



About the SJER

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NEW JERSEY'S STALLED RECOVERY

New Jersey's economy lost 24,800 jobs (a 0.6% decline) between the official end of the national recession in June 2009 and August of this year. Only three other states—Nevada, Georgia, and Missouri—lost more jobs than New Jersey during that period. Further, New Jersey, along with thirteen other states, has seen its official unemployment rate rise since the recession's end. Against this backdrop of an anemic statewide recovery, this edition of The Review documents and analyzes the factors that have contributed to the state's weak recovery.

During the national recession—from December 2007 to June 2009—New Jersey's employment contracted 4.8%—a loss of 195,000 jobs. This loss was smaller than the nation's (-5.4%), though larger than both New York's (-2.8%) and Pennsylvania's (-3.6%). As noted, between the recession's official end and August 2011, New Jersey's economy shed 24,800 jobs. Nationally, employment increased +0.5% over the same period. In New York and Pennsylvania, employment increased 1.2% and 1.5%, respectively, during this period.

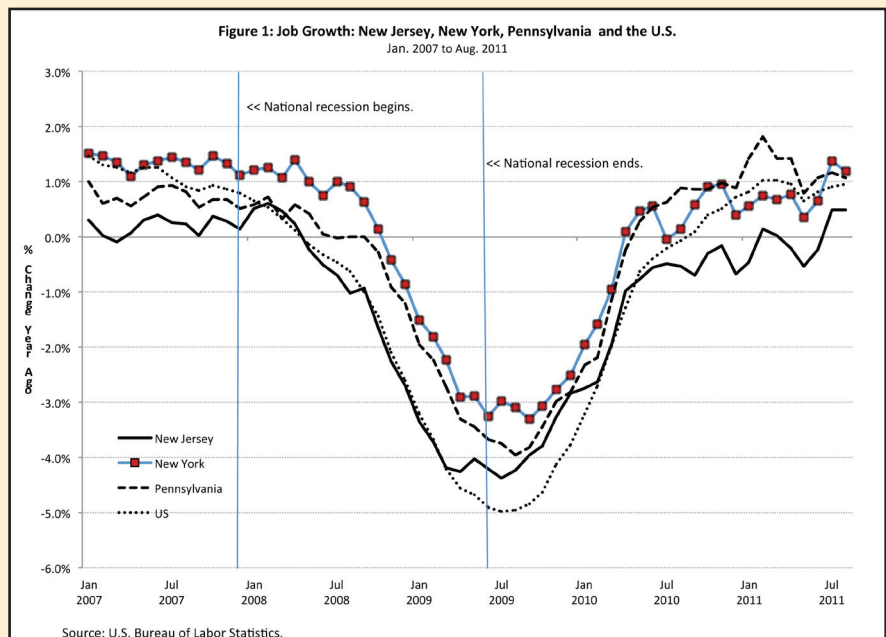
As of August 2011, New Jersey's employment level remained 5.4% below its December, 2007 level. The comparable figures for New York and Pennsylvania were 1.6% and 2.2%. New Jersey's recession was thus considerably deeper—and its recovery has thus far been far weaker—than its two neighbors. (Figure 1)

Industry Based Employment

Table 1 provides NAICS-based establishment employment figures for two time periods—December 2007 to June 2009 (the official recession), and June 2009 to August 2011 (post-recession)—for New Jersey and the nation as a whole. Several differences between the state and the nation stand out—especially as they relate to employment dynamics in the post-recession phase.

Importantly, the extent of job losses in several industries across the state during the recession roughly matched those recorded nationally. For instance, job losses in the state's construction, manufacturing, wholesale and retail trade, transportation and utilities, finance, and leisure and hospitality

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NJ'S STALLED RECOVERY
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sectors were very similar (in percentage terms) to those that occurred in these industries nationally during the recession. Job losses in two other industries—information, and arts, entertainment, and recreation—were far worse in New Jersey than they were nationally. At the same time, the 6.5% decline in New Jersey’s professional and business services sector was markedly less than it was nationally (-9%).

As noted, since the recession ended total employment in New Jersey has continued to contract while nationally it increased. While job losses have continued to occur across many industries since the recession’s end, the most significant losses in absolute terms have occurred in the state’s manufacturing,

information, and government sectors. Combined these sectors have accounted for 55,000 lost jobs since the recession ended. Job losses in these three sectors statewide have been significantly larger in percentage terms than national benchmarks. Manufacturing employment has increased 0.2% nationally since the recession’s end, while it has declined 5.7% in New Jersey. (Manufacturing employment declined 3.7% in New York and rose 1.1% in Pennsylvania over the same period.) Employment in the information sector has declined 7.6% nationally, but 13.3% statewide. And, government employment nationally has contracted 2.6%, compared to a 4.4% contraction statewide.

New Jersey Manufacturing Sector’s Malaise

Between 2007 and 2010, the total real value produced in New Jersey’s manufacturing

sector contracted 16%, compared to a national decline of 8%. New Jersey’s contraction was the tenth-largest among the states, and was larger than those recorded in Indiana, Missouri, New York, and Pennsylvania. (Table 2) Employment in New Jersey’s manufacturing sector contracted 13.2% during the recession, ranking it 25th among the fifty states. (Michigan’s manufacturing sector saw employment decline 26.5% during the recession, the worst among the fifty states.) Since the recession’s official end, however, employment in the state’s manufacturing sector has declined 5.7%, ranking it 46th among the fifty states. (Only Nevada, Mississippi, Montana, and Delaware recorded larger declines in manufacturing employment since the recession’s end.)

