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Comparing the Regional Economic Impact of Two Labor Force Losses

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Abstract

The success and growth of local businesses is clearly a pivotal element of the Bloomington-Normal community. This study, then, will examine the impact of a current shock to the local economy focused on McLean County's largest employer: State Farm Insurance. In October 2013, State Farm announced plans to relocate an unspecified fraction of the 1,600 positions it maintains in its Illinois Claims Operations Center to a new hub in either Dallas, Atlanta, or Phoenix (Hansen, 2013). It has since been confirmed that the workers will relocate to Atlanta, Georgia. Economists and community leaders as well as State Farm employees have expressed concern about the economic implications of the relocation organized by the biggest employer of McLean County. In this economic letter, Impact Analysis for Planning (IMPLAN) software will be used to project the direct, indirect, and induced effects of this loss of employment. To provide context, these effects will be compared to estimations based on a cut of similar magnitude suffered by the Mitsubishi plant in 2004. Mitsubishi serves as the point of comparison as a major employer in the community –the third largest at the time of the cut.

Keywords

local economy, Bloomington-Normal, employee relocation, IMPLAN

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I. Introduction

The economic development of the Bloomington-Normal local economy has been a crucial element of local politics throughout the Great Recession and the subsequent recovery. Although consumers, firms, and local government are all important components of a local economy, the focal point of economic development in Bloomington-Normal is often regarded in terms of the success of local businesses. The mission statement of the Bloomington-Normal Economic Development Council (EDC) itself is a testament to this idea, focusing on “assisting with local business expansion, recruiting new businesses and companies to the area, and encouraging the next wave of entrepreneurs to establish their business here” as its three primary objectives (bnbiz.org).

The success and growth of local businesses is clearly a pivotal element of the Bloomington-Normal community. This study, then, will examine the impact of a current shock to the local economy focused on McLean County’s largest employer: State Farm Insurance. In October 2013, State Farm announced plans to relocate an unspecified fraction of the 1,600 positions it maintains in its Illinois Claims Operations Center to a new hub in either Dallas, Atlanta, or Phoenix (Hansen, 2013). It has since been confirmed that the workers will relocate to Atlanta, Georgia. Economists and community leaders as well as State Farm employees have expressed concern about the economic implications of the relocation organized by the biggest employer of McLean County. In this economic letter, Impact Analysis for Planning (IMPLAN) software will be used to project the direct, indirect, and induced effects of this loss of employment. To provide context, these effects will be compared to estimations based on a cut of

similar magnitude suffered by the Mitsubishi plant in 2004. Mitsubishi serves as the point of comparison as a major employer in the community –the third largest at the time of the cut.

IMPLAN is a software based on input-output analysis incorporating regionally specific data which makes it ideal for the examination of shocks to local economies. Multipliers are used to capture secondary effects of economic shocks. In the specific case of the relocation of a State Farm unit, IMPLAN examines patterns of interactions between industries to provide an estimation of the indirect effect of the exit of a number of employees from the labor market in addition to the direct effect, including the loss of income tax paid to local governments. An example of an indirect effect captured by IMPLAN in this way is the estimated loss of economic activity in local restaurants and bars due to the loss of business and patrons from the insurance industry. Additionally, IMPLAN uses a Social Accounting system to capture a more holistic picture of an economy in the value of the multiplier. This means that transfer payments (between industries and from government directly to consumers) are taken into account as well as observable transactions.

II. State Farm Labor Force

In general terms, the relocation of up to 1,600 positions from State Farm’s Illinois Claims Operations Center in Bloomington has direct, indirect, and induced effects on the community’s employment, labor income, and output. These effects are summarized in column 1 of Table 1 below. The direct effect is the impact on the specific sector affected by the change without accounting for any secondary impact or involving industries which interact with the insurance

industry. The calculation of this type of effect on employment is intuitive: 1,600 jobs are lost from the local insurance sector. The indirect effect consists of the loss to industries which are affected by the decrease in local operations of State Farm Insurance: 305.4 jobs are estimated to be lost in related industries as a result of State Farm's relocation. The five industries which make up the highest proportion of loss in employment are tabulated in column one of Table 2.

