California Disease: Oregon at Risk of Economic Malady

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California has been exporting people to Oregon for many years, even amid the recession in both states.

Indeed, the 2005 American Community Survey report shows that California-to-Oregon migration was 56,379 in 2005, the sixth-largest interstate flow in the United States. The 2000 census showed a five-year flow of 138,836 people, the eighth-largest over that time period. Until two years ago, Oregon was managing to absorb this population with mixed results, but generally as part of an expanding and diversifying economy. But that pattern has ended, at least for now.

So now what will Oregon do with a suddenly excess population? California, at least, can say its emigres over time will reduce unemployment and reduce out-of-whack property prices. The immediate net benefits for Oregon are harder to discern.

California's massive economic collapse -- which has resulted in 926,700 jobs lost from July 2007 through June 2009 and an unemployment rate of 11.6 percent -- is now becoming Oregon's problem. As Californians, largely for lifestyle and cost reasons, head north across the border, they have helped swell Oregon's ranks of both unemployed and, perhaps equally important, underemployed.

Our analysis of California migrants has shown a gradual reduction in their earnings over what they were earning in the Golden State. There also are less quantifiable impacts. Portland, a city attractive to many unemployed and underemployed younger Californians, could well be becoming the "slacker" capital of the world.

There's another major problem with the continuing California migration. Along with young people, newcomers to the state also include large numbers of the retired and semi-retired. These people generally have little interest in economic growth, whether for longtime state residents or their fellow, often younger emigres. Instead what they bring with them are political attitudes that could slow down the state's economic recovery.

Some might call this California disease. This refers to a chronic inability to make hard decisions as well as a general disregard for business and economic activity.

California's inability to plan or create new public infrastructure affects every part of the state's economy. California was once a leader in building infrastructure, but that was in Pat Brown's gubernatorial administration in the 1960s when California last planned a major infrastructure project.

There are consequences to California's inability to deal with infrastructure. Its freeways are parking lots. Its water problems are threatening the viability of Central Valley agriculture, one of the key drivers of the state's economy. Its electrical system is so bad that every summer brings the fear of interruptions in the supply of electricity. Its universities are in decline. Its prisons are overcrowded.

Another symptom of California disease is regulation and red tape that increases the uncertainty for any project and raises the cost.

California projects can be in planning for years, and at the end of that planning process they may still be denied. The long delays are expensive. And as many would-be California developers will tell you, the uncertainty is a strong detriment to economic activity and development.

We also see symptoms of California disease in tax policy. California no longer has the United States' highest income tax rate. Big deal. With a top income tax rate of 10.3 percent, sales taxes that can reach 10.25 percent and a 33.9 cents-per-gallon gas tax, its total taxes are among the highest in the country.

California's regulatory climate also reflects the disease. Even as the state endures its most brutal recession in decades, it persists in unilaterally imposing new regulation, making the state less competitive with other states.

In short, California is whistling past the graveyard, hoping that its economy will rebound, "because it always has."

Key symptoms of California disease are forgetting that quality of life begins with a job and negative domestic migration.

With all the influx of Californians, it's not surprising that Oregon shows some signs of California disease. It recently increased its tax rates so that Oregon's highest-income taxpayers face marginal tax rates that match Hawaii's for the highest in the nation. Oregon's land-use planning had been extremely centralized for some time. Indeed, Oregon's land-use planning may be the most centralized in the United States. This makes it harder for communities to control their own destinies, whether they want to grow or not.

If Oregon does have California disease, the malady is surely not as advanced as it is in California. Oregon has lower gasoline taxes and lower property taxes than California. Oregon, in contrast with California, enjoys net positive domestic migration. It is also a good sign that a significant percentage of the people moving to Oregon from California are young folks. While it seems to many that the typical California immigrant is a wealthy aging baby boomer, the data show that he (or she) is still most likely a young person in his 20s or 30s, and often married with children. They are people who, if the economy grew, could have something to contribute to the economy as well as the cultural development of the state.

But Oregon's relationship with California remains a double-edged sword. On the one hand, Oregon has benefited from the inflow of cash and skilled workers. On the other hand, Oregon's relationship with California has led to the current situation where at 12.2 percent for the month of June, Oregon has one of the highest unemployment rates in the United States.

Oregon may be at a crossroads. The state is richly endowed with many of the components of a high quality of life. People want to live in Oregon, and they are moving to Oregon even in hard times. Yet as the population swells, there's no concurrent growth in businesses and employment. Over time, this could pose serious problems. Remember, quality of life begins with a job, preferably a rewarding, well-paying job.

However, Oregon must avoid making many decisions that led to California's current situation. The costs of California disease are more than those reflected in the economic statistics. Devastated communities and families, and wasted opportunities, could infect this fair state for years to come.