

## Mitchell's Musings 6-1-2015: The Morning After in California

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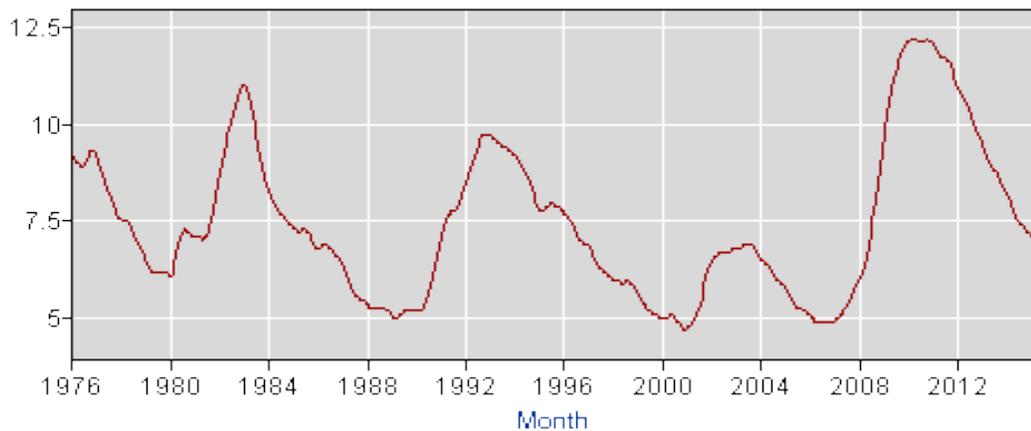
In past musings, I have noted problems in interpreting opinion polls taken about complex public policy issues in which the pollster has to explain to (and frame for) respondents what the issue is. Such polls tend to produce opinions about issues on which the respondent didn't have a real opinion since the explanation (framing) was needed to produce answers.

On the other hand, it is interesting to look at public sentiments on general circumstances in which respondents are likely to have knowledge or, at least, opinions. One such circumstance is the condition of the labor market. Another is personal economic well-being. Respondents are likely to have some perception of the labor market, either from personal experience or from observations based on family, friends, and what is happening at their own employer. Such opinions may or may not be accurate for the labor market as a whole, of course. Respondents are likely in addition to have knowledge of their own personal circumstances.

California was harder hit by the Great Recession than average in the U.S., in part because the housing bubble/bust and shaky mortgage problem was disproportionately located in the state. Nonetheless, as the chart below indicates, the unemployment rate has been falling steadily and its latest reading on a seasonally adjusted basis was 6.3%. That level is higher than the U.S. average of 5.4% but during the recovery the California-U.S. gap has been narrowing. Say what you want, things are better now than they were and have been improving.

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### California unemployment rate, seasonally adjusted



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The California Field Poll regularly asks respondents about their labor market and general economic perceptions and whether they are better off than a year before. So what did Californians think about the unemployment situation and the general economy in prior periods when the unemployment rate was about 6.3% and trending down?<sup>1</sup> Such earlier periods turn out to be 1987 (the era of “Morning in America”), 1997 (the dot-com boom), and 2004 (the housing boom). What were respondents to the Field Poll saying then and now?

Let’s start with the labor market. Respondents – registered voters - were asked “*How serious a problem do you think unemployment is in California at this time?*” Below are their answers:

	Very Serious	Somewhat Serious	Not Serious
May 2015	39%	46%	14%
Morning 1987	22	45	25
Dot-com 1997	na	na	na
Housing 2004	35	43	19

Although we don’t have poll data for the corresponding dot-com year, it appears that respondents during the Morning in America period were more blasé about unemployment than are current respondents. Housing boom respondents were somewhere in between the two perceptions. The perception that the labor market has problems carries over into the characterization of the general economy. When asked to characterize the current state of the California economy, registered voters responded as shown below:

	Bad Times	In-between/ Not Sure	Good Times
May 2015	50%	17%	33%
Morning 1987	22	24	51
Dot-com 1997	42	23	33
Housing 2004	53	22	24

Again, the Morning in America respondents were less likely than those in subsequent corresponding period to perceive conditions as bad. Respondents in the later periods seem to have experienced a lag in recognizing the recovery. An interesting question is whether the respondents were reacting to their personal circumstances. Did they have a perception that their own situations had not improved? Registered voters were asked if their personal financial conditions or those of their family had improved (Better Off) or worsened (Worse Off) over the past twelve months.

