The State of Working New York

The Illusion of Prosperity: New York in the New Economy

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CHAPTER 4

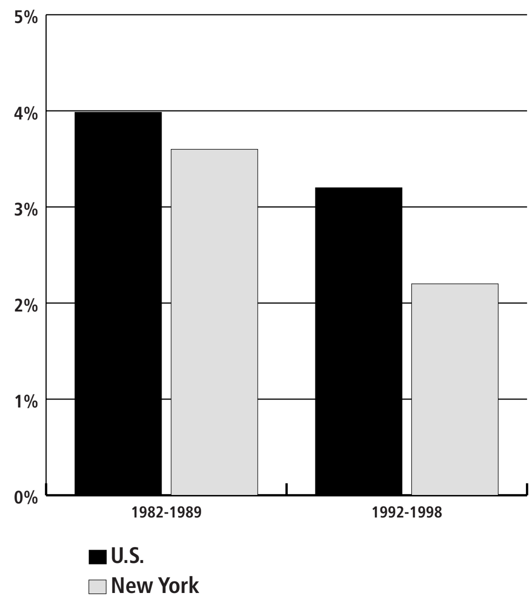
New York's Slow and Uneven Growth in the 1990s

This chapter will show that the state's performance over the last decade has been lagging by every major indicator of economic activity. Whether on the basis of growth in employment, output, or income, New York ranks low when compared to the nation as a whole and other similar states. Sluggish economic growth, concentrated in certain industries and regions, has seriously undermined the well-being of New Yorkers. The upstate area has seriously lagged the downstate area, and while downstate has grown faster, it has been at a pace that lags most of the older urban states. Downstate's growth has also been uneven and has been heavily dependent on the Wall Street financial sector.

CHART 4.1

Annual Economic Growth, New York and U.S. Expansions of 1980s and 1990s

(Annual Growth in Real GDP and GSP)



SOURCE: BEA, Regional Financial Associates (for 1998 estimated New York, GSP).

How well has New York's economy done in the 1990s?

For the last 3 years the national economy has charged ahead at a 4 percent annual pace, much faster than earlier in the recovery. Since 1992, U.S. output has grown at a 3.2 percent pace. New York's output growth (measured by the change in Gross State Product, or GSP), on the other hand, has averaged 2.2 percent from 1992 to 1998, nearly one-third less than the U.S. When compared to the expansion period of the 1980s (1982 to 1989), both the nation and the state have grown more slowly in the 1990s, with New York experiencing greater slippage. *(Chart 4.1)* In the 1990s, based on growth in GSP, income and employment, New York's economy has been growing only 60 percent as much as it did in the 1980s. Slower growth generally means smaller wage gains, less stable jobs and lower living standards.

New York ranks low in job growth

As Chart i-3 from the Introduction showed, job growth has also been much weaker in the 1990s than during the 1980s. In the 1980s expansion, the Empire State gained an average of 142,000 jobs, or 1.8 percent, a year, while over the last six years the state averaged 84,000 more jobs, or 1.0 percent, each year. Only in 1998, when employment grew by 164,000, did job growth exceed the average for the 1980s expansion. (Since mid-1998, the pace of job growth for New York, the other NEON states, and the U.S. has slowed.)

New York's sluggish job growth places it in the bottom ranks of all states. For the 1992-98 period, New York's 1.1 percent average annual nonagricultural job growth ranks it 49th among the 50 states. A more meaningful basis on which to evaluate New York's relative economic performance is to compare it to other states with similar, older urban industrial economies, identified as the NEON states in this report. This group includes the larger states within the Northeast (Massachusetts, New Jersey, and Pennsylvania) and the Midwest states (Ohio, Michigan, Indiana, Illinois, and Wisconsin). In the 1990s, New York's total job growth has trailed all of the 8 other NEON states. *(Chart 4.2)* From 1992-98, job growth has averaged 1.1 percent in New York, compared to 2.0 percent for the other 8 NEON states, and 2.5 percent for the U.S.

The New York City metropolitan area, which weathered steep job declines in the 1989-92 recession, has since gained employment in several industries. However, over the 1992-98 period, the New York consolidated metropolitan statistical area, or CMSA, has lagged the six other CMSAs in the NEON states in employment growth. The New York CMSA gained jobs at a 1.4 percent annual rate over this period, while the others grew at rates ranging from 1.6 percent (Philadelphia) to 2.3 percent (Boston).

