RESTORING THE CALIFORNIA DREAM

by

Joel Kotkin and Marshall Toplansky

2022
“Demographics is destiny” has become a somewhat overused phrase, but that does not reduce the critical importance of population trends to virtually every aspect of economic, social and political life. Concern over demographic trends has been heightened in recent years by several international trends — notably rapid aging, reduced fertility, and before large scale migration across borders. On the national level, shifts in attitude, generation and ethnicity have proven decisive in both the political realm and in the economic fortunes of regions and states.

The Center focuses on research and analysis of global, national and regional demographic trends and also looks into policies that might produce favorable demographic results over time. The Center involves Chapman students in demographic research under the supervision of the Center’s senior staff. Students work with the Center’s director and engage in research that will serve them well as they look to develop their careers in business, the social sciences and the arts. They also have access to our advisory board, which includes distinguished Chapman faculty and major demographic scholars from across the country and the world.
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PART ONE: EXECUTIVE SUMMARY

“Don’t look back. Something may be gaining on you.”

Satchel Paige

What is happening to the California dream? For some it still comes true, but for many, and perhaps most Californians, the state increasingly fails to provide ample opportunities to start a business, buy a home or move up to the middle class. The state’s performance on these issues is the ultimate test of the ‘California model’ and its validity for the rest of the nation.

We face two seemingly discordant realities. In technology, culture and lifestyle, California remains the envy of the world. The state’s aggregate economy—its GDP—has continued to grow faster than the national average, in large part due to the enormous surge of wealth created in the tech sector, where California is home to 53 of the country’s 500 largest firms and four of the country’s seven most valued firms, all in tech. California’s 2020 $3.2 trillion GDP would make it the world’s fifth largest national economy if it were a standalone country, just behind Germany. It accounts for 14% of the US GDP, while our 40 million people account for slightly under 12% of the country’s population. The Golden State, by that metric, still punches above its weight.

Yet for most Californians, the economic reality is far from rosy. Even as the state creates an ever-higher number of billionaires—24 added just last year—California workers have not shared in the prosperity. Nearly 80% of all jobs created in the state over the past decade paid less than the median income, a percentage far below our prime competitors. The inconvenient truth is that in key metrics such as housing costs and income growth, most Californians are doing worse than their counterparts elsewhere. Overall, California now underperforms its main competitors, notably Arizona, Texas, Washington and Utah in many sectors of the economy—manufacturing, professional business services, construction and energy—that once provided steady, high-wage employment. The loss of major corporations in distribution, engineering, aerospace and technology also has eroded our economic diversity and key sources of long-term, middle-class employment.

Low real wages, combined with the very high price of real estate, have created a profoundly divided California. The primary task before us is to restore California’s opportunity culture, and by doing so, create prosperity for a broad section of California’s middle and working-classes. Our great state needs to restore its historical promise to its citizens.
California’s key challenge is not to produce wealth, but rather to spread its blessings more widely. Housing may well be the key issue; more than 70% of Californians surveyed consider the state’s housing costs as “a very serious issue,” and more than half are considering a move out.\(^4\)

Unless reversed, this migration pattern will worsen. In 2019, before the pandemic, over half of all Californians surveyed said they were considering moving, mostly due to the state’s cost of living. More recently, another survey, this one from the Public Policy Institute of California, found that roughly two in three state residents believe inequality has worsened in their area and will continue to do so in coming years. Even more disturbing, majorities of all ethnic groups feel the next generation will be worse off than the current one. Nearly two-thirds of Californians think the state’s best days are behind us.\(^5\)

These attitudes may reflect the diminishment of opportunity. As recently as 2010, California’s economy was characterized by great employment diversity and stronger than average job growth in a host of fields, including manufacturing.\(^6\)

The state no longer competes well in most of the economy’s better-paying sectors. This, combined with high housing costs, has caused California to suffer the nation’s worst cost-adjusted poverty rate, and to rank fourth highest on a Gini inequality index (behind New York, Connecticut and Louisiana). According to United Way of California, over 30% of California residents, including 50% of Latinos and 40% of Blacks, lack sufficient income to meet basic costs of living even after accounting for public

### LOCAL ISSUES LOOM LARGE:
**Californians See a Serious Housing Crisis**

<table>
<thead>
<tr>
<th>72%</th>
<th>53%</th>
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<tbody>
<tr>
<td>72% of Californians say cost and availability of housing is a very serious issue for California</td>
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<tr>
<td>62% of Californians say homelessness is a very serious issue for California</td>
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<tr>
<td>Bay Area</td>
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<tr>
<td>+4 since 2018</td>
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If San Francisco Is So Great, Why Is Everyone I Love Leaving?

