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Is California Climate Getting Too Chilly for Business?

By Marla Dickerson, Times Staff Writer

Chuck Buck has used his company's knives to filet salmon, skin deer and dress a pronghorn antelope in the field. But after 58 years in San Diego County, Buck Knives Inc. can no longer cut it in California.

High electricity rates, soaring workers' compensation premiums and relentless foreign competition have gutted profits, according to the company's 66-year-old chairman. The state's Democratic-controlled Legislature and massive budget deficit have him worried about tax increases. So he's moving the privately held company to Idaho next year, taking 260 manufacturing jobs with him.

"We just came to the point where it seemed riskier to stay in California than to leave," said Buck, the grandson of the founder.

California's business climate, always a heated topic in business circles, has tempers boiling once again. Struggling with sluggish sales and wilting profits in a listless economy, companies are taking a hard look at their costs. Many don't like what they see.

The state's botched electricity deregulation plan has burdened companies with some of the highest energy rates in the country, while a string of perceived anti-business legislation passed in recent years has made it more costly to employ people.

Workers' compensation premiums have skyrocketed, more than doubling for some companies. State minimum wage increases and new overtime rules inflated payroll costs just before the economy tipped into recession.

With California's jobless rate hitting a five-year high of 6.6% in December, employers are being socked with higher contributions to prop up the state's

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unemployment insurance program.

And last year, California became the first state to approve comprehensive paid family leave, an employee-funded program that businesses say will cost them a bundle in absenteeism and temporary staffing when it starts next year.

"There is a level of anger that I haven't seen since the early 1990s," said John Husing, an Inland Empire economist and small-business consultant. "I think we're going to see more companies leaving."

Such dire predictions tend to ebb and flow with the health of the economy. Complaints about California's business climate crested during the recession of the early 1990s and dissipated in the subsequent boom. What's more, whining is a favorite pastime among some company heads no matter how the economy is doing.

Walking or Talking

Determining how many business owners today are walking, and not just talking, isn't easy. No state agency or trade group systematically tracks such defections.

During the last downturn, a widely publicized study showed that only a tiny fraction of California's industrial job losses were linked to business climate issues. In all, the report found that about 1,000 manufacturing facilities left the state from 1987 through 1992. That was off a base of about 50,000.

The real culprits behind the state's economic woes in the early '90s, experts said, were defense cuts and the collapse of the housing market. This time around, the blame rests with the technology meltdown and a global economic slowdown.

Rather than pack up and quit the state altogether, many companies are likely to limit their growth in California and shift some operations to cheaper locales. That's not as dramatic as a convoy of moving vans fleeing for the border, but it too has implications for the state's job growth down the line.

"Times are tough, [profit] margins under pressure. And with many firms unable to raise prices, they have to look at the other side of the equation," said Francis Markey, economist with Economy.com. "That means costs. And over the long term, costs matter."

Just ask Arthur "Jim" Goodwin. As recently as two years ago, the president of Taylor-Dunn Corp. was looking to expand his Anaheim plant, which manufactures cart-like vehicles used in factories and airports to carry people and haul cargo. His strategy was to acquire some out-of-state competitors, then consolidate the production at a bigger facility in Anaheim, adding as many as 400 jobs to the workforce of 250.

He shopped for land and consulted with enthusiastic city officials. But he



said a slew of "anti-business" legislation, including the return of overtime pay after eight hours in a workday, convinced him that a California expansion wouldn't pencil out.

Taylor-Dunn last year purchased factories in Ohio and Missouri and has begun outsourcing some of its Anaheim work to contractors in Asia. Plans for growth no longer include the Golden State.

"I'm not going to move, but I'm not going to expand much further" in California, Goodwin said. "It's just very manufacturing unfriendly here."

Factories aren't the only ones retrenching. Los Angeles plumbing-business owner Albert Pinheiro said his workers' compensation and liability insurance rates recently doubled, an increase that would have cost his small firm more than \$100,000 this year. To cut those costs, he fired 12 of his 26 employees in late December despite having a full book of business. He blames California lawmakers for helping fuel runaway premiums by approving hefty increases in workers' compensation benefits last year.

"These laws get passed, and the politicians don't think about the consequences," said Pinheiro, owner of Culver Plumbing. "Twelve people got priced right out of a job. Exactly how is the state better off?"