Between 2007 and 2010, the real value produced in the state’s nondurable goods sector

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Table 1: NAICS-based Establishment Employment: New Jersey and the U.S.

| Industry | NEW JERSEY | | | | US | | | |
|-------------------------------------|---------------------------------------|----------|-----------------------------------|----------|---------------------------------------|----------|-----------------------------------|----------|
| | Official Recession (Dec 07-Jun 09) | | Post Recession (Jun 09-Aug 11) | | Official Recession (Dec 07-Jun 09) | | Post Recession (Jun 09-Aug 11) | |
| | % Change | # Change | % Change | # Change | % Change | # Change | % Change | # Change |
| Total Nonfarm | -4.8% | -195.0 | -0.6% | -24.8 | -5.4% | -7,490.0 | 0.5% | 639.0 |
| Construction | -19.4% | -33.1 | -4.3% | -5.9 | -19.8% | -1,484.0 | -8.0% | -479.0 |
| Manufacturing | -13.2% | -40.2 | -5.7% | -15.1 | -14.6% | -2,012.0 | 0.2% | 29.0 |
| Durable Goods | -14.3% | -19.7 | -6.6% | -7.8 | -17.5% | -1,519.0 | 1.8% | 129.0 |
| Nondurable Goods | -12.2% | -20.5 | -5.0% | -7.3 | -9.8% | -493.0 | -2.2% | -100.0 |
| Wholesale Trade | -7.3% | -17.0 | -1.8% | -3.8 | -7.6% | -458.1 | -0.6% | -33.2 |
| Retail Trade | -6.4% | -29.9 | 2.3% | 9.9 | -6.7% | -1,047.4 | 0.2% | 36.0 |
| Transportation and Utilities | -6.6% | -11.7 | -0.1% | -0.2 | -6.4% | -329.3 | 0.8% | 39.1 |
| Information | -10.0% | -9.4 | -13.3% | -11.2 | -7.6% | -229.0 | -5.9% | -164.0 |
| Finance and Insurance | -6.5% | -14.0 | -0.0% | -0.1 | -5.0% | -303.0 | -1.8% | -106.7 |
| Real Estate, Rental & Leasing | -7.7% | -4.6 | -3.4% | -1.9 | -7.9% | -170.5 | -2.0% | -39.7 |
| Prof. and Bus. Services | -6.5% | -40.7 | 1.8% | 10.3 | -8.9% | -1,608.0 | 4.7% | 767.0 |
| Management of Companies and Ent. | 0.9% | 0.7 | -1.2% | -0.9 | -2.5% | -47.5 | 1.5% | 28.2 |
| Educational Services | 1.1% | 1.0 | -0.8% | -0.7 | 3.9% | 116.8 | 3.9% | 120.5 |
| Health Care and Social Assistance | 2.7% | 13.5 | 4.0% | 20.4 | 3.2% | 501.8 | 4.5% | 729.9 |
| Leisure and Hospitality | -3.0% | -10.3 | 0.7% | 2.2 | -3.4% | -454.0 | 1.0% | 132.0 |
| Arts, Entertainment, and Recreation | -1.1% | -0.6 | -2.6% | -1.4 | -0.4% | 1,800.7 | 0.8% | 1,766.4 |
| Accommodation and Food Services | -3.3% | -9.7 | 1.3% | 3.6 | -3.1% | -358.8 | 1.2% | 138.3 |
| Other Services | -2.0% | -3.3 | 0.1% | 0.2 | -2.5% | -140.0 | 1.6% | 87.0 |
| Government | 0.8% | 4.9 | -4.4% | -28.9 | 0.8% | 180.0 | -2.6% | -595.0 |
| Federal Government | -0.7% | -0.4 | -4.0% | -2.4 | 2.1% | 57.0 | 0.3% | 8.0 |
| State Government | 0.1% | 0.2 | -6.6% | -10.2 | 0.6% | 32.0 | -1.8% | -92.0 |
| Local Government | 1.2% | 5.1 | -3.7% | -16.3 | 0.6% | 91.0 | -3.5% | -511.0 |

Source: U.S. Bureau of Labor Statistics.

Table 2: Real Manufacturing Output
2007-2010

| State | % Change | Rank Among States |
|---------------|----------|-------------------|
| Montana | -32.4% | 50 |
| Delaware | -25.4% | 49 |
| Nevada | -23.5% | 48 |
| Kansas | -21.0% | 47 |
| Connecticut | -20.0% | 46 |
| Michigan | -19.0% | 45 |
| Ohio | -18.3% | 44 |
| Arkansas | -17.1% | 43 |
| Georgia | -16.8% | 42 |
| New Jersey | -15.9% | 41 |
| United States | -8.0% | |

Source: U.S. Bureau of Economic Analysis.

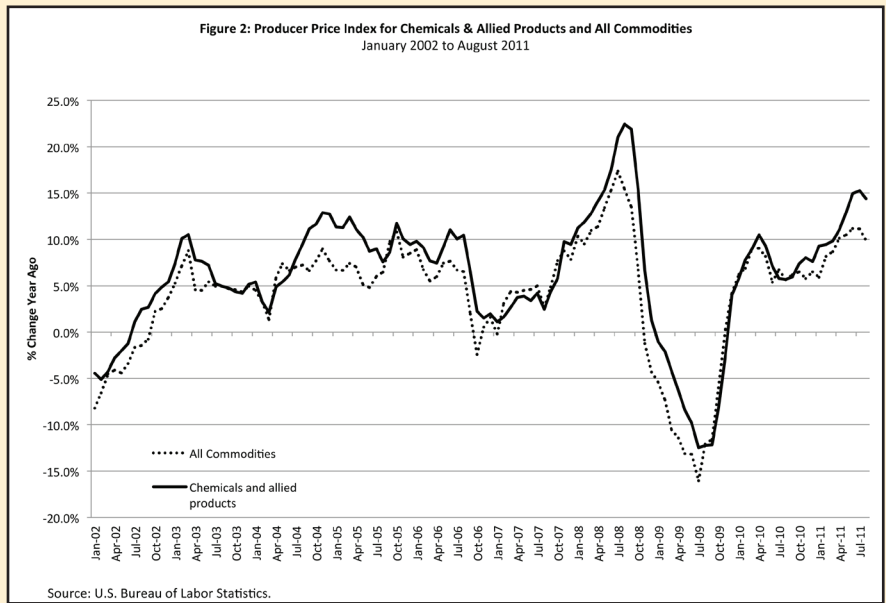
MANUFACTURING

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declined 21.3%, while that produced in the durable sector declined 3.3%. The driving force behind the collapse in the state's nondurable goods sector has been chemicals manufacturing which accounted for 36% of all manufacturing value in the state in 2007. Between 2007 and 2009 (final 2010 figures for the chemicals sector have not yet been published), chemicals manufacturing output declined 34% in real terms (compared to a national decline of 24%) and accounted for 65% of the total decline in manufacturing value statewide.

