

# Could New York Let Upstate Be Upstate?

*Upstate's economy is in trouble. Part of the problem is 'made in New York.' And more freedom might be part of the solution.*

Is Upstate New York going the way of Appalachia?

As recently as the 1970s, the question would have seemed absurd. Since Erie Canal days, Upstate New York had led the nation's economic development. It entered the second half of the 20<sup>th</sup> Century with a huge and highly advanced industrial base, a world-beating workforce, vital cities and excellent infrastructure.

But high costs and stiffening competition from other states and countries gradually took their toll. Job growth declined, businesses moved out, people

**Why does even Ohio keep beating Upstate New York? What is the problem that Ohio doesn't have?**

followed — and by the late 1990s there was growing concern that Upstate's economy was dead in the water. Then came the news from the 2000 Census — which showed that Upstate's population growth in the 1990s had been **slower than every state except North Dakota and West Virginia.**

Comparative jobs data sliced from any recent period — whether 1990-2000, or 1995-2003, or whatever — showed Upstate lagging far behind the nation. Ohio, with an economic structure and grey weather very much like Upstate's, grew jobs more than four times as fast during the 1990-2003 period. Other "Rust Belt" states did even better. And Virginia (with roughly the same size population) grew nine times faster.

What can be done about it? Business and

## INSIDE

**It's time to face up to the facts about Upstate:**

- ◆ Job growth lags far behind the nation — and even behind "Rust Belt" competitors like Ohio and Michigan.
- ◆ What job growth there is, has lately been concentrated in sectors that are supported by tax dollars.
- ◆ Manufacturing jobs have dropped sharply, and even retail jobs are off. Agriculture is down.
- ◆ The region's population growth is almost the slowest in the nation.
- ◆ Its population between the ages of 20 and 34 actually dropped by over 370,000, or 22 percent, in the 1990s.
- ◆ Upstate's high cost of doing business is heavily influenced by Downstate politics — a problem that Ohio, say, doesn't have.
- ◆ Maybe one answer is to let Upstate be Upstate.

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*Continued on page 2*

**Business and community leaders across Upstate are working hard on new strategies for growth.**

**Table 1**

**Comparative Job Trends, 1990-2003**  
**Upstate Metros, New York State and selected competitors**  
*Total job growth, and growth in government, health care and social assistance*

	<b>Total job growth</b>	<b>Government, health care and social assistance</b>
New York State	+ 2.3%	+ 14.0%
New York City	- 1.1%	+ 9.0%
Upstate Big 6 metros (total)	+ 2.3%	+ 14.1%
Albany-Schenectady-Troy	+ 7.0%	+ 8.0%
Binghamton SMSA	- 5.4%	+ 19.3%
Buffalo-Niagara Falls SMSA	- 0.4%	+ 8.1%
Rochester SMSA	+ 4.0%	+ 26.3%
Syracuse SMSA	+ 0.6%	+ 16.1%
Utica-Rome SMSA	+ 2.8%	+ 14.4%
Ohio	+ 10.4%	+ 21.1%
Virginia	+ 20.9%	+ 20.3%
United States	+ 18.7%	+ 28.0%
<i>Source: U.S. B.L.S., establishment data, annual averages</i>		

community leaders in a number of key regions around Upstate – in Syracuse, the Niagara Frontier, and Albany, for example – are working hard on strategies that are intended to fit their economies more closely to the realities of the information age, while also maximizing and promoting each region’s lifestyle advantages. And after a prolonged period in which Albany’s idea of economic development for Upstate seemed to be to build more state prisons in rural areas, the Pataki administration and the Legislature have launched aggressive efforts to leverage the State University and other high-tech resources for the region’s economic benefit.

But the high costs of doing business in New York – high taxes on people, heavy burdens on businesses – have gotten less attention in the drive to restart Upstate. Those high costs probably do more damage Upstate than they do in and around New York City, which has a unique position in the global economy that Utica, say, cannot match. Yet efforts in Albany to tackle those cost issues are held back by a legislative process that is to a large extent dominated by the Downstate political culture. For Upstate to compete on an even footing with places like Ohio, let alone Virginia, may require that Albany give the region the freedom it needs to get its costs down. Upstate’s comeback may require, indeed, that New York let Upstate be Upstate.

