

ART LAFFER BOOK OUTLINE

Section I

“Everyone is entitled to his own opinion, but not his own facts.”

-- Senator Daniel Patrick Moynihan

Chapter 1: Why California and Natural Challenges

The chapter begins with a fact finding mission by reviewing the history of California from a geopolitical and natural resources perspective. It takes an accounting of the natural advantages of the state and discusses the growth of California as a response to these natural advantages.

I. The lure of California: Calafia and the land of the Amazonian women



Mural of Queen Calafia and her Amazons in the Room of the Dons at the Mark Hopkins Hotel, San Francisco

- #### II. The advantages of gold, silver, oil, good farmland, beaches, and beautiful climate
- Define California's wealth in natural resources: mineral resources, climate, farmland and size.
 - Based on natural attributes, California should be prosperous and a population draw.
- #### III. Statehood
- California's uniqueness in timing -- earlier than many states east of California
 - Terms of statehood -- California was able to dictate more terms to the national government than other states
 - The wealth of California defined its statehood
- #### IV. Overcoming adversity
- Long history of varied rulers
 - Natural disasters: water, fires, earthquakes, mudslides
- #### V. Population flows
- The natural wealth of California quickly turned it into one of the largest states
 - Domestic
 - International: Asian and Mexican

Chapter 2: The Growth, Decline, and Growth of California

Timeline

- Post-World War II recovery in the 1950s and 1960s
- Stagflation California-style
- The end of stagflation and the return of prosperity
- The relative decline of the late 1980s and early 1990s
- Leading the Internet Revolution
- Dot-com busts and beyond

Following the wisdom of Joe Friday in *Dragnet*: “Yes, ma'am. We just wanna' get the facts,” Chapter 2, organized chronologically based on the timeline above, presents a just-the-facts exposition of the economic experience of California post-World War II. The importance of national trends on California makes it necessary to judge the state on its relative performance and not on absolute performance. While the causative policy connections will not be developed in this chapter, the time periods will align with major policy changes. Each section will review the following issues and will be table/graph intensive:

- California's evolving industry composition -- agriculture, tech, finance, defense, Hollywood
- Economic data: personal income growth, employment growth, unemployment rate
- Government impact -- tax revenue and expenditure growth as a function of economic performance

Chapter 3: Migration, Growth, and Housing

Economic theory postulates that migration flows follow economic opportunities and trends in housing prices and housing sales are a function of migration flows. California's experience is a case study illustrating the validity of these postulates. The state's volatile economic prospects have created excessive volatility in migration flows toward and away from California which in turn have created excessive housing price and sales volatility. This chapter will include a discussion of the following issues:

- The theory of economic opportunities and migration
- The theory of opportunities, migration flows, and the housing market
- The experience of migration and housing values are connected to the economic episodes established in Chapter 2 (see timeline).

Section II

Connecting California's Actions to Economic Outcomes

Chapter 4: Propositions, Initiatives and Referendum, and Other Uniquely Californian Political Attributes

Chapter 4 starts with an examination of California's unique political attributes. For instance, propositions in California are used more extensively than in any other state. While they have sometimes been a force for good (Prop. 13), they have also led to poor budget prioritization and other anti-growth policies. Similarly, districting laws have created "safe" legislative districts that thwart the democratic process. Chapter 4 will investigate the history of the very unique political attributes of California and relate these attributes to the political outcomes established in the next chapter.

- Budget propositions
- Tax propositions
- Regulatory propositions
- The anti-democratic political districting

Chapter 5: What Does California's Government Do?

Chapter 5 provides a detailed examination of California's government and is designed to explain the functions of state government to a layperson. It begins with a review of the operations of California's state government at a year during the 1960s. The year chosen will be based on whether/when a change in the spending/taxing path is evident in the data. The growth in the operations, taxes, and regulations are documented from that year through today highlighting the key growth and changes in:

- I. Revenues
 - Taxes: income (personal and corporate), sales, property, payroll, workers comp. misc.
 - Fees, user charges, and penalties
 - Federal revenues
- II. Government spending levels in goods and services:
 - Roads, utilities, prisons, education (primary and secondary), police, courts, health care and social safety net
 - Spending prioritization
 - Regulations: safety, health, environment, economic (minimum wage, unions)
- III. A brief review of the current assets, liabilities and unfunded liabilities of present day California.

Chapter 6: Economic Growth and Government Policy

Cross referencing the developments in Chapters 4 and 5 with the economic outcomes discussed in Chapters 1 through 3, Chapter 6 connects the cause and effect relationships between the economic policies implemented and the economic results created in California. It begins by defining what constitutes optimal state economic policies and illustrates why these policies are optimal. Because economic laws do not change under the California sun, the evidence for this section relies on a panel data examination across all U.S. states.

