PRATT CENTER
FOR COMMUNITY DEVELOPMENT

The State Of Urban Manufacturing

Presented to the Small Business Committee,

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Good morning. I am Adam Friedman, Director of the Pratt Center for Community Development and I thank you for the opportunity to testify regarding the challenges and opportunities presented by urban manufacturing, both nationwide and in New York City. The Pratt Center is a department within Pratt Institute and the Center provides technical assistance to community groups and small businesses in low income communities to build a more sustainable and equitable New York. Prior to Pratt Center, I was Director of the New York Industrial Retention Network and the Garment Industry Development Corporation.

I am also Chairman of the Urban Manufacturing Alliance, a network of approximately 350 economic development professionals in more than 100 cities. The UMA is committed to strengthening urban manufacturing and creating well-paying manufacturing jobs by helping cities to share research, collaborate in program, and providing an urban perspective in economic development policy.[1]

[1] The positions expressed here are that of the Pratt Center and not Pratt Institute or the Urban Manufacturing Alliance.

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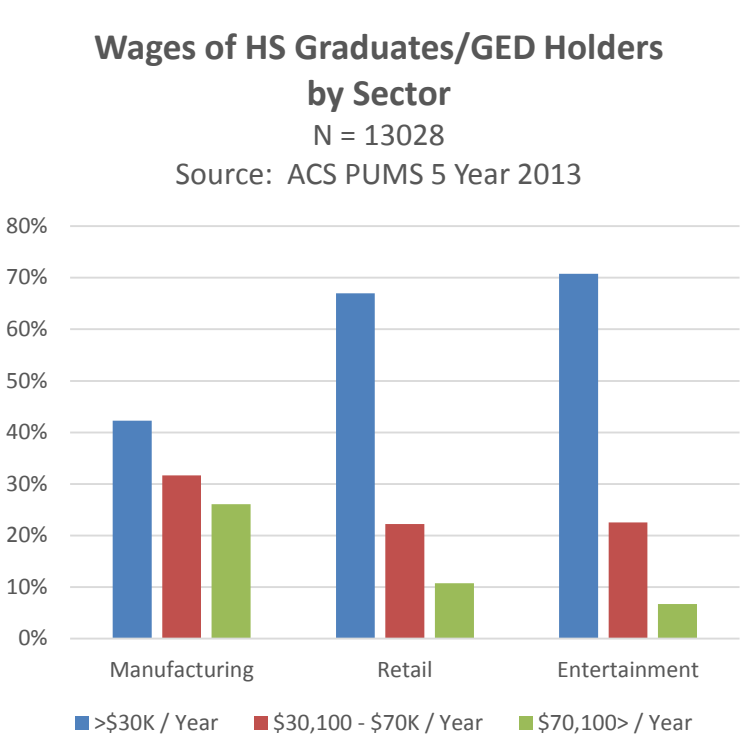
We've all probably felt some pride when listening to Frank Sinatra belt out about New York "if you can make it here, you can make it anywhere." But when you think about it, he's saying New York is a crazy place to do business, and what he's saying is particularly true about manufacturing: The infrastructure is crumbling. Utilities, labor, and transportation all cost more, and not only is the cost of real estate extraordinarily high, there is the risk that your space is going to get converted to a condo, coffee bar or used clothing store. There have been moments over the past 30 years when I've been talking to a manufacturer and suddenly feel like saying "you need to run, save yourself!"

But here's the thing: New York, and cities across the United States, are actually great places to do business, and we're now seeing a resurgence in our urban manufacturing sector. Districts in New York, San Francisco and Los Angeles, three of the most expensive cities in the United States, are all seeing new small manufacturing businesses open.




A healthy manufacturing sector must be part of any comprehensive strategy to address the growth in income disparity and expand the middle class. A job in production is one of the best ways to secure a well-paying job, particularly for people with limited educational attainment.

Expanding urban manufacturers is a realistic strategy. are focusing on high value added products, as opposed to commodity products. New York was once home to Farberware which made pots and pans, and Swingline which made staplers, and until recently Sweet & Low which makes sugar substitute. And while we're may be saddened by their loss and challenged by the need to find new jobs for their workers, moving forward we need to focus on companies with high value added products that benefit from being in an urban location. As you'll hear today, urban manufacturers take advantage of proximity to market, design talent, highly skilled labor and, perhaps in the future, the wealth of resources that we now throw away and that could be recycled.

