COST OF STATE REGULATIONS ON CALIFORNIA SMALL BUSINESSES STUDY

Submitted by:

Varshney and Associates

2982 Aberdeen Lane, El Dorado Hills, CA 95762

sanjay@sbvarshney.com

(916) 799-6527

Authors:

Sanjay B. Varshney, Ph.D., CFA

Professor of Finance and Dean - College of Business Administration

California State University, Sacramento

Dennis H. Tootelian, Ph.D.

Professor of Marketing – College of Business Administration

California State University, Sacramento

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ABSTRACT

This study measures and reports the cost of regulation to small business in the State of California. It uses original analyses and a general equilibrium framework to identify and measure the cost of regulation as measured by the loss of economic output to the State's gross product, after controlling for variables known to influence output. It also measures second order costs resulting from regulatory activity by studying the total impact – direct, indirect, and induced. The study finds that the total cost of regulation to the State of California is $492.994 billion which is almost five times the State's general fund budget, and almost a third of the State's gross product. The cost of regulation results in an employment loss of 3.8 million jobs which is a tenth of the State's population. Since small business constitute 99.2% of all employer businesses in California, and all of non-employer business, the regulatory cost is borne almost completely by small business. The total cost of regulation was $134,122.48 per small business in California in 2007, labor income not created or lost was $4,359.55 per small business, indirect business taxes not generated or lost were $57,260.15 per small business, and finally roughly one job lost per small business. This study provides the most comprehensive and complete analysis of the total regulatory burden in California.

INTRODUCTION

This study measures and reports the aggregate cost of regulation to small businesses in the State of California. It employs an original and unique approach using a general equilibrium framework[1] to identify and measure the cost of regulation as measured by the loss of economic output to the State's gross product, after controlling for variables known to influence output. This cost is in addition to the cost of federal regulation that is widely documented by previous studies sponsored by the Small Business Administration's Office of Advocacy.

Each of the 50 states in the USA superimposes an array of regulations over and above those that exist at the federal level. The significance of the study derives from the fact that over 90% of the firms in the USA employ fewer than 20 employees, and large firms (500 or more employees) constitute only 0.3% of all firms. Small business

[1] There are several factors that influence a state's gross product. A general equilibrium framework controls for all such known factors.

drives the economic engine and the gross state product. An adverse impact on small business is bound to adversely impact the production of goods and services, the risk tolerance of the American enterprise, the productivity of labor, the quality of life, and the overall well being of the State and its citizens.

The ultimate drivers of growth and economic prosperity are innovation, economic risk taking, and investment. The majority of this comes from small business. Legislative and regulatory mandates often result in practices and enact policies that raise the costs of operating for small business or provide a deterrent to small business growth and hence provide disincentives for economic risk taking and entrepreneurship.

In addition to identifying the aggregate direct costs of regulation to small business, this study measures the second order costs of regulation as those resulting from indirect and induced costs and which impact the state's gross state product (GSP)[2]. Substantial research exists at both the federal and state levels that attempts to understand, measure, describe, and articulate the impact that regulation may have on small business and the resulting loss to the economy. Most studies are qualitative – they describe the impact of regulation on small business, and do not quantify such an impact. This study is the first to measure the aggregate quantitative impact of regulations in a particular state, and as such can be used—with the appropriate cautions—in conjunction with the federal studies published in 1995, 2000, and 2005 to measure the accumulative impact of both state and federal regulations on California small business.

METHODOLOGY

There are several factors that influence a state's gross product. These factors range from cost of labor and raw materials to cost of energy, quality of life issues, education, job creation, economic climate, growth prospects, regulatory climate, etc. We use Forbes data that combine the most comprehensive economic metrics available that allow us to perform a general equilibrium analysis of the costs of doing business by the various states.

After controlling for a wide variety of external factors that affect such costs, the general equilibrium framework is able to truly isolate and measure the marginal impact of the regulatory environment on the businesses, which in turn affects productivity and gross state product. In addition, the study uses IMPLAN—an input-output model to measure the second order costs of California state regulation as those resulting from indirect and induced costs and which impact the state's gross state product.

[2] An example of second order costs as used in the federal study by Crain (2005) is how the cost of environmental regulation will likely be reflected in higher utility bills paid by the consumer. The increased utility costs will have a ripple effect throughout the entire economy, raising costs and impacting productivity and income in all sectors in the state. Another example is workplace regulation that raises healthcare costs. This will be reflected in higher premiums paid by employers which in turn will either be passed on at least in part, if not total, to consumers of their products in the form of higher prices, or in employees being asked to pay a larger portion of the premiums.

The total direct, indirect, and induced costs of regulation arising due to the multiplier effect are presented in four ways: ***Output*** accounts for total revenues lost including all sources of income for a given time period for an industry in dollars. ***Employment*** demonstrates the number of jobs lost and is calculated in a full-time equivalent employment value on an annual basis. ***Indirect Business Taxes*** consist of property taxes, excise taxes, fees, licenses, and sales taxes that would have been paid by businesses. ***Labor Income*** includes all forms of employee compensation that would have been paid by employers (e.g., total payroll costs including benefits, wages and salaries of workers, health and life insurance, retirement payments, non-cash compensation), and proprietary income (e.g., self employment income, income received by private business owners including doctors, lawyers).

Substantial research exists at both the federal and state levels that attempts to understand, measure, describe, and articulate the impact that regulation may have on small business and the resulting loss to the economy. Most studies are qualitative – they describe the impact of regulation on small business, but most do not attempt to quantify such an impact. This study is the first to measure the aggregate quantitative impact of regulations in a particular state, and as such can be used—with the appropriate cautions—in conjunction with the federal studies published in 1995, 2000, and 2005 to measure the accumulative impact of both state and federal regulations on California small business.

Much more work will need to be done to determine the exact nature of potential remedies to the regulatory burden. This study does offer a methodology for deeper study of various regulatory impacts and assessment of whether costs can be much better controlled than under the current structure.

FINDINGS

This study finds that the total cost of regulation to the State of California—direct, indirect, and induced—is $492.994 billion, which is almost five times the State's general fund budget, and almost a third of the State's gross product. This cost of regulation results in an employment loss of 3.8 million jobs which is a tenth of the State's population. In terms of labor income, the total loss to the state from the regulatory cost is $210.471 billion. Finally the indirect business taxes that would have been generated due to the output lost is $16.024 billion. These indirect business taxes lost could have helped fund many of the state's departmental budgets.

The total cost of regulation was $134,122.48 per small business in California in 2007, labor income not created or lost was $4,359.55 per small business, indirect business taxes not generated or lost were $57,260.15 per small business, and finally roughly one job lost per small business.

CONCLUSIONS

This study measures and reports the cost of regulation to small business in the State of California. It employs an original and unique approach using a general

equilibrium framework to identify and measure the cost of regulation as measured by the loss of economic output to the State's gross product, after controlling for variables known to influence output. It also measures second order costs resulting from regulatory activity by studying the total impact – direct, indirect, and induced. The study finds that the total cost of regulation to the State of California is $492.994 billion which is almost five times the State's general fund budget, and almost a third of the State's gross product. The total cost of regulation results in an employment loss of 3.8 million jobs which is a tenth of the State's population. Since small business constitute 99.2% of all employer businesses in California, and all of non-employer business, the regulatory cost is borne almost completely by small business. The general equilibrium framework yields the following results:

- The direct cost of the regulatory environment in California is $176.966 billion in lost gross state output each year. The direct cost does not account for second order costs.

- The total loss of gross state output for California each year due to direct, indirect, and induced impact of the regulatory cost is $492.994 billion.

- In terms of employment this total output loss is equivalent to the loss of 3.8 million jobs for the state each year. A loss of 3.8 million jobs represents 10% of the total population of California. In terms of labor income, the total loss to the state from the regulatory cost is $210.471 billion. Finally the indirect business taxes that would have been generated due to the output lost arising from the regulatory cost is $16.024 billion.

- The total regulatory cost of $492.994 billion is four to four and a half times the total budget for the state of California, and almost five to six times the general fund alone. Further, given the total gross state output of $1.6 trillion for California in 2007, the lost output from regulatory costs is almost a third of the gross state output.

- The indirect business taxes lost could have helped fund many of the state's departmental budgets. As an example, the indirect business taxes lost are 60 times the budget of the Office of Emergency Services, and would have paid for almost half the budget of the Department of Education.

- The total cost of regulation was $134,122.48 per small business in California in 2007, labor income not created or lost was $57,260.15 per small business, indirect business taxes not generated or lost were $4,359.55 per small business, and finally roughly one job lost per small business.

- The total regulatory cost of $492.994 billion translates into a total cost per household of $38,446.76 per household, or $13,052.05 per resident. The total cost per household comes close to the median household income for California.

This study provides the most comprehensive and complete analysis of the total regulatory burden in California. The study and findings have implications for policy-makers and those in charge of the regulatory environment. The results also suggest that future research should attempt to understand how to minimize the intended and unintended costs of regulation. Since small businesses are the lifeblood of California's economy constituting 99.2% of all employer businesses, efforts to make the regulatory environment more attractive will make California a more attractive state for doing business. This in turn will improve the state's output, employment, labor income, indirect business taxes, economic climate, quality of life, living standards, and growth prospects.

COST OF STATE REGULATIONS ON CALIFORNIA SMALL BUSINESSES STUDY

DETAILED REPORT OF FINDINGS

INTRODUCTION

This study identifies and establishes the cost of the regulatory burden on small business in California and assesses the extent to which this disadvantages small business. It employs an original and unique approach using a general equilibrium analysis[3] to measure the additional cost to small business due to regulation in the State of California. This cost is in addition to the cost of federal regulation that is widely documented by previous studies. Each of the 50 states in the USA superimposes an array of regulations over and above those that exist at the federal level. The significance of the study derives from the fact that over 90% of the firms in the USA employ fewer than 20 employees, and large firms (500 or more employees) constitute only 0.3% of all firms. Small business drives the economic engine and the gross state product. An adverse impact on small business is bound to adversely impact the production of goods and services, the risk tolerance of the American enterprise, the productivity of labor, the quality of life, and the overall well being of the State and its citizens.

The ultimate drivers of growth and economic prosperity are innovation, economic risk taking, and investment. The majority of this comes from small business. Politicians and government officials often engage in practices and enact policies that raise the costs of operating for small business or provide a deterrent to small business growth and hence provide disincentives for economic risk taking and entrepreneurship.

In addition to measuring the direct cost of regulation to small business, this study measures the second order costs of California state regulation as those resulting from indirect and induced costs and which impact the state's gross state product (GSP)[4].

[3] There are several factors that influence a state's gross product. A general equilibrium framework controls for all such known factors.

[4] As an example used in the federal study by Crain (2005), the cost of environmental regulation will likely be reflected in higher utility bills paid by the consumer. The increased utility costs will have a ripple effect throughout the entire economy raising costs and impacting productivity and income in all sectors in the state. Another example is workplace regulation that raises the healthcare costs. This will be reflected in higher premiums paid by employers which in turn will either be passed on at least in part, if not total, to consumers of their products in the form of higher prices, or in employees being asked to share in and pay a larger portion of the premiums. This study does not attempt to measure the general equilibrium effects that are dynamic, such as reduced innovation over time, or productivity losses over time, or efficiency losses over time due to the cost of regulation. In this sense, the cost estimates in our study are understated and do not measure the fullest extent of the state regulatory burden.

The study discusses its methodology and data, present its findings, provides a comprehensive review of prior research and work, and finally concludes with key findings and recommendations.

DIRECT COSTS TO ECONOMY AND SMALL BUSINESS

Direct costs consist of economic activity contained exclusively within the designated sector(s). This includes all expenditures made and all people employed.

Direct Costs of Regulation

The study measures the net economic impact due to regulation in California by measuring the direct costs to small business. The direct costs of regulation are presented in four ways:

- ***Output*** accounts for total revenues lost including all sources of income for a given time period for an industry in dollars. This is the best overall measure of business and economic activity lost because it is the measure most firms use to determine current activity levels.

- ***Employment*** demonstrates the number of jobs lost and is calculated in a full-time equivalent employment value on an annual basis.

- ***Indirect Business Taxes*** consist of property taxes, excise taxes, fees, licenses, and sales taxes that would have been paid by businesses. While all taxes during the normal operation of businesses are included, taxes on profits or income are not included.

- ***Labor Income*** includes all forms of employee compensation that would have been paid by employers (e.g., total payroll costs including benefits, wages and salaries of workers, health and life insurance, retirement payments, non-cash compensation), and proprietary income (e.g., self employment income, income received by private business owners including doctors, lawyers).

Methodology to Derive Direct Costs

As previously indicated, in 2001 the USA had a corporate tax rate of 39% which was the sixth highest among all OECD countries. As other countries revised their corporate income tax rates downward, the USA did not. As a result now the USA has the highest corporate income tax rate in the world. Compounded with outsourcing of jobs due to lower labor costs overseas, US business are faced with greater burden. The difficulty faced by businesses lead them to seek out states that are less “unfriendly” relative to other states.

Forbes began ranking states in the USA based on relative friendliness or unfriendliness given the problem outlined above. They use 30 different metrics from various sources such as Moody’s Economy.Com, Pollina Corporate Real Estate, Pacific Research Institute, Tax Foundation, CFED: Sperling’s Best Places, US Census Bureau, and Bureau of Economic Analysis among others.

Forbes uses the data to then rank states for the following six categories: business costs, labor, economic climate, regulatory environment, quality of life, and growth prospects. Forbes computes business costs through an index of cost of labor, energy, and taxes. Labor represents educational attainment, net migration, and projected population growth. Economic climate reflects job, income and gross state product growth as well as unemployment and presence of big companies. Regulatory environment measures the regulatory and tort climate, incentives, transportation and bond ratings. Growth prospects reflect projected job, income and gross state product growth as well as business openings/closings and venture capital investments. Finally, quality of life is measured through an index of schools, health, crime, cost of living and poverty rates. The major contribution by Forbes is the additional consideration of the role that government plays on the business climate in terms of environmental and labor laws, as well as tax and other incentives offered. These factors influence overall state productivity and attractiveness to business.

This study uses *The Best States for Business* rankings provided by Forbes for two years – 2006 and 2007. See Appendix 4. Forbes data is reliable in that it uses credible sources of secondary data that are well recognized and respected as credible independent research in the business world. Forbes data also enables a more general equilibrium analysis of the costs of doing business by the various states. After controlling for a wide variety of external factors that affect such costs, the general equilibrium framework is able to truly isolate and measure the marginal impact of the regulatory environment on the businesses, which in turn affects productivity and gross state product. One may argue that there are many factors that influence a state's gross product. These factors range from cost of labor and raw materials to cost of energy, quality of life issues, education, job creation, etc. The Forbes rankings based on 30 different metrics are the most comprehensive available. Therefore, this study relies exclusively on the Forbes rankings that have already considered all the various metrics that influence businesses and in turn productivity and gross state product. Most estimates resulting from a partial equilibrium analysis are incomplete and may be viewed as understated.

The study performs robustness checks by conducting the analyses separately using data for 2006, and 2007, and then also by using the averaged data over the two years. The study uses Ordinary Least Squares to perform a regression analysis to analyze the extent to which regulatory environment impacts gross state product. After conducting individual year based regressions, the study conducts a panel data regression using ordinary least squares (OLS) that pools both time series and cross-sectional data from both 2006 and 2007. OLS stands for Ordinary Least Squares, the standard linear regression procedure. One estimates a parameter from data and applying the linear model:

$$y = Xb + e$$

where y is the dependent variable or vector, X is a matrix of independent variables, b is a vector of parameters to be estimated, and e is a vector of errors with mean zero that make the equations equal.

