

# The Golden State Action Plan

# 2010



U.S. Chamber of Commerce  
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# The Golden State Action Plan 2010

## INTRODUCTION: A STATE ON THE EDGE

It was not long ago that when Americans wanted a glimpse of the future, they would look west to California. From Hollywood to Silicon Valley to the burgeoning communities of the Inland Empire and the Central Valley, California was a dynamic mix of innovation, growth, and opportunity. One of the 10 largest economies in the world and home to nearly one in eight Americans, California was a land where you could build a rewarding career, enjoy a superior quality of life, and achieve the American Dream.

Yet today California is in trouble. One has to think all the way back to the early 1980s—nearly 30 years ago—to find the state in as big a mess as it is now. The dream is not over, but it has been badly tarnished.

When we look at California today, we see an unemployment rate of 12.3% (the third highest in the nation) and a business environment that is dominated by taxes, regulations, and lawsuits. We see a \$19 billion state budget deficit—a monument to the state government's inability to control spending or resist pressure from special interest groups. According to the Pacific Research Institute, Sacramento spends 18.3 cents out of every dollar generated in California.

For those who would argue that the deficit is a result of not taxing enough, think again. California has the nation's highest general sales tax, the fourth highest income tax, and the ninth highest corporate tax. Moreover, in 2009, at the depth of the recession, residents were socked with the largest state tax increase in history. It was portrayed as necessary to balance the budget. However, it further dampened economic activity and contributed to more job losses, less revenue for the state, and another massive deficit.

It's clearly time for a different approach.

Roughly 40% of the state's general fund is earmarked for K–12 education. While no one would argue education's importance, taxpayer dollars are not being well spent and too few of these dollars are making it into the classroom. In a 2007 evaluation of state education systems conducted by the U.S. Chamber of Commerce, California received an F for student achievement. The state's inability to educate and train a skilled workforce is a major impediment to business expansion and job creation.

Another obstacle to turning California around is the tremendous political power of the state's government employee unions. By combining millions of dollars in campaign contributions with bare-knuckled political tactics, these unions have an outsized influence on elections, legislation, and policy. They have used this influence to force the state, localities, and school districts into long-term pension and health care obligations that are simply unsustainable and grossly unfair to California's private sector workers whose jobs are at risk and whose benefits are being cut back. If left unreformed, these obligations will bankrupt the Golden State.

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The best solution to California's economic woes is a simple one—economic growth. But to stimulate the economy and spur job creation, the state will need a new direction. Policies at the state and federal levels must be dramatically changed in order to revitalize the California economy before competitor states and nations steal away more of its businesses, investors, and jobs.

Californians must seize the opportunity to reject the failed agenda of more taxes, more spending, and more regulations. Instead, they should embrace a free enterprise agenda that will give businesses the conditions they need to grow, hire new workers, drive community development, and produce greater

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tax revenues to fund essential programs. In a fiercely competitive global economy, there is no time left to lose.

To give Californians the information they need to make informed decisions, the U.S. Chamber has begun a major issue education and advocacy program to improve California's business and jobs climate. This program will feature televi-

sion, radio, and Internet messages; a website ([www.uschamber.com/ca](http://www.uschamber.com/ca)); and an e-mail community that exchanges information on economic developments and policy choices impacting California.

This *Golden State Action Plan* documents California's growing crisis and identifies the core competitive challenges that the state must address to step back from the edge of the cliff, recover, and build for the future. We urge all Californians and businesses everywhere to press state and federal officials to implement these ideas without delay.

Nearly all of the U.S. Chamber's members, whether they live in the state or elsewhere, love California. They understand its national importance, its strategic position on the global stage, and its unique hold on the American mind. Yet they are deeply troubled by the state's accelerating spiral into deficits, debt, unfunded pension obligations, as well as spending, taxes, and regulations that are out of control. America's job creators want a good reason to invest, expand, and create jobs in California, but they don't see enough of a reason today.

California's fiscal and economic recovery is important to every American. Our nation cannot fully recover unless and until California does. It's time to turn the Golden State around and once again make it a model of progress for the rest of the country—and the world—to follow.

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## **OVERVIEW: THE JOBS IMPERATIVE AND THE BARRIERS TO SUCCESS**

According to an economic study directed by the U.S. Chamber's Campaign for Free Enterprise, California will need to create 4,112,746 jobs over the next 10 years in order to reemploy workers who lost their jobs in the recent recession while accommodating new entrants into the workforce. No challenge facing the Golden State is more compelling than the need to create these jobs.

