Mitchell's Musings 11-10-14: Lessons from the Past for the California Infrastructure of the Future

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Note: This musing was originally prepared as a background note for the UCLA Anderson Forecast December conference. A shorter version will appear on a blog of the UCLA Anderson School of Management. Despite its focus on California, readers in other areas may find it instructive.

Whenever California infrastructure investment is mentioned, there is a tendency to hark back to a Golden Age after World War II. During that period, our current governor's dad, Pat Brown, is credited with freeways, a major state water project, and the 1960 Master Plan. But there were other political figures involved and when you look more deeply, you find that these accomplishments had a longer history. Economists have a phrase, path dependency, which suggests that events of the past direct and constrain what we do in the present. And that was certainly true of the Golden Age.

One factor that ushered in the Golden Age was World War II and subsequent Cold War, both of which boosted California's economy and its growth rate with an influx of federal spending on what became the aerospace industry and other related military sectors. The result was notably faster economic and population growth in California relative to the rest of the U.S. and with a focus on technology and high paying jobs. Fast growth with good incomes meant that nasty trade-offs could be avoided. We could have expanding social programs and infrastructure investment without worrying that a dollar more for one meant a dollar less for the other.

While the era of fast growth made infrastructure investment decisions easier, even in the Golden Age there was inevitable opposition. Then-Governor Earl Warren pushed through the Collyer-Burns Act of 1947 which opened the door to the modern California freeway system, using a funding model based on gasoline taxes and a trust fund for road construction. So successful was that model in California that it was imitated at the federal level and became national policy during and after the Eisenhower years for the interstate highway system.

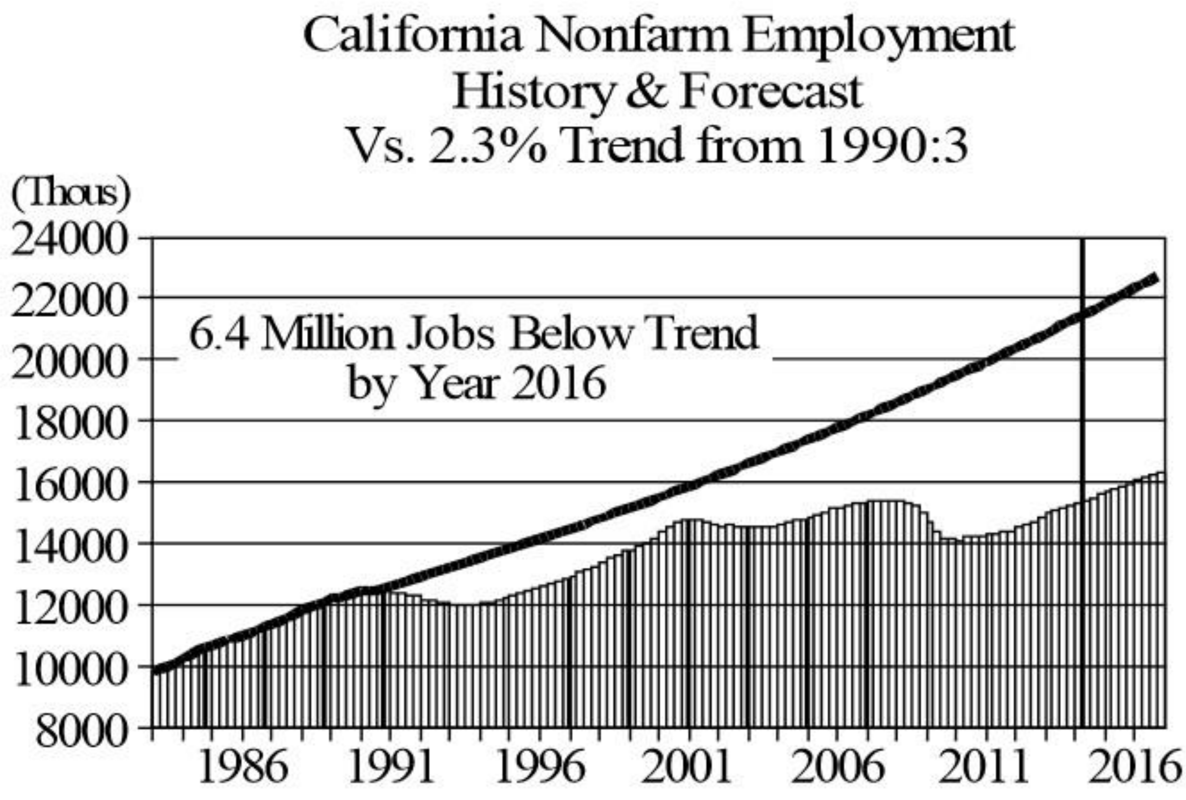
What we now call the three segments of higher education - the University of California, the California State University system, and the community colleges - were already expanding before the Master Plan. But turf battles between the three segments were hindering the expansion and needed to be sorted out. What the Master Plan did, therefore, was to provide a politically-acceptable division of labor for the three segments. Similarly, the idea for Pat Brown's state water project did not suddenly spring into existence in the 1960s; there had been water planning and debate for decades before. The project was built on a foundation of prior planning and it was (narrowly) approved by voters in the face of the north-south conflict that often arises when water in California is discussed.

