The Vermont Job Gap Study

Addendum
Phase 9

Vermont Business Climate - Interstate Business Relocation Myths vs. Reality

A Report by the Peace & Justice Center and High Road Vermont / Vermont Democracy Fund

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INTRODUCTION

There is a widespread belief in economic development circles that Vermont does not have a friendly "business climate." For example, it is often asserted that Vermont's high marginal tax rates are an impediment to business and job growth. However, there is no empirical evidence presented to support this view and the government does not collect data on interstate business relocation.

Nevertheless, Vermont spends millions each year in an effort to recruit and retain certain businesses (e.g., VEPC tax credits and about 20% of the Department of Economic Development's budget[1]). The assumption is that without such incentives and assistance, these businesses would locate or expand in states with lower taxes.

There is good evidence that state taxes are not a major cost factor in business expansion and relocation decisions[2], but the repeated claims to the contrary have persuaded policy makers of the need for such incentives and other assistance. However, such decisions should be made on the basis of analysis rather than anecdotes and unexamined assumptions.

This addendum to Phase 9 examines the issue with the aid of a new data set[3] that allows us to answer some of the questions posed. We find that:

- The number of businesses moving out of Vermont from 1990 - 2004 was nearly identical to the number moving in.
- The net effect on employment from interstate business relocation is negligible.[4]
- Nearly as many companies move into Vermont from low tax states as move to low tax states.
- Employment change is driven primarily by business contraction and expansion, and by business start-ups and closures.

These findings challenge the prevailing view that Vermont's "business climate" is a deterrent to job creation. Moreover, the findings suggest that the State may benefit from a reallocation of economic development resources from recruitment and "retention" to increased assistance for existing businesses and start-ups.

Note: There is a difference between strategies for "retention" and expansion. Efforts to "retain" businesses imply that they would leave if not for the assistance provided. By definition, therefore, "retention" strategies are based on a perceived hostile "business climate" and the assistance provided is tailored accordingly (e.g., tax breaks).

In contrast, programs to help businesses expand are designed to improve the workforce (VT Training Program) and operational efficiency (VT Manufacturing Extension Ctr.), reduce energy consumption (Efficiency VT), support leadership development (VT Business Ctr. & VT Sustainable Jobs Fund), and promote industry networking (Sustainable Jobs Fund and others).

FINDINGS

As Table 1 shows, the net change in the number of businesses and jobs from interstate relocation was negligible from 1990 - 2004. Indeed, in most years, it was considerably less than one tenth of one percent of total businesses and jobs.

There has been an increase in the number of companies relocating since 2001 (in and out) but the employment impact has not grown correspondingly.

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1 Comment by Econ. Dev. Commissioner Michael Quinn at the 3/22/06 meeting of the Rural Econ. Dev. Working Group, an informal group of legislators.