**Table 2**

**Upstate Metros, vs. New York State and the Nation:  
Private-sector job growth over selected timeframes**

*Job #s in 1000s*

	<b>Upstate Big 6 Metros</b>	<b>New York State</b>	<b>United States</b>
<b>1990-2003</b>			
Private-sector jobs, 1990	1,691.1	6,739.0	91,072.0
Private-sector jobs, 2003	1,715.7	6,917.7	108,356.0
# change	+ 24.6	+ 178.7	+ 17,284.0
% change	+ 1.5%	+ 2.7%	+ 19.0%
<b>1990-2000</b>			
Private-sector jobs, 1990	1,691.1	6,739.0	91,072.0
Private-sector jobs, 2000	1,777.1	7,167.5	110,996.0
# change	+ 86.0	+ 428.5	+ 19,924.0
% change	+ 5.1%	+ 6.4%	+ 21.9%
<b>1993-2003</b>			
Private-sector jobs, 1993	1,650.3	6,326.4	91,855.0
Private-sector jobs, 2003	1,715.7	6,917.7	108,356.0
# change	+ 65.4	+ 591.3	+ 16,501.0
% change	+ 4.0%	+ 9.3%	+ 18.0%
<b>1993-2000</b>			
Private-sector jobs, 1993	1,650.3	6,326.4	91,855.0
Private-sector jobs, 2000	1,777.1	7,167.5	110,996.0
# change	+ 126.8	+ 841.1	+ 19,141.0
% change	+ 7.7%	+ 13.3%	+ 20.8%
<b>1995-2000</b>			
Private-sector jobs, 1995	1,678.2	6,475.7	97,866.0
Private-sector jobs, 2000	1,777.1	7,167.5	110,996.0
# change	+ 98.9	+ 691.8	+ 13,130.0
% change	+ 5.9%	+ 10.7%	+ 13.4%
<b>1995-2003</b>			
Private-sector jobs, 1995	1,678.2	6,475.7	97,866.0
Private-sector jobs, 2003	1,715.7	6,917.7	108,356.0
# change	+ 37.5	+ 442.0	+ 10,490.0
% change	+ 2.2%	+ 6.8%	+ 10.7%
<b>2000-2003</b>			
Private-sector jobs, 2000	1,777.1	7,167.5	110,996.0
Private-sector jobs, 2003	1,715.7	6,917.7	108,356.0
# change	- 61.4	- 249.8	- 2,640.0
% change	- 3.5%	- 3.5%	- 2.4%

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

**Efforts in Albany to tackle key cost issues are held back by the Downstate political culture.**

**Virginia, with roughly the same population as Upstate, grew jobs nine times as fast.**

## Where is the growth (if any)?

Upstate-vs.-Downstate disputes in New York State politics go back to the days of Alexander Hamilton, of course, and in that spirit some commentators have asserted in recent years that Upstate is doing far worse economically than is Downstate. But that depends in large part on what time period and geographic breakdown you look at; the impact of the business cycle varies within Upstate, as well as between Upstate and Downstate. Upstate has actually done better than New York City in the current recession, because it suffered less from 9/11 and from the financial-services crash. In the full 1990-2003 period, as illustrated in Table 1 on page 2, among Upstate's six major metropolitan areas, only Binghamton has done worse than New York City. If the period compared were 1990-2000 (thus excluding 9/11 and the current recession), Buffalo and Syracuse would be added to that list, but the Albany, Rochester and Utica areas still did better than the city. In terms of *private*-sector job growth, as illustrated in Table 2 on page 3, Upstate has lagged behind the United States in any recent slice of years one might choose to compare — and lags behind New York State as a whole in every period except 2000-2003, which encompasses the current recession.

In terms of economic development analysis, the key comparison is not Upstate compared to New York City, but Upstate compared to the nation overall — and to select states that illustrate the kind of performance we might hope Upstate would be able to achieve. Such comparisons make clear that Upstate is lagging far behind its potential growth.

