

Bill Watkins
September 27, 2016

There are no surprises in our California forecast. There aren't any changes either. We expect California to continue plugging along as it has for several years now. The growth on average will be slow, but the Bay Area will do better.

We don't see much upside potential. That is, we would be very surprised if California's economy did a lot better than the forecast.

We see plenty of downside potential. New regulations and taxes will have a negative impact, but we would not expect to see an immediate or dramatic drop. Instead, we'd expect to see California's economy slowly lose vigor.

A national or global financial—it's possible, leverage is high and banks are stressed worldwide, particularly in Europe—crisis would have more direct impact. The immediate impact would be a large fiscal deficit at the state level. The State's response would likely be as always. Taxes would go up. Transfers to local governments would go down. Debt would go up.

California's financial situation has improved during Brown's two terms, but California has not made the fundamental changes necessary to increase the budget's resiliency.

Making California's budget less susceptible to business cycles would require a major tax restructuring, reducing the reliance on a wealthy few while broadening the tax base. It would also require that the State's pension obligations be brought under control.

Is Sacramento likely to make the changes necessary to strengthen California's budget? Probably not, but now seems like an excellent time to do so.

A one-party state provides opportunity. While the required changes would help most Californian's, some groups would be hurt. Those groups are part of the ruling party's coalition, government employees and those who despise the existence of wealthy people. The opportunity comes from the fact that these people have no place else to go. They will not vote Republican. The worst they could do to Democrats is sit out the election, but the party could easily retain power if that happened.

California's Democrat Party now dominates California's politics to such an extent that it has a unique opportunity to confront California's long-standing issue without paying a political price. It's a perfect time for Governor Brown to cement a legacy.