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Business Relocation and Homegrown Jobs, 1992–2006

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Summary

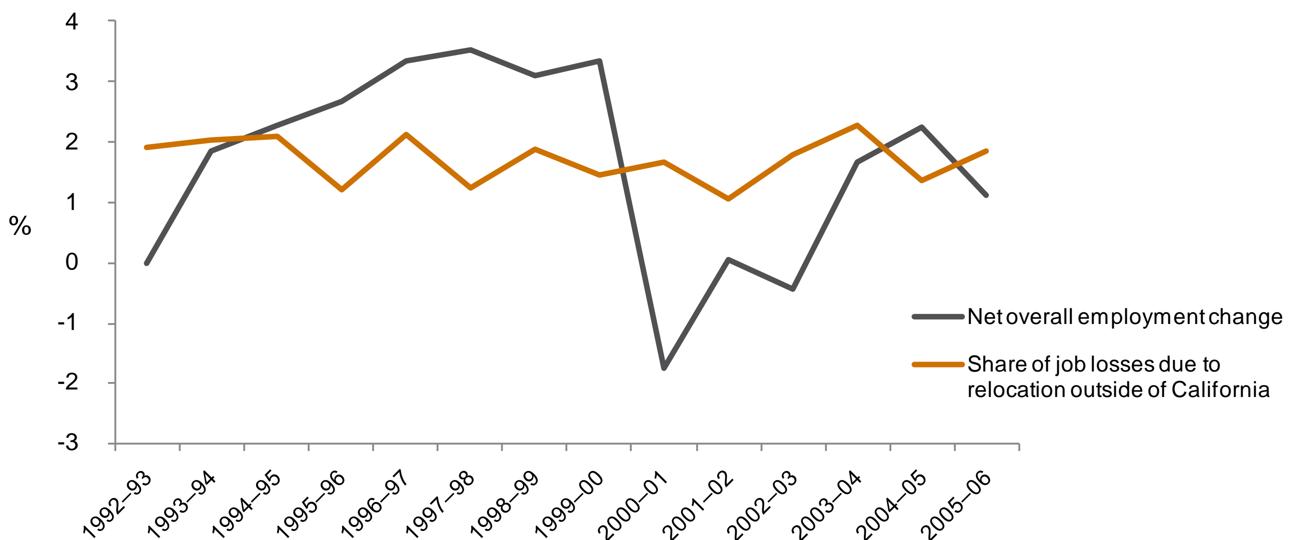
This research updates with two additional years of data (2005 and 2006) PPIC's 2007 report *Business Location Decisions and Employment Dynamics in California*. Relying on the most recent data, this analysis reconfirms that business relocation—the movement of business establishments from one state to another—accounts for a very small share of California's employment fluctuations. In fact, relocation accounts for a smaller share of job gains and losses in California than in most other states, in part because most California businesses lie far from the border of neighboring states. This report expands on our earlier research with a closer examination of births, deaths, expansions, and contractions of businesses, assessing in particular how much of these gains and losses occur among locally headquartered businesses. Although regional economic development policies often focus on encouraging businesses headquartered elsewhere to relocate, open, or expand local operations, the strong majority of job gains and losses are "homegrown" in that they take place in locally headquartered businesses.

Business Relocation and Homegrown Jobs

Employment Dynamics in California

Few businesses move into or out of California. From 1992 through 2006, about 16,000 jobs annually moved into California and about 25,000 jobs annually moved out of California. The annual net employment change in California due to relocation—a loss of about 9,000 jobs—represents only 0.05 percent of California's 18 million jobs.[1] Most employment gains and losses are the result of other factors. Jobs are gained due to births of new establishments, expansions of existing establishments, and the in-migration of establishments to the state (only 1 percent of all of the job gains in California from 1992 through 2006 were due to the relocation of businesses into the state). Jobs are lost due to closures of existing establishments, contractions of existing establishments, and the out-migration of establishments from the state (only 1.7 percent of all job losses in California from 1992 through 2006 were due to establishments leaving the state). In fact, as shown in Figure 1, throughout all of the ups and downs of the business cycle, only a small fraction of the state's job losses are due to businesses leaving the state. Between 1992 and 2006, jobs leaving the state never accounted for more than 2.3 percent of job losses in any given year.

FIGURE 1
Net employment change and relocation in California, 1992–2006



Relocation and Employment in Other States

As shown in Table 1, relocation into and out of the state contributes less to job gains and losses in California than in most other states. In the nation as a whole, job relocations at the state level accounted for 1.9 percent of job gains and 2 percent of job losses, compared to 1 percent of gains and 1.7 percent of losses in California.

