

# **Employment Dynamics and Business Relocation: New Evidence from the National Establishment Time Series**

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## **Abstract**

We analyze and assess new evidence on employment dynamics from a new data source – the National Establishment Time Series (NETS). The NETS offers advantages over existing data sources for studying employment dynamics, including tracking business establishment relocations that can contribute to job creation or destruction on a regional level. Our primary purpose in this paper is to assess the reliability of the NETS data along a number of dimensions, and we conclude that it is a reliable data source although not without limitations. We also illustrate the usefulness of the NETS data by reporting, for California, a full decomposition of employment change into its six constituent processes, including job creation and destruction stemming from business relocation, which has figured prominently in policy debates but on which there has been no systematic evidence.

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## 1. Introduction

Employment growth is a major goal of economic policy at both the national and regional levels. Changes in employment are driven by job creation and job destruction, which in turn are made up of six dynamic processes including the birth, death, growth, contraction, and relocation of business establishments. This “demographic” characterization of business establishment and employment dynamics emphasizes that employment change in an economy is the net result of six influences – three that create jobs (births, expansion, and in-migration) and three that destroy jobs (deaths, contractions, and out-migration). Ultimately, we need to understand all six of these dynamic processes to characterize employment change in an economy, and to identify the job creation and destruction processes on which it might be most productive for policymakers to focus in encouraging employment growth.<sup>1</sup> Moreover, the fact that employment change is the net result of potentially large gross changes – for example, overall expansion of jobs at existing establishments and overall contraction of jobs at other existing establishments – suggests that what often appear as relatively moderate overall changes in employment over time may mask potentially volatile gross job flows. This implies that relatively small changes in any of the gross flows can lead to sharp changes in net job growth.

But tracking a large population of business establishments across time and space, including births, deaths, and relocations, is difficult and costly, and thus data have not been available with which to fully capture the underlying processes of employment dynamics. Primarily for this reason, although the importance of understanding the job creation-destruction process has long been widely recognized (e.g., Schumpeter, 1942, Chapter 7), systematic empirical research on this topic did not start until quite recently as researchers began to develop appropriate data sources. But this research has continued to face significant limitations imposed by the data.

In this paper we help introduce a new data source – the National Establishment Time Series (NETS) – which we believe is the first data set that permits a full decomposition of the sources of

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<sup>1</sup> Strictly speaking, whenever we refer to “employment” measured at the establishment level, we should refer to “jobs,” because workers can have jobs with more than one employer. But since “job change” usually conveys a different meaning than “employment change,” we usually refer to employment instead.

employment change in regions of the U.S. economy, and which offers other advantages relative to existing data sources. Our primary emphasis is on assessing the reliability of the NETS data along numerous dimensions. We provide this detailed assessment because the NETS data should prove useful to researchers in many fields, but it is a new data source of unknown quality, and we know that there are inherent difficulties in tracking business establishments – especially new establishments and those that relocate. In general, we conclude that the NETS is a reliable data source although not without limitations, and we provide some guidance on its use. We also illustrate the usefulness of the NETS by using data for the entire state of California to fully decompose employment change into its six constituent processes, documenting the importance of each in contributing to employment change and its volatility. Because a principal advantage of the NETS data is the tracking of business establishment relocations, we focus on the role of relocation in employment dynamics. This analysis contributes hard evidence to a policy debate over business relocation that has been entirely speculative and reliant upon anecdotal evidence.

## **2. The NETS Database**

### ***2.1 Overview***

The NETS database is a new longitudinal file based on recent D&B data. It is a long-term project of Walls & Associates in conjunction with Dun and Bradstreet (D&B). We currently have access to an extract of this data set that covers all business establishments that were ever located in California between 1989 and 2002, and their respective parent headquarters (regardless of location).<sup>2,3</sup>

The version of the NETS database that we use begins with 14 cross-sectional files of the full Data Universal Numbering System (DUNS) Marketing Information (DMI) file for each year from 1990 through 2003, each of which covers the previous year. From here on, we refer to the year covered by the data, i.e., 1989-2002 for the full sample period. The primary purpose of D&B's data collection effort is to

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<sup>2</sup> An observation in the NETS data is an “establishment.” An establishment is a business or industrial unit at a single physical location that produces or distributes goods or performs services, for example, a single store or factory. Many firms own or control more than one establishment, and those establishments may be located in different geographic areas and may be engaged in different industries. We will sometimes refer to an establishment as a “business,” reserving the word “firm” to refer to what may be collections of many establishments. While the NETS database is based on information collected at the establishment level, it also uses the Data Universal Numbering System (DUNS) to indicate the relationships among establishments in multi-establishment firms.

<sup>3</sup> Data are available for the entire country, but cost precluded purchasing the entire file.

provide information on businesses to the business community, in order to enhance their decision-making by constructing a set of “predictive indicators” (e.g., the D&B Rating and PayDex scores), and for marketing purposes. The DMI file for each year is constructed from an ongoing effort to capture each business establishment in the United States in each year (including nonprofits and the public sector). The DMI file is based on a multi-layered process incorporating many data sources.

D&B strives to identify and assemble information on all business establishments, through a massive data collection effort, including 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 news reports, and the U.S. Postal Service.<sup>4</sup> Particular efforts are devoted to identifying the births and deaths of establishments. For every establishment identified, D&B assigns a DUNS number as a means of tracking the establishment. It should be pointed out that since around 1990, the DUNS has become the standard means of tracking businesses, having been adopted by many government agencies in the United States and internationally.<sup>5</sup>

Although the goal of D&B 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 D&B’s business and might even result in lawsuits. D&B has established a sophisticated quality control system and engages in extensive quality and consistency checks.<sup>6</sup> Thus, the data in each cross-section should provide high quality “snapshots” of business establishments.

Walls & Associates entered into a collaboration with D&B with a very different purpose – namely, to provide a dynamic view of the U.S. economy using the data from the D&B archives (Walls & Associates, 2003). This requires linking the D&B cross-sections into a longitudinal file that tracks every establishment from its birth, through any physical moves it may make, capturing any changes of ownership, and recording the establishment’s death if it occurs. This is a multi-stage process, the most

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<sup>4</sup> See <http://mddi.dnb.com/mddi/story.aspx> (viewed on April 28, 2005). The information from the U.S. Postal Service includes the National Change of Address database of all changes of address in the United States.

<sup>5</sup> See, for example, <http://www.dnb.co.in/whoduns.htm> (viewed on May 11, 2005).

<sup>6</sup> See [http://www.dnb.com/us/about/db\\_database/dnbinfoquality.html](http://www.dnb.com/us/about/db_database/dnbinfoquality.html) (viewed on April 28, 2005).

important steps of which include merging the data files, imputing data when data are not reported,<sup>7</sup> eliminating duplicate records, merging records on establishments for which the DUNS number changes (which happens occasionally) yet which appear to cover the same establishment, and identifying establishment relocations.

The resulting NETS database includes the following variables that are of particular importance to this research: current business name; current establishment location (zip codes including the 4-digit extension); FIPS county codes in each year; type of location (single location, headquarters, branch) in each year; employment in each year; Standard Industrial Classification (SIC) codes at the 8-digit level in each year; and, if the establishment has ever moved, the year of movement, origin zip code, origin city, origin state, destination zip code, destination city, and destination state.<sup>8</sup>

One highly desirable feature of the NETS database is that it covers essentially all establishments. This reflects the fact that it is designed to capture the universe rather than a sample of establishments. Over the sample period of 1989-2002, the database includes information each year on between 1.2 and 1.8 million establishments in California providing about 15 million to 18 million jobs. In total, more than 3.5 million establishments are covered in our extract of the NETS database.

As the preceding discussion indicates, the data construction effort – including both the cross-sectional files and the longitudinal linking that tracks establishments over time – is a massive and complicated one. For this reason, we have undertaken a good deal of investigation to document and examine the quality of the NETS data in order to assess their reliability, potential limitations, and how these limitations might affect results of various analyses.

## ***2.2 Classification of relocations, births, and deaths***

A central question for using the NETS data to calculate decompositions of employment change into its constituent processes is how D&B distinguishes whether an establishment at a new location previously existed elsewhere – and hence will be labeled a relocation in the longitudinal file – or instead

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<sup>7</sup> The file indicates when data are imputed.

<sup>8</sup> Full names and addresses for each establishment in each year are also available, but were not included in our extract because this additional information adds considerably to the cost.

is a new establishment. Clearly the correct classification of relocations is critically important in estimating the contributions of births, deaths, and business relocation to job creation and destruction.

In thinking about classifying relocations, a key point is the centrality of the DUNS number to D&B's data system. It is the DUNS number, after all, that allows D&B to attach information on credit histories and marketing databases, which is what its clients value. Consequently, DUNS numbers are unique, and D&B never recycles numbers. If an establishment closes, its DUNS number goes into an "out of business or inactive" file, where it remains permanently unless that business reopens. Each time D&B updates establishment information, it attempts to contact the establishment based on the previous location information on the establishment. Moves can be indicated in a number of ways. Frequently there is a forwarding address or telephone number, or continuing email contact that allows D&B to identify a new location. (In addition, business establishments sometimes notify D&B of their move.) Most important, any establishment that cannot be contacted at the previous year's address or telephone number also goes into the "out of business or inactive" file, and before any "new" establishment can be given a DUNS number, it must be checked against this file, and if there are indications of a match, follow-up investigation is undertaken. For example, if an establishment belonging to a multi-unit firm cannot be found, D&B contacts the headquarters to determine whether a relocation has occurred. In any case in which D&B finds that the establishment previously existed elsewhere, it assigns its existing DUNS number. Finally, if a new establishment is identified whose characteristics do not match those of an existing establishment, D&B contacts the establishment to verify its start date, and assigns a new DUNS number. With these procedures, the longitudinal file should correctly identify relocations of establishments and distinguish them from births of new establishments (and deaths of others), although of course one cannot rule out the possibility of occasional errors of a move being classified as a death in one location and a birth in another, which would lead to an undercount of relocating establishments.<sup>9</sup> As a consequence, in our assessment of the NETS data we focus in part on accurate identification of relocating establishments.

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<sup>9</sup> Most of the information in this paragraph was supplied by Don Walls and confirmed by him with D&B (personal communications, May and July, 2005).

An establishment relocation in the NETS data is identified by street address and zip code changes from one year to another. Both establishments that moved out of California and establishments that moved into California are included in the database, so we are able to track cross-state relocation. However, there are some limits to what this form of relocation can tell us about the dynamics of employment change, as other types of changes in employment might be viewed as sharing features of establishment relocation, or reflecting the same forces that drive relocation. First, if a California company sets up an establishment in another state, that establishment does not show up in our data set. That is, we can study establishments that “move out” but not those that “branch out.” The latter should not be regarded as equivalent to the former because branching out does not necessarily occur at the cost of creating an additional establishment within the state. Second, the NETS database only tracks physical establishment relocation. There are several other types of relocation that it does not capture by design. For instance, it does not allow us to determine when specific jobs or positions are shifted between two discrete locations of the same firm. This type of relocation, which also constitutes a relocation of jobs between establishments, will be observed in our data set as employment expansion at one establishment and contraction at another. Also, relocations that involve the consolidation of activities at two or more locations into a single location will often be missed, and will be reflected in one establishment growing and another closing. Despite these caveats, the NETS database enables empirical research that represents a significant step towards understanding the role of business relocation in job creation and destruction, especially given that the policy debate frequently refers to physical relocations of business establishments.

