Frustrating Business Mobility

Richard B. McKenzie

BUSINESS MOBILITY—the mirror image of the free play of economic forces—is a normal, indeed inevitable, feature of any dynamic and growing economy. Nonetheless, particular moves (plant closings, relocations, and the like) can and do evoke protests by the communities and workers left behind. They see themselves as somehow "wronged." And among the political remedies they seek are restraints on business mobility by government fiat.

Cities are worried about losing employers and tax revenues to the suburbs, the Snowbelt is worried about losing both of those and skilled workers as well to the Sunbelt, and politicians everywhere seem attracted to the notion that economic stability in their areas can be ensured by putting a check on management's freedom to pull up stakes. Two years ago when American Airlines announced its decision to move its headquarters from New York to Dallas, for example, New York Mayor Edward Koch termed it a betrayal, and a taxi union vowed to stop serving the airline's New York terminals. Fortunately for the airline and its passengers, as well as the cabbies, the threat was never made good. And American's headquarters was moved.

In recent years, bills that would seriously restrict business mobility have been introduced in the U.S. Congress and a number of state legislatures.* The scheme is also the centerpiece of Ralph Nader's current campaign to "democratize" corporate America, to make major corporations more responsive to the "general interest." (His vehicle is the Corporate Democracy Act of 1980, H.R. 7010.) If such a measure became federal law, it would substantially increase government intervention in business decision making, alter our national economic system in fundamental ways, and be, on balance, detrimental to the regional and local economies of the country in the bargain.

The "Runaway Plant Phenomenon"

The general purpose of the restrictive legislation, which already has been enacted in Maine, is to remedy what has been called the "runaway plant phenomenon." Typically, the bills provide for a government agency to investigate business moves and rule on their appropriateness. For example, the National Employment Priorities Act, a 1977 proposal that was reintroduced in the House last August, by Representative William Ford (Democrat, Michigan) and sixty-one co-sponsors, would set up a National Employment Priorities Administration within the U.S. Department of Labor to investigate plant closings, to report its findings on the economic rationale for the decision and on employment losses and other impacts on the affected community, and to recommend ways of pre-

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*At last count eleven, including the northeastern states of Connecticut, Maine, Massachusetts, New Jersey, New York, Pennsylvania, and Rhode Island, plus Illinois, Michigan, Ohio, and Oregon.

venting or mitigating these harmful effects. (In the 1977 version, the investigation would determine whether "such closing or transfer" was "without [and presumably also "with"] adequate justification.") A bill pending since 1978 in the New Jersey General Assembly would vest similar responsibilities in a state agency called the Division of Business Relocation.

A second typical feature of bills designed to curb business mobility is the levying of penalties on firms that move. The Ohio bill, for instance, would require such firms to dole out to the employees left behind severance pay equal to one week's wage for each year of service and to pay the community an amount equal to 10 percent of the gross annual wages of the affected employees.

Under the Ford bill (H.R. 5040), a business that moved or closed would have to pay the workers left jobless 85 percent of their last two-years' average wage for a period of fifty-two weeks, less any outside income and government assistance. Besides, the firm would have to make a year's normal payments to any employee benefit plan and cover relocation expenses for employees who decided to move to any other company facility within the next three years. Workers over age fifty-four at the time of a move or closing would be entitled to full retirement benefits at age sixty-two instead of sixty-five or seventy. Failure to comply with the act would carry severe penalties—a combination of fines and the denial of tax benefits associated with a move. Finally, the local government would be owed an amount equal to 85 percent of the firm's average tax payments for the last three years. If the firm moved abroad and an "economically viable alternative" existed in the United States, the firm would have to pay "damages" equal to 300 percent of any tax revenue lost to the U.S. Treasury. Any payment required under the act, not met by the firm, and paid by the federal government would become a debt owed by the firm to the federal government.

Third, the kind of legislation under consideration here generally provides for government assistance to the people and entities adversely affected. Under the Ford bill, for instance, the U.S. secretary of labor, with the advice of a relocation advisory council, would be empowered to provide financial and technical assistance to employees who lost their jobs, to the communities affected by plant relocations, and even to businesses themselves—those that might decide *not* to relocate if government assistance were available. Assistance to employees would take the form of training programs, job placement services, job search and relocation expenses, in addition to such existing welfare benefits as food stamps, unemployment compensation, and housing allowances. Federal grants for additional social services and public works projects would go directly to the community. Assistance to businesses would be given as technical advice, loans and loan guarantees, interest subsidies, and the assumption of outstanding debt, but only if the secretary of labor were to determine that the aid would "substantially contribute to the economic viability of the establishment." The New Jersey and Ohio proposals provide for similar community and employee aid.

