

Illinois job creation from the expansion or contraction of existing establishments

By J. Scott Moody and Wendy P. Warcholik – Illinois Policy Institute Senior Fellows



Introduction

What is Illinois' business climate? That age-old question is usually answered with one anecdote or another. Depending on one's vantage point, Illinois' business climate could be too hot, too cold or just right. Unfortunately, creating public policy using biased evidence often leads to a "shotgun" approach to legislation, where many small problems are addressed but no one is able to put together a view of the bigger picture. A large part of the problem has been a lack of detailed empirical data on Illinois' businesses – until now.

This study is the first of three that will use a powerful new database of Illinois' businesses called the National Establishment Time-Series, or NETS, Database.¹ The NETS Database is based on the far-reaching Duns & Bradstreet Marketing Information file that has nationally tracked more than 52.4 million establishments between 1990 and 2012.² The file tracks businesses via an assigned "DUNS number," which is the business equivalent of a personal Social Security number.³ As such, the NETS Database is the most comprehensive establishment-level census available.

Unfortunately, the NETS data paint a dismal picture of Illinois' job performance. As shown in Table 1, between 1995 and 2012, the total number of jobs grew by only 15.7 percent; the 41st best (or 10th worst) in the country. This represents an increase of only 1,074,401 jobs to 7,922,585 jobs in 2012 from 6,848,184 jobs in 1995 – or 63,200 jobs per year. Clearly, the Illinois jobs machine needs retooling.

To better understand where the problem lies, the NETS Database allows researchers to examine the three basic components of job growth – the expansion and contraction of existing establishments, the in- and out-migration of establishments and the birth and death of establishments. This study explores how the expansions and contractions of existing establishments influence job creation in Illinois. Understanding this dynamic process is vital to ensuring that public policy aids rather than hinders job creation.

Illinois jobs growth

Each year, between 1995 and 2012, Illinois establishments created an average of 232,182 jobs from expansions while destroying an average of 170,382 jobs from contractions per year – leaving an average annual job gain of 61,799.⁴ Over the entire 18-year time period examined in this study, establishment expansions have created 1,112,389 jobs on net.⁴

However, Chart 1 and Table 2 show that the year-to-year fluctuations in total jobs are only loosely influenced by the net job creation from expansions and contractions. The two indicators are 44 percent positively correlated, which means that while they generally move together in the same direction, net jobs growth from expansions and contractions tend to reinforce the trend rather than define it. For instance, net job creation from expansions and contractions only drops into negative territory on two occasions in 2002 and 2004 while the change in total jobs goes negative four times (2002, 2003, 2004 and 2009).

More specifically, Chart 2 and Table 2 shed light on whether expansions or contractions are driving the overall trend. Job gains from expansions are generally more stable from year to year with a deviation of 110,175 jobs from the average. On the other hand, job losses from contractions are more volatile with a year-to-year deviation of 138,222 jobs from the average. This is especially true in 2002 and 2004 when the acceleration in contractions led to negative job growth. As such, the rate of job destruction from establishment contractions is the driving factor in how many new jobs are created in this category on net in any given year.

However, a dramatic downshifting has occurred in both job expansions and contractions since 2010. Between 1995 and 2009, the average expansion was 252,065 jobs created while the average contraction was 192,725 jobs lost. Since 2010, the averages have dropped dramatically with 132,763 jobs created and 58,671 jobs lost. It is very likely that this downshifting is strongly related to the enactment of ObamaCare in 2010. To fully understand why, see the section of this analysis on the jobs related to the births and deaths of establishments.

Overall, this analysis shows that expansions of existing establishments have yielded reliable job growth but don't fully explain the year-to-year job fluctuations, especially when the net change in total job creation is negative, (e.g., in a recession). Yet, the noted drop in expansions and contractions may also further reduce the influence of this factor in Illinois's business climate in the future – especially if ObamaCare is responsible for the downshifting.

Illinois establishment growth

Between 1995 and 2012, on average, jobs were created by 25,410 expanding establishments and destroyed by 18,149 contracting establishment per year – leaving an average annual establishment gain of 7,261.⁵ Over the entire 18-year time period examined in this study, the number of establishments that saw expansions outnumbered those that contracted by 130,695.

