

The Brookings Institution

Metropolitan Policy Program
Bruce Katz and Robert Puentes



Prosperity at Risk: Toward a Competitive New Jersey

A New Jersey that knows what it needs and knows how to get it



PURPOSE

Diagnose the state's competitive position framed around housing, development, and social challenges and develop a policy framework that responds to these challenges.

PROCESS

Examine these issues as an integrated whole, working with a New Jersey-based team. Brookings reviewed best practices throughout the country, has extensive data and analysis for bench-marking, and national credibility.

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I. The Challenge

New Jersey's economy has performed exceedingly well in the past, but the state is losing its competitive edge.

II. The Analysis

The threat to prosperity comes from multiple forces, including rising housing costs, persistent race, class and place disparities, and unbalanced development patterns.

III. The Recommendation

Decisive state action is needed to address these issues in the service of competitiveness.

IV. The Requirement

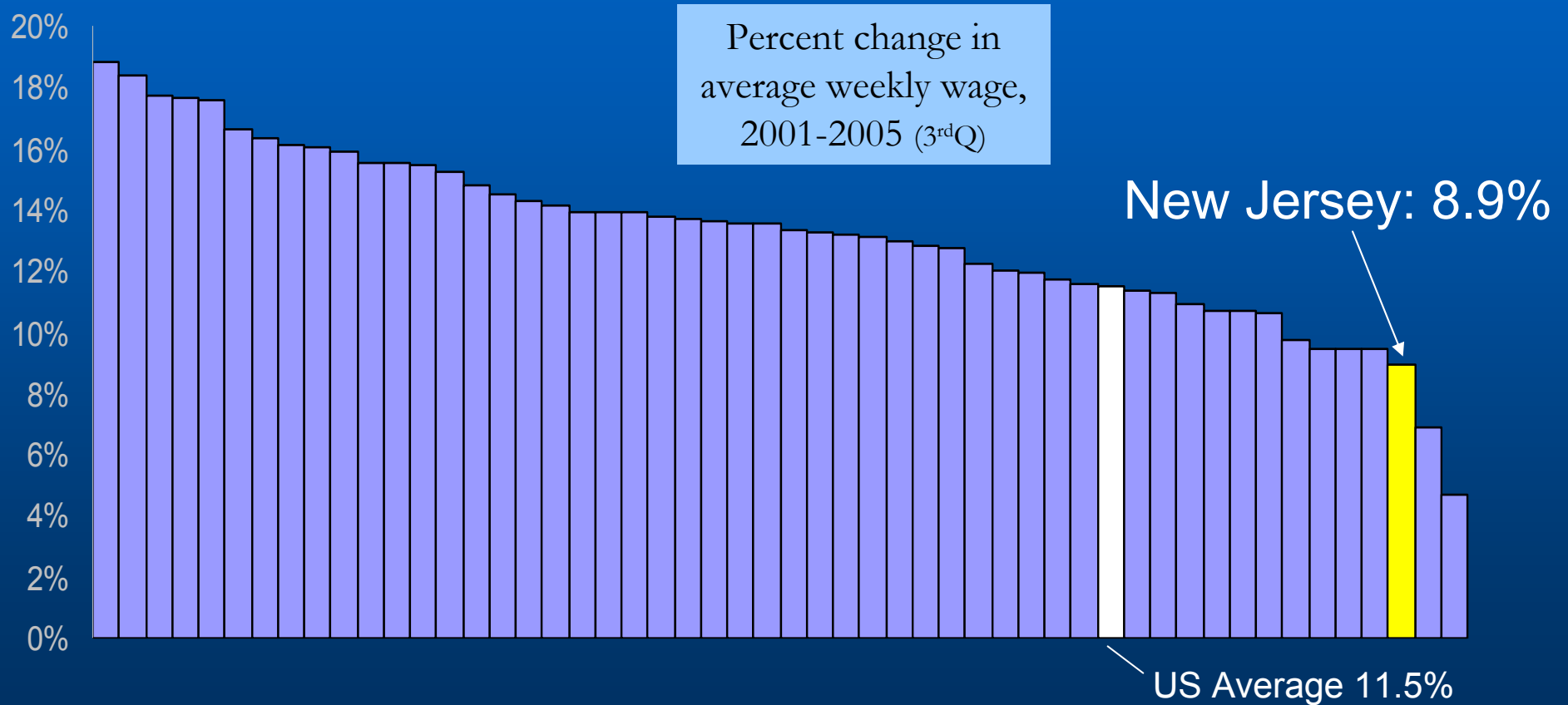
Successful and essential state strategies require interdepartmental policy alignment and management.



New Jersey stands out based on a host of traditional economic indicators (e.g., income level, educational attainment, homeownership, and employment).

However, a deeper investigation into these trends shows that New Jersey is beginning to lose its competitive edge

Although incomes are very high, the percent change in average weekly wages is among the lowest in the nation since 2001.



Source: U.S. Bureau of Labor Statistics

And from 2001 to 2005, the New Jersey industries with the greatest job gain have low wages; and those with the greatest job loss have high wages.



Employment SubSector	Numeric change in jobs	Average weekly earnings
Total of all industries in New Jersey	-28,083	\$534.15
Top 10 industries ranked by job <i>gain</i>	80,783	\$437.12
Top 10 industries ranked by job <i>loss</i>	-81,798	\$698.57

Numeric change in New Jersey employment 2001-2004, with average weekly earnings, December 2004.

Source: U.S. Bureau of Labor Statistics

In fact, since 1995 no state lost more jobs in the High-Technology Industry than New Jersey.




Numeric Change in High Tech jobs*, 1995-2004

* - "High Technology" definition based on American Electronics Association

Source: U.S. Bureau of Labor Statistics

In sum, New Jersey:



**...ranks at the bottom nationally in wage growth;
...is losing high wage jobs;
...is gaining low wage jobs;
...lost more high tech jobs than any other state.**



Clearly, the state IS losing its competitive edge.



What are factors causing this loss?

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Any successful state strategy will require a level of interdepartmental policy alignment that is challenging but essential.