In the 1990-2003 period (a comparison that both begins and ends in a time of recession in New York, and therefore corrects somewhat for the impact of the business cycle on the numbers), the overall job growth rate for Upstate's Big Six metros was 2.3 percent — the same as for the state as a whole, and better than New York City's 1.1 percent, as shown in Table 1. (The jobs numbers in this paper all focus on those Big Six metros — Albany-Schenectady-Troy, Binghamton SMSA, Buffalo-Niagara SMSA, Rochester SMSA, Syracuse SMSA and Utica-Rome SMSA. Bureau of Labor Statistics numbers do not provide a direct measurement of total Upstate jobs, but these six metros account for about two-thirds of all Upstate jobs and are representative of trends.)

In that period, total job growth in the United States overall was 18.7 percent, or eight times Upstate's. Virginia, with roughly the same population as Upstate (7.08 million people in 2000, compared to 6.9 million in Upstate New York), grew jobs at 20.9 percent, nine times as fast. But we're not just losing out to the South. Other "Rust Belt" states grew jobs at least four times as fast as Upstate. Ohio was up 10.4 percent from 1990-2003, Michigan was up 11.1 percent, Indiana was up 14.9 percent, Wisconsin was up 21.3 percent, and Minnesota was up 24.7 percent.

By far the steepest job losses for Upstate have, unfortunately, been in the manufacturing sector — long its mainstay. As shown in Table 3 on page 5, manufacturing jobs in the Big Six metros declined by 31.8 percent between 1990 and 2003, dropping from 18 percent of total jobs in the region, to 12 percent, in just 13 years. In the U.S. overall, manufacturing lost less ground — dropping 17.9 percent. Meanwhile Ohio, for example, did significantly better than the Upstate metros and not much worse than the nation, losing 20.7 percent of its manufacturing

**Table 3**

**Key Employment Data, 1990-2003  
New York State, Upstate, and the competition**

	<i>Jobs in 1,000s, 2003 anl. avg.</i>	<i>% of total jobs in this sector</i>	<i># change, 1990-2003</i>	<i>% change, 1990-2003</i>
<b>TOTAL NON-FARM JOBS</b>				
New York State	8,403.5		+ 191.2	+ 2.3%
Big Six Upstate Metros	2,129.0		+ 48.0	+ 2.3%
Albany-Schenectady-Troy	459.1		+ 30.1	+ 7.0%
Binghamton SMSA	112.8		- 6.4	- 5.4%
Buffalo-Niagara SMSA	545.9		- 2.0	- 0.4%
Rochester	534.6		+ 20.6	+ 4.0%
Syracuse	344.5		+ 2.1	+ 0.6%
Utica-Rome	132.1		+ 3.6	+ 2.8%
<b>TOTAL PRIVATE SECTOR</b>				
New York State	6,917.7	82%	+ 178.7	+ 2.7%
Big Six Upstate Metros	1,715.7	81%	+ 24.6	+ 1.5%
Albany-Schenectady-Troy	347.7	76%	+ 33.1	+ 10.5%
Binghamton SMSA	88.9	79%	- 9.1	- 9.3%
Buffalo-Niagara SMSA	451.0	83%	- 7.3	- 1.6%
Rochester	447.0	84%	+ 6.6	+ 1.5%
Syracuse	281.0	82%	- 2.1	- 0.7%
Utica-Rome	100.1	76%	+ 3.4	+ 3.5%
<b>MANUFACTURING</b>				
New York State	614.6	7%	- 368.5	- 37.5%
Big Six Upstate Metros	252.1	12%	- 117.7	- 31.8%
Albany-Schenectady-Troy	26.8	6%	- 14.2	- 34.6%
Binghamton SMSA	17.8	16%	- 16.3	- 47.8%
Buffalo-Niagara SMSA	68.8	13%	- 24.5	- 26.3%
Rochester	85.5	16%	- 43.6	- 33.8%
Syracuse	38.7	11%	- 11.0	- 22.1%
Utica-Rome	14.5	11%	- 8.1	- 35.8%
<b>GOVERNMENT, PLUS HEALTH CARE AND SOCIAL ASSISTANCE</b>				
New York State	2,648.8	32%	+ 325.2	+ 14.0%
Big Six Upstate Metros	685.7	32%	+ 84.6	+ 14.1%
Albany-Schenectady-Troy	172.3	38%	+ 12.8	+ 8.0%
Binghamton SMSA	38.4	34%	+ 6.2	+ 19.3%
Buffalo-Niagara SMSA	163.5	30%	+ 12.3	+ 8.1%
Rochester	156.2	29%	+ 32.5	+ 26.3%
Syracuse	103.3	30%	+ 14.3	+ 16.1%
Utica-Rome	52.0	39%	+ 6.5	+ 14.4%
<b>Some competitive comparisons ...</b>				
<b>TOTAL NON-FARM JOBS</b>				
United States	129,931.0		+ 20,444.0	+ 18.7%
Ohio	5,391.0		+ 508.7	+ 10.4%
Virginia	3,500.3		+ 604.1	+ 20.9%
<b>TOTAL PRIVATE SECTOR</b>				
United States	108,356.0	83%	+ 17,284.0	+ 19.0%
Ohio	4,589.5	85%	+ 429.5	+ 10.3%
Virginia	2,861.6	82%	+ 543.7	+ 23.5%
<b>MANUFACTURING</b>				
United States	14,525.0	11%	- 3,170.0	- 17.9%
Ohio	844.2	16%	- 220.4	- 20.7%
Virginia	304.9	9%	- 82.3	- 21.3%
<b>GOVERNMENT, PLUS HEALTH CARE AND SOCIAL ASSISTANCE</b>				
United States	35,463.0	27%	+ 7,752.2	+ 28.0%
Ohio	1,442.5	27%	+ 251.0	+ 21.1%
Virginia	935.5	27%	+ 157.6	+ 20.3%
<i>Source: U.S. Bureau of Labor Statistics, establishment survey data, not seasonally adjusted</i>				

