



Patterns and Trends in the Location Decisions of California Businesses

Much recent debate about the state's employment trends has focused on the narrow issue of whether California businesses are moving to other states, and taking jobs with them. But looking at the broader patterns of employment dynamics—the ways in which jobs and businesses move into, around, and out of the state—provides a more accurate understanding of the California economy.

For example, California loses some of its jobs each year through interstate business migration. Does this have any significant effect on particular regions or industries? Do job migration patterns indicate economic problems in particular regions or industries or—as some critics argue—an unfriendly business climate in the state?

In *Business Location Decisions and Employment Dynamics in California*, PPIC researchers Jed Kolko and David Neumark examine these issues in depth, using a comprehensive database of virtually every business that employed California workers at any point from 1992 to 2004.

The authors find that the small number of California jobs moving to other states due to business relocation is relatively inconsequential—about 11,000 jobs per year out of more than 18 million (.06 percent). Business births, deaths, contractions, and expansions have a much greater effect on employment.

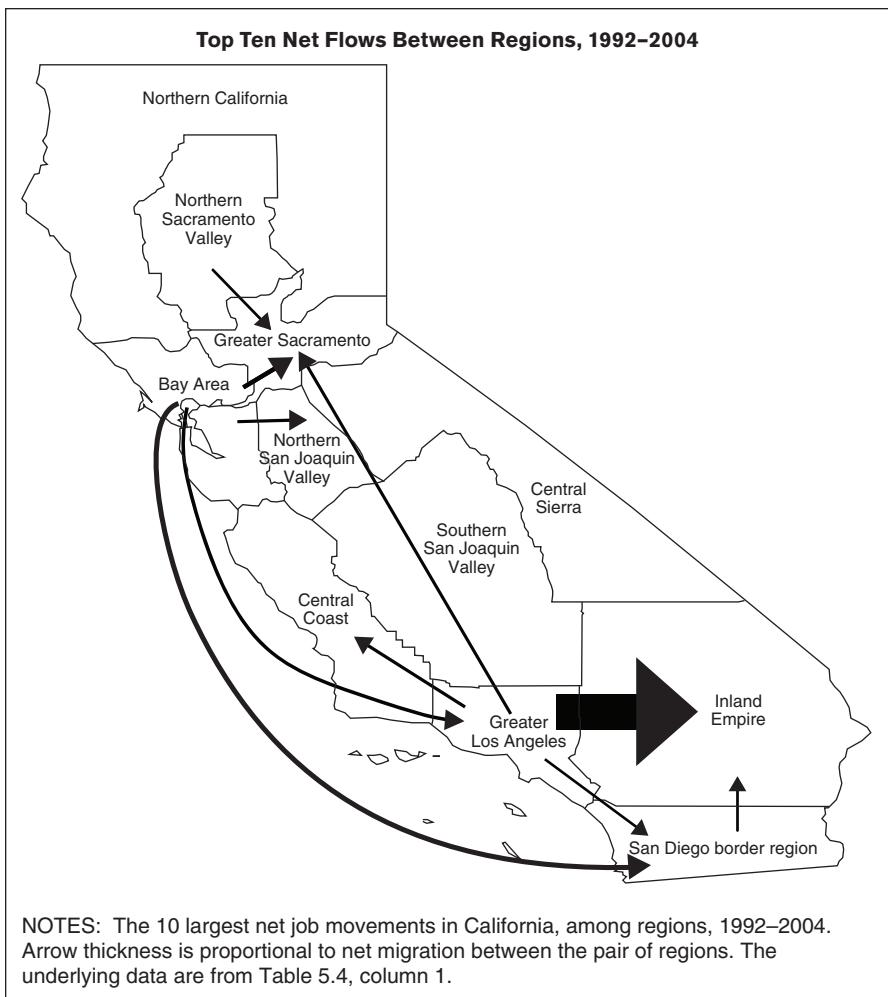
The authors also examine trends among business establishments with headquarters inside California and those with headquarters outside the state. They find some decline in the share of employment in the state among firms with headquarters in California. These declines are offset by an increase in the share of employment in the state among firms headquartered outside the state. These findings suggest that such changes are more attributable to an increasing geographic dispersion of multiestablishment firms than to an inhospitable business climate in California.

