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Losing the Relocation Lottery:

Massachusetts Struggles to Attract and Retain Good Jobs

BOSTON – Massachusetts jobs are relocating to states with lower taxes and business costs. Pioneer's new study in its year-long series on jobs and the economy, *Playing the Lottery*, shows that Massachusetts has been losing companies and jobs to states that are more receptive to business. The study concludes that policy makers should focus their efforts on improving the general business climate in Massachusetts, not just targeted incentives. Otherwise, Massachusetts will get a few big wins, but lose out over the long term, just like playing the lottery.

"This report substantiates an earlier report showing that interstate relocation of businesses is a relatively unimportant part of economic development in Massachusetts," says Jim Stergios, Pioneer's executive director. "But it also demonstrates that, however small a part relocation may be in the overall picture, we're losing far too many firms to other states."

Playing the Lottery analyzes the relocation of establishments into and out of Massachusetts for the eighteen-year period before the current recession (1990-2007). While recognizing the state's few notable successes, the report makes clear that on average the state's strategy to gain relocations has resulted in losses in jobs and companies. Of those establishments that moved to the state, the vast majority did not receive special incentives from the state.

"Providing special deals to entice companies to move to Massachusetts and to keep companies from moving has been a staple of economic development at the municipal and state levels," says John Friar, co-author of the new Pioneer report. "These efforts, however, are similar to playing the lottery: we all hear about big prize winners; but the odds of doing so are very long, and everybody else loses."

The study's first major findings are:

- Massachusetts is losing the relocation game: many more establishments have moved out of state than have entered, and the trend has worsened since 2000. On a net basis, Massachusetts has lost 2,152 establishments and 24,088 jobs during this time period.

- The net effect of relocation in any single year is small. In 2007, a net of 195 establishments left the state. This amounted to a change in the number of establishments in Massachusetts of just one-twentieth of one percent (-.05%). The job loss amounted to a change of -.08%, again not even a rounding error in the overall picture.

- Massachusetts swaps companies with several of its neighbors. The majority of establishments that relocate into Massachusetts move from neighboring states, with New Hampshire, New York, Rhode Island, and Connecticut accounting for almost 50% of the establishments that relocated to Massachusetts. Those same states received over 43% of the firms that left Massachusetts.

- Massachusetts loses companies to lower cost states. Examining the net flows, the state's greatest gains come from states with high costs and taxation levels (NY, CT, NJ, and MI), and the state's largest losses are to states with lower tax levels and business costs (NH, FL, ME, NC, AZ).

- Massachusetts is losing knowledge-based companies to relocation. The state has gained little in any particular industry, but the leaders are mostly low tech, such as retailers. The losing industries have been more concentrated in knowledge-based industries.

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About the Series

Playing the Lottery is the third installment of in a multi-part series commissioned by Pioneer Institute to understand job and business growth and destruction in Massachusetts over the past 20 years. Previous installments were *Failure to Thrive* and *Heading Down*. The series utilizes the National Employment Time Series database to provide a highly detailed view of employment trends.

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About the Authors

John Friar is Executive Professor of Entrepreneurship and Innovation at Northeastern University and a Senior Fellow of Pioneer Institute. Dr. Friar has researched and written extensively on the subjects of entrepreneurship and economic development. He has won the IEEE Transactions Publication Award as the leading researcher in innovation management. Dr. Friar has also won three McMaster Awards as the leading writer of cases in Innovation and New Technology. Dr. Friar is the recipient of seven teaching awards. At Northeastern, he created the School of Technological Entrepreneurship and ran the Entrepreneurship Center, creating the activities that led the Princeton Review to rate NU the fourth most entrepreneurial campus in the nation. Dr. Friar holds a Ph.D. from MIT, and MBA and AB degrees from Harvard University.

Megan Gay is a Ph.D. candidate in the Economics Department at Northeastern University. Megan received her B.A. in History in 2001 from The College of William and Mary and received her Master's in Applied Economics from Northeastern University in 2006. She expects to receive her Ph.D. in Applied Economics from Northeastern University in Summer 2010. Megan specializes in quantitative and qualitative analyses in the areas of industrial organization and health economics. Her current research focuses on buyer power theory and Dominant HMOs, and the determinants of a Dominant HMO's market share.

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Pioneer Institute is an independent, non-partisan, privately funded research organization that seeks to change the intellectual climate in the Commonwealth by supporting scholarship that tests marked solutions against the conventional wisdom of more governmental involvement in Massachusetts public policy issues.