California at a Crossroads

HOW BAD POLICY COST CALIFORNIA ITS ECONOMIC EDGE – AND HOW TO WIN IT BACK

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Executive Summary

California has always had a lot to brag about. It's the engine that drives the domestic economy. It has dynamically bounced back from downturns many times over. The state even recovered from a self-imposed slump earlier in this decade — but with one important element left out: jobs.

Job growth from February 2020 to December 2025 has been less than half the rate that the rest of the nation has posted. This overall poor job performance shows that something has significantly changed following the COVID-19 lockdowns and recession. The jobs record is even worse in the private sector, which drives innovation and fosters prosperity. This is an ominous sign for California's economic future.

Some points to consider:

- California's past is golden, but its prospects are not as bright.
- Even as the state's economy expanded, job growth stagnated.
- Outside of healthcare jobs, California's private sector employment market is not just stagnating – it is shrinking.
- Despite the economic growth, the state's share of the domestic economy has fallen from its peak of 14.5 percent in 2021 to 13.8 percent in 2025.
- Business growth is slow as opportunities are being found elsewhere.
- California has suffered an exodus from the state for more than a decade and a half, which persists through today. Among metropolitan areas, Los Angeles County's loss of 53,394 people between July 2024 and July 2025 was the largest in the country.[1] Orange County, San Diego County, and Ventura County were also among the top ten metro areas that lost the most people.
- Lawmakers need to rethink and reform fiscal and regulatory policy.

> "What's been lacking is the political will to make the needed, and obvious, changes in public policy.

The state's employment sclerosis should not be taken lightly. Job loss, especially under conditions where employment opportunities are limited, is disruptive to individuals and families. It brings psychological harm that can alter lives in the long term.

There is good news: California's asset base is intact. The economic, scientific, financial, educational infrastructure, and geographical advantages remain. What's been lacking is the political will to make the needed, and obvious, changes in public policy.

Removing decades of legislative and regulatory roadblocks will unleash the talent and energy of millions of Californians. If policymakers take the right steps, the California Dream will be real again.

Introduction

California's political leaders optimistically crow about the state's future. According to Gov. Gavin Newsom:

> **California is an economic powerhouse. We are entrepreneurs, innovators, pioneers, and self-starters. California invests in all corners of the state, building a strong economic future for all, helping every Californian get one step closer to fulfilling their California Dream.[2]**

This optimism was once warranted. From Biotech Beach in San Diego to Silicon Valley in San José, the future has often been invented in California. However, the Golden State is one of the world's largest economies because of its past achievements, not its economic prospects.

The state's prospects are not nearly as bright. As we documented in the 2021 PRI study *California Migrating*,[3] anti-growth state policies are undermining the state's economic vibrancy. The result is families and businesses fleeing the Golden State. Troublingly, we noted that "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."[4]

> "Since our 2021 analysis, California's economy has lost ground compared to the rest of the country.

Nearly five years later, these adverse trends have worsened, even with the economic benefits created by the artificial intelligence (AI) revolution that is centered in the Bay Area. These adverse consequences are becoming harder to ignore. Since our 2021 analysis, California's economy has lost ground compared to the rest of the country. Job growth is stagnant and, as of this writing, the number of non-health related private jobs is in outright decline even as jobs grow (albeit slowly) nationally.

> “While conditions have slipped, the same opportunities to revitalize the Golden State remain.

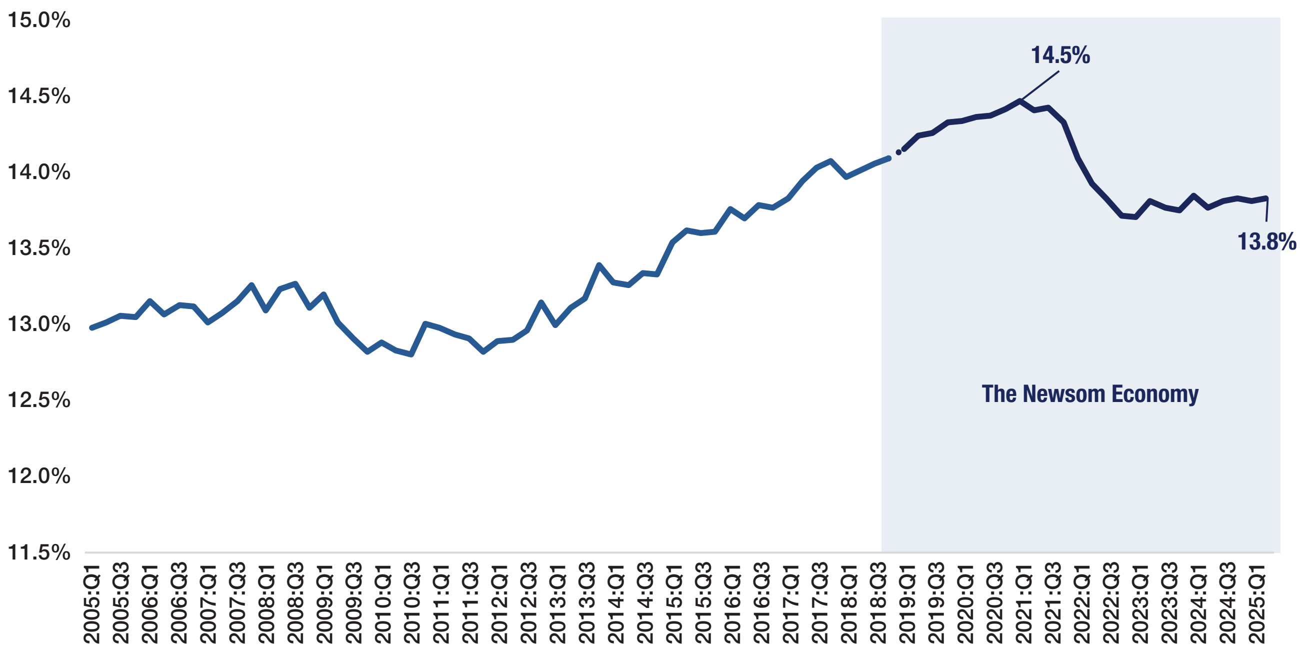
These are the expected consequences from the exodus of businesses and families we documented in 2021. The trouble is that the unaffordability problems that have been repelling economic activity from the state have worsened while the underlying business environment and employment markets have weakened. As these trends compound, the adverse impacts on future prosperity increase.

As California prepares to elect a new governor in 2026, the state is at a policy crossroads. Will it take the free market path toward fiscal and regulatory reforms that would lower the costs of doing business, increase affordability for Californians, and accelerate growth and prosperity? Or, will it double down on the high taxes, excessive spending and intrusive regulations that have infringed upon people's liberties, stifled creativity and entrepreneurship, and brought the state to the brink of financial ruin? That's for voters to decide. As you'll read in this paper, slouching toward economic sclerosis is not inevitable, but changing our current path requires a different policy approach.

The Unpleasant Economic Consequences

California's economy is more volatile than the nation overall, which is evidenced by the more severe adverse impacts from the 2007-09 financial crisis in the Golden State. These impacts are visualized in Figure 1 by the decline in California's share of the national economy that began in 2008, but this trend reversed course starting in 2012. California's economic performance then outshined the nation for the next decade. As the UCLA Anderson Forecast noted in 2019, this growth premium was "driven by rapid growth in high-productivity tech sectors."[5] At its peak in 2021, California accounted for 14.5 percent of the national economy.