Between 2007 and 2010, employment in the state's manufacturing sector declined by 53,600 jobs (-17%). Nearly one-fifth of all lost manufacturing jobs during this period were in chemicals manufacturing. Most importantly, the average annual pay of a job in the chemicals manufacturing sector was \$106,690 in 2007 compared to a statewide overall average annual wage of \$53,853. The implication of this is that the chemical manufacturing jobs lost between 2007 and 2010 translated into approximately \$1 billion of lost wages. By way of contrast, the state's retail trade sector lost nearly 30,000 jobs between 2007 and 2010—three times the number of chemicals manufacturing jobs lost during the same period. Based on a 2007 average annual retail trade wage of \$29,947, these lost retail trade jobs represented a total wage loss of \$883 million. Put otherwise, in terms of consumer purchasing power in the state economy, every lost chemicals manufacturing job was equal to 3.5 lost retail trade jobs.

Importantly, the collapse of New Jersey's chemicals manufacturing sector has been



tied to broader market forces within the chemicals manufacturing industry which saw prices plummet in late 2008 and much of 2009—in tandem with the financial market meltdown during that period and the deepening national economic malaise. (Figure 2) These industry-specific pressures were duly reflected in the collapse of the S&P 500 Chemicals Index (comprised of the common stock of many of the nation's largest chemicals manufacturers—many of whom have operations in New Jersey) during 2009. This index declined 51% from late 2008 to mid-2009. And, while the index has since regained much of the ground it lost during 2009, it remains 15% below its pre-financial market meltdown level.

Beyond chemicals manufacturing, the next largest manufacturing sectors in the state (in real value terms) include: food and

beverage products, computer and electronics, and fabricated metals. The 2007-2009 changes in the values of these sectors' output were, respectively: -9.4%, +12.5%, and -30%. Nationally, during the same period, these sectors contractions/expansions were: -12.1%, +19%, and -27.7%, respectively. Combined the value of real output produced by the state's four-largest manufacturing sectors declined 29% between 2007 and 2009 compared to a national decline of 8.3%. Employment in these four manufacturing sectors contracted 10.6% in New Jersey and 9% nationally.

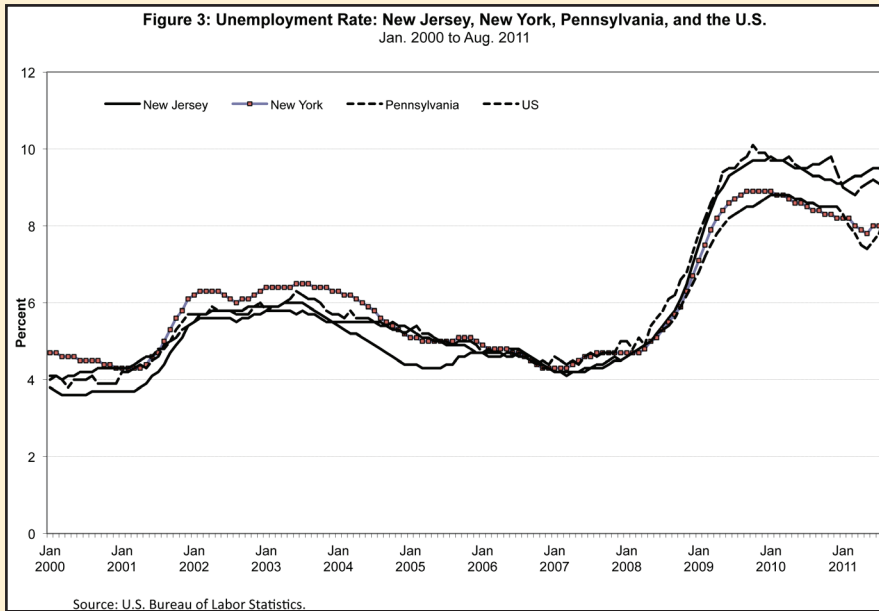
411 Woes

As noted, New Jersey's information sector—which includes publishing, broadcasting, telecommunications, and internet-related industries—has suffered significant job losses since 2007. Specifically, employment in this sector declined by 16,400 jobs (-17%) statewide between 2007 and 2010. This compares to a national decline of -10.6% during the same period. Similar to chemicals manufacturing, the average annual wage in the information sector in New Jersey, at \$80,535 in 2007, is significantly above the average annual wage across all industries.

Public Sector Retrenchment

Retrenchment in New Jersey's government sector has also constituted a significant drag on the state's recovery. Statewide, employment in the public sector has declined by 29,000 since June, 2009, a 4.4% contrac-

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known as U-6, includes the official unemployed, discouraged workers, as well as those working part-time for economic reasons (i.e., these individuals can't find full-time work and have settled for part-time work). U-6 for New Jersey stood at 15.7% in 2010, a full 6.3 percentage points higher than the official unemployment rate. The U-6 rate for New Jersey's neighbors in 2010 were: 14.3% Delaware; 14.8% New York; and 14.7% Pennsylvania. (The national U-6 rate stood at 16.7% in 2010.) Another measure of labor underutilization tracked by the BLS (U-1) tracks the proportion of the labor force unemployed for 15 weeks or longer. In 2010, this rate in New Jersey stood at 6.3%. The comparable rates for New Jersey's neighbors were: 5.2% Delaware; 5.1% New York; and 4.9% Pennsylvania. (The national U-1 rate stood at 5.7% in 2010.)