Income and GSP grow more slowly than in comparison states

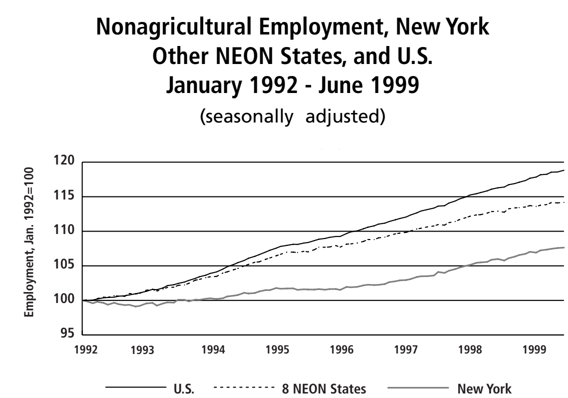
On the basis of growth in total personal income from 1992-98, New York also ranks lower than all the NEON states and well below the nation. Total real personal income grew nationally 2.7 percent per year from 1992-98, but in New York it grew only 1.8 percent annually. *(Table 4.1)* On the basis of growth in per capita income, New York has fared better, coming in only slightly behind the U.S., about even with Ohio and Indiana, and ahead of New Jersey. New York's very slow population growth partly accounts for its better relative performance in per capita income growth.

Finally, New York's GSP has grown more slowly than in all the other NEON states as well as below the U.S. in the 1990s. From 1992-97, New York's GSP grew an average of only 2.0 percent per year, compared with the national average of 3.1 percent. The other NEON states had annual GSP growth rates that ranged from New Jersey's 2.3 percent to Michigan's 4.1 percent. In contrast, New York's GSP growth compared favorably to the NEON states at 3.6 percent and just under the national average of 4.0 percent for the years 1982-89.

Expansion has been much slower upstate

Within New York State, the economies of the upstate areas have been especially weak in the 1990s expansion. Although the early 1990s recession was milder upstate than downstate, where employment declined nearly 10 percent, upstate has experienced job growth of only 0.7 percent a year during the expansion since 1992. Upstate's job growth was only three-fifths of the 1.3 percent annual job growth for the downstate area. *(Table 4.2)* Upstate represented 36.5 percent of the

CHART 4.2



SOURCE: BLS, establishment survey series.

TABLE 4.1

Per Capita Income and Growth in Real Per Capita and Total Income, U.S. and NEON States, 1992-98

(1998 dollars)

	Per Capita Income 1998	Avg. Ann. Growth Per Capita Income 1992-98	Avg. Ann. Growth Total Personal Income 1992-98
U.S.	$26,482	1.7%	2.7%
New York	$31,679	1.7%	1.8%
Massachusetts	$32,902	2.5%	3.0%
New Jersey	$33,953	1.6%	2.2%
Pennsylvania	$26,889	1.8%	1.8%
Ohio	$25,239	1.7%	2.0%
Michigan	$25,979	1.9%	2.5%
Indiana	$24,302	1.7%	2.4%
Illinois	$28,976	1.8%	2.4%
Wisconsin	$25,184	1.8%	2.5%

SOURCE: Bureau of the Census, deflators applied by FPI.

state's total nonagricultural employment in 1998, but because of its weak growth, it accounted for only 25.0 percent of the job growth statewide from 1992-98.

While the state's overall job growth ranking among all states has improved since 1997, if the upstate area was considered on its own, its ranking still would have been 49th in 1998 (downstate would have ranked 24th). Upstate New York would have ranked 50th (out of 51) each year from 1994 through 1997.[1]

It is beyond the scope of this report to fully analyze the reasons for upstate's economic underperformance in the 1990s. One principal development that needs to be examined is why New York's manufacturing sector declined so sharply while it grew in most of the NEON states. As the next chapter points out, manufacturing still constitutes the core of upstate's economic base. Twenty-four percent of total wages paid upstate in 1998 were in manufacturing.

In the 1992-98 expansion, manufacturing employment grew nationally by 3.7 percent. *(Table 4.3)* In the five midwestern NEON states, manufacturing jobs grew from 4 to 12 percent while in New York there was a decline of 9.5 percent. The other northeastern states in the NEON group also had declines, with New Jersey's 9.8 percent decline surpassing New York's.

For all of the Midwestern states, manufacturing accounted for 18-28 percent of the 1992-97 growth in real earnings, making manufacturing the second most important contributor to real earnings growth after the larger services sector. In New York, real earnings from the manufacturing sector declined between 1992 and 1997.

From 1992-97, manufacturing accounted for 27 percent of U.S. GDP growth while it accounted for less than 4 percent of GSP growth in the Empire State. In only two other NEON states besides New York (Massachusetts and New Jersey) was manufacturing's share of total GSP growth smaller than its share nationally. In the Midwestern states and Pennsylvania, manufacturing's contribution to GSP growth exceeded its share nationally. In Indiana, manufacturing accounted for 48 percent of the 1992-97 growth in GSP.