2 Job Gap Study, Phase 9, January 2006, pp.11-12.

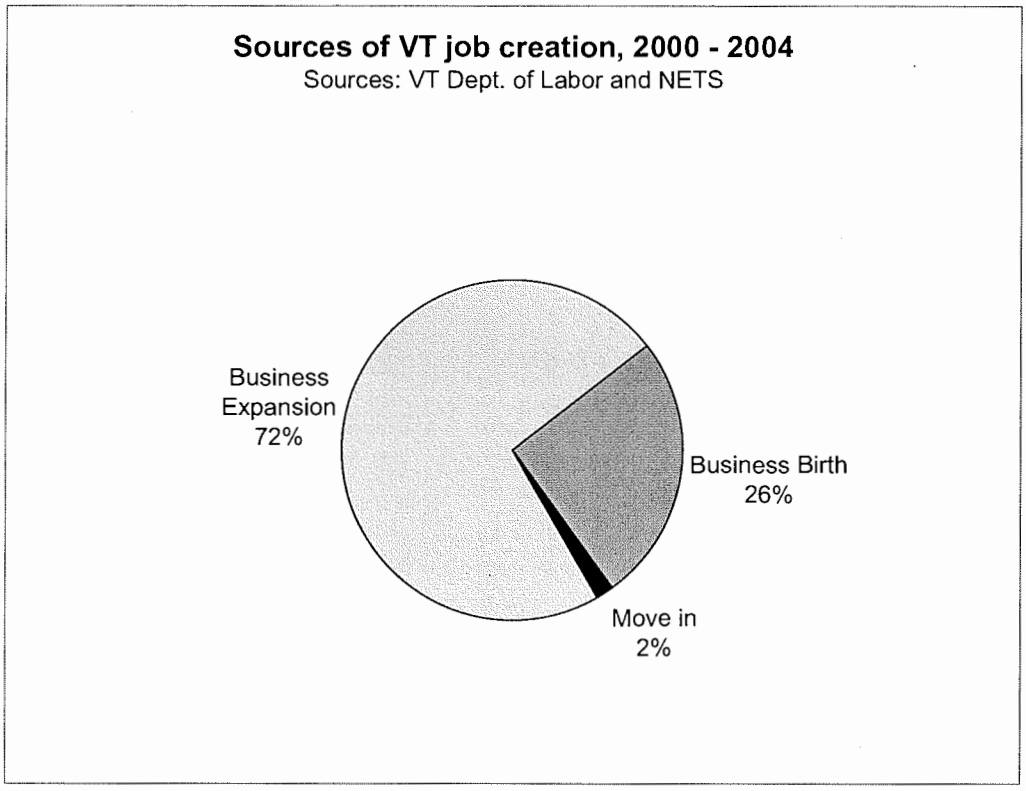
3 National Establishment Time Series, Appendix A.

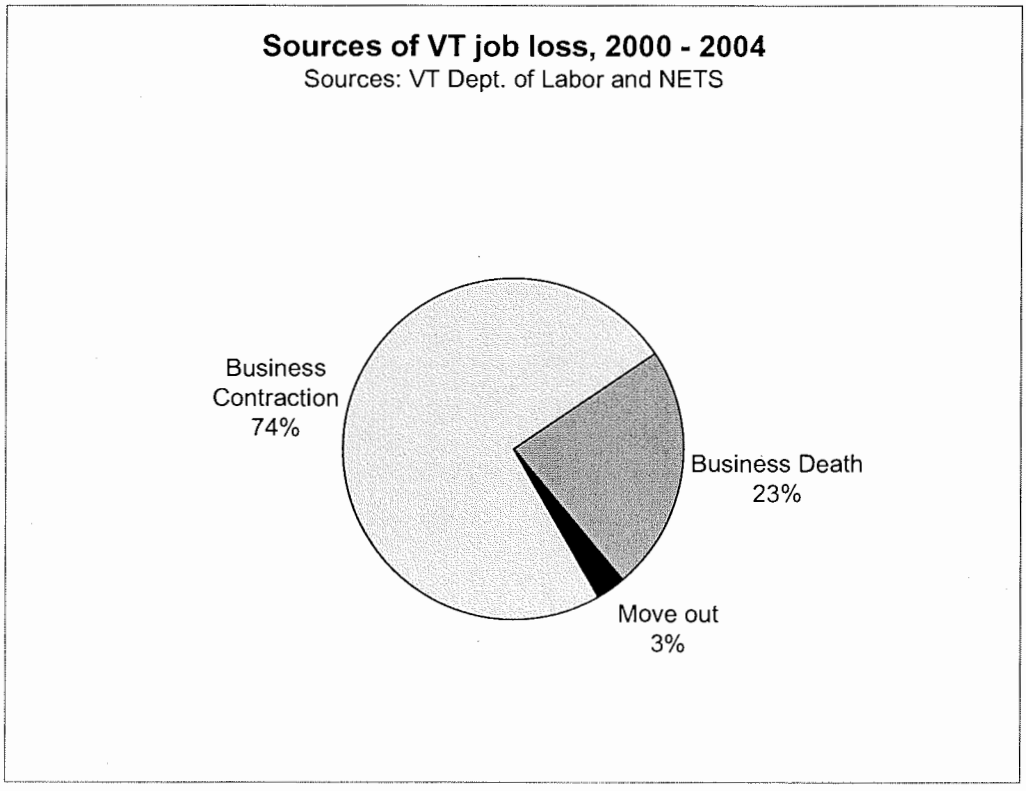
4 The loss of jobs from businesses relocating abroad is significant, but is likely the result of substantial savings in labor costs, rather than comparatively small savings in state taxes.

