

California -- golden dream to golden mean



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National news media are filled with stories of California dysfunction, attracted by the state's fiscal crisis, the resulting issuance of IOUs and the earlier voter rejection of various budget-relation ballot propositions. Not surprisingly, the focus is on the state's highly-visible political institutions. The liberal narrative attributes California's dilemma to Proposition 13 of 1978, which drastically limited local property taxes and required a two-thirds vote for state tax increases. Conservatives blame an inability of politicians to live within their means and point to voter-mandated spending propositions such as Prop. 98 of 1988, which earmarked roughly 40% of the state's general fund for K-14 education.

While there is truth in both narratives, there is a more fundamental shift at work. From the gold rush era to roughly the late 1980s, California grew faster than the rest of the U.S. Today, it represents over 12% of the nation's population and economic activity. It is roughly half again as big as the next largest state, Texas. Various factors contributed that growth. Until World War II, California was an elderly state. People came from the cold Midwest to retire in the sunshine. Not surprisingly, the state — and particularly Southern California — became known for odd religious and political movements catering to those with an eye on the hereafter.

Despite California's pre-War kooky reputation, in the Bay Area, two fellows named Hewlett and Packard were tinkering with electronic equipment in a garage. And nice weather had attracted movie production and aircraft plants to the south. World War II brought an incredible surge in population needed to work in military production. And the Cold War kept the high-paying aerospace industry booming for many years thereafter. In short, world events, good weather and a host of other factors made California the nation's largest state by the mid-1960s.

After World War II, rapid economic growth produced tax revenues needed to finance freeways, water projects, public colleges and universities, and a highly rated K-12 system. California went from being an elderly Florida-style state to a youth culture. Young people could come to California and acquire cheap housing in suburbs built on former farm land.

So what went wrong? The economist's notion of rising marginal cost is the key. Cheap land filled up. It became more and more expensive to add to freeways and augment water supplies. As more people crowded together, the environmental costs of growth became more apparent.

Gov. Pat Brown in the 1960s is today remembered for his infrastructure expansion. But his son

— Jerry Brown — became governor in the mid-1970s talking about an “era of limits.” House prices rose as population growth pressed against the increasing cost of supply. With those rising house prices came soaring property tax bills and Prop 13. In the early 1980s, state voters rejected a major water project expansion. Slow-growth movements arose in response to rising density, congestion and environmental issues.

For a time, these developments were partly offset by the intensifying Cold War with the Soviet Union and military spending in California. But by the late 1980s, the Soviet Union was dissolving, along with the Cold War. In the early 1990s, while the U.S. suffered a mild recession, California had a deep and prolonged recession from which it has never really recovered. The UCLA Anderson Forecast regularly produces a chart plotting California’s actual employment in the 1990s and 2000s against its prior trend. The Forecast projects that by 2011, California will be over 5 million jobs below trend.

California’s population will continue to grow, according to the Forecast, but at roughly the national average.

Despite the impression in the national media that California is becoming a failed state, in fact, what we are observing is a slow and painful adjustment. California is transitioning from being a fast-growth state to an average state, a process that really began in the 1970s. Viewed that way, Prop. 13 was more a reactive symptom of the beginning of that adjustment than a primary cause. Voter

expectations have lagged the adjustment process. The political dysfunction in Sacramento reflects the disjuncture between reality and those expectations.

The key point, however, is not that California is doomed but that it is normal. California has many strengths, including its diversified population. But its challenges now mirror those of the nation. How do we deal with an aging population? What changes are needed to make public schools more effective? How do we adjust from being a low-saving consumer society to one that emphasizes competitiveness and exports? The next time you hear a state official boast that if California were a country, it would be the sixth or seventh largest in the world, just ask “So what?” We may be big, but that doesn’t allow us to avoid facing the same issues as any other state.

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California Nonfarm Employment
History & Forecast
Vs. 2.3% Trend from 1990:3

