CHAPTER 4

Growth, Dependence on Wall Street and the Current Recession

Economic growth alone is not sufficient to ensure a reasonably broad distribution of the fruits of prosperity. In the 1990s expansion, sustained growth over a long period was necessary before the large majority of the population began to share in prosperity's benefits in any meaningful way. Yet, the growth that New York experienced in the latter part of the 1990s was heavily influenced by a single sector, the Wall Street securities industry. This resulted in a temporary boom in many areas downstate as the region hitched itself to Wall Street's financial roller coaster.

The national slowdown that began in the spring of 2000 was triggered in part by the bursting of the "tech sector" financial bubble. Continued strong job growth downstate through much of 2000 initially masked the effects of the national slowdown. But, by early 2001 initial unemployment claims began to rise sharply in New York and securities employment started to decline in the spring months, about the time the national economy officially entered a recession.

This chapter looks at the relative growth performance of New York over the past decade, examines the current recession, and considers the role of Wall Street in both of these developments.

Improved growth performance in the latter part of the decade

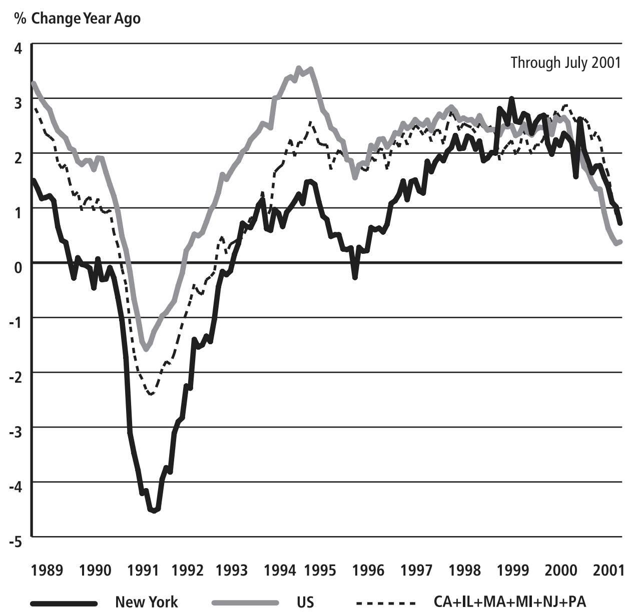
The decade of the 1990s began with New York experiencing a much more severe recession than was felt nationally. New York lost 6.3% of its jobs from the peak of its expansion in 1989 to the trough of its recession in 1992. Then, after trailing the nation for almost the entire decade of the 1990s, New York's job growth caught up in 1999. For most of the time since then New York's job growth has surpassed the nation's. Job growth in the six benchmark states considered here has also bested the nation over the past two years. *(Chart 4.1)*

New York's recent growth, however, was not sufficient to make up for the state's very slow growth through most of the 1990s. As Table 4.1 indicates, from the first half of 1993 through the first half of 2001, New York's job growth averaged only 1.5% annually, well below the nation's 2.4%, and below all of the six comparison states except for Pennsylvania — which averaged the same 1.5% job growth. New York also trailed the nation and all of the comparison states except for Pennsylvania in the growth of real personal income.

In a comparison of New York's 13 metropolitan areas — which account for 87.5% of the state's total employment base — with those in 12 other states, a report by the State Comptroller's office found that

CHART 4.1

Nonfarm Job Growth, New York, U.S. and Selected States



SOURCE: BLS.

most of New York's metropolitan areas fall within the bottom third when the areas are ranked by the rate of job growth between 1991 and 1999. New York's areas ranked marginally higher when the comparison was based on per capita income growth from 1991 to 1998, but 7 of the 13 metropolitan areas in the state still ranked in the bottom third among a total of 162 MSAs.[1]

TABLE 4.1

Real Personal Income and Employment Growth
New York, U.S. and Selected States, 1991-2001

	Personal Income			Nonfarm Employment		
	Avg. Ann. Growth	Avg. Ann Growth	Avg. Ann. Growth	Avg. Ann. Growth	Avg. Ann. Growth	Avg. Ann. Growth
	1991-96	1996-99	1991-99	1st Half 93 -1st Half 96	1st Half 96 -1st Half 01	1st Half 93 -1st Half 01
US	2.3%	3.8%	2.8%	2.6%	2.2%	2.4%
New York	1.3%	2.9%	1.9%	0.8%	2.0%	1.5%
California	1.0%	4.5%	2.3%	1.7%	3.1%	2.6%
Illinois	2.6%	3.2%	2.8%	2.2%	1.4%	1.7%
Massachusetts	1.9%	4.5%	2.9%	2.2%	2.2%	2.2%
Michigan	2.6%	3.0%	2.8%	2.9%	1.6%	2.1%
New Jersey	1.8%	3.3%	2.4%	1.3%	2.2%	1.9%
Pennsylvania	1.2%	2.5%	1.7%	1.1%	1.7%	1.5%

Note: Personal Income in 2000 dollars.
SOURCES: BEA and BLS.