Personal Income

Between 2007 and 2010, real personal income in New Jersey declined 1.8%, compared to a national decline of 1.3%. While New Jersey's decline was better than New York's (-2.4%), it was worse than Pennsylvania's (+0.3%). (Table 4) The wages and salaries component of the state's personal income (which accounted for approximately 50% of total personal income in 2007) declined 5.9% during this period—a decline that was larger than the nation's as well as its two neighbors'. Importantly, transfer payments (payments to persons for which no current services are performed and which primarily include retirement and disability insurance benefits, medical payments (mainly Medicare and Medicaid), income maintenance benefits, unemployment insurance benefits, and veterans benefits) soared (+27.4%) statewide between 2007 and

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| | | |
|--------|---------|---------|
| 200 | | |
| 24,591 | | |
| 407 | 176,025 | 183,322 |
| 349 | 211,979 | 209,373 |
| 9,009 | | 328,784 |
| 1,806 | 201,019 | 231,968 |
| 71,237 | 75,145 | 82,425 |
| 10,976 | 260,953 | 269,861 |
| 1,825 | 34,975 | 35,630 |
| 678 | 279,785 | 287,505 |
| 91 | 22,689 | 23,306 |

Table 3: Alternative Measures of Labor Underutilization, 2010

| | Official Unemployment Rate | U-1 | U-6 |
|---------------|----------------------------|-----|------|
| Delaware | 8.5 | 5.2 | 14.3 |
| New Jersey | 9.3 | 6.3 | 15.7 |
| New York | 8.5 | 5.1 | 14.8 |
| Pennsylvania | 8.6 | 4.9 | 14.7 |
| United States | 9.6 | 5.7 | 16.7 |

Source: U.S. Bureau of Labor Statistics.

PUBLIC SECTOR RETRENCHMENT

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tion. New Jersey's public sector employment decline since the recession's end ranks as the sixth-largest among the states. Government employment cutbacks are largely a reflection of the significant budget gaps the state's has faced over the past several years and the policy responses they have engendered. According to an analysis by the Center on Budget and Policy Priorities, New Jersey's FY 2012 budget gap (\$10.5 billion) was the largest among the states when measured as a share of general fund budgets. The bulk of the state's employment losses in the public sector since the recession's end have occurred at the local level which has seen employment contract by 16,300 jobs, a 3.7% reduction. State government job losses have totaled 10,200 (-6.6%) since June 2009.

Unemployment

New Jersey's official unemployment rate declined to 9.4% in August, down marginally since peaking at 9.8% in January 2010. (Figure 3) Nearly 20,000 fewer people were officially

unemployed in August 2011 than in January 2010. The reduction in the state's official unemployment rate, however, largely reflects a decline in its labor force which has contracted 0.5% (20,660) since January 2010. Indeed, the number of individuals employed actually declined over this period. The decline in the state's labor force is a consequence of the labor market's anemic recovery which has worked to discourage the unemployed from seeking jobs. Such discouraged workers are not counted as officially unemployed and are thus removed from the official unemployed and labor force counts. Fortunately, the U.S. Bureau of Labor Statistics produces alternative measures of labor underutilization for the states—albeit only on an annual basis. These alternative measures provide better means of gauging the overall health of states' labor markets than official unemployment rates do—especially during recessions and slow-growth periods.

Table 3 shows two of these alternative measures of labor underutilization. The first,

Table 4: Change in Real Personal Income and Components, 2007-2010

| State | Personal Income | Wages | Proprietors Income | Dividends, interest, and rent | Transfer payments | Commuter Income |
|---------------|-----------------|-------|--------------------|-------------------------------|-------------------|-----------------|
| New Jersey | -1.8% | -5.9% | -3.4% | -7.0% | 27.4% | -9.5% |
| New York | -2.4% | -5.6% | 1.7% | -17.3% | 19.9% | -8.4% |
| Pennsylvania | 0.3% | -2.4% | -10.8% | -11.1% | 22.5% | -3.5% |
| United States | -1.3% | -5.1% | -9.9% | -10.5% | 26.2% | N/A |

Source: U.S. Bureau of Economic Analysis.

Table 5: Employment Changes Across the State's Metro Areas/Divisions

| Metro Area/Division | Dec 07-Jun 09 | | Jun 09-Aug 11 | | Dec 07-Aug 11 | |
|------------------------------|---------------|----------|---------------|----------|---------------|----------|
| | Change | % Change | Change | % Change | Change | % Change |
| Atlantic City | -11.3 | -7.5% | -5.0 | -3.7% | -16.3 | -10.9% |
| Bergen-Hudson-Passaic | -46.3 | -5.1% | 30.8 | 1.1% | -36.7 | -4.0% |
| Camden | -25.6 | -4.7% | -5.5 | -1.2% | -31.6 | -5.9% |
| Edison-New Brunswick | -53.5 | -5.1% | -14.3 | -1.8% | -71.7 | -6.9% |
| Newark-Union | -60.1 | -5.8% | -0.3 | -1.3% | -72.9 | -7.0% |
| Ocean City | -1.7 | -3.9% | -0.2 | -0.9% | -2.1 | -4.8% |
| Trenton-Ewing | -2.5 | -1.1% | -2.9 | -1.5% | -6.2 | -2.6% |
| Vineland-Bridgeton-Millville | -2.6 | -4.2% | -1.6 | -3.3% | -4.6 | -7.3% |

Source: U.S. Bureau of Labor Statistics. Seasonal adjustment by author.

PERSONAL INCOME

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2010. While New Jersey's increase in transfers was marginally above the national increase, it was higher than the increases recorded in New York or Pennsylvania.

The Regional Perspective: New Jersey's Metropolitan Areas and Divisions

Table 5 shows total establishment employment changes for the state's metropolitan areas and divisions during three time periods—recession, post recession, and the entire period. In particular, the table highlights the uneven impact that the Great Recession and subsequent anemic recovery have had on the state's metro areas. While every metro area across the state saw employment decline during the recession, approximately 56% of the state's job losses during the official recession occurred in Edison-New Brunswick and Newark-Union. Combined, these two metro areas accounted for approximately 51% of the total employment across the state's major metro areas at the beginning of the recession. In percentage terms, Atlantic City recorded the largest employment declines among the state's major metro areas—during both the official recession as well as the official recovery. Total employment in Atlantic City declined 7.5% during the recession, and



has declined an additional 3.7% since the recession ended in the summer of 2009. Since the recession's end, only one metro area—Bergen-Hudson-Passaic—has recorded net job growth (+1.1%).

