Chapter 1. The Impact of the 2001-2003 Recession on the Empire State

The national context: the labor market remains in recession

Despite the National Bureau of Economic Research's announcement in July 2003 declaring that the national recession officially ended in November 2001, the "recovery" has not yet begun to produce jobs.[1] In fact, while 1.63 million jobs were lost between March 2001 (when the recession began) and November 2001, an additional 1.03 million have been lost since, bringing the total number of jobs lost since the recession's onset to 2.65 million. Notwithstanding recent positive trends in other indicators, most notably gross domestic product, the labor market's continued weakness will remain the centerpiece of the "recovery" story for working men and women across the nation and in New York State.

New York recession worse than nation's

Working New Yorkers and their families have suffered disproportionately during this recession. Whereas the nation's job base contracted by 2.0% between March 2001 and July of this year, New York's employment declined by 3.1%. (See Table 1.1) In percentage terms, 10 states had job declines greater than New York's over this March, 2001-July, 2003 period. New York lost 265,000 jobs over the period.

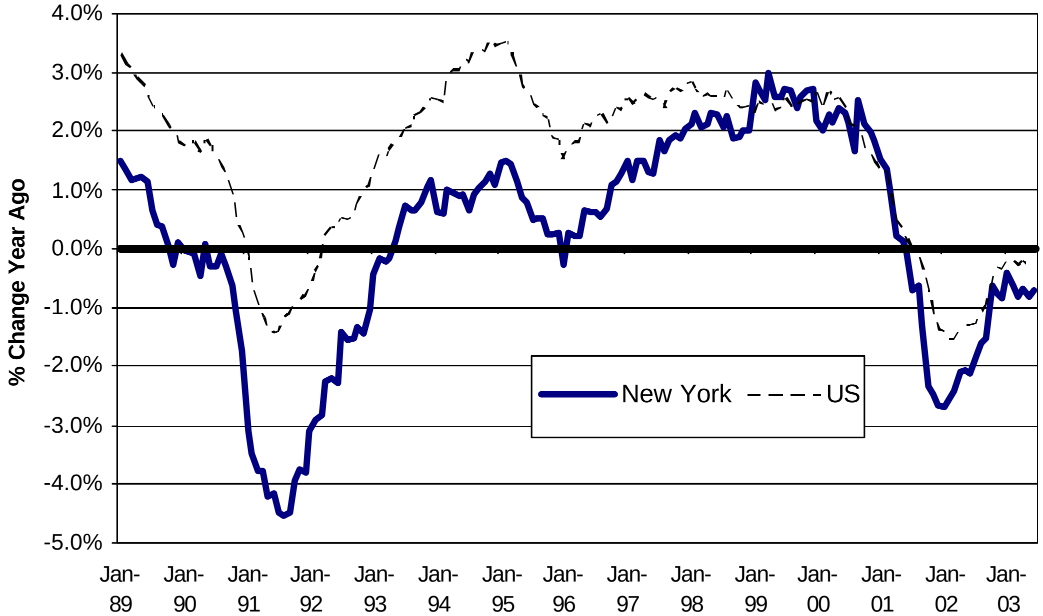
Table 1.1: Employment in New York and US During and Since the Recession

Employment (in thousands)	New York	U.S.
Mar. 2001	8,669	132,527
Nov. 2001	8,481	130,900
Jul. 2003	8,404	129,870
Mar. 2001-Nov. 2001 (Recession)		
Absolute Change	-189	-1,627
% Change	-2.2%	-1.2%
Nov. 2001-Jul. 2003 ("Recovery")		
Absolute Change	-77	-1,031
% Change	-0.9%	-0.8%
Mar. 2001-Jul. 2003		
Absolute Change	-265	-2,657
% Change	-3.1%	-2.0%

Source: Bureau of Labor Statistics (BLS).