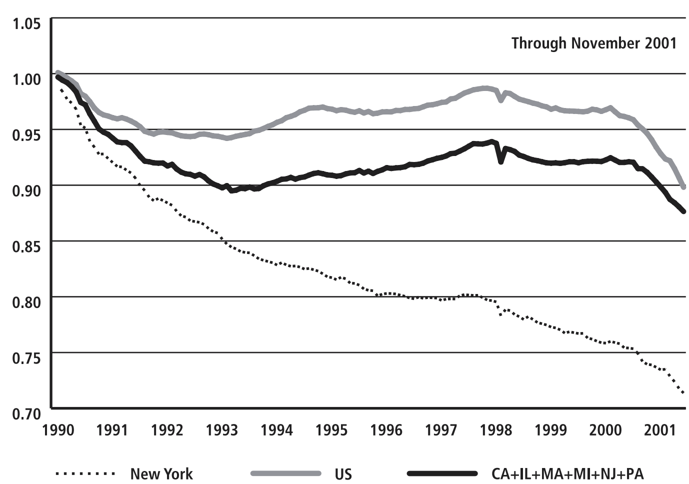
Upstate's manufacturing base has faltered

As the next chapter will document, the upstate region has experienced very weak economic growth over the past decade. In part, this results from the fact that the manufacturing sector continues to be the predominant economic base in much of upstate New York. In 1998, manufacturing accounted for one-quarter of wages paid in all industries upstate. New York's manufacturing sector, however, has considerably under-performed manufacturing in the nation as a whole and in the six comparison states taken together. As Chart 4.2 indicates, manufacturing employment actually increased in the nation and in the six benchmark states from late 1993 through the spring of 1998, whereas New York's manufacturing sector lost jobs during that period.

New York's overall economic performance in the 1990s not only trailed the nation's and that of the major benchmark states, but it also lagged the growth performance New York recorded during the 1980s. Job growth averaged only 1.0% a year during the 1991-2000 period, well below the 1.85% growth during the 1982-1989 expansion. Real personal income growth, at 2% per annum over the past decade, also trailed the 3.9% annual average gain for the 1980s expansion. *(Chart 4.3)*

CHART 4.2

Manufacturing Employment Relative to January 1990
New York State, U.S. and Selected States



SOURCE: BLS.

The state's economic and fiscal dependence on Wall Street

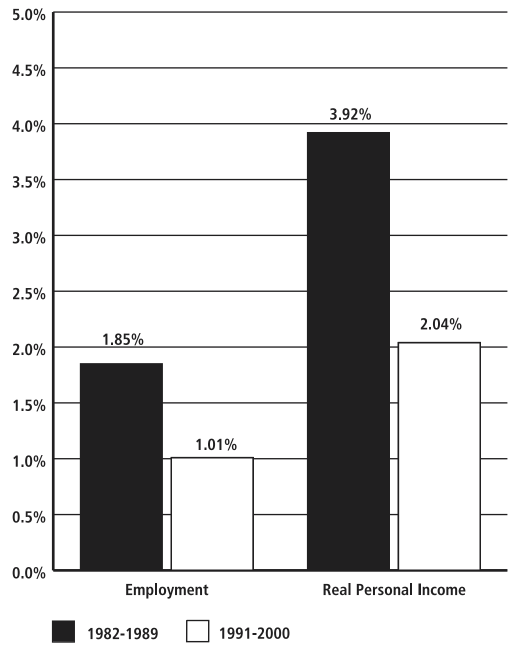
As headquarters to most of the twenty largest investment banks and stock brokerage firms in the U.S., New York City and New York State benefited tremendously from Wall Street's extended bull market run from 1991 through the spring of 2000. Wall

Street wages in New York City averaged nearly $230,000 in 2000 — more than five times the statewide average wage of $40,600. The securities industry added more jobs, 50,700, than any detailed industry in New York City during the 1992 to 2000 period. Annual bonus and profit records for the industry were repeatedly broken through much of the bull market. Chart 4.4 shows the extraordinary growth in real bonuses and total wages paid to Wall Street investment bankers and brokers over the course of the last decade. Total Wall Street wages, for example, tripled in constant dollar terms from $15 billion in 1990 to almost $45 billion ten years later.

