SPECIAL REPORT
The New Jersey
Business Climate

NJPRO

NEW JERSEY POLICY RESEARCH ORGANIZATION

SUBJECT

A survey of businesses which have left New Jersey shows that the inability to expand facilities and New Jersey's high personnel costs were important factors in their decision.

REDUCING EMPLOYER COSTS CRITICAL TO RETAINING JOBS IN NEW JERSEY

ISSUE

Studies indicate that government policies toward business have a major impact on whether manufacturing companies remain in a state or move elsewhere. A recent study from the Federal Reserve Bank of Minneapolis notes that the number of manufacturing jobs is much higher in states with pro-business policies. In fact, where pro-business states share a border with anti-business states, the number of manufacturing jobs in the pro-business state can be as much as 34 percent higher.

BACKGROUND

Three hundred fifty-three businesses reported plant closings or large layoffs under the Federal "Worker Adjustment and Retraining Notification (WARN) Act" between 1992 and 1994. The WARN Act applies to any business with 100 or more employees. It requires 60-day advance written notice to employees, state and local governments of plant closings or layoffs affecting at least 50 employees.

Using the WARN Act database for this period, Rutgers University in conjunction with NJPRO, the New Jersey Policy Research Organization, identified firms whose closing or layoff was possibly due to a decision to leave the State.

These firms were asked about the factors which drove them from New Jersey and the factors which attracted them to other states.

The survey asked firms which decided to leave New Jersey to list their concerns in four major areas: environmental, physical plant, infrastructure and labor related matters. Firms were also asked to rate the relative importance of 17 specific factors that might have led to their moving from the State. These factors included site, labor, infrastructure, tax and other concerns. Finally, the survey asked respondents to rate the relative importance of 15 government incentive and tax policies in their relocation decision.

The survey pool was compiled by cross-referencing WARN Act filers with business databases to determine whether a non-New Jersey business location existed. Eighty-nine firms were identified as

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probable relocators and surveyed through mailings and/or telephone outreach. Twenty percent of surveyed firms responded with detailed information.

RELOCATING BUSINESSES: WHO THEY ARE AND WHERE THEY GO

The 89 firms identified as probable relocators represent a diverse mix of New Jersey businesses, falling into the following categories:

Manufacturing	53%
Wholesale Trade	21%
Service	8%
Retail Trade	7%
Finance	6%
Construction	2%
Mining, other	3%

The fact that manufacturing firms dominate in the list is not surprising. Since 1970, New Jersey has lost 45 percent of its manufacturing job base, the largest loss in the nation. This compares to a national decline in manufacturing jobs of seven percent during this same period. What is worse, the rate of New Jersey's job loss is not abating. In 1995, New Jersey's manufacturing employment declined by 2.7 percent or 13,500 jobs.

Survey results showing where firms are relocating was surprising. The most common assumption has been that New Jersey's chief competitor for jobs is the business-friendly, low-cost Southern Atlantic region. The survey demonstrates that a substantial number of businesses chose to remain in the Northeast region. Nearly 40 percent of the firms surveyed relocated operations to Pennsylvania, New York State or Connecticut. Twenty-two percent of the firms relocated to North Carolina, Georgia, Florida and Virginia. Other states where businesses went when they left New Jersey included Illinois with seven percent and California with five percent.

Why are such large numbers of businesses leaving New Jersey to go to other Northeast states? Consolidation of operations may be one factor. Companies with plants in multiple states may find it economical to consolidate operations in an existing facility in a nearby state. One-half of the respondents cited an inability to expand their New Jersey facilities as a "very important" factor in their relocation decision. Another explanation may be that while businesses are unhappy with New Jersey, they see advantages to remaining in the Northeast. For example, among survey respondents, New Jersey's transportation infrastructure, product distribution systems and access to suppliers and financing were seen as strengths. These are characteristics common to other states in the region. Finally, New Jersey's business climate may simply be less attractive than its neighboring states. The remainder of this report explores this question.

LEAVING NEW JERSEY: DECIDING FACTORS

The survey looked at 17 issues across four categories to explain why businesses left New Jersey. Responses are ranked in Table 1.

When combining responses for the "important" and "very important" categories, the following factors scored highest in influencing the relocation decision: plant expansion, work ethic and high personnel costs (hourly wages, unemployment insurance, temporary disability insurance, workers' compensation costs).

The inability of respondents to expand facilities seems not primarily related to prohibitory environmental regulations, but rather to a failure to locate a suitable site. One response from a warehouse facility manager is typical: "We searched for several years for a suitable facility in New Jersey. When we could not find one, we tried Pennsylvania and relocated across the border."

The problem of high labor costs is reflected in several questions. Between 45 percent and 55 percent of respondents noted

TABLE 1

FACTORS INFLUENCING THE RELOCATION DECISION

Very Important	Important	Somewhat Important	Unimportant
Plant Expansion	Energy Costs	Environmental Regulations	Financing
High Wages	Work Ethic	Facility Permitting	Transport
High Workers' Comp. costs	Trained Workforce	Environmental Liability	Land use Regulations

various kinds of personnel costs as an "important" or "very important" factor influencing their decision to relocate. This response appeared consistent across different types of workforces — skilled, technical or unskilled.

Finally, over 50 percent of respondents noted that finding employees with a suitable work ethic was a problem. The survey did not define work ethic but did ask a related question regarding the dedication of the workforce. Here, over 40 percent of respondents listed workforce dedication as an "important" or "very important" problem. Anecdotal comments from respondents noted "labor culture" problems including a "9 to 5" mentality and a pro-labor policy stance.

As important as the factors that caused businesses to leave New Jersey are the factors that drew them to other states. The next section reviews these factors.