Fast growth during and after World War II was a necessary, but not sufficient, condition for the Golden Age of California infrastructure investment. What was also needed for conditions to be sufficient was public confidence that promised projects would in fact be delivered as promised. Luckily, there was a pre-war history that suggested they could be confident. In the early 20th century, for example, the City of Los Angeles built its Owens Valley water project on time and within budget.

OK; I know. You saw the movie "Chinatown" and you think the Owens Valley project was nothing but a municipal scandal built around corruption, murder and incest. Without going into more detail, let's just say that the movie was fictional. Not long after L.A. constructed its Owens Valley project, San Francisco built its Hetch-Hetchy water project, a project which with your modern environmental sensibilities you may also disdain. But suffice it to say, that's not how it was perceived back then.

During the Great Depression, there were other impressive projects - some of which were motivated in part by the need for job creation and federal subsidy. With regard to water in southern California, there was the aqueduct bringing water from the Colorado River. In the Bay Area, there was the Bay Bridge and the Golden Gate Bridge. In southern California, there was the Arroyo Seco Parkway (now the Pasadena Freeway). The upshot was that in post-World War II California, voters had reason to believe that if they supported projects, those projects would be delivered. Thus, Governor Earl Warren could mobilize public pressure on the legislature to enact Collyer-Burns for freeways in the face of gridlock engendered by oil companies that disliked gasoline taxes. And Governor Pat Brown, as noted, beat back regional opposition to his water project sufficiently to obtain voter approval.

Each quarter for many years, the UCLA Anderson Forecast has updated a chart that illustrates the consequences for the state when the Cold War came to an end around 1990. You can see the chart below.



The old Cold War trend line of employment on the chart begins to separate in 1990 from actual employment and it continues to do so even in the face of the dot-com boom of the late 1990s and the housing/mortgage boom of the mid-2000s. Since 1990, California has entered a period in which its growth rate is more or less average compared with the rest of the U.S. If we had stayed on the old trend, we would have something like 6 million more jobs than we actually do. Nowadays, unlike the era of above-average growth during the Cold War's Golden Era, there are those nasty trade-offs. More money for social programs means fewer dollars for infrastructure. Alternatively, if you want to have both, someone will have to pay more in taxes. The temptation, given that unpleasant trade-off, is to charge the costs to the future via bond finance. Let somebody in the future pay for what we want.

Absent some new external accident of history, Cold War-style above-average growth rates are not going to return to California. Despite the temptation to do so, in a period of mere average growth, infrastructure – whether water projects or college campuses – should not simply be charged off to the future via bond sales, the pattern that has developed in recent years and that was, for example, reflected in the water bond on the November 2014 ballot. Absent rapid growth, we can't count on the future economy to be so much larger than it is today so that paying off past debt when the future arrives will be painless. If nothing else, there are intergenerational inequities in relying too heavily on bond finance.

At the same time, the state's record in recent infrastructure investment is blemished. The new replacement segment of the Bay Bridge, a state project, has been marked by improper state inspections, faulty components, and costs beyond budget. Closer to UCLA, the large expenditures on widening the I-405 freeway in the Sepulveda Pass - and years of inconvenience during construction - seem to have produced no marked traffic improvement. Sidewalks in the City of Los Angeles are notoriously cracked, uneven, and misaligned due to tree root damage. Public support in the future for infrastructure repairs and expansion, the funding for which should increasingly depend on user fees and less on bonds, will be limited unless there is a better record of success in past projects. Badly done projects today mean public skepticism tomorrow.

So what is to be done? Key elected officials are going to have to explain to the public what the end of the Cold War has meant for California fiscal affairs and for its infrastructure finance. It may seem odd a quarter of a century later that our politics are stuck at 1990, but that is the reality. User fees and user taxes for water, roads, and other public projects need to become a larger part of the funding mix; it can't be all bonds. And the credibility of public authorities when it comes to infrastructure implementation needs to be restored.

The old Master Plan approach, used for higher education in 1960, may be useful model today, not only for higher ed, but for transportation and water, too. We need to set up mechanisms outside the legislature for developing overall plans. Once plans are developed, key politicians need to sell the plans, first to the public and then to the legislature. Folks, the Cold War is over.