Wall Street's impact extends well beyond New York City, since Wall Street employs thousands of commuters from Long Island and the northern suburbs, and its wages and profits represent an important part of the state's tax base. The broadest measure of an industry's economic importance can be gleaned from the estimates of Gross State Product developed by the U.S. Commerce Department's Bureau of Economic Analysis. This measure reflects profits as well as wages. According to the data in Table 4.2, the Wall Street securities industry accounted for 47.6% of the increase in Gross State Product (GSP) from 1992 to 1999. That is, the Wall Street sector alone, which accounts for just 2% of employment in the state, was responsible for nearly half of the growth in total state output during the 1990s expansion. In contrast, during the 1980s expansion, Wall Street accounted for just 9.8% of the increase in total State GSP. The dramatic increase of Wall Street's contribution to GSP during the 1990s clearly shows the state's increased reliance on Wall Street for economic

CHART 4.3

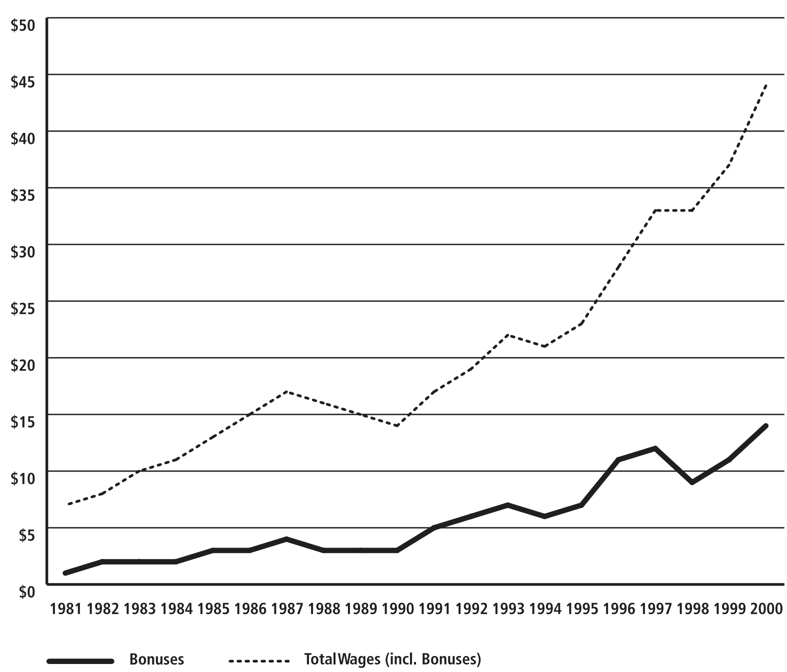
Average Annual Growth Rates in Personal Income and Employment, New York 1980s vs. 1990s



SOURCES: BLS and BEA.

CHART 4.4

New York City Wall Street Wages and Bonuses, 1981-2000
(billions, 2000 dollars)



SOURCE: Office of the State Deputy Comptroller for New York City, deflators applied by FPI.

growth. The state's growth in the 1980s was much more diversified, with a total of six sectors, in addition to securities, responsible for at least 5% of the growth in GSP, and no sector accounting for more than a 28% share.

State tax revenue growth has been exceptionally strong in recent years, even *after* multi-billion dollar tax reductions, in part because of the rapid increase in capital gains realizations received by state residents. Much of the capital gains received have been related to the stock and bond securities markets. In nominal dollar terms, capital gains have risen in New York from $8.7 billion in 1991 to an estimated $53.5 billion in 2000. *(Table 4.3)* Capital gains and Wall Street wages and bonuses together accounted for 35.5% of the increase in state adjusted gross income from 1991 to 2000. Thus, Wall Street and capital gains have been responsible for over one-third of the growth in a measure that forms the basis for state personal income tax revenues, the largest component in state revenues.