Additionally, Chart 3 and Table 3 shed light on whether there were more establishments that expanded or contracted over time. For nearly the entire 18-year time period, not only are there more expanding establishments than contracting establishment, but also the variation in expanding establishments is relatively stable from year to year.

Table 4 shows the average number of jobs created per establishment and the average number of jobs destroyed per establishment. Overall, expanding establishments created an average of 9.1 jobs while contracting establishments destroyed 9.4 jobs. As such, there is only a 0.3 job difference in the average number of jobs created/destroyed per establishment.

Illinois' ranking

Table 5 shows the net change of jobs created by expansions and contractions between 1995 and 2012 as a percent of employment in 1995 relative to the other 49 states. Illinois's 1,074,401 jobs created due to establishment expansion equates to a gain of 16.2 percent of Illinois's 1995 workforce. Illinois's performance ranks a sub-par 30th in the country. In stark contrast, the state with the largest job growth due to expansions was Florida (35.2 percent) – more than twice the growth rate of Illinois.

Two neighboring states rank higher than Illinois: Missouri (19.5 percent, rank 23rd) and Wisconsin (18.9 percent, rank 24th). The remaining three border states performed worse than Illinois: Indiana (16.2 percent, rank 31st), Iowa (14.9 percent, rank 35th) and Kentucky (12.8 percent, rank 44th).

Additionally, Tables 6 and 7 show the gross change in jobs created by expansions and contractions between 1995 and 2012 as a percent of jobs relative to the other 49 states. These tables help show the overall job churn in gross expansions and contractions. Illinois ranks 41st in gross jobs created from expansions (Table 6), but performs well on gross jobs lost to contractions as the 46th lowest, or fifth best (Table 7).

Conclusion

While establishment expansions have been a reliable and substantial source of new jobs for Illinois, creating 1,074,401 jobs between 1995 and 2012, it does not fully answer the question about which of the three sources of job creation (expansions/contractions, in-/out-migration and births/deaths) explains the year-to-year fluctuations in total jobs. More light is shed on this topic in the studies examining the other two components of job growth.

Additionally, when comparing Illinois nationally and regionally, job creation in this category is slightly below average so there is plenty of room to rev up the job creation engine from expansions and contractions. More specifically, the analysis shows focusing on increasing the job gain from establishment expansions is the most productive route to take. While gross job losses from establishment contractions are more volatile from year-to-year, Illinois already has the fifth-lowest rate of job losses from contractions; suggesting that there is not much room for improvement. Therefore, boosting the rate of gross job expansions will translate into long-term net job creation.

Since adding jobs to an existing workforce often involves significant physical investment, such as a bigger manufacturing facility, one policy prescription would be to remove or streamline regulations that may overly burden such expansions. For instance, the lack of a Right-to-Work law in Illinois severely complicates labor relations. It is well-documented that Right-to-Work states economically outperform non-Right-to-Work states.^{6, 7}

ENDNOTES

¹ The firm Walls & Associates performs the conversion of the Dun & Bradstreet Marketing Information file into a time-series database that is useful for economic research purposes. The file is proprietary to Walls & Associates, which licenses the database to researchers across the country – including the U.S. Department of Commerce’s Census Bureau and the Bureau of Economic Analysis.

<http://143.235.14.134/downloads/NETSDatabaseDescription2013.pdf>

² The NETS database is based on establishments, which means that one organization can have numerous establishments in various locations, for example, Starbucks. Additionally, different establishments can occupy the same location. For example, an organization at a single location could represent two different activities – such as a single organization with both a distribution and retail establishment under the same roof. This structure provides an unprecedented level of geographic and industry classification.

³ Though this study will use the term “Illinois jobs,” it does not mean that those employed are all Illinois residents. Since jobs are reported on a per establishment basis, there is no information on the residency of the workforce. Therefore, someone living in Indiana but working for an Illinois establishment would be included in the “Illinois employment” number.

⁴ This study draws on data for national comparisons from youreconomy.org, or YE, which are based on the NETS Database. YE is a project of the Edward Lowe Foundation. The YE website uses the NETS Database for the years 1993 to 2008.

