BEYOND FEUDALISM
A STRATEGY TO RESTORE CALIFORNIA’S MIDDLE CLASS

CENTER FOR DEMOGRAPHICS & POLICY
RESEARCH BRIEF
CHAPMAN UNIVERSITY
BEYOND FEUDALISM
A STRATEGY TO RESTORE CALIFORNIA’S MIDDLE CLASS
by
Joel Kotkin and Marshall Toplansky
“Demographics is destiny” has become a somewhat overused phrase, but that does not reduce the critical importance of population trends to virtually every aspect of economic, social and political life. Concern over demographic trends has been heightened in recent years by several international trends — notably rapid aging, reduced fertility, and before large scale migration across borders. On the national level, shifts in attitude, generation and ethnicity have proven decisive in both the political realm and in the economic fortunes of regions and states.

The Center focuses on research and analysis of global, national and regional demographic trends and also looks into policies that might produce favorable demographic results over time. The Center involves Chapman students in demographic research under the supervision of the Center’s senior staff. Students work with the Center’s director and engage in research that will serve them well as they look to develop their careers in business, the social sciences and the arts. They also have access to our advisory board, which includes distinguished Chapman faculty and major demographic scholars from across the country and the world.
ACKNOWLEDGEMENTS

This project would not have been possible without the support of Chapman University and our donors. We particularly would like to thank President Daniele Struppa, School of Communications Dean Lisa Sparks, Argyros School of Business and Economics Dean Thomas Turk and Tom Piechota, Vice President of the Office of Research at the University. The project was greatly helped by Mahnaz Asghari who made sure the trains all ran on time, and our team of student researchers who diligently mined data and insights on myriad topics.

Our generous donors include venture capitalists Andy and David Horowitz; philanthropist Howard Ahmanson; Joe Lozowski, President of Tangram Interiors; real estate entrepreneurs Irv and Ryan Chase; Dan Heinfeld, President of the architecture firm LPA; and Tom Tait, entrepreneur and former Mayor of Anaheim. We also acknowledge the timely support from the Southern California Gas Company, Orange County’s Credit Union, and CRC, Inc.
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The Chapman Research team, headed by graduate Alex Thomas, did outstanding work on this project. Doug Havard and Luke Edwards, both currently enrolled in the school, contributed greatly to our efforts.
SECTION ONE:
EXECUTIVE SUMMARY

“We are the modern equivalent of the ancient city-states of Athens and Sparta. California has the ideas of Athens and the power of Sparta. Not only can we lead California into the future, we can show the nation and the world how to get there.”

Arnold Schwarzenegger, January 2007

California Preening: A State Of Delusion

California has always been a state where excess flourished, conscious of its trend-setting role as a world-leading innovator in technology, economics and the arts. For much of the past century, it also helped create a new model for middle and working-class upward mobility while addressing racial, gender and environmental issues well in advance of the rest of the country.

The notion of California’s supremacy remains implanted on the minds of the state’s economic, academic, media and political establishment. “The future depends on us,” Governor Gavin Newsom said at his inauguration. “and we will seize this moment.” Progressive theorists like Laura Tyson and Lenny Mendonca laud California as the home of “a new progressive era” — an exemplar of social equity. Others see California as deserving of nationhood; it reflects, as a New York Times column put it, “…the shared values of our increasingly tolerant and pluralistic society.”

A Less Grandiose Reality

California’s ascent to its rank as the world’s fifth or sixth largest economy reflects its status as the hub of the “new” economy. Less often acknowledged, but also painfully true: the Golden State now exemplifies the nation’s lurch towards a new form of feudalism in which power and money are increasingly concentrated. Upward mobility is constrained, and sometimes shocking levels of poverty remain widespread.

To be sure, the state has enjoyed faster income and job growth than the rest of the country over the past decade. But over the past few years, even before Covid-19, it has fallen behind other states, such as Texas, Utah, Washington, Nevada and Arizona. The state is often praised for its elaborate environmental and labor protections, but its record on economic mobility, middle-class disposable income, and even on greenhouse gas reductions, is not encouraging. The gap between middle-class Californians and the more affluent is becoming greater.

Recent trade conflicts, along with the implications of the coronavirus and other potential pandemics, could worsen this reality. In the past decade the hospitality, food service, performing arts and sports/casino sectors have accounted for a quarter of all new jobs, an increase in their share of all employment from 10.6% to 13.4%. Those two million jobs are now gravely threatened. Our position as a hub for trade with Asia and for global tourism is dependent on easy access to Chinese entrepreneurs and other partners worldwide. Damage to those relationships could make us more vulnerable. Our state’s population of poor and largely destitute people is also a vulnerability.
Despite these challenges, we are firmly convinced that California has the economic and human resources to withstand these challenges. But this requires developing policies, including educational and regulatory reforms, that foster greater creation of higher wage jobs and address high costs, particularly in housing and in energy.

**The Decline Of California’s Middle And Working-Classes**

California policies, often steeped in good intentions, have had deeply deleterious consequences, especially on its middle and working-class families. The state’s rich have enjoyed an unprecedented bounty. But California also suffers the widest gap between middle and upper-middle income earners of any state. California’s signatures of upward mobility, homeownership and the availability of economically sustainable jobs, have fallen well below the national average.

High real estate prices have fostered high rents, and prevented many Californians, notably the young and minorities, from purchasing houses. This is occurring at a time when the vast majority of jobs being produced in the state pay under the median wage, and 40% pay under $40,000 a year. Since 2008 the state has created five times as many low wage jobs as high wage jobs. Yes, the state’s employment growth in the past decade has outperformed the rest of the country, but most of the new jobs pay poorly, and now seem to be permanent for many.

California is the single worst state in the nation when it comes to creating jobs that pay above average, while it is at the top of the nation in creating below average and low-paying jobs. High wage jobs have increased marginally in the state during the past decade, but our competitors — Utah, Texas, Arizona, Nevada and Washington have seen much higher growth. At the same time,
Despite these challenges, we are firmly convinced that California has the economic and human resources to withstand these challenges.
middle-skill job growth in California is well below competitive states. California lost 1.6 million above-average-paying jobs in the past decade, more than twice as many as any other state.

Given the sophistication of its economy and its enormous natural advantages, California should lead, not lag, in creating high wage jobs. In this report we identify four critical areas of opportunity: software, international trade, space, and creative industries.

We believe that changes in our regulatory structure would allow these promising fields — as well as fields like manufacturing, agriculture and construction — to expand more rapidly, bringing critical benefits to the economy.

Poverty Among Plenty

Our collective badge of shame is the prevalence of poverty amidst enormous affluence. This correlates with a state that, amidst high living costs, produces a disproportionate number of low wage jobs. Nearly one in five Californians — many working — lives in poverty (using a cost-of-living adjusted poverty rate); the Public Policy Institute of California estimates another fifth live in near-poverty — roughly 15 million people in total.10 Most tragic, roughly 17% of California’s children live in or near poverty.11 Poverty rates for California’s Latinos and African Americans, most of them working, are well above the national average, and considerably higher than in Texas, our primary competitor and a state with a similarly diverse population.12 Over half of all California Latino households, now a plurality in the state, can barely pay their bills, according to a United Way study. “For Latinos,” notes long-time
PERCENT CHANGE IN LOW PAYING JOBS BY STATE
2008–2018

THE NUMBER AND SHARE OF WORKERS WHO ARE LOW-WAGE VARIES BY METRO
373 Metro Areas

Source: Brookings analysis of 5-year, 2012–2016 American Community Survey microdata

BEYOND FEUDALISM: A POLICY TO RESTORE CALIFORNIA’S MIDDLE-CLASS
political consultant Mike Madrid, “the California Dream is becoming an unattainable fantasy.”

The loss of jobs, particularly in hospitality and retail, from the coronavirus could exacerbate this situation further. California’s cost adjusted poverty are among the highest in the country, and, even during the recovery, remained higher in 2019 than in 2007. On the most extreme end, the most obvious expression of pervasive inequality and economic dysfunction lies evident on our streets. Even as homelessness has been reduced in much of the country, it has continued to swell in California. Roughly half the nation’s homeless population lives in the Golden State, many concentrated in disease and crime-ridden tent cities in either its largest city, Los Angeles, or San Francisco. This surge, notes the Council of Economic Advisors, is largely attributable to the state’s “excessive regulatory barriers.”

The following link has information about any area of the state:
https://public.tableau.com/shared/9HG83CG-BH?:display_count=yes&origin=viz_share_link&showVizHome=no

**Needed Now:**
**A Powerful New Strategy**

California’s leaders had plenty of warning of this impending class and race chasm. A report more than three decades ago from the Population Reference Bureau predicted that the state was creating a two-tier economy, with a more affluent white and Asian population and a largely poor Latino and African American class.

**CALIFORNIA’S OFFICIAL POVERTY RATE CONTINUE TO DECLINE IN 2018, BUT REMAINS ABOVE ITS PRE-RECESSION LEVEL**

Percentage of Californians with incomes below the official Federal poverty line

![Graph showing California poverty rates from 2006 to 2018](image)

*Note: The child poverty rates in 2007 and 2018 are not statistically different.*

*Source: US Census Bureau, American Community Survey*
Tragically, none of this was or remains necessary. Perhaps no place on earth has more going for it than the Golden State. Unlike the East Coast and the Midwest, we benefited from a comparatively late industrialization, with an economy based less on auto manufacturing and steel and more on science-based fields like aerospace, software and semiconductors. The state gained from the best aspects of progressive rule: the nation’s elite public university system, the greatest water systems since the Roman Empire, a vast network of highways, ports and bridges. And, of course, California has incomparable weather.

The state has drawn ambitious people from the rest of the country and the world. The Californian was, like the American described by eighteenth century French traveler J. Hector St. John de Crèvecoeur, a “new man”: innovative, independent, less bound by tradition or ancient prejudice. This Californian still exists, but like the state’s roads, schools and universities, is aging, and becoming less mobile and more pessimistic.
To renew the California dream requires a drastic change of direction. Regulatory excess has pushed up housing and energy policies ruinously, particularly for blue collar and middle-management workers. Our school systems continue to fail, particularly for minority populations. High costs and taxes drive out middle-class and aspiring working-class citizens, as well as the companies that would employ them.

For decades, California has been a beacon for the talented and ambitious, not just a magnet for the wealthy or super-educated few. It can be that again. But it will require a strategy that is both economically inclusive and programmatically sustainable. This paper tries to lay out such a new approach.

SECTION TWO:
STRUCTURAL IMPEDIMENTS TO INCREASING CLASS MOBILITY

In our study last year, “California Feudalism: The Squeeze on the Middle-Class,” we laid out the clear and present danger facing most state residents. Until the past decade, California boasted a remarkably diverse economy, based on industries spanning the gamut from agriculture and oil to aerospace, finance, software and basic manufacturing. The broad range of opportunities, plus the unmatched beauty and mild climate of the state, lured millions from around the world.

To be sure, there were always pockets of severe poverty: urban barrios, ghettos, and poor agricultural towns in the state’s interior. Still, as recently as the 1997-2007 period, California job creation was well-distributed in terms of regions, job types and incomes. But the great recession hit California more profoundly than it did the rest of the country, and, since then, the state’s economy has become more narrowly focused around the tech-driven Bay Area.