TABLE 4.2

Gross State Product, New York, 1982-98 and 1992-99
(millions, 1996 chained dollars)

INDUSTRY	Absolute Change 1982-89	Absolute Change 1992-99	Share of Total GSP Change 1982-89	Share of Total GSP Change 1992-99	Annual Growth Rate 1982-89	Annual Growth Rate 1992-99
Total Gross State Product	$126,147	$142,110	100%	100%	3.5%	3.1%
Security Brokers	$12,343	$67,581	9.8%	47.6%	13.4%	21.3%
Non-Securities	$113,804	$74,529	90.2%	52.4%	3.2%	1.8%
Construction	$10,644	$1,708	8.4%	1.2%	9.1%	1.3%
Manufacturing	$11,062	$4,474	8.8%	3.1%	2.2%	0.9%
Transportation & utilities	$2,661	$9,105	2.1%	6.4%	1.0%	2.7%
Wholesale & retail trade	$22,603	$27,272	17.9%	19.2%	5.0%	4.6%
FIRE (except securities)	$20,115	$13,425	15.9%	9.4%	2.3%	1.3%
Services	$35,815	$17,346	28.4%	12.2%	4.4%	1.7%
Government	$7,930	$1,381	6.3%	1.0%	1.7%	0.3%
Agriculture and mining	$781	$674	0.6%	0.5%	3.9%	2.7%

Note: Because not all output is allocated to an industry, major industries will not sum to total.
SOURCES: BEA & FPI linked 1992 and 1996-chained GSP.

New York in the "New Economy"

Wall Street was certainly not the only industry to expand in New York during the 1990s. Other industries, such as tourism, media and computer-related services (including some "new media" companies) also prospered and saw increased employment. However, much of this growth was also concentrated in New York City. Since "new economy" industries have been much-touted nationally, it is appropriate to explore New York's participation in the "new economy."

The term "new economy" has taken on at least two distinct meanings. First, the term is used to char-

TABLE 4.3

Growth in Adjusted Gross Income Boosted by Wall Street Pay and Capital Gains

	Adjusted Gross Income (AGI) ($ millions)	Net Capital Gains ($ millions)	Total Wall Street Wages ($ millions)	Change from Prior Year: AGI	Change from Prior Year: Capital Gains	Change from Prior Year: Wall Street Wages	Capital Gains and Wall Street Share of AGI	Capital Gains and Wall Street Share of Prior Year AGI Growth
1991	$276,058	$8,735	$12,319	-2.6%	-4.3%	5.5%	7.3%	n.m.
1992	$294,861	$9,457	$17,839	6.8%	8.3%	44.8%	9.3%	33.2%
1993	$297,112	$13,365	$18,571	0.8%	41.3%	4.1%	10.7%	206.1%
1994	$301,362	$12,032	$17,273	1.4%	-10.0%	-7.0%	9.7%	-61.9%
1995	$321,124	$14,086	$20,185	6.6%	17.1%	16.9%	10.7%	25.1%
1996	$347,891	$22,441	$24,532	8.3%	59.3%	21.5%	13.5%	47.5%
1997	$383,179	$31,563	$28,788	10.1%	40.6%	17.4%	15.8%	37.9%
1998	$417,996	$38,929	$33,614	9.1%	23.3%	16.8%	17.4%	35.0%
1999	$452,373	$49,492	$35,116	8.2%	27.1%	4.5%	18.7%	35.1%
2000	$491,957	$53,512	$44,142	8.8%	8.1%	25.7%	19.9%	33.0%
Change, 1991-2000	$215,899	$44,777	$31,823	78.2%	512.6%	258.3%	35.5%	

SOURCES: AGI and Capital Gains, New York State Division of the Budget; 1999-2000 are estimates Wall Street wages, NYS DOL.

acterize dramatically changed macroeconomic conditions — low inflation, higher productivity growth, longer expansions — that were alleged to characterize the U.S. economy in the late 1990s. The oft-heard, late 1990s proclamations that the business cycle was all but dead rested on such a connotation. At the same time, the term has come to reflect an amalgam of concepts which, taken together, represent the fundamentally altered state in which business and daily economic life now take place. Such terms as the "information age," "knowledge" jobs, and e-business comprise the foundation upon which this meaning has arisen in popular culture. It is this latter meaning of the term, and specifically New York's participation in this "new economy," that is discussed here.

The growing influence of the "new economy" in New York's economy over the recent past is unquestionable. New York City's once-burgeoning Silicon Alley — a corridor of emergent dot-com companies that located near the Flatiron District and in Lower Manhattan in the late 1990s — was perhaps the most visible local symbol of the "new economy's" arrival. Moreover, the state is an acknowledged leader in such important tech industry segments as photonics and defense and consumer electronics manufacturing.[2]

Indeed, given the state's vast resources, which include a highly educated workforce, several major research universities, numerous technology and R&D clusters, and its oversized financial sector (which provides easy access to banking and consulting services as well as to venture capital funds), the new economy's attraction to New York is not surprising.