Multiple Panel Data Regression - GSP

Dependent variable y: GSP
Independent variables X:

Business Cost
Economic Climate
Growth Prospects
Labor
Quality of Life
Regulatory Environment

This study does not attempt to measure the general equilibrium effects that are dynamic such as reduced innovation over time or productivity losses over time or efficiency losses over time due to the cost of regulation. In this sense the cost estimates in our study are understated or do not measure the fullest extent of the state regulatory burden. In this study we simply attempt to measure the general equilibrium effects that are static, as well as the second order costs that are also static.

Further, the study uses the model IMPLAN (discussed in more detail in the next section) to measure the equivalent number of jobs lost, labor income lost, indirect business taxes not generated, given the lost state output due to the regulatory burden . IMPLAN provides modeling based on data and tools to assess economic impacts at the state, multi-county, and county levels. Widely recognized and used nationally and regionally, IMPLAN has more than 1,500 active users in the USA and internationally. These include clients in federal and state government, universities, and private sector consultants.

Findings of Direct Costs

Appendix 4 presents the Forbes rankings of all fifty states for doing business based on their overall attractiveness, business costs, labor, regulatory environment, economic climate, growth prospects, and quality of life. These rankings are presented for 2006, 2007, and 2008. In 2006, Forbes ranked Virginia (#1), Texas (#2), North Carolina (#3), Utah (#4), and Colorado (#5) as the best states for business, and ranked Maine (#46), Alaska (#47), Mississippi (#48), West Virginia (#49), and Louisiana (#50) as the worst states for business. In 2007 Forbes ranked Virginia, Utah, North Carolina, Texas, and Washington as the top five, and ranked Michigan, Alaska, Maine, Louisiana, and West Virginia as the worst five.

In 2006 and in 2007, Forbes ranked Virginia, North Carolina, Michigan, Georgia and Washington as the best states, and ranked Vermont, West Virginia, Montana, Wyoming, Maine, and Rhode Island as the worst states for doing business based on their regulatory environment. In 2006, California ranked #36 overall, #48 for business

costs, #17 for labor, #41 for regulatory environment, #22 for economic climate, #9 for growth prospects, and #28 for quality of life. In 2007 California ranked #34 overall, #50 for business costs, #17 for labor, #39 for regulatory environment, #17 for economic climate, #12 for growth prospects, and #26 for quality of life.

The output in Appendix 6 shows the results of fitting a multiple linear regression model to describe the relationship between GSP and 6 independent variables. The equation of the fitted model is:

GSP = 240566.0 + 12726.0*Business Cost - 3105.26*Economic Climate - 10803.1*Growth Prospects + 10712.6*Labor - 4113.06*Quality of Life - 4424.16*Regulatory Environment

Based on the model described above, the marginal impact of the regulatory environment in a state on its gross state product is $-4,424.16 million for each rank lower among the ranks of the 50 states in the USA. In 2006, Forbes ranked California 41st among the 50 states for its regulatory environment, and in 2007 Forbes ranked California 39th. The average rank over 2006 and 2007 would be 40. A rank of 1 would imply a loss of $4,424.16 in the GSP due to the regulatory environment and associated cost. Therefore, a rank of 40 implies a total loss of $176,966.40 million or $176.966 billion in California GSP due the adverse impact of its regulatory environment. In other words, the GSP for California would have been higher by $176.966 billion had the regulatory environment not been as restrictive. This constitutes a direct cost to the economy of California.

Summary and Conclusions

Using IMPLAN, the direct cost of regulation and loss of output totaling $176.966 billion translates into a loss of 1.085 million jobs, lost labor income of $81.815 billion, and lost indirect business taxes totaling $1.759 billion.

To understand the implications of this direct cost better, we present several informational tables in Appendices 8 through 10. These informational tables and information are intended to help the ordinary citizen in California understand the relevance and magnitude of the regulatory cost by relating it to important facts and figures that they comprehend.

In 2007, there were approximately 12.8 million households in California. If one were to imagine the direct cost of regulation that would impact every household in California, the cost per household comes out to $13,800.93 per household annually. Given a population of 37.77 million, the direct cost of regulation per resident is $4,685.19 annually. See Appendix 8.

Our general equilibrium analysis provides us with a total cost due to regulation in California after controlling for all the major factors that affect GSP. The benefit of conducting such an analysis is that the total cost is all inclusive – both of implicit as well as explicit costs of regulation. An example of explicit costs is the actual revenues derived by various state agencies resulting from regulation such as regulatory taxes,

licensing fees, and fines. Appendix 9 provides a table taken from the Department of Finance provides a summary of 2006-07 such revenues derived by various state agencies and their sources. These revenues that the state agencies collect and then spend constitute an explicit cost of enforcing regulation. The total figure of $120.132 billion for all regulatory taxes, licenses and fees in Appendix 9 is less that the total direct cost of $176.966 billion with the balance being explained by implicit costs.

Most importantly, it helps to understand what these costs mean to the small business in California. The Small Business Administration Office of Advocacy 2007 report for California reports that in 2006, there were a total of 3,675,700 small businesses in California (See Appendix 10). Of these 1,137,100 firms were “employer” small business (92.2% of which were small), and of these 696,300 were non-farm employer small business. This means that the direct cost of regulation was $44,144.95 per small business in California, labor income not directly created or lost was $22,258.42 per small business, indirect business taxes not generated or lost were $478.58 per small business, and finally roughly one third of job lost per small business.

SECOND ORDER COSTS TO THE STATE'S ECONOMY AND SMALL BUSINESS

In addition, this study measures the **second order costs** of California state regulation as those resulting from indirect and induced costs and which impact the state's gross state product. As an example used in the federal study by Crain (2005), the cost of environmental regulation will be likely reflected in higher utility bills paid by the consumer. The increased utility costs will have a ripple effect throughout the entire economy raising costs and impacting productivity and income in all sectors in the state. Another example is workplace regulation that raises the healthcare costs will be reflected in higher premiums paid by employers which in turn will either be passed on at least in part (if not total) to consumers of their products in the form of higher prices, or in employees being asked to share in and pay a larger portion of the premiums.

Each industry that produces goods and services has an influence on, and in turn is influenced by, the production of goods and services of other industries. These interrelationships are captured through a multiplier effect as the demand and supply trickle over from industry to industry (direct and derived demand) and thus impact total output, compensation, employment, etc. Multipliers may vary from one region to another depending on the strength of these interrelationships.

Second Order Costs

The full range of economic impacts includes direct, indirect, and induced costs of regulation:

- ***Direct costs*** consist of economic activity contained exclusively within the designated sector(s). This includes all expenditures made and all people employed.
- ***Indirect costs*** define the creation of additional economic activity that results from linked businesses, suppliers of goods and services, and provision of operating inputs.
- ***Induced costs*** measure the consumption expenditures of direct and indirect sector employees. Examples of induced costs include employees' expenditures on items such as retail purchases, housing, banking, medical services, and insurance.

The total direct, indirect, and induced costs of regulation arising due to the multiplier effect are presented in four ways:

- ***Output*** accounts for total revenues lost including all sources of inome for a given time period for an industry in dollars. This is the best overall measure of

business and economic activity lost because it is the measure most firms use to determine current activity levels.

- ***Employment*** demonstrates the number of jobs lost and is calculated in a full-time equivalent employment value on an annual basis.

- ***Indirect Business Taxes*** consist of property taxes, excise taxes, fees, licenses, and sales taxes that would have been paid by businesses. While all taxes during the normal operation of businesses are included, taxes on profits or income are not included.

- ***Labor Income*** includes all forms of employee compensation that would have been paid by employers (e.g., total payroll costs including benefits, wages and salaries of workers, health and life insurance, retirement payments, non-cash compensation), and proprietary income (e.g., self employment income, income received by private business owners including doctors, lawyers).

Methodology to Derive Second Order Costs

The primary model used for this analysis was IMPLAN. It provides modeling based on data and tools to assess economic impacts at the state, multi-county, and county levels. Widely recognized and used nationally and regionally, IMPLAN has more than 1,500 active users in the USA and internationally. These include clients in federal and state government, universities, and private sector consultants.

Minnesota IMPLAN Group, Inc (**MIG, Inc**) are the developers of the IMPLAN® economic impact modeling system. IMPLAN® is used to create complete, extremely detailed Social Accounting Matrices and Multiplier Models of local economies. MIG, Inc. provides software tools, region-specific data, and technical support to enable users to make in-depth examinations of state, multi-county, county or sub-county, and metropolitan regional economies.

The benefit of using input-output models, including IMPLAN, is that they help evaluate the effects of industries on each other based on the supposition that industries use the outputs of other industries as inputs. Some other models measuring economic activity examine only the total output or employment of an industry, and not the dual causality that may run both ways. The use of an input-output model provides a much more comprehensive view of the inter-related economic impacts. It examines economic relationships between businesses and between business and consumers. This impact analysis then measures changes in any one or several economic variables on an entire economy. IMPLAN data can be used to compute economic impact at the national, state, regional, and county levels. Of particular interest are industry output, employment, value added (as measured by employee compensation, proprietary income, other property type income, and indirect business taxes), and final demand of institutions (i.e., households, federal government, state and local governments, businesses).

The ***multiplier effect*** for sales and employment reflects the increased economic activity that comes from sales being generated, and expenses being incurred, by a business. When a business generates sales, it must use some of that money to purchase other goods and other services and to hire people to meet the demand for its products and services. Purchases made by the business represent sales to other firms who must then also purchase goods and services and hire people to meet their new demand. The additional hiring to meet demand means more people will have income which they will use to purchase goods and services for their households. All of this brings added sales to firms in the community. The net effect is that sales dollars are recycled in the community through this process of sales requiring additional purchases and employment, which results in sales for other firms who must use that money to make their own purchases and hire people.[5]

The IMPLAN model can be used to quantify the multiplier effect that occurs when new output or employment is added in the geographical area via the designated economic activities. The multiplier effect is generated when new output or employment is added in one sector, but generates additional output or employment in other sectors that supply goods and services (indirect impact) and consumer services to employees (induced impact).

The largest component of final demand is household consumption. It includes all payments made by households to all industries for personal consumption of goods and services. Part of total labor income may not be available for spending since it may be used to pay personal taxes, principal and interest on loans, credit card payments, etc. It is also expected that spending patterns will vary from one income level to another. For example at the lower income levels, higher proportional spending takes place on food, clothing, and shelter. At the higher income levels, disposable income is higher for luxury spending.

Findings of Second Order Costs

The findings of the IMPLAN analyses are presented in Appendix 7. The study separates the impact into the four categories of output, employment, labor income, and indirect business taxes. It further separates the impact in each category into the major industrial sectors such as manufacturing, wholesaling, retailing, real estate, professional services, administrative, education, health, arts/entertainment/recreation, accommodations/food services, other, farming, federal, and state/local.

[5] For example, assume Company A receives a new order for $1,000 worth of its products, and the raw materials going into those products cost it $700. In order to fill the order, Company A will have to purchase the $700 in raw materials to make those goods from another company (Company B). That $700 becomes new business for Company B, and it will have to purchase some amount from its supplier (Company C) so it can fill the order from Company A. Then, Company C will have to purchase materials from its supplier (Company D) to fill the order from Company B—and this cycle could continue on. Furthermore, Companies A, B, C, etc. may have to employ more people to fill the orders they receive (or have them work longer), and that results in additional wages for new/existing employees. These employees will now have more money to spend for their personal use, and their purchases create new orders for a variety of businesses within the area.

The direct regulatory cost of $176.966 billion results in a total loss of output of $492.994 billion for the State of California (after including indirect and induced costs). The distribution of the output loss is the highest for the professional services sector. In terms of employment this output loss is equivalent to the loss of 3.8 million jobs for the state. A loss of 3.8 million jobs represents 10% of the total population of California. In terms of labor income, the total loss to the state from the regulatory cost is $210.471 billion. Finally the indirect business taxes that would have been generated due to the output lost arising from the regulatory cost is $16.024 billion.

Summary and Conclusions

The total loss of gross state output for California (due to direct, indirect, and induced costs) of $492.994 billion translates into a total cost per household of $38,446.76 per household, or $13,052.05 per resident (See Appendix 11). The total cost per household comes close to the median household income for California. The quality of life and living standards for every household could have been much higher were the output not lost due to the cost of regulation.

The study compares the total cost due to regulation in California to the various expenditures by the various state agencies and their budgets. Appendix 12 presents the general fund and special fund and measures the total cost of regulation in California in relation to the general fund.

The total general and special fund revenues to the state of California were$108.545 billion for 2005-06 and $120.132 billion for 2006-07. The total regulatory cost of $492.994 billion in lost output is four to four and a half times the total budget for the state of California, and almost five to six times the general fund alone. Further, given the total gross state output of $1.6 trillion for California in 2007, the total lost output from regulatory costs is almost a third.

Appendix 13 presents the general fund expenditures for various agencies and departments in the California government and then presents how the indirect business taxes totaling $16.024 billion (that would have been generated from the lost output due to the regulatory cost) relate to these as a percentage. These indirect business taxes lost could have helped fund many of the state's departmental budgets. As an example, the indirect business taxes lost are 60 times the budget of the Office of Emergency Services, and would have paid for almost half the budget of the Department of Education.

Most importantly, it helps to understand what these costs mean to the small business in California. The total cost of regulation was $134,122.48 per small business in California, indirect business taxes not generated or lost were $4,359.55 per small business, labor income lost was $57,260.15 per small business, and finally roughly one job lost per small business (See Appendix 14).

Finally, the study presents percentages of consumer spending that are part of the income before taxes and relate the labor income lost for each item of spending. This

labor income lost results in consumer spending foregone due to the regulatory cost. Ordinarily this labor income lost due to the cost of regulation would have been spent by the consumers on a wide variety of items such as food, clothes, entertainment, healthcare, etc. As an example, currently consumers spend 5.35% of their before tax income on food (see Appendix 15). The total labor income lost due to the regulatory cost is $210.471 billion. Of this 5.35% which is $11.258 billion would have likely been spent on food at home. Similarly how the labor income lost would have been spent on shelter, utilities, fuels, public services, household operations, medical supplies, transportation, entertainment etc. can be found in Appendix 15. The cost of regulation has a huge impact on the consumer spending in California. Lost spending on food totals $20.3 billion, on drugs and medical supplies totals $1.8 billion, on transportation $32.1 billion, on entertainment $9.4 billion, among other items of consumer spending.

PRIOR RESEARCH AND WORK

Substantial research exists at both the federal and state levels that attempts to understand, measure, describe, and articulate the impact that regulation may have on small business and the resulting loss to the economy. Most studies are qualitative – they describe the impact of regulation on small business, but do not quantify such an impact. This section presents a comprehensive review of all these studies and all prior work by grouping them into three categories based on the type of research they undertake: The Costs of Regulation, Cost of State Taxes and Compliance, and Ranking of States by Cost.

Studies on the Costs of Regulation

Hazilla and Kopp (1990). They provide estimates of the indirect effects of environmental regulations as well as the dynamic consequences. Their evidence suggests that both of these costs are substantial.