As Chart 1.1 indicates, New York's job growth generally trailed the nation's during the 1990s except for a brief period at the end of the decade. When the recession began in early 2001, New York's job growth began to slow along with the nation's. The state began to experience year-over-year job declines in July 2001. The pace of job loss accelerated significantly in the aftermath of the September 11, 2001, attacks on the World Trade Center. While the rate of year-over-year job loss as shown in Chart 1.1 has eased, both the state and the nation continued to lose jobs through July 2003 the latest month for which such data are available.

Chart 1.1 : Nonfarm Job Growth, New York State and US
Jan. 1989-June 2003



Source: Bureau of Labor Statistics (BLS).

While the state's job loss has been concentrated in New York City, nearly every region has had significant job losses, particularly Binghamton and Rochester. Over 107,000 of the state's job losses were in manufacturing, with most of this taking place in upstate areas. The economic impact of the World Trade Center attack was enormous, costing New York City about 100,000 jobs. Although the state's unemployment rate appears to have stabilized in the 6.0%-6.3% range and was recently below the nation's, New York City's unemployment is still over 8% and the jobs picture across the state makes it difficult to declare the state's recession over. The state's job base continued to shrink this year, albeit at a slower pace than during 2001 and 2002.

Recession and jobless recovery create hardships for working New Yorkers

Other indicators also highlight the hardships New Yorkers have endured this recession. The number of unemployed in New York State averaged 574,000 during the first half of 2003, up from 398,000 in 2001. The state's unemployment benefit *exhaustion* rate—a measure of the total number of final benefit payments (benefits expire after 26 weeks and beneficiaries receive final payment notices) relative to the total number of initial payments during the year—reached 57.9% last year. This rate was significantly higher than the national exhaustion rate of 42.4%, and was above the 46.3% the state reached in 1991, the third year of the last recession.

Table 1.2 shows unemployment insurance recipiency and exhaustion rates for the U.S., New York and six major states referred to here as the “benchmark” states. These large, northern industrial states (Illinois, Massachusetts, Michigan, New Jersey and Pennsylvania) and California have more in common with New York than other states. Above all, New York’s high exhaustion rate reflects the anemic pace of job recovery across the state. At the same time, the precarious financial situation of the state’s unemployment insurance fund is especially troubling. New York’s unemployment trust fund ran out of money and had to borrow from the federal government in early 2002 in order to keep making benefit payments.

Unlike Oregon, New Hampshire, Utah, or Kansas, New York chose not to augment the federal extended benefit program with extra state benefits, mainly because its unemployment insurance fund was quickly depleted during the recession. Eligible workers can receive 26 weeks of state and 13 weeks of extended federal unemployment benefits. Workers in the above four states receive additional state benefits. Neither has New York opted to utilize the “total unemployment rate” to trigger additional federal benefits as have states such as Michigan and New Mexico.

While the pace of job loss subsided during the first half of 2003, the number of people seeking unemployment insurance benefits is still rising. Through the first half of this year, total initial claims statewide were up 1.8% on their year-ago level and 20% up on the comparable 2001 level. In other words, layoffs are higher in New York this year than during the period when the economy was directly reeling from the 9/11 attacks.

At 43.8% in 2002, the state’s unemployment benefit recipient rate—a measure of the share of all unemployed workers making unemployment insurance claims—was slightly above the nation’s 42% rate. However, it was far below rates in New York’s largest neighboring states: New Jersey (52.8%), Pennsylvania (58.6%), and Massachusetts (62.8%). (See Table 1.2) Connecticut’s recipiency rate was 67.0% in 2002 (its exhaustion rate was 33.7%.) New York’s low recipiency rate reflects continued barriers that prevent low-wage, part-time and non-English speaking workers from receiving unemployment benefits.

The number of personal bankruptcies in the state, which had declined steadily since late 1998, began climbing in early 2001 and has continued to rise over the past two years. For the 12-month period ending in this year’s second quarter, personal bankruptcies were up 10.5% in New York state from the year-earlier period. Filings were up 9.6% nationally over the same period.