Table 1: Interstate Business Relocation and its Effect on Employment in Vermont, 1990 - 2004					
	Moved in	Moved out	**Net change**	Total number of establishments	**Net change as % of total**
By Number of Establishments					
1990	31	38	-7	21,499	-0.033%
1991	31	25	6	21,862	0.027%
1992	28	31	-3	22,104	-0.014%
1993	36	33	3	22,237	0.013%
1994	24	31	-7	22,081	-0.032%
1995	30	27	3	22,256	0.013%
1996	28	32	-4	22,472	-0.018%
1997	21	27	-6	22,898	-0.026%
1998	20	29	-9	22,966	-0.039%
1999	30	27	3	23,229	0.013%
2000	32	34	-2	23,806	-0.008%
2001	45	64	-19	24,151	-0.079%
2002	69	69	0	23,776	0.000%
2003	81	97	-16	23,972	-0.067%
2004	94	99	-5	24,333	-0.021%
Average	**40**	**44**	**-4**	**22,909**	**-0.017%**
Total	**600**	**663**	**-63**		
By Number of Jobs					
1990	188	182	**6**	251,658	**0.002%**
1991	386	445	**-59**	243,334	**-0.024%**
1992	485	242	**243**	246,090	**0.099%**
1993	159	470	**-311**	252,384	**-0.123%**
1994	309	105	**204**	259,373	**0.079%**
1995	171	478	**-307**	266,028	**-0.115%**
1996	230	322	**-92**	270,369	**-0.034%**
1997	293	240	**53**	274,355	**0.019%**
1998	144	374	**-230**	280,294	**-0.082%**
1999	92	578	**-486**	288,202	**-0.169%**
2000	725	863	**-138**	296,468	**-0.047%**
2001	315	464	**-149**	298,168	**-0.050%**
2002	293	556	**-263**	295,443	**-0.089%**
2003	480	342	**138**	294,288	**0.047%**
2004	383	1,526*	**-1,143**	298,491	**-0.383%**
Average	**310**	**479**	**-169**	**274,330**	**-0.061%**
Total	**4,653**	**7,187**	**-2,534**		

* One large business moved across the river to NH. Most VT workers kept their jobs.