New Jersey's Housing Market

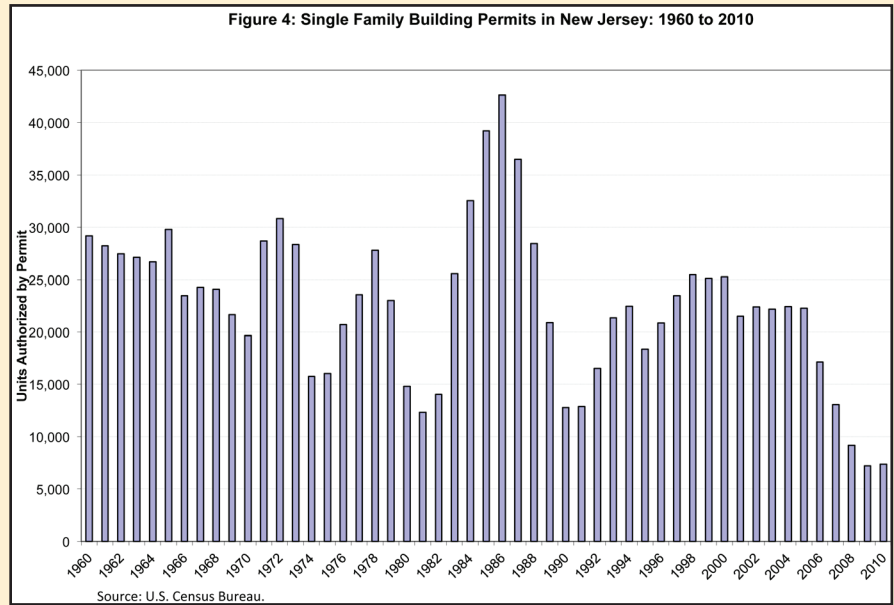
Similar to many states, the collapse of the housing market over the past several years has constituted a significant drag on

New Jersey's economy. Interestingly, New Jersey's housing market did not experience the phenomenal homebuilding boom in the years that immediately preceded the market's collapse in late 2005 and 2006. As Figure 4 shows, single-family homebuilding activity in New Jersey was far more robust in the late 1990s than in the early part of the last decade. Still, the collapse in New Jersey homebuilding has been significant. Last year, the number of single family homes permitted declined to 7,211—their lowest point in recorded history. Building activity remained moribund last year, with permits climbing to just 7,378. The collapse in the state's homebuilding has been reflected in plummeting construction sector payrolls which have declined for four consecutive years. Since peaking in 2006, construction employment in the state has declined 25% (43,000 jobs).

National Association of Realtor data for the second quarter of 2011 indicate that the state's housing sector malaise is not over. Sales of existing single-family homes, apartments, and condos in the state were down 24% lower than in the second quarter of 2010. In fact, New Jersey's decline in the second quarter

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of this year was the second-largest among the states. Sales in North Dakota declined 30% year-on-year in the second quarter, while nationally they declined 12.7%. (Third quarter figures will be released in early November.) Between late 2005 and late 2010, single-family home prices in New Jersey declined 11.2% according to the Federal Housing Finance Agency's Purchase-Only House Price Index. Nationally, single-family home prices declined 11.4% over the same period. The comparable figures in New York and Pennsylvania were -2.3% and -0.2%, respectively. ■



Editorial
Specialization: Atlantic City Economy's Past and Future

In prior research, I've argued that the gaming industry's long-run, macro-level effects on Atlantic City's economy are best grasped by grouping them into two phases.¹ The first phase included the industry's initial build-out (1978 – 1982) and early-growth (1982 – 1989). This phase was marked by rapid job, income, and population growth – growth that allowed the metropolitan area to significantly outperform the state and nation during much of the 1978 to 1989 period. The second phase spanned 1989 to 2000. This period included both national recessionary and expansionary periods. Throughout this period, Atlantic City's economy underperformed both the state and the nation. This underperformance was especially pronounced during the long and prosperous 1992 – 2000 U.S. business cycle expansion.

Between 2001 and 2007, Atlantic City's employment and personal income growth matched the state's but trailed the nation's by a significant margin. In conjunction with its robust population growth over the same period, these job and income trends translated into weak real per capita income growth in the metropolitan area.

National, international, and regional economic events since the completion of the research (in 2008) which led to the findings cited above have ushered in a dramatically changed economic landscape. Most importantly, the Great Recession and financial crisis, along

with a dramatically changed regional gaming market have—at a local level—worked to significantly undermine Atlantic City's primary economic engine—the gaming and hospitality sector. Naturally, a growing sense of urgency concerning Atlantic City's future economic course has arisen. In light of this backdrop, the analysis that follows aims to provide additional insight into a question that is of central importance to those engaged in current (re)development efforts in Atlantic City. This question concerns the role of specialization in local and regional economies and its relationship to their broader economic outcomes.

Table 6 (page 7) provides information for a select group of 36 metropolitan areas. Population determined which of the 300+ U.S. metropolitan areas were included in the table. More specifically, each metro area included in the table had a 1969 population between 85% and 115% of Atlantic City's population of 174,603 in that year. The table includes several measures of economic growth covering the 1969 to 2005 period: population growth, employment growth, per capita personal income growth. It also provides an index that measures the extent to which each metro area's economy diversified or specialized between 1969 and 2005.² (The metro areas are rank ordered in the table based on this diversity index with those metro areas whose economies experienced the greatest diversification listed first and those whose economies showed the greatest

specialization listed last.) As shown, Atlantic City's economy became more specialized than any other metro area's during this period. In fact, the average increase in the diversity index among metro areas that saw their economies specialize during the period was 0.08, while the median increase was 0.04. Atlantic City's diversity index increased 3.1 times this average increase, or 5.5 times the median increase. In other words, Atlantic City's economy not only specialized during this period, but it did so to a far greater extent than other metro areas that specialized.