Crain (2005). He measures the impact of federal regulatory costs on small business. Updating previous research by Hopkins (1995) and Crain and Hopkins (2001), Crain finds that the burden of federal regulation falls disproportionally on smaller firms relative to larger firms. The results are consistent with Hopkins (1995) and Crain and Hopkins (2001). The Hopkins (1995) study attempted to identify and document federal regulatory compliance costs using data until 1992 and made cost projections until 2000. Crain and Hopkins (2001) extended and updated the Hopkins (1995) study with actual estimates of the regulatory burden in 2000. Crain (2005) shows the cost of federal regulation to small business totals $1.1 trillion in 2004 or 11% of national income. This cost was more than half of total U.S. federal government receipts that equaled 18% of the economy. Crain also shows that while the average cost per employee is $5,633, such cost is $7,647 per employee in firms smaller than 20 employees in contrast to $5,282 per employee for large firms that have more than 500 employees. It is important to note that none of the studies that asses the cost of federal regulation make any attempts to measure the benefits of regulation and hence the net cost. See Appendix 5.

Crain first measures federal regulatory costs by allocating the total impact into those arising due to economic regulation, workplace regulation, environmental regulation, and finally tax compliance. Crain also distributes the impact of federal regulation into five major sectors of the US economy – manufacturing, trade (wholesale and retail), services, healthcare, and other (anything not included in the previous four). Finally Crain analyzes the results by firm size where small firms are those with fewer than 20 employees, medium sized firms with between 20-499 employees, and large firms with 500 or more employees.

The sector analysis reveals that small firms are burdened almost twice as much as medium and large sized firms for the manufacturing sector, but the burden is similar

for all firms in the services. Crain and Hopkins (2001) show that small firms in the manufacturing sector pay 60% more than their larger counterparts. Crain (2005) also shows that smaller firms pay disproportionally more for environmental regulations (364% more), and for tax compliance (67% more) than larger firms. The cost of economic regulation, however, is highest for large firms and increases with firm size. In contrast, the cost of workplace regulation falls most heavily on medium sized firms. Overall, small firms bear a disproportional cost of the federal regulatory burden. Small firms pay almost 45% more per employee.

The Crain (2005) study evaluates data from federal taxing and spending programs, the annual federal budget process, and the Budget of the USA. In contrast, we were unable to find anything to parallel the Executive Order 11821 in 1974, or the federal "Regulatory Right-to-Know Act" from 2000 that requires the Office of Management and Budget to make the costs and benefits of federal regulation widely available and transparent to the extent possible.

Crain points out that one must be careful to differentiate regulatory accounting from fiscal accounting. Government fiscal programs are transparent in that one can easily measure the cash flows tied to government tax receipts and agency expenditures. Regulatory costs and benefits, in contrast, are not that easy to identify or understand since these are not reflected in any governmental cash flow. While the resources employed by government agencies to collect tax receipts or other fees are explicit and constitute a cost easy to follow, the indirect cost borne by private enterprise and individuals due to such activities over and above the receipts is not easily followed. In this sense, this study does not attempt to measure the explicit cost of those regulating (e.g. the cost to payroll), but rather the cost to those being regulated – both explicit and implicit. This then leads to the cost estimates being conservative and understated relative to the total cost of state regulation incurred.

Previous studies exist that attempt to rank states based on their perceived regulatory burden. These include John D. Byars, Robert E. McCormick, and T. Bruce Yandle, *Economic Freedom in America's 50 States: A 1999 Analysis*, State Policy Network, 1999, and Ying Huang, Robert E. McCormick, and Lawrence McQuillen, *U.S. Economic Freedom Index: 2004 Report*, Pacific Research Institute, 2004 (see Appendix 2 for the rankings). None of the previous studies, however, identify any cost estimates.

Studies on the Cost of State Taxes and Compliance

In 2001 the USA had a corporate tax rate of 39% which was the sixth highest among all Organization of Economic Co-operation and Development (OECD) countries. As other countries revised their corporate income tax rates downward, the USA did not. As a result, the USA has the highest corporate income tax rate in the world. Compounded with outsourcing of jobs due to lower labor costs overseas, US business are faced with greater burden.

Gupta and Mills (2003). They investigated the extent to which different state tax rules affect state revenue and inbound investment, how taxpayers respond to

differences in state tax rules, and how such differences affect the burden of complying with state taxes. They argue that different states adopt varying tax policies and practices to pursue strategies of economic growth and in-state investment, sometimes at the expense of other states.

The sample employed in their study shows that state tax compliance costs for the largest 1,000 public firms range from $290 to $335 million in the aggregate, compared with about $900 to $1,130 million for federal compliance costs. The authors note that on a relative basis, state compliance costs are about 2.9 percent of the current state income tax expense of these corporations, or about twice the relative federal compliance cost burden of 1.4 percent of current federal income tax expense. Consistent with expectations, the study finds that state compliance costs indeed increase in the number of states in which a firm files state income tax returns and in the number of entities, even after controlling for firm size and various firm-specific variables that serve as proxies for state tax complexity. The authors believe that these results provide evidence that the lack of conformity in state corporate tax regimes increases compliance cost burdens. These results, together with the recent evidence on the labor, investment, and revenue effects of state corporate income tax rules and the theoretical work on tax competition, further reinforce the notion that competition among the states, unlike competition among firms, is welfare-reducing rather than welfare-enhancing.

Gupta and Mills (2003) show that on average, the sample firms spend $258,000 on state compliance costs and $840,000 on federal compliance costs. When the tax directors of corporations were asked for suggestions for simplifying federal or state compliance, they most frequently suggested requiring conformity between the state and federal income tax systems, and uniformity among state systems. Nineteen respondents recommended a complete piggyback whereby the federal government should define and enforce taxable income and collect and remit tax to the states at each state's tax rate. Twenty-seven respondents recommended requiring uniformity of states' apportionment formula (Slemrod and Blumenthal, 1993, p. 10). These sentiments were repeated by respondents to Slemrod and Venkatesh's (2002) survey of large and mid-sized businesses.

Corroborating these concerns, the study finds that the lack of uniformity among the states indeed increases corporations' compliance cost burdens. First, in terms of magnitude, they estimate that income tax compliance for large firms is about twice as costly (as a percentage of their income tax expense) at the state level than at the federal level, which provides prima facie evidence that the lack of uniformity is costly. Second, in regression models they find that such costs increase in the number of states in which a firm does business and the number of entities. Alternatively, this result holds for the number of state tax returns filed. The model includes several firm-specific control variables including industry membership, asset composition, and operational characteristics that capture important sources of conformity among state tax regimes. They conclude from these results that state income tax compliance costs are largely driven by complexity and lack of conformity.

This finding is consistent with corporate tax directors' suggestions that the most important simplification would be more uniformity. Combining their results with the recent evidence on the labor, investment, and revenue effects of state corporate income tax rules reinforces the notion that competition among the states, unlike competition among firms, is welfare-reducing rather than welfare-enhancing.

Bruce and Gurley (2005), They note: "We find convincing evidence that marginal tax rates have important effects on decisions to enter or remain in entrepreneurial activity." They studied the relative tax costs of wage earnings versus earnings from entrepreneurship, and concluded, "Taken together, our empirical results suggest that policies aimed at reducing the relative tax rates on entrepreneurs might lead to increases in entrepreneurial activity and better chances of survival. Additionally, our results indicate that equal-rate cuts in tax rates on both wage and entrepreneurship incomes could yield similar results. Conversely, equal-rate increases in tax rates on both sources of incomes would most likely result in reduced rates of entrepreneurship entry and increased rates of entrepreneurial exit." This implies to raise the level of entrepreneurship, it is best to reduce the cost of entrepreneurship.

Vedder (2003). Using an econometric model, he measured the net domestic migration (not counting international) across the USA since 1990 and documents that low tax states witnessed a net in-migration in contrast to a vast out-migration for high tax states. He concluded that high taxes discourage economic growth, reduce the quality of life, and promote out-migration. Vedder also noted that a 1995 report for the Joint Economic Committee of the US Congress shows that low tax states grew 33% faster than high tax states from 1960 to 1993 and that state and local taxes equivalent to 1% of personal income reduces personal income growth by 3.5%.

The Joint Economic Committee in Congress Report released on May 6, 2003, entitled "How the Top Individual Income Tax Rate Affects Small Business." This report argues:

- "Taxpayers in the highest income bracket are often entrepreneurs and small business owners, not just highly-paid executives or people living off their investments. Small business owners typically report their profits on their individual income tax returns, so the individual income tax is effectively the small business tax."

- "Small businesses generally pay their income taxes through the individual income tax systems, not the corporate tax system. Sole proprietorships, partnerships, and S-Corporations are the three main organizational forms chosen by small business owners."

- "Economists who have studied the effects of taxes on sole proprietorships have found that high marginal tax rates discourage entrepreneurs from investing in new capital equipment and, conversely, that reducing taxes encourages new investment."

- "At higher marginal tax rates, hiring employees can become a less attractive proposition as a higher fraction of any additional income that a new hire might generate for the business is taxed and diverted to the federal government."

- "Investment also promotes small business growth, since how much a worker can produce for a company depends on the amount and quality of the equipment that the worker has to work with. That is why when low marginal tax rates spur a business to make new capital investments in software, computers, or machinery, for example, that company's workers become more productive, causing the company to grow. One study has shown that when the marginal tax rate for small businesses is reduced by 10 percent, those businesses' gross receipts increase by over 8 percent."

The Tax Foundation Study (2005). The Tax Foundation, in a study, shows that 74% of the top 1% earners in the USA had business activity and that business owners bear the major share of the personal income tax burden. Specifically they estimated that 54.3% of all personal income taxes were paid by business owners in 2004. Becsi (1996) used data from 1960-1992 and showed that high marginal tax rates and high overall tax levels were negatively related to state economic growth.

In 2005, tax payers paid roughly $1.2 trillion in federal income taxes. But America's tax burden is more than just the amount of tax paid. In the last century the cost of tax compliance has grown tremendously. This is due partly to the inherent difficulty of taxing income, but also because of growing non-economic demands lawmakers place on the tax code. In 2005 individuals, businesses and nonprofits will spend an estimated 6 billion hours complying with the federal income tax code, with an estimated compliance cost of over $265.1 billion. Projections show that by 2015 the compliance cost will grow to $482.7 billion.

The burden of tax compliance does not fall evenly on taxpayers. It varies by type of taxpayer, income level and state. In 2005, businesses paid the majority of tax compliance costs, totaling nearly $148 billion or 56 percent of total compliance costs. The compliance costs for individuals totaled $111 billion or 42 percent, and non-profits will bear nearly $7 billion or 2.5 percent of the total. When examined by income level, compliance cost was found to be highly regressive, taking a larger toll on low-income taxpayers as a percentage of income than high-income taxpayers. On the low end, taxpayers with adjusted gross income (AGI) under $20,000 incur a compliance cost equal to 5.9 percent of income while the compliance cost incurred by taxpayers with AGI over $200,000 amounts to just 0.5 percent of income.

State-by-state estimates of the 2005 federal compliance cost also vary widely because state populations and economies differ so significantly. On a per capita basis, Wyoming ($1,242), Delaware ($1,181) and Colorado ($1,167) face the highest compliance cost while Mississippi ($658), West Virginia ($689), and Tennessee ($705) face the lowest. Measured per $1,000 of income, Montana ($38), Utah ($37), and Wyoming ($33) face the highest compliance cost while California ($19), Connecticut ($20) and Massachusetts ($21) face the lowest. For more details see Appendix 3.

Studies on State Rankings and Cost Concerns

Small Business Survival Index 2007: Keating (2007). This study produced a small business survival index by ranking the policy environment for entrepreneurship across the USA (from the friendliest to the least friendly). Keating argued that relative to personal consumption expenditures, private investment and entrepreneurship have a much larger and more significant impact on output. In this sense economic risk taking drives innovation, invention, efficiency and productivity in the economy.

According to Keating the biggest impediments to investment and entrepreneurship are bad public policy, poor public policy environment, and government imposed costs directly and indirectly affecting small business and entrepreneurs. He constructed the small business survival index using 31 different government imposed and related costs that affect small business. These costs include those arising due to personal income taxes, individual capital gains taxes, corporate income taxes, corporate capital gains taxes, additional income taxes on S-Corporations, alternative minimum taxes for individuals, alternative minimum taxes for corporations, indexing of personal income tax rates, property taxes, sales/gross receipts/excise taxes, death taxes, unemployment tax rates, health savings accounts, healthcare regulation, electricity costs, worker compensation costs, total crime rate, right to work costs, number of government employees, tax limitation states, gas taxes, internet taxes, state minimum wage, state legal liability costs, regulatory flexibility, trend in state and local government spending, per capital state and local government spending, protecting private property, and highway cost efficiency.

State Rankings

Across the nation, California ranked 49th among all states ranked from the friendliest to the least friendly for entrepreneurship in the Small Business Survival Index for 2007 with a score of 77.985. This compared to first ranked South Dakota with a score of 25.914 and 50th ranked New Jersey with a score of 79.231. California ranked poorly among other categories as well (see Appendix 1) –

- the worst state ranking for Top Personal Income Tax Rates
- the worst state ranking for Top Capital Gains Tax Rates
- 42nd for State Rankings of Top Corporate Income Tax Rates
- 43rd for State Rankings of Top Corporate Capital Gains Tax Rates
- 13th for State Rankings of State and Local Property Taxes
- 29th for State Rankings of State and Local Sales
- 1st for State Rankings of Adjusted Unemployment Taxes
- 43rd for State Rankings of Number of Health Insurance Mandates

- 45th for State Rankings of Electric Utility Costs
- 47th for State Rankings of Workers' Compensation Benefits Per $100 of Covered Wages
- 27th for State Rankings of Crime Rate
- 9th for State Rankings of the Number of Government Employees
- worst state ranking for State Rankings of State Gas Taxes
- 45th for State Rankings of State and Local Government Five-Year Spending Trend (1999-2000 to 2004-2005)
- 47th for State Rankings of Per Capita State and Local Government Expenditures (2004-2005)
- 44th for State Rankings of Highway Cost Effectiveness, 2005.

Cost Concerns

Small Business Survival Index 2007 – Keating (2007): On Health Care Regulations. The Council for Affordable Health Insurance reported in "Health Insurance Mandates in the States 2006" that "mandated benefits currently increase the cost of basic health coverage from a little less than 20% to more than 50%, depending on the state."

An econometric analysis released in 2006, written by William J. Congdon, Amanda Kowalski and Mark H. Showalter, was titled "State Health Insurance Regulations and the Price of High-Deductible Policies." The report looked at the impact of service and provider mandates, any-willing provider regulations, community rating, and guaranteed issue on family and individual policies with high deductibles in the non-group market in 42 states. The findings included:

A strong statistical relationship exists between regulation and insurance prices. Specifically, "the presence of regulations tends to be associated with less generous insurance (higher coinsurance rates, higher deductibles, higher stoploss limits) as well as higher prices."

Each mandate raises "the price of an individual policy by about 0.4 percent; for a family policy, it increases by about 0.5 percent."

Community rating raises "the price of an individual policy by 20.3 percent. It raises the price of a family policy by 27.3 percent."

Guaranteed issue raises "the price of an individual policy by 114.5 percent. For family policies, the price increase is 94.2 percent."

The SBA Office of Advocacy's "Frequently Asked Questions" (August 2007) reported: "According to a National Federation of Independent Business membership

survey, the cost and availability of health insurance are a top small business issue. Aspects of insurance that drive small business concern are premium increases and administrative costs. Advocacy research shows that: (1) insurers of small health plans have higher administrative expenses than those that insure larger group plans, and (2) employees at small firms are less likely to have coverage than the employees of larger entities."

