

# The economy of upstate New York

New York City's economy often tends to dominate perceptions of the entire economy of New York State. By many measures, however, the economy of upstate New York (which for purposes of this article is defined to include all New York State outside the city) is bigger than the city's. Indeed, it accounts for about 60 percent of the state's population and personal income. While many upstate communities face the same basic economic problems as New York City, including a high cost of living, burdensome taxes, and a deteriorating physical plant, overall business conditions in upstate New York have tended to mirror those of the nation more closely than those of New York City.

Economic downturns in the upstate economy have approximated those in the nation but, during upturns, recovery in upstate New York with its older, less efficient plants generally has not kept pace with national expansions. In the current economic recovery, the lag has been especially pronounced. As a result, joblessness in upstate New York is more severe than in the nation and activity in some major industries remains below pre-recession levels. In part, this sluggish revival reflects the belated turnaround in New York City's economy, since economic conditions in the counties surrounding the city are tied closely to those in the city. Despite these difficulties, the upstate economic recovery, although lagging, is firmly implanted. Unemployment is declining and business activity has been picking up. Additional impetus for the state's economic expansion may be provided by the state government's new initiatives in fostering private-sector growth. A stepped-up tourist campaign has been launched, and a series of tax cuts has been enacted which aim to make the business environment in New York State increasingly competitive with other states.

## **Overview of the economy**

Business activity across upstate New York is diverse, ranging from agricultural to industrial and commercial activities. In some areas, concentrations of specific industries tend to dominate the local economic scene. Among the prominent features of the economic landscape in Buffalo, for example, are heavy industries such as primary metals and transportation equipment, while Rochester leads the nation in the manufacture of photographic and optical equipment. The Nassau-Suffolk region is noted for its aircraft, electronic components, and precision instrument manufacturing as well as for other defense-related industries. At the same time, scattered throughout the state are many large administrative and research facilities. Most notable among these are the nineteen headquarters of the nation's 500 largest industrial companies located in the upstate area. Largely clustered in the counties surrounding New York City, four of these corporate headquarters are in the city of White Plains—the same number as in Boston, a city whose population is more than thirteen times larger.

While corporate headquarters are prominent in the upstate region, a multitude of smaller service firms employ a growing proportion of the area's labor force. As in the rest of the nation, a decreasing proportion of the labor force is engaged in manufacturing. This trend away from manufacturing has also had a deep effect on the New York City economy. The city, however, is not so dependent on factory work as either upstate New York or the nation. Indeed, the overall distribution of employment activities upstate is much more akin to that of the nation than it is to the city's. Factory payrolls comprise one quarter of nonagricultural employment both in the nation and upstate, although in such areas as Binghamton and Rochester

the concentrations are even greater. There, manufacturing accounts for more than one third of employment. By comparison, factory employment in New York City is only 17 percent of total employment.

Upstate manufacturing facilities, moreover, tend to differ from those in New York City in that they are generally larger and employ many more workers. Based on data from 1975, two thirds of the factories in New York State employing 250 or more workers were located upstate although the area accounts for just one third of the total number of manufacturing establishments. In New York City, the manufacturing establishments average under thirty employees, less than half the average employment in upstate factories. Due to this larger plant size, an industrial closing in many upstate communities is more likely to create economic dislocations than one in metropolitan New York City. In 1976, for example, the Elmira region was adversely affected by the closing of an electronic components factory. It displaced 1,200 workers who represented 3 percent of total employment in the area. Thus this single closing sharply depressed the local job market and resulted in a high rate of joblessness.

The largest private nonmanufacturing sectors are trade and miscellaneous services (which include such diverse occupations as advertising, legal, and personal services). These sectors account for 22 percent and 19 percent, respectively, of total upstate employment, about the same proportion as in the nation. In New York City, trade is 19 percent and services 25 percent of total employment. The financial industries employ only a small segment of the total work force in both upstate New York and in the nation (about 5 percent). In New York City, the nation's leading financial center, they account for 13 percent of payroll employment.

