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1 – WHAT HAPPENED TO THE GOLDEN STATE?

Through the tech boom in the late 1990s, California was an engine for innovation and job growth. It was a prime destination for middle-class families throughout the country who were looking for a better life. But it isn't true anymore. More Americans now emigrate from California to other states than immigrate from other states to California. This exodus has cost California more than 1.5 million residents since 2000. And the reason is simple – the jobs are fleeing first.

California is no longer a model that other states want to or should emulate. It currently has the nation's third highest unemployment rate, its highest poverty rate and more than one-third of the nation's welfare recipients. What happened? Conn Carroll, Senior Editorial Writer at the [Washington Examiner](#), recently published a series of articles on exactly that question.

To make a long story short, the same political constituencies that have made the Democratic Party invincible at the ballot box have also made the state unable to compete economically. California public employees, who are represented by the nation's most politically powerful government unions, benefit from some of the nation's most generous compensation packages. These unions have made it nearly impossible to keep spending down, thus making debt and higher taxes inevitable.

These unions also make it impossible to improve how government services are delivered to taxpayers. As a result, while California once had the most admired education system in the nation, it now ranks near the bottom in almost every measured educational category.

The state's powerful environmental lobby has secured a slew of green energy regulations, including strict clean air rules, the nation's first carbon cap-and-trade program and an ambitious renewable energy mandate. As a result, energy prices have shot up, consumers now have less to spend on everything else they need to survive, and many manufacturers can't stay profitable in the state.

Finally, wealthy urban environmentalists have completely inverted the infrastructure spending priorities that once made California an engine of economic and population growth. Endangered species of wildlife are now favored over farmers and food. Highways and suburbs are losing out to mass transit and urban centers. The emerging result is a disappearing middle class, and what's left of the state is split between a highly educated, landed, wealthy and elderly elite, and a poor, government-dependent, uneducated lower class.

The current trends in the Golden State point to a failing state – a California in crisis.

Even before the Great Recession, continues Carroll, California already suffered from some of the highest levels of income inequality in the nation. And the recent downturn only exacerbated the problem. Worse, a 2012 California Budget Project study found that what little job recovery has occurred in the state has been confined to the low-skill sector. To the extent that the California labor market is recovering, it is a McJobs recovery.

California is becoming a near-feudal society. Millions of middle-class families have already left and, concludes Carroll, the trend is likely to continue.

Trend Analysis That Builds Business Decisions

2 – PRESCRIPTION FOR AN AILING CALIFORNIA

Only a fool, or perhaps a politician or media pundit, would say California is not in trouble, despite some modest recent improvements in employment and a decline in migration out of the state. Yet the patient, if still very sick, is curable, if the right medicine is taken, followed by the proper change in lifestyle regimen. So believes Joel Kotkin, executive editor at NewGeography.com.

The first thing necessary: Identify the root cause of California's maladies. The biggest challenge facing our state is not climate change, or immigration, corporate greed, globalization or even corruption. It's the demise of upward mobility for the vast majority of Californians, and the rise of an increasingly class-ridden, bifurcated society.

California's class problem spills into virtually every aspect of our malaise, writes Kotkin. It is reflected in both the nation's highest poverty rate, above 23%, and a leviathan welfare state; California, with roughly 12% of the population, now accounts for roughly one-third of the nation's welfare recipients. This burgeoning underclass exacerbates the demand for public services, deprives the state of potential taxpayers and puts enormous pressure on the private sector middle-class to come up with revenue.

The growing class chasm also distorts state priorities, creating an inordinate demand for public

sector employment – and related jobs in health and education – while inculcating deep-seated resentment among private-sector entrepreneurs and professionals toward a state that asks much of them, but gives increasingly little.

Essentially, there is only one practical solution to this dilemma: a program that promotes economic growth in precisely those areas – construction, agriculture, manufacturing and energy – with the best prospects for creating good, high-paying jobs for both blue- and white-collar Californians. Yet, right now the Legislature and, even more so, the empowered state *apparatus*, seem determined to do everything they can to strangle an incipient recovery in these industries.

Government needs to shift priorities from redistribution and wealth suppression to providing the basic infrastructure essential for a growth economy, writes Kotkin. It means transforming the education system from a jobs and pension program for public sector workers and corporate rent-seekers to a focus on providing our economy with the skills – including those used in basic industries – needed for a revived California. It means spending money on the kind of infrastructure, such as pipelines, roads, urban bus lines, water and energy systems, that can spur growth instead of misallocations such as high-speed rail and subsidized green energy boondoggles.

3 – CALIFORNIA, HERE WE STAY

Victor Davis Hanson, Stanford professor and Hoover Institution fellow, is an essential observer of California. He writes of [“California at Twilight”](#):

The old blue/red war for California is over. Conservatives lost. Liberals won – by a combination of flooding the state with government-supplied stuff, and welcoming millions in while showing the exit to others. The only mystery is how high

will taxes go, how many will leave, how happy will the majority be at their departure?

The state of Pat Brown, Ronald Reagan, Pete Wilson, and George Deukmejian is long dead due to the most radical demographic shifts of any one state in recent American history. California has changed not due to race but due to culture, most prominently because the recent generation

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of immigrants from Latin America did not – as in the past, for the most part – come legally in manageable numbers and integrate under the host’s assimilationist paradigm. Instead, in the last three decades huge arrivals of illegal aliens from Mexico and Latin America saw Democrats as the party of multiculturalism, separatism, entitlements, open borders, non-enforcement of immigration laws, and eventually plentiful state employment.