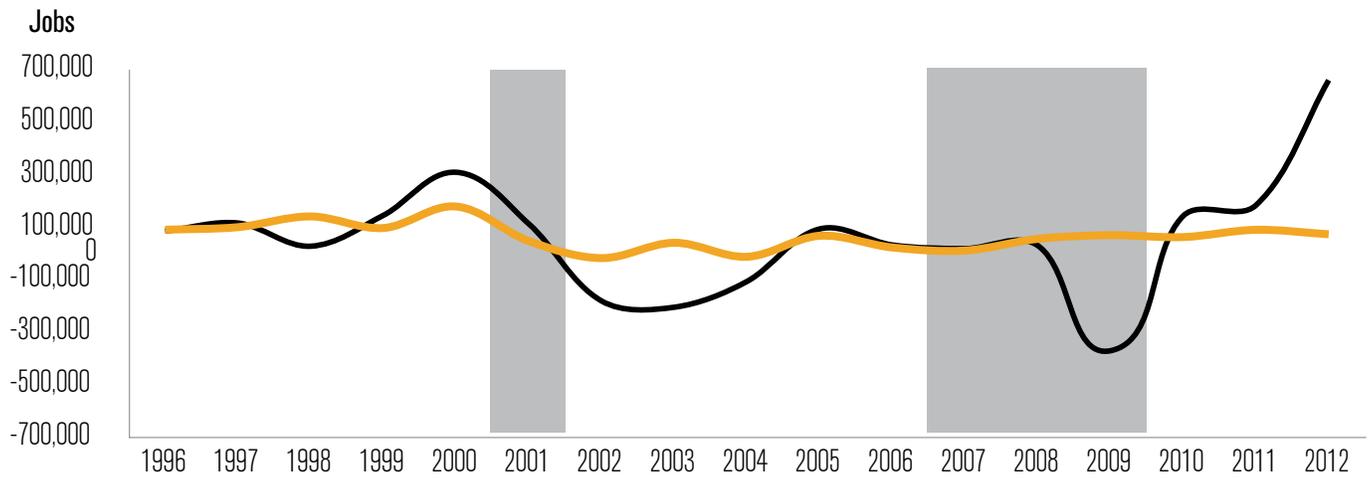
⁵ Some establishment contractions may, in fact, be a form of out-migration of jobs from one region or state to another. For example, a company may decide to consolidate several far-flung establishments under one roof. If the new, consolidated establishment is not located in Illinois, then there is no way to determine that an establishment contraction was really a disguised form of out-migration.

⁶ For more information on Right-to-Work laws and economic performance, see: Vedder, Richard, “Right-to-Work Laws: Liberty, Prosperity, and Quality of Lift,” CATO Journal, Vol. 30, No. 1 (Winter 2010), pgs. 171 to 180. <http://www.cato.org/pubs/journal/cj30n1/cj30n1-9.pdf>

⁷ In support of Dr. Vedder's findings, IPI's recent migration study also shows that Illinois residents have been moving to states where union membership averaged 43.4 percent lower than in Illinois – to 10.3 percent of the labor force from 17.7 percent. http://www.illinoispolicy.org/wp-content/files_mf/1404937178Moody_out_migration.pdf