Table 1.2: Unemployment insurance recipiency and exhaustion rates, 2002

	Recipiency Rate	Exhaustion Rate
New York	**43.8%**	**57.9%**
California	46.0%	47.8%
Illinois	45.1%	43.3%
Massachusetts	62.8%	44.3%
Michigan	48.6%	34.9%
New Jersey	52.8%	58.2%
Pennsylvania	58.6%	35.0%
U.S.	42.0%	42.4%

Source: Economic Policy Institute (EPI) analysis of BLS data.

Slowing hourly wage growth

The recession's impact is also discernible in the downward trend in the growth of the median hourly wage in New York. After increasing 3.4% in 2001 (to $14.10 from $13.63 in 2000), the median hourly wage grew 1.5% in 2002, then declined by 0.9% in the first half of this year. It is important to note that growth in the state's median hourly wage lagged the nation's by a considerable margin between 1995 and 2000. Nationally, while the real median hourly wage increased by a total of 7.8% between 1995 and 2000, in New York, the real median hourly wage rose just 0.9% over the period.

Growth in the hourly wage of low-wage workers in the state (as measured by the 20th-percentile hourly wage) has exhibited a similar pattern. After increasing 2.7% in 2001 (to $8.38 from $8.16 in 2000), the median hourly wage grew 0.5% in 2002, and declined by 1.4% in the first half of 2003 compared to the first half of 2002. During the late 1990s, the 20th percentile wage increased much faster at the national level, by 11.9% from 1995 to 2000, than in New York where the increase was only 2.3%.

New York City exerted a large influence on the state's economy

During this recession, the state's economy and its fiscal condition has been influenced deeply by the severity of New York City's recession, combined with the effects of 9/11, and the city economy's large share of the state's job base. Of all jobs lost statewide since December 2000 (the peak "seasonally adjusted" employment month for New York), 76% are attributable to New York City. In December 2000, New York City accounted for 43% of all jobs in New York State.

Recession has hurt many upstate regions

At the same time, the severity of the city's recession and its large impact on the state does not mean the recession has bypassed the rest of the State. Except for the modest job gains recorded in the Hudson Valley (fourth quarter 2000 to fourth quarter 2002) *all* regions upstate lost jobs. (Employment was virtually flat in the North Country). Several upstate regions experienced job declines worse than the nation's -1.5% (fourth quarter 2000 to fourth quarter 2002). And as Table 1.3 indicates, some have experienced significant wage declines in addition to their job losses. (Job change during the recession is measured in this table from the fourth quarter of 2000 to the fourth quarter of 2002 in order to compile employment totals on a regional basis in New York; other tables in this report use slightly different periods based on data availability and the geographic unit of analysis.)

Reflecting the continued importance of manufacturing to their economies and the severe hit that this sector has taken over the past few years, the Finger Lakes, Southern Tier and Western regions endured the steepest job losses among the state's regions. These three areas led all regional job declines outside New York City, and together lost nearly 47,000 jobs between the fourth quarter of 2000 and the fourth quarter of 2002.

Table 1. 3: Recession Across New York's Regions

	Employment				Wages ($2002 Billions)			
	Fourth Qtr.	Fourth Qtr.	Change		Fourth Qtr.	Fourth Qtr.	Change	
Region	**2000**	**2002**	**#**	**%**	**2000**	**2002**	**#**	**%**
New York State	8,482,115	8,224,220	-257,895	-3.0%	102.1	96.7	-5.37	-5.3%
Capital Region	501,386	496,228	-5,158	-1.0%	4.5	4.6	0.12	2.6%
Central	336,979	329,731	-7,248	-2.2%	2.9	2.9	0.05	1.6%
Finger Lakes	569,272	549,145	-20,127	-3.5%	4.9	4.8	-0.08	-1.6%
Hudson Valley	870,254	875,592	5,338	0.6%	9.3	9.4	0.09	1.0%
Long Island	1,206,486	1,195,304	-11,182	-0.9%	12.9	12.9	0.06	0.4%
Mohawk Valley	200,394	194,735	-5,659	-2.8%	1.4	1.4	0.03	2.1%
New York City	3,683,586	3,496,449	-187,137	-5.1%	57.5	51.9	-5.59	-9.7%
North Country	153,086	153,083	-2	0.0%	1.1	1.1	0.04	3.2%
Southern Tier	308,701	298,763	-9,938	-3.2%	2.5	2.4	-0.06	-2.4%
Western New York	651,972	635,191	-16,781	-2.6%	5.2	5.2	-0.01	-0.2%

