

The New York Times

The Pleasure and Pain of Being California, the World's 5th-Largest Economy

By Thomas Fuller

May 7, 2018



C 310.497.7255
f 800.678.0960
phoenixthottam@kw.com
PHOENIX THOTTAM
REALTOR; ATTORNEY-AT-LAW
JD-MBA (Residential & Commercial)
Real Estate specialist (West LA))
Keller Williams Realty Santa Monica
Pacific Palisades | Malibu
2701 Ocean Park Blvd., Ste. 140
Santa Monica, CA, 90405
phoenixthottam.com **kw** KELLERWILLIAMS

SAN FRANCISCO — When a transportation agency said two years ago that rush hours were a thing of the past on a major highway in the San Francisco Bay Area, it was not good news.

“For the first time on record, the morning and evening peak periods have merged,” said a spokesman for the agency, the Metropolitan Transportation Commission, “creating a continuously congested freeway from 5:30 in the morning until nearly 8 o’clock at night.”

It has only gotten worse.

California’s economy has soared into the stratosphere, but not without inflicting some pain. Paralyzing traffic is one symptom; the increasingly absurd price of putting a roof over one’s head is another.

One person from the Midwest devised a quick formula to calculate the price of a house in the Bay Area: See how much a similar house would cost in Minnesota and then add a million dollars.

Every few weeks there seems to be another story in the California news media about a dilapidated shack in an ordinary neighborhood selling for seven figures, just to be torn down. It has become common enough to lose its shock value.

California recorded another milestone last week, one reflecting a prouder facet of the state’s success. If the state were an independent country, its economy would rank as the fifth-largest in the world, ahead of Britain’s (which has been crawling lately). California held that spot once before, but it slipped a bit during the Great Recession a decade ago.

VIA **PHOENIXTHOTTAM.COM**



C 310.497.7255
f 800.678.0960
phoenixthottam@kw.com
PHOENIX THOTTAM
REALTOR; ATTORNEY-AT-LAW
JD-MBA (Residential & Commercial)
Real Estate specialist (West LA))
Keller Williams Realty Santa Monica
Pacific Palisades | Malibu
2701 Ocean Park Blvd., Ste. 140
Santa Monica, CA, 90405
phoenixthottam.com **kw** KELLERWILLIAMS

As the state has blossomed, outpacing many others, it has reinforced a liberal narrative about growth, that a state can have big government and a booming economy, too. (Texas is the conservatives' counterexample: a big, fast-growing economy under laissez-faire government.)

California has strict environmental protections, a progressive tax system and an ascendant minimum wage, now \$10.50 an hour and set to rise in stages to \$15 in 2023. The state welcomes immigrants, celebrates ethnic and linguistic diversity, and actively tries to combat climate change. And with all that, its economy continues to soar.

"We have raised income taxes and imposed increasingly high fees to reduce greenhouse emissions," said Stephen Levy, director of the Center for Continuing Study of the California Economy. "None of that has overridden the attractiveness of this state for talent and innovation and entrepreneurship."

California's economic success underpins the state's audacity and its defiance of President Trump. It is an invisible buttress when the governor and attorney general harangue the Trump administration, as they did recently at a news conference in Sacramento, for "basically going to war against the state of California."

California is not the only state doing well, of course. The federal Bureau of Economic Analysis produced a map last week showing a somewhat lopsided pattern of prosperity in America. The economies of states like Kansas and Louisiana shrank slightly last year, while those in the West thrived: Nevada grew by 3.5 percent, Washington by 4.4 percent, Arizona by 3.2 percent.

Even among its booming neighbors, though, California, which saw 3 percent growth last year, stands out for the diversity and sheer size of its economy.



C 310.497.7255
f 800.678.0960
phoenixthottam@kw.com
PHOENIX THOTTAM
REALTOR; ATTORNEY-AT-LAW
JD-MBA (Residential & Commercial®
Real Estate specialist (West L.A))
Keller Williams Realty Santa Monica
Pacific Palisades | Malibu
2701 Ocean Park Blvd., Ste. 140
Santa Monica, CA, 90405
phoenixthottam.com **kw** KELLERWILLIAMS.



Apple's headquarters in Cupertino, Calif. The company made \$229 billion in revenue its last fiscal year, five times as much as Wyoming. Jim Wilson/The New York Times

Every sector contributed to the state's growth last year except agriculture, according to Irena Asmundson, the chief economist of the California Department of Finance. Financial services and real estate led the pack, and even manufacturing, often said to be in decline in America, grew significantly, contributing \$10 billion in output to the \$127 billion the state added over all.

"Most of this is a lot of relatively small firms that are very specialized," Ms. Asmundson said of the growth in manufacturing.

Another barometer of growth is the surge in people using California's airports, especially the regional ones. Airports in Long Beach, San Jose, San Luis Obispo and Sonoma all saw double-digit percentage increases in passenger traffic in 2017.

Unsurprisingly, Silicon Valley is a big part of California's success. One of the state's technology giants, Apple, brought in more revenue in its latest fiscal year — \$229 billion — than the entire economic output of Wyoming, five times over.

All of that money pouring in to California's tech and entertainment industries produces a big wealth effect, ballooning what the state's workers can spend — and not just those who work directly in those fields.

Facebook revealed last month that the median pay of its employees was \$240,430 a year. But the fire chief in San Ramon has been doing pretty well, too, with total pay and benefits of \$516,344 in 2016, according to the website Transparent California. And nearly 200 police officers across the state make more than \$300,000 a year, when overtime and benefits are included.

Like many states, California has persistent worries about how it will cover its pension obligations down the road, and those high rates of pay for public sector workers do not help matters. But in these boom times, California's bright fiscal position is a world away from the federal government's. The state treasury is flush with cash, and is socking billions away in a rainy-day fund.

When Gov. Jerry Brown returned to office in 2011, he faced a budget deficit of \$27 billion. Now, after eight years of economic expansion, the state has a surplus of \$6 billion, and its tax revenues are running well ahead of projections.

Yet it is hard to overlook the pain that prosperity has brought: traffic, property prices, homelessness.

Those last two issues are increasingly seen as sides of the same coin. In 2017, California saw the fastest growth in its homeless population of any state (14 percent), and also had the highest proportion of them unsheltered: 68 percent of the state's 134,000 homeless people sleep outdoors.

All economic booms run out of steam sooner or later, and some Californians say they might welcome a little relief from this one. William Yu, an economist with the Anderson Forecast at the U.C.L.A. Anderson School of Management, recalls a panel discussion a month ago with real estate developers.

"One developer was asked, 'Are you worried about a recession coming?'" Mr. Yu said. "The developer said, 'I'm not worried at all. I'm waiting for it.'"

Why? So he can snap up some properties at cheaper prices.

A version of this article appears in print on May 7, 2018, on Page A12 of the New York edition with the headline: The Pleasure and Pain of Being California, the World's 5th-Largest Economy



C 310.497.7255
f 800.678.0960
phoenixthottam@kw.com
PHOENIX THOTTAM
REALTOR, ATTORNEY-AT-LAW
JD-MBA (Residential & Commercial®
Real Estate specialist (West LA))
Keller Williams Realty Santa Monica
Pacific Palisades | Malibu
2701 Ocean Park Blvd., Ste. 140
Santa Monica, CA, 90405
phoenixthottam.com **kw** KELLERWILLIAMS