PUBLIC POLICY INSTITUTE

New York State's economy in 2004: Which way out?

Our job growth has become heavily dependent on taxpayer-funded jobs. That's not a sound strategy for the long run.

The current recession has been tough for New York State — hitting us harder and longer than the nation as a whole. But behind the pain of this short-term problem with the business cycle, there is a larger concern that will not go away when the recession does. Year in and year out, in good economies and bad, New York lags behind the nation's growth rate. And recent trends suggest that the problem could be getting more entrenched, more intractable, over time.

Indeed, our analysis of the latest economic statistics indicates that since the recession of 1990, **New York State has added few, if any, *net* new jobs — <u>except</u> those being paid for by the taxpayers.** We've created many new jobs, and lost many others, for a net gain of about 190,000 — but take out the jobs financed by government, and it may well be that we haven't created one net new job in 13 years.

Since 1990 our total job growth has been only one-eighth of the nation's, and only one-fourth of the growth achieved by, say, our fellow "Rust Belt" state, Ohio. Almost any way you slice up those 13 years — 1993 to 2003, or 1990 to 2000, or whatever — the picture is of New York lagging behind. The only bright spot is the first half of the administration of Gov. George Pataki, 1995-2000, when New York briefly caught up with the nation's growth rate; but the recession that hit in March of 2001 took the wind out of those sails.

New York's leaders today face a choice in deciding how to deal with these economic doldrums. The state

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New York State's economy seems locked in low-growth mode:

- **In the recession, both Upstate and New York City have fared significantly worse than the nation as a whole.**
- **Over the longer haul — say, from 1990 through 2003 — our growth has been only a fraction of the nation's.**
- **The one bright spot came in the period from 1995 through 2000, when New York was actively trying to improve its business climate. We almost matched the nation's growth rate.**
- **But now it seems that the state's economic strategy is to grow taxpayer-funded jobs. Since 1990, that's all, or almost all, the jobs we've added.**
- **In the long run, that approach is a one-way ticket to economic decline.**

APRIL 2004

New York City has borne the brunt of the recession in New York State.

Table 1

The 2001 recession:
Selected indicators for New York State

Job #s in 1,000s

	March 2004	*# change since March 2001*	*% change since March 2001*
By sector (statewide)			
Total non-farm jobs	***8,363.6***	***— 239.0***	***— 2.8%***
Total private-sector jobs	6,862.0	— 261.8	— 3.7%
Manufacturing	597.4	— 131.0	— 18.0%
Retail	842.3	— 17.3	— 2.0%
Financial activities	696.0	— 46.4	— 6.3%
Government	1,501.6	+ 22.8	+ 1.5%
Health care / social assistance	1,177.2	+ 69.7	+ 6.3%
By region (total non-farm jobs)			
New York City	3,525.9	— 202.2	— 5.4%
Long Island	1,219.9	+ 8.3	+ 0.7%
Northern Suburbs	553.7	+ 4.8	+ 0.9%
Upstate Big 6 metros	2,105.8	— 49.2	— 2.3%
U.S. overall, total non-farm jobs	***129,801***	***- 1,889***	***- 1.4%***

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

can keep bolstering taxpayer-funded payrolls — which gives some short-term help, but undermines the state's competitiveness in the long run. Or it can renew its efforts to improve its business climate, thus building the foundation for sustained, private-sector growth.

The 2001 recession

New York's short-term experience in the current recession has both illustrated the long-term weaknesses in its business climate, and made some of those weaknesses worse. Just as New York grows more slowly than the nation in good times, it loses jobs faster than the nation in bad times. Since the current downturn began in March of 2001, this state has lost jobs twice as fast as the nation, as illustrated in Table 1, above. The economy now seems to be turning around at both the national and state levels; private-sector employment grew 0.3 percent in March for the U.S. as a whole, and 0.2 percent in New York.