Small Business Survival Index 2007 – Keating (2007): On the Minimum Wage. *The Wall Street Journal* ("Job Slayers," August 29, 2005), recently reported: "For decades economists have piled up studies concluding that a higher minimum wage destroys jobs for the most vulnerable population: uneducated and unskilled workers. The Journal of Economic Literature has established a rule of thumb that a 10% increase in the minimum wage leads to roughly a 2% hike in teen unemployment."

The Employment Policies Institute (EPI) released a May 2006 study by economist Joseph Sabia, University of Georgia, which was titled "The Effect of Minimum Wage Increases on Retail and Small Business Employment." This was a response to a study by the Fiscal Policy Institute (FPI) claiming that increases in the minimum wage at the state level do not have negative employment effects. The overview of the EPI study explained:

"While the FPI study has been frequently cited by supporters of increases in the minimum wage, the study is based on faulty statistical methods, and its results provide an inaccurate picture of the effect of state-level minimum wage increases. This paper, by Dr. Joseph Sabia of the University of Georgia, presents a more careful and methodologically rigorous analysis of state-level minimum wage increases. His results confirm the consensus economic opinion that increases in the minimum wage decrease employment, particularly for low-skilled and entry-level employees.

"Using government data from January 1979 to December 2004, the effect of minimum wage increases on retail and small business employment is estimated. Specifically, a 10 percent increase in the minimum wage is associated with a 0.9 to 1.1 percent decline in retail employment and a 0.8 to 1.2 percent reduction in small business employment.

"These employment effects grow even larger for the low-skilled employees most affected by minimum wage increases. A 10 percent increase in the minimum wage is associated with a 2.7 to 4.3 percent decline in teen employment in the retail sector, a 5 percent decline in average retail hours worked by all teenagers, and a 2.8 percent decline in retail hours worked by teenagers who remain employed in retail jobs.

"These results increase in magnitude when focusing on the effect on small businesses. A 10 percent increase in the minimum wage is associated with a 4.6 to 9.0 percent decline in teenage employment in small businesses and a 4.8 to 8.8 percent reduction in hours worked by teens in the retail sector."

SBSI On Workers' Compensation Costs. In a September 2006 report for the National Center for Policy Analysis titled "Workers' Compensation: Rx for Policy Reform," N. Michael Helvacian reported: "Though workplaces became much safer in the 20th century, and job-related injuries declined, the soaring claim costs of state-mandated workers' compensation insurance has offset the decline in injuries. As a result, employers face increasingly higher insurance premiums and self-insurance costs, which reached nearly $60 billion in 2000. Although the average cost of workers' compensation premiums nationwide is less than 3 percent of payroll, premiums vary widely by industry. In high-risk industries, workers' compensation costs are often greater than health insurance premiums or Social Security payroll taxes. Workers implicitly pay part of these costs through reduced wages. Costs are increasing because state systems provide incentives for employers, employees and others to behave in ways that cause costs to be higher and workplaces to be less safe than they otherwise could be."

As for small businesses, Helvacian noted: "Insurance premiums, especially for small employers, are not fully experience-rated; as a result, firms that improve workplace safety cannot reap the full rewards and others are not penalized for poor safety practices." In addition, he pointed out: "Workers' compensation premium rates are highly regulated in some states, and insurance markets are not as competitive as they could be; as a result, many small firms pay more than necessary for coverage. (For example, average premiums as a percentage of payroll are 50 percent higher for firms of less than 500 employees than for larger firms.)"

Inc.com reported the following on September 23, 2004: "According to a recent survey by the National Federation of Independent Business, workers' compensation ranks as the third biggest problem facing small firms today, with about a third of the respondents describing it as a critical problem… The issue tends to be localized, because each state governs workers' compensation premiums differently." The story noted later on: "The premiums charged are driven by the number of claims and the average claim size, which reflects the cost of medical treatment for job-related injuries, as well as litigation and administrative costs."

PRI's U.S. Economic Freedom Index 2004: Huang, McCormick, and McQuillan (2004) This study measured economic freedom across the U.S. states and some of its effects. They argued that economic freedom is the right of individuals to pursue their interests through voluntary exchange of private property under a rule of law. They argued that this freedom forms the foundation of market economies. Subject to a minimal level of government to provide safety and a stable legal foundation, legislative or judicial acts that inhibit this right reduce economic freedom. In their paper, they expected economic freedom to be positively linked, on average, to state annual income per capita.

Economic freedom expands the opportunities for individuals to use their knowledge and resources to their best advantage and to keep the fruits of their labor for personal consumption and future productive investment. More economic freedom is associated with higher income per capita across the U.S. states. The results are

virtually identical if economic freedom rankings are substituted for economic freedom scores. The statistical analysis shows that a 10-percent improvement in a state's economic freedom score yields, on average, about a half-percent increase in annual income per capita.

The authors gathered data on 143 variables per state from 1995 to 2003 that include tax rates, state spending, occupational licensing, environmental regulations, income redistribution, right-to-work and prevailing-wage laws, tort reform, and the number of government agencies, among others. From these they derived five data sets with calculated sector scores for each state by putting put each variable into one of five sectors: fiscal (51 variables), regulatory (53), welfare spending (10), government size (7), and judicial (22). Each state's sector scores were calculated by ranking each variable within a sector from 1 (most free) to 50 (least free).

In their study California ranked at the very bottom - 49th out of 50 states with an economic freedom score of 38.75 (New York ranked the lowest with 39.5, Kansas ranked the highest with 18.18, and Colorado, Virginia, Idaho and Utah rounded off the top five). Byars, McCormick, and Yandle (1999) perform a similar analysis and their study ranks California 44th out of 50 states with an economic freedom index score of 6.39. Interestingly, the study finds that the Great Plains and Rocky Mountain states have the most economic freedom. Virginia ranks high as it does also in the Forbes rankings as one of the best states for business. As the study noted, many of the nation's most densely populated states are also some of the least economically free. This is consistent with leading economic theories of the determinants of regulation. California ranks as the next to worst. See Appendix 2.

Next, the authors constructed an economic model that equates the level of state annual income per capita in 2000 as a function of the following state-level variables: education level (a proxy for human capital as measured by the proportion of the population with a high-school education or more); average temperature (a proxy for the work/leisure tradeoff); population density (a proxy for the size of the market and level of transaction costs as measured by the number of residents per square mile); stock of wealth (endowments as measured by annual income per capita in 1990); average age of the population (a proxy for the earnings life-cycle); church membership rate (a proxy for the work ethic); and the institutional environment as measured by the state's economic freedom score.

The regression results, robust across specifications, showed that more economic freedom is associated with higher income per capita across the U.S. states. The results were virtually identical if economic freedom rankings are substituted for economic freedom scores. The statistical analysis showed that a 10-percent improvement in a state's economic freedom score yields, on average, about a half-percent increase in annual income per capita.

Relative to the freest state, Rhode Island residents suffered the largest reduction in annual income per capita due to their loss of economic freedom, $3,607, followed by Hawaii at $2,963, and New York and New Jersey at around $2,400 each (see table 7).

The national average was $1,161. This might not sound like much, but over a 40-year working life at a conservative 3 percent interest rate, this translates into $87,541 that would have otherwise gone into the pocket of an average working American.

Rhode Island also had the highest effective "oppression tax," 13.17 percent, followed by Hawaii at 11.36 percent, Maine at 7.61 percent, and New York at 7.45 percent. The national average was 4.42 percent of income. State institutions had a substantial impact on income levels across the U.S. states. Economic freedom mattered significantly.

This study is very useful in understanding how lack of economic freedom especially due to government interference and bad legislation can adversely impact the per capita income of the residents in that state. California, in this sense, ranks very poorly – the second least free state in the USA.

The Wall Street Journal Online. A recent article in the Wall Street Journal Online reported that according to the latest Census Bureau data in 2005, 239,416 more native-born Americans left the state than moved into the state of California. In the article the author pointed out that a big part of the story is a tax and regulatory culture that treats the most productive businesses and workers as if they were ATMs and that the worst growth killer may well be California's tax system. The business tax rate of 8.8% is the highest in the West, and its steeply "progressive" personal income tax has an effective top marginal rate of 10.3%, or second highest in the nation. Cal Tax, the state's taxpayer advocacy group, reports that the richest 10% of earners pay almost 75% of the entire income-tax revenue in the state, and most of these are small-business owners, i.e., the people who create jobs. State finance department office data indicate that the number of Californians reporting million-dollar incomes fell to 25,000 in 2003 from 44,000 in 2000. That decline has cost the state $9 billion a year in uncollected tax revenues. California continues to account for about one-sixth of the overall U.S. economy, and its competitive decline will inevitably hurt everyone.

GENERAL CONCLUSIONS AND RECOMMENDATIONS

This study measures and reports the cost of regulation to small business in the State of California. It employs an original and unique approach using a general equilibrium framework to identify and measure the cost of regulation as measured by the loss of economic output to the State's gross product, after controlling for variables known to influence output. It also measures second order costs resulting from regulatory activity by studying the total impact – direct, indirect, and induced. The study finds that the total cost of regulation to the State of California is $492.994 billion which is almost five times the State's general fund budget, and almost a third of the State's gross product. The total cost of regulation results in an employment loss of 3.8 million jobs which is a tenth of the State's population. Since small business constitute 99.2% of all employer businesses in California, and all of non-employer business, the regulatory cost is borne almost completely by small business. The general equilibrium framework yields the following results:

- The direct cost of the regulatory environment in California is $176.966 billion in lost gross state output each year. The direct cost does not account for second order costs.

- The total loss of gross state output for California each year due to direct, indirect, and induced impact of the regulatory cost is $492.994 billion.

- In terms of employment this total output loss is equivalent to the loss of 3.8 million jobs for the state each year. A loss of 3.8 million jobs represents 10% of the total population of California. In terms of labor income, the total loss to the state from the regulatory cost is $210.471 billion. Finally the indirect business taxes that would have been generated due to the output lost arising from the regulatory cost is $16.024 billion.

- The total regulatory cost of $492.994 billion is four to four and a half times the total budget for the state of California, and almost five to six times the general fund alone. Further, given the total gross state output of $1.6 trillion for California in 2007, the lost output from regulatory costs is almost a third of the gross state output.

- The indirect business taxes lost could have helped fund many of the state's departmental budgets. As an example, the indirect business taxes lost are 60 times the budget of the Office of Emergency Services, and would have paid for almost half the budget of the Department of Education.

- The total cost of regulation was $134,122.48 per small business in California in 2007, labor income not created or lost was $57,260.15 per small business,

indirect business taxes not generated or lost were $4,359.55 per small business, and finally roughly one job lost per small business.

- The total regulatory cost of $492.994 billion translates into a total cost per household of $38,446.76 per household, or $13,052.05 per resident. The total cost per household comes close to the median household income for California.

This study provides the most comprehensive and complete analysis of the total regulatory burden in California. The study and findings have implications for policy-makers and those in charge of the regulatory environment. The results also suggest that future research should attempt to understand how to minimize the intended and unintended costs of regulation. Since small businesses are the lifeblood of California's economy constituting 99.2% of all employer businesses, efforts to make the regulatory environment more attractive will make California a more attractive state for doing business. This in turn will improve the state's output, employment, labor income, indirect business taxes, economic climate, quality of life, living standards, and growth prospects.

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Appendix 1. Small Business Survival Index 2007

Table A-1 State Rankings

Rank	State	SBSI
1	South Dakota	25.914
2	Nevada	31.574
3	Wyoming	37.986
4	Washington	42.832
5	Florida	45.485
6	Michigan	46.073
7	Texas	47.968
8	South Carolina	49.544
9	Virginia	49.996
10	Alabama	50.534
11	Colorado	51.934
12	Georgia	52.734
13	Tennessee	53.121
14	Indiana	53.288
15	Arizona	53.277
16	Mississippi	53.820
17	Alaska	54.356
18	Utah	54.435
19	Missouri	54.681
20	North Dakota	54.795
21	Oklahoma	56.295
22	Kentucky	56.458
23	New Hampshire	56.502
24	Pennsylvania	57.343
25	New Mexico	57.978
26	Illinois	58.375
27	Arkansas	59.197
28	Maryland	59.337
29	Ohio	59.341
30	Kansas	59.853
31	Louisiana	60.066
32	Delaware	60.086
33	Wisconsin	60.183
34	Oregon	60.891
35	Montana	61.552
36	Idaho	51.817
37	Nebraska	63.145
38	Connecticut	64.879
39	North Carolina	65.570
40	West Virginia	66.516
41	Iowa	69.161

42	Hawaii	70.416
43	Vermont	71.370
44	Massachusetts	72.055
45	Minnesota	72.096
46	New York	73.189
47	Maine	74.222
48	Rhode Island	75.604
49	California	77.985
50	New Jersey	79.231
51	Dist. Of Columbia	81.905

Table A-2. State Rankings of Top Personal Income Tax Rates

Rank	State	Top PIT Rate
1	Alaska	0
1	Florida	0
1	Nevada	0
1	New Hampshire	0
1	South Dakota	0
1	Tennessee	0
1	Texas	0
1	Washington	0
1	Wyoming	0
10	Illinois	3
11	Pennsylvania	3.07
12	Alabama	3.25
13	Indiana	3.4
14	Louisiana	3.9
15	Michigan	4.35
16	Arizona	4.540
17	Colorado	4.63
18	Maryland	4.75
19	Mississippi	5
19	Connecticut	5
21	New Mexico	5.3
21	Massachusetts	5.3
23	North Dakota	5.54
24	Oklahoma	5.65
25	Virginia	5.75
26	Utah	5.76
27	Iowa	5.837
28	Delaware	5.95
29	Georgia	6
29	Missouri	6
29	Kentucky	6
32	Kansas	6.45
33	West Virginia	6.5

34	Ohio	6.555
35	Wisconsin	6.75
36	Nebraska	6.84
37	New York	6.85
38	Montana	6.9
39	South Carolina	7.000
39	Arkansas	7
41	Idaho	7.8
42	Minnesota	7.85
43	North Carolina	8.000
44	Hawaii	8.25
45	Maine	8.5
45	Dist. Of Columbia	8.5
47	New Jersey	8.96
48	Oregon	9
49	Vermont	9.5
50	Rhode Island	9.9
51	California	10.3

Table A-3. State Rankings of Top Capital Gains Tax Rates

Rank	State	CG Rate
1	Alaska	0
1	Florida	0
1	Nevada	0
1	New Hampshire	0
1	South Dakota	0
1	Tennessee	0
1	Texas	0
1	Washington	0
1	Wyoming	0
10	New Mexico	2.65
11	Wisconsin	2.7
12	Illinois	3
13	Pennsylvania	3.07
14	Indiana	3.4
15	South Carolina	3.92
16	Alabama	4.250
17	Michigan	4.35
18	Arizona	4.54
19	Colorado	4.63
20	Maryland	4.75
21	Arkansas	4.9
22	Connecticut	5
22	Mississippi	5
22	Rhode Island	5
25	Louisiana	5.1

26	Massachusetts	5.3
27	North Dakota	5.54
28	Oklahoma	5.65
29	Vermont	5.7
30	Virginia	5.75
31	Delaware	5.95
32	Georgia	6
32	Kentucky	6
32	Missouri	6
35	Kansas	6.45
36	Utah	6.46
37	West Virginia	6.5
38	Ohio	6.555
39	Nebraska	6.840
40	New York	6.85
41	Montana	6.9
42	Hawaii	7.25
43	Iowa	7.633
44	Idaho	7.8
45	Minnesota	7.85
46	North Carolina	8
47	Dist. Of Columbia	8.5
48	Maine	8.5
49	New Jersey	8.97
50	Oregon	9
51	California	10.3

