California Migrating

DOCUMENTING THE CAUSES AND CONSEQUENCES OF CALIFORNIA'S GROWING EXODUS PROBLEM

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California Migrating: Documenting the causes and consequences of California's growing exodus problem
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Executive Summary

The exodus from California is real, troubling, and has become too large to ignore. According to United Van Lines, California was a "top outbound" state once again in 2020. Due to this outmigration, California's share of the national population peaked in 2003 at 12.2 percent, and as of 2020 its share has fallen to under 12 percent for the first time since 1998. Perhaps most troubling of all, the actual number of people living in California fell for the first time in generations.

The consequences for the state if these trends are left unchecked are dire. Understanding the drivers of the exodus is essential as a result.

There are both economic and quality-of-life concerns that drive this exodus. From an economic perspective, residents are hampered by steep housing costs, high-priced energy, expensive cost of living, and high taxes that more than offset California's higher-than-average household income. The problems of rising crime, increasing urban blight, and growing inconveniences (such as worst-in-the-nation traffic) are eroding the state's quality of life. The state's high and rising taxes, overly burdensome regulations, and general anti-business environment are incenting businesses to leave as well.

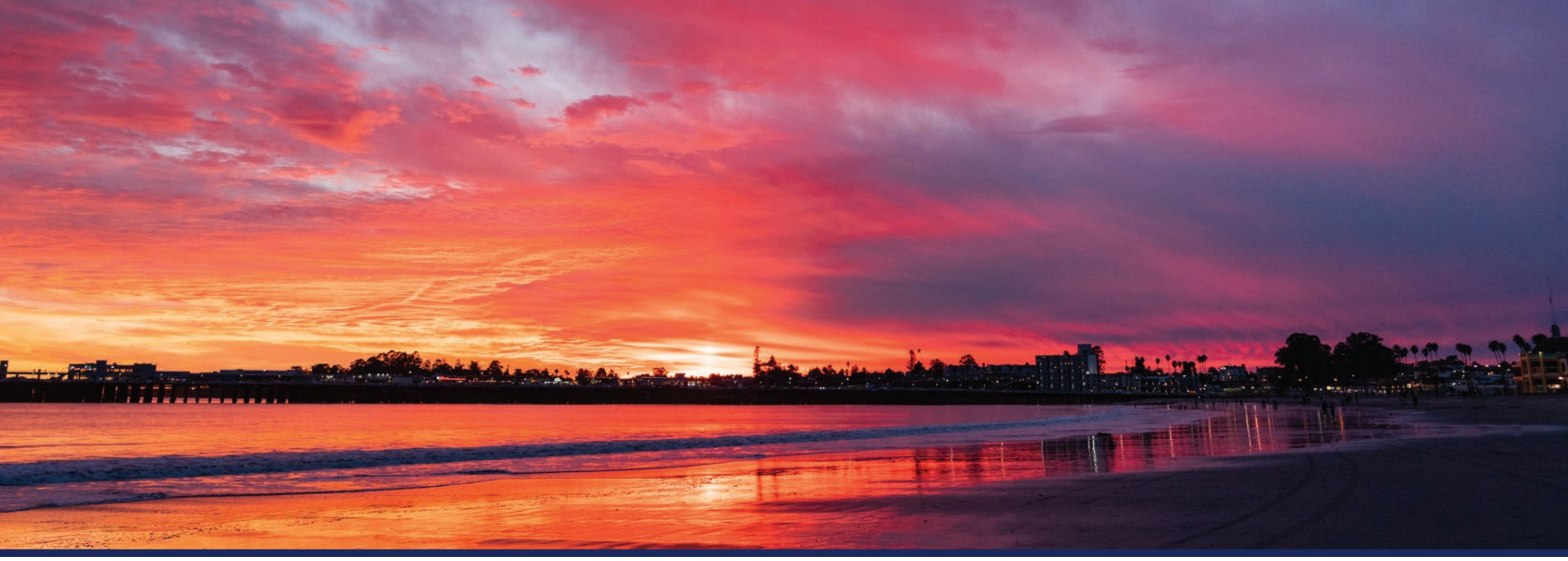
As both people and businesses flee, economic opportunities dry up – threatening California's future and making it harder for policymakers to address long-term structural problems such as the state's unfunded pensions or the needed investments in roads, highways, and bridges.

The good news is that since public policy is driving the exodus, public policy can also reverse it. Beneficial policy reforms include,

- Reforming zoning regulations and the California Environmental Quality Act (CEQA) to reduce the cost of housing.
- Reforming the state's energy and global warming policies to make gas and electricity affordable again and reduce the growing problem of energy poverty throughout the state. Lowering the cost of energy and regulations will also alleviate California's expensive food and transportation costs.

- Implementing tax reform to improve the incentive to work and save in California, reduce the volatility of state revenues, and lessen the adverse consequences that results from the state's excessively volatile budget.
- Addressing short-term and long-term spending that are the root cause of the state's uncompetitive tax burden.
- Reversing the recent justice reforms, such as Prop. 47, which are undermining the safety and security of residents.
- Leveraging private charities to help sustainably address the homelessness crisis, with a focus on addressing the root causes of the problem.

Californians do not need to resign themselves to a future of growing economic hardship, declining quality of life, and a rising outmigration of people and businesses. These adverse trends are a direct result of misguided government policies and can be reversed by implementing the right reforms. Given the high stakes, the time to act is now.



Introduction

With the declaration: "California Takes Population Lead," a September 1, 1964, *New York Times* headline announced to the country that California was now the nation's most populous state.[1] At the time, a few more than 18 million people were living in the state, compared to not quite 18 million people in the former most populous state, New York.[2] And until recently, California didn't look back.

For many generations, California was the epitome of the American dream. The state had a well-earned history of attracting businesses and rewarding entrepreneurship at least as far back as the Gold Rush. Some of the companies founded during the early boom years – Levi Strauss, Armour Foods, and Wells Fargo, to name a few – are still in business. Living in the Golden State offered families an unmatched quality of life and the opportunity to earn a high income with plenty of growth opportunities.

Thanks to being a land of opportunity, more than 39.4 million people called California home as of 2020, whereas the former most populous state, New York, has grown to *only* 19.3 million people.

Unfortunately, California is no longer the land of opportunity it once was. It is still the home of Silicon Valley, a thriving financial center, cutting-edge life sciences clusters, and top-notch universities. The state's natural beauty and temperate climate also remain unrivaled. And yet, more Americans are choosing to leave than move to California. It is not just people, either. Small businesses are failing, relocating along with the migrating families, or just never starting up in the first place.

> "The state's natural beauty and temperate climate also remain unrivaled. And yet, more Americans are choosing to leave than move to California.

At the same time, large businesses are choosing to either expand elsewhere or leave California altogether. Even a partial list of prominent companies fleeing California is breathtaking. Just recently Toyota, Nissan, Crocs, SpaceX, Tesla, Oracle, Palantir, Charles Schwab, and Hewlett-Packard (the founding father of Silicon Valley) have moved in whole or in part. Business conditions have grown so unpleasant that consultants are even telling businesses that they'll find better opportunities across the state line.

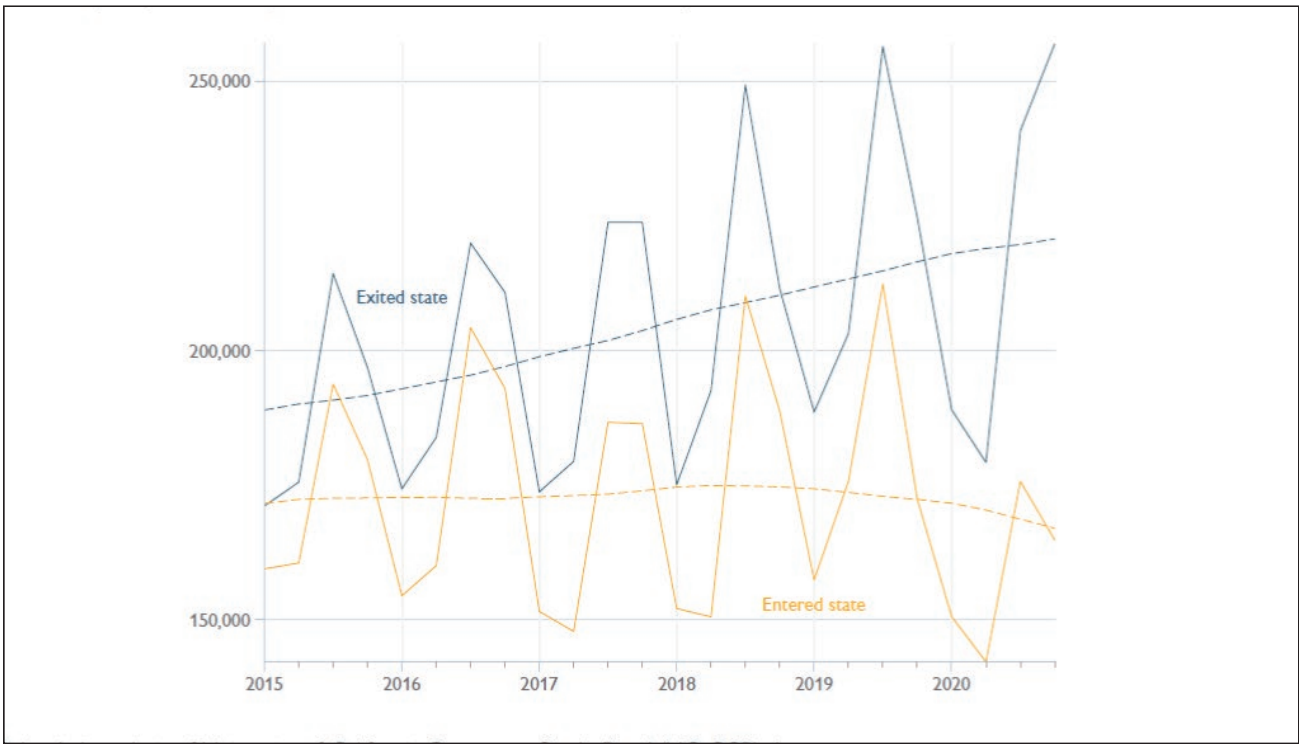
Simply put, a California company has a better chance of prospering if it moves rather than stays. The same is true for families. These trends portend severe financial consequences if they are not reversed. Unfortunately, one response proffered by policymakers is denial. They pass off the relocations as part of the pandemic-induced migration away from urban centers.

A policy paper released in March 2021 by the California Policy Lab of the University of California says it found "no evidence of a pronounced exodus from the state" and "no marked increase in exits," though "entrances have slowed."[3] The evidence does not support this conclusion.

Our research below, using Internal Revenue Service tax return data, demonstrates that California has been losing more residents than it has gained since 2012. While the largest group of outmigrants is from the low- and low-middle income brackets, there has been a significant rise in net outmigration of higher-income Californians since 2012.

Further, the California Policy Lab's own data contradict its claims that there is "no marked increase in exits." Figure 2 from its report, which we have reproduced below, clearly shows that the outmigrations have been increasing each year since 2015, while inmigrations have fallen. The averages for each, the dotted blue and amber lines, have been diverging since 2015. Claims that there is no net exodus from California are not grounded in the facts – they are simply denial.

EXHIBIT A: NUMBER OF PEOPLE MOVING INTO AND OUT OF CALIFORNIA EACH QUARTER, 2015–2020



Source: California Policy Lab

Denial is not a strategy, however. Unless policymakers are willing to acknowledge that an exodus away from California is occurring and understand the deeper problems driving the migration, the situation will continue to deteriorate. Once the exodus has been acknowledged, its cause is not a mystery: The state's increasingly detrimental policy environment creates numerous obstacles that reduce people's quality of life and inhibits their ability to prosper which they can overcome by simply relocating to other states.

Thanks to misguided policies, the cost of living in California is outpacing what is otherwise robust income growth. Other policy-created difficulties include the most burdensome tax regime in the country, exorbitant housing costs, crippling energy prices, an expensive cost of living, rising crime, and a homelessness problem that feels and looks worse by the day. Businesses also suffer from the state's anti-business environment that includes laws and regulations that choke commerce, a general hostility toward business by government officials, a minimum wage that many businesses can't afford, and a briar patch of red tape that steals time that should instead be dedicated to the companies' interests.

