



The California Business Roundtable "Competitiveness Project": Myth and Fact

A new study prepared by Bain & Company for the California Business Roundtable (CBRT) reported, "100 percent of senior executives interviewed view the business climate in California unfavorably." Not surprisingly, such findings were widely reported by the media. However, a closer examination of the report's findings tell a somewhat different story:

- **The study was based on a limited number of interviews that were not random and were not intended to be statistically representative of California businesses as a whole.** While the press release announcing the study stated, "New Study Finds Nearly 40 Percent of California Companies Plan to Move Jobs Out of State," the CBRT study was based on a survey of just 50 executives that was not intended to be representative of California firms as a whole. According to a researcher involved in the study, there was "no randomizing at all." In contrast, over 500,000 businesses filed California corporate income returns in 2001. In other words, survey respondents represented less than 0.01 percent of California's corporations.
- **The report cites data in a manner designed to cast California's economic performance in the worst possible light.** For example, the report states "California's economic growth has been below average for many years." In fact, between 1989 and 2001, the growth in California's Gross State Product (GSP) was relatively similar to that of the US, with California GSP rising 82.8 percent versus an 87.3 percent increase for the US.¹ Moreover, the percentage increase in California's GSP exceeded that of the US in eight of the most recent 15 years for which data are available. California's growth rate surpassed that of the US for four of the five most recent years for which data are available. Finally, between 1990 and 2001, California's average annual growth in GSP was nearly identical to that of the US, 5.2 percent versus 5.4 percent for the nation as a whole.
- **The study does not attempt to quantify the cost of regulatory changes or assess whether these changes could have a positive impact on the economy.** The press release announcing the study notes, "California enacted 15 statutory changes to labor law *per year* between 1992 and 2002. This rate is four times the average for all states over that same period." Such a statement does not measure the significance of enacted changes or their impact on business.
- **The study cites data that do not exist.** The study cites data showing a decline in Motion Picture Production Days and Expenditures in California since 1997. However, according to a report in the *Los Angeles Times*, the organization cited as the source of the data says that no statewide data exists. According to the *Times*, "They say no one has ever

¹ US Department of Commerce, Bureau of Economic Analysis, *Gross State Product*, downloaded from <http://www.bea.doc.gov/bea/regional/gsp/> on March 30, 2004.

collected statewide statistics on production days. In fact, they recently received a \$750,000 government grant to try to compile precisely such a database for the very first time... Further undermining Bain's conclusion, the firm used only the EIDC's figures for feature films, conveniently ignoring the explosion in local TV production. Then there's this wrinkle: Since 1999, overall production has actually *increased*.”²

- **The study's findings are inconsistent with other research.** The CBRT study states that California's taxes are 19 percent above the Western State Average.³ A recent study by the Utah State Tax Commission concluded that California's business taxes measured as a share of Gross State Product were 5.1 percent **below** the average of the seven western states in 2002-03.⁴ Unlike the CBRT study, the Utah study provides detailed raw data for each state examined and a description of the methodology used to obtain the results. The Utah State Tax Commission has published similar, widely respected studies for a number of years. While the Utah study does find that California's combined household and business tax burden is slightly higher than the Western States' average, the study finds that by this measure, California's tax burden is 6.1 percent higher, not the 19 percent claimed in the CBRT report.
- **Some of the reports' findings make no sense or are inconsistent with publicly available data.** One slide claims "Californians' income growth advantage has eroded over the past 20 years." In fact, California's average annual growth in per capita personal income (the indicator cited in the CBRT report) lagged the US during the 1990s, but surpassed that of the US between 2000 and 2002. Between 1990 and 2000, per capita personal income increased at an average annual rate of 4.4 percent in the US, but at a rate of 4.1 percent in California. Between 2000 and 2002, growth averaged 3.4 percent in the US and 3.5 percent in California.⁵
- **The study cites Texas as a major competitor for California's jobs, when, in fact, California's job performance has surpassed that of Texas.** The report identifies Texas as the largest single destination for jobs relocated out of California. No publicly available data can dispute this claim. However, since 1998, California's job performance has surpassed that of Texas with respect to percentage change in total employment (6.0 percent to 4.8 percent) and percentage change in goods producing jobs (California's employment has fallen by 5.7 percent, while Texas' employment has declined by 8.3 percent).⁶
- **The estimates of the cost of regulation are based on national, rather than state specific data and are based on secondary sources, rather than new research.** The study reports that California's regulatory costs are substantially higher than those in other states. However, a researcher involved with the study states that the cost estimates are based

² Michael Hiltzik, "Analysis of Filming Data Reads More Like Fiction," *Los Angeles Times* (March 15, 2004).

³ California Business Roundtable, California Competitiveness Project, *Assessment of California Competitiveness* (February 2004).

⁴ Douglas Aird Macdonald, *Western States' Tax Burdens Fiscal Year 2002-03: Initial State and Local Tax Burdens for Selected Western States* (Utah State Tax Commission: Revised February 3, 2004).

⁵ US Department of Commerce, Bureau of Economic Analysis, *Per Capita Personal Income*, downloaded from <http://www.bea.doc.gov/bea/regional/spi/> on March 31, 2004.

⁶ US Department of Labor, Bureau of Labor Statistics, *Average Annual Employment*, downloaded from <http://www.bls.gov/data/> on March 29, 2004.

on national data, rather than state-specific data. The researcher noted that upwards of half of the costs identified relate to environmental regulations. Moreover, the CBRT report does not cite sources for the original studies from which the findings are drawn and does not specifically identify the factors that lead to increased costs. As a result, it is impossible to determine whether costs are double counted or whether the findings of the studies used in the CBRT report are based on sound research.

- **Many of the headlines are based on limited comparisons.** For example, one of the headlines of the survey excerpt released to the public said, “California approvals take longer.” Yet, the comparison of preliminary project approval compared California to just two other states: Texas and Arizona.