New Jersey's economic trends are due to a variety of forces such as the nature of business cycles, the national shift to a service-based economy, and the overall wealth and recent economic health of the state.



To address its competitive challenges, New Jersey must pursue a range of economic development strategies - as well as continuing to invest in innovation, education, and industries like pharmaceuticals.



Yet the response cannot be solely focused on economic development because the state has other challenges that impinge on competitiveness.

Rising housing costs and lack of choice



Inefficient development patterns and
excessive decentralization



Persistent race, class, and place disparities



New Jersey is generally regarded to have the 5th least affordable housing in the nation.

Rank	State	Housing price/income ratio
1	California	7.64
2	Hawaii	6.81
3	Massachusetts	5.95
4	Rhode Island	4.93
5	New Jersey	4.75
6	New York	4.67
7	Nevada	4.55
8	Colorado	4.39
9	Oregon	4.34
10	Washington	4.30

Ratio of the median home value to the state's median household income, 2004.

Source: Brookings analysis of U.S. Census Bureau data



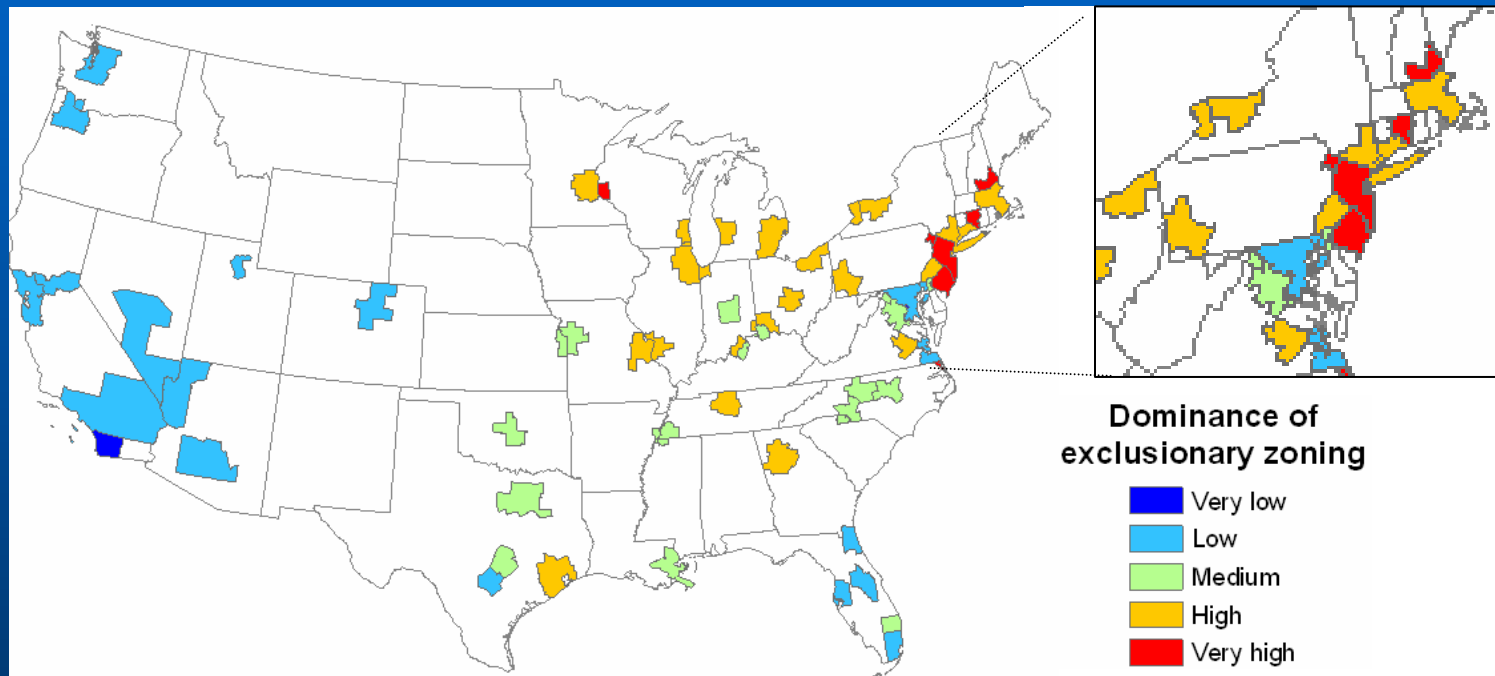
Percent of households spending at least 35% of income on housing costs

Rank	State	2000	1990
1	California	23.4%	21.3%
2	Hawaii	22.3%	14.0%
3	New Jersey	20.7%	18.9%
4	Nevada	20.0%	16.2%
5	New York	19.8%	16.6%
United States		15.9%	13.6%
46	Nebraska	10.6%	8.8%
47	Kansas	10.5%	9.6%
48	South Dakota	10.4%	9.5%
49	North Dakota	9.8%	9.6%
50	Iowa	9.7%	8.4%

Although wages in New Jersey are very high, more than one-fifth of homeowners (about 635,000 households) still spend more than 35% of their income on housing costs.

Source: New Jersey Future analysis of U.S. Census data

There is ample evidence to suggest that New Jersey's restrictive ("exclusionary") zoning limits the construction of new housing and leads to increases in housing costs.



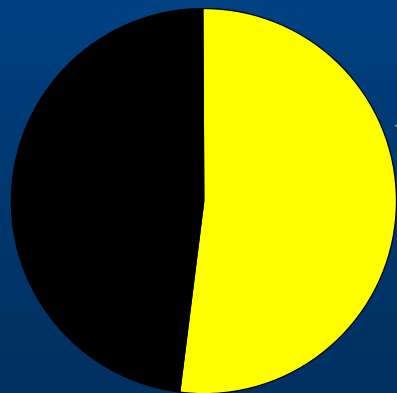
Sources: Pendall, 2006; Luger and Temkin, 2000.

Localities in New Jersey often impose regulations to discourage new housing construction and make development more expensive. Such regulations can raise home prices \$40,000 to \$80,000. This prices approximately 430,000 New Jersey households out of the market.

- During the entire decade of the 1990's two-thirds of New Jersey's municipalities built ZERO multi-family housing units.
- Just 12 municipalities have 52 percent of the affordable housing units in the state – but only 14 percent of the households.