### **3. Data Sources for Studying Employment Dynamics**

The NETS is not the first data set with which researchers can study employment dynamics, nor is this the first project to attempt to study this question using data from D&B. However, other data sources present important limitations in studying employment dynamics, and previous work using earlier D&B files has been criticized. In this section we review some of this past research and alternative data sources.

### *3.1 Early Dun & Bradstreet data*

The original work on job creation and destruction was done by Birch (1979, 1981, and 1987) and Allaman and Birch (1975), relying on data collected by D&B. A brief review of the earlier research evaluating these data is helpful in framing some of the questions we consider in studying the NETS, although clearly the more recent data have to be assessed anew, given dramatic changes in information technology.<sup>10</sup>

Davis, et al. (1996) raise two main criticisms of the D&B data used by Birch and Allaman. First, the D&B data appear to overstate total employment as measured by the Bureau of Labor Statistics or the Census. Note, though, that the two main measures of overall employment in the U.S. economy – the Current Population Survey (CPS) household survey and the Current Employment Statistics (CES) payroll survey – also frequently have large and persistent discrepancies and often show quite different trends.<sup>11</sup> There are well-understood explanations of some of the differences between these two surveys, such as the payroll survey excluding the self-employed. The point, however, is that the measurement of employment is complex, and treating one measurement as 100% correct, and another that differs as obviously wrong, is overly simplistic. Below, we discuss differences in alternative measures of employment levels using the CPS, the CES, and the NETS, to try to shed additional light on these measurement issues.

Second, Davis, et al., discuss evidence indicating that the D&B data files used by Birch tracked new businesses poorly, failing to identify over 95% of new businesses identified from other sources (Birley, 1984; Aldrich, et al., 1989).<sup>12</sup> These findings should be interpreted cautiously. Birley's study is

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<sup>10</sup> The most significant claim emanating from Birch's research was that small firms are the most important source of job creation in the U.S. economy, a claim re-examined by a large body of research (see, for example, Leonard, 1987; Kirchoff and Phillips, 1988; Fumagalli and Mussati, 1993; Baldwin and Picot, 1995; Davis, et al., 1996; Broersma and Gautier, 1997; and Davidsson, et al., 1998). The second conclusion of Birch and Allaman's work – which is more relevant to some of the empirical work presented in this paper – is that, looking at the four Census regions, business relocation plays a minor role in employment change. While in- and out-migration would be expected to play a larger role for more disaggregated regions (such as states), this conclusion foreshadows some of our findings on the importance of business relocation in California. But given changes in both the economy and in data collection, there is clearly a need for updated evidence on this question, especially because current policy debates (at least in California, which we have studied) place great emphasis on business relocation but rely solely on anecdotal evidence.

<sup>11</sup> See, e.g., U.S. Bureau of Labor Statistics (2004).

<sup>12</sup> In contrast, Bednarzik (2000) claims – although he does not provide evidence – that the D&B data overstate openings and closings.

based on a comparison of new businesses captured in the ES-202 data, the D&B data, and telephone directories, restricted to St. Joseph County, Indiana.<sup>13</sup> She begins with new businesses identified in the ES-202 data, and then takes the subset of these also found in the telephone directories (77% of the total). She finds, however, that the D&B files only capture 12% of the new businesses identified from the ES-202 data.<sup>14</sup>

Aldrich, et al. (1989) compare ES-202 data, the D&B data, and an enumeration method based on a physical census and phonebooks. They find that the enumeration method appears to work considerably better, in the sense that it captures far more new businesses than either of the other methods. But in contrast to Birley's results, the D&B data and the ES-202 data have about the same overlap with the enumeration data, each capturing 1/3 of the cases captured by the enumeration method. But the enumeration method captured far more new businesses – 77% of the union of sets of new businesses captured by at least one method, versus 38% for the D&B data and 43% for the ES-202 data. Both papers note that, at the time, the D&B data included only businesses for which D&B had completed a credit check, or mainly those businesses that sought a credit rating. This could explain the low capture of new businesses. However, the findings of Aldrich, et al., indicate that the ES-202 data are roughly equally problematic, in contrast to Birley's conclusion. Specifically, of those new businesses identified by the enumeration method, only 10% were found in the D&B data, and 14% in the ES-202 data. Also, 42% of businesses identified as new in the ES-202 file were found in the D&B file, a much higher number than Birley reported (Aldrich, et al., 1989, pp. 377-378). Interestingly, Aldrich, et al., attribute this to “substantial improvements in the [D&B] coverage since Birley's research was completed” (1989, p. 378), highlighting the importance of assessing the NETS database anew, given improvements in information technology.

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<sup>13</sup> This identification is based on businesses showing up in one of the information sources in one year but not the previous year.

<sup>14</sup> Both Aldrich, et al. (1989, p. 372) and Leonard (1987, p. 142) note that the ES-202 data have trouble distinguishing births from changes in ownership or in legal corporate structure, because in each case a new ES-202 number is issued. It is not entirely clear how this affects Birley's conclusions, given the scanning she did of telephone directories as well. The more recent work by Spletzer (2000) appears to have solved this problem with the ES-202 data.

The U.S. Small Business Administration used the D&B data from the late 1970s and early 1980s to create the United States Establishment and Enterprise (USEEM) file, which linked establishments cross-sectionally (with parent firms) and over time. Research assessing this file points to some coding and related errors common to most data sets, problems with coverage of single owner-operator establishments in a few sectors, and overall higher counts of employment in small establishments compared to Census data because D&B count owners/managers and partners in their employment totals. Overall, though, the research concludes that the coverage of the file was quite accurate and timely (MacDonald, 1985, p. 180).

Audretsch (1995) provides some further analysis of the quality of the USEEM, comparing employment change for the United States as a whole with similar measurements from the Bureau of Labor Statistics (the BLS's payroll survey) and from County Business Patterns, as well as employment growth by establishment size based on the BLS data. He reports a high degree of correspondence between the different data sources, but also some differences, in particular for manufacturing. He also compares the size distribution of establishments in the USEEM and the U.S. Department of Commerce's "Enterprise Statistics" for 1982, and for this period finds that the USEEM undercounts small establishments, and undercounts employment at smaller establishments. This may mirror some of the coverage issues discussed above.

### ***3.2 Other data sources***

Other data sources subsequently developed and used in more general research on employment dynamics include the Census of Manufactures (CM) (Dunne, et al., 1989a and 1989b) and the Longitudinal Research Database (LRD) (Davis and Haltiwanger, 1992; Davis, et al., 1996), which like the CM is restricted to manufacturing, and Unemployment Insurance (UI) data (Leonard, 1987; Spletzer, 2000). A principal advantage of the UI data is that they cover employers in all sectors and all size categories, with the exception of business establishments that do not have employees – which figure in

the ensuing analysis of the NETS.<sup>15</sup> However, these data sets are not useful for capturing physical relocations of business establishments. This is especially true for tracking relocations across state lines in UI data, where – because the UI data come from separate state systems – there is no way to distinguish, for example, a new establishment from one that moved from another state.

Another data source created by the Census Bureau – the Longitudinal Business Database (LBD) – is an LRD-like database covering all industries (Jarmin and Miranda, 2002), derived from the Standard Statistical Establishment List (SSEL), a register of all U.S. businesses and establishments.<sup>16</sup> The LBD has coverage that parallels the ES-202 data. In principle, the LBD permits the study of business relocation, since there is an establishment-level identifier that stays with the establishment, and the SSEL contains information on the location of each establishment in each year. As discussed by Jarmin and Miranda, for the estimation of sources of gross job flows there are serious concerns with separating true births and deaths from spurious ones generated by broken linkages of establishments over time, a problem also noted with the LRD. They engage in a number of procedures, including matching on names and addresses, to minimize the spurious births and deaths, but some problems remain. This is also slightly problematic because matching on addresses, when linkages are broken for other reasons, implies that moves will be treated as births for some establishments, but not for others; in no case, though, has existing work classified business relocations using the LBD.<sup>17</sup> To the best of our knowledge, the LBD

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<sup>15</sup> Spletzer introduces a new longitudinal database developed by the BLS – referred to as the BLS longitudinal database, or LDB – which makes use of the ES-202 data to study employment dynamics. A significant advance in the LDB is the ability to capture data at the establishment level via what are called “Multiple Worksite Reports” for reporting UI data. This had been a problem in earlier work with UI data, and had led to criticism of using this data source by Davis, et al. (1996). The BLS has used the linked ES-202 records to create a data series called Business Employment Dynamics (BED), which reports on aggregate findings from the LDB. The BED tracks gross job flows (creation and destruction) at the national level as well as disaggregated by industry.

<sup>16</sup> The SSEL is also known as the Business Register. An earlier, shorter longitudinal database constructed in the same way as the LBD is the Business Information Tracking Series (BITS), also created at the Census Bureau, and sponsored by the Small Business Administration (Robb, 1999).

<sup>17</sup> Jarmin and Miranda (2002) also point to some other problems with the LBD. Two are relevant to comparisons with the NETS data. Some problems stem from missing data in earlier years that make it harder to match establishments and thus lead to overstating births and deaths. Another problem is that “data quality may be poor for establishments with few observations in the LBD” (p. 18), in part because newer establishments are less likely to have been surveyed by the Census Bureau. Below, we discuss similar problems with measuring employment in the NETS in the early years of firms’ existence.

has hardly been used in any research; the only study we have found is by Foster (2003), on establishment and employment dynamics in Appalachia.

The newest longitudinal data set on establishments that permits the measurement of gross job flows is the Longitudinal Employer-Household Dynamics (LEHD) program, housed at the U.S. Census Bureau (U.S. Census Bureau, 2002). The LEHD is also based on ES-202 data, but goes beyond the existing data sources in tracking the individual workers in these establishments, which it does by accessing their social security numbers. By matching with other data sources, this permits a great many important questions about worker mobility, careers, wage variation within and across firms, etc., to be addressed with a richness that has not previously been possible, although one limitation is that the worker-level data are matched by firm, not establishment. However, with regard to studying business establishment dynamics that do not focus on individual workers, the LEHD offers essentially the same thing as other data sets based on the ES-202 data.<sup>18</sup>

### ***3.3 Advantages of the NETS***

There are a few key advantages to the NETS data. First, from the perspective of fully characterizing employment change, the NETS captures business relocation. Unlike the other data sources described above, the NETS database tracks business address changes and identifies business moves over time within the entire country. As discussed below, this is important because business retention and attraction issues are often at the center of policy debates at the state (and local) level.

In addition, the NETS offers significant advantages in actually carrying out research on employment dynamics (or other topics). Access to the alternative data sources described in this section is highly restricted because of confidentiality reasons, and hence requires a long and complex process of application and approval. As a practical matter, this has deterred many researchers from pursuing research with these data, and has clearly made it difficult to do research in a timely manner. In addition, again because of confidentiality, researchers working with these data sources are restricted in the geographic detail to which they can disaggregate in describing results. And this confidentiality extends to

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<sup>18</sup> Benedetto, et al. (2004) explore exploiting the LEHD to improve tracking of entry and exit of firms as well as administrative changes by following clusters of matched workers.

studying and certainly extends to identifying particular companies. With the NETS data, in contrast, none of these problems arise. The data are accessible and there are not confidentiality restrictions imposed on users.<sup>19</sup>

#### **4. Assessment of NETS Database**

We use three strategies to assess the reliability of the NETS data. First, we compare the NETS data with alternative data sources that are publicly available to assess the accuracy of measurements of employment levels and changes. Second, we search business relocation cases reported in the media and check whether they are captured by the NETS data. And third, we use phonebooks and company web sites to try to identify business establishment births and assess the accuracy with which the NETS tracks such births.