**Perhaps most alarming, every net new job created in the Upstate metros during the 1990-2003 period is dependent on the taxpayers.**

**Any economy that has all of its job growth financed by the taxpayers is in deep, long-term trouble.**

jobs during the period. Upstate still has slightly more of its jobs in manufacturing than is the national average (which is 11 percent) — but manufacturing’s share in Ohio remains well above the national average, at 16 percent.

If Upstate is losing manufacturing jobs, but nonetheless has achieved some small overall job growth, where is it growing? Not in retail jobs; retailing lost 12,100 jobs in the Big Six metro areas between 1990 and 2003 (though this loss was nearly offset by a gain of 8,800 jobs in leisure and hospitality). Agriculture, another significant part of the economy, is down, too; cash receipts for New York farms fell 2.3 percent from 1998 through 2002 (the most recent five-year period for which statistics are available), compared to a 1.7 percent drop nationally.

No, the region’s job growth has been found basically in only two areas — government jobs, and a sliver of the private sector that the Bureau of Labor Statistics labels as “health care and social assistance.” The Big Six metros’ overall job growth of 48,000 during this 13-year period is more than accounted for by growth of 23,500 in government jobs (22,800 of which represent job growth in local school systems, which jumped 17.8 percent), plus 61,100 in health care and social assistance (up 28.9 percent).

This health care and social assistance sector is separate from government payrolls. But many of its jobs are in fact funded by the taxpayers — through Medicare and Medicaid payments to non-governmental hospitals and nursing homes, and through contracts for such things as home health care services and community care facilities for the disabled. The Public Policy Institute calculates that at least 40 percent of the growth of this sector over the 13-year period (which would be about 25,000 of its new jobs) is being financed by the taxpayers. Add those to the new government jobs, and it appears that from 1990 through 2003, the Big Six Upstate metro areas **did not add a single net new job that was not being paid for by the taxpayers.** (And many of the new jobs in health care that were not paid for directly through taxes are nonetheless adding to the cost of doing business in the region, since they are financed through employers’ health-insurance premiums, now growing every year at double-digit rates.)

