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California's Future Economic Turmoil

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The state of California is currently the largest state in the union, boasting a gross state product of $3.2 trillion, larger than those of the United Kingdom and India. Before the COVID-19 pandemic, the state's economy was well situated for continued growth on paper; it was experiencing low unemployment and constant growth in a variety of industries, creating various lucrative career opportunities for its citizens. However, cracks were starting to form in its foundation that were poised to threaten the state's prosperity. The average cost of living expenses in California is 149.9% of the national average and climbing, continually creating downward pressure on lower income earners. Further, the fumbling of the COVID-19 pandemic by the state's leaders has doubled down on this pressure, causing many to reconsider their residency in the state. As some of its highest income earners exit, California's economy may falter in their wake.

California's has become the economic titan it is today in part due to its thriving technology sector; Silicon Valley, is the home to the most prominent technology companies in the world. This region primarily found its base as this central hub as a result of Stanford University. It was the first school of its caliber to introduce Computer Science as an educational discipline, causing many of the world's most intelligent, technology-savvy individuals to call California's Bay Area their home. As these students began to network and collaborate with one another, they began to start highly desirable tech companies in this same region. Once these businesses began cropping up, it prompted more to follow, building Silicon Valley into the nation's newest hub for the technology sector. As these companies continued to grow, their founders became increasingly famous and wealthy, prompting many young, highly intelligent, and driven students to follow them in pursuit of highly paid career opportunities at a variety of these business.

On a macroeconomic scale, the prospect of countless new highly paid careers at such companies entering a city is a pleasant one; the added income would gradually uplift the surrounding areas, hopefully prompting others to move in to continue the trend. Additionally, the phenomenon would prompt ancillary companies to enter this region as well, known as agglomeration, further compounding the positive effect. However, the vast amounts of money entering the San Francisco Bay Area is not wholly beneficial to all who call this region home. As local incomes rise, demand for all goods in the area rise accordingly. If supply holds constant, this will cause prices to increase. This effect can be most seen in the real estate prices of the surrounding counties. According to Paragon Real Estate Group, from 1990 to 2016, the average home price in San Francisco and San Mateo counties has risen from around $300,000 to $1,300,000. For the individuals with sufficient salaries, this is an unfortunate but manageable process. However, for the workers who have to labor to facilitate daily life for these lucky few, such as grocery store and restaurant employees, it has been nearly impossible for them to live in this region. According to Business Insider, only 18% of individuals who live in the Bay Area can afford to purchase a median-priced home. If those who cannot afford to buy a home chose to rent, they face equally skyrocketing average rents, forcing them to live with roommates for much longer than the rest of the country. Additionally, this dramatic increase in general cost of living is not localized to the Bay Area; the growth of Los Angeles's entertainment and financial industries have caused a similar effect. In total, average housing prices across California have more than doubled over the past 30 years, extending this effect throughout most of the state, albeit not as severely. Until recently, many wealthy Californians, the demographic keeping the state afloat, reconciled this reality with the fact that the added living expenses were a manageable price to pay in order to maintain their careers. However, many are reconsidering this as a result of the effects of current pandemic.

As the COVID-19 pandemic has maintained its prominence in everyday life, many Californians are unhappy with the ways in which the state has continually managed it. Similarly to the federal government, California's state legislature has been unable to pass a fully effective second round of stimulus to help ease the burden of the pandemic; its plan, released on September 1st, did not contain the additional $600 per week unemployment benefit, investment in wildfire prevention, broadband infrastructure jobs, and tax vouchers to recoup tax revenue that was previously promised, according to CalMatters.org. However, the new relief bill did include a $5 billion transportation bond, an extension of the eviction moratorium, low-income tax credits for undocumented citizens, and a $100 million small business relief package. Some believe that the larger additions which were omitted from the bill were left out to avoid building the state's budget deficit to an unreasonable level, but many wealthy Californians believe that this threshold has already been crossed. According to Forbes.com, the state's Internal Revenue Service and legislative bodies have begun to propose a new wealth tax and an increase in state income tax. The .4% wealth tax would be the first of its kind in the nation, imposed upon all net worth earned above $30 million. Currently, the Golden State already has the highest state income tax at 13.3% for its highest earners in the nation, but this increase would further raise this figure to 16.8%. Additionally, California's wealth gap has grown exponentially over the past few years, dramatically worsening the state's struggle with homelessness and crime. According to the Los Angeles Daily News, the homelessness crisis has been horribly mismanaged by the state government; instead of fighting the issue at its source, metal illness, California has chosen to only pass temporary solutions in the form of available housing. Many of these preexisting programs have proved to be ineffective, only resulting in worsening crime rates and increasing taxes.

Under normal conditions, the tax increase and worsening governmental mismanagement would simply be tolerated by the Californian elite. As a result of the implications of the COVID-19 pandemic, many are seriously reconsidering their residency. Working from home seems to be the new normal across the nation, and with many tech companies considering providing it as a permanent option, many of these wealthy populations are contemplating moving to an area with dramatically lower costs of living. According to Business Insider, more than 40% of Bay Area workers would leave the area if given the option to work from home forever. If enough of these workers choose to work remotely and leave the state, the companies for which they work also may consider relocating as they would have little reason to stay in these extremely expensive, tax heavy areas. Additionally, this phenomenon seems to be striking other major cities as well, including Chicago and New York City. Concurrently, a select few within the state's entertainment industry, who already have the option to create their products anywhere in the country, have already decided to move out of

California. For example, Joe Rogan, the controversial host of the Joe Rogan Experience, explicitly cited the mismanagement of the state and tax hikes as his primary reason for his relocation on his podcast. If this phenomenon gains traction among substantial amounts of the state's wealthy who have jobs fit to accommodate such a move, California could see its economy dramatically shift. If large sums of money leave California's major cities and swaths of lavish homes are suddenly for sale, the affected areas could see a deflation in their housing prices. As housing values decrease, the perceived wealth of their owners also decreases, in turn causing a fall in autonomous consumer spending. As spending decreases, the demand for goods also shrinks, decreasing overall output of the state's economy.

If California is unable to alter its current war path, the state may be in serious economic trouble in the years to come. As wealthy individuals leave, they will take a considerable amount of consumer spending with them, hurting much of the state's industry. If spending continues to leave the state, businesses will follow, severely wounding the state's economic prospects. Indeed, after this cycle concludes, California may still be a serious economic power; it would take some serious devastation to dethrone from their current spot on economic leaderboards. However, in the years to come, the Golden State may lose some of its luster, deeming it no longer the place where dreams can be realized.