Reinventing the New Jersey Economy

NEW METROPOLITAN AND REGIONAL EMPLOYMENT DYNAMICS

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Introduction

Over the past 150 years, New Jersey has experienced two major economic transformations, each time successfully reinventing itself. At the end of the nineteenth century, the state’s once-dominant agricultural economy had become a powerful technology-driven, urban-manufacturing economy. At the end of the twentieth century, the state’s manufacturing economy had become a powerful technology-driven, knowledge-based, suburban service economy. Now, in a vast temporal telescoping, at the end of the first decade of the twenty-first century the state faces a third transformation. However, this time, in a few short years, the underlying foundations of the second transformation had dramatically weakened. In particular, the hugely successful core geographic model of the recent past—the office-based suburban growth corridor—was no longer the state-of-the-art economic configuration. Yet, the critical mass of the state’s office capital stock remains tied to that spatial format. Such massive fixed investments can be neither quickly nor easily jettisoned. It may now be necessary to reinvent New Jersey for a third time—transforming, restructuring, and reimagining its suburban office ecosystems to adjust to the new employment and business dynamics that are emerging. Failure to do this is likely to incur high costs for the future of the state’s economy.

Overview

In the second half of the twentieth century, a new metropolitan geography emerged in the extended New Jersey–New York City region. In 1950, New Jersey’s economy—measured by total employment—was less than one-half the size of New York City’s, the nation’s unquestioned economic epicenter (table 1 and figure 1). But, over the next 50 years, the region’s employment geography was fundamentally reconstituted. By the year 2000, New Jersey’s total employment base was 7 percent larger than that of New York City. In the final two decades of this 50-year period, the state served as a powerful regional economic locomotive, led by its burgeoning office markets that were largely concentrated in highway-oriented suburban growth corridors.¹ New Jersey became the most efficient and cost-competitive place for doing postindustrial business in the broad metropolitan region.

This pattern continued through the 2000–2003 national employment downturn. By 2003, New Jersey’s employment base grew to be 13 percent larger than New York’s. But this may have been a major inflection point as new spatial patterns revealed themselves. During the brief 2003–2007 national employment expansion, New York City emerged as the driving economic force in the region, adding approximately twice the number of jobs as New Jersey. By 2007, New Jersey’s job advantage slipped to 9 percent. Following the 2007–2009 Great Recession, the state’s advantage fell further, to 5 percent. And after two years of employment recovery (2009–2011), New Jersey’s employment base was virtually the same size as that of New York City. By 2011, its employment base was just 2 percent larger—the same relative advantage as it had in 1989, 22 years earlier.

It appears that new regional dynamics are now at work, along with a new geographic reordering.² Has a half-century-long trend been fundamentally reversed? Are locational preferences and protocols fundamentally changing? What is the new dynamic crest of the wave? These concerns are vitally important to the future of the New Jersey economy and its ability to adapt to the new forces at work.

¹ The major non-suburban office concentration in this trend was located on the Hudson River waterfront—New Jersey’s “Gold Coast,” or “Wall Street West.”
² The most recent state job patterns are detailed in Employment Recession and Recovery in the 50 States: An Update (Joseph J. Seneca and Will Irving, Rutgers Regional Report No. 30, August 2012).
This is an issue not only about future economic structure; it is also one of the continued viability of the state’s twentieth-century office ecosystems in the twenty-first century. Before examining these issues, this report turns first to the history book and examines the phases and underlying forces of the long-term regional employment trajectory and its current shift.

Postwar Affluence and Residential Suburbanization: 1950–1970

In 1950, New York City’s total employment (3,468,200 jobs) was slightly more than double that of New Jersey (1,656,800 jobs).³ It was the unchallenged leader of a centralized regional economy. At that time, America was well into a glorious postwar period of global economic hegemony that would transform the old economic world order. New Jersey benefited greatly from two powerful emerging forces—unfettered residential suburbanization and the parallel development of a robust consumer economy. Auto-dependent tract-house suburbia seemingly engulfed New Jersey. Between 1950 and 1970, the state added more than one million housing units—a record level of production—along with the requisite strip shopping malls and attendant residential and household services businesses. Vast migrations of New York City’s middle-class, child-rearing households to the emerging suburban frontier were fully under way. New Jersey also produced many of the consumer goods that stocked all the new housing units (washing machines, refrigerators, telephones, black-and-white tube televisions), as well as automobiles, that made this new residential geography possible. Between 1950 and 1970, New Jersey added nearly one million jobs (949,400 jobs), while New York City gained just 277,300 jobs, significantly less than one-third.⁴ At the same time, the manufacturing sector grew substantially in New Jersey, reaching its all-time peak of 890,000 jobs in 1970—nearly one out of three total jobs in the state.