FIGURE 1. CALIFORNIA'S SHARE OF THE NATIONAL ECONOMY IS DOWN



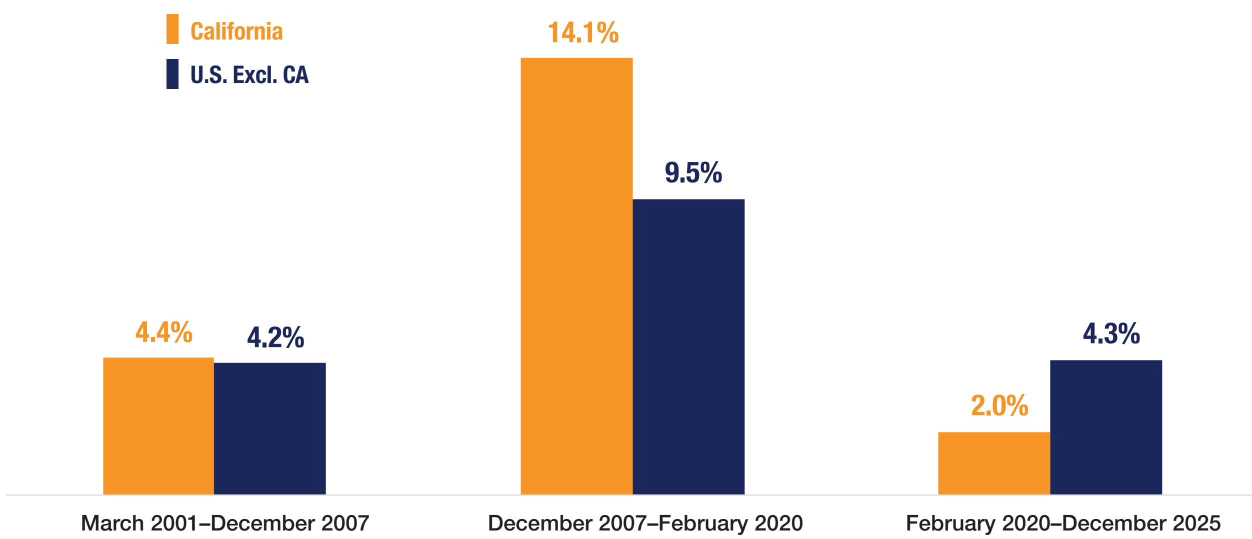
Source: Author calculations based on data from the BEA

Following the COVID-19 pandemic and recession, California's economic fortunes turned once again. California's share of the national economy has fallen precipitously from its 2021 peak and is now stagnant at around 13.8 percent. Had the state simply maintained its 2021 peak share, California's economy would be 4.6 percent larger today – the equivalent of an additional $14,000 for every household. These trends illustrate that, unlike the previous decade, California is not the country's economic leader of the 2020s.

Tech innovation still happens in California – the Bay Area is the center of the AI universe after all, and this growth is expected to continue. According to the UCLA Anderson Winter 2025 Forecast "AI, aerospace and other high-productivity sectors" are expected "to expand."[6] Despite this growth, the forecaster expects significant "headwinds" for sectors such as "construction, non-durable goods, [and] leisure and hospitality."[7] This divergence in economic outcomes is consistent with the recent private sector jobs stagnation.

Along with the sub-par economic growth relative to the rest of the country, California is creating insufficient new job opportunities. Over the first two decades of the 21st century, job creation was stronger in California compared to the rest of the country. Figure 2 presents the growth in non-farm jobs in California compared to the rest of the country for three time periods. The beginning of each period is the start of a recession; the end of each period is the start of the next recession. The analysis examines the job growth through a complete business cycle (i.e. peak to peak), consequently.

FIGURE 2. GROWTH IN NON-FARM JOBS IN CALIFORNIA IS SIGNIFICANTLY UNDERPERFORMING



Source: Author calculations based on data from the BLS

Job growth during the economic expansion between the dot.com crash and the financial crisis (between March 2001 and December 2007) was weak nationally. California, however, still outperformed the country. There were 4.4 percent more non-farm jobs in California at the end of this expansion compared to job growth of 4.2 percent outside of the Golden State.

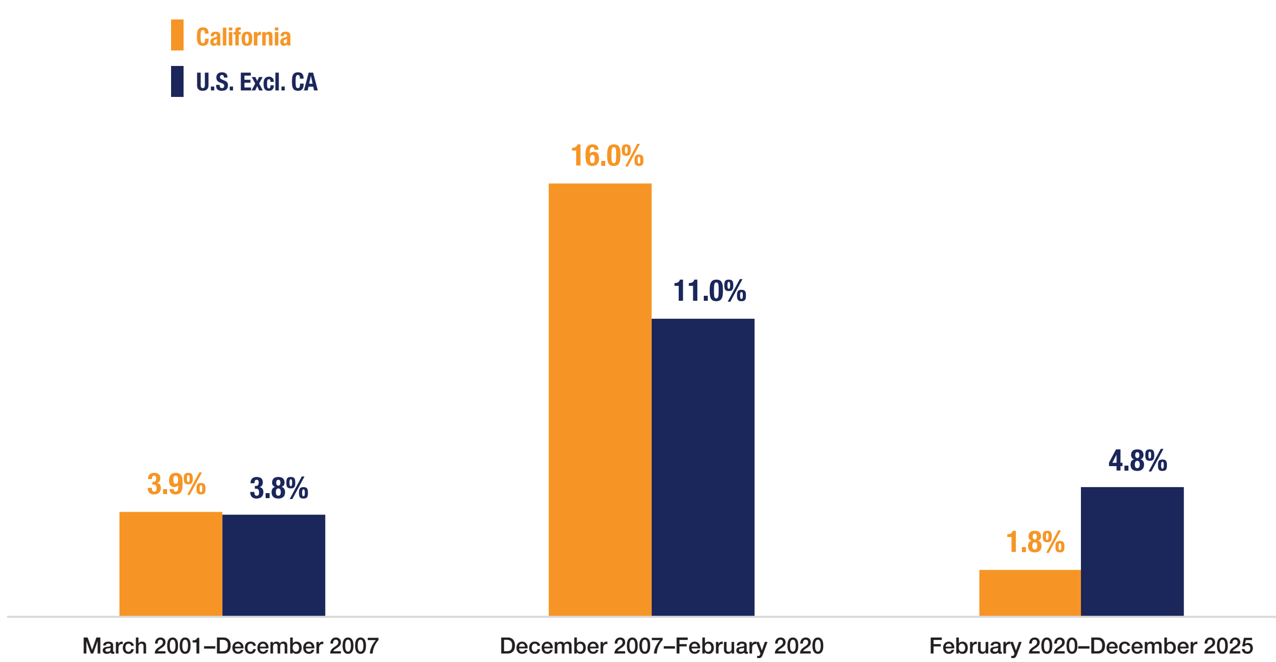
The next expansion that occurred between December 2007 and February 2020 was stronger. Even during this more robust expansion, job growth in California significantly outpaced the nation.

But non-farm job growth in California has significantly lagged the nation since the COVID-19 recession ended. Overall, job creation in the state has been a bit less than one-half of the growth rate in jobs than the rest of the nation experienced through December 2025. This lagging job performance demonstrates that something has significantly changed following the COVID-19 lockdowns and recession.

> "But non-farm job growth in California has significantly lagged the nation since the COVID-19 recession ended.

The growth slowdown is even more pronounced for private sector jobs, which are the jobs that drive innovation and foster prosperity, see Figure 3. During the previous two expansions, private sector jobs exhibited the same growth patterns as overall non-farm jobs and California's private job growth premium was similar to its non-farm growth premium. However, the relative slowdown in private sector job growth since February 2020 has been more severe than overall non-farm employment growth.