Two particular characteristics of the national recession have helped ensure that the damage was especially bad in New York. First, it began with the bursting of the 1990s "bubble" in the financial markets, on which New York City is particularly dependent; the bubble had helped fuel a Wall Street boom that was greatly to New York's benefit in the late 1990s, and its collapse likewise hit New York especially hard. Second, the manufacturing sector nationwide has been particularly hard-hit; Upstate New York is heavily dependent upon manufacturing, and thus got more than its share of the recession's pain. Add in the fact that New York was at the epicenter of the terrorist attack of September 11, 2001, and it is little wonder that the recession has been particularly hard on New York.

Note in Table 1 that New York City has borne the brunt of the recession in New York State, with Upstate also doing worse than the national average. The New York City suburbs, on the other hand, have suffered significantly less than the nation or the state as a whole. How do these short-term trends fit in with the state's long-term economic problems?

The longer-term patterns

When analysts try to compare the economic performance of one area or region against another — such as our comparision of New York to the nation — the choice of the timeframe used can have an impact on the results. Table 2 on page 4 therefore breaks out comparative data for a number of different ranges of years (1990-2003, 1990-2000, 2000-2003, and so on).

The full 13-year period, from 1990 to 2003, shows New York's performance in the worst light — with private-sector job growth equal to only one-sixth of the nation's. This is the only range of years that includes *two* recessions: 1990, and 2001. (It is thus the only range illustrated that starts and ends at about the same point in the business cycle, so unfortunately it may be the most accurate, as well as the most depressing.) Things look a bit better if you consider only the years 1990 to 2000 — that is, from the bottom of a recession to the peak of the "boom." But even there, the same pattern is clear: New York lags far behind the nation, growing jobs at less than one-third the national rate.

Almost any way you slice up the years between 1990 and today, the persistent pattern is one of New York lagging behind. The one bright spot is the period 1995-2000.

The one timeframe in which New York's performance was most encouraging may contain some important lessons for policymakers. This was the period 1995-2000, when New York's growth rate reached four-fifths of the nation's (and, in fact, by the end of that period New York was matching the nation's growth). The period incorporates the best years of the 1990s "boom," which, as noted above, were particularly good for Wall Street. But it was also the period when Governor Pataki successfully led the Legislature into making major improvements in the business climate, including tax reductions and workers' comp reforms; he also made improvements administratively, including regulatory reform and the introduction of competition into the electric utility business.

These changes not only yielded quantifiable improvements in the state's competitive position; they also bolstered the confidence of the business community in New York's ability and willingness to reduce its cost burdens. However, since then, and burdened by the recession and 9/11, New York has not made further major progress on basic business climate matters – in fact it has backslid a bit, with tax increases the Legislature enacted last year over the

If the state renews its efforts to improve the business climate, that will build the foundation for sustained, private-sector growth.

Table 2

New York State vs. the Nation:
Private-sector job growth over selected timeframes

Job #s in 1000s

	New York State	*United States*
1990-2003		
Private-sector jobs, 1990	6,739.0	91,072.0
Private-sector jobs, 2003	6,917.7	108,356.0
# change	+ 178.7	+ 17,284.0
% change	+ 2.7%	+ 19.0%
1990-2000		
Private-sector jobs, 1990	6,739.0	91,072.0
Private-sector jobs, 2000	7,167.5	110,996.0
# change	+ 428.5	+ 19,924.0
% change	+ 6.4%	+ 21.9%
1993-2003		
Private-sector jobs, 1993	6,326.4	91,855.0
Private-sector jobs, 2003	6,917.7	108,356.0
# change	+ 591.3	+ 16,501.0
% change	+ 9.3%	+ 18.0%
1993-2000		
Private-sector jobs, 1993	6,326.4	91,855.0
Private-sector jobs, 2000	7,167.5	110,996.0
# change	+ 841.1	+ 19,141.0
% change	+ 13.3%	+ 20.8%
1995-2000		
Private-sector jobs, 1995	6,475.7	97,866.0
Private-sector jobs, 2000	7,167.5	110,996.0
# change	+ 691.8	+ 13,130.0
% change	+ 10.7%	+ 13.4%
1995-2003		
Private-sector jobs, 1995	6,475.7	97,866.0
Private-sector jobs, 2003	6,917.7	108,356.0
# change	+ 442.0	+ 10,490.0
% change	+ 6.8%	+ 10.7%
2000-2003		
Private-sector jobs, 2000	7,167.5	110,996.0
Private-sector jobs, 2003	6,917.7	108,356.0
# change	- 249.8	- 2,640.0
% change	- 3.5%	- 2.4%