In all cases, the reader is reminded that there are complexities involved in each of these measurement exercises, and it is not clear that any one particular data source is the “gold standard.” Thus, our analysis does not focus solely on whether the NETS “measures up” to these other data sources, but instead discusses the strengths and weaknesses of each and the degree of correspondence between them. There is a lot more to learn about these measurement differences, and we suspect that the potential advantages of the NETS will spur further assessments that build on those we carry out here.

It is important to note that there was a dramatic change in the data collecting process at D&B in 1991. In particular, on July 25, 1991, a federal court ruling allowed regional Bells to sell information they collected (United States v. Western Elec. Co., 767 F. Supp. 308 (D.D.C., 1991)). In 1992, therefore, D&B started to use yellow pages to identify business units, which greatly expanded its database. This resulted in a significant surge in the number of establishments and jobs in the NETS data in that year, which we expect to have seriously mitigated earlier problems with coverage by the D&B data. Consistent with this, as we show below, the D&B data now detect *more* very small establishments than do other data sources. From this point on, we will drop the 1989-1991 data and focus on the 1992-2002 sample period.

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<sup>19</sup> The NETS data are not freely available, and are not inexpensive. For example, a two-year license for the California file we use in this paper costs \$15,000. But the time plus money costs appear quite favorable, compared to using the alternative data sources.

#### *4.1. Measurement of employment levels*

One approach to assessing the NETS database is to compare its estimates of employment levels and changes with similar estimates from other sources. The data products that can be used for these comparisons are the Quarterly Census of Employment and Wages (QCEW), the Current Employment Statistics (payroll) survey (CES), and the Size of Business data (SOB). The QCEW and SOB are based on ES-202 data. Consequently, these two sources exclude the self-employed, proprietors, domestic workers, unpaid family members, and some other groups. The CES covers all nonfarm payrolls. These data sets only provide aggregate statistics at various geographic, industry, or establishment size levels, and thus it is only at these levels that we can compare the data sources.<sup>20</sup>

We begin by comparing employment level measurements in the NETS to those in the QCEW and the CES. We use 1997-2000 for the comparison with QCEW data because earlier years were not readily available, and subsequent years use the North American Industrial Classification System (NAICS) instead of SIC codes, and hence cannot be directly compared. We use the full sample period for the CES comparison. For both sources, we do this at the most disaggregated level at which QCEW data are publicly available for all counties – by county and 1-digit SIC industry.<sup>21</sup> Figure 1 plots the data for the alternative measurements of employment by county and industry from the NETS and the QCEW. If the measurements agreed exactly, then they would all lie on a 45-degree line, which is drawn in the figure. It is clear from visual examination of the figure, as well as the very high computed correlation of 0.994, that employment levels in these two data sources correspond very closely. On the other hand, the points actually lie on a line that is flatter than the 45-degree line, implying higher employment levels in the NETS.<sup>22</sup> We return to this issue below. We constructed a similar figure for comparing employment

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<sup>20</sup> The publication of employment/establishment data is sometimes withheld in order to protect the identity of cooperating employers. For example, QCEW is suppressed if there are fewer than three establishments in a cell, or if a single employer makes up more than 80% of the employment in that cell.

<sup>21</sup> Data at finer levels of industry disaggregation are often suppressed at the county level for reasons of confidentiality.

<sup>22</sup> The points that are farthest off the line, at high employment levels, are for service-related industries in Los Angeles. However, these points actually lie quite close to a regression line through the data.

measurements in the NETS with those in the CES data. It reveals a similar pattern, and also a high correlation (0.948).

To assess the quality of employment measurements in the NETS by establishment size, we also examined the correspondence between employment as measured by the NETS and the SOB; for this latter source employment can be measured by industry and size of establishment (as well as county, of course) as can also be done in the NETS database. As Figure 2 reveals, here the data correspond less well, and the correlation falls to 0.817. Looking at employment by establishment size shows that the greater discrepancies reflect the fact that the NETS database has much higher coverage of small establishments than does the SOB.

To see this more clearly, Figure 3 compares NETS and SOB employment data for 2002. In 2002, the NETS database reports 184% more employment in establishments with 1-4 employees than does the SOB, and 29% greater employment in establishments with 5-9 employees. But for every other business size category the NETS and SOB employment levels are within 10% of one another, and often much closer. This apparently greater coverage of employment in small establishments (1-9 employees) accounts for the higher employment measured in the NETS relative to the QCEW or CES. We cannot address this issue as directly as we can with the SOB data, because the QCEW and CES data are not available by establishment size. However, there are many fewer QCEW establishments than NETS establishments.<sup>23</sup> And whereas NETS total employment is 17-22% greater than QCEW total employment, establishments covered in NETS are 38-63% more numerous than establishments covered in QCEW, implying that small establishments are under-represented in the QCEW data.

Part of the disparity in employment and the number of establishments indicated by the SOB and NETS data sets for small establishments might be driven by the fact that business owners are typically excluded from coverage under the ES-202 unemployment insurance system (although they are permitted

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<sup>23</sup> Unfortunately, CES does not include a series for the number of establishments. Therefore, a similar comparison of average establishment size is impossible. Because CES is periodically benchmarked to UI universe counts, we would not expect that results would be much different.

to pay UI taxes and be covered).<sup>24</sup> This could be quite important for the smaller establishments in which single owners can represent a sizable share of total employment. So the comparison is more informative if we remove one employee from each establishment covered in the NETS database, and then reassign NETS establishments to size categories based on the adjusted employment levels. As shown in Figure 4, with these adjustments the discrepancies for the smaller establishments (0-4 and 5-9 employees) shrink considerably, suggesting that the inclusion of business owners in the NETS data accounts for a sizable share of the difference in employment at small establishments in the NETS and the SOB data.<sup>25</sup> This procedure reduces the overall employment discrepancy from 17.1% to 5.0%.

With respect to comparisons of employment counts for the other establishment size categories, a complication is introduced because, as documented below, there is a good deal of rounding of employment levels in the NETS – as it turns out, to the employment levels that are the left-hand “edges” of the size categories into which the SOB data are classified (10, 20, 50, 100, 250, 500, and 1000 – but not 5). Consequently, when we eliminate one employee and reassign establishments to size categories based on the adjusted employment level, we get underrepresentation of NETS establishments in the higher SOB category of 1000+, with potentially offsetting overrepresentation and underrepresentation in the lower categories (compare Figures 3 and 4). Because of these concerns we should not expect our adjustments to yield a perfect match under any circumstances. However, we also found that the numbers from the NETS after subtracting one employee but without reassignment to size categories, and the numbers with reassignment as well, generally bracket the SOB numbers (except for the smallest establishments), indicating that the NETS data are relatively accurate. Nonetheless, as discussed in the next section, the rounding does have implications for the measurement of employment change.

Finally, in Table 1 we attempt to account for differences between the NETS database and the SOB data described above by examining employment data for 1994-2002. The first two rows of the table

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<sup>24</sup> This same point was noted earlier in work by MacDonald (1985).

<sup>25</sup> In addition, apparently in the NETS data separate lines of business (industry) at the same physical site are sometimes reported as separate establishments, which would tend to create a higher count of establishments of smaller sizes. However, this seems unlikely to be important for very small establishments that are unlikely to operate in more than one industry. Also, note that this should not play a role in the measurement of employment levels, unless there is double counting.

indicate the total employment levels reported in the NETS and the SOB report, respectively, for each year. Since SOB data only include individuals earning wages that are covered by unemployment insurance, several categories of workers that are reported in the NETS, most notably the self-employed and independent contractors, are excluded from the SOB by statute.

To estimate the number of individuals who are either self-employed or independent contractors, we use data reported in the Contingent Work Supplement (CWS) to the Current Population Survey (CPS) in years 1995, 1997, 1999 and 2001. In 1995, for example, we see that 13,047,314 individuals were reported on payrolls in California, and that 2,093,767 Californians were self-employed or working as independent contractors. In the fifth row of the table, we combine these two figures to arrive at an approximate level of household employment in California. Thus, in 1995, there were 15,141,081 individuals reported on payrolls, self-employed, or working as independent contractors.

As we see in row 8 of the table, our approximation of household employment in California falls short of the level of employment reported in the NETS database for each of the years we examined. It is instructive to note that while the NETS over-reports household employment in comparison to our approximation in row 5 of the table, this approximation itself overstates household employment when compared to the CPS employment figures for each year, as shown in the last row of the table. For example, in 1995 the NETS overestimates our approximation of household employment by 1,100,075, while at the same time, this approximation overstates CPS employment by 1,101,233. The differences between the NETS and the SOB+SE/IC series may be partly explained by some self-employed or independent contractors having multiple businesses – all of which should show up in the NETS, but not in the SE/IC series, where an individual is counted only once. On the other hand, this cannot account for the CPS versus SOB+SE/IC difference.

We carried out a similar comparison using alternative estimates of the self-employed provided by the Census' Nonemployer Statistics. Estimates using this method correspond better in most years than when using the SE/IC series, as shown in row 9 of the table. This method likely explains more of the gap between the NETS and SOB data because it allows self-employed individuals to report multiple

businesses, as does the NETS database. Overall, these calculations suggest that the NETS estimate of employment (more accurately, the number of jobs) is higher than other sources because it uses a more comprehensive approach. Despite the remaining discrepancies – and note that there are discrepancies among any pair of data sets one chooses to compare – the NETS data appear to measure employment levels relatively accurately.

#### ***4.2 Measurement of employment change***

Next, we turn to measurements of employment change. We first begin by documenting, in Figures 5 and 6, the extent of rounding of employment in the NETS data. These figures show that for both smaller and larger establishments the distribution of the number of employees is disproportionately concentrated on numbers that are divisible by 5, 10, 100, and so on. For example, in 2000, 63.4% of establishments with 10 to 100 employees reported employment that was a multiple of 5 or 10, and 40.3% of establishments with 100 or more employees reported employment that was a multiple of 50 or 100.

While employment rounding may bias some of our estimations, it is not a particularly serious problem for the measurement of employment levels if we believe that employment numbers are rounded to the closest “salient numbers.” In that case, our aggregate levels are unlikely to be biased appreciably, because some people round their numbers up and others round them down, and the establishment-level measurements may contain measurement error that is largely random (although non-classical). It does, however, mean that employment change is “sticky,” and that our estimates likely underreport the frequency with which establishments change their levels of employment, thereby underestimating the degree of employment change caused by establishment expansion and contraction.

Another potential source of stickiness in the measurement of employment change in the NETS is imputed data. During 1993-2002, between 55 and 73% of each year’s employment figures are actual data.<sup>26</sup> The remaining establishment records are imputed – either by D&B or by Walls & Associates – with the latter occurring when the D&B imputations were suspect, and attempting to improve on the

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<sup>26</sup> A very small share of these – 1 to 2% – are reported by D&B as “bottom of range” rather than actual data, and seem to indicate cases where the respondent provided a range for employment rather than a single number. However, judging by the variation in these observations, they behave like actual data and are treated as such in this discussion.

imputation by using time-series information on the establishment instead of only cross-sectional information. Imputed data are far less common for older establishments. Moreover, once actual employment data are provided for an establishment, they are very likely to be provided in all subsequent years. Both of these regularities indicate that imputation is a feature of establishments' earliest appearances in the database.

