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### Economic Problems of a Mature Economy

David Puryear

Roy W. Bahl

*Georgia State University*, rbahl@gsu.edu

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~~New York State's Economic Crisis~~

~~Jobs, Income, and Economic Growth~~

Proceedings and Commentary from  
the Labor-Management Conference on the  
Business Climate and Jobs in New York State  
Buffalo, New York, November 6-8, 1975

Edited by

Felician F. Foltman and Peter D. McClelland

New York State School of Industrial and Labor Relations  
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PART I. MAJOR ECONOMIC PROBLEMS:  
CURRENT AND PROSPECTIVE

Chapter 2

ECONOMIC PROBLEMS OF A MATURE ECONOMY

David Puryear and Roy W. Bahl

From 1900 to 1960, employment in New York State grew slightly faster than in the rest of the nation, but since 1960 it has lagged substantially behind the national rate. This slowdown in employment growth has created many short-term problems and has serious implications for long-range planning of state policy. This chapter will compare the employment growth trend in New York State to that in the United States as a whole and to those of other geographic regions. These comparisons will provide some perspective on the underlying nature of the growth problem in the state. In the last section in this chapter, we will present the results of a study of the increasing industrial diversification among the states and regions of the United States. These results indicate a trend toward greater diversity among state economies. Several possible explanations for this trend are identified, and the implications for New York State are discussed. Finally, the chapter concludes with a brief survey of the policy alternatives available to the state in light of our conclusions about the long-run nature of the employment problem.

Trends in New York State Employment

After more than half a century of growing slightly faster than the national average, in the last 15 years, employment in New York State has grown significantly more slowly than employment in the rest of the United States. Table 2.1 illustrates this pattern, using employment data for New York and the United States from each decennial Census of Population since 1900. Between 1900 and 1960, New York State employment grew by 129.3 percent, while employment in the United States grew by 120.7 percent. Between 1960 and 1970, however, New York State employment grew by only 8.7 percent, compared to 16.4 percent in the United States as a whole.

It is worth noting that employment data collected by the Census Bureau are based on place of residence and therefore reflect the employment of New York State residents, not total employment in the state. The number of out-of-state residents who work in New York

Table 2.1: Long-Run Employment Growth  
in New York State and the  
United States

	New York State		United States	
	Employment	Growth (in percent)	Employment	Growth (in percent)
1900	2,877,822	-	29,287,070	-
1910	4,003,844	39.1	38,167,336	30.3
1920	4,503,204	12.5	41,614,248	9.0
1930	5,523,085	22.7	48,829,920	17.3
1940	4,974,518	-9.9	45,166,083	-7.5
1950	5,548,299	11.5	55,788,150	13.5
1960	6,599,462	19.0	64,639,252	13.7
1970	7,172,117	8.7	77,308,792	16.4

Sources: U.S. Bureau of the Census, Census of Population (Washington, D.C.: Government Printing Office, various years).

exceeds the number of New York residents who work in other states by a substantial margin, primarily because of commuting to New York City from New Jersey and Connecticut. Therefore these data understate the number of jobs in the New York economy. Despite this, the growth rate of employment of New York State residents is a reasonable proxy for the relative health of the New York State economy. When employment of residents is rising, total employment in the state is probably rising also.

Since 1970 the employment growth gap between New York State and the rest of the nation has continued; in fact the gap has widened, since the New York State economy has virtually stopped growing. In Table 2.2, data from the U.S. Bureau of Labor Statistics and the New York State Department of Labor are used to show that between 1970 and 1974 national employment grew by 11 percent, while New York State employment actually declined by 1 percent. New York State employment grew more slowly or declined faster than U.S. employment in every year of this period. These statistics are based on employment locations, which means they represent total employment in the state, not just employment of New York residents.

The significance of this slower growth in employment is made clear by a comparison of the number of jobs that exists with the number New York State would have had if its employment had grown at the national rate. As Table 2.3 shows, the employment New York State would have had if it had grown at the national rate is much greater than its actual employment. Between 1960 and 1965 the difference in employment growth rates between New York State and the United States meant a loss to the

Table 2.2: Trends in United States and  
New York State Employment

	New York State		United States	
	Employment	Growth (in percent)	Employment	Growth (in percent)
1970	7,154,800	-	70,593,000	-
1971	7,005,200	-2.1	70,645,000	0.1
1972	7,022,400	0.2	72,764,000	3.0
1973	7,124,500	1.5	76,833,000	5.6
1974	7,084,800	-0.6	78,334,000	2.0
1970-74	-	-1.0	-	11.0

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, various issues; New York State Department of Labor, Employment Review, various issues.