We are witnessing two migrations, one is a migration of the California dream, the other is one with little impact, though it affects nearly everyone in the state."

assistance. California also suffers the widest gap between middle and upper-middle-income earners of any state.\(^7\)

According to the state’s Legislative Analyst’s Office, 20% of state wealth is held within 30 zip codes that account for just 2% of the population. Less than 33% of state wealth is held within 1,350 zip codes that house 75% of Californians. Since the 1970s, California middle-class incomes, once ebullient, have stagnated.\(^{8, 9, 10}\)

The Decline in Blue Collar Jobs

Even before the pandemic, California experienced lower growth than the other states it competes with for business and people. The most glaring losses have been in well-paying blue-collar jobs. Even without adjusting for costs, no California metro ranks in the US top ten of well-paying blue-collar jobs. But four—Ventura, Los Angeles, San Jose, and San Diego—sit among the bottom ten.
This loss of our industrial sector is tragic since we may be on the verge of a vast expansion of reshoring from China and other countries. Of course, over the past two decades manufacturing jobs have declined across much of the country, and it seems likely that automation may replace some human employment in this sector. Yet for now, the sector is generating new jobs, and faces an enormous labor shortage for skilled workers. In construction jobs, however, which are not as affected by automation, California significantly lags every other key state in per-capita job growth. And even in the trade and transportation sectors, California growth now lags the other states. This is especially surprising given that the Golden State has the largest ports in the nation, and given its role as a hub for imports from Asia.
A Threatened High-End Economy

There has also been a troubling shift in business and professional service jobs such as accountants, lawyers, and management consultants, which represent the largest source of higher-wage jobs. The shift towards other states with major large firms—Toyota, Bechtel, Oracle, McKesson, Parsons and Jacobs Engineering—reflects the diminishing appeal of California in this critical area. Over the past three decades, Texas saw more than double the level of California’s growth in this sector.12

This slippage now threatens the state’s celebrated innovation economy as well. Growth in this sector has fallen behind that of key competitor states like Washington and Utah. This trend also includes the movement of significant tech firms—Tesla, Oracle, Hewlett-Packard, Palantir—out of the state. Many other firms, including Apple, Uber, Airbnb and Amgen, increasingly locate their new projects elsewhere, according to a report from Hoover Institution researchers Joseph Vranich and Lee Ohanian. The new ‘boomtowns’ like Salt Lake City, Denver, Columbus, and Austin often possess strong education and innovation communities and many natural amenities, although admittedly, perhaps not up to our unique California standards.13

California still possesses huge advantages for innovation businesses, particularly startups, partly due to the dominance of venture capital here. But this may now be slipping somewhat. The Bay Area’s proportion of VC deal count in 2021 is expected to fall below 20% percent for the first time in history. “The Covid-19 pandemic and subsequent exodus from San Francisco will only exacerbate this trend,” writes VC analyst Kyle Stanford in Pitch Book’s 2021 US Venture Capital Outlook report.14
Pandemic Effects

When the pandemic began, California’s unemployment rate was just around the national average; today it is tied with tourism-dependent Nevada as the nation’s highest. Cities in Southern California and the Central Valley dominate the list of metros with the most elevated levels of unemployment. California is now considered the second hardest place to find a job in the nation.¹⁵

The Leisure and Hospitality sector has been particularly devastated. In recent decades, this sector was among the state’s fastest growing (although moving far less quickly than our chief competitors; Florida’s grew four times faster, on a per-capita basis, as Disney shifted more park operations there).¹⁶
California lost all the leisure and hospitality growth from the prior decade during the pandemic. Other tourism related economies—Florida, Nevada, Louisiana—also suffered losses, but not to the extent seen in California.

Remote Work Challenges the Elite Economy

Early in the pandemic, perhaps 42% of the 155 million-strong US labor force was working from home full-time, up from 5.7% in 2019. It easily exceeded the share of workers commuting by transit. When the pandemic ends, suggests new research from Jose Maria Barrero, Nicholas Bloom, and Steven J. Davis, “a residual fear of proximity” and the preference for shorter commutes or none at all will mean that roughly 20% or more of all work will be done from home, almost four times the already-growing rate before the pandemic.¹⁷

THE MAJORITY OF EMPLOYEES PREFER TO WORK FROM HOME 3+ DAYS PER WEEK

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What is the source?

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The portion of remote workers could reach 50% in Silicon Valley.

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Note: The source is Reimagine Work: Employee Survey (Dec. 2020–Jan. 2021, n=5,043 full-time employees who work in corporate or government settings.)
Tech jobs are particularly suited to home-based and remote work. Studies from the National Bureau of Economic Research and from the University of Chicago suggest the portion of remote workers could reach 50% in Silicon Valley. Roughly 40% of all California jobs, including 70% of higher paying ones, could be done at home, according to an assessment by the Center of Jobs and the Economy.\textsuperscript{18}

Many of these workers may want to stay in California, although perhaps in a more affordable part of the state. USPS figures suggest that between March and November 2020 over 80,000 people moved out of San Francisco, a 77% increase from the same time period in 2019. More than two-thirds moved to somewhere within the region, notably the exurbs, but also to rural locations such as the Mother Lode country.\textsuperscript{19}

Some Bay Area tech companies appear to be reducing headcounts and office space or moving workers to permanent work-from-home status. In a study of 90 companies compiled by San Francisco venture capital firm Initialized Capital, those who said the Bay Area would be their first choice to headquarter a company dropped from 41% in 2020 to 28% in 2021.\textsuperscript{20}

A portion of the jobs now being performed on corporate campuses and in high-rises will be relocated, at least partially, into homes or remote suburban offices. Apple, for example, tried to prod workers back to the office for three days a week, but this was not enough for many of their employees, who felt the policy should go further; in one recent survey, 90% said they wanted the option of working indefinitely at home.\textsuperscript{21}