Note: US nonagricultural job decline over fourth quarter 2000 to fourth quarter 2002 was -1.5%.
Source: ES 202, New York State Department of Labor (NYS DOL).

More recent data is available from the monthly payroll survey, but only for metropolitan areas and non-metropolitan counties in New York. Since some of the upstate metro areas are not wholly within the Labor Department's regions, it is not possible to use the payroll survey data to estimate regional job totals. Upstate-downstate comparisons are still possible, however. From the first half of 2001 to the first half of 2003, the recession has cost the entire upstate area 56,000 jobs--a 1.8% decline. *(See Table 4)* In this report, the "upstate area" is defined as that part of the state north and west of the 10-county downstate area (the latter comprised of the five New York City boroughs, Long Island, Westchester, Putnam and Rockland counties).Virtually all of the upstate job losses have occurred in metropolitan areas—which together have seen their employment base contract 2.1%. This is greater than the nation's 1.7% decline over the same period.

Though several upstate areas have unemployment rates near the nation's—a point that has led some to believe that many places upstate have skirted the recession—this reflects the fact that the size of the labor force (those working plus those looking for work) in these areas has declined substantially. This is due in large part to the exodus of young, working-age persons from many upstate areas. *(See Chapter 2).*

Table 1. 4: Nonagricultural Employment, 1st Half 2001-1st Half 2003				
	Employment		Change	
	1st Half 2001	1st Half 2003	#	%
New York State	8,615,050	8,357,817	-257,233	-3.0%
10 County Downstate Area	5,483,950	5,275,100	-208,850	-3.8%
New York City	3,718,483	3,517,567	-200,917	-5.4%
Nassau-Suffolk	1,213,600	1,207,000	-6,600	-0.5%
Westchester County	417,800	414,550	-3,250	-0.8%
Rockland County	110,583	111,867	1,283	1.2%
Putnam County	23,483	24,117	633	2.7%
Upstate	3,145,150	3,088,700	-56,450	-1.8%
Upstate Metropolitan Areas	2,571,300	2,517,783	-53,517	-2.1%
Albany-Schenectady-Troy	460,450	457,683	-2,767	-0.6%
Binghamton	119,983	113,067	-6,917	-5.8%
Buffalo-Niagra Falls	551,783	542,650	-9,133	-1.7%
Dutchess County	118,667	119,600	933	0.8%
Elmira	43,450	40,800	-2,650	-6.1%
Glens Falls	50,467	50,100	-367	-0.7%
Jamestown	58,633	56,850	-1,783	-3.0%
Newburgh	132,250	133,400	1,150	0.9%
Rochester	551,000	524,350	-26,650	-4.8%
Syracuse	350,317	346,767	-3,550	-1.0%
Utica-Rome	134,300	132,517	-1,783	-1.3%
Non-metropolitan areas	573,850	570,917	-2,933	-0.5%

Note: Since the statewide total is separately estimated from the substate components in the monthly employment survey, the components may not sum to the state total.

Source: 790 monthly payroll survey. NYS DOL.

The pattern of job loss across industries has been different in New York than in the nation

In line with the national trend, industry employment data reveal that New York's manufacturing sector bore the brunt of the recession. (See Table1.5. All industry employment data used in this chapter are based on the new North American Industry Classification System, NAICS, rather than the Standard Industrial Classification, or SIC, system in use since the 1930s.) The manufacturing sector lost 107,000 jobs (or 14.7%) between March 2001 and March 2003, accounting for 39% of all lost jobs statewide. Nationally, as well as for a group of states comparable to New York, however, the manufacturing sector accounted for 85% of all lost jobs over the same period.