Table 2.3: New York State Employment Growth Gap,  
1960-74

	Actual Employment	Projected Employment*	Cumulative Employment Growth Gap
1960	6,181,900	-	-
1965	6,518,700	6,931,764	413,064
1970	7,154,800	8,046,392	891,592
1974	7,084,800	8,929,081	1,844,281

\* 1960 New York State employment projected at U.S. employment growth rate.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, various issues; U.S. Bureau of Labor Statistics, Employment and Earnings, 1939-72 (Washington, D.C.: Government Printing Office, 1974).

state of more than 400,000 potential jobs. Between 1965 and 1970 the state lost another 475,000 potential jobs because its employment grew at a slower rate than employment in the rest of the nation. During the first four years of the 1970s, when the economy of New York became stagnant and the growth gap between New York and the nation widened, the state lost nearly a million potential jobs. If the state had increased its employment at the national rate between 1960 and 1974, it would have had more than 1.8 million additional jobs by 1974. If even part of this gap were eliminated, the state economy would be in a much healthier condition than it is at present.

The stagnation in employment growth in New York State since 1970 has serious implications for the future of the state economy. The lack of employment growth creates problems for employers and employees in the state because it tends to reduce the available labor supply as well as the opportunities for employment. In a fast-growing economy, employers can be confident of the availability of the new employees they need to expand existing facilities or to begin operating in new facilities. In a fast-growing economy, job seekers can also be confident of the availability of suitable positions among the many new opportunities. This situation changes when the economy of an area is growing very slowly or not at all. The smaller number of new positions reduces the probability that workers will find employment appropriate to their individual skills and abilities. This naturally reduces the number of job seekers in the slower-growing economy, which in turn makes it more difficult for employers to find new employees with the skills and abilities they require for new positions. Thus the two sides of the labor market reinforce each other in further slowing economic growth in slow-growing areas. This vicious circle is difficult to break, particularly when the initial slowdown in economic growth is based on a fundamental decline in the competitive advantages of the local economy.

#### Comparative Employment Growth

Part of the growth gap of employment in New York State in relation to employment in the rest of the nation is attributable to a general slowing of growth throughout the Northeast. Between 1960 and 1972, employment in the Northeast grew more slowly than employment in any other part of the country. As Table 2.4 indicates, employment in the Northeast grew only 19.3 percent during 1960-72, compared to 28 percent for the North Central region, 44.9 percent for the West, and 53.6 percent for the South. New York State, by comparison, grew even more slowly than the Northeast, increasing its employment by only 13.6 percent during this 12-year period. Thus, although New York State has a more serious problem than the other Northeastern states, employment in the rest of the Northeast increased by only 23.1 percent between 1960 and 1972, a rate that is still well below those of the other regions and well below the national rate of 34.2 percent. Therefore, part, but not all, of the problem in New York may be attributed to its location in the Northeast.

Table 2.4: Employment in the United States and Its Regions  
Relative to That of New York State, 1960-72

	Employment		Growth (in percent)
	1960	1972	
United States Total	54,234,000	72,764,000	34.2
Northeast	15,612,500	18,633,300	19.3
Northeast without New York State	9,430,600	11,610,900	23.1
North Central	15,836,500	20,270,900	28.0
South	13,707,300	21,060,800	53.6
West	8,336,100	12,075,900	44.9
New York State	6,181,900	7,022,400	13.6

Source: U.S. Bureau of Labor Statistics, Employment and Earnings, 1939-72 (Washington, D.C.: Government Printing Office, 1974).

Another important reason for the comparatively slow growth in employment in New York State is the presence in the state of the largest employment center in the nation, New York City. There are more than twice as many employees in New York City as in Chicago, the next-largest employment center. Only within the last three years has employment in the rest of New York State exceeded employment in New York City. The contribution of New York City to the state employment growth problem is significant not only because the city accounts for approximately half of state employment, but also because the pattern of employment growth in recent years has been drastically different in New York City than in the rest of the state. Employment in New York City grew relatively slowly during most of the 1960s, and in the early 1970s it declined dramatically. From a peak of just under 3.8 million in 1969, New York City employment declined by 11.2 percent, to less than 3.4 million in June 1975. During the same period, employment in the nation as a whole rose by 8.3 percent. Table 2.5 presents the comparative growth rates for New York City and the rest of New York State from 1960 to 1974. Employment growth in the city was much slower than in the rest of the state, and because the city accounts for roughly half of total employment in the state, it affects state employment data significantly. The growth rate of New York City is more than 10 percent lower than that of the rest of the state in each of the periods presented in Table 2.5, and the difference over the entire period from 1960 to 1974 is nearly 30 percent, a loss of 2.3 percent of employment in New York City, compared to a gain of 27.2 percent in the rest of the state. During 1960-72, New York City employment grew by .6 percent, while the rest of the state experienced an increase in