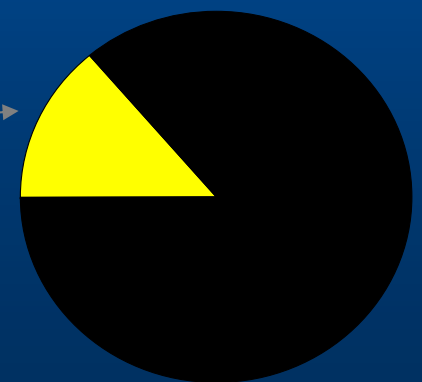


State share of affordable units



Newark, Jersey City, Trenton,
Atlantic City, Camden,
Paterson, Hoboken, East
Orange, Elizabeth, West New
York, Orange, North Bergen

Households



Challenge

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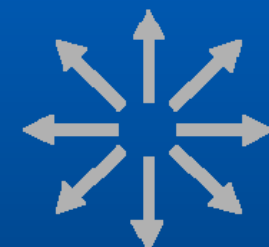
What does this tell us?

- The high price of housing is due to a variety of factors including supply constraints, zoning restrictions and other land use regulations.
- The right type of housing is not always getting built in the right places. The state needs a broader range of housing choices in cities, older suburbs, and newer communities.
- This is an issue not only for working families – it is also a deterrent to attracting high-skilled jobs.

Rising housing costs and lack of choice



Inefficient development patterns and excessive decentralization

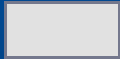


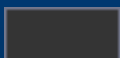


Persistent race, class, and place disparities



Housing and population growth in New Jersey is not occurring at urban densities near the core but, rather, at very low densities on the exurban fringe.

Housing unit densities in New Jersey, 1980 and 2000

Land Type		Percent of state total		Change 1980-2000
		1980	2000	
	Rural	48%	36%	-12%
	Exurban	45%	54%	9%
	Dense Suburban	6%	8%	2%
	Urban	1%	2%	1%

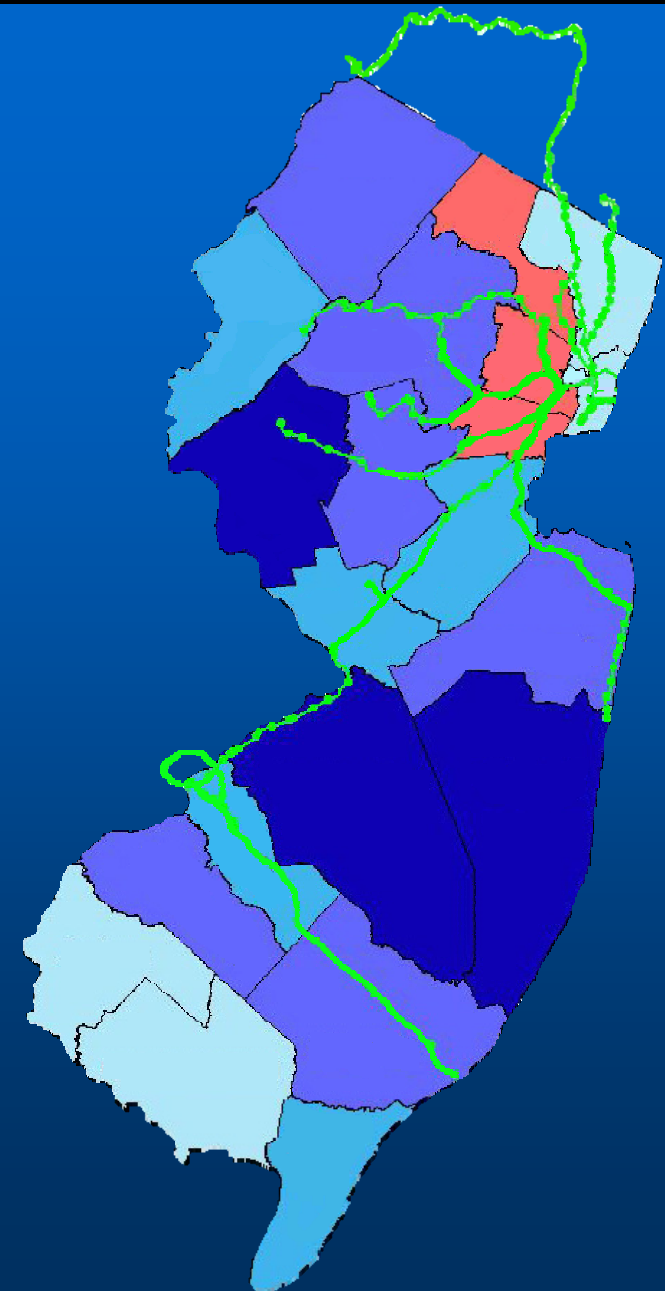
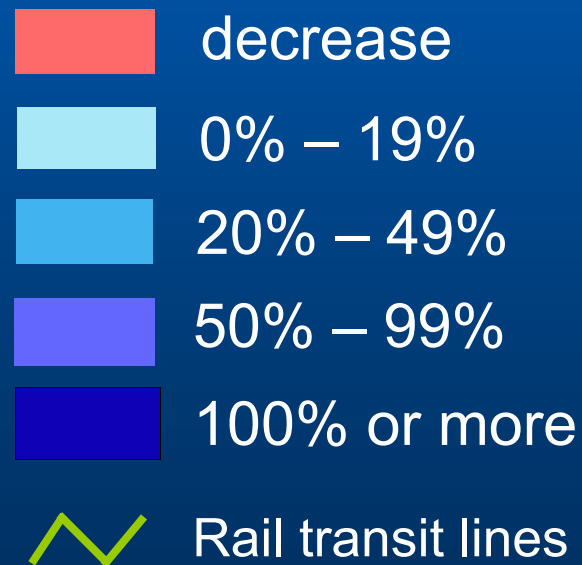
2000

Rural: less than 32 units per square mile
Exurban: between 32 and 1,245
Dense Suburban: between 1,245 and 5,000
Urban: over 5,000 (transit-supportive)

Source: Brookings and David Theobald, U of Colorado

At the same time, jobs are disappearing from some transit-connected counties.

