

Beyond Recession: California's Long-Term Economic Prospects

Jed Kolko



Outline

- Long-term economic strengths
- Challenges and imbalances
- Policy looking forward



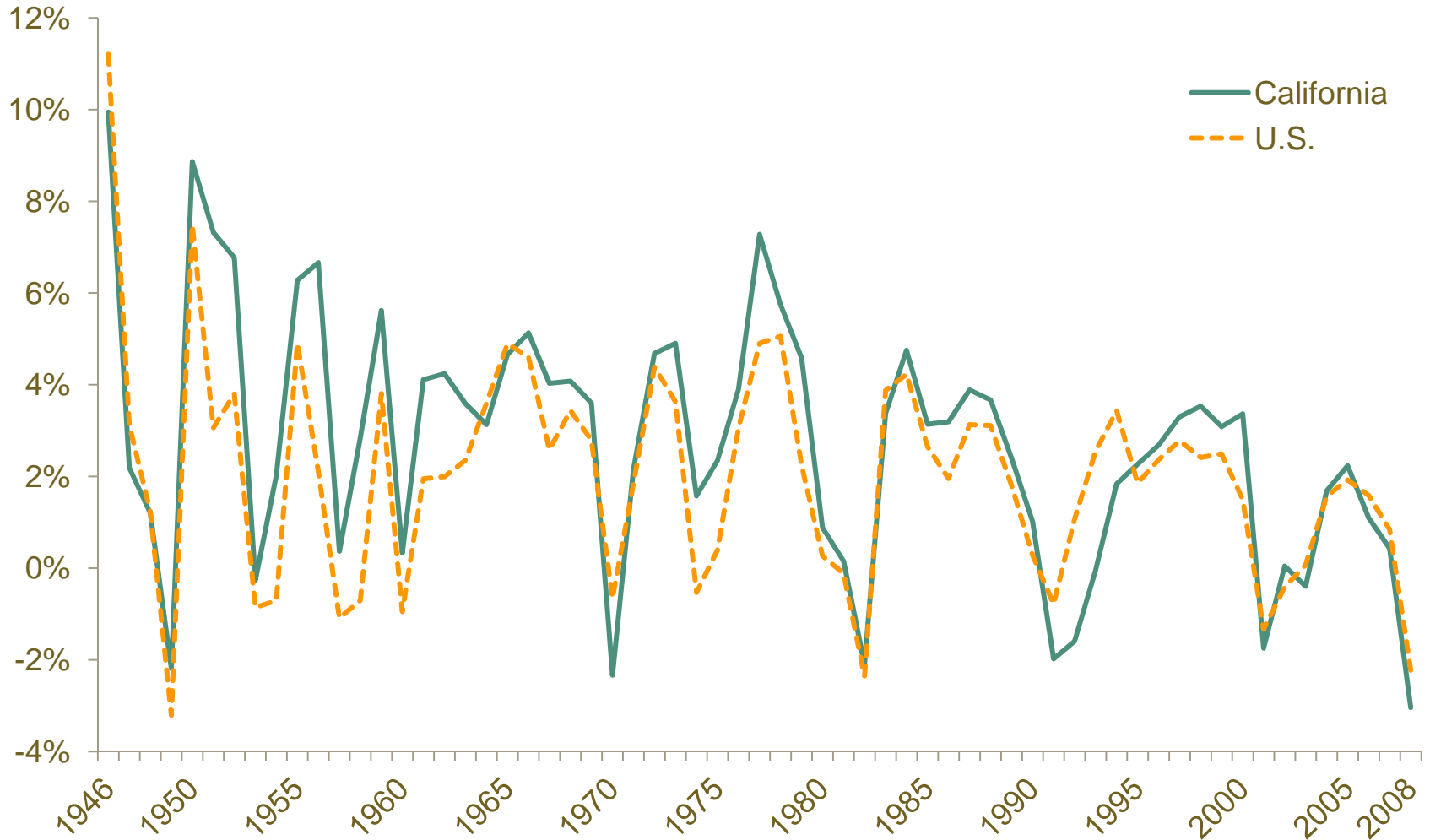
The Good News About California's Economy

- Job growth tracks the U.S.
- High unemployment is due to faster growing labor force
- High costs of doing business are offset by higher productivity
- Businesses are not fleeing the state
- “Business climate” measures are misleading