**The Reality of Business Flight**

There is much controversy over the extent and importance of business flight from California, but the most recent evidence reveals that the tide of business headquarters leaving the state is accelerating. A 2021 Hoover Institution report presents a compelling set of data about recent business behavior. From January 1, 2018, to June 30, 2021, 265 companies moved their headquarters out of the state, an average rate of 6.3 per month. The speed of exodus accelerated significantly (to 12.3 per month) in the six months from January through June of 2021.\textsuperscript{22}

Most of these firms departed from the Bay Area and Southern California, the state’s premier urban areas. Where did they go? Five states—Texas, Tennessee, Nevada, Arizona and Colorado—ac-
counted for 70% of the headquarter relocations, states that we have seen gradually outpace California in many key businesses. Since the beginning of 2018, some 107 companies have moved their headquarters to Texas from the Golden State.23

Corporate headquarter relocations represent only one indicator of economic attrition. Researchers tracked 781 significant capital projects in Texas during 2020, but only 103 in California. Despite being by far the most populous state, California ranked 16th out of 50 states for locating capital projects. On a per-capita basis, California ranked 46th out of all the states. The highest per-capita new project rate was recorded by Ohio; its rate was 14 times higher than California’s.24

Most of these firms departed from the Bay Area and Southern California, the state’s premier urban areas. Where did they go?

Five states—Texas, Tennessee, Nevada, Arizona and Colorado
What Businesses Are Saying

Why has California, with the nation’s largest population, tremendous physical assets and a legacy of innovative development, lagged behind in new investments? Part of the answer lies in an unattractive business climate. Larger businesses rank California’s business climate 50th among the states; small businesses also have given it low grades.

To get a fresh look, we conducted a survey of two hundred CEOs of California companies in November 2021. Preliminary findings show that 25% of California CEOs are seriously or definitely planning to move their businesses out of state. Overall, 56% of them are sympathetic to the idea, while 44% are not considering a move out of the state. Among those considering a move, 63% report that they are considering it much more seriously than they have in the past. Even among those not contemplating a move, roughly half view California as very or somewhat unfavorable as a place to conduct business, due to an array of issues that include housing, taxes, high energy costs and regulatory controls on development.25

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<td>33</td>
<td>Alaska</td>
<td>50</td>
<td>California</td>
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Source: Chief Executive Magazine
CEO AND OWNERS CONSIDERING MOVING THEIR BUSINESS OUT OF CALIFORNIA (n=120)

- 18% No consideration
- 39% Some or serious consideration
- 43% Would if could

CURRENT CONSIDERATIONS OF MOVING AS COMPARED TO THE PAST (n=120)

- 29% About the same as in the past
- 64% Much more seriously than in the past
- 7% Somewhat more seriously than in the past

California Business Migration Survey, November 2021, Chapman University, UCI, UCSD and the University of California
Preliminary survey results. Full Study to be completed in January 2022.
Looking Ahead

To be sure, California has recovered from previous downturns, as some have suggested. But in those times the state had a more diverse economy that continued to create middle- and working-class jobs. Today, a large part of our GDP and growth comes from a handful of companies. Having three or four of the world’s most valued companies is surely a great advantage. But other states and regions are growing faster than California, while many industries simply expand elsewhere or leave.

We are not alone, and we have no divine right to industries, whether traditional or cutting edge. California, like it or not, is engaged in a competitive war for jobs, business capital, and to build prosperity for its people.

This is not 1960 or even 1990, when we dominated many key industries and boasted costs that were not profoundly out of proportion. We are not alone, and we have no divine right to industries, whether traditional or cutting edge. California, like it or not, is engaged in a competitive war for jobs, business capital, and to build prosperity for its people. Some losses could be due to economic maturation or simply a result of high tax rates or regulatory overkill. In any case, we are currently in danger of losing the war. Whatever its cause, turning the tide is critical to the future of Californians.

PART THREE: DEMOGRAPHIC CHALLENGES

The celebrations of new IPOs and the latest under-40 billionaires grace the business pages. But the reality for many, if not most Californians, particularly for minorities and the younger generations, is less inspiring. We may have the most billionaires, but our median household income, adjusted for cost of living, remains painfully low. On a cost of living basis, California’s median household income in 2019 ranked 50th, with only Hawaii below us.

A Blot on Our State: Pervasive Poverty

Even as the state continues to churn out billionaires and millionaires, immigration impacts all four of the state’s largest racial/ethnic groupings. Incomes for white (only) non-Hispanics, African Americans (only) and Hispanics all rank 48th to 50th in the nation. Asians (only) rank by far the best, but still are only 35th. When costs are added to the calculations, the ranks of poor Californians swell an additional 1.7 million, about the combined population of the state’s second and fourth largest cities, San Diego and San Francisco.

Stanford University’s Mark Duggan told the San Francisco Chronicle, “In California, there is this idea of ‘Oh, we care about the poor,’” Duggan said. “But on this metric, we are literally the worst.” Duggan is the principal author of a Stanford/University of Texas, Austin economic comparison of California and Texas, and his comment referred to his research.
AT THE INDIVIDUAL LEVEL, CALIFORNIA HAS NOT LOST ITS WEALTH BASE
It has created the most billionaires among all states from 2016 to 2020

<table>
<thead>
<tr>
<th>Rank by Number of Billionaires (9/15/20)</th>
<th>State or Federal District</th>
<th>Number Billionaire Residents (2/12/16)</th>
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<td>7</td>
<td>Massachusetts</td>
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<td>20</td>
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Source: Forbes, April 2021

INCOME DIFFERENCES BETWEEN WEALTHY AND AVERAGE CALIFORNIANS

$1,693,094 Average annual income of the top 1%

$514,694 What you need to make to be in the top 1%

$55,152 Average income of everyone else (the bottom 99%)

30.7x The top 1% make 30.7 times more than the bottom 99%

The top 1% take home 23.7% of all the income in California.