Table A-4. State Rankings of Top Corporate Income Tax Rates

Rank	State	Top CIT Rate
1	Nevada	0
1	South Dakota	0
1	Washington	0
1	Wyoming	0
5	Michigan	1.9
6	Alabama	4.225
7	Texas	4.5
8	Colorado	4.63
9	Mississippi	5
9	South Carolina	5
9	Utah	5
12	Ohio	5.1
13	Missouri	5.156
14	Louisiana	5.2
15	Florida	5.5
16	Georgia	6.000
16	Kentucky	6
16	Oklahoma	6

16	Virginia	6
20	Hawaii	6.4
21	Arkansas	6.5
21	Tennessee	6.5
23	Oregon	6.6
24	Montana	6.75
25	North Carolina	6.9
26	Arizona	6.968
27	Maryland	7
27	North Dakota	7
29	Illinois	7.3
30	Kansas	7.35
31	Connecticut	7.5
32	Idaho	7.6
32	New Mexico	7.6
34	Nebraska	7.81
35	Wisconsin	7.9
36	Indiana	8.5
36	New Hampshire	8.5
36	Vermont	8.5
39	Delaware	8.700
40	West Virginia	8.75
41	New York	8.775
42	California	8.84
43	Maine	8.930
44	Rhode Island	9
45	New Jersey	9.36
46	Alaska	9.4
47	Massachusetts	9.5
48	Minnesota	9.8
49	Iowa	9.9
50	Dist. Of Columbia	9.975
51	Pennsylvania	9.99

Table A-5. State Rankings of Top Corporate Capital Gains Tax Rates

Rank	State	Corp CG Rate
1	Nevada	0
1	South Dakota	0
1	Washington	0
1	Wyoming	0
5	Michigan	1.9
6	Hawaii	4
7	Alabama	4.225
8	Alaska	4.5
8	Texas	4.5
10	Colorado	4.63
11	Mississippi	5

11	South Carolina	5
11	Utah	5
14	Ohio	5.1
15	Missouri	5.156
16	Louisiana	5.200
17	Florida	5.5
18	Georgia	6
18	Kentucky	6
18	Oklahoma	6
18	Virginia	6
22	Arkansas	6.5
22	Tennessee	6.5
24	Oregon	6.6
25	Montana	6.75
26	North Carolina	6.9
27	Arizona	6.968
28	Maryland	7
28	North Dakota	7
30	Illinois	7.3
31	Kansas	7.35
32	Connecticut	7.5
33	Idaho	7.6
33	New Mexico	7.6
35	Nebraska	7.81
36	Wisconsin	7.9
37	Indiana	8.5
37	New Hampshire	8.5
37	Vermont	8.500
40	Delaware	8.7
41	West Virginia	8.75
42	New York	8.775
43	California	8.840
44	Maine	8.93
45	Rhode Island	9
46	New Jersey	9.36
47	Massachusetts	9.5
48	Minnesota	9.8
49	Iowa	9.9
50	Dist. Of Columbia	9.975
51	Pennsylvania	9.99

Table A-6. State Rankings of State and Local Property Taxes

Rank	State	Prop. Taxes
1	Alabama	1.33
2	Delaware	1.56
3	Arkansas	1.58
4	New Mexico	1.61

5	Oklahoma	1.62
6	Hawaii	1.86
7	Kentucky	1.9
8	West Virginia	2.1
9	Tennessee	2.11
10	Louisiana	2.19
11	Maryland	2.38
12	North Carolina	2.4
13	California	2.55
14	Missouri	2.59
15	Utah	2.63
16	Nevada	2.690
17	Mississippi	2.7
18	Minnesota	2.75
19	Colorado	2.82
20	Idaho	2.83
21	Arizona	2.87
22	South Dakota	2.9
23	Georgia	2.91
24	Virginia	2.96
25	Washington	2.97
26	Oregon	3.03
27	Pennsylvania	3.09
28	South Carolina	3.11
29	North Dakota	3.12
30	Ohio	3.28
31	Florida	3.37
32	Kansas	3.42
33	Iowa	3.52
34	Nebraska	3.63
35	Montana	3.68
36	Dist. Of Columbia	3.69
37	Massachusetts	3.7
38	Alaska	3.78
39	Michigan	3.900
40	Indiana	3.91
41	Illinois	4.04
42	Texas	4.07
43	Wisconsin	4.240
44	Connecticut	4.31
45	New York	4.42
46	Wyoming	4.69
47	Rhode Island	4.8
48	New Jersey	5.03
49	Vermont	5.19
50	Maine	5.3
51	New Hampshire	5.37

Table A-7. State Rankings of State and Local Sales, Gross Receipts and Excise Taxes		
Rank	State	SGRE Taxes
1	Oregon	0.5
2	Delaware	0.93
3	Montana	0.99
4	New Hampshire	1.16
5	Alaska	1.53
6	Massachusetts	1.87
7	Maryland	2.13
8	Virginia	2.37
9	New Jersey	2.55
10	Pennsylvania	2.71
11	Maine	2.79
12	Wisconsin	2.8
12	Connecticut	2.8
14	Iowa	2.89
15	Colorado	2.92
16	North Carolina	3.000
17	Ohio	3.03
18	South Carolina	3.12
19	Idaho	3.2
20	Michigan	3.23
20	Minnesota	3.23
22	Illinois	3.26
22	Georgia	3.26
24	Oklahoma	3.28
25	Rhode Island	3.31
25	Indiana	3.31
27	Kansas	3.36
28	North Dakota	3.37
29	California	3.42
30	Vermont	3.44
31	Missouri	3.47
31	Nebraska	3.47
33	Kentucky	3.52
34	New York	3.55
35	Texas	3.79
36	Alabama	3.8
37	Utah	3.92
38	West Virginia	3.95
39	Wyoming	3.960
39	South Dakota	3.96
41	Dist. Of Columbia	4.06
42	Mississippi	4.32
43	Florida	4.470
44	Arizona	4.5
45	Tennessee	4.63

46	New Mexico	4.9
47	Arkansas	5.24
48	Nevada	5.66
49	Washington	5.78
50	Hawaii	6.23
51	Louisiana	6.36

Table A-8. State Rankings of Adjusted Unemployment Taxes

Rank	State	Unemp. Tax
1	California	0.86
2	Dist. Of Columbia	0.97
3	Arizona	1.04
4	Florida	1.06
5	Indiana	1.11
6	Virginia	1.2
7	Georgia	1.24
7	Mississippi	1.24
9	South Carolina	1.28
10	Colorado	1.3
11	Louisiana	1.32
11	New Hampshire	1.32
13	Nebraska	1.42
14	Vermont	1.43
15	Alabama	1.44
16	Maryland	1.450
17	New York	1.58
18	Delaware	1.67
19	Kansas	1.69
20	Connecticut	1.76
21	Maine	1.84
22	Missouri	1.85
23	Texas	1.89
24	West Virginia	1.91
25	South Dakota	1.95
26	Pennsylvania	1.96
27	Tennessee	2.04
28	Illinois	2.08
29	Ohio	2.17
30	Michigan	2.25
31	Kentucky	2.27
32	Oklahoma	2.35
33	Wisconsin	2.54
34	North Carolina	2.86
35	New Mexico	2.96
36	New Jersey	3.16
37	Arkansas	3.23
38	Massachusetts	3.24

39	Rhode Island	3.380
40	Nevada	3.69
41	Alaska	3.71
42	Oregon	4.06
43	Washington	4.480
44	Idaho	4.68
45	Montana	4.72
46	Wyoming	4.73
47	Hawaii	4.93
48	Iowa	5.29
49	North Dakota	5.31
50	Minnesota	5.6
51	Utah	6.65

Table A-9. State Rankings of Number of Health Insurance Mandates

Rank	State	Hlth Mand
1	Idaho	0.7
2	Dist. Of Columbia	0.85
3	Alabama	0.9
4	Hawaii	1.1
4	Utah	1.1
6	Iowa	1.15
7	Delaware	1.2
8	Michigan	1.3
8	Ohio	1.3
8	Vermont	1.3
11	Alaska	1.4
11	South Carolina	1.4
13	Arizona	1.45
13	Mississippi	1.45
15	South Dakota	1.5
16	Nebraska	1.550
16	Wisconsin	1.55
18	Oregon	1.6
18	Wyoming	1.6
20	Kentucky	1.65
20	North Dakota	1.65
22	Indiana	1.7
23	Oklahoma	1.8
23	West Virginia	1.8
25	Kansas	1.85
26	New Hampshire	1.9
26	Pennsylvania	1.9
28	Georgia	1.95
28	Illinois	1.95

28	Missouri	1.95
28	Montana	1.95
32	Arkansas	2
32	Tennessee	2
34	New Jersey	2.05
35	Louisiana	2.15
35	Massachusetts	2.15
35	Rhode Island	2.15
38	New Mexico	2.25
39	Colorado	2.300
39	Florida	2.3
39	Maine	2.3
39	North Carolina	2.3
43	California	2.450
43	Nevada	2.45
43	New York	2.45
43	Washington	2.45
47	Connecticut	2.5
48	Texas	2.6
49	Virginia	2.75
50	Maryland	3
51	Minnesota	3.15

Table A-10. State Rankings of Electric Utility Costs

Rank	State	Elec. Costs
1	West Virginia	0.54
1	Idaho	0.54
3	Wyoming	0.56
4	Washington	0.66
5	Kentucky	0.67
6	Indiana	0.69
6	North Dakota	0.69
8	Arkansas	0.71
8	Nebraska	0.71
10	Oregon	0.73
11	Utah	0.74
11	South Dakota	0.74
13	Tennessee	0.76
13	Iowa	0.76
13	South Carolina	0.76
16	Virginia	0.770
17	New Mexico	0.8
17	Oklahoma	0.8
17	Kansas	0.8
17	Montana	0.8
21	North Carolina	0.81
21	Missouri	0.81

23	Alabama	0.83
24	Ohio	0.86
24	Colorado	0.86
24	Minnesota	0.86
24	Mississippi	0.86
28	Georgia	0.88
29	Louisiana	0.89
30	Arizona	0.93
30	Wisconsin	0.93
32	Illinois	0.94
32	Michigan	0.94
34	Pennsylvania	0.99
35	Nevada	1.06
36	Florida	1.08
37	Texas	1.11
38	Delaware	1.21
39	Vermont	1.270
40	Dist. Of Columbia	1.29
41	Maryland	1.3
42	Alaska	1.35
43	Maine	1.360
44	Rhode Island	1.4
45	New Hampshire	1.43
46	California	1.43
47	New Jersey	1.57
48	Massachusetts	1.6
49	New York	1.7
50	Connecticut	1.71
51	Hawaii	2.2

Table A-11. State Rankings of Workers' Compensation Benefits Per $100 of Covered Wages

Rank	State	Work Comp
1	Dist. Of Columbia	0.31
2	Texas	0.55
3	Arizona	0.58
3	Massachusetts	0.58
5	Indiana	0.61
6	Arkansas	0.62
6	Virginia	0.62
8	New York	0.68
8	Utah	0.68
10	Maryland	0.76
11	Rhode Island	0.8
12	Connecticut	0.83
12	Georgia	0.83
12	South Dakota	0.83

15	New Jersey	0.85
16	Nevada	0.860
17	Michigan	0.87
18	New Hampshire	0.88
18	North Dakota	0.88
20	Minnesota	0.89
21	Kansas	0.9
22	Delaware	0.92
23	Oregon	0.94
24	Illinois	0.98
24	Tennessee	0.98
26	Iowa	1.01
26	New Mexico	1.01
28	Alabama	1.02
29	Colorado	1.03
30	Mississippi	1.04
31	Nebraska	1.06
31	North Carolina	1.06
33	Florida	1.09
34	Louisiana	1.11
35	Missouri	1.18
36	Kentucky	1.22
37	Vermont	1.23
38	Hawaii	1.24
39	Pennsylvania	1.250
40	Ohio	1.26
41	Wisconsin	1.27
42	Idaho	1.33
43	Oklahoma	1.340
44	South Carolina	1.37
45	Maine	1.44
45	Wyoming	1.44
47	California	1.59
48	Alaska	1.7
49	Washington	1.72
50	Montana	2.11
51	West Virginia	3.39

Table A-12. State Rankings of Crime Rate

Rank	State	Crime Rate
1	New Hampshire	1.93
2	South Dakota	1.95
3	North Dakota	2.08
4	Vermont	2.4
5	Maine	2.53
6	New York	2.55
7	New Jersey	2.69

8	Kentucky	2.8
9	Massachusetts	2.82
10	Connecticut	2.83
11	Pennsylvania	2.84
12	West Virginia	2.9
12	Wisconsin	2.9
14	Virginia	2.92
15	Idaho	2.95
16	Rhode Island	2.970
17	Iowa	3.13
18	Minnesota	3.38
19	Wyoming	3.39
20	Montana	3.42
21	Mississippi	3.54
22	Illinois	3.63
23	Michigan	3.64
24	Nebraska	3.71
25	Delaware	3.74
26	Indiana	3.78
27	California	3.85
28	Ohio	4.01
29	Utah	4.1
30	Kansas	4.17
31	Alaska	4.24
32	Maryland	4.25
33	Louisiana	4.28
34	Alabama	4.32
35	Colorado	4.44
36	Missouri	4.45
37	North Carolina	4.54
38	Oklahoma	4.55
39	Arkansas	4.590
40	Georgia	4.62
41	Oregon	4.69
42	Florida	4.72
43	Nevada	4.850
43	New Mexico	4.85
45	Texas	4.86
46	Tennessee	5.03
47	Hawaii	5.05
48	South Carolina	5.1
49	Washington	5.24
50	Arizona	5.35
51	Dist. Of Columbia	6.21

Table A-13. State Rankings of the Number of Government Employees

Rank	State	Govt Employ

1	Nevada	4.14
2	Pennsylvania	4.57
3	Arizona	4.62
4	Florida	4.79
5	Rhode Island	4.8
6	Michigan	4.82
7	Oregon	4.91
8	Illinois	4.95
9	California	4.99
10	Utah	5.05
11	Massachusetts	5.16
12	Maryland	5.18
12	Wisconsin	5.18
14	Washington	5.21
15	Minnesota	5.27
15	Indiana	5.270
17	New Hampshire	5.31
18	West Virginia	5.36
18	Tennessee	5.36
20	Connecticut	5.37
20	Ohio	5.37
22	Georgia	5.4
23	Hawaii	5.41
24	Idaho	5.42
25	Missouri	5.48
26	Texas	5.59
27	Virginia	5.63
28	Montana	5.74
29	Arkansas	5.76
29	South Carolina	5.76
31	North Carolina	5.77
32	South Dakota	5.78
33	Kentucky	5.8
33	Delaware	5.8
35	New Jersey	5.87
35	Maine	5.87
37	Alabama	5.93
38	Oklahoma	5.99
39	New York	6.170
40	Iowa	6.23
41	Louisiana	6.43
41	Vermont	6.43
43	North Dakota	6.480
44	Mississippi	6.49
45	New Mexico	6.55
46	Nebraska	6.64
47	Kansas	6.69
48	Colorado	7.28
49	Alaska	7.85

