



IN THIS ISSUE: NOTES FROM CALIFORNIA

Of course I pay more attention to California than any other state, and not just because it is my adopted home of more than 40 years. It is because it is a trend-setter and a bellwether. When I first started writing about California, the trends all seemed positive; in the last few decades, not so much. In this issue I excerpt some recent articles.

- 1 – CALIFORNIA'S PROSPECTS ARE BETTER BUT STILL PRECARIOUS
- 2 – SERFS UP WITH CALIFORNIA'S NEW FEUDALISM
- 3 – CALIFORNIA'S SPLIT PERSONALITY
- 4 – CALIFORNIA COMPANIES HEAD FOR GREATNESS – OUTSIDE OF CALIFORNIA
- 5 – A RIGGED GAME
- 6 – CALIFORNIANS ARE VOTING WITH THEIR FEET
- 7 – EDUCATION AND ECONOMIC GROWTH
- 8 – JERRY BROWN'S FUNKY CALIFORNIA PRISON BLUES

1 – CALIFORNIA'S PROSPECTS ARE BETTER BUT STILL PRECARIOUS

There can be no denying that the [Golden State](#) has enjoyed impressive job growth over the past three years.

But as California Chamber of Commerce CEO Allen Zaremberg and others have pointed out, it's an uneven economic recovery. The coastal enclaves are thriving while inland and rural California continue to play catch-up. We're doing great when it comes to high-end, high-tech jobs and low-end

service and tourism industry and work. What's missing are the upwardly mobile, middle-class jobs in manufacturing and construction.

And our progressive paradise still leads the nation in poverty and income inequality. The Golden State accounts for roughly 12% of the US population, but is home to 30% of the nation's welfare recipients.

2 – SERFS UP WITH CALIFORNIA'S NEW FEUDALISM

[California's new conservatism](#), often misleadingly called progressivism, seeks to *prevent* change by discouraging everything – from the construction of new job-generating infrastructure to virtually any kind of family-friendly housing. The resulting ill-effects on the state's enormous population of poor and near-poor – roughly one third of households – have been profound, although widely celebrated by the state's gentry class.

One factor that made California such a disruptive economic, cultural and political force was its large

percentage of people hailing from elsewhere. Yet as California's basic costs, notably for housing, have risen to well above the national average, even adjusted for incomes, the state has become ever more dependent on those born here and far less on obstreperous outsiders.

At a time when twentysomething billionaires are being minted, largely in the Bay Area, California's middle class is being hammered. The state now ranks third from the bottom, ahead of only New York and the District of Columbia, for the low-

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est homeownership rate, some 54%, a number that since 2009 has declined 5% more than the national average. The peasants, it appears, are expected to remain landless much longer, or be forced to leave the state.

Rather than a land of opportunity, our “new” California increasingly resembles a class-bound medieval society. The proportion of aggregate income taken by the top 1% is greatest in a couple of Californian metros, San Francisco and San Jose, as well as New York. California is the most unequal state when it comes to well-being, according to the report by Measure of America, which is a project of the Social Science Research Council.

Once the beacon of opportunity, California is becoming a graveyard for middle-class aspiration, particularly among the young. In a recent survey of states where “the middle class is dying,” based on earning trajectories for middle-income cohorts, Business Insider ranked California first, with shrinking middle-class earnings and the

third-highest proportion of wealth concentrated in the top 20% of residents.

How can this approach be sold to the masses? The climate religion is key, since it implies that people’s suffering is endured for a greater cause. And, in classic medieval fashion, those who disagree can expect to be silenced and even subjected to criminal penalties. “God,” Gov. Brown recently suggested, “is not mocked.”

With California’s economy now largely tied to abstract reasoning and serving those with accumulated wealth, there may be little chance here for advancement by those whose talents lay with their hands or by grass-roots entrepreneurial guile. Once the land of opportunity, the Golden State, indeed, is devolving into something very fundamentally conservative: class-bound, dominated by natives and lacking in opportunities for all but a few. Our state leaders are building a future that boosts their senses of self-worth, while consigning much of our population to permanent status as serfs or struggling commoners.

3 – CALIFORNIA’S SPLIT PERSONALITY

Call it [a tale of two states](#). On the one hand, California is briskly creating private-sector jobs, led by a Silicon Valley hiring spree. Sacramento’s budget, deeply in the red just a few years ago, is running a surplus, thanks to big income gains by the state’s wealthy residents. Meanwhile, however, large areas of the state lag behind. Six of America’s ten metro regions with the highest unemployment rates – including blue-collar communities like Merced and Fresno – are in the Golden State.

Given the state’s political environment, California’s business disincentives are unlikely to change soon. In fact, firms face new and poten-

tially higher taxes, including a move by left-leaning groups to make permanent the roughly \$7 billion in increases passed through Proposition 30 in 2012, which are currently scheduled to expire in 2018. Progressive groups are also working to eliminate the tax cap on commercial property contained in Proposition 13, leaving in place only the protections for residential real estate. That would raise commercial property taxes by as much as \$9 billion annually. Businesses also face higher fees from California’s cap-and-trade regime to limit carbon emissions.

