



Winter 2007
Facts for Discussion

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Quality Research
on Behalf of
New Jersey
Employers

Special Report: New Jersey's Business Climate How Policy and Perception Are Affecting New Jersey's High-Tech and Manufacturing Sectors

Issue: New Jersey's Overall Business Climate

In many ways, a business owner might consider New Jersey a good place to do business. Few states possess New Jersey's prime location right in the middle of the world's wealthiest and most densely populated consumer markets. Its transportation network is excellent, with access to international ports at both ends of the State and extensive rail, air and highway systems to efficiently move goods and services. The State's workforce is among the most talented and well educated in the nation. According to New Jersey Department of Labor and Workforce Development statistics, New Jersey's workforce has a productivity level that is 22 percent higher than the national average. Taken together, these advantages help explain why New Jersey had long been an engine of economic growth, especially during the 1980s and 1990s.

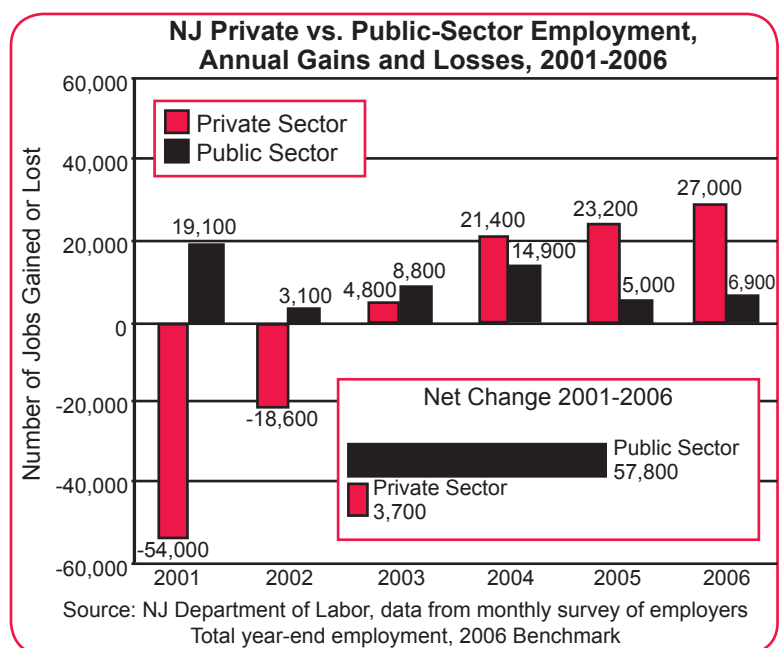
However, recent State economic data shows that New Jersey is significantly losing ground as an economic leader. 2006 was the third straight year that New Jersey's private-sector job creation has been weak, lagging well behind the nation. In 2006, for example, New Jersey's total private sector employment grew by just 27,000 jobs, a gain of less than 1 percent. New Jersey ranks towards the bottom of the 50 states in the rate of private-sector job growth¹.

New Jersey's weakening private-sector job growth can also be gauged by a comparison of current employment levels to their peak in December 2000, just before the onset of the last recession. Using this benchmark, one finds that total private-sector employment in New Jersey—at 3,433,700 jobs in December 2006—is now just 3,700 jobs above the

December 2000 record for a private-sector job growth rate of only one-tenth of 1 percent over six years².

While private-sector employment growth has slowed over the last six years, government employment has soared. Since December 2000, public-sector employment in New Jersey has expanded by a net 57,800 jobs, a 10 percent increase³. Unfortunately, in addition to these government jobs, the major industries increasing in New Jersey's economy do not pay as much as the jobs they replaced. The bulk of these jobs are leisure/hospitality industries, education, and health industries. Few have come in the way of high-paying technological, professional and business services.

Years of lackluster economic growth in New Jersey point to the State's poor business climate. New Jersey's economy, despite its high-income population, well educated workforce and prime location, is now an



economy at risk. Numerous national studies now rank New Jersey at or near the bottom of the 50 states in cost-of-doing business, business climate and tax competitiveness. These studies indicate that New Jersey's government policies towards business are having a profound affect on its ability to attract and retain business.