In addition, we are seeing dramatic changes in technology that are essentially shrinking factories. 3D printers, CNC machines, and very powerful software that facilitates design but has a very simple interface are making it possible for a vast array of products to be made in smaller spaces. This shift translates into more efficient use of real estate, which makes cities more competitive.

Even more efficiency is achieved through co-working spaces where separate companies are sharing equipment and production capacity. Manufacture New York is a great illustration of this, as is TechShop, a company that provides factory space based on a gym-membership model: you pay a monthly fee to use sophisticated manufacturing equipment so that you can launch a manufacturing company without the huge startup costs of a factory.

While these changes in technology are helpful, technology is not the issue or the criterion that should guide economic policy. The defining characteristic for

economic development efforts should be “high value.” High value reflects a market decision, the willingness of consumers to pay premium prices for a product – a premium that allows the entrepreneur to pay higher wages and bear the higher costs of doing business in urban areas.

High value may come from advanced technology but not necessarily so, and it is important to remember this when designing programs to assist manufacturers. For example, a company may need loans and grants to purchase equipment, but vouchers or wage reimbursements may be more appropriate for companies which derive value from the skills of their workforce.

One way of thinking about high value is the ‘cultural content’ embedded in a product. High value can be achieved not only by technology but also by good design, by innovation, by aesthetic quality, or by otherwise meeting the needs of consumers. This is why there is such strong synergy between universities and manufacturing in cities. More than 4,000 design and architecture degrees are awarded every year by universities in New York City, at FIT, Parsons, Pratt, SVA, Kent State and others, and that wealth of design talent is leading to new business formation and job creation. In addition, universities are making strategic decisions to help their graduates and their home cities by launching this talent into business. For example, First Batch at the University of Cincinnati selects graduates in design for an incubator that includes helping them scale up using local manufacturers.

Cities have particular competitive advantages based on their density and the networks of specialized businesses made possible by density. Small manufacturers typically form networks with other manufacturers, each

contributing specialized skills and products as needed to produce a final product in an efficient flow of work, then disband and move onto the next team and product. The flexibility of these networks and temporary partnerships creates competitive advantages for small firms which do not have to carry the fixed overhead costs for all the equipment, space or labor needed for every product.[3] Neighborhoods filled with older loft buildings, such as Manhattan's Garment Center, Long Island City in Queens, and Greenpoint and Williamsburg in Brooklyn are ideal for nurturing these production networks. The extraordinary concentration of these production networks, consumers, producers, skilled labor and suppliers makes it possible for an entrepreneur with a new idea to get it designed, tested, financed, manufactured, marketed and onto retail shelves not only within a short distance but also within a short period of time.

The shift to a low-carbon economy is leading to other new competitive advantages for urban manufacturing. Virtually since the invention of the wheel, the cost of transporting goods has been going down, making it possible if not inevitable for companies to engage in global sourcing strategies. But rising energy costs will inevitably lead to rising transportation costs, making cities more competitive – not for all but for more manufacturing. Shifting the transportation cost curve up will encourage more decentralized or regional markets and production. One way urban manufacturers may begin to capitalize on this opportunity is by creating cooperative distribution networks in which small manufacturers add products from other manufacturers to their delivery routes to ensure that their trucks are full and to share the costs. This is already beginning to happen with the release of *Cargomatic,* a smartphone app that allows users to share trucking transport for cargo.