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[1] See Jed Kolko and David Neumark, *Business Location Decisions and Employment Dynamics in California* (PPIC, 2007), for a discussion of the dataset (National Establishment Time-Series) and methodology used in this analysis to measure relocation and other sources of job creation and destruction.

Relative to the nation overall, more of California's job gains and losses are due to the births and deaths of establishments already located in the state.

TABLE 1
Share of gross job changes, cumulative, 1992–2006

	All states (%)	California (%)
Job gains		
Expansions	41.8	40.6
Births	56.3	58.4
Moves into state	1.9	1.0
Job losses		
Contractions	35.6	33.3
Deaths	62.3	65.1
Moves out of state	2.0	1.7

As shown in Table 2, relocation to other states is responsible for the highest share of total job loss in the District of Columbia, Delaware, New Jersey, and New Hampshire. These are all relatively small states where much of the economic activity occurs close to a state border. Thus, many businesses in these states could relocate to a neighboring state and still retain most of their workforce, reducing the cost of relocation. South Dakota and Kansas also experience more cross-state relocation than most other states. Although these states are not geographically small, each state's largest city lies near the state border (Sioux Falls, South Dakota, is close to the state of Iowa; Kansas City, Kansas, is close to Missouri).

TABLE 2
Highest and lowest share of job losses due to out-of-state relocation, cumulative, 1992–2006

Highest	%	Lowest	%
District of Columbia	6.9	Alaska	0.9
Delaware	4.5	Hawaii	1.0
New Jersey	3.9	Texas	1.2
New Hampshire	3.6	Montana	1.2
South Dakota	3.6	North Dakota	1.3
Maryland	3.1	Mississippi	1.4
New York	3.0	Wisconsin	1.4
Maine	2.9	Arizona	1.4
Connecticut	2.8	Utah	1.4
Kansas	2.6	Louisiana	1.4

In contrast, relocation accounts for the lowest share of total job loss in Alaska and Hawaii, neither of which borders another state. Texas and Montana are next on this list. Most of the economic activity in these geographically large states occurs at a considerable distance from the state border. California comes in below the national average in terms of job loss due to relocation, holding the 21st-lowest position among the states. All of California's major centers of population and economic activity are far from the bordering states of Oregon, Nevada, and Arizona. Very few California businesses can relocate to another state without having to replace most of their workforce, making relocation out of (or into) California more costly than in most

other states. Of course, because California is the most populous state, more businesses move out of (and into) California than out of (and into) most other states, in absolute terms; but as a share of total job losses, job displacement resulting from establishments leaving the state is less common in California than in most other states.

"Homegrown" Local Growth

Most business relocations occur *within* rather than *across* states.[2] But even in the case of cross-county moves within a state, relocations account for only a small share of job gains and losses. Across all counties in California, within-state relocation across county lines accounts for just 4.2 percent of job gains and losses.

Economic development efforts in California and elsewhere often involve trying to attract new businesses from outside a local area, either through relocation or by encouraging businesses headquartered elsewhere to open new establishments or to expand existing establishments in the local area. However, most job gains and losses are, in fact, "homegrown." The main sources of job creation (the expansions and births of establishments) and the main sources of job destruction (the contractions and deaths of establishments) occur both in locally owned businesses and through businesses headquartered elsewhere. A new establishment in an area might be an entirely new business (e.g., a new independent cafe), a new location of an existing locally owned business (e.g., a new Oakland branch of Peet's coffeehouse, headquartered in neighboring Emeryville), or a new location of a business headquartered outside the county (e.g., a new San Francisco branch of Seattle-based Starbucks). We consider the first two types of births to be homegrown in that they are the result of decisions made by a local company or entrepreneur, rather than made elsewhere.[3]

In California, 74 percent of job gains (see Figure 2A) and 68 percent of job losses (see Figure 2B) are homegrown. Most job gains are due to the births and expansions of locally owned businesses; most job losses are due to the contractions and deaths of locally owned businesses. Businesses headquartered outside a county contribute much less to local employment fluctuations. The homegrown shares of job gains and losses are even higher in smaller cities and towns and in rural areas. Among the non-metropolitan counties in California, 79 percent of job gains and 74 percent of job losses are homegrown. Thus, although luring businesses from elsewhere or convincing them to open or expand locally is a common economic development strategy, and preventing businesses from leaving the state is a political refrain,[4] most job gains and losses are homegrown.

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[2] See Kolko and Neumark, *Business Location Decisions*.