Not surprisingly, significant job losses in the state's financial sector accounted for the bulk of the difference (vis-à-vis the U.S.) in the distribution of job losses across industries. Whereas jobs in this sector declined 6.5% (-48,000) in New York over this period, they *increased* 1.7% and 1.8% in the benchmark states and the nation, respectively. As a result, the financial activities sector accounted for 17% of all lost jobs in New York between March 2001 and March 2003. In contrast, job gains in the financial sector helped mitigate job losses in other sectors nationally and in the benchmark states.

Table 1.5: Job Change During First Two Years of Current Recession, New York and US

March 2001 to March 2003	NY (in thousands)				**US**
	Mar-01	Mar-03	Chg.	% Chg.	% Chg.
Natural resources and mining	5	5	0	-6.0%	-7.2%
Construction	306	295	-12	-3.8%	-2.2%
Manufacturing	728	621	-107	-14.7%	-12.2%
Trade, transportation, and utilities	1,514	1,461	-53	-3.5%	-3.4%
Information	330	281	-49	-14.9%	-11.2%
Financial activities	742	694	-48	-6.5%	1.8%
Professional and business services	1,108	1,023	-85	-7.6%	-4.7%
Education and health services	1,435	1,495	60	4.2%	6.2%
Leisure and hospitality	610	608	-2	-0.4%	0.6%
Other services	344	347	3	0.9%	2.4%
Public administration	1,479	1,493	14	1.0%	2.8%

Blue or white collar recession?

The geographic dimension of New York's industrial make-up (e.g., the importance of manufacturing upstate and financial activities downstate) and the near-coincident onset of a slowing national economy and bursting dot-com and financial sector bubbles produced a set of circumstances troubling for New York's economy. On one hand, the downturn in the manufacturing sector translated into steep job and wage declines in many manufacturing-dependent regions upstate. At the same time, the bursting of the dot-com/financial sector bubble disproportionately (vis-à-vis US and benchmark norms) affected the downstate region. In addition, the 9/11 impact significantly exacerbated the situation in New York City and the downstate region, hitting the air transport and hospitality industries particularly hard.

Given the downstate region's size and share of the state's economy, its job losses were more than enough to swamp the losses in the state's relatively smaller (vis-à-vis US and benchmark norms) manufacturing base. The state's manufacturing sector (based on NAICS) represents just 8.5% of its job base compared to 12.8% and 13.6% for the US and benchmark states, respectively. To the extent that the national recession was centered in the manufacturing sector, New York *might* have been expected to suffer proportionally fewer total job losses than most heavily manufacturing-dependent states. Its substantial dependence on the downstate financial sector, along with the 9/11 impact that hit hard at industries such as air transport and hospitality, however, made the economic downturn much worse in New York.

The upshot of the above is that discussions concerning the characterization of the recession—"white collar or blue-collar?"—have been hollow for New Yorkers. This downturn, like the 1989-92 recession, is taking a heavy toll on New Yorkers across the board, whether white collar/ blue collar, or service workers. Manufacturing job losses have hurt many upstate regions. New York City has also lost thousands of manufacturing jobs—especially in the apparel industry.[2] Hence, the blue-collar characterization of the most recent recession has resonated with many across the state. At the same time, hefty job losses in financial industries, information and media, and several other professional/technical industries (e.g., advertising, computer programming, engineering, and consulting) downstate have meant that the white-collar characterization has also seemed appropriate to many.

The divergent trends between New York's public sector and the sector's trend elsewhere is also noteworthy. While this sector recorded relatively modest job growth (1.0%) in New York, it grew 3.0% and 2.8% in the benchmark states composite and the U.S. as a whole, respectively (March 2001-March 2003.) Thus, it would appear that the public sector's ability to play a counter-cyclical buffer role may be more limited in New York than in other states.