Source: U.S. B.L.S. establishment data survey, annual averages

Governor's veto. Business is now less optimistic about New York's willingness to change. But the fact that the reforms of the late 1990s were associated with New York's best recent economic performance ought to bolster the arguments for renewing the state's efforts to improve the business climate.

Where we're getting the new jobs

As Table 3 (on page 6) shows, even though its growth has been slower than the nation's, New York State has not utterly failed to produce new jobs during this period. Just where and how those jobs have been created, however, reveals something disturbing about the state's long-term economic direction.

Between 1990 and 2003, New York's job count did indeed grow, by a net of 191,200. The traditional parts of the private-sector economy that we regard as the state's bulwarks, however, both declined; manufacturing lost 368,500 jobs (declining at twice the rate of the nation), while financial activities lost 82,300 (a decline of more than 10 percent, while the nation was *growing* these jobs at more than 20 percent). Jobs in the retail sector were basically flat over the period.

So how did we end up growing overall employment? Where did we *add* jobs? In two sectors, basically: schools, and health care/social assistance.

Local government education jobs — the Bureau of Labor Statistics category that captures jobs in the local elementary and secondary school systems around the state — grew by 71,600 jobs, or 16.7 percent (while school enrollment grew about 12 percent). Jobs in other government categories declined by a net of 59,200, so government overall grew by 12,400 jobs.

The changes in the late 1990s not only made quantifiable improvements in the state's competitive position; they also bolstered the confidence of the business community.

By far the most robust growth was in the broad category that is labeled "health care and social assistance." That sector added 312,800 jobs, a growth rate of 36.8 percent, from 1990 through 2003. These are jobs in hospitals, nursing homes, doctors' offices, residential care facilities, home health-care services, residential treatment facilities, vocational rehabilitation, and the like. Technically these jobs are all in the private sector, not government (employees of municipal hospitals, for example, aren't included in this category). But many of them are funded by taxpayers, through such things as Medicare and Medicaid, and through state, local and federal government contracts for services like home health care for the handicapped, or residential care facilities for mental patients. Most of what isn't paid for by taxpayers is paid by employers through health insurance premiums for their employees; excess health-care costs are an added burden to business even if they aren't entirely borne by taxpayers.

Just how many of the total jobs in this sector are taxpayer-funded, and how many of the *new* jobs are taxpayer-funded, cannot be determined with precision; the figures are not gathered with that issue in mind. But a Public Policy Institute analysis of the component sub-groups of the health care/social assistance category indicates that between 45 percent and 55 percent of the 1.1 million total jobs in this sector in New York are taxpayer-funded. And since some of the fastest-growing subgroups in the sector are those that are heavily taxpayer-funded (home health-care services, up 63 percent; residential treatment facilities, up 78 percent, etc.), it appears reasonable to estimate that at least 40 percent of the

Where did we add jobs? In schools, and in health care and social assistance.