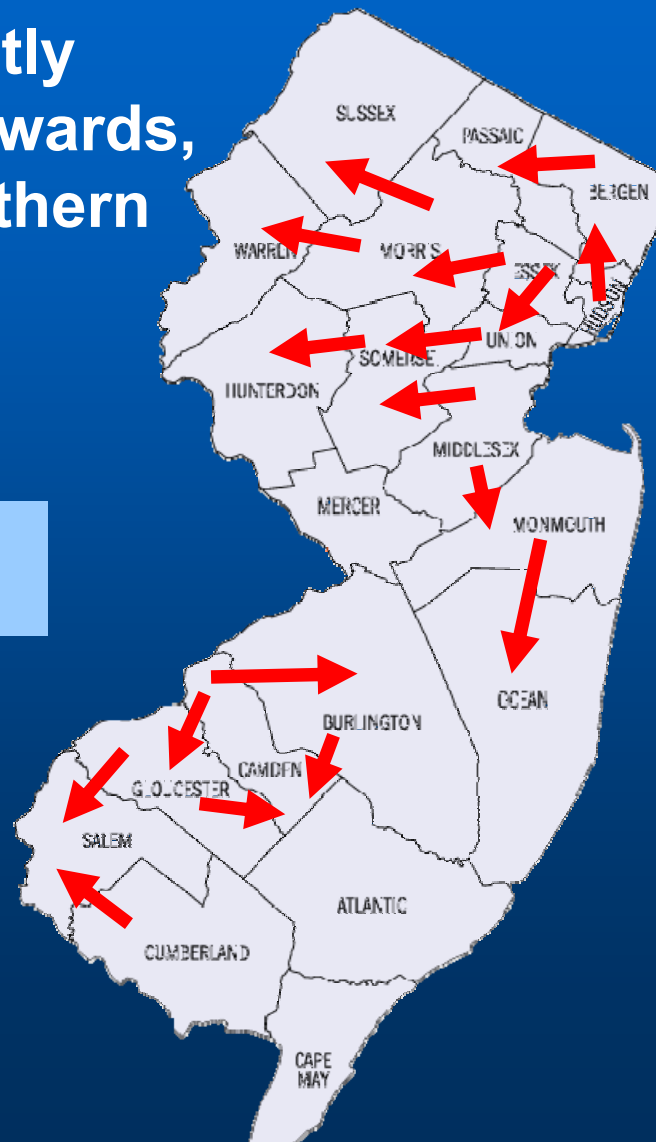
Percent change in private-sector jobs, 1980-2003



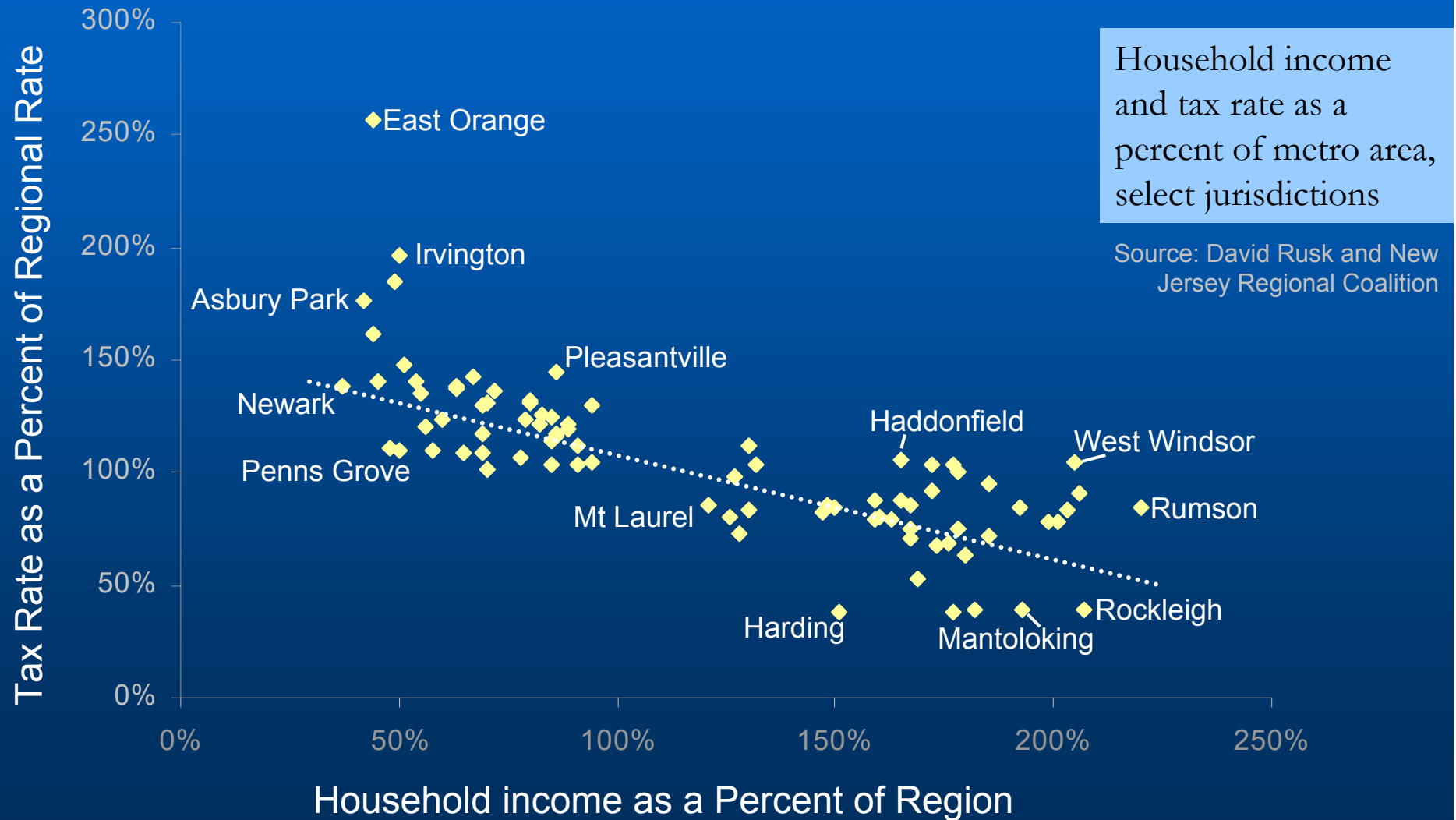
The largest county migration gains mostly show movement outwards, especially in the northern part of the state.