Fourth, under the various bills, firms are required to give advance notice of their plans to move or close—up to two years' notice in the Ohio bill and in the proposed Corporate Democracy Act of 1980. The prenotification requirement in the Ford bill varies with the size of the anticipated loss in jobs: two years for firms expecting the loss to be greater than 500, one year for 100 to 500, and six months for less than 100. The legislation proposed in New Jersey requires only a one-year notice. Exceptions could be made, of course, but generally only if the firms can show that meeting the requirement would be unreasonable.

Fifth, the various bills usually require that businesses offer their employees, to the extent possible, comparable employment and pay at the new location. And finally, each of the bills contains some minimum-size cutoff point. The proposed National Employment Priorities Act, for example, would apply only to firms with more than $250,000 in annual sales. But it should be noted that many McDonald's restaurants do that much business in a year. The bills' reach, typically, is both wide and deep.

Drawing the Battle Lines

In describing the changing regional structure of the U.S. economy, *Business Week* magazine observed: "The second war between the states will take the form of political and economic

maneuver. But the conflict can nonetheless be bitter and divisive because it will be a struggle for income, jobs, people and capital" (May 17, 1976). And so it promises to be. When he introduced the original National Employment Priorities Act in 1977, Representative Ford gave us a preview of the economic rationale of the political battle lines and some flavor of the ensuing debate:

> The legislation is based on the premise that such closings and transfers may cause irreparable harm—both economic and social—to workers, communities, and the Nation.... My own congressional district suffered the effects of the runaway plant in 1972 when the Garwood plant in Wayne moved and left 600 unemployed workers behind.... [T]he reason these firms are moving away is not economic necessity but economic greed. For instance, the Federal Mogul Company in Detroit signed a contract in 1971 with the United Auto Workers and 6 months later announced it would be moving to Alabama. A spokesman for the company was quoted as saying that they were moving "not because we are not making money in Detroit, but because we can make more money in Alabama."

Two years later, in introducing his significantly revised 1979 bill, Representative Ford stressed that business movements from the Northeast during the last decade had resulted in a million lost jobs in manufacturing and pointed to studies showing the suicide rate among workers displaced from their jobs by plant closings at thirty times the national average. He also noted,

> It is well established that the affected workers suffer a far higher incidence of heart disease and hypertension, diabetes, peptic ulcers, gout, and joint swelling than the general population. They also incur serious psychological problems, including extreme depression, insecurity, anxiety, and the loss of self-esteem.

A veritable chamber of horribles!

So it should come as no surprise that the campaign for government restrictions on business mobility adopts the rhetoric of war. Phrases like "second war between the states," "counter-attacks," and "fierce and ruinous state warfare" fill popular accounts of regional shifts. The economic conflict at the heart of attempts to control business relocations is viewed as "us" against "them"—North versus South, the Snowbelt versus the Sunbelt.

Such rhetoric may serve transient political purposes. But it distorts public perception of economic conditions in different parts of the country and hides nonsensical arguments behind the veil of "urgency" as to government action. Thus, it is instructive to examine the major arguments made to support restrictive legislation.

Changes in Population

The contention is made that southward business movements have increased the rates of population growth in the South and Southwest. The corollary is that the North is actually losing people, especially highly educated workers, and that the population shifts that have been occurring are larger than can be accommodated by existing political institutions.

What do the data actually show? First, as is evident in Table 1, the population growth rates of the Northeast and North Central regions have indeed declined significantly since the 1950s, but so have the population growth rates of *all* regions, including the South and West. (Only the Middle Atlantic states experienced a net decline in the 1970–1977 period, and that decline was very modest.) Further, and here Table 2 is in point, these changes in population growth rates have been caused as much or more by "natural" factors—changes in fam-

Table 1
POPULATION GROWTH RATES, BY REGION, 1950–1977

Region	1950–1960	1960–1970	1970–1977
Northeast	13.2%	9.8%	0.4%
New England	12.8	12.7	3.3
Middle Atlantic	13.3	8.9	−0.4
North Central	16.1	9.6	2.3
East North Central	19.2	11.2	2.0
West North Central	9.5	6.1	3.4
South	16.4	14.3	11.2
South Atlantic	22.6	18.1	11.8
East South Central	5.0	6.3	8.0
West South Central	16.6	14.0	12.3
West	38.9	24.2	12.7
Mountain	35.1	20.9	21.0
Pacific	40.2	25.2	10.1
U.S. Total	18.5	13.4	6.4

Source: Adapted from Richard B. McKenzie, *Restrictions on Business Mobility* (Washington, D.C.: American Enterprise Institute), Table 1.