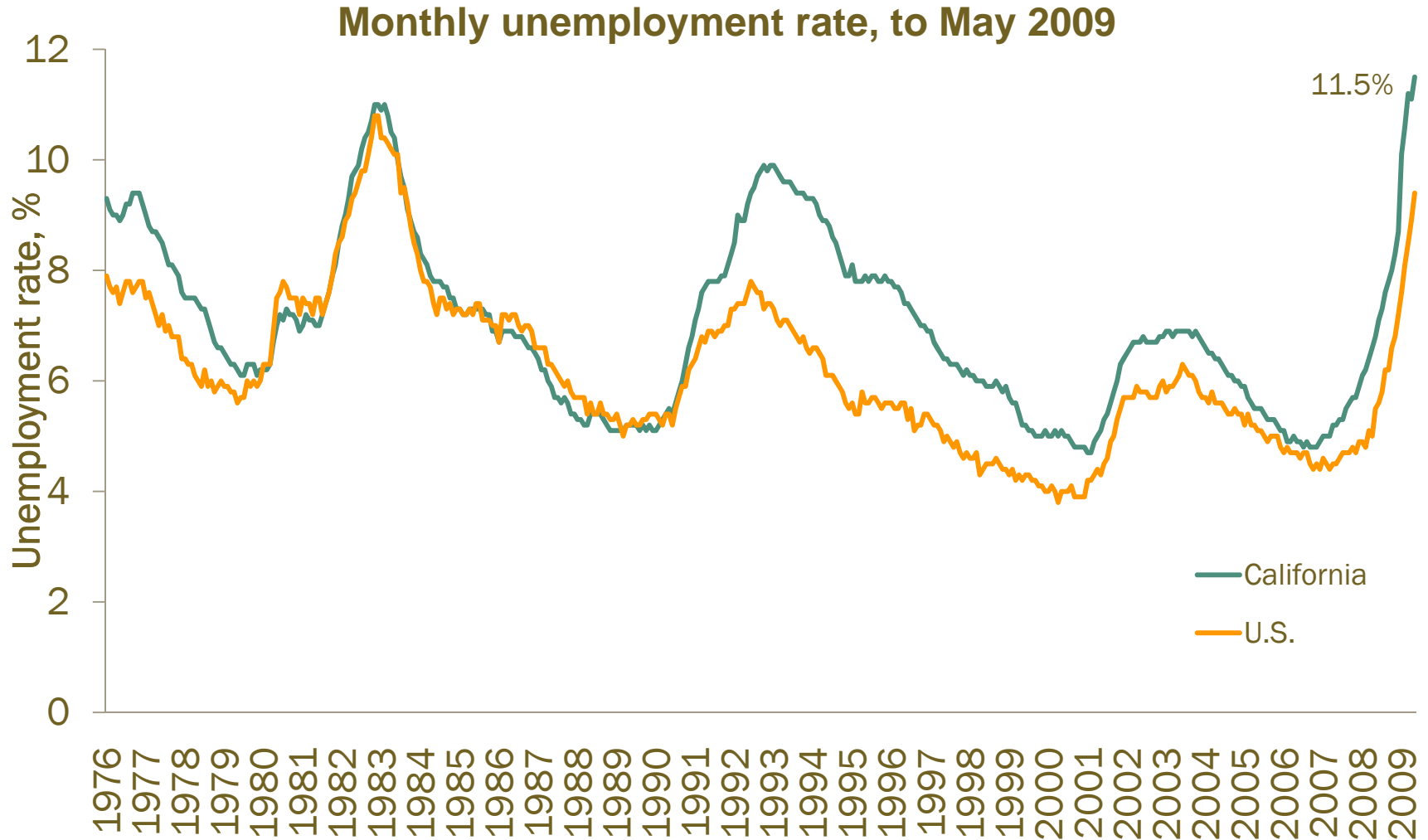


California Job Growth Tracks U.S.