In total, the private sector employs about 80 percent of all workers in upstate New York, with the remaining 20 percent in the public sector. This is about the same proportion as in the nation and slightly above the 16 percent in New York City. By far, the largest concentration of government workers is in the Albany-Schenectady-Troy region, the site of the state capital, where government accounts for nearly 30 percent of total payroll employees.

Because many people's perception of the state is dominated by an impression of corporate headquarters, heavy manufacturing, and large cities, the agricultural sector is often overlooked. Nevertheless, New York is an important agricultural area, ranking among the top ten states in the production of such diverse products as apples, potatoes, fresh vegetables, grapes, maple syrup, and milk. More than 100,000 workers are employed in agriculture in upstate New York, slightly more than in 1974.

## Jobs and the business cycle

Over the years, employment in upstate New York has roughly followed the pattern of national business cycles. During downturns, the contractions in upstate employment have been about the same proportionate size as the nation's. During national upswings, however, upstate recoveries have been less robust. Indeed, in each of the last three expansions, the gap between national and local employment growth has widened (Chart 1). Contributing to this slower growth is the loss of both large and small businesses from the area's older urban centers. The large number and high rates of business and personal taxes, and the high cost of living compared with other areas are among the problems faced by local businesses.

In this expansion, total employment in upstate New York—which began to recover in mid-1975, about the same time as in the nation—has risen at slightly less than half the national rate (Chart 2). More recently, increases in upstate employment have moderated