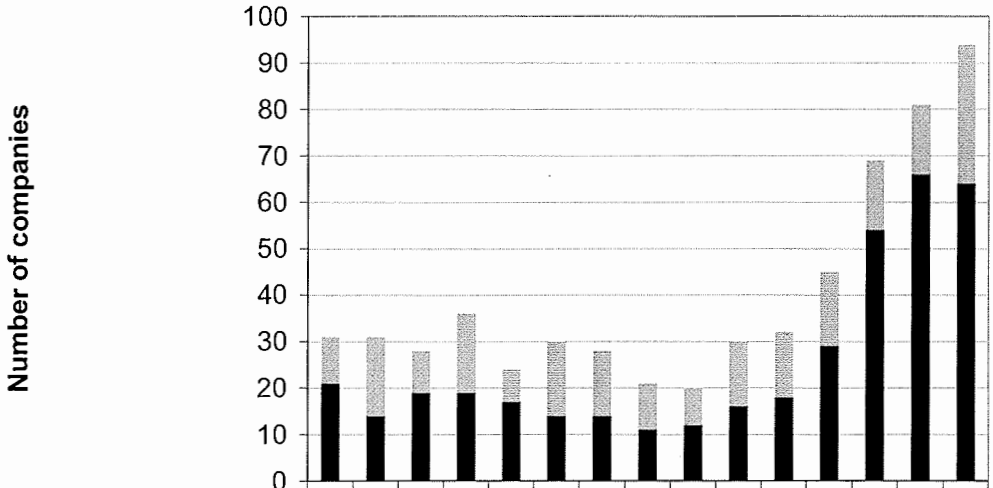
If we look more closely at the sources of overall job change, we find that the effects from business relocation are dwarfed by other factors. From 2000 to 2004, business relocation accounted for only 1.5% of new jobs, and 2.6% of jobs eliminated. Employment change is driven primarily by business contraction and expansion, and by business start-ups and closures, not from business relocation.





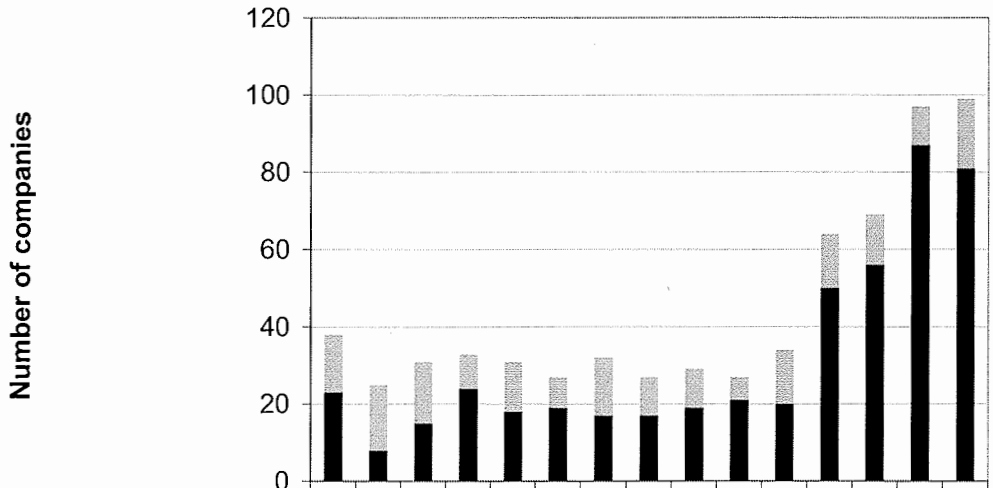
Not only are the number of companies leaving and entering very similar, but the number of small firms entering (including many sole proprietors) is greater than the number leaving. This contradicts the assertion that Vermont's top marginal individual tax rate is a deterrent to business owners.

Figure 3
Number of companies leaving VT
by year and size of firm, 1990 - 2004



	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04
5 or more employees	10	17	9	17	7	16	14	10	8	14	14	16	15	15	30
< 5 employees	21	14	19	19	17	14	14	11	12	16	18	29	54	66	64

