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What is Economic Development in an Information Economy?

by Jessica Korn

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Columbia Institute for Tele-Information
Graduate School of Business
Columbia University
809 Uris Hall
New York, NY 10027
(212)854-4222

WORK IN PROGRESS: Blueprint for a new public policy program:

"What is economic development in an Information Economy?"

Jessica Korn, Adjunct Professor
November 1997

In conjunction with the Manhattan Institute in NYC, Jessica Korn, a 1997-98 Freedom Forum Fellow at the Media Studies Center, is laying the foundations for a new public policy program capable of examining, increasing understanding of, and, ultimately, fostering economic development of new markets for digital products and services in NYC. She proposes a three-part, two-stage process for the program.

The public policy environment for understanding and fostering information-age economic growth in New York City is characterized by "informational" diffusion and institutional vacuum. Many research organizations in NYC--including the Federal Reserve Bank of NY, the New York New Media Association, the Citizens Budget Commission, the Columbia Institute for Tele-Information at Columbia Business School, the Taub Urban Research Center at NYU, the Empire State Development Corporation, the Council on Foreign Relations, to name a few--are producing valuable and important studies of the possibilities and pitfalls facing NYC's economy today. But none is specifically devoted to exploring the role of digital products and services in fostering the emergence of new markets.

How does the business environment in NYC compare to other regions--Silicon Valley, "Telecom Valley" in Seattle, "Silicon Hills" in Austin--with regard to the costs it imposes on entrepreneurs and innovative corporate executives intent on using digital products and services to jump into new markets? How does it compare with regard to benefits, or unique opportunities?

Policy-relevant answers to these questions are most likely to emerge from a robust and on-going cross-fertilization of theoretical insights and practical knowledge. Instituting such cross-fertilization should begin with a Speaker Series as well as an associated set of Business Roundtable activities. The Speaker Series should seek to inspire an intellectually rigorous exploration of the nature of wealth creation in an information economy. The Business Roundtable activities should seek to capture a broad-range of personal experiences with the possibilities and pitfalls of entrepreneurship in NYC.

The key here is to create a "bubble-up" public policy program. The analytical framework best suited to understand the dynamics of wealth creation in NYC's information economy should arise from in-depth discussions of a variety of theoretical perspectives on economic development. Concrete objectives for the reform of existing tax, regulatory, and social policies, should emerge from a widespread survey of the real-life obstacles that are hindering entrepreneurship and innovation in NYC today, as well as of the unique opportunities springing from NYC's centrality in the global information economy, its diverse and constant influx of new immigrants, and its unchanging power to attract the world's most talented and creative artists, writers, musicians, dancers, actors, photographers, designers.

Interwoven in the theoretical discussions should be the practical perspectives of those forced to work with, and around, the dynamics of growth in NYC's information economy. Surveys of real-life experiences should themselves be organized by those with the analytical tools necessary to extract the policy-relevant value of individual case studies.

If constructed true to form, a bubble-up public policy program comes with the ready-made support necessary to prevent its prescriptions from falling on deaf ears. The process of distilling practical and theoretical insights through a Speaker Series and set of Business Roundtable activities will itself help build the consensus among business, political, and intellectual leaders necessary to make the resulting public policy program a success.

The three parts of the proposed public policy program include a Speaker Series, a collection of Business Roundtable activities, and, in the longer-run, an agenda for Improving Effective Governance built on insights gleaned from the other two prongs of the program. (For elaboration of "Improving Effective Governance" as a public policy objective, see John Dilulio and William Bennett, "What Good is Government?" Commentary November 1997)

(A): Speaker Series

The Speaker Series should focus attention on a variety of theoretical perspectives on economic development. It should also provide a public forum for those who are actually out there, creating and making use of new digital products and services to push open new markets, to describe their experiences.

Some suggestions:

A good way to begin the series would be to start with Paul Romer, a Professor at Stanford Business School, and a pre-eminent scholar of the dynamics of growth and innovation.

William McDonough, Chairman of the Federal Reserve Bank of New York, is an outspoken critic of "New Paradigm" economists--those who believe that familiar relationships among inflationary pressures, wages, productivity, and the limits on growth no longer hold in an information age economy.

Professor Paul Krugman, of the MIT Economics Department, includes, among his extensive writings, analysis of the sources and significance of mainstream academic economists' growing attention to issues of economic geography and economic development.

Professor Eli Noam, of Columbia Business School, is a former member of the New York State Public Service Commission: with first-hand knowledge of the history and politics underlying the "invisible" taxes that help make NYC's taxes on utilities the highest in the nation, Professor Noam could help set the analytical stage for building a new public policy program focused on Improving Effective Governance.

Peter Huber, obviously

Tom Johnson, CEO of Greenpoint Savings: Greenpoint Savings Bank is on the cutting edge of emerging markets in NYC as it is harnessing sophisticated high-tech mortgage finance instruments to serve the growing demands for housing credit among NYC's new immigrant communities.

Brian Horey, Partner of NYC-based venture capital firm Lawrence, Smith & Horey, and co-founder of the New York New Media Association, has the in-depth practical experience, personal connections, and long-term business responsibilities necessary to provide an example of the "and therefore" action-plan response that might follow (for NYC's new media industries in particular) from theoretical debates about the way in which new markets emerge in an information economy.

Peter Powers, former First Deputy Mayor to Mayor Giuliani, is co-chairman of High View Horizon, an investment boutique that is steeped, in its everyday business, in the unique characteristics of the information economy: among other projects, including the non-traditional funding activities run by Mr. Powers, the firm publishes the Spin-Off Report, a newsletter devoted specifically to detailed valuations of all domestic spin-offs.