Table 2
AVERAGE ANNUAL GROWTH RATES IN POPULATION BY REGION AND CAUSE, 1960–1970 AND 1970–1976

	Population		Natural Increase		Net Migration	
Region	1970–1976	1960–1970	1970–1976	1960–1970	1970–1976	1960–1970
Northeast	0.1%	0.9%	0.4%	0.9%	−0.3%	0.1%
North Central	0.3	0.9	0.6	1.0	−0.3	−0.1
South	1.5	1.3	0.8	1.2	0.7	0.2
West	1.6	2.2	0.8	1.3	0.8	1.0
U.S. Total	0.9	1.3	0.7	1.1	0.2	0.2

Source: McKenzie, *Restrictions on Business Mobility*, Table 2.

ily life styles, the costs of rearing children, the widespread use of contraception, and the legality of abortions—as by net outmigration.

Second, aggregate data on population shifts blur the complex picture of who moves and for what reasons. Many of the people who moved south in the 1970s are the same people who moved north in the 1950s and 1960s. Others (for example, retirees) have moved south for reasons wholly unrelated to business location. Still others have moved because of new and expanding industries in the South, not because of relocations from elsewhere. It is also interesting to note that a major source of the above average population growth of the South Atlantic states (11.8 percent in the 1970–1977 period) has been the extraordinary growth of a single state, Florida (over 25 percent).

Third, a favorite argument in support of restrictions on business mobility is that the South and West are gaining a disproportionate share of highly educated and highly skilled workers, leaving the North and Midwest with a preponderance of uneducated, unskilled, and thus low-income workers. Now, the new wave of outmigration from the North of course includes many highly educated and skilled people; but the proponents of restrictive legislation greatly exaggerate the quite undramatic facts. For instance, in the 1975–1977 period substantially more unemployed male workers moved from the Northeast to the South (23,000) than from the South to the Northeast (14,000), and virtually the same pattern held for unemployed female workers. (The Northeast also exported more unemployed workers to the West than it imported from the West.)

Other considerations are equally revealing. Far more people below the poverty line migrated from the Northeast to the South (133,000) than vice versa (39,000) in the 1975–1977 period. (Much the same point can be made about the migration of low-income people between the Northeast and West.) In addition, while more people with one or more years of college migrated from the Northeast to the South (151,000) than from the South to the Northeast (102,000), those with *some* college education were a significantly greater proportion of the southern migrants to the North (56.3 percent) than the other way around (40.3 percent). (The same cannot be said about the migration of college-educated people between the Northeast and the West.) In short, it simply is not clear that the South or the West is receiving from the North a disproportionate number of highly trained, high-income people. Some—but no tidal wave.

Finally, most people move within a region, not among regions—and mostly they stay within the same state. Indeed, of the people who moved to a different house in the 1975–1977 period, approximately 60 percent stayed in the same county! Hence, if business relocation rules are seen as a means of restraining migration, *and insofar as migration results from business relocations at all*, these rules will in fact restrain migration *within* regions and states more than *among* regions. And insofar as such rules

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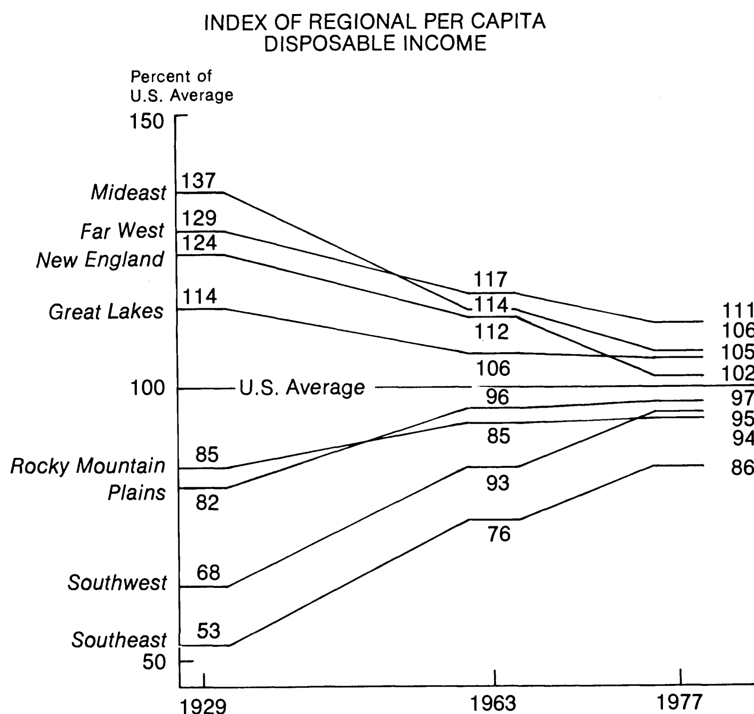
are designed to retard the economic development of the South and West by restricting the migration of people and jobs, it follows in all likelihood that they also will restrict the economic development of *all* regions, the North along with the rest.