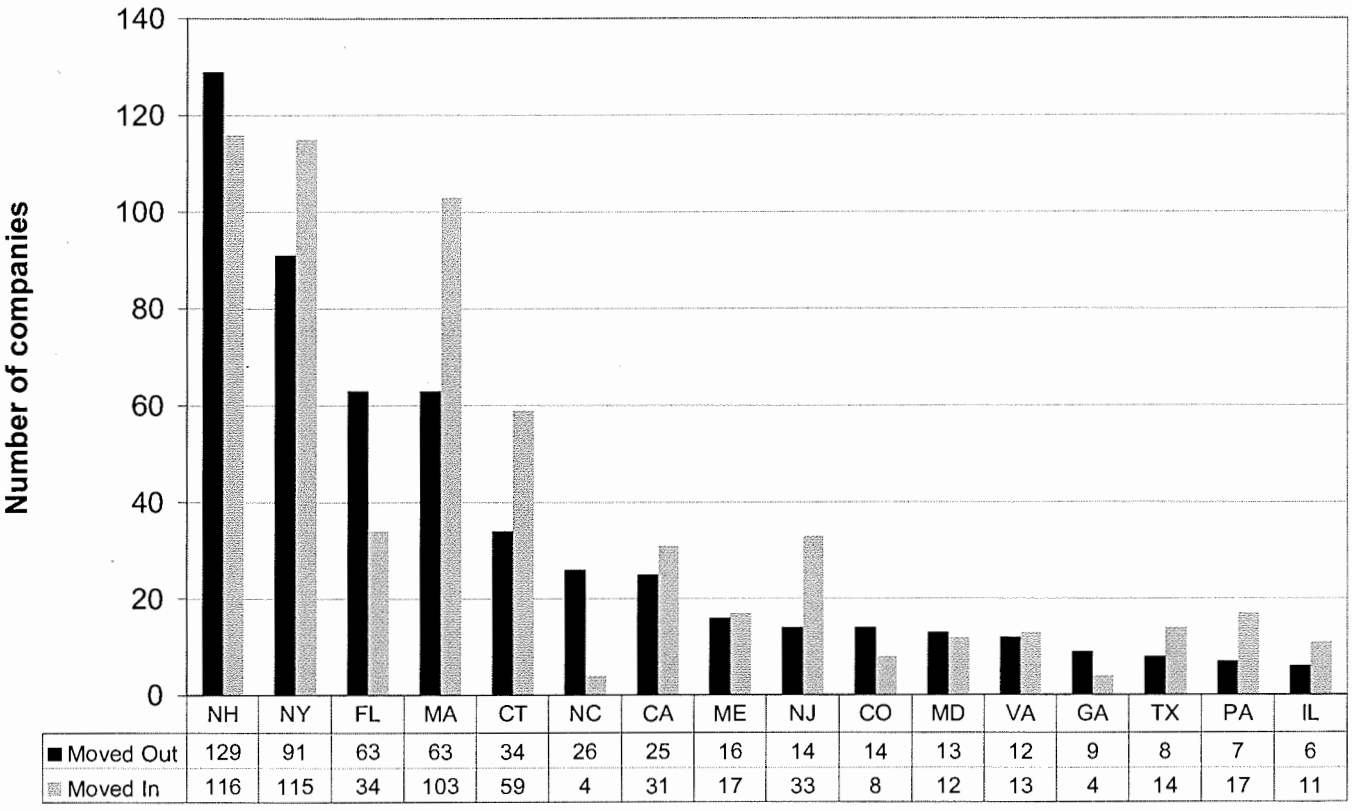
Figure 4
Number of companies entering VT
by year and size of firm, 1990 - 2004



	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04
5 or more employees	15	17	16	9	13	8	15	10	10	6	14	14	13	10	18
< 5 employees	23	8	15	24	18	19	17	17	19	21	20	50	56	87	81

It is a commonly held belief that state taxes are a major determinant in business location decisions. If this was true, we would find a large number of businesses leaving Vermont for lower tax states, and relatively few coming from low tax states. The data does not support this. Indeed, not only is there rough equivalence in the states with the most activity (all of which have lower personal & corporate rates), but two of the top five have no personal income tax at all (NH & FL).

Figure 5
Business Relocation by State of Origin and State of Destination, 1990 - 2004
(top 16 by state of destination)



	NH	NY	FL	MA	CT	NC	CA	ME	NJ	CO	MD	VA	GA	TX	PA	IL
Moved Out	129	91	63	63	34	26	25	16	14	14	13	12	9	8	7	6
Moved In	116	115	34	103	59	4	31	17	33	8	12	13	4	14	17	11

Although the numbers are similar, slightly more large companies left than entered (see Table 2 below). However, the overall figures are quite low considering the period covers 15 years. In addition, the only company departing with over $100 million in sales simply moved across the river to New Hampshire. Presumably, most employees kept their jobs.