- I. Ideal spending levels and composition - transfer payments vs. other spending
- II. Ideal tax policy
- III. Ideal regulatory policy
- IV. Consequences of deviations from the ideals
 - Over-taxed /over-regulated states
 - Impact from policies that worsen the environment
 - Over-taxed/over-regulated states
 - Under-taxed/under-regulated states
 - Impact from policies that improve the environment
 - Over-taxed/over-regulated states
 - Under-taxed/under-regulated states

Chapter 7: High Tax and Spend Government vs. Low Tax and Spend Government

Chapter 7 applies the economic analysis of government tax and spending policies (Chapter 6) to California's history (Chapters 1 through 3). Economic history is no longer viewed based on the "economic periods" as presented earlier but as the consequences of policies implemented by the political leadership of the various administrations. The emphasis will be on the connections across time between the policies implemented and the economic outcomes.

Timeline

- Earl Warren: 30th Governor (1943-1953)
- Goodwin Knight: 31st Governor (1953-1959)
- Edmund G. "Pat" Brown: 32nd Governor (1959-1967)
- Ronald Reagan: 33rd Governor (1967-1975)
 - Tax increases
 - Spending growth
- Edmund G. "Jerry" Brown: 34th Governor (1975-1983)
 - Proposition 13
 - Gann spending limit
- George Deukmejian: 35th Governor (1983-1991)
 - Gutting the Gann-spending limit
 - Return of the growth of government

- Pete Wilson: 36th Governor (1991-1999)
 - Tax Increases
 - Tax cuts
- Gray Davis: 37th Governor (1999-2003)
 - Budget crisis
- Arnold Schwarzenegger: 38th Governor (2003-2010)
 - “I say spend it...”
- Edmund G. "Jerry" Brown: 39th Governor (2011- current)

Chapter 8: 10,000 Commandments

Economic regulations are more difficult to quantify, but have important implications for economic performance. As increased government activism often comprises of both higher spending levels and more burdensome regulations, the adverse economic consequences from more burdensome regulations coincide with the adverse economic consequences from increased government tax and spending programs. However, the anti-growth regulatory burden increases that periodically occur have not been rolled back to the same extent as the tax and expenditure burden in California. The anti-growth consequences of poor regulatory policies have tended to accumulate to a greater extent. This chapter focuses on the expansion of anti-growth regulations in California in three key areas.

- I. Housing
 - Detail growth in housing regulations
 - Impact on the “housing accelerator”
 - Impact on housing price volatility

- II. Environmental
 - Detail growth in environmental regulations
 - Impact on cost of doing business in California compared to other states
 - Impact on cost of living in California compared to other states

- III. Labor
 - Detail growth in labor regulations
 - Impact on cost of doing business in California compared to other states

Chapter 9: The Politics of Big Government

California’s political process is flawed. These key flaws create an upward bias in the size and growth of government. Addressing these flaws will help create a more effective pro-growth environment and more responsive to constituents.

- I. Remove legislative district drawing powers from legislators giving authority to a panel of retired judges (Proposition 77).
 - Maintain geographic boundaries of cities and counties within districts as much as practicable but takeaway the current districts that gerrymander safe seats for incumbent parties.

- Democracy thrives with a competition of ideas, but elected officials have done what they can to snuff out competition with the current district lines.
- II. Reform the budget process (Proposition 76)
 - Establish better budget practices (tax and expenditure limits)
 - Address budget inflexibilities (e.g. Proposition 98)
 - 3-year average revenue guidelines
 - Expenditure growth guidelines
 - Better “rainy-day fund” practices
 - Inter-relationship between progressive taxes and ineffective budget process
- III. Address bias for higher cost government services
 - Pension spiking
 - Teacher tenure (Proposition 74)
 - Public union power (Proposition 75)

Chapter 10: California’s Future

California is at a crossroads, once again. California’s history clearly shows what the alternative futures could be.

- I. California’s Low-Growth Future
 - Policies
 - Maintain/increase progressive taxation
 - Try to raise taxes to close budget shortfalls - Ultimately, Proposition 13 could be jeopardized
 - Increase environmental and labor regulations
 - Further empowerment to public sector unions
 - Maintain political status quo
 - Outcomes
 - California’s economy continues to under-perform -- when does Texas become larger?
 - Out-migration continues
 - Housing values continue declining
 - State budget crises continue
 - Increased municipal bankruptcy pressure
- II. California’s Pro-Growth Future
 - Policies
 - Flat tax (or reduced tax progressivity)
 - Budget process reform
 - Legislative/political reform

- Regulatory review and eliminate those regulations determined to be unnecessary/unjustifiable based on Cost-Benefit analysis
- Outcomes
 - California's economy out-performs nation
 - Migration flows back to California
 - Housing market stabilizes
 - State budget volatility reduced