50	Dist. Of Columbia	8.02
51	Wyoming	8.89

Table A-14. State Rankings of State Gas Taxes

Rank	State	Gas Tax
1	Alaska	0.8
2	Wyoming	1.14
3	New Jersey	0.145
4	South Carolina	0.168
5	Oklahoma	0.17
6	Missouri	0.176
7	New Mexico	0.18
8	Kentucky	0.185
9	Mississippi	0.188
10	Arizona	0.19
11	New Hampshire	0.196
11	Virginia	0.196
13	Dist. Of Columbia	0.2
13	Louisiana	0.2
13	Minnesota	0.2
13	Texas	0.200
13	Vermont	0.2
18	Alabama	0.202
19	Tennessee	0.214
20	Iowa	0.217
21	Arkansas	0.218
22	Colorado	0.22
23	Delaware	0.23
23	North Dakota	0.23
25	Maryland	0.235
25	Massachusetts	0.235
27	South Dakota	0.24
28	Utah	0.245
29	Idaho	0.25
29	Kansas	0.25
29	Oregon	0.25
32	Georgia	0.265
33	Montana	0.278
34	Nebraska	0.279
35	Ohio	0.28
36	Maine	0.291
37	North Carolina	0.3
38	Rhode Island	0.31
39	West Virginia	0.315
40	Indiana	0.316
41	Pennsylvania	0.323

42	Nevada	0.325
43	Florida	0.326
43	Hawaii	0.326
45	Wisconsin	0.329
46	Washington	0.36
47	Michigan	0.362
48	Illinois	0.406
49	New York	0.409
50	Connecticut	0.439
51	California	0.444

Table A-15. State Rankings of State and Local Government Five-Year Spending Trends, 1999-00 to 2004-05

Rank	State	Spend Trend
1	Alaska	0.34
2	Oregon	0.47
3	Minnesota	0.62
4	Utah	0.65
5	North Dakota	0.7
6	Wisconsin	0.73
7	Connecticut	0.74
7	Georgia	0.74
7	Hawaii	0.74
10	Kentucky	0.75
11	North Carolina	0.77
11	West Virginia	0.77
13	Michigan	0.78
14	Colorado	0.82
15	Arizona	0.83
15	Montana	0.830
17	Iowa	0.84
18	Idaho	0.9
18	Texas	0.9
18	Washington	0.9
21	Virginia	0.93
22	Mississippi	0.95
23	Illinois	0.96
23	Maryland	0.96
25	Tennessee	0.97
26	Alabama	0.98
26	Kansas	0.98
26	Missouri	0.98
26	Nebraska	0.98
26	Nevada	0.98
26	South Dakota	0.98
32	Louisiana	1.01
32	Maine	1.01

34	New York	1.05
35	Indiana	1.06
36	Massachusetts	1.09
36	New Mexico	1.09
36	Pennsylvania	1.09
39	New Hampshire	1.100
40	Ohio	1.14
41	South Carolina	1.15
42	Oklahoma	1.19
43	Vermont	1.200
44	Arkansas	1.24
45	California	1.25
46	Delaware	1.28
46	Dist. Of Columbia	1.28
48	New Jersey	1.29
49	Florida	1.35
50	Rhode Island	1.47
51	Wyoming	1.61

Table A-16. State Rankings of Per Capita State and Local Government Expenditures, 2004-05

Rank	State	Spend vs Avg
1	Arkansas	0.78
1	Idaho	0.78
1	Oklahoma	0.78
4	Missouri	0.8
4	South Dakota	0.8
6	Georgia	0.81
6	Kentucky	0.81
8	Arizona	0.82
9	New Hampshire	0.83
9	Texas	0.83
11	Indiana	0.84
12	Virginia	0.85
12	West Virginia	0.85
14	Kansas	0.86
14	Mississippi	0.86
14	Montana	0.860
17	Utah	0.87
18	North Carolina	0.88
19	Louisiana	0.9
19	Nevada	0.9
19	Tennessee	0.9
22	Alabama	0.91
23	Florida	0.92
23	Iowa	0.92
23	Maryland	0.92

26	Colorado	0.94
26	North Dakota	0.94
28	Michigan	0.95
29	Illinois	0.96
30	Maine	0.97
30	South Carolina	0.97
32	Wisconsin	0.98
33	Ohio	1
33	Oregon	1
35	Nebraska	1.01
35	New Mexico	1.01
35	Pennsylvania	1.01
38	Hawaii	1.03
39	Vermont	1.040
40	Minnesota	1.06
41	Connecticut	1.07
42	Rhode Island	1.09
43	New Jersey	1.110
44	Delaware	1.12
44	Washington	1.12
46	Massachusetts	1.15
47	California	1.19
48	Wyoming	1.39
49	New York	1.48
50	Alaska	1.89
51	Dist. Of Columbia	1.95

Table A-17. State Rankings of Highway Cost Effectiveness, 2005

Rank	State	Hgwy Cost Eff
1	North Dakota	0.05
2	South Carolina	0.1
3	Kansas	0.15
4	New Mexico	0.2
5	Montana	0.25
6	Georgia	0.3
7	Wyoming	0.35
8	Oregon	0.4
9	Nevada	0.45
10	Idaho	0.5
11	South Dakota	0.55
12	Kentucky	0.6
13	Minnesota	0.65
14	Indiana	0.7
15	Texas	0.75
16	Ohio	0.800
17	Missouri	0.85
18	Virginia	0.9

19	Nebraska	0.95
20	Tennessee	1
21	Utah	1.05
22	Wisconsin	1.1
23	Maine	1.15
24	Oklahoma	1.2
25	Mississippi	1.25
26	West Virginia	1.3
27	Arizona	1.35
28	Arkansas	1.4
29	Colorado	1.45
30	Louisiana	1.5
31	North Carolina	1.55
32	Washington	1.6
33	Illinois	1.65
34	New Hampshire	1.7
35	Iowa	1.75
36	Pennsylvania	1.8
37	Vermont	1.85
38	Maryland	1.9
39	Connecticut	1.950
40	Delaware	2
41	Florida	2.05
42	Michigan	2.1
43	Alabama	2.150
44	California	2.2
45	Massachusetts	2.25
46	Hawaii	2.3
47	Rhode Island	2.35
48	New York	2.4
49	Alaska	2.45
50	New Jersey	2.5

Appendix 2. U.S. Economic Freedom Index

Table B-1. U.S. Economic Freedom Index 2004

State	Rank
Alabama	25
Alaska	33
Arizona	11
Arkansas	23
California	49
Colorado	2
Connecticut	48
Delaware	8
Florida	22
Georgia	19
Hawaii	35
Idaho	4
Illinois	46
Indiana	14
Iowa	16
Kansas	1
Kentucky	39
Louisiana	40
Maine	30
Maryland	27
Massachusetts	41
Michigan	34
Minnesota	44
Mississippi	28
Missouri	10
Montana	21
Nebraska	20
Nevada	12
New Hampshire	7
New Jersey	42
New Mexico	37
New York	50
North Carolina	24
North Dakota	18
Ohio	43
Oklahoma	6
Oregon	29
Pennsylvania	45
Rhode Island	47
South Carolina	13
South Dakota	15
Tennessee	26

Texas	17
Utah	5
Vermont	36
Virginia	3
Washington	31
West Virginia	32
Wisconsin	38
Wyoming	9

Table B-2. Sector Scores and Rankings, 2004

State	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
Alabama	17	1	28	30	18	6	34	46	28	31
Alaska	21	9	26	17	33	42	35	47	36	47
Arizona	21	5	28	28	28	26	17	6	20	13
Arkansas	22	10	27	19	29	29	27	26	28	32
California	35	48	36	50	16	3	25	21	40	48
Colorado	22	12	20	2	24	19	20	10	16	7
Connecticut	37	50	36	49	35	47	16	3	36	46
Delaware	26	34	20	3	35	46	17	7	22	17
Florida	23	20	31	41	22	12	22	15	21	15
Georgia	21	6	30	39	14	2	18	8	18	9
Hawaii	25	31	29	35	32	36	28	30	30	37
Idaho	23	22	25	14	23	16	25	23	9	1
Illinois	29	39	34	48	16	4	20	11	31	39
Indiana	22	11	30	36	32	37	22	13	20	14
Iowa	25	29	26	18	28	25	32	41	20	11
Kansas	22	13	21	4	22	13	25	22	12	2
Kentucky	24	27	32	44	31	33	27	25	32	44
Louisiana	24	23	31	40	26	20	29	35	32	45
Maine	30	41	28	27	33	39	28	31	25	22
Maryland	28	37	28	26	27	22	17	4	25	25
Massachusetts	31	43	28	25	29	30	17	5	32	43
Michigan	29	38	25	10	12	1	28	29	25	21
Minnesota	34	46	28	24	20	10	27	27	29	33
Mississippi	22	15	25	13	22	15	33	43	29	34
Missouri	18	2	27	21	30	32	23	20	23	19
Montana	24	26	25	12	31	34	34	45	25	24
Nebraska	24	28	24	6	31	35	33	44	25	23
Nevada	23	18	25	11	19	7	11	2	20	10
New Hampshire	24	24	27	20	40	50	7	1	20	12
New Jersey	35	49	29	33	28	23	22	16	27	29
New Mexico	25	30	34	47	33	41	36	48	27	28
New York	34	47	31	42	20	8	37	50	46	50
North Carolina	23	21	27	22	24	18	23	18	26	26
North Dakota	23	17	19	1	29	28	37	49	29	35
Ohio	26	33	32	45	20	9	25	24	32	42

Oklahoma	23	19	24	8	30	31	28	34	14	5
Oregon	26	32	33	46	28	24	30	36	22	16
Pennsylvania	30	42	32	43	21	11	27	28	30	36
Rhodelsland	32	44	29	31	34	45	22	17	41	49
South Carolina	19	4	23	5	34	43	32	42	27	30
South Dakota	21	7	28	29	32	38	21	12	25	20
Tennessee	19	3	30	37	26	21	22	14	31	38
Texas	22	14	30	38	22	14	23	19	18	8
Utah	23	16	25	9	35	48	30	38	15	6
Vermont	30	40	24	7	34	44	30	37	32	41
Virginia	21	8	25	15	28	27	19	9	14	4
Washington	28	36	26	16	23	17	31	40	26	27
West Virginia	24	25	29	34	33	40	31	39	31	40
Wisconsin	32	45	28	23	16	5	28	33	23	18
Wyoming	27	35	29	32	39	49	28	32	14	3

Table B-3. The Effect of Annual Income Per Capita of Becoming the Freest State and the Oppression Tax

Rank	State	Annual Income Hike ($)	Oppression Tax (%)
1	Kansas	—	—
2	Colorado	245	0.81
3	Virginia	75	0.25
4	Idaho	1185	5.35
5	Utah	556	2.52
6	Oklahoma	1062	4.69
7	New Hampshire	35	0.11
8	Delaware	1150	3.92
9	Wyoming	706	2.68
10	Missouri	1433	5.6
11	Arizona	633	2.72
12	Nevada	2001	7.34
13	South Carolina	1292	5.75
14	Indiana	1482	5.9
15	South Dakota	896	3.73
16	Iowa	1285.000	5.16
17	Texas	261	1
18	North Dakota	1432	6.14
19	Georgia	942	3.63
20	Nebraska	920	3.53
21	Montana	1172	5.45
22	Florida	1226	4.71
23	Arkansas	702	3.36
24	North Carolina	376	1.5
25	Alabama	798	3.58
26	Tennessee	276	1.13
27	Maryland	1823	5.71
28	Mississippi	787	3.98
29	Oregon	1080	4.22

30	Maine	1833	7.61
31	Washington	62	0.22
32	West Virginia	697	3.36
33	Alaska	2025	7.15
34	Michigan	1899	7.04
35	Hawaii	2963	11.36
36	Vermont	1538	6.02
37	New Mexico	1095	5.18
38	Wisconsin	1601	6.06
39	Kentucky	618.000	2.7
40	Louisiana	750	3.41
41	Massachusetts	1637	4.62
42	New Jersey	2392	6.87
43	Ohio	1457.000	5.58
44	Minnesota	915	3.06
45	Pennsylvania	988	3.53
46	Illinois	2188	7.32
47	Rhode Island	3607	13.17
48	Connecticut	336	0.88
49	California	1180	3.95
50	New York	2441	7.45

Appendix 3. Tax Foundation Study

Table C-1. Federal Income Tax Compliance Costs by State Per Capita and Per $1000 of Personal Income and Corresponding Ranks

	Total ($Thousands)	Percentage of Tax Liability	Per Capita	Per $1000 of Net National Product	Rank		
					Percentage of Tax Liablity	Per Capita	Per $1000 of Net National Product
All States (a)	265076056	0.222	897	24.29	—	—	—
Alabama	3219941	0.267	711	23.28	24	47	38
Alaska	553629	20.5	837	21.98	39	35	43
Arizona	4507259	24.1	768	25.19	31	44	25
Arkansas	2197035	32.5	791	28.11	7	40	15
California	27475735	16.2	762	19.26	48	45	50
Colorado	5388835	0.25	1167	29.48	27	3	10
Connecticut	3549749	12.6	1013	19.73	50	12	49
Delaware	988048	28.1	1181	30.68	18	2	5
Florida	18755867	23.9	1071	30.65	33	9	6
eorgia	7319114	24	820	24.04	32	36	33
Hawaii	1106040	0.242	866	24.11	30	31	32
Idaho	1253011	32.6	891	29.85	6	25	8
Illinois	11889942	20.1	936	23.38	41	19	36
Indiana	5099098	26.1	816	23.99	26	37	34
Iowa	2674188	32.000	899	26.05	8.000	23	18
Kansas	2411895	0.271	877	25.17	23	28	26
Kentucky	3208358	30.2	771	24.86	12	43	28
Louisiana	3522208	31.9	777	25.28	9	42	22
Maine	1259019	29.7	955	28.35	15	17	14
Maryland	5290059	19.5	945	21.82	43	18	45
Massachusetts	6413657	0.157	984	21.07	49	14	48
Michigan	8580129	24.6	841	23.33	28	34	37
Minnesota	4662462	21.2	901	22.18	38	22	41
Mississippi	1918420	31.8	658	24.14	10	50	31
Missouri	5051342	27.9	876	25.26	20	29	23
Montana	1077950	0.387	1155	38.4	1	4	1
Nebraska	1731409	31.1	993	27.06	11	13	16
Nevada	2564021	20.2	1090	30.82	40	7	4
New Hampshire	1212655	18.5	922	22.56	47	21	40
New Jersey	9596512	18.6	1097	23.06	46	6	39
New Mexico	1418602	0.302	746	25.73	13	46	20
New York	20945020	19.7	1088	25.21	42	8	24
North Carolina	7079188	27.2	813	25.3	22	38	21

North Dakota	619054	33.3	974	28.91	5	16	12
Ohio	10131002	28	883	24.97	19	27	27
Oklahoma	3262950	0.356	927	30.33	3	20	7
Oregon	3216470	26.4	894	26.17	25	24	17
Pennsylvania	10483154	22.200	844	21.94	36.000	32	44
Rhode Island	1222267	27.5	1125	29.8	21	5	9
South Carolina	3295212	29.6	777	25.74	16	41	19
South Dakota	753053	0.299	976	28.86	14	15	13
Tennessee	4206418	21.700	705	21.57	37.000	48	47
Texas	18151157	22.3	797	23.81	35	39	35
Utah	2529996	38.5	1046	36.79	2	10	2
Vermont	649762	29	1030	28.94	17	11	11
Virginia	6354535	0.187	841	21.65	45	33	46
Washington	5432102	18.8	875	22	44	30	42
West Virginia	1254098	33.3	689	24.3	4	49	30
Wisconsin	4924727	24.4	887	24.59	29	26	29
Wyoming	629920	22.8	1242	33.27	34	1	3
Dist of Columbia	3017969	0.761	5476	100.85	—	—	—

