

Beyond Recession: California's Long-Term Economic Prospects

Jed Kolko



Outline

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



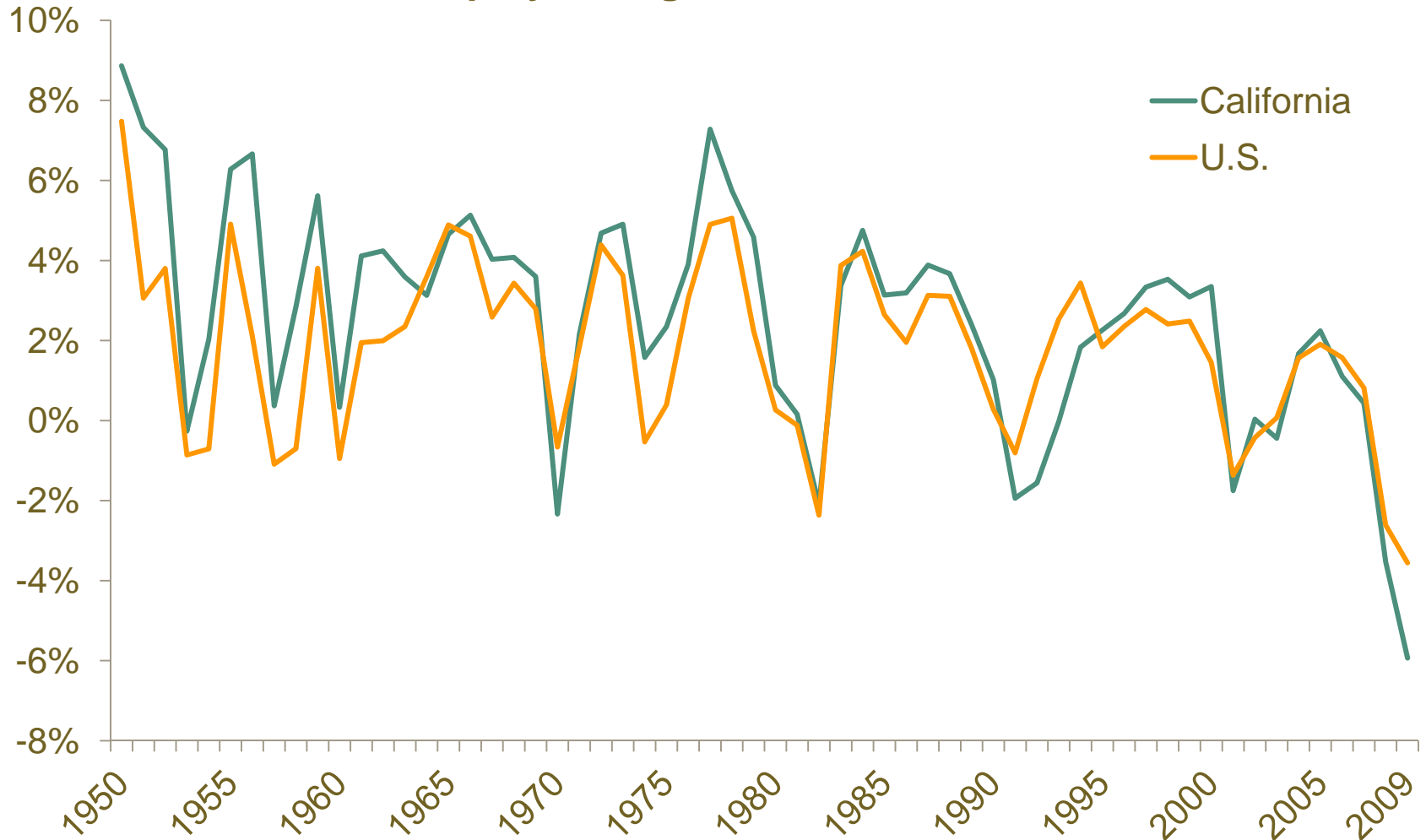
The Good News About California's Economy