More small firms (< $5m) entered than left. Although this group has a lot of turnover (and failures), it represents significant potential for growth.

Note that over 50 companies - many of them large by Vermont standards - not included in this data base have either cut jobs due to foreign competition or moved out of the country in the last 15 years (see Appendix B). These businesses are mostly manufacturers forced to compete with very low wages overseas, which is not a reflection on Vermont's relative "business climate" within the U.S.

Over 15 years, only 30 companies with sales over $10 million moved into or out of Vermont to or from another state (11 and 19 respectively; Table 2). Therefore, the net effect is a loss of 6 large companies. Obviously, any loss of jobs is painful for all concerned. But the issue is whether the losses due to business relocation are sufficient to warrant a substantial investment of public resources.

Table 2
Number of relocated businesses by annual sales, 1990 - 2004

	Moved In	Moved Out
< $1 million	556	484
$1m - $4.99m	86	79
$5m - $9.99m	9	16
$10m - $19.99m	7	8
$20m - $49.99m	2	9
$50m - $99.99m	1	1
$100 million or more	1	1

CONCLUSION

The data show no evidence of interstate business flight from Vermont, or reluctance by companies to come here or expand here. The rough equivalence of businesses coming and going reflects the expected "churning" in a dynamic economy. Claims that Vermont is unfriendly to business and that the climate dissuades companies from locating or expanding here are not supported by this data.

Second, the negligible effect on employment from business relocation argues against the continued investment of significant public resources for recruitment and "retention" strategies. There is no way to determine what may happen if State resources are used for other purposes but it appears that recruitment and "retention" do not contribute significantly to job growth.

Third, it is clear is that the vast majority of employment in Vermont is the result of business expansion and start-ups. Thus, the State should direct available resources to foster new businesses and help those already here prosper and grow. It seems likely that such policies and programs would also be attractive to businesses thinking of relocating.

Therefore, based on the data available, it appears that concerns about the "business climate" are overstated.

APPENDIX A

The National Establishment Time Series (NETS) Database

The NETS database is a longitudinal file on business establishments, a long-term project of Walls & Associates in conjunction with Dun & Bradstreet. Researchers at the Public Policy Institute of California assessed the validity of this new data source and found that "it gives reliable measurements of [employment] dynamics and provides reliable data about the sources of employment change and growth."[5]

Unlike government data, which are based on survey samples, the NETS database covers virtually all businesses in the state.

"The NETS database collects information at the establishment level, but also includes a unique Data Universal Numbering System (DUNS) to indicate the relationships among establishments in multi-establishment firms.

The primary purpose of Dun & Bradstreet's data collection effort is to provide information on businesses to the business community, to enhance their decision making by constructing a set of "predictive indicators" (the Dun & Bradstreet Rating and PayDex scores).

Dun & Bradstreet strives to identify all business establishments, and to assemble information on them, through a massive data collection effort involving over 100 million telephone calls from four calling centers each year, as well as obtaining information from legal and court filings, newspapers and electronic news services, public utilities, all U.S. Secretaries of State, government registries and licensing data, payment and collections information, company filings, and the U.S. Postal Service. Particular efforts are devoted to identifying the births and deaths of establishments.

For every establishment identified, Dun & Bradstreet assigns a DUNS number as a means of tracking the establishment. Since 1990, DUNS has become the standard means of tracking businesses, having been adopted by many government agencies.

Although the goal of Dun & Bradstreet is not to collect and organize data for scholarly research, it does have an incentive to ensure the accuracy of its data, because inaccuracies would hurt Dun & Bradstreet's business and might even result in lawsuits.