This is illustrated in Figure 7, which plots the distributions, for each number of possible years in the data set, of the number of years with actual data. The larger the circle, the greater the share of observations at that point (the area is proportional to the share at each point on the horizontal axis). To fix ideas, if there were no imputed data then all of the mass would be along the 45-degree line, with large circles along this line. What we see, instead, is that establishments that are tracked for a relatively short period of time exhibit a bimodal distribution, with either no years with actual data or all years with actual data. But establishments that are tracked in the data set for a longer period are much less likely to have no years without actual employment data, and conversely have relatively more years with actual data; and the mode is to have actual data for all years.

Together, rounding and imputation of employment data results in infrequent year-to-year changes in employment. Table 2 illustrates this with regard to imputation, showing the incidence of employment change by type of employment data. As we would expect, it is far lower for imputed data. And overall, 7.6% and 16.3% of existing establishments reported a change in the number of employees in 1993 and 2002, respectively, and 19.6% and 14.1% of workers were at establishments that reported a change in the number employed in those years – numbers that we suspect are low.

The implication of these measurement problems is that the NETS data compare less favorably with other data sources when we look at employment changes, rather than employment levels, especially for high-frequency (short-term) changes. As shown in Figure 8, the correspondence between NETS and QCEW yearly first-difference employment changes by industry and county is not very strong, with a correlation of only 0.528. However, if we look at employment changes over periods of at least a few

years, this problem is substantially mitigated; for example, the correlation rises to 0.864 for changes over three-year intervals (Figure 9).

This greater correspondence of employment changes over longer intervals is consistent with what we would expect based on the findings noted above regarding rounding and imputation. With rounding, the data will likely more accurately measure employment changes over a longer period, because rounding results in small changes being ignored but larger changes being measured. Similarly, we saw that imputation tends to be a feature of establishments' first appearance in the data set, whereas over time actual data are more likely to be reported and hence employment changes better measured. The implication of these findings is that the NETS database should not be used for measuring very short-term employment changes, but is more useful for measuring employment changes over periods of a few years or more. This does present a tradeoff, however, as an inability to focus on short-term changes inhibits our ability to observe high-frequency changes in job creation and destruction, such as over the business cycle. We also note that making the unit of analysis for employment change longer affects what proportion of employment change we attribute to job creation and destruction versus establishment expansion and contraction, and to a much lesser extent relocation, a point to which we return below.

### ***4.3 Tracking business relocations***

A unique feature of the NETS data set is its ability to track establishment relocations. There are no other comprehensive data sets with which to compare measurements of geographic movement of establishments over time to such information in the NETS. Instead, we used Lexis-Nexis to conduct newspaper searches of business relocations involving California establishments, and conducted a detailed comparison of evidence on relocation in the NETS database to evidence found in these searches. Our search was not meant to be exhaustive; it is only intended to obtain a replicable sample of press coverage of specific business relocations.

We limited our search to the Los Angeles Times and the Kiplinger California Letter. The Los Angeles Times has the largest circulation of any California newspaper and the Kiplinger California Letter is a concise bi-monthly business newsletter that has a section specifically reserved for business relocation

reports. As expected, the Los Angeles Times has a regional bias in that it focuses on business moves in Southern California, especially the Los Angeles region. Business relocations in other regions are reported only if they are high-profile or reflect a move between the Los Angeles region and the rest of the state. The Kiplinger California Letter provides more balanced coverage of business moves in different regions in the state.

Using a carefully-designed search algorithm,<sup>27</sup> we focused on 1,067 newspaper articles from the Los Angeles Times (1996-2000), from which we were able to identify 576 references to specific instances of business relocation, covering 452 unique relocation events. Of these, 237 business relocations were confirmed as valid moves by the NETS database. For the reported relocations not confirmed in the NETS, we undertook thorough efforts to independently verify whether there was in fact a relocation. It turns out to be very difficult to use other information sources to locate the establishments whose relocations are reported in the media but for which there is not an obvious match in the NETS. Ideally we would contact the establishment directly and confirm that the reported relocation occurred. However, this becomes very difficult when establishments (or often, businesses) can be acquired by other firms or for other reasons currently do business under a different name, or no longer exist. Naturally, these problems are more severe in trying to verify reports of relocation that are relatively old. Nonetheless, when possible we contacted the establishments directly. We also searched for company information using Hoovers.com<sup>28</sup> and Lexis-Nexis Company Information Search – web-based resources that track business addresses and would reveal new addresses for businesses that changed location.

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<sup>27</sup> We experimented with several search terms. Our final choice of search term – “ATL2(RELOCAT!) AND BUSINESS AND (MOVE OR MOVING OR MOVED) AND (SECTION("BUSINESS") OR SECTION("METRO"))” – was guided by a desire to exclude irrelevant articles, which we assessed through repeated searches and screening of articles. A detailed appendix describing how we arrived at this search term is available from the authors.

<sup>28</sup> Hoovers.com utilizes the same raw data provided by the DMI file as the NETS database. However, the search mechanism is very flexible, sometimes making it easier to locate establishments that could not be found through company keyword searches in the NETS database.

Of the 215 relocations not found in the NETS, 47 were confirmed as “invalid” moves.<sup>29</sup> Of the remaining 168 reports of relocation that we could not locate in the NETS database, we were able to independently verify that 18 relocations indeed occurred. And not one of the 18 was a cross-state move. Despite our best efforts using the methods described above, we were unable to confirm the remaining 150 reports of relocation from the Lexis-Nexis. And at least 91% of these businesses (136 out of 150) are captured by the NETS database with no relocation indicated. Furthermore, 92 (68%) of these establishments were still in existence through 2002, although we were only tracking relocations that were reported between 1996 and 2000. If these establishments had relocated, but not been tracked properly as relocations by NETS, then these establishments would have reported closing years close to the date of the relocation.

Thus, in total, 58.5% ( $237 / \{452 - 47\}$ ) of the valid business relocations that we identified from the Los Angeles Times could be found in our NETS data set. This rate of confirmation varies dramatically depending on the distance over which the relocation occurred. We are able to confirm only 27% (21/77) of within-city moves, whereas we are able to confirm 70% (177/252) of between-city, within-state moves, and 74% (37/50) of cross-state moves. It is neither surprising nor worrisome that the NETS detects only a relatively small share of within-city moves, because short-distance moves are much less significant for the scope of research for which this database is most useful. In fact, many within-city moves occur over such short distances that they could not be identified within the NETS database. For instance, several contacted establishments said that the moves had occurred, as indicated in the newspaper article, but the new location was adjacent to or “across the street” from the previous location. The NETS is designed to only report “significant moves,” which are defined as moves where both the street address and zip code information change; this criterion was chosen to avoid mistaking the changing boundaries of zip codes for actual moves.

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<sup>29</sup> Five moves turned out to be consolidations of businesses because the establishment at the destination already existed before the move; 17 cases were planned moves but did not occur later; 12 of the establishments at “destination” were new branches instead of relocated businesses; and 13 moves involved establishments such as schools and nonprofits that are not the focus of our research.

Our search for reports of business relocation in the Kiplinger California Letter (1996-2001) revealed similar results. Of the 79 incidents of relocation we identified in this search, 12 were found to be misreports of establishment relocation. Of the remaining 67 media observations of relocation, 35 (55%) were confirmed in the NETS database. In addition, 3 cases were confirmed in Hoovers.com, but occurred too recently to be found in NETS, and 29 cases could neither be confirmed nor denied.

We do not expect every relocation to appear in Lexis-Nexis, but we do expect all real relocations that are covered in the media to also appear in the NETS. Given the difficulty of checking whether reported cases actually occurred, it is impossible to quantify exactly what share of real relocation is captured in the NETS. But for moves crossing city or state boundaries, we estimate that the share is well over 75% and probably closer to 100%, based on the fact that most of the cases not captured by NETS cannot be independently confirmed as real relocations. Thus, we conclude that the NETS database does quite a good job of tracking business relocations, with a very low rate of false negatives, although our analysis probably pertains more to larger establishments that would be reported in the media. However, in contemplating the empirical results on establishment relocation discussed later in this paper, one might want to adjust upward modestly the job creation and destruction attributed to relocation.

#### ***4.4 Capture of new business establishments***

Given the concern from earlier research regarding the ability of the D&B data to track new establishments, and the potential importance of establishment births in job creation, it is also important to assess how well the NETS tracks new business establishments. We do not have access to ES-202 data with which measurement of new establishments can be compared. We therefore first attempted to compare the NETS data to new establishments identified from phonebooks, following the earlier work by Birley (1984). Specifically, we selected a random sample of establishments from the 1999-2001 San Francisco Pacific Bell Business White Pages, and identified businesses that are initially *not* in the

phonebook, but then show up in a later year, as a means of identifying an alternative list of new establishments, drawing a sample of 58 openings.<sup>30</sup>

Of these 58 openings, 52 (90%) of the establishments could be identified in the NETS database. Many listings were difficult to match because companies often do business under multiple names, and because of differences in spelling or abbreviations. Thus, this matching required that we also try to match using company name keyword search, phone number reverse lookup, address information, or alternate company names provided by workers whom we contacted at the particular establishment. While many of the NETS opening dates corresponded well with those indicated by the phonebook listings, many did not. Given the disagreements, we attempted to obtain each business establishment's opening year directly from the company, or through their website. We were able to obtain approximate start date information from 33 of these 52 establishments. This comparison revealed that many of the opening years that were indicated by changes in phonebook listings were inaccurate, with the phonebook method necessarily assigning these openings to 2000 or 2001, but the actual openings spread over a long span of years. In contrast, the NETS data match opening dates much more accurately, as indicated in Figure 10.<sup>31</sup> And for those establishments that could not be reached directly, the NETS and phonebooks start dates were generally in agreement, because many of these were young establishments that failed subsequently, so there was not much scope for the start dates to differ.<sup>32</sup>

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<sup>30</sup> We randomly chose to start with listings beginning with "B." There should be no relation between the name of the business and the likelihood of its inclusion in the NETS database. Preliminary investigation suggested that business establishments that use initials in their name (such as "B & G auto rental") may change names from year to year, so we instead began drawing our sample with telephone listings that started with "Ba." We chose enough observations to get approximately 60 new establishments, which required 313 listings that appeared in the phonebook at least once between 1999 and 2001. We excluded 35 records from the analysis because businesses from outside the area code presumably have to pay to be listed in the business white pages, meaning that the appearance or disappearance of such businesses would often occur for reasons unrelated to opening (or closing). These records indicate 58 openings (and 61 closings). There were also three records for which the listing appeared in 1999, was absent in 2000, and reappeared in 2001 with the same name and phone number. This is one indication – more are described below – that the phonebooks do not provide an accurate means of tracking openings and closings.

<sup>31</sup> Even if the NETS data were completely accurate, we would not expect an exact correspondence with the start dates obtained from our efforts to contact businesses directly. In our phone calls, we often talked to employees who had limited tenure and did not know the founding date, in which case we were only able to obtain information that provided a lower bound for the number of years that a particular establishment had been in business.