What economic results flowed from these differential development paths? On the basis of average annual growth in per capita income (measured in nominal dollars), there is very little evidence of any significant difference between the two metro groups ("diversifiers" and "specializers"). Specifically, whereas annual growth in per capita personal income averaged 6.3% for diversifiers, it averaged 6.2% for specializers. Median rates of growth were similarly close. In terms of population growth, there was a significant difference across diversifiers and specializers. Whereas metro areas whose economies diversified saw their populations increase (over the total period 1969 to 2005) by an average of 47.6%, those metro areas that specialized saw their populations increase by 80.3% on average. (This population

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Table 6: Specialization and Economic Outcomes Among Select Group of Metropolitan Areas

| | Change in Industrial Diversity Index* | Annual Average Growth in Per Capita Personal Income (Nominal \$) | Population Growth 1969-2005 | Employment Growth 1969-2005 | Population Growth 1969-2005 | |
|--|---------------------------------------|--|-----------------------------|-----------------------------|-----------------------------|-------------|
| Areas with Increasingly Diversified Economies | Steubenville-Weirton, OH-WV | -0.78 | 5.8% | -24.2% | -14.4% | 0.59 |
| | Muskegon-Norton Shores, MI | -0.72 | 5.6% | 11.1% | 33.2% | 2.99 |
| | Pittsfield, MA | -0.68 | 6.5% | -11.9% | 25.1% | -2.11 |
| | Niles-Benton Harbor, MI | -0.66 | 5.7% | -2.1% | 13.1% | -6.36 |
| | Racine, WI | -0.46 | 6.1% | 15.8% | 40.6% | 2.57 |
| | Johnstown, PA | -0.46 | 6.3% | -22.0% | 5.2% | -0.24 |
| | Lynchburg, VA | -0.43 | 6.4% | 42.5% | 70.9% | 1.67 |
| | Waterloo-Cedar Falls, IA | -0.41 | 6.2% | -3.3% | 40.8% | -12.44 |
| | Killeen-Temple-Fort Hood, TX | -0.41 | 6.4% | 119.0% | 123.2% | 1.04 |
| | Springfield, OH | -0.39 | 5.9% | -8.0% | 19.3% | -2.42 |
| | Parkersburg-Marietta-Vienna, WV-OH | -0.37 | 6.1% | 5.2% | 37.6% | 7.19 |
| | Gulfport-Biloxi, MS | -0.35 | 6.4% | 62.4% | 80.6% | 1.29 |
| | Spartanburg, SC | -0.31 | 6.4% | 55.1% | 85.0% | 1.54 |
| | Vallejo-Fairfield, CA | -0.28 | 6.4% | 141.5% | 117.7% | 0.83 |
| | Hagerstown-Martinsburg, MD-WV | -0.24 | 6.3% | 67.1% | 90.2% | 1.34 |
| | Green Bay, WI | -0.24 | 6.6% | 50.4% | 146.4% | 2.90 |
| | Waco, TX | -0.17 | 6.3% | 48.8% | 94.8% | 1.94 |
| | Macon, GA | -0.16 | 6.5% | 26.4% | 67.4% | 2.55 |
| | Modesto, CA | -0.13 | 5.9% | 160.7% | 169.4% | 1.05 |
| | Lake Charles, LA | -0.08 | 6.5% | 27.1% | 84.8% | 3.13 |
| Terre Haute, IN | -0.08 | 6.1% | -3.8% | 26.3% | -6.90 | |
| Fort Smith, AR-OK | -0.07 | 6.7% | 66.9% | 133.2% | 1.99 | |
| Deltona-Daytona Beach-Ormond Beach, FL | -0.05 | 6.2% | 191.1% | 248.0% | 1.30 | |
| Tallahassee, FL | -0.03 | 7.0% | 121.6% | 226.5% | 1.86 | |
| Amarillo, TX | -0.03 | 6.4% | 41.4% | 106.6% | 2.58 | |
| Lincoln, NE | -0.03 | 6.3% | 58.2% | 126.0% | 2.16 | |
| Areas with Increasingly Specialized Economies | Salem, OR | 0.02 | 6.1% | 102.5% | 157.4% | 1.54 |
| | Topeka, KS | 0.03 | 6.1% | 15.8% | 46.9% | 2.97 |
| | Lubbock, TX | 0.04 | 6.4% | 38.5% | 91.1% | 2.36 |
| | Visalia-Porterville, CA | 0.04 | 5.8% | 117.4% | 127.4% | 1.09 |
| | McAllen-Edinburg-Mission, TX | 0.04 | 6.6% | 271.4% | 400.3% | 1.48 |
| | Champaign-Urbana, IL | 0.08 | 5.9% | 13.4% | 43.9% | 3.28 |
| | Boise City-Nampa, ID | 0.12 | 6.4% | 188.3% | 287.6% | 1.53 |
| | Springfield, IL | 0.15 | 6.1% | 20.6% | 55.7% | 2.71 |
| | Wheeling, WV-OH | 0.18 | 6.1% | -18.8% | 13.0% | -0.69 |
| | Atlantic City-Hammonton, NJ | 0.24 | 6.4% | 53.7% | 136.6% | 2.55 |
| | All MSAs | | | | | |
| | Average | -0.20 | 6.2% | 56.7% | 98.8% | 0.86 |
| | Median | -0.14 | 6.3% | 41.9% | 84.9% | 1.54 |
| MSAs with economies that diversified | | | | | | |
| Average | -0.31 | 6.3% | 47.6% | 84.5% | 0.464 | |
| Median | -0.14 | 6.3% | 41.9% | 84.9% | 1.539 | |
| MSAs with economies that specialized | | | | | | |
| Average | 0.09 | 6.2% | 80.3% | 136.0% | 1.881 | |
| Median | 0.06 | 6.1% | 46.1% | 109.2% | 1.950 | |

* See endnote 2 for methodology of index.

Source: Authors' calculations derived from U.S. Bureau of Economic Analysis REIS data.

Table 7: A Closer Look at the Specializers

| Metropolitan Area | Key sources of Specialization | Manufacturing Share Earnings | | 1969 Per Capita Income | % Change Nonfarm Employment 2006-2010 |
|------------------------------|--|------------------------------|-------|------------------------|---------------------------------------|
| | | 1969 | 2000 | | |
| Salem, OR | Business and health services; state capitol | 19.3% | 12.1% | \$3,382 | -4.0% |
| Topeka, KS | FIRE; business and health services | 15.5% | 10.4% | \$3,612 | 0.1% |
| Lubbock, TX | Business and health services; state and local government | 10.9% | 6.8% | \$3,016 | 0.6% |
| Visalia-Porterville, CA | Transportation and utilities; wholesale and retail trade; state and local government | 12.3% | 11.2% | \$3,380 | -6.5% |
| McAllen-Edinburg-Mission, TX | Business and health services | 7.3% | 7.1% | \$1,763 | 8.5% |
| Champaign-Urbana, IL | FIRE; business and health services; manufacturing; state and local government | 10.8% | 13.2% | \$3,720 | -2.9% |
| Boise City-Nampa, ID | Manufacturing; business and health services | 17.0% | 24.8% | \$3,551 | -7.5% |
| Springfield, IL | FIRE; business and health services; state capitol | 16.4% | 3.5% | \$4,110 | 0.1% |
| Wheeling, WV-OH | Business and health services; transportation | 28.0% | 14.1% | \$3,237 | -1.2% |
| Atlantic City-Hammonton, NJ | Gaming | 15.4% | 3.0% | \$3,902 | -10.3% |

Sources: U.S. Bureau of Labor Statistics; Bureau of Economic Analysis.

