



**CALIFORNIA FOUNDATION FOR COMMERCE AND EDUCATION
CALIFORNIA ECONOMIC PERFORMANCE SCORECARD
Executive Summary**

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PREFACE



About the California Foundation for Commerce and Education:

Founded as a non-profit, non-partisan organization, the California Foundation for Commerce & Education (CFCE) is dedicated to preserving and strengthening California's business climate by providing objective and impartial analysis of public policy decisions and their effects on California's business climate. The CFCE is active in education and outreach efforts intended to educate the public on the virtues of private enterprise, and it has published several reports that provide insight into issues affecting the California economy and investment climate on salient issues such as education and health care.



About Forward Observer:

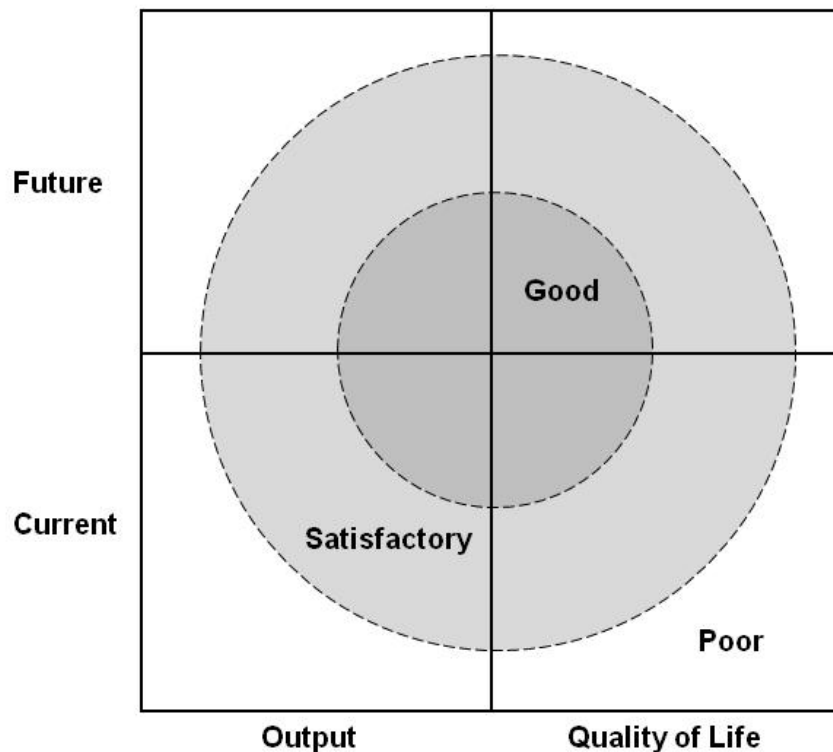
Forward Observer provides strategy consulting on state and national issues and government markets; public policy and economic analysis; and in-depth research on a wide variety of subjects. Our economic analyses are clear, concise and effective, focusing on what really matters to voters, opinion leaders and the media – for example, employment, wage levels, regional economic growth, consumer prices, and access to goods or services. Our analysts are able to support our clients' advocacy objectives any number of ways, such as presenting their findings to the media, appearing in campaign advertising; authoring articles for publication; signing ballot pamphlet arguments and testifying before legislative or regulatory bodies.

EXECUTIVE SUMMARY

In light of the severe economic, budgetary and social challenges that California faces, it is imperative that the State focus its attention and limited resources in the most advantageous policy areas to maximize its effectiveness. But what policy areas are the most beneficial for state attention and investment? This question prompted the California Foundation for Commerce and Education (CFCE) into action. In Summer 2007, CFCE commissioned Forward Observer to develop the CFCE State Economic Performance Scorecard to help prioritize public policy in California.

After reviewing existing indices of state competitiveness and finding they did not adequately serve our needs, Forward Observer developed a new and unique measure of economic performance, one that better ties policy levers to state outcomes. We achieved this by gathering publicly available data on states' levels of human capital, physical assets, personal satisfaction, cost of doing business, and government burden, and performed an econometric analysis to determine what factors drove states' performance. As shown in Figure ES-1, we measured states' economic performance in two dimensions, the first encompassing economic output and quality and life, and the second encompassing how states are poised to perform today and in the future.

