Commentary

*Henry J. Raimondo**

My comments are motivated by the research papers of Jonathan McCarthy and Charles Steindel, "National and Regional Factors in the New York Metropolitan Economy," and Kenneth N. Kuttner and Argia M. Sbordone, "Sources of New York Employment Fluctuations." These two papers are generally well conceived, methodologically sound, and thorough. The relationship between the performance of the national economy and that of the regional economy (in this case the New York metropolitan economy) is certainly not a new line of inquiry among regional economists, but it is an enduring and vital one.

More important, understanding the national-regional relationship has implications far beyond the concerns of regional economists. Households, business managers, and public managers do not generally operate in the macroeconomy, but they operate very much in the regional economy. Households depend on how national economic performance translates into regional employment, income, and spending. Business managers who develop corporate financial plans and public managers who craft revenue forecasts and balance public budgets need to predict with some reliability the regional fallout from national economic trends.

*Henry J. Raimondo is a professor of public policy in the Eagleton Institute of Politics, Rutgers University.

The National-Regional Economic Relationship

Like almost every relationship, the national-regional economic relationship is a complex, ever-changing one. The national economy influences the activity of the regional economies in varied and uneven ways. For example, interest rate changes and international trade agreements such as the North American Free Trade Agreement (NAFTA) or the latest round of the General Agreement on Tariffs and Trade (GATT) affect the different economic regions of the United States in different ways. In turn, developments in the regional economies obviously begin at the subnational level and ripple through the macroeconomy, gaining or losing momentum, until they manifest themselves in the national economic performance. For example, corporate restructuring in the banking, the biomedical complex, and the telecommunications industries and the loss of manufacturing jobs can drain a region of its economic vitality. In time, the diminished regional economic activity shows itself in national employment, income, spending, and international trade statistics.

As demonstrated in these two papers, a review of the relevant literature reveals several conditions that shape the national-regional connection. At least two conditions are pertinent to the New York metropolitan area's case: *the industrial structure of the region* and *the contribution of international trade to the region.*

The industrial structure of the region refers to the industry mix within the region—for example, the division among manufacturing; services; wholesale and retail trade;

finance, insurance, and real estate (FIRE); transportation, communications, and public utilities; and construction—and the stage of the product cycle in which each one of these industrial sectors finds its principal firms. This circumstance is especially important for the New York metropolitan area's economy. The changes and the pace of change in the region's industrial mix put the region at the forefront of the industrial transformation from manufacturing to services.

The New York metropolitan economy is also distinguished by the significant role of international trade. As one of the nation's most globally involved regional economies, with more than \$142.2 billion worth of merchandise trade (excluding gold) in 1995, the New York metropolitan economy surges and flags in part as a result of international economic developments. Disappointing growth in Western Europe, a sluggish recovery in Japan, and economic uncertainty in the Middle East may curb U.S. economic growth but will likely harm the New York metropolitan economy far more.

Like the crab in Barbara Kingsolver's *High Tide in Tucson*, which moves to the tides of the Caribbean even though it now lives in Tucson, Arizona, regional economies in the United States long ago established their own economic identity and pace of economic activity. Sometimes the nation and the region move in step, with the strengths (or weaknesses) of one amplifying the strengths (or weaknesses) of the other. And sometimes the nation and the region move out of step, with the strengths (or weaknesses) of one masking the weaknesses (or strengths) of the other. For example, the national recovery from 1992 to the present has provided little immediate help to the California economy, while the Seattle, Washington, and Las Vegas, Nevada, regional economies far outperformed the national economy. The popular economics and business media over the years have offered several attention-grabbing phrases to describe the dependent/independent nature of regional economies: sunbelt versus frostbelt economies, bicoastal economies, Joel Garreau's nine nations of North America, and the like.

Clearly, national-regional economic relationships are usually in flux, always evolving, and rarely stable. With this observation in mind, the McCarthy–Steindel and Kuttner–Sbordone papers capture the national-regional economic relationship at several moments in time. What do these papers tell us about this dynamic relationship?

