

California Compedium

This is a compedium of what I've written about California over the years.

Electricity and Water: The Sorry State of California

<http://gonzoecon.com/2017/04/sorry-state-california/>

Off the Wall Material

Tax Revenue and the Obergefell Decision

<http://gonzoecon.com/2015/06/tax-revenue-and-the-obergefell-decision/>

California vs Texas:

An Empirical Measurement of Residence Preferences

<http://gonzoecon.com/2014/08/california-versus-texas/>

Gov. Rick Perry Had a Message

<http://gonzoecon.com/2013/02/rick-perry-says-come-on-down-to-california-businesses/>

Education Issues

Schools Require Parent Participation

<http://gonzoecon.com/2014/11/schools-require-parent-participation/>

Charter School Issues in Los Altos

<http://gonzoecon.com/2013/09/charter-school-issue/>

California Mandates Retirement Accounts – Managed by the State

<http://gonzoecon.com/2013/07/california-offers-private-sector-workers-a-deal-they-should-refuse/>

The California State University System

CSUEB Holds a Coronation for New President

<http://gonzoecon.com/2012/09/california-tax-dollars-at-work-coronation-edition/>

California Environmental Standards

Interesting Judicial Ruling re Commerce Clause and California

Gasoline

<http://gonzoecon.com/2011/12/judge-says-no-to-new-california-gas-standards/>

Local Issues

California Green Energy Scam

<http://gonzoecon.com/2017/06/silicon-valley-clean-energy/>

Operation Choke Point and Marijuana Legalization

[Operation Choke Point and Marijuana Legalization](#)

Peter Navarro (UC Irvine alleged economist)

Who Is Peter Navarro?

| <http://gonzoecon.com/2017/04/who-is-peter-navarro/>

California Pension Systems

CalPERS Meets Reality

<http://gonzoecon.com/2016/09/calpers-meets-reality/>

Another San Jose Job Killer



Obama the Job Creator

Re-upping the above cartoon [from three years ago](#). [From Townhall.com](#).

[Today's San Jose Mercury-News includes an article titled "Plan to boost part-timers' hours sparks debate."](#) The proposal by the South Bay Labor Council would require any company in San Jose with more than 35 workers to offer part-time workers more hours before they hired anyone new. If implemented this proposal will have several effects. But it will not accomplish its objective. Indeed, employment is likely to fall rather than rise. This is yet another San Jose job killer.

"There is a crisis of underemployment in this community and tens of thousands of workers suffer from not being able to get enough hours of work," said Ben Field, executive director of the council. "We believe that the primary reason is that some employers are trying to avoid paying for health care insurance by keeping their employees in a part-time status. Many workers are crying out for help."

There is indeed a "crisis of underemployment." But Mr. Field does not understand the source of the crisis. Failing to diagnose it correctly, he offers a solution that will, in

reality, make the problem worse.

The negative effects of Mr. Field's proposal include slower business growth, companies moving to neighboring towns, and, possibly, much higher costs. One benefit is likely to be a proliferation of new businesses (which, presumably, can hire all the part-time workers they want).

The Root of the Problem

The source of the part-time work problem is the Patient Protection and Affordable Care Act (usually called **Obamacare**, referred to henceforth as **ACA**). Remember, for ACA purposes full-time employment is defined as working 30 or more hours a week. [\[1\] About 3.5 years ago I wrote this:](#)

And consider the marginal cost of hiring employee number 50. "Businesses with 50 or more full-time workers must pay a \$2,000 penalty for each employee, beyond the first 30 workers, who qualifies for subsidies and does not have employer coverage. [\[1\]](#) Part-time workers also count toward the number of employees in the firm (and thus toward the 50-employee threshold), but the government does not penalize firms for not offering them qualifying insurance." (from [the Heritage Foundation](#), but widely available. Other good articles are [here](#) and [here](#).) So hiring employee number 50 carries a potential cost of 20 employees (50-30) times \$2,000 per employee fine equals \$40,000. That could easily be more than the actual wages paid to the 50th employee. I suspect there will be many firms that will simply stop hiring once they get to 45 employees.

