Opinion: Reforms needed to reverse California decline

By Michael J. Boskin and John F. Cogan, Wall Street Journal

Long a harbinger of national trends and an incubator of innovation, cash-strapped California eagerly awaits a temporary revenue surge from Facebook IPO stock options and capital gains. Meanwhile, Stockton may soon become the state's largest city to go bust. Call it the agony and ecstasy of contemporary California.

California's rising standards of living and outstanding public schools and universities once attracted millions seeking upward economic mobility. But then something went radically wrong as California legislatures and governors built a welfare state on high tax rates, liberal entitlement benefits, and excessive regulation. The results, though predictable, are nonetheless striking. From the mid-1980s to 2005, California's population grew by 10 million, while Medicaid recipients soared by seven million; tax filers paying income taxes rose by just 150,000; and the prison population swelled by 115,000.

California's economy, which used to outperform the rest of the country, now substantially underperforms. The unemployment rate, at 10.9%, is higher than every other state except Nevada and Rhode Island. With 12% of America's population, California has one third of the nation's welfare recipients.

Partly due to generous union wages and benefits, inflexible work rules and lobbying for more spending, many state programs and institutions spend too much and achieve too little. For example, annual spending on each California prison inmate is equal to an entire middle-income family's after-tax income. Many of California's K-12 public schools rank poorly on standardized tests. The unfunded pension and retiree healthcare liabilities of workers in the state-run Calpers system, which includes teachers and university personnel, totals around $250 billion.

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