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State officials on defensive about business climate

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The decisions by Campbell Soup Co. and Comcast Corp. to eliminate hundreds of California jobs rekindled the debate about the state's business climate – and forced Gov. Jerry Brown and others to leap to the state's defense.

The announcements put state officials in familiar yet uncomfortable territory, having to explain why an employer was closing shop in California.

Never mind that both companies said the business climate didn't drive their decisions. Even though California's job growth surpasses the U.S. average, the state remains susceptible to the charge that it's an inhospitable land of high taxes and red tape.

Friday brought more fuel to the fire. Vision Service Plan, the eye-care insurer based in Rancho Cordova, said it's putting 150 new jobs on hold until a dispute with state regulators gets resolved. VSP, which employs 2,100 people in Sacramento, had already hinted it might leave the state because of the dispute. State officials said last week they are working to placate VSP.

Still, it was Campbell's announcement Thursday that struck a particularly deep nerve.

The shutdown of the plant on Franklin Boulevard in south Sacramento will eliminate 700 blue-collar jobs and mark the end of an old-line manufacturer – the type of employer that struggles in California, even when other industries are growing. Some 7,000 factory jobs have disappeared statewide in the past year.

"California is a difficult place for manufacturers," said Jeff Michael, an economist at the University of the Pacific. "A closure like (Campbell), these are events that spark conversation. It naturally and legitimately raises issues about what's going on here."

Brown's economic development adviser, Mike Rossi, issued statements saying Campbell's and Comcast's decisions weren't about the business climate. Campbell, for example, was fleeing "an antiquated facility."

Nonetheless, business leaders say it's a fact of life that California – with relatively high wages, taxes and housing prices – is expensive.

"We are not low-cost, haven't been for decades," said Barbara Hayes, who recruits companies as head of the Sacramento Area Commerce and Trade Organization. "It's a tough place to sell when it's strictly a cost-based decision a company is making."

Yet Hayes said plenty of companies still find California and Sacramento attractive, drawn by an educated workforce and other amenities that they believe are worth the price of admission. She said SACTO is on the verge of announcing that a major company will locate a satellite branch in the region.

"It's a back-office type of operation ... hundreds of jobs," she said.

No matter how many new jobs arrive, California's reputation among CEOs remains a hot topic. The state routinely places at or near the bottom in surveys about business costs, taxes and regulatory climate.

That's true even as California's economic recovery chugs along. Job growth in California is running at 2.1 percent a year, better than the U.S. average and second only to Texas among the major states. Sacramento job growth has finally perked up in the past few months.

But the statewide unemployment rate of 10.6 percent, bloated by the effects of the housing market crash, is still third highest in the nation. Much of California's recovery has been limited to the tech-rich Bay Area.

And there are signs the recovery is wobbling: Job growth slowed in August, and on Friday an index published by Bloomberg news said California was one of 36 states whose "economic health" declined in the second quarter.

In that environment, it wasn't surprising that Comcast and Campbell made big headlines.

Comcast initially blamed the business climate for its decision to close its California call centers, including a 300-job site in Natomas. The company retracted the statement, but the debate was on.

Campbell's announcement triggered suggestions in some quarters that the company is trying to avoid the effects of AB 32, the state's controversial law to limit greenhouse gas emissions.

Starting in November, heavy industries like the Campbell Sacramento plant will be subject to strict ceilings on emissions through a market-based program known as cap and trade. Business leaders say the program will cost businesses at least $1 billion a year.

Campbell spokesman Anthony Sanzio said AB 32 didn't influence the company's decision to shut the Sacramento plant. He noted that the company recently spent $1.5 billion on a Bakersfield food-processing plant that also will be affected by AB 32.

Nonetheless, critics said the greenhouse-gas initiative won't help the state's business climate.

"I think AB 32 is one of the things that a lot of food processing plants have to think about," said Daniel Sumner, an agricultural economist at UC Davis.

Sumner said he isn't convinced that AB 32 will be a major drawback. But he said it fuels the perception that California is costly.

Others share that view. John Boyd, a corporate relocation consultant in New Jersey, said plenty of business executives think California is hostile to business. The governor's campaign for higher taxes, facing a vote in the November election, isn't helping.

Talk of higher taxes creates "uncertainty, and business hates uncertainty," he said. "That's really the attitude that our California clients have."

Yet Palo Alto economic consultant Stephen Levy said high costs aren't a universal issue for businesses. High-tech companies don't mind paying up for California's brainpower or access to venture capital, he said.

"We have plenty of attractions here, but not for every industry and maybe not for old soup factories," said Levy, head of the Center for Continuing Study of the California Economy.

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