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The Surprise Economy

Why Has New York Been Outperforming the Nation?

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HIGHLIGHTS

- New York State's private-sector employment performance has been better than that of the nation for four consecutive years, as measured by annual gains or losses in 2007 through 2010. This is the most sustained period in which New York has outperformed the nation at least since the Great Depression.
- New York enjoys an estimated 343,000 more jobs than it would have, if its private-sector employment gains and losses had matched the U.S. average over the past four years.
- New York City was the only area of the state to gain jobs, but every region outperformed the nation, during the period.
- The collapse of housing markets in many other areas of the country explains part of the difference in employment patterns between the Empire State and the nation as a whole. At the same time, New York's comparatively slow population growth has continued to act as a drag on job creation.
- Despite its better-than-average performance in recent years, New York State lost 90,000 jobs over the four years ending in 2010.

New York State's economic performance has lagged the nation's for decades — for so long, in fact, that New Yorkers have come to think this is somehow our natural condition. But here's a surprising fact, one that's gone almost completely unnoticed: The Empire State has been doing better than the nation overall, as the U.S. economy slowly, painfully tries to escape the grip of the Great Recession.

In fact, we've had four straight years — 2007 through 2010 — during which employment trends in New York were consistently better than the national average. The result: The state has 343,000 more jobs today than it would have had, if it had declined and "recovered" at the national pace.

For decades, we've asked ourselves two central questions about this state's economy: Why does New York lag so far behind the rest of the nation in creating jobs? And what can we do to turn things around?

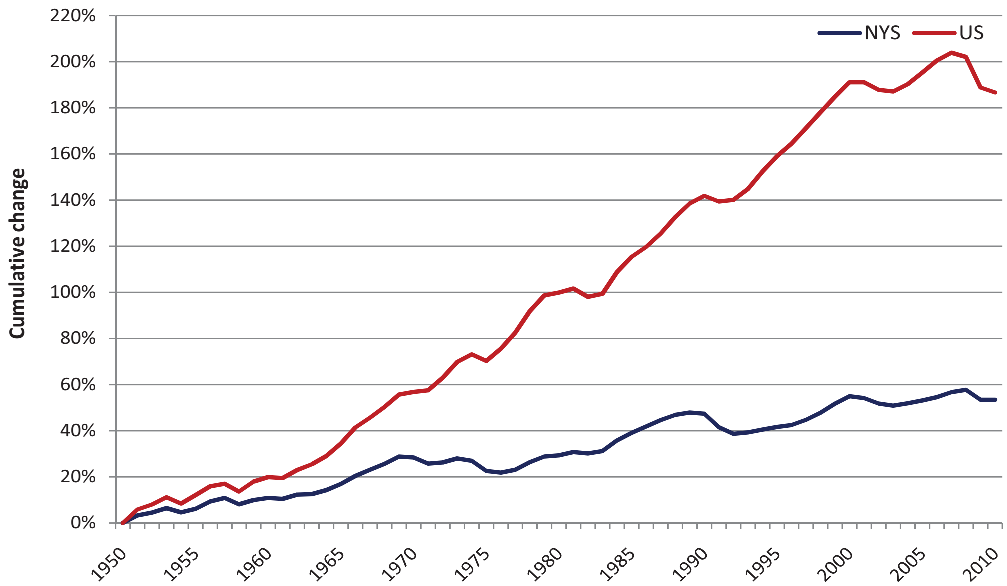
But the man-bites-dog story of New York's performance before, during, and after the last recession suggests two new questions: Is it possible to explain why New York has done better? And, if so, will those insights help policymakers shape a successful strategy for job growth in the future?

A Bit of History

Starting in the early 1800s, New York enjoyed more than a century of economic dominance. By the 1940s, the Empire State was home to more than 10 percent of the U.S. population, and more than 12 percent of all American jobs.