THE MCCARTHY–STEINDEL AND KUTTNER–SBORDONE PAPERS

Jonathan McCarthy and Charles Steindel's paper, "National and Regional Factors in the New York Metropolitan Economy," develops econometric evidence that supports the description offered above. The paper can be summarized in four main points:

- The New York metropolitan region is generally dependent on the performance of the national economy.
- A look at employment trends offers a different picture of the region than a look at income trends. Recent employment growth is discouraging, while recent income growth is more encouraging. This divergence suggests that the type of jobs that the region is generating contributes to the income disparities in the region.
- The national-regional dependency relationship has changed from the 1970s to the 1990s. In the 1970s, the national economy was the catalyst for the regional recession, while the regional economy prolonged its duration. In the 1990s, there was a switch. The regional economy was the catalyst for the recession, while the national economy prolonged its duration.
- Last, the New York metropolitan economy is now *more dependent* on the national economy than it has been in some time.

Kenneth Kuttner and Argia Sbordone's paper, "Sources of New York Employment Fluctuations," contributes additional empirical evidence to the discussion. The authors make four points, two of which are similar to the McCarthy–Steindel results:

- *Again*, the New York metropolitan economy is dependent on developments in the U.S. economy.
- *Again*, there are exceptions to this dependent national-regional relationship. For example, in the mid-1970s, the New York metropolitan economy stagnated, while the U.S. economy prospered. Then in the early 1980s, the regional economy outperformed the national economy.

- Region-specific factors (neither national factors nor industry-specific factors) such as the regulatory and business environment, the cost structure of the region, and the quality of the work force broke the national-regional dependency relationship in the mid-1970s. Industry-specific factors in the FIRE sector broke the national-regional dependency relationship in the early 1980s.
- At this time in the "on again, off again" national-regional dependency relationship, the New York metropolitan region is *less closely tied* to the nation than it has been in some time.

This last point appears to place the two papers at odds with each other on the closeness of the national-regional economic relationship as the economy heads into the second half of the 1990s. Keep this observation in mind.

Another dimension of this analysis goes beyond the objective of these two papers, but it deserves (and has recently received) research attention. The relationship between the region's core economy and the national economy may (and likely does) differ from the relationship between the region's outer-ring economies and the national economy. In fact, that difference may be growing over time. For example, the New York City economy may have less in common with the national economy than do the economies of the region's outer rings in Northern New Jersey, Long Island, and the New York suburbs (that is, Westchester and Rockland). If that is so, then households, business planners, and public managers may be making very different resource decisions within the region, depending on their locational concerns. In addition, cooperation within the region to promote economic development plans with a regional perspective may be met with resistance in different parts of the region. For example, infrastructure investment to support the region's core economy may not be perceived as in the interests of the outer-ring economies if they are outperforming the core economy.

A Bet on the Future

The McCarthy–Steindel and Kuttner–Sbordone papers provide evidence that the relationship between the national and regional economies has evolved and changed over the past twenty-five years. The papers appear split on the closeness of the national and regional economic connection at this point in time. Clearly, the industrial structure and the role of international trade, among other factors, make the stability of the relationship uncertain as the region moves into the late 1990s.

With the growing possibility of a national recession in late 1997 or early 1998 (or whenever a recession visits the national economy), what is the likely impact on the New York metropolitan economy? To make matters interesting, let us pose the issue as a bet. A close relationship between the nation and the region would predict a looming recession for the region as the U.S. economy falters. Certainly, the chronic decline in manufacturing, the continued restructuring of corporate headquarters, the volatility of the FIRE sector, and the unexplainable regional retail sales activity support a recession initiated at the national level and prolonged at the regional level. So, do you place your bet on national recession leading to regional recession?

Alternatively, a loose relationship between the nation and the region would predict a slight recession (or even no recession) for the region. Certainly, the industrial diversification within the region (for example, among others, hi tech, entertainment, and tourism), the upswing in the FIRE sector (the unpredictable FIRE sector falls on both sides of the analysis), and the globalization of the regional economy support a strong regional economy that is able to resist a national recession. So, do you place your bet on the regional economy sustaining itself in the face of a national recession?

Like all well-done, thorough research, the two papers provide much information but little guidance about which bet to take. That is probably asking too much. Not even racing forms for gamblers do that. Now back to the question at hand. Where do you place your bet? Relying on a loose relationship between the national and regional economies, I am wagering on the strength of the regional economy to resist any national recession in the near term. Are there any takers?

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