[3] Expansions, contractions, and deaths are also homegrown if they are businesses with a single location (and therefore its own headquarters) or larger businesses headquartered locally. Births, deaths, expansions, and contractions in businesses headquartered elsewhere—i.e. outside the county—are not "homegrown" sources of job gain or loss; neither are job gains and losses due to relocation. "Homegrown" includes job gains and losses in local businesses founded by immigrants or domestic migrants. Although businesses rarely relocate, entrepreneurs and workers often do. See AnnaLee Saxenian, *Silicon Valley's New Immigrant Entrepreneurs* (PPIC, 1999) and Magnus Lofstrom, *Entrepreneurship among California's Low-Skilled Workers* (PPIC, 2010).

[4] See Kolko and Neumark, *Business Location Decisions*.

FIGURE 2A
Share of total jobs gained in California, 1992–2006

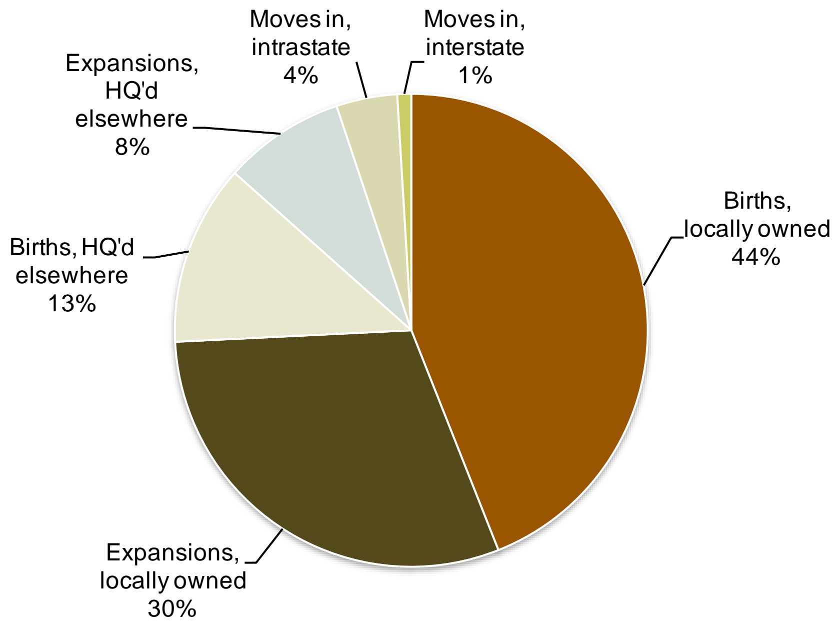
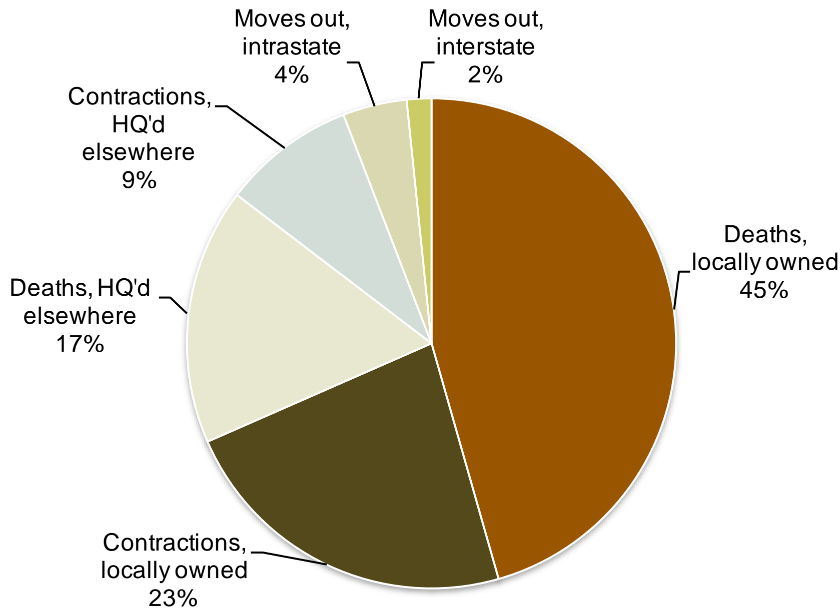


FIGURE 2B
Share of total jobs lost in California, 1992–2006



NOTE: Homegrown employment gains and losses are represented by darker wedges.

About the Author

Jed Kolko is an associate director of research at the Public Policy Institute of California, responsible for managing the institute's economy research. He has conducted numerous studies of the California economy, economic development, housing, and technology policy. Prior to coming to PPIC in 2006, he was vice president and research director at Forrester Research, a technology consultancy, where he managed the company's consumer market research businesses and served as the lead researcher on consumer devices and access technologies. Jed has also worked at the Office of Federal Housing Enterprise Oversight, the World Bank, and the Progressive Policy Institute. He holds a Ph.D. in Economics from Harvard University.

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