- Market and industry analysis
- Strategic business direction
- Growth dynamics

- Trend identification and analysis
- Keynotes and presentations
- Proprietary research and reports

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4 – CALIFORNIA COMPANIES HEAD FOR GREATNESS – OUTSIDE OF CALIFORNIA

Why would companies located in one of the most beautiful states in the country – [California](#) – undertake the costly proposition of relocating to places with less scenic appeal and less-than-ideal weather?

There are three answers and they relate to California's business environment: Regulations, taxes and anxiety.

In short, California is so difficult that companies relocate entirely or, if they keep their headquarters here, find other places to expand.

In an effort to offset Sacramento's head-in-the-sand approach to business concerns, my firm completed a new study that provides details of business disinvestments in the state. Over the seven-year period that includes last year, the study estimates that 9,000 businesses disinvested in California in favor of other locations.

Capital diverted to out-of-state locations totaled \$68 billion, a small fraction of actual experience because only 16 percent of public source materials provided capital costs for the 1,510 events. Moreover, the top industry to disinvest in California is manufacturing, a capital-intensive sector, and more detailed knowledge of this industry alone would likely increase the capital diversion.

As California companies relocated or expanded facilities elsewhere they transferred more than capital – they also shifted jobs, machinery, taxable income, intellectual capital, training facilities and philanthropic investments.

Indicators are that California's business climate will worsen, enhancing prospects that more companies will seek places that are friendlier to business interests.

5 – A RIGGED GAME

[Last month](#), California's Public Employment Relations Board (PERB), the quasi-judicial body that oversees the implementation of the state's collective-bargaining statutes, invalidated the results of a three-year-old referendum – Proposition B – that passed in November 2012 with 66% of the vote and would have reduced pension benefits for most new hires in San Diego and moved them to a 401k-style, defined-contribution system. Other reforms have also fallen by the wayside.

PERB is not an [impartial agency](#). Before the 2012 city vote, PERB had tried to keep the proposition off the ballot altogether. Most of the board's members have worked for one of two big unions—

either the California Teachers Association or the Service Employees International Union. Its administrative law judges aren't real judges but officials employed by the agency.

PERB isn't the only agency to try to kill citizen initiatives. Recently, the union-friendly Agricultural Labor Relations Board invalidated an election by Fresno farm laborers who voted against representation by the United Farm Workers. For more than a year, the board refused even to count the ballots before deciding to destroy them.

The game is rigged, but reformers soldier on. At least they understand that California's fiscal future is at stake.

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6 – CALIFORNIANS ARE VOTING WITH THEIR FEET

As the adage goes, [people vote with their feet](#) and one thing is clear, more people are choosing to leave California than come.

This matters moving forward because as working young professionals leave the state, California's population grows older and more retiree-centric, which leads to a less economically productive environment and less tax revenue for the state and

municipalities, but a need for more social services. And when coupled with the fact that immigrants – who are helping to drive population growth in California – tend to be, on average, less affluent and educated and also are more likely to need more social services, state, county, and municipal governments could find themselves under serious administrative and financial stress.

7 – EDUCATION AND ECONOMIC GROWTH

Just about every California economic development document includes a discussion of California's [desperate need](#) for more college graduates.

Unfortunately, the facts disagree with the faith. California is educating far more people than it is creating jobs for them to take. In the past 10 years, California's public higher education system alone issued 2,455,421 degrees. Over the

same period, the state saw a net increase of only 1,136,642 jobs.

That's right. California granted more than twice as many post-high-school degrees as net new jobs.

You cannot escape the conclusion that California job growth lags the rate at which the state creates college degrees. College graduates are a significant California export.

8 – JERRY BROWN'S FUNKY CALIFORNIA PRISON BLUES

A panel of three federal judges had ordered California to reduce its prison population to alleviate overcrowding. The US Supreme Court upheld the three-judge fiat in 2011. [Gov. Jerry Brown's "realignment" plan](#) shifted the burden of incarceration for nonviolent, nonserious and nonsexual offenders from state prisons to county jails. In 2014, California voters passed Proposition 47, which downgraded many property and drug crimes from felonies to misdemeanors and took effect retroactively. Thousands of state inmates were released into the general population.

With 40,000 fewer inmates, you would think that the state prison budget might be the rare area of government spending to go down. And you would be wrong. The Brown administration promised billions in savings, but those savings never mate-

rialized. The state prison and realignment budget was \$9.5 billion in 2011-12. Last year, it was \$11.8 billion – \$2 billion more than what the state spent before the release of inmates, and \$4 billion more than what the Brown administration predicted.

Brown has a new plan to reduce the prison population even further. He has drafted a ballot measure, "The Public Safety and Rehabilitation Act of 2016."

"The initiative should be entitled 'The Dangerous Streets Act: A Retreat to Lenient Sentencing of California's Violent and Serious Criminals,'" former GOP Gov. Pete Wilson wrote in an email he sent out to pro law enforcement Californians. "If passed, it will undo the protections that were enacted to safeguard Californians from becoming crime victims in the '70s, '80s and '90s."