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California's Businesses Stop Hiring

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Between January 2022 and June 2024, employment in US private businesses increased by about 7.32 million jobs. Of these 7.32 million jobs, about 5,400 were jobs created in California businesses—representing about .07 percent of the US figure. Put differently, if California private-sector jobs grew at the same rate as in the rest of the country, they would have increased by over 970,000 during that period, about 180 times greater than the actual increase.

[Data is from the US Bureau of Labor Statistics. For total jobs, see the data tool. The calculation for California private-sector jobs is derived from total jobs minus California government jobs.]

It is well known that California has been among the worst-performing states in the country in terms of job growth. But the latest statistics show that nearly all jobs that are being created in California are government jobs. Between January 2022 and June 2024, total California jobs grew by about 156,000, with government jobs accounting for 96.5 percent of that growth.

California's job creation record has been even more dismal over the last 18 months. Since January 2023, private-sector employment in the state declined by over 46,000 workers. California's private-sector job collapse is unprecedented, and with the state representing nearly 12 percent of the country's population, it is a drag on the nation's economy.

Part of California's job weakness reflects the number of people and businesses leaving the state. California's population declined by about 75,000 between 2022 and 2023 (the latest data available), and a number of business headquarters have departed.

Economic factors are the primary reasons behind these departures. Households are moving because of the cost of living and deficient public services. The median single-family home price is over $900,000, and the median price of a condominium or townhouse is nearly $700,000. Electricity prices are the fifth highest in the country. Gasoline prices are the second highest in the country, reflecting in part the nation's highest gasoline taxes. With the country's highest gas taxes, California roads should be among the best, but they are among the worst. California public schools are grossly underperforming, with only 25–30 percent of students proficient in math, language arts, or science.

Businesses are also leaving because of the state's economic climate. The Tax Foundation, a nonpartisan research center that focuses on tax policies, ranks California as having the fifth worst tax climate, eclipsed only by New York, Vermont, Connecticut, and Hawaii. *Chief Executive* magazine's annual survey of the best states to do business in invariably ranks California as the least business-friendly state in the country. And California is ranked second worst among states in regulatory burdens.

Businesses are leaving because it is no longer economically feasible for them to stay within California. Well-known departures in recent years include the headquarters of

Tesla, Oracle, Hewlett Packard Enterprises, Charles Schwab, and Chevron, which last week announced it is relocating to Texas. But it is not just well-established large headquarters that are leaving. Small but rapidly growing businesses that may become the economic powerhouses of tomorrow are also leaving. These include Envirotech Vehicles, which creates zero-emissions trucks, heavy equipment, and buses, and which left California for Arkansas; AquaMetals, which has developed a new, unique way of recycling strategic and rare metals, including lithium, used in smartphone batteries, and which left California for Nevada; and Maxar Technologies, a rapidly growing business specializing in radar and satellite technologies, providing 90 percent of the geospatial intelligence used by the US government for protecting our troops and other national security purposes, and which left California for Colorado.

California's weak labor market is not just a consequence of people and businesses leaving the state. Businesses that remain in California are hiring much less, and California now has the country's second highest unemployment rate. The state's Employment and Development department expects to pay out $6.8 billion in unemployment benefits this year, financed by only $4.8 billion in payments into the insurance fund. California had borrowed $20 billion already from the federal government in 2020 to cover its unemployment insurance benefits shortfall, which led to an increase in the state's unemployment insurance taxes on businesses. Combined with this year's expected $2 billion debt, California's unemployment insurance deficit will rise to about $22 billion by 2025.

These poor job growth statistics stand in sharp contrast to recent statements made by California governor Gavin Newsom, who remarked recently that "California continues to lead the nation's economy and create good jobs throughout the state. Just this year, the state created over 107,000 jobs—more than doubling what we accomplished in the same time period last year." But Newsom omitted the fact that the state's recent job growth has been driven by government hiring, and a state's economy obviously cannot survive just by creating public-sector jobs.

While California has many natural advantages, its state and local economic policies have created a business climate that is no longer competitive with that of many other states. Policies have driven business and housing costs so high that companies and people are leaving the state for more affordable, less regulated, and less taxed locations. This process will continue until the state's political leaders make very different policy choices that create a different future for California—one that is more like the California of yesteryear, when the state was growing rapidly and had a government that facilitated the interests of businesses and households versus the California of today, a shrinking state with a government that fails to meet the interests of its businesses and residents.