Phantom Jobs: New Studies Find Department of Commerce Data To Be Misleading

by Bill Finger

Two 1985 studies—conducted independently—show that the "new and expanded" industry figures used by the N.C. Department of Commerce have vastly overstated the number of new jobs generated in North Carolina. In a report prepared for the N.C. Department of Administration, three researchers at North Carolina State University found that for the 1971-80 time period, only 47 percent of the announced new jobs—less than one of every two—for new and expanding industries actually came to exist. The state's main indicator series of industrial growth is used primarily for "promotional purposes," says the NCSU study. "The announcement series have very little independent value as a leading indicator."[1]

In addition, three University of North Carolina at Chapel Hill students, working in conjunction with the N.C. Center for Public Policy Research, found similar results. "Only 61 percent of the total number of employees that the department reports as existing actually do exist," they explained in a paper for Thad Beyle, political science professor and editor of recent anthologies for the Congressional Quarterly Press and Duke University Press. "We do believe that the deception of economic growth in terms of jobs available is significant to the citizens of North Carolina," they concluded.[2]

The problems with the data have been recognized for some years. In a March 24, 1980 story headlined "Fewer New Jobs Created Than Hunt Says," *The Charlotte Observer* pointed out that all 37,000 new jobs announced by Gov. James B. Hunt Jr. for 1979 would not be in place that year. Hunt acknowledged at the time that all 37,000 jobs might not come on line in 1979, but he refused to consider whether some of the announced jobs would *never* come to pass. Hunt points out another factor, however: "Whereas the jobs announced by some of the new industries coming may not all pan out, the additional jobs that are created because of them in the community will be very substantial, and these jobs are generally never reported."

Until 1985, no one had attempted to determine how far off the "announced" new-and-expanding industry data were from the actual number of jobs created. Using the percentages found in the two 1985 studies, only 17,000-24,000 of those 37,000 jobs Hunt bragged about in 1980 would have been created. Moreover, the Department of Commerce reporting series on industrial development does *not* include employee *reductions* from plants that have closed or scaled back jobs since 1979. The cumulative data reported by the Department of Commerce for "new jobs" created continue to use Hunt's 1979 figure of 37,000 (see graphic on next page). "The apparent unreliability of the data does raise a question regarding why decision-makers find these data to be useful," reported the NCSU researchers.[3]

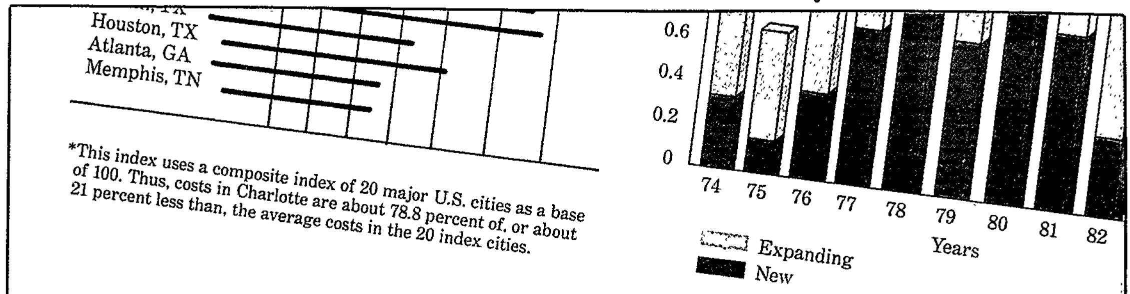
The NCSU study examined all new and expanding manufacturing industries from 1971-84 for two counties, Wake and Chatham, checking both the number of jobs and the amount of investment announced. They divided their results into the 1971-80 and the 1981-84 period, putting less emphasis on the latter period because such recent announced jobs and investments may not have had sufficient time to materialize. The researchers checked the announced data against Employment Security Commission records (where employers must report the actual number of employees), county property tax records (where companies must report their actual property investments), and the biennial *Directory of N.C. Manufacturing Firms* put out by the Department of Commerce.

Using a different methodology, the UNC group reviewed the annual reports on new and expanded industry for the 1978-84 period and found that the top-ranking job sectors were electronics (most "new industry" jobs listed, 19,192) and textiles (most "expanded industry" jobs listed, 20,842). These researchers checked *all* new and expanding industries announced in the textiles and electronics sectors statewide for 1978-84. They checked the data by sending a one-page survey to all companies shown in the Commerce announcements.

The survey asked the companies: 1) if they opened on time; 2) how many people they employed (the year they opened and as of October 31, 1985); 3) why the number of employees either exceeded or was lower than the Department of Commerce announcement; and 4) the percentage of the new employees who lived in North Carolina, lived in another state, and were transferred from within the company. The survey included follow-up telephone calls to all companies that did not return the written questionnaire. Of the 64 textile and electronics companies in the new and expanding industry announcements, 22 companies responded to the survey and 15 had gone out of business. The remaining 27 companies either would not cooperate, could not be reached, or had not announced how many employees they would hire in the first place.

