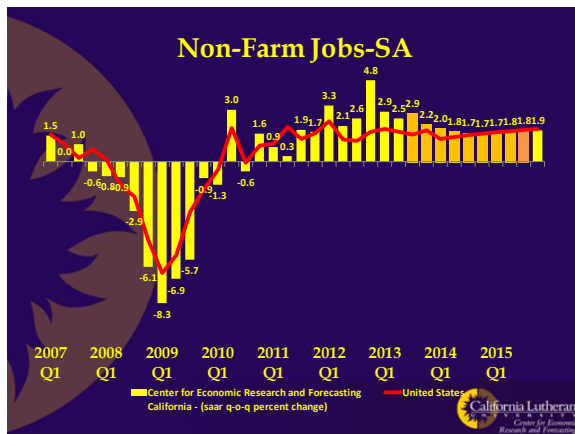
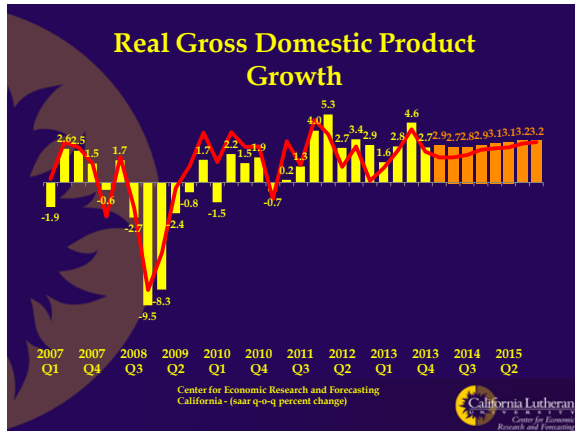


Bill Watkins
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California Forecast

The forecast is for slow economic and job growth through the two-year forecast horizon:



Readers of the California History essay will know that I think this is unsatisfactory, because the growth is too slow to help the most disadvantaged among us. It's also unsatisfactory because government policy is a reason that our economy is growing so slowly. Many of the policy challenges are national, and I refer readers to our U.S. Forecast essay for policy prescriptions.

California, though, has created a set of policies that couldn't be more effective in constraining economic growth if constraining growth was the purpose of policy. I describe this policy set as DURT: Delay, Uncertainty, Regulation, and Taxes.

- Delay raises the cost and the risk of any project, and California has perfected the art of delay.

A building can be planned, built and completed in Texas, while a similar project is still in the early stages of planning in California. Heck, the Transcontinental Railroad was built in less time than a railroad station would be approved in California today. In California, a project requires the approval of "stakeholders," apparently defined as anyone who objects to the project. If a "stakeholder" objects and the developer tries to move forward, the project's cost can be driven up without limit by endless environmental lawsuits.

Serious reform of the California Environmental Quality Act (CEQA, 1969) would be a great first step toward reducing delay. The act was supposed to protect California's majestic natural endowment, the redwoods, the beaches, the spectacular mountains. Today, it is used by competitors to block projects in areas that have been developed for decades. It's time to rewrite the law to achieve its original purpose and to eliminate the common use of it to block projects that pose no threat to the environment.

- Uncertainty accompanies almost every project in California, dramatically raising the cost of every project.

With just a few exceptions—San Diego is one, and it's a reason the city has done relatively well throughout the recession and recovery—California cities' code and planning documents mean little or nothing. In many cities, if a project is submitted and it meets every condition of building codes and planning documents, that's just the beginning of negotiations. And, negotiations can go on for years. A regulation requiring projects meeting all code and planning requirements be approved within 90 days of submittal would go a long way toward reducing uncertainty.

- Regulation, especially carbon regulation, is strangling California's economy to little benefit.

There is nothing local about carbon dioxide. It is a gas that spreads itself throughout the environment. However, in part because of mindless repeating of the phrase "Think globally, act locally" California's approach to atmospheric carbon reduction is perverse.

California has one of the most carbon efficient economies on earth. That is we use relatively small amounts of carbon to generate a unit of economic activity. Reducing carbon emissions here is expensive. By contrast, China is very carbon inefficient. A dollar spent reducing carbon there would achieve far more than a dollar spent trying to reduce emissions here.

Since carbon is a global pollutant, and not a local pollutant, we would be far better off taxing ourselves half the cost of our carbon regulations and spending that money sending California companies to clean up China's power plants.

It is more than a cost issue. California's overwhelming regulations may have the effect of chasing projects to places like China where carbon regulations are more relaxed or non-existent. In that case, a project that might produce some carbon here could end up producing vastly greater amounts of carbon someplace else.

California needs to replace its perverse and expensive carbon regulations with efficient carbon regulations that might actually achieve significant carbon reduction.

- Taxes are last in DURT, for more reasons than the fact that it would be mildly offensive if I were to switch the places of Taxes and Delay in the acronym.

It is true that if you want less of something, you should tax it. But, California doesn't have to have the same tax structure as, say, Texas. There are abundant reasons why individuals and businesses would want to locate in California. If we fixed the problems of Delay, Uncertainty, and Regulation, our tax structure would have less of a negative impact on our economy.

As it is, California's highest-in-the-nation top marginal tax rate is layered atop other DURT components and thus is even more detrimental than it otherwise would be. If it were up to me, I'd fix the delay, uncertainty, and regulation issues and see where we are then. My guess is that the increased economic activity would be enough to allow cuts in top marginal taxes while increasing government spending, making the state even more attractive.

The problem with fixing California's DURT is that powerful forces are heavily invested in the status quo. No serious effort will be made toward reform until California's voters insist on an economy that generates opportunity that approaches the state's potential. It is time that demand was made.