Annual employment growth, December to December



Unemployment Highest in Decades



Growing Labor Force Explains High Unemployment

- Even when California booms, unemployment above national average
- State's labor force grows faster than U.S.
 - Good place to live
 - Hopeful about finding work
- Expect California unemployment to stay above U.S. even after recession ends



Relocation Contributes Little to Job Gains or Losses

- Net annual loss:
11,000 jobs out of 18,000,000 (.06%)
- Out-of-state moves account for 1.6% of job loss
- Higher-pay industries lose more jobs from relocation
 - But overall effect on composition of jobs is small
- Most relocation is short-distance: toward cheaper land and within local labor market



California's Business Climate Rankings Are Low

- Poor rankings on many business climate indexes
 - Average rank: 38th
- Unfavorable scores for:
 - Top marginal personal and corporate income tax rate
 - Personal income tax progressivity
 - Liability system burden
 - Minimum wage
 - Workers' compensation costs



But Business Climate Rankings Are Too Narrow

- Focus on taxes, regulations, and other costs
- Exclude productivity advantages of being here
 - Availability of skilled workers
 - Venture capital and innovation culture
 - Large local market
 - Natural amenities: climate and topography
- Compared with U.S., average California worker:
 - Earns 12% more
 - Produces 13% more



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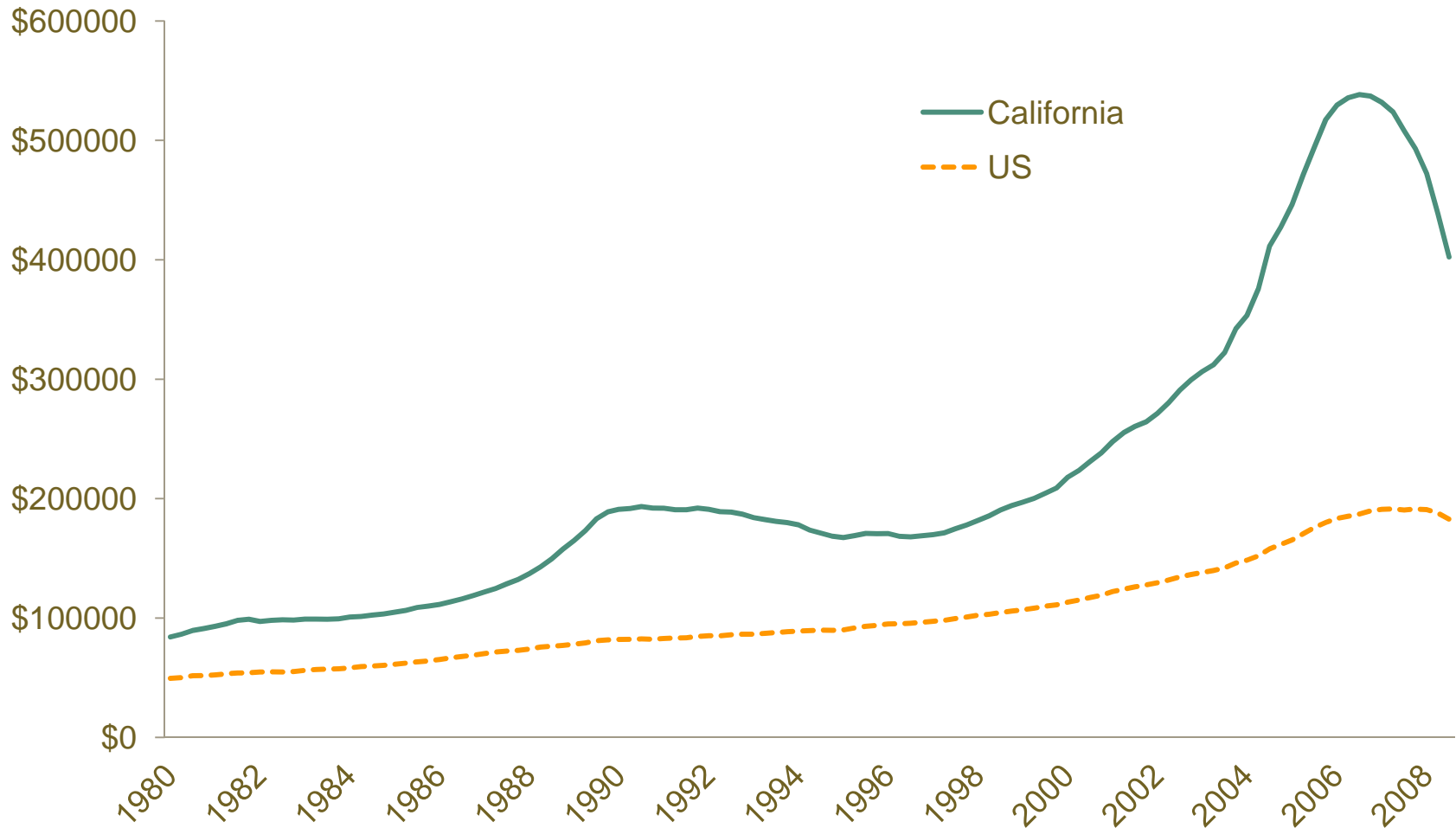
Red Flags for California's Economy