FIGURE 3. GROWTH IN PRIVATE SECTOR JOBS IN CALIFORNIA IS SIGNIFICANTLY UNDERPERFORMING

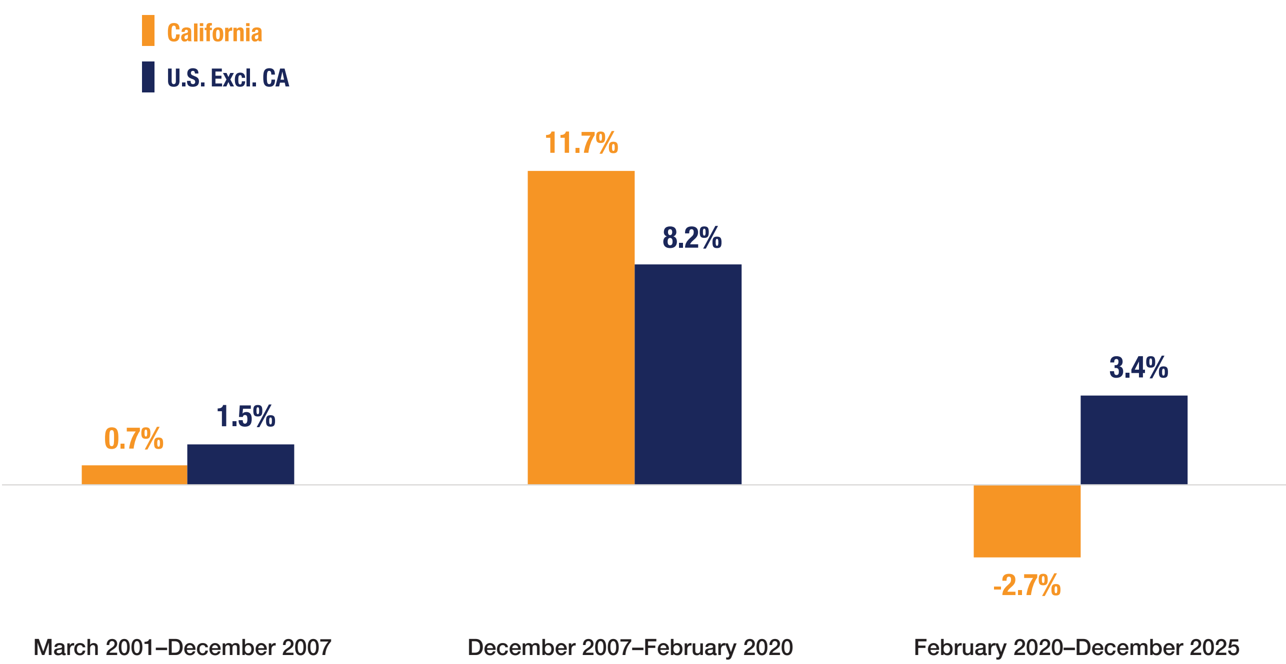


Source: Author calculations based on data from the BLS

Compared to the overall non-farm job growth that has been less than one-half of the national rate, annual private sector job growth in California was a bit more than one-third as fast as the rest of the country. The reality that the employment slowdown was even worse for private sector job growth is an ominous sign for California's economic future. And the news is even more grim than this comparison indicates.

Health care jobs, while essential, have different economic drivers than other private sector jobs. Excluding the jobs associated with the health care and social assistance industries, there are fewer private sector jobs in the state today than before the COVID-19 recession, see Figure 4. In other words, outside of health care jobs, California's private sector employment market is not just stagnating – it is shrinking!

FIGURE 4. OUTSIDE OF HEALTH CARE, PRIVATE SECTOR JOBS IN CALIFORNIA ARE IN OUTRIGHT DECLINE



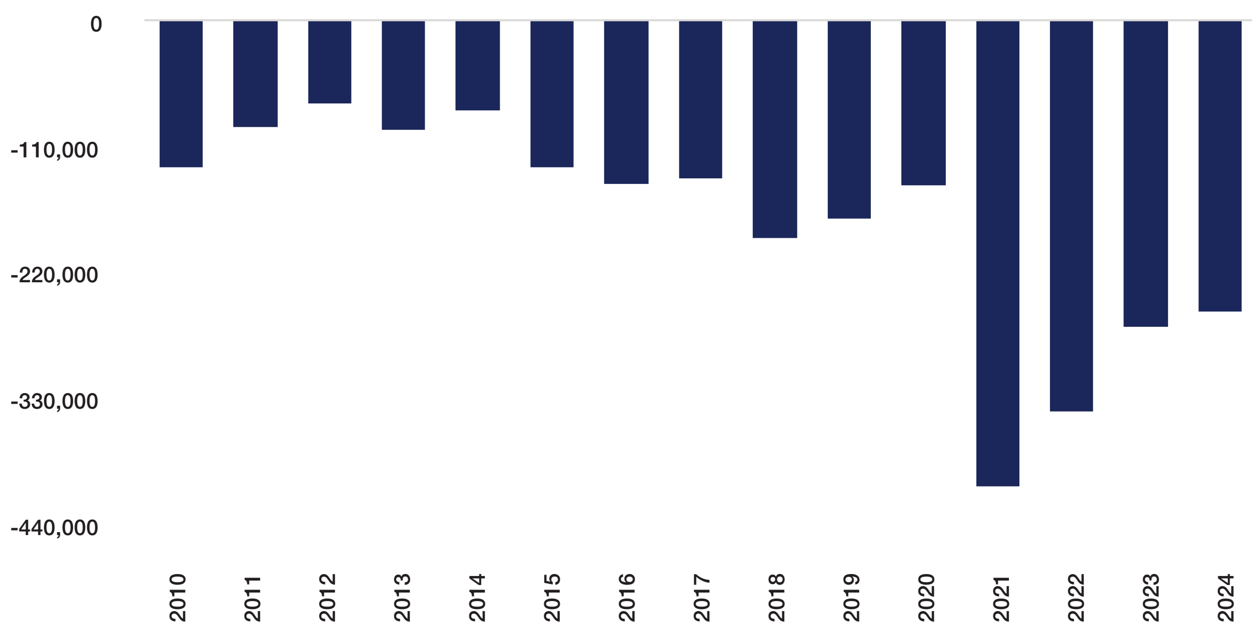
Source: Author calculations based on data from the BLS

These are bleak signs. California is losing jobs in key private sector industries that helped turn the state into the fifth largest economy in the world.[8] These include jobs in high paying growth industries such as finance, biotechnology, and information technology. California is also losing entry-level jobs in limited-service restaurants, which include fast food establishments.

While less flashy than jobs creating artificial intelligence, a vibrant entry-level job market is essential for any state hoping to expand the breadth of economic opportunity. Entry level jobs teach valuable work skills to people who lack them but are hoping to start climbing the economic ladder. Their loss will derail people's economic opportunities before they have a chance to start. These job losses are to be expected from a declining economic power, not that of an "economic powerhouse." Such is California's difficult position.

The exodus from the state is compounding these problems. Once a population magnet, California has been losing people for a long time. Gov. Newsom highlights the return of population growth, but this is due to international immigration. A more important metric is whether Californians choose to move to other states to a much larger extent than residents from other states choosing to move to California. Figure 5 presents the difference between people who moved out of California each year and the people who moved to California in that year. As Figure 5 demonstrates, people have been voting against California for more than a decade and a half.