Figure ES-1
CFCE Dimensions of State Economic Performance



Based on our analysis, we present the overall results of the inaugural CFCE State Economic Performance Scorecard in Table ES-1. As shown, the states with the best overall scores were Massachusetts, Minnesota, New Hampshire, North Dakota and Connecticut. The worst performing states were Mississippi, Louisiana, West Virginia, Alabama and Tennessee. California finished 38th, placing it firmly in the bottom half of states. Although the 38th place finish is clearly disappointing, it is not entirely surprising – these California results are consistent with those of the dozen indices we reviewed.

**Table ES-1
CFCE Rankings by State**

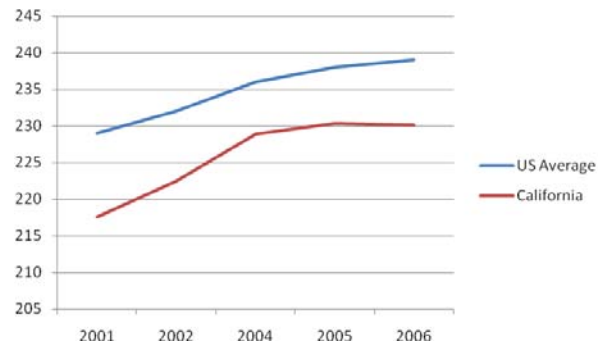
State	Overall	State	Overall	State	Overall
Massachusetts	1	New Jersey	17	Montana	35
Minnesota	2	Florida	19	Texas	36
New Hampshire	2	Utah	20	Illinois	37
North Dakota	4	Idaho	21	California	38
Connecticut	5	Wisconsin	22	North Carolina	39
Maryland	6	Nevada	23	Georgia	40
Virginia	7	Maine	24	New Mexico	41
Colorado	8	New York	24	Arizona	42
Hawaii	9	Oregon	26	Oklahoma	43
Rhode Island	10	Pennsylvania	26	South Carolina	44
Iowa	11	Ohio	28	Kentucky	45
Wyoming	12	Michigan	29	Tennessee	46
Kansas	13	Arizona	30	Alabama	47
South Dakota	14	Washington	31	West Virginia	48
Vermont	14	Arkansas	32	Louisiana	49
Nebraska	16	Indiana	33	Mississippi	50
Delaware	17	Missouri	33		

So where does California need to focus in order to increase its economic performance? In other words, in what areas might well conceived public policies help improve the State's total output and quality of life, both in the present and in the future? In our analysis, we identified 16 variables that were significant overall to economic performance. Five variables stood above the others in regards to the magnitude of change created. They include: The quality of education, the size of the housing stock, the crime rate, the number of high-quality jobs, and the tax burden of state and local government. Improvement in these five variables will lead to the greatest change in California's economic output, quality of life, and overall economic performance.

1. **National Assessment of Educational Progress**

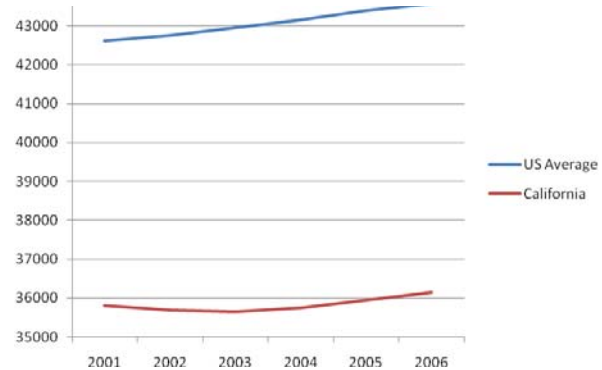
(NAEP) Scores: We obtained NAEP scores as measures of educational quality. NAEP scores are a relatively recent creation, but they are a consistent measurement of primary educational achievement across the states. In addition to the quality of education, NAEP scores also capture human capital and demographic characteristics since they are highly correlated with educational attainment and other human capital variables. Figure ES-2 shows how California has consistently fallen below the national average since 2001.