Community losses in labor income and output are calculated based on the estimated loss of employment in each sector. For example, the estimation of the loss of 89.3 positions in employment services corresponds to the loss of \$2.9 million that these individuals would have earned, a portion of which would continue to circulate in the local economy. This same level of reduction in the employment services sector is also projected, according to IMPLAN, to result in a loss of a value of \$4.6 million in output. The total estimated value of labor income and output lost as a direct effect, indirect effect, and induced effect are all reported in Table 1 above.

III. Mitsubishi Labor Force

The case of the elimination of a production shift which had been staffed with 1,200 positions from the Mitsubishi plant allows for the comparison between the broader service and manufacturing industries in Bloomington-Normal (Miller, 2007). As can be observed in column 2 of Table 1, the estimated impact of the Mitsubishi cut was greater in all three observed categories (direct, indirect, induced) than a larger cut (400 more positions) from State Farm Insurance. Because the impacts of this shock are being analyzed with a lag of approximately a decade, the numbers discussed will instead reflect a hypothetical cut of a magnitude of 1,200 positions were it to occur in present day. Because multipliers such as those used by IMPLAN technology are slow to change, there is no evidence to suggest that the estimations provided are not an appropriate representation of the true impact experienced in the Bloomington-Normal community in and after 2004.

The combined estimated indirect and induced effects of the 2004 cut amounted to more than the original direct effect, demonstrating that the rela-

tive impact on local employment of reductions in the manufacturing sector is much greater than cuts in the insurance industry. The primary sectors which suffer losses captured as the indirect effect of the cut are wholesale trade businesses (214.8 positions lost) and management of companies and enterprises (185.7 positions lost). Food services and drinking places are again among the most affected by the loss of disposable income, bearing 101.3 lost positions. Medical practitioners are estimated to lose the second largest number of jobs as an induced effect of the Mitsubishi cut (40.6 positions lost). Overall, the impact on local employment of this auto industry cut is more than twice the direct effect alone, which is the only obvious component when researchers do not use a multiplier to capture secondary effects of economic shocks.

IV. Conclusions

Both shocks to the local labor force examined in this study are important as they are large in size. Although the direct loss to local labor from the hypothesized State Farm relocation is 33% larger than the direct loss to local labor from the Mitsubishi shift elimination the total impact to the regional labor force is 4% smaller. This is so because the indirect and induced effects of a labor loss to the financial services industry are much smaller than the indirect and induced effects of a labor loss to manufacturing. Although the economic impact figures are informed estimates computed through an established methodology, their values cannot be considered ultimately precise. Nevertheless, the labor losses to the local community are not hypothetical, and their impact has and will continue to be felt for years to come. This impact will be experienced across different sectors; labor reductions in the auto manufacturing industry result in a greater impact on wholesale trade businesses and company management, whereas reductions in the insurance sector result in losses to employment services and food service. Therefore, the regional impact of both shocks will be felt differently in the local community, affecting different demographics based on the sectors directly and indirectly related to these engines of the Bloomington-Normal economy.

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Impact Type	Employment		Labor Income (millions)		Output (millions)	
	State Farm	Mitsubishi	State Farm	Mitsubishi	State Farm	Mitsubishi
Direct Effect	-1,600.00	-1,200.00	-\$117	-\$130	-\$238	-\$1,736
Indirect Effect	-305.4	-655.5	-\$15	-\$49	-\$43	-\$139
Induced Effect	-451	-610.3	-\$17	-\$23	-\$56	-\$75
Total Effect	-2,356.40	-2,465.8	-\$149	-\$202	-\$337	-\$1,950

Table 1: Comparison of Projected Impacts on Labor Force and Labor Income

State Farm Insurance Scenario		Mitsubishi Scenario	
Employment Services	(89.2)	Wholesale Trade Businesses	(214.8)
Food Services and Drinking Places	(82.1)	Company/Enterprise Management	(185.7)
Real Estate Establishments	(39.7)	Food Services and Drinking Places	(101.3)
Services to Buildings and Dwellings	(30.3)	Transport by Truck	(50.0)
Health Practitioners' Offices	(30.0)	Health Practitioners' Offices	(40.6)

Table 2: Comparison of Projected Indirect and Induced Labor Losses