FIGURE 5. CALIFORNIANS ARE CHOOSING TO LIVE ELSEWHERE



Source: Author calculations based on data from the U.S. Census

Business Growth Is Slow as Opportunities Expand Elsewhere

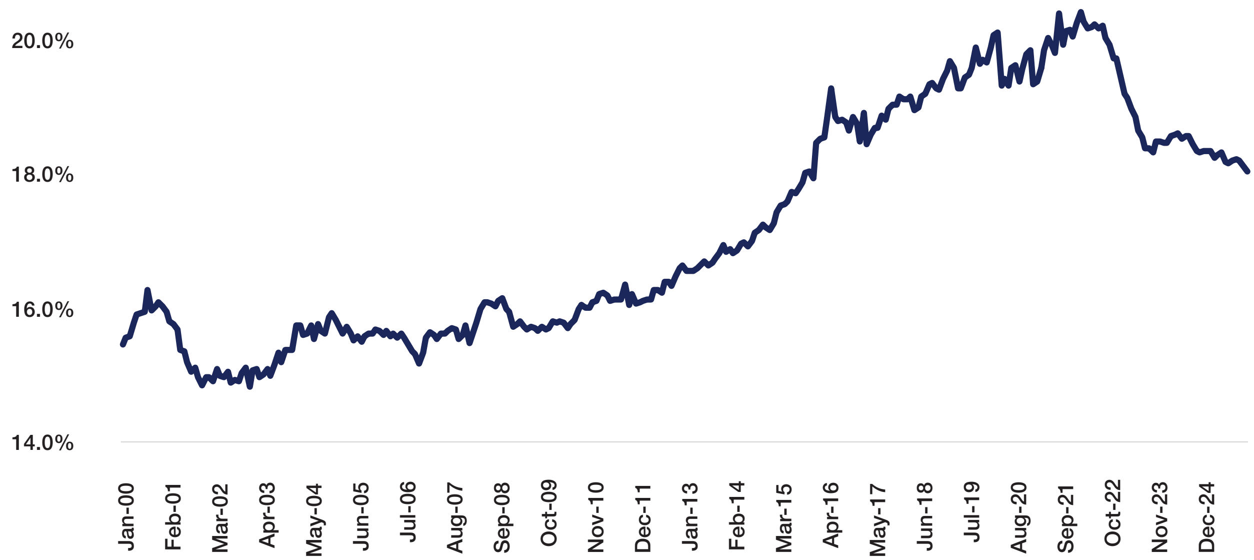
The exodus from the Golden State is not confined to people and families either. California businesses also continue to leave the state while businesses from other states are hesitant to set up shop here. Importantly, these losses include quintessential California industries such as technology, manufacturing, and finance.

> "California is as well known for its booming technological sector as much as it is the film industry and the 1849 Gold Rush.

From Silicon Valley to the Silicon Hills

California is as well known for its booming technological sector as much as it is the film industry and the 1849 Gold Rush. In 2020, the year of COVID-19, the state's share of the country's information jobs peaked just shy of 20 percent, having steadily climbed upward since 2010 – a pattern that is similar to the state's share of the national economy. After years of steady decline, the portion fell to 16 percent in 2025, the lowest share of the nation's information businesses in more than a decade. Compared to the beginning of 2025, California lost 2.1 percent of its information jobs by December while jobs declined a mere 0.1 percent in the rest of the country. These trends indicate that California is experiencing a significantly larger retrenchment in these high-paying jobs compared to the rest of the country.

FIGURE 6. CALIFORNIA'S SHARE OF INFORMATION JOBS HAS BEEN DECLINING SINCE 2022



Source: Author calculations based on data from the BLS

Explicitly focusing on the tech sector reveals the same pattern – California benefits from its past successes but its future leadership is tenuous. Like the overall information sector, California is the country's tech leader, see Table 1. Overall employment in the U.S. tech sector declined in 2024 after experiencing growth in 2023.[9] Importantly, when overall technology growth was stronger in 2023 (+3.1 percent), California's technology job market was stagnant. Then in 2024, when technology jobs were essentially stagnant nationally, the number of jobs in California fell by 3.4 percent – the largest decline in the U.S. In raw numbers, the state lost 51,743 tech jobs in 2024!

TABLE 1. CALIFORNIA'S DOMINANCE IN TECHNOLOGY JOBS IS LESSENING

	2023			2024		
	Total Jobs	Change in Jobs	% Change in Jobs	Total Jobs	Change in Jobs	% Change in Jobs
U.S.	**9,620,582**	**300,394**	**3.1%**	**9,607,925**	**(12,657)**	**-0.1%**
California	**1,524,018**	**471**	**0.0%**	**1,472,275**	**(51,743)**	**-3.4%**
Texas	964,566	25,977	2.8%	972,747	8,181	0.8%
New York	577,047	7,998	1.4%	577,624	577	0.1%
Florida	541,575	14,225	2.7%	546,449	4,874	0.9%
Virginia	376,599	3,486	0.9%	375,469	(1,130)	-0.3%

Note: 2023 values based on percentage changes in the 2025 report

Source: CompTIA

California's 15.3 percent of the nation's technology jobs still account for a disproportionate share, and its share of total output for the information sector is essentially flat relative to its pre-pandemic contribution. Both are positive signs, but – as has been the case throughout this analysis – this positive performance is due to the state's past achievements.

The technology sector's employment growth is migrating away from the Golden State, causing the state's share of these high paying jobs to decline. Instead of California, Wyoming has experienced the fastest growth rate in technology jobs for the past two years – 3.3 percent growth in 2023 followed by 3.6 percent growth in 2024. Other top-growth states over the past two years include Texas, home to Austin's tech hub known as "Silicon Hills" and Florida. The list further includes West Virginia, New Mexico, and Montana, which may be more surprising. Wherever the growth is occurring, the one constant is that it is not in California. As Chapman University professor Joel Kotkin says, "California may remain a venture capital and start-up hub but increasingly" as companies "mature, they place their jobs elsewhere."[10]

Fewer People Manufacturing Less

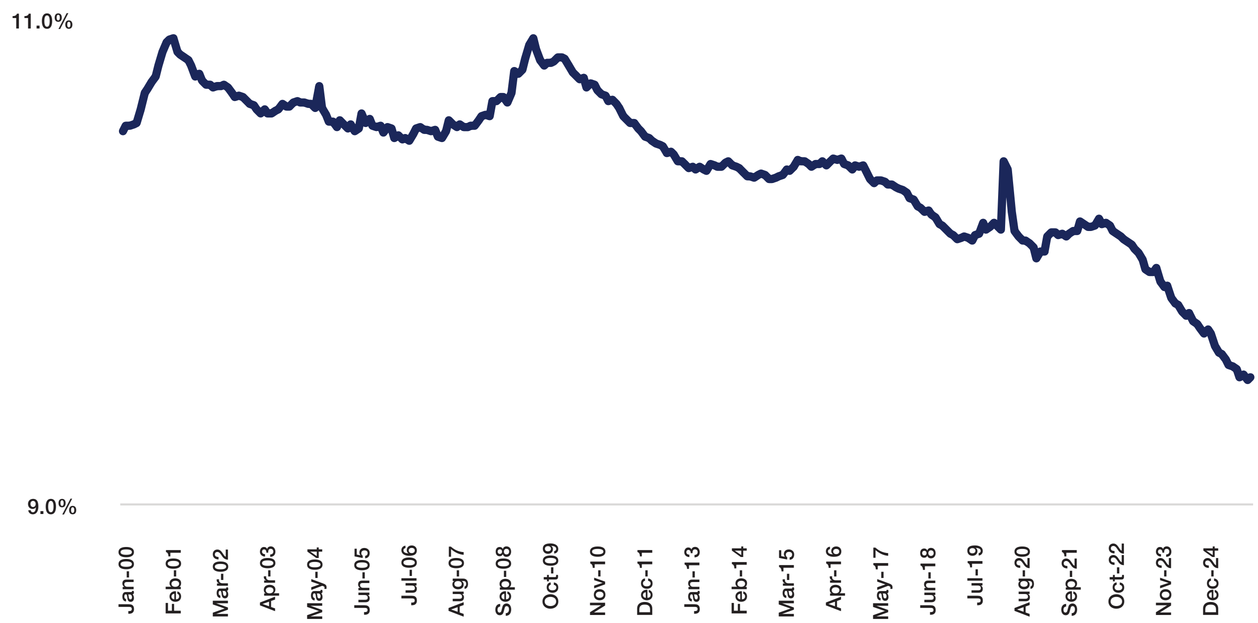
Before California developed a reputation for being hostile to business, it was known as a place where enterprise was rewarded. Entrepreneurs raced to the state to pursue their dreams. Big companies took advantage of an educated, talented and seemingly tireless workforce.