Background: Facts about New Jersey's Business Climate

Small Business & Entrepreneurship Council Ranks New Jersey's Policy Environment for Small Business 50th in the Nation⁴.

The Small Business & Entrepreneurship Council ranks New Jersey as the worst state in the nation for small businesses in its *2006 Small Business Survival Index*. According to the Index, New Jersey's policy environment for entrepreneurship and small business is the most costly and stifling in the nation. Compared to every other state, New Jersey's policies in terms of taxes, regulation, spending, and other governmental costs are at or near the bottom when it comes to promoting entrepreneurship and business growth.

The survival index cited New Jersey's high ranking in the tax rate for personal income (fifth), capital gains (third) and corporate taxes (sixth) as reasons for the State's weak economic standing. New Jersey's exorbitant property taxes were also noted in the report, with the State ranked first in the average property tax bill and second in property taxes as a percentage of personal income.

Beacon Hill Institute Ranks New Jersey as One of the Least Competitive States for Business⁵.

The Beacon Hill Institute ranks New Jersey as the 43rd least competitive state in the nation in its *2006 State Competitiveness Report*. The Institute defines competitiveness as "the policies and conditions that ensure and sustain a high level of per capita income and its continued growth."

The study assigns 42 variables to eight categories—government and fiscal policy, security, infrastructure, human resources, technology, business incubation

openness, and environmental policy—and combines these eight measures into a single "competitiveness index." Over the years, the report has shown that states that make improvements to their competitiveness ranking increase their per capita income growth. A one-point improvement in the index, for example, can translate into a gain of \$417 in per capita income.

In some categories, New Jersey is ranked among the most competitive states. The State enjoys a low crime rate (ranked 7th); a highly educated workforce (23rd); a strong technology sector (24th); and an open economy (7th).

What draws the State's competitiveness down is its environmental policies (49th) and infrastructure (47th), which includes travel time to work, average rent, and electricity prices per million BTUs.

New Jersey's Business Climate Gets Thumbs Down from State's Employers⁶.

According to the New Jersey Business & Industry Association's *2007 Business Outlook Survey*, only 17 percent of employers rated New Jersey as a "good" or "very good" place to expand their business facilities. This is down from 28 percent during each of the three preceding years and is the lowest rating since the question was first asked in 1985. Thirty-nine percent now say New Jersey is a "poor" place for business

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- New Jersey Business & Industry Association's 2007 Business Outlook Survey

expansion, 25 percent rate it “fair” and the remaining 19 percent say it is “average.”

Respondents also gave very low marks to State government for its performance in key areas of fiscal responsibility, including its ability to control government spending and taxes and its ability to control the high cost of health insurance, regulatory compliance and energy costs. Asked to list their worst problems, respondents said their worst problem was the high cost of health insurance, closely followed by property taxes and the high overall cost of doing business in New Jersey.

New Jersey’s Investment in Small Business Assistance Lags Competitor States.

According to a recent Small Business Development Centers’ report entitled *A Strategic Blueprint for Small Business Growth: Strengthening Business Opportunities in New Jersey*, New Jersey’s government invests far less in small-business assistance programs than competitor states. In the current budget, for example, \$800,000 of the State’s \$30.8 billion budget is allocated to small-business assistance programs. Pennsylvania invests a total of \$8 million, 10 times the amount being invested in New Jersey’s small-business sector, despite the fact that Pennsylvania’s budget is \$4.7 billion less than New Jersey’s. Governments in other competitor states also invest more than New Jersey in their small-business assistance programs, including New York at \$2.5 million, Georgia at over \$2 million, and North Carolina at \$1.7 million⁷.

Facts about New Jersey’s Business Costs

New Jersey’s 2007 Business Tax Climate Ranks 48th in the Nation⁸.