The Loss Of Economic Diversity And The Demise Of “Blue Sky California”

The state’s middle and working classes suffer from California’s growing lack of economic diversity. A decade ago, the state’s largest firms included a host of aerospace, finance, energy and service firms. Today, the energy firms (except the residue of Chevron, which has been moving more operations to Houston) have disappeared. Not a single top aerospace firm, the great signature industry of late twentieth century California, retains its headquarters here. The shift has been to tech — and it has severely
damaged middle-class job opportunities across the state.

Joseph Vranich, a relocation expert who recently moved his own business from Irvine to Pittsburgh, Pennsylvania has identified a total of 2,183 publicly reported California disinvestment events between 2008 and 2016. However, experts in site selection generally agree that at least five relocations take place without public knowledge for every one that does, which suggests about 13,000 disinvestments during that period. In 2016, an estimated 1,800 firms left: that’s the highest ever. The places with the biggest gains from California are in Texas, Nevada and Arizona. Between 2000 and 2013, California was the source of about one-fifth of all jobs that moved to Texas — 51,000 jobs.

For California workers, these relocations represent lost opportunities. Although by far the largest state, we rank a mere seventh in new corporate projects, not just behind Texas, but trailing far smaller Ohio, Georgia and North Carolina. We also are 20th in getting “reshoring” projects that return to the US from overseas — a trend that according to a recent AT Kearney study is growing and almost certain to accelerate in the view of deteriorating trade relations with China. That this could occur in the state that is the primary entrepôt for the Pacific Rim, the center of both the global digital economy and entertainment industry, reveals how badly the state is squandering enormous opportunities.

Reshoring could be a way to reverse a relative decline in California’s industrial sector, which has been particularly hard hit. Over the past decade, it has fallen into the bottom half of states in manufacturing sector employment growth, ranking 44th last year; its industrial new job creation has been negative, compared to gains from competitors such as, Nevada, Kentucky, Michigan and Florida. This has proven a disaster for working-class Californians. Even without adjusting for costs, no California metro ranks in the US top ten in terms of job growth.

### TOP 10 FORTUNE 500 COMPANIES WITH CALIFORNIA HQ: 2006–2019

**Source:** Fortune Magazine

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<th>California Rank</th>
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of well-paying, blue-collar jobs. But four — Ventura, Los Angeles, San Jose and San Diego — sit among the bottom ten.\textsuperscript{26}

The erosion in aerospace, an industry with median wages above $85,000, has paced this decline. Between 1990 and 2011, this California industry shrank from 321,000 statewide to under 140,000, although the recent revival of the space industry may provide the state with a platform to rebuild this core competence.\textsuperscript{27}

The past decade has also seen the departure of many companies’ headquarters operations that once anchored the state’s prowess in industry, professional services, and engineering: Occidental Petroleum, Jacobs Engineering, Parsons, Bechtel, Toyota, Mitsubishi, Nissan, Charles Schwab and McKesson.\textsuperscript{28} In most cases, executives complain about onerous taxes. Once at a level that was about normal for an urban state, California’s taxes are now higher than those of virtually every other state. Add to that an ever-expanding regulatory regime, and its no wonder many companies decide to leave.\textsuperscript{29}

Movements of firms such as Schwab, a company deeply rooted in the state, translate into an erosion of middle-class jobs. In San Francisco, the company employs 1,200 people, down from the dot-com boom peak of 10,000 employees in 2000. The company plans to add thousands of workers in Texas.\textsuperscript{30}

While Silicon Valley has a higher percentage of high-paying jobs, the rest of the state is being eclipsed by its prime competitors like Salt Lake City, Seattle or Austin, which are growing high-paying jobs much faster.\textsuperscript{31} Indeed, according to a 2018 University of California Santa Cruz study, nine out of ten jobs in the Valley now pay less than they did twenty years ago, adjusted for inflation, in part as a result of declining manufacturing and offshoring of activities, largely to Asia.\textsuperscript{32}
CALIFORNIA RANKED #20 IN JOBS ADDED FROM RESHORING

Number of Jobs (000’s) added from Reshoring and Foreign Direct Investment by State (with Rank) 2010–2018


CALIFORNIA'S LARGEST AREAS ARE GROWING MUCH MORE SLOWLY THAN COMPETITORS

High Paying Jobs (over $100K) 2008–2018, Selected Markets

Source: Bureau of Labor Statistics
The Role Of Regulation

The late historian and one-time state librarian Kevin Starr observed that, under the governorship of Pat Brown, California enjoyed “… a golden age of consensus and achievement, a founding era in which California fashioned and celebrated itself as an emergent nation-state.” In 1971, the economist John Kenneth Galbraith described the state government as run by “a proud, competent civil service,” and enjoying among “the best school systems in the country.”

California’s advantages in those times lured people and businesses from elsewhere. This is not happening so much today. Chief Executive Magazine’s 2019 survey found California to be the worst state in which to do business, while arch-rival Texas ranked best, and prime regional competitors Arizona and Nevada placed in the top five. The Canada-based Fraser Institute ranked the state 49th in economic freedom, largely due to the enormous regulatory burdens imposed on businesses. The Tax Foundation’s 2019 State Business Tax Climate Index, which evaluates taxes in five categories, also lists California at number 49, with only New Jersey trailing. Kiplinger Report’s summary map confirms those findings.

Remarkably, such rankings do not seem to bother Sacramento’s political elites. California’s legislature is now made up largely of people with virtually no business experience. Among the Democrats — the party that dominates California’s 2019-2020 state senate — 79% do not have any private sector experience. In contrast, Democrats in the Texas legislature are more than twice as likely to claim private-sector experience outside the field of law, while 75% of Texas Republicans earn a living in business, farming or medicine.

The Housing Crisis

As this report indicates, the principal economic cause for the declining fortunes of California’s middle class is the high cost of housing. It accounts for more than 85% of the difference in the cost of living between high-cost metropolitan areas and the national average. Unless the housing regulation issues are successfully addressed and a competi-

2019 BEST & WORST STATES FOR BUSINESS: Chief Executive Magazine

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tive supply of land is restored, housing affordability will likely continue to deteriorate, making life more difficult for the shrinking middle-class and lower-income households.

California has imposed ever-higher costs on developers and restricted building on the periphery, where land is more affordable. Its housing prices have grown much faster than the national average and those of arch-rival Texas. Given these extraordinary costs, most new single-family and apartment construction tends to be for the high-end market, and often small units that are not family-friendly. Only 7,800 of the new apartments built between 2015 and 2017 in Los Angeles — 11% — are affordable, with rents of around $1,842 a month. In contrast, rent on the 66,000 “market rate” apartments exceeds $2,800 a month.39

Despite the best of intentions, the state’s principal housing strategy, Regional Housing Needs Assessment (RHNA), has not restored housing affordability. RHNA requires metropolitan planning agencies, counties and cities to zone sufficient land for housing production targets. It faces insurmountable barriers. Land and regulatory costs in the state are so high that builders can earn a competitive return on investment only on houses that are unaffordable for nearly all middle-income households.

The situation for home buyers is even bleaker as unaffordability has risen dramatically, particularly along the coast. To qualify for a mortgage on a median-priced house in the San Jose metropolitan area requires an annual income of about $250,000. In the San Francisco metropolitan area, it is $200,000. In Orange County $167,000 is required, in Los Angeles County $125,000, and in the

California has imposed ever-higher costs on developers and restricted building on the periphery, where land is more affordable.
SIDEBAR: A HISTORY OF HOUSING AFFORDABILITY IN CALIFORNIA

According to the California Legislative Analyst’s Office (LAO), an average California home costs 2.5 times the national average. Monthly rent in the state averages about 50% higher than the rest of the country. Yet as recently as the 1970s, including during the period of the state’s most dramatic growth, housing in California was only slightly more expensive than in the rest of the nation.

A large body of economic research attributes California’s housing affordability crisis primarily to the implementation of far stronger state and local land-use regulation, which began around 1970. Early research associated housing affordability deterioration with the enforcement of the California Environmental Quality Act, as well as with the adoption of growth management measures to stop ‘urban sprawl,’ including urban containment policies to seek a more ‘compact’ city. The early growth management initiatives were principally in the Bay Area, where the largest price increases occurred first. Since 2000, state regulations have become even stronger.

It has long been known that urban containment policies are associated with far higher land prices in urban areas, with land values 10 or more times as high per acre where development is permitted than on comparable land where development is prohibited. The land values on the urban fringe tend to be the lowest (‘floor’ values) throughout the urban area. These same impacts can be seen almost wherever urban containment has been implemented: Australia, the United Kingdom, the Pacific Northwest and Canada have seen prices rise far faster than places where such policies have not been imposed.

CALIFORNIA AND THE UNITED STATES COMPARED
Middle-Income Housing Affordability: 1950–2019

Source: Derived from Census Bureau, Harvard University and Demographia
Edward Glaeser of Harvard University and Joseph Gyourko of the University of Pennsylvania have noted that in environments with few regulations, land costs tend to account for no more than 20% of the cost of a new house. But in the Bay Area, including in the low-density suburbs, land costs are 10 times as high as would be expected in a “well-functioning market, one in which home builders can produce housing for what they define as the “minimum profitable production cost.” The research concludes that excessive regulation has added approximately $520,000 to the cost of the median priced house in the San Francisco metropolitan area, an increase of more than 180%.²²⁷

Similarly, the 2020 Economic Report of the President and Annual Report of the Council of Economic Advisors (CEA) finds “a house price premium resulting from excessive housing regulation.”²²⁸ This has, according to the CEA report, increased the price of houses as well in the Los Angeles, San Diego and Oxnard metropolitan areas by approximately 100%, and in the San Francisco metropolitan area by more than 150%.²²⁹

CEA dismisses higher construction costs as a material factor in the increasing cost of housing, citing research that shows little change in real construction costs over the past three decades.²³⁰

Rents, which are strongly influenced by house prices, have also escalated. Again, the highest house value and rent increases relative to the nation have been in California’s four coastal metropolitan areas. However, the interior metropolitan areas have also seen house value and rent increases that are substantially higher than the national rate.

The percent of income that Californians are spending on rent has increased from 28% to 35% in the past 20 years.²³¹

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Source: Derived from Glaeser & Gyourko, 2018
Rather than being chastened by these results, the report demonstrates that the state has doubled down on regulatory excess, with the inevitable result of higher prices.

Subsidies will not solve this problem. The LAO estimates that housing subsidies are available to only one-quarter of eligible households because of long wait lists that are the result of insufficient public funding. According to the LAO, “The scale of these programs—even if greatly increased—could not meet the magnitude of new housing required to address affordability challenges for low-income households in the state.”

Public officials and interest groups see the main problem as that of supply. But we do not face a crisis of supply per se—we have lots of expensive rental and condo units. The real issue is how to expand the supply of housing affordable to middle and working-class Californians. This cannot be done by government. It requires drastic changes in the regulatory and tax environment.

We need to create incentives for the private market to build middle-class housing for a profit, while leaving enough in subsidies to build the needed affordable housing for low-income households. First and foremost, this means restoring a competitive supply of land that will allow the market to act efficiently and meet consumer demand.