Table 2.5: Employment Growth in New York City  
and the Rest of New York State, 1960-74

Year	New York City		Rest of State		State Total	
	Employment	Growth (in percent)	Employment	Growth (in percent)	Employment	Growth (in percent)
1960	3,538,400	-	2,643,500	-	6,181,900	-
1965	3,577,300	1.1	2,941,400	11.3	6,518,700	5.5
1970	3,744,800	4.7	3,410,000	15.9	7,154,800	9.8
1974	3,458,400	-7.6	3,626,400	6.3	7,084,800	-1.0
1960-74	-	-2.3	-	27.2	-	14.6

Sources: U.S. Bureau of Labor Statistics, Employment and Earnings, 1939-72 (Washington, D.C.: Government Printing Office, 1974); New York State Department of Labor, Employment Review 28 (May 1975).

employment of 31 percent, nearly as large as the national average for this period of 34.2 percent (see Table 2.4) and well above the 23.1 percent growth rate of the rest of the Northeast.

Such a huge discrepancy in the growth rates of the different parts of the state reduces the state growth rate to a weighted average of two very different growth patterns. Such an average can be misleading, since it does not reflect what is really happening in either part of the state. It should be noted that part of the employment growth in the rest of the state is occurring in the suburbs of New York City, which are highly dependent on proximity to the city. In other words, the existence of the city contributes to the growth of the rest of the state regardless of the growth rate of the city itself.

In New York City there have been employment reductions by firms remaining in the city and also reductions in the number of firms. In fact, in 1967-72 a monthly average of 231 more firms outside the service sector closed their doors than started business in the city. This decline in the number of employers was spread across all sectors of activity except services. Large manufacturing establishments, those with 20 or more employees, went out of business at a net rate of nearly one a day during this entire five-year period. Manufacturing establishments of all sizes declined by 16 percent between 1967 and 1972, while wholesale firms declined by 12 percent and retail firms by 9 percent. Only the number of service establishments increased, by 25 percent, although their average size fell so much that service employment rose only 6 percent between 1967 and 1972. Since 1972 even service employment has fallen, so it is virtually certain that the number of service establishments has also declined.

An important part of the New York City employment stagnation is caused by the fact that it is a central city in a period of rapid suburbanization. Central cities throughout the nation have experienced relatively slow employment growth in recent years. Older central cities, particularly those in the Northeast, have fared worse than the newer Southern and Western central cities, but all central cities have experienced some employment suburbanization as industries have moved to newer, more spreadout facilities closer to their suburban employees.

It is difficult to document these central city employment trends because no public or private agency collects employment data for cities. Employment data are available for central city residents from the Census of Population; for labor market areas, which are similar to Standard Metropolitan Statistical Areas (SMSAs), from the U.S. Bureau of Labor Statistics; and for nongovernmental, nonproprietor employment in counties, from County Business Patterns.<sup>[1]</sup> Thus, to compare the employment growth rates of the central cities, we have chosen ten central cities that are coterminous with counties. This has enabled us to use County Business Patterns to determine central city employment, but it limits our sample of central cities to these ten and excludes government employment and proprietorships from the data. Nonetheless, the data are comparable among the ten cities, and the employment categories excluded from County Business Patterns do not seem to bias the growth rates significantly.

Table 2.6 presents the employment data for these ten central cities for 1965 and 1972. In this period U.S. employment rose 19.7 percent, while only three of the ten central cities had growth rates as high as this national average. These three cities, Denver, Jacksonville, and Nashville, are among the four smallest cities in the table, and all three have relatively large shares of their total metropolitan employment within the central city. In a sense these cities include their own suburbs, thus avoiding many of the growth problems of the central cities in larger metropolitan areas or in areas that include a smaller fraction of the total metropolitan employment in the central city. These three fast-growing cities are also located in the South and West, relatively fast-growing regions.

Three of the cities in Table 2.6 lost employment in the 1965-72 period. These three cities, New York, Philadelphia, and St. Louis, include the largest two cities in the table and the fifth largest. They also contain relatively low proportions of their total metropolitan

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1. U.S. Bureau of the Census, Census of Population (Washington, D.C.: Government Printing Office); U.S. Bureau of Labor Statistics, Employment and Earnings (Washington, D.C.: Government Printing Office); U.S. Bureau of the Census, County Business Patterns (Washington, D.C.: Government Printing Office).