## **No challenge facing the Golden State is more compelling than the need to create jobs.**

Regrettably, the state has been moving backward not forward. A July 2010 analysis by Portfolio.com found that from 2005 to 2010, California ranked 50th among the states and the District of Columbia in terms of job losses. Only neighboring Nevada has fared worse. The state-wide unemployment rate stands at 12.3%, the third highest in the nation and nearly 3 points higher than the national rate of 9.5%. Twenty of California's 58 counties have unemployment rates greater than 15%.

History shows, and common sense tells us, that only the private sector, not the government, can create and sustain this level of employment. This can only happen if California can accelerate its lackluster rate of growth and successfully compete with other states and nations for investments and business expansion.

Simply raising taxes and increasing government spending and borrowing will only add to California's existing competitive disadvantages. Business costs and employer mandates already outstrip those of neighboring states and even other megastates like Texas—not to mention those in other countries. In a competitive global economy where money, jobs, innovation, and production can move in a flash, California cannot afford to add appreciably to these burdens.

Such burdens have already overwhelmed many job-creating businesses. According to various third-party reports, California has one of the 10 heaviest tax burdens in America, the fifth worst legal system, and earned a grade of F on student achievement in K–12 schools.

Even Hollywood is hurting. A July 2010 study sponsored by the Milken Institute's California Center found that the state lost 36,000 jobs, \$2.4 billion in wages, and \$4.2 billion in total economic output due to film industry flight to other locations. The disincentives that are driving this signature California industry elsewhere are reflected throughout the state's economy and other industries. Meanwhile, the accumulation of fees, permit requirements, environmental impact studies, mitigation expenses, regulatory restrictions—combined with still-declining home prices and soft demand—have pushed full recovery in the building and real estate sectors off into the distant future.

If California is to recover and put its residents back to work, there must be a serious and sustained effort by local, state, and national leaders to remove the impediments to private sector growth.

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### **A GROWTH AND JOBS AGENDA—THE NATIONAL PERSPECTIVE**

California's economy and that of the nation as a whole are interdependent. Neither can fully prosper without the other. With 2 senators and 53 representatives in Congress, the state has a huge influence on the national policies that can help California grow and create jobs. Unfortunately, national policymakers have created an environment that suppresses growth, discourages job

creation, and threatens a double-dip recession. The citizens of California and those who represent them *must* turn this situation around.

Uncertainty is the enemy of growth, investment, and job creation. Through their legislative and regulatory proposals—some passed, some pending, and others simply talked about—the congressional majority and the administration have created an economic environment that is fundamentally incompatible with our desire to expand investment and create jobs. This is why banks are reluctant to lend and American corporations are sitting on well over a trillion dollars in idle capital. It is why California's small businesses and entrepreneurs, the engines of innovation and job creation, are starving for capital and are either struggling to survive or unable to expand.

America's global competitive position is eroding as other nations take steps to cut taxes, reduce regulations, and restrain the appetites of government. Some are making serious headway in efforts to upgrade the skills of their students and workers, while we have yet to do so. As a result, the known and unknown costs that come with expanding operations and adding to payrolls in California and the rest of the country are simply too high.

Who in our government in Washington or Sacramento today recognizes that every bill—proposed, considered, or passed—is a “jobs bill”? Government can either help the private sector create jobs or it can help drive jobs away. No matter how well intentioned or politically popular a proposed law or regulation appears to be, the question must always be asked: What will the impact be on jobs? We fear that this consideration is routinely ignored in the halls of our government today.

It's time for some different approaches to unlock frozen capital and jolt our economy back to life.

**Create a Growth and Jobs Tax Policy**—Congress has already raised taxes by almost \$700 billion to pay for health care, stimulus, and other programs. Proposals in the capital markets, energy, and climate change arenas would raise trillions more. On top of all this, just five months from now

Americans will be hit with the largest tax increase in history in precisely those areas that would have the greatest negative effect on investment and jobs—individual tax rates, capital gains tax rates, the death tax, and the alternative minimum tax.

There are strongly held views about which of the 2001 and 2003 tax cuts should be extended. Yet the “facts on the ground” must take precedence. California's precariously weak economy—especially the all-important small business sector—simply cannot sustain such massive tax hikes at this time. Congress and the administration should immediately support at least a temporary extension of *all* the tax relief passed in the prior decade. In one bold, swift move, this would substantially boost investor, business, and consumer confidence and infuse the California and national economies with fresh momentum.