The picture changed dramatically after World War II, though. From 1950 to 2000, the American economy boomed and total employment nearly tripled. The Empire State added jobs, too, but at barely one-quarter the national pace. New York lost ground continuously from 1959 through 1980 — 22 consecutive years when employment gains were smaller or losses larger than the national average. The 1970s savaged New York, with virtually zero new employment while the nation gained 19 million jobs. After the recession of the early 1980s, the nation enjoyed broad prosperity during the remainder of the decade, and the Empire State did as well — but still lagged behind the rest of the country.[1]

Figure 1. New York's Long History of Lagging the Nation's Job Growth
Change in total employment, 1950-2010



Source: U.S. Bureau of Labor Statistics, not seasonally adjusted data.

The last two national downturns before the Great Recession again knocked New York to the canvas. With less than 7 percent of the U.S. population, New York suffered 31 percent of all job losses nationwide from January 1991 to March 1992. In a 1992 report for the Rockefeller Institute of Government, Samuel Ehrenhalt wrote: "New York is in the throes of a dramatic, stunning reversal of economic fortune. It is an extraordinarily long, deep, pervasive decline."[2] And the 2001 recession lingered 32 months in the Empire State, more than three times as long as the nation's.[3]

From Lagging, to Leading, the Nation

Fast-forward to the eve of the Great Recession. In 2007, employment rose faster in New York than in the nation as a whole (see Table 1). In 2008, jobs fell modestly across the country, while continuing to rise in New York. The worst of the Great Recession arrived in 2009, but the decline was much less severe in New York than nationwide. Finally, in 2010, New York saw a slight increase in jobs while the country as a whole was still losing them. The Empire State's better performance over the four years resulted in 343,000 more jobs at the end of 2010 than the state would have had, if it followed national trends.

The Bureau of Labor Statistics' comprehensive state-level data on employment go back to 1939. Not once in that period, before now, has New York outpaced the nation for four consecutive years.

Table 1. Four Years of 'Extra' Jobs for New York
Year-over-year change in private-sector employment, New York and U.S.

Year	New York State	U.S. average	New York minus U.S.	Jobs gained relative to U.S.
2007	1.4%	1.1%	0.3%	20,700
2008	0.6%	-1.0%	1.6%	113,000
2009	-3.4%	-5.3%	1.9%	139,000
2010	0.2%	-0.8%	1.0%	70,900

Source: Rockefeller Institute calculations from U.S. Bureau of Labor Statistics data.

Figure 2. New York Outperforms the Nation, Four Years in a Row

Source: U.S. Bureau of Labor Statistics, not seasonally adjusted data, three-month rolling averages.

To be sure, even this better-than-average employment picture in New York has been nothing to brag about. The state lost roughly 90,000 jobs over the four years. Still, this is a dramatic turnaround from recent recessions when businesses and workers in the Empire State were hit far *worse* than the rest of the country.

Figure 2 shows cumulative changes in private-sector employment, for New York and the nation, since 2006.[4] While New York's performance began to surpass the U.S. average in 2007, plunging employment levels in most of the country widened the gap from mid-2008 into 2010. Still, the overall pattern in Figure 2 shows how strongly the state is influenced by the broad direction of the national economy.

Just as employment trends vary among states and regions of the country, so too among the regions of New York State. Table 2 shows the 2006-2010 change in private-sector employment in each of the labor market areas designated by the Bureau of Labor Statistics and state Department of Labor, as well as statewide and national comparisons. New York City fared relatively well over the period — a performance many economists ascribe to a continuing flow of both domestic and international immigrants, strong tourism activity that in turn was influenced by a weak dollar, and a finance sector that remained surprisingly strong after 2008's deep market turbulence. All other major regions of the state saw private-sector employment decline over the period. Still, every region in New York did better than the national economy over the four years — another striking difference from the history of recent decades.

Why Is New York Doing Better?

Precisely *why* New York has been doing better than the rest of the country for the past four years is no easy question.

