

## Expanding Opportunity: An Agenda for All Californians

2018 is a transition year in California politics and public policy.

Voters will elect a new Governor, replace at least seven constitutional officers and seat at least 10 new members of the Legislature. Democrats in the Senate have pegged a new leader, and voters will decide the fate of at least one recall election and three legislative special elections.

Voters will also practice direct democracy in November. As of this writing, 53 initiative or referendum measures are active, with 15 to 20 having at least a plausible chance to qualify for the ballot. Most of these would significantly influence business operations in the state—either adding or cutting costs, or changing the political or economic climate.

The Legislature has placed five measures on the June and November ballots, including two general obligation bonds totaling \$8 billion.

But no matter how the election battles play out for top offices or initiatives, state elected officials face persistent economic development challenges in 2018 and beyond: how to encourage upward mobility for California residents and address differential economic success regionally and socioeconomically.

### Voters Apprehensive

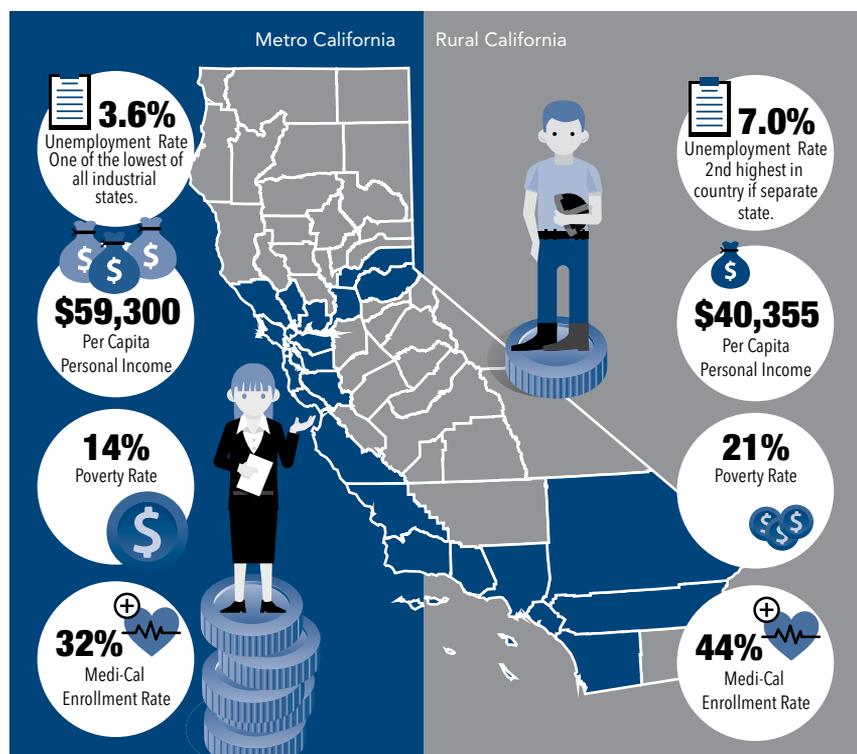
Add to that, Californians are anxious.

The economy is growing, the state budget is balanced and drought anxieties have receded. Yet California voters are apprehensive about the future. They worry that state leaders are not addressing the issues that truly concern them, according to the third annual [CalChamber Poll](#).

For the first time in three years of polling, slightly more voters say that California is headed down the wrong track (52%) than in the right direction (48%).

Parents are uneasy about their kids' futures. Of the 28% of voters with children living at home, three out of five agree that their children will have a better future if they leave California. Reasons include the high cost of living here, high taxes and worry about landing a good job.

### Spread Economic Prosperity to All Californians



The economic prosperity in the Bay Area and coastal Southern California has not yet lifted rural and inland California. The great success experienced by well-educated Californians is less apparent to high school dropouts and low-wage employees in service jobs.

Unemployment in coastal California, the Bay Area and the Sacramento area is 3.6%, which if a separate state would make it the 18th lowest in the nation (compared with our 41st ranking today). But for the rest of California, unemployment is 7%. If a separate state, inland and rural California would be the 21st most populous state—and the state with the second-highest unemployment rate in the nation.

Nationally, workers with a bachelor's or advanced degree experience only a 3% and 2% unemployment rate, respectively, while those with only a high school diploma are unemployed at more than a 5% rate, and high school dropouts suffer a 7.4% unemployment rate. Expected lifetime earnings are similarly skewed.