The Tax Foundation’s 2007 *State Business Tax Climate Index (SBTCI)* ranks New Jersey’s business tax climate 48th in the nation. Only two other states—Ohio and Rhode Island—ranked worse than New Jersey in business tax competitiveness. In surrounding states, Delaware was ranked 9th;

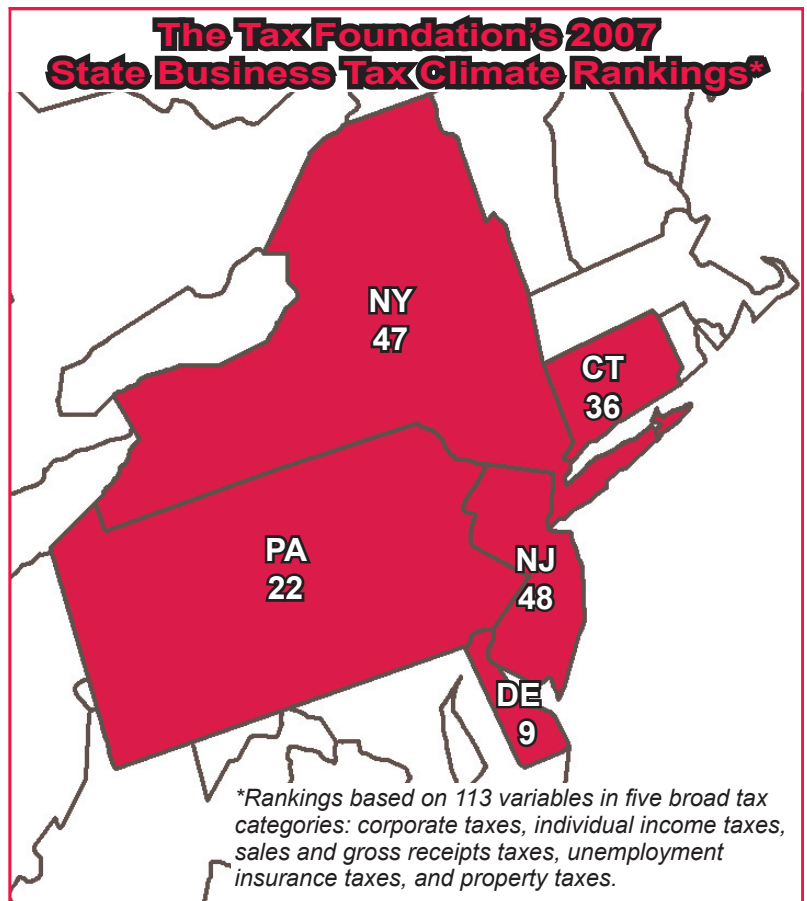
Pennsylvania, 22nd; Connecticut, 36th; and New York, 47th.

New Jersey’s dismal ranking is based on 113 variables in five broad tax categories: corporate taxes, individual income taxes, sales and gross receipts taxes, unemployment insurance taxes, and property taxes. In nearly every area, New Jersey’s tax policies ranked at or near the bottom.

The Tax Foundation’s report is designed to highlight areas in which states can, by changing their approach to taxes, make themselves more attractive for job growth and business expansion. Because companies will locate where they have the greatest competitive advantage and return on investment, the report notes that states with the best tax systems are the most competitive at attracting new businesses and effective at generating economic and employment growth.

New Jersey’s Per Capita Property Taxes are the Highest in the Nation⁹.

According to the SBTCI, New Jersey’s combined per capita property tax collections are \$2,163, the highest in the nation. The average residential property owner



“If surrounding states continue to outpace New Jersey in patent production and private R&D investments, high-tech opportunities will continue to shift out of State, luring venture capital and highly-skilled workers away with it.”

- NJ Technology Council's 2005 Technology Economy Report Card

in New Jersey pays more than \$6,000 a year in property taxes, nearly twice the national average. The property tax accounts for over 45 percent of total State and local revenue in New Jersey, while the national average is around 30 percent.

The Census Bureau's 2005 American Community Survey (ACS) also shows that New Jersey's housing costs (median monthly housing costs for owner-occupied housing units with a mortgage) are 50 percent higher than those of the nation. Although New Jersey household incomes are 33 percent higher than the national average, about half of New Jersey's income advantage is being consumed by much higher housing costs¹⁰.