> "Stagnating technology jobs in California were foreshadowed by the state's relative manufacturing decline that began in earnest in 2010.

Los Angeles was "the largest major manufacturing center in the United States" in 2003, according to City-Data.com,[11] with an estimated half million employed in the sector. "During the 1980s, Southern California — in sharp contrast to New York and other traditional manufacturing regions — actually expanded its production, particularly in the 'edge city' areas on its periphery," *City Journal* reported in 1993.[12]

But even while the growth in manufacturing employment and output was strong, the seeds of economic discontent were being sown. The Milken Institute started warning about California's environment in the early 2000s – between January 2001 and February 2010, manufacturing jobs declined around 33 percent in both California and the nation overall. California's loss of employment reflected the state's typically more volatile economy – job losses exceeded the national average through 2006 and then were less than the national average until 2010, see Figure 7. By 2010, the state's share of national manufacturing jobs (10.9 percent) was back to the same level as 2000.

FIGURE 7. CALIFORNIA'S SHARE OF MANUFACTURING JOBS HAS BEEN TRENDING DOWN SINCE 2010



Source: Author calculations based on data from the BLS

Change was coming, though. And not for the better.

In a 2009 analysis, the Milken Institute raised its concern that a "wide gap" was forming between California's "capacity for ingenuity and entrepreneurship and its ability to efficiently commercialize innovation in manufacturing."[13] The gulf continued to spread "in part due to the burden of an onerous regulatory climate and some of the highest taxes in the United States," which contributed to California's reputation that it had become unfriendly to business.[14]

The subsequent economic performance confirms that the Milken Institute's concerns were warranted. Between February 2010 and December 2025, the nation gained 1.2 million manufacturing jobs, a 12 percent increase in manufacturing employment. California did not see this growth. Over the same period, factory jobs in the state fell by 38,000 to about 1.2 million.

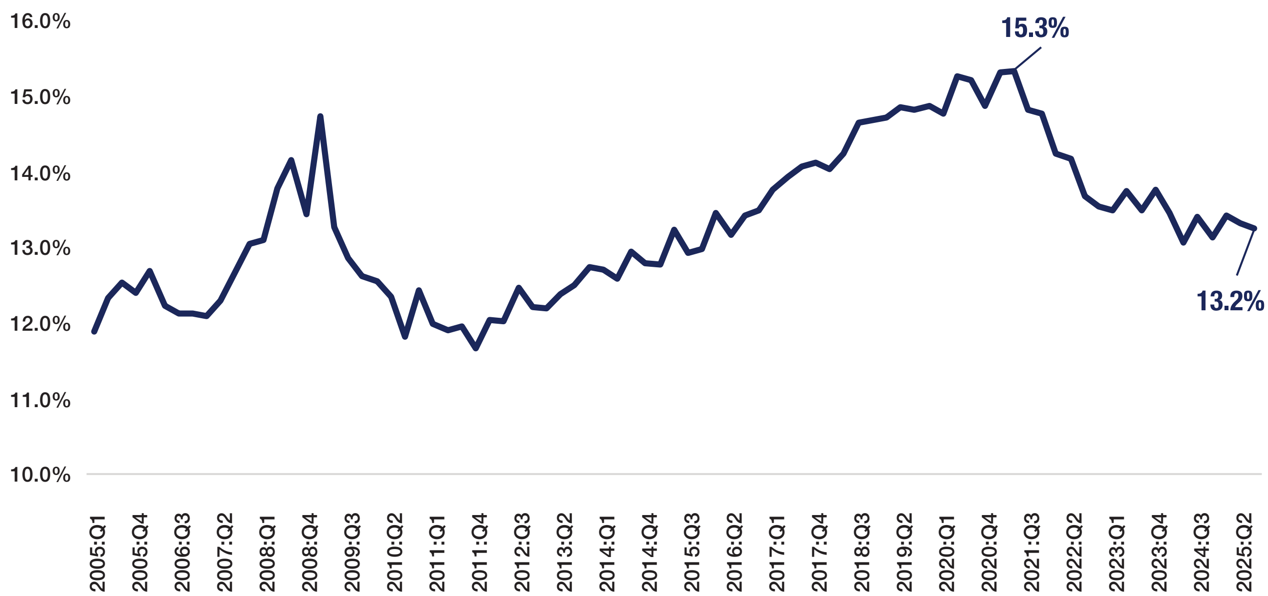
Due to California's loss of jobs while the rest of the country gained manufacturing employment, the state's share of the nation's total manufacturing jobs has been trending downward since 2010 – with a brief interruption during the COVID-19 pandemic.

> "Adjusted for California's size, the state's manufacturing employment base looks even more anemic.

Adjusted for California's size, the state's manufacturing employment base looks even more anemic. For every 10,000 residents in the state, there are only 334 manufacturing jobs, which pales in comparison to the top five states – Wisconsin (789), Indiana (758), Iowa (698), Kansas (601) and Michigan (599).[15] Less-regulated, lower-tax states such as Kentucky (575), Alabama (558), Arkansas (530), Nebraska (530), Tennessee (509), South Carolina (491), Mississippi (488), and South Dakota (487) all have better per capita factory jobs numbers.

While employment growth has been stagnant, California's manufacturing output was growing at a faster clip than overall U.S. manufacturing output between 2012 and 2021 – similar to the broader economic trends, see Figure 8. The growth in output during this period was a positive sign. While employment trends were disappointing, it demonstrates that California's manufacturing output was still a robust economic contributor during the post financial crisis expansion. Yet, just like the overall economy, California's manufacturing output has slumped relative to the national manufacturing output since.

FIGURE 8. REVERSING THE PREVIOUS GROWTH, CALIFORNIA'S SHARE OF U.S. MANUFACTURING OUTPUT HAS BEEN DECLINING FOR FIVE YEARS



Source: Author calculations based on data from the BEA

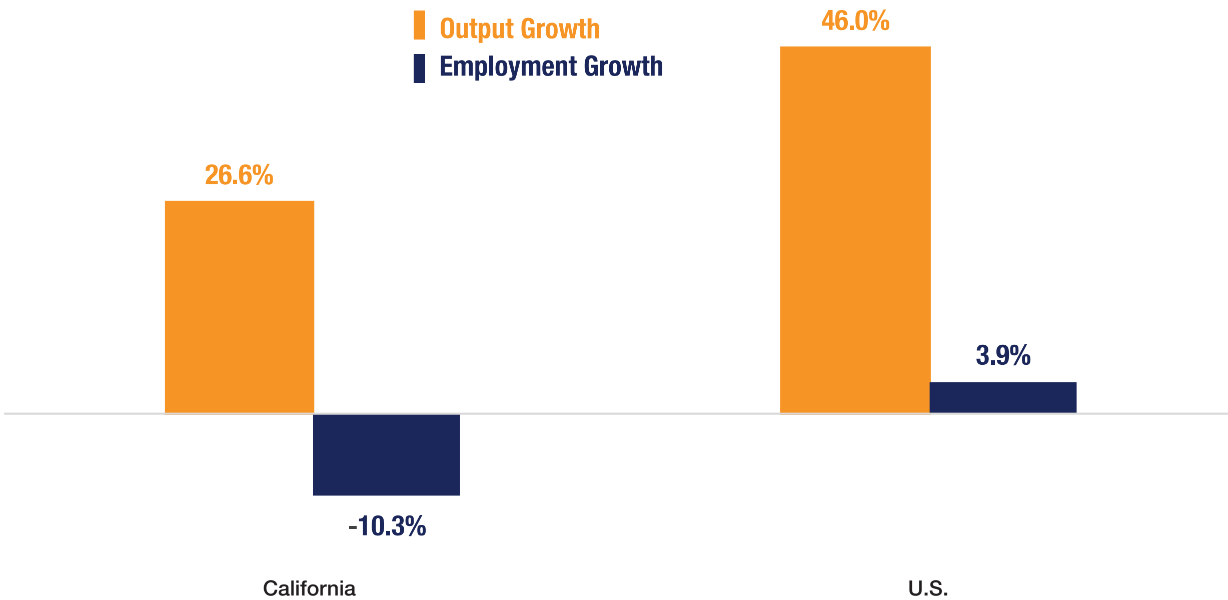
California's slowdown in manufacturing output relative to the U.S. is another warning sign that the state's uncompetitive business environment is taking a large toll on the state's economic vibrancy. More ominously, the state's ability to thrive off its past achievements is diminishing.