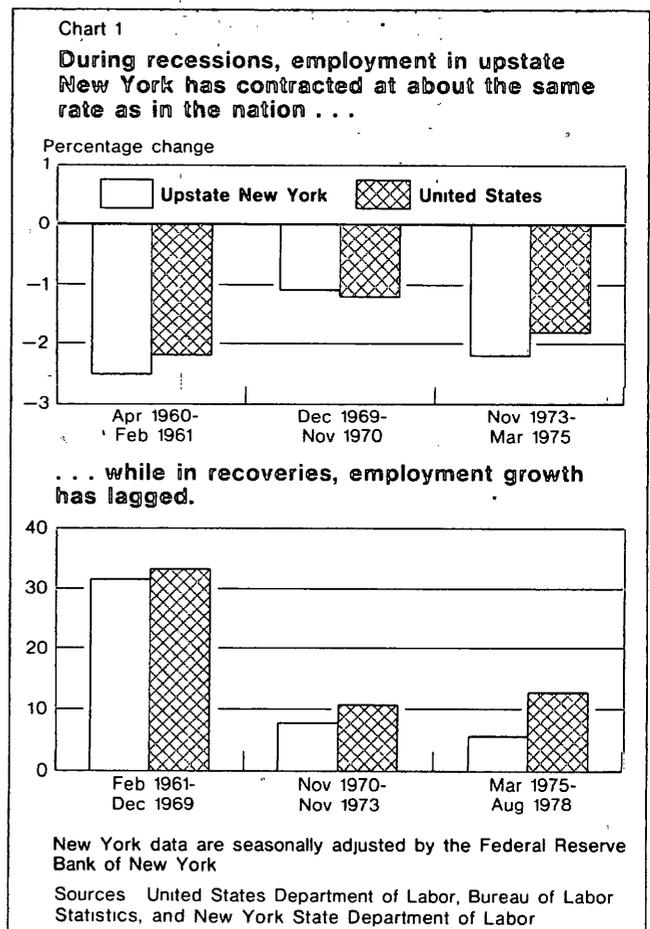


Table 1

**Nonagricultural Employment in Upstate New York**

Not seasonally adjusted, thousands of persons

Sector	Average employment		Change from 1977 to 1978
	January- August 1978	January- August 1977	
Manufacturing .....	932.2	911.9	20.3
Private nonmanufacturing ..	2,010.6	1,950.5	60.1
Construction .....	134.0	117.6	16.4
Finance, insurance, and real estate .....	166.0	162.8	3.2
Wholesale and retail trade .....	816.2	794.1	22.1
Transportation and public utilities .....	168.1	165.1	3.0
Services .....	721.6	705.3	16.3
<b>Total private .....</b>	<b>2,942.8</b>	<b>2,862.4</b>	<b>80.4</b>
Government .....	790.9	754.5	36.4
Federal .....	78.9	78.0	0.9
State .....	186.3	179.5	6.8
Local .....	525.8	497.0	28.8
<b>Total nonagricultural .....</b>	<b>3,733.7</b>	<b>3,616.9</b>	<b>116.8</b>

Because of rounding, figures may not add to totals

Source: New York State Department of Labor

further. Within the private sector, growth has been relatively slower, although jobholding in both factory and nonfactory positions has been rising. Because of New York City's many problems employment there did not stop declining until about two years after upstate New York.

There are presently about 950,000 factory employees in the upstate region, approximately the same number as in 1971 but some 100,000 below the record level posted in 1969. At that time, manufacturing employment represented 31 percent of total jobholding, while it now accounts for 25 percent.

Outside manufacturing, employment in the private sector has grown each year since 1969 with the exception of 1975, and all major components of this sector have edged upward in the latest recovery. During the first eight months of 1978, employment in each industry was higher than in the same period of 1977 (Table 1). The very large gains in wholesale and retail trade and in miscellaneous services may be partially attributable to a statewide upturn in tourist activity. Jobs for building trades workers have also risen, although construction employment remains about 30 percent below its 1973 peak; in both Albany-Schenectady-Troy and

Rochester, it is closer to 40 percent below the 1973 area averages.

**Local labor markets**

Labor market conditions in upstate New York have improved in line with the growth of payroll employment. Unemployment among upstate residents has decreased, while the labor force has expanded moderately. Joblessness is still, however, more severe locally than nationwide (Chart 3).

Within each of the major labor market areas, the jobless rate has generally been lower during 1978 than at any time since 1974, although it still exceeds pre-recession rates (Table 2). To be sure, because of the different industrial and commercial activities which characterize each labor area, both the degree of recovery and the rates of unemployment vary greatly throughout upstate New York. Joblessness during the first eight months of 1978 ranged from a low of 5.3 percent in Poughkeepsie to a high of 8.3 percent in Buffalo, which is still below New York City's 8.9 percent rate. The high level of unemployment in Buffalo is in part due to its dependence on heavy industry. The relatively sluggish performance of business fixed investment during this recovery unquestionably has served to constrain the Buffalo economy. This phenomenon, coupled with other problems facing American steel producers, has resulted in about 3,500 direct layoffs at one of the Buffalo area's large production

Table 2

**Unemployment Rates in Major Labor Market Areas**

Average of January-August data, not seasonally adjusted

	1974	1975	1976	1977	1978
Albany-Schenectady-Troy ..	4.5	6.9	8.3	7.8	6.0
Binghamton ..	4.5	7.4	8.0	7.7	6.5
Buffalo ..	6.5	10.5	11.1	10.0	8.3
Elmira ..	6.2	9.2	9.4	11.0	8.0
New York City ..	7.2	10.5	11.3	9.8	8.9
New York City suburban area*	5.7	7.9	9.3	8.8	7.0
Poughkeepsie ..	3.1	5.3	6.9	6.2	5.3
Rochester ..	3.7	7.1	8.6	7.6	6.2
Syracuse ..	4.7	8.8	10.0	8.7	6.8
Utica-Rome ..	5.7	9.0	11.0	10.4	7.3
Upstate New York .....	5.4	8.4	9.8	9.1	7.2
United States .....	5.3	8.8	7.9	7.4	6.3

\* Nassau, Putnam, Rockland, Suffolk, and Westchester counties  
Sources: New York State Department of Labor, United States Department of Labor, Bureau of Labor Statistics.

facilities. While the important role of the steel industry in Buffalo's economy has thus far impeded its recovery, growing strength in other heavy manufacturing industries may offset some of this weakness. Expectations by automakers of continuing strong car sales have resulted in rising activity in the large transportation equipment sector. This, in turn, may provide a much needed fillip to Buffalo's lagging economy.