The decade of the 1970s brought with it significant changes to the nation and region. Increasing global competition began to challenge America’s economic dominance, and two energy shocks redefined the world energy order. The “Rise of the Sunbelt” and the “Decline of the Northeast” were catchphrases capturing new patterns of growth within the United States. The great manufacturing hemorrhages in New Jersey and New York City began. New Jersey, however, still added 454,200 jobs, almost matching the two-decade growth performance of the 1950–1970 period (an average of 474,700 jobs per decade). In contrast, New York City experienced a substantial employment decline (-443,800 jobs) between 1970 and 1980, as crime and fiscal crisis took their tolls. By 1980, New Jersey’s employment level (3,060,400 jobs) was closing in on that of New York City (3,301,700 jobs). So, in 30 years, New Jersey’s employment moved from 48 percent (1950) of New York City’s to 93 percent (1980). The gap was narrowing substantially.

The decade also marked the first stage of the urbanization of the suburbs. More comprehensive retailing and services emerged as the suburban population achieved critical mass. A hallmark of this era was the birth and gestation of the enclosed super-regional mall. New Jersey would ultimately contain 29 such behemoths before this retail format ran its course, as it ultimately began to succumb to regional mall fatigue as the century came to a close.⁵

³. Alternatively, New Jersey’s employment base was only 48 percent the size of New York City’s.
⁴. In this report, the yearly employment figures that are used comprise annual averages. In other Rutgers Regional Reports, the yearly employment figures are measured from December to December in seasonally adjusted terms. This use of annual averages was necessitated by the limitations of pre-1990 historic data.
⁵. The broad 31-county Tri-State Region, centered on Manhattan, and including portions of Connecticut, New Jersey, and New York, ultimately had a comprehensive regional mall grid comprising 47 million square feet of regional mall space located in 48 enclosed super-regional malls. See Retailing and Regional Malls (James W. Hughes and George Sternlieb, Rutgers Regional Report, Vol. III, 1991).
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The Suburban Growth Corridor: 1980–2000

The 1980 to 2000 period heralded another new era, one of further decentralization and suburbanization. However, this time it fully encompassed all dimensions of the regional economy. Thus, this period could be considered the second stage of the urbanization of the suburbs. The first dynamic of this 20-year “run” was a complete structural economic transformation: New Jersey changed from a badly aging manufacturing state—a state hemorrhaging industrial-age jobs and physical plant—to a leading-edge, postindustrial, information-age, service economy, comprising legions of high-wage, middle-skilled knowledge workers. These workers filled the state’s burgeoning new office inventory, the factory floors of the new economy—the second dynamic.

Emerging out of the 1981–1982 national recession was New Jersey’s great 1980s office-building boom, which completely reinvented and transformed the state’s economic landscape. Eighty percent of all the commercial office space ever built in the history of New Jersey was erected in the 1980s; by 1990, the 11-county northern and central New Jersey market area\(^6\) rapidly emerged as the fifth largest metropolitan office market in the country.

\(^6\) The 11-county northern and central New Jersey market area comprises the following counties: Bergen, Essex, Hudson, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Passaic, Somerset, Union.
Much of this new product, and that subsequently produced in the 1990s, was located in the state’s freeway-oriented, auto-dependent, suburban growth corridors. This became the Garden State’s end-of-millennium core economic specialization—its unique nation-leading spatial competency. New Jersey was recognized globally as the poster child for emerging edge cities, supposedly the future shape of the U.S. economy. The suburban highway network became the critical pipeline of the new economy.

