

Comprehensive Economic Growth Strategy Must Be Job One for State Policymakers

California's Economic Challenges

California's economic trends are moving in the wrong direction. As of fall 2009, unemployment was 12.5 percent, California having lost more than 1 million jobs since the beginning of the recession. The housing market continues to founder, and storm clouds are gathering over commercial construction. Worst of all, the state continues to lose productive workers and families to other states, averaging 100,000 residents a year moving away.

While California's economic decline is mainly due to the global recession, the state's ultimate economic recovery will be hampered by the high cost of doing business here. New and increased taxes, fees and mandates proliferate without any consideration of their cumulative impact on jobs and business expansion. Other states and countries with more business-friendly environments lure some California businesses away, but increased business costs burden the economy even when businesses don't pack up and leave.

The Legislative Analyst recently reported that California will face budget deficits for many years, starting with a \$21 billion shortfall through the 2010-11 fiscal year. While the short-term response will be proposals to further increase taxes or cut popular and important spending responsibilities like public schools and universities, public safety and parks, the long-term solution of a vibrant economy often is given short shrift.

In order to stimulate economic growth, California must create new and better-paying jobs for its growing population; simply replacing existing jobs with different ones will not grow the economy.

California's business climate will hobble its ultimate economic recovery.

- **Cost of doing business.** California ranks sixth in the nation as one of the most expensive places to do business based on

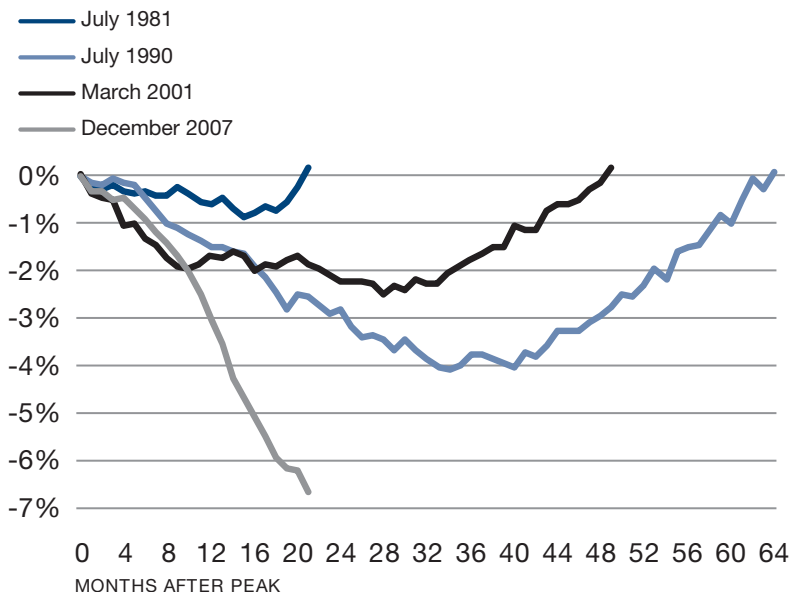
factors such as wages, tax burden and electricity costs. The higher cost of doing business in California hits smaller, low-margin companies particularly hard.

- **Taxes.** California ranks 48th in the Tax Foundation's state-by-state business tax climate. California's corporate tax rate is the highest in the western continental United States, the state's income tax rate is the fourth highest nationally and the state sales tax rate is highest in the country. The combined state-local tax burden is sixth highest nationally, and highest in the western continental United States.

- **Employment.** The state's unemployment rate topped 12.5 percent in late 2009 and manufacturing employment has decreased by 25 percent over seven years.

- **Regulation.** California's regulatory environment is the most costly, complex and uncertain in the nation, making it difficult and expensive to operate a business here. For example, in the area of labor law, California enacted 15 statutory changes per year between 1992 and 2002. This rate is four times the average for state legislatures nationwide over that same period and three times the average in New York.

Cumulative Job Losses From Employment Peak in Recent California Recessions



Source: California Foundation for Commerce and Education

Lower wage jobs are replacing high-wage jobs.

The jobs most commonly departing California are high-paying jobs. The state is disproportionately impacted from the loss of the personal income taxes generated by those jobs.

The average pay of growing employment sectors is \$42,214, whereas the average pay of declining employment sectors is \$68,671, according to the California Employment Development Department.

