

HOOVER INSTITUTION: "EXODUS OF FIRMS FROM CALIFORNIA, REALITY, REASONS AND SOLUTIONS"  
REMARKS BY LT. GOVERNOR ELENI KOUNALAKIS AS PREPARED  
FEBRUARY 24, 2021

Thank you, Professor Taylor and the Hoover Institution for inviting me to be here with you today. Full disclosure, John's invitation came via my husband Dr. Markos Kounalakis, who is a visiting fellow at Hoover. As a journalist, and foreign policy analyst, Markos really tries to stay clear of the partisan fray. This is something both Hoover and I probably make difficult for him. But he truly values his affiliation with Hoover and has deep respect for many of your experts.

So, I was delighted to accept your invitation. I think the title of today's conversation is quite provocative. The Exodus of Firms from California, Reality, Reasons and Solutions. I thought I'd take these questions one at a time, starting with reality. There are a lot of anecdotes and stories out there right now. But as my friend and mentor Nancy Pelosi would say, "the plural of anecdote is not data."

But still, I was as alarmed, as many were, by last month's headlines announcing a string of high-profile departures. Hewlett Packard, Oracle, Charles Schwab and Elon Musk, all made splashy announcements that they were leaving and that the primary reason was that it's too difficult to do business in California.

I was also alarmed because I live in San Francisco, and I come from a real estate background, so many of my friends were calling me with stories of families selling homes and leaving San Francisco citing high taxes and quality of life issues, like homelessness.

These stories were especially worrisome to me because while I'm not an economist, I do have an MBA from UC Berkeley and it's hard to avoid the fact that our state's general fund is very dependent on tax payments of those at the top. There are different ways to quantify this, but 45 percent of our general fund comes from the personal income tax payments of the top 1 percent of California taxpayers. Our budget also benefits from windfalls that come when companies go public. This is another major vulnerability if the anecdotes of companies leaving the state truly add up to an exodus.

Before I get to the good news, let me just cite one more data point. In December, the California Department of Finance released statistics for the period between July 2019 and July 2020. During this period population growth was only 0.05 percent. It is the lowest rate of growth since the year 1900.

I'm sure that Professor Ohanian will give us more things to worry about and might mention California's regulatory environment. But let me share with you some of the information that makes me less worried than I was even just a month ago.

First, when we look at our flat growth rate, we have to consider that while it reflects people departing California, it also reflects lower immigrations numbers. I'm a former US Ambassador, and for almost four years, I had a consular section in my Embassy. In my current job, I am the state's representative for international affairs and trade development. So, I have followed closely the anti-immigrant rhetoric and anti-immigrant policies of the Trump administration.

Between Donald Trump and COVID19, immigration into the US is way down. Because about one in four immigrants into the US come to California, our growth rate has almost certainly been impacted by this trend.

Next, I'd like to point to a recent study by the US Postal Service. By analyzing Change of Address forms filed by San Francisco residents in 2020, the USPS found that about 40 percent of people who moved went somewhere else in San Francisco. Of the 60 percent who left San Francisco, most went to other Bay Area counties, or further south to Los Angeles and San Diego. In fact, the top 15 counties where people moved when they left San Francisco were all in California.

Another recent study is the Joint Venture Silicon Valley Annual Index. Their data showed that the growth of the workforce was flat. Didn't go up or down, so not much evidence of an exodus there, at least not yet. By the way, the Index also revealed that the market cap for Silicon Valley companies grew 37 percent last year. That's not surprising with the stock market hitting all-time highs.

Also at an all-time high are housing prices in our state. The median home price in California rose 17 percent last year. Executives at Lennar, the state's largest homebuilder, tell me they are having their best year ever for new home sales. You might have noticed that at seasonal tourist spots – like Lake Tahoe, Napa and the Coachella Valley – it's nearly impossible to find a vacation rental. It's hard to square the idea of an exodus with the image of people in a frenzied rush to snap up California real estate at record prices.

Talking about housing in California is a good place to address John's second topic - REASONS why companies might be leaving the state. I do think there is a towering challenge that we have in California. That is the cost of housing. I spent 18 years in the housing industry and have been concerned about this for a long time. The median home price in California is now \$720k. In Texas, the median home price is \$270k. In conversations I have with businesspeople, this issue comes up more often than tax rates or the regulatory environment.

And when we turn to the final topic of today's conversation, SOLUTIONS, let me just start by saying that for the long-term health of our society, our economy and our environment we must address the twin crises of housing and homelessness. Maybe John, you can invite me back for a longer discussion about that.

But for now, I'd like to borrow a line from Governor Newsom, that he borrows from Bill Clinton. There is nothing wrong with California that can't be fixed by what is right with California.

Our golden state is home to more engineers, more scientists, more researchers and more Nobel laureates than anywhere else in the nation. There are nearly 3 million students currently enrolled in our public university system, educating the workforce of the future.

It's also worth noting, we are first in the country in two-way trade, first in manufacturing and that the ports of Los Angeles and Long Beach make up the largest port complex in North America. We're also the largest consumer market in the country, and number one – by far - in access to capital.

Forbes Magazine recently published a list of the 100 fastest growing companies in the world – and twenty of them are headquartered in our state. Which reminds me, that when we look at that one percent of Californians whose personal income tax makes up 45 percent of our general fund, the individuals who make those payments, it turns out, are always changing. Its referred to as “churn”. Companies leave California. Individuals leave, yes some to avoid taxes. But new companies are born here all the time, and new millionaires are minted at a record pace.

This gets me to my favorite topic. California's open and welcoming society. People are sometime surprised when they hear that 27 percent of Californians are foreign born. The national average is about 14 percent. This might also interest you. The Public Policy Institute of California reports that 72 percent of Californians have a positive view of immigrants – citing their hard work, and job skills. Only 23% think immigrants are a burden. And 84 percent believe undocumented Californians should be able to stay permanently.

I myself am the daughter of an immigrant. My grandmother never learned to read, or write. My father started out as a farmworker, right here, outside of Lodi, and in one generation, the president sent me back to Europe as an American ambassador. Every day I meet people like me, making their way down the pathway of the California dream.

Let me wrap up with a few final thoughts on SOLUTIONS. Donald Trump made no secret of his disdain for our state, and among the many actions of his administration which harmed us disproportionately, was the elimination of state and local tax deductions. I hope that the Biden/Harris administration will restore them. The nation relies on California's economic success and the federal government should not do things to harm us. Regardless of which party is in power.

Staying for a moment on the issue of taxes, the governor has been very clear that he has no intention of signing a wealth tax, and often cites the fact that the last time our state raised income taxes was by a vote of the people in 2012.

The COVID19 pandemic has disrupted every part of our lives – how we work, recreate and educate our kids. The long-term impacts of this crisis are only beginning to be analyzed and understood. But for now, California has flattened the curve, we are vaccinating our people, and desperately trying to get our kids back in school. We also have a \$15B budget surplus, which

the governor has used to replenish our rainy day fund, pay down pension obligations, take care of those among us who are the most in need, and help small and medium sized businesses get back on their feet.

With that, John, I look forward to our discussion.