California’s Corporate Exodus

A new report documents the accelerating business flight from the state.

The Port of Oakland in front of the San Francisco skyline.
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California Gov. Gavin Newsom boasted this week that his state is poised to become the world’s fourth largest economy. Perhaps, thanks to Germany’s economic struggles, but a new Hoover Institution report documents an accelerating business flight from the Golden State.

The report by Hoover senior fellow Lee Ohanian and Spectrum Location Solutions President Joseph Vranich finds that 352 companies moved their headquarters from California between 2018 and 2021. Twice as many businesses left last year (153) than in 2020 and 2019 and three times as many as in 2018. The top destinations: Texas (132), Tennessee (31), Nevada (25), Florida (24) and Arizona (21).

What do they have in common? Low taxes and a lower cost-of-living. The report cites a litany of #Californiaproblems, including burdensome overtime work rules, litigation risk, high costs for labor and workers’ compensation insurance, oppressive taxes, surging electricity rates, a
permitting morass, diminishing quality of life, lousy public schools, and exorbitant housing costs that make it difficult to retain employees.

California’s high top marginal income-tax rate (13.3%) punishes small pass-through businesses that pay income taxes at the individual rate as well as managers in C-suites. Manufacturers get slammed by high electricity costs from the state’s climate policies. The Mercatus Center ranks California as the most highly regulated state in the U.S.

The high cost of business is driving away even politically favored companies such as electric-vehicle startup Envirotech Vehicles (Arkansas) and lithium recycling firm Aqua Metals (Nevada). Some of the nation’s most successful companies were cultivated in California, but the next Apple or Tesla is more likely to be born or come of age elsewhere.

Human capital is also becoming more scarce. The report notes that California’s net out-migration to other states increased to 277,000 in 2021 from 34,000 in 2012. Over the last 10 years, California has lost 1.625 million residents to other states—more than the population of Philadelphia. Foreign migration has compensated, but less so in recent years.

Progressives in California seem intent on testing how much pain business leaders will endure in return for sunshine 300 days a year. But clouds are gathering. A recent state report estimated that California’s real GDP contracted 0.5% in this year’s second quarter after a 9.5% decline in the first. Tax revenues are running $5 billion below forecast.

No wonder Mr. Newsom seems to be setting the ground to run for President in 2024. Like many CEOs, maybe he wants to get out of the state before things get worse.