In the suburban counties surrounding New York City, the recovery has been gradual, with the rate of joblessness still hovering around 7 percent. In contrast to the rest of the upstate region where the fortunes of a particular manufacturing industry typically determine the economic well-being of the surrounding community, the economy of this area is not dependent on a few large production facilities—only 20 percent of its residents hold manufacturing jobs. Rather, the suburban counties are tied to the central city of New York as a major source of employment. Due to the sharp deterioration of New York City's economy in recent years, this dependency has slowed the area's recovery. Since 1969, the city has lost one payroll job in every six, about 600,000 in all. It was only in late 1977 that payroll employment in New York City stopped shrinking.

The greatest improvement in labor market conditions has occurred in the Utica-Rome area. There, the unemployment rate has averaged 7.3 percent thus far in 1978, 3.1 percentage points below what it was in the same period last year. In the past, the Utica-Rome area has tended to lag the rest of the state in its recovery largely because so much of its employment is concentrated in secondary manufacturing industries, *i.e.*, those dependent on expansion in other fields to spark their own activity. The area's recent improvement is due to an upturn in the manufacture of such products as pneumatic tools, transportation equipment, and machinery.

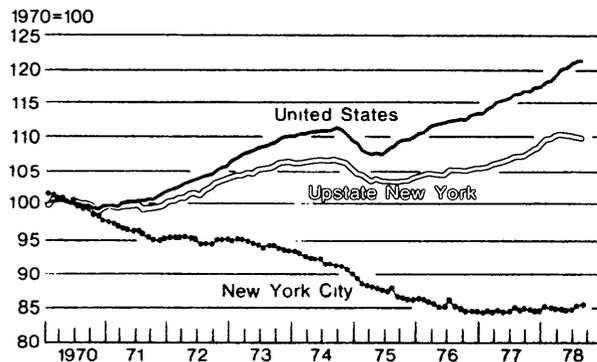
### Construction activity

Employment among construction workers has been particularly slow in recovering, due to the continuing low level of building activity. After showing signs of a limited upturn in 1977, new construction this year has fallen. In 1977, the number of residential building permits issued—a key indicator of new housing activity—rose for the first time since 1972, although the number of permits issued was only about half the 1972 level. Over the first months of 1978, however, the number of permits declined a bit from what it had been in the same period in 1977. The current slackening has been concentrated in the four suburban counties surrounding New York City, while building activity in the more northern counties remains about level with last year.

Prominent among the possible explanations for the lagging revival in construction work is the state-

Chart 2

**Employment in upstate New York began to rise in mid-1975, well before New York City's employment stopped declining.**

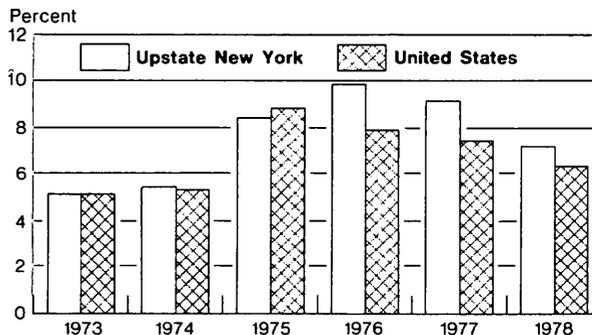


New York data are seasonally adjusted by the Federal Reserve Bank of New York

Sources: United States Department of Commerce, Bureau of Labor Statistics, and New York State Department of Labor

Chart 3

**While the rate of unemployment in upstate New York has declined, it is still above the nation's.**



The unemployment rate shown is the average of January-August data, not seasonally adjusted.