<sup>32</sup> As another check on the NETS data, we also attempted to locate NETS records for business establishments that were listed in the San Francisco phonebook for all three years. If NETS records indicate opening or closing years

Given the inaccuracies in openings based on the appearance of businesses in the phonebook, we wanted to check another source for data on establishment openings.<sup>33</sup> To do this, we carried out a similar exercise for California biotech companies listed in the BioAbility database of U.S. biotech companies.<sup>34</sup> Because we are assessing how well the NETS captures births, we first chose companies that this database indicated were founded in our sample period for the NETS data (1992-2002), of which there are 300. To be more certain that we had the founding dates correct, we checked the BioAbility founding dates against company websites, retaining only the 161 cases for which the website also reported a founding date. Of these 161 cases, in 89% (142) the websites reported founding dates that corresponded exactly with the start year listed in the BioAbility database. If they did not match, we used the date from the company website, presuming that this was more accurate.

We then checked these founding dates against the appearance of these companies in the NETS to determine how well the NETS captures births. Only 8 of these 161 companies could not be located in the NETS database, and 6 of these 8 were founded in 2001 or 2002. Hoovers.com listed a company record and DUNS number for all 6 of these records, indicating either that they were established too late to be included in our extract of the NETS database or that they were picked up by D&B with a modest delay after their establishment. Of the remaining 153 records, 75% (114) of the start dates listed in the NETS corresponded exactly with the company start dates reported on the web site, 88% (135) fell within one year, and 92% (141) of them fell within two years. The correspondence between the two data sources is graphed in Figure 11. The correlation between NETS start dates and company website reported start

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within 1999-2001, then we might be concerned that NETS is inaccurately reporting the timing or incidence of openings or closings. We randomly chose 72 of the 156 records in the phonebooks in all three years, and we were able to locate 66 (92%) in the NETS database, which represents a slightly higher percentage than those that we could identify from the earlier subset of phonebook-inferred openings. Of these records, according to the NETS data all but 6 continued to exist through 2002 and only one record indicated a closing by 2001, indicating a close correspondence between the NETS and phonebook data for continuing establishments.

<sup>33</sup> For the same reason, coupled with the difficulty of verifying information directly with businesses that have closed, we deemed the phonebook method inappropriate for assessing the ability of the NETS data to identify establishment closings.

<sup>34</sup> This is a database of more than 2,000 U.S. biotech companies (based on a relatively narrow definition of biotech) maintained by BioAbility, a biotech consulting firm. Information comes from various sources including press releases, web pages, annual reports, SEC reports, and direct contacts with company officials. In this data source, most of the companies are single-establishment firms. In the case of multi-establishment firms, the database refers to their headquarters. So we can think of the data as covering a set of establishments. See [http://www.bioability.com/us\\_biotech\\_companies.htm](http://www.bioability.com/us_biotech_companies.htm) (viewed on September 14, 2005).

dates was 0.87. Our two checks, then, indicate that the NETS tracks establishment births quite accurately, adding to the overall evidence of the reliability of the NETS data.

## **5. Employment Dynamics and Business Relocation in California**

### ***5.1 The policy debate over business relocation***

We illustrate the usefulness of the NETS data by addressing a substantive question regarding business establishment dynamics that figures prominently in policy debates, and for which the NETS database is uniquely suited. Specifically, business relocation is often cited as a source of job loss, especially at regional and state levels. While job loss due to business relocation is rarely precisely measured, it is often invoked in the rhetoric of policy debate and political campaigns. For example, when Kimberley-Clark moved its headquarters from Wisconsin to Texas in 1985, it sparked heavy criticism of Wisconsin's business climate, contributing to the governor losing his job in the following election (Dresang, 2002). Similarly, local governments work to attract companies to relocate to their jurisdictions (Klier and Testa, 2002). For example, in 2001, when Boeing announced that its headquarters would leave Seattle, cities like Chicago, Dallas, and Denver engaged in fierce competition to recruit the company.<sup>35</sup>

During the past decade, the debate over business relocation has been particularly prominent in policy discussions in California (see Neumark, et al., 2005). Claims regarding the importance of business relocation that have arisen in this debate, however, have rarely relied on empirical evidence of relocation behavior. Rather, they generally rely on surveys that elicit subjective assessments from employers (e.g., California Business Roundtable and Bain & Company, 2004). One study tries to measure actual relocation activity, based on data on manufacturing plants from the Los Angeles Department of Water and Power and several large utility companies in Southern California (Bules & Associates, 1992). But this study – like most of the public debate – focuses only on businesses leaving the state, as if traffic moves in only one direction.

Moreover, the debate is often framed as if relocation is the key determinant of employment change and hence a barometer of the “business climate.” Yet the formation of new business

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<sup>35</sup> See, for example, <http://www.conway.com/ssinsider/incentive/ti0106.htm> (viewed on May 2, 2005).

establishments, the death of existing ones, and employment changes at continuing establishments, also affect employment change. Thus, the debate over business relocation ignores five of the six components of employment change (births, deaths, expansions, contractions, and in-migration), focusing only on the loss of jobs from establishments that move out of the state. Of course, each of these sources of job creation and destruction is potentially important in determining employment change, and it is misleading to focus on only one of these – and even then, without good evidence. The NETS data can obviously fill in many of the gaps in understanding the importance of business relocation (in both directions) in employment change, and more generally in identifying which processes – births, deaths, expansions, contractions, moves in, and moves out – drive employment change.

### *5.2 Evidence from the NETS*

This section presents our findings from the NETS data regarding business relocation in California and employment dynamics more generally. In each case, we state our key result, and then provide some detailed discussion.

#### *1) California generally loses establishments and jobs due to business relocation, but the impact is negligible*

As Table 3 shows, in every year during the 1992-2002 sample period, some establishments left California, taking jobs away; at the same time, others moved into California, bringing jobs to the state. Measured by either the number of business establishments or the number of jobs, California experienced a net loss owing to relocation in every year. However, compared with the size of its overall economy, California's net loss from relocation has to be considered negligible. In terms of number of establishments lost to other states, the worst years are 1993 and 1994. In each of these years, California lost about 750 establishments to other states, which amounted to 0.05% of the total number of establishments in California. The job numbers tell a similar story. In terms of job loss from relocation, 1994 and 1997 represent the worst years. In these years business relocation cost 0.1% of California jobs. Another way to see that these job change numbers are negligible is to compare them to ongoing employment changes that the state experiences. For example, from July 1990 to January 1993, 6.1% of

California jobs disappeared, while from December 1997 to December 2000, employment in California grew by 8.2%.<sup>36</sup> These comparisons suggest that whether during an upturn or a downturn, business relocation simply does not play a major role in employment change.

*2) Establishments are much more likely to move locally than across state boundaries*

While establishment moves are quite common, most of these moves are within state. Out of 255,838 cases of establishment relocation originating in California during 1993-2002, 246,283 (or 96.3%) were moves within California. While cross-state moves draw a lot of attention, they are rare. In fact, 35.4% of all the moves originating in California occurred within a city and 78.5% of the moves did not go beyond the county boundary.<sup>37</sup> As a result, the impact of relocation on employment on the local level, while still modest, is more pronounced than its effect on state employment. In 1993, though less than 0.01% establishments moved out of California, 0.4% of establishments moved outside their own county, and 1.2% of establishments moved beyond their own city. The employment changes associated with these moves represented 0.1%, 0.6%, and 1.5% of total California employment, respectively.

*3) Employment growth is primarily driven by expansion, contraction, births, and deaths*

Table 4 presents decompositions of employment growth over three-year periods during 1992-2002. For each period, in the top panel we show California employment in the starting year, in the ending year, the overall net change, and then the number of jobs created or eliminated by each process of employment dynamics. The bottom panel shows the decomposition of employment change. In principle, we can decompose annual employment changes in the same way. But as noted earlier, year-to-year employment changes are not as reliable in the NETS data because of rounding and imputation.

Table 4 shows that in every three-year period the expansion of existing establishments always creates more jobs than are lost through the contraction of existing establishments. This is perhaps not surprising, because at any time we expect that the surviving business establishments tend to be those that are growing rather than shrinking. The net effects of births and deaths of establishments on overall

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<sup>36</sup> See [http://www.calmis.cahwnet.gov/file/lfhist/cal\\$shlf.xls](http://www.calmis.cahwnet.gov/file/lfhist/cal$shlf.xls) (viewed on May 3, 2005).

<sup>37</sup> As discussed in the previous section, within-city moves may be undercounted in the NETS, in which case these percentages would be even higher.

employment change are positive in some years and negative in others. This tends to reflect the business cycle. In boom years many new establishments are created, and at the same time existing establishments are less likely to go out of business. As a result, jobs created by new establishments outnumber jobs eliminated by establishments that close in such years. Conversely, during slower economic times business formation is lower and more businesses tend to close, result in a net loss of jobs because new businesses do not suffice to cover the loss of those that die. For example, during 1995-1998, establishment deaths in California cut 454,000 jobs more than the number of jobs created through establishment births. But during the next three years, from 1998-2001, business establishment births and deaths resulted in a net gain of 848,000 new jobs.

The table also provides a comparison of the contribution of relocation to employment change with the contributions of other sources of employment change. The bottom rows of Table 4 indicate just how small the role of business relocation is. As the last row shows, the employment loss from relocation ranges from about 6,000 to 44,000, averaging around 20,000 per year. But the employment changes from the expansion-contraction processes and the birth-death processes are much greater, often by a factor of 20 or more. In other words, employment changes in California are primarily driven by expansion-contraction and birth-death processes, rather than by relocation.

The relative importance of different sources of employment change is illustrated more clearly in Figure 12. The two panels display the sources of job creation and destruction, respectively, in each three-year period during 1992-2002. The top panel shows that in each period the birth of new business establishments is the major source of job creation, while the expansion of existing establishments is also important. The number of jobs created by business establishments that moved to California is trivial compared to the number of jobs created by the other two sources. Likewise, the bottom panel shows that the death of establishments is the major factor in job destruction. Contraction at existing establishments is also substantial but less important. Finally, business relocation out of California again contributes only minimally. But recall that, on net, it is expansion minus contraction that generally yields the largest share of employment growth, and is always positive.

The decomposition of the sources of employment change is informative about the potential for each of the underlying processes to lead to more dramatic variation in employment. Given that births and deaths contribute large gross flows into and out of employment, a quite modest change in the balance between births and deaths could lead to large shifts in net employment growth. In contrast, the very low gross job flows associated with relocation imply that even if the rate of mobility out of the state doubled, and establishments completely ceased to move into the state, there would be little impact on net employment change.

*4) Decompositions of the sources of employment change are sensitive to the interval over which the change is measured, but regardless, the contribution of business establishment relocation is negligible*

There is a potential caveat to the results reported in Table 4 and Figure 12. The magnitude of gross job creation and destruction, as well as its decomposition, is dependent on the interval length. First, as the interval gets shorter (for example, one year versus two, or a quarter versus a year), we might expect the gross flows to become larger because more employment changes due to temporary fluctuations are captured, although the opposite could occur (for example, as the interval length approaches zero). Second, the longer the interval chosen, the greater the contribution of births and deaths to gross flows. To see this most simply, note that all establishments in existence during a period are born and die during that period as the period gets infinitely long. Recall that we concluded that the NETS was not as reliable when looking at employment changes over shorter time intervals. Nonetheless, Table 5 illustrates that changes in the interval length (from one to ten years) do not affect the relative ranking of the contribution of each process of employment change to either job creation or job destruction, nor do they change the conclusion that the contribution of relocation is minimal.