Wendell Cox
CHANGE IN HOUSE VALUES & RENTS
Major Metropolitan Areas: 1969–2018

RENT & HOUSEHOLD INCOMES: 2000 – 2018
United States & California

Source: Derived from Census Bureau data
San Diego metropolitan area more than $130,000. The overall national average, including these California metropolitan areas, is $55,000. Overall, far fewer Californians can afford to buy a median-priced home today than in 2000 even though nationally the percentage of people who can afford homes has actually increased.

In part due to the higher coastal prices, this situation is spreading to the interior where house prices are rising strongly. Home builders are unable to profitably

**COMPONENTS OF THE COST OF LIVING**
Comparing Coastal & Interior California with Texas
produce new housing, except for more affluent consumers. Andres Jauregui, the director of the Gazarian Real Estate Center at California State University, Fresno, notes there is now “... a scant selection of rentals for Fresnans who are just making ends meet.”

The price spike has been worsened by the growing role of professional, well-funded investors and speculators, who see high prices, guaranteed by regulatory restraints, as all but assured. All-cash buyers have grown to nearly 23%, more than twice the percentage than in 2006.

**CHANGE IN PERCENT OF POPULATION ABLE TO AFFORD MEDIAN-PRICED HOMES**
**California Regions compared to U.S. 2000 to 2018**

Derived from NAHB Wells Fargo Housing Opportunity Index
The Demographic Effects of Undermining The California Dream

California’s young families face an increasingly toxic combination of high costs and relatively low salaries; California millennials earn about the same wages as their counterparts in states such as Texas, Minnesota and Washington, where the cost of living is far lower.43 Not surprisingly, California millennials suffer homeownership rates that are diminishing more quickly than elsewhere in the country.44

As a result, many young Californians fail to ‘launch’ well into adulthood. Nearly two in five Californians aged 18 to 34 live with their parents, one of the highest rates in the nation.45 Nearly 45% of Hispanic youngsters do the same. Nationwide the percentage is under 30%.46

For the next generation, however, the prospects for buying a home depend in large part on winning the birth sweepstakes. In markets like Los Angeles and Orange Counties, close to 40% of loans rely on family money for qualification, up from 25% in 2011.47

Some analysts, such as those at the Urban Land Institute, have suggested the arrival of “a new California dream” where people opt for greater density and eschew home ownership.48 Yet surveys consistently show that most Americans, including the vast majority of millennials, prioritize owning a home.49 It is doubtful that the Covid-19 Pandemic, concentrated in dense cities, will do anything but accelerate the outbound trend. A US map of the pandemic, at this editing, reveals that the vast majority of cases are occurring in the densest, most globalized regions and most especially New York. In an analysis of the pandemic’s epicenters, economist Jed Kolko estimates that the death rate in large urban counties to be well over twice those of high-density suburbs, four times higher than lower-density

LOWEST HOMEOWNERSHIP RATES BY STATE 2018

![Bar chart showing the lowest homeownership rates by state in 2018]

Source: American Community Survey, U.S. Census Bureau
ones, with even larger gaps with smaller metros and rural areas, a finding largely confirmed as well by Brookings. It has been far less prevalent in the vast, albeit largely ignored, interior of the states as well as the middle of the country. More rural areas also have far less cases, which health professionals suggest benefit from less crowding and too close human contact.50

By spring 2020, according to The Harris Poll, as many as two in four urban residents, including the young, are considering a move to a less dense place. The latest consumer survey from the National Association of Realtors found in the COVID environment households are “looking for larger homes, bigger yards, access to the outdoors and more separation from neighbors.”

The cities of the future will no doubt retain “hip” dense creative districts, but tech and high-end business services have been moving over the past five years increasingly to sprawling, low density metro areas like Austin, Nashville, Orlando, Charlotte, Salt Lake City and Raleigh. Rather than embrace transit and density, we should look to identified areas, notably in tech oriented communities, where telecommuting now is most practiced, and should be able to grow. For many cities, it might make sense to give incentives not for office towers but for home-based workers; most people now working from home express a preference—some sixty percent according to Gallup—to continue doing so for the foreseeable future.

Most surveys done after the pandemic reveal that the long standing preference for single family housing and lower density has intensified, perhaps dramatically. Yet even in the face of persistent signs of growing preference with lower density living, with the impact of the pandemic, state officials and much of the planning clerisy seem determined to undermine single-family home ownership as both environmentally damaging and too

**MEDIAN VALUE OF NET WORTH FOR FAMILIES WITH HOLDINGS By Housing Status**

![Graph showing median value of net worth for families with holdings by housing status from 1989 to 2016.](source: Federal Reserve, Survey of Consumer Finances (2016).)
“individualist and exclusionary.” This policy clearly works against the interests and aspirations of most Californians. Habitat for Humanity in Los Angeles has compiled a comprehensive, multi-decade set of studies confirming that families who own their own homes have better health and educational outcomes, and are more likely to vote and to volunteer for school and community events. Homeownership has also been the primary source of wealth for middle and working-class people. On average, homeowners aged 50-64 have nearly 60 times the median wealth of the same-age renters.

The decrease in a chance to own a home is creating a feudalist social structure that drives young families out of the state. Think of California’s wealth-creation machine as a conveyor belt, continually providing generations with a stake in society through their homes. This system has now stalled. Our large coastal metros lead the nation in long-term owners.

Once a place of opportunity for the young and ambitious, California now works best for the old who got onboard when the going was good. In virtually every survey of reasons for wanting to leave California, housing costs are at the top of the list.

These trends are reflected in the actual migration data. The groups showing the biggest tendency to leave, according to IRS numbers, are those in their late thirties to late fifties, which includes people who tend to have families. In contrast, of those who have not considered leaving, seniors are the one majority demographic group.

This trend seems likely to accelerate unless the state changes course. Most recent polling in the Bay Area and in Los Angeles reveals that it’s the young, not the middle aged or old, who are most dissatisfied with their cities. This is true both in the Bay Area, despite an enormous economic boom, and in Southern California. Overwhelmingly it’s the older, more established Californians.
who seem likely to stay. In other words, we appear to be in danger of eating our own ‘seed corn’.

We can already see the dangers ahead. Today California’s demographics resemble the pattern of out-migration long associated with northeastern and midwestern states. Since 2000, more than 2.4 million net domestic migrants, a population larger than the Sacramento metropolitan area, have moved to other parts of the nation from California. This trend has been growing: between 2014 and 2019, net domestic out-migration has grown from 46,000 to 203,000.57

A highlight of this demographic decline is that California’s population growth has fallen below the national average for the first time.58 When people of an age to form families leave, birthrates

**EXODUS OF YOUNG EMPLOYEES**
plummet. Los Angeles and San Francisco rank last and second-to-last in birthrates among the 53 US major metropolitan areas. In California, only Riverside/San Bernardino exceeds the national average in women aged between 15 and 50 with births. California's total fertility rate, long above the national average, is now the nation's 10th lowest.

At the same time, international migration, long a source of demographic vitality, has slowed. Immigrants, like migrants from other states, have been shifting away from California towards the interior of the country. As The Brookings Institution has noted, from 2010 to 2018, the foreign-born population of Houston, Dallas-Fort Worth, Austin, Columbus, Charlotte, Nashville and Orlando increased by more than 20%, while San Francisco's foreign-born population grew only 11%, and New York's 5%. Los Angeles suffered a loss of nearly 1%.

**BIRTH RATES**
California Metropolitan Areas: 2014–2018

Source: American Community Survey data
The combination of reduced immigration and the outmigration of those at family formation-age is turning California old. From 2010 to 2018 California aged 50% more rapidly than the rest of the country.62

Currently there are more than 7.8 million people over the age of 60 in California, and, according to the California Department of Aging, this population is expected to grow by 40% in the next ten years.63 By 2036, seniors will be a larger share of the population than kids under the age of 18.64 California is gradually ditching the surfboard and adopting the walker.

A Failing Education System

As the state’s population growth slows, we must depend on effectively educating our own population for long-term economic growth.65 The state labor force is already shrinking, according to the state Employment Development Department, at a time when there are growing shortages of skilled workers in all sorts of professions, including healthcare, construction, and steel working.66 In the future, California businesses may face a severe shortage of skilled graduates, as baby boomers retire and the new generation moves elsewhere.67 According to a 2017 Association of General Contractors study, 75% of contractors in western states are finding it hard to hire skilled crafts people, and 24% say it will get even harder in the future.68

The demand for middle-skill jobs is high and meeting it could prove a crucial challenge. In 2015 we identified over 50% of all jobs in California as middle-skill, but only 39% of the state’s workers were trained at that level. Demand for these skills is expected to continue for years, and will provide benefits for the students who obtain them, as well as for the California business community.69

The California Employment Development Department (EDD) estimates that
by 2026, the state will need 9.5 million mid-skill workers, an increase of 858,000 over 2016 levels.70

College educated people face similar challenges. According to the Public Policy Institute (PPI), as boomers age and retire, California is going to need approximately 1.1 million more college graduates by 2030. PPI projects that the demand will then exceed the supply of college graduates by 5.4%, making it even more essential that K-12 institutions do a better job of preparing students for college and careers.71

Sadly, our educational system seems ill-prepared to train either mid-skilled or college educated people. Since 1998 California has ranked, on average, 46th in 8th-grade reading and mathematics subject-area performance on the National Assessment for Educational Progress (NAEP), the only comparable assessment between states nation-wide.72 It includes comparisons with demographically similar states such as Texas, which spends less money per student, as well as New York.73 Almost three of five California high schoolers are not pre-
pared for either college or a career; the percentages are far higher for Latinos, African Americans, and the economically disadvantaged. Among the 50 states, California ranked 49th in the performance of poor, largely minority, students. San Francisco, the epicenter of California’s woke culture, suffers the worst scores for African-Americans of any county in the state.

The need for remedial courses for approximately 40% of California State University freshmen upon entry to college reveals the low level of preparedness among our high school graduates. Those same deficiencies limit the success of a high school graduate who goes straight into the workplace. Basic reading comprehension, writing and mathematics are necessary for success in life. Remarkably, some educators wish to address this problem by eliminating remedial classes.

Making matters worse is the state’s abandonment, in 2015, of the California High School Exit Exam (CAHSEE). There were many critics of the test, but the CAHSEE provided assurance to employers and the community that graduates could meet a certain level of proficiency in grade level work. In California, half of our high school students barely read. The state’s solution: a proposal to mandate that each California State University student take an ethnic studies course designed to promote a progressive, and somewhat anti-capitalist, multi-cultural agenda.

With an anything-goes approach, some school districts, Los Angeles Unified School District in particular, have banned “willful defiance” removals and suspensions for behavior that disrupts the learning environment. This is seen as a way of redressing racial issues, as many of the malefactors (like most California students) are from historically disadvantaged minority groups. Under similar criteria, a bill is progressing quickly through the legislature to do the same statewide. Yes, these young people may be getting diplomas, but do they have the skills, academic as well as social, to compete in the real world?

Regressive Energy Policies

State energy policies have made California gas and electricity prices among the highest in the nation, since 2011 electricity prices have increased five times as fast as the national average. In 2017 alone, they increased at three times the national rate. These prices have been devastating to poorer Californians, particularly in the less temperate interior where “energy poverty” has grown rapidly.