1% of the families

23.7% of the income

Share of income captured by the top 1%, 1917–2015

The share of all income held by the top 1% in recent years has approached or surpassed historical highs.

Source: Economic Policy Institute
MEDIAN HOUSEHOLD INCOME: STATES 2019
Cost of Living Adjusted

CALIFORNIA COST ADJUSTED POVERTY
Difference in Empoverished Population Compared to Official Federal Rate 2018/2020

Source: Derived from American Community Survey 2019 & Sperling

Source: Derived from Census Bureau data
Several factors drive this phenomenon. Besides a flagging performance on the generation of high-income jobs, California also suffers from high living costs, including energy and housing prices that are among the country’s highest. The average California home uses about half as much energy as an average American household, but pays about $1,700 per year for electricity, reflecting one of the highest rates in the nation.\(^2\)\(^8\)

Energy prices, now rapidly increasing, hit the poor particularly hard. Between 2011 and 2020, the state’s home energy affordability gap rose by 66%, while falling by 10% in the rest of the nation. Nearly 70% of all California households with unaffordable housing costs are occupied by people of color. Black and Latino households are already forced to pay from 20% to 43% more of their household incomes on energy than white households do. In 2020, over four million households in California (30% of the total) experienced energy poverty.\(^2\)\(^9\)

**NON-WHITE HOUSEHOLDS ARE BURDENED WITH SIGNIFICANTLY HIGHER ENERGY COSTS THAN WHITE HOUSEHOLDS**

*Source: American Council for an Energy Efficient Economy*

![Image](image_url)

![Image](image_url)

**CHANGE IN HOUSE VALUES & RENTS • Major Metropolitan Areas: 1969–2018**

![Graph](image_url)

*Source: Derived from Census Bureau data*
The housing situation is, if anything, more dire. For more than half of all renters in California, housing costs exceed 30% of household income, the traditional definition of an outsized housing burden.³⁰

High rents and house prices, along with low wages, also have produced the nation’s highest level of overcrowding. California has the second highest doubling-up rate among the states. This poses a particular problem during a pandemic; exposure density in crowded housing has been a primary generator of infections and fatalities. In terms of real incomes, we find that African-American and Hispanic households have lower median cost of living adjusted incomes in California than in the nation overall. The gaps are particularly large between California and competitive states like Arizona and Texas, but the state even lags Mississippi.³¹
MEDIAN HOUSEHOLD INCOME: HISPANIC: 2019
Cost of Living Adjusted
Source: Derived from American Community Survey 2019 & Sperling

MEDIAN HOUSEHOLD INCOME: AFRICAN AMERICAN: 2019
Cost of Living Adjusted
Source: Derived from American Community Survey 2019 & Sperling
A Loss of Appeal to Minorities and Immigrants

These conditions have made the state far less attractive to the immigrants and racial/ethnic minorities long critical to the state’s economic and cultural ascendancy. Incomes for both Latinos and African-Americans, adjusted for costs, are generally far lower in California than nationally; remarkably, real incomes for African-Americans in the state are not just lower than the US average, but lower than Mississippi, long the bastion of racial discrimination and deep-seated poverty.

Many minorities are finding other places to settle, particularly in our key competitive states. One key issue is access to home ownership, where California lags behind, particularly for minorities. Over the past two decades, the African-American household population has declined in San Francisco, Oxnard, and Los Angeles. Once a beacon for minorities, California is clearly no longer a primary destination for the groups who will account for a growing percentage of our population.

California also seems to be losing some of its global allure. Net international migration to the state peaked in 2015 at 154,000 and fell to 29,000 by 2020. Los Angeles and San Francisco were once beacons for people from abroad, but increasingly the big migration hubs are in Dallas–Fort Worth, Nashville, Houston and even some Midwestern metros. Looking more broadly at the foreign born, including those who have been in the country for decades or more, California also lags.

This seems likely to continue. During the 1970s, refugees from Vietnam poured into the state. Today, due to high costs of living, newly released State Department recommendations on relocation options for Afghan refugees raise caution about some California cities as destinations.
The biggest shift, however, has been in domestic outmigration. Some, particularly in academia and the mainstream media, continue to label claims of an exodus as essentially false, or as reflective of political biases. But since 2000, California has lost 2.6 million net domestic migrants, more than the current combined population of San Diego, San Francisco and Anaheim. In 2020, California accounted for 28% of all net domestic outmigration in the nation, about 50% more than its share of the US population. \(^{34}\)

More than one half of this loss—1.9 million—has been from Los Angeles County, but 36 of the state’s 58 counties also have experienced net domestic migration losses over these last two decades. In 2020, according to census estimates, the state lost population for the first time in its modern history.