The Hubbub About California's Financial Hub

Along with technology and manufacturing, finance has traditionally been a major contributor to California's economic prosperity. Major financial players, from Wells Fargo and Visa to SoFi and Charles Schwab, have called California, especially San Francisco, home. Thanks to these businesses, California has traditionally been able to add "global financial hub" to its resume.

Yet, like these other major economic contributors, the vibrancy of California's financial sector is also at risk, see Figure 9. It compares California's finance industry to the national finance industry based on the growth in the sector's total output and employment. These data tell a disappointing tale.

FIGURE 9. SINCE THE COVID RECESSION CALIFORNIA'S FINANCE INDUSTRY HAS FALLEN UPON HARD TIMES



Source: Author calculations based on data from the BEA and BLS

Compared to the size of the industry just prior to the COVID-19 recession, total output of California's financial sector has recovered. But this growth is significantly slower than the growth in the financial industry for the country. Overall, the total economic activity of California's finance sector has increased around 26.6 percent compared to its size just prior to the recession. This growth pales in comparison to how much the finance sector expanded nationally – up by 46 percent.

Even more troubling is the change in the number of finance jobs in California compared to the nation overall. In California, total employment has declined since the start of the last recession – it is down 10.3 percent between December 2019 and December 2025. Nationally, the total number of finance jobs has increased 3.9 percent.

Not surprisingly, there has been an exodus of firms headlined by Charles Schwab's move from San Francisco to Texas. As the *Wall Street Journal* editorial page noted, "relocating its headquarters to Texas alone could save 10 to 15 percent."[16] The firm had also been downsizing its San Francisco presence by slashing "its workforce in the city by 90 percent since 2000 while expanding branches around the country."[17]

The loss of Charles Schwab's corporate headquarters and the decline of finance employment in California are not merely coincidences. When states make it unprofitable to operate, they encourage business and jobs to relocate to other states – even jobs that anchor well developed economic clusters. Like the lost technology and manufacturing positions, finance has traditionally been a core competitive advantage for California. The loss of these jobs consequently has an amplified negative impact on the state's economic health and tax revenues. Discouraging the recovery of this industry imposes an outsized harm on the state's future prosperity.

California's Affordability Crisis Drives Away Businesses and Families

Sacramento politicians have been driving away businesses, families, and wealth for years. Not intentionally of course, but the impact is the same. The question is, why given that the state has developed a phenomenal asset base. These assets, when coupled with a beneficial geography, have created comparative advantages for the state, including Silicon Valley, a vibrant financial sector, a world-leading biotechnology cluster, the largest agricultural sector of any state, and (of course) Hollywood. California's public university system is among the best in the country – of the leading public universities, California boasts five of the top 11 according to *U.S. News & World Report.*[18] The Port of Los Angeles and Port of Long Beach are also major trading hubs that are among the three busiest ports in the U.S. by container volume.

It is the combination of these advantages that has turned California into the fourth largest economy in the world – California and Japan are currently fighting between fourth and fifth place. It is due to these advantages that California has the seventh highest median household income among all the states. The more interesting question is, given these assets, why is California's economy so anemic? The direct answer is the exceptionally high cost of living and cost of doing business in the state.

In *California Migrating*, we illustrated these problems from a family perspective by evaluating the impact from California's higher tax burden and costs of housing on the net disposable income compared to the average net disposable income for the U.S. overall. Table 2 updates this analysis. Given the growing energy affordability concerns in California, Table 2 also accounts for the higher total energy expenditures that Californians must pay compared to the rest of the country. Once these three costs are considered – taxes, housing, and energy – the average Californian household has a disposable net income that is 35.2 percent smaller than the national average!

TABLE 2. CALIFORNIA'S HIGHER INCOME BUYS A LOWER STANDARD OF LIVING

	California	U.S.	California Premium
Median Household Income	$100,600	$83,730	20.1%
State-Local Tax Burden	13.5%	11.2%	20.5%
Income After State and Local Taxes	$87,019	$74,352	17.0%
Annual Mortgage Costs	$50,386	$23,177	117.4%
Income Net of State Taxes and Mortgage	$36,633	$51,175	-28.4%
Energy Costs	$8,232	$7,321	12.4%
Income Net of State Taxes, Mortgage, and Energy	$28,401	$43,854	-35.2%

Source: Author calculations

To estimate this disposable net income deficiency, we start with the latest median household income data (2024) from the U.S. Census. According to this data, California's median household income of $100,600 is 20.1 percent larger than the median household income for the nation overall – $83,730. Accounting for the higher average state and local tax burden in California compared to the national average, Californians' income after state and local taxes[19] are only 17 percent larger than the national average.

Accounting for the costs to finance a median priced home in California compared to the national average based on the average interest rate on a 30-year fixed rate mortgage as of January 29, 2026, turns California's income premium into a deficit.[20] Specifically, the annual payment for a median priced home is estimated to be $50,386 compared to an annual cost of $23,177 for the nation. In other words, new home buyers in California must spend 117.4 percent more than new home buyers in other states. This is a huge affordability problem. Including these costs, the median household in California would have $36,633 of its income remaining, which is 28.4 percent less than the $51,175 the average household in the nation would have after covering these costs. This income deficiency has widened since our 2021 analysis, where the average Californian's income was 19.6 percent less after covering these costs.

> " The average Californian household will still spend 12.4 percent more on utilities than households in the country overall.

One cost we did not consider previously is California's higher energy expenditures despite having a more moderate climate than most of the country. The average utility bill in California was $686 per month compared to a national average of $610 per month.[21] This cost discrepancy does not adjust for the reality that wealthier Californians who live along the coast tend to have smaller utility bills than lower-income families who live in the less temperate inland areas. Consequently, middle- and lower-income families in California will likely face even larger costs than this average present.

Given this, the average Californian household will still spend 12.4 percent more on utilities than households in the country overall. Including these costs, the median family's disposable net income is 35.2 percent smaller in California than the U.S. average. Put differently, a family leaving California can take a more than 35 percent pay cut and still have the same purchasing power.

The cost problems plaguing families also create competitiveness issues for California's businesses. Table 3 presents the latest annual electricity price data for commercial and industrial customers (2024) from the Energy Information Administration (EIA).[22] The data show that businesses must spend more than twice as much, and in some instances three times as much, for electricity compared to the prices their competitors in other states will pay. These costs not only further increase the cost of living for Californians, but it also makes it harder for California businesses to grow and thrive. Throw in the higher costs per square foot for industrial and office space and businesses in California have a significant cost disadvantage compared to businesses operating in other states.