**Figure ES-2
NAEP Scores in the U.S. and CA**



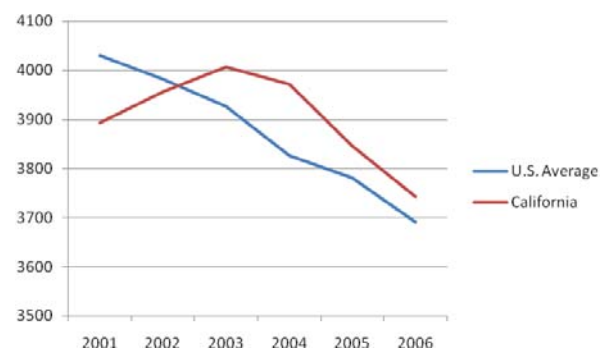
2. **Housing Stock:** This is a measure of the total number of residential units within a state, including single family dwellings, apartments, mobile homes, or rooms intended for occupancy. The housing industry supports many industries within a state, including real estate, construction, manufacturing and retail. Consequently housing stock in part also measures performance in these areas. Figure ES-3 indicates how the amount of housing stock per 100,000 people is far lower in California than the national average.

**Figure ES-3
Housing Stock per 100K in the U.S. and CA**



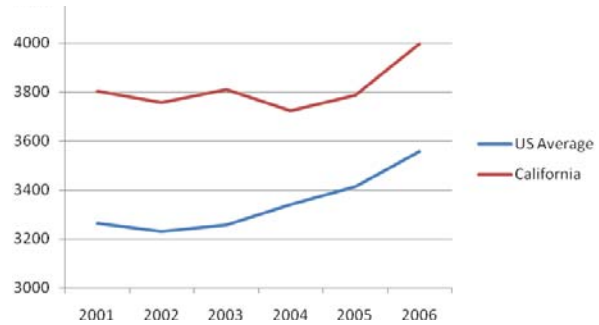
3. **Crime Rate Index:** Crime rate indices capture a broad snapshot of violent and property criminal activity within a state. This variable also captures in part demographic and social conditions within a state, such as poverty and the availability of jobs. Figure ES-4 shows that while criminal activity is trending downward in California, average U.S. levels remain below those of California.

**Figure ES-4
Crime Rate Index per 100K in the U.S. and CA**



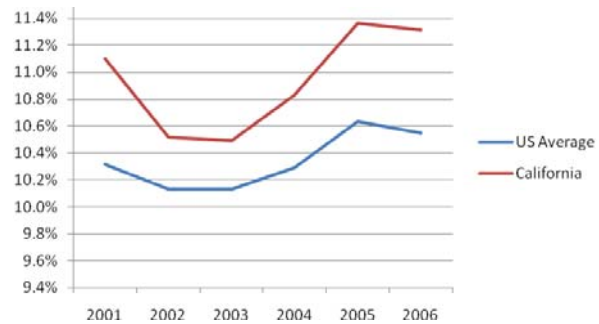
4. **High-Quality Jobs:** This measure captures high-tech and financial services jobs in the following major occupation categories: architectural and engineering, math and science, and business and financial services. Broadly, this variable measures a state's stock of jobs that require highly educated people, are highly compensated, and generate significant economic activity. In addition, this variable indirectly captures a state's current stock of technological and financial industry and assets. As shown in Figure ES-5, California exceeds the U.S. as a whole in the number of high-quality jobs, although the gap has narrowed somewhat over time.

**Figure ES-5
High-Quality Jobs per 100K People in the U.S. and CA**



5. **State and Local Tax Burden:** This variable measures the percent of a state's personal income consumed by both state and local governments. It is associated with the size of state and local government and the extent of state and local government regulation. In general terms, then, it represents the burden that state and local governments impose on residents. Figure ES-6 shows that while the state and local tax burden dipped in the U.S. and California early in this decade, California has maintained a tax burden that is consistently higher than the U.S. as a whole.

**Figure ES-6
State and Local Tax Burden in the U.S. and CA**



The challenge to California's policy makers is daunting. Present gains must be balanced with future costs, and expanding California's economic capacity must be weighed against assuring that quality of life is maintained for all the State's residence. Only by balancing these needs will California be able to ensure that its residents have the opportunity to not only survive, but to thrive in today and tomorrow's global economy. We are hopeful that the CFCE State Economic Performance Scorecard can be instrumental in helping to strike this balance.