Indeed, an analysis by the Chapman Center for Demographics and Policy details how California’s draconian anti-climate-change regime has exacerbated economic, geographic, and racial inequality. One primary impact of climate regulations has been to chase away historically well-paying jobs in manufacturing, energy and home building, all key employers for working and middle-class Californians. Over time, those high prices will impact not just these industries, but the tech sector; artificial intelligence and live-streaming providers are among the largest and fastest growing consumers of electricity.

State officials refuse to focus on these...
impacts. There’s a well-developed sense that anyone who dissents, even a scientist or respected economist, is a heretic not worth listening to. This treatment is facilitated by a media that tends to embrace the most apocalyptic projections of, for example, coastal erosion, with little attempt to actually ascertain the actual facts or look at alternative analyses.

As a recent Massachusetts Institute of Technology (MIT) report suggests, over-reliance on renewables will continue to impose costs and threaten reliability, particularly without energy from other sources, such as nuclear plants. Virtually every place that has tried to base its energy on a short-term shift to renewables — Germany, Denmark, even resource-rich Australia — has experienced huge spikes in energy prices. In Europe, notes one recent study, reliance on renewables both reduces incomes and boosts rates of household poverty.

Solar production is by nature intermittent, sometimes so much so that energy has to be shipped, at low prices, out of the producing state. At other times the producer must bring energy in from elsewhere.

Given the current rate of home construction, environmental activist Mike Schellenberger estimates it will take 100 years for rooftop solar facilities to match the current production of electricity from the state’s two slated-to-close nuclear plants.

Perhaps nowhere will the pain be worse than in Bakersfield, the capital of the California’s once-vibrant oil industry. That industry is now slated for extinction by policy-makers, even as the state has emerged as the largest US importer of energy and oil, much of it from Saudi Arabia. This ultimate effort at ‘virtue signaling’ will cost California as many of 300,000 generally high paying jobs, roughly half held by minorities, and will devastate, in particular, the San Joaquin Valley where 40,000 jobs depend on the industry.

“Imagine that the state dictated that the entertainment industry be eliminated from Los Angeles, or the tech industry be eliminated from Silicon Valley. That is what removing the oil and agriculture industries from Bakersfield is like. It is an existential threat to the entire area,” says Rob Ball of the Kern County Council of Governments.
SECTION THREE: CRITICAL SECTORS FOR CALIFORNIA’S FUTURE

Given its high costs, density of population and historic commitment to environmental protection, California cannot compete in every industry. Yet there are many critical fields where the state is, or could be, highly competitive. The primary goal of state economic policy should be to shift away from the current narrow employment path — relatively few high-end jobs and massive numbers of lower-end positions — towards generating a larger proportion of both middle and high-end jobs.

It’s particularly critical to expand high-wage employment across a broader portion of the state. Right now, California concentrates its upper-end jobs in a few areas — San Francisco, Silicon Valley, west Los Angeles and coastal Orange County — while producing largely low-paying jobs elsewhere. This concentration of high-end jobs in a few locales, notes a recent Brookings Institution report, has contributed to the state’s affordability crisis.

Software and High Tech: Meeting The Competitive Challenge

California has been blessed with an amazing technological legacy, making it arguably the center of the world’s digital economy. But today, employers are under pressure to relocate to other, more affordable areas, notably Texas, Tennessee, Nevada, Colorado and Arizona. According to estimates of Bureau of Labor Statistics numbers, several states — Idaho, Tennessee, Washington and Utah — are now growing their tech employment faster than California.

Growth since 2012 has been greater in five locations than in the Bay Area: Seattle, Austin, Washington, Detroit and Raleigh.

AUSTIN, BOSTON AND SALT LAKE CITY ARE MAJOR COMPETITORS TO SILICON VALLEY FOR INNOVATION JOBS

Source: Bureau of Labor Statistics
Overall, most California regions lag behind, a disturbing trend. Apple’s placement of its second largest employment center, with more than 6,000 employees (roughly half the size of the company’s spaceship headquarters in Cupertino), to less costly suburban Williamson County outside Austin could become a harbinger of new trends. Rents for one-bedroom apartments in Austin, Denver or Raleigh are roughly half those paid in the Bay Area. Moreover, in the 9-county San Francisco Bay area, rents are 48% higher than the rest of the already expensive area. It is our conclusion, supported by the Berkeley survey data referred to earlier, that the recent trend in out-migration from California is driven by costs. Only one top attraction, according to one survey of tech workers, climate, works in California’s favor.

Some recent policy initiatives also threaten the tech sector directly. New laws that would consider certain forms of contract labor to be employee labor and proposed taxes on large corporations do not seem likely to encourage firms to expand here.

As competition mounts, California’s future in tech could narrow largely to a role as the center for elite corporate jobs and for cutting-edge research. This would not be in the interest of middle-class families. We already see that tech firms, even when on-shoring, tend to head to low cost places east of the Sierras; Google just announced its first US operations center in Mississippi, just south of Memphis. It would be far better if more of the employment in tech support, manufacturing, marketing and logistics could expand instead to California’s inner cities, as well as to the state’s vast interior, where people can afford to live, helping to nurture a new middle-class.

### Professional and Business Services

Business and Professional Services represent the largest source of high and mid-wage jobs, both nationally and within California. This field, which accounts for 9% of all California jobs and 30% of the state’s above-average wage jobs, needs to be an area of particular focus.
PROFESSIONAL AND TECHNICAL SERVICE EMPLOYMENT
PERCENT CHANGE, 2008–2018

Source: Bureau of Labor Statistics

PERCENT CHANGE IN BUSINESS AND TECHNICAL EMPLOYMENT BY CALIFORNIA MSA
2008–2018

Source: Bureau of Labor Statistics
In the past, the state — particularly the Bay Area — grew these jobs at an above-average rate, but over the past decade momentum has slowed down to about the national average. More worrisome, many of our competitor states — Texas, North and South Carolina, Oregon, Colorado and Utah — grew decadal employment in this sector much faster than California did. Indeed, outside the Bay Area, most California metros, notably Los Angeles, have performed well below the national average. Unlike more narrowly defined tech jobs that are deeply attached to California’s unique venture capital and innovation economy, business services, including firms like McKesson, Bechtel, Jacobs Engineering, Parsons, Toyota, Nissan and Mitsubishi, have been leaving the state. The jobs provided by these firms are critical to middle-class families and have been harder to retain due to regulatory burdens, high taxes and unaffordable housing.

The Creative Industries

Creative industries, which we define for statistical purposes as Motion Pictures, Broadcasting, Publishing, Performing Arts, Advertising/Public Relations and Museums, have, like software and business services, long been a strength of California, particularly southern California. The state’s domination of this sector has allowed workers in these fields to do considerably better than their counterparts elsewhere in terms of average annual pay.

Overall, the creative industries remain a dynamic and powerful force; according to a recent Otis Institute report this sector produced and generated across the economy almost 800,000 jobs in 2016, surpassing the pre-recession 2007 peak of almost that many. The majority of these jobs are located in the uniquely competitive entertainment complex that surrounds Hollywood. Yet the competitive challenge could
become much greater in the years ahead. Despite some tax credits to producers, southern California’s film and television industries have been losing market share over the past five years to other states, notably in the Southeast, Texas and its historical nemesis, New York.\textsuperscript{104}

The industry also faces growing competition from overseas, particularly from South Korea, India, Egypt and Turkey.\textsuperscript{105} Korean-based creative artists, both in music and film, have begun to make considerable headway in the California-dominated North American market.\textsuperscript{106}

Rather than address competitive trends, California legislators seem more concerned with punishing other states for what are seen as their regressive social policies on issues like abortion.\textsuperscript{107}

In addition, the passage of California Assembly Bill 5 changes the classification of some Hollywood production workers from contractors to full time employees.\textsuperscript{108} Remarkably, AB 5 comes with a hefty list of exempted categories — lawyers, doctors, accountants, brokers, builders, and others — but does not exempt one of California’s most important strategic export industries, entertainment production.\textsuperscript{109} For competitors in other states and countries the law, if unchanged, could represent a veritable bonanza.\textsuperscript{110} This is occurring, significantly, when the number of shooting days for films in the state have been declining, and in 2020 shutdown due to Covid-19.\textsuperscript{111}

Structural changes in the industry could present more future challenges. The shift to streaming video and mobile has weakened the hands of most traditional studios, shifting power increasingly to tech firms such as Amazon and Netflix that now produce professional content, and Google and Facebook, that curate and post user-generated content. Often this content is produced in southern California, but the decision making has shifted elsewhere. The move to shorter
formats has been promoted as offering opportunity to many, but usually it is at lower wages. Changes in the contract labor laws already have had an impact on musicians and could drive more talent out of the state.\textsuperscript{112}

Over time, automation could threaten to replace human talent with machine-driven programs. These technologies include synthesized music, virtual docents, computer-generated images of all sorts, and the emergence of easy-to-use Generative Adversarial Networks (GANs) for zero-cost photo models. Deep fake technology for videos, and algorithms used by YouTube and Instagram to meter exposure of content could result in lower pay and less-steady employment in many fields, threatening the jobs of performers.\textsuperscript{113}

\textbf{California is losing market share to Eastern, Gulf and Canadian ports.}

\textbf{International Trade}

California’s ascendency in the second half of the twentieth century was deeply linked to the expansion of trade with East Asia.

With its large Asian and Hispanic populations, as well as its location bordering Mexico and the Pacific Rim, California should be able to rely on this sector to produce high wage jobs. Today, exports from California translate into high-paying jobs for more than one million Californians. International trade, including exports and imports, supports nearly five million California jobs; close to one in four jobs.\textsuperscript{114} Yet this sector has not expanded as rapidly here as in other states.

Our trade leadership is threatened. California is losing market share to Eastern, Gulf and Canadian ports. California’s ports have lost 5\% of all North American container market share, dropping from 35.5\% to 30.2\% over the past five years. Current volume numbers are down 30\% below 2018 levels. This is in part due to trade policy, and partly due to high regulatory uncertainty, as constantly changing environmental regulations and associated costs become the motivations for re-routing goods.\textsuperscript{115}

Such losses could prove troubling in the future. Once supply chains are re-routed — particularly during the long-standing dispute with China and the pandemic — they are notoriously hard to reverse, much as east coast ports lost out to California on Pacific trade in the past. Newly expanded ports like those in Houston, Tampa and Norfolk threaten to further reduce the cost-competitiveness of our ports because they are not burdened with draconian policies that seek to lower emissions. Attempts to regulate contract drivers threaten the livelihoods of a largely working-class, entrepreneurial population.\textsuperscript{116}
Space And Advanced Manufacturing

Today, decades after the fall of the Soviet Union, many of the communities enriched by the old aerospace industry have never really recovered a new source of middle-class employment. Many firms formerly located in south LA, Hawthorne, Long Beach, Pico Rivera and parts of the San Fernando Valley — including Northrup Corp, Lockheed, Hughes Aircraft, and McDonnell Douglas — have either moved or been absorbed. There has also been a loss of smaller companies critical to the supply chain.117

But recently, California’s aerospace employment has started to grow again, albeit slowly, providing a new chance for the state’s productive economy. Even as the state’s aircraft industry has shrunk, its space industry concentration has increased.118 Companies remain here mainly to access the unique talent pool developed over the past seventy years — a pool that the state now needs to refill.119

Space, ranging from telecommunications to exploration, is clearly the next big thing. Boosted by a huge surge of investment, space industry global revenues are up tenfold since the early 2000s, from $175 billion in 2005 to almost $385 billion in 2017, a growth rate of just under 7% per year. By 2040, space industry annual revenues globally are projected to reach between $1.5 and $2.7 trillion dollars.120

In the still-evolving space industry, California has many critical assets, including a workforce with a percentage of aerospace employment well above the national average, as well as the headquarters of critical players such as Space X and Virgin Orbit. California has a 19% share of the global space industry, as well as 40% of the US industry. Besides entrepreneurial firms like...
Virgin Orbit and Space X, California is home to four of the government’s largest space-related programs.\(^{121}\)

Even these jobs are threatened by the current regulatory climate. Earlier high-wage employers in critical fields like aerospace, engineering management, and finance have left.\(^{122}\) Many states — for example, Washington, Oklahoma, and Michigan — are targeting the industry with tax, real estate and worker-training deals.