Because this study picked textiles as one of its areas to check, the results magnify the problems with the Department of Commerce data. In the UNC survey, 84 percent of the announced jobs for the textile sector were actually in place, compared to only 50 percent of the electronics jobs. Given the steep cutback in textile jobs due

The Department of Commerce publications, such as "North Carolina Business Climate" (excerpt below from page S-3), use *announced* jobs, even though only 47 to 61 percent of those announcements become *real* jobs.



Investment and Employment in New and Expanding Industries 1974 - 1983

Year	Number New	Number Exp	Number Total	Investments ($000) New	Investments ($000) Exp	Investments ($000) Total	Employees New	Employees Exp	Employees Total
1974	85	147	232	345980	526331	872311	9936	8842	18778
1975	116	219	335	169458	531828	701286	8211	10379	18590
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1978	169	215	384	1500716	522751	2023467	20512	9048	29560
1979	192	346	538	730697	1095984	1826681	16592	20282	36874
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1982	144	441	585	406891	882793	1289684	9075	13032	22107
1983	176	349	525	896420	1261775	2158195	14142	16064	30206
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to imports and mechanization of the industry, the 84 percent figure is particularly surprising. It shows that some textile companies have carved out a solid niche in the market—and hence have met their new job expectations. But this figure does not reflect the large number of textile workers who have lost their jobs through plant closings. Under the current state reporting system, the lost textile jobs will not show up at all in the Commerce Department's indicator series of economic growth.

Both studies emphasized that the Commerce data show only what a company *intends* to do. "Because announcements reflect intentions and not actions, they are easily subject to manipulation," concluded the NCSU study.[4] A Department of Commerce source who asked not to be identified acknowledged that data which are intended for use as a barometer of investment activity can be misconstrued as an economic indicator.

Neither of the studies faulted the professional approach with which the department compiles the report—only the emphasis on "announced" jobs data. "The indicator's announced industrial development series does seem to be carefully and professionally constructed with fairly consistent attempts to confirm announcements," said the NCSU study.[5]

The NCSU study made five recommendations that would streamline the data-gathering process but not alter the current system significantly. These include assigning the same SIC code to all data bases and conducting the survey for the *Directory of N.C. Manufacturing Firms* annually instead of biennially. The NCSU study also pointed out that using announced rather than actual data may be necessary because of the drawbacks in waiting to see how many jobs or how much investment actually materializes: "Planning of public facilities, budgets, and other government activities may require advance notice."[6]

Accepting the need for advance notice, the report then suggested that announcement data could be identified as preliminary and later updated with final data—or at least, emphasized in Commerce Department publications as *announcement figures only*. The latest department publications do point out that the data are only announcements; nevertheless, the cumulative data are not altered. And the public relations comparisons among years and gubernatorial administrations continues. Meanwhile, the public is misled about what kinds of jobs and new investment actually exist, and economic analysts are left with insufficient data.

While the recommendations in the NCSU study should help somewhat with the problems discussed here, the basic problem would remain: Data designed to be an indication of what *will happen* form the basis for what the public thinks *actually happened*. The fundamental solution to this problem is to publish a new follow-up report called *actual* new and expanded industry, which would include actual jobs and capital investment added in each year.[7]

This option would correct the root of the problem, and the logistics involved are not necessarily difficult. Companies already report the *actual* number of employees to the Employment Security Commission, which is in the Department of Commerce. The ESC could then forward this data to the industrial development office within the department for publication. The state could require companies to report on their annual declaration of real property (the basis for county property taxes) the years for which capital investments were actually added to their tax base. As more county tax offices get computerized, reporting that data to the N.C. Department of Revenue (or Commerce) would become a more routine matter.

The report should show a cumulative year-by-year account of jobs and investment actually added (new and expanded). To be most effective, these figures could be juxtaposed with the "announced" new and expanded data. This year-by-year adjustment to the announced data would provide an additional barometer in itself—indicating which job sectors actually produce the highest percentage of jobs and investment announced, for example. With this *actual* data readily available to the public and analysts of the state's economy, the announcement data would no longer be misleading.

Recommendation: The best way to end the potential for its data to be misleading is for the N.C. Department of Commerce to begin publishing a new report on *actual* new and expanded industry.

FOOTNOTES

[1]Yevonne S. Brannon *et al.*, "Review of the Department of Commerce's Industrial Development Announcement Series," prepared for the Office of Policy and Planning, N.C. Department of Administration, August 1985, pp. 46 and 47.

[2]Beth Barnes *et al.*, "Economic Development in North Carolina," prepared for Thad Beyle, Dec. 12, 1985, p. 1.

[3]Brannon, p. 46.

[4]Brannon, p. 46.

[5]Brannon, p. 48.

[6]Brannon, p. 47.

[7]In a section called "Suggestions for Improvement" (pp. 47-50), the NCSU study discusses the need for measuring actual jobs and investment and some of the methods for collecting actual data, so that "discovered or confirmed added employment could be reported separately from intended added employment" (p. 49). The study, however, stops short of *recommending* that the Department of Commerce publish a new report.