Despite these assets, however, New York has largely failed to live up to its full "new economy" potential. A recent study by the Progressive Policy Institute (PPI), which uses a host of indicators to rate the states' participation in the "new economy," ranked New York 16th among the states. Of the six selected states used for comparison purposes in this report, Massachusetts (1st), California (2nd), and New Jersey (8th), ranked higher than New York. Across five broad categories — knowledge jobs, globalization, economic dynamism, the digital economy, and innovation capacity — New York ranked 6th, 18th, 20th, 30th, and 16th, respectively. Though reasonably good, such ratings do not place New York in the upper echelon of "high-tech" states. Additionally, while a recent report by the Citizens Budget Commission ranked New York in the top tier among all states with respect to technological development and entrepreneurship, it noted that the state's recent performance — over the past five years — was lackluster, with growth in most categories trailing the rate of growth in the US and a selected group of states.[3]

The current recession

While the nation's longest post-World War II expansion technically continued through the first quarter of 2001, an abrupt slowdown began in the second half of 2000. U.S. job growth slowed to a 0.8% pace between the first half of 2000 and the first half of 2001, down from 2.6% between the first half of 1999 and the first half of 2000. *(Table 4.4)* Between

TABLE 4.4

Nonfarm Employment, New York, U.S. and Selected States
First Half 1999-First Half 2001
(thousands, seasonally adjusted)

	1st Half 1999	1st Half 2000	1st Half 2001	Percent Change 1999-2000	Percent Change 2000-2001	Growth Rank among States, Latest Period
New York	8,413	8,600	8,722	2.2%	1.4%	20
California	13,876	14,386	14,784	3.7%	2.8%	4
Illinois	5,941	6,031	6,063	1.5%	0.5%	40
Massachusetts	3,217	3,300	3,363	2.6%	1.9%	12
Michigan	4,555	4,668	4,688	2.5%	0.4%	43
New Jersey	3,878	3,982	4,029	2.7%	1.2%	27
Pennsylvania	5,563	5,676	5,738	2.0%	1.1%	29
Benchmark States	37,030	38,044	38,665	2.7%	1.6%	N/A
TOTAL U.S.	128,139	131,419	132,522	2.6%	0.8%	N/A

SOURCE: BLS.

the first half of 2000 and the first half of 2001, New York's job growth was 1.4%, well above the U.S. rate and ahead of four of the six benchmark states. As Chart 4.5 shows, however, in June 2001, employment in New York started to decline, and at a faster rate than the nation's. At first the difference between the rates of decline was small. Following the attacks on the World Trade Center, however, employment in New York saw a dramatic decrease of 0.7% in just one month, more than twice the rate of loss in employment nationally.

CHART 4.5

Percent Change in Nonfarm Employment from Previous Month New York and the United States, Jan. 2000-Oct. 2001
(Seasonally Adjusted)

Note: The spikes in August and September 2000 for New York reflect an 18 day strike in the communications industry.
SOURCE: BLS.

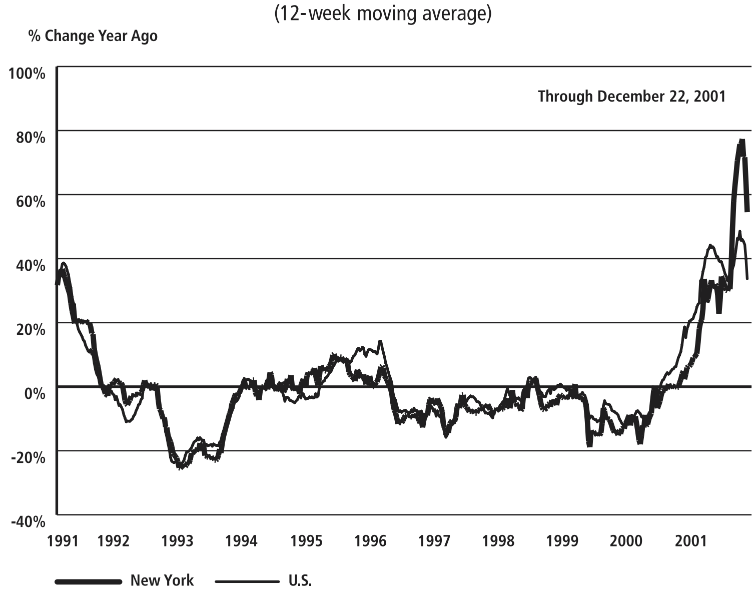
Statewide, the job loss in the current recession has been felt most severely in manufacturing. Between the first half of 1999 and the first half of 2001, New York's manufacturing jobs base contracted 4.7% — a decline larger than any recorded by a benchmark state, and one significantly larger than the 3% decline recorded nationally over the same period. From July 2001 through November 2001 an additional 24,600 manufacturing jobs, or 2.9% of total manufacturing jobs, have been lost in the state *(Chart 4.2)*.

