California Economy

2016 Q1

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As of February, California had 811,100 more jobs than it had at the beginning of the recession. This represents an increase of 5.2 percent, and it compares favorably to the United States growth rate of 3.9 percent.

The changes in the composition of jobs in the United States and California, however, have been less favorable. While both California and the U.S. are tending to move from tradable-goods-and-services (goods or services that are produced in one place and consumed in another) jobs to non-tradable-service (services that are consumed where they are performed) jobs, California is moving that direction much more quickly.

California has lagged the United States in Construction, Natural Resources and Mining, Durable Goods Manufacturing, Non-Durable Goods Manufacturing, and Finance. It has led the United States in Professional and Business Services; Leisure and Hospitality; Government; Personal, Repair, and Maintenance Services; and Education and Healthcare.

In the long run, these changes may be good. California's high housing costs and onerous regulatory environment are such that California will likely never again be competitive for tradable goods producers without monopoly power. Presumably, California eventually reaches an equilibrium where wages for non-tradable services will be high enough to fund a reasonable standard of living.

The transition, though, can be very painful for families that are displaced by the changes and for service workers whose wages may take a very long time to reach a level that supports a decent standard of living.

It's time for California to recognize the trend from tradable goods and services to non-tradable goods and services and adjust policy accordingly. The costs to families dislocated by the transition are probably minimized by not delaying the transition. This implies that all subsidies and programs to retain tradable goods and services producers are counterproductive. They should be ended immediately.

Those who are displaced should be given the option of relocation assistance or being retrained in a non-tradable service.

That leaves existing non-tradable service workers, whose wages may take decades to adjust to California's high living costs. An earned income tax credit, properly set up, would minimize distortions

and keep incentives right. This means it needs to be progressive, and no one should face a 100-percent-or-greater marginal tax.

A minimum wage is not the answer because of its impacts on our most disadvantaged citizens. Recent research by San Diego economist Jeffrey Clemens indicates that increases in the minimum wage explain fully 43 percent of the loss of employment among low-skilled workers during the Great Recession.

There is one other strong trend in California's jobs data. That is what appears to be a migration of government jobs from the local level to the state level.

Local California governments are down 48,400 jobs, 2.7 percent, while the State is up 28,300 jobs, 5.8 percent. This is in contrast with the United States, where state-level jobs are down one percent, and local government jobs are down only 1.7 percent. Too be sure, California still has about three times as many local government jobs than state government jobs, but the trend is disturbing. In California, the bulk of government services are delivered at the local level, and that's where we need to keep government jobs.