People generally view property taxes and housing costs as an issue that only affects homeowners, but this is not the case. Businesses directly pay about 25 percent of the property taxes in New Jersey, and receive none of the tax relief that is given to homeowners. And the high cost of property taxes is weighed by companies

as they consider where to locate facilities, expand operations, and create new jobs. High property taxes and health insurance costs make it hard to attract good workers who would often rather live in Pennsylvania, where property taxes are lower.

Soaring Healthcare Costs Strain New Jersey Businesses.

According to an annual study by consultants Mercer Health & Benefits, New Jersey employers spent 6.8 percent more to provide health insurance coverage to their workers in 2006 than in 2005, spending an average of \$8,776 per worker. The per-worker cost for employers in the State was 17 percent higher than the national average¹¹.

In October 2006, Families USA released a study finding that the cost of health insurance premiums in New Jersey jumped 79 percent in six years. This rise outpaced the national average of 73.8 percent. In 2000, the total cost of annual family health coverage was \$7,592. In 2006, the figure was \$13,620. Employers paid nearly \$6,000 of the cost of family coverage in 2000, and their share has jumped to \$11,373 six years later¹².

For the last 18 years, rising health insurance costs have topped the list of the worst problems for New Jersey employers, as stated in the New Jersey Business & Industry Association's *Business Outlook Survey*.

New Jersey's Top Corporate Tax Rate Ranks 41st in the Nation¹³.

According to the 2007 State Business Tax Climate Index, New Jersey's corporate tax levy ranks 41st among states that collect business income taxes (9.36 percent average with a 4 percent surcharge for 2006). This is the ninth highest corporate tax levy in the nation. In surrounding states, Delaware ranked 48th; New York, 23rd; Pennsylvania, 42nd; and Connecticut, 28th.

The corporate tax index ranking consists of two distinct and equally weighted sub-indexes—one that measures the impact of the rate structure and one that measures the composition of the tax base. New Jersey's complex multi-rate system with its high top-marginal rate, numerous tax credits, and double taxation of income resulted in its anti-competitive tax rating in the index.

Milken Institute Ranks New Jersey as 7th Most Costly State in Which to Do Business¹⁴.

The Milken Institute's 2005 Cost of Doing Business Index ranked New Jersey as the 7th most expensive state in which to do business. According to the Index, New Jersey's business costs are over 20 percent higher than the national average.

The Index indicates each state's comparative advantages and disadvantages in attracting and retaining business. The Index measures wage costs, taxes, electricity and real estate costs for industrial and office space. Each state is measured on the individual categories and then weighted scores are compiled to make the overall index. In every category, New Jersey's business costs were among the highest in the nation.

New Jersey Ranks 41st in the Nation in Electric Utility Costs, 2006¹⁵.

According to the 2006 *Small Business Survival Index*, published by the Small Business & Entrepreneurship Council, New Jersey ranks 41st in the nation in electric utility costs. Only nine other states have more expensive electric utility costs than New Jersey. This ranking is based on the state average revenue per kilowatt hour for electric utilities relative to the national average.

The Energy Information Administration (EIA) ranks New Jersey as having the 10th highest average cost of energy across all sectors (commercial, residential, industrial and transportation) in 2005. Across all sectors, New Jersey had an average cost of \$10.89 per kilowatt hour, which is an increase of 10 percent from the average cost in 2004 of \$9.90 per kilowatt hour. Increases in cost varied by sector as residential consumers felt an increase of 6 percent, raising the average cost to \$11.74 per kilowatt hour; industrial consumers felt an increase of 8.2 percent, raising the average cost to \$9.76 per kilowatt hour; and commercial consumers felt an increase of 14 percent, raising the average cost to \$10.61 per kilowatt hour¹⁶.

National Rankings for New Jersey Average Electric Costs

- ***4th highest in Industrial costs***
- ***11th highest in Commercial costs***
- ***10th highest in Overall costs***
- ***The Energy Information Administration (EIA)***

How New Jersey's Stifling Business Climate is Impacting the State's High-Tech Sectors

New Jersey is Losing its High Technology Edge.