Changes in Income

Edward Kelley, in a position paper of the Ohio Public Interests Campaign, claims that business movements are reducing individual incomes and the tax collections of governments



Source: Calculated by Yale Brozen, Department of Economics, University of Chicago.

in the North: "As the manufacturing base of the [northern] economy declines, so does the tax base. There are fewer taxable industrial locations and fewer people paying taxes" (*Industrial Exodus: Public Strategies for Control of Runaway Plants*, 1977). Yet in fact individual incomes in the North have been rising over the years. It is also true that individual incomes have been growing faster in the Southeast, Southwest, and West. What is happening, as the accompanying figure clearly shows, is that the relative incomes of the regions are converging. Personal income in the North has decreased relatively (while increasing absolutely), but it still averages 25 percent higher than personal income in the South. In short, if business movements owe something to the disparity in regional incomes and if regional incomes are converging, it would seem that Representative Ford and Mr. Nader have proposed a solution to a problem that is being solved anyway, and predictably so, by normal market forces. In fact, because of the convergence of regional incomes, business mobility is likely to be less dramatic in the future than it was in the past.

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The movement of businesses to the South does not necessarily mean that the North is made worse off, absolutely, or that improvement in living standards there has been retarded. Indeed, the converse may be reasonably argued—namely, that the movement of people and industry south has contributed to an improved standard of living in the North. By moving south where production costs are lower, businesses are able—at least in the long run—to provide goods to northern markets at lower prices than if they had stayed in the North. And they can expand production at lower cost. In not too many years, this increases both national income and, because the prices of goods are lower, the purchasing power of *all* workers' incomes, including those in the North.

The Decline in Northern Manufacturing Jobs

The claim that the North has lost a million or so manufacturing jobs in the last ten years suggests an economic problem serious enough to justify severe restrictions on entrepreneurial freedom. In fact, however, the claim misinterprets the actual state of employment opportunities in the North. The narrow focus on *manufacturing* employment hides the very important fact that *total* employment in the North has risen continually and significantly during the last several decades.

As Table 3 shows, manufacturing employment in the Northeast and East North Central regions did indeed decline by about 1 million jobs between 1969 and 1979; but in the same period total nonagricultural employment grew substantially, by 4.5 million jobs, reflecting the strong upward trend in service and government employment during the period. Moreover, since 1975 even manufacturing employment in the

Table 3

NONAGRICULTURAL EMPLOYMENT IN THE NORTHEAST AND EAST NORTH CENTRAL REGIONS, 1965–1979
(in thousands)

Year (monthly average)	Total Employment	Manufacturing Employment
1979 (Dec.)	38,100	10,172
1978	36,331	10,153
1977	35,408	9,886
1976	34,288	9,601
1975	33,376	9,396
1974	34,826	10,423
1973	34,506	10,533
1972	33,358	10,093
1971	32,803	10,027
1970	33,249	10,936
1969	33,358	11,201
1968	32,384	11,055
1967	31,589	11,007
1966	30,867	11,034
1965	29,464	10,472

Note: The Northeast and East North Central regions include Maine, Vermont, New Hampshire, Connecticut, Rhode Island, Massachusetts, New York, Pennsylvania, New Jersey, Ohio, Indiana, Illinois, Michigan, and Wisconsin.

Source: *Statistical Abstract of the United States*, 1965-1977, and *Employment and Earnings*, 1978 and 1979.

North has begun to move up again. If business relocation rules are designed to thwart the movement of manufacturing jobs generally, they may well have the ironic effect of choking off this recent reversal of the long-term downward trend in northern manufacturing jobs.

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Finally, it must be stressed that only a very small percentage of the 1 million lost manufacturing jobs in the North can be attributed to business migration in any case. A study by Peter Allaman and David Birch of the Massachusetts Institute of Technology shows that just 1.5 percent of the North's job losses in the 1969–1972 period stemmed from the outmigration of firms, while a recent extension of that study by James Miller of the Department of Agriculture puts the figure at 1.6 percent for the 1969–1975 period. In other words, as Miller concluded, the impact of firm migration on the reallocation of manufacturing employment among regions "was trivial compared to the net effect of starts, closures and stationary firms."