Largest percent changes in county to county inflow, 1995-2000

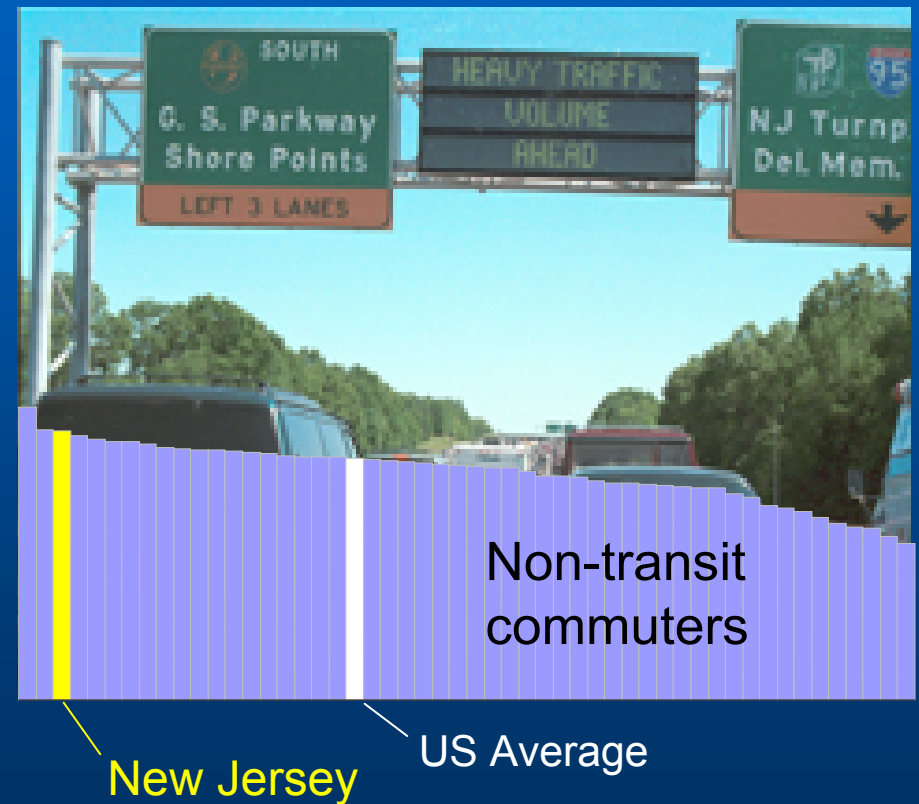
Source: U.S. Bureau of Census



Compounding the problem, high property taxes on the local level tend to have “push” effects, forcing out those least able to afford it.



One result of these trends is that New Jersey workers have some of the longest commutes in the nation.

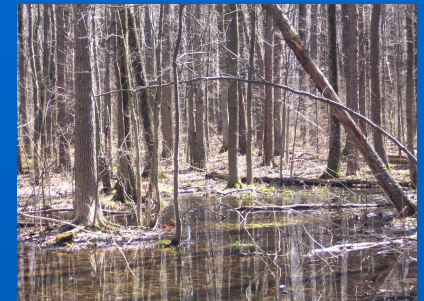


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What does this tell us?

- New Jersey's growth is primarily converting rural land to low-density exurban land with little growth in existing places.
- High property taxes in some places push people out and are a barrier to population growth.
- These development patterns undermine cities and older suburbs.

Rising housing costs and lack of choice



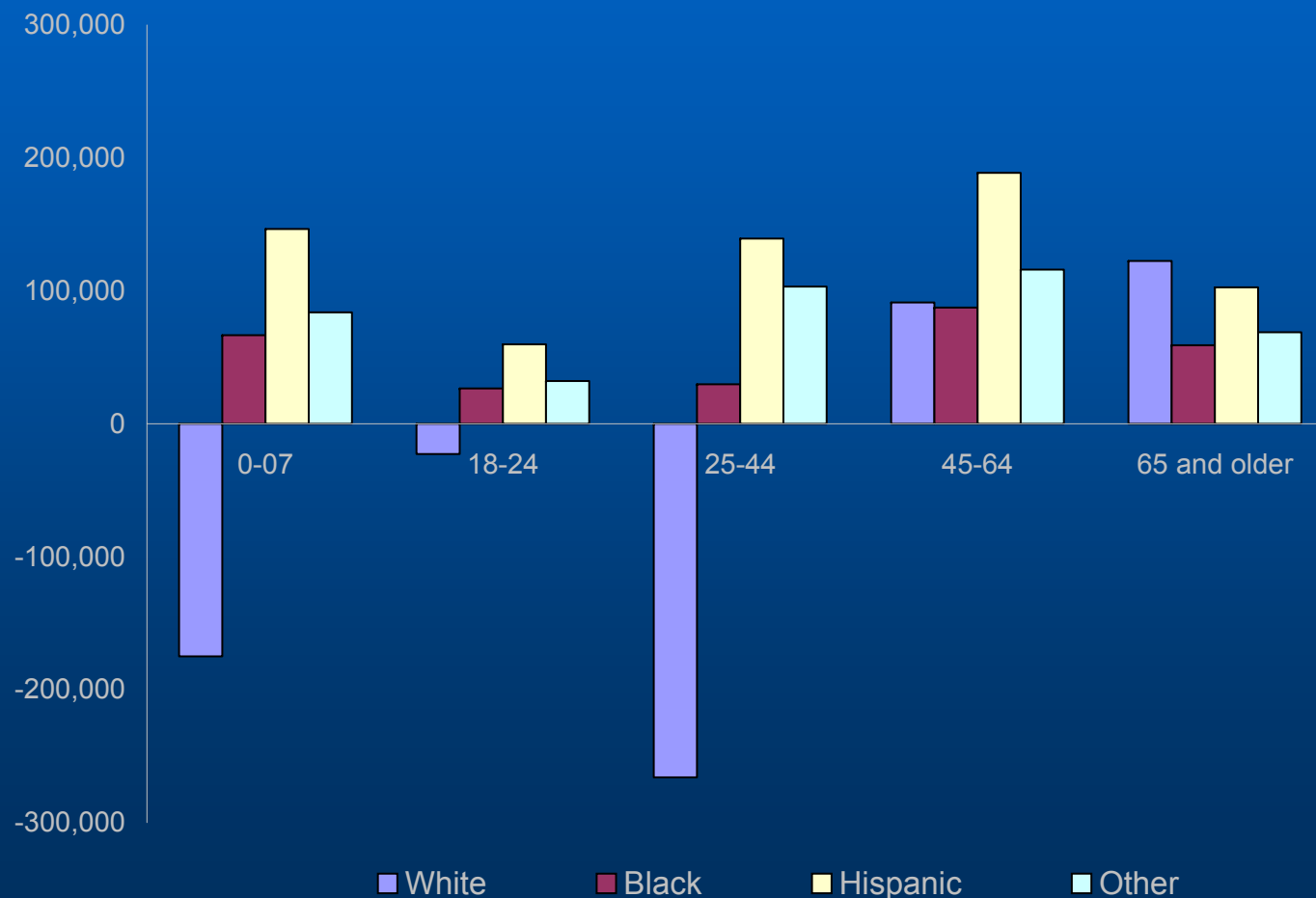
Inefficient development patterns and excessive decentralization