**Restore Fiscal Health**—Meanwhile, spending is going through the roof and deficits right along with it. On its current course, federal government debt will rise from nearly 41% of GDP in FY2008 to 63% in FY2010 to 90% in 2020. By crowding out available capital for business expansion and eventually triggering major increases in interest rates and inflation, rising deficits and debt add to uncertainty, inhibit growth, and smother job creation.

No one we know of has a full or easy answer to America's debt crisis. But we know that mandatory spending, especially in entitlements, is the primary culprit and the situation will only get worse with the aging of the population. Rather than expanding entitlements, as the administration and Congress have been doing, we must both restrain and modernize those programs without further delay.

We also know that without sustained economic growth, we can *never* restore our nation to fiscal health. A growing economy produces more government revenues, which can substantially reduce the deficit—if and only if these revenues are accompanied by serious spending restraint.

Still, our fiscal hole is so deep that we will also need to generate additional revenues. Our policy

challenge is to do so in ways that do not undermine economic growth or competitiveness. For example, there are numerous domestic oil, gas, and shale leases that are currently inactive. Some estimates say they could generate as much as \$1.7 trillion worth of royalties over the next 10 years. Tapping these reserves would create direct federal revenues, result in payments to states like California, and support hundreds of thousands of jobs.

Furthermore, more than 80% of national forest lands are currently closed to timber harvesting. Opening these lands would generate direct use fees as well as thousands of jobs and add billions of dollars to the national and state tax bases. Such initiatives must be undertaken with full and, where necessary, improved environmental safeguards and sound resource management. Embarking on this path would create growth, jobs, and tax revenues while also boosting our nation's energy security.

**Expand Trade and Export-Driven Jobs**—The president has said that millions of American jobs can be created by doubling U.S. exports in five years. Many of these jobs would be created in California. If Congress really cares about creating jobs, it will pass pending free trade agreements with Colombia, Panama, and South Korea *now*. Failure to act quickly will cost more than the potential of *new* jobs—Americans will actually lose at least 380,000 *existing* jobs to our competitors in the EU and Canada, which will very soon implement free trade arrangements in these markets.

We should not stop there. American leadership is needed to revive the Doha Development Round, which would expand the economy worldwide and open new markets to our exports. The president should be given fast-track trade promotion authority, and he should use it vigorously to strike additional bilateral and regional trade and investment deals that open foreign markets and boost U.S. exports and jobs.

America's intellectual property, so critical to California's technology and entertainment industries, must be better protected at home and abroad. Export control rules should be

immediately revised to allow our manufacturers to sell high-tech and other products to customers that can already acquire them from our competitors.

**Rebuild and Expand America's Infrastructure**—Millions of jobs, as well as our global competitiveness and quality of life, depend on modernizing all forms of the American infrastructure, including surface and air transport, ports, inland waterways, water and power generation facilities, and broadband communications. With its legendary traffic jams, overburdened power grid, and insufficient water storage and transfer systems, California's infrastructure, especially, needs major work.

Much of this important work can be done with *private* investment, but government at all levels must first remove the regulatory, legal, and financial roadblocks. For example, if America's transportation and water infrastructure were fully open to private investment, the \$180 billion available today in private capital could generate more than 1.5 million jobs over 10 years.

Incentives and legal surety for investment in clean coal technologies, carbon capture systems, renewable energy projects, and a massive expansion of nuclear power would also create hundreds of thousands of jobs at all skill levels while helping address environmental challenges.

Congress must also quickly pass a multiyear, federal surface transportation bill. According to the U.S. Department of Transportation, each \$1 billion in federal highway investment accompanied by the required 20% state match supports nearly 35,000 jobs, with similar figures for public transportation capital investment.

**Ease the Regulatory Burden**—There must be a recognition by the administration and Congress that the regulatory burden they have imposed on the U.S. economy has reached a tipping point. Unless the cumulative impact of existing regulations, newly mandated regulations, and proposed regulations is seriously addressed, the economy will not create the jobs Americans need. We will lose even more jobs. They will simply disappear or be sent offshore.

