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California Forecast

The problem with a California Forecast is that there is not one California economy. Instead, we have a group of regions that will see completely different economic outcomes. Then, those outcomes will be averaged and that average of those regions' outcomes is California's economy. It is possible, even likely, that no region will see the average outcome, just as we rarely see average rainfall in California.

I expect that, for a while at least, the variance between regions' outcomes will increase. That is, the differences between California's fastest growing areas and its slowest (or declining) areas will grow. In general, coastal areas will see more rapid economic growth than inland areas. Even within these broad regions, there will great heterogeneity. Bakersfield, boosted by a booming oil sector, will see stronger growth than Stockton. San Jose, with its thriving tech sector, will see far more growth than Santa Barbara or Monterey. Furthermore, the best performing of California's inland cities will probably see faster growth than the slowest growing coastal city.

On average, though, California's economic growth will be far below its potential. In most of the State, it will be disappointingly low to dismal, as California's economy is held back by well-meaning but seriously flawed regulations. On the other hand, a few super-performing cities may see spectacular growth, at least for a few years.

Eventually, and beyond our numerical forecast, even California's most vibrant economies will slow, as they are gradually strangled by the lack of affordable housing and the infrastructure necessary to move people from affordable housing to their jobs. People are willing to drive very long distances daily in pursuit of the twin goals of income security and the American dream of a home in the suburbs. The traffic on Highway 14 between Palmdale and Los Angeles reminds us of this twice every working day.

The different growth rates and different levels of economic vitality will exacerbate the vast gulf that exists between California's wealthiest communities and it's poorest. Inequality will increase as California's fabulously wealthy become ever wealthier, and California's poor suffer in silence, living on whatever aid we give them, denied the hope and the basic dignity that comes from a job and opportunity.

Domestic outmigration will increase, but the people who leave won't be California's poorest. Instead, young middleclass people will lead the exodus as they move to where opportunity is more abundant. This, of course, will further increase California's inequality and decrease its economic vitality.

We will also see an increase in consumption communities. Already, many of California's coastal communities are reflexively averse to any activity that actually creates value, opting instead to become ever more exclusive playgrounds for the very rich. These communities will see rising home prices, as they severely restrict new units, but will see rising demand, a result of ever greater concentrations of wealth worldwide.

By contrast, some inland areas will see declining home values, as the lack of opportunity drives potential home buyers to places like Phoenix and Houston.

For many of us, this is a depressing forecast, and it is fair to ask about the inevitability of the forecast. It is not inevitable. Few things are. At a statewide level, I hope that representatives of California's large and growing minority communities demand policies that support the opportunity that previous generations of Californians enjoyed. Absent such demands, California's policies are unlikely to change.

At a local level, cities would do well to eliminate all local policies that contribute to economic stagnation. This would include resisting demands for increased minimum wages, reducing the delay and uncertainty that burdens almost every economic proposal in California, assuring the ready supply of affordable housing, and having the flexibility to respond to changing market demands.

When a business is making locational decisions, it reviews lists of positive and negatives for the candidate communities. No place has only positives, and few places have only negatives. California cities are endowed with one huge positive; California is a wonderful place to live. That's not enough, though. A city would do well to minimize the size of the list of negatives.

For businesses, an aggressive minimum wage is a negative, as it raises their costs. Uncertainty and delay in a city's response to economic proposals increase the risk and costs of a proposal. It's a negative. Unaffordable housing is a negative, as it increases wage demands and makes it harder for businesses to recruit top talent. The best way for a city to encourage the supply of affordable housing is to allow new-home development.

Finally, areas of economic blight increase crime, raise city costs, reduce city revenues, and are unattractive to businesses considering moving to or expanding in an area. Cities need to be flexible in responses to proposals for these areas. Our work convinces us that we will need less commercial space in the future. Therefore, almost any proposal for dealing with these areas is preferable to inflexible adherence to existing zoning or plans.

California cities are constrained by California policy. That doesn't mean that California cities are without tools for economic development. Almost any California city is a better place to live than almost any city in, say, Texas. If that can be leveraged by minimized costs, flexibility, and creativity in adapting to the needs of job-creating businesses, a California city, even today, can assist businesses creating opportunity for its citizens.