Lon Hatamiya, secretary of the state's Technology, Trade and Commerce Agency, said such frustration is understandable when the economy is struggling. But he said legislation such as the California Paid Family Leave actually will benefit employers by making workers happier and more productive.

Hatamiya said job creation is the state's top priority and a big reason that Gov. Gray Davis recommended no new increases in corporate taxes, as well as the retention of a large manufacturing tax credit, in his proposal to close the state's budget shortfall, estimated at more than \$26 billion through mid-2004. Just as in previous downturns, Hatamiya said, predictions of California's demise have been greatly exaggerated.

"These issues come up every decade," he said. "But California rebounds stronger every time."

Indeed, despite all the grousing, California remains a powerful lure for business. With 35 million residents and growing, it's a crucial market for retailers. Silicon Valley's success was built on world-class human capital, innovation and entrepreneurship, not cheap land and low-cost labor. The nation's gateway to the Pacific Rim, California is a key player in international trade and a portal to the rapidly developing economies of Asia.

Costs Count

Still, analysts say, the cost of doing business can't be ignored. A recent report by Economy.com calculates that as much as one-fifth of all employment gains across the 50 states since the mid-1980s can be

explained by differences in the costs of business.

Ranked among the 10 most expensive states in the study, California's job growth during the period was dwarfed by lower-cost competitors such as Utah, Arizona, Nevada and Idaho. Although that's partly a function of California's maturity and tremendous size, the Golden State managed only slightly above-average employment growth despite a record number of jobs created at the height of the boom.

The bust has companies reexamining their cost structures to shore up profits, particularly tech firms that drove California's unprecedented expansion of wealth in the late '90s.

The downturn has forced a dramatic restructuring of the industry, with companies such as Solectron Corp., JDS Uniphase Corp. and National Semiconductor Corp. downsizing in California while boosting production in Asia.

The shift is most evident in the state's manufacturing sector, which has shed 10% of its workforce since early 2001. Some of the jobs will be back when the economy recovers, but many of them won't.

That worries analysts such as Barry Sedlik, former manager for business retention at Southern California Edison who helped coordinate the 1992 study by the state's five largest utilities tracking industrial losses from California. A surge in high-tech manufacturing helped the factory sector rebound from the aerospace losses of the last recession. But Sedlik sees nothing to replace it this time around.

"We are losing the production that has provided a lot of the middle-class jobs in this state," said Sedlik, now chief operating officer for the Los Angeles County Economic Development Corp. "What's going to backfill that? That's the troubling question for the future of our economy."

A Tough Decision

For Buck Knives, the decision to leave California came neither quickly nor easily, according to C.J. Buck, 42, the company's president and the son of Chuck Buck.

Founded in 1902, the fourth-generation family firm has spent more than half its existence in Southern California. During that time, it has become an icon among hunters and outdoor types.

Buck fans come from all over the country to tour the factory and browse the gift shop, whose gleaming wares vary from dainty pocketknives bearing Lady Liberty on the handle to ferocious hunting blades equipped with "gut hooks" to slit a carcass from stem to stern.

"They're tough, and they'll hold an edge," said John Johnson, 52, a visiting shipyard worker from Washington state who got his first Buck knife as a young man in his 20s.

That kind of loyalty is surpassed only by the company's employees, some of whom have been with the firm their entire working lives.

"It's like family," said 27-year Buck veteran Terese Chastain, a representative in the company's in-house union who has bargained hard with management over the years. "They've always been honest with us."

The hard truth is that competition has sliced deeply into Buck's sales and profit over the last decade and limited its ability to raise prices, according to C.J. Buck. The company has attacked costs by streamlining manufacturing and whittling workers' pay and benefits.

Still, he admits, the firm hasn't been profitable "for a few years now." Faced with asking for even more givebacks from its staff to offset rising workers' compensation, medical, energy and other expenses, he said the company chose to relocate instead. He figures Buck Knives will realize a 20% to 30% savings in annual operating costs when it moves to Post Falls, Idaho, next year.

"You get to the point where you can't cut anymore," C.J. Buck said. "People have to have something to live on."

He said he and his father agonized over breaking the news to workers. Required by law to give just 60 days' notice, they decided to give employees a full year to prepare for the closing at the risk of defections and morale problems. He said his staff has been "amazingly supportive," as have business associates and members of the community.

"I've gotten calls from people congratulating us on having the guts to make this move," he said. "Some of them said they were thinking about doing the same thing."

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