California's economic decline has reduced entrepreneurial opportunities and has resulted in many businesses shutting their doors and laying off workers. Dwindling state and local revenues have led to deep and painful cuts to social services, education, infrastructure and public safety. In contrast, a growing economy means stable government revenues and quality public services.

Economic growth will address the needs of a growing population.

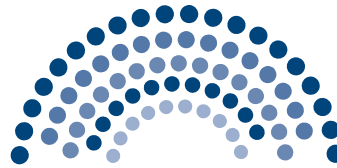
In order to keep pace with the expected growth of its population, the state must make economic growth a priority.

California's population is projected to grow by 10 million in the next 20 years. To keep pace, the state will need to invest in schools, water and energy infrastructure, and public works projects. The state's infrastructure deficiencies currently inhibit job creation and economic growth and leave California unprepared to accommodate the millions of expected new residents.

- California needs to modernize its infrastructure and invest in vital transportation projects—ports, highways, roads, airports and rail—to ensure that people and products can move quickly and cost-effectively.

- California's deficient energy infrastructure cannot support the needs of the existing population and will hinder compliance with the state's Renewable Portfolio Standard.

There has been no significant expansion of the state water system in nearly half a century. As a result, a system that was built to serve a population of 20 million is straining to meet the needs of more than 36 million people today, while court decisions and government actions remove vital



THE AGENDA

FOR ECONOMIC RECOVERY

sources of water from California communities. Recently passed legislation is an important first step; most of the difficult project delivery and finance decisions, however, are underway but not yet completed.

Agenda for Economic Recovery

The California Chamber of Commerce in 2009 initiated a policy development and public education campaign to bring more focused attention to economic issues. These concerns are the top priority for voters, but less so to legislative leadership and some members of the administration. The goal is to send the message to the California political leadership that addressing the economy is job-one.

First, the terms of the policy debate must be changed: Californians simply cannot provide the state's citizens with progress and opportunity without a robust economy, and we certainly cannot hope to fix the state's chronic budget deficits over the long term without a markedly improved economy. Indeed, while the California economy will eventually recover along with the nation, the state must be positioned to take advantage of that recovery—California must lead the nation, not trail other states. Unfortunately, the Legislature continues to pass bills that will hamper the state's competitiveness.

Besides setting the terms of the debate, the Agenda for Economic Recovery educates businesses, community organizations and local media to develop a common voice to call for reform. The coalition includes not just statewide organizations, but also numerous local chambers,

business organizations and individual businesses committed to spreading this message to elected officials and candidates.

Agenda of Solutions

For 2010, the CalChamber has identified an agenda of solutions to reverse California's hostile climate and position California to be competitive for job creation as the economy recovers:

- **Develop a comprehensive economic growth strategy** to create and seize economic development opportunities and re-orient state policy and agencies toward job creation and economic development.

- ✓ The administration should identify and empower Cabinet agencies to drive economic development, assist business location and retention and market California for job-creating investments. They should identify and package statewide incentives, such as federal grants and special fee-supported revenues, which can be used to entice new business development.

- ✓ The administration should take the lead to create "strike forces" of key state, local, utility and private officials to streamline permits, identify financial incentives, and involve all decision makers on a project team.

- **Encourage business investment and job creation** by reforming permitting requirements that burden investment and workplace litigation mandates that discourage employers from increasing their workforce.

- **Require a transparent, impartial assessment of economic impacts of policy and regulations.**

- ✓ The Assembly and Senate

should each create an “Economic Impact Committee” to review all bills that pass policy committees to determine what effect a proposal would have on jobs and the economy. The Legislature should also add an economic analysis function to the Legislative Analyst’s suite of duties, analogous to that provided to Congress by the Congressional Budget Office, to better inform members of the Legislature of the costs or benefits to the economy of proposed legislation.

✓ The Legislature should invest an administration control agency—say, the Department of Finance—to provide credible, impartial and high quality economic analysis of regulations, just as the Office of Management and Budget provides in the national administration. This information would permit regulators, the Governor’s Cabinet and the Legislature to evaluate the economic costs and benefits of the regulations and to determine if there

are more cost-effective ways to achieve the same policy goals mandated by statute.



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