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How New York Lost the Apparel Business

By Marc Levinson - Apr 18, 2012

Signs are everywhere that U.S. industry is reviving, and there is much talk of government aid to help manufacturers update their factories. But an obscure episode half a century ago shows the need for caution.

Like many government policies, support for manufacturing can have unintended consequences. In 1962, it hurt many of the firms that policy makers were most eager to assist.

The industry concerned was apparel manufacturing, which at the time was one of the largest industrial sectors in the U.S. Almost 1.3 million Americans worked in clothing factories in 1962, a fourth of them in New York.

Apparel was an industry with famously low productivity, because the process of cutting and sewing cloth had proven resistant to automation. From 1949 through 1961, the real stock of fixed capital per worker in the apparel sector was flat. Almost three-fourths of the industry's investment in equipment took the form of sewing machines, and by 1962, the average sewing machine used in an apparel plant was more than 20 years old.

The government decided to give the industry a boost. At the start of 1962, the Internal Revenue Service issued new depreciation schedules that drastically lowered the after-tax cost of apparel-making equipment. Sewing machines could be depreciated over nine years rather than 15. Power-cutting machines, previously assigned a 30-year useful life, could henceforth be depreciated over eight years.

“The new lives will spur new plant construction and set many manufacturers to thinking about diversification in new areas,” predicted the Daily News Record, a leading industry newspaper. Later in the year, Congress sweetened the pot by enacting a 7 percent investment tax credit.

The credit, combined with faster depreciation, triggered a boom in investment as clothing manufacturers installed new sewing machines with specialized attachments, simple conveyor systems and new plants in which to put them to use. From 1961 to 1977, the amount of fixed capital per worker in apparel grew twice as fast as in the manufacturing sector overall. Factory owners who for decades had declined to modernize took advantage of tax incentives to bring their plants and equipment up to date.

This burst of investment had an unanticipated side effect: It encouraged the apparel industry's shift away from New York. Companies took advantage of favorable tax treatment to build large new plants in other locations, outfitting them with the latest equipment. In men's and boys' suits and coats, for example, 43 percent of all capital spending in 1963 occurred at 51 plants employing more than 500 workers apiece. New York had just four such plants. In women's and children's undergarments, 72 percent of total capital spending in 1963 was at enterprises with more than 100 employees. Only one in 12 New York underwear manufacturers was of that size.

In every major product category, New York attracted less capital investment than its importance as a production location would have suggested, because the congested city, where much garment manufacturing occurred in small workshops scattered through high-rise buildings, was a difficult place to locate a large factory. According to a 1966 survey for Singer, the sewing-machine maker, manufacturers with 500 or more workers spent an average of $149 annually for equipment from 1961 to 1965, compared with $59 by firms with 50 to 99 workers. During this period, New York had only six garment plants with more than 500 workers, just 3 percent of the national total.

Stimulated by increased demand, equipment manufacturers began delivering new technology targeted to the apparel sector in the late 1960s. Much of this was useful for larger factories, but was simply impractical for the average firm in Manhattan's Garment District. Computers to handle accounting and production-cost control were available by 1967, but few of New York's tiny garment makers had enough employees or sales to justify the investment. When computerized cutting machines arrived in 1970, the first installation cost $175,000. No more than a handful of garment plants in New York had the volume to support an outlay of that magnitude.

As the proponents of favorable tax treatment had intended, the stimulus to capital investment reshaped the apparel industry. Hundreds of new garment plants opened up around the country, taking advantage of tax incentives to purchase the latest equipment. Those new plants were designed for the efficient flow of material across the factory floor, so that bins of trouser pockets or shirt sleeves wouldn't interfere with other traffic while waiting to be assembled into finished garments. The new plants could also handle the relatively long production runs required to service the discount stores that were beginning to reshape the retail landscape.

New York's smaller, more specialized apparel plants had difficulty competing with the larger, more highly automated plants opening elsewhere around the country, and many of them closed.

Nationally, the investment stimulated by the tax changes led to a more efficient industrial base, as demonstrated by marked productivity increases in apparel manufacturing. But the benefits of the tax incentives weren't spread uniformly. In hindsight, it appears that New York had been able to maintain its status as the country's largest garment-making center for so long precisely because of the industry's technological backwardness.

When the federal government suddenly stimulated investment in new capital, the factors that had drawn the industry to New York decades earlier -- a large labor force, an ample supply of skilled craftsmen, the presence of a vast base of suppliers and of markets for finished products -- ceased to be decisive in determining production locations.

History shows that economic change always creates losers as well as winners, and the rag trade was no exception. The tax incentives that had been expected to modernize New York's garment industry instead stimulated investment elsewhere around the country, speeding the pace of the city's manufacturing decline.

(Marc Levinson's most recent book is "The Great A&P and the Struggle for Small Business in America." The opinions expressed are his own.)

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