An added inducement to this alleged movement south, it is often argued, is the "wage-attraction" of the South. However, it is more illuminating to assess the impact of "wage-push" in the North. From the wage-attraction perspective, it may appear that low-paid workers in the South are stealing business from and causing economic harm to the North. But the wage-push perspective suggests that wages in the North are higher and on the rise for such classical economic reasons as competition for workers from the developing service sector in the North. In other words, manufacturers are forced to pay higher wages or risk losing their labor force to more rapidly expanding sectors of the economy. Firms that move south are "pushed" south, having been outbid for labor resources in the North. From this perspective, industrial movements to the South are a consequence of gains made by many workers in the North—and the "runaway plant phenomenon" is a positive force in the dynamic and growth economy, South *and* North.

Even if northern manufacturing firms were to be restricted from moving south by legislation, the movement of manufacturing jobs to the South, though impeded, would not be stopped. Firms move because costs of production in the new location are lower—and anticipated profits higher. Restrictions on business mobility would cause new firms to spring up in southern locations and existing southern firms to expand by more than they otherwise would. Because of cost disadvantages, firms in the old northern locations would be induced by natural market forces—*which relocation rules attempt to override*—to contract their operations or to go out of business.

Comparative Cost Advantages

And this of course is the key, this ill-conceived attempt to improve on "nature" by those who urge regulation to restrict business mobility. Even at the risk of accentuating the obvious, it is helpful to return to a first principle or two. People in different parts of the country trade with one another because differences in their costs of production make it to their mutual advantage to do so. Specialization in trade leads to maximum output from the resources available to the community as a whole. And, because the conditions of production—the avail-

ability of resources, technology, consumer preferences for work and for goods—continually change, so do the comparative costs from region to region. What once was relatively advantageous to produce in the North may, for any number of reasons, become less costly to produce in some other region. This constantly shifting calculus of costs can be altered by changes in the relative scarcity of resources, worker education levels, or regional preferences for services. Whatever the reason, the cost of producing any particular good in one region can go up and, as a consequence, the production of that good moves elsewhere—all, to repeat, very "naturally."

Pinning down the precise reasons for changes in regional economic structures is difficult in the best of circumstances. In recent decades, however, the comparative advantages of the North have indeed changed, and for two principal reasons. First, the demand for services in the North has increased rapidly, more so than in other parts of the country; and this in turn has increased the cost of resources, including labor, for all other sectors of the northern economy. Also, environmental legislation has placed more severe restrictions on industrial production in the congested North than in many other parts of the country and has increased the relative costs of manufacturing there. The unavailability of "pollution rights" in the North has caused many firms to look to locations with less present pollution and less stringent immediate pollution-control standards—to the South and West, for example.

Undeniably, these changes in regional production costs, and the economic adjustments that result from them, can and do cause hardship for some. But restricting business mobility is a cure worse than the disease. Such restrictions would force employers to lock labor and other resources into comparatively inefficient uses—resources that could and should be moving into expanding sectors of various regional economies. Thus, governmental rules that impede the movement of manufacturing industry out of the North would not only retard the development of industry in the South (or elsewhere) but, by the same token, would retard the development of the service sector in the North. The overall result would be increased nationwide production costs and reduced national production and income.

The Worst of Worlds

States and communities that are mulling over business mobility restrictions may believe they would be protecting their economies by protecting their industrial bases, but in fact they would be hurting them—and themselves. What company would want to move into an area that had substantial economic penalties for moving out? What entrepreneur would want to start a business in a community or state that had penalties for changing locations? Companies interested in profits will always try to settle in those areas that leave them free to make the basic decisions on when to shift among products, when to close, and when to move. States or communities that do not impose restrictions will obviously have a competitive advantage over those that do—which makes it equally obvious why Representative Ford and others, who want restrictions in their own areas, are seeking through federal legislation to have *all* areas of the country abide by the same rules. And this simply tightens the squeeze on U.S. industry in world markets and provides yet another marginal inducement for U.S. firms to locate their production facilities in foreign countries where such restrictions are not in place.

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Indeed, viewed from whatever perspective, restrictions on business mobility constitute an idea whose time one hopes will never come. Predictably, restrictions would tend to reduce the efficiency of resource allocation; reduce national and regional income levels; and reduce the ability of the economy to respond to changes in people's tastes and to changes in technology, in the availability of resources, and in the mix of demand for particular goods and particular services. In short, they represent a bad bargain all around—for the communities and workers affected (in spite of the appearance of near-term relief), for Representative Ford's constituents as much as everyone else, for the U.S. economy generally, for entrepreneur and taxpayer alike. ■