

## Stifling Business

---

Published on [Thursday, July 22, 2004](#)

---

Thanks to Gov. Arnold Schwarzenegger and many state lawmakers, California has taken some decisive first steps to get its fiscal house back in order. Voters approved the \$15 billion bond debt (those bonds have sold well in the market) and they approved a balanced-budget requirement. Fortunately, the state's economy has revived just in the nick of time, which means increased state tax revenue. California's international trade is picking up, tourism is reviving, hotel occupancy rates are up. High-tech has come back to life in the Bay Area. Southern California's economy has held up reasonably well during the national recession because of its incredible diversity and small-business base.

We are, however, not out of the woods yet. The numbers still don't add up for state government. California still has a structural deficit of close to \$1 billion a month for the fiscal year that began this month. More cuts have to be made in state spending to balance the budget. Meanwhile, other western states continue to try to lure employer after employer and job after job from us. Let me briefly summarize what's wrong with our state's business climate.

I believe what's wrong is that many of California's economic policies have less in common with entrepreneurial, free-enterprise America than they do with certain over-regulated, European entitlement nations. California's overall tax burden, measured by share of personal income, is the fourth highest in the nation. State and local taxes are eighth highest. A recent study ranks California's tax climate 49th worst in the nation. According to a study by Bain and Company, the cost of doing business in California is 30 percent higher than other western states. The cost of workers' compensation is 300 to 500 times higher than many of the other states in which our company does business. The cost of regulation here is 105 percent higher, even excluding the cost of much longer approval processes and the uncertainty of even getting approval.

This makes it very difficult for Wells Fargo and other California companies to grow in their own home state. This anti-business climate also makes it very difficult for many of our team members and customers to find affordable housing. According to *The Economist*, on average it's estimated you need one new house for every 1.5 new jobs. Over the past decade, 10 million people have arrived in California, yet during that time only 1 million homes have been built in the state. In Texas, 80 percent of the preliminary approvals for new housing sub-divisions are made in 10 weeks. In Arizona, 60 percent. In California? Five percent.

Another effect of this anti-business climate is the loss of manufacturing jobs to other western states. Tens of thousands of such jobs have left California in the last year or so. Many of these jobs are high-paying and have good benefits and high potential for promotion -- the kind of jobs for which a lot of workers would be eligible.

In tomorrow's Examiner, I'll offer some proposed solutions for what I believe California needs to do to return to a vibrant, growing economy.

*Dick Kovacevich is chairman and CEO of Wells Fargo & Company, headquartered in San Francisco, and head of the California Business Roundtable.*