In the midst of this reordering, New Jersey had fully evolved from a minor regional participant to a major regional player. By 1988, the state finally surpassed New York City in total employment (3,651,000 jobs versus 3,605,800 jobs). And, by the end of the century (2000), New Jersey’s total employment level (3,994,500 jobs) was 7 percent greater than that of New York City (3,718,600 jobs). However, following the losses of the 1970s, New York City eventually began to add jobs again. Between 1980 and 2000, it gained 416,900 jobs. But New Jersey had added 934,100 jobs during the same 20-year period, more than double that of New York City!

One-Half Century of Suburbanization

The remarkable half-century-long metropolitan transformation was striking. During the 50-year period between 1950 and 2000, New Jersey experienced a total employment increase of 2,337,700 jobs. This was almost ten times the gain achieved by New York City (250,400 jobs). Much of this broad economic reordering paralleled the life cycle of the baby boom generation—that tremendously oversized population cohort born between 1946 and 1964. To badly paraphrase a popular state slogan: “The baby boom and New Jersey—perfect together.” Tract-house suburban New Jersey was invented to meet the requirements of raising and sheltering the baby boom. The baby boom dominated New Jersey, its economy, and its markets throughout each of its life-cycle stages. It lived the good suburban life throughout the second half of the twentieth century. It not only was born and reared in suburbia, it formed households there, consummed there, worked there, traded up in the housing market there, and reached the peak of its housing consumption there. But this suburban dominance was soon about to be challenged.

The Shifting Dynamics of the New Millennium

As the new millennium approached, wide-eyed economic optimism prevailed throughout the nation and the region. The United States was in the midst of what would prove to be the longest economic expansion in the nation’s history and, despite fears of a Y2K meltdown, expectations for the future were sky-high. However, the reality that eventually unfolded had not been on anyone’s radar screen: the bursting of the high-technology capital-investment bubble, the terrorist attack of 9/11 and subsequent decade-long and ongoing wars in the Middle East, the housing price and credit bubbles and their bursting, the Great 2007–2009 Recession, the subsequent federal rescue efforts, record federal deficits and debt, and unexpected suburban lifestyle fatigue. All of these events contributed to shifting employment growth dynamics and locational preferences.

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7. This is fully detailed in The Emerging Wealth Belt: New Jersey’s New Millennium Geography (James W. Hughes and Joseph J. Seneca, Rutgers Regional Report No. 17, September 1999).
9. The demographic forces are analyzed in Demographics, Economics, and Housing Demand (James W. Hughes and Joseph J. Seneca, Rutgers Regional Report No. 29, April 2012).
The Lost Employment Decade
Payroll employment statistics were first compiled in the United States in 1939. During the ensuing six decades (through 2000), national employment growth per decade never fell below 20 percent. However, during the decade of the 2000s, an actual employment decline took place. This was the first time that the nation had ended a decade with fewer jobs than when the decade began. So, too, for New Jersey: Between 2000 and 2010, the state lost 143,900 jobs. This unprecedented performance followed a half-century during which the state had gained 2,337,700 jobs, or, on average, 467,540 jobs per decade! It was truly the “lost-employment decade.” This was technically the case for New York City, although the phenomenon was far more muted. It lost just 7,300 jobs during the decade. The city’s lost-employment decade actually took place in the troubled 1970s (1970–1980), when it lost 443,800 jobs. Even so, New York City’s labor markets outperformed both New Jersey and the nation in the 2000s.

The 29-Month-Long Employment Recession
The first signature economic event of the decade—one that encompassed 9/11—was the eight-month-long 2001 national recession that began in March 2001 and ended in November 2001. However, it took another 21 months before the national employment contraction finally bottomed out. During this extended period of jobless economic growth (November 2001–August 2003), New Jersey lost 18,400 jobs while New York City lost 158,400 jobs. Thus, New Jersey extended its employment advantage over New York City, from 8 percent in 2001 to 13 percent higher in 2003. This was to be New Jersey’s high watermark.

The 2003–2007 Employment Expansion
The relatively short and modest postrecession national employment rebound was driven by unprecedented housing and credit bubbles, a Wall Street on steroids, and record corporate profits. For the first multiyear period since 1950, New York City outpaced New Jersey, with its total 2003–2007 employment increase (212,900 jobs) more than double that (100,100 jobs) of New Jersey. As a result, by 2007, New Jersey’s job advantage slipped to 9 percent, down from 13 percent four years earlier. Thus, New York City began to reclaim the mantle of regional economic locomotive. While New Jersey was not quite relegated to economic caboose, it began to lose its luster. Abetted by a deteriorating business climate, its suburban-centric geography was no longer viewed as the most efficient and cost-competitive place for carrying out knowledge-based activity in the broad region.