TABLE 3. CALIFORNIA'S AVERAGE COMMERCIAL AND INDUSTRIAL ELECTRICITY PRICES ARE EXCEPTIONALLY HIGH COMPARED TO OTHER LARGE STATES AND THE U.S. AVERAGE

	Price/kWh		California Premium	
	Commercial	**Industrial**	**Commercial**	**Industrial**
California	**$0.26**	**$0.22**	**-**	**-**
Texas	$0.09	$0.06	198.6%	251.7%
Florida	$0.11	$0.08	132.3%	153.3%
New York	$0.19	$0.09	36.0%	134.6%
U.S. Average	**$0.13**	**$0.08**	**100.2%**	**164.8%**

Source: Author calculations based on data from the EIA

Policy Errors Are to Blame for California's Job Losses and Affordability Crisis

The data presented above are disconcerting. California has been economically uncompetitive for many years, and the consequences are becoming too large to ignore as the outflows of businesses and families are now evident in the state's economic data. While the country's economic outlook is uncertain as of this writing, California has experienced significantly slower job growth throughout the current economic expansion. These job deficiencies are more pronounced in the private sector, which drives future economic prosperity. Along with a stagnant job market, California's share of the national economy has diminished, particularly in key industries such as technology, manufacturing, and small businesses.

A question naturally follows: why is this happening? Analyses documenting why there is an exodus of people and businesses from the state consistently cite the same culprits. The state overtaxes and overregulates, making California an unappealing place to live. As we argued in *California Migrating*:

> **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.**

Focusing on California's economic repellants, the same disconcerting burdens not only still exist, but they are getting worse. These include the state's high taxes and onerous regulations that are responsible for the growing unaffordability problem. California's lack of affordability is driving away families who discover that they can obtain a higher quality of life for less outside of the Golden State. Accelerating the vicious cycle, businesses, aware that the state is unattractive to families, are then further incentivized to either leave or not expand their business to California.[23]

Starting with California's burdensome tax code, California simply collects more money in taxes per capita than most other states. Total per capita state tax collections in the U.S. in 2024 were $4,329, according to the U.S. Census Bureau, 2024 Annual Survey of State Government Tax Collections data.[24] California collected $6,748 per capita, or 56 percent more than the national average. Overall, Californians paid the fourth most on a per capita basis among the 50 states.

The Tax Foundation ranks the state as the third worst state in its annual tax competitiveness ranking – a place it has held for six years running.[25] California's tax system is uncompetitive because it levies the highest state personal income tax (13.3 percent) and sales tax rates (7.25 percent) in the country. It also has one of the highest corporate income tax rates (8.84 percent) and continually threatens taxpayers with new and higher taxes. The potential *one-time* 5 percent wealth tax on billionaires is the latest of anti-growth proposals the state continually considers.

"The maze of overly burdensome regulations is driving up the cost of living while discouraging businesses and disincentivizing economic activity.

High state and local taxes reduce people's net incomes, which lowers the return from savings, work, and investment. Because California provides businesses and residents with a lower return from engaging in economically productive activities compared to other states, businesses and families are incentivized to work, save, and invest while living in other states. The net migration data coupled with the state's falling share of key industries demonstrates that these incentives are influencing actual behavior to the detriment of California's future prosperity. And unfortunately, higher taxes are only one of the growing numbers of disincentives driving away economic activity.

The maze of overly burdensome regulations is driving up the cost of living while discouraging businesses and disincentivizing economic activity. In its annual report on economic freedom, the Cato Institute ranked California as having the second worst regulatory environment in the country, which Cato considers "more of a problem for the state than fiscal policy."[26] Specific complaints include property restrictions such as restrictive land-use regulations, rent controls, and tight zoning regulations. Labor regulations, such as lacking right-to-work laws, imposing high minimum wages, strict workers' compensation mandates, mandated short-term disability insurance, stricter-than-federal anti-discrimination laws, and prohibitions on consensual noncompete agreements, discourage employment growth. Then there are the state's occupational licensing laws, which are excessively strict.

And the Cato Institute's list fails to include some troubling regulations such as the California Environmental Quality Act (CEQA). CEQA, a uniquely California regulation, drives up costs for businesses and is a major contributor to the state's housing affordability crisis. Environmental mandates, such as the state's cap-and-trade program, strict fuel standards, alternative generation mandates, and drilling moratoriums drive up the cost of energy and drive out oil refining in the state.

Taken together these mandates explain why mortgage payments and rents cost so much in California. The same goes for consumers' and businesses' electricity and gasoline costs, which can be up to two to three times higher in California than in the rest of the country. Worsening these impacts, the regulatory costs that are imposed on businesses are eventually passed through to consumers, which increases the cost of everything from food to clothing to electronics.

Small Businesses Are Especially Vulnerable

While large businesses are also buckling under these costs, small businesses bear a disproportionate hardship from overly burdensome tax and regulatory policies. This is disconcerting because small businesses play an essential economic role.

The nearly 36.2 million small businesses, those with up to 499 employees, throughout the country account for 99.9 percent of all businesses and nearly 46 percent of employment.[27] Small businesses also have a disproportionate impact on overall job growth – small business with 249 or fewer employees created 55 percent of all new jobs between 2013 and 2023, according to the BLS.[28]

A vibrant small business sector is widely viewed as an indicator of a healthy and dynamic economy. The California Office of the Small Business claims, "small businesses are the backbone of our economy and our communities. They create nearly half of the state's jobs and keep our Main Streets vibrant."[29]

Given their importance, the substandard growth in California's small businesses since the COVID-19 pandemic raises serious concerns. Examining recent federal government data, Founder Reports, a resource for entrepreneurs, reported that the state's small business growth ranked 34th out of 51 states and the District of Columbia.[30]

But how could this have happened even as artificial intelligence research and development have boomed? How has the state with the richest physical and intellectual tech infrastructure experienced lethargic small business growth? It's the same reason that manufacturing businesses and residents have either left the state or are contemplating doing so: public policy.

At one time, the difficulties produced by public policy, from exorbitant housing and energy costs to punitive taxation, were considered just the hassles of doing business in the state. But other states have proved to be more accommodating, and at the same time, there are few signs that California will enact policies that will satisfactorily solve the housing crisis, shrink energy prices, cut taxes, and improve the overall quality of life in the state.

California's inhospitable environment for small businesses is not a recent phenomenon. More than a decade ago our analysis of the regulatory impact on small businesses demonstrated that this state was the worst in the country for small companies, and for many of the same regulations that concerned the Cato Institute.[31]

Specifically, California is not a right-to-work state, which represses economic growth; it establishes an excessive minimum-wage, which slows hiring and accelerates job loss; and imposes costly energy mandates that increase the cost of doing business.

> "Not to be forgotten is how the loss of big companies, which we've been seeing in California, negatively impacts small businesses and small-business opportunities.

Chief executives of larger companies as well as business owners, many of whom operate small businesses, concur with our assessment and consistently rank California as the worst state for business.[32] "Running a small business in California can feel like death by a thousand policies," says Julian Cañete, president and CEO of the California Hispanic Chambers of Commerce. "With over 420,000 restrictions – more than triple the national average of 136,000 – on everything from notifications to duplicative permits, it's no secret that the Golden State is massively overregulated."[33] Cañete wants government "to stop burdening our small businesses so that they can nurture their own California Dream," which includes the creation of new jobs.

Not to be forgotten is how the loss of big companies, which we've been seeing in California, negatively impacts small businesses and small-business opportunities.[34] The two work off of each other in a beneficially symbiotic process. When big businesses struggle or leave, small businesses — from lunch counters, bakeries, dry cleaners, mom-and-pop convenience stores and independent retailers that serve the thousands of workers at the larger firms, to the companies that rent out business space, to janitorial services, to the supply chain links — are also harmed. These impacts don't even count the startups that never happened because Toyota or SpaceX or Charles Schwab relocated their headquarters or the bulk of their operations in states where the taxes, regulations and mandates are much less burdensome.[35]

Reigniting Job Growth Requires Fundamental Reforms

Reinvigorating California's potential is not only possible, but also logical. Achieving this goal requires fundamental reforms that restore fiscal and regulatory sanity to the state. Unfortunately, state policy leaders are failing to connect these dots. If policymakers are serious about bringing back manufacturing jobs – let alone jobs in technology, finance or the many other job opportunities that are created by a dynamic economy – they will need a different approach.

