New York's Smaller Counties Getting Left Behind

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In the recent midterm elections, Republicans lost the majority in New York's state senate, leaving Democrats in charge of the legislature and governor's mansion. How this impacts the state's economic policies remains to be seen, but both Democrats and Republicans should be open to changing course to prevent the state's smaller counties from falling further behind .

New York is often viewed as having a relatively strong economy, but the state's success is largely due to New York City. From March of 2009 to March of 2018 (latest data available), private sector employment in New York State grew by 15.1%, slightly higher than the entire country's 14.8% growth. But nearly all of this growth occurred in the New York City metropolitan area, as shown in the figure below constructed with data from the Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW).

Private sector employment in the state (blue line) and New York City metro area (orange line) grew substantially over the past nine years, but when counties in the New York City metro area are left out (green line), growth has been relatively flat. When all counties in New York's other big metro areas (Buffalo, Rochester, Syracuse, Albany) are also omitted—leaving 34 of the state's 62 counties—the lack of growth is even clearer (gray line).

Over the nine-year period from March 2009 to March 2018, 14 of New York's 62 counties experienced a decline in private sector employment. None are in the New York City metro area and only three are in any metro area—Orleans and Wayne in the Rochester metro area and Onondaga in the Syracuse metro area. The other eleven counties are more rural, including several counties that lost more than 5% of their private sector employment: Broome, Tioga, Cattaraugus, Chautauqua, and Delaware (see figure below).

Lower private sector employment growth might not be so bad if it was accompanied by relatively strong wage growth in lower wage areas, but that isn't the case in New York. The figure below shows average weekly wage growth (not adjusted for inflation) from March 2009 to March 2018 in the United States and different areas of New York using data from the QCEW.

Average weekly wage growth was nearly 35% in New York County (Manhattan) and over 30% in the country (purple) and New York state (orange). Average weekly wage growth was weakest in the counties in the Buffalo and Syracuse metro areas, along with the counties in the non-metro area portion of New York (red bar) where wages are already low. Average weekly wages in the non-metro area counties ranged from $508 in Hamilton County to $1,420 in Steuben County, both below the $3,248 in Manhattan or $1,523 in Westchester County.

It’s not surprising that in many counties in New York, wage growth is lower than the national average and private sector employment is flat or declining. New York’s economic policies are often categorized as less conducive to economic growth than the policies in many other states.

For example, in the Fraser Institute’s Economic Freedom of North Americarankings New York is last among the 50 U.S. states. It’s also 49th in the Tax Foundation’s State Business Tax Climate index, 41st in the Mercatus Center’s State Fiscal Rankings index, 50th in the Cato Institute’s Freedom in the 50 States index, and 21st out of the 25 large states in the Kauffman Foundation’s Growth Entrepreneurship index. A better rank on these indices is often associated with better economic outcomes, such as faster GDP growth or population growth.

Yet despite these low rankings and contrary to the state’s less populated counties, New York City and the counties around it do pretty well. As we just saw, wage growth is strong in Manhattan and private sector employment is growing throughout the broader metro area.

The success of the New York City metro area compared to the rest of the state is easier to understand once we consider agglomeration economies. Agglomeration economies are the benefits that accrue to workers and firms due to locating next to one another.

Larger labor markets lead to better employee-employer matches, which increases productivity. Information also travels faster in denser labor markets, and these knowledge spillovers also make workers more productive. The variety of consumption options in cities—specialty shops, ethnic restaurants, museums, unique bars—also attract high-skill, productive workers to cities, which further improves the local economy.

These and other agglomeration economies are what drive city growth, and there’s evidence that they also offset some of the negative effects of growth-retarding economic policies such as higher taxes. As the largest city in the country and arguably the most influential city in the world, New York City has very strong agglomeration economies, which allow it to thrive despite New York state’s economic policies.

Because the smaller cities and more rural areas of New York lack the size advantage of New York City, they are less able to offset the economic policies enacted by the state. The result is a divided economy with a few high-density, relatively successful areas surrounded by less successful and more rural areas.

In many ways, New York’s economic situation is like the country’s. Nationally, large cities on the coasts, along with a handful of inland cities, have thriving local economies that are responsible for a lot of the country’s economic growth. Meanwhile, many smaller communities are not doing as well. This wouldn’t be much of an issue if people moved to the more successful areas, but for a variety of reasons that’s currently not the case.

New York City’s ability to overcome its state’s economic policies may be one reason why many of its residents favor policies that emphasize redistribution rather than economic growth. From their position, it appears that economies can thrive regardless of tax rates or levels of regulation. But that’s typically not the case in other parts of New York and the rest of the country that lack New York City’s advantages, and in an increasingly interconnected world high taxes and onerous regulation put the non-New York Cities at a competitive disadvantage.

State and federal policymakers should keep both urban and rural areas in mind when crafting economic policy. This doesn’t mean subsidizing some areas at the expense of others, but rather carefully considering how policies impact different areas differently. If they don’t, they risk harming and alienating a substantial portion of their constituency.