Is there really any point in calculating marginal tax rates when the dollar penalty for hiring employee number 50 is so high? Well, in fact, yes there is. Consider an employer who wants to expand a business. The firm currently has 72 employees, well above the ACA limit. But some are part-time

and, therefore, exempt from ACA. **An employee is working 29 hours per week. What is the cost of giving that employee one more hour of work?**

That additional labor hour means the employee is now covered by the ACA. And the employer must either provide health insurance or pay the fine of \$2,000 per year. **Prof. Casey Mulligan** has calculated the effective increase in the tax rate caused by the ACA. [\[3\]](#) His best estimate: seven full percentage points. **The ACA is the third largest tax increase since 1946. Here are Prof. Mulligan's estimates.**



Casey Mulligan's Tax Increase Estimates (click for larger image)

Does this matter? Yes, for a reason not immediately obvious from the graph. **That bright red bar means every single percentage point of the ACA's taxes are "employment and hidden taxes."** That means the taxes are obfuscated. Most people won't even realize there has been a tax increase. But they do notice stagnant wage and economic growth, as well as the sharp increase in the underemployment rate.

What Will Happen to San Jose?

First, consider business mobility. Some businesses can't move. Restaurants, hospitals, and universities are three examples. But there are many businesses that can relocate at fairly low cost. Lawyers, dentists, doctors with small clinics, any manufacturing business – in fact, any business that does not own a large, fixed building with substantial physical capital. In fact, the San Jose Mercury-News might be such an example. I don't know if the Merc owns and operates its printing presses, or even if the newspaper is printed in San Jose. But I'm pretty sure that there is a large physical presence in the city, with a highly integrated editing and publication system.

Finally, there is a large group of businesses that could be located anywhere. Any information workers can do their jobs anywhere there's a halfway-decent internet connection. I do much of my work from my home office. Moving would be a hassle, but not impossible. But I'm not in San Jose. And there's another reason I don't have to worry about idiotic proposals like this.

I have no particular growth aspirations for my business. Which leads to **a second way of slicing the problem: growth versus no growth.** Businesses that want to grow – especially those that want to grow rapidly – will either leave San Jose or never open an office there. The latter group includes start-ups. Milpitas and Alviso are nearby and fairly affordable. Santa Clara, Cupertino, Mountain View, and Palo Alto are also popular (if you get the venture capital funding to open an office there).

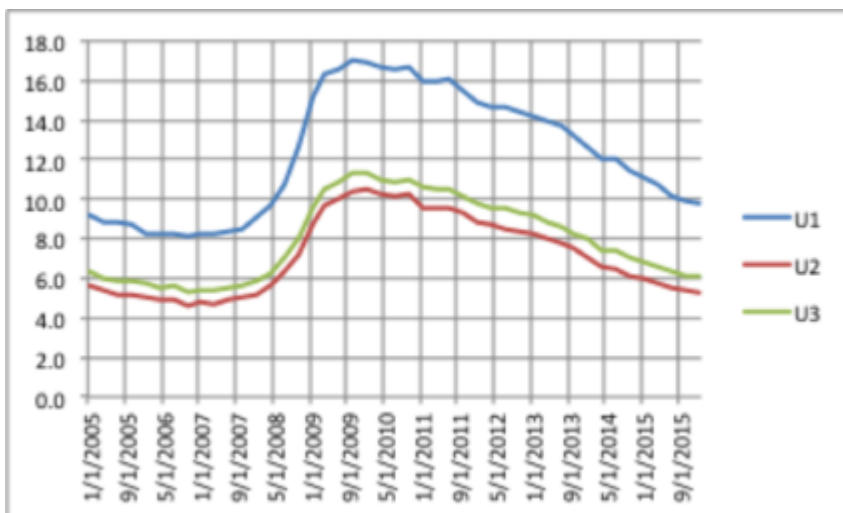
Suppose you own a San Jose restaurant. You want to expand. But most of your employees are part-time, courtesy of the ACA. You will probably give up your expansion plans. So will most people who own small and medium-sized businesses. **Mobile businesses that want to grow will move. And San Jose's tax base will stagnate as economic growth stalls.**

Other Side-Effects

Which employees will get the additional hours? Ideally that work would go to the most productive workers. But in the real world I suspect lotteries, other random selection methods, and/or political favoritism within the firm will be more popular options. That will be especially true in service industries where productivity is difficult to measure.

The Underemployment Rate

The official unemployment rate dropped to 4.7 percent in May. But that's because about half a million people dropped out of the labor force. Here's a quick look at some alternative measures of unemployment.



Alternative Measures of the Unemployment Rate (click for larger image)

U1: Total unemployed, plus all marginally attached workers plus total employed part time for economic reasons.