Any economy that gets all of its new job growth from the taxpayers is in deep, long-term trouble. Taxpayer-financed jobs need taxpayers to pay for them — yet every new taxpayer-financed job increases the cost of doing business and thus increases the likelihood that the number of tax-paying jobs will continue to decline.

## **Disturbing demographic trends**

Population and demographic trends in Upstate New York reflect—and also *contribute to*—the region’s economic problems. As jobs moved out, many people had no choice but to do likewise; Census Bureau numbers say net out-migration from Upstate New York was about 400,000 people between 1990 and 2002. The resultant population losses then undercut the potential for future economic growth; before the 2001 recession hit, many employers in Upstate New York were complaining about shortages of available workers — a problem that will no doubt reappear once the nation’s economy turns strongly around.

As Table 4 on page 7 illustrates, Upstate New York’s population growth of

**Table 4**

**Key Census Data, 1990-2000  
Upstate New York vs. Competitors**

	1990	2000	# change	% change
<b>Total Population</b>				
New York State	17,990,455	18,976,457	+ 986,002	+ 5.5%
New York City	7,322,564	8,008,278	+ 685,714	+ 9.4%
<b>Upstate (total)</b>	<b>6,834,397</b>	<b>6,908,309</b>	<b>+ 73,912</b>	<b>+ 1.1%</b>
Albany County	292,594	294,565	+ 1,971	+ 0.7%
Broome County	212,160	200,536	- 11,624	- 5.5%
Erie County	968,532	950,265	- 18,267	- 1.9%
Oneida County	250,836	235,469	- 15,367	- 6.1%
Onondaga County	468,973	458,336	- 10,637	- 2.3%
Monroe County	713,968	735,343	+ 21,375	+ 3.0%
Ohio	10,847,115	11,353,140	+ 506,025	+ 4.7%
Virginia	6,187,358	7,078,515	+ 891,157	+ 14.4%
United States	248,709,873	281,421,906	+ 32,712,033	+ 13.2%
<b>Ages 20-34 (only)</b>				
New York State	4,547,087	4,001,633	- 545,454	- 12.0%
New York City	1,945,991	1,957,852	+ 11,861	+ 0.6%
<b>Upstate (total)</b>	<b>1,686,342</b>	<b>1,308,509</b>	<b>- 377,833</b>	<b>- 22.4%</b>
Albany County	77,873	62,030	- 15,843	- 20.3%
Broome County	53,324	37,256	- 16,068	- 30.1%
Erie County	234,874	176,609	- 58,265	- 24.8%
Oneida County	61,481	43,226	- 18,255	- 29.7%
Onondaga County	121,160	88,183	- 32,977	- 27.2%
Monroe County	184,644	145,067	- 39,577	- 21.4%
Ohio	2,590,325	2,248,822	- 341,503	- 13.2%
Virginia	1,660,554	1,517,539	- 143,015	- 8.6%
United States	62,196,244	58,855,725	- 3,340,519	- 5.4%