Persistent race, class, and place disparities



Over the next 20 years, the population of whites under 44 is expected to drop precipitously while blacks and Hispanics will increase in every age category.



Projected New Jersey Population Change from 2000 to 2020 - By Age and Race



Few states rank as high as New Jersey in critical measures of school segregation by race and ethnicity.

Rank	State	% of Latinos in 90-100% Minority Schools
1	New York	58.8%
2	California	45.7%
3	Texas	42.2%
4	New Jersey	40.7%
5	Illinois	37.8%

Rank	State	% of Blacks in 90-100% Minority Schools
1	Michigan	64.0%
2	Illinois	60.3%
3	New York	60.3%
4	New Jersey	51.3%
5	Maryland	49.7%

Concentrated poverty is alarmingly severe in several New Jersey cities.

Percent of Poor People Living in Extreme Poverty Neighborhoods, in select cities. By Race/Ethnicity, 2000

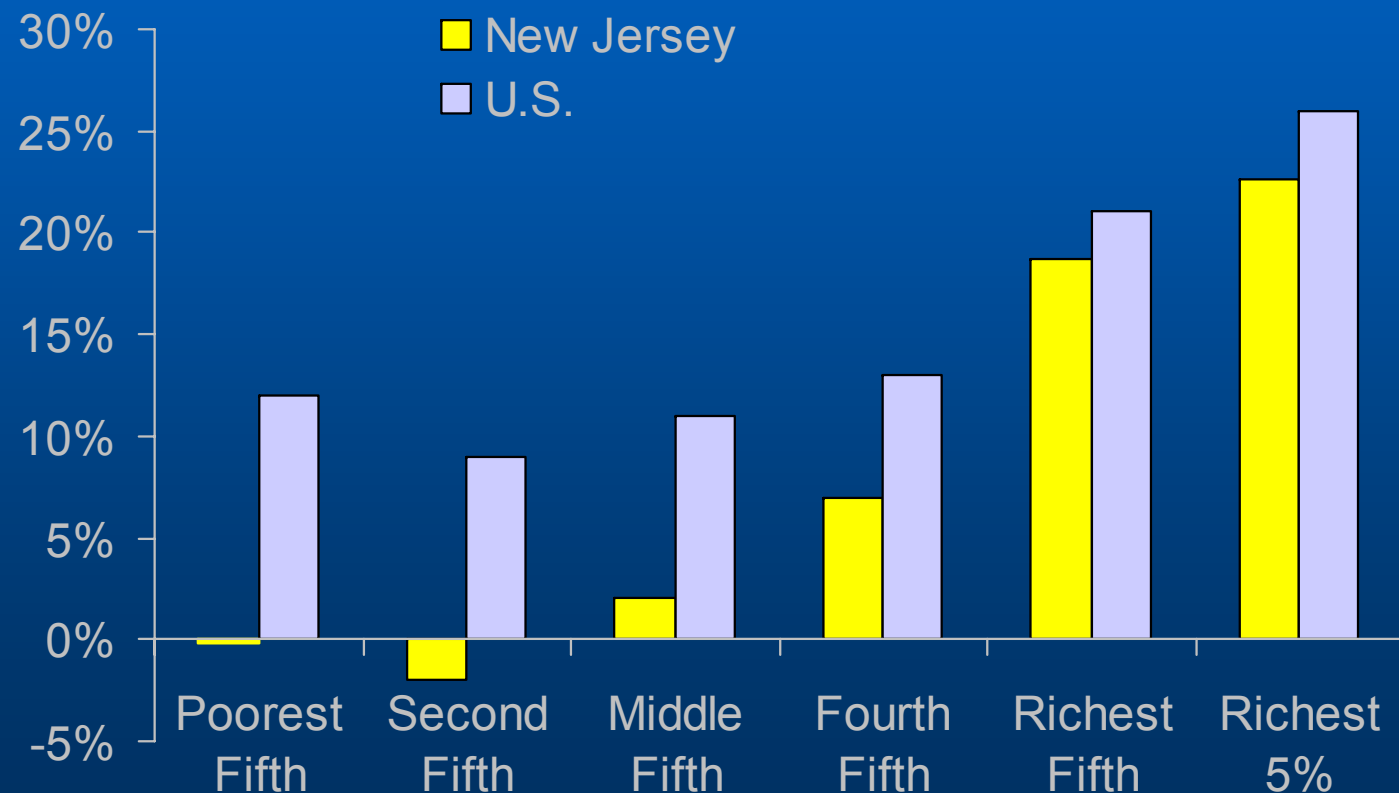
Concentrating poor families in a few square blocks undermines almost every other program designed to aid the poor and places huge pressures on metropolitan growth and center city redevelopment.