APPENDIX

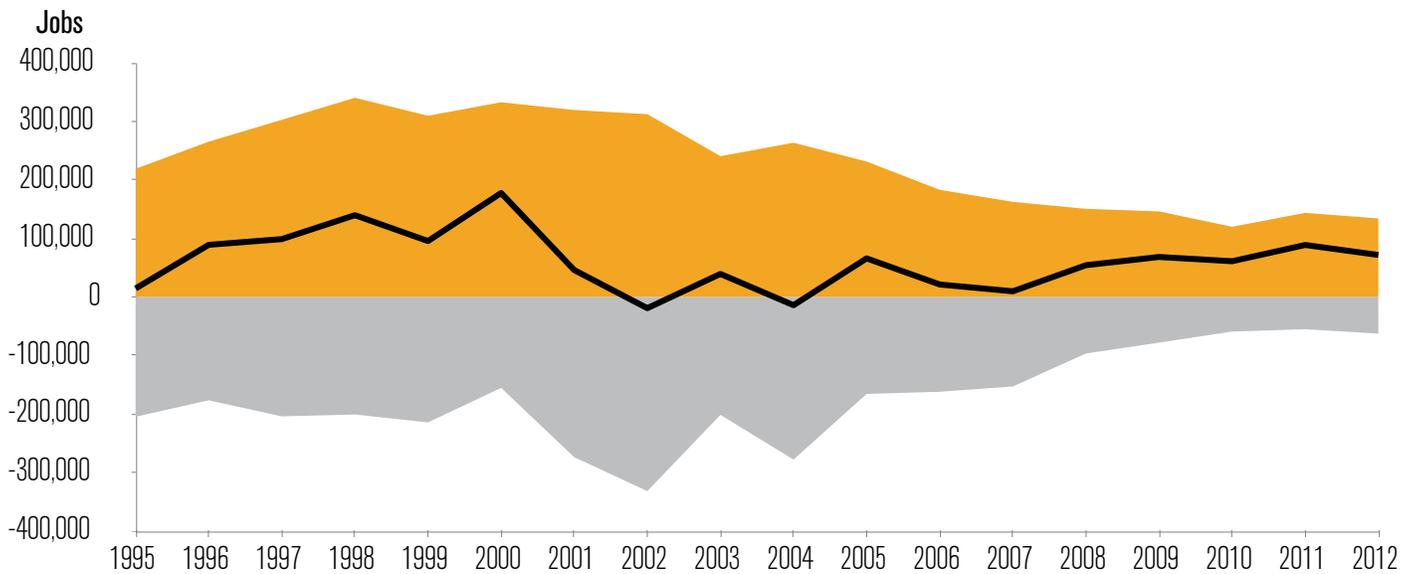
Chart 1. Annual change in Illinois jobs
1996-2012



■ Net (expansions minus contractions) ■ Change in total jobs ■ National recession

Source: National Establishment Time-Series Database, youreconomy.org and the Illinois Policy Institute

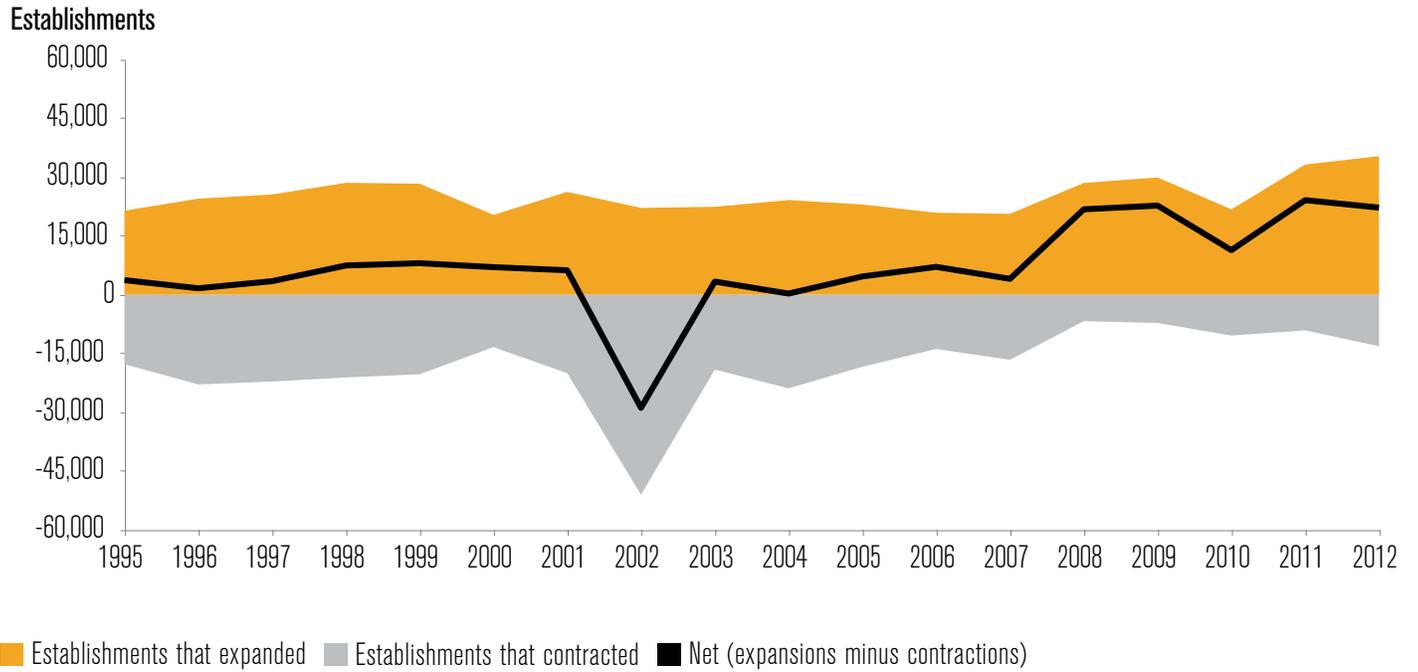
Chart 2. Illinois jobs due to establishment expansions and contractions
1995-2012