New York City's downturn compounded by 9/11

Between December 2000 (the peak month for employment at the state level) and June 2003 New York City lost 240,000 jobs. This decline of 6.4% was more than three times the national decline. Roughly 40% of these job losses were related to the World Trade Center attack. Still, even before the WTC attack, the city had lost 56,000 jobs.

In addition to the dramatic job loss numbers for the city, several additional indicators reflect the severity of this recession and the toll it has taken on New York City residents:

The city's unemployment rate stood at 8.1% in June, significantly above the nation's 6.4%, and up from 5.3% in December 2000.

Total real wages paid in the city declined 12.5% between the fourth quarter of 2000 and the fourth quarter of 2002—a far steeper decline than recorded over a comparable period during the recession of the early 1990s. For all of 2002, total wages fell by 8.6% in real terms, the greatest yearly decline in the quarter century for which data are available. While the recession-to-date job decline this time around, 6.4%, is less than the 10% job loss registered during the early 1990s recession, the 2002 decline in total real wages exceeds the total decline in real wages recorded during the last recession (-8.1% from 1988 to 1991; total wages rose in 1992).

Since wages represent about three-fourths of personal income in New York City, the Fiscal Policy Institute estimates that real personal income for 2002 fell by 4%, greater than in any other year in the 32 years (back to 1970) for which data exist.

After falling steadily between 1999 and 2001, the number of food stamp recipients in the city began rising once again in early 2002. In June of 2003, the number of New York City residents receiving food stamps numbered 871,295, up by 4.9% from 830,828 in January 2003.

Since January 2002, the number of homeless men, women, and children sleeping in New York City shelters has increased dramatically. In fact, the year over year increase from January 2001 to January 2002—from 31,064 to 38,463 people per night—represented the largest one-year increase since the Great Depression.[3]

Several high-paying industries hit hard

Many of the city's job losses since December 2000 have occurred in the industries that grew rapidly

Table 1. 6: The Industries with Largest Job Losses and Gains in New York City, Fourth Quarter 2000 to Fourth Quarter 2002

	Fourth Quarter 2000	Fourth Quarter 2002	Change #	Change %	Avg. Wage 2002
Total	3,683,586	3,496,449	-187,137	-5.1%	$58,895
15 Industries with Largest Job Declines					
Professional, Scientific, and Technical Services	323,393	276,498	-46,895	-14.5%	$82,841
Securities, Commodity Contracts, and Other Financial Investments and Related Activities	194,536	163,303	-31,233	-16.1%	$225,493
Administrative and Support Services	207,571	183,850	-23,721	-11.4%	$35,100
Apparel Manufacturing	53,412	37,037	-16,374	-30.7%	$33,777
Specialty Trade Contractors	85,740	74,904	-10,836	-12.6%	$54,257
Motion Picture and Sound Recording Industries	41,205	32,300	-8,905	-21.6%	$75,700
Telecommunications	37,341	28,459	-8,882	-23.8%	$74,337
Internet Service Providers, Web Search Portals, and Data Processing Services	16,728	7,887	-8,841	-52.9%	$82,293
Publishing Industries (except Internet)	60,549	53,901	-6,648	-11.0%	$82,875
Merchant Wholesalers, Durable Goods	65,096	58,477	-6,619	-10.2%	$59,528
Credit Intermediation and Related Activities	97,686	91,962	-5,724	-5.9%	$105,755
Air Transportation	31,448	25,859	-5,588	-17.8%	$61,357
Merchant Wholesalers, Nondurable Goods	76,220	70,737	-5,483	-7.2%	$63,577
Miscellaneous Manufacturing	22,341	18,287	-4,053	-18.1%	$36,195
Couriers and Messengers	24,656	20,817	-3,840	-15.6%	$32,734
Total, above industries	1,337,920	1,144,277	-193,643	-14.5%	$89,356
15 Industries with Largest Job Gains					
Educational Services	111,239	122,133	10,894	9.8%	$37,452
Government	548,960	559,716	10,756	2.0%	$46,848
Ambulatory Health Care Services	115,051	124,191	9,140	7.9%	$42,377
Social Assistance	140,173	148,718	8,545	6.1%	$22,004
Hospitals	154,886	158,851	3,965	2.6%	$50,447
Nursing and Residential Care Facilities	72,675	76,523	3,848	5.3%	$32,160
Management of Companies and Enterprises	51,349	54,531	3,182	6.2%	$133,634
Religious, Grantmaking, Civic, Professional, and Similar Organizations	62,146	63,425	1,279	2.1%	$42,134
Heavy and Civil Engineering Construction	7,779	8,697	917	11.8%	$67,991
Health and Personal Care Stores	28,404	29,166	762	2.7%	$31,733
Building Material and Garden Equipment and Suppl	11,258	11,890	632	5.6%	$31,575
Broadcasting (except Internet)	26,310	26,762	452	1.7%	$88,994
Amusement, Gambling, and Recreation Industries	13,474	13,884	410	3.0%	$19,680
Utilities	14,542	14,810	268	1.8%	$80,212
Funds, Trusts, and Other Financial Vehicles	7,783	7,982	199	2.6%	$92,992
Total, above industries	1,366,029	1,421,279	55,250	4.0%	$46,698