Looking at upward mobility, children born to low-income parents in California have slightly higher lifetime earnings than children born to low-income parents in other states—but not

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because they live in California. In fact, these same children would have experienced even greater upward income mobility had they grown up outside of California.

Researchers at Stanford University found that barely half of 30-year-olds earn more than their parents did at a similar age, a steep decline from the early 1970s when the incomes of nearly all offspring outpaced their parents.

Key factors that dampen upward income mobility for low-income Californians include the quality of a child's education, the strength of social networks, exposure to violent crime, and smaller share of two-parent and middle-income households.

Our economic success has brought its own set of problems, including greater demand for housing and more burdened public infrastructure. We must address the consequences of healthy growth as well as lifting those left behind.

### Helping Spread Prosperity

How can California leaders help spread our rising economic prosperity to those left behind?

- First, **do no more harm**. California has the nation's highest taxes and most ambitious and stringent laws governing the workplace. Employers and employees alike pay a price to live and work in California. For those who have made the choice, we should not add to their burdens, and should look for opportunities to reduce them.

California's litigation environment is daunting. Uniquely, the Private Attorneys General Act (PAGA) allows an employee to file a representative action on behalf of himself or herself and all other aggrieved employees for a Labor Code violation. This is like a class action lawsuit, but worse, since the procedural protections are absent. To prevail in a PAGA lawsuit, the employee need not show any harm, such as lost wages, nor show any intent by the employer. The Legislature should repeal PAGA, which benefits only plaintiffs' attorneys at the expense of employers and workers.

- Second, allow private developers to **build more market-rate housing**. Subsidies affect only a tiny sliver of the housing shortage. Most lower- and lower-middle income families obtain housing as it filters from occupants who buy or rent better or more expensive housing.

To meaningfully take on the housing shortage, the Legislature must address more aggressively local NIMBYism, coupled with reforms in tax allocation to make housing a legitimate fiscal proposition for cities; reform the California Environmental Quality Act (CEQA) to remove the cloud of litigation over housing projects, large and small, stopping the death-by-a-thousand-fees attitude by state and local leaders; and roll back anti-commuter policies that distort housing costs in more affordable regions of California.

- Third, **maintain and expand our economic development infrastructure**. California practically invented the modern transportation system and the 20th century water delivery complex. Without these historic construction milestones, California would be Albania—a pretty coastline with an underperforming economy. The Governor and Legislature took an important though incomplete step to add new revenues to address long-term maintenance

and operational shortfalls in our roads, bridges and highways. This should be only a first step; the next Legislature and Administration should consider whether and how to incorporate a user fee based on mileage to modernize California transportation finance.

Like the state's transportation system, our water infrastructure suffers from underinvestment, hobbling the water available for urban and economic growth, as well as maintenance of our world-feeding agriculture sector. The Administration and Legislature should maintain their commitment to continue development of a Delta conveyance system that will protect and enhance water deliveries throughout California and improve Delta habitat and water quality, as well as ensure that our water storage and conveyance facilities are in good repair and adequate to meet the next decade's growth.

- Fourth, **restore affordability as an ordering principle in energy development**. California energy policy has become climate change policy. Why are energy costs so much higher in California than in the rest of the nation? Very simply, because California has historically placed a high premium on reducing criteria air pollutants and, more recently, reducing the greenhouse gas (GHG) emissions that contribute to climate change.

While this will not likely change soon, policymakers should not lose sight of the large costs and economic impacts of changes in energy policy. Leaders should maintain the integrity of the cap-and-trade program as the most cost-effective approach to reducing California GHG emissions. They should also reject new command-and-control GHG regulations, including increased utility renewable portfolio requirements, motor fuel mandates, or limitations on driving. Each of these and other regulatory approaches are far more expensive and undermine cap-and-trade.

- Finally, **education is the most effective tool to improve economic mobility in California**. Besides the weather, California's greatest competitive advantage is our skilled workforce. Researchers studying income inequality and upward mobility have concluded that certain state and community colleges offer effective pathways to higher incomes for younger generations. The Legislature should continue improving state support for universities and colleges to restore our qualitative advantage, and continue investment in high school work-based learning initiatives, which allow students to apply their classroom learning in a professional setting to gain real-world experience and relevance.

California is a wealthy state with great natural and intellectual resources. It is within the power of state leaders to foster growth for all regions and demographic groups, and improve the chances for children to once again do better than their parents.



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