According to New Jersey's Commission on Science and Technology, New Jersey is losing ground in the high-tech sector. Over the last 15 years, New Jersey's share of national pharmaceutical jobs decreased from 20 percent to 14 percent. However, in a study released in July 2006, Rutgers University economists Dr. James W. Hughes and Dr. Joseph Seneca reported that during the same time period employment in the pharmaceutical field grew by almost 40 percent nationally¹⁷.

In 2005, the New Jersey Technology Council—in partnership with the NJ Economic Development Authority, NJ Commerce, Economic Growth & Tourism Commission, NJ Commission on Science & Technology, Pricewaterhouse-Coopers LLP, and Rutgers University—released its *Technology Economy Report Card*, which compared New Jersey's performance to both the general business environment and technology industries in Pennsylvania, New York, Massachusetts,

“Today, over 6 percent of the State’s workforce is in the high-tech industry, earning an average wage of \$82,500, which is 73 percent more than New Jersey’s average private-sector wage.”

- American Electronics Association’s (AeA) Cyberstates 2006 Report

North Carolina and Virginia. Based on data from 1998 to 2003, the report showed that although New Jersey remains one of the top ten destination states for technology companies, its leadership position is extremely fragile due to the State’s anti-competitive tax and regulatory policies. New Jersey is now losing ground to competitor states in both corporate sales and business growth¹⁸.

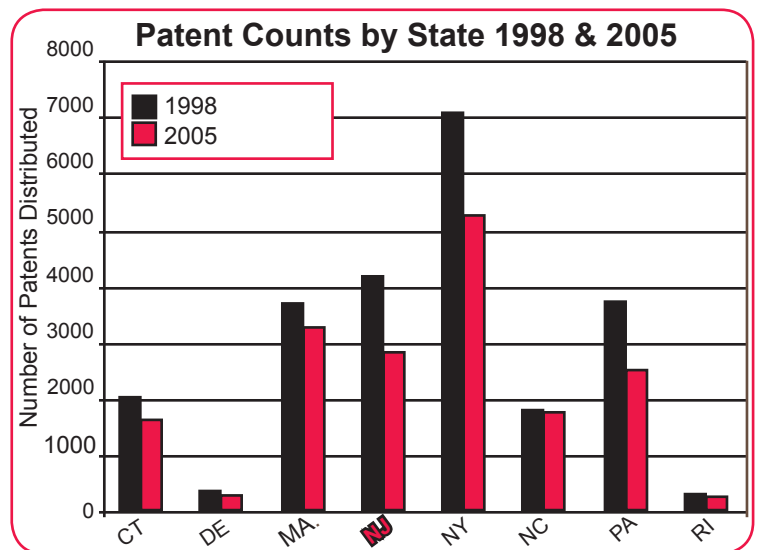
According to the report, New Jersey is experiencing a decline in patent growth and productivity among high-tech firms. In fact, the State is producing fewer patents today than it did in 1998, while Massachusetts and North Carolina are generating patents at a pace nearly three times the national average. In addition, New Jersey’s investment in research and development (R&D) has now fallen below the national rate, while competitor states are increasing R&D spending considerably to remain competitive.

The report warns that if surrounding states continue to outpace New Jersey in patent production and private R&D investments, high-tech opportunities will

continue to shift out of State, luring venture capital and highly-skilled workers away with it. New Jersey must enact equitable tax policies, reform the cumbersome regulatory environment, and increase resources for math, science and engineering education to reverse this alarming downward trend.

The vulnerability of New Jersey’s high-tech sector is also reflected in the American Electronics Association’s (AeA) *Cyberstates 2006* report, which shows that the sector lost a net of 5,500 jobs in 2004. Today, over 6 percent of the State’s workforce is in the high-tech industry, earning an average wage of \$82,500, which is 73 percent more than New Jersey’s average private-sector wage. High-tech exports totaled \$3.3 billion in 2005 and represented 16 percent of New Jersey’s exports. With so much invested in New Jersey’s technology sector and so many high-paying jobs at stake, legislators need to adopt tax policies and regulatory reform that will help keep the sector competitive and vibrant¹⁹.