Source: United States Department of Labor, Bureau of Labor Statistics.

mandated ceiling on mortgage interest rates. While the interest rate on home loans has been rising nationwide, the 8½ percent limit in New York State is the lowest such ceiling imposed in the nation. The State Legislature, however, is presently considering a bill to raise the ceiling on conventional mortgages by 1 percentage point to 9½ percent, a rate still lower than in forty-seven other states.<sup>1</sup>

Nonresidential construction also remains weak. While there are some projects under way in most upstate areas, there are many less than in the early 1970's. Among the larger of the commercial projects is the enclosed shopping mall being built in White Plains, which when completed will be one of the largest in the New York metropolitan area. It is the final part of a large-scale urban renewal program undertaken by that city. This project is particularly noteworthy, because it is being built at a central city rather than at a suburban location. Furthermore, the commitment by so many major retailers to the mall provides some testimony to the strength of the area's sales prospects.

#### **State government assistance**

One of the most notable changes that has occurred in the state's economy is the increasingly active role being taken by the state government in promoting private business activity. Among the most visible of its new programs is a national marketing campaign aimed at strengthening the state's tourist industry. Based on the limited data available, this effort appears to have been successful. During the prime summer months of 1977, travel volume in New York was up almost 4 percent over the comparable period in 1976, when tourism was bolstered by the nation's bicentennial celebrations.

Besides promoting tourism, the state government has taken other steps to nurture private-sector growth, although the scope of these actions is restricted somewhat by the state's own budget limitations. Within these constraints, however, there have been important attempts to improve its reputation. Once better known for creating "red tape" and levying numerous business taxes at high rates, the state now is trying to reshape the governmental environment into one which is more conducive to private enterprise. Toward this end, a variety of business tax modifications and reductions have been enacted. These include the expiration of

surcharges to the corporation franchise tax and the bank tax, lowering of the insurance tax, phasing-out of the unincorporated business tax, increasing the investment tax credit, and cutting the pari-mutuel tax rate. While it is too early to know to what extent these measures will stimulate business activity, any actions which bring the state tax burden more into line with that of other states can have only a positive impact.

#### **Similarities to New York City**

Upstate New York has performed better than New York City during the last decade. Nevertheless, there are many similarities between the two regions. Many upstate cities, and indeed the Northeast in general, suffer from problems similar to those of New York City and other older urban centers—a deteriorating physical plant, lagging job growth, burdensome taxes, and a relatively high cost of living. For example, the cost of living in the Buffalo metropolitan area for an intermediate-level family of four in autumn 1977 was estimated by the Bureau of Labor Statistics to be \$18,298, nearly 5 percent or \$800 above the \$17,498 annual average of other metropolitan areas. In the New York-Northeastern New Jersey region, the same standard of living for a family of four would have cost \$19,972 each year, an additional 14 percent or \$2,474 more than the national urban average.

Local governments in the upstate region also suffer from financial problems which may be of smaller magnitude than New York City's but are nonetheless significant. In both Buffalo and Yonkers, the second and fourth most populous cities in the state, evidence of fiscal strain surfaced at about the same time as in New York City. Buffalo continues to grapple with the problems of budgetary imbalance and, in Yonkers, budgetary matters remain under the supervision of an outside monitor similar to that which oversees New York City's fiscal affairs.

Thus, although the upstate economy is different in both its composition and past behavior from New York City's economy, there are inescapable similarities. Upstate municipalities, like the city, will be affected by the success of the various measures adopted by the state government to promote private business enterprise. More important, however, is the course of the national expansion, now in its fourth year. As in the past, national economic conditions will continue to exert a strong influence upon the economy of upstate New York.

<sup>1</sup> New Jersey imposes a 9½ percent upper limit, while in South Carolina there is a range of ceilings which begins at 9 percent.

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