

Taking care of business: N.J. politicians madly competing to seduce companies, but lower taxes are only part of the answer

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Tim Larsen/Courtesy of Governor's Office

Gov. Chris Christie shakes hands with state Senate President Stephen Sweeney, right, after signing legislation to help revitalize Atlantic City in the unfinished atrium of Revel Casino in Atlantic City last week.

By Julie O'Connor

Like any good trash-talk, it was mostly just for show.

In a brash television ad broadcast around Illinois, Gov. Chris Christie said he intended to poach that state's jobs after Gov. Pat Quinn approved steep tax increases. So began a throw-down on taxes:

"If he wants to tank his economy, that's just fine," said New Jersey's governor. "I'll go and try to collect as many businesses as I can. And every job that I create, that I take from Illinois, which comes to New Jersey, will be a net plus for us."

This, Quinn scoffed, coming from a state that's so broke it can't make pension payments, it's firing teachers, it's ditching a major tunnel project and being forced to pay money back to the federal government?

"This is a guy whose business climate is rated 48th in the nation," the Illinois governor said. "That's up from 50th — I'll give him credit for that, even though he killed a project that had 6,000 construction jobs."

Yet for all the prime-time posturing, Illinois' economy isn't going to collapse anytime soon, and New Jersey's isn't likely to ignite. The public fight over taxes is more theater than substance.

Yes, taxes matter. But building a good business climate is much harder than just cutting taxes. Investors want skilled workers, top-notch schools, good roads and rails, and a high quality of life to attract and retain workers.

The other hidden fact behind the Christie-Quinn fight is that states tend to fall and rise with the national economy. Governors who are in power during a national boom look like geniuses. But they are mostly lucky.

"I think one of the things Gov. Christie has going for him is the fact that we're at least coming out of a very strong recession," says former Gov. Jim Florio. "Clearly, governors get blamed for things they aren't responsible for. But on the other hand, they can also claim some credit. The fact is, there are economic factors at work over which they have little control — for the good or the bad."

That doesn't mean nothing should be done. New Jersey legislators have proposed a package of about 30 bills on job creation, regulatory reform and economic development, many now awaiting Christie's signature. The total price tag is more than \$700 million in the next fiscal year, mostly in lost tax revenue.

But until there's a more robust economic recovery, the impact of these state incentives would be modest at best, economists caution. All state and local taxes account for less than 2.5 percent of the average company's cost of doing business, according to the Center on Budget and Policy Priorities, a Washington, D.C.-based think tank. That means even microscopic changes in employee salaries, overhead costs, materials or CEO bonuses would likely have a much bigger impact on a company's operations than any tax incentive from the state.

And tax incentives may not work. Pennsylvania's attempts to lure high-tech companies with state incentives brought only marginal gains, according to a study by the Washington, D.C., nonprofit Good Jobs First.

So while containing taxes is certainly important to promote business growth, New Jersey also needs to ensure companies have a more substantial self-interest in staying here. The state needs to consider what else businesses look for when deciding where to invest: the pipeline of skilled labor coming out of New Jersey schools, the ease of transportation, the universities, quality of life.

And there are other, intangible factors: A study of 38 companies that left New York City found that 31 moved closer to their chief executive's home, reducing the average CEO commute.

"We often hear blanket statements that if we reduce regulation or taxation, it will ipso facto produce more jobs," said Patrick O'Keefe, director of economic research at J.H. Cohn in Roseland. "That's simply not the case."

IS NEW JERSEY SO BAD?

It's true New Jersey's taxes are high. The state was ranked 48th in the nation for its personal income, business and sales tax rates by the Tax Foundation.

"Taxes are one part of the equation, there's no question about that," said John Boyd Jr., a corporate site selection expert based in Princeton. "Beyond the cost to corporations with our income tax, which is high by national standards, the challenge of recruiting talent to New Jersey because of high property taxes really affects corporate site selection decisions."

But the idea that New Jersey is a horrible place to do business is a myth. The fact is, this is one of the wealthiest states in the nation, and it's home to many large, prosperous companies. Clearly, a state's business climate is about more than just taxes.

Executives say they're burdened by corporate business taxes because they want to pay less, but for most companies it doesn't actually amount to all that much, said Mary Forsberg, director of research for New Jersey Policy Perspective, a nonprofit group that analyzes fiscal issues.

"Ninety-three percent of businesses pay less than \$2,000 a year in corporate business taxes," Forsberg said.

Some economic analysts look beyond taxes when evaluating the state's business climate. Forbes Magazine rates New Jersey 20th in the nation for its skilled labor force, and places it in the middle of the pack for both its economic climate and growth prospects. For quality of life, it ranks New Jersey fifth.

