

California Begs Texas for Job-Creating Recipe with Growth Trading Places

By Christopher Palmeri and Dakin Campbell - Apr 14, 2011



California Lieutenant Governor Gavin Newsom
Photographer: Ken James/Bloomberg



Texas Governor Rick Perry
Photographer: Chip Somodevilla/Getty Images

When California Lieutenant Governor Gavin Newsom begins meetings in Austin with Hardee's hamburgers chief Andrew Puzder, local Chamber of Commerce Chairman Bobby Jenkins and Texas Governor Rick Perry, it's because the most-populous state lingers in a funk, even as the U.S. pulls out of the deepest recession in half a century.

The world's eighth-largest economy has lagged in job growth since California-based lenders such as Countrywide Financial Corp. led America into the housing bust. Unemployment in the state is 12.2 percent, more than a third higher than the national average. While signature industries such as technology, trade and tourism have rebounded, construction and government employment are weak or falling.

Newsom is one of two California Democrats in the talks starting today on how the Lone Star State created 165,000 jobs over the past three years, while California, with the country's largest workforce, lost 1.15 million, according to the trip's organizer, Assemblyman Dan Logue, a Republican from Linda.

While Governor Jerry Brown replied "Hell, no," when asked whether Texas is a better state for business April 6, he's supporting the mission.

"Let's get more jobs, more businesses," Brown, a 73-year-old Democrat, said April 8. "Some of our state legislators are going to Texas to find out how they're doing. Gavin Newsom's going with them. I'm waiting for his report, when he gets back, and if he has any good ideas, I'm going to share them with you."

Holding Back Recovery

California is holding back the national recovery, said Esmael Adibi, director of the Anderson Center for Economic Research at Chapman University in Orange, near Los Angeles. He estimates the state may create as few as 130,000 jobs this year, well below the 200,000 that its population would dictate as its share of national employment growth.

The Golden State's unemployment rate "is more intractable than folks want to acknowledge," said Austin Beutner, a former investment banker who heads economic development for Los Angeles, the nation's second most-populous city. "I think we've got a longer way to go than we might have thought two years ago."

Comerica Bank's California Economic Activity Index, which tracks nine factors such as employment and consumer spending, fell in February, the company reported today. The index has been little changed since July after rising 14 percent from its low in March 2009. Comerica's Texas index is at the highest level in two years, and up 5 percent from the average for all of 2010, according to a report April 13.

Public Job Cuts

California's budget deficit raises the prospect of further reductions among public workers. Brown, struggling to close a \$15.4 billion spending gap for the fiscal year starting July 1, broke off negotiations with Republican lawmakers last month and is on a statewide tour to win voter support for \$11.3 billion in proposed tax extensions.

Without that revenue, the state may have to "cut, slash and burn" education, health-care, police and fire services, Brown said April 8 at an elementary school in Riverside, California. Reducing public-school spending in the same proportion as other state departments would mean firing 99,000 teachers or eliminating two months of the school year, according to the independent Legislative Analyst's Office.

School Funding

School funding has changed since Californians passed Proposition 13 in 1978, limiting increases in property-tax assessments, Brown said. California eighth-grade students scored below national averages in math and reading in a 2009 test administered by the federally funded National Assessment of Educational Progress. Texas students scored above average in math and at the mean in reading.

The state lost 1,200 government jobs in February, the only one of 11 categories to show a month-over-month decline, according to the California Employment Development Department.

Puzder, whose Carpinteria, California-based CKE Restaurants Inc. is the parent of the Carl's Jr. and Hardee's fast-food chains, said in a telephone interview that he will tell legislators that Texas is quicker to permit new business and has fewer employment restrictions than California.

Puzder, 60, said he can get a new restaurant approved in six weeks in Texas, compared with up to two years in his home state. Employee scheduling is restricted by California laws that prevent managers from spending more than half their time on non-managerial tasks, he said.

Grants, Incentives

Carl Guardino, chief executive officer of the San Jose- based Silicon Valley Leadership Group, a trade association, who's also attending the Texas meetings, will bring along a list of California companies such as Santa Clara-based Intel Corp. (INTC) and San Jose-based SunPower Corp. (SPWR), a solar-products manufacturer, that were encouraged to expand in Texas and other states by grants and other incentives.

Guardino said he'll recommend that California create a jobs strategy run by a "high-ranking leader" in Brown's administration.

"Incentives are one tool in that toolkit, but a comprehensive approach is much broader than any one element," Guardino said in an e-mail.

The Texas trip will include a private meeting today with California officials including Newsom, the 43-year-old former mayor of San Francisco, and Perry, a 61-year-old Republican, according to a press release from the California Assembly Republican Caucus.

'Myth and Reality'

"There's a myth and a reality about Texas and how effective their economic strategy is," Newsom's spokesman, Francisco Castillo, said in a telephone interview before the visit. "The lieutenant governor was invited to participate in an objective, fact-finding mission and he's going to ask tough questions."