The Great Recession was brought about largely by crises in two major, related sectors of the economy — housing and finance. The collapse of housing markets in other regions of the country, and targeted efforts by the federal government to support Wall Street, both appear to have played some role in New York's employment trends during the period.

Table 2. Private-Sector Employment Change in New York Regions, 2006-10
Annual average employment

Region	2006	2007	2008	2009	2010	% change, 2006-10
Capital	387,385	388,040	389,697	378,225	374,718	(3.3)
Central	283,757	286,645	286,242	275,485	272,659	(3.9)
Finger Lakes	456,977	459,124	458,380	442,891	442,728	(3.1)
Hudson Valley	727,028	737,069	733,279	700,509	697,842	(4.0)
Long Island	1,026,742	1,039,730	1,035,863	993,617	994,910	(3.1)
Mohawk Valley	151,266	150,946	149,719	145,271	144,554	(4.4)
New York City	3,009,717	3,094,617	3,129,647	3,020,144	3,042,737	1.1
North Country	109,467	110,143	109,716	105,852	105,624	(3.5)
Southern Tier	216,994	219,474	219,899	210,128	208,520	(3.9)
Western New York	512,562	513,986	516,725	499,150	498,597	(2.7)
New York State	*7,133,100*	*7,233,000*	*7,277,300*	*7,031,900*	*7,043,400*	*(1.3)*
U.S. total	***114,113,000***	***115,380,000***	***114,281,000***	***108,252,000***	***107,337,000***	***(5.9)***

Source: Rockefeller Institute calculations from U.S. Bureau of Labor Statistics data.

States such as California, Arizona, and Florida suffered sharp declines in home values and sales, increases in mortgage foreclosures and related difficulties starting in 2006 and 2007. New York might be considered lucky in this regard. It did not have the real-estate bubbles that some other states had before the recession — and thus did not feel as much pain when the bubbles burst. But the housing data do not appear to explain all, or even most, of the difference between New York and the nation. If we remove the three states mentioned above from the U.S. totals, the nation's employment loss from 2007 through 2010 drops from around 5.9 percent to 4.9 percent. New York's loss over the period remains much lower, at 1.3 percent.[5] In addition, New York was not immune to problems in the housing markets. For example, the percentage of mortgage loans nationally that were entering foreclosure peaked around 1.4 percent in 2009. The figure in New York was 1 percent.[6]

Starting in mid-2008, the U.S. government took major steps to purchase assets and equity from major banking and securities firms, and otherwise strengthen the financial markets. Given Wall Street's status as the center of those markets, it seems reasonable to assume that the Troubled Asset Relief Program (TARP), actions by the Federal Reserve and related efforts did more to support New York's economy than those of most other states. However, even with such support, the decline in securities-industry jobs in New York was sharper than that of the nation from 2007 through 2010. Thus, strictly in terms of employment numbers, this sector created a drag on the state's economy relative to all other states. (However, the sector generates extraordinarily high wages in New York City. Thus, the average finance job here supports more related economic activity than a typical position in the same sector elsewhere in the country.) In addition, New York was beating the nation's job performance well before the rescue of the financial markets. TARP and other initiatives from Washington helped Wall Street at a critical time, but do not seem to explain New York's overall better-than-average performance.

Table 3. New York and U.S. Employment Change, Selected Sectors, 2006-2010 (Jobs in Thousands)