Taken as a whole, the policy environment is severely diminishing the quality of life in the state. The predictable result is that people who were once *California Dreamin'* are now dreaming of a better life elsewhere.

There are significant social and economic consequences to the state should the exodus continue to fester. As more people and businesses leave, economic opportunities will stagnate. California's status as a driver of innovation will become jeopardized, along with the income and wealth that it creates. The sclerotic economy will also undermine the tax base the government relies upon to provide public goods and services, not to mention its ability to address structural crises such as the state's underfunded pension plans. Should Sacramento, as well as local governments, respond to these worsening crises with more of the same, the vicious cycle of lethargy will only spin faster.

Simply put, California has come to a pivotal crossroad.

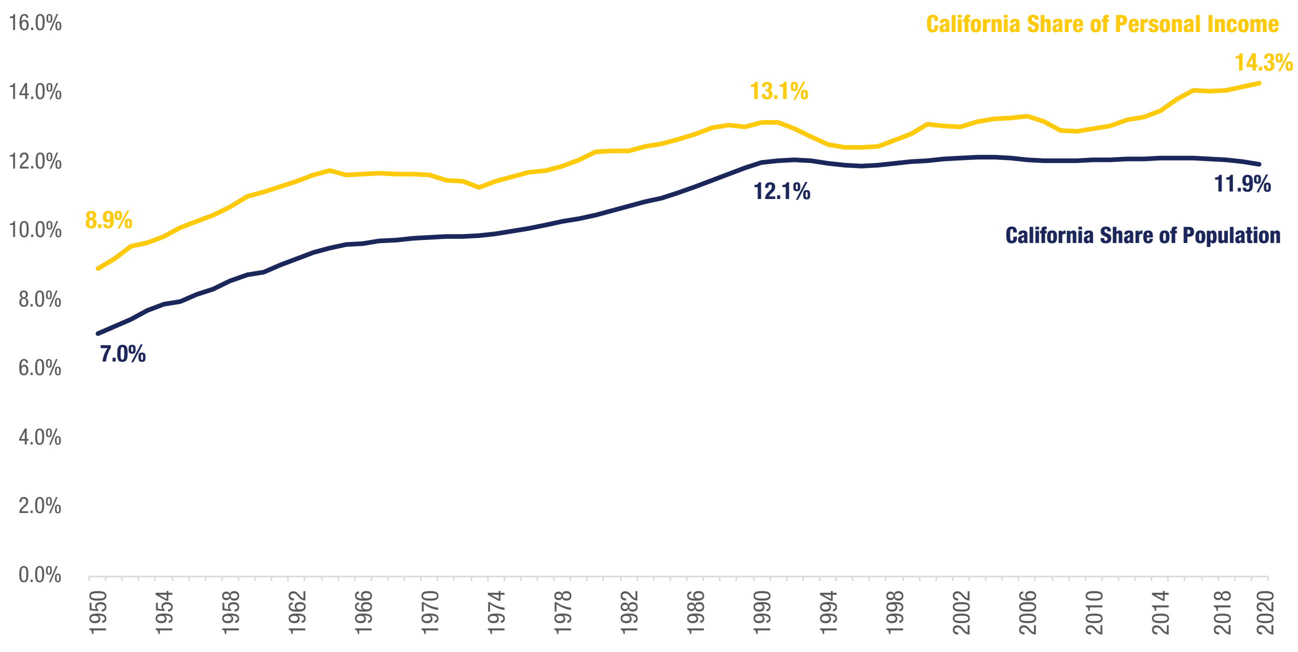
The good news is that since policy is driving the exodus, it can also stem the tide. Policy reforms should focus on promoting broad-based affordability that includes reducing California's relative cost of housing, energy, food, transportation, and government. Additionally, policy reforms should prioritize improving the declining quality of life in California. A diverse array of problems that include ever-worsening traffic and growing social challenges such as the homeless crisis must be addressed.

This policy brief reviews the evidence to demonstrate that, despite denials and arguments to the contrary, the California exodus is real and driven by these difficulties.

The Exodus

California is losing residents, businesses, and is delivering valuable economic assets to other states, in some cases almost overnight. Yet, since much of California's political class continues to deny that the exodus is occurring, it is helpful to begin by laying out the facts. Starting with California's ascension, Figure 1 illustrates that the state's share of the national economy (as measured by total personal income) grew from 8.9 percent in 1950 to 14.3 percent as of 2020. Similarly, the state's share of the national population grew from 7.0 percent to 11.9 percent over the same period. Thanks to these complementary trends, California is now the world's fifth largest economy.[4]

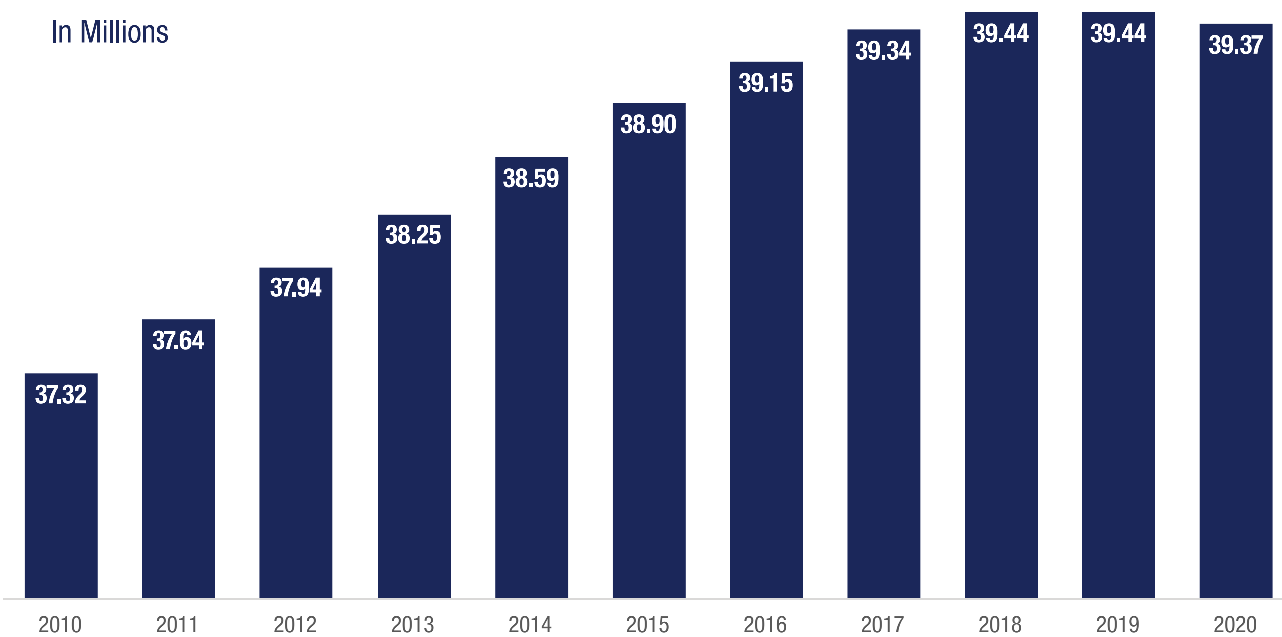
FIGURE 1. CALIFORNIA'S SHARE OF U.S. PERSONAL INCOME AND POPULATION 1950 - 2020



Source: Bureau of Economic Analysis

However, these long-term trends gloss over periods of stagnation and outright decline. Importantly, California's share of the national population appears to have peaked in 2003 at 12.2 percent, and as of 2020 its share has fallen to under 12 percent for the first time since 1998. Perhaps more troubling, the actual number of people living in California fell for the first time in generations in 2020, see Figure 2.

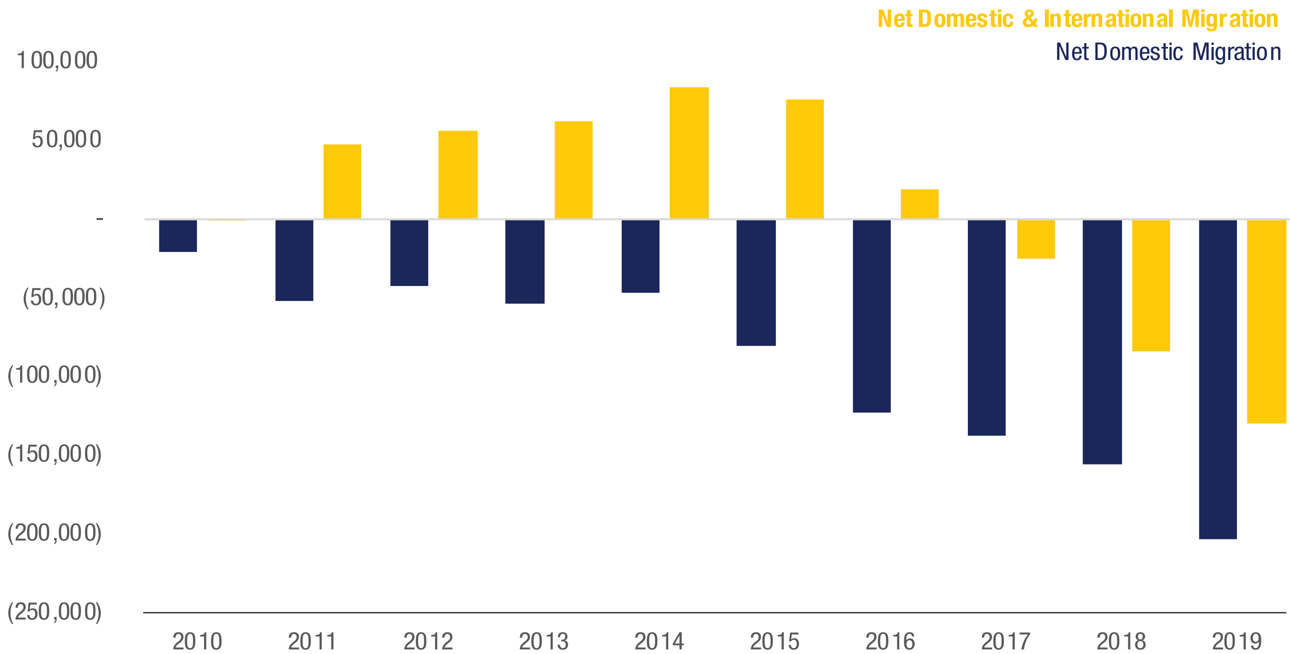
FIGURE 2. CALIFORNIA'S TOTAL POPULATION 2010 - 2020



Source: U.S. Census Bureau

A declining population portends a less prosperous future for all Californians and makes it more difficult for the state to address its long-term structural problems such as its failing infrastructure and under-funded state public pensions. An enormous part of the stagnation problem is due to the large numbers of Californians who are voting with their feet against the state. These trends are evident in Figure 3.

