

Opinion: With Business Fleeing, California Doesn't Look So Golden

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What California export is most appreciated by the rest of the states? Its world-class wines? Silicon Valley's transformative technology? The Central Valley's prized almonds and pistachios? How about companies, and the jobs that leave with them?

We're not talking about California institutions such as Trader Joe's and In-N-Out expanding into other states. This is about companies quitting California because the cost of doing business has become too dear. They're fleeing as never before, relocating where they're appreciated rather than wrung dry by government.

"The hostility that California legislators — and their colleagues in regulatory agencies — show toward business enterprises is hardly imaginary," relocation specialist Joseph Vranich writes in a just-released study.

The exhaustive report — 623 pages, and nearly 3,500 endnotes — is appropriately entitled "It's Time for Companies to Leave California's Toxic Business Climate." Findings are based on public records showing there were 2,183 "California disinvestment events" from 2008 to 2016. But it's really worse than that. Because "experts in site selection generally agree that at least five events fail to become public knowledge for every one that does," it's more likely about 13,000 have fled.

Rather than slowing or at least leveling out, the pace has picked up. The most recent data show there were 1,500 disinvestment events in 2016, the greatest number on record, and the fourth straight year the total increased.

This Great California Escape has not happened in secret. Vranich, who not long ago moved his own company, Spectrum Location Solutions, from Irvine to more business-friendly Pennsylvania, said that for roughly "40 years California has been viewed as a state in which it is difficult to do business."

California is blessed with an overly generous share of built-in advantages. Its weather is the envy of many. So is its natural beauty. It has an educated work force, iconic universities, and ranks high in health-care quality. It's overflowing with natural resources and has prime access to Asian markets thanks to geography. California is one of the most fertile gardens on Earth, is a tourist destination for the entire world, and uniquely hosts a pair of economic titans in Hollywood and Silicon Valley.

Yet businesses are walking, and sometimes running, away. Why? Let's consider some of the reasons California has earned Chief Executive Magazine's label as the worst state in the country in which to do business for 14 straight years.

Excessive taxation: California is now 49th in the Tax Foundation's 2019 State Business Tax Climate Index after being ranked 48th over the previous five years. In a survey of nearly 200

executives asked what policymakers could do to draw more companies to California, nearly six in 10 said Sacramento needs to make sweeping changes to the income tax system. One of the executives cited the state's "repressive tax system" as a reason to stay away.

Stifling regulation: "California's regulatory environment is the most costly, complex and uncertain in the nation," according to Vranich, and it's gotten worse — California has the worst regulatory environment in the country.

Economic shackles: California has ranked 48th in the Cato Institute's Freedom in the 50 States report every year since 2011. The Fraser Institute ranks California 47th in economic freedom. That's a slight improvement over its next-to-last ranking for the four previous years.

Unaffordable housing: Nearly nine out of 10 (88 percent) business leaders surveyed said the high cost of housing, as well as the steep costs of commercial and industrial real estate, keeps them out of California.

Legal jeopardy: The worst "judicial hellhole" in the country? California, according to the American Tort Reform Foundation, regained its top ranking on that list this year. It matters. The previous year's report said "an all-time high" of 85 percent of survey participants "said that a state's lawsuit environment is likely to impact their company's decisions about where to locate or expand."

Overall quality of life: McKinsey & Company has placed California dead last in this category. Residents are underscoring the ranking by leaving in waves. Meanwhile, many who remain wish to leave. Executives are not eager to expand or relocate in what is perceived to be a withering state.

After years of watching businesses abandon California, Vranich is, for the first time, actively recommending companies leave the state. He's also telling "companies thinking of moving to California" to "consider doing a U-turn" and reboot in "business-friendly states." Policymakers have to get a handle on this slow-motion disaster before it begins rolling downhill so fast it can't be stopped.