Table 3

Patterns of economic growth, by sector
New York State compared to the nation, 1990-2003

Job #s in 1,000s

	1990	2003	# change	% change	% of total jobs
Total non-farm jobs	8,212.3	8,403.5	+ 191.2	+ 2.3%	
Compared to the nation				*+ 18.7%*	
Manufacturing	983.1	614.6	- 368.5	- 37.5%	7%
Compared to the nation				*- 17.9%*	*11%*
Retail	857.3	856.7	- 0.6	- 0.1%	10%
Compared to the nation				*+ 13.1%*	*11%*
Financial activities	779.4	697.1	- 82.3	- 10.6%	8%
Compared to the nation				*+ 20.6%*	*6%*
Health care & social assistance	850.2	1,163.0	+ 312.8	+ 36.8%	14%
Compared to the nation				*+ 49.4%*	*11%*
Government (all)	1,473.4	1,485.8	+ 12.4	+ 0.8%	18%
Compared to the nation				*+ 17.2%*	*17%*
Local government	1,018.9	1,087.2	+ 68.3	+ 6.7%	13%
Compared to the nation				*+ 26.5%*	*11%*
Local government education	428.1	499.7	+ 71.6	+ 16.7%	6%
Compared to the nation				*+ 30.4%*	*6%*

Source: U.S. B.L.S., establishment data, annual averages

growth in this sector — and perhaps 60 percent, or more — is taxpayer-funded.

So of the total growth in this sector, at least 120,000 of the new jobs, and perhaps as many as 180,000 or more, are being paid for by the taxpayers. Add those to the 12,400 net new jobs in government and it is clear that all, or almost all, of the state's *entire* net job growth of 191,200 from 1990 through 2003 was accounted for by taxpayer-funded jobs.

Government jobs, added to health care and social assistance jobs (both those funded by taxpayers, and those funded by private sources) have risen from 28 percent of all jobs in New York in 1990, to a 2003 average of 32 percent of all jobs. Nationwide, by comparison, these constitute 27 percent of all jobs.

And why it matters where we get them

The fact that a job is funded by the taxpayers, of course, doesn't mean it's a less worthy endeavor than some other job. On the contrary, these jobs in health care and social assistance are providing vital services, often to the most needy in our society. Nor is New York alone in growing this sector of its economy; the sector nationwide actually grew 1.3 times faster than in New York State (but bear in mind that the nation's population grew 13.2 percent during the 1990s, or 2.4 times as fast as New York's population growth of 5.5 percent).

The key questions have to do not with the *worth* of these jobs, but with their *impact*. What does it say about our state's economic future, that about the only growth we've experienced has been in taxpayer-funded jobs? And can we sustain that pattern over the long haul?

The fact is that to a significant extent, creating and sustaining taxpayer-funded jobs has become Albany's *de facto* economic policy.

New Yorkers have caught a glimpse of this in recent years through the tremendous growth in the power yielded by public-sector unions. (As the *Buffalo News* pointed out in an editorial on April 6, six of the 10 top-spending lobbies in Albany are now public-sector or hospital unions.) As these forces steadily control a larger share of the state's economy, they accumulate power and resources that they then use to try to ensure that they become still *larger*.

But it isn't just that these interest groups are powerful; it's almost as though many in Albany have given up hope that anything else can be done about the state's economy. A legislator may feel that she can't do something to preserve jobs in the local machine shop that is threatened by competition from China — but that makes her doubly determined to fight against cuts in Medicaid spending, so there are jobs in the local nursing home.

The catch is that ultimately, as an economic growth policy this will prove self-defeating. New York's private-sector economy is growing slowly in part because the cost of doing business is significantly higher than in competing states. The cost of government (everything from local property taxes, to hospital surcharges on employers) is our state's biggest competitive disadvantage. Taxpayer-supported jobs are totally dependent upon the existence of *taxpayers*. Yet every new taxpayer-supported job makes it that much more expensive to create a new tax-paying job in the private sector.

In the end, there is only one way out of this dilemma. Steadily growing the taxpayer-supported economy at the expense of the tax-*paying* economy is a one-way street leading to permanent decline. New York needs to get back to the business of improving the environment for private-sector, tax-paying businesses.

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