FIGURE 3. CALIFORNIA'S NET MIGRATION: DOMESTIC AND INTERNATIONAL 2010 - 2019



Source: U.S. Census Bureau

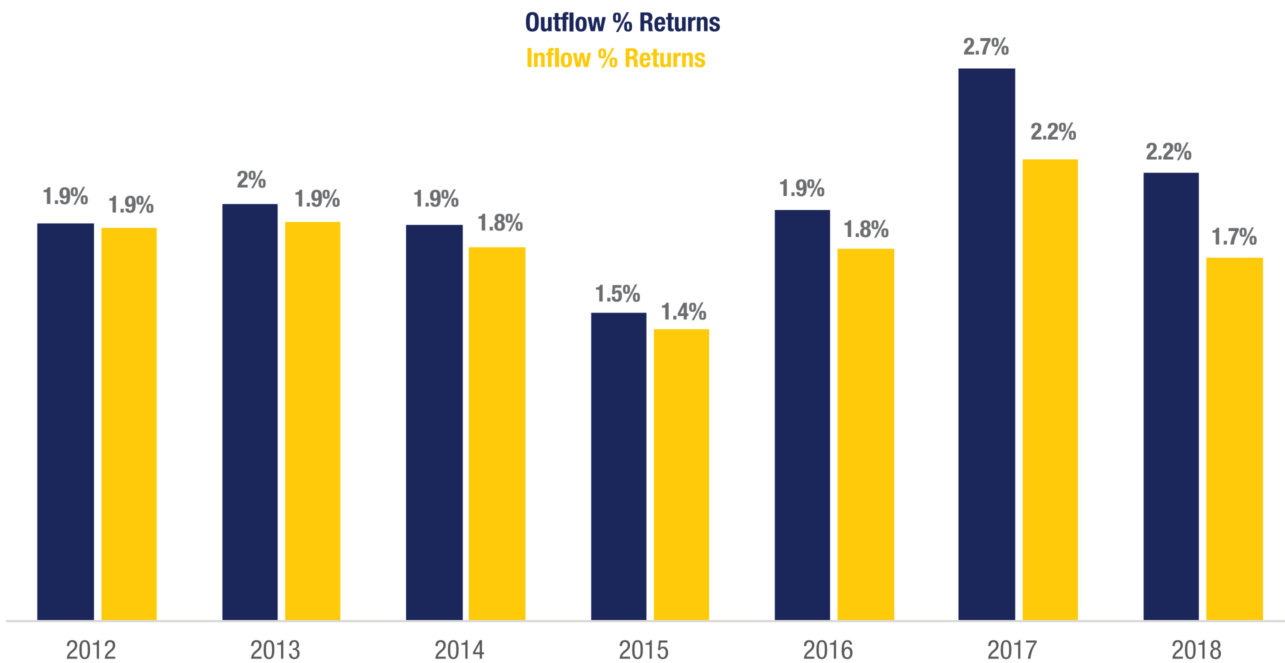
Figure 3 presents two types of migration data maintained by the U.S. Census Bureau. The blue bars measure California's net domestic migration trends – the number of current U.S. residents moving into California minus the number of current California residents moving out of the state. The increasingly negative values demonstrate the well-documented trend that, on net, more Californians are choosing to leave the state relative to the number of Americans choosing to move to California.

Domestic migration trends do not account for people choosing to live in California from other countries. Until 2016, there had been sufficient international migration to offset the net domestic migration away from the state. However, this changed as of 2017. Now, both domestic and international migrants (the gray bars in Figure 3) are choosing to live elsewhere, which explains the actual population decline.

The Statistics of Income (SOI) Data from the Internal Revenue Service enables an even deeper look into who is leaving California.[5] The SOI data provide aggregated information on the number of income tax returns that are filed by state. The SOI data also tell us the number of returns that are filed in the same state as the previous year as well as those filed in a different state from the previous year. Since returns are filed every year, we can learn more about the people who are leaving California versus those relocating to the state.

Figure 4 presents the share of total California returns that left the state in a given year (outflow) compared to the share of returns that came to the state in a given year (inflow) between 2012 and 2018 (the latest data available). It is important to recognize that returns reflect taxpayers, so each return could represent multiple people. While the share of taxpayers moving to and from California rises and falls together over these seven years, the widening gap between those leaving the state and those arriving is clear, which confirms the migration picture based on the U.S. Census data.

FIGURE 4. CALIFORNIA'S OUTMIGRATION AND INMIGRATION TRENDS 2012 – 2018



Source: Author calculations based on IRS SOI Data

Looking at these migration flows by income (adjusted gross income, AGI), Table 1 categorizes the income breakdowns provided by the IRS into four income categories – taxpayers earning less than $25,000 (low-income), taxpayers earning between $25,000 and $75,000 (lower-middle income), taxpayers earning between $75,000 and $200,000 (upper-middle income), and taxpayers earning more than $200,000 (upper-income). The total returns in California that moved away from the state (outflow) and the total returns that moved into the state (inflow) between 2012 and 2018 are presented for each income category. Table 1 also presents the net migration, which is defined as the inflow minus the outflow. A negative migration value indicates that, on net, people moved away from California. Table 2 presents each income category's share of total returns, outflow returns, and inflow returns.

TABLE 1. OUTFLOW AND INFLOW OF TAXPAYER RETURNS BY INCOME CATEGORY, CALIFORNIA 2012–2018

	2012	2013	2014	2015	2016	2017	2018
	OUTFLOW RETURNS						
All Tax Returns	**259,618**	**273,969**	**263,027**	**207,861**	**283,591**	**386,843**	**317,416**
Low-income	110,419	110,165	103,011	87,238	101,004	117,600	95,852
Lower-middle income	95,664	99,802	97,130	73,835	105,071	148,547	121,590
Upper-middle income	42,968	50,408	49,590	35,436	59,094	93,916	76,470
Upper-income	10,567	13,594	13,296	11,352	18,422	26,780	23,504
	INFLOW RETURNS						
All Tax Returns	**257,361**	**263,064**	**248,091**	**197,208**	**256,300**	**322,859**	**257,874**
Low-income	108,673	104,883	95,443	81,233	90,014	100,363	81,771
Lower-middle income	96,593	99,598	95,568	72,828	97,151	130,176	104,636
Upper-middle income	41,967	46,282	45,317	33,186	52,995	72,148	55,984
Upper-income	10,128	12,301	11,763	9,961	16,140	20,172	15,483
	NET MIGRATION OF RETURNS						
All Tax Returns	**(2,257)**	**(10,905)**	**(14,936)**	**(10,653)**	**(27,291)**	**(63,984)**	**(59,542)**
Low-income	(1,746)	(5,282)	(7,568)	(6,005)	(10,990)	(17,237)	(14,081)
Lower-middle income	929	(204)	(1,562)	(1,007)	(7,920)	(18,371)	(16,954)
Upper-middle income	(1,001)	(4,126)	(4,273)	(2,250)	(6,099)	(21,768)	(20,486)
Upper-income	(439)	(1,293)	(1,533)	(1,391)	(2,282)	(6,608)	(8,021)

Source: Author calculations based on IRS SOI Data

TABLE 2. SHARE OF TOTAL RETURNS, OUTFLOW RETURNS, AND INFLOW RETURNS BY INCOME CATEGORY, CALIFORNIA, 2012–2018

	2012	2013	2014	2015	2016	2017	2018
	SHARE OF TOTAL RETURNS						
Low-income	32.1%	31.1%	30.0%	29.1%	27.8%	26.4%	25.1%
Lower-middle income	40.1%	40.0%	40.0%	39.8%	39.9%	40.5%	40.5%
Upper-middle income	22.7%	23.3%	23.9%	24.4%	25.0%	25.5%	26.2%
Upper-income	5.1%	5.6%	6.1%	6.7%	7.2%	7.5%	8.3%
	SHARE OF OUTFLOW RETURNS						
Low-income	42.5%	40.2%	39.2%	42.0%	35.6%	30.4%	30.2%
Lower-middle income	36.8%	36.4%	36.9%	35.5%	37.1%	38.4%	38.3%
Upper-middle income	16.6%	18.4%	18.9%	17.0%	20.8%	24.3%	24.1%
Upper-income	4.1%	5.0%	5.1%	5.5%	6.5%	6.9%	7.4%
	SHARE OF INFLOW RETURNS						
Low-income	42.2%	39.9%	38.5%	41.2%	35.1%	31.1%	31.7%
Lower-middle income	37.5%	37.9%	38.5%	36.9%	37.9%	40.3%	40.6%
Upper-middle income	16.3%	17.6%	18.3%	16.8%	20.7%	22.3%	21.7%
Upper-income	3.9%	4.7%	4.7%	5.1%	6.3%	6.2%	6.0%

Source: Author calculations based on IRS SOI Data

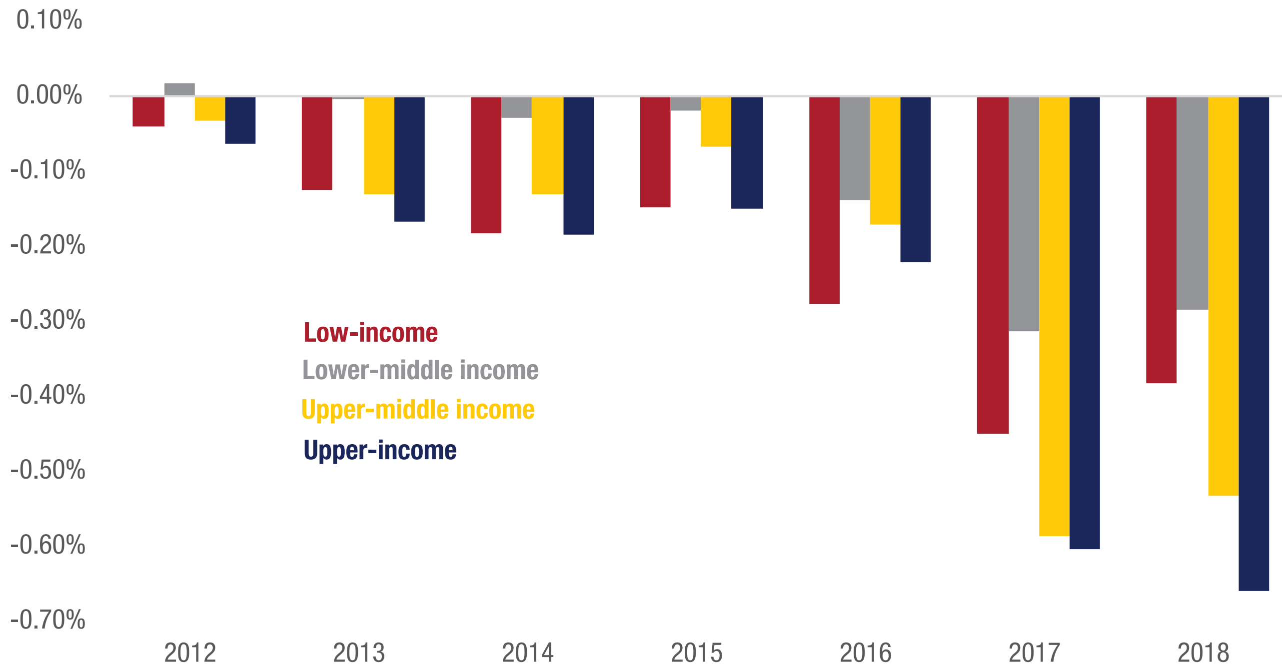
Tables 1 and 2 demonstrate several important trends:

- First, on net, people of all income groups are leaving California.
- Second, the largest number of migrators were low-income taxpayers and lower-middle income taxpayers.
- Third, while the low-income taxpayers were the largest migrators, their numbers have been declining (both migrating to and from California). These trends indicate that the growth in net-migration for the low-income taxpayers is due to a larger decline in low-income people coming to California compared to the decline in low-income people leaving California.
- Fourth, the number of outmigrators and inmigrators for the three upper-income categories grew through 2018, particularly for the upper-middle income taxpayers and the upper-income taxpayers. Since the growth in outmigrators significantly outpaced the growth in inmigrators, there has been a substantial rise in net outmigration of higher-income Californians through 2018.
- Fifth, the share of outflows and inflows of low-income taxpayers is significantly higher than their share of total returns, even accounting for the declines in low-income migration between 2012 and 2018. This is an indication that low-income taxpayers may be particularly sensitive to California's additional costs of living and the relatively declining levels of opportunity in California.
- Sixth, and particularly important, middle-income taxpayers (particularly upper-middle income taxpayers) are now the largest net migrators away from the state, a trend that began in 2017.
- Seventh, the low-income group's share of total returns has been declining between 2012 and 2018 while the share of the lower-middle income group has been stagnant. This means, by definition, that the upper-middle and upper-income groups' share of total returns have been rising. These trends are consistent with the continued growth in personal income in California between 2012 and 2018.

On an overall basis, the migration patterns reflected in the IRS SOI data indicate that the net outflow of people is not confined to one income class. Instead, people of all income levels are "voting against the state." Further, the bias against the Golden State is growing over time.