Walls & Associates entered into a collaboration with Dun & Bradstreet with a very different purpose in mind - namely, to provide a dynamic view of the U.S. economy using the data from the Dun & Bradstreet archives. Essentially, this required linking the Dun & Bradstreet cross-sections into a longitudinal file that tracks every establishment from its from its birth, through any physical moves it may make, capturing any changes of ownership, and recording the establishment's death, if it occurs." (Neumark, Zhang & Wall)

There are some limits to what this data can tell us about employment change. For example, if a Vermont company sets up a branch in another state, it does not show up in this data base, but this is not necessarily at the cost of jobs in Vermont. And it does not capture companies that have moved their entire operations out of the country, although we can track those firms through another source (see Appendix B). And finally, if a company is purchased and the parent moves the establishment out of state and the old company is completely subsumed (giving up its DUNS number as opposed to being a "division"), it is considered a "death".

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[5] Neumark, Zhang & Wall, "Are Businesses Fleeing the State? Interstate Business Relocation and Employment Change in California", *California Economic Policy*, Vol. 1, No. 4, Oct. 2005, Public Policy Institute of California.

APPENDIX B

Vermont companies that laid off workers due to foreign competition or sent jobs overseas (1977 - 2004)

Source: U.S. Dept. of Labor, Division of Trade Adjustment Assistance (year is when the application for assistance was certified)

AcoustiPhase	Proctorsville	7/19/1982
Alburg Door and Window, Ltd	Alburg	4/30/2003
Alpine Designs Corp	Newport	3/22/1991
American Papermills	Gilman	3/4/2003
Belden CDT	Essex Junction	9/20/2004
Bijur Lubricating Corp.	Bennington	12/19/2002
Bijur Lubricating Corp	Bennington	6/24/1997
Bijur Lubricating Corp.	Bennington	3/12/1992
Black Diamond Sportswear	Barre	10/6/1999
Bogner of America	Newport	11/18/2004
Bogner of America	Newport	3/6/2002
Bryant Grinder Corp	Springfield	1/16/2001
Capital City Press	Barre	1/29/2003
Concord Mfg	Morrisville	1/30/1990
Cone Blanchard Corp	Windsor	6/12/2002
Crescendoe Gloves	St Johnsbury	2/28/1977
DSB	S.Burlington	8/26/1980
Ethan Allen	Beecher Falls	11/12/2003
Ethan Allen	Orleans	11/26/2002
Ethan Allen	Randolph	11/26/2002
Ethan Allen	Island Pond	10/15/2001
Fair Rite Products Corp	Springfield	2/9/1999
Fellows Corp.	N. Springfield	6/21/2002
Fellows Corp.	Springfield	2/21/1984
Gca (general Signal)	Williston	8/6/1993
General Electric Aircraft	Rutland	2/4/1993
Geophysical Service	Bennington	2/9/1989
George F. Adams Co.	Moscow	8/4/2003
GK Technologies	Pownal	1/5/1981
Goodyear Tire & Rubber	Windsor	2/12/1987
Goodyear Tire & Rubber	Windsor	4/28/1983
Green Mountain Marble	Windsor	4/19/1990
Hardwick Knitwear	Hardwick	4/13/1992
H Hasbro Games Group	Fairfax	3/11/1997
International Stone Products	Barre	10/24/2003
Johnson Controls, Globe	Bennington	3/15/1994
Kennametal	Lyndonville	9/4/2002
Lavallee and Ide	Winooski	7/6/2004
Luzenac America	Windsor	2/23/2004
Marty Sculpture	Milton	5/12/1995
Milton Bradley Wood	Fairfax	1/31/1995
M.J. Wood Products	Morrisville	8/25/2004
Parks & Woolson Machine Co.	Springfield	12/5/2003
Pownal Tanning Co.	North Pownal	3/21/1988
Rehau	Springfield	4/19/2004
Relax-R Corp.	Milton	9/22/2003
Sheftex USA	St. Johnsbury	12/19/2001
Shellcraft Industries	Winooski	5/25/1990
Slalom Skiwear	Newport	3/22/1991
Sound Research	Proctorsville	7/19/1982
Stanley Tools	Shaftsbury	11/20/2000
Thompson Mfg.	Bennington	12/3/1985
Toni Totes of Vermont	Londonderry	5/19/1982
Tubbs Snowshoes Co.	Stowe	9/9/2004
U.S. Tsubaki	Bennington	12/22/2003
Velan Valve Corporation	Williston	5/30/2003
Vermont Marble Co.	Proctor	4/21/1988
Vermont Tubbs	Brandon	10/9/2003
Vermont Wood Craft	Proctorsville	7/19/1982
Vestshell Vermont	St. Albans	7/25/2003
Waterbury Companies	Randolph	8/4/2003
Weidmann Systems Intl.	St. Johnsbury	11/25/2002
EHV-Weidmann Indus.	St. Johnsbury	11/25/2002
Wyeth Nutritional	Georgia	3/12/2004