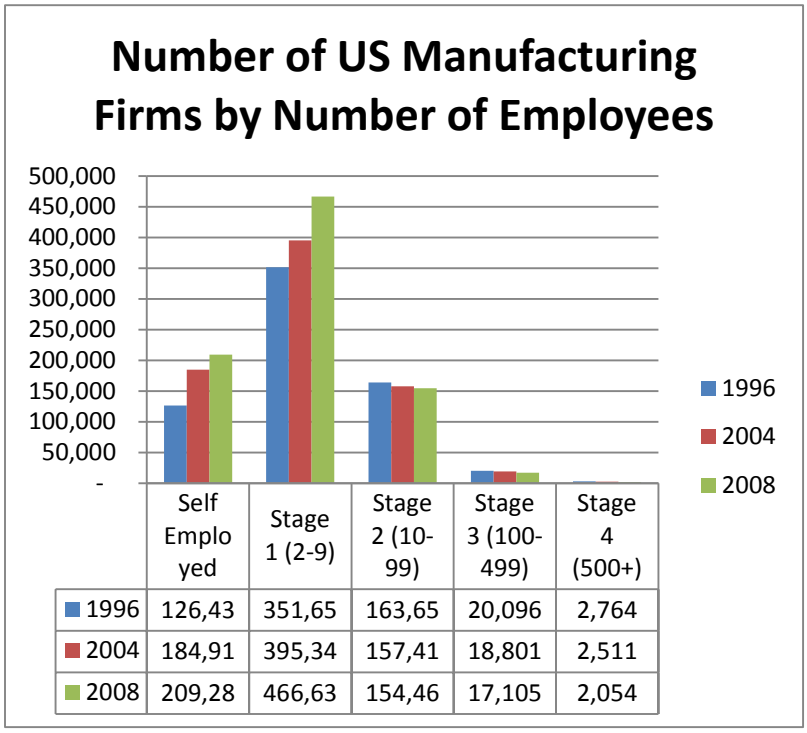
Another shifting cost curve is waste disposal – an increasingly expensive service as the availability of dumpsites diminishes and as communities and governments become more alert to the dangers of dumping hazardous waste. One way to address this issue is to increase recycling. Recycling has been hampered by the small size of the manufacturers because their recyclable waste streams are likewise small and diverse, which makes collection, sorting, treatment and reselling less cost-effective. In New York City, a pilot project launched by the Industrial Technology Assistance Corporation (ITAC) aggregated the waste from twenty small manufacturers located in one building at the Brooklyn Navy Yard, an industrial park owned by the city government. The pilot has produced very impressive results, reducing waste removal costs by approximately 30% as their waste has become more attractive to recyclers and leading to a very dramatic 90% reduction in trucking. Some of the companies have even been able to use the waste from their neighbors as raw materials.

The forces supporting more micro-manufacturing in cities coincide with growing consumer interest in locally made products. The 'locavore' movement is most obvious, where consumers want to support local farms, reduce carbon emissions from trucking, show pride in their local cuisine and assure the safety of their food supply. Beyond food there is a growing consumer preference for locally made apparel, furnishings and other consumer goods, driven by both consumer and designer support for local sourcing to ensure quality, support the local economy and nurture new design talent that reflects distinction, in reaction to the homogeneity offered by national brands. An online survey of 240 consumers by BBDO, an internationally renowned marketing firm working on behalf of the Pratt Center, found that approximately 70% of consumers interviewed pay attention to

where the products they buy are made; 70% also said that they would be more likely to buy local if it created local jobs and/or supported small local businesses.

Finally, there is the growing class of micro-manufacturers – entrepreneurs who have a passion for both design and production, sometimes on their own with no employees, but also growing up to 10 employees as their business matures.[4] They want to turn their ideas into products, not just as an artistic expression or impulse but also as a commercial venture. Micro-manufacturing is well established in the food industry, and there are food incubators and shared kitchens scattered throughout the city.

Micro-manufacturing is not confined to New York. Nationwide, between 1996 and 2008 there was a dramatic increase in the number of firms with one employee (65.5%), a significant increase in firms with two to nine employees (33%), but decreases in all categories of firms employing more than ten people.




| | Self Employed | Stage 1 (2-9) | Stage 2 (10-99) | Stage 3 (100-499) | Stage 4 (500+) |
|---|---|---|---|---|---|
| 1996 | 126,43 | 351,65 | 163,65 | 20,096 | 2,764 |
| 2004 | 184,91 | 395,34 | 157,41 | 18,801 | 2,511 |
| 2008 | 209,28 | 466,63 | 154,46 | 17,105 | 2,054 |

Let me offer a couple of ways the federal government can be more supportive of the growth of urban manufacturing:

A particular focus of public intervention has to be to modernize older industrial buildings that were originally designed for large, single-tenant manufacturing companies, the types of companies like Farberware and Swingline discussed above that have largely left our urban areas. Today's small urban manufacturers need appropriately sized and designed space – often multi-tenant buildings that can achieve the density and diversity that stimulates innovation and the networks of small businesses which create competitive advantages for urban manufacturers. Manufacturing uses are unlikely to be able to afford rents that will incentivize such development. City, state and the federal government will have to reorient their development subsidies away from large new owner-occupied developments (often located in greenfields) and in favor of the renovation of older urban industrial buildings.

One of the best ways to support this redevelopment is through non-profit organizations whose mission is to create industrial jobs. The non-profits can either partner with developers, acquire some equity and participate in management or become developers themselves. There are a growing number of organizations across the country that are doing this:

1. In New York, the Brooklyn Navy Yard Development Corporation manages a 300-acre Industrial Park which was formerly a military base. Their commitment to preserving affordable space for production has given their industrial tenants the security they need to reinvest and develop strong relationships with the surrounding community resulting in jobs for residents;

2. In San Francisco, PlaceMade, with the support of the City, will be acquiring 56,000 sq. ft. of newly constructed industrial space in exchange for the developer receiving permission to building offices in an industrial area; and

3. In Indianapolis, the Riley Area Development Corporation will have equity in a redeveloped industrial building that will have a mix of offices, maker spaces and legacy manufacturers.

A major challenge to this redevelopment is that it has been very difficult to use IDA financing or New Market Tax Credits, two of the primary financing tools offered by the federal government. While EDA funding has generally been flexible enough to support multi-tenant redevelopment, including where the owner is a non-profit, IDA and NMTC have been much more problematic.

NMTC are restricted to projects in distressed census tracts but a very modest amount of residential gentrification in a neighborhood adjacent to an industrial project can make that project ineligible. I strongly believe NMTC and other economic development benefits should be targeted to areas where they are needed the most, but the current mechanism is not fine grained enough to work properly in urban areas where neighborhoods can change dramatically in just a block. In fact, retaining manufacturing and blue-collar jobs in the face of residential gentrification should be a high priority for NMTC.

In New York, IDA bond financing has been hampered by the cap on both individual project cost and the provisions that limit capital investment over a 3-year period. The costs of real estate and equipment are not going down and need to be adjusted to reflect urban markets. In addition, the definition for eligible

expenses may be too narrow in limiting financing to the factory floor but not ancillary uses such as a locker room or kitchen/cafeteria area or offices (which are used by managers, administrators, etc. of the primary manufacturing user.)

In addition to these program-specific suggestions, there has to be a shift in perspective away from the obsession with cutting taxes to be replaced by a strategy that encourages investment in public goods like infrastructure and education that make companies more competitive over the long term. I have personally met with more than a thousand small manufacturers over the past thirty years, and less than a dozen have said they could create jobs if only their taxes were cut. The issue is sales, or more precisely the anticipated return on investment, not taxes which have a marginal impact. When sales are strong and business is confident, they will invest in new equipment and training because they expect a good return. Taxes pay for the improvements that manufacturers need to be competitive, such as maintaining the infrastructure so companies can get their products to market, rebuilding the electric grid to support decentralized clean energy production, and creating a highly educated workforce that has the skills to make high value products.

One last, perhaps unexpected, perspective: We cannot have an entrepreneurial economy if we still tie health care and health insurance to the workplace. An entrepreneur should not have to put his or her family's health at risk to leave a job to start a business. I have had Etsy "shop keepers" say to me they want to grow their fledgling businesses but cannot devote the time because they cannot leave their old jobs and lose their insurance. I've also had furniture makers and

woodworkers say to me they cannot compete against their Canadian colleagues because the Canadian government pays for the workers' health care.

Let me wrap up by saying how much I appreciate your efforts to reach out to us in New York. New York is no longer thought of as an important manufacturing center. However, with more than 70,000 manufacturing jobs there are more than 70,000 New York families for whom a healthy manufacturing sector remains of tremendous importance.

Thank you.