In recent months, the House passed a climate change bill that would create some 1,200 new regulations and mandates and carry a price tag of well over a trillion dollars. The Senate is considering similar legislation. The Environmental Protection Agency is moving forward with 30 major economic rules and 172 major policy rules, an unprecedented level of regulatory action. The Labor Department is considering dozens of new, restrictive workplace policies, while the newly appointed National Labor Relations Board is expected to make sweeping changes governing every facet of union-management relations.

The new financial regulatory reform legislation creates well over 500 regulatory rulemakings—dwarfing anything in Sarbanes-Oxley. The 2,500-page health care bill, with its unprecedented and confusing employer mandate and hundreds of billions of dollars in business taxes, will require thousands of pages of new regulations to be followed by individuals, businesses, health care industry providers, and the states.

You can find in these numbers a principal reason why businesses are so reluctant to make investments and create jobs. These new burdens fall most heavily on new and small businesses and on entrepreneurs—our real job creators in a growing economy. With full input from employers, the administration and Congress must address this regulatory avalanche with a mix of commonsense rule writing, regulatory restraint regarding new proposals, and corrective changes in laws and mandates that have yet to take effect. California's federal officials must lead the way.

## **A GROWTH AND JOBS AGENDA— THE STATE PERSPECTIVE**

A new policy direction at the federal level will go a long way toward improving conditions in California. Tax and spending restraint, regulatory and legal reform, and aggressive actions to expand trade, develop domestic energy, and improve the infrastructure will unleash business expansion and job creation in California and across the nation.

But Californians must also recognize that they

are competing with other states for capital and jobs. Job creators can pick and choose. To recover economically, California must therefore take actions at the state level that address homegrown problems and seize distinctive opportunities. California's state leaders must address the following challenges and opportunities without delay:

### **Make Sacramento Live Within Its Means—**

California is a state in crisis. With a projected budget deficit of \$19.1 billion dollars just this year alone—more than \$500 for every man, woman, and child in the Golden State—the fiscal situation is dire. And while the Great Recession has contributed to California's poor finances, this state of affairs was not inevitable. Rather, it is the product of years of tax-and-spend policies that put a special emphasis on spending.

Make no mistake—there are critical government services such as schools, fire and police, and a social safety net that deserve public support. The problem is that Sacramento can't stop itself from pushing ever further.

Budget analysts can document that per capita spending growth in California has been easily outstripping population growth over the last decade. You would be hard pressed to find many Californians who believe that the quality of services they receive from the state government has similarly increased during this period.

Rampant increases in spending have been exacerbated by ongoing government gridlock in the state capitol. Since 1979, the budget has been passed an average of 24 days late, according to the *Sacramento Bee*. A family or a business couldn't behave like this—they would go bankrupt. But since this isn't an option for a state, the situation continues to worsen. As the *Los Angeles Times* noted in late May, "California's already worst-in-the-nation credit rating has plummeted."

Resolving the state's massive deficit—the equivalent to more than 20% of the state's general fund—will take genuine spending reductions and enforceable discipline to ensure that surpluses piled up during good times aren't simply squandered on new program obligations. Mandatory

spending programs, mandatory budget allocations, public employee pension systems, and a steeply progressive tax system must all be reexamined and reformed.

IOUs, poor credit ratings, massive deficits—these don't belong in a Hollywood ending. But the California Dream will not be restored until Sacramento finds the will—and the leadership—to live within its means.

**Reform the California Legal System**—One of the clearest ways for Sacramento to send a message to companies that California is open for business and job creation is by reforming the out-of-control legal culture that dominates the state. Until this is accomplished, any company—large or small—will think twice before expanding into the Golden State. But that's not all—existing businesses may follow in the footsteps of their competitors and leave the state for other jurisdictions that offer lower taxes, fewer regulations, and a legal culture that doesn't put what's best for trial lawyers ahead of what's best for citizens.

A national survey conducted for the U.S. Chamber Institute for Legal Reform underscores the urgent need for reform. California was ranked as having the fifth worst legal system in the country, trailing only West Virginia, Louisiana, Mississippi, and Alabama. Among local jurisdictions, Los Angeles courts ranked second worst in the nation for legal fairness, and San Francisco courts ranked sixth worst. If lawmakers don't think this matters, they should think again. As part of the same survey, two-thirds of the 1,482 corporate lawyers contacted said that a state's lawsuit environment is likely to impact important business decisions at their companies—such as where to locate or expand.