City	Total	Blacks	Hispanics
Camden	45.4%	45.5%	50.8%
New Orleans, LA	37.7%	42.6%	18.0%
Louisville, KY	36.7%	53.2%	24.3%
Miami, FL	36.4%	67.6%	18.0%
Atlanta, GA	35.8%	41.0%	14.2%
Atlantic City	33.9%	49.4%	23.3%
Newark	31.7%	40.0%	23.8%
New York, NY	25.9%	33.7%	33.5%
Detroit, MI	17.5%	17.8%	10.4%
Asbury Park	16.3%	22.5%	9.2%
Paterson	14.8%	27.1%	8.2%
Trenton	12.6%	12.7%	16.0%
Boston, MA	10.8%	8.3%	14.8%

Income inequality continues to get much worse between all income categories in New Jersey.

Percent Change in Income for New Jersey Families: Late 1980s to Late 1990s, by Quintile

Source:
Center on Budget
and Policy Priorities



In New Jersey, residents in center cities and older suburbs have the lowest high school attainment rates.

Population 25+ without a high school degree or equivalent, 2000

Source:
U.S. Census Bureau

Municipality	No HS degree
Camden	49.0%
Union City	45.6%
Perth Amboy	44.3%
Newark	42.1%
Paterson	41.5%
Elizabeth	38.3%
Trenton	37.6%
New Brunswick	37.4%
Asbury Park	32.4%
Irvington	28.0%
Jersey City	27.4%
East Orange	27.6%
Hackensack	20.3%
New Jersey	17.9%

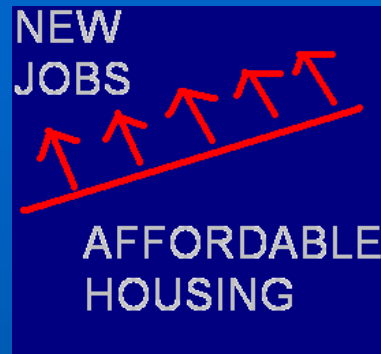


Challenge

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What does this tell us?

- Given demographic change, disparities are a drag on the state's economic future.
- Low education levels will naturally result in lower incomes, fewer assets, and less wealth for all.
- Spatial disparities help exacerbate inefficient development patterns.

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Any successful state strategy will require a level of interdepartmental policy alignment that is challenging but essential.

We propose that New Jersey.....

...build on the significant policy reforms it has already made;

...consider additional reforms from other states;

...better align and manage itself to drive change that addresses cross-sectional challenges.

PROBLEM:

The high cost of housing is making it difficult for all households to grow and prosper in New Jersey.

1. Provide more housing choices

2. Promote better development patterns

3. Reduce disparities

RESPONSE:

Greater housing choices can benefit families by improving their access to educational, employment and other opportunities; it can benefit businesses by enabling workers to live closer to their places of employment.



Build on existing reforms:

Boost production of moderately priced housing, particularly in core areas by securitizing a portion of the state's **Balanced Housing Fund** revenue stream to support construction in the short term. Connect this effort to the state's existing **Transit Village Initiative**. Abolish **Regional Contribution Agreements**.



Consider reforms from other states:

New Jersey should consider a **low income housing tax credit** such as exists in 15 states. Massachusetts **targets smart growth grants** and helps cover school costs to those communities that accommodate a range of housing choices. Governors in 4 states – Rhode Island, Illinois, Massachusetts, and Maryland – have recently **reorganized resources and aligned agencies** to better meet housing needs.

PROBLEM:

Development patterns in New Jersey do not support quality places for all residents.

1. Provide more housing choices
- 2. Promote better development patterns**
3. Reduce disparities

RESPONSE:

Smarter development patterns can help level the playing field between established communities and newer ones; and also between poor and wealthy places.



Build on existing reforms:



Consider reforms from other states:

Ensure consistency with the **State Development and Redevelopment Plan** by enhancing the endorsement process to deliver coordinated actions and interpretations by state agencies to support the revitalization of targeted areas. **Direct state planning funds** to places that might not have the capacity to engage in the endorsement process. **Identify “redevelopment ready” places** that meet certain criteria for infrastructure, workforce, and housing.

Governor Rendell resurrected Pennsylvania’s **Interagency Land Use Team** and created **Community Action Teams** to coordinate state resources to support local redevelopment projects. This year, Illinois became the first state to **link economic development subsidies** to jobs that are accessible by transit and/or close to affordable housing. State agencies in Michigan work with **redevelopment ready suburbs** to improve community-developer relations and increase interest in redevelopment.

PROBLEM:

Crushing disparities in terms of race, class, and place have resulted in well-publicized challenges of urban decay, disinvestment, and concentrations of minorities and the working poor.

1. Provide more housing choices
2. Promote better development patterns
3. **Reduce disparities**

RESPONSE:

Increase the incomes and assets of low-income, working families and ensure that these households gain access to quality employment, housing, and educational opportunities that will benefit New Jersey's overall competitiveness



Build on existing reforms:



Consider reforms from other states:

Take a leadership role in strengthening the **Abbott Secondary Education Initiative**. Assemble a working group of business and civic leaders to review Dept. of Education operations and improve its data collection and research capacity. Commission an evaluation of the Abbott program. Identify opportunities to leverage state spending between Education, Human Services, Health, and Community Affairs as they relate to student/family supports and school construction planning.

New York targets state deposits to banks that locate in **Banking Development Districts** with large pockets of “unbanked” residents. California’s **Ready Return** pilot program simplifies tax returns for low income citizens by sending these taxpayers a return filled out with the information reported to the state by employers. Pennsylvania created a **Task Force on Working Families** to help citizens become better financial consumers and enable families to build assets and increase income.

