

November 27, 2012

## California Finds Economic Gloom Starting to Lift



Prosperous coastal places like La Jolla, here, are better off than the state as a whole; many inland areas still have high jobless rates.

By [ADAM NAGOURNEY](#)

LOS ANGELES — After nearly five years of brutal economic decline, government retrenchment and a widespread loss of confidence in its future, California is showing the first signs of a rebound. There is evidence of job growth, economic stability, a resurgent housing market and rising spirits in a state that was among the worst hit by the recession.

California reported a 10.1 percent unemployment rate last month, down from 11.5 percent in October 2011 and the lowest since February 2009. In September, California had its biggest month-to-month drop in unemployment in the 36 years the state has collected statistics, from 10.6 percent to 10.2 percent, though the state still has the third-highest jobless rate in the nation.

The housing market, whose collapse in a storm of [foreclosures](#) helped worsen the economic decline, has snapped back in many, though not all, parts of the state. Houses are sitting on the

market for a shorter time and selling at higher prices, and new home construction is rising. Home sales rose 25 percent in Southern California in October compared with a year earlier.

After years of spending cuts and annual state budget deficits larger than the entire budgets of some states, this month the independent [California Legislative Analyst's Office](#) projected a deficit for next year of \$1.9 billion — down from \$25 billion at one point — and said California might post a \$1 billion surplus in 2014, even accounting for the tendency of these projections to vary markedly from year to year.

A reason for the change, in addition to a series of deep budget cuts in recent years, was voter approval of Proposition 30, promoted by Gov. Jerry Brown to raise taxes temporarily to avoid up to \$6 billion in education cuts.

“The state’s economic recovery, prior budget cuts and the additional, temporary taxes provided by Proposition 30 have combined to bring California to a promising moment: the possible end of a decade of acute state budget challenges,” the report said. “Our economic and budgetary forecast indicates that California’s leaders face a dramatically smaller budget problem in 2013-14.”

And 38 percent of Californians say the state is heading in the right direction, according to a [survey](#) this month by U.S.C. Dornsife/Los Angeles Times. For most places, that figure would seem dismal. But it is double what it was 13 months ago.

California’s recovery echoes a rebound across much of the country; the state suffered not only one of the longest downturns but also one of the most severe. Economists say the turnaround, should it continue, is a positive harbinger for the nation, given the size and diversity of the state’s economy.

Democrats here have been quick to argue that the improvements in fiscal conditions that the state is now projecting after voters approved the temporary tax increase may embolden other states, and Congress, to raise some taxes rather than turn to a new round of cuts.

Yet California still faces major problems. The economic recovery is hardly uniform. Central California and the Inland Empire — the suburban sprawl east of Los Angeles — continue to stagger under the collapse of the construction market, and some economists wonder if they will ever join the coastal cities on the prosperity train. Cities, most recently San Bernardino, are facing bankruptcy, and public employee pension costs loom as a major threat to the state budget and those of many municipalities, including Los Angeles.

A federal report this month said that by some measures, California has the [worst poverty](#) in the nation. The river of people coming west in search of the economic dream, traditionally an economic and creative driver, has slowed to a crawl.

Still, the fear among many Californians that the bottom had fallen out appears to be fading. Economists said they were spotting many signs of incipient growth, including a surge in rental costs in the Bay Area, which suggests an influx of people looking for jobs.

“I think the state is turning a corner,” said Enrico Moretti, a professor of economics at the University of California, Berkeley. He said that the recovery was creating regional lines of economic demarcation — “We are going to see a more and more polarized state,” he said — but that over all, California was emerging from the recession.

Richard K. Green, the director of the Lusk Center for Real Estate at the University of Southern California, said the foreclosure storm was beginning to subside, and fewer foreclosed homes were flooding the market. That has meant homes are selling faster at higher prices — which means fewer homeowners owe more than their house is worth.

“The most important thing is, if you look at job growth in California for the last 18 months or so, it’s been higher than average for the country,” he said.

Jerry Nickelsburg, an economics professor at the Anderson School of Management at the University of California, Los Angeles, said the resurgence in coastal communities was spreading, if haltingly, to struggling inland communities, creating jobs for long-distance commuters who live in places like the Inland Empire.

In one sign of a new spirit, some Californians are again promoting the idea of their state’s setting the cultural and policy pace for the rest of the country, a meme that, if ever true, appeared at least questionable as California endured cuts that diminished its once-great higher education system. Rick Jacobs, the head of the Courage Campaign, a liberal advocacy group, argued that Californians, by voting to raise their taxes, set a model Washington should follow in negotiations over how to avert the so-called fiscal cliff.

“One might argue that what happened in California will set the trend for what will happen in the country, meaning that opposition to taxing the wealthy is opposition to the future,” he said.

Conservatives took a nearly opposite view, arguing that the state’s latest tax increases and its thicket of regulations would drive out businesses and people.

“I was born and raised in California; I love the state, but I think California has been going downhill for quite a while,” said Bradley R. Schiller, a professor of economics at the University of Nevada in Reno. “The ignorance of voters is appalling, not to see their own self-interest in restoring their state.”

California has faced attacks by conservative leaders for much of this presidential election year, as they presented the state as a model of Democratic policies gone awry. Mitt Romney compared California to Greece. Peggy Noonan declared that the “mythic place where Sutter struck gold” had become a symbol of failure. “California is going down,” she wrote. The conservative Manhattan Institute devoted an 8,500-word [report](#) to “The Great California Exodus.”

Gray Davis, a former Democratic governor, noted that voters had approved initiatives to begin repairing a notoriously dysfunctional government. It no longer takes a two-thirds vote of the Legislature to increase spending (the requirement remains for tax increases), and a nonpartisan election system went into effect this month.

“It’s a fair criticism, but somewhat antiquated,” Mr. Davis said. “Help has arrived.”

“We’ve been used to being beat up by the Eastern Seaboard for a very long time,” Mr. Davis said. It was, he said, a case of coastal envy: “I can see the sun glistening off the ocean as I look out my office window.”

[Joe Mathews](#), a co-author of “California Crackup: How Reform Broke the Golden State and How We Can Fix It,” said California’s main challenge was its governing structure.

“There’s a great history of trashing on us,” he said. “Just the same way people like to talk bad about the prettiest girl in school. As badly governed as we are, we have our strengths: in trade, venture capital, in weather.”

“There is reason to feel better for the state,” Mr. Mathews said. “I think the economy is coming back.”

Yet the surest sign of a resurgent California might have been captured by observant Twitter posters last week in Southern California. There, Mr. Romney — he of California-is-Greece fame — was spotted one day at Disneyland and another pumping gasoline into his S.U.V. before returning to his beachfront home in San Diego to celebrate Thanksgiving week.