It is critically important that Sacramento understands the link between the legal environment and economic development. The executive branch, legislators, and all officers of the court must embrace and help advance a new legal culture—opposing efforts to legislate through litigation; encouraging a system where lawsuits are the last resort, not the first; tightening enforcement to stop fraudulent findings; and guarding against potential conflicts of interest and self-interest

when government prosecutors hire outside counsel or when they and special interest groups seek settlement proceeds to fund their operations.

As the most economically important state in the nation, California sets trends for the rest of the country. From taxation to regulation to innovation, when it happens in California, the rest of America takes notice. That's why it's of great concern when out-of-state attorneys flock to California to benefit from the state judiciary's favorable rules toward asbestos lawsuits or when more than four class action lawsuits are filed every day that California superior courts are in session.

Two cases in particular have risen to the forefront of business concern. The first is *Brinker Restaurant v. Hornbaum*, in which the California Supreme Court may require employers to affirmatively ensure that their employees take their meal and rest breaks. The second is *County of Santa Clara v. Atlantic Richfield*. Unfortunately, on July 26, the Court issued a ruling in the latter case allowing government entities to partner with private lawyers in contingency fee lawsuits. This decision will do nothing but result in more litigation, further burdening the state's ability to create jobs and emerge from its worst economic mess since the early 1980s.

State residents need a legal system that punishes actual wrongdoing, without punishing businesses that are playing by the rules. Jobs won't come back to California as long as businesses are afraid to open their doors for fear that they will be sued. The common good must finally be raised above the needs of the trial lawyers and their allies in the Legislature and the California Department of Justice.

**Rein in High Taxes and Overregulation**—In our free enterprise system, the private sector takes risks, develops innovations, and drives the economic growth that creates jobs, funds education, and pays for a strong defense. The private sector also provides resources to help the poor and protect the environment. These activities should be reasonably regulated and sensibly taxed.

There are, of course, competing voices in society that oppose, don't recognize, or don't understand

the critical importance of the free enterprise system and the imperative of economic growth to a competitive and prosperous America. California is home to more than its fair share of these voices.

In the Golden State, the urge to regulate is strong. The compulsion to tax and spend, and then tax some more, is great. The practice of passing hundreds, even thousands of bills during each legislative session—many of them clearly solutions in search of problems—continues year after year.

California citizens and businesses are clearly overtaxed. From a top personal income tax rate of 10.55% (the fourth highest in the nation), to a corporate tax rate of 8.84% (only eight states tax companies more), to a sales tax rate of 8.25% (the highest), Californians are asked to pay at every turn. In fact, a Pacific Research Institute study ranked California sixth worst in the nation in terms of its overall tax burden.

What's the impact of all these taxes? There's less money available for families to buy a home, send a child to college, or invest for retirement. Additionally, businesses have less capital available to open a new store, purchase equipment, or hire more workers. And when these businesses look at side-by-side state comparisons of taxes, land costs, and energy and water rates, it is clear that California is pricing itself out of the job-creation market.

Along with draconian tax rates, California businesses must also contend with a regulatory climate that is among the most burdensome in the nation. A 2004 study conducted by the California Business Roundtable discovered that it costs a business 30% more to operate in California than in the average western state. This is one reason why 85 businesses have fully or partially left California this year.

Business planners have noted that the complexity of state and local regulatory requirements in California often mean lengthy delays in permitting and approvals—a powerful disincentive to business expansion and job creation.

How far do Sacramento-driven regulations go? Right into your living room. In November 2009, the California Energy Commission approved

regulations governing energy efficiency standards for your TV, which will result in some models being removed from store shelves.

Implementation of AB32, California's go-it-alone cap-and-trade legislation to cut CO<sub>2</sub> emissions, comes at an unfortunate time for the state's workers and families. It could drive more jobs out of California, raise energy prices, and, since neither national nor international strategies have yet been implemented, would do nothing to address climate change. California should consider significant adjustments in its implementation, at least until the economy has recovered.

Taken together, the rules, regulations, and red tape coming out of the state capitol are sending a message to business: Keep away! Business owners have enough to worry about with meeting payroll and keeping the lights on. By adding burdensome and unnecessary regulations on top of this, business owners may make the decision to set up shop elsewhere—to the detriment of local communities and job creation.

**Reform Public Pensions and Stand up to Government Unions**—One of the biggest challenges facing California today is the cozy relationship that public-sector unions—including police, teachers, and members of the Service Employees International Union (SEIU)—have with elected officials in Sacramento. At a time when their fellow citizens are tightening their belts, these government unions are demanding more.