The Great 2007–2009 Recession and Subsequent Recovery
The bursting of the housing and credit bubbles spawned the Great Recession and its extended aftermath, the worst global economic downturn since the Great Depression. Between 2007 and 2010 (the year when national employment declines...
finally abated), New Jersey lost 228,300 jobs. In contrast, New York City, perhaps due in part to the federal bailout of Wall Street and continued strong national and international tourism, lost just 33,300 jobs. As a result, New Jersey’s relative job advantage fell from 9 percent greater than New York City to 4 percent greater. As was the case in the preceding expansion (2003–2007), New York City’s economy in recession (2007–2010) greatly outperformed that of New Jersey. That advantage continued in the recovery which followed. Between 2010 and 2011, New York City’s employment gain (74,700 jobs) was 13 times greater than that (5,600 jobs) of New Jersey. New York City had just about erased New Jersey’s relative employment advantage.

Thus, between 1950 and 2004, New Jersey’s employment base grew from less than half (48 percent) the size of New York City’s to 13 percent larger. This regional transformation took place over more than half a century (54 years). But just seven years later (2011), New Jersey’s size advantage had contracted to just 2 percent. Regional employment dynamics had undergone a profound and fundamental shift.

### Emerging Dynamics

The following itemization, while preliminary, suggests some of the forces that are now changing the shape of regional employment growth.

- The fashionability and attraction of suburban-centric, auto-dependent office corridors may have run its course. This 1980s-based office geography had evolved into New Jersey’s core economic competency. New locational preferences centered on a different set of social and physical attributes have gained momentum.

- The legacy of the state’s great 1980s office-building boom—comprising at one time a leading-edge, national state-of-the-art inventory—is now an aging and far less competitive product between two and three decades of age. And it is centered on an aging highway infrastructure facing significant capital needs and a higher energy-price future.

- As the balance of the decade unfolds, the supply of obsolete and underperforming office product is destined to grow. The same reality may confront its campus settings.

- New Jersey’s structural transformation to a knowledge-based, information-age economy proceeded in lockstep with the emergence of powerful suburban growth corridors. The state’s nation-leading specialization was based on legions of high-wage, middle-skilled knowledge workers flourishing in suburban work environments.

- However, the high-wage, middle-skilled knowledge worker, while not about to become an endangered species, is no longer a locus of growth. It has succumbed to the new reality defined by globalization, cost discipline, and information technology.
Most high-wage jobs going forward will be high-skilled, highly educated ones, and some of those jobs may be only middle wage. The lifestyle and workplace preferences of the talented individuals that have the technical competency to fill those jobs will shape future economic geographies. These preferences have already started to assert themselves.

Similarly, corporate cultures and business models have been radically transformed. Sterile, insular corporate communities are out. Exciting, interactive, multifunctional 24-hour environments are in, as are such attributes as diversity, sustainability, and walkability.

Consequently, office ecosystems are changing. The cubicle forms inhabited by the baby boom of yesteryear may be yielding to the flexible collaborative spaces desired by the echo boom of today.

Information-age umbilical cords are being severed by sustained advances in communications technology. Echo boomers are untethered from fixed-in-place information-technology systems.

Have these twenty-first-century shifts rendered fully obsolete the old geographic order—the location preferences of choice of the late-twentieth century—as well as individual structures? The lagging pace of employment growth in New Jersey relative to New York City suggests that this may be the case.

Other dynamics are also at work. In the era of the great industrial research laboratory, New Jersey stood at the top of the pecking order—a true high-tech mecca. Sarnoff Labs in Princeton, Bell Labs in Holmdel, Exxon-Mobil Research in Florham Park, and numerous pharmaceutical research complexes on stand-alone facilities, set in suburban corporate campuses, were globally preeminent.