It is clearly becoming less of a destination for outsiders. In every census from 1900 to 1990, a minority of California residents were born in the state, with the lowest rate, 36%, in 1930. At the
beginning of the strongest period of net domestic migration (1950), 37\% of residents were born in the state. Residents born in the state became a majority (50.2\%) in 2000. By 2012, this figure had risen to 55\%. Other western states have experienced smaller increases or even declines in their percentage of population born in the same state. \(^{35}\)

Further, and somewhat at odds with conventional wisdom, it is not just the poor or ill-educated who are leaving. The Internal Revenue Service reports that California’s domestic out-migrants and in-migrants had about equal incomes for the last five years. Net domestic outmigration is increasingly prevalent among the upper middle class and the affluent. The largest share of net outmigrants in recent years has been households with incomes of $100,000 to $200,000.

Similarly, the notion that it’s the old who are leaving is also off base. Younger people, according to recent surveys, are far less satisfied with their lives in California than older people. The latest IRS data reveals that the largest net domestic outmigration is in 35 to 44 year olds, precisely the ages when many people
reach their peak earnings, buy houses and start businesses.36

California is becoming ever more difficult for families. San Francisco and Los Angeles have among the lowest birthrates in the country, reflective of high housing and living costs. With its falling birthrate and rising net outmigration our state, long an avatar of youth, is now as old as the rest of the country but, critically, is aging 50% faster than the national norm.37

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Implications for the California Economy

California cannot look to population growth to power its economic future. In 2005, the State Department of Finance projected a 2020 population of 59.5 million. The most recent 2050 projection is 44.0 million. This clearly will affect the workforce available to California employers.38

California companies will need to rely on our students, who already suffer among the lowest test scores in the nation. Our schools clearly need more, and perhaps better targeted investment. Almost three of every five California high schoolers are not prepared for either college or a career; the percentages are far higher for Latinos, African-Americans, and the economically disadvantaged.39

In advanced education and its State Universities, California has long been a leader. But our higher education system, while still growing, is not keeping pace with many of our competitors.40
EDUCATIONAL ATTAINMENT: BA & HIGHER
States/DC Ranked: 2019  
Source: Derived from Census Bureau data

EDUCATIONAL ATTAINMENT: BA & HIGHER
States Ranked by Largest Gains: 2010–2019  
Source: Derived from Census Bureau data
SECTION FOUR: POLICY CHALLENGES

Historically, ever since California achieved statehood, government played a key role in its growth. The entrepreneurial spirit has always been important, but California has also always needed the public sector to create the basis for economic growth. “Science is the mother of California,” said the University of California’s second president, Daniel Coit Gilman. Engineering on a staggering level was needed for a state that lacks water far from where most people live, has only two large natural harbors, and has long suffered recurring droughts and fires. This positive role for government reached its apex under the governorship of Pat Brown. 41

Today, many Californians distrust their government—as well as tech and business leaders—by margins of roughly 10% more than the rest of country. Pollsters have traced widespread alienation from Sacramento for nearly a decade. 42

Yet we can’t realistically address key issues such as energy, water and transportation without a competent and engaged public sector. This means not only to expand government employment and subsidies, but also to adopt innovative, common solutions to ever-changing conditions with the primary goal of restoring opportunity and broad-based growth. The idea that the private sector can flourish on its own ignores the reality that even generally conservative states like Texas have invested heavily in their economies, despite their ostensibly laissez-faire politics. 43

We need government to focus not on telling people what to do, but rather on helping people to achieve their own
dreams. Over the past 20 years we have moved away from that vision, and done a poor job of improving such things as reservoirs, water systems, electrical grids, roads, ports and bridges. Despite the enormous expansion of California’s state budget over the past two decades, our commitment to new infrastructure has lagged. Indeed, according to an Urban Institute study, state per capita spending is well below that of our less progressive rivals, including Texas. Our overall grade in the latest survey by the American Society of Civil Engineers annual report was a measly C-, worse than virtually all of our prime competitors.\textsuperscript{44}

\textbf{Needed: A Radical Shift To A Prosperous, Egalitarian California}

In addition to an increased focus on infrastructure, we also have to look for ways to increase our supply of sustainable, affordable housing. Some consider the state’s high real estate prices an emblem of the state’s inherent attractiveness. But even at the peak of California’s growth, the 1950s through the 1970s, home prices, compared to incomes, remained relatively on track with the rest of the country.

One likely culprit for some of the state’s inflated property prices lies in regulato-
ry policies that began to be imposed in the 1970s. Policies that discourage peripheral development, along with high user fees, and sometimes the misuse of environmental regulations (notably of the California Environmental Quality Act) have combined to raise housing prices to an almost absurd level.45

High property prices crush home-buying aspirations for newcomers to the market. Despite notions that young people have transcended this desire, the vast majority of millennials and the Z generation would like to become home owners. Yet, according to one recent study, the median family in San Jose or San Francisco would need 125 years (150 in Los Angeles) to collect a down payment on a new house; in Atlanta or Houston the figure is twelve years.46

Like other Americans, most Californians, particularly families, prefer single family homes, even if they are not located close to job centers. An analysis indicates that 90% of California population growth this decade has taken place not in the urban cores, but in the suburbs and exurbs. The pandemic has strengthened this tendency, not only here but around the world.47