Simply consider the salary and benefits that some state employees receive, and you'll see that so-called public servants are, in fact, being served by hardworking taxpayers. According to U.S. Census Bureau data from 2007, a state employee's average annual salary was almost 32% higher than that of the average worker in the private sector. And there's no evidence to suggest that state employees are 32% more productive!

But it gets worse—the Reason Foundation says that retirement benefits have become so lavish that there “are 9,111 state and local government retirees in California, such as police officers, firefighters, and prison guards, who receive pensions

of at least \$100,000 a year ... and an additional 3,065 retired teachers and school administrators who receive pensions over \$100,000 a year.” It’s a similar story with health benefits—retirees have up to 100% of their costs covered, and their families are covered to the tune of 90%.

Retiree benefits will continue to take a serious toll on the state’s bottom line. According to a Stanford University study, state employee pension funds are underfunded by more than \$500 billion. Don’t be surprised if union leaders try to put the taxpayers on the hook for this massive shortfall in the coming years.

So how did the government employee unions achieve such complete dominance in Sacramento? The answer is quite simple—by playing a brand of hardball politics that blends millions of dollars in political spending with a willingness to punish opponents. In one particularly telling incident, an SEIU official publicly remarked to legislators, “We helped to get you into office, and we got a good memory. ... Come November, if you don’t back our program, we’ll get you out of office.” Behavior like this is, sadly, more the norm than the exception.

Golden State residents deserve better—they deserve a government that is accountable to them, not to the big-spending government union bosses. It’s outrageous for these labor groups to ask taxpayers to pick up the tab for their gold-plated benefits as California private sector workers lose their own jobs, health care, and pensions. It’s time to implement a series of reforms to restore balance to union-management relationships at the state and local levels. Until this happens, taxes, deficits, and debt will continue to go up, and jobs and economic growth will continue to decline.

**Produce California Energy, Water, and Power**—California is a national leader in the energy industry. The state ranks third in oil production, third in refining capacity, and leads the nation in the production of non-hydroelectric renewable energy, according to the U.S. Energy Information Administration.

But even for this bounty of natural resources, Californians know there are problems. High

energy prices—caused by environmental regulations, insufficient transmission capacity, and challenges posed by electricity deregulation in the late 1990s—continue to plague the state. Both gasoline prices and residential electricity rates are considerably higher than the national average.

State residents have made great strides on energy efficiency, but efficiency alone won’t be enough. It’s time for the state to go “all in” on energy production—including a redoubled commitment to renewable energy. With U.S. energy demand expected to grow by as much as 30% by 2035, our country will need all the energy that we can get. California also needs more transmission capacity to bring this energy to consumers.

All Californians should visit the U.S. Chamber’s ProjectNoProject website, [pnp.uschamber.com](http://pnp.uschamber.com), where they will find 31 important state projects, including wind and other renewable energies, now stymied by legal, regulatory, and Not-In-My-Backyard resistance. If California is serious about leading the world in clean energy, it must clear away the roadblocks.

California also faces a looming water crisis. Water emergencies are not new to the state. But today, due to poor and unreasonable decision making by federal and state officials, many communities are starved for this vital resource. In California’s Central Valley, water shipments were shut off in order to protect a 3-inch fish called the Delta Smelt. As a result, farms shut down, businesses were closed, thousands of jobs were lost, and unemployment in some Central Valley communities is approaching a devastating 40%.

**Rebuild California’s Infrastructure**—California faces similar challenges and opportunities when it comes to infrastructure. The state’s core infrastructure systems were designed to handle less than half of the population that uses it today. Chronic underinvestment has left California with some of the worst traffic congestion in the country, deteriorating highways and bridges, and inadequate water infrastructure.

In addition to diminishing the quality of life for Californians, inadequate infrastructure also takes

an economic toll. Businesses depend on being able to move goods and people expeditiously both within and beyond California's borders. If trucks full of goods are stuck on the highway for hours on end, companies will start looking for other places to do business. This will exacerbate the job losses that the state is currently experiencing.

It's time for Sacramento to reconsider the misguided regulations that slow or stop the development of a modern infrastructure system. In addition, lawmakers must further open the door to public-private partnerships that will unlock billions of dollars of private investment to support infrastructure development. With taxpayers already stretched to the breaking point, every option must be on the table.

