# New York State's Economic Turnaround: Services or Manufacturing

Over the past several years the outlook for the New York State economy has shifted from secular decline to something much more optimistic In the mid-1970s the state was performing much worse than the national average, but more recently the state's performance, by some measures, has been better than the nation's. This turnaround is noteworthy for two reasons. First, New York State's relative economic recovery provides some hope and, possibly, some guidance to other states where current conditions are much worse than the national average. Second, an analysis of recent changes in the New York State economy calls into question two clichés about current economic events in the United States.

The clichés that need further examination on the basis of New York's experience are these·

- that almost all economic growth of the past decade has been generated by the expansion of the service industries,

- that large numbers of healthy small firms are the key to economic development.

This article describes some of the changes that took place over the last decade in New York State as a whole and in the state's largest labor market areas (LMAs).*

*Labor market areas (LMAs) are roughly equivalent to the more familiar standard metropolitan statistical areas (SMSAs) The U S Labor Department reports frequent statistics on employment and unemployment for a large number of LMAs

The evidence, while still incomplete, suggests that a turnaround has, indeed, taken place. And it shows that the nature of recent economic change in New York may not be consistent with some conventional notions.

**The turnaround**

The main evidence of an economic turnaround in New York State comes from data on local and national unemployment rates (Chart 1). During the 1975 recession, New York State's unemployment rate exceeded the nation's by 30 percent. During the 1982 recession, the state's peak rate of 9.8 percent was only about 85 percent of the national peak unemployment rate of 11.4 percent Furthermore, in 1975 only one New York LMA—Poughkeepsie—had a lower unemployment rate than the United States as a whole. In 1982, only three LMAs—Glens Falls, Elmira, and Buffalo—had higher peak unemployment rates than the national average.

Data on construction activity reveals further evidence of a turnaround. New York State's share of the total value of new building contracts in the United States has been generally rising since 1979 (Chart 2)

*What accounts for the turnaround?*

One way of accounting for New York State's economic turnaround is to examine the changes that took place in the state's individual labor market areas. Chart 3 summarizes data on employment growth rates—total and by sector—for New York LMAs, New York State, and the United States. Three points are noteworthy

First, the widely discussed "shift to the service sector" is clearly happening everywhere in New York State. In all LMAs, employment in nonmanufacturing has been growing faster than manufacturing employment

Second, however, the performance of manufacturing industries still may play a major role in determining which parts of the state do well Each of the four LMAs that grew more slowly than the state average lost substantial proportions of their 1974 manufacturing work force by 1981 But none of the LMAs where manufacturing employment increased over the period experienced employment growth rates below the state average The two exceptions to the rule that local manufacturing had to perform well for the local economy to perform well were Syracuse and Albany-Schenectady-Troy. Only in these LMAs did nonmanufacturing employment grow fast enough to compensate substantially for a loss of manufacturing jobs

Third, the LMAs that did best tended to experience relatively balanced economic growth across sectors The lengths of the vertical lines in Chart 3 can be taken as a measure of "balance", the longer the line the more "unbalanced" the growth By this criterion, four of the five New York LMAs that performed best—Rochester, Binghamton, Poughkeepsie, and Nassau-Suffolk—experienced unusually balanced growth over the period In these four LMAs, manufacturing contributed more to total employment growth than elsewhere in the state or in the United States as a whole

Taken together, the data represented in Chart 3 suggest that, with only two exceptions, overall economic development has been associated with growth of *both* manufacturing and nonmanufacturing employment