The previous data compared the migration trends for each income category relative to all tax returns. It is also interesting to examine the growing outmigration trends for each income category relative to the number of returns filed by taxpayers in that income category. Figure 5 presents this comparison.

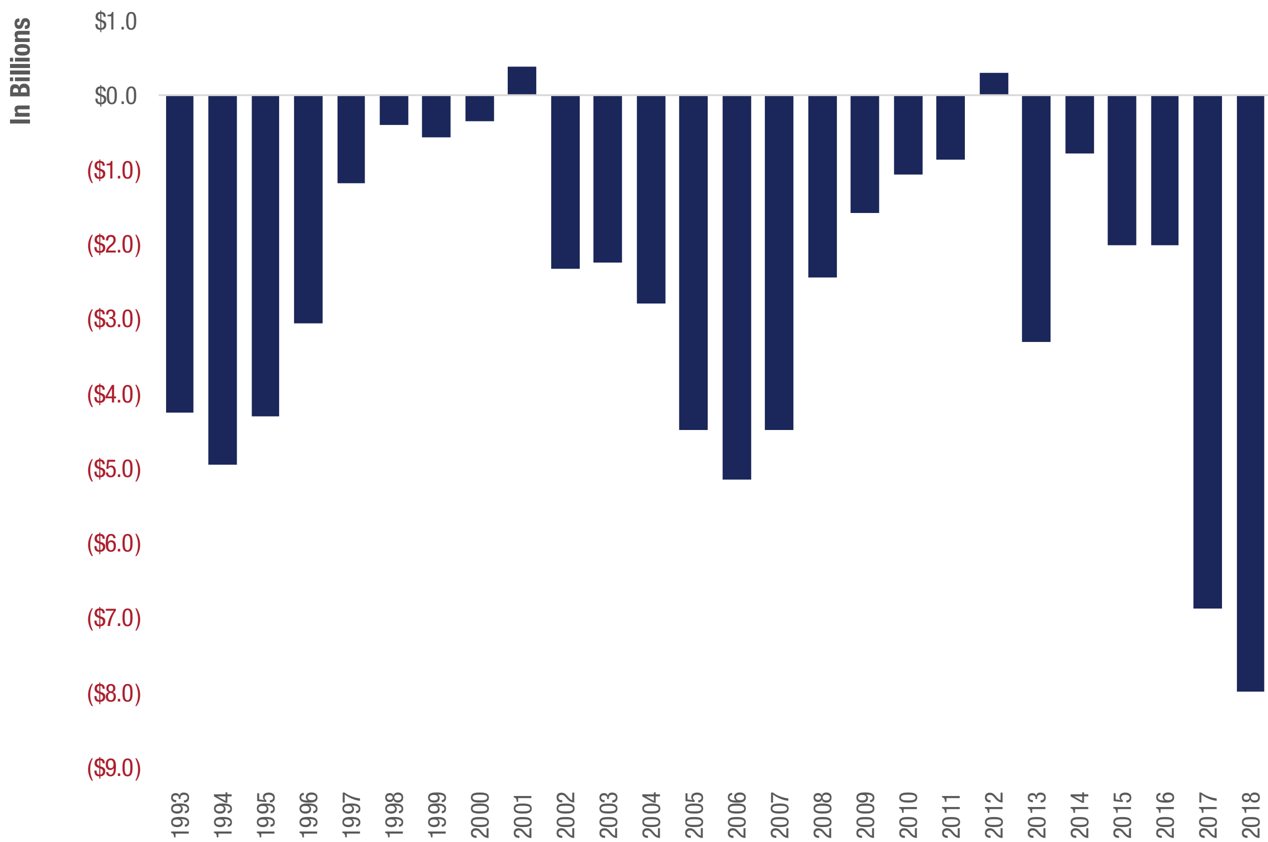
FIGURE 5. CALIFORNIA'S NET MIGRATION RETURNS AS A SHARE OF RETURNS BY INCOME CATEGORY, 2012 – 2018 (NEGATIVE PERCENTAGE REPRESENTS OUTFLOW OF TAXPAYER RETURNS)



Source: Author calculations based on IRS SOI Data

Comparing the migration trends to the total returns filed within each income category adjusts for the fact that there are more returns filed by taxpayers in the lower-income categories compared to taxpayers in higher income categories. Figure 5 clearly demonstrates that there is an increasing proclivity for upper-income taxpayers and upper-middle income taxpayers to migrate away. The loss of these taxpayers has an outsized impact on the income drain that is beginning to worsen. Figure 6 presents this trend showing that California's growing net outmigration is causing an unprecedented amount of income to leave the state as well.

FIGURE 6. NET OUTFLOW OF ADJUSTED GROSS INCOME 1993 - 2018



Source: Author calculations based on IRS SOI Data

Beyond the migration patterns by income level, it is also noteworthy to review the migration patterns by age. These trends are presented in Table 3.

TABLE 3. TOTAL CALIFORNIA NET MIGRATION, BY AGE 2012 - 2018

	2012	2013	2014	2015	2016	2017	2018
under 26	6,201	4,945	3,364	2,730	4,001	3,227	2,265
26 to under 35	3,886	3,573	3,153	3,375	2,500	(2,711)	(4,378)
35 to under 45	(2,045)	(3,847)	(4,649)	(3,469)	(7,354)	(15,202)	(13,093)
45 to under 55	(3,670)	(4,475)	(5,123)	(3,839)	(7,068)	(13,573)	(11,974)
55 to under 65	(5,834)	(7,320)	(7,249)	(5,616)	(10,817)	(19,865)	(16,995)
65 and over	(795)	(3,781)	(4,432)	(3,834)	(8,553)	(15,860)	(15,367)
Total	**(2,257)**	**(10,905)**	**(14,936)**	**(10,653)**	**(27,291)**	**(63,984)**	**(59,542)**

Source: Author calculations based on IRS SOI Data

Table 3 demonstrates several important trends.

- First, throughout the entire 2012-2018 period, the only group that has consistently migrated to California on net is the under-26 cohort, such as young adults coming to attend California's colleges or take advantage of the state's sun and surf. However, even the number of under-26 taxpayers who are locating to California is down to around one-third the 2012 level.
- Second, those between 26 and 35 were coming to California through 2016 but have since been migrating away from the state.
- Third, people 35 and older have been leaving the state throughout this entire period. This includes a diverse group of people who are all deciding that other states offer better opportunities compared to California, including key middle-class demographics such as parents with children and retirees.
- Fourth, the exodus of those 35 and older is accelerating for all age demographics.

Just like the income data, breaking down the migration data by age reveals that the exodus problem is not contained to a small sub-population. The urge to leave California is commonly felt across a wide swath of the state's population.

It's been said, and not without justification, that if California had an official state automobile, it would be a moving van, a fitting symbol of the migration out of the state. Not coincidentally, moving companies provide valuable insight into relocation trends that confirm the government data. In 2020, according to United Van Lines, California was a "top outbound" state, with 59 percent of its migration population leaving. The only other states with higher numbers were New Jersey (70 percent), New York (62 percent), Illinois (67 percent), and Connecticut (63 percent). The company reports that the primary reasons people have fled California were jobs (31 percent), family (30 percent), and retirement (23 percent). The largest outbound groups in terms of income were those earning $150,000 a year or more (45 percent), and those earning $100,000 to $149,999 (24 percent).

No matter how you look at it, the outmigration of Californians is real. California's losses in 2020 were not an outlier but rather the acceleration of a long-term trend.[6] Making these losses worse, these data only cover the exodus of residents. The exodus of people and families is only part of the story.

Business Flight

Since 2008, thousands of businesses have given up on California and relocated either fully or partially elsewhere. This outmigration of businesses stands in stark contrast to California's history of attracting businesses and rewarding entrepreneurship at least as far back as the Gold Rush, which began on the eve of the republic becoming the 31st state in 1850. The commercial and economic expansion of that era produced companies such as Levi Strauss, Armour Foods, and Wells Fargo[7] that are still operating today.

Like the exodus of families, some in both the media and in government have played down the flight, including Gov. Gavin Newsom, whose aide said "we all know" that it's "not really true" that businesses are leaving. DeeDee Myers, the director of the Governor's Office of Business and Economic Development, says the relocation crisis "is a little overblown…We did have a few high-profile companies that left and that made a good headline."[8]

Those "high-profile companies" that have moved in whole or in part just in recent years include Hewlett-Packard, whose founding is recognized as the birth of Silicon Valley; entrepreneur Elon Musk's Tesla and SpaceX; Charles Schwab, founded in San Francisco in 1971; Mitsubishi; Nissan North America; Toyota Motor North America; Oracle; Palantir Technologies; and Jacobs Engineering. In too many cases, a company leaves because it's become too hard to do business in the state.

In 2017, the Pacific Research Institute commissioned a poll of 200 business executives in the technology, manufacturing, clean tech, and energy industries. These executives were asked about California's business climate as well as the factors that went into decisions about locating in the state. Their responses were not surprising. Those surveyed, who represent firms that had either relocated from the Golden State or who had considered but refused to relocate or expand in California said:

- The state "is a tough spot because of all the regulations and red tape. There are so many fees associated with having a business in California for which we didn't get anything in return."
- "The infrastructure is horrible, and the cost of travel is higher than any other state."

- “Workers comp requirements are high. Insurance liability is way too high.”
- “Every single thing you can imagine. The red tape and bureaucracy.”[9]

Nearly nine in 10 executives (88 percent) said the high cost of housing was a factor when deliberating locating in California. Seventy-one percent cited labor law and regulation as a reason to stay away, while 62.5 percent said improvements in the quality of education would impact location decisions. Fifty-eight percent said reforming the state’s personal income tax would positively affect their decisions regarding a move into California.[10]

Despite the protestations from politicians, the words and actions of business owners, large and small, demonstrate that California’s exodus problem is large and growing. Box 1 highlights comments from a broad array of business leaders highlighting how the state’s anti-competitive environment is driving away businesses large and small.

BUSINESS LEADER QUOTES ON CALIFORNIA’S ANTI-COMPETITIVE ENVIRONMENT

I would not start in California. It’s too much bureaucracy, too hard to get things done, very heavily taxed, hard to get people to move into California . . . There is a big barrier for entry for new concepts coming into California, hard to get locations, long time permitting.[11]

—Steve Sather, CEO of California-based restaurant chain El Pollo Loco

Dear California: I’m leaving you. Here’s why … one thing I’ve struggled with about California for years is the government. … The government is notoriously business-unfriendly – with everything from high taxes on business earnings to badgering businesses into more work. . . . But the final straw (was the state’s Amazon’ tax) . . . (which is) kind of like of forcing small businesses to file ridiculous quarterly paperwork based solely on our earnings, not on whether we actually sell taxable goods. . . . And that day, I decided to move.[12]

—Whoosh Traffic founder Erica Douglass wrote the state a goodbye note in 2011 to explain why she relocated from San Diego to Austin, Texas.

The harsh truth is that California has fallen into disrepair. Bad policies discourage business and innovation, stifle opportunity and make life in major cities ugly and unpleasant. (My firm) invest(s) in technologies and people who will transform major industries and improve the lives of millions. It’s tragic that California is no longer hospitable to that mission, but beautiful that Texas is.[13]

—Joe Lonsdale, a general partner at the San Francisco-based venture capital firm 8VC, November 2020 op-ed.

Elon Musk, CEO of both Tesla, Inc., and SpaceX, and arguably the most well-known entrepreneur in the world, moved his car-making business to Texas in a "Silicon Valley snub."[14] In addition, Musk abandoned plans to build SpaceX rockets in a Port of Los Angeles facility and will instead produce them in Texas and Florida.[15] He also confirmed in December 2020 that he had moved to Texas,[16] where there are "personal benefits for Mr. Musk: The state doesn't collect state income or capital-gains tax for individuals," the *Wall Street Journal* reported.[17] The *Journal* further noted that in explaining his decisions, Musk "broadly criticized government regulations as stifling startup creation and favoring monopolies or duopolies," and "called for the government to 'just get out of the way' of innovators."[18]

> Musk "broadly criticized government regulations as stifling startup creation and favoring monopolies or duopolies," and "called for the government to 'just get out of the way' of innovators."