■ Expansions ■ Contractions ■ Net (expansions minus contractions)

Source: National Establishment Time-Series Database, youreconomy.org and the Illinois Policy Institute

Chart 3. Illinois establishment expansions and contractions
1995-2012



Source: National Establishment Time-Series Database, youreconomy.org and the Illinois Policy Institute

Table 1. Percent change in jobs by state
1995-2012

State	Percent of 1995 job base	Rank			
United States	25.7%	--	New York	9.2%	47
Alabama	18.9%	35	North Carolina	34.1%	16
Alaska	54.9%	3	North Dakota	42.6%	8
Arizona	57.2%	2	Ohio	10.3%	45
Arkansas	23.8%	30	Oklahoma	26.2%	22
California	25.0%	25	Oregon	37.3%	14
Colorado	44.0%	7	Pennsylvania	18.8%	37
Connecticut	7.3%	49	Rhode Island	9.2%	46
Delaware	13.0%	43	South Carolina	24.3%	28
Florida	70.2%	1	South Dakota	32.9%	19
Georgia	41.6%	9	Tennessee	25.2%	23
Hawaii	31.9%	21	Texas	37.9%	13
Idaho	40.8%	11	Utah	47.4%	5
Illinois	15.7%	41	Vermont	32.0%	20
Indiana	14.1%	42	Virginia	40.8%	12
Iowa	17.4%	38	Washington	33.9%	17
Kansas	19.9%	32	West Virginia	16.4%	40
Kentucky	24.4%	27	Wisconsin	16.7%	39
Louisiana	34.9%	15	Wyoming	41.1%	10
Maine	18.8%	36			
Maryland	25.2%	24			
Massachusetts	12.9%	44			
Michigan	6.2%	50			
Minnesota	23.9%	29			
Mississippi	24.8%	26			
Missouri	19.2%	34			
Montana	44.2%	6			
Nebraska	19.6%	33			
Nevada	47.5%	4			
New Hampshire	33.2%	18			
New Jersey	8.9%	48			
New Mexico	22.3%	31			

Source: National Establishment Time-Series Database, youreconomy.org and the Illinois Policy Institute

Table 2. Change in Illinois jobs due to expansions and contractions
1995-2012

Calendar year	Total jobs	Change in total jobs	Jobs created by establishment expansions	Jobs lost due to establishment contractions	Net jobs created (expansions minus contractions)
1995	6,848,184	--	219,102	204,373	14,729
1996	6,932,119	83,935	265,487	176,210	89,277
1997	7,046,969	114,850	302,775	203,721	99,054
1998	7,073,387	26,418	340,442	200,521	139,921
1999	7,217,414	144,027	309,698	213,954	95,744
2000	7,525,712	308,298	332,792	155,018	177,774
2001	7,637,415	111,703	319,546	273,379	46,167
2002	7,455,333	(182,082)	312,403	331,310	(18,907)
2003	7,249,145	(206,188)	240,670	201,099	39,571
2004	7,141,186	(107,959)	263,634	277,459	(13,825)
2005	7,233,470	92,284	231,513	165,380	66,133
2006	7,264,476	31,006	183,200	161,662	21,538
2007	7,281,785	17,309	162,628	152,701	9,927
2008	7,310,609	28,824	150,782	96,318	54,464
2009	6,938,639	(371,970)	146,309	77,765	68,544
2010	7,080,556	141,917	120,093	58,822	61,271
2011	7,263,256	182,700	143,898	54,867	89,031
2012	7,922,585	659,329	134,299	62,323	71,976
Total	--	1,074,401	4,179,271	3,066,882	1,112,389