Table C-2. Federal Income Tax Compliance Costs by Type of Filer by State Calendar Year 2005 $ Thousands

	Total	Individual	Business	Non-Profit
All States (a)	265076056	110668347	147648311	6759399
Alabama	3219941	1432185	1712680	75076
Alaska	553629	247410	277609	28610
Arizona	4507259	1640739	2777771	88749
Arkansas	2197035	868421	1278145	50470
California	27475735	11826059	14931660	718016
Colorado	5388835	1820842	3440136	127857
Connecticut	3549749	1410219	2021643	117887
Delaware	988048	377344	586206	24498
Florida	18755867	6472362	11990886	292618
Georgia	7319114	2811077	4361151	146886
Hawaii	1106040	500796	572120	33124
Idaho	1253011	426756	798792	27463
Illinois	11889942	5208953	6376240	304749
Indiana	5099098	2240684	2700037	158377
Iowa	2674188	1172893	1406308	94987
Kansas	2411895	1018715	1322168	71012
Kentucky	3208358	1374291	1757070	76997
Louisiana	3522208	1230745	2215189	76275
Maine	1259019	557666	654479	46874
Maryland	5290059	2265594	2879702	144763
Massachusetts	6413657	2948390	3237789	227478

Michigan	8580129	3464278	4907878	207973
Minnesota	4662462	1738501	2747499	176462
Mississippi	1918420	854252	1017166	47002
Missouri	5051342	2352563	2556643	142136
Montana	1077950	338595	703498	35858
Nebraska	1731409	677272	1001109	53028
Nevada	2564021	819620	1711443	32958
New Hampshire	1212655	509403	659293	43959
New Jersey	9596512	3424417	5953136	218959
New Mexico	1418602	629639	746198	42765
New York	20945020	7829188	12539246	576586
North Carolina	7079188	2962209	3916769	200211
North Dakota	619054	236688	358684	23682
Ohio	10131002	4863542	4955894	311566
Oklahoma	3262950	1520866	1668853	73231
Oregon	3216470	1275268	1838640	102562
Pennsylvania	10483154	5014860	5094842	373452
Rhode Island	1222267	565547	597316	59405
South Carolina	3295212	1371097	1858168	65947
South Dakota	753053	294134	432989	25929
Tennessee	4206418	1989919	2112177	104322
Texas	18151157	7514136	10250072	386949
Utah	2529996	758595	1732893	38508
Vermont	649762	256507	358651	34604
Virginia	6354535	2630501	3541535	182499
Washington	5432102	2264688	3010551	156863
West Virginia	1254098	652160	558040	43898
Wisconsin	4924727	2272859	2492299	159569
Wyoming	629920	194035	416399	19486
District of Columbia	3017969	2622579	314167	81222

Appendix 4. The Best States For Business (Forbes Ranking)

Table D-1. 2006 Forbes Ranking - The Best States For Business

Rank	Name	Business Costs	Labor	Regulatory Environment	Economic Climate	Growth Prospects	Quality Of Life
1	Virginia	10	4	1	8	10	5
2	Texas	22	25	6	7	2	23
3	North Carolina	4	26	3	30	4	26
4	Utah	19	9	18	17	11	17
5	Colorado	31	2	8	35	1	19
6	Idaho	13	16	34	2	22	20
7	Nebraska	9	29	14	27	30	9
8	Delaware	6	6	27	37	25	25
9	Florida	35	13	16	4	3	42
10	Georgia	18	18	4	38	19	29
11	Maryland	42	3	15	9	17	31
12	Washington	37	5	5	26	5	41
13	North Dakota	3	41	17	19	34	13
14	Minnesota	30	14	20	25	31	3
15	Arizona	24	7	36	1	13	43
16	New Jersey	46	15	23	18	6	11
17	South Dakota	2	32	35	11	39	18
18	New Hampshire	44	1	44	16	18	2
19	Oklahoma	16	40	13	13	26	32
20	Tennessee	15	37	12	20	24	34
21	Kansas	28	21	10	48	20	15
22	Missouri	21	22	9	47	35	16
23	Wyoming	1	39	45	3	29	27
24	Arkansas	11	44	25	13	12	40
25	Iowa	8	47	30	31	41	1
26	Nevada	26	24	31	6	14	49
27	South Carolina	17	28	7	46	21	46
28	Connecticut	43	8	43	28	23	4
29	New Mexico	7	38	40	10	8	50
30	Vermont	40	10	46	12	42	8
31	Oregon	34	12	33	40	7	35
32	Indiana	12	46	22	42	43	10
33	Kentucky	5	42	32	43	32	22
34	Ohio	32	33	11	45	47	14
35	New York	47	35	21	24	14	24
36	California	48	17	41	22	9	28
37	Massachusetts	49	19	37	33	27	7
38	Montana	14	20	48	23	45	38
39	Wisconsin	27	30	42	39	38	6

40	Alabama	29	43	19	36	16	39
41	Pennsylvania	38	34	29	32	44	12
42	Hawaii	50	11	38	5	37	44
43	Rhode Island	33	23	50	15	36	33
44	Illinois	39	31	28	43	28	30
45	Michigan	41	45	2	49	49	37
46	Maine	45	26	49	21	48	21
47	Alaska	25	36	39	34	32	48
48	Mississippi	20	49	24	50	40	45
49	West Virginia	23	48	47	29	50	36
50	Louisiana	36	50	26	41	46	47

Table D-2. 2007 Forbes Ranking - The Best States For Business

Overall rank	2006 rank	State	Business Costs Rank	Labor Rank	Regulatory Environment Rank	Economic Climate Rank	Growth Prospects Rank	Quality of Life Rank 6	Population	Gross State Product ($bil)
1	1	Virginia	17	5	1	11	8	6	7,644,230	335
2	4	Utah	12	11	17	9	16	12	2,514,200	81
3	3	North Carolina	6	22	2	27	5	30	8,783,550	336
4	2	Texas	21	26	7	10	2	28	23,261,060	888
5	12	Washington	33	4	5	16	4	32	6,369,300	256
6	6	Idaho	11	10	30	3	23	27	1,462,790	45
7	9	Florida	31	15	12	1	3	35	18,138,140	616
8	5	Colorado	35	2	15	33	1	23	4,736,630	206
9	13	North Dakota	5	37	16	11	42	14	636,480	22
10	14	Minnesota	32	13	19	23	26	1	5,171,890	224
11	8	Delaware	7	14	32	39	14	15	854,950	52
12	11	Maryland	41	3	24	8	15	21	5,642,140	228
13	20	Tennessee	3	39	13	15	21	37	6,011,440	215
14	18	New Hampshire	39	1	42	14	13	5	1,320,830	54
15	10	Georgia	23	25	4	34	17	29	9,228,230	345
16	22	Missouri	14	20	8	44	37	17	5,831,010	199
17	7	Nebraska	15	36	11	30	38	13	1,767,360	66

18	15	Arizona	30	6	37	6	11	40	6,118,130	212
19	16	New Jersey	46	9	33	25	7	3	8,770,910	425
20	21	Kansas	29	18	8	49	22	18	2,750,080	99
21	24	Arkansas	9	40	22	17	9	45	2,805,840	80
22	26	Nevada	19	24	31	6	10	48	2,483,120	106
23	27	South Carolina	20	28	6	36	17	43	4,296,160	133
24	25	Iowa	8	43	26	22	44	11	2,978,920	111
25	17	South Dakota	1	31	45	17	35	24	778,410	29
26	29	New Mexico	10	34	43	5	6	50	1,952,650	62
27	32	Indiana	4	46	18	40	39	20	6,298,140	226
28	31	Oregon	26	7	34	32	19	38	3,684,490	134
29	23	Wyoming	2	35	48	4	36	39	512,830	23
30	19	Oklahoma	18	47	14	20	30	36	3,564,570	104
31	28	Connecticut	44	8	40	37	24	4	3,528,260	189
32	30	Vermont	45	12	35	26	40	10	624,680	22
33	35	New York	48	33	20	21	26	19	19,261,520	947
34	36	California	50	17	39	17	12	26	36,460,740	1,606
35	40	Alabama	27	45	23	23	20	41	4,599,260	140
36	37	Massachusetts	49	19	29	47	29	2	6,403,120	322
36	42	Hawaii	47	16	38	2	40	33	1,279,100	49
38	34	Ohio	36	42	8	45	49	9	11,489,710	416
39	41	Pennsylvania	38	31	27	35	46	7	12,466,570	458
40	44	Illinois	37	30	20	46	31	22	12,819,060	523
41	33	Kentucky	16	41	28	48	25	34	4,201,730	133
42	38	Montana	24	21	47	13	48	42	942,050	27
43	48	Mississippi	13	48	25	40	34	47	2,935,350	71
44	39	Wisconsin	34	38	44	38	33	8	5,563,380	209
45	43	Rhode Island	42	23	49	28	28	25	1,079,590	40
46	45	Michigan	40	44	3	50	47	31	10,139,1	365

47	47	Alaska	28	29	36	42	32	44	50 669,140	32
48	46	Maine	43	27	46	30	42	16	1,327,750	42
49	50	Louisiana	22	50	41	43	45	49	4,467,120	126
50	49	West Virginia	25	49	50	29	50	46	1,820,740	46

Table D-3. 2008 Forbes Ranking - The Best States For Business

Overall rank	2007 rank	State	Business Costs Rank	Labor Rank	Regulatory Environment Rank	Economic Climate Rank	Growth Prospects Rank	Quality of Life Rank 6	Population	Gross State Product ($bil)
1	1	Virginia	20	7	1	6	26	6	7747500	326
2	2	Utah	11	10	19	9	12	8	2665300	87
3	5	Washington	28	2	6	7	2	25	6509100	261
4	3	North Carolina	4	14	2	21	11	34	9162300	333
5	15	Georgia	23	6	5	10	6	31	9652200	343
6	8	Colorado	35	1	22	14	1	12	4901400	204
7	6	Idaho	10	15	29	5	27	15	1511400	46
8	7	Florida	34	5	18	1	5	33	18321700	625
9	4	Texas	25	24	13	11	4	27	24064400	894
10	17	Nebraska	13	28	12	25	23	9	1780600	66
11	10	Minnesota	31	7	20	35	21	4	5218800	218
12	11	Delaware	3	17	27	33	24	29	870400	52
13	9	North Dakota	8	30	13	22	36	26	641400	22
14	12	Maryland	40	9	26	16	15	14	5635500	226
15	26	New Mexico	9	21	30	18	10	50	1986000	65
16	28	Oregon	24	3	41	17	13	36	3774100	144
17	13	Tennessee	5	36	11	29	38	39	6189500	212
18	18	Arizona	32	22	38	3	3	41	6408200	213
19	22	Nevada	26	29	34	2	8	47	2598500	102
20	14	New Hampshire	41	4	44	36	9	5	1317300	50
21	20	Kansas	30	19	9	43	31	24	2790200	97
22	24	Iowa	12	39	22	23	48	13	2995900	108
23	25	South Dakota	1	32	46	15	41	22	798900	29
24	42	Montana	21	18	47	8	19	40	964600	27
25	27	Indiana	6	43	15	40	39	23	6367800	220
26	30	Oklahoma	19	40	8	28	33	37	3629900	108
27	37	Hawaii	47	10	36	4	22	30	1285200	51
28	35	Alabama	22	42	17	31	7	42	4647600	141
29	23	South	27	33	3	41	20	43	4434800	131

		Carolina								
30	16	Missouri	15	41	6	44	45	21	5894400	199
31	29	Wyoming	2	38	48	12	27	38	526300	20
32	21	Arkansas	7	45	25	27	18	48	2844800	80
33	31	Connecticut	45	13	41	24	29	3	3504500	181
34	19	New Jersey	48	20	40	20	32	1	8699000	397
35	40	Illinois	36	27	28	37	25	18	12893500	521
36	36	Massachusetts	46	16	24	45	40	2	6457600	307
36	32	Vermont	43	12	33	31	44	10	621600	22
38	33	New York	49	31	21	19	37	17	19314800	917
39	38	Ohio	29	47	10	47	47	11	11470100	403
40	34	California	50	25	45	12	14	28	36736500	1557
41	39	Pennsylvania	38	34	31	34	42	7	12450500	443
42	43	Mississippi	16	48	16	49	35	46	2926500	72
43	44	Wisconsin	37	37	37	26	46	16	5612800	200
44	41	Kentucky	17	46	35	42	33	35	4261100	129
45	45	Rhode Island	42	35	49	30	16	20	1056700	39
46	48	Maine	44	26	32	39	43	19	1319800	41
47	46	Michigan	39	44	4	46	49	32	10057100	341
48	47	Alaska	33	23	39	47	30	44	686900	30
49	49	Louisiana	18	50	43	50	17	49	4308500	145
50	50	West Virginia	14	49	50	38	50	45	1813800	46

Appendix 5. The Impact of Regulatory Costs on Small Firms: Crain (2005)

Table F. Annual Incidence of Federal Regulations by Firm Size in 2004 (Dollars)*

	Cost per Employee for Firms with:			
Type of Regulation	All Firms	<20 Employees	20-499 Employees	500+ Employees
All Federal Regulations	5633	7647	5411	5282
Economic	2567	2127	2372	2952
Workplace	922	920	1051	841
Environmental	1249	3296	1040	710
Tax Compliance	894	1304	948	780

Appendix 6. Panel Data Regression to Measure Direct Costs of Regulatory Environment to Economic Output

The results of the panel data regression that pools both time series and cross-sectional data from both 2006 and 2007 based on the model below are presented in this section.

Multiple Panel Data Regression - GSP

Dependent variable: GSP

Independent variables:

Business Cost
Economic Climate
Growth Prospects
Labor
Quality of Life
Regulatory Environment

Parameter	Estimate	Standard Error	T Statistic	P-Value
CONSTANT	240566.	103213.	2.33076	0.0219
Business Cost	12726.0	2058.92	6.1809	0.0000
Economic Climate	-3105.26	2157.7	-1.43915	0.1535
Growth Prospects	-10803.1	2555.83	-4.22684	0.0001
Labor	10712.6	2652.1	4.03929	0.0001

Quality of Life	-4113.06	2042.61	-2.01363	0.0469
Regulatory Environment	-4424.16	2098.95	-2.1078	0.0377

Analysis of Variance

Source	Sum of Squares	Df	Mean Square	F-Ratio	P-Value
Model	4.08312E12	6	6.8052E11	10.34	0.0000
Residual	6.12232E12	93	6.58314E10		
Total (Corr.)	1.02054E13	99			

R-squared = 40.0093 percent
R-squared (adjusted for d.f.) = 36.1389 percent
Standard Error of Est. = 256576.
Mean absolute error = 172497.
Durbin-Watson statistic = 2.29381 (P=0.9261)
Lag 1 residual autocorrelation = -0.161074

Since the P-value in the ANOVA table is less than 0.05, there is a statistically significant relationship between the variables at the 95% confidence level.

The R-Squared statistic indicates that the model as fitted explains 40.0093% of the variability in GSP. The adjusted R-squared statistic, which is more suitable for

comparing models with different numbers of independent variables, is 36.1389%. The standard error of the estimate shows the standard deviation of the residuals to be 256576.0. This value can be used to construct prediction limits for new observations by selecting the Reports option from the text menu. The mean absolute error (MAE) of 172497 is the average value of the residuals. The Durbin-Watson (DW) statistic tests the residuals to determine if there is any significant correlation based on the order in which they occur in your data file. Since the P-value is greater than 0.05, there is no indication of serial autocorrelation in the residuals at the 95% confidence level.