Table 2.6: Employment Growth in Ten Metropolitan Central Cities, 1965-72

	1965	1972	Percent of Growth	1972 Central City/SMSA Employment Ratio
Baltimore	345,364	357,928	3.6	61
Denver	199,299	271,695	36.3	63
Indianapolis	267,170	308,782	15.6	89
Jacksonville	126,505	173,613	37.2	100
Nashville	139,092	183,320	31.8	90
New Orleans	212,875	235,856	10.8	75
New York City	3,120,766	3,116,479	-0.1	63
Philadelphia	731,993	712,235	-2.7	49
St. Louis	357,586	350,852	-1.9	47
San Francisco	350,671	385,379	9.9	40
U.S. Total	60,815,000	72,764,000	19.7	-

Sources: U.S. Bureau of the Census, County Business Patterns, 1965 (Washington, D.C.: Government Printing Office, 1966); U.S. Bureau of the Census, County Business Patterns, 1972 (Washington, D.C.: Government Printing Office, 1973).

employment, and all three are in the Northeastern or North Central regions. Ten cities do not provide a large enough sample for making generalizations, but these results tend to support the contention that central cities are growing relatively slowly, especially large central cities in the Northeastern and North Central regions. As the largest central city in the nation and one that is located in the Northeast, New York City must bear a double burden in terms of recent trends in central city and regional growth rates.

This double burden is perhaps best illustrated by comparing the growth rates of employment in the central counties of large metropolitan areas (those with more than 1 million population) in the various geographic regions of the country. Table 2.7 presents the results of such a comparison using employment data from the Census of Population for the years 1960 and 1970. During this decade employment of New York City residents fell 3.5 percent, while employment of residents in other Northeastern central counties rose 12.2 percent. Thus the total Northeastern growth in large central counties was 3.9 percent. Central counties in the North Central region grew by 5.9 percent; those in the South grew by 21.3 percent; and Western central counties grew by 27.9 percent. The national average rate of growth for these large central counties between 1960 and 1970 was 12.1 percent. Thus, although the aggregate growth

Table 2.7: Employment Growth in New York City and Other Central Counties over 1 Million Population, by Region, 1960-70

Region of Central Counties	1960	1970	Growth (in percent)
New York City	3,307,548	3,191,370	-3.5
Northeast	6,252,418	6,493,898	3.9
Northeast without New York City	2,944,870	3,302,528	12.2
North Central	5,671,163	6,004,714	5.9
South	2,010,346	2,438,704	21.3
West	4,420,136	5,651,320	27.9
All Central Counties over 1 Million	18,367,257	20,588,636	12.1
U.S. Total	64,639,252	77,308,792	16.4

Sources: U.S. Bureau of the Census, Census of Population, 1960 (Washington, D.C.: Government Printing Office, 1961); U.S. Bureau of the Census, Census of Population, 1970 (Washington, D.C.: Government Printing Office, 1972).

rate for Northeastern central counties was below the national average, disaggregation indicates that only New York City and the large central counties in the North Central region grew more slowly than the national average rate. Employment of residents in the other Northeastern central counties grew at just about the national average, while the South and West experienced above-average growth in these counties. The U.S. growth rate of 16.4 percent, compared to the national average for large central counties of 12.1 percent during 1960-70, illustrates the relatively slower growth of the central part of large metropolitan areas as suburbanization progresses. If these data were limited to central cities, which are generally smaller than central counties, the growth rates would be lower still relative to the U.S. rate of 16.4 percent. This table suggests that the employment problem of New York City is more severe than it would be if the city were located in the South or West or if it were not a central city; but it is clear that the problem of New York City is more severe than the same problem in the central areas of other large metropolitan areas in the Northeastern and North Central regions.

A major factor in the employment growth problem of New York City and New York State is their changing mix of activities. Manufacturing employment is growing very slowly, while service industry employment is expanding at a rapid rate. This pattern is apparent from the data in Table 2.8, which compares employment growth in manufacturing and services between 1965 and 1972 in New York State, New York City, the rest of New York State, the four major regions of the country, and the United States as a whole. The pattern that emerges is familiar: New York City lags farthest behind; the Northeastern and North Central regions are growing more slowly than the nation as a whole; and the South and West are growing at above-average rates. The contrast between manufacturing and services is consistent, however; manufacturing grew only 4.8 percent nationally between 1965 and 1972, while service employment grew 35.5 percent. During this period total employment in the United States grew 19.7 percent.

The same pattern of slow growth or decline in manufacturing employment and relatively rapid service employment growth appears among the central cities included in Table 2.9. Of these six central cities, only Denver showed any significant growth of manufacturing employment between 1965 and 1972, while New York City, Philadelphia, St. Louis, and San Francisco all showed substantial declines in manufacturing employment. All six cities showed substantial increases in service employment between 1965 and 1972, although the national recession in the years since 1972 may have reduced the growth rate of services. It is interesting to note that manufacturing employment is less than service employment in the two Western cities, Denver and San Francisco, while in the other four cities manufacturing employs more workers than services. This difference in employment mix also corresponds to overall growth rates (see Table 2.6) since Denver and San Francisco grew noticeably faster than the other four cities in Table 2.9.