New York's recent manufacturing job losses have meant that the Buffalo and Rochester areas, two of the major upstate metro areas heavily dependent on manufacturing, experienced virtually no growth (Rochester eked out a 0.2% gain) between the first half of 2000 and the first half of 2001.

As Chart 4.6 indicates, the slowdown hit New York somewhat later than it did the nation. Year-over-year changes in initial unemployment insurance claims in New York were less than those for the U.S. throughout much of 1999 and 2000. However, in early 2001, New York's initial unemployment insurance claims jumped up, as year-over-year changes in the twelve-week moving average of the state's initial claims began to more closely track the

CHART 4.6

Initial Unemployment Insurance Claims, New York and United States January 1991-December 2001
(12-week moving average)



SOURCES: NYS DOL and BLS.

nation's. For the week ending August 25, the twelve-week moving average of the state's initial claims was up 30% year-over-year. This compared to a 34% gain nationwide for the same week. More recently, while initial claims have declined nationally, claims in New York have continued to climb. For the week ending December 22, the twelve-week moving average of the state's initial claims was up 54.5% year-over-year, significantly above the nation's 33.7%.

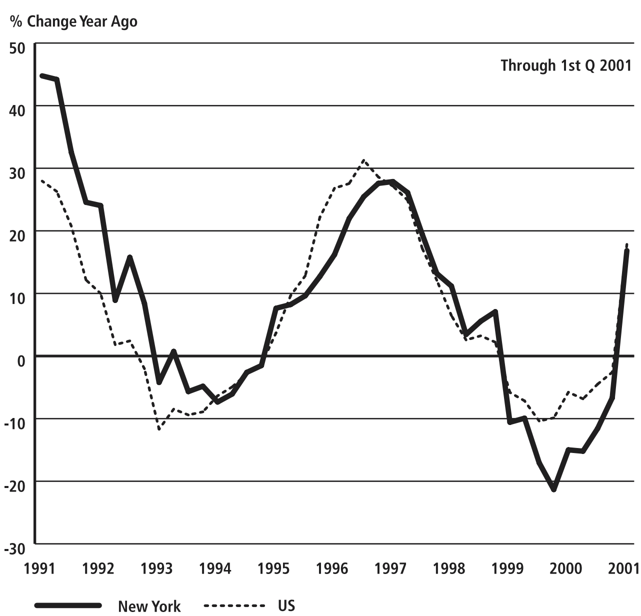
Data from New York's unemployment insurance system prior to the September 11 attacks indicate that the service, trade and public utilities/ transportation industries accounted for the largest increases in workers receiving unemployment insurance compensation in 2001. Within the service sector, the "other services" category (which includes the temp industry and dot-coms) had the largest share of recipients. A number of securities firms have announced layoffs in the thousands. Employment in the New York City securities industry fell by 6,700 jobs in the second and third quarters of 2001. Reflecting the shakeout among dot-com companies, New York City business services employment fell by 5,100 in the second quarter of this year.

Unless extended by Congress, unemployment benefits run out after six months. In 2001, 230,000 New York workers exhausted their unemployment insurance benefits. The economic slowdown and recession have already started to take a toll on family finances in New York. Personal bankruptcies and residential mortgage foreclosures had both fallen between 1997 and 2000. Since then, personal bankruptcies have increased sharply *(Chart 4.7)* and mortgage foreclosures turned upward in the first quarter of 2001.

For several months after the onset of the current slowdown, consensus expectations among economic forecasters were that the slowdown would be short-lived, lasting no more than six months or so. In the week before September 11, following seven reductions in short-term interest rates by the Federal Reserve, most observers had become more pessimistic about the prospects for a quick rebound. In New York, the ongoing financial market correction and downsizing, coupled with the economic devastation from September 11, will largely determine the extent and severity of the recession, its impact on jobs, incomes and state and local budgets.

CHART 4.7

Personal Bankruptcies: New York and U.S., 1991-2001



SOURCE: Administrative Office of US District Courts.