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growth premium for specializers still holds even if McAllen-Edinburg-Mission (which saw its population more than triple over the period) is not included in the calculation.) A similar difference is seen in terms of total employment growth. Employment growth between 1969 and 2005 was markedly higher in those metro areas that specialized.

The conclusion that would seem to flow from the above is that specializers performed as well as, if not better than, diversifiers. Moreover, Atlantic City's economic performance compared to other specializers was solid—in fact, rather impressive. But, I want to suggest that leaving the matter here ignores an important dimension of Atlantic City's specialization. This dimension's importance and its larger economic implications become clearer once Atlantic City's specialization is compared directly with the other nine specializers'. More specifically, the outstanding feature that differentiates Atlantic City's specialization from other specializers' is its near one-dimensional nature. While each of the other specializers' economies grew more specialized, their specialization tended to be multi-dimensional, i.e., they tended to involve several industries. Atlantic City's specialization, in contrast, was based almost exclusively on gaming.

Table 7 provides information on the key sources of specialization for each specializer. It also shows the proportion of earnings accounted for by manufacturing in each metro area in 1969 and 2000. Several

points stand out. First, Table 7 makes clear that all of the specializers (besides Atlantic City) experienced multi-dimensional specializations. Generally speaking, most specializers saw significant increases in business and health services. Finance, insurance, and real estate (FIRE), along with state and local government also played an important role for many specializers. While Atlantic City did experience gains in business and health services as well as FIRE, the gains it recorded in business and health service were small compared to those recorded by other specializers. Whereas the share of total earnings accounted for by business services increased 2.1 percentage points between 1969 and 2000 in Atlantic City, it increased by an average of 3.5 percentage points in the other specializers. The share of total earnings accounted for by health services also increased by 2.1 percentage points in Atlantic City, compared to an average increase of 5.3 percentage points in other specializers during this period. Appreciation for the uniqueness of Atlantic City's specialization vis-à-vis other specializers is perhaps best underscored by considering the contribution to total earnings of the largest industry in each specializer. In Atlantic City, gaming accounted for 53% of total earnings in 2000. The largest industry accounted for 28.2% of total earnings on average across the other specializers. In other words, Atlantic City's economic development during this period might better be described as a hyper-specialization.

Table 7 also shows how each specializer has fared during the Great Recession. In particular, it shows the percentage change in total nonfarm employment for each specializer from 2006 to 2010. Four specializers recorded job growth during the period. Five specializers saw employment decline—a clear indication that a multi-dimensional specialization does not fully insulate a metropolitan area's economy from the effects of a significant national recession. At the same time, Atlantic City experienced the largest decline during the period—a fact that reflects the impact of both the national recession and heightened regional gaming competition.

A second noteworthy point highlighted in Figure 7 concerns manufacturing. Specifically, all but one of the metro areas (McAllen-Edinburg-Mission, TX) boasted sizable manufacturing sectors in 1969, including Atlantic City. In fact, six of the ten metro areas maintained sizable manufacturing sectors in 2000, despite their specialization. While eight of the specializers saw their manufacturing sectors shrink, two (Boise and Campaign) saw theirs' grow. Notably, Atlantic City's manufacturing sector experienced the most significant decline (in percentage terms) during the period.

Atlantic City's specialization was the product of its virtual monopoly on East Coast gaming for nearly three decades. In contrast, the specializations that occurred in other specializers were considerably more broad-

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based, and were (ostensibly) driven by more traditional demand-side determinants of growth. This is not to deny that policy-making played a role in the developments of other specializers. Clearly, it often did, especially in places like Boise, whose sophisticated high-tech oriented economy began to develop in the 1970s. But, specialization premised on monopoly is fundamentally different than specialization spurred by policies that attract industries that must compete in broader competitive marketplaces. With the obvious benefit of hindsight, the question that seemingly looms large is whether or not Atlantic City's specialization in gaming—despite the economic benefits it brought to the metro area for nearly three decades—hindered the development of a broader-based economy. Gaming's success in Atlantic City (premised on its virtual monopoly position) obviated the relevance of this question for nearly 30 years. With Atlantic City's gaming monopoly now imperiled, the question's relevance has become obvious.

What to Do?

Above all, current redevelopment efforts must embrace policies that will diversify Atlantic City's economy. While there are reasons to believe that Atlantic City's "uniqueness" and gaming history may pose obstacles to diversification, there are a host of examples that make clear that metropolitan area economies can be transformed. Indeed, Table 6 highlights some of the best known examples of such transformations, e.g., Lincoln, NE; Spartanburg, SC; and Waterloo-Cedar Falls, IA. Generally speaking, these transformations required extensive coordination among local, regional, and state policymakers. Equally important, they often involved leveraging a metropolitan area's existing assets and finding ways to use them for broader diversification goals.

The good news is that the Atlantic City

metropolitan area (which is comprised of Atlantic County) has several assets that could play an important role in such leveraging. These include the Next Generation Aviation Research and Technology Park at the FAA William J. Hughes Technical Center, the region's institutions of higher education, and its various health-care facilities, among others. Equally important, a portion of the monies provided by the state for completion of the Revel project are targeted for nurturing small businesses start-ups in the metropolitan area. A portion of these funds should be used to incubate new businesses that build upon these existing assets.

Beyond finding ways to leverage existing assets, policymakers should also begin to rethink the long-term strategic importance of the manufacturing sector. As noted, Atlantic City's manufacturing sector suffered the largest percentage decline among all of the specializers between 1969 and 2000. While such a decline suggests that the sector's decline was seemingly "natural," the experience of the other specializers suggests otherwise. Among the nine other specializers, two saw their manufacturing sectors grow. And, the declines in manufacturing experienced by the other seven specializers was but one-half (on average) of Atlantic City's.

