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Dan Walters: Dark news piles up on California economy

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Published 12:00 am PDT Sunday, July 27, 2008

A couple of years ago, Gov. Arnold Schwarzenegger was hailing a booming state economy and implicitly – sometimes explicitly – claiming credit.

This is how, in 2006, Schwarzenegger characterized an overhaul of workers' compensation that was saving employers billions of dollars a year: "We have seen businesses coming back again to the state of California, businesses wanting to do business here again. ... And what happened was that this money that companies are saving, they are using this money to buy more equipment, to expand their companies, to hire more workers. And what is the result of that? We have created now 577,000 new jobs because of it, and there is a great stimulation of the economy. Because of that, we have created more revenues. When I came in here into this office we had $76 billion of revenues. Now we are up to $94 billion of revenues."

Well, those revenues are still about $94 billion, and the state now has an immense budget deficit because even as Schwarzenegger was patting himself on the back, the real estate industry was showing the first signs of a meltdown – a collapse that has since morphed into a recession of uncertain depths.

So is the governor, having claimed credit for the upside two years ago, now shouldering the blame for California's economic woes? Of course not. He's also morphed into a conventional politician who claims credit for anything good and blames someone or something else for anything bad.

What at first appeared to be a mild recession largely confined to housing has metastasized into other sectors and been overlaid by other downers, such as rising food and fuel prices, a drought that's hitting agriculture hard, and hundreds of wildfires.

After the state reported another jump in unemployment in June, from 5.3 percent last year to 6.9 percent this year, Beacon Economics, a private economic firm, had this analysis: "It appears that job losses are starting in earnest. The state lost 18,000 non-farm payroll jobs from May to June, and this is in addition to the 16,000 job loss that occurred last month. Prior to the last two months, overall non-farm payroll growth had been functionally flat. Job losses have been occurring in most sectors of the economy. While finance and construction are clearly the hardest hit, retail, wholesale, transport, administrative support and manufacturing have also been posting losses."

Sales of autos and other retail goods have flattened or declined; a number of car dealers have shut their doors; the California-based Mervyns department store chain is flirting with bankruptcy; the American Automobile Association is closing its call centers in California, citing high operating costs; and Californians haven't been as pessimistic about their personal fortunes in many years, the Field Poll reported last week.

Recessions are nothing new in California, but the housing implosion continues a disturbing boom-and-bust pattern.

President Reagan's military buildup of the 1980s fueled an economic boom in California, and the post-Cold War cutback ignited the state's worst recession in a half-century in the early 1990s. A few years later, the state saw a boom in technology, fueled by reckless venture capital investment, only to see the bubble burst in the early part of this decade. And the housing boom went bust even more rapidly.

These cycles have an especially egregious effect on the state budget, since spending semi-automatically ratchets up during booms, but is more or less frozen during the busts, thus creating deficits such as the one currently plaguing the Capitol.

We may be unable to avoid a boom-and-bust economy, but we certainly could – and very urgently should – do something about how it affects the budget, whether it's Schwarzenegger's proposed "budget reform" or an alternative.

Go to: Sacbee / Back to story