New York State is particularly vulnerable to suburbanization because a substantial fraction of the suburban growth of New York City is outside New York State in Connecticut and New Jersey. Although the New York City suburbs have not grown as fast as the suburbs of the other cities in Table 2.10, they have grown considerably faster than the city itself. Between 1965 and 1972, suburban employment around New York City grew 16.3 percent, while employment in the city itself fell .1 percent. Other metropolitan areas show an even greater contrast between central city and suburban employment growth rates. The four other cities appearing in Table 2.10 all have suburban growth rates in excess of 24 percent, in contrast to central city employment growth ranging from -2.7 percent to 9.9 percent.

The impact of out-of-state suburbanization on New York State growth becomes clearer when the suburbs of New York City are disaggregated as shown in Table 2.11. This table indicates that between 1965 and 1972 more than half of the suburban employment growth occurred within New York State, but an increase of more than 140,000 jobs, or about 44

Table 2.8: Employment Growth in Manufacturing and Service Industries, New York State and Regions of United States, 1965-72

Region	Manufacturing			Services		
	1965	1972	Growth (in percent)	1965	1972	Growth (in percent)
New York State	1,838,100	1,604,700	-12.7	1,138,400	1,392,600	22.3
New York City	865,100	678,100	-21.6	681,100	773,200	13.5
New York State without New York City	973,000	926,600	- 4.8	457,300	619,400	35.5
Northeast	5,623,000	5,208,300	- 7.4	2,632,500	3,385,700	28.6
North Central	5,979,000	6,105,500	2.1	2,351,800	3,151,800	34.0
South	4,330,400	5,253,000	21.3	2,189,000	3,199,000	46.1
West	2,118,100	2,361,300	11.5	1,542,600	2,211,100	43.3
U.S. Total	18,062,000	18,933,000	4.8	9,087,000	12,309,000	35.5

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, various issues; U.S. Bureau of Labor Statistics, Employment and Earnings, 1939-72. (Washington, D.C.: Government Printing Office, 1974).

Table 2.9: Employment Growth in Manufacturing  
and Service Industries, Selected Central  
Cities, 1965-72

	Manufacturing			Services		
	1965	1972	Growth (in percent)	1965	1972	Growth (in percent)
Baltimore	107,502	109,048	1.4	63,134	84,514	33.9
Denver	36,796	45,661	24.1	43,384	61,910	42.7
New York City	899,503	957,388	-15.8	655,003	738,378	12.7
Philadelphia	266,389	221,088	-17.0	143,163	164,441	14.9
St. Louis	133,000	121,886	- 8.4	64,801	77,933	20.3
San Francisco	58,404	53,224	- 8.9	74,116	96,550	30.3

Sources: U.S. Bureau of the Census, County Business Patterns, 1965 (Washington, D.C.: Government Printing Office, 1966); U.S. Bureau of the Census, County Business Patterns, 1972 (Washington, D.C.: Government Printing Office, 1973).

Table 2.10: Employment Growth in Selected Central Cities  
and Their Suburbs, 1965-72

	Central City			Suburbs		
	1965	1972	Growth (in percent)	1965	1972	Growth (in percent)
Baltimore	345,364	357,928	3.6	184,521	243,773	32.1
New York City	3,120,766	3,116,479	-0.1	2,135,339	2,484,169	16.3
Philadelphia	731,993	712,235	-2.7	588,220	732,816	24.6
St. Louis	357,586	350,852	-1.9	319,780	405,499	26.8
San Francisco	350,671	385,379	9.9	469,502	583,659	24.3

Sources: U.S. Bureau of the Census, County Business Patterns, 1965 (Washington, D.C.: Government Printing Office, 1966); U.S. Bureau of the Census, County Business Patterns, 1972 (Washington, D.C.: Government Printing Office, 1973).



Table 2.11: Employment Growth in New York City  
Suburbs, by County, 1965-72

	1965	1972	Growth (in percent)
<b>New York</b>			
Nassau	313,827	387,076	23.3
Putnam	4,111	5,880	43.0
Rockland	31,702	45,419	43.3
Suffolk	126,375	184,271	45.8
Westchester	220,250	251,475	14.2
<b>Total</b>	<b>696,265</b>	<b>874,121</b>	<b>25.5</b>
<b>New Jersey</b>			
Bergen	220,179	290,965	32.2
Essex	340,161	342,166	0.6
Hudson	204,862	203,580	- 0.6
Morris	70,593	93,684	32.7
Passaic	144,536	158,333	9.6
Somerset	38,694	48,465	25.3
Union	195,432	218,693	11.9
<b>Total</b>	<b>1,214,457</b>	<b>1,355,886</b>	<b>11.7</b>
<b>Connecticut</b>			
Fairfield	224,617	254,162	13.2
<b>New Jersey and Connecticut</b>	<b>1,439,074</b>	<b>1,610,048</b>	<b>11.9</b>
<b>Total</b>	<b>2,135,339</b>	<b>2,484,169</b>	<b>16.3</b>