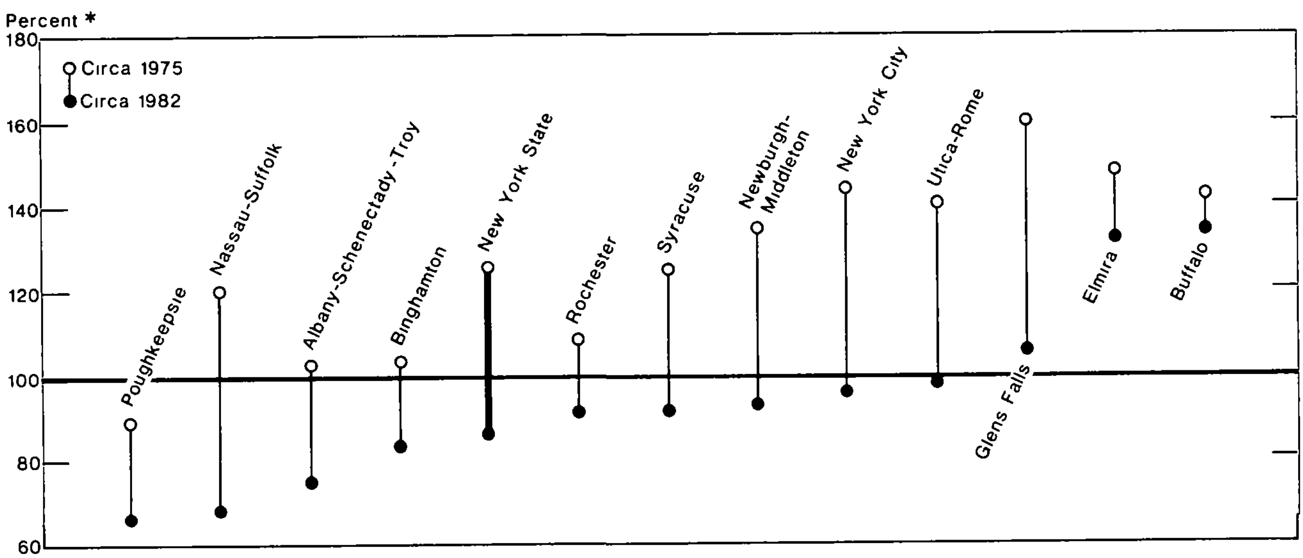
Some rough computations suggest the importance of the growth of manufacturing employment in Rochester, Binghamton, Poughkeepsie, and Nassau-Suffolk to the state's overall economic performance The computations are based on the assumption that growth of a regional economy is initially stimulated by an increase in net sales of goods and services from the region to the rest of the nation and abroad In other words, local growth depends on the growth of "net exports" from New York State to the rest of the United States and to the world An increase in "export" employment stimulates increases in employment in firms producing either inputs for the exporters or goods and services for the local work force. A decent rough estimate is that each new net export job generates roughly two additional jobs in a regional economy

Employment in New York State increased by about 200,000 jobs between 1974 and 1981 Given the estimate of an export multiplier of two, the original stimulus to the state's economy must have employed roughly

Chart 1

**New York Labor Market Areas: Peak Unemployment Compared with U.S. Peak Unemployment**

1975 to 1982 recessions



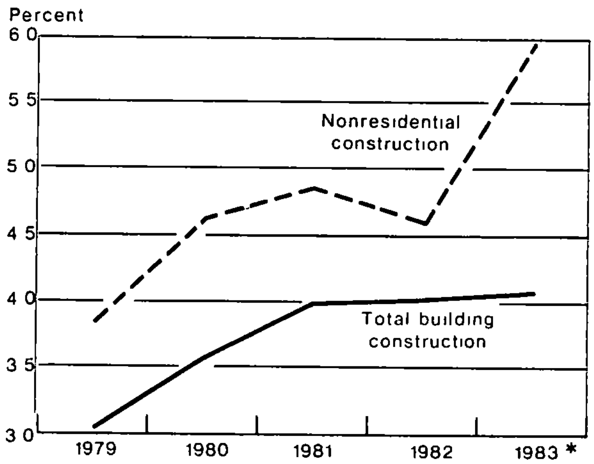

*Local peak unemployment as a percentage of U S peak unemployment

Source Computed from New York State Department of Labor monthly unemployment releases

Chart 2

**New York Construction Contracts**

New York State percentage of dollar value of all U S contracts




*January-August average

Source McGraw-Hill Information Systems Company, F W Dodge Division, Dodge Construction Potentials

67,000 workers Over the same period, manufacturing employment increased by a total of 26,000 jobs in Rochester, Binghamton, Poughkeepsie, and Nassau-Suffolk Therefore, assuming that nearly all manufacturing employment but a much smaller proportion of nonmanufacturing employment is for "export", about 40 percent of the original stimulus of 67,000 new net export jobs was composed of manufacturing jobs in these four LMAs

In other words, without the increase in manufacturing employment that took place in these four LMAs, total employment growth in New York State might have been 40 percent smaller than it was New net exports of services may have induced the remaining 60 percent

*The nature of New York's dynamic manufacturing centers*

The four LMAs in which manufacturing employment increased between 1974 and 1981 share a number of characteristics First, as Chart 4 indicates, with the exception of Nassau-Suffolk, employment in these LMAs is relatively concentrated in manufacturing Second, although manufacturing employment is generally less cyclically stable than nonmanufacturing employment, these LMAs have fared relatively well through the most recent recession A quick reference to Chart 1 indicates that these four are among the five areas of the state with the lowest peak unemployment rates in 1982