Appendix 7. Results from IMPLAN Analysis

Output

Direct Impact: loss of $176,966,402,048

	Indirect*	Induced*	Total*
Manufacturing	$7,575,818,445	$36,220,089,352	$43,795,907,797
Wholesaling	$1,447,455,872	$10,958,849,024	$12,406,304,896
Retailing	$6,276,022,815	$22,992,639,200	$29,268,662,015
Real Estate	$12,490,080,128	$50,651,317,344	$63,141,397,472
Professional Services	$31,060,473,101	$44,380,293,176	$252,407,168,325
Administrative	$1,524,238,592	$3,615,473,880	$5,139,712,472
Education	$18,280,974	$2,496,545,024	$2,514,825,998
Health	$1,169,334	$18,970,450,236	$18,971,619,570
Arts, entertainment, recreation	$5,346,622,918	$4,499,461,512	$9,846,084,430
Accommodations, food services	$515,818,909	$12,903,529,840	$13,419,348,749
Other	$3,264,105,145	$11,114,991,769	$14,379,096,914
Farming	$63,345,767	$4,074,800,142	$4,138,145,909
Federal	$1,004,715,074	$13,497,007,692	$14,501,722,766
State and local	$607,866,188	$8,456,593,440	$9,064,459,628
Total	$71,196,013,262	$244,832,041,631	$492,994,456,941

Employment

Direct Impact: loss of 1,085,927 FTE jobs

	Indirect*	Induced*	Total*
Manufacturing	61,973	274,302	336,275
Wholesaling	0	43	43

Retailing	1,508	15,871	17,379
Real Estate	1,395	6,198	7,594
Professional Services	79,441	423,843	503,284
Administrative	15,195	63,842	79,037
Education	52,182	68,149	120,331
Health	92,902	46,374	139,275
Arts, entertainment, recreation	92,070	115,698	207,768
Accommodations, food services	5,118	25,296	1,116,342
Other	85,903	682,289	768,192
Farming	7,762	131,333	139,096
Federal	0	357,705	357,705
Total	495,450	2,210,942	3,792,319

Labor Income

Direct Impact: loss of $81,815,281,664

	Indirect*	Induced*	Total*
Manufacturing	$2,651,533,633	$8,073,559,567	$10,725,093,200
Wholesaling	$616,426,496	$4,667,033,600	$5,283,460,096
Retailing	$2,435,808,207	$10,057,065,892	$12,492,874,099
Real Estate	$3,060,682,621	$11,310,201,260	$14,370,883,881
Professional Services	$14,073,823,686	$20,803,991,504	$116,693,096,854
Administrative	$799,880,327	$1,933,492,780	$2,733,373,107
Education	$10,203,844	$1,435,994,912	$1,446,198,756
Health	$461,700	$10,908,965,204	$10,909,426,904
Arts, entertainment, recreation	$1,839,529,521	$1,526,487,056	$3,366,016,577
Accommodations, food services	$196,730,318	$4,907,992,312	$5,104,722,630
Other	$1,019,510,848	$4,504,314,868	$5,523,825,716
Farming	$15,553,770	$2,977,130,327	$2,992,684,097
Federal	$361,336,425	$11,271,629,036	$11,632,965,461
State and local	$142,494,096	$7,054,005,584	$7,196,499,680
Total	$27,223,975,492	$101,431,863,902	$210,471,121,058

Indirect Business Taxes

Direct Impact: loss of $1,759,132,416

	Indirect*	Induced*	Total*
Manufacturing	$77,837,229	$304,508,739	$382,345,968
Wholesaling	$238,227,248	$1,803,644,928	$2,041,872,176
Retailing	$246,616,518	$2,728,862,839	$2,975,479,357
Real Estate	$1,155,526,179	$3,744,067,922	$4,899,594,101

	Indirect*	Induced*	Total*
Professional Services	$727,929,931	$964,262,317	$3,451,324,664
Administrative	$29,143,827	$58,982,706	$88,126,533
Education	$84,885	$20,294,468	$20,379,353
Health	$8,825	$137,704,454	$137,713,279
Arts, entertainment, recreation	$90,205,980	$210,654,874	$300,860,854
Accommodations, food services	$39,394,705	$962,681,460	$1,002,076,165
Other	$226,633,007	$460,610,938	$687,243,945
Farming	$960,209	$29,860,064	$30,820,273
Federal	$246,520	$497,009	$743,529
State and local	$2,526,304	$3,305,828	$5,832,132
Total	$2,835,341,367	$11,429,938,546	$16,024,412,329

Appendix 8. Direct Costs to Households and Residents of California State

DIRECT IMPACT PER HOUSEHOLD	2006 pop.	2007 pop.
Adverse Regulatory Cost--Direct Impact	$176,966,400,000	$176,966,400,000
Number of Households in California	12,664,075	12,822,784
Cost per Household	$13,973.89	$13,800.93
Population	37,332,976	37,771,431
Cost per Resident of State	$4,740.22	$4,685.19

Appendix 9. State Revenues from Regulatory Taxes and Licenses

		2006-7 Revenues
ALL HEADINGS		
	Major Taxes and Licenses	$109,359,764,000
	Regulatory Taxes and Licenses	$5,484,317,000
	Revenue From Local Agencies	$1,097,764,000
	Services to the Public	$455,158,000
	Use of Property and Money	$1,555,597,000
	Miscellaneous	$2,180,102,000
	Total	$120,132,702,000

		2006-7 Revenues
	REGULATORY TAXES AND LICENSES	
Economic	General Fish & Game taxes	$1,061,000
Environment	Energy resource surcharge	$600,518,000
Economic	Quarterly Public Utility Commission Fees	$86,646,000
Workplace	Hwy Carrier Uniform business license tax	$255,000
Economic	Off-highway vehicle fees	$11,541,000
Economic	Liquor license fees	$48,881,000
Environment	Genetic disease testing fee	$97,982,000
Economic	New motor vehicle dealer fees	$1,841,000
Economic	General Fish & Game license tag permits	$89,272,000
Workplace	Elevator and Boiler inspection fees	$16,626,000
Workplace	Industrial homework fees	$1,000
Economic	Employment agency license fees	$5,674,000
Economic	Employment agency filing fees	$79,000
Economic	Teacher credential fees	$14,385,000
Economic	Teacher examination fees	$4,257,000
Economic	Insurance company license fees & penalties	$38,087,000
Economic	Insurance company examination fees	$19,042,000
Economic	Real estate examination fees	$8,570,000
Economic	Real estate license fees	$22,575,000
Economic	Subdivision filing fees	$9,358,000
Economic	Building construction filing fees	$4,278,000
Economic	Domestic corporation fees	$12,697,000
Economic	Foreign corporation fees	$1,086,000
Economic	Notary public license fees	$1,869,000
Environment	Beverage container redemption fees	$934,042,000
Environment	Explosive permit fees	$1,000
Environment	Environmental and hazardous waste fees	$66,449,000
Economic	Private rail car tax	$6,703,000
Economic	Insurance department fees, Prop 103	$29,563,000
Economic	Insurance department fees, general	$20,668,000
Economic	Insurance fraud assessment, workers comp	$40,479,000

Economic	Insurance fraud assessment, auto	$43,691,000
Economic	Insurance fraud assessment, general	$5,140,000
Economic	Other regulatory taxes	$2,571,214,000
Economic	Other regulatory licenses and permits	$485,210,000
	Subtotal	$5,299,741,000
	Other	$184,576,000
	Total	$5,484,317,000

		2006-7 Revenues
	MAJOR TAXES AND LICENSES	
Economic	Alcoholic beverage taxes and fees	$333,789,000
Economic	Horse racing license fees	$37,527,000
Economic	Insurance gross premiums tax	$2,178,336,000
	Total	
	REVENUE FROM LOCAL AGENCIES	
Workplace	Architecture public building fees	$48,507,000

Appendix 10. Direct Costs to Small Business in California

		Total Small Business	Employer Small Business	Non-Farm Employer Small Business
Regulation Cost Per Firm		3,675,700	1,137,100	696,300
Direct Regulatory Cost	$176,966,400,000	48,144.95	155,629.58	254,152.52
Labor Income Lost	$81,815,281,664	22,258.42	71,950.82	117,500.05
Indirect Business Taxes Lost	$1,759,132,416	478.58	1,547.03	2,526.40
Number of Jobs Lost	1,085,927	0.30	0.95	1.56
Direct Regulatory Cost	176,966,400,000	48,144.95	155,629.58	254,152.52

Appendix 11. Total Costs (Direct and Second Order) to California Households and Residents.

TOTAL IMPACT PER HOUSEHOLD	2006 pop.	2007 pop.
Adverse Regulatory Cost--Total Impact	$492,994,456,941	$492,994,456,941
Number of Households in California	12,664,075	12,822,784
Cost per Household	$38,928.58	$38,446.76
Population	37,332,976	37,771,431
Cost per Resident of State	$13,205.34	$13,052.05

Appendix 12. Total Costs Relative to General Fund

	2005/6	2006-07	2007-08 Est.	2005/6 to 2007/8 Growth	2006/7 to 2007/8 Growth
GROWTH IN REVENUES					
General Fund	$84,471,000,000	$95,434,051,000	$100,009,982,000	8.81%	2.37%
Special Fund	$24,078,000,000	$24,698,651,000	$25,400,711,000	2.71%	1.41%
Total	$108,549,000,000	$120,132,702,000	$125,410,693,000	7.49%	2.17%

	2005/6	2006-07	Output As Percent 2005-06	Output as Percent 2006-07
GROWTH IN REVENUES				
General Fund	$84,471,000,000	$95,434,051,000	583.63%	516.58%
Special Fund	$24,078,000,000	$24,698,651,000	2047.49%	1996.04%
Total	$108,549,000,000	$120,132,702,000	454.17%	410.37%

Appendix 13. Total Indirect Business Taxes Lost Relative to General Fund Expenditures.

GENERAL FUND EXPENDITURES	2006-07	2007-08 Est.	Growth	Indirect Business Taxes for 2006-07	Indirect Business Taxes for 2007-08 est
Office of Emergency Services	$193,544,000	$268,218,000	38.58%	8279.5%	5974.4%
Science Center	$15,186,000	$19,986,000	31.61%	105521.0%	80178.2%
Department of Fair Employment & Housing	$15,995,000	$18,889,000	18.09%	100183.9%	84834.6%
State & Consumer Services (incl. 2 above)	$594,937,000	$597,795,000	0.48%	2693.5%	2680.6%
Department of Housing & Community Development	$18,733,000	$15,654,000	-16.44%	85541.1%	102366.2%
Department of Transportation	$2,629,930,000	$1,438,555,000	-45.30%	609.3%	1113.9%
Department of Highway Patrol (Operations) **SPECIAL FUNDS**	$1,497,525,000	$1,749,800,000	16.85%	1070.1%	915.8%
California Conservation Corps	$35,755,000	$24,729,000	-30.84%	44817.3%	64800.1%
Department of Conservation	$4,504,000	$5,044,000	11.99%	355781.8%	317692.6%
Department of Forestry & Fire Protection (incl. above)	$710,164,000	$784,932,000	10.53%	2256.4%	2041.5%
Department of Fish & Game	$114,900,000	$96,295,000	-16.19%	13946.4%	16641.0%
Department of Parks & Recreation	$175,449,000	$151,213,000	-13.81%	9133.4%	10597.2%
Department of Water Resources	$492,154,000	$198,845,000	-59.60%	3256.0%	8058.7%
Air Resources Board	$2,280,000	$2,377,000	4.25%	702825.1%	674144.4%
Department of Toxic Substances Control	$25,006,000	$29,633,000	18.50%	64082.3%	54076.2%
Environmental Protection (incl 2 above)	$83,820,000	$92,197,000	9.99%	19117.6%	17380.6%
Emergency Medical Services Authority	$29,065,000	$12,546,000	-56.83%	55133.0%	127725.3%
Department of Aging	$60,978,000	$62,798,000	2.98%	26279.0%	25517.4%
Department of Health Care Services (incl 2 above)	$14,157,735,000	$14,417,739,000	1.84%	113.2%	111.1%
Department of Developmental Services	$2,532,094,000	$2,668,382,000	5.38%	632.9%	600.5%
Department of Mental Health	$1,855,198,000	$1,971,118,000	6.25%	863.8%	813.0%
Department of Community Services & Development	$3,000,000	$3,000,000	0.00%	534147.1%	534147.1%
Department of Rehabilitation	$55,511,000	$55,513,000	0.00%	28867.1%	28866.1%
Department of Child Support Services	$525,645,000	$351,700,000	-33.09%	3048.5%	4556.3%

GENERAL FUND EXPENDITURES	2006-07	2007-08 Est.	Growth	Indirect Business Taxes for 2006-07	Indirect Business Taxes for 2007-08 est
Department of Social Services (incl. 5 above)	$9,131,831,000	$9,119,279,000	-0.14%	175.5%	175.7%
Health & Human Services (incl. 9 above)	$29,011,647,000	$29,758,488,000	2.57%	55.2%	53.8%
Department of Education	$37,347,850,000	$38,331,008,000	2.63%	42.9%	41.8%
State Library	$62,592,000	$48,991,000	-21.73%	25601.4%	32708.9%
Employment Development Department	$34,123,000	$31,047,000	-9.01%	46960.7%	51613.4%
Arts Council	$1,211,000	$1,227,000	1.32%	1323238.0%	1305983.1%
Department of Food & Agriculture	$101,958,000	$107,830,000	5.76%	15716.7%	14860.8%
Department of Veterans Affairs	$13,485,000	$36,038,000	167.25%	118831.4%	44465.3%

Appendix 14. Total Costs (Direct and Second Order) to Small Business in California

		Total Small Business	Employer Small Business	Non-Farm Employer Small Business
Regulation Cost Per Firm		3,675,700	1,137,100	696,300
Total Regulatory Cost	$492,994,000,000	134,122.48	433,553.78	708,019.53
Indirect Business Taxes Lost	$16,024,412,329	4,359.55	14,092.35	23,013.66
Labor Income Lost	$210,471,121,058	57,260.15	185,094.65	302,270.75
Number of Jobs Lost	3,792,319	1.03	3.34	5.45
Direct Regulatory Cost	176,966,400,000	48,144.95	155,629.58	254,152.52

Appendix 15. Lost Labor Income Relative to Consumer Spending

Consumer Spending (2005)	Percent	Labor Income
Income before taxes		
Food at home	5.35%	$11,258,024,871
Food away from home	4.27%	$8,978,969,085
Shelter	17.19%	$36,187,192,506
Utilities, fuels, and public services	4.43%	$9,330,084,122
Household operations	1.38%	$2,914,254,808
Housekeeping supplies	0.95%	$2,007,739,621
Household furnishings and equipment	3.36%	$7,066,988,110
Apparel and services	3.00%	$6,304,110,893
Transportation	15.27%	$32,136,601,759
Medical services	1.24%	$2,617,403,004
Drugs	0.70%	$1,465,107,291
Medical supplies	0.16%	$335,155,263
Entertainment	4.47%	$9,416,266,904
Personal care products and services	0.94%	$1,988,587,892
Reading	0.24%	$494,753,007
Education	1.40%	$2,955,750,221
Personal insurance and pensions	8.78%	$18,478,226,816
State and local taxes (CNN Money 2005)	10.52%	$22,138,166,972
Miscellaneous	7.07%	$14,890,469,528
Total	90.73%	$190,963,852,675