These relocations are producing real-world consequences. "As we lose really successful businesses, such as Oracle and Hewlett-Packard, that changes how many high-paying jobs we're going to have. Changes really the whole nature of the state," says Lee Ohanian, UCLA economics professor and Hoover Institution senior fellow. "It changes how many tax dollars go into Sacramento, how many tax dollars fund our schools, whether there's money left over to repair roads and bridges. It's really a huge problem that the state is facing."[19]

At the same time, the private sector suffers from a "pervasive ripple effect."[20] The late David Sparling, a professor at the University of Western Ontario, has observed that "you don't just lose the jobs from the company that's moving, you lose the jobs at their suppliers. Five hundred [lost jobs] jobs can turn into 2,000."[21]

The Incentives Driving the Exodus from California

For 150 years, California was the destination for “the fresh start, innovation and entrepreneurship, the Golden Opportunity.” Energetic and productive people were drawn by the state’s openness and lack of Old World – and even East Coast – structure. At one time, it was “a state governed by creativity and innovation.”[22] Today creativity and innovation have been replaced by burdensome government mandates and regulations. Policymakers from Sacramento to county seats and city halls have created an environment hostile to the business community.

The incentives to flee California are not insignificant. Joe Vranich, a relocation specialist who at one time was based in Irvine but is now in Texas, says businesses save 20 percent to 35 percent in costs after their moves out of the state are completed.[23] An unnamed executive whose company left the state told him that “we compete globally and we can’t compete with California’s costs.” Another complained that California “is the worst state in the country to do business in. ... There doesn’t seem be any improvement on the horizon.”[24]

Vranich compiled a report in 2018, in which he bluntly recommended that businesses escape California. It was, he admitted, “a rather brazen statement for a business-analysis document, but it is well justified.” His position “stems not merely from my work as a site selection consultant,” he said, but from “a view echoed by leaders in the business community.”[25]

“The way California politicians treat businesses is to threaten their well-being with one harsh law or regulation after another or one tax increase after another to cover ever spiraling-upward spending.”[26] There are “the never-ending tax and regulatory assaults on businesses,” which Vranich calls “death by a thousand cuts”; policymakers who “have gone too far in their mean-spiritedness”; and the state’s “authoritarian regime” as reasons companies skip out of the state. He doesn’t spare local governments, either, singling out Santa Barbara for its “cruel penalties” for violating the city’s plastic straw ban.[27]

Based on what he had seen over an extended period, Vranich suggested three years ago that companies should “start planning your out-of-California move now,” since “such projects take time.” He also warned that “companies thinking of moving to California should consider doing a U-turn as others have done and instead locate in business-friendly states.”[28]

"With California routinely enacting 800 laws every year, a delay will only make your enterprise more vulnerable to additional costly and inconveniencing laws and regulations."[29]

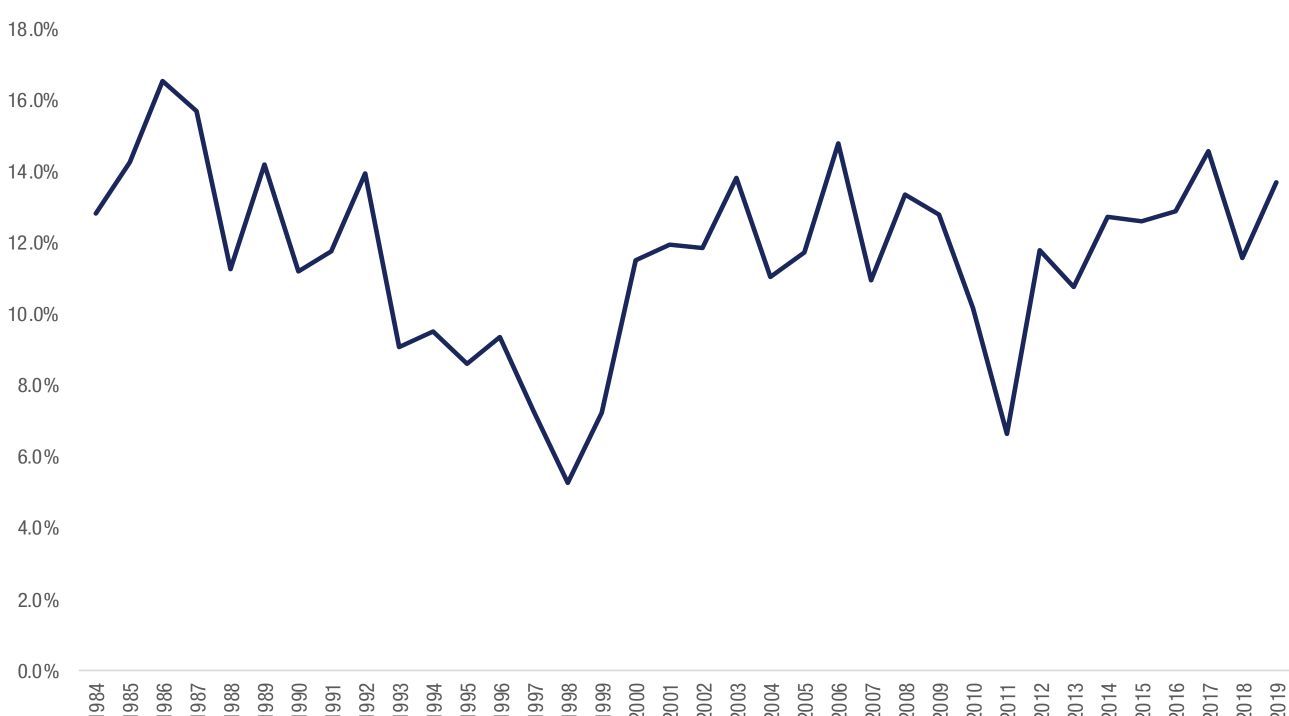
Vranich, who has been documenting the state's business flight for more than a decade, estimates that there were about 13,000 "disinvestment events" from 2008 to 2016, with economic losses totaling $77 billion over that period.[30] Consequently, in December 2018, he warned corporate leaders, small-business owners, and entrepreneurs that "of all of the research reports that I've issued over the years, this is the first time I'm openly recommending that companies relocate out of California."[31]

Others see it the same way he has. The California Business and Industrial Alliance, for instance, placed a full-page ad in *USA Today*'s northwest edition in 2017 advising that Amazon locate its second headquarters somewhere other than California. The ad read "Greetings from California" with a sign that said, "Sorry We're Closed."[32]

California's Income Premium Is Less Than It Seems

As Figure 1 demonstrates, California's robust personal income growth over the last several years appears to contradict the dour implications of the data presented in the previous section. Figure 7 provides perspective on this issue by presenting the percentage premium of Californians' median household income relative to the U.S. average between 1984 and 2020. As Figure 7 illustrates, while California's premium fluctuates, it is now about 14 percent higher than the median income for the U.S.

FIGURE 7. CALIFORNIA'S MEDIAN HOUSEHOLD INCOME PREMIUM RELATIVE TO THE U.S. AVERAGE 1984 - 2019



Source: U.S. Census Bureau

All other things equal, California's higher median household income would indicate that Californians are relatively more prosperous than other Americans. In response, people should be migrating toward California (like they were historically) not away from the state. There are many reasons why all other things are not equal, which is why California's growth premium will not last if the exodus from California is not addressed. In this section we focus on the impact from California's high cost of living for two reasons. First, the excessive costs families must bear to live in California is a primary reason why families are leaving the state. Second, once California's higher incomes are adjusted for the cost of living, California's income premium disappears. Put differently, California's excessive cost of living is a driver of the exodus because it undermines the state's income premium, see Table 4.

TABLE 4. 2019 MEDIAN HOUSEHOLD INCOME ADJUSTED FOR AVERAGE STATE-LOCAL TAX BURDEN AND AVERAGE MORTGAGE COSTS FOR MEDIAN-PRICED HOME

	CALIFORNIA	UNITED STATES	CALIFORNIA PREMIUM
Median Household Income	78,105	68,703	13.7%
State-Local Tax Burden	11.50%	10.30%	11.7%
After-Tax Income	*$69,123*	*$61,627*	*12.2%*
Annual Mortgage Costs	$33,365	$17,139	94.7%
Income Net of Taxes and Mortgage	*$35,758*	*$44,488*	*-19.6%*

Source: Author calculations

Table 4 starts with the median household income for California ($78,105), which is 13.7 percent higher than the U.S. average ($68,703). Table 4 adjusts this income for two major costs in California that are significantly higher than the U.S. average. The first are taxes. Measuring the actual taxes an individual household pays is difficult due to the complicated state and local tax systems. The Tax Foundation estimates that the state and local tax burden in California and the U.S. is 11.5 percent and 10.3 percent, respectively.[33] The Tax Foundation's estimates are based on aggregate data; however, they are reasonably close to the expected income, sales, and property tax burdens for a family earning the median income in California.[34] Once adjusted for the higher tax burden, income in California is only 12.2 percent higher than the national average.

However, California's extremely expensive housing market has not been considered. In 2017, a report from the University of Southern California Sol Price School of Public Policy found that not only did steep housing costs make it harder for businesses to recruit employees, they also made it difficult to retain their current work force.[35]

Since then, housing in the state has become even more unaffordable. By May 2021, the median price for a single-family home in California reached a record high $818,260, a half percentage point increase over the previous month, when the median price was $814,010, and far in excess of the May 2020 figure of $588,070.[36] When the $800,000 threshold was crossed for the first time ever in April,[37] it was a 7.2% jump over the median price in March.[38] The $700,000 ceiling was shattered only in September 2020,[39] an indicator that unaffordability might be accelerating faster than ever before.

The national median home price was $350,000 in May,[40] also a record. Yet it's still less than half California's median price, and almost one-fourth of the median price in San Francisco.

At the regional level in May 2021, according to Norada Real Estate Investments in Laguna Niguel:[41]

- The San Francisco Bay Area had the highest year-over-year gain of 38.9 percent; a median price home there is now $1.34 million.
- The Los Angeles Metro Area experienced a year-over-year price gain of 35.5 percent, taking the median price to $725,000.
- The year-over-year price gain in Southern California was 33.1 percent, the median price hitting $752,250.
- There was a 32.6 percent year-over-year price increase in the Central Coast, where the median price is $900,000.
- A 28.9 percent year-over-year increase took the median price in the Inland Empire to $510,000.
- The Central Valley's 27.1 percent year-over-year price gain moved the median price there to $445,000.
- In the Far North there was a year-over-year price gain of 22.1 percent, the median price being arriving at $365,000.

California's income premium is sharply offset by the state's exorbitant housing costs. Meeting the costs of a 30-year fixed mortgage for the median-priced California home requires 48 percent of the median household's income, far higher than the national average which has been at roughly 30 percent since the Great Recession.[42]

Steep housing costs cannot be avoided by renting. In only one state – Florida – are renters more "cost-burdened" than in California, with 55 percent of renters in the former falling into that category, 53 percent in the latter.[43]

Another way to determine housing affordability is through the "Median Multiple" measurement, established by dividing the median house price by the median household income of the same area. Using this method, the Demographia International Housing Affordability Survey of 2018 found that "not one California housing market was in the Affordable or Moderately Unaffordable range," says Vranich.[44]

Seventeen out of the 30 markets nationwide found in the survey's "Severely Unaffordable" category are in California. They are: Fresno, Merced, Modesto, Sacramento, Vallejo, Riverside-San Bernardino, Stockton, Oxnard, San Luis Obispo, Santa Rosa, San Diego, Salinas-Monterey, San Francisco, Los Angeles, Santa Barbara, San Jose, and Santa Cruz.[45]

The biggest losers are the middle and lower classes, whose members "have left in recent years" because "they simply couldn't afford to stay."[46]

"People are being priced out," says Salinas realtor Chris Barrera said. "I have a lot of clients who are selling and they're just tired of California politics."[47]

To account for the higher housing costs in California, Table 4 estimates the annual mortgage costs for the median home in California and the annual mortgage costs for the median home in the U.S. The annual mortgage costs are based on the average sales price of a home in 2020 and the average 30-year fixed mortgage rate in

2020. The average sales price for a home in California is the average of the monthly sales prices for an existing home for all of 2020, according to the California Association of Realtors ($650,157).[48] The median sales price of a home in the U.S. ($333,975) is from the U.S. Census.[49] The monthly mortgage payment is based on the average interest rate on a 30-year fixed rate loan for all of 2020 (3.11 percent).[50] These calculations demonstrate that annual mortgage costs for the average priced home in California are nearly 95 percent higher than the annual mortgage costs for the average priced home in the U.S.