And the state was ranked fourth for fostering technological innovation and entrepreneurship, in an economic index by the Information Technology and Innovation Foundation.

"If you don't just look at taxes and regulations and take all those other factors into account, that does level the playing field," said Philip Kirschner, president of the New Jersey Business and Industry Association. "We're going to be competitive in work force, education, quality of life and access to markets. If all people were looking for is low costs, there would be a heck of a lot more business in Alabama."

BUSINESS SENSE

Of course, there are ways the state could improve its business climate. That includes containing taxes and reducing bureaucracy.

Christie and state Democratic leaders are moving forward on that agenda. They've agreed to cap property taxes, which will contain costs for businesses. The governor also vetoed the millionaires tax, promised to cut business taxes this year and established a panel to do away with unnecessary regulatory red tape.

Legislators have proposed a slew of business tax breaks. They're mainly targeted at small businesses, which generate the most job growth and need the most help. It costs them more to hire, because health care costs can't be spread over a large payroll base.

But there are success stories in which tax breaks have helped attract or retain big companies. The \$87 million grant the state offered Verizon in 2005 through its Business Employment Incentive Program was a significant factor in the company's decision to stay, said Dennis Bone, Verizon New Jersey's president.

"New Jersey was neck-in-neck with Virginia because we had a lot of employees in the Virginia area," said Bone, who employs thousands of New Jersey workers. "Either they were going to locate to New Jersey, or the ones in New Jersey were going to locate to Virginia. Virginia was making very compelling offers to Verizon. In the scheme of things, when you looked at that decision, the BEIP grant was important."

Red tape makes a difference, too. It adds all kinds of costs and delays to business expansion efforts. It's particularly onerous for pharmaceutical companies, which have a limited time to sell a newly patented drug before generic drug companies step in and siphon away their profits.

Not all companies feel New Jersey is overregulating them. Wayne-based Toys R Us says regulations here are more business-friendly than those of Illinois, where state safety laws surpass the federal standard and lead to higher costs, said David Schwartz, one of the company's executive presidents.

"It's very unproductive and wasteful to have to put a special sticker on toys sold just in Illinois, when scientists and the federal government have said it's safe for sale," Schwartz said.

PORTS, RAILS AND SCHOOLS

Toys R Us, a global company, is one of the largest importers into the port of Elizabeth. When he talks about the business climate, Schwartz emphasizes investing in transportation.

In 2014, the Panama Canal will be expanded so larger ships can pass through, carrying more of his company's products, he says. The Elizabeth port can accommodate those ships, but the Bayonne Bridge is too low to allow them to pass under. Improvements to that bridge will be a boon to business, as would making the rail system in and around that area more efficient. Schwartz said companies such as his would no longer have to rely on West Coast ports.

"The ability to flow more product into Newark at a more efficient rate could lead us to build a bigger distribution center in New Jersey, and hire more people to move the goods around," he said.

Investing in higher education is just as important. Pharmaceuticals are key to New Jersey's economy, and those jobs go where the brains are — places such as Cambridge and San Diego, where taxes are just as high as New Jersey's, but where companies can partner with top research universities.

New Jersey invests less in higher education than most states. And every year, that amount decreases.

Christie reiterated last week that when he has money to spend, his first priority will be higher education.

A PERSONAL TOUCH

Sometimes a state's business climate is a matter of perception, said James Hughes, dean of Rutgers' Bloustein School of Planning and Public Policy.

"The business community in New Jersey has felt, 'We're just an ATM machine for Trenton,'" Hughes said. "Part of the business climate is that broad attitude — make them think you like them because they're providing jobs."

That was the message Christie delivered to a panel of CEOs at Rutgers Business School last week, where the governor and Lt. Gov. Kim Guadagno pledged to reach out personally to any executive contemplating a move. Christie said he was heading to Chicago on Friday in an effort to recruit more businesses to the state.

Just like cost, personal factors hold significant sway over business decisions, said Woodbridge Mayor John McCormac, a former state treasurer who has negotiated with executives on behalf of the state. "I think the biggest decision-maker in corporate relocations is: Where does the chief executive want to live?" he said.

When he was trying to persuade Verizon to keep thousands of jobs in New Jersey, state Sen. Richard Codey (D-Essex), acting governor at the time, said he conceded that when it comes to cost, "you can't beat Virginia."

"There's no denying that," Codey recalls saying over dinner to Ivan G. Seidenberg, the company's chairman. "But what about the quality of life for your employees or your children? On a weekend in Virginia, can you go to a Broadway play?"

For reasons like that, New Jersey has "a little bit of self-paranoia" when it comes to its business climate, Florio believes.

"Frankly, anyone who wants to move to Mississippi or South Carolina or Michigan would probably come back in a heartbeat," he said. "It's the quality of life."

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