- Expensive real estate: now and probably forever
- Regional economic disparities
- Continued industrial shifts



California House Prices Still Way Above U.S.

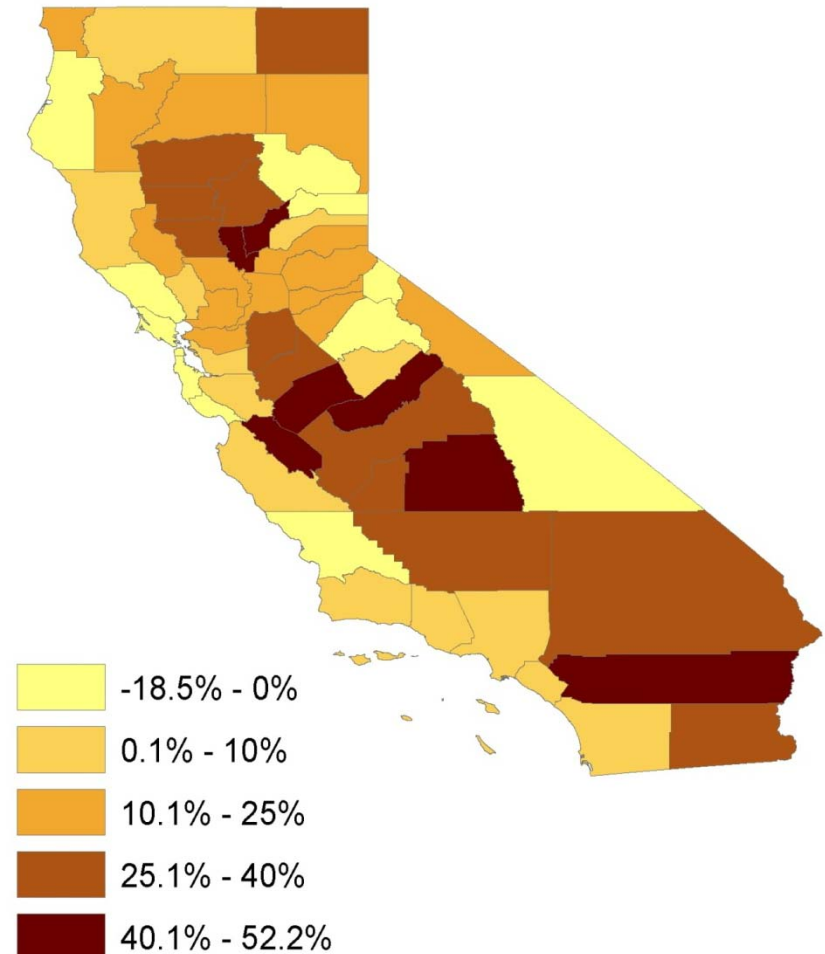
Estimated median home price
(OFHEO price index combined with 2006 ACS median home value)