Source: National Establishment Time-Series Database, youreconomy.org and the Illinois Policy Institute

Table 3. Change in Illinois establishments due to expansions and contractions
1995-2012

Calendar year	Total establishments	Change in total establishments	Establishments that expanded	Establishments that contracted	Net expanding (positive) or contracting (negative) establishments
1995	528,564	--	21,441	17,704	3,737
1996	552,361	23,797	24,522	22,865	1,657
1997	559,382	7,021	25,599	22,135	3,464
1998	556,182	(3,200)	28,558	21,089	7,469
1999	549,568	(6,614)	28,341	20,286	8,055
2000	564,441	14,873	20,389	13,341	7,048
2001	600,190	35,749	26,253	20,001	6,252
2002	620,936	20,746	22,166	51,011	(28,845)
2003	627,683	6,747	22,448	19,081	3,367
2004	653,213	25,530	24,171	23,865	306
2005	707,526	54,313	23,039	18,369	4,670
2006	740,192	32,666	20,931	13,815	7,116
2007	798,216	58,024	20,663	16,596	4,067
2008	857,326	59,110	28,530	6,720	21,810
2009	767,706	(89,620)	29,940	7,188	22,752
2010	920,960	153,254	21,790	10,405	11,385
2011	871,598	(49,362)	33,227	9,079	24,148
2012	842,516	(29,082)	35,365	13,128	22,237
Total	--	313,952	457,373	326,678	130,695

Source: National Establishment Time-Series Database, youreconomy.org and the Illinois Policy Institute

Table 4. Illinois jobs per establishment
1995-2012

Calendar year	Average jobs created per expanding establishment	Average jobs destroyed per contracting establishment	Difference
1995	10.2	11.5	(1.3)
1996	10.8	7.7	3.1
1997	11.8	9.2	2.6
1998	11.9	9.5	2.4
1999	10.9	10.5	0.4
2000	16.3	11.6	4.7
2001	12.2	13.7	(1.5)
2002	14.1	6.5	7.6
2003	10.7	10.5	0.2
2004	10.9	11.6	(0.7)
2005	10.0	9.0	1.0
2006	8.8	11.7	(2.9)
2007	7.9	9.2	(1.3)
2008	5.3	14.3	(9.0)
2009	4.9	10.8	(5.9)
2010	5.5	5.7	(0.1)
2011	4.3	6.0	(1.7)
2012	3.8	4.7	(0.9)
Total	9.1	9.4	(0.3)

Source: National Establishment Time-Series Database, youreconomy.org and the Illinois Policy Institute

Table 5. Percent change in jobs due to establishment expansions and contractions by state
1995-2012

State	Percent of 1995 job base	Rank			
United States	19.8%	--	New York	13.8%	41
Alabama	14.5%	39	North Carolina	25.0%	9
Alaska	25.1%	8	North Dakota	26.5%	6
Arizona	32.6%	2	Ohio	12.1%	47
Arkansas	17.0%	27	Oklahoma	23.4%	15
California	21.9%	20	Oregon	24.4%	11
Colorado	28.3%	5	Pennsylvania	15.8%	32
Connecticut	12.2%	46	Rhode Island	10.5%	50
Delaware	11.9%	49	South Carolina	17.8%	26
Florida	35.2%	1	South Dakota	15.6%	34
Georgia	23.9%	14	Tennessee	17.9%	25
Hawaii	12.5%	45	Texas	25.8%	7
Idaho	30.4%	3	Utah	23.0%	17
Illinois	16.2%	30	Vermont	24.0%	13
Indiana	16.2%	31	Virginia	20.5%	22
Iowa	14.9%	35	Washington	24.0%	12
Kansas	15.6%	33	West Virginia	11.9%	48
Kentucky	12.8%	44	Wisconsin	18.9%	24
Louisiana	21.2%	21	Wyoming	24.7%	10
Maine	13.9%	40			
Maryland	14.7%	37			
Massachusetts	17.0%	28			
Michigan	13.6%	42			
Minnesota	23.4%	16			
Mississippi	14.9%	36			
Missouri	19.5%	23			
Montana	22.5%	19			
Nebraska	16.5%	29			
Nevada	30.0%	4			
New Hampshire	22.9%	18			
New Jersey	14.6%	38			
New Mexico	13.2%	43			