- 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



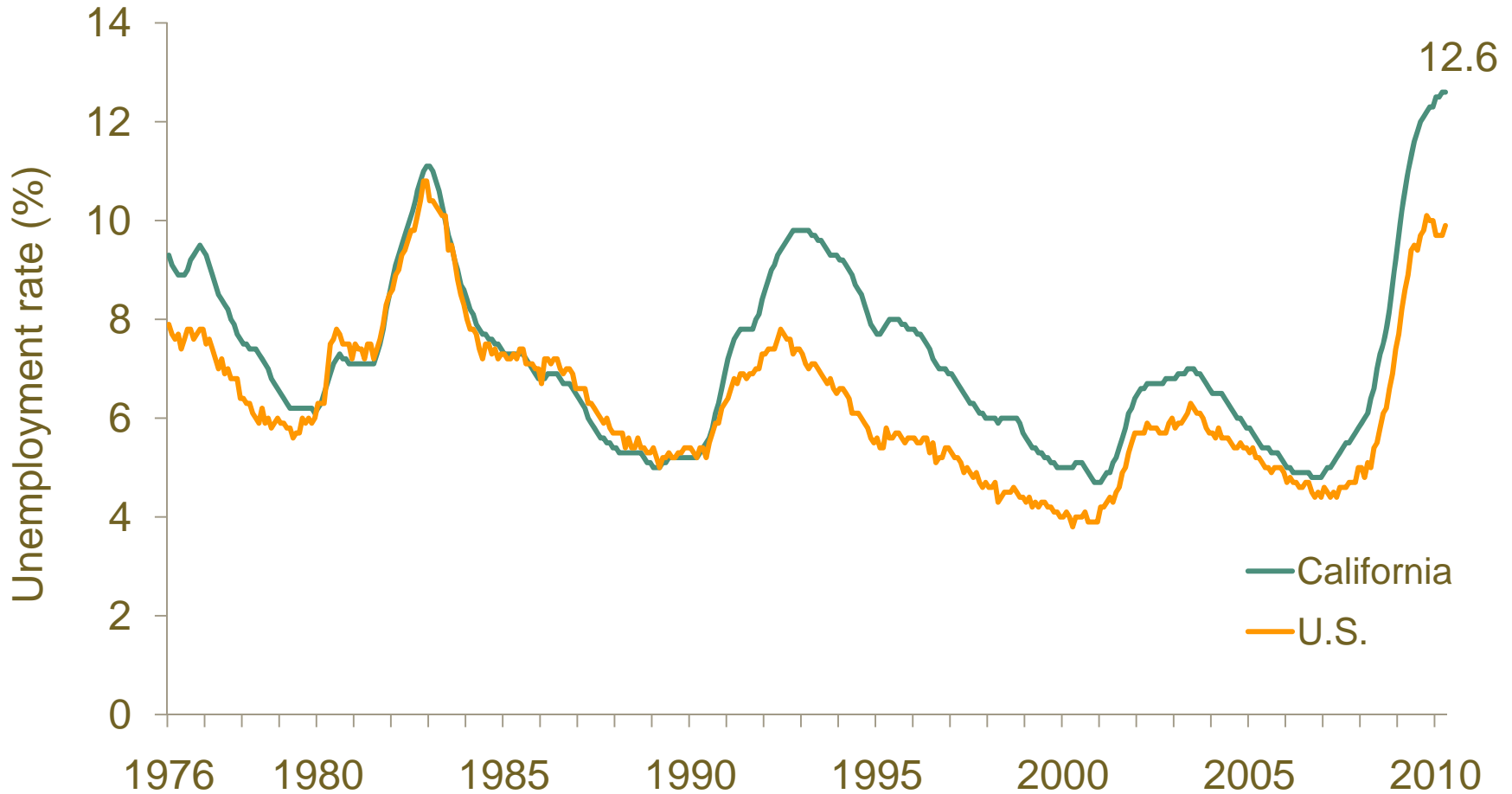
California Job Growth Tracks U.S.