Sector	New York			United States			"Gain" or "loss" for New York, relative to U.S.
	2006	2010	2006-10 % change	2006	2010	2006-10 % change	
Total private sector	7,133	7,043	(1.3)	114,113	107,337	(5.9)	333.9
Construction	337	306	(9.5)	7,691	5,526	(28.1)	63.1
Manufacturing	566	457	(19.4)	14,155	11,524	(18.6)	(4.3)
Wholesale trade	354	325	(8.2)	5,905	5,456	(7.6)	(2.0)
Retail trade	883	873	(1.1)	15,353	14,414	(6.1)	43.9
Information	272	252	(7.3)	3,038	2,711	(10.8)	9.5
Financial activities	726	666	(8.3)	8,328	7,630	(8.4)	0.5
Securities, commodities contracts & other	199	184	(7.4)	818	801	(2.1)	(10.5)
Professional & business services	1,105	1,100	(0.4)	17,566	16,688	(5.0)	50.4
Professional, scientific & technical services	548	552	0.8	7,357	7,424	0.9	(0.7)
Education & health services	1,574	1,704	8.3	17,826	19,564	9.7	(23.2)
Educational services	358	397	10.9	2,901	3,150	8.6	8.2
Health Care & Social Assistance	1,215	1,306	7.5	14,925	16,415	10.0	(30.0)
Leisure & hospitality	680	733	7.7	13,110	13,020	(0.7)	57.4
Accommodation & Food Services	547	594	8.7	11,181	11,111	(0.6)	50.9
State & Local Government	1,359	1,378	1.4	19,242	19,514	1.4	(0.2)
State government	258	258	(0.2)	5,075	5,142	1.3	(4.0)
Local government	1,100	1,120	1.8	14,167	14,372	1.4	3.7
Local government, education	504	513	1.9	7,913	8,010	1.2	3.2
Local government, excluding education	597	607	1.7	6,254	6,361	1.7	(0.0)

Note: Sectors do not add to total.

Source: Rockefeller Institute calculations from U.S. Bureau of Labor Statistics data.

Table 3 shows changes in employment for New York and the nation, in selected industry sectors, from 2006 through 2010.

Private-sector industries where New York outperformed the nation include construction, retail trade, professional and business services, and leisure/hospitality. The sharp decline in construction jobs nationally — more than one in four jobs disappeared during the period — is partially explained by the collapse of many regional housing markets discussed above. In that light, New York's better-than-average employment numbers in the building sector are to be expected. Yet broader economic trends appear to be reflected in the construction employment figures, given that commercial construction has also been stronger in the state than nationally over much of the period. Overall, as shown in Table 3, New York "gained" some 63,000 construction jobs relative to national trends because of its better-than-average performance during the period.

New York's comparatively stronger jobs numbers in retail trade, and professional and business services, also speak to the overall health of the state's economy. In the latter sector, one group of industries — professional, scientific, and technical services — produced nearly equal growth nationally and in the Empire State over the period. The remainder of the professional and business services sector includes management, administrative, and business support services. While such jobs declined both in New York and across the nation during the period, the state's losses were relatively small by comparison. Leisure and hospitality employment was significantly stronger in the state than nationwide. Much of that difference may reflect broader economic well-being, while strong tourist activity in New York City and elsewhere likely played a part as well. As shown in Table 3, each of these sectors — retail trade, professional and business services, and leisure/hospitality — produced tens of thousands of additional jobs for New York, compared to what the state would have had if its employment trends matched the U.S. average from 2007 through 2010.

At the same time New York led the nation in several major sectors, it lagged in one large area — health care and social assistance. These industries showed strong growth all across the country, with the pace of new jobs in New York somewhat slower than the national average. The sector includes hospitals, nursing homes, and other entities that rely heavily on government funding and whose activities are largely driven by population. The Empire State's population was essentially flat over the period, rising by 0.1 percent, while the U.S. population rose by 3.4 percent. That disparity likely influenced employment in this and other categories.

The state also continued its longstanding pattern of losing manufacturing jobs more rapidly than the nation as a whole. While the relative loss for New York was not much larger than average overall, manufacturing employment in the state fell by more than 100,000 over the four years.[7]

Outside the private sector, New York outpaced the nation in one major category — public schools, which added more than 9,000 jobs from 2006 through 2010. State government employment remained flat in New York, in contrast to a 1.3 percent gain nationwide.

What Other Factors May Have Helped New York?