U2: Special Unemployment Rate: Unemployed and Discouraged Workers

U3: Special Unemployment Rate: Unemployed and Marginally Attached Workers

Conclusion

“Socialism is great until you run out of other people’s money to spend.” That quote is usually attributed to Margaret Thatcher. The South Bay Labor Council is simply trying to spend other people’s money in the guise of helping workers.

[1] The actual law may well read more than 30 hours. I don’t have the time to look up what is a fairly trivial fact.

[2] The portion of the health care law on the employer mandate explicitly states that firms with more than 50 employees are required to offer “full-time employees (and their dependents) the opportunity to enroll in minimum essential coverage under an eligible employer sponsored plan.” The Department of Treasury, however, has issued a proposed rule linking both the affordability of employer-sponsored insurance and compliance with the individual mandate to single coverage only. Since the employer is not penalized unless an employee enrolls in the exchanges, it is possible that if this proposed rule is adopted, employers will either drop family coverage or be indifferent to the affordability of the workers’ family coverage. Alternatively, the government may ultimately require employers to provide family coverage to workers with dependents. See Patient Protection and Affordable Care Act, Public Law 111-148, § 4980H.

[3] Casey B. Mulligan. “Side Effects.” iBooks. <https://itun.es/us/i49E2.1> Figure 1.1 page 40. Copyright © 2014 by JMJ Economics JMJ Economics, 2050 Evans Road, Flossmoor, IL 60422

Another Hidden California Tax



California DMV home page

Before you can register a car in California, you may be required to have it checked for emissions (“smog-checked”). This week, I discovered another hidden California tax caused by this requirement. And, as an added bonus, this tax also increases total vehicle emissions!

A Very Dead Battery

The tale begins with our 1996 Dodge Caravan. On Tuesday, September 16 I decided to get the smog check done. This van is driven infrequently, so I wasn’t surprised when the battery was dead. Luckily, the registration wasn’t due until September 22, so I called AAA, got the battery jumped, and started the car. While Calvin (the great guy from [Ellison’s Towing in Mountain View](#)) did the paperwork, I casually mentioned that I needed the car running to get it smog-checked.

Calvin looked a little nervous. He suggested I call my smog place (yes, there is one place that does all our checks). His fear was that the battery had been so dead that it may have wiped out some memory in the car’s computer. He suggested that I might need to drive the car about 100 miles.

I called my smog guy (Mohamad at [Mountain View Smog Check](#)

Only) and explained the situation. After inquiring about the year, make, and model, he said, “120 miles, can’t all be in one trip or on the same day.”

I was stunned. This van gets pretty good mileage, but even at 20 mpg that’s six gallons of gas, about \$21 at today’s prices. But, of course, the serious cost was the three hours I spent driving around aimlessly. And, naturally, all that driving added to vehicle emissions!

Now there’s a tax! The main cost is the consumer’s time – at least \$300 in my case. Plus the mileage. In 2013 the IRS mileage deduction rate was \$0.565 per mile for a total of \$67.80.

The Technical Details

After a bit of Bing searching, I found articles at ToolMonger.com and CarDealerForums.com that explain what’s going on. It turns out that the car’s computer keeps track of “drive cycles,” a sequence of driving styles that must be completed before the car can be smog-tested. From CarDealerForums.com:

For most cars, short drive cycles are published individually for this or that emissions system. Hyundai doesn’t publish any for my car. What’s almost worse is that instead of using those short cycles, Hyundai uses two humongous all-purpose sequences. One is supposed to emulate city driving, the other highway driving. Each of these tests takes about ½ hour. They are neither easy or safe.

I had a savvy friend ride shotgun. I drove, and he watched the road, read the instructions to me, and timed the intervals with a stopwatch. The whole procedure is nerve-racking. It includes speeding up, accelerating and decelerating according to a strict schedule, and maintaining unsafe speeds on both city streets and highways. For example,

the company seems fond of 40 MPH: that's over the speed limit on the streets, and slow enough to get you rammed on the highway. It was a teeth-clenching trip.

California Versus Texas

Over on Twitter a bit of a name-calling contest has broken out between @AztlanConnect (who claims to live in California) and several residents and/or fans of the great state of Texas.

Texas, by the way, is soon to be the home of David Burge (@IowaHawkBlog) who is wisely relocating from Chicago. Thus, we have California versus Texas.

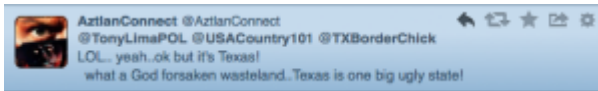
The current dispute started when I posted a translation table to help Californians relocating to Texas. (As always, click the image to see a larger version.)