Source: ES 202. NYS DOL.

during the late 1990s boom. These include several high-paying industries: securities, computer programming, advertising, publishing, motion pictures, internet-related industries, telecommunications, and consulting. *(See Table 6)* Many of the job declines in these industries were tied directly to the bursting of the dot-com and financial sector bubbles and the unsustainable character of growth they generated in New York City during the late 1990s. Indeed, the frenzied pace of growth in the dot-com and internet industries and on Wall Street fueled growth in a number of other sectors, including advertising, computer services, real estate, and consulting. This growth was the primary reason that the city's job growth exceeded the nation's in 1999 and 2000. Importantly, this job growth fueled wage and income growth that boosted consumer spending, which further lifted a number of other industries, e.g., retailing.

The average 2002 wage in the fifteen industries in the city that recorded the largest job declines between the fourth quarters of 2000 and 2002 equaled $89,356—well above an overall average wage of $58,895 in 2002. This fact underlies the oft-heard notion that this recession has been centered in white-collar industries.

At the same time, the city's manufacturing sector has also experienced serious job losses—making clear that the recession also has affected the city's blue-collar workers. Through June of 2003, the city's manufacturing sector had lost 41,000 jobs since the recession's onset. This represents a 24% decline. Roughly half of these lost jobs have been in apparel manufacturing. Other job losses in the manufacturing sector have occurred in food, fabricated metal products, and computer and electronic products.

September 11

The economic impact of the World Trade Center attack should not be underestimated. The attacks had a profoundly adverse impact in a short span of time. While the economic damage inflicted by the attack was fundamentally different from what we normally associate with recession, it intensified the economic slowdown that already had been underway at the time. Beginning in September and continuing through the fourth quarter of 2001 when the impact was felt most profoundly, the city lost approximately 100,000 jobs.[4] The attacks acutely affected numerous industries, including: air transport, hospitality, retailing, securities, and apparel manufacturing.[5] Some of these industries, e.g., hospitality and retailing, have either stabilized (albeit at lower levels) and/or begun to recover over the past year. Many of the others, including securities and apparel manufacturing, have continued to experience job losses.

Few industries record job gains in New York City

As Table 1.6 indicates, only eight industries experienced job growth of over 1,000 from the end of 2000 to the end of 2002. And, of these, only one, management of companies, is not closely related to government or non-profit sector spending. Given the intense budget pressures at the city and state level, it is a question whether this job growth can be sustained. In terms of direct government employment, New York City laid off about 4,000 workers in the spring and state government employment seems likely to continue declining in the second half of this year.