Given the numbers, the multicultural paradigm of the salad bowl that focused on “diversity” rather than unity, and the massive new government assistance, how could the old American tonic of assimilation, intermarriage, and integration keep up with the new influxes? It could not.

Finally, we live in an era of untruth and Orwellian censorship. It is absolutely taboo to write about the above, or to talk about the ever more weird artifacts of illegal immigration – the war now on black families in demographically changing areas of Los Angeles, the statistics behind DUI arrests, or the burgeoning profile of Medi-Cal recipients.

There were, of course, other parallel demographic developments. Hundreds of thousands of the working and upper-middle class, mostly from the interior of the state, have fled – maybe four million in all over the last thirty years, taking with them \$1 trillion in capital and income-producing education and expertise. Apparently, they tired of high taxes, poor schools, crime, and the culture of serial blame-gaming and victimhood. Their California is long gone and misses their presence, because they had skills, education, and were net pluses to the California economy.

Add in a hip, youth, and gay influx to the Bay Area, Silicon Valley, and coastal Los Angeles that saw California as a sort of upscale, metrosexual lifestyle, and California now has an enormous number of single-person households, childless couples, and one-child families. Without the

lifetime obligation to raise \$1 million in capital to pay for bringing up and educating two kids from birth to 21 (if you’re lucky), the non-traditional classes have plenty of disposable income for entertainment, housing, and high taxes.

Finally, there is our huge affluent public work force. It is the new aristocracy; landing a job with the state is like hitting the lottery. Californians have discovered that, in today’s low/non-interest economy, a \$70,000 salary with defined benefit public pension for life is far better than having the income from a lifetime savings of \$3 million.

How, then, does California continue? In a nutshell, natural and inherited wealth are so great on the coast that a destructive state government must work overtime to ruin what others wrought.

Success continues on the coast and is managed by very wealthy and mostly liberal residents of the sprawl that surrounds Los Angeles and San Francisco. For the five million or so who are enriched in enterprise zones like these – and there are thousands more spin-off and smaller such companies – life is pretty good if you keep your household small, inherited a house, or make enough money to buy something at about \$500 to \$1,000 dollars a square foot.

Coastal folk seem to view high taxes like Mafia protection money, but in the sense of psychological satisfaction and freedom from guilt. For now, sales, gas, and income taxes are not so high as to matter to those who voted for them, at least in view of the social and political advantages of coastal living: the beautiful weather, the Pacific panorama, the hip culture of recreational light drug use, neat restaurants, sports, fine wines, solar and wind romance, foreign cars, and general repugnance at religion, guns, conservatives, and traditional anything. For the coastal overlords there is nowhere else where the money is as good and the weather and scenery are as enjoyable.

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How then does the California coalition work, and in some sense work so well? The answer is soft apartheid.

The coastal elite offers an agenda for more welfare funding, scholarships, class warfare, public unions, diversity, affirmative action, open borders, and amnesty, and in response the interior voter signs off on everything from gay marriage, solar and wind subsidies, gun restrictions, mass transit schemes, and the entire progressive tax-and-spend agenda. But most of this coalition never much sees one another.

WHY DO WE STAY?

Hanson gives a multidimensional answer in *City Journal*:

For some of us, family heritage explains a lot. Another draw to California is its culture. Some of the reasons that people began migrating to California haven't changed, even in the twenty-first century: dysfunctional politics cannot so easily mar what nature has so abundantly bestowed. California will always be warm, dry, and beautiful, and it boasts an unparalleled diversity of climate and terrain. California also possesses enormous natural wealth in oil, gas, minerals, and timber. With commodity prices high and new technologies for energy exploration emerging all the time, the dollar wealth below California's surface is greater than ever. The existential stuff of any civilization remains food and fuel, and California has more of both than any other state. So we wait for sanity to return to our officials, as our natural untapped wealth grows ever more valuable.

And no explanation of California's appeal would be complete without mentioning how many top universities it hosts. True, that system faces considerable budget pressure and has increasingly adopted a highly politicized and therapeutic curriculum. California State University, in particular, has lowered its standards, admitting students

who don't meet traditional GPA and test-score thresholds, so that over half of entering freshmen must enroll in remediation courses. But the state's 50-year-old master plan for higher education – which instituted a tripartite arrangement of junior colleges, the California State University system, and the elite ten-campus University of California – remains viable. The schools still draw top scholars from around the world. And students come as well, especially engineering and computer students from China, India, South Korea, and Japan. Many end up settling here. Even in these bad times, it's difficult to destroy such an inspired system.

Another reason to feel hopeful about California is that it's reaching the theoretical limits of statism. To pay for current pensioners, the state simply can't continue to bestow comparable defined-benefit pension packages on new workers, no matter how stridently the public-sector unions claim otherwise. And as public insolvencies mount – with Stockton, Mammoth Lakes, and San Bernardino seeking bankruptcy protection a year after Vallejo emerged from it – public blame is finally shifting from supposedly heartless state taxpayers to the unions. The liberal unionism of an aging generation is proving untenable, as we saw in recent ballot referenda in which voters in San Diego and San Jose demanded that public-worker compensation plans be renegotiated.

Though the fiscal situation is dire, Californians can take comfort from the fact that their budget, unlike the federal government's, is smaller than at any time since 2006.

The four-part solution for California is clear: don't raise the state's crushing taxes any higher; reform public-employee compensation; make use of ample natural resources; and stop the flow of illegal aliens. Just focus on those four areas – as California did so well in the past – and in time, the state will return to its bounty of a few decades ago. Many of us intend to stay and see that it does.