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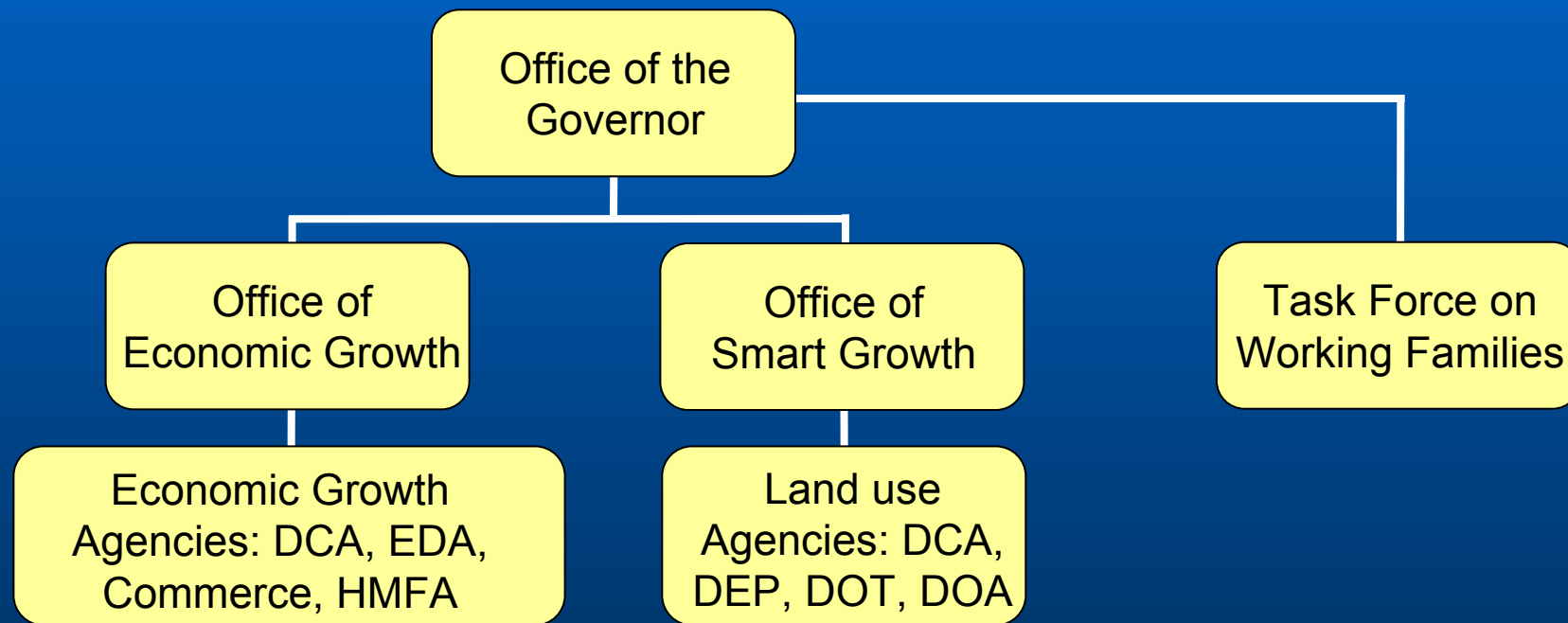
The policy reforms necessary to address New Jersey's challenges cut across many agencies, departments, and commissions as well as spending, tax, regulatory, and administrative policies.



They require cabinet-level realignment and other interdepartmental coordination that is challenging but essential. It demands structure, discipline, and gubernatorial commitment to accomplish.

To be successful, New Jersey must consider the following range of cross-functional collaboration in order to ensure that the state's activities are coordinated and rationalized.

New Jersey should consider cabinet-level realignment as well as other interdepartmental and coordination reforms to bring together agencies and programs with strong potential synergy.



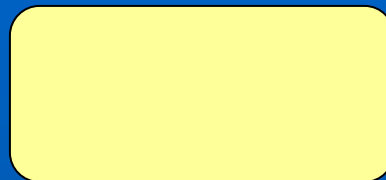
Cabinet-level realignment and interdepartmental coordination

Office of
Economic Growth

Office of
Smart Growth

- In 2000, Massachusetts Gov. Romney reorganized his cabinet and created two “uber-secretaries” for Commonwealth Development (energy, transportation, environment and housing) and Economic Development (consumer affairs and business regulation, technology, labor and workforce development).
- This reinforces the connection between economic and sustainable development. The state benefits not only from strategic funding and alignment of programs, but also from mechanisms for state departments to collaborate and work together in pursuit of common state goals.
- Other recent examples include Washington state’s Commerce, Transportation and Economic Development Agency and California’s Business, Transportation and Housing Agency.

Cabinet-level realignment and interdepartmental coordination



Task Force on
Working Families

- Governors throughout the country have convened bi-partisan commissions off-budget to recommend strategies for longer term issues as part of a competitive agenda.
- Task forces were recently established on land use in Michigan; regional planning in Illinois; transportation finance in Virginia; and working families in Pennsylvania.
- New Jersey could convene task forces on working families and on housing challenges made up of administrative department heads from which a wide range of initiatives could emerge to reduce income disparities and expand housing choices statewide.

Conclusion

New Jersey is in an enviable economic position in many respects.

Yet the state must move beyond economic development and provide more housing choices, promote better land use, and reduce racial, class, and place disparities in order to sustain its competitive economy.

In this way, the state should improve on what it is already doing, while also taking important policy queues from other states.

But as these challenges are cross-cutting, New Jersey should realign itself. Then it can truly govern for change.



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ANNOUNCEMENT

Urban Center Becomes Metropolitan Program

In a major promotion, the Center on Urban and Metropolitan Policy this month became the Brookings Metropolitan Policy Program—and the first new Brookings department established since 1948. The new status reflects the rising importance of metropolitan issues to the domestic and global challenges Brookings seeks to address.

read an open letter from Brookings President Strobe Talbott

METROVIEW
Deficits by Design Plague Metro
by Robert Puentes
The Washington Times
June 21, 2004

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METROPOLITAN GROWTH

Mechanisms for Market-Based Land Use Control

Using case studies and a national survey, this paper examines transfers of development rights (TDRs) and other market-based land preservation techniques like mitigation banking and density transfer fees.

IMMIGRATION

Washington Goes Polyglot

Metro Washington's "limited English proficient" (LEP) population

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