Once these costs are paid, California's 13.7 percent higher median household income turns into a 19.6 percent income deficit. Put more simply, having accounted for just two of California's high costs (taxes and housing) demonstrates that California's high-income growth is deceptive. While personal income in California is higher, and growing faster, than the average of the U.S., its growth is insufficient to cover the exceptionally high costs of living in California. And the higher costs for electricity, gasoline, groceries, and many other goods and services have not yet been covered either. These higher costs of living essentially negate the benefits from the state's high incomes.

Taxing Away Businesses and Families

Tax policy affects companies' location and relocation decisions. "Taxes are always an issue," says Bay Area realtor Scott Fuller, whose LeavingtheBayArea.com helps residents relocate from California. "And with more of the proposed taxes coming online, we're seeing more higher-end, higher-income earners – more affluent people or business owners – who are now looking at their options. They're concerned about having to pick up the tab for public pensions, schools and everything else."[51]

According to the *San Francisco Business Times*, "the effort to adopt a California wealth tax has already drawn sharp rebuke from the Bay Area Council, a business-backed public policy group." President and CEO Jim Wunderman asked why, "rather than trying to gin up new ways to drive away jobs and investment that are critical to our economic recovery," aren't policymakers instead focused "on ways to build and expand wealth and opportunity for more Californians?"[52]

"Jobs and investors are already fleeing the state's onerously high taxes, unaffordable housing, rampant homelessness and excessive regulations," Wunderman continued. "Other states that smell California's economic vulnerability are licking their chops at the sight of reckless legislation like this."[53]

And California's taxes are indeed high.

The state ranks 49th (3rd worst) in the Tax Foundation's 2021 State Business Tax Climate Index. It was also next to last in the 2020 index, and 48th from 2014 to 2019. According to the Tax Foundation, California ranks in the middle (28th) in corporate taxes, 21st in unemployment insurance taxes, and 14th in property taxes, thanks to 1978's Proposition 13, which limits tax rates on real estate. However, California is 49th in individual income taxes and 45th in sales taxes.[54]

No state has a higher personal income tax rate (13.3 percent) than California. The next closest is Hawaii, at 11 percent. The nation's top state sales tax rate (7.25 percent) is also found in California.[55] Both of these taxes make it difficult for companies to attract talent and productive workers from other states, where the rates and burdens are lower, and at the same time they make leaving the state an attractive option.

Other taxes that negatively impact businesses directly and indirectly, writes Michael Thom, associate professor at the Sol Price School of Public Policy at the University of Southern California, in the 2021 Pacific Research Institute study, "Nickel and Dimed," include:[56]

- "Vehicle fees charged by the Department of Motor Vehicles to register a new car or truck and to maintain registration after that."
- Cellular telephone fees, which are "added to the price of monthly service by multiple state and local agencies."
- "Environmental fees that raise the price of certain goods, like tires, electronic devices, electricity, and even mattresses."

For all the taxes California residents pay, they don't get much in return. According to personal finance web site WalletHub, only Hawaii has a lower taxpayer return on investment. The results were arrived at by "contrasting state and local tax collections with the quality of the services residents receive in each of the 50 states within five categories: Education, Health, Safety, Economy, and Infrastructure & Pollution." California was 45th in total taxes paid per capita, 37th in overall government services provided. Scores in education and health, weren't poor, 16th and 27th respectively. But the state was ranked 36th in safety and 45th in economy.[57]

Given the state's uncompetitive tax environment, it is unsurprising that an August 2020 CNBC report noted that "between 2008 and 2019, 18,000 companies have left California for more tax- and regulatory-friendly states."[58]

Newly Implemented Taxes

Making California's tax system even less desirable are a raft of new taxes being implemented and considered at the state and local level. For instance, San Francisco voters approved the Overpaid Executive Tax in November 2020 by a 65-35 margin through Proposition L. It levies "an additional tax permanently on some businesses in San Francisco when their highest-paid managerial employee earns more than 100 times the median compensation paid to their employees in San Francisco."[59] Revenue is primarily dedicated to health care services.

The *San Francisco Chronicle* editorial board opposed Proposition L, calling it "yet another anti-business jab bound to dissuade firms from staying or moving here" in its November 2020 ballot recommendations.[60] It is correct.

Senate Bill 1, the Road Repair and Accountability Act of 2017, has caused state motor fuel taxes to increase every July 1 since 2019, following a 12-cent-per-gallon hike in the gasoline excise tax in November 2017. While the state's motor fuel tax regime was consistently among the highest in the country prior to SB1 becoming law, the legislation made California's motor fuel taxes the most burdensome in the country. After July 1, 2021, combined state gasoline taxes in California reached 85 cents a gallon, including the 18.4 cent-per-gallon federal tax, while diesel was $1.17 a gallon, including the federal 24.4 cent-per-gallon tax.[61]

The 14th edition of the American Legislative Exchange Council's "Rich States, Poor States" report ranks California 46th in terms of "recently legislated tax changes," which are calculated by taking into account "each state's relative change in tax burden over a two-year period (in this case, the 2019 and 2020 legislative sessions) for the next fiscal year, using revenue estimates of legislated tax changes per $1,000 of personal income."[62] California has consistently scored poorly on this measure over previous editions of this report.

Proposing more taxes

Despite having an uncompetitive tax environment, and in the face of recent tax increases that the state has implemented, California continues to propose new ways to burden taxpayers. It will be the first state in the country to levy a wealth tax should Assembly Bill 310 or ACA 8 become law.

ACA 8 would change the California Constitution "to allow a tax on 'extreme wealth' granting the Legislature authority to tax *all* forms of personal property or wealth."[63] AB 310, introduced in January 2021, seeks to "impose an annual tax at a rate of 1 percent of a resident of this state's worldwide net worth in excess of $50,000,000, or in excess of $25,000,000 in the case of a married taxpayer filing separately. The bill would also impose an additional tax at a rate of 0.5 percent of a resident's worldwide net worth in excess of $1,000,000,000, or in excess of $500,000,000 in the case of a married taxpayer filing separately."[64]

It is not just wealth that California wants to tax. Assembly Bill 1253, introduced in February 2021, "would impose a tax of 1 percent on that portion of an individual's taxable income over 'the adjusted' $1 million, 3 percent on the same portion over $2 million, and 3.5 percent on that portion over $5 million," says a report from *National Law Review*.[65] The tax rate for income over $1 million a year would grow from 13.3 percent to 14.3 percent, and those earning more than $5 million annually would be hit with a 16.8 percent rate. It would also be retroactive, applying to income earned beginning on January 1, 2020.[66]

After the top income tax rate was raised to 13.3 percent in 2012, "thousands of taxpayers fled the state," says Ross Marchand, senior fellow for the Taxpayers Protection Alliance. By adding yet another percentage point, and in some instances 3.5 points, Sacramento would increase the "financial pressure on those in the highest income brackets," running "the risk of losing jobs and tax revenue from individuals and businesses choosing to relocate out of state."[67] Table 1 documented this outmigration, showing a rising number of upper-income taxpayers leaving the state since 2012.

Assembly Bill 71, the Bring California Home Act, is another tax businesses would want to avoid. It would "provide a stable and ongoing funding source to help local governments in every corner of this great state," and "implement much needed policies and programs that have failed to be advanced because of limited and inconsistent funding which would ultimately leave our local communities to fend for themselves," according to its primary sponsor, Assemblywoman Luz Rivas.[68]

In order to raise $2.4 billion, AB71 would increase taxes on businesses with annual profits exceeding $5 million. The corporate tax rates would rise from 8.84 percent to 9.6 percent for large businesses, and from 10.84 percent to 11.6 percent for financial institutions.[69] The tax would also be retroactive[70] and levied on companies that aren't based in the state.

Los Angeles Mayor Eric Garcetti, an AB71 supporter, said "we don't want to do something that would chase business out of California,"[71] but these tax hikes are exactly the sort of legislation that is driving companies to leave as well as to decide against locating/expanding in the state. Wunderman said AB71 would further cloud "California's already stormy business climate."[72]

Overregulating California's Workplaces

The Cato Institute ranks California 48th in regulatory freedom.[73] The state's grades include an F in licensing laws, a D+ for ease of starting a business, and a D in labor and hiring laws. Only New Jersey and Connecticut impose higher barriers.[74]

Cable network CNBC has posted state business ratings since 2007 and California has always ranked as one of worst states with respect to the cost of doing business, business friendliness, and the cost of living. Keeping California out of the bottom of the overall order are its rankings in technology and innovation (thanks to Silicon Valley), and access to capital (Silicon Valley, again), categories where it was frequently positioned first or second.[75] However, given that California consistently ranks in the bottom half of the states despite its historical advantages demonstrates the amount of damage its policy environment creates.

TABLE 5. CALIFORNIA RANKINGS - CNBC TOP STATES FOR BUSINESS, 2007–2019*

YEAR	OVERALL RANKING	COST OF DOING BUSINESS	BUSINESS FRIENDLY	COST OF LIVING
2007	28	48	48	49
2009	32	49	49	49
2010**	32	48		
2011	32	47	50	48
2012	40	48	43	46
2013	47	50	48	45
2014	32	48	48	47
2015	27	49	50	46
2016	32	49	50	47
2017	28	49	50	48
2018	25	48	50	49
2019	32	50	50	49

* The 2008 list is unavailable

** Data is unavailable for the Business Friendly and Cost of Living categories in 2010

Source: CNBC

Legislation such as Senate Bill 1383 exemplifies why California's regulatory environment is so business unfriendly – and why it keeps getting worse. Passed and signed in 2020, SB 1383, known as the Unlawful Employment Practice: California Family Rights Act, significantly burdens those by requiring small employers "with only five employees to provide eligible employees with 12 weeks of mandatory family leave, which can be taken in increments of 1-2 hours, and threatens these small employers with costly litigation if they make any mistake in implementing this leave," says the California Chamber of Commerce, which lists the legislation in its "2020 Job Killer List."[76] Mandatory paid family leave sounds great, but it will have one of two impacts. One, the mandates will increase costs for consumers and worsen the state's affordability problems that harm lower- and middle-income families the most. Two, the costs will be borne by the small businesses, who will now find it even more difficult to stay afloat. Either way, any benefit mandated by the state will cause an even larger burden (in aggregate) to be borne by businesses and consumers.

California further added to businesses' regulatory burden through Senate Bill 973, which amended state law to require that no later than March 31, 2021, private employers that have "100 or more employees … shall submit a pay data report." It also gave the state Department of Fair Employment and Housing the authority to "investigate, conciliate, mediate, and prosecute complaints alleging practices unlawful under those discriminatory wage rate provisions."[77] The California Chamber of Commerce believes the new code "could give the false impression of wage disparity where none may exist." It "also creates confusion by allowing two different state agencies to enforce Equal Pay Act claims."[78]

In 2019, the Chamber of Commerce identified several other bills as "job killers," including Assembly Bill 51, which "significantly expands employment litigation and increases costs for employers and employees by banning arbitration agreements made as a condition of employment."[79] Its implementation is awaiting the outcome of a court challenge.