Finally, each of these local economies is, to some extent, dominated by one or two large manufacturing concerns In each of these labor markets a single firm accounts for more than 15 percent, and sometimes more than 25 percent, of total LMA manufacturing employment (Chart 5) In none of the other LMAs did single firms account for this large a share of total employment In Rochester the dominant firms are Eastman Kodak and, to a lesser extent, Xerox, in Binghamton, IBM and, to a lesser extent, GE, in Poughkeepsie the dominant firm is IBM, and in Nassau-Suffolk, Grumman These firms have several things in common in addition to their large size and local dominance All manufacture technologically highly sophisticated products And, overall, they have performed well over the past several years, with annual sales growth averaging about 12 percent between 1974 and 1981

**Conclusions**

The performance of the healthiest of New York State's labor market areas over the past several years is not consistent with the clichés presented at the beginning of this article Most of the places where employment has grown substantially experienced relatively balanced growth of both the nonmanufacturing and the manufacturing sectors This suggests that regional growth led by the service sectors may be the exception rather than the rule Governmental centers such as Albany-Schenectady-Troy and a few regional service centers such as Syracuse may perform well, but the overall economic fate of many LMAs still appears to depend on the condition of local manufacturing firms

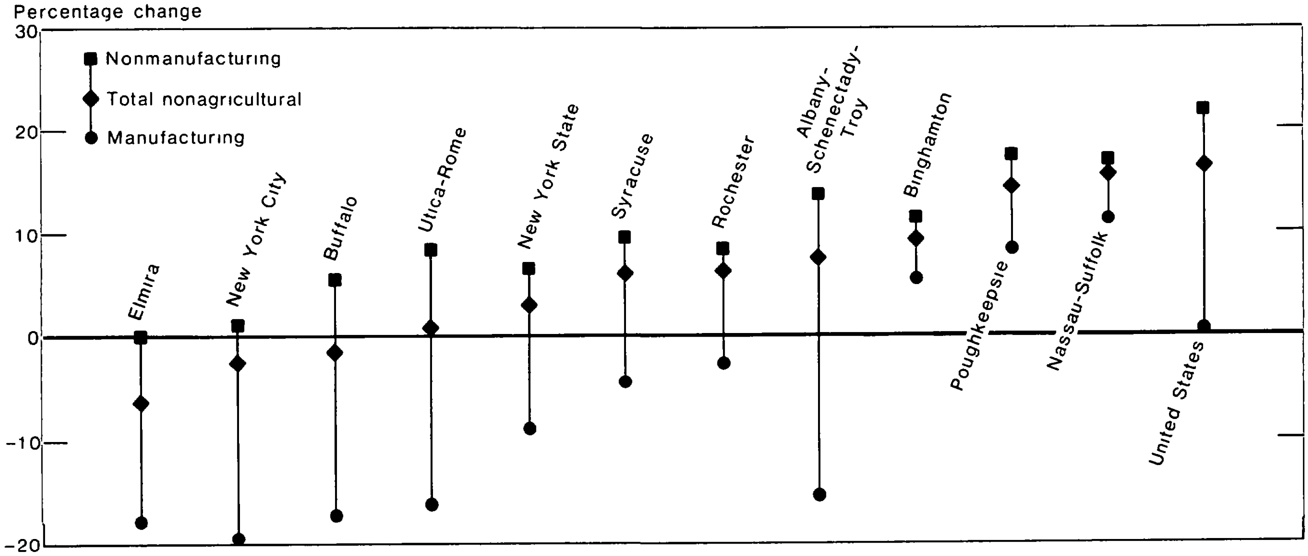
The second cliché—that small firms are the key to economic growth—may also be inconsistent with some of New York's experience Not all employment growth in Rochester has been at Kodak or Xerox and not all of Poughkeepsie's growth is necessarily attributable to IBM However, it is unlikely that these LMAs would have done nearly as well as they did had the dominant local firms failed to perform as well as they, in fact, did.

Regional dependence on one or a very few large firms, no matter how successful these firms may be, is far from an unmixed blessing It makes sense for the leadership of Rochester, Binghamton, Poughkeepsie, and Long Island to be seeking opportunities to diversify their economic bases

However, it is also important to recognize that the health and growth of these large, technologically advanced firms will be an important element in any continuation of New York State's economic turnaround State leaders are rightly concerned with the severe