The current California way is based on government-directed economic development. It relies on burdensome taxes to fund large government projects and strict regulations to direct how (and what) the private sector should produce. This approach has led California to a policy crossroads. Continuing down this pathway, Californians will continue to see a less affordable lifestyle with fewer economic opportunities. As other states continue to outpace growth in the Golden State, California will progressively become a smaller share of the national economy.

The other path recognizes that California's wealth and prosperity are created by entrepreneurs (large and small). The state government's role is to support these efforts by efficiently providing public goods such as education and income support programs. This role includes enforcing effective labor and environmental regulations but also ensuring that these regulations are no more burdensome than necessary and do not engage in industrial policies. California's fiscal and regulatory policies fail to strike these balances, which is why the private sector is buckling under the weight and inefficiencies of the state government.

Essentially, the exodus of businesses, jobs, and residents is communicating to policy leaders that the state needs to embrace a pro-growth deregulatory and tax-reform agenda that directly addresses the state's high costs of doing business and consumer affordability problems.

The deregulation efforts should start with reforming CEQA. As a 2022 PRI analysis explained, California is "not providing the physical infrastructure befitting the world's 5th-largest economy" because of CEQA.[36]

Beyond the devastating impact on the cost of housing, CEQA is preventing the construction of needed roads, bridges, rails, and water and telecom infrastructure. CEQA also obstructs the construction of schools and hospitals, stalls projects to increase wildfire resilience, and hinders green energy projects. Reforms should limit the ability of groups to use CEQA as a cudgel to obstruct any development and impose stringent transparency requirements on CEQA litigation funding.

To further alleviate the excessive cost of housing, restrictive state and local regulations need to be relaxed, including land-use and zoning regulations. Eliminating rent controls will also remove a major disincentive that obstructs the construction and development of rental units. Removing the disincentives to build more housing will not only promote greater housing affordability, but it will also significantly upgrade the quality of housing for many Californians.

> "On the fiscal front, California simply spends too much money and consequently imposes an excessively high tax burden.

Another major detractor for businesses and households is the state's high energy prices. There is nothing inevitable about California's exceptionally expensive gas and electricity costs. These inflated costs are the predictable consequences from the state's overly burdensome environmental mandates. Reforms that repeal the state's cap-and-trade program, alternative generation mandates, and drilling moratoriums will immediately lower the cost of energy for local families and businesses. Easing the strict fuel standards and enabling more in-state production will also help lower the costs of gasoline. As an important complement, the growing mandates that have been driving out in-state oil refiners, such as the increased minimum inventory requirements, should be repealed as well.

California's excessively burdensome labor regulations are another disincentive that discourage in-state employment growth. Improving these regulations would include adopting right-to-work laws and reducing the state's excessively high minimum wages. Also crucial are reforms to the state's strict workers' compensation mandates, mandated short-term disability insurance, stricter-than-federal anti-discrimination laws, and prohibitions on consensual noncompete agreements.

On the fiscal front, California simply spends too much money and consequently imposes an excessively high tax burden. While it would need to be achieved over time, legislators should aim to reduce the total per capita state tax collections closer to the national average of $4,329. Since California's burden is currently 56 percent higher than the national average this will require long-term spending control that allows the private sector to outgrow the current burden. This goal would be enhanced by lowering the highest state tax rates in the country through comprehensive tax reform.

Reducing the tax burden cannot be achieved without imposing greater fiscal discipline on the state's spending. Imposing fiscal discipline requires policymakers to make difficult choices, but some choices are easier than others. For instance, throwing another billion dollars at the high-speed rail project is the epitome of waste and should be an easy item to cut. The $27,418 per student that Gov. Newsom wants to spend is also among the most of any state, yet student performance is sub-par and worsening. Opportunities to reduce spending but improve performance abound. A similar dynamic applies to the tens of billions the state has spent trying to address the homelessness problem. Effective spending reform will enable the state to sustainably lower its excessive tax burden that is driving away businesses and causing employment opportunities to stagnate. Given the complexities created by decades of ballot box budgeting, achieving long-term fiscal stability could require the adoption of propositions that provide future governors and state legislatures needed flexibility.

Conclusion

California has been the national economic leader for decades, but the state's economic leadership is undeniably in jeopardy. While cracks have been forming for some time now, the adverse consequences have been becoming all too visible. Over the last five years, in the midst of a national economic expansion, California's share of the nation's employment and output have been in outright decline. This long-term decline is new and troubling.

Californians are becoming too familiar with the consequences that accompany these trends that include slowing income growth, falling job opportunities, and ever-rising costs of living. But despite all the gloom, there are reasons for optimism if the state chooses the free market path.

While at a crossroads, California's asset base remains intact. The state still boasts the economic, scientific, financial, educational infrastructure, and geographical advantages to regain its economic mojo. Nor is the required course correction mysterious, it simply requires the political will.

These necessary reforms need to remove the fiscal and regulatory obstructions that make the state such a costly place to live, work, and invest. Since California's declining economic prospects are a direct consequence of these disincentives, removing them will unleash the talent of millions of Californians. The result will be the reinvigoration of the California Dream.

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He is the co-author (with Tim Anaya) of *The California Left Coast Survivor's Guide,* which was a number one Amazon new release in two categories and helps readers learn how to avoid Left Coast policy mistakes in their states, and the author of *Living in Fear in California,* a book that explores well-meaning changes to California's public safety laws enacted in recent years that have undermined safe communities.

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.

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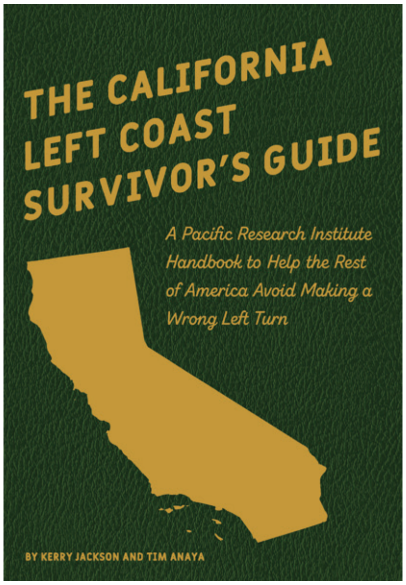

The *California Left Coast Survivor's Guide* from the Pacific Research Institute gives readers the facts and knowhow needed to stop California ideology from taking root nationwide. Inspired by the handbooks that have prepared eager adventurers for years, the book provides lessons on how to survive the progressive wilderness creeping in from California. The book is presented in a reader-friendly – often humorous and entertaining – format that will inform and inspire readers.

Documenting California's growing outmigration problem, the Pacific Research Institute study "California Migrating" finds that harmful policy choices have increased economic and quality-of-life concerns and are chasing businesses, job opportunities, individuals of every age group and income level, and badly needed tax revenue out of state. The study takes a deep dive into who is leaving California and why.

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The Pacific Research Institute (PRI) champions freedom, opportunity, and personal responsibility by advancing free-market policy solutions. It provides practical solutions for the policy issues that impact the daily lives of all Americans, and demonstrates why the free market is more effective than the government at providing the important results we all seek: good schools, quality health care, a clean environment, and a robust economy.

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Center for Health Care

PRI demonstrates why a single-payer Canadian model would be detrimental to the health care of all Americans. It proposes market-based reforms that would improve affordability, access, quality, and consumer choice.

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The Center for California Reform seeks to reinvigorate California's entrepreneurial self-reliant traditions. It champions solutions in education, business, and the environment that work to advance prosperity and opportunity for all the state's residents.

Center for Medical Economics and Innovation

The Center for Medical Economics and Innovation aims to educate policymakers, regulators, health care professionals, the media, and the public on the critical role that new technologies play in improving health and accelerating economic growth.

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The Free Cities Center cultivates innovative ideas to improve our cities and urban life based around freedom and property rights—not government.

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