Job Migration at the Regional and County Level

Establishment relocations within the state are much more common than relocations into and out of the state. Among intrastate relocations, short-distance moves are more common than long-distance moves. The authors find that nearly all of the significant job migration within the state occurs between adjacent counties—outward from central cities or inland from the coast. This short-distance pattern suggests that businesses are not moving primarily in search of differently skilled or cheaper labor or a more friendly business climate. Rather, it is more consistent with businesses looking to be closer to more productive business clusters, a more affordable real estate market, or workers or customers who have themselves moved toward less expensive real estate.

The largest employment shifts were toward inland and less urbanized regions. The Inland Empire (Riverside and San Bernardino Counties) was the largest beneficiary of intrastate moves, gaining more than 54,000 net jobs from elsewhere in the state between 1992 and 2004. The Greater Sacramento region came in second, gaining 15,000 net jobs over the period. The largest loser of jobs to other parts of the state was the Greater Los Angeles region (Los Angeles, Orange, and Ventura Counties) with a net loss of more than 50,000 jobs, followed by the Bay Area region with a net loss of 17,000 jobs.

At the county level, there appears to be evidence of a connection between business migration and more general economic conditions. Employment change due to migration at the county level is highly correlated with employment change due to establishment expansions, contractions, births, and deaths. However, this connection does not mean that local economic development policy should be geared toward luring establishments from elsewhere and prevent-



ing local establishments from leaving. Rather, it implies only that migration patterns at the county level are a useful metric that may indicate that other factors—including local policy—are making a particular county more or less amenable to job growth.

Job Migration Patterns by Industry

In their analysis of industry dynamics, the authors find that job loss from interstate relocation is small across virtually all industries, even though some industries (for exam-

ple, information, manufacturing, and finance and insurance) tend to be more mobile. Nor is job loss from relocation in particular industries generally indicative of larger problems in those industries.

Manufacturing has been the focus of much debate about the out-migration of California jobs. The industry has experienced some job loss from relocation during the study period, about 24,000 jobs. However, this number is dwarfed by the loss of 565,000 jobs in the manufacturing sector from net business failures over the same period. Many manufacturing jobs disappeared not because a large number of California plants moved to other states, but because many California plants simply shut down.

The evidence shows that interstate relocation does cost California more jobs in higher-paying than in lower-paying industries. The high-paying industries lost jobs from net migration at an annualized rate of .12 percent—small, but more than twice the rate of low-paying and medium-paying industries. The three industries losing the most jobs to interstate relocation—finance and insurance, manufacturing, and professional and technical services—all pay well above the state average salary. Thus, relocation had a larger negative effect on aggregate earnings in California than on the number of jobs, although the effect is still small.

Overall, the authors find little cause for concern about California's business climate, based on state employment trends and business location decisions. Although some industries and some regions in the state are not growing as fast as others, California's job growth has kept pace with the nation.

Business Location
Decisions and
Employment
Dynamics
in California
Jed Kolko
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This research brief summarizes a report by Jed Kolko and David Neumark, *Business Location Decisions and Employment Dynamics in California* (2007, 164 pp. \$15.00, ISBN 978-1-58213-112-2). The report may be ordered online at www.ppic.org or by phone at (800) 232-5343 or (415) 291-4400 (outside mainland U.S.). A copy of the full text is also available at www.ppic.org. The Public Policy Institute of California is dedicated to informing and improving public policy in California through independent, objective, nonpartisan research on major economic, social, and political issues. This study was supported in part with funding from David Coulter.