Source: U.S. Bureau of the Census

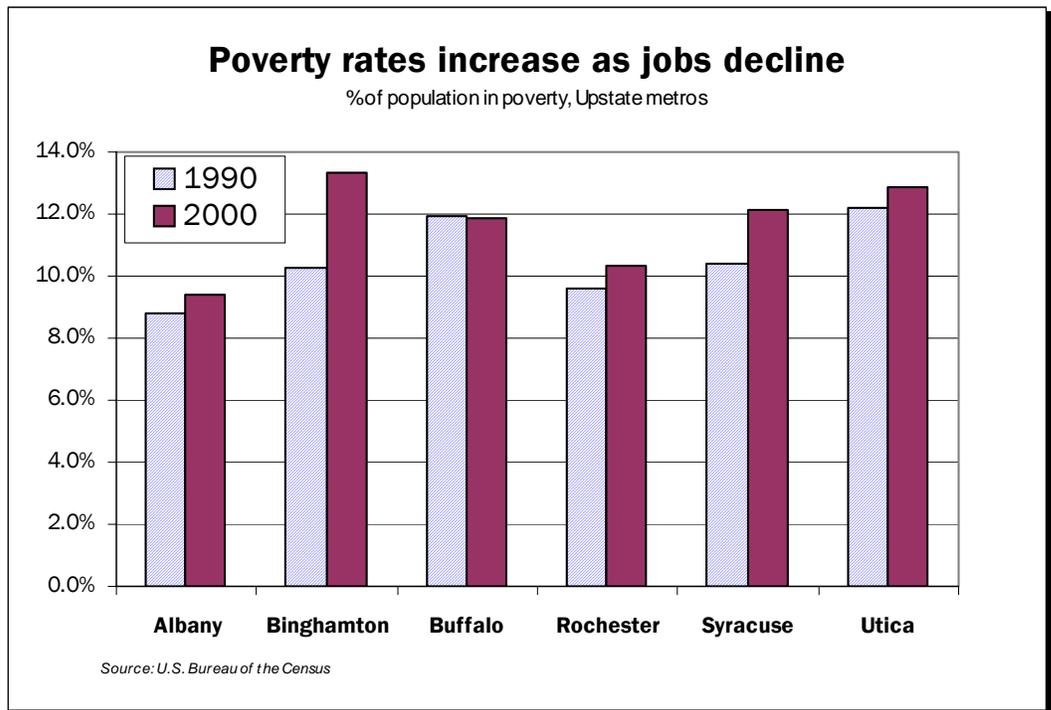
1.1 percent from 1990 to 2000 lagged well behind New York City (up 9.4 percent) and New York State (up 5.5 percent) – not to mention the nation (up 13.2 percent), Ohio (+ 4.7%) and Virginia (+ 14.4%).

Rolf Pendall, a demographer at Cornell University, has pointed out that if Upstate were a separate state, its growth as measured by the 2000 Census would lag behind every other state except North Dakota and West Virginia. Just as shocking, **nearly 30 percent of new “residents” in Upstate New York during the 1990s were prisoners.** (See “Upstate New York’s Population Plateau,” The Brookings Institution, Washington DC, August 2003.)

As the job market has weakened, incomes have also suffered. Pendall calculates that Upstate’s total real personal income increased by only 9 percent during the 1990s, compared to 29 percent nationwide. (See “Transition and Renewal,” Brookings, January 2004.) Researcher Keith Volkmar of Lifetime Healthcare in Rochester has pointed out that the poverty rate in most of the Upstate metros has also been in-

**Net out-migration from Upstate New York was about 400,000 people between 1990 and 2002.**

**Upstate New York's count of people in the 20-to-34 age cohort dropped a staggering 22.4 percent between 1990 and 2000.**



creasing (see graph, above) – and that the median value of housing is below the U.S. average, and dropping, in every Upstate metropolitan area. The city of Buffalo has lost \$2 billion in assessed property valuation in the last 10 years and is now in the municipal equivalent of receivership.

Perhaps most worrisome of all is Upstate’s huge loss of population in the crucial 20-to-34 age group – those people who are finishing school, launching careers, starting families, buying their first homes and putting down roots in a community. Upstate New York’s count of people in this age cohort dropped a staggering 22.4 percent between 1990 and 2000 – down by more than 377,000. (See the bottom half of Table 4 on page 7; also the graph on the back page of this report.)

The 20-to-34 cohort dropped nationwide during the last decade, a “lag effect” from the drop in birth rates after the “baby boom” population. But the national drop was only 5.4 percent. Upstate’s drop was *more than four times that*.

This cohort loss is sometimes described as evidence that over 370,000 young New Yorkers “moved out” during the 1990s. It isn’t, exactly. The two cohorts measured in the Census data (those who were 20-34 in 1990, compared to those who were 20-34 in 2000) were, obviously, mostly different people, and the data don’t show when exactly any of them left. It is quite possible that the drop in the cohort mostly reflects people whose parents moved out in the 1970s or 1980s. But whenever they left, Upstate doesn’t have them now – and that will compound the region’s difficulties in achieving growth in the years ahead.