Texas, third behind California and Washington State in industry employment, is already the site for the bulk of rocket test and certification flights. SpaceX and Blue Origin have large test facilities in Van Horn and Brownsville, respectively. In addition, Texas has two spaceports, one in Midland and one in
Houston. In a clear setback to California, Space X recently decided to build its new spaceships not in San Pedro, as originally proposed, but in south Texas and in Florida.¹²³

Still, California still has a great opportunity to do what it does best: seize the future. As traditional aerospace shifts elsewhere, our state has maintained a powerful post position in the burgeoning space industry, which includes satellites, drones and spaceships. Even as we have lost market share in most sectors, California has expanded its hold on space-related employment since 2004, and now boasts per capita employment in this sector well above three times the national average.¹²⁴

How long can our state continue to dominate this burgeoning industry is still an open question. Our natural competitive advantages could be squandered to California’s business climate and higher costs, particularly compared to those of Texas. Issues could arise for new space start-ups that might keep some elite jobs here but take the desperately needed production employment elsewhere. State regulations drive up the cost of building any manufacturing facility, creating a toxic environment for job creation even in the most promising of industries.¹²⁵

California still has a great opportunity to do what it does best: seize the future.
SECTION FOUR: UNLOCKING CALIFORNIA’S POTENTIAL

California’s enormous potential for developing a more diverse and geographically dispersed economy can only be realized if we undertake sweeping changes in state policies in critical areas like labor relations, taxation, and housing and climate regulations.

This does not suggest some imagined return of Reaganite conservatism. But it should also resist the economically tone-deaf progressive agenda. Instead, the state needs realistic, balanced policies that, first and foremost, expand opportunity across classes and geographies.

Rethinking Climate Policies That Drive Up Costs For Working Californians

Ever since the ostensibly conservative Arnold Schwarzenegger decided to morph into a progressive green, state policy has been based on California ‘leading’ the rest of the world on climate change. That stance has been adopted by both of his successors. California legislators and regulators enact proposals for the almost total elimination of fossil fuel use that would be enacted more rapidly than other US states and regions have been willing to consider.\(^{126}\)

Where does California stand in regard to the United Nations Paris Agreement? Approved in 2015, the Paris agreement requires that participating nations submit non-binding proposals every few years to reduce emissions in an effort to limit global temperature increases to between 1.5 and 2 degrees Celsius by 2100. Notwithstanding subsequent declarations by many nations and subnational jurisdictions that have called for rapid reductions by mid-century, few countries have actively contemplated the wholesale elimination of fossil fuels.\(^{127}\)

Many future projections prepared by scientists — for the United Nations, for example — assume that fossil fuels will remain a major source of energy up to and after 2050. With carbon capture/sequestration or other new technologies, this would allow for a zero emission future without gambling on unproven and unreliable energy sources.\(^{128}\) The climate purists who dominate California policy creation find only wind and solar to be acceptable, although even some climate change advocates caution that overreliance on intermittent, weather-dependent energy will push costs so high and lead to such massive land and environmental impacts that the public will turn against such policies.\(^{129}\)

Undeterred, the California climate bureaucracy doggedly has moved forward with plans to almost completely ‘decarbonize’ state buildings and light duty vehicles by 2050. They insist on nearly 100% electrification, which will require covering vast amounts of Central Valley agricultural land, rangelands, and large portions of neighboring states with sprawling wind and solar facilities on an historically unprecedented scale.\(^{130}\)

 Few if any other governments have mandated reliance on wind and solar or required reductions in natural gas and gasoline of this magnitude within so short a time frame.

The climate purists who dominate California policy creation find only wind and solar to be acceptable... California’s efforts to save the planet have done little more than divert greenhouse gas emissions (GHGs) to other states and countries.
A New Religion?

Like Medieval clerics who pointed to the heavens for every solution, California’s leaders identify climate change with virtually every failure of state policy. Governor Jerry Brown blamed “climate” for the California drought. When the rains came back and the reservoirs filled, negating this narrative, little attempt was made to store water for the inevitable next drought. Driven by green interests, the state has placed greater emphasis on sending water into San Francisco Bay than in storing it for agricultural uses. New groundwater regulations, notes California’s Farm Bureau, could end up eliminating as much as one in three acres.

Similarly, Governor Gavin Newsom and his claque in the media have linked the recent fires that devastated much of the state to changes in the global climate and mismanagement by Pacific Gas and Electric. Yet the state and the media have ignored the fact that the fires, which spewed vast amount the carbon into the atmosphere, had at least as much to do with green-mandated forests as with controlled burns and brush clearance. Brown actually vetoed...
attempts to impose such controls, which were opposed both by the greens and the largely sympatico media outlets. Despite the claims related to climate change, the length of the state fire season in 2018 was below normal and even in 2019 remained lower than that experienced in 2004 and 2011.

California’s efforts to save the planet have done little more than divert greenhouse gas emissions (GHGs) to other states and countries. Given the nature of the global challenge, reducing one state’s emissions by cutting back on industrial activities accomplishes little if those activities move elsewhere, often to a location with less restrictions. California’s state policies are often offset by emission increases due to population outflows and reliance on energy and product imports from higher emission economies.

Between 2007, when the Golden State’s ‘landmark’ global-warming legislation was passed, and 2015, California accounted for barely 5% of the nation’s GHG reductions. In 2015, the state ranked a mediocre 40th in per capita GHG reduction over the prior decade and reduced its emissions at half the national rate. In fact, state policies may be increasing total national GHG by pushing people and industries into states with more extreme climates, a fact so evident it has been explicitly recognized in recent state legislation.

Finally, California’s carbon footprint is so small that if the whole state went under the Pacific it would have a negligible impact. Given that the state accounts for less than 1% of global GHG emissions, even a 100% emission reduction as early as 2030 would have no discernible effect on global emissions.

The Economic Price Of Zealotry

California’s green regulators maintain that ever-stricter climate rules will have a small impact on the economy, a contention that even some environmental economists, such as Harvard’s Robert Stavins, find dubious. In reality, the economic impacts of California’s climate extremism are real and demonstrable, and likely to be worse given the impacts of the pandemic. California’s determination to be the leader on energy policies has placed extraordinary burdens on poorer people. Recently, some 200 veteran civil rights leaders sued the California Air Resources Board, the bureaucratic center of the state’s climate regulatory effort, on the basis that state policies disproportionately harm poor and minority residents.

In addition, others are calling for a revamp of the state’s climate policies. In response to California’s new drive...
to prevent new natural gas hookups, 113 cities with a combined population of over eight million have demanded changes. The state’s Chamber of Commerce and the three most prominent ethnic chambers of commerce — African-American, Latino and Asian-Pacific — have joined the effort. Bay Area restauranteurs, who prefer to cook with gas and are already hard hit by regulatory mandates and pressures, have sued the state. These and other independent restaurants are among those most threatened by economic impact of the virus.

Most analysis suggests that going all-electric could elevate the cost of housing even more, particularly if electric rates continue to stay so high. Looking at heating, consumers are likely to pay approximately 3 times more for the energy to run electric heating in their homes than natural gas. While electric furnaces are somewhat less expensive to install, that saving is more than offset by the extra cost of electrical power to run them. One more point to consider, 48% of California’s electricity is generated by fossil fuels today. Spending three times more money to get only half the environmental benefit does not seem like a great deal for Californians, especially since natural gas, which has lower greenhouse gas emissions than older coal and oil-based systems, already has dropped emission levels.

Rather than make middle and working-class Californians pay for draconian climate measures, a balanced policy would adopt the approach taken by President Barack Obama: an embrace of “all of the above” would be prudent, particularly given the limited effects of California on global emissions. This would include exploiting our natural gas resources, building a new generation of safer nuclear plants and promoting other new technologies that help conserve energy and keep prices down. Even high-profile climate change policy or-

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ganizations such as the Clean Air Task Force and the Environmental Defense Fund are cautioning California against overreliance on wind and solar power, due to substantial costs and potentially adverse environmental impacts, including higher net GHG emissions.\(^\text{146}\)

There are other options that reduce emissions without unduly driving up costs. Perhaps the most obvious is to encourage home-based work. The many benefits of working remotely are apparent, not the least for environmental reasons. The US Environmental Protection Agency projects that telecommuters save almost 80 million tons of GHG that otherwise would be spewed.\(^\text{147}\)

This option is already gaining market share over transit before coronavirus, easily passing it in the state’s largest urban region. It is also on the rise nationally, having more than doubled in this decade, and has grown exponentially during the pandemic and is likely to remain at higher levels for the foreseeable future as managers and workers become more comfortable with it.\(^\text{148}\) Rather than embrace transit and density, high-tech centers, where telecommuting is most practiced, should be able to increase remote work usage. For many cities, it might make sense to give incentives not for office towers but for home-based workers.
States and localities from Oklahoma to Vermont, Maine to Iowa have adopted programs to promote this environmentally friendly policy. These include providing cash incentives for both companies and workers, and housing subsidies. But California, despite its self-appointed leadership in innovative green policies, has virtually no program to promote such work, preferring to rely on ever higher prices and regulatory mandates to cut GHG emissions.

In contrast, the state’s obsession with traditional mass transit seems both expensive and ineffective. New innovations, such as the ride-hailing apps, have impacted transit markets negatively, and the emergence of new technologies, notably autonomous vehicles, are likely to undermine the future growth of outmoded transit and provide considerable environmental benefits. In the future, autonomous vehicles and the use of ride-hailing could create what Boston Consulting Group calls “on-demand transit,” with shuttles replacing the all-too-empty buses. Autonomous vehicles might be operated by private firms, just as Uber and Lyft are today.

Key Policy Changes on Climate and Energy

1. Stay within the Paris limits, but do not exceed them, and adopt the State Senate Policy 5 (SSP5) recommendations for achieving 2030 GHG goals.

2. Develop local fossil fuels for as long as needed, rather than import energy from elsewhere, with an emphasis on lower-emission natural gas and recycled gas.

3. Promote new technologies to reduce GHG emissions, including autonomous vehicle technology, and greater incentives for telecommuting.

4. Expand other forms of low-emission energy, including hydro-electric and nuclear capacity that is smaller scale, uses newer technology, and is less radioactive.