For generations, home ownership has constituted a critical way for Americans to build net worth, especially among lower- or middle-income people. Yet today, California accounts for four of the six largest metros with the lowest homeownership rate, and ranks 49th in home ownership. According to a recent AEI survey, its home ownership rate is at its lowest since the 1940s. The state is also one of the nation’s worst markets for first time homebuyers. To put this in perspective: according to a recent study by economist John Husing, not one unionized construction worker can afford a median priced home in any coastal California county.48

According to a recent study by economist John Husing, not one unionized construction worker can afford a median priced home in any coastal California county.
In analyzing the causes of inflated housing prices, one clear culprit has been the attempt to throttle development through urban containment policies such as urban growth boundaries (UGBs) and other land use restrictions. These restrictions make it too expensive to produce new housing for median income households. Such policies, here and around the world, ratchet up land prices throughout urban areas.49

Rents, too, are inflated in areas with these restrictions; rents show a strong association with house prices, as is indicated in American Community Survey data. Prominent housing economists Edward Glaeser of Harvard and Joseph Gyourko of the University of Pennsylvania have found that land costs in the Bay Area are roughly ten times higher than would be expected in a less-regulated market.50

The general thrust of California land use policy over the past two decades has been to push for ever-higher densities, and to limit ‘sprawl’. Dense development has been widely promoted as reflecting fundamental market demands, making our communities environmentally more sustainable, and reducing housing prices.51

But, contrary to some suggestions, density-focused housing policies do not result in lower prices. Studies in Vancouver, Canada and several other locations have shown an association of densification with higher land prices and diminished housing affordability. California has the highest urban density of any state, yet suffers the second highest housing costs and rents of any state except Hawaii.52

And neither containment regulations nor density policies are driving more production. Over the past five years California has consistently lagged not just in the creation of single-family housing, but in multi-family housing as well. The gap is particularly evident when we are compared to other large warm weather states: Arizona, Texas, and Florida.
one California metro was among the 2020 top 50 places with the most new housing units per capita; Texas had five, Florida ten.53

Finally, from an environment standpoint, even density advocates admit densification can have only a minor impact on emissions.54

The Remote Work Opportunity

The critical game changer, environmentally, could be the shift to remote work. Technology can help make cities much greener. Remote work obviously reduces greenhouse gas emissions because it eliminates work trips; it has been cited by environmental groups like Resources
for the Future, and by ‘progressive’ Silicon Valley firms like Sun Microsystems. During the pandemic we saw significant drops of roughly 17% in GHG, largely due to the lockdowns and the shift to home-based work. The 2021 Annual Mobility Report of the Texas A&M Transportation Institute indicated a 50% reduction in traffic congestion delays between 2019 and 2020, at least partly as a result of the substitution of remote work for physical commutes.55

Many of the key technologies for remote work, such as Zoom, were developed in California. The state has only recently begun to reassess the use of telework for its government employees, while some states—for example, Oklahoma—have been focusing on it for years.56

People continue to want to buy homes to live in, and those who seek more space are often forced to endure long commutes from far-flung communities. Between 2009 and 2017, the number of super-commuters in San Francisco County increased by 110%, and even more in other counties around the Bay.57

But changes in technology, such as innovative materials and sophisticated systems for controlling energy and water use, could make new outlying communities more environmentally sustainable than current suburbs, as demonstrated by MIT professor Alan...
Berger. Well-planned new developments could limit greenhouse gas usage with rooftop solar systems, electric cars, and, eventually, autonomous taxis. And with their ample open space, these areas are ideal for enhancing biodiversity through thriving populations of insects, birds, and mammals.58

Proposal: A Housing Opportunity Zone

California’s best strategy to expand opportunities for ownership and to construct more affordable rental units is to shift economic development to places such as the Central Valley and the Inland Empire, where land costs are much lower. These are also areas that are becoming very diverse, as young families seek affordable housing.

We suggest the creation of a Housing Opportunity Zone with revised land-use regulations. The targeted areas would be the San Joaquin and Sacramento valley counties from Shasta to Kern; San Bernardino, Riverside, and Imperial counties; and the Antelope Valley (Mojave Desert) portion of Los Angeles County.59

This could be further enhanced by initiatives such as the proposed California Dream Homeownership Investment Fund, which would use state borrowing authority to help middle and working-class people purchase homes at prices they could afford.60

This new approach embraces two critical California values: respect for the environment and concern for future generations. The shift of employees to on-line work, combined with locating work centers closer to where people can afford to live, may result in reducing traffic, as a Federal Reserve Bank of Kansas City economic report has suggested. This seems a far better strategy to reduce traffic and emissions than to continue an emphasis on mass transit, whose market share has declined over the past decade. Our dispersed job markets are far easier to reach by car by a factor of eight in San Francisco and by 88 in the Inland Empire.61

The Housing Opportunity Zone would offer new hope to California’s beleaguered younger generation. In every age category home ownership is lower in California than in the United States overall, but the largest differences are in the 25-34, 35-44 as well as 45-54 age categories. Given the clear preference
of younger people for spacious housing, California can best retain a new work-force by providing affordable, attainable, homes that fit the needs of young families. People may not want to move to Dallas, Houston, Phoenix or Orlando for the weather, topography or culture, but they may feel compelled to do so if their goals are to own or rent a spacious abode and increase their employment opportunities. 62
Tax Policies to Embrace Business and Growth