Source: National Establishment Time-Series Database, youreconomy.org and the Illinois Policy Institute

Table 6. Gross change in jobs due to the expansion of establishments
1995-2012

State	Percent of 1995 job base	Rank			
United States	68.2%	--	New York	55.6%	49
Alabama	59.1%	48	North Carolina	76.1%	10
Alaska	75.3%	11	North Dakota	73.6%	14
Arizona	84.8%	4	Ohio	59.9%	44
Arkansas	63.9%	32	Oklahoma	70.3%	16
California	68.1%	23	Oregon	74.8%	12
Colorado	81.9%	5	Pennsylvania	60.7%	43
Connecticut	59.3%	47	Rhode Island	53.1%	50
Delaware	59.4%	45	South Carolina	66.4%	27
Florida	87.2%	3	South Dakota	64.5%	31
Georgia	81.6%	6	Tennessee	69.1%	18
Hawaii	61.6%	38	Texas	78.7%	7
Idaho	76.3%	9	Utah	88.0%	2
Illinois	61.0%	41	Vermont	68.8%	21
Indiana	62.4%	36	Virginia	76.4%	8
Iowa	68.9%	20	Washington	72.6%	15
Kansas	66.0%	28	West Virginia	59.3%	46
Kentucky	63.7%	33	Wisconsin	65.5%	30
Louisiana	68.0%	24	Wyoming	67.1%	26
Maine	62.1%	37			
Maryland	65.6%	29			
Massachusetts	63.0%	35			
Michigan	60.7%	42			
Minnesota	74.0%	13			
Mississippi	61.4%	39			
Missouri	68.7%	22			
Montana	67.7%	25			
Nebraska	69.5%	17			
Nevada	88.8%	1			
New Hampshire	69.0%	19			
New Jersey	61.3%	40			
New Mexico	63.6%	34			

Source: National Establishment Time-Series Database, youreconomy.org and the Illinois Policy Institute

Table 7. Gross change in jobs due to the contraction of establishments
1995-2012

State	Percent of 1995 job base	Rank			
United States	48.4%	--	New York	41.7%	50
Alabama	44.6%	47	North Carolina	51.1%	12
Alaska	50.2%	19	North Dakota	47.2%	30
Arizona	52.2%	9	Ohio	47.8%	26
Arkansas	46.9%	32	Oklahoma	46.9%	33
California	45.0%	43	Oregon	50.4%	16
Colorado	53.6%	6	Pennsylvania	44.9%	44
Connecticut	47.1%	31	Rhode Island	42.6%	48
Delaware	47.6%	27	South Carolina	48.6%	23
Florida	52.0%	10	South Dakota	48.9%	22
Georgia	57.7%	3	Tennessee	51.2%	11
Hawaii	49.1%	21	Texas	52.9%	8
Idaho	45.9%	41	Utah	65.0%	1
Illinois	44.8%	46	Vermont	44.8%	45
Indiana	46.2%	38	Virginia	55.8%	4
Iowa	54.0%	5	Washington	48.5%	24
Kansas	50.3%	18	West Virginia	47.4%	28
Kentucky	50.8%	13	Wisconsin	46.5%	36
Louisiana	46.8%	34	Wyoming	42.4%	49
Maine	48.2%	25			
Maryland	50.8%	14			
Massachusetts	46.0%	40			
Michigan	47.2%	29			
Minnesota	50.6%	15			
Mississippi	46.5%	37			
Missouri	49.2%	20			
Montana	45.2%	42			
Nebraska	53.0%	7			
Nevada	58.8%	2			
New Hampshire	46.1%	39			
New Jersey	46.8%	35			
New Mexico	50.3%	17			

Source: National Establishment Time-Series Database, youreconomy.org and the Illinois Policy Institute