Long before the flight of companies was garnering the attention it receives today, Vranich said the state's "anti-business climate is worse than ever because many politicians are making a career out of treating businesses as an object of scorn vs. a resource to be appreciated."[80]

The foundation for this difficult environment was laid when Gov. Jerry Brown was first elected in 1974. His "administration proceeded to scuttle some infrastructure spending, limit development and expand environmental regulations," according to *City Journal*'s Steven Malanga. He cites a 2009 study by a pair of California State University finance professors who "estimated that regulation cost the state's businesses $493 billion annually, or nearly $135,000 per company."[81]

The regulatory burden has not eased in the interim. In presenting its "CaliFormers" list – an updated tracking of business relocations out of state – the Center for Jobs and the Economy, part of the California Business Roundtable, noted that policies which have evolved over the decades have produced the "strictest in the nation regulatory cost." This has "caused jobs in key sectors such as manufacturing to start-up, scale or relocate in other lower-cost states, sometimes just across the border from California."[82]

Pricing People Out of Work by Raising the Minimum Wage

California is in the middle of a multi-year increase in the minimum wage that will eventually take the wage floor to $15 an hour. On Jan. 1, 2021, the minimum wage for companies with more than 25 employees was raised to $14 an hour from $13. It is the highest minimum wage in the country outside of Washington, D.C., where the wage floor is $15 an hour.[83] California companies with 25 or fewer employees must pay $13 an hour, a $1 raise from 2020.

The yearly increases have been coming since Jan. 1, 2017, and will continue until Jan. 1, 2022, for businesses with more than 25 employees and the following New Year's Day for those with 25 and fewer, at which point the minimum wage for all California workers will be $15 an hour,[84] a 50 percent rise from the $10 an hour wage floor of 2016.[85] Several cities have their own minimum wage ordinances of at least $15 an hour, some (Berkeley, Emeryville, San Francisco) exceeding $16 an hour.[86]

The added burden for many businesses is devastating.

At roughly the same time he said that “for every dollar” the minimum wage grows, “it costs me around $40,000”[87] in business expenses, Paul Fraga closed his Sacramento diner Original Perry’s after 51 years of operation.[88] “I can’t raise menu prices fast enough to compensate” for the losses, he said.[89]

When Gov. Jerry Brown signed the minimum wage hike legislation in 2016, he admitted that “economically, the minimum wages may not make sense.”[90] Yet he approved a $15-an-hour minimum into law anyway. Three weeks later, Fred Donnelly, president of California Composites in Santa Fe Springs, said it was last thing he wanted to do, but he felt he had no choice but to move his company out of California and into Texas because of the former’s “dysfunctional” worker’s compensation system, smothering state and local regulations, and the eventual $15 minimum wage.[91]

“The wage mandate will make it very difficult for many Californians to find work,” the Heritage Foundation predicted in 2016. “Businesses will respond by cutting jobs, raising prices, investing more heavily in labor-saving technology, or leaving the state.”[92]

The Site Selection Group, which connects companies with “optimal locations,” said “California’s new Fair Wage Act” took the “minimum wage debacle in the United States” to “a whole new level” in a 2016 post on the company’s blog. Its analysis “estimated that the wage increase will potentially put 518,510 workers employed in manufacturing plants, distribution centers and call centers at risk of losing their jobs.”[93]

These estimated impacts are precisely what happened. Across the 21 states and Washington D.C. that increased their minimum wages in 2019 “a study by Harri revealed that a whopping 71 percent of restaurants have responded to the recent minimum wage increases by raising menu prices. In addition to price increases (71 percent), reduced employee hours (64 percent) and job eliminations (43 percent) were the most common reactions to wage inflation.”[94]

“This is the opportunity of a lifetime for site selection specialists to help companies move out of California as they seek lower labor costs, positive business climates, better labor laws, lower taxes and economic incentives,” the Dallas-based firm’s founder and president, King White, warned. “It is going to be extremely challenging for California to retain or attract wage-sensitive operations such as manufacturing plants, distribution centers and call centers in the future.”[95]

During the 2020 pandemic lockdowns, Gov. Gavin Newsom refused to delay the Jan. 1, 2021, minimum-wage increase even as businesses struggled to keep their doors open. In response, the National Federation of Independent Business, an advocacy group that considers itself “the voice of small business,” recommended that entrepreneurs leave California.[96]

‘Paid Leave’ or Paying to Leave?

California’s paid family leave law was amended in 2019 and updated provisions took effect on July 1, 2020. These amendments extended the maximum duration from six to eight weeks for paid family leave benefits and also require the governor to “submit a proposal extending paid family leave to six months by 2022 as well as adding other benefits.”[97]

But even before it was expanded, California's paid leave was "the most generous – and burdensome" program "in the nation," making life more difficult and more costly for current and potential entrepreneurs.[98] The increased expenses "reduce the ability of small businesses to add new employees and grow,"[99] and could conceivably be a factor in decisions to relocate outside the state.

In addition to the costs of providing the most expensive paid leave benefits, no state burdens businesses with costlier short-term disability insurance and workers compensation regulations than California. Restrictive disability insurance and workers compensation regulations "further increase the costs on small businesses from hiring additional workers dampening the vitality of the small business sector." These regulations "diminish economic efficiency, increase operation costs, and create a disincentive for small businesses to grow and expand their payrolls. The result is a less vibrant small business sector."[100]

Energy Costs

Thanks to its green mandates and taxes, California has some of the highest electricity prices in the country. The price of commercial electricity in California was nearly 80 percent higher than the average of the other 49 states in June 2021. It was third highest in the nation and the highest among the lower 48.[101] The price of industrial electricity was 128 percent higher than the average for the rest of the nation for the same month. Prices were higher in the contiguous U.S. only in Rhode Island.[102]

Across the 12 months that ended in April 2021, "California's higher electricity prices translated into commercial and industrial ratepayers paying $12.2 billion more than ratepayers elsewhere in the U.S. using the same amount of energy. Compared to the lowest rate states, commercial and industrial ratepayers paid $15.6 billion more," according to the California Center for Jobs & The Economy.[103]

The prices paid for electricity by California businesses have exceeded the national average for more than three decades. During the state's 2000-2002 electricity crisis, the premium spiked roughly 85 percent. Prices have been rising since a low point in 2008 and, at 69 percent, are not far off the high mark of 2002.[104]

Gasoline and diesel prices both impact businesses' bottom lines, and in the summer of 2021, California had the highest prices in the country, $4.31 a gallon for gasoline on July 12, far higher than the national average of $3.15.[105] At $4.19 a gallon, California had the highest diesel price in the country as of the first week of July 2021.[106] Diesel prices in the state have not been below the U.S. average since October of 2008.[107][108]

California has a long history of fuel prices that are significantly higher than the national average.[109] Much of the difference is due to regulatory costs and taxes, which were increased dramatically by the passage of the Road Repair and Accountability Act of 2017, making them the most burdensome in the nation.[110]

Nearly 61 percent of business executives who had either left California, or had considered locating operations in the state, said that gasoline taxes, cap-and-trade policy, and energy costs would affect their location decision.[111]

"California's energy prices – one of the highest in the continental U.S. and double the cost in places like Texas," Chapman University's Joel Kotkin and Marshall Toplansky recently wrote in a *Los Angeles Times* op-ed, "are another incentive to move commercial activities elsewhere."[112]

Rising Crime, Declining Quality of Life

The video of a man filling a large plastic bag with the items of his choice at a San Francisco Walgreens while a customer and security guard watch, then hopping on a bicycle and leaving with the stolen goods, went viral in June 2021. The customer was a local news reporter who said "I live in this city, and I see this constantly." She had told her colleagues that over the past 18 months she had witnessed three "out-in-the-open shoplifting sprees at different Walgreens throughout San Francisco."[113]

The suspect was later arrested, "while he was 'clearing shelves' at a different drug store." He was linked, police said, to six other shoplifting incidents between the end of May and the middle of June. Five were committed at the same Walgreens.[114] This sort of large-scale binge shoplifting isn't committed to acquire stolen items for personal use but is intended to acquire goods that can be sold on the black market.

Before that one-man crime wave hit, Walgreens representatives attended a board of supervisors hearing in which retailers, the police, the district attorney's office, and probation departments met to discuss growing crime. According to a *New York Times* reporter – who also witnessed fearless shoplifting in the city, and once asked a store clerk if it was "optional to pay for things here" – the executives said thefts at their San Francisco stores "were four times the chain's national average," and that "it had closed 17 stores, largely because the scale of thefts had made business untenable."[115]

Rising property crime prompted another retailer, Target, to alter its store hours in San Francisco. Local media reported in July 2021 that the chain "has now acknowledged that San Francisco is the only city in America where they have decided to close some stores early because of the escalating retail crime." Others are changing business hours, as well. "After 10 p.m. the 7-Eleven on Drumm St. in the Financial District only does business through a metal door. But first you have to ring the bell to let them know you're outside."[116]

The losses due to increasing crime in San Francisco aren't limited to just property. An official from one of Walgreens' competitors, CVS, said it was company policy for employees to leave thieves alone, because "we've had incidents where our security officers are assaulted on a pretty regular basis in San Francisco."[117]

An assault by shoplifters in Los Angeles turned deadly a short time after the CVS executive spoke. Thirty-six year-old Miguel Penaloza was shot and killed on July 15 after he confronted a pair of men who were leaving a Los Angeles Rite-Aid with two cases of beer they hadn't paid for.[118] As of late July 2021, the store remained indefinitely closed due to the "tragedy."[119]

Conditions seem no better on the other side of the Bay in Oakland. Thieves have become so bold there that in late June 2021, two armed men tried to hold up a television news crew during an interview outside of City Hall. The official being interviewed was none other than Guillermo Cespedes, Oakland's director of violence prevention. The attempted robbery occurred "just hours after the police chief warned of worsening crime amid cuts to the police budget," the *San Francisco Chronicle* reported. The suspects tried to steal the camera, a scuffle ensued, a security officer pulled a gun, and the would-be robbers fled. No one was hurt, nothing was stolen. It happened less than three hours after "Oakland Police Chief LeRonne Armstrong held a news conference in which he criticized the City Council for passing a budget that reduced police spending by $18 million – diverting much of those funds to the city's department of violence prevention in an effort to support alternatives to policing."[120]

There's no denying that San Francisco is "one of the epicenters of organized retail crime."[121] But other cities have not been left untouched by increased criminal activity negatively impacting the quality of life. In addition to San Francisco, Los Angeles and Sacramento are among the 10 cities in the country that have the most organized retail crime troubles.[122]

Organized retail theft "is a growing problem not only for businesses but for California communities," says the California Retailers Association. It "fosters a host of illegal activity, including the recruitment of youth, homeless and others into theft crimes. These networks frequently use their proceeds to finance other illegal activity including drug smuggling and human trafficking."[123]

"Increasingly lax enforcement of property crimes," says the organization, is one of the factors that has "exacerbated large scale criminal theft, contributed to significant business losses for large and small retailers and greatly impacted the industry's ability to provide jobs and keep their doors open to serve their communities."[124]

Proposition 47

California voters approved Proposition 47 by nearly a 60-40 margin in 2014. Among its multiple provisions, Prop 47 requires misdemeanor sentencing for some offenses such as "petty theft, receiving stolen property, and forging/writing bad checks" depending on the value.[125] Allowing offenders to shoplift as much as $950 in merchandise and be charged with a misdemeanor rather than a felony[126] has incentivized property crimes. San Francisco Supervisor Ahsha Safai—whose car was broken into in March 2021 while parked in front of City Hall as he was inside speaking about crime[127]—has said "there has to be more accountability and some more consequences for people's actions"[128] in regard to rampant shoplifting. But policy decisions have produced an environment in which there are fewer and lighter consequences.

The response from the criminal class was predictable. The thieves "know what they're doing," said Rachel Michelin, president of the California Retailers Association. "They will bring in calculators and get all the way up to the $950 limit."[129]

Proposition 57

Two years after Proposition 47, Proposition 57, known as the "The Public Safety and Rehabilitation Act of 2016," was passed by a roughly 64-36 margin, and became effective upon its Nov. 9, 2016 voter approval. Its intent was to cut the state prison population; "protect and enhance public safety"; save money by cutting wasteful prison spending; prevent federal courts from indiscriminately releasing inmates; end the "revolving door" of crime by focusing on rehabilitation, particularly for juvenile offenders; and require judges rather than prosecutors to determine when juveniles should be tried as adults.[130]

Under Prop 57, any inmate convicted of a non-violent felony offense and sentenced to state prison is eligible for parole consideration after completing the full term of the offender's primary offense. The law also gives the Department of Corrections and Rehabilitation the authority to award credits earned for good behavior as well as rehabilitative or educational achievements, such as academic programs, substance-abuse treatment programs, social life-skills courses, and career technical education classes.[131] The credits became a source of concern for some who believed that the program focuses more on participation in the activities rather than completion or meeting meaningful milestones and benchmarks.

