

ISSUE BRIEF | AFPI—California

# GETTING THE CALIFORNIA ECONOMY WORKING AGAIN

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Industrious and innovative citizens who believe in the pursuit of prosperity have long been the backbone of California’s economy. Drawn to California’s abundant opportunities, workers and entrepreneurs flocked to California during much of the last century, driving the state’s exponential growth.

However, there’s a problem. Once a magnet for those seeking opportunity, California lost more than 1.5 million people between 2012 and 2021—people seeking to flee the high costs of housing and energy and onerous taxes. Since 2020, major corporations such as Tesla, Oracle, Charles Schwab, and Chevron, among dozens of others, have left California. The congressional reapportionment after the 2020 Census resulted in California losing a House seat for the first time ever, reflecting the state’s lagging growth and rising exodus of people.

Californians identify the state’s economic climate as their most significant concern, with some 73 percent saying the economy is important to their vote, including 79 percent of Hispanics and 69 percent of Asians (RMG Research, Inc., 2023). The state’s unfriendly business climate is having real effects. According to the 2022 Kosmont-Rose Institute Cost of Doing Business Survey, nearly two-thirds of businesses leaving the state depart to Nevada, Arizona, Texas, and Oregon ([Kosmont-Rose Institute, 2022](#)). Also, according to the survey, “all four of those states have two things in common: they’re all more affordable places to live and do business than California” ([IE Business Daily, 2023](#)).

In a 2022 study examining the flight of corporate headquarters from California, the Hoover Institute identified several driving factors for the business exodus, including high taxes, regulatory overreach, and elevated costs for labor, litigation, energy, and utilities. These factors are “raising business costs, reducing productivity, and reducing profitability” and are generating “concerns about a declining quality of life within the state” ([Ohanian & Vranich, 2022](#)).

For families, the exorbitant cost of living makes residing in California increasingly untenable. Housing costs are an especially acute burden for renters and homeowners alike. In March 2023, the median cost of a single-family California home was \$791,490—more than \$415,000 higher than the national average. Housing is so expensive that it is driving Californians to relocate. According to a recent Public Policy Institute of California study, 500,000 people cited housing costs as their primary reason for relocating since 2015 ([Johnson & McGhee, 2023](#)).

Other costs, like taxes, are also a major instigator of departures. According to major tax service provider [Intuit \(2022\)](#), California ranked at the top for highest state income taxes in the Nation as of 2021, with its highest tax rate at 13.3 percent. When income taxes are combined with sales taxes, utility taxes from so-called “special districts,” and other licensing/permitting fees, in addition to prohibitive minimum wage requirements, the Rose Institute Study found that California cities constituted 17 of the 20 most “costly” cities for doing business. Only 13 percent of Californians support raising taxes further, while 70 percent say the state must cut spending to balance its budget ([Kosmont-Rose Institute, 2022](#)).

With inflation reaching 40-year highs in 2022 and prices increasing at twice the rate they were before the government spending floodgates were opened in the spring of 2021, workers nationwide have lost \$4,000 in purchasing power since 2019 and are contending with rising credit card debt and delinquencies. In California, state leaders seem intent on replicating the current federal administration’s radical ideological agenda of dismantling the value of work in favor of a cradle-to-grave entitlement state that puts government at the center of a weakened economy.

Thankfully, there is a way out. America First Policy Institute-California (AFPI-CA) knows that empowering workers, families, and small businesses by lowering taxes and modernizing regulations is the proven path to improving affordability, restoring growth and prosperity, and delivering greater abundance to every corner of the state. AFPI-CA will chart a path that puts regular people ahead of special interests when setting the economic rules of the road and returns power to families and small businesses.

California will overcome the tyranny of red tape and move toward a permissionless economy that allows California to be once again a state of builders—where workers build new careers, entrepreneurs build new businesses, and families build new homes and new communities instead of being driven into the ground by the financial and time burden of seeking out government approvals. For workers, occupational licensing reform will give them the benefit of the doubt in pursuing the career of their choice without government erecting costly and unnecessary hurdles. Removing shackles that hold back the gig economy will give workers more opportunity and flexibility to engineer their own livelihoods. For families, reforms to land use, zoning, building codes, and more will



remove artificial barriers to affordable home construction. This will give them greater freedom in how they may use their property, striking a blow against bureaucratic policies that block the homeownership dream and that benefit the few at the expense of the many. For small business owners and investors, a comprehensive set of business reforms will make it easier to start, expand, and operate a business. These reforms will unlock the boundless entrepreneurial ingenuity that California still harbors, creating a better environment for consumers and workers alike with more affordable goods and higher wages. Sensible energy and environmental reforms will unleash California's vast potential to power its 21st-century economy while better stewarding the vast beauty and natural amenities that set California apart.

AFPI-CA will also work to remove the wet blanket of California's onerous and poorly designed tax regime. From income taxes to sales taxes to gas taxes to an endless litany of fees, the price of government in California is steep, and the value it delivers comes nowhere close to justifying the burden.

The progressive agenda falls short as more and more residents and jobs flee the state to other parts of the country where it is easier to make a living. On one end of the economic spectrum, aspiring and successful entrepreneurs may have more than 50 cents on the dollar taken by all levels of government combined, while on the other end, struggling families are forced to decide between groceries, rent, and gas. And when they try to climb the economic ladder, these families are penalized by steep benefit cliffs in means-tested government programs. AFPI-CA will advance tax reforms that shrink the bite that government takes out of people's paychecks and that reward people as they pursue greater economic self-sufficiency.

AFPI-CA believes that creating a business-friendly and family-friendly environment will generate wealth and increase middle- and working-class employment opportunities for Californians. By empowering small businesses and encouraging entrepreneurship, the state can once again spur innovation as it did decades ago during the tech revolution. Making housing more affordable and easing other cost-of-living pressures will ensure that workers and their families can remain here. Taken together, these reforms will restore California as an attractive environment for residents and businesses to flourish.

## THE FACTS

- The California [business exodus](#) precedes the pandemic, as 65,273 businesses left the state between 1990 and 2019.
- At the end of the first quarter of 2023, housing costs in California were more than 110 percent [higher](#) than those in the Nation as a whole.
- California [lost 352 headquarters](#) from January 1, 2018, through December 31, 2021, including 11 Fortune 1000 companies.



- The [loss](#) of corporate headquarters has only accelerated, with twice as many departures in 2021 as in 2020.
- The state's loss of population has [increased exponentially](#). In 2012, the state lost 34,000 residents, but in 2021, that number was 277,000.
- The Tax Foundation's 2024 State Business Tax Climate [Index](#) ranked California as 48th among the states for business friendliness (ahead of only New Jersey and New York).

([IE Business Daily, 2023](#); [Loughead, et al., 2023](#); [Ohanian & Vranich, 2022](#))

#### IN CALIFORNIA, WE SUPPORT POLICIES THAT:

- Decrease taxes and regulations on businesses.
- Promote responsible government spending and mandate transparency and accountability in spending to reduce waste and maintain a balanced budget.
- Allow for consistent auditing of government agencies and spending.
- Give taxpayers relief by decreasing the income tax rate for the middle class and lowering the sales tax while increasing the standard deduction for individuals and families.
- Increase housing supply by lowering construction costs and cutting environmental regulations (California Equality Quality Act reform).
- Promote trade workforce development by funding training and education.
- Enact occupational licensing reforms that lower barriers to entry and competition.

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