A 2006 Rutgers University report entitled *Seeking Strategies: New Directions for New Jersey’s Telecommunications Industry* concluded that while industry and national trends in technology are largely responsible for changes in the communications industry, State government policy plays an important role in the vitality of the sector. New Jersey needs to do more to develop policies that better balance controlling costs for services with fostering industry competitiveness. If State officials do not enact policies that improve the business climate, New Jersey runs the risk of losing pre-eminence in the technology sector²⁰.



100,000 Manufacturing Jobs Vanished from New Jersey over the Last Five Years.

According to New Jersey Department of Labor and Workforce Development statistics, from 2001 to 2005, nearly 100,000 manufacturing jobs, or a quarter of our 2001 total, vanished from New Jersey. This decline has accelerated a longer-term trend of manufacturing employment losses in this State²¹.

In spite of these losses from 2001-2005, New Jersey manufacturers still employed approximately 321,000 full-time workers, nearly 10 percent of the State's entire private-sector workforce. They pay above-average wages and benefits and make many other significant contributions to the economic well-being of the citizens of the State. Furthermore, manufacturing generates 11 percent of New Jersey's economic output and has a significant multiplier effect on the rest of the economy²².

In 2004, the New Jersey Business & Industry Association surveyed 438 manufacturers on the biggest State-level obstacles to the success of their manufacturing operations in New Jersey. Health insurance costs were identified as the single biggest obstacle to the retention or expansion of manufacturing businesses in New Jersey. This was followed by the overall cost of doing business in this State, which would include such things as the high cost of health insurance, property taxes, State business taxes, energy, and State regulations²³.

State government's attitude toward business and high property taxes shared third place. Survey participants also expressed significant concerns about the costs of energy, other insurance costs (outside of healthcare), the availability of skilled labor, wage and labor costs, State regulations, and State taxes.

In addition, the survey took a more detailed look at the attitude of manufacturers toward problem areas in taxation, insurance and regulation. In the area of

taxation, State corporate and business taxes were seen as a "big problem" by half of respondents, compared with 56 percent who said property taxes were a big problem. In the regulatory arena, State environmental regulations were seen as the largest obstacle.

Conclusion and Policy Implications

New Jersey's poor business climate is greatly impacting companies' decisions about job creation, retention, pricing and plant location. New Jersey added just 27,000 new jobs in 2006, which is only about two-thirds of the State's post-war average of about 40,000 new jobs a year and only 39 percent of the 70,000 average for new positions added annually in the expansions of the 1980s and 1990s²⁴. New Jersey's high business costs are clearly hampering the State's ability to attract new business and generate economic and employment growth, particularly in the high-paying technology, professional, and business-service sectors of the economy.

Growing New Jersey's economy requires State policymakers to find ways to reduce costly health benefits, energy, employer mandates, regulatory hurdles and business taxes. The State must reduce property taxes by significantly cutting government spending once and for all. It is clear that New Jersey can no longer afford to be consistently outranked by its neighboring states in terms of tax competitiveness and pro-growth policies. Far too much is at stake.

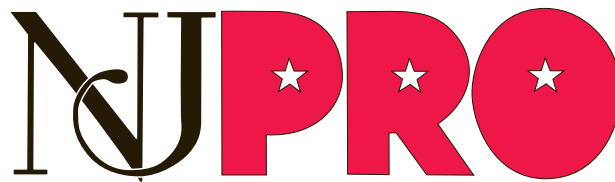
Maintaining and promoting growth in New Jersey's high-tech and manufacturing sectors, as well as other areas of the State's economy, are essential to ensuring New Jersey's leadership position in today's global market. A vibrant, expanding economy creates good, high-paying private-sector jobs that help expand the State's tax base without raising taxes. A healthy business climate is not a mere luxury. It is critical to the quality of life for all State residents.

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Endnotes

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About the



Foundation

The New Jersey Policy Research Organization (NJPRO) Foundation is an independent public policy research affiliate of the New Jersey Business & Industry Association. NJPRO produces innovative, timely and practical research. NJPRO is New Jersey's leading policy organization conducting research on behalf of New Jersey employers. Governed by an independent Board of Trustees, NJPRO is a nonpartisan, tax-exempt organization. NJPRO depends on the support of companies, individuals and foundations for its income.

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