This is no longer the case. New high-tech clusters have emerged nationally and globally. For example, locations that have university concentrations of research excellence with extensive small-business agglomerations of related tech and life-science firms, such as Cambridge-Boston, have become preeminent for the new leading-edge research centers of pharma and life-science companies. This has negatively affected New Jersey.

Similarly, Manhattan is becoming an emerging high-tech mecca at the same time its financial sector faces an uncertain future. New corporate giants, such as Google, have made Manhattan an edgy, urban research destination favored by the young, high-tech workforce.

Manhattan has also become a favored residential investment of choice for the global elite. Their servicing and spending, enhanced by a weak dollar, now cascade through the New York City economy. Foreign tourists also have made Manhattan a preeminent destination of choice, with attendant positive employment outcomes for the city.

Changing demographics are also at work, as evidenced by the Google example noted above. The United States is in the midst of the greatest age-structure transformation in history. Suburban-saturated baby boomers are swelling the ranks of 60-somethings and are resizing in the housing market, making different locational choices. They are also beginning to exit the labor market.

At the same time, their offspring—the baby-boom echo (also labeled echo boomers, Gen Y, or Millennials)—is about to enter its period of
workforce dominance. They are considerably less suburban-centric than their parents were at the same age in terms of both residential and workplace preferences.

The most-talented, highly educated, highly skilled echo boomers are in great market demand despite the tepid national employment expansion. Their workplace environments are an increasingly important locational determinant. Can New Jersey be competitive in attracting such talent if they desire non-suburban spatial work environments?

**The Future**

Determining New Jersey’s future economy is obviously fraught with uncertainty. Nonetheless, there are two key determinants, among others. The first is linked to emerging national and global growth locomotives—the industrial sectors that will drive the economy of the future. Although these sectors will probably be high-technology, knowledge-based activities, their exact shape and scope are difficult to discern. This is not unusual. For example, in 1992, just 20 years ago, there were very few forecasters who predicted that the Internet would be a growth locomotive in the second half of the decade and transform the world economy. In fact, most forecasters at that time had only rudimentary knowledge about the information superhighway. But the Internet was quickly reshaping the U.S. and global economies as the twentieth century came to a close. And it also was directly contributing to changing dimensions of knowledge-based workplace location and configuration, leading to the second determinant: The ability of New Jersey’s current office inventory to adapt to a changing economic world will also be instrumental in determining the future competitiveness of the state. This leads to the following questions.

What can New Jersey do with its massive inventory of past physical investments? Wholesale abandonment is really not a viable option, but the potential of vast empty remnants of once-thriving office parks—the postindustrial analogs of abandoned industrial factory complexes—cannot be discounted. Can some of them be retooled for emerging economic imperatives?
Fortunately, there are still suburban office environments that are spatially well positioned relative to population concentrations and accessibility. How do we reimagine such existing assets? Can there be a fundamental reinventing of the in-lying suburban office campus?

What are the acceptable models for maximizing a sustainable environment by effective reuse and redesign? What will constitute the successful new campus aesthetic and functionality?

Office buildings sunk in seas of asphalt need to be reimagined. They will not constitute a competitive work environment going forward. What are the outlines of such a reimaging?

What other strategic modifications are necessary to create a multiuse, interactive, accessible, sense of place? What can be done to have highly talented, highly skilled echo boomer knowledge workers find this an acceptable workplace?

Answers to these questions may prove critical in salvaging significant portions of the state’s office-based economy. The “R” words describe the task at hand: Reimagining, Reconceptualizing, Reconfiguring, Resaping, Reworking, Repackaging, Remodeling, Retenanting, and—as the title of this report stresses—Reinventing.

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March 2012 marked the twentieth anniversary of the establishment of the Edward J. Bloustein School of Planning and Public Policy. A series of events from fall 2011 through spring 2012 commemorated this achievement. Festivities included presentations on Bloustein School faculty and staff research, several major lectures, and a two-day symposium on healthy cities, health policy, transportation security, and international planning. Events highlighted the best of the school’s work in urban planning, public policy, and public health. They began in September 2011 with the construction of the Rutgers and NJIT completely solar-powered ENJOY house on the Washington Mall in the District of Columbia as part of the U.S. Department of Energy’s Solar Decathlon and culminated in a two-day symposium on April 26 and 27, 2012.

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