Inland Workforce Grows Fastest

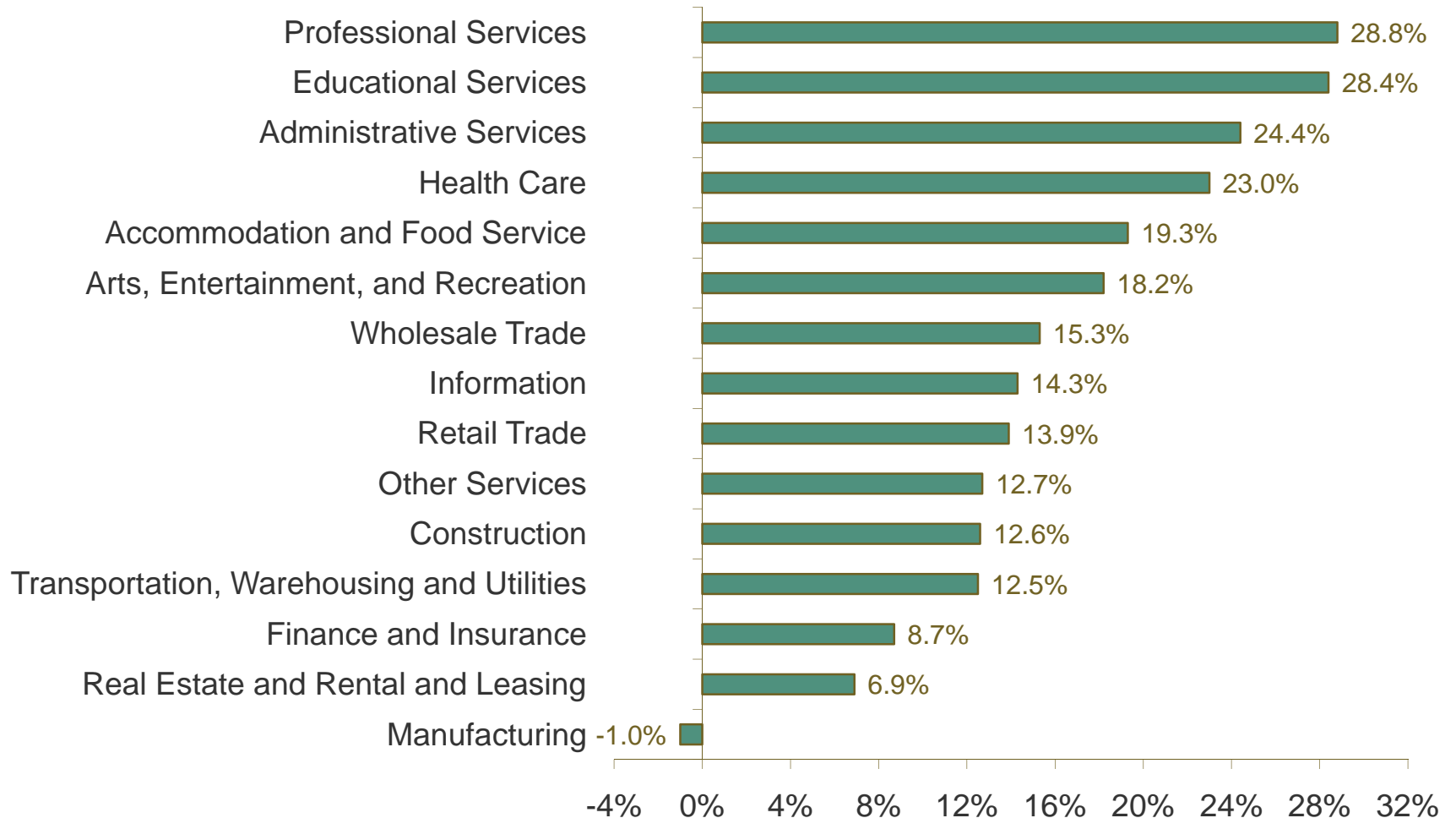
- Counties projected to grow fastest are all inland
- Coastal regulation and cheaper inland real estate drives growth eastward

Projected growth of working-age population, 2010-2025



Services Grow While Manufacturing Shrinks

EDD employment growth projections, 2006-2016, private sector only



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Focus on the Right Economic Measures

- Growth in employment or gross state product (GSP) gives the best broad view
- Unemployment tells us how households are faring
- Business relocation is a misleading measure



Consider All Sides of the Business Climate

- Take into account all costs and benefits of doing business in California
- Economic policy should balance reducing the costs and enhancing the benefits



Review Harmful Housing Policies

- Expensive real estate is a major cost for businesses and workers
- To some extent, high costs arise from topography and natural features
- Regulations aggravate high coastal prices and push construction inland



Notes on the use of these slides

These slides were created to accompany a presentation. They do not include full documentation of sources, data samples, methods, and interpretations. To avoid misinterpretations, please contact:

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Thank you for your interest in this work.

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