Identifying industry sectors that expanded faster in New York — or didn't contract as sharply as elsewhere — is important but does not explain the reasons for such disparities. Could differences in the business climate or other factors have played a role?

Many economists and elected officials have said for years that the state needs to make it easier for employers to keep and create jobs here. Taxes in New York are among the highest in the country.[8] The impact of a relatively heavy tax burden on the state's economic performance has long been among the most hotly debated policy issues in Albany. At the midpoint of the four years examined in this report, in 2009, the Legislature enacted significant increases in personal-income taxes on individuals with taxable incomes above $200,000. As shown in Table 1, New York handily outperformed the nation in employment trends that year and in 2010. In 2011, however, while the higher income tax rates are still in effect, the Empire State has been falling back in line with the national average. Any significant impact from changes in tax policy is likely to occur over an extended period, and may not be visible within just a few years.

Energy costs (an important factor for manufacturing companies, among others) are significantly higher than average in New York. Environmental and other regulations are typically tougher here, and that has implications for the state's economy — as evidenced most recently by Pennsylvania's development of the Marcellus Shale region while New York has continued to study potential risks and benefits. Government-related factors such as taxes and regulatory restrictions likely help explain why New York lagged behind the rest of the country for more than half a century. But none of those factors have improved significantly in recent years. Thus, recent improvement in the state's relative economic performance bears no obvious relationship to business climate issues. Similarly, there is little if any evidence that New York's economic development initiatives became more effective, relative to those of other states, in recent years.

If business costs are a competitive disadvantage for New York, the state enjoys a decided advantage as a center of international immigration. New Americans from around the world bring additional vitality, and in many cases highly desirable skills, and thus generate valuable economic activity in the state. Conceivably, a significant shift in immigration patterns could have changed New York's relative economic performance in recent years. But New York's share of the nation's international immigration declined slightly from the first half of the 2000s to the period when the state outperformed the nation in job gains and losses. And the Empire State's losses to domestic migration — the net number of individuals who moved from New York to other states, and vice versa — *increased* during the period.[9] At first glance, then, immigration does not appear to have driven the state's above-average employment performance.

New York not only has been faring better than the nation, but better than its neighboring states as well. Connecticut, Massachusetts, New Jersey, Pennsylvania, and Vermont all lost jobs at significantly higher rates than New York from 2007 through 2010.[10]

Numerous other factors may have shaped New York's recent employment trends in ways differently than those of the nation. For example, having lagged the growth rates of most other states during the last period of economic growth, New York had fewer new businesses, which are likelier than established firms to suffer during a downturn. Impacts of this and other potential factors require further study.

Is New York Now Returning to Form?

Whatever advantages New York enjoyed from 2007 through 2010 may have begun to disappear this year. Private-sector employment rose in both the state and the nation during the first half of 2011, but New York fell marginally behind the U.S. trend. Both the state Budget Division and the Assembly Ways and Means Committee projected, at the start of 2011, that private employment growth in the state would be substantially less than the nation's over the course of the year. Among other factors, such expectations reflect an assumption that the national labor market has more slack to fill after a significantly sharper decline.[11]

In recent weeks, sobering economic news in the United States and Europe has prompted concern about another downturn (or "double-dip" recession). Economists cite a wide range of factors, from continuing credit difficulties for small businesses to employers' uncertainty over health care and other costs. The overall condition of the national and global economy will remain the most significant factor determining the availability of jobs in New York. But the state's performance relative to the rest of the nation will remain critically important, too. This is clear from the 343,000 jobs the state gained and retained by virtue of surpassing national average trends in recent years. The importance of interstate differences is reflected, too, in the *10 million jobs* New York "lost" by failing to match the U.S. trend in the preceding half-century. Over that period, the state fell behind the national pace by an average 200,000 jobs each year.

