States with more cumbersome, choice restricting regulations have higher energy costs, reducing a state's economic potential. A closer look at one of the states with the most regulation reveals these higher consumer costs are not only associated with lower overall economic growth but also end up leading to larger disparities of wealth.

AFPM note: this is the second part of a two-part blog. The first part can be found here*, and the post can be read in full* on Medium*.*

California: The Haves and Have Nots

California ranked second to last in PRI's index of economic efficiency, meaning its cumbersome regulations make energy more expensive than almost every other state (sans New York). While a look at last year seems to indicate California's energy regulations have not hampered the state's economy (its economy grew at the second-fastest pace in the nation last year), PRI notes taking a longer view paints a different picture

> Using the rankings, we found strong empirical support for the claim that economically restrictive regulations have an adverse impact on growth. For example, over the last five years, the average growth rate of the top 10 states (the states with the most economically efficient energy regulations) exceeds the growth of the bottom 10 states (the states with the least economically efficient regulations) by over seven and a half percentage points. Unsurprisingly, the higher rate of economic growth is also associated with faster employment growth.

Additionally, recent analysis shows not all Californians have experienced the recovery. Early last year, one report noted that California is the most unequal state in the nation, with Silicon Valley residents scoring among the nation's richest, while the Central Valley is home to the nation's poorest citizens. In October, the financial news site 247wallstreet.com noted only three other states have higher income inequality than California and that, once cost of living is taken into account, the state's poverty rate nears 25 percent, "one of the highest in the country." As of November, the Bureau of Labor Statistics notes the unemployment rate in California is still higher than in most other states (it ranks 39 among the states on this metric).

While many reasons contribute to California's woes, both the PRI report and a look at what consumers pay for energy in the state show why income inequality and unemployment is such a challenge. California has the fourth highest fuel taxes among the states and, as even the Los Angeles Times highlighted last year, the state's fuel regulations make it difficult and more costly to manufacture and supply fuel for consumers. These costs and regulations hit middle-class manufacturing jobs the most. The California Manufacturing and Technology Association revealed that the state's manufacturing growth significantly trails the rest of the nation. The organization's blog links to a recently released report that notes over 1500 companies left California from 2008-2014. The report lists high energy costs due to the state's energy taxes and the cap-and-trade program as a key factor. In discussing these energy regulations and taxes specifically, the study states:

> Such higher taxes will have a "piling on" effect when combined with cost increases related to the state's proposed new workplace and environmental regulations.

Given such factors, as most of the country is reaping the full benefits of the domestic growth in oil production and a world awash in crude, AAA notes Californians are paying nearly *90 cents more per gallon* than the national average at the pump. This reality is important for the state's income inequality issue, because higher energy costs disproportionately impact the poorest citizens. While billionaires in Silicon Valley don't blink when costs jump at the pump, the same cannot be said for the citizens of the Central Valley.

Affordable Energy Is Necessary for Addressing Income Inequality

Affordable energy is necessary to address income inequality. The more money businesses have to pay for manufacturing goods and transporting them to and from markets, the less they have to spend on middle-class jobs and economic growth. More importantly, the more middle to lower-income consumers have to pay transportation fuel and other types of energy, the less money they have to spend on food, education, health care, and job searches, hampering their ability to climb the economic ladder.

Candidates of all stripes will discuss income inequality over the next several months in an attempt to woo voters on the campaign trail. As they do, Americans can only hope they will heed the lessons of California. Recognizing how cumbersome energy regulations and higher costs have inhibited economic and middle-class growth is the first step towards halting growing disparity of wealth. Embracing free-market energy policies that seek to lower costs and maximize consumer choice is the first step towards reversing this trend and ensuring the American dream is truly available to all.

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