## Can we fix the problem? How?

Community and political leaders in New York are well aware of Upstate’s lag and are working to do something about it. In Syracuse, the Metropolitan Development Association has developed a comprehensive plan to leverage the region’s

clusters of specialized industries and to highlight the Central New York lifestyle; the Greater Syracuse Chamber of Commerce has a strong economic development program that plays to those same advantages. The Rochester Business Alliance is working to help the region transition from its dependence on a single company. In Albany, the Albany Colonie Regional Chamber of Commerce and the Center for Economic Growth are pressing the region's nascent "Tech Valley" image.

State government's two principal efforts to stimulate growth in the Upstate economy are the Empire Zones program, and high-tech efforts. Empire Zones offer virtually tax-free treatment for some growing businesses — a total package that economic developers say no other state can match (although it directly impacts only a few businesses). The technology-focused efforts show that the state has, at long last, awakened to the economic development benefits of its superb system of public and private colleges and universities.

These private and governmental efforts offer the promise of significant payoff over the long term. But their benefits will be bigger and come faster if New York also makes progress against the high cost of doing business in Upstate New York. And that, in turn, may require a serious conversation about the impact of the Downstate political culture on the economy of Upstate New York.

## What's the Upstate-Downstate issue, really?

Grass-roots opinion in Upstate New York has long had a tendency to blame the region's problems on Downstate. The idea is largely rejected by Upstate's business, community, and political leadership — which is aware of the advantages that Upstate companies and communities have from their connection to New York City, the unquestioned center of the global economy.

The grass-roots idea that Upstate's high costs can be blamed on Downstate is often expressed in some variation of, "all our tax dollars go down to New York City." But as Kent Gardner, an economist with the Center for Governmental Research in Rochester, has demonstrated, the reverse is true — New York State's highly progressive state income tax tends to take money from the place where incomes are higher (Downstate) and spend it where incomes are lower (Upstate).

Yet a careful observer of politics and policy in New York State must eventually come to the conclusion that the grass-roots complaint is on to something, even though it is slightly off the mark. Downstate is not draining Upstate's money away. But with Upstate representing only 36 percent of the state's population (and declining), the weight given to Downstate interests and ideas in New York State government and politics *does* have an impact Upstate.

That impact is this: **Policies and costs are imposed on the Upstate economy in ways that would not happen if Upstate were a standalone state on its own.** This, to be blunt about it, is the disadvantage that Ohio doesn't have.

We hesitate to raise the issue, lest we set off a pointless discussion about whether Upstate should be its own state. Secession would be impossible, and the last thing New York needs is some kind of destructive Upstate-Downstate showdown. But given the prolonged lag in Upstate's economy, it is time to think seriously about whether there is a way of restructuring the relationship to give Up-

**Community and political leaders in New York are well aware of Upstate's lag and are working to do something about it.**

**New York State's progressive tax system takes money from the place where incomes are higher (Downstate) and spends it where incomes are lower (Upstate).**

state the opportunity — indeed, the freedom — to reduce some of the disadvantages that are smothering its economy.

## If Upstate could be Upstate?

Left to its own devices, for example, Upstate would never have a Medicaid program that is by far the most expensive in the country — helping to push property taxes to the highest levels in the nation. Upstate wouldn't have kept tolls on the Thruway after the early 1990s, when the last bonds were being paid off and the late Sen. Daniel Patrick Moynihan was extracting \$5 billion in federal funds to help remove the tolls. Upstate probably wouldn't have laws (e.g., the Triborough provision) giving public-employee unions such decisive leverage to drive up local government costs, and to block consolidation or privatization of services.

Upstate wouldn't choose energy policies that push basic industrial electric rates about 17 percent above the national average — while a competitor like Ohio has rates *below* the national average. It wouldn't enact something like last year's law on redeveloping brownfields, which was designed to fit property values in New York City, but which has made brownfields redevelopment almost cost-prohibitive in Upstate cities with undeveloped land nearby. It would not administer "prevailing wage" laws in ways that impose urban wage levels on rural construction projects. It wouldn't have state Labor Department rules requiring that higher-wage steelworkers (rather than glaziers) install windows in public-works projects. It wouldn't have runaway tort laws that keep car leases from Upstate drivers, and impose unlimited liability on construction contractors. And so on.