Annual employment growth, December to December



Unemployment Highest on Record

Monthly unemployment rate, to April 2010



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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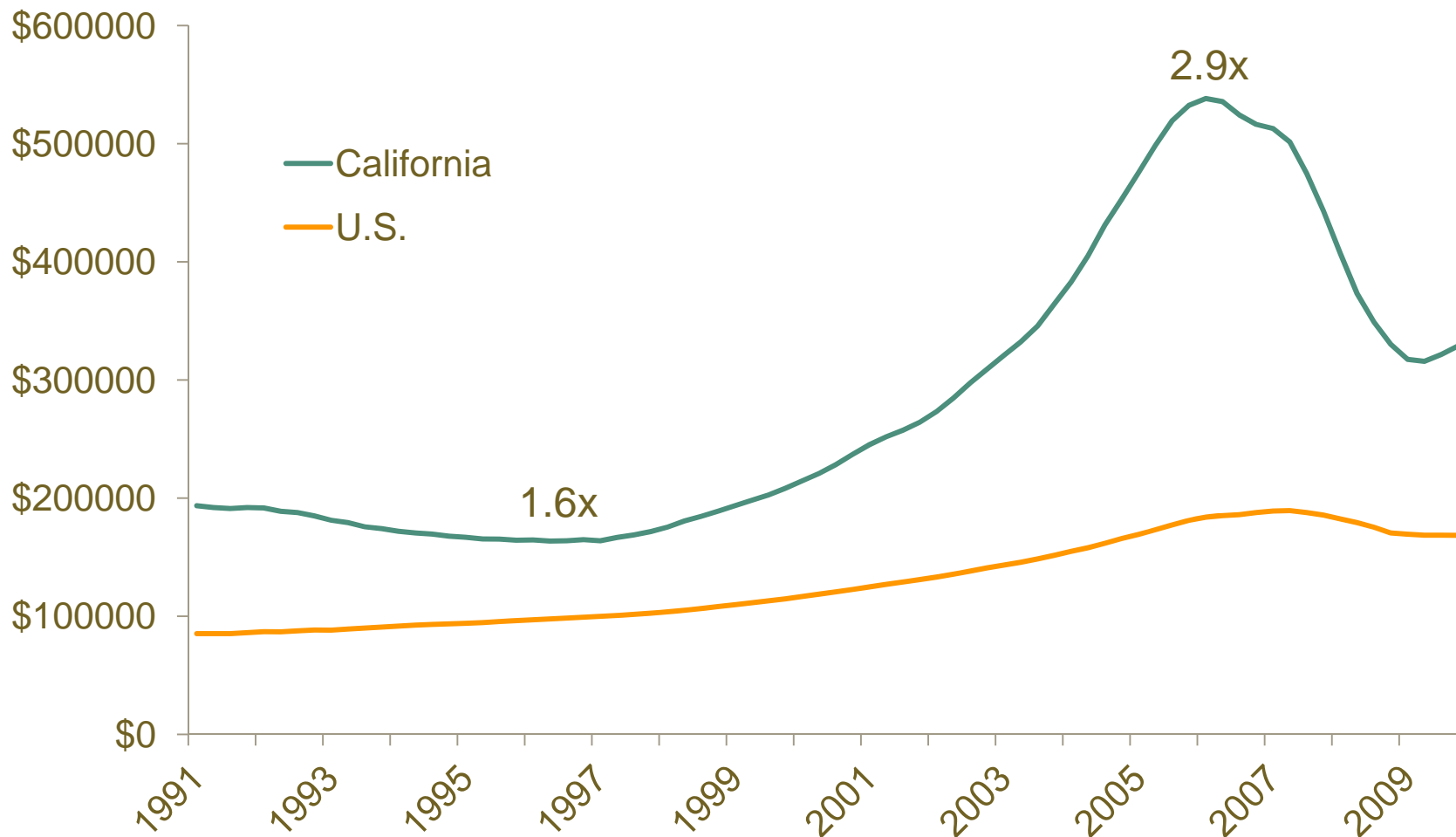
Red Flags for California's Economy

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



California House Prices Still Way Above U.S.

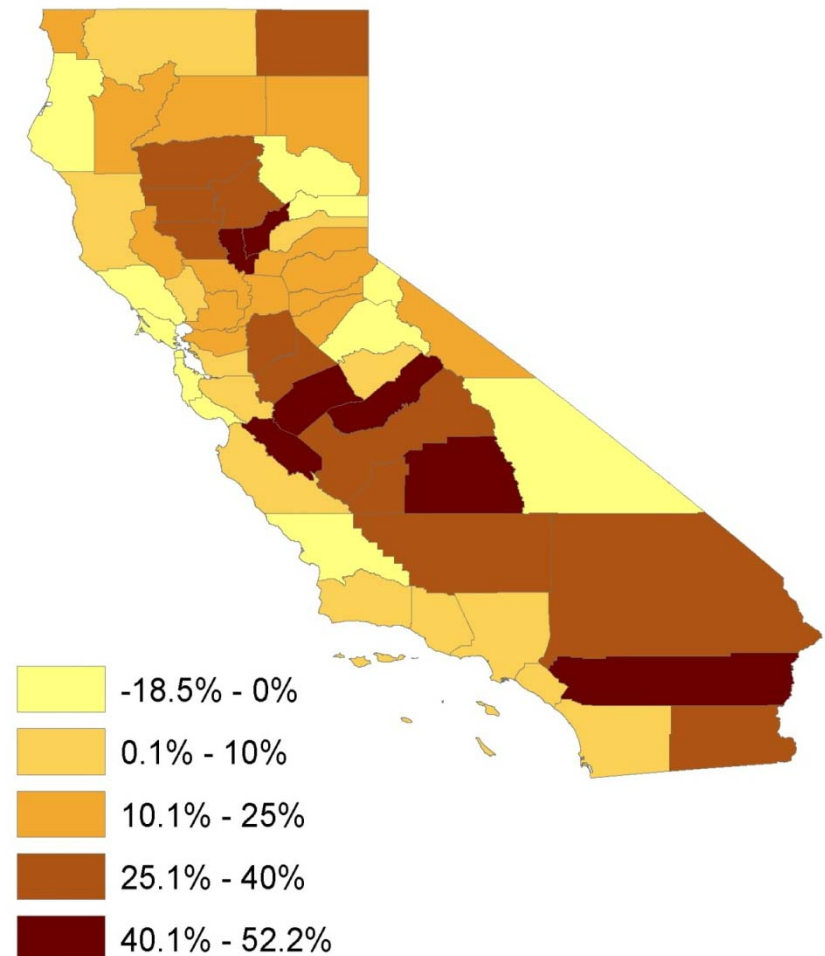
Estimated median home price
(FHFA price index; 2006 ACS median home value)