California legislators need to reassess tax policy not just to increase fairness, but to boost jobs and opportunities. Contrary to some suggestions, the issue is not that higher taxes would push out the rich: out-migration seems to be driven by factors like economic opportunity and cost of living more than it is by taxes. Certainly, many deep South, low-tax states are not really key competitors to California (although some, like Texas and Florida, certainly are). Tax policy is more of an issue for our political economy and fiscal health. We can only develop a stable government and society if we expand the tax base beyond an increasingly small group of companies and industries who then hold our state in perpetual thrall.63

California’s tax system has not focused on growth or on attracting critical business investment. According to the Tax Foundation’s 2021 State Business Tax Climate Index, California’s tax system is ranked the second worst for business. This may not much dissuade venture-backed companies with tens of millions in investment capital, but it has a big impact on traditional businesses, particularly those sole proprietorships that are far more dependent on cash flow. Most small businesses earn a net profit margin of 2% to 5% of revenue. Typically, taxes and regulatory costs siphon off 21% of total revenue collected. Given these very tight profit margins, any state with higher-than-average tax policies puts a serious extra burden on entrepreneurs.64

California has the highest sales tax rate of any state, the highest top marginal tax rate on personal income, and the highest gas tax. At the other end of the spectrum, California has comparatively low property taxes (for some property owners), no estate or inheritance taxes, low severance-related taxes, and
we tax fewer types of sales than some other states. The personal income tax is the primary source of revenue for the California budget. Within this category, wages and salaries typically comprise 55% to 60% of receipts.\textsuperscript{65}

In the past California collected more of its revenues from property and sales taxes, but we have become ever-more dependent on the good fortunes of the rich. The income sources of the wealthiest Californians—primarily capital gains—are fluid, which injects a measure of volatility into state revenue collections and budgeting.\textsuperscript{66}

State budgeters have prudently responded to this volatility by increasing contributions to rainy day accounts, and by prioritizing one-time spending over ongoing commitments. But they have not addressed the dangers inherent in dependence on the very wealthy, particularly on digital companies which can shift their employees elsewhere.\textsuperscript{67}

Despite our dependence on the rich, there are many who believe California can continue to stick it to them. Yet the move to a wealth tax exposes our over-reliance on the super-affluent. It makes us more dependent on the elites to fund services, and makes it an imper-
ative to keep them here (it also makes us more vulnerable to shifts in the stock market). But the rich can leave high tax states. This is already occurring in the Northeast, and to a notably lesser level in California.68

At the same time, the state’s low property tax rate—California has comparatively low real estate tax rates, principally due to Proposition 13—combined with the high value of houses results in the ninth highest median real estate taxes in the nation. California’s median real estate tax (annual) is 61% higher than the national average. The post-Proposition 13 tax regime means that these revenues go to the state, while localities depend largely on sales taxes. This discourages some owners from selling their homes, and leads communities to eschew housing or industrial development for retail development, a so-called ‘fiscalization of land use,’ even amidst a long-standing slump in brick and mortar retail. A shift in tax policy would need to deal with the weakening of retail sales, as well as encourage the growth in housing.69

Less widely understood is that our tax system discourages precisely the grassroots entrepreneurial activity critical to the state’s economic future. In Location Matters 2021: The State Tax Costs of Doing Business, the Tax Foundation (with KPMG) shows how state tax policy may be—intended or not—resulting in greater tax liabilities on firms in certain industries, or firms that are younger than those in other states. Interestingly, in contrast to the overall trend across states, according to this analysis new firms in California tend to face greater tax burdens than more established ones. Looking at hypothetical tax scenarios, the report concluded that high sales taxes have a stronger impact on young firms. Proposition 13 definitely factors in as well, since new firms of all types (manufacturers, corporate headquarters, data centers, etc.) appear to owe more in property taxes than mature firms.70

NET DOMESTIC MIGRATION BY INCOME
California IRS Tax Returns: 2011/12 – 2018/19  Source: IRS data

![Graph showing net domestic migration by income in California IRS Tax Returns from 2011/12 to 2018/19. The graph uses different colors to represent various income brackets.](source_image)
Addressing the Regulatory dilemma

California is a heavily regulated state, which partially reflects legitimate concerns about maintaining environmental and labor standards. But to businesses, California’s regulations sometimes appear too intrusive, as we saw from our survey. This is certainly the view of some of the more important business advocacy groups in the state, such as the California Chamber of Commerce, which routinely describes government regulations as burdensome or as job killers. A recent Hoover report established regulatory concerns as one of the big reasons for corporate flight and disinvestment.\(^7\)

Small businesses are particularly vulnerable. A 2020 National Federation of Independent Business found that the business problems perceived to be more difficult in California (as compared to the US overall) were primarily environmental and labor regulations (including wages, benefits, and health and safety rules), government procedures and permits, and energy costs.\(^2\)

We embrace the state’s quest to lower its greenhouse gas emissions, but regulations have to make sense. California’s footprint is too small to make a discernible impact, even if we may want to do our share. An analysis of our climate policies shows that the state’s reduction in GHGs have been
The movement of businesses and people out of California’s naturally mild climate to places that require more heating and cooling actually may negate any net positive impact of the policies. Whether in terms of taxes or of regulations, California policy should be less focused on virtue signaling and more on actual impacts.