Sources: U.S. Bureau of the Census, County Business Patterns, 1965 (Washington, D.C.: Government Printing Office, 1966); U.S. Bureau of the Census, County Business Patterns, 1972 (Washington, D.C.: Government Printing Office, 1973).

percent of the New York City suburban employment growth, occurred in Connecticut and New Jersey. Over a longer time period the total number of jobs would be larger. Most of these jobs would not have located where they did if New York City did not exist. Proximity to the city is an important aspect of their locational choice. If these suburban jobs had been included in the employment growth figures for New York State, the employment growth rate from 1965 to 1972 would have risen from 7.7 percent to 9.9 percent. It is worth noting that if Essex County, which includes the city of Newark, and Hudson County, which includes Jersey City, are excluded from the suburban growth figures, the growth rate of the New York City suburbs rises from 16.3 percent to 21.9 percent, considerably closer to the other suburban growth rates appearing in Table 2.10. It is not possible to determine the precise impact of the relatively slow suburban growth rates in the New York metropolitan area on the employment growth of New York City, but the overall growth of the metropolitan area does have an important effect on the economic health of the central city. New York City provides a variety of services to many suburban firms, and suburban employment growth generates additional jobs in the central city as well.

In sum, it appears that since 1960 New York State has been growing more slowly than the United States and the rest of the Northeast, as well as the other regions of the country. Since 1970 the growth gap between the nation and the state has widened, but most of this gap is attributable to the decline in employment in New York City. Although employment in New York City fell by a smaller percentage between 1965 and 1972 than employment in at least two other central cities, New York does have a serious long-run growth problem. The location of New York City at the heart of a large metropolitan area in the Northeast is responsible for part of its poor growth figures, but New York City has lagged behind even other large central counties in the Northeast. Both the city and state trends fit the national pattern of stagnation in manufacturing employment and rapid growth in service employment, although in these comparisons, as elsewhere, the city and state decline faster and grow more slowly than other cities, states, and regions. Finally, the employment growth rate of New York State is affected by the suburbanization of the New York City metropolitan area, which shifts some employment growth to Connecticut and New Jersey. These trends describe the pattern of employment growth in New York State and provide a perspective for evaluating explanations of the relatively poor economic performance of the state since 1960.

#### The Trend toward Diversity

A basic factor in the economy of any state is the extent to which it either specializes in certain kinds of industries or possesses a diverse mixture of economic activities. The specialization-diversity characteristic is based on the nature of the natural resource base of the state, on its geographic location relative to transportation routes, on the skills and education of its labor force, on its level of

urbanization, and on a number of other economic attributes. It is our contention in this chapter that there has been a nationwide decline in recent decades in the extent to which local, state, and regional economies are specialized in particular types of industries. This decline is reflected in the greater economic diversity and self-sufficiency of geographic areas. We believe New York State has suffered from this trend because it is no longer one of a small number of places that offer a broad diversity of economic activities and services; it is now one of many such places, and the resulting loss of comparative advantage has significantly hindered the economic growth of the state.

There are a variety of ways of measuring this kind of industrial specialization and its decline over time. The ideal way of measuring specialization among states would be by using detailed information on interstate flows of goods and services. This would tell us precisely which activities of a state represented specialization for the purpose of interstate or international trade. This information is not available, unfortunately, and we must settle for a less sophisticated measure of specialization. We have chosen the relatively simple method of comparing the distribution of employment among industries in a state or region with the national distribution of employment among industries.

Perhaps the best way to introduce the measure of specialization that will be used in this chapter is to present an illustrative example. Table 2.12 presents a sample calculation of this index of specialization for New York State in 1970. It shows the employment and percentage of employment within New York State, by industry group, and contrasts these percentages with those obtaining employment in the rest of the United States. The percentages for the rest of the United States are calculated from total U.S. employment, less New York State employment, for each industry group. If the percentage for New York, less the percentage for the rest of the United States, is positive, it is written in the last column of the table. These positive differences represent the extent to which specific industry groups in the state are specialized relative to the rest of the United States. The sum of these numbers is defined as the index of specialization. It represents the percentage of workers who would have to be shifted out of industries in which the state specializes and into other industries in order to make the state employment distribution identical to that of the rest of the United States. This index has a lower limit of zero if the state is in fact identical to the rest of the country and an upper limit of 100 percent, which would only be theoretically possible if the state were completely specialized in industries that employed no workers in the rest of the country. If this index value is large for a given state, then that state is highly specialized. If the index value is relatively small, then it represents a diverse, nonspecialized economy. If the index declines over time, it indicates a decline in specialization and an increase in diversity.

