THE FINANCIAL PAGE

IF YOU CAN MAKE IT HERE

Any discussion about New York City's economic well-being tends to start and end with one phrase: Wall Street. As the Street goes, we assume, so goes the city, which is why politicians will do almost anything to keep the brokerages and investment banks happy. But in a new book called "The Warhol Economy" the social scientist Elizabeth Currid argues that this fixation is misdirected, and that it has led us to neglect the city's most vital and distinctive economic sector: the culture industry, which, in Currid's definition, includes everything from fashion, art, and music to night clubs. In other words, it's SoHo and Chelsea, not Wall Street, that the politicians should really be thinking about.

Of course, everyone knows that art and culture help make New York a great place to live. But Currid goes much further, showing that the culture industry creates tremendous economic value in its own right. It is the city's fourth-largest employer, and generates billions of dollars a year in revenue. More important, New York has no real global rival for dominance in the culture industry. Using an economic-analysis tool called a "location quotient," Currid calculates that New York matters far more to fashion, art, and culture than to finance. To exaggerate a bit, if New York suddenly disappeared, stock markets could keep functioning, but we would not be able to dress ourselves or find art to put on the wall. Currid suggests that, in the fight among cities for business, being the center of fashion and art constitutes New York's true "competitive advantage."

Currid's argument is perhaps overstated—the finance industry, after all, still pays a remarkable twenty per cent of all the wages in the city. But it is true that art and culture are big business, and that New York is more crucial to that business than ever before. The interesting question that Currid's book wrestles with is why. Globalization and the Internet, after all, were supposed to usher in an age in which people could live and work wherever they wanted. So why, more than ever, do people in the culture industry all want to live in New York?

The answer has something to do with the familiar phenomenon that economists call "clustering." It might seem that companies would rather situate themselves far away from their competitors, so that they wouldn't have to worry about having their customers and employees poached. But in practice companies in similar industries often end up clustering together in the same location. The history of American economic innovation in the twentieth century is really a history of clusters—think of movies in Hollywood, cars in Detroit, and technology in Silicon Valley. The traditional explanation is that the costs of being near your competitors are outweighed by the benefits of being near a critical mass of suppliers and customers. But Currid argues that, nowadays, designers and artists cluster in New York for a simpler reason: in these businesses, personal connections are enormously important in determining success or failure. In an idealized view of the fashion and art world, the gatekeepers of taste coolly evaluate the work they see according to Platonic criteria. Currid's conclusion, based on dozens of interviews, is less sublime. "There is very little that gets done in New York that is merit-based," a musician told her. "It boils down to the same maxim: 'It's all who you know.'" And in order to know the right people artists and designers inevitably gravitate to New York, because it's where previous generations of artists and designers, now powerful, gravitated to. The result is a classic case of what economists call network effects: success in the past creates success in the future.

From an aesthetic standpoint, "It's all who you know" may be a grim conclusion, but from the perspective of New York's economy it seems an entirely happy one. So it's odd that Currid ends her book with a warning that New York's current dominance is surprisingly fragile, and that the culture industry may find a new center unless the city takes positive action to protect it. Currid's concerns are familiar ones by now: as the city gets wealthier, it becomes harder for young creative people to live here, and, if they stop coming, the well of creativity will dry up. Her answer is a series of industrial-policy prescriptions, including subsidized rents for artists, more support for things like Fashion Week and the Whitney Biennial, and a more welcoming approach toward night clubs (where, by her account, much of the culture industry's business actually gets done).

Currid's desire to subsidize creativity is understandable, but her insistence that the culture industry is on the verge of crisis is refuted by her own work. Unless you think that network effects in the art-and-culture business are suddenly going to stop mattering, creative people are still going to find ways to make a living here, because they must, in order to succeed. And, empirically, if you look at the history of New York in the twentieth century there is little evidence that a more expensive New York is a less creative New York. To be sure, there was a tremendous artistic efflorescence in the nineteen-seventies, the worst decade of the century for the New York economy. But, in the twenties and the sixties, cultural booms coincided with economic ones, while the explosion in the number of art galleries, bands, and boutiques in the past decade makes it hard to believe that New York is suffering from too little art and culture. It's true that clusters of industry can fade away—think of what happened to Pittsburgh steel. But New York has been a cultural mecca in good times and bad, and until we hear otherwise it seems likely that the pilgrims will just keep coming.

—*James Surowiecki*