5. Develop housing and industry where people can live, thus reducing long commutes and promoting home-based work. Rethink the current use of Vehicle Miles Travelled (VMT) as the predominant regulatory metric to determine development suitability.
Housing Policy, Neighborhood Density, and Commuting

Governor Newsom has called for building 3.5 million new homes by 2025.\textsuperscript{153} Yet housing construction continues to be muted, with 119,000 building permits in 2019, a number lower than that of the last two years and far below the 315,000 of 1986, when California had one-third fewer residents. At the current rate it would require nearly 30 years to build 3.5 million houses. Some see the housing crisis as a matter of housing supply. But the problem cannot be solved by increasing supply alone. \textit{The supply of housing has to be affordable to middle income households and to low income households.} The housing crisis cannot be solved without achieving affordability.

State policy increasingly works against affordable housing. The obsession with vehicle miles travelled, for example, would concentrate housing development in the two regions with significant transit shares — San Francisco and central Los Angeles — that are already suffering from high prices, rising outmigation and diminished growth.\textsuperscript{154}

In contrast, nearly all growth in the state — as in the nation — takes place in suburban and exurban areas, where rates of transit usage are low.\textsuperscript{155} Between 2010 and 2018, 75% of San Francisco’s growth was in the suburbs and exurbs. In Los Angeles, more than 85% was suburban or exurban, and in the other four major metropolitan areas (Riverside-San Bernardino, San Diego, Sacramento and San Jose), suburban and exurban growth exceeded 97%.

Despite the fondest hopes of state officials, 79% of Californians drive alone to work. They do so in greater numbers today than in 2010.\textsuperscript{156} With the notable exception of downtown San Francisco, California’s dispersed job locations make traditional mass transit essentially doomed to a very minor role.\textsuperscript{157} The share of workers who commute in Los Angeles has dropped 15% since 1990, before the extensive Metro and Metrolink rail networks were opened. The Los Angeles Metro system carried approxi-
mately 120 million fewer riders in 2019 than in 1985 despite opening a huge rail system, with six lines radiating from downtown. At the same time, the work-at-home market share more than doubled.\textsuperscript{158}

Working families are likely to suffer the most from a policy that favors transit over personal transportation. For the vast majority, getting to work by bus or rail would greatly increase travel times, and it would reduce the number of jobs available to them. In Los Angeles, commuters can reach 44 times as many jobs by car as by transit. In San Jose, autos provide 65 times as much access, and in San Diego and Sacramento cars provide more than 90 times as much access. In Riverside-San Bernardino, even with its high-quality commuter rail service (Metrolink), commuters reach nearly 150 times as many jobs in 30 minutes by car as by transit. In San Francisco, the part of the state best served by transit, commuters reach 13 times as many jobs by car as by transit (1,300%).

Perhaps most maddening to the state’s burdened commuters, under current policy virtually any improvement in road infrastructure, including such things as synchronizing traffic signals, can be seen as “traffic inducing.” The call for more density, the \textit{summum bonum} of state policy, is unlikely to get people out of their cars, as at least two studies have shown, given the spatial configuration of California.\textsuperscript{159}

Nor are these policies likely to have much impact on the environment.\textsuperscript{160} Boosting density fails as a means to reduce GHG emissions, in part due to unexpected trade-offs in emissions, notably from greater traffic congestion.\textsuperscript{161} Fighting climate change by forcing densification is an inefficient and profoundly regressive way to cut emissions.\textsuperscript{162}

Fortunately, housing affordability could be increased by allowing the expansion of the urban footprint. For decades some progressives have suggested that the state is largely ‘built out.’ Two academics suggest that California is where “sprawl hits the wall.”\textsuperscript{163} Yet California is not “land short,” either in its cities...
or across its vast interior. Urbanization covered only 5.3% of the state in 2010, according to US Census Bureau data. Parks, agricultural land, deserts and forests make up the bulk of properties. For example, from 1950 to 2010, the total agricultural land area of the state declined by 18,900 square miles, far more than the urban land increase of 6,200 miles.

There are also huge opportunities to develop within our urban areas. Scott Crowe, chief investment strategist with CenterSquare Investment Management, estimates that 44% of current mall retail space will be either shuttered or repurposed over the next five to seven years. These conditions are widespread throughout California. According to a 2018 study by the Orange County Business Council (OCBC), Inside Orange County’s Retail E-volution, “…3.5% of the county’s parcels and 7.2% of its land area are considered ‘refill’… which are identified as having (or having had) a commercial or retail use.”

In addition, there remains considerable land already zoned for multi-family development. According to a McKinsey Global Institute study, redeveloping existing multi-family units could create between 580,000 and 990,000 new units of housing, if governments and developers would collaborate to create supportive policies and a plan to house temporarily displaced people.

To take advantage of these changes, however, we need to alter the tax system. Proposition 13 had the unintended impact of promoting the ‘fiscalization’ of land use, as communities became more reliant on retail sales taxes. Local municipalities came to consider housing an unnecessary burden, since much of the property tax revenue went into state coffers after Prop 13 was enacted. At the time, of course, the state never envisioned retailers being disrupted by e-commerce.

This suggests that the state needs to change its tax formula. It should do so
by awarding incentives to cities that capture the property tax gains made by building new housing. This might make participating communities more interested in encouraging new residential construction and less desperate to hold onto an increasingly marginal retail tax base. The only way to change the dynamic is to change the underlying tax system,” suggests Greg Deveraux, the former CEO of San Bernardino county. “The incentives [should] be to have new tax revenues generated by new development to be shared with those communities who want to grow. We need to replace the current disincentives with incentives.”
Key Policies To Restore Housing Affordability

1. A Housing Opportunity Area should be established in the San Joaquin and Sacramento Valleys from Shasta County to Kern County; in San Bernardino, Riverside and Imperial counties; and in the Antelope Valley in northern Los Angeles County.

2. The Housing Opportunity Area should be exempt from regulations, laws and restrictions that impose urban containment (such as Senate Bill 375), as well as select provisions of the California Environmental Quality Act.

3. Municipal Utility Districts (MUDs) should be permitted in non-incorporated portions of the Housing Opportunity Area to provide necessary infrastructure efficiently, and to protect existing property owners from the cost of urban expansion.

4. Erroneous California Building Code Standards (Net Zero, etc.) should be rolled back, and city fees should be reformed to lower housing costs. Tax policies should be changed to encourage cities to expand housing, including on redundant retail space. Localities should be allowed to share property taxes from new housing in redeveloped retail areas more equitably with cities and counties, replacing lost sales tax revenue.

Addressing Regional Disparities

New state policies regarding Vehicle Miles Travelled per capita (VMTs) seek to reduce, no matter the cost, how much people drive, and promotes transit-dependent districts near transit, and especially “transit priority areas,” as defined by Senate Bill 743. This seems likely to make development more difficult in the outlying areas that have historically served as a ‘safety valve’ for growth; places to which firms driven from the high-cost coastal metropolitan areas can move, instead of exiting to other states.

Overall, the state’s housing and climate policies seem designed to keep these areas, largely in the interior, permanently ‘left behind’ by the more affluent, and politically powerful, coastal areas. The state’s regulatory, tax and energy policies work directly against those industries — agriculture, manufacturing, oil and gas and logistics — that have tended to concentrate in the interior. Policies now being adopted for water usage also seem likely to have disproportionately negative consequences for Hispanics through higher prices and impact on the farming economy. “The State has declared war on the Valley,” suggests Gene Voiland, Chairman of Bakersfield-based Valley Republic Bank. “It’s a war on people who make things.”

These areas represent the vestiges of the California dream for the millions of aspiring households that are being driven out of the home ownership market in the coastal metropolitan areas. And although population growth has slowed dramatically since the 1990s, these areas have been home to virtually all the state’s population growth over the past decade. Indeed, the only California metropolitan area ranked by the National Association of Realtors as a top ten pick for millennials was not hip San Francisco or glamorous Los Angeles, but the more affordable community of Bakersfield.

It would make more sense to allow development in those inland areas where working and middle-class households are more likely to afford to rent or buy a house. The key challenge may prove lack of decent jobs. The Inland Empire, the
only Southern California metropolitan area gaining large numbers of residents, also suffers the lowest average pay of any of the nation’s 50 largest counties. The booming warehouse industry provides limited opportunities for achieving upward mobility. Most Inland Empire warehouse workers, notes a recent study, make $22,000 annually and most live in crowded, substandard housing. For every $1 in wages paid by Amazon, warehouse workers receive an estimated .24¢ in public assistance benefits. There’s a clear “mismatch,” notes one recent University of California, Riverside study, between the housing and job markets, with not enough jobs paying a sufficient amount to cover local rents and mortgages.

Under current circumstances, this situation will not improve. The Brookings Institution projects that most of the area’s new jobs over the next ten years will not pay enough to maintain, much less improve, living standards. For an Inland Empire family of four with two working adults, each parent must earn about $18 an hour, or $36,000 each year, to make ends meet. Only 38% of jobs in the Inland Empire meet this standard. Brookings concludes, “Although the Inland Empire has seen exceptional growth for years thanks to its affordability and proximity to the Pacific Coast, it has hardly grown more prosperous.”

Similarly, the Central Valley — California’s other relatively affordable area — follows the same pattern: creating low-wage jobs while forcing people to commute long distances for decent or any employment. Anyone riding Highway 33 through the Central Valley passes areas that look more like rural Mexico than America: abandoned cars, dilapidated houses and deserted storefronts. The Washington Post claims these locations are “booming,” and that Governor Newsom is focused on them, but the data suggests that, although there’s still population growth, the economy generates largely low-wage jobs; relatively few higher wage positions are being created. As a result, this area has the highest concentration of poverty in the state.

Rather than be consigned to economic oblivion, with the right policy initia-

**POVERTY RATES ARE HIGH IN MANY CALIFORNIA COUNTIES**

*Percentage of People Living in Poverty in 2018 Based on the Official Poverty Measure*

The State has declared war on the Valley, suggests Gene Voiland, Chairman of Bakersfield-based Valley Republic Bank. It’s a war on people who make things.
SIDEBAR: PREFAB-ULOUS SOLUTIONS TO CA’S HOUSING CRISIS IN THE CENTRAL VALLEY

As the Bay Area’s housing crisis has worsened over the last decade, the northern reaches of the San Joaquin Valley (SJV) have emerged as oases of affordability. Located just outside the walls of the gilded San Francisco Bay, the nearby Stockton and Modesto metros have attracted tens of thousands of SF/SJ expats in search of homes at a fraction of Bay Area prices. Yet there has been little spillover growth in the information sector.

Many new residents cannot find higher-wage employment in areas they can afford. Despite its proximity to the global epicenter of information technology, the northern SJV has seen virtually no growth in this sector over the last 10 years. Those who do not have the luxury of remote work are forced to bear brutal 90+ minute commutes over the hills; Stockton and Modesto now boast more super-commuters than any other U.S. metro.233

Yet the Valley has an opportunity to bring in more jobs, particularly given the growing implementation of telework across the state, and the demonstrated growing preference for lower-density living.

