to be at the center of the action of a large cluster of agencies rather than isolated on the fringes? In 1992, the average monthly rent for Class A office space in southern Manhattan was $28 per square foot. The typical advertising agency was willing to pay $10 more per square foot per month for an increase of up to 50 neighbors nearby, which is close to the maximum number of neighbors in any one census tract. But then who pays the higher rent and locates in the dense clusters, and who operates more in isolation?

Arzaghi and Henderson find spatial separation in the local market. The highest-quality firms are the ones willing to pay the most to be at the center of big clusters, while lower quality firms operate on the fringes. Agencies in New York move within the city, with new firms spinning off from old ones, on an ongoing basis. For example, a new agency can set up on the fringes of Manhattan, develop its talent and potential, and move to the center of a large cluster where it pays higher rent. Some employees will then spin off their own firm and move to another cluster, and so on.

Part of the lifeblood of New York City is its vibrant neighborhoods and dense centers of activity. A century or two ago, part of this vitality was manifested by waves of immigrants who clustered in the networks of their own ethnic neighborhoods. Today, some of the city's vitality is manifested by the different clusters of advertising agencies, fashion designers, and artists scattered throughout New York. As long as those individuals engaged in certain creative commercial activities require face-to-face networking, New York will offer the dense, vibrant neighborhoods that can help them to succeed.

References

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