NAFTA - Transitional Adjustment Assistance (certified)

Fair Rite Products 2/8/99 Shift production to Mexico
IBM 1/15/03 Shift production to Canada
Precision Rotary Instruments 8/8/97 Shift production to Canada
Sheftex 12/19/01 Shift production to Mexico
Sportrack Accessories 12/6/01 Shift production to Canada

peace & justice center

The ***Peace & Justice Center (PJC)*** is a Vermont-based, non-profit, membership organization that works on the intersecting issues of economic and racial justice, and peace and human rights through education, advocacy, training, and non-violent activism. Since its founding in 1979, the Center has played a leadership role in educating and organizing Vermonters to be change agents on a wide variety of peace and social justice issues. For over a quarter century, the PJC's work has tangibly improved the lives of tens of thousands of people in the state who have seen their incomes increase, have been trained in anti-racism, and have been motivated to speak out against injustice and for peace through marches, letter writing campaigns, testifying, participating in non-violent direct action and attending local and national protests. PJC has 1,600 members throughout the state; the organization operates a socially responsible store and library, and is an incubator and meeting place for dozens of grassroots groups.

VERMONT Livable Wage CAMPAIGN

Created in 1996 by the Peace & Justice Center, ***the Vermont Livable Wage Campaign (VLWC)*** is engaged in research, advocacy, educational programs, and grassroots organizing. VLWC believes all Vermonters have the right to a livable wage job that meets their basic needs, to organize themselves into a union, and to work in a respectful work environment. VLWC is a statewide movement of working people and their allies who are fighting to win livable wages through community-based organizing and union solidarity efforts. We believe that our hard-earned tax dollars should be invested in our communities to promote livable wage job creation rather than corporate subsidies. The VLWC is non-partisan, but we support legislative initiatives intended to increase wages and expand the rights of workers.

To learn more about and access previous phases of the Vermont Job Gap Study or various resources related to livable wages, livable income and/or livable jobs, visit our website at www.vtlivablewage.org, or call us at 802-863-2345 x8.

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Doug Hoffer - Research Director

Doug has a B.A. from Williams College and a J.D. from SUNY Buffalo Law School. He came to VT in 1988 to work for the City of Burlington in the Community & Economic Development Office. He became an independent policy analyst in 1993. In addition to the Job Gap Study, Doug has authored reports on "economically targeted investments" by public pension funds (VT State Treasurer), the economic impacts of the child care industry (Windham Child Care Assoc.) and wind energy (Renewable Energy VT), various reviews for the VT State Auditor, performance measurement (Burlington Electric & Public Works), Wal-Mart (Good Jobs First), and housing & wages (VT Housing Council). He has also conducted research on the economy for High Road VT, VSEA, the Public Assets Institute, the VT Sustainable Jobs Fund, and VT AFL-CIO.