Chart 3

**Employment Growth Rates in New York Labor Market Areas, 1974-81**

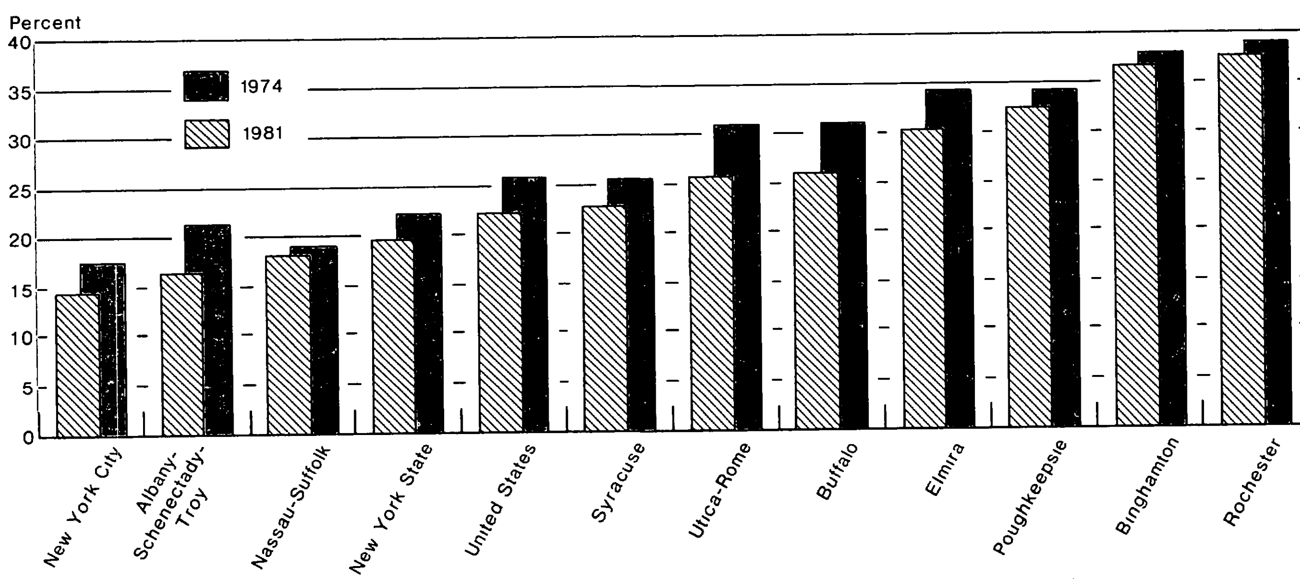



Source Computed from U S Department of Labor, Bureau of Labor Statistics, establishment employment data

Chart 4

**Labor Market Employment in Manufacturing**

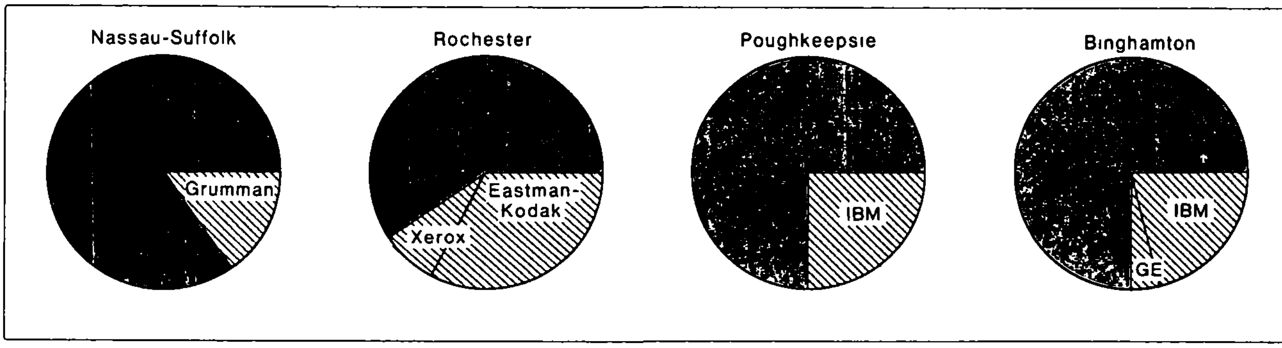
Percentage of total, 1974 and 1981




Source Computed from U S Department of Labor, Bureau of Labor Statistics, establishment employment data

Chart 5

**Dominant Firms' Share of Local Manufacturing Employment in 1980**




Sources State Industrial Directories Corporation, New York State Industrial Directory, 1980 (New York, 1980) and U S Department of Labor, Bureau of Labor Statistics, establishment employment data

current problems of places like Buffalo and Elmira However, industrial policies and other efforts aimed at helping these places must be chosen with care to learn from, and not to harm, the industries and regions of the state that have been relatively successful in recent years Continued monitoring and further analysis of economic changes in New York State will help identify policies that can balance all of these objectives.

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