In everything from taxes to energy costs, New York State is a high-cost location — statewide. The single most important reason this is true is that the Downstate political culture is heavily dominated by public-sector unions and other

**Table 5**

### Property Taxes, Upstate vs. Competitors

	<i>Property taxes per capita, 2000</i>	<i>Vs. national avg.</i>
<b>U.S. average</b>	<b>\$885</b>	
<i>Total (of all governmental units) in key Upstate counties</i>		
Albany County	\$1,416	+ 60.0%
Broome County	1,178	+ 33.1%
Erie County	1,144	+ 29.2%
Monroe County	1,398	+ 58.0%
Oneida County	1,003	+ 13.3%
Onondaga County	1,197	+ 35.2%
Indiana	\$913	+ 3.2%
Ohio	841	- 5.0%
Michigan	956	+ 8.0%
Minnesota	928	+ 4.9%
Wisconsin	1,061	+ 19.9%

*Sources: Tax Foundation; U.S. Census Bureau; Office of the State Comptroller*

forces that want to keep it that way. And many Downstaters, even including some business people, don't think high costs really matter that much. New York has high costs but it has huge advantages too, they'll say. To a certain extent they're right — *for Downstate*. New York City and environs have a one-of-a-kind role in financial services, business services, corporate headquarters and other factors that go some way toward offsetting New York's cost disadvantages.

Upstate, however, is a different story. It has few of the advantages that New York City gets from its international role. It has to compete with regular places like Ohio, and Virginia. In that competition, costs *do* matter. If a corporation is trying to decide whether to locate a new plant in Elmira, New York, or Roanoke, Virginia, the fact that Wall Street is in the same state as Elmira is nice but, frankly, irrelevant. What *is* relevant is if property taxes and energy and workers' comp and health insurance cost more in Elmira than in Virginia.

That's the competitive game Upstate is in. If it isn't allowed to change, it can't compete, and it won't win.

To compete and to succeed, Upstate needs to cut the cost of doing business in a host of ways — from the size of government and Medicaid and property taxes, to the unlimited liability the trial lawyers' lobby imposes on construction projects. But every attempt to do any of these is blocked in Albany — largely because of the dominance exercised by the Downstate political culture. That has to change.

Can New York get some thoughtful dialogue going on this issue — without turning into a destructive Upstate-Downstate shouting match? To some extent, a few people are already thinking along these lines. Chemung County Executive Thomas J. Santulli, for example, has thoughtfully suggested that his county be allowed to run a demonstration project in which it would design and run its own Medicaid program, in place of the state-mandated system that is now driving his property taxes out of control. A number of Upstate counties have quietly begun contracting out public defender work to alternative providers, as a way of getting around a new state law mandating that they pay assigned counsel up to \$75 an hour (a rate that was based on, and driven by, legal fees in New York City, but that was then applied statewide by the Legislature). A lot of other ideas like those might come out of the woodwork, if community and political leaders in New York begin a good-willed effort to identify policies that may fit Downstate political considerations, but don't make sense when applied to Upstate New York.

We need to ask ourselves what it is that's forcing that cost to be higher in New York than in competitors like Ohio, or Virginia. And if the answer is something that may make sense in the Downstate political culture, but doesn't fit well with Upstate, then why can't Upstate be given the freedom to bypass it? Similarly, Upstate political representatives might want to be more demanding of their Downstate colleagues, with respect to issues that only, or mostly, matter Upstate. Suppose workers' comp reform or auto leasing reform, say, aren't really generating a lot of interest and support Downstate. Well, if they're important to Upstate, maybe somebody should insist that they be done anyway.

It can't hurt — and it might help — to let Upstate be Upstate.

***Upstate has few of the advantages that New York City gets from its international role. It has to compete with regular places like Ohio, and Virginia.***



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**A Special Report:**

## Could New York Let Upstate Be Upstate?

