Bill Watkins
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It is well publicized, and celebrated, that California's economy has been outperforming the United States economy. It is something to appreciate. However, California's growth has been slow by California standards, slow even by United States standards. Our celebration should be subdued.

We expect California's economy to continue to outperform the United States economy, but by a decreasing margin. It will also grow significantly more slowly than California's or the United States average over the post WWII years.

I outline the problems with slow growth in another essay. Yet another essay presents our recommendations for increasing the United States growth rate, and those recommendations apply to California as well.

California's relative prosperity does allow Californians the opportunity to adress some long-standing issues. California's short-term financial situation has dramatically improved over the past few years, a result of a temporary tax and booming asset prices, but California's long-term fiscal outlook is much weaker.

Future pension commitments are a significant source of California's long-run fiscal challenges. Today's relative prosperity and California's improved short-term fiscal health provides the State the opportunity to address its pension issues, perhaps by trading a cash settlement in return for reducing the long-run commitments.

California also has a huge public capital deficit. We believe that California's ports provide the best opportunity for investment. Increasing the size of ships that California's ports can accept and improving the efficiency of the breakdown and distribution process are investments that would likely produce state revenues that could exceed the costs of the infrastructure investment. In any event, the return would far exceed that of a high-speed train.

California's poverty and inequality are more difficult problems. Simply throwing cash at the issues will do no good. The best solution would be to provide opportunity through more rapid economic growth. That's not likely to happen. Instead, we'll probably see reduced immigration to California and increased out-migration from California.

Finally, California has the opportunity to reduce its susceptibility to asset-price driven fiscal cycles. This would require huge changes to California's tax structure. It would need to broaden the tax base and reduce the reliance on wealthy individual's income taxes. Wealthy people's income volatility is driven by asset prices, which are more volatile than the general economy. Reliance on that income is a major source of California's revenue volatility.

Will California take the opportunity to attempt to deal with its long-term issues? Probably not. I'd be surprised if it took any of the recommended actions.