Conclusions

Authoritative employment data can tell us how well New York State's economy is performing relative to other states. Clearly, for a period unprecedented in modern history, New York has been beating most of its interstate competition in recent years.

It also seems clear that one fundamental economic driver — the relative strength of regional housing markets — explains at least part of the difference between New York's employment trends and those of the nation. But the jobs picture has been so broadly more favorable in the Empire State, both geographically and across industry sectors, that one admittedly important factor may not be the entire story.

Variations in population growth almost certainly explain some differences in employment trends. Many economists believe employment and population trends drive each other, with new immigrants creating entrepreneurial activity at the same time an expanding economy attracts other families and individuals. New York's comparatively slow employment growth over the past half-century has acted as a drag on population, and its continual loss of residents to other states limits creation of new jobs at the same time.

From 2007 through 2010, New York added jobs more rapidly than the nation, and then experienced a less painful rate of job losses. Still, such positive results do not indicate that the state's economy is performing at peak capacity. It's possible that the state could have done even better in recent years, had any number of conditions been different.

Researchers and policymakers do not fully understand why the state's recent relative performance has been strong. And that suggests we may not know for sure what the Empire State must do to compete successfully in the future. Improving our understanding of such questions will be essential, if New York is to gain its desired share of national and global economic growth.

Endnotes

1 New York's employment outperformed the U.S. average for three consecutive years during the downturn at the start of the decade (1981-1983) and equaled the nation's pace in a fourth year (with 2 percent gains both in the state and nationwide in 1986). For the 1980s as a whole, total employment rose 20 percent nationally and 15 percent in New York.

2 Samuel Ehrenhalt, "Profile of a Recession: The New York Experience in the Early 1990s" (Albany, NY: The Nelson A. Rockefeller Institute of Government, April 28, 1992), available at http://www.rockinst.org/pdf/Ehrenhalt/1992-04-28-profile_of_a_recession.pdf.

3 New York State Division of the Budget, *2011-12 Executive Budget: Economic and Revenue Outlook*, pp. 104-05. The division has created a New York State Index of Coincident Economic Indicators to measure the overall condition of the state economy.

4 Figure 2 uses three-month rolling averages, to smooth potential statistical anomalies.

5 We could add states such as Nevada and Michigan to the list of those that suffered severe impacts from the housing markets. That would not come close to closing the gap in recent employment performance between New York and the nation.

6 New York State Division of the Budget, *Executive Budget 2011-12 Economic and Revenue Outlook,* page 109.

7 For a more detailed look at manufacturing employment and related trends in New York, see Robert B. Ward and Lucy Dadayan, "Twenty-First Century Manufacturing: A Foundation of New York's Economy," Nelson A. Rockefeller Institute of Government, September 2010, available at http://www.rockinst.org/pdf/economic_development/2010-09-Manufacturing_Report.pdf.

8 Researchers use various comparisons of tax burdens, most ranking New York at or near the top. One of the broadest measures is from the representative revenue system method originally developed by the former U.S. Advisory Commission on Intergovernmental Relations. More recently, researchers at the Federal Reserve Bank of Boston and Urban/Brookings Tax Policy Center have applied the representative revenue system, and its accompanying representative expenditure system, to analysis of state and local finances in fiscal 2002. They found New York's state-local "tax effort" by far the highest in the country, 34 percent above the national average.

9 For more on immigration see, for example, E.J. McMahon and Robert Scardamalia, "Empire State's Half-Century Exodus," Empire Center for New York State Policy, August 2, 2011, available at http://www.empirecenter.org/pb/2011/08/migration1080311.cfm.

10 See Frank Mauro, "Governor Cuomo's Fiscal Policies: How Will New York's Economy Be Affected?", June 24, 2011, available at http://www.fiscalpolicy.org/FPI_GovCuomosFiscalPolicies_20110624.pdf.

11 See Executive Budget economic outlook mentioned above, and New York State Assembly Ways and Means Committee, *New York State Economic Report*, February 2011.

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