The Crime-Induced Exodus

Californians are simply exhausted by the rising crime and poll after poll is finding that they want to move out of the state to get away from it. "Amid sharply rising concerns about crime and quality-of-life issues, 44 percent of respondents to the San Francisco Chamber of Commerce's annual CityBeat poll say they intend to leave the city in the next few years," the *San Francisco Business Times* reported in June 2021.

"The chamber poll follows a Bay Area Council survey earlier this year that likewise found almost half of Bay Area residents are planning to leave in the next few years, with many of them looking to move out of California entirely."

The *Business Times* said that 60 percent of survey respondents said crime in the city had become "much worse" in recent years. In the previous year's survey, about two months before pandemic restrictions were adopted, "only 37 percent had said crime had become much worse." "The responses capture what life is like for law-abiding San Francisco residents, who all too often find themselves dodging shoplifters on a trip to a drugstore."[132]

" Californians are simply exhausted by the rising crime and poll after poll is finding that they want to move out of the state to get away from it.

California's Homelessness Crisis and the Population Exodus

Homelessness is a large and growing crisis for California. The U.S. Department of Housing and Urban Development's most recent count found nearly 161,548 homeless persons across the state, an increase of 10,270 over the previous tally. The national total was 580,466, meaning that roughly 28 percent of the country's homeless are in California, even though only 12 percent of the population lives in the state. New York is next, with 16 percent of the homeless population.[133]

> A 2019 poll found that 79% of Bay Area voters said homelessness was considered an 'extremely' or 'serious' problem, following only housing costs and the cost of living.

California accounts for more than half of the country's unsheltered population (51 percent or 113,660 people), "nearly nine times the number of unsheltered people in the state with the next highest number, Texas," according to HUD. In fact, 79 percent of the California homeless are unsheltered, the highest rate in the nation.[134]

California's rate of homelessness is 41 per 10,000, third after New York (47) and Hawaii (46). The state experienced the largest increase, 6.8 percent, of homelessness in the country from 2019 to 2020.[135]

While a statewide problem, the bulk of the homeless are found in Los Angeles. In 2020, there were 66,436 homeless persons in Los Angeles County, and 41,290 in the city of Los Angeles, according to the Los Angeles Homeless Services Authority.[136] In San Francisco, another major hub of the crisis, the most recent point-in-time count, taken in January 2019 (it was skipped in 2021 due to the pandemic), indicated a homeless population of 8,035. This is, a significant increase over the 2017 count, which totaled 6,858.[137]

Human feces and hypodermic needles left by the homeless litter the streets of Los Angeles and San Francisco. In Los Angeles, pedestrians have had to dodge piles of trash in Skid Row, where medieval diseases and other ills nearly eradicated by modern medicine have become a threat.[138] A 2019 poll found that 79 percent of Bay Area voters said homelessness was considered an "extremely" or "serious" problem, following only housing costs and the cost of living. It is one of the "factors in leaving the Bay Area."[139]

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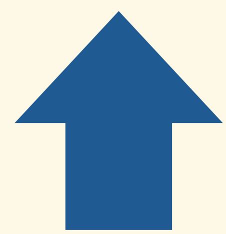


THE STATE EXPERIENCED THE LARGEST INCREASE, 6.8 PERCENT, OF HOMELESSNESS IN THE COUNTRY FROM 2019 TO 2020.

There is an unbroken connection between the declining quality of life created by the homelessness crisis and the exodus from California. A 2020 article in Sky News asked, "why are so many people leaving Los Angeles?" – answer: "The city has become unbearable." The article noted that comedian Joe Rogan was "one high-profile resident who has left L.A. for Texas – citing overcrowding, traffic and homelessness as the driving factors."[140]

"There's such squalor that people are looking to leave," says Vranich. "I've experienced companies, company leaders going to employees and saying, 'you know what – we're interested in moving out of state,' and employees volunteer to go."[141]

Reinvigorate the California Dream to Stem the Exodus

The exodus away from California demonstrates that its position as the largest and most dynamic state is not a birthright. California's success must be continually earned. Policy trends of the last two decades have steered the state away from its roots as the nation's source of innovation and creativity, with predictable results.

Correcting the state's numerous policy blunders is a demanding task because of the incredible volume of reforms and overhauls that are needed. But Californians can't wait. The key is to comprehensively address the policy areas incenting people to leave and/or discouraging residents of other states from relocating to California. Toward this goal, in addition to the numerous blog posts and policy briefs, Pacific Research Institute scholars have published several books and studies that recommend broad policy reforms that would address many of the state's pressing problems. As these are the same problems that are driving the exodus, implementing PRI's program of reforms is essential. While a detailed review of these recommendations is not possible in this paper, the list on the next page provides several key California-based reform studies that, if implemented as a comprehensive program, would revitalize the state, and remove the disincentives driving the current exodus from California.

A brief summary of this reform program includes:

Reforming housing regulations: California's unaffordable cost of housing is a major driver of the exodus. The shortage of housing supply is widely recognized, but the state's burdensome state and local zoning and environmental regulations make it nearly impossible to build enough housing, let alone affordable housing, to eliminate this shortage. As the nonpartisan Legislative Analyst's Office stated, "major changes to local government land use authority, local finance, CEQA [California Environmental Quality Act], and other major polices would be necessary to address California's high housing costs."[142] Reforming these regulations should be a top policy priority. Such reforms should alleviate the excesses of CEQA, expand zoning for multi-family residences, and reduce the time, complexity, and expense of regulatory compliance.

Improve energy affordability: California's crippling energy prices are due to its burdensome energy and global climate change taxes and regulations. These include cap-and-trade regulations that cover 85 percent of total greenhouse gas emissions, renewable portfolio mandates that require California to generate 100 percent of its energy from zero-emission sources by 2045, energy efficiency standards, solar panel mandates, motor vehicle standards, low-carbon fuel standards, and dozens of other taxes and regulations. Repealing these mandates and encouraging the expansion (rather than elimination) of nuclear energy can improve overall energy affordability and reliability, while accelerating the state's reduction in greenhouse gas emissions.

Adopt innovative approaches to alleviate California's homeless problem. The homelessness problem continues to worsen by the day. The social and economic consequences are a humanitarian crisis as well as a major quality of life detractor that encourages the exodus from the state. Consequently, addressing the homelessness problem is both a moral imperative and an economic necessity. Instead of spending more money on the approach that has so far failed to mitigate the crisis, California should adopt a new approach that leverages private charities and foundations, relieves the state's unaffordability problems (see *Reforming Housing Regulations)*, and focuses on addressing the root causes of homelessness.[143]

Address the rising crime rates: Ill-fated criminal justice reforms started in 2011 in response to years of prison overcrowding and low crime rates. They have had the practical effect of encouraging crime. These rising crime rates are significantly decreasing the quality of life for all Californians and meaningfully contributing to the incentive to leave the state. Reversing these trends requires reversals to these reforms, such as repealing laws like Prop. 47. It also requires policies that support law enforcement's efforts to enforce the laws with respect to property and violent crimes.

Comprehensive tax and spending reform: California's budget faces several inter-related crises. State revenues are exceptionally volatile due to a steeply progressive tax system. This volatility showers the state with revenues during good times, which politicians inevitably spend. These expenditures are unaffordable, which becomes evident during economic downturns. Instead of cutting spending, calls for tax increases are typically heeded, leading to California's exceptionally burdensome government. When coupled with the state's unfunded pension and health benefit obligations, the state is in a fiscally perilous condition. The adverse consequences from this vicious cycle continue to mount. The best way for policymakers to break this cycle and put California on a sustainable financial footing is to reform its fiscal policies. On the spending side, this requires budget prioritization and addressing the long-term financial obligations. On the revenue side, the state needs to implement a more stable revenue system that is less punitive and more pro-growth for the private sector (ideally a flat tax).

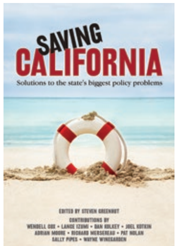
Repeal (or at least freeze) recent minimum wage increases: California's recent minimum wage increases have cost some people their jobs or reduced the number of hours they work while also imposing excessive burdens on small businesses, which many can't afford. The outcome is a less vibrant entrepreneurial sector and fewer employment opportunities for workers. Due to this lose-lose economic outcome, California should freeze any future increase in the minimum wage and consider rolling back those increases that have been recently enacted.

Conduct a comprehensive regulatory review: In addition to the specific regulatory changes discussed above, California's broader regulatory system meaningfully contributes to the state's overall unaffordable cost of living and persistent problems such as inadequate water supplies. Consequently, it requires a comprehensive scrubbing. This comprehensive review should apply a strict cost-benefit framework that ensures that the remaining state regulations are only as restrictive as necessary to meet specific public policy goals.

The logic behind these recommendations is clear: California's policies reduce residents' quality of life and make it more difficult for people and businesses to prosper. When policymakers disincentivize prosperity, the inevitable result is stagnation and emigration. Reversing these trends requires a fundamentally different policy approach from Sacramento, as well as local governments.

Implementing these reforms is a long road, undoubtedly, but the quicker we start, the sooner we can reinvigorate the California dream. There is no time to waste.

TABLE 6. PACIFIC RESEARCH INSTITUTE'S PRO-GROWTH REFORM AGENDA FOR CALIFORNIA



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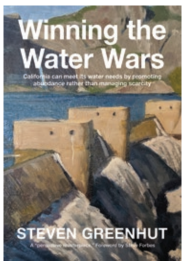

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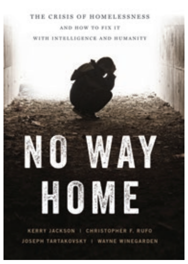

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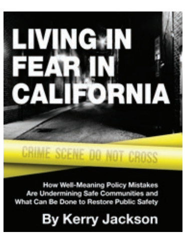

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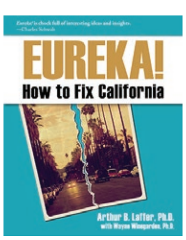

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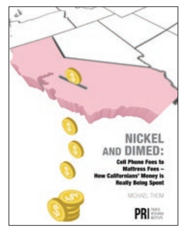

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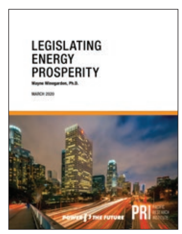

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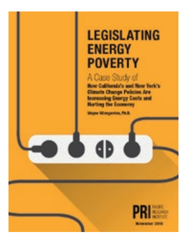

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About the Authors

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In 2017, he wrote *Unaffordable: How Government Made California's Housing Shortage a Crisis and How Free Market Ideas Can Restore Affordability and Supply*, an issue brief on California's housing crisis which won bipartisan praise.

His 2018 brief on poverty in California, *Good Intentions: How California's Anti-Poverty Programs Aren't Delivering and How the Private Sector Can Lift More People Out of Poverty,* garnered national attention for his *Los Angeles Times* op-ed asking, "Why is liberal California the poverty capital of America?"

Jackson is a leading commentator on California's growing homeless crisis. In 2019, he co-authored (with Dr. Wayne Winegarden) a brief on San Francisco's homeless crisis, which was presented to Mayor London Breed's administration.

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Before coming to PRI, Jackson spent 18 years writing editorials on domestic and foreign policy for *Investor's Business Daily* (IBD) and three years as the assistant director of public affairs for the American Legislative Exchange Council. He has written for the American Media Institute and Real Clear Investigations and edited "The Growth Manifesto" for the Committee to Unleash Prosperity.

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About PRI

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