Table 2.12: Illustrative Calculation of Specialization  
Index, New York State, 1970

Industry Group	New York Employment	Percentage of New York Employment	Percentage of Employment in Rest of U.S.	Positive Differences
Manufacturing	1,760,600	24.6	28.0	-
Transport and utilities	500,600	7.0	6.3	0.7
Wholesale and retail trade	1,445,700	20.2	21.3	-
Finance, insurance, and real estate	595,600	8.3	4.9	3.4
Government	1,217,700	17.0	17.9	-
Services and other	1,634,500	22.9	21.6	1.3
Total	7,172,000	100.0	100.0	5.4

Source: U.S. Bureau of Labor Statistics, Employment and Earnings, 1939-72 (Washington, D.C.: Government Printing Office, 1974).

We have calculated indexes of specialization for three separate sets of data: states, regions, and SMSAs. Table 2.13 presents the results for the nine Northeastern states for 1960 and 1970. These calculations are based on employment data from the Bureau of Labor Statistics for the six industry groups identified in Table 2.12. In 1960 the average value of this index for all 50 states was 11.5, but the index values for individual states ranged from 30.9 in Alaska to 2.4 in Maryland. In the Northeast the range extended from 16.8 in Connecticut to 4.0 in New York. This relatively low index value for New York is consistent with our hypothesis that New York is a very heterogeneous economy that has traditionally "specialized in diversity." By 1970 the 50-state average had fallen to 10.1, a decline of more than 12 percent. The range among the 50 states had narrowed somewhat; the Nevada index value of 26.8 was highest, and the Kentucky value of 2.8 was lowest. In the Northeast the range had also narrowed, extending only from 13.0 for Connecticut to 4.9 for Vermont. The New York value was 5.4.

Table 2.13: Indexes of Specialization, Northeastern States and National Averages, 1960-70

	1960	1970
Connecticut	16.8	13.0
Maine	8.4	7.8
Massachusetts	5.8	5.2
New Hampshire	12.1	8.1
New Jersey	9.1	6.3
New York	4.0	5.4
Pennsylvania	8.1	7.9
Rhode Island	9.8	7.6
Vermont	4.1	4.9
Nine-state average	8.7	7.1
U.S. Average	11.5	10.1

Sources: Calculated from data in U.S. Bureau of the Census, Census of Population, 1960 (Washington, D.C.: Government Printing Office, 1961) and U.S. Bureau of the Census, Census of Population, 1970 (Washington, D.C.: Government Printing Office, 1972).

A third set of index calculations was also carried out. Index values were calculated for the 90 largest SMSAs in the United States, using data from the Census of Population that divide employment into 14 industrial groups. These index values were calculated for 1950, 1960, and 1970. The difference in industrial divisions (14 groups rather than 6) and the difference in employment data sources precludes comparisons between these SMSA indexes of specialization and the state and regional indexes reported in Tables 2.13 and 2.14. The trends in the SMSA indexes, however, do provide additional evidence of a decline in specialization in different parts of the country. Table 2.15 presents the SMSA index values for the five largest New York State SMSAs for 1950, 1960, and 1970. All five index values declined over the 20-year period from 1950 to 1970, and their average value fell from 17.1 in 1950 to 11.7 in 1970. The average index value in 1950 for all 90 SMSAs was 19.8; this fell to 15.5 in 1960 and 12.8 in 1970. All of this evidence indicates a substantial and consistent trend toward greater diversity and less specialization in metropolitan, state, and regional economies.

Table 2.14: Indexes of Specialization, United States and Regions, 1960-70

	1960	1970	Change (in percent)
Northeast	7.7	4.8	-37.7
North Central	5.0	5.5	10.0
South	6.5	2.8	-56.9
West	9.2	9.1	- 1.1
U.S. Average	7.1	5.6	-21.1

Sources: Calculated from data in U.S. Bureau of the Census, Census of Population, 1960 (Washington, D.C.: Government Printing Office, 1961) and U.S. Bureau of the Census, Census of Population, 1970 (Washington, D.C.: Government Printing Office, 1972).