The broader economic implications of the strategic importance of manufacturing can be gleaned from metropolitan-based export data.³ According to these data, the value of exported goods in 2009 accounted for 7.5% of total metropolitan gross domestic product for the other nine specializers. (Even if one excludes export heavyweights Boise and McAllen-Edinburg-Mission, exports accounted for an average 4% of metropolitan gross domestic product in the other seven specializers.) In Atlantic City, 2009 exports accounted for a paltry 0.3% of gross domestic product. One (admittedly crude) way to think about the significance of these exports is

to consider their per capita income effects. Across the other nine specializers, the per capita value of 2009 exports equaled \$2,166 on average. If Boise and McAllen-Edinburg-Mission are excluded from the calculation this average falls to \$1,394. The comparable figure for Atlantic City was \$163!

Beyond its potential to expand (and, diversify) the local economy's export base, manufacturing's longer-term strategic importance is perhaps best grasped by comparing its productivity with other industries and sectors. For example, in 2009, the value of output produced in Atlantic City's manufacturing sector totaled \$237 million. This equaled \$89,902 on a per employee basis. By way of contrast, the value of output produced in the accommodations and food sector (which includes the casinos) totaled \$2.69 billion, which equaled \$77,270 on a per employee basis. This productivity differential translated into a significant annual average wage difference in the two industries in 2009: \$49,964 vs. \$30,056. This productivity difference also explains, in part, why manufacturing tends to have larger multiplier effects than many other industries, including leisure and hospitality. Such differentials ought to be taken into account when public dollars are used for local economic development initiatives. The goal of maximizing the social return on each public dollar spent on Atlantic City's (re)development is one that all policymakers and stakeholders ostensibly share.

Consideration of the skills held by the metropolitan area's labor force participants provides another reason manufacturing's potential role in current redevelopment efforts should be considered. Nearly one-half (49.5%) of Atlantic City's population 25 years or older has an educational attainment level of a high school degree or less (compared to a statewide benchmark of 41.4%). And, only 23% of the metropolitan area's population 25 years

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or older holds a bachelors degree or higher (compared to a statewide mark of 35.4%). As it has long done, manufacturing can provide relatively well-paid jobs for those with limited formal education. Moreover, unlike many service sector jobs, manufacturing jobs are often more likely to be open to those for whom English is a second language.

Despite its small size, Atlantic City's manufacturing sector is fairly well-diversified and includes enterprises engaged in the manufacture of: food, printing, nonmetallic mineral products, fabricated metal products, machinery, computer and electronic products, transportation equipment, and furniture. Given manufacturing's long decline in Atlantic City (and in many other metropolitan areas), these firms' very existence in the local economy suggests that they have likely developed successful niche positions in their respective markets. Policymakers should pursue policies that will facilitate these firms' and niche markets' growth. Needless to say, expanding the local

economy's manufacturing base will not single-handedly transform Atlantic City's economic fortunes—just as a new casino will not. And, admittedly, such an expansion's upside is likely to be limited. At the same time, dismissing the potential contribution the sector could make to a larger diversification strategy seems myopic.

Finally, nothing here should be misconstrued as implying that Atlantic City's future economic fortunes will rest entirely on the development of its non-gaming economy. Clearly, gaming will continue to occupy a special role in Atlantic City's future. At the same time, reasonable appreciation of the pressures that the gaming industry will likely continue to feel over the coming years (both in terms of careful consumers and rising regional gaming competition) suggest that Atlantic City's long-term economic prosperity can no longer be hitched exclusively to the gaming industry's fortunes. Indeed, there are good reasons to believe that a more diversified Atlantic City economy will—via the economic growth it has the potential to induce—not only provide it (and its many stakeholders) long-term economic benefits but the gaming industry as well.

The current interest in Atlantic City's future economic development provides stakeholders and policymakers an opportunity to shape Atlantic City's economy in ways that will enhance residents' lives, foster long-term economic growth, and support and build upon its existing world-class gaming and hospitality sector. Diversifying the region's economy will not be easy, and there are a host of constraints and barriers which may place a limit on it. Moreover, diversification will not materialize overnight. A time horizon of a decade or more seems a far better policy guide than a few years. At the same time, dismissing diversification as fantasy flies in the face of an abundance of U.S. metropolitan area economic evidence that has accumulated over the past three decades. Equally importantly, that same body of evidence suggests that dire economic consequences—abandoned buildings and property, declining commercial activity, population, and tax bases, high unemployment and crime—are often the result of a failure to recognize the long-term strategic importance of diversification. ■



ENDNOTES:

¹ Oliver Cooke, "The Economic Impact of Gaming in Atlantic City," *Casino Gaming in Atlantic City: A Thirty Year Retrospective 1978-2008*, eds., Brian J. Tyrrell and Israel Posner, Comteq Publishing, 2009

² The diversity index was constructed based on SIC industry-based earnings data. The proportion of earnings accounted for by each major industry in each metro area was calculated for 1969 and 2000. (Beginning in 2000, the SIC system was gradually replaced with the North American Industrial Classification System (NAICS)). An index of industrial diversity for each metro area was calculated (for each year) via the following formula: % earnings of "largest" industry (where, large was defined as the industry that accounted for the largest share of total earnings) / (1-largest industry's share earnings). The difference in this ratio between 1969 and 2000 is what is reported in Figure X. The implication is that metropolitan areas with economies that grew increasingly diversified during the period saw a decline in this ratio over time, while those that saw an increase in this ratio had economies that grew increasingly more specialized. For example, in 1969, retail trade accounted for 18.6% of all earnings in Atlantic City. Thus, the ratio for Atlantic City in 1969 equals: $18.6\% / (1 - 18.6\%) = 18.6\% / 81.4\% = 0.23$. In 2000, Atlantic City's ratio (reflecting the impact of gaming) had risen to 0.47 (31.9% / 68.1%) for a difference of +0.24 (the figure shown in Table 6).

³ U.S. Department of Commerce's International Trade Administration.

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