We can restore this positive relationship between business and the citizenry by broadly expanding economic opportunity throughout our population. This can still occur, but only if California transcends its dependency on a handful of companies, and on one industry with little need for blue collar and mid-skills workers. There are still areas where California could boost middle- and working-class opportunities: electric vehicles, semiconductors, medical equipment and space.

One variable to consider is the change in attitude many industries may undergo in regard to the global supply chain. Companies in higher-value industries such as aerospace, semiconductors, and medical equipment may now be considering domestic manufacturing alterna-
tives. Given California’s history of manufacturing and its availability of skilled workers in these areas, it could be a natural choice as a location for reshoring—if its regulatory environment and tax policies are rethought. Right now, sadly, California is not benefiting from the trend as much as competitor states like Tennessee, Ohio and Arizona.76

Our choice is this: We can focus on how to create more and higher-wage jobs, or we can rely on expanding our welfare net, essentially looking to the upper middle class and the tech giants to bear a bigger burden. The dependency on tech firms could become particularly dangerous when the record-making IPO wave inevitably fades; transfer contributions from Washington also will undoubtedly wind down.77

What we need is a state economic strategy that effectively competes not just for headquarters or research facilities, but for production, customer support and other facilities. We can conceptualize and design products, but we should look at how to build them as well.78

Creating a Different Future

“If Californians have one common trait,” notes author Kenneth Miller, “it is their commitment to experimentation and innovation.” We rightly celebrate the achievement of past innovators: the early pioneers in oil, entertainment, aerospace; the Miller ranching empire; Amadeo Giannini’s branch banking idea; and, more recently, the founders of Hollywood’s dream machine Steve Jobs and the makers of Silicon Valley. Over time these sectors have waxed and waned, but California has always found a way to innovate and shift its economy into new areas.79

No industry is impervious to decline. Even the tech industry, which now stands as our key source of growth and wealth, is susceptible. Silicon Valley hubs experienced declines between 2000 and 2006, ending with the public offering for Google. Mike Malone, who has chronicled Silicon Valley over the past quarter century, sees the Valley as having lost much of its egalitarian ethos; the new masters of tech, he suggests,
have shifted “from...blue-collar kids to the children of privilege,” while also moving away from the production ethos that made the Valley so inspiring and egalitarian. An intensely competitive industry, he suggests, has become enamored with the allure of “the sure thing” backed by massive capital. If there is a potential competitor, he says, they simply buy it.80

Monopoly power could undermine the industry’s vigor, as it did in fields like oil, consumer electronics, and automobiles. Of course, companies like GM and Ford still exist, but the unique and often quirky grassroots system is declining as venture capital increasingly merges with Wall Street. The magic that led firms and people to come to California is in danger of wearing off, Twitter’s former CEO Jack Dorsey suggests.81

At the same time, the shift from a focus on hardware to software also threatens to disperse much of our tech industry. A semiconductor plant or rocket factory cleaves to a specific place and workforce. This is much less true for software engineering and data firms, whose scientists can collaborate in a virtual environment. If people ‘vote with their feet’ by moving their homes to less expensive states, the ancillary service economies in California that were created to serve local workers will also likely see a decline.

For reasons of both fiscal stability and equity, California has to stop looking to one part of its economy to pay its bills. It should expand its focus to a broader array of industries. California’s diversity should be not just one of color or language, but of its economic essence. The one percent—who pay roughly half of the state’s income taxes—won’t always have such great years, and with the middle and working class in decline, it’s hard to see where the money will come from to support the burgeoning welfare state.

“If Californians have common trait, notes author Kenneth Miller, it is their commitment to experimentation and innovation.”
END NOTES


Ibid.

Ibid.

California Business Migration Survey November 2021, Chapman University, UCI, UCSD, University of California, Berkeley. Preliminary results results. Full results out in January 2022

Cai, “Golden State Billionaires.”


35 This data was available only from decennials censuses before 2010.


Land costs include all costs but house construction.


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Memo to California Coalition for Homeownership.


Design Notes

California Project: Restoring the Dream in Difficult Times and the graphics utilize the following:

To achieve visual harmony a modified version of the grid Jan Tschichold conceived for his book Typography was employed.

MINION PRO Chapman’s serif family, is a digital typeface designed by Robert Slimbach in 1990 for Adobe Systems. The name comes from the traditional naming system for type sizes, in which minion is between nonpareil and brevier. It is inspired by late Renaissance-era type.

FUTURA is Chapman’s sans serif family. Designed by Paul Renner and released in 1927. It was designed as a contribution on the New Frankfurt-project. It is based on geometric shapes, especially the circle, similar in spirit to the Bauhaus design style of the period.

Images were sourced from free stock photo sites, unless otherwise noted.

Research Brief design by Eric Chimenti; professor at Chapman University.

Eric Chimenti’s work has won a Gold Advertising Award, been selected for inclusion into LogoLounge: Master Library, Volume 2 and LogoLounge Book 9, and been featured on visual.ly, the world’s largest community of infographics and data visualization. He has 21 years of experience in the communication design industry. To view a client list and see additional samples please visit www.behance.net/ericchimenti.

Professor Chimenti is also the founder and head of Chapman’s IdEATION Lab. The Lab supports undergraduate and faculty research by providing creative visualization and presentation support from appropriately qualified Chapman University undergraduate students. Services include creative writing, video, photography, data visualization, and all aspects of design. Students specialize in the design and presentation of complex communication problems.