Inland Workforce Grows Fastest

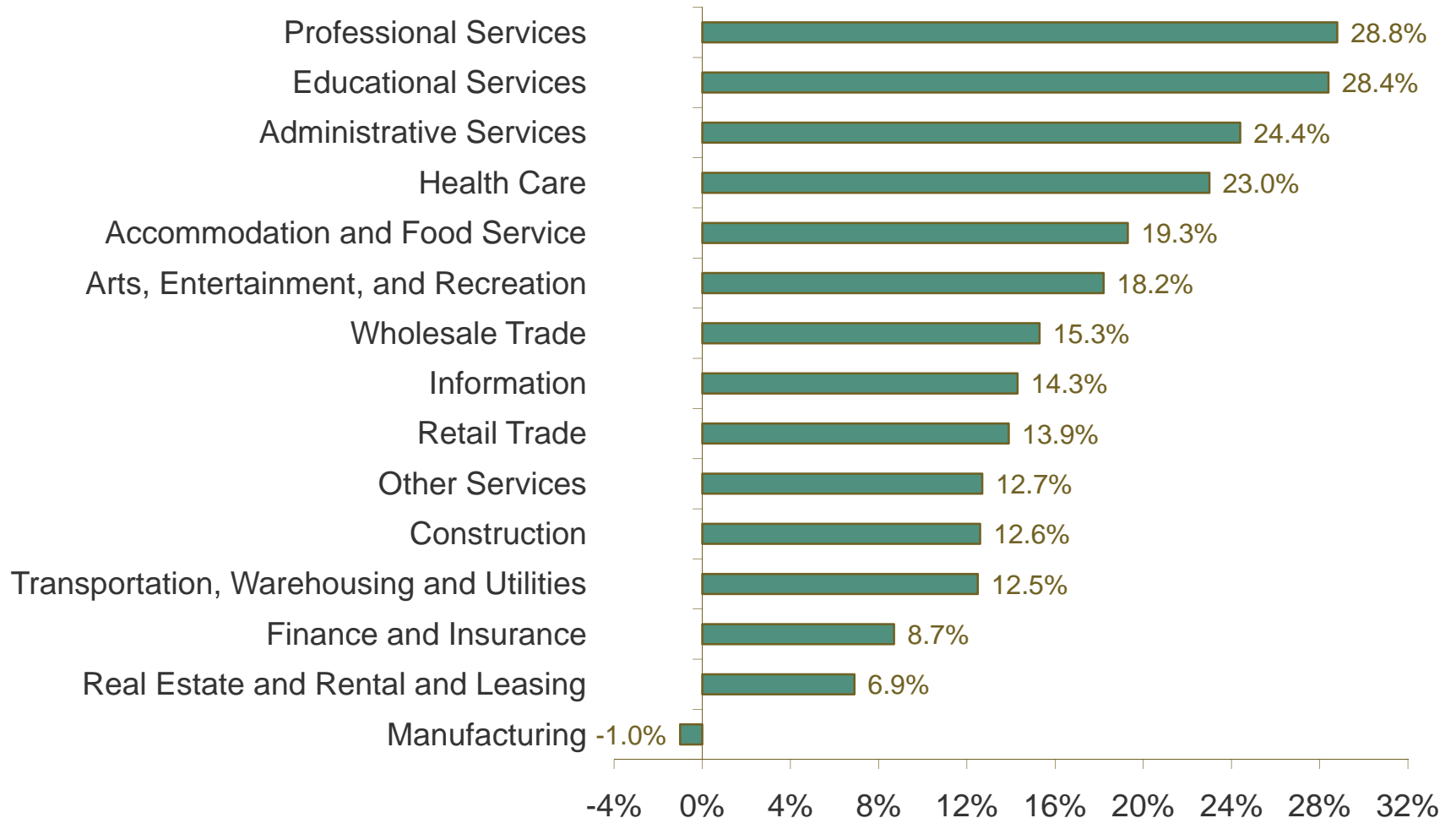
- Counties projected to grow fastest are all inland
- Coastal regulation and cheaper inland real estate drives growth eastward

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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