

The State Of Our Once Golden State (*SB News-Press*)

(May 10, 2014) The June primaries will be here in four weeks, so as Californians get ready for the first round of voting for governor, secretary of state, and various seats in the U.S. House, it's a good time to examine the economic statistics at the 3 ½ year mark since Jerry Brown was elected – well into our sixth year of the Obama Administration.

First, there are almost 39 million people living in California – 12.5 percent of the U.S. population, meaning 1 in 8 Americans live here (so *that's* why every freeway is so congested). Gross State Product (GSP) is \$2.1 trillion – a 12.5 percent share of U.S. Gross Domestic Product (GDP). So one-eighth of the country lives here, and one eighth of American output happens here. And since the 2010 elections, California's economy has grown on average 3.75% (compounded quarterly), ranking its \$2.1 trillion GSP as the 8th largest economy in the world, behind the top-5: U.S., China, Japan, Germany, and France – very close behind the #6 U.K. and #7 Brazil – and just ahead of Russia, Canada, India, and Australia. Our 5th place in 2002 was 24k golden, now we're more like 12k – not as much luster.

The state's overall “business climate” remains very restrictive and generally unfriendly to firms looking to launch or expand operations, with a heavy burden from environmental and regulatory agencies, and high taxes. There were 73,000 fewer businesses in California in 2012 compared to 2011 – a 5.2 percent drop (Massachusetts had the second most exits at only 5,200). Arizona, Oregon, Florida, and Texas are attracting California firms in record numbers, as more than 200 companies have exited the state just since the beginning of 2012.

Consider that Intel is investing a combined \$8 billion for a new plant in Oregon, and factory upgrades in Arizona, creating some 9,000 construction jobs and 1,200 permanent high-tech jobs at completion – but not here. Other well known departed businesses include Charles Schwab, Waste Management's regional headquarters, Chevron's headquarters (to Texas), Dunn-Edwards Paints, eBay (1,000 admin jobs to Austin), Claim-Jumper/Bubba Gump headquarters (to Houston), and the Tickets.com call-center and customer service (also to Texas). Silicon Valley's Tesla [builder of next generation electric cars] has just announced its new \$4.3 billion battery factory (that will employ 6,500 workers) will be developed on 800 acres in either Arizona, New Mexico, or Texas. Not many gold-diggers scouting out California anymore.

In addition to over-regulation and greater risk exposure to frivolous lawsuits, California also boasts some of the highest taxes in the nation including: 1) a top personal income tax rate of 13.3 percent [#1 in the U.S.], 2) an 8.84 percent corporate tax, 3) sales tax of 7.5 percent [8 percent here in Santa Barbara with local taxes added in], and 4) the second highest gasoline tax in the U.S. at just under 68 cents a gallon. It's amazing that California's price at the pump was on average \$1.89 a gallon at the 2008 November elections (less than 6 years ago). Today it's well over double at \$4.29 – an annual 15.8 percent increase (compounded quarterly). California also ranks #4 nationally for the highest cost-of-living, while Texas is the second lowest – and that with a minimum wage of \$8 per hour compared to Texas at \$7.25 per hour. Anything but “Golden.”

California is also burdened by more than \$420 billion of municipal debt outstanding, keeping its *Standard + Poor's* credit rating at just “single-A” – well below dozens of other states at the top-rated “AAA”. The Bureau of Labor Statistics just reported the U.S. added 288,000 jobs in April – while also revising upward the previous employment figures

for February and March, so the national unemployment rate appears to have dropped to 6.3 percent (remember, that does not count individuals who have stopped actively looking for work, so the U-6 “true” unemployment rate is 12.3 percent, with only a 62.8 percent labor-participation rate – the lowest since the late 1970s). Statewide unemployment is at 8.1 percent (most recent March figures), with many counties still in double-digits (Imperial at 21.4 percent; Merced 15; Fresno 13.8; Kern 13.1; and Monterey 12.6). The state Employment Development Dept. (EDD) has seen a steady growth in new weekly unemployment claims since early February last year, to a current average of just over 60,000 – that’s 33 percent more than the average rate during the 24 months before the start of the 2007-2008 recession. Closer to thin electroplate.

So what can be done to get back to pure “Golden” status? Former Reagan economic advisor Arthur Laffer’s 2012 book EUREKA: HOW TO FIX CALIFORNIA offers a clear pathway (he penned the Foreword for my 2010 book on Job Creation, while also moving his company from California to business-friendly Tennessee.) I strongly recommend it as an excellent guide for voters to evaluate the tax and fiscal policies among the current line-up of candidates positioning for the June and November elections. His 2014 RICH STATES/POOR STATES annual report (with Stephen Moore and Jon Williams), examines the connection between economic vitality and state government policies, and no surprise, California ranks just #43 on “performance” and a miserable #47 on “economic outlook” – only (Obama’s) Illinois, Vermont, and New York are worse. We also rank very low on: 1) new taxes added, 2) worker’s compensation costs, 3) being a ‘right-to-work’ state, 4) debt costs as a share of tax revenues, 5) legal environment for businesses and lawsuits, and 6) just one place from the bottom on population migration exiting the state. Factor in our government-taxes-financed

bullet train fiasco (voters approved for \$9 billion, will now cost \$68 billion, with only \$31 billion lined-up) and it's clear that Sacramento needs entirely new policies to return California to its formerly Golden "business friendly", "low tax", "low regulation" "entrepreneurial magnet-destination" for private enterprise and a thriving economy – the envy of all other states for innovation and job creation, while again pressing France for 5th place among global economies. But for now, Jerry Brown's economic alchemy is simply not working to restore California's former solid gold shine.