Richard Schwartz, former Senior Advisor to Mayor Giuliani, has now started his own firm, Opportunity America, to serve the growing demand for new jobs in a marketplace characterized by an increasingly flexible, or "liquid," labor force. Opportunity America depends on sophisticated system management technologies to deliver the screening, testing, training, and administrative services necessary to help governments and businesses hire new recruits from the able-bodied labor force made available by welfare reform.

Shant Hovnanian, CEO of CellularVision, has created the nation's first integrated wireless provider of voice, video and data services, using LMDS (local multi-point distribution system) technology. With 14,000 customers in Brooklyn and Queens already signed up for the company's offering of 49 television channels, with high-speed wireless internet access about to come on-line for its Manhattan customers, and with a stated intent to offer plain old telephone service on its wireless network too, Hovnanian is on his way to becoming one of NYC's cutting edge providers of information-age infrastructure. Along the way, Hovnanian has acquired many well-known medals and bruises from his wrestling matches with government regulators.

Senator Pete Domenici (R-NM): while trying to balance the national budget, Senator

Domenici has also been pushing the envelope on the new markets that the Telecommunications Act of 1996 was intended to help push open. Senator Domenici's office is building a state-wide economic development program in New Mexico by relying on, and targeting information-intensive industries.

In addition, Professor Romer suggests, as potential speakers: Bill Miller, former President of the Stanford Research Institute, former Provost of Stanford University, and founder of Silicon Valley Joint Venture; and Annalee Saxenian, Sociology Professor at Cal-Berkeley, and author of *Regional Advantage: Culture and Competition in Silicon Valley and Route 128* (Harvard U. P., 1996)

(B): Business Roundtable

In an economy characterized by fast-paced technological innovation, widespread outsourcing of individual business functions, and the proliferation of firms producing ever-more particular products and services, the economies of scale traditionally made possible by clustering--as with the emergence of a "diamond district" on 47th street--are likely to help jump-start new markets in digital industries. It could also help established industries take advantage of sophisticated new information technologies to push their own markets in new directions for growth.

The Speaker Series could provide a valuable forum around which to build Business Roundtable activities. The objective of these activities should be to enable firms in established industries, together with technologically innovative start-up firms, to harness what might be overlapping self-interests. Untapped opportunities to harness overlapping self-interests might lie, for example, in centralizing consumer traffic, and in strengthening the community of vendor and technical support firms, as a way of trumpeting NYC's fertile ground for digital products, services, and digitally-skilled workers.

Doing so would best be achieved in two ways: (a) linkage activities with existing institutions that perform Business Roundtable functions, like the New York Partnership/Chamber of Commerce and the New York New Media Association, and (b) create a new in-house Manhattan Institute forum by tacking additional discussion sessions onto the Speaker Series, as well as, perhaps, instituting a rotating dinner party to meet once every four months.

Individual speakers from the Speaker Series might themselves be eager to serve as discussion leaders for Business Roundtable events. The Manhattan Institute should also make use of the "discussion leader" position, a position that needs to be filled for each of the Business Roundtable events, to affiliate the new public policy program with a roster of leading scholars working on issues related to economic development and information technologies.

Some suggestions for such a roster: Fred Siegel, naturally; Jack Balkin, founder of the Information Society Project and Professor at Yale Law School; Bob Litan, Director of Economic Studies at Brookings; Tony Oettinger, founder and Chairman of the Program on Information Resources Policy and Professor in the Division of Engineering and Applied Sciences at Harvard; Robert McClintock, co-director of the Institute for Learning Technologies, and Professor of History and Education, Teachers College.

Key to the Business Roundtable events is to include executives from established industries, as well as entrepreneurs and innovators from the digital industries themselves. As Steven Cherry, editor of "netWorker" magazine, and a participant in the Manhattan Institute's first Roundtable Discussion on the proposed policy program, notes:

"Your mention of the garment industry sparks some thoughts, not least because it is one of the NYC-based specialty industries I happen to know a little bit about. My first thought was that I've long noticed the lack of PC technology applied there. Then it seems obvious that there are some easy ways in which networked computer technology could be of highly visible help. For example, I doubt that many showrooms are putting up web pages for their new seasonal lines. This would be especially helpful in the Juniors/Teens markets, where consumers might also want to look at the pages. Again, one of the big nightmares of market week (and there are several throughout the year) is scheduling. A collaborative scheduling application on the web could make it much easier -- just put your name in the time you want to reserve...

"It seems remarkable in hindsight that we barely discussed, at that Manhattan Institute roundtable discussion event, the ways in which Silicon Alley could be of direct benefit to NYC's traditional markets. I think I've made this list before but we have, at a minimum:

Financial district.....wall street
Advertising.....madison ave, flatiron
Art.....museum row, madison ave, soho, etc
Theatre district.....broadway, etc
TV studios.....hell's kitchen, long island city
Shipping, import/export....airports, jersey piers
Garment district.....seventh ave
Fur district.....seventh ave high 20's
Shoe district.....near empire state bldg
Lingerie, linens, etc.....mad ave & 30's
Diamond district.....47th & 6th
Watch district.....40's off 6th
Toy district.....broadway near 23rd
Publishing.....all over but esp mad ave, flatiron"

(C): Improving Effective Governance

Turning upside-down the traditional, top-down, model of a "think tank" to create, instead, a "bubble-up public policy program"--one where the analytical framework emerges from an entire Speaker-Series-worth of theoretically rigorous discussions, and where concrete prescriptions for improving effective governance of the marketplace arise from a set of Business Roundtable events that pay attention to the practical experiences of actual players--fits well with the Manhattan Institute's cutting-edge and creative spirit. Better yet, it might very well enable the Manhattan Institute to provide NYC's business and political leaders with the on-going theoretical insights and practical knowledge necessary to increase the region's share of new jobs and new capital being created by the information economy.