Twenty of California's 58 counties have unemployment rates of more than 15 percent, Newsom said at a press conference in Austin today.

"In some respects, we waited for people to come knocking on our doors, and you've been knocking on a lot of doors," Newsom said. "We rested on our laurels."

Perry, who said March 7 that Republican control of every Texas elective office statewide showed voters "don't want to see Texas be like California," was conciliatory today.

"I don't think Jerry Brown wants California to fail on his watch," Perry said at the meeting. "We need a strong California in this country."

California legislators will convene in the Texas Capitol tomorrow to hear why businesses left their state. In addition to Logue, the California delegation will include 10 Assembly members, all but one a Republican.

Tax Structures

The legislators will compare Texas and California tax structures. Texas collects no corporate income tax or corporate capital-gains tax, while businesses in California must pay up to 8.8 percent in each, according to the caucus. Property taxes in Texas represented 1.8 percent of home values in 2009, versus 0.74 percent in California and a national average of 1 percent, according to the Washington-based Tax Foundation.

In Texas, where the unemployment rate was 8.2 percent in February, legislators are wrestling with ways to fill a two-year general-fund deficit projected to be at least \$15 billion. The state plans to use \$3.2

billion from its main reserve fund in the fiscal year that ends Aug. 31, something Perry originally opposed.

Population Growth

California's economy isn't being helped by the slowest population growth ever recorded for the state. The number of residents climbed 10 percent between 2000 and 2010, to 37.3 million, according to the U.S. Census Bureau. Inland counties that captured much of that growth have unemployment higher than the state average, according to the California Economic Development Department.

"It's a tale of two economies," said Stephen Levy, director of the Center for Continuing Study of the California Economy, based in Palo Alto. Counties with higher unemployment are "constrained by the lack of housing recovery and the beginnings of government layoffs," he said.

The birthplace of subprime mortgages and million-dollar tear-downs is also mired in the deepest real-estate slump since the mid-1990s. An estimated 27,230 homes were sold in the state in February, a 2.8 percent decline from the prior year and the fewest since February 2008, according to San Diego-based DataQuick Information Systems.

California's median home-sale price of \$244,000 has fallen on a year-over-year basis for the past five months. It peaked in early 2007 at \$484,000, the company said.

Less Than Mortgages

Almost one-third of all homes in the state were worth less than their mortgages in last year's fourth quarter, according to Santa Ana, California-based CoreLogic Inc. (CLGX) That compares with 23 percent for the nation as a whole.

"You've got a significant number of homeowners and sellers who are under water and they are trying to avoid going into foreclosure and the process is very difficult," Leslie Appleton-Young, chief economist for the California Association of Realtors, said in a telephone interview.

California's housing weakness and budget battle obscure signs of recovery. The state created 96,500 jobs in February, according California's development department.

One year after plunging consumer confidence pushed stocks to a 12-year low, Silicon Valley companies added 12,300 positions last year, bringing the total back to 2004 levels, according to a study by Joint Venture: Silicon Valley Network and Silicon Valley Community Foundation.

Technology Hiring

Technology companies, including social-networking startups, are hiring. Mountain View, California-based Google Inc. (GOOG), the largest search-engine operator, is adding 6,000 jobs worldwide this year, and Palo Alto-based Facebook Inc., the largest social networking company, plans to boost its workforce by 50 percent. Apple Inc. (AAPL), the world's largest technology business by market value, increased its global headcount 36 percent to 46,600 as of September.

“There’s great entrepreneurial spirit here,” said Howard Marks, chairman and co-founder of Los Angeles-based Oaktree Capital Management LP. “There are a lot of people willing to work. We just have a big government fiscal problem.”

Investors from China and Taiwan are betting on the state, according to Dominic Ng, 52, chairman and chief executive officer of East West Bancorp Inc. (EWBC), based in Pasadena.

China-based Shenzhen New World Group Co. paid \$63 million in March 2010 for a bankrupt 469-room Marriott hotel in downtown Los Angeles, with plans for as much as \$13 million in renovations. BYD Co., the Warren Buffett-backed Chinese maker of cars, batteries and solar panels, decided last year to open its U.S. headquarters in Los Angeles.

Chinese Investment

“We need to make a concerted effort in promoting that the U.S. wants Chinese investment,” said Ng, in an interview in the Los Angeles office of Bloomberg News. “If the government doesn’t look at this incredible job machine, they aren’t paying attention.”

At Gardena-based mattress retailer Sit ‘n Sleep, CEO Larry Miller is expanding his 26-store chain and hiring again after crimping spending in mid-2008. He said the market isn’t yet growing, and he’s concerned about the impact of rising gasoline prices. “The consumer doesn’t have the dollar,” Miller said. “The person who was buying the \$599 bed isn’t buying at all.”

Miller, 61, has used the recession to move into areas such as Santa Monica and Costa Mesa that were too expensive in 2006 and 2007.

“We’re taking market share,” Miller said. “It’s up to us to take a bigger slice out of a smaller pie.”

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