

California Economy

High Cost of Public Policies Shadows Post-Pandemic Recovery

The Golden State has enjoyed as much prosperity and created as much wealth as any society on the planet.

Its economic output rivals Germany and boasts **more than 370 firms** with a market cap of more than \$1 billion.

The great economic engine powered by California's robust private sector creates and maintains more than 17 million jobs, paying \$1.6 trillion in annual wages and salaries. California has the **ninth highest** median household income of all states.

Taxes on businesses, entrepreneurs, and wage earners sustain hundreds of billions of dollars in state and local government spending, including jaw-dropping budget surpluses over the past couple years.

California may be one of the greatest prosperity generators the world has ever seen. But even so, it's often no match for the toll that the state's relentless cost of living takes on affordability for working and middle-income families. This crisis of affordability — much of it a result of or exacerbated by public policy — is the clearest and most immediate threat to continuing California's greatness.

The Governor **agrees**. "So as we go forward," Governor Gavin Newsom proclaimed in his 2023 Inaugural Address, "we must continue our quest for an honest accounting of where we've fallen short: on affordability, on housing, on homelessness."

In some ways, the great success of California sowed the seeds of the affordability crisis. Economic growth, the international renown of our high tech, biotech, entertainment and agricultural sectors, and our world class higher education systems, to name a few — these accomplishments can cloud the judgment of elected leaders, leading them to treat California as a "luxury good," believing that residents are willing to pay an ever-increasing cost to live here. This attitude gives rise to expensive and divisive policy initiatives that serve political constituencies and cultural trends, but which do not register with residents and taxpayers.

It costs a lot to make a life in the Golden State.

The good news is that California family income growth has outpaced the nation. Between 2011 and 2021, median inflation-adjusted household income **increased** by 27% in

California, compared with 17% **nationally**. Hourly wages in California for private sector workers are about one-sixth higher in **California** than in the nation, and have climbed by 42% over the past decade, compared with a 38% increase **nationally**.

The typical family and worker is making more in California, which is a good thing, because it sure costs more to live here.

HOUSING: BIGGEST EXPENSE

The biggest expense for most Californians is housing, and every year costs grow for both prospective homeowners and renters. California housing costs are infamous nationally and are perhaps the biggest selling point for workers when workplaces are expanded or moved outside of the state.

But most dispiriting is that the cost of housing is among the greatest contributors to poverty in California. According to the **Public Policy Institute of California (PPIC)**, if the cost of housing had held constant at 2013 levels, 800,000 fewer Californians (2.2%) would have been in poverty in 2019. In the San Francisco Bay Area, 12.3% fewer Californians would have been in poverty had housing costs been held in check. Unless more housing is built for every income level, which is the only solution to high housing costs, no amount of safety net relief can reverse poverty trends in the state.

HIGH-COST ESSENTIALS

In addition to the high cost of housing, Californians also face a "luxury tax" on other essentials. We have among the highest utility rates and gasoline prices in the nation, much of it a direct result of public policy. The consensus of California's elected officials is to move full speed ahead to make California a world leader to address the root causes of climate change. The resulting policies have created real-world costs for Californians.

California has among the **highest retail prices** for electricity in the nation, with the third-highest residential rates. Leaving aside Hawaii, California has the highest business electricity rates in the country, averaging 83% higher than the national average in the commercial sector, and industrial rates more than double the national average.

California motorists pay about 30 cents per gallon in **hidden "carbon" fees**, on top of our nation-leading gasoline and diesel

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Major



OVERVIEW

taxes. The clock is ticking toward the prohibition on sales of new gasoline-powered cars in 2035, and many cities are moving to ban the new use of natural gas for heating, cooking, and for restaurants.

In addition to targeting the internal combustion engine, state and local officials want to reduce vehicle use no matter the fuel technology. Local governments and regional planning agencies are considering tools to discourage automobile use like [fees on housing](#) based on homeowners' projected road use, as well as "[road diets](#)" to reduce street lanes. The Air Resources Board's Scoping Plan for carbon reduction eyes reducing vehicle miles traveled per capita by 25% below 2019 levels by 2030, and 30% by 2045.

CALIFORNIA EXODUS

Choosing to make California a luxury good means we are pricing ourselves out of the market. Residents and businesses are voting with their feet.

According to the [Department of Finance](#), the current fiscal year marks four straight years of population decline, during which California's population has decreased by about 643,000 residents — more than the combined headcount of Long Beach and Santa Rosa.

The preponderance of the CalExodus is to nearby states, to whom we've lost residents every year since 2001. Last year alone, other [states in the continental West](#) grew by 267,000 people. On its own, Texas grew by 471,000, and Florida grew by 417,000.

Historically, residents who left California [were different](#) from those who moved into the state. In general, new Californians were more likely to be employed, better educated, and to earn high wages than those who moved away. But in the past five years that trend has changed; the flow of middle-income residents out of the state has accelerated and net gains among higher-income adults have ceased.

VOTER ANXIETY

California's cost of living is making voters consistently anxious. A March 2022 PPIC Statewide Survey found that 37% of Californians have seriously considered leaving the state because of housing costs. The CalChamber poll found that 85% of California voters agree that attaining and maintaining a middle-class lifestyle is nearly impossible throughout California. And more than 60% of voters with kids at home say their children would have a better future if they left California.

The picture painted by these trends illustrates the economic challenges faced by many lower- and middle-income Californians. The California private sector generates opportunity

throughout the income spectrum, but without public policy changes that favor growth over redistribution, that opportunity will be locked away for many.

WORKABLE IDEAS

The Legislature has at hand any number of sensible, workable ideas to reverse the unaffordability trend and promote growth. To name a few:

- **Reform the California Environmental Quality Act** (CEQA) to reduce time-consuming and costly litigation that discourages or prevents construction of new housing, renewable energy projects, and critical water storage.
- **Reject new taxes, and hidden taxes**, that penalize employers for investing or producing in California, and that increase costs or reduce availability of products or services.
- **Restore a just and accessible forum for workplace disputes** by replacing the broken Private Attorneys General Act (PAGA) scheme with a responsive administrative process that puts employees first and reduces costs and uncertainties for employers.
- **Ensure that further greenhouse gas mitigation measures are technology-neutral, cost-effective, and include system reliability and public safety as guiding principles.**
- **Mitigate future employer costs and hiring disincentives** by helping repair the Unemployment Insurance Fund deficit and reforming the program going forward to reduce costs and increasing efficiencies.

SHADOW OF REALITY

California retains significant competitive advantages as a place to start or grow a business. Employers, alongside many elected and community leaders, toil diligently to make California home for their enterprises. But our economic recovery and return to the post-pandemic new-normal is shadowed by the reality of just how much it costs to live in California.

Public policies that have created these luxury taxes on essentials for living make our state increasingly unaffordable for California residents and unattractive to those who might otherwise come here to invest in our economy.



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