RELOCATING TO THE NEW SITE: WHAT MAKES A DIFFERENCE

The survey attempted to discover the most influential factors drawing these firms to their new locations. In addition, detailed questions were asked concerning any special incentive programs.

By far, the most important factor affecting the relocation decision, with over 80 percent of respondents designating the "important" or "very important" category, was reduced operating costs. In analyzing this response, three-quarters of those firms citing reduced operating costs noted that lower labor costs were important or very important in the relocation decision. Reduced property costs were also important, particularly lower real estate taxes and real estate costs. Among taxes, lower real estate taxes and corporation taxes were important spurs to relocating.

Special incentives were not particularly critical to the relocation decision. Few respondents received cash incentives, subsidized financing, loans or favorable variances. Property tax abatements of up to five-year duration, the most common incentive, were used by less than 20 percent of respondents.

Among other factors influencing the decision to choose a specific location, site availability and the presence of a desirable workforce were equally critical to the relocation decision. In each case over 70 percent of respondents cited these factors as important or very important.

UNDERSTANDING THE RESULTS: IMPROVING THE BUSINESS CLIMATE

The results contain both good and bad news for New Jersey's public policymakers. Most promising is the fact that a sizable percentage of business that left the State had first sought to expand their facilities in New Jersey. This indicates that despite their perceived difficulties with the State's business climate, expanding in New Jersey was a

TABLE 2

UNEMPLOYMENT INSURANCE TAXES FOR EMPLOYERS

STATE GOV'T.	AVERAGE UI TAX PER EMPLOYEE
Rhode Island	$612.00
Hawaii	$567.60
New Jersey	$552.60
Alaska	$529.48
Connecticut	$462.00
Massachusetts	$459.00
Oregon	$418.00
Washington	$406.00
Michigan	$380.95
Idaho	$380.16
Pennsylvania	$344.00
District of Columbia	$360.00
New York	$315.00
Illinois	$272.70
California	$268.10
Maine	$261.80
Montana	$252.80
Nevada	$249.00
West Virginia	$240.00
Ohio	$234.00
Wisconsin	$231.00
Minnesota	$221.20
Vermont	$208.00
Delaware	$204.00
Maryland	$194.65
New Mexico	$180.70
Arkansas	$180.00
Kentucky	$176.50
Utah	$172.00
Missouri	$170.85
Wyoming	$168.19
Mississippi	$154.00
Louisiana	$141.68
Texas	$139.50
Iowa	$136.71
North Dakota	$133.44
South Carolina	$129.50
Tennessee	$126.70
Georgia	$124.10
Oklahoma	$118.77
Arizona	$115.50
Colorado	$108.00
Florida	$ 99.40
Virginia	$ 92.00
Indiana	$ 91.00
Alabama	$ 80.00
New Hampshire	$ 80.00
Kansas	$ 68.00
North Carolina	$ 66.12
Nebraska	$ 52.50
South Dakota	$ 42.00

Source: NJ Department of Treasury

"…. results suggest that variations in State business policy is an important factor in accounting for the redistribution of manufacturing from anti-business to pro-business states. It suggests that state policies are part of the story in explaining why industry has moved out of the manufacturing belt."

Thomas Holmes, in a December 1995 study conducted by the Federal Reserve Bank of Minneapolis and University of Minnesota

"For a long time manufacturing firms have had a rough time with the costs, the regulatory climate, taxation and the general State attitudes in the North-east. The South has aggressively gone after that."

Brad McDearman, of P.H.H. Fantus, a Maryland-based corporate site relocation firm.

desired option. Survey results were unclear as to public policy reasons for the inability to expand plants other than lack of a suitable site.

Offsetting this good news is the persistent observation cutting across several categories of questions that the high cost of doing business in New Jersey, particularly personnel costs, are an inducement to move.

How is New Jersey public policy impacting personnel costs? Certainly payroll taxes are a costly area. Table 2 (page 3) compares the average annual employer unemployment insurance (UI) payment made on behalf of each employee across the 50 states and District of Columbia. New Jersey's figure includes charity health care payments, a levy that was once included in the employer's UI payment but is now paid by employers and diverted for health care.

As the table indicates, New Jersey employers annually pay $552 per employee. This is the third highest in the nation, but more importantly many times higher than the UI amount paid by employers in our competitor states. For example, New Jersey employers' annual average UI adjusted tax payment is 3.5 times higher than the national average, four times higher than South Carolina, six times higher than Virginia, eight times higher than North Carolina and five times higher than Florida. In our region, New Jersey ranks 20 percent higher than Connecticut and Massachusetts, 60 percent higher than Pennsylvania and 75 percent higher than New York.

Relocating to a state with lower payroll taxes provides significant employer savings. An employer in New Jersey with 100 workers relocating to Virginia, for example, would save at the average $46,000 per year in payroll costs when compared to New Jersey.

This does not tell the entire story because New Jersey employers are also mandated to provide temporary disability insurance to employees. This disability insurance which covers non-work related injuries or disabilities annually costs employers approximately $100 per worker. New Jersey is one of only five states that mandates this coverage. Adding this cost to the employer payroll burden only makes New Jersey less competitive with other states.

Growing New Jersey's economy requires that State policymakers find ways to reduce costly employer mandates like those mentioned above. Certainly legislative proposals to increase the cost of doing business in New Jersey by financially penalizing employers who lay off employees send precisely the wrong signal to companies thinking of expanding in or relocating to New Jersey.

Such "business bashing," whether proposed in laws or disseminated through the media in newspaper editorials, helps create an anti-business climate that permeates into the general workforce. It may be one reason why such a large percentage of survey respondents noted work ethic problems with the New Jersey labor force.