This issue is also relevant when we compare employment change decompositions to what we get from other data sets, although because other data sets do not have information on business relocation, we have not focused on such comparisons. Results from ES-202 data (for the earlier 1990-1994 period) are

available at frequencies of one, two, and three years, for West Virginia (Spletzer, 2000).<sup>38</sup> As shown in Table 6, for the ES-202 data for West Virginia about 40% of gross job creation is attributed to births, compared with nearly 60% in the NETS, and the corresponding numbers for the contribution of deaths to job destruction are 41% and 66%. Part of the explanation for the smaller shares of job creation and destruction attributed to expansion and contraction in the NETS may stem from the “stickiness” in employment change, discussed earlier, resulting from rounding and imputation of employment in the NETS. Of course the data sources cover two very different states in periods with little overlap, which may also help account for the differences. Note, though, that as we extend the interval to two and to three years, the discrepancies between these two data sources lessen, although some differences remain. The better match as we move to the three-year interval is consistent with our earlier conclusions that employment change measures in the NETS become more accurate as the window lengthens.

## **6. Conclusions**

We assess and present findings from a newly constructed longitudinal database covering business establishments – the National Establishment Time Series, or NETS. The NETS database is particularly well-suited to studying the underlying dynamics of employment change, specifically the processes of business establishment expansion and contraction, births and deaths, and relocations. As such, it builds on earlier research on this topic using the Longitudinal Research Database to study manufacturing, and numerous other data products based on the ES-202 data to study all sectors of the private economy. However, the NETS has some important advantages, including capturing business relocation, more complete coverage, and the ability to disaggregate to a fine geographic level, as well as ease of access and the absence of confidentiality restrictions.

Since the NETS is based on Dun & Bradstreet data – which have been criticized in the past – we devote a great deal of attention to assessing the quality of the NETS. Overall, we conclude that the NETS data are quite reliable and in many respects comparable to more frequently used administrative and Census data. The NETS captures new businesses and start dates quite accurately. Coverage of business

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<sup>38</sup> Results from this source as well as the BED and LDB are available on a quarterly basis for the United States as a whole, but that is a much higher frequency than we can study with the NETS data.

moves in the NETS is good, which enables researchers to tackle a source of job creation and destruction that has been understudied. One limitation is that because data are often initially imputed for new establishments, and there is considerable rounding of employment, short-term employment changes are not measured very accurately; we suggest that a minimum interval of three years be used.

Partly as an illustration of the value of the NETS data, and partly out of substantive interest, we use the data to study employment dynamics in California. We provide overall decompositions of the sources of employment change in the state, focusing particular attention on the empirical importance of business relocation into and out of the state, which has figured prominently in policy discussions.

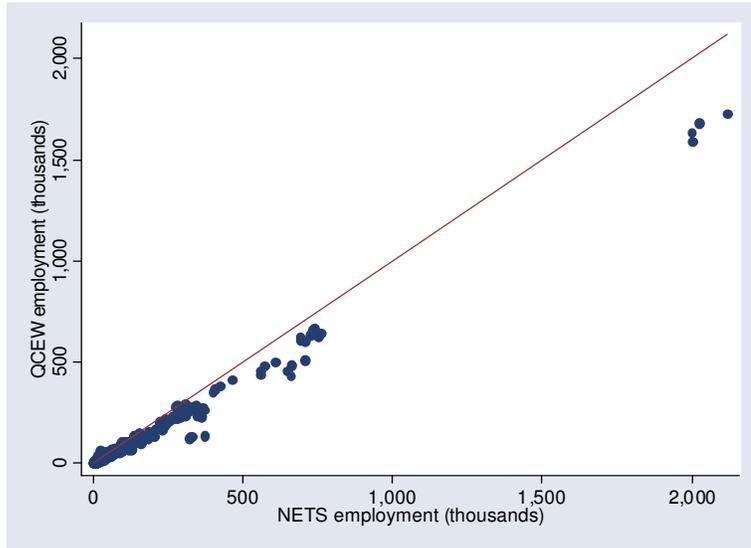
We find that the birth-death and expansion-contraction processes of business establishments are responsible for nearly all gross job creation and destruction and that cross-state business relocation is virtually a negligible factor. Cross-state business relocation resulted in a net job loss to California in every year during the period 1993-2002. However, compared to the size of the California economy, the net loss from relocation is trivial. These findings imply that a policy focus on business relocation is badly misdirected, and unlikely – even if successful at attracting new businesses and retaining old ones – to contribute visibly to job growth. To the extent that policy has any role to play, the evidence suggests that efforts to foster the formation of new businesses and to help existing businesses survive and grow would be better placed, unless for some reason relocation behavior is inordinately responsive to policy.

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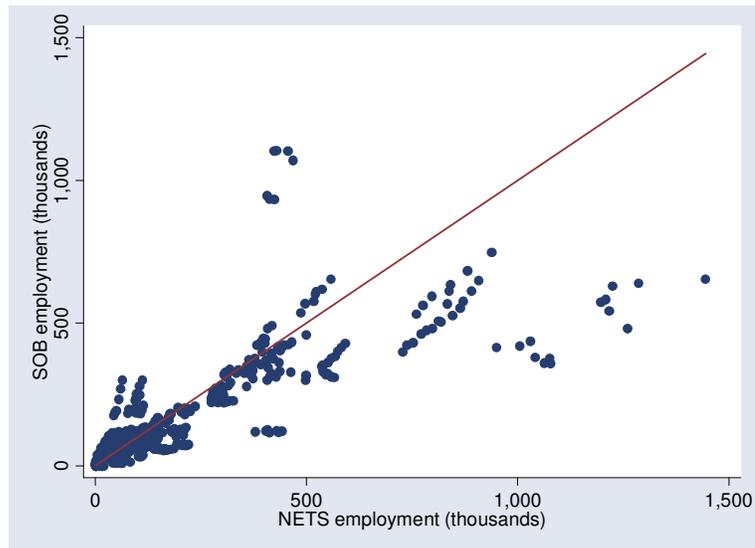
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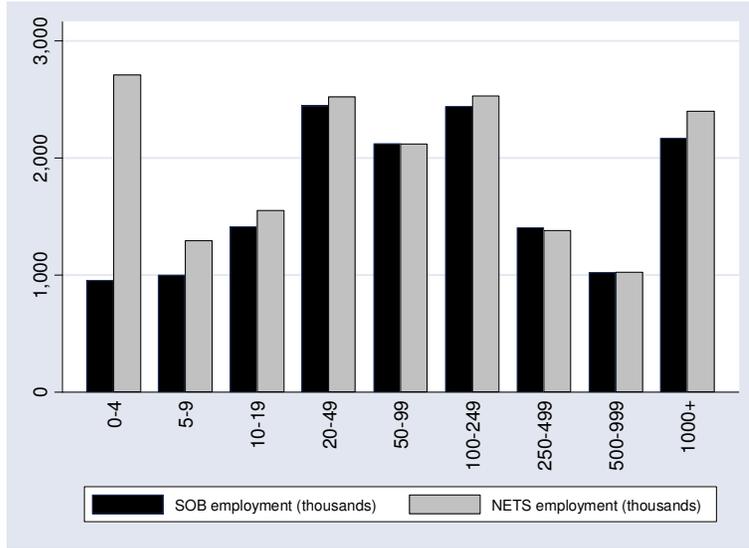
**Figure 1: NETS and QCEW Employment by County and Industry (1997-2000)**



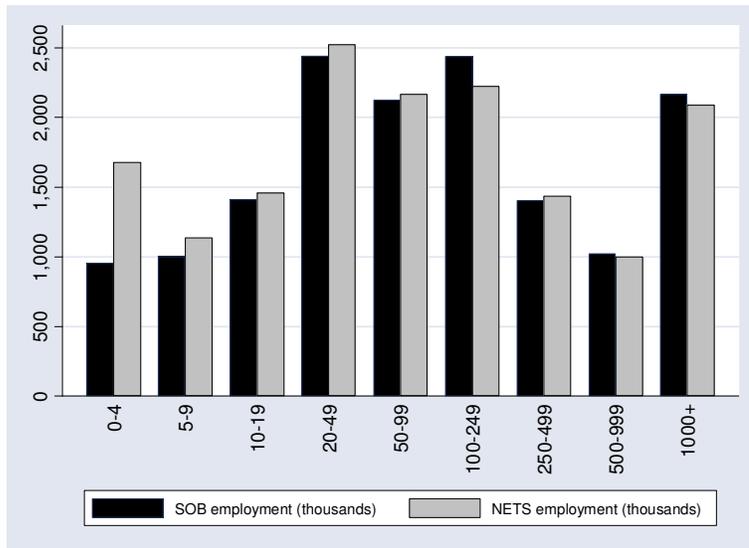
**Figure 2: NETS and SOB Employment by Industry and Size Category (1994-2002)**



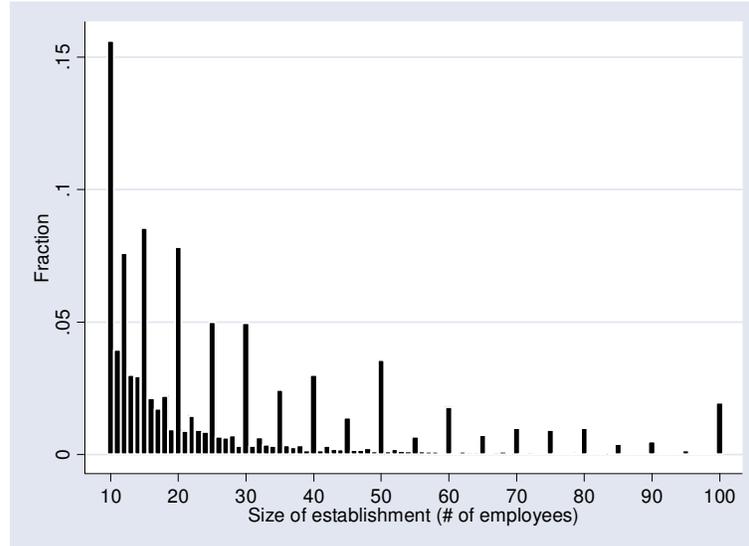
**Figure 3: NETS and SOB Employment by Size Category (2002)**



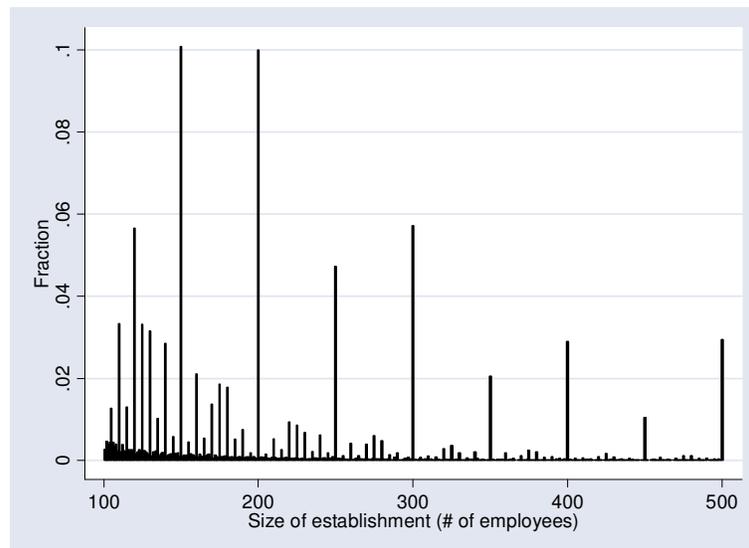
**Figure 4: NETS and SOB Employment by Size Category (2002), Subtracting One Employee from Each Establishment, and Reassigning to New Establishment Size Categories**