Construction has long been a key industry, and now the Valley is a hub for construction technology, anchored by firms like Katerra and Entekra that specialize in modular construction. Katerra is a Silicon Valley-based, SoftBank-backed startup valued at nearly $4 billion. Heralded as a “one-stop shop for buildings”, Katerra seeks to revolutionize the multi-family construction industry through vertical integration and innovative construction. Building components are manufactured offsite then assembled on-site in Lego-like fashion with the help of cranes. With 50% shorter production time and 20% lower construction costs compared to traditional building techniques, Katerra is poised to redefine what is possible (read: affordable) in the multi-family space.234

A new, highly automated Katerra factory in Tracy is slated to reach full production by year-end 2020. The 577K square foot space will employ some 500 workers once it reaches full capacity, and will be able to crank out 12,500 multifamily units per year.235 According to co-founder Michael Marks, “establishing a manufacturing presence in the Central Valley made sense to efficiently serve the West Coast market while gaining access to talent to operate advanced robotic equipment.”236

Entekra is also in the prefab business, though they emphasize the single-family market. Although the firm is headquartered in Ireland, Entekra’s pilot manufacturing facility is based in the town of Ripon, a small town outside of Modesto. Their patented Fully Integrated Off-Site Solution (FIOSS) system allows components to be assembled much faster than conventional stick framing, and can reduce the build cycle by up to 33% and on-site labor by 40-60%.237 FIOSS framing is also safer, more sustainable, and can ensure more consistent quality than traditional framing methods.238

Entekra is currently staffing up its new full-scale manufacturing facility in Modesto, which opened last year and is slated to employ nearly 250 workers by the end of 2020. The factory will add over $61 million to the local economy,
including another 150 indirect jobs, and will boast an annual capacity of 3000 units, according to Opportunity Stanislaus. The Modesto site was chosen in part due to affordable land, but also the availability of a skilled workforce and a burgeoning demand, likely to increase in the post-pandemic period, for affordable single-family homes in surrounding areas.

Although the Central Valley of today may seem worlds away from its glittering coastal neighbors, their futures are inextricably linked. The region is well-positioned to become a hub of advanced manufacturing, construction innovation, and logistics capable of allowing California’s mighty economic engine to work more diverse communities and the state’s beleaguered middle class.

Alex Thomas
tives these areas could stand as the new bastion for middle and working-class upward mobility, and for the restoration of California’s traditionally diversified economy. The change would require removing policies such as VMT, and loosening environmental regulations in traditionally energy-dependent regions. Such new policies could be adapted from several progressive countries across Europe, notably Sweden, that have sought to disperse economic growth beyond the major metropolitan areas.183

Shifting growth to the interior, whether the Inland Empire or the Central Valley, would represent not only a major opportunity for California’s families, but also an environmental win: It would allow commuters to work closer to home, thus reducing greenhouse gas emissions.184 What would be the impact, socially and environmentally, of establishing employment in dispersed cities and regional collaborations of telecommuters that allowed a large percentage of people to work from, let’s say Corona, instead of Irvine?

Key Policies For Addressing Regional Disparities

1. Provide better transportation infrastructure to facilitate commuting within each region

2. Encourage industrial and agriculture firms to improve conservation, but work closely with them to ensure that they stay in the state rather than take their GHGs elsewhere

3. Reduce regulatory burdens on interior communities

4. Provide incentives to encourage locally based firms, notably in tech and business services, to expand to inland areas rather than to go abroad

5. Establish strong state policies to encourage workers, particularly in inland areas, to work near or at home

Reform the Education System

To succeed in the future, California needs to recover its leadership as an educational innovator. One hopeful development has been the growth of the charter school movement. California implemented legislation in 1992 that allowed for the formation of free public charter schools. Demand has driven growth to over 1,300 schools in 25 years.185 Prominent Democrats such as President Barack Obama, his Education Secretary Arne Duncan, and former Mayors Antonio Villaraigosa of Los Angeles and Michael Bloomberg of New York all supported them, although the teachers’ union, as it became increasingly progressive, backed school boards that worked assiduously to limit or even kill off these schools.186

Charter schools boast a good track record, which is particularly critical in low income communities such as the East Bay, central Orange County, and Los Angeles. These are areas where the state’s public schools have consistently failed. The local chapters of the NAACP in San Diego, San Bernardino and Riverside have rushed to support charters that have made considerable strides through reforms and innovations.187 Overall, charters are supported by 60% of public school parents, according to a Public Policy Institute of California poll.188

But charters are just one element of an educational reform agenda for California. Non-charter public schools, which still educate the vast majority of students, also need thoroughgoing change. The main solution that the current education establishment seeks
is more money, despite the fact that over the past decade these schools have made little or no progress in spite of a significant increase in funding from indirect sources such as California State Teachers’ Retirement System (CalSTRS). According to the California Policy Center, California spends about $20,000 per student per year on public K-12 education, when all sources of funds are accounted for. This ranks the state at #20 in per-pupil spending. More money might be needed, but, as suggested by a recent California Legislative Analyst’s Office report, even more critical is changing the nature of the system itself to something more effective.

Steps to improve California’s education system should include using standardized tests, which the state has been moving away from. A Seal of Educational Competency (or something similar) should be established to demonstrate that each student has achieved the level of reading comprehension, writing and mathematics necessary to succeed in college and/or careers.

A reform agenda should also include greater emphasis on tracking schools and students. Long-term student performance tracking systems utilized in New York and Texas, states with demographics similar to California’s, offer robust services and innovative programs that support the educational development of their populations. These states are widely viewed as having educational systems stronger than California’s.

Critical to improvement — particularly for working-class students — are increased linkages to companies looking for particular skills. One good example has been Anaheim’s Innovative Mentoring Experience (AIME), with 55 local partners such as Kaiser Permanente, Wells Fargo, Disneyland, Anaheim Public Utilities and Lennar Homes. The program has provided mentoring opportunities to over 5,500 students. AIME is structured in tiers to offer businesses multiple ways to get involved.

California and other states trying to figure out how to implement Career
Technical Education (CTE) might look at European apprenticeship models that move students to careers seamlessly, benefiting both students and employers. Students who are not ‘college material’ would be well served if they were exposed to career paths through Career Technical Education options and apprenticeships, as they are in Switzerland, Germany, and Denmark.

In the Swiss model, students spend one or two days at school and are at work the other days, preparing for twenty-first century high-demand, high-skills jobs. German youngsters are only half as likely to go to four-year colleges as their American counterparts. But 85% of those who do not head to universities have engaged in these programs.

In the US, only 580,000 Americans are enrolled in apprenticeship programs, compared to over 10.8 million in four-year colleges.

Some states already are attempting to implement versions of the European apprenticeship model. Kentucky has their TRACK (Tech Ready Apprentices for Careers in Kentucky) program, which is coordinated by their Labor Cabinet and Office of CTE. Students take specific classes relevant to their job goals and work towards post-secondary apprenticeships in building trades like carpentry and welding, or in manufacturing.

In San Antonio, the Alamo Academies offer high school juniors and seniors the opportunity to experience a variety of career paths in a duel enrollment setting (high school and community college), with courses taught on the Alamo College campus. Students earn approximately 30 college units in addition to completing their high school diploma over two years. Available classes are determined by projected work-force demand. Current programs include the Advanced Technology and Manufacturing Academy, Aerospace Academy, Diesel Technology Academy, Health Professions Academy, and Information Technology and Security Academy.

Cal State Long Beach Engineering Dean Forouzan Golshani suggests that one way to jump start these programs would be to promote public-private partnerships to help supply the talent pool for businesses, particularly locally based firms. This approach has been applied in Long Beach to serve such high-wage, blue-collar industries as aerospace and the port.

These changes require a major departure from the current political agenda of our educational establishment. For now, our education system promises California youth — 76% of them minorities — an increasingly bleak future. A ‘woke’ consciousness or deeper ethnic affiliations will not lead a student to success. What will count, for the students and for California’s economy, is gaining the skills that are in demand. You cannot run a high-tech lathe, manage logistics or design programs for space vehicles with ideology.
Policies To Improve California Education

1. Re-emphasize traditional learning and discipline as the best preparation for life in the adult world
2. Allow for educational diversity, in both charters and regular public schools
3. Encourage vocational education in partnership with local industries
4. Allow for testing and greater monitoring of educational results
5. Stop treating education as an opportunity for indoctrination

What will count, for the students and for California’s economy, is gaining the skills that are in demand. You cannot run a high-tech lathe, manage logistics or design programs for space vehicles with ideology.

18 Racial Composition of California K-12 Population

<table>
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<th>California</th>
<th>Percent</th>
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<tr>
<td>African American/Black</td>
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<tr>
<td>Multiracial</td>
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Source: https://www.kidsdata.org
SIDEBAR: LONG BEACH MODEL

Long Beach remains what much of southern California once was --- a middle and working class town of over 480,000 based on such things as trade and manufacturing. The key to Long Beach’s relative success --- measured by lower crime rates, a far smaller increase in homelessness than neighboring Los Angeles and a spate of new industrial expansions --- lies in its embrace of its working and middle class identity.

“We want to attract, retain and expand good jobs in every sector. Long Beach has historically been a blue-collar town, with the Port and manufacturing jobs providing many solid middle-class job opportunities,” suggests the current Mayor, Robert Garcia. “The reality is, most people are not going to be in management, whether it’s here or anywhere else. Most people are going to be in the blue-collar sector, and we need to make sure those jobs provide a good wage and benefits so that families can afford to continue living in Long Beach."

The port, responsible for over 50,000 jobs in the city, one out of every five, is one big part of the equation. But perhaps the greatest opportunity may be the burgeoning space industry, which city officials see as a great opportunity to cash in on its historic legacy and existing skilled workforce. “Aerospace created this community, “notes Dr. Forouzon Golshani, dean of Cal State Long Beach’s College of Engineering. “The footprint is everywhere. It’s both what made what California was and what it could be.”

These blue collar professions are particularly critical to Latinos, now 45 percent of the population. Close to half work in construction, trade and manufacturing, compared to barely 13 percent of the rest of the workforce. Manufacturing, energy and warehouse jobs all pay $10,000 to $30,000 more annually than hospitality and retail.

At a time when California’s educational establishment is working to lower standards and shift from learning skills to acquiring progressive ideology, Long Beach’s leaders understand that to keep a competitive edge, they need to supply employers with skilled workers. This is particularly true for the emergent space industry.

Long Beach’s educational institutions --- from the grade schools to Golshani’s California State University --- have all ramped up programs to train workers for industry. These programs extend well beyond training “rocket scientists” and design engineers but includes the technical skills that can be taught at the high school and junior college level as well. This is critical to Golshani’s notion of building a “new eco-system” for future growth.

Yet Long Beach still faces an uphill climb, not because of City Hall but what is occurring in Sacramento. The upside of future industrial development could be great, if somehow sanity can be restored. The big question remains is whether California still has room for such a practical approach.

Joel Kotkin and Alicia Kurimska
SECTION FIVE:
A NEW VISION
FOR CALIFORNIA

Our state’s leaders describe California as a beacon of social justice, particularly for historically disadvantaged minorities. Yet our examination of the state economic and demographic trajectory clearly does not support these contentions. Viewed from the perspective of race or class inequality, California is increasingly not a paragon, but rather a cautionary tale of over-regulation and excessive geographic and corporate concentration; an exemplar not of middle-class opportunity, but of resurgent feudalism.

Our vision of California starts first and foremost with improving the lives of our middle and working-class people, and of preserving the state as a place where people will choose to raise families. The program we propose would address these needs by reforming energy, tax, housing and business regulations so that a broader array of companies and better paying job opportunities are created not for the few, but for the broad population. What matters ultimately is not intentions, but results. Rather than proclaim progressive values, California government needs to focus on the impact of regulatory and tax policy on the daily lives of middle and working-class people.