New York's economy is heavily dependent on Wall Street

While services accounted for most of the job growth in New York in the 1990s, the Wall Street securities industry has contributed a major part of GSP and wage growth. With its high wages, large bonuses and substantial profits, securities has powered the economies of New York City, where it is centered, and the larger downstate New York and tri-state metropoli-

TABLE 4.3

Manufacturing Employment, U.S. and NEON States 1992-98
(thousands)

	Employment 1992	Employment 1998	Percent Change 1992-98
U.S.	18,105.9	18,772.8	3.7%
New York	1,014.5	917.7	-9.5%
Wisconsin	549.6	617.1	12.3%
Indiana	628.7	683.6	8.7%
Michigan	900.9	966.6	7.3%
Illinois	919.3	977.5	6.3%
Ohio	1,050.8	1,094.7	4.2%
Pennsylvania	953.0	944.9	-0.8%
Massachusetts	465.7	448.3	-3.7%
New Jersey	530.3	478.1	-9.8%

Source: BLS, establishment survey series.

TABLE 4.2

Nonagricultural Employment, New York, 1992-98
(thousands)

	Employment 1998	Avg. Annual Change 1992-98	Share of State 1998 Employment	Share of 1992-98 Growth	Avg. Annual % Growth 1992-98
New York	8,228.7	83.1	100.0%	100.0%	1.0%
Downstate	5,196.5	62.4	63.5%	75.0%	1.3%
Upstate	2,987.2	20.8	36.5%	25.0%	0.7%

Downstate: Ten-county New York City metropolitan area in New York State includes New York City's five counties and Nassau, Suffolk, Westchester, Rockland and Putnam counties.
Upstate: All of the 52 counties north of Rockland and Putnam counties.

Note: Statewide total is separately estimated by NYS DOL and does not equal the sum of all areas.
SOURCE: NYS DOL, establishment survey series.

tan region from which it draws tens of thousands of commuters.

The securities industry is the one major segment of the state's economy that has grown more in the 1990s than it did in the 1980s. And because other segments of the economy have grown so much less, securities has accounted for well over half of the state's economic growth during the 1990s expansion. Securities increased its $1992 value of gross state product from $23.2 billion in 1992 to $54.2 billion in 1997. *(Table 4.4)* This was one-and-a-half times securities' 12 percent annual growth from 1982-89. The gross state product of all other sectors of New York's economy, however, grew only 0.9 percent a year from 1992-97, down from 3.4 percent annually in the 1980s. As a result, the securities industry, which directly accounts for only 2.2 percent of all jobs in the state, was responsible for 58 percent of the growth in GSP from 1992-97. In the 1980s, in contrast, Wall Street accounted for only 9 percent of growth.[2] These figures are before taking into account any multiplier effects on industries that sell goods or services to the securities industry or impacts stemming from consumption spending by securities employees.[3]

A corollary of the securities industry's economic dominance in the 1990s is that the unprecedented City and State budget surpluses in recent years stem largely from tax collections associated with Wall Street compensation, profits and stock market-related capital gains realizations.[4]

Outmigration curbs population growth

In the 1990s, New York's population growth has been the slowest of the NEON states, growing by only 1.0 percent. The populations of the NEON states generally grew more slowly than the nation. While the national population grew by 8.7 percent, Wisconsin, the fastest-growing of the NEON states, grew 6.6 percent during this period. New Jersey's population grew more than four times as fast as New York's, at 4.6 percent.

New York's slow population growth is a result of the state's high overall domestic outmigration, which was 9.6 percent from 1990 to 1998. New York's domestic outmigration rate was faster than for any other state in the country and more than twice as fast as Illinois, the state with the next-highest domestic out migration rate among the NEON states.

A high rate of net international migration, 5.7 percent compared to 2.7 percent nationally from 1990 –98, has kept the state's population from declining in the 1990s. Most of the international migration has located in the downstate area. Starting in 1994, upstate New York has lost population. From 1990-94, the state's overall population grew 0.8 percent, but in the next four years, from 1994-98 the state's population barely grew at all, at a rate of only 0.13 percent.

TABLE 4.4

Gross State Product, New York, 1982-89 and 1992-97

(millions, 1992 chained dollars)

	Absolute Change		Share of Total GSP change		Annual Growth Rate	
INDUSTRY	**1982-89**	**1992-97**	**1982-89**	**1992-97**	**1982-89**	**1992-97**
Total Gross State Product	$116,909	$53,445	100%	100%	3.6%	2.0%
Security brokers	$11,021	$30,963	9%	58%	12.1%	18.5%
Non-securities	$105,888	$22,482	91%	42%	3.4%	0.9%
Construction	$8,944	$121	8%	0%	8.9%	0.2%
Manufacturing	$10,443	$2,010	9%	4%	2.2%	0.6%
Transportation & utilities	$2,209	$3,815	2%	7%	0.9%	1.7%
Wholesale and retail trade	$21,563	$13,160	18%	25%	5.0%	3.5%
FIRE (except securities)	$20,057	-$2,341	17%	-4%	2.6%	-0.4%
Services	$31,732	$6,471	27%	12%	4.5%	1.1%
Government	$10,112	-$286	9%	-1%	2.6%	-0.1%
Agriculture and mining	$591	$48	1%	0%	3.5%	0.3%

SOURCE: BEA.