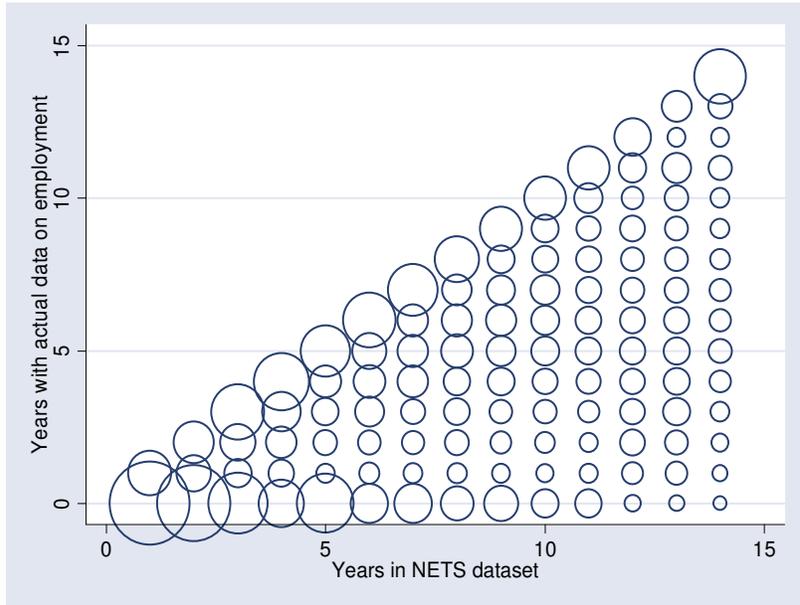
**Figure 5: Histogram of NETS Establishment Sizes, 10-100 Employees (2000)**



**Figure 6: Histogram of NETS Establishment Sizes, 101-500 Employees (2000)**

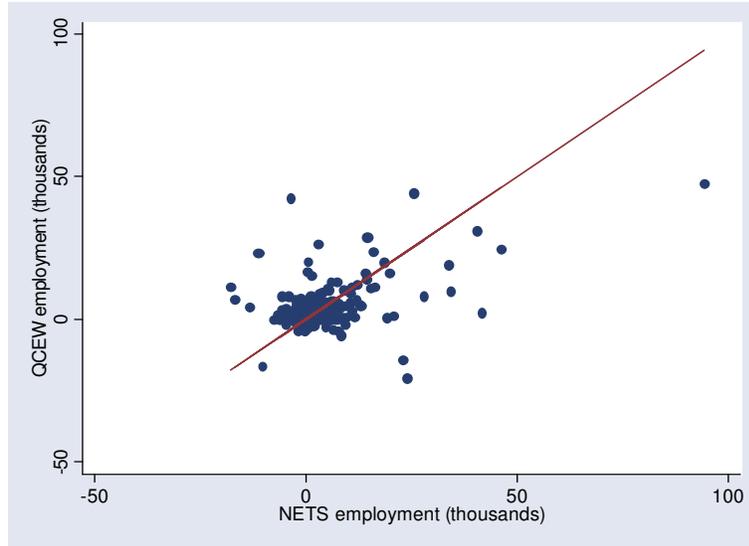


**Figure 7: Distribution of Incidence of Actual Employment Data in NETS**

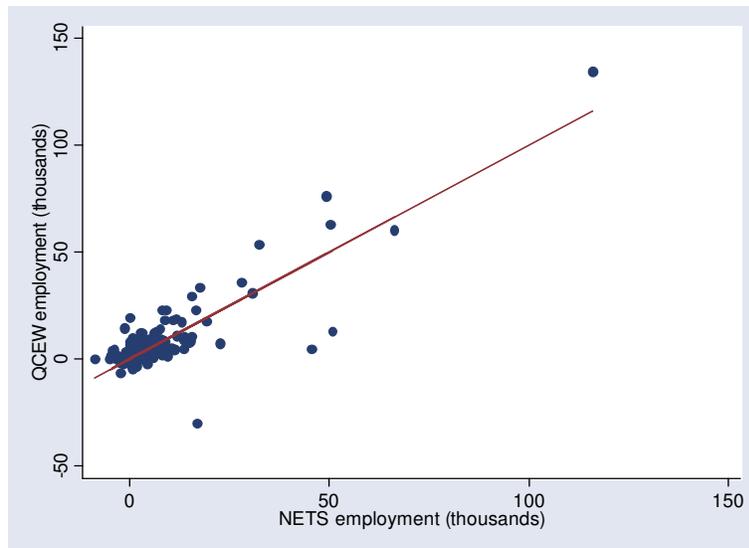


Areas of symbols are proportional to the share of observations in the category graphed along the horizontal axis.

**Figure 8: QCEW/NETS Employment Changes, by Industry and County, One-Year Changes (1997-1998, 1998-1999, 1999-2000)**



**Figure 9: QCEW/NETS Employment Changes, by Industry and County, Three-Year Changes (1997-2000)**



**Figure 10: Establishment Openings by Year, Company-Reported vs. NETS-Reported**

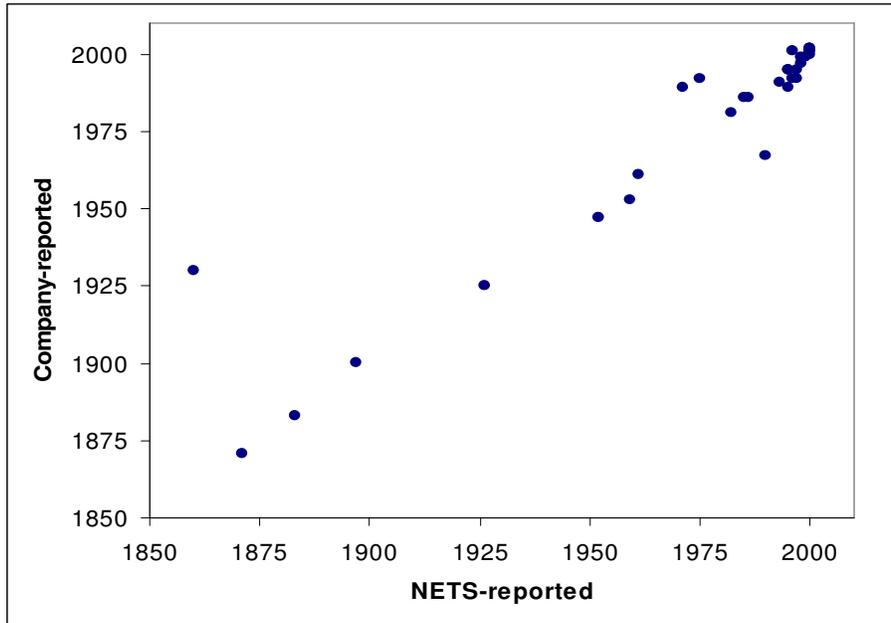
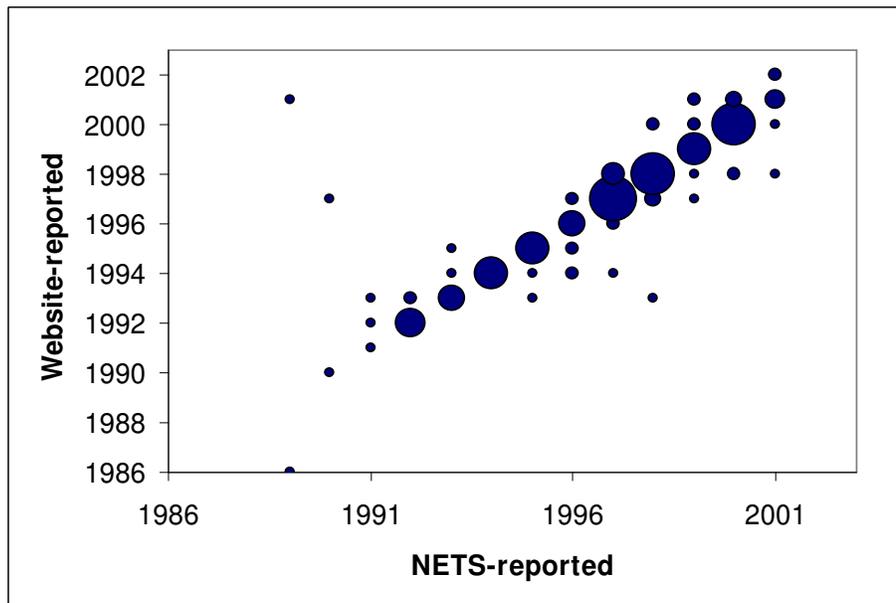


Figure covers establishments identified as opening in 2001 or 2002 from phonebooks, and identified in the NETS.

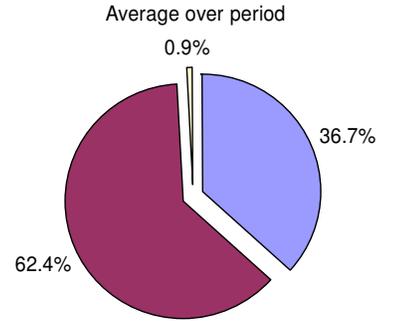
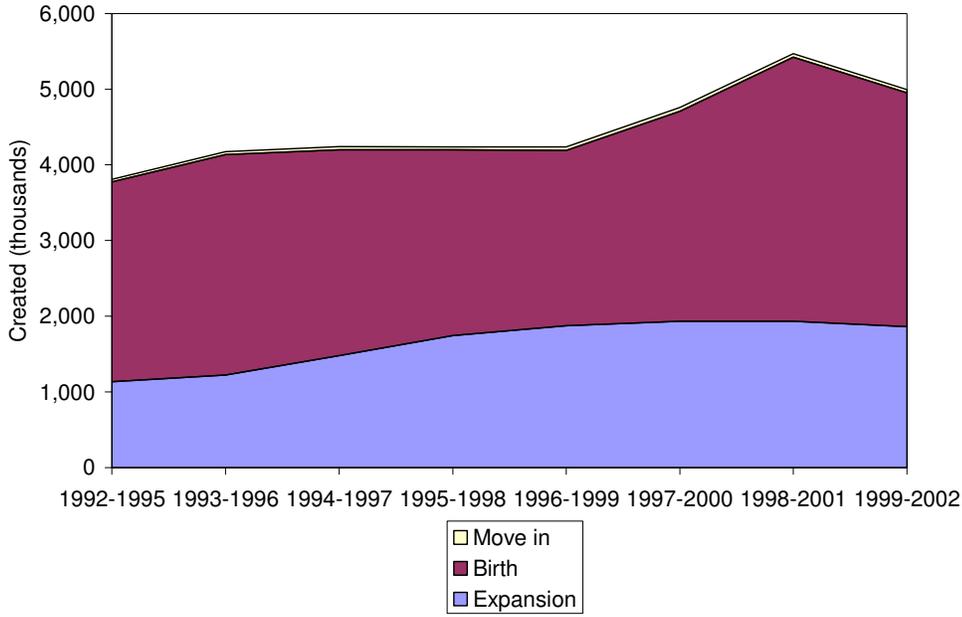
**Figure 11: Biotech Establishment Openings by Year, Reported on Company Website vs. NETS-Reported**