Today, our state is socially, fiscally and economically unsustainable. As more people give up hope that their own lives will improve, particularly in the wake of coronavirus, they look increasingly to government for succor. This is true even among tech employees in Silicon Valley, many of whom have little chance to replicate the opportunities for wealth accumulation enjoyed by prior generations in the Bay Area. As the middle-class has shrunk and politics have shifted to a redistributionism ideology, California has become painfully dependent on its ultra-rich class, which pays upwards of half the state’s income taxes.

Ultimately, California’s neo-feudal model can only be sustained by massive transfers of funds from the very rich to the country’s largest collection of poor people, many of whom are working. Redistributionism could promise relief for some in the short run, but would slow economic opportunity. After all, this is a state that voted heavily for socialist Bernie Sanders at a time that Democrats elsewhere opted for more moderate candidates.

The redistributionist model can also be seen in housing policies such as rent control and limits on the rights of owners to keep homes empty or even allow squatters; these are not measures likely to encourage housing investment, but can appeal to voters who feel beleaguered by high prices and lack of opportunity. Construction of high-density housing by companies like Google and Facebook has been aptly described by The Guardian not as progressive, but as “a looming feudal nightmare.” It is fantasy to believe there is any potential for improvement through such initiatives.

Some argue that California has developed a “fiscally responsible” form of capitalism, as evidenced by a series
of annual budget surpluses. But it’s questionable whether California has the financial wherewithal to sustain expanded subsidies for its large, and increasingly permanent, poor population. Even Jerry Brown has remarked that the “Johnny one note” tech economy could stumble, reducing the huge returns on capital gains that are so critical to generating state revenues. This could be imminent, given the recent poor performance of tech IPOs and the $100 billion drop in the value of privately held unicorns. The early results from the Covid 19 pandemic demonstrate the state’s high level of fiscal indebtedness, with the state going from a $20 billion surplus to an over $50 billion deficit. The state’s dependence on capital gains and income tax make it particularly vulnerable.

These decline could be catastrophic for many California communities. Even before the pandemic, over two-thirds of California cities do not have any funds set aside for retiree healthcare and other expenses. Twelve of the state’s fifteen largest cities are in the red, and for many it is only getting worse. The current coronavirus-induced recession illustrates just how tenuous California’s financial condition is: both private and public sector revenue has nosedived. The state overall suffers a trillion dollars in pension debt, notes former Democratic State Senator Joe Nation. US News places California, despite the tech boom, 42nd in fiscal health among the states.

Much of this debt has benefited a select group of retirees that hold public-sector pensions, some 40,000 members of the “100,000 club” who will be living large off taxpayers, most of whom have far more meager funds, for decades to come. Ultimately, these obligations can be met either though vastly higher taxes or through sustained, broad based growth, which, among other things, would lower the demand for subsidies and other transfer payments.

Time for People To Take Back the State

The public has had limited recourse to challenge unrealistic state mandates that are often developed not in the open political environment of the state legislature, but by unelected bureaucracies like the California Air Resources Board. With its impacts on housing affordability, trucking, and any GHG-generating activity, the bureaucracy increasingly determines how Californians live and support themselves.

These policies ---exacerbated by unemployment and soaring budget deficits --- could incubate a potential popular rebellion by the state’s beleaguered middle and working-class communities. Policies designed to force densification, notes PPIC, remain highly unpopular in many of the remaining stable, middle-class, urban neighborhoods. As UCLA and London School of Economics Professor Michael Storper’s recent study shows, forced densification is a “blunt instrument” that works as “a mechanism of displacement.” Storper, along with Andrés Rodríguez-Pose (also of the London School of Economics) posits that blanket up-zoning, as densification advocates propose, would not bring substantial cost savings to the lower two-thirds of the market (which includes much of the middle-class).

Rather than an effort to create more housing that is affordable to both middle and lower-income households, recent attempts to force density in virtually every major metropolitan area really reflect, as former LA county supervisor Zev Yaroslavsky noted, real
estate speculation by Wall Street interests who seek to monetize properties while “eviscerating decades of planning,” not to mention local preference. Dissatisfaction with these and other state policies is becoming more widespread. In one 2016 survey, barely one in three Californians under 30 thought they would be better off than their parents. More Californians feel the state is headed in the wrong direction than the right one, according to a recent PPIC poll; a feeling that reaches above 55% of residents in the inland areas. Voters dislike the state legislature even more than they dislike President Trump.

There is also growing unease about the economy, which began even before the coronavirus outbreak. The consumer confidence of Californians hit a three-year low in 2019, while some other states, such as Texas and Michigan, saw small upswings. Even education, which traditionally has gained widespread support for new funding, has suffered setbacks. Both state and local attempts to raise more money have experienced difficulties, perhaps because a majority of Californians do not think the present system is working very well.

These opinions have not yet impinged on California’s political leaders, secure in our one-party state, even if their policies hurt the middle and working-classes. But increasingly more Californians realize we need to change direction if we wish to restore upward mobility, particularly for minorities, immigrants and the younger generation.

To maintain a middle-class, California needs to focus on those populations being left behind, including our inner cities, and our exurban and rural communities. This requires a new political activism, particularly in the inland areas and southern California. As one recent study demonstrates, the San Francisco metropolitan area, with 12% of the state population, has dominated housing policy, while representatives from places like the Inland Empire, the Central Valley and Orange County have been notably ineffective in getting legislation passed.

In the end, California’s promise can only be restored by developing policies that empower, not suppress, the aspirations of the middle-class. “Happy the nation whose people have not forgotten how to rebel,” noted British historian

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**DO YOU THINK THINGS IN CALIFORNIA ARE GENERALLY GOING IN THE RIGHT DIRECTION OR THE WRONG DIRECTION?**

<table>
<thead>
<tr>
<th>All adults</th>
<th>Right direction</th>
<th>Wrong direction</th>
<th>Don’t know</th>
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</thead>
<tbody>
<tr>
<td>46%</td>
<td>48%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Likely voters</td>
<td>41%</td>
<td>54%</td>
<td>5%</td>
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<td>Party</td>
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<tr>
<td>Democrats</td>
<td>61%</td>
<td>34%</td>
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<tr>
<td>Republicans</td>
<td>13%</td>
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<tr>
<td>Independents</td>
<td>39%</td>
<td>54%</td>
<td>6%</td>
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<td>Region</td>
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<tr>
<td>Central Valley</td>
<td>39%</td>
<td>54%</td>
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<td>Inland Empire</td>
<td>44%</td>
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<td>46%</td>
<td>4%</td>
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<tr>
<td>Orange/San Diego</td>
<td>45%</td>
<td>48%</td>
<td>8%</td>
</tr>
<tr>
<td>San Francisco Bay Area</td>
<td>47%</td>
<td>46%</td>
<td>7%</td>
</tr>
</tbody>
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Source: Californians & their Government, PPIC, September 2019
R.H. Tawney. It is a lesson that has been replicated throughout history, and now needs to extend to California.²²¹

Californians must counteract policies that have converted the state from an exemplar of opportunity and personal growth to a harbinger of a neo-feudalist society, dominated by a handful of wealthy people and a growing mass of serfs without hope of property ownership. Particularly in tough times, Californians can no longer afford those delusions of California’s leaders. These continue to exact real costs on the lives and livelihoods of our people, as anyone who travels this huge and diverse state can see. The time to change course is now.

To maintain a middle-class, California needs to focus on those populations being left behind, including our inner cities, and our exurban and rural communities.
END NOTES


5 Jonathan Lansner, “CEOs may hate California, but state’s ranked second-best for workers,” The Orange County Register, October 18, 2019, https://www.ocregister.com/2019/10/08/ceos-may-hate-california-but-states-ranked-second-best-for-workers/.


33 Kevin Starr, California: A History (New York: Modern Library, 2005), 244.


Derived from US Census Bureau estimates.


Derived from American Community Survey.

Lora Connolly, “California State Plan on Aging 2017-2021,” California Department of Aging, https://www.aging.ca.gov/download.ashx?lE0rcNUV0zbUy1iwYmWKng%3d%3d.


“College/Career Measures Reports & Data,” California Department of Educa-


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90 Ronald Stein, “The 5th Largest Economy in the World Delegates Its Environmental Stewardship to Others,” Eurasia Review, September 24, 2019, https://www.eurasiareview.com/24092019-the-5th-largest-economy-in-the-world-delegates-its-environmental-stewardship-to-others-oped/; (2017 data) Saudi oil imports make up 4.7% of total US oil use, and 15.7% of total California oil use. The US dependence on Persian Gulf oil is 17% of US imports, and 8.5% of all US oil. California’s dependence on the Persian Gulf oil is 44% of California imports, and 25% of California refined oil. So California’s 25% dependence on Persian Gulf oil is triple that of the US dependence at 8.5%. Source: eia.gov; The state’s


Patrick Burnson, ”West Coast port living large now, but can it last?” Logistics Management, January 15, 2019, https://www.logisticsmgmt.com/article/west_coast_port_living_large_now_but_can_it_last.


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137 “California, Greenhouse Gas Regulation, and Climate Change,” http://www.newgeography.com/files/California%20GHG%20Regulation%20Final.pdf; Richard Partington, “Britain now G7’s biggest net importer of CO2 emissions per capita, says ONS,” The Guardian, October 21, 2019, https://www.theguardian.com/uk-news/2019/oct/21/britain-is-g7s-biggest-net-importer-of-co2-emissions-per-capita-says-ons; In The Housing Crisis Act of 2019, the California legislature added Section 65589.5. (a) (1)(I) to the state Government Code which expressly found that “An additional consequence of the state’s cumulative housing shortage is a significant increase in greenhouse gas emissions caused by the displacement and redirection of populations to states with greater housing opportunities, particularly working- and middle-class households. California’s cumulative housing shortfall therefore has not only national but international environmental consequences.” Stats. 2019, ch. 654 (S.B. 330).


156 Derived from American Community Survey.


165 Derived from US Department of Agriculture data.


From Bakersfield focus group, Dec. 12, 2019.


Scott Wilson, “Bakersfield, once the butt of jokes, is booming. So are many other inland California cities,” Washington Post, July 22, 2018, https://www.washingtonpost.com/gdpr-consent/?next_url=https%3a%2f%2fwww.washingtonpost.com%2fnation-


“Morning Consult’s Governor Approval Ratings,” Morning Consult, 2019, https://morningconsult.com/governor-rankings-q2-19/;


Ibid.

Ibid.

American Community Survey, U.S. Census.


Ibid.


Design Notes

Beyond Feudalism: A Policy To Restore California's Middle-Class and the graphics utilize the following:

To achieve visual harmony a modified version of the grid Jan Tschichold conceived for his book Typography was employed.

MINION PRO Chapman's serif family, is a digital typeface designed by Robert Slimbach in 1990 for Adobe Systems. The name comes from the traditional naming system for type sizes, in which minion is between nonpareil and brevier. It is inspired by late Renaissance-era type.

FUTURA is Chapman's sans serif family. Designed by Paul Renner and released in 1927. It was designed as a contribution on the New Frankfurt-project. It is based on geometric shapes, especially the circle, similar in spirit to the Bauhaus design style of the period.

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