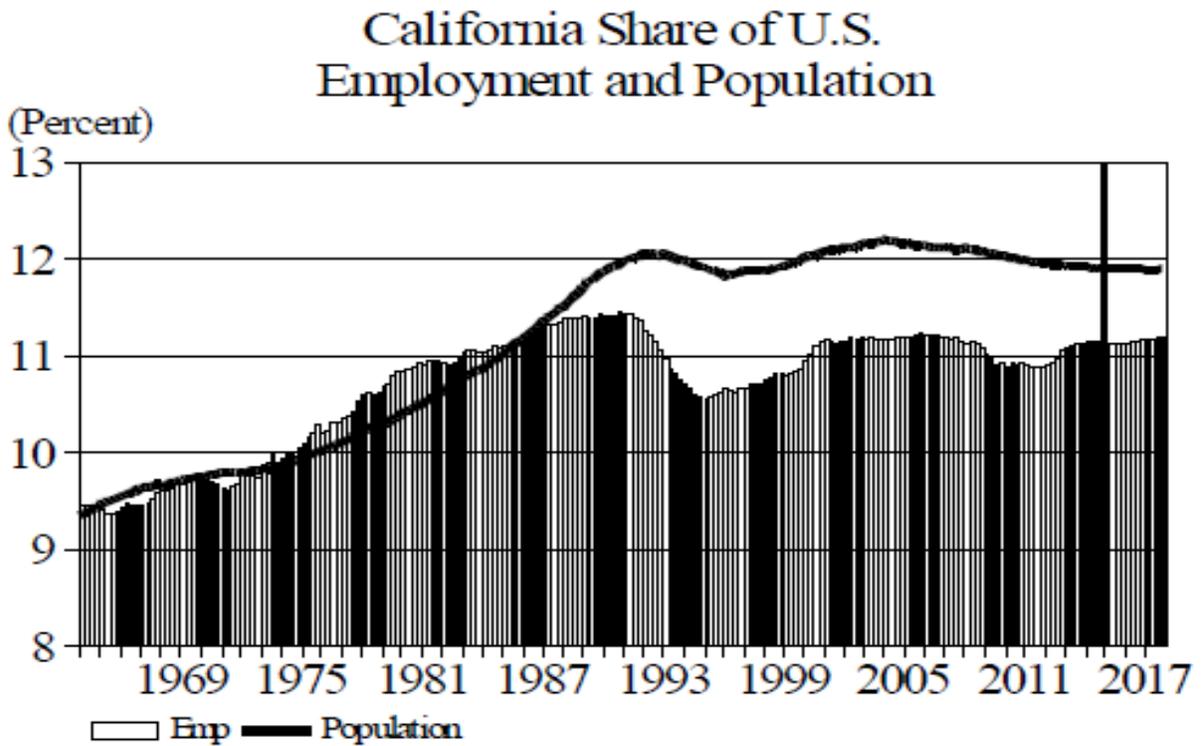
	Better Off	No Change	Worse Off
May 2015	48%	25%	27%
Morning 1987	49	26	25
Dot-com 1997	42	31	27
Housing 2004	41	32	27

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<sup>1</sup>Data cited from the Field Poll can be found at <http://www.field.com/fieldpollonline/subscribers/RIs2508.pdf>

As the table indicates, a strong plurality of registered voters report an improvement at present, about the same proportions found during the Morning in America era. In fact, none of the periods show much difference from current perceptions of personal circumstances. So what accounts for the post-Morning perceptions of fewer problems in the labor market and in the general economy in California than we found now? The poll data themselves don't answer that question so only a guess can be ventured. But it does appear that a structural shift occurred after the 1980s.

There was indeed a structural shift around 1990 that corresponded to the end of the Cold War and thus the stimulus that had been provided to the California economy through federal military spending. As the chart below shows, whether measured by population or employment, California grew faster than the U.S. until the 1990s.<sup>2</sup> Thereafter, it grew in population only at around the U.S. national rate. And its employment level fell relative to the state's population. Until the late 1980s, California population and employment more or less tracked each other. Now California's population share is around 12% of the U.S. level but its employment share is around 11%. So state growth slowed with the end of the Cold War and there are also fewer workers in relative terms available to provide income support to the population.



<sup>2</sup>The chart is taken from the UCLA Anderson forecast of March 2015.

In short, the end of the era of super-normal Cold War growth seems to have left a permanent scar on the California psyche. You can point to falling unemployment. You can point to the current respite from the state budget crises that afflicted California during the first half of the 1990s and much of the period after 2000. But Californians – or at least those who are registered to vote – still have a sense that things are not what they should be. It's no longer Morning in California and hasn't been for a quarter of a century. Day is supposed to follow night but how long we will have to wait in California for a new dawn is unclear.