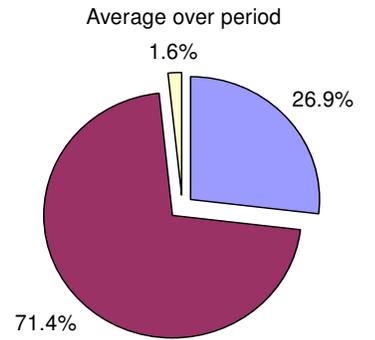
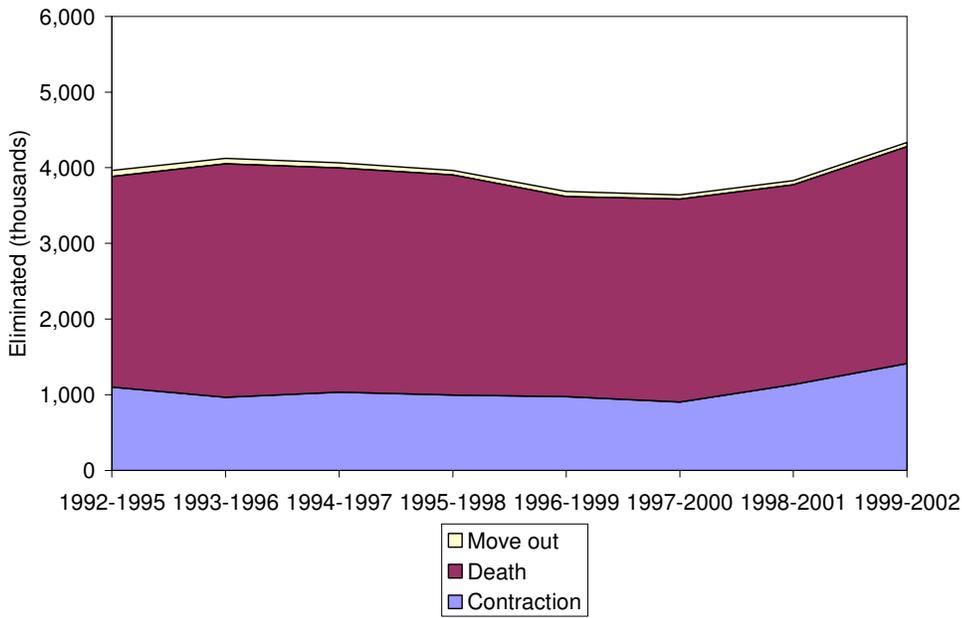
Areas of symbols are proportional to the number of observations with the same dates in both data sources.

**Figure 12: Job Creation and Destruction**

(a) Sources of Job Creation



(b) Sources of Job Destruction



**Table 1: NETS and SOB Employment (1994-2002)**

	1994	1995	1996	1997	1998	1999	2000	2001	2002
1. NETS	16,371,012	16,241,156	16,314,659	16,546,553	16,512,479	16,864,781	17,666,262	18,149,748	17,527,918
2. Size of Business (SOB) <sup>1</sup>	12,696,157	13,047,314	13,312,913	13,739,592	14,257,229	14,642,495	15,144,896	14,997,165	14,967,297
3. Self-employed / independent contractor (SE/IC) <sup>2</sup>	2,084,696	2,093,767	2,008,958	2,083,693	1,851,667	1,893,306	1,877,283	1,899,806	1,895,814
4. Non-employer Establishments (NEE) <sup>3</sup>	--	--	--	1,936,556	1,971,388	2,050,809	2,103,178	2,149,145	2,252,375
5. Size of Business + self-employed / independent contractor (SOB+SE/IC)	14,780,853	15,141,081	15,321,871	15,823,285	16,108,896	16,535,801	17,022,179	16,896,971	16,863,111
6. Size of Business + Non-Employer Establishments	--	--	--	15,676,148	16,228,617	16,693,304	17,248,074	17,146,310	17,219,672
7. Current Population Survey (CPS)	13,979,022	14,039,848	14,261,005	14,791,531	15,180,850	15,522,223	16,056,438	16,249,075	16,214,933
8. [NETS – (SOB+SE/IC)]	1,590,159	1,100,075	992,788	723,268	403,583	328,980	644,083	1,252,777	664,807
9. [NETS – (SOB+NEE)]	--	--	--	870,405	283,862	171,477	418,188	1,003,438	308,246
10. [CPS – (SOB+SE/IC)]	-801,831	-1,101,233	-1,060,866	-1,031,754	-928,046	-1,013,578	-965,741	-647,896	-648,178

<sup>1</sup> California Size of Business employment data includes individuals earnings that are covered by unemployment insurance for the pay period that includes September 12<sup>th</sup>, regardless of the type of payroll. The self-employed and independent contractors, as well as several other worker categories, are excluded from unemployment insurance coverage (California Unemployment Insurance Code, Chapter 3, Article 2, Section 656).

<sup>2</sup> The number of self-employed and independent contractors is calculated by multiplying the weighted proportion of individuals reported in these categories in the February Contingent Work Supplement (CWS) to the Current Population Survey by the annual average of household employment in California. The CWS was compiled in 1995, 1997, 1999, and 2001. In this table, the 1995 CWS is used to calculate the level of self-employment and independent contractors in 1994 and 1995; the 1997 CWS is used for 1996 and 1997; the 1999 CWS is used for 1998 and 1999; and the 2001 CWS is used for 2000, 2001, and 2002.

<sup>3</sup> Number of establishments and sales or receipts of businesses without paid employees that are subject to federal income tax. Most nonemployers are self-employed individuals operating very small unincorporated businesses, which may or may not be the owner's principal source of income. Data for nonemployer businesses are obtained from the annual business tax forms filed with the Internal Revenue Service (IRS) and reported under the Census Bureau's annual Nonemployer Statistics.

**Table 2: Share with Employment Changes from Previous Year, by Employment Imputation Type (1993-2002)**

	Actual Figure	D&B Estimate	Walls Estimate
1993	11.74%	0.02%	1.62%
1994	8.01%	0.02%	2.00%
1995	11.23%	0.02%	2.56%
1996	13.05%	0.02%	3.17%
1997	12.23%	0.01%	4.30%
1998	11.85%	0.00%	4.65%
1999	11.56%	0.01%	4.56%
2000	8.24%	0.01%	2.82%
2001	9.29%	5.74%	9.41%
2002	8.36%	29.14%	0.01%

**Table 3: Business Relocation and Its Effect on Employment in California, 1992-2002**

<i>A. By number of establishments</i>					
	Moved in	Moved out	Net effect	Total number of establishments	Net loss as % of total
1993	612	1,364	-752	1,532,256	0.049%
1994	534	1,285	-751	1,515,142	0.050%
1995	519	1,104	-585	1,497,623	0.039%
1996	489	835	-346	1,521,247	0.023%
1997	504	763	-259	1,518,940	0.017%
1998	545	676	-131	1,492,105	0.009%
1999	582	669	-87	1,461,135	0.006%
2000	802	828	-26	1,519,325	0.002%
2001	752	1,032	-280	1,644,230	0.017%
2002	731	999	-268	1,814,938	0.015%
<i>B. By number of jobs</i>					
Year	Moved in	Moved out	Net effect	Total number of jobs	Net loss as % of total
1993	13,853	27,094	-13,241	16,266,713	0.081%
1994	8,977	25,452	-16,475	16,371,012	0.101%
1995	14,136	28,224	-14,088	16,241,156	0.087%
1996	13,158	18,352	-5,194	16,314,659	0.032%
1997	11,073	28,209	-17,136	16,546,553	0.104%
1998	15,098	16,709	-1,611	16,512,479	0.010%
1999	18,893	23,437	-4,544	16,864,781	0.027%
2000	15,589	16,994	-1,405	17,666,262	0.008%
2001	18,586	23,916	-5,330	18,149,748	0.029%
2002	12,656	16,551	-3,895	17,527,918	0.022%

**Table 4: Decomposition of Employment Growth in California**

	1992-1995	1993-1996	1994-1997	1995-1998	1996-1999	1997-2000	1998-2001	1999-2002
<i>A. Employment change</i>								
Starting employment	16,394,151	16,266,713	16,371,012	16,241,156	16,314,659	16,546,553	16,512,479	16,864,781
Ending employment	16,241,156	16,314,659	16,546,553	16,512,479	16,864,781	17,666,262	18,149,748	17,527,918
Change	-152,995	47,946	175,541	271,323	550,122	1,119,709	1,637,269	663,137
Job creation:								
Expansion	1,134,603	1,220,681	1,480,284	1,742,557	1,874,193	1,933,519	1,934,525	1,862,952
Birth	2,641,169	2,915,369	2,716,969	2,456,024	2,317,230	2,776,719	3,488,940	3,092,281
Move in	34,327	37,993	41,994	37,355	46,076	49,515	45,268	42,277
Job destruction:								
Contraction	1,102,839	965,717	1,030,221	994,987	973,018	901,333	1,134,032	1,410,608
Death	2,781,915	3,086,093	2,965,193	2,909,694	2,648,325	2,682,980	2,640,929	2,870,695
Move out	78,340	74,287	68,292	59,932	66,034	55,731	56,503	53,070
<i>B. Employment change decomposition</i>								
Employment change =	-152,995	47,946	175,541	271,323	550,122	1,119,709	1,637,269	663,137
(expansion-contraction)	31,764	254,964	450,063	747,570	901,175	1,032,186	800,493	452,344
+ (birth-death)	-140,746	-170,724	-248,224	-453,670	-331,095	93,739	848,011	221,586
+ (move in-move out)	-44,013	-36,294	-26,298	-22,577	-19,958	-6,216	-11,235	-10,793

**Table 5: Employment Change Decomposition (1992-2002),  
Various Interval Lengths of Observation**

	1 year	2 years	3 years	5 years	10 years
Expansion	39.3%	37.9%	35.6%	33.5%	26.7%
Birth	59.8%	61.2%	63.5%	65.5%	72.2%
In-migration	0.8%	0.9%	0.9%	1.0%	1.1%
Gross creation	17,096,718	15,847,399	13,514,768	13,000,185	10,160,780
Contraction	32.1%	29.7%	27.5%	25.3%	20.7%
Death	66.4%	68.8%	70.9%	73.1%	77.5%
Out-migration	1.4%	1.5%	1.7%	1.6%	1.9%
Gross destruction	15,962,951	14,713,632	11,759,171	11,866,418	9,027,013
Net change	1,133,767	1,133,767	1,755,597	1,133,767	1,133,767

For three-year intervals the analysis is limited to 1992-2001, which can be divided into period of 3 years length.

**Table 6: Comparisons with ES-202 Data for West Virginia**

	NETS, CA, 1992-2002	ES-202, WV, 1990-1994	NETS, CA, 1992-2002	ES-202, WV, 1990-1994	NETS, CA, 1992-2001	ES-202, WV, 1990-1994
	1 year	1 year	2 years	2 years	3 years	3 years
<i>Share of job creation</i>						
Expansion	39.3%	60.2%	37.9%	51.1%	35.6%	44.2%
Birth	59.8%	39.8%	61.2%	48.9%	63.5%	55.8%
In-migration	0.8%	N.A.	0.9%	N.A.	0.9%	N.A.
<i>Share of job destruction</i>						
Contraction	32.1%	59.4%	29.7%	47.3%	27.5%	39.8%
Death	66.4%	40.6%	68.8%	52.6%	70.9%	60.2%
Out-migration	1.4%	N.A.	1.5%	N.A.	1.7%	N.A.

The estimates for West Virginia using the ES-202 data are from Spletzer (2000).