A January 2010 report by the state's respected Little Hoover Commission underscored this challenge in the following conclusion:

The way California currently spends its infrastructure dollars lacks a long-term vision and a systematic process for prioritizing projects. The administration and the Legislature have not adequately coordinated departments' activities and their dozens of programs. With the current fiscal crisis only deepening, California's pattern of borrowing money through general obligation bonds and repaying debt through the General Fund to pay for infrastructure investments will force further spending cuts in healthcare, social services, education, and public safety programs. To deliver on its golden promise, California must think harder and spend smarter on the roads, bridges, levees, schools, prisons and canals it builds. And it must take better care of its assets so that they continue to serve the Californians of tomorrow.

Modernizing California's infrastructure will create jobs, clean the air, save lives, and ensure that the state remains globally competitive. Much of the needed investment and know-how can be found in the private sector. Serious efforts to clear away the roadblocks are needed now.

**Expand California Trade**—International trade also offers tremendous potential for job creation. California is already a national leader, exporting more goods than every other state except Texas. This isn't just good for the state's bottom line—it's

also good for California families. In 2008, trade supported nearly 1.1 million manufacturing jobs and more than 157,000 agricultural jobs, while bringing nearly \$159 billion into the state.

It's just not goods and services, however, that make California an international trade leader—it's the business of trade itself. California's ports are some of the busiest in the world and provide good American jobs. But these jobs—and the flow of commerce across California's borders—are by no means guaranteed. Like the rest of California's infrastructure, the Golden State's trade infrastructure is insufficient for the modern economy.

Unless lawmakers take steps to expand ports, improve intermodal transportation hubs, and improve roads and highways, trade may flow elsewhere. California officials at all levels should be leading the charge to convince the administration and Congress to chart a bold, forward-looking trade expansion policy—something we don't have today.

**Educate and Train a Superior Workforce**—If national and global businesses aren't sure that they can find a quality workforce in California, they won't come. Even worse, they will be forced to take existing jobs and businesses and move them elsewhere.

The problems facing many California public schools have been well documented. The bottom line is stark. According to the California Superintendent of Public Instruction, the high school graduation rate is just 68.1%, including GED certificates. Employers report that many high school and college graduates arrive at work poorly trained and in need of costly remedial education. As mentioned earlier, in a 2007 evaluation of state education systems conducted by the U.S. Chamber of Commerce, California received an F for student achievement.

Reform efforts to date have nibbled around the edges of the problem but have not substantially addressed failing schools, poorly performing teachers, soft standards, or the critical need for greater parental involvement and decision making in their children's schooling. This comes

despite the fact that funding per pupil has significantly increased over the last 10 years.

California's inability to educate and train a skilled workforce is a major impediment to business expansion and job creation. Courageous leadership that challenges the status quo in the education establishment is urgently needed.

## **CONCLUSION: CALIFORNIA AT A CROSSROADS**

We acknowledge that this report has been tough. But it is also realistic. California is facing its most foreboding set of challenges in 30 years, and swift action is needed to prevent the state from rushing headlong into an economic death spiral.

Yet alongside all its many challenges, California possesses enormous strengths and advantages: a massive consumer market, energetic and creative people, a diverse economy that is not overreliant on any one industry, a strategic location in the burgeoning Asia-Pacific region, and a quality of life that still surpasses most other places. To tap this enormous potential, California needs strong citizen involvement and enlightened leaders at all levels of government who believe in free enterprise principles and who understand what it's going

to take to create private sector jobs and turn California around.

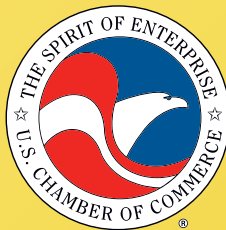
The bottom line is that California can only meet its many pressing needs with economic growth. There is no other way. There are not enough taxes to raise, budgets to hike, mandates to impose, and debt to incur to meet these challenges without dealing a devastating blow to the California business sector, its employees, and their families. That course has been tried in the past, and it has failed.

The U.S. Chamber of Commerce invites all residents and leaders of this great state to join with us and the American business community to put California back on a path of growth, jobs, prosperity, and dreams.



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U.S. Chamber of Commerce  
1615 H Street, NW  
Washington, DC 20062-2000  
[www.uschamber.com/ca](http://www.uschamber.com/ca)