Effects of the downturn on New York's state and local budget problems

The World Trade Center attacks caused a substantial loss of tax revenues for both New York State and New York City. In addition, the national recession and the bursting of the financial and dot-com bubbles dramatically reduced economically-sensitive state and local government revenues. These developments confirm earlier warnings that the massive multi-year tax reduction programs enacted in 1994 through 2000 could not be sustained through a downturn in the economy or on Wall Street without severe service cuts.

The late 1990s Wall Street boom boosted the state's income tax base in at least three ways, by increasing (a) the employment and compensation (both base pay and bonuses) levels in the securities industry; (b) the profits of Wall Street firms; and (c) capital gains realizations. Leaving aside corporate-tax related receipts, increases in Wall Street compensation and capital gains realizations accounted for 39% of the $198.4 billion increase in adjusted gross income for New York State individual taxpayers between 1995 and 2000.[6] This impressive growth in the personal income tax base helped compensate for the deep cuts in state taxes that were enacted beginning in 1994.

Following the bursting of the financial bubble and the related dot-com bubbles, adjusted gross income fell by an estimated $51.7 billion between 2000 and 2002, with Wall Street compensation and capital gains realizations falling by $55 billion, i.e., more than accounting for the falloff in adjusted gross income. As a consequence, along with the recession's broader effect, state personal income tax collections fell by 5.1% in 2001-2002, and by 10.4 percent in 2002-2003.[7]

For many upstate cities, the recession has compounded budget problems that have been building up in recent years as a result of weak economic performance during the 1990s accompanied by a loss of population and jobs to suburban and out-of-state areas. The severity of budget problems for the city of Buffalo, for example, resulted this year in the establishment of a state financial control board to oversee the local budget.

Looking ahead

Despite the fact that the pace of job loss has moderated some this year, the outlook for job growth in New York City over the short-term is not particularly bright. A return to the high-flying days of the 1990s—which were fueled by the dot-com and financial sector bubbles—is widely acknowledged to be unlikely. Recent news that the pace of outsourcing (mostly abroad) of financial and computer-related services jobs is likely to increase is also troubling. Such high-paying jobs are central components of the city's export base. The expected slow rate of job growth over the coming few years will translate into weaker wage growth that in turn will likely serve as a brake on consumer spending.

New York City's weak short-term economic outlook holds important implications for the rest of the state. In particular, the downstate boom of the late 1990s boosted state-level economic and job growth. (This was the case in every year between 1997 and 2000 except for 1999.) Perhaps more important than the jobs the downstate region created during the latter part of the 1990s was the strong income growth, both direct and through multiplier effects, that it generated. This income growth translated into increased tax revenues for the state. Moreover, the downstate region was a key part of the state's eventual recovery from the late-1980s/early-1990s recession. Since the outlook is for only very gradual job and income growth downstate, the state's recovery from this recession likely will be slow and drawn out. The upstate region is not expected to provide sufficient momentum to lift the state economy from weak growth.

Endnotes

[1] The National Bureau of Economic Research's Business Cycle Dating Committee is the official arbiter of determining turning points in the business cycle. See, www.nber.org.
[2] See Fiscal Policy Institute, NYC's Garment Industry, A New Look?, August, 2003.
[3] See Coalition for the Homeless press release, February 18, 2003.
[4] See Fiscal Policy Institute, The Employment Impact of the September 11 World Trade Center Attacks; Updated Estimates based on the Benchmarked Employment Data, March 8, 2002.
[5] For a discussion concerning 9/11's impact on Chinatown's apparel manufacturing industry see Asian American Federation of New York, Chinatown, One Year After September 11th: An Economic Impact Study, November, 2002.
[6] See, Fiscal Policy Institute, Balancing New York State's 2003-2004 Budget in an Economically Sensible Manner, Feb. 2003, p.5.
[7] FPI, Balancing New York State's 2003-2004 Budget in an Economically Sensible Manner, Feb. 2003, pp. 4-5