Table 2.15: Indexes of Specialization for Standard Metropolitan Statistical Areas in New York State, 1950-70

SMSA	1950	1960	1970
Albany	15.4	9.0	10.1
Buffalo	16.3	11.6	10.4
New York City (SCA)	16.1	12.2	12.5
Rochester	19.4	17.2	16.7
Syracuse	18.4	10.2	9.0
New York State Average	17.1	12.0	11.7
U.S. Average (90 SMSAs)	19.8	15.5	12.8

Sources: Calculated from data in U.S. Bureau of the Census, Census of Population, 1960 (Washington, D.C.: Government Printing Office, 1961) and U.S. Bureau of the Census, Census of Population, 1970 (Washington, D.C.: Government Printing Office, 1972).

The effects of greater local diversity for the New York State economy are substantial. The traditional role of New York as a cosmopolitan economy producing virtually every type of product or service available anywhere has been eroded by competition from a number of other metropolitan areas throughout the country, and the result has been relatively slow growth in the state economy. Note that this loss of comparative advantage is largely independent of the level of change in the New York State index value. It depends on what happens to the index values of other states. This is one reason why it is so difficult for New York State to solve the problem by its own actions.

There are a number of underlying causes of this decline in specialization, and they provide some insights into the nature of the long-run economic problems of New York State and the policies that might be appropriate to deal with them. Perhaps the economic change that has contributed most to the general decline in specialization has been the massive shift of employment into the service industries. Service-producing industries accounted for about 40 percent of total employment in 1929. By 1967 their share of total employment had risen to 55 percent. This affects specialization for several reasons. Many services involve personal contact and are difficult to transport over long distances. Local production is, therefore, economically efficient. As the service sector accounts for an increasing share of economic activity, employment growth shifts from national production centers to local areas. Since services generally have fewer economies of scale in production, there is less incentive to concentrate their production geographically. This also contributes to the decline in specialization as services become more important in the national economy. Finally,

services are less closely tied to natural resource deposits than most other kinds of economic activity. Thus they are free to locate close to their markets, and their geographic distribution will reflect the distribution of the population more closely than most other activities. As the share of employment in service industries rises, this pattern of geographic dispersal applies to a larger share of economic activity.

The increase in the use of trucks for intercity freight has also contributed to the decline in specialization among states and regions. Trucks have a comparative advantage over rail and water transport, but only for relatively short distances. Public policies that encourage the trucking industry, either directly or by restricting competitors, also encourage a shift toward shorter transport distances. This clearly fosters the spread of economic activity to smaller centers serving smaller market areas. Not all activities are affected by this rise in trucking, of course, but those that are affected contribute to the decline in specialization.

There have been several technological changes in recent decades that have provided incentives for a decline in specialization. As technology advances, the number of steps or stages in the production process increases; each successive step is tied less closely to natural resource deposits in fixed locations. As in the case of services, this allows production to locate closer to markets, thereby contributing to the geographic dispersal of economic activity. Technological change also develops alternatives to specific resource deposits by finding substitute inputs, new processes, and new products. This also reduces the reliance on natural resources in fixed locations.

One final cause of the decline in specialization has been the growth of population and income. As population increases, more and more locations reach a threshold size that enables them to support large-scale production in the local economy. This threshold size varies with different commodities, but as growth occurs, more and more activities can be supported on a large enough scale to justify local production. The growth of income has the same effect as population growth, since it also increases local demand for goods and services. As more locations reach these various thresholds, the diversity of their economic activity increases and their specialization and dependence on other areas decrease.

To some extent the slowdown in growth in New York State stems from this process of national diversification, a problem that afflicts all mature economies. The best response to this may be to concentrate on the problem of adjusting to the new reality of slower growth. Recent trends in population growth in the United States suggest that employment growth will be slowing throughout the country in the future, and the national economy will also have to adjust to a slower rate of employment growth. This adjustment is likely to involve changes in the level and mix of public expenditures and in the revenues of the tax system.



It will be necessary to replace planning for future growth with planning for a conversion to a stable or very slow-growing economy. The level of private investment will be much lower than it would be in a more rapidly growing economy. The construction industry may require special attention, since it is heavily dependent on economic growth. This retrenchment has some dangers, because too severe a curtailment of public-sector activities may well exacerbate the growth problem. There are, however, some advantages to the slowdown as well, if the state is able to mobilize its resources to take advantage of the opportunities. The problems of traffic congestion, environmental decay, and housing shortages are three examples of areas in which a period of slow growth, once the state economy has adjusted to it, can provide a real breathing space.

To some extent the New York State growth problem may be the result of characteristics or policies over which the state has control, such as the level of personal or business taxation or the level of certain public services. The importance of these factors, however, does not appear to be major, since in 1960-74 employment outside New York City has grown faster than in the rest of the Northeast and nearly as fast as in the rest of the nation. The more fundamental forces of change that have caused the states and regions to diversify their industrial activities seem to us to provide a better explanation of the long-run economic growth problem in New York State.