Due to the large number of jobs moving from California to Texas, Texas has compiled a "Californian to Texan" translation guide

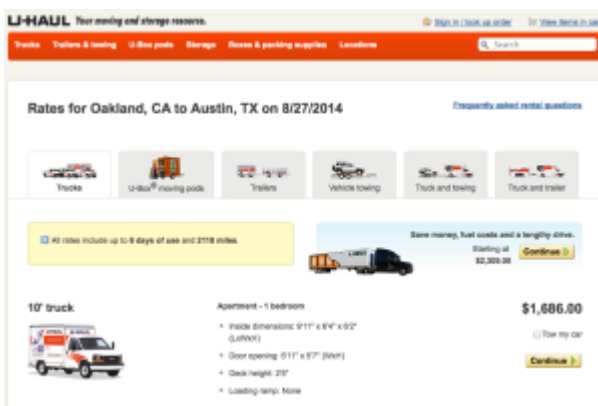
CALIFORNIA	TEXAS
Arsenal of Weapons	Gun Collection
Delicate Wetlands	Swamp
Undocumented Worker	Illegal Alien
Cruelty-Free Materials	Synthetic Fiber
Assault and Battery	Attitude Adjustment
Heavily Armed	Well-protected
Narrow-minded	Righteous
Taxes or Your Fair Share	Coerced Theft
Commonsense Gun Control	Gun Confiscation Plot
Illegal Hazardous Explosives	Fireworks for Stump Removal
Nonviable Tissue Mass	Unborn Baby
Equal Access to Opportunity	Socialism
Multicultural Community	High Crime Area
Fairness or Social Progress	Marxism
Upper Class or "The Rich"	Self-Employed
Progressive, Change	Big Government Scheme
Homeless or Disadvantaged	Burns or Welfare Leeches
Sniper Rifle	Scoped Deer Rifle
Investment For the Future	Higher Taxes
Healthcare Reform	Socialized Medicine
Truants	Homeschoolers
Victim or Oppressed	Criminal or Lazy Good-For-Nothing
High Capacity Magazine	Standard Capacity Magazine
Religious Zealot	Church-going
Reintroduced Wolves	Sheep and Deer Killers
Fair Trade Coffee	Overpriced Yuppie Coffee
Exploiters or "The Rich"	Employed or Land Owner
The Gun Lobby	NRA Members
Assault Weapon/Fiscal Stimulus	Semi-Auto (Grandpa's M1 Carbine)
Same Sex Marriage	Legalized Perversion
Mandated Eco-Friendly Lighting	Chinese Mercury-Laden Light Bulbs

Extremely Pious Off Right Wingers

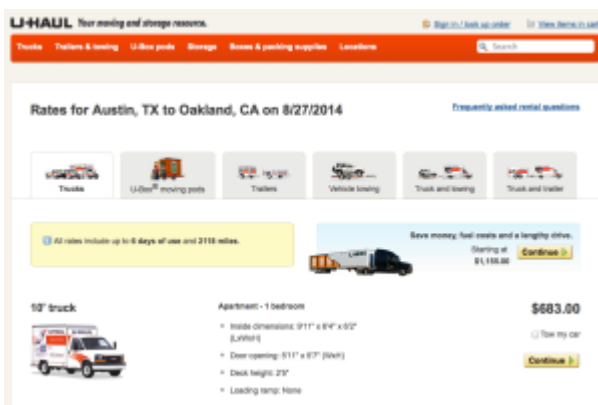
Mr. AztlanConnect took umbrage at the implied insult to California. With rapier-like wit (s)he replied:



So I decided to perform the usual market test of which state was more popular: the one-way rental rate for a standard U-Haul™ 10 foot truck between Oakland and Austin and vice-versa. The results are similar to previous studies over the past few years:



and



Oakland to Austin costs \$1,686. Austin to Oakland is priced at \$683. There is apparently high demand for Oakland – Austin trips and low demand for Austin – Oakland. I offer this not as a definitive analysis but as one more data point in a long time series.

AztlanConnect has a blog, but I won't connect to it because as

far as I can tell (s)he wishes to remain anonymous. I have to point out that, with one exception, everyone else involved in the Twitter conversation used their actual identity. And I have to confess bias at this point. I believe women should be allowed to remain anonymous on the internet, but men should be forced to post under their actual names. The reason is simple: there are far more male than female stalkers out there.