Toyota: Curb Your Enthusiasm
By Ed Wallace

DEK: Yeah, it’s big news

Pullquote: “The attractiveness of low taxes and our state’s wide-open image and decidedly pro-business attitude has become such an article of faith for Texans that no one ever actually checks the data to see whether our assumption is true.”

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And so Toyota, the world’s largest manufacturer of automobiles, has decided to bail on Southern California and consolidate its U.S. sales and marketing, financing and a large part of its engineering group right here in the Metroplex. Good for us. The announcement delivers further proof that Dallas Fort Worth could one day become the corporate capital of America. And apparently with traffic congestion that will rival Los Angeles.

Almost immediately the media launched into stories contrasting how hard it is today to do business in California, unfavorably, with our fair state’s laissez-faire stance. That reason ties with our low taxation as the primary reasons for Toyota’s massive corporate move, though many also credit Gov. Perry’s ad campaign out West, basically advising companies to “wise up and get to Texas as quickly as you can.”

The attractiveness of low taxes and our state’s wide-open image and decidedly pro-business attitude has become such an article of faith for Texans that no one ever actually checks the data to see whether our assumption is true. Are these reasons really why companies like Toyota blow their West Coast pop stands for more favorable accommodations East? We assume that this article of faith is true because we don’t have a state income tax. In fact, it’s not.

Not That Much Difference

Last month the Institute on Taxation and Economic Policy looked at all state and local tax costs for both Texas and California and discovered that the average California family’s tax liability is only 9.1% of its total income, while Texas comes in at 8.2%. That’s less than a 1% difference in total state and local taxes.

Forbes magazine, on the other hand, published a story this past Tuesday showing just how incredibly cheap Texas taxes are compared to California. Forbes even linked to a tax calculator at the National Center for Policy Analysis to prove the point. But it’s not just a tax calculator; it also factors in housing, both rental and owned. So, when you input a married couple in their early fifties earning a combined income of $120,000 a year, you find the difference between
our two states in total state and local taxes is only $1,682 annually.

That tax gain, of course, will immediately be washed out by the cost of getting to work at Toyota’s new U.S. Headquarters; employees will have to use our new Toll Roads every day.

Shocked? Unless one has lived and worked in both states, most are. But no, the No. 1 reason given for corporate relocations that end up in Texas is our low cost of housing, which lowers everyone’s overall living expenses. To demonstrate that point, Zillow.com shows the average home price in Plano, Texas, as just over $255,000; in Torrance, Calif., the average home is half the size and slightly more than twice that much money.

Then again, being Texas Proud and rightfully so, we love to point out that Californians are fleeing their state in droves, heading for Texas because they finally came to their senses. According to the U.S. Census Bureau, in 2012 62,702 Californians did just that. But the same census data shows that 43,005 Texans went to California. True, Texas wins in that comparison — but it’s not nearly as one-sided as we enjoy believing.

Then there’s our Governor’s tough-talking ad campaign. It’s been suggested in the media that somehow this aggressive push had something to do with Toyota’s announcement. But those same reporters didn’t connect the fact that Toyota started planning this move years before those ads aired out West.

Jim Lentz, head of Toyota in America, set the record straight in the April 29 Wall Street Journal: “We weren’t pursued by Texas. It isn’t a Texas versus California discussion.”

**Right Time to Move (to)**

So it’s not the taxes, and it’s not even a case where we went looking for Toyota and convinced them to leave. It’s not even a case of another corporation tired of dealing with California rules and regulations — which, by the way, Toyota has managed to do very successfully over the past 55 years. No, it’s about job productivity, a much cheaper cost to consolidate everyone in one location, and Toyota’s ability in the future to attract the best and the brightest.

I know because, in 1978, I moved to LA and was the national sales manager for Neonex Leisure, which manufactured recreational vehicles. The year before, we had built a small factory in South Dallas with the intent of moving out of Southern California to Texas; the Second Energy Crisis put us out of business and ended that plan. Here’s the major downside to California: The time zone.

Four time zones meant that when you made it to work in LA at 9 in the morning, your East Coast dealers were just getting back from lunch, while those in the Central Time Zone were just leaving to eat. So, from your dealer body’s point of view, you were there to deal with any problems or reorders they might have for only half of the day.

Worse yet, in 1978 GTE was the only phone service in our part of LA; and I kid you not, there were days when it took hours to even get a long-distance line
so you could talk to your dealers across the country. On a few days, you never could get an open long-distance line.

Locating your corporation in the Central Time Zone massively improves productivity; you’re only one hour off East Coast time, and your West Coast dealers and vendors can reach you the moment they get to work.

Time zone location makes a huge difference in your ability to communicate quickly and all day long. This is one reason why Boeing left Seattle for Chicago, why Nissan moved to Nashville, and why Honda recently announced that many of its important personnel will be leaving California for offices near its factory in Ohio. When your business is nationwide, the Pacific Time Zone severely limits you.

(Side note: Boeing just reassigned 1,000 engineers from Seattle to Los Angeles, so Los Angeles is not completely a lost cause.)

Still No Place Like Home

Still, it’s our low cost of housing that will help Toyota recruit great new hires in the future. Let’s face it, a great many wonderfully qualified individuals aren’t crazy about moving to California, [Or employees being transferred to the home office] simply because they know they might have to pay $600,000 for an 1,100-sq.-ft. house built in 1924. And, since the Japanese automakers’ top people don’t make anywhere near what their counterparts in Detroit do, that’s not an appealing option. Offer that same exceptional candidate a job in Dallas Fort Worth, famed for our lower cost of housing, and you just might close the sale.

Then again, it’s harder to get Californians to give up their lifestyle than one might think. When Nissan moved to Nashville, less than half of its workforce went along. Most preferred to stay put and enjoy the California lifestyle in other jobs. In the case of the RV company I worked for, to a man our manufacturing people did not want to come and operate the plant here.

This is a smart move on Toyota’s part. As a corporation it will become even more productive, and that will give us bragging rights like we haven’t seen since American Airlines came home in 1979. Then again, that too was strictly a business decision. When Bob Crandall retired as American’s CEO, he went back to New England. High taxes or not, that was home.