Accounting for Trend Growth

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The Long Island economy, and for that matter, the U.S. economy have continued to perform well over the past eight years. Unemployment remains low, labor force participation rates, and sectoral and overall employment on the Island have all increased. The regional price index for all urban consumers (New York Metropolitan area) has hovered around two percent for the past year and prices remain stable. Compensation costs and wage rates in the region increased by approximately three percent – but these increases do not appear to be a threat to regional growth. Stock market indexes have steadily increased since the end of the great recession.

What factors account for the continuing good performance of the economy? Looking back at the past forty years, the economy has undergone significant swings from the high inflationary period of the early 1980s, several major market downturns, and the resurgent growth of the 1990s. The strong economy of the early 2000s eventually succumbed to the financial crisis that precipitated the Great Recession. These economic swings have been explained by many different factors such as the energy crisis, technological change, lax oversight of innovative financial derivatives and policy changes.

Tax policies such as those enacted in the 1980s (supply side tax policies) and the Bush tax cuts of the early 2000s are often credited by some economists as driving economic growth. The current administration likewise has suggested that the tax cuts passed in 2017 are responsible for the continued growth of the economy. Other analysts though, point to the policies introduced during the recession creating greater oversight over the banking and corporate community, and open trade policies that helped to lead the country out of recession and towards its current growth stance.

Policy changes may impact short term growth prospects and economic output. Income tax cuts increase disposable income and may induce both greater household consumption and investment. Increased government spending will increase output leading to potential increases in employment, income, additional consumption spending. Long run growth though is the result of a combination of factors including changes in technology, capital accumulation, and labor supply and skill sets. In addition, though, institutions (property rights, political stability, effective legal systems, etc.) matter, and for analysts such as Tyler Cowen and Alex Tabarrok (2015), these institutions help to account for the long run growth that we see in the U.S. economy over the past two hundred years.

For the region as a whole, the prospects for continued growth appear to be good. That is not to say that we might not encounter a periodic downturn in the near future. However, Long Island and the New York Metropolitan area has a diverse population and skilled labor supply with a wide range of educational and vocational training institutions and opportunities. Firms and entrepreneurs have access to technical and financial expertise and assistance.

While both the cost structure and the regulatory environment (zoning and land use policies) for the region may be higher or more stringent than some other parts of the country limiting some investment opportunities, there are still numerous profitable investment opportunities open to the region's entrepreneurs.