

KC Fiscal Focus Opinion: State Legislators Must Get Beyond Partisan Divisions, Outdated and Flawed Understanding of State's Economy to Improve California's Economic Competitiveness

By David Kersten, August 1, 2011

[Kersten Communications \(KC\)](#) has undertaken a major review of the research and literature on economic competitiveness and job creation and found that much of the existing political debate is based on an outdated and flawed understanding of the drivers of local, state, and national economic growth.

[KC](#) will present the results of this research in a series of articles and reports in the coming months to help provide readers with a concise review of what the experts say are the key public policies that the State of California should enact to create jobs and improve our business climate.

To illustrate, most conservative Republican lawmakers are stuck in the mindset that most state spending is bad and the best way to promote economic development in the state is to minimize the size of the government by cutting spending and taxes to the greatest extent possible.

The truth is that a consensus of leading economists, academics and CEOs believe, and provide the evidence to back it up, that California must compete as a high-value added economy by investing in and improving our education system, both higher education and K-12, and investing in infrastructure and workforce training. Furthermore, recent budget standoffs have led to a significant reduction in spending for these programs and take the state in the wrong direction to improve its long-term economic competitiveness.

There is a consensus among business leaders that California's regulatory climate is among the worst in the country, with one CEO saying each regulation is like a snow flake that individually makes sense but taken together the regulations are a nightmare avalanche, at a CEO panel discussion hosted by Lt. Governor Gavin Newsom last Friday. Another CEO at Lt. Gov. Newsom's panel discussion said that getting a plant built takes six months to a year longer in California than in other states due to permitting and regulatory issues. Democrats will have to be willing to reconsider changes to California's regulatory schemes, such as the California Environmental Quality Act, to improve the state's business climate.

Recent reports by leading organizations such as the McKinsey Global Institute have found that there is a growing mismatch between the workforce needed to fuel the state's future economic growth, and the workforce that will be provided by the state's education system. Moreover, the state's failure to graduate enough workers with the skills necessary to staff the state's new economy will serve to hinder future job creation in the state and encourage companies to look to other locations either abroad or in other states that can provide the necessary workforce.

The literature and anecdotal case studies on economic development show that significant success with economic development has occurred at the local and regional levels both inside and outside California. Governor Newsom's new report [Economic Growth and Competitiveness Agenda for California](#) cites the examples of Silicon Valley, the Los Angeles County Economic Development Corporation, and Sacramento Valley Vision as examples of regional strategies in California that have led to great success in job creation and economic growth at the local level.

Research from experts such as Harvard Professor Michael E. Porter suggests that California should not try to compete in all industries and products. The state should instead focus on certain industry clusters in which it is already strong and implement economic development strategies to enhance and grow those specific industry clusters. California currently lacks a meaningful strategic plan at the state level to foster such clusters, although much has been done at the local and regional level.

The bottom line is that politicians on both sides of the aisle must first take the time to review and understand the conclusions and evidence presented from leading economists and academics, as well as listen to what the state's business leaders and CEOs are telling them, and then act based on the evidence and research, as opposed to blind, outdated, and incorrect partisan ideology and knee-jerk partisan impulses.

The recent economic success stories of countries such as China and Singapore show how effective the development and implementation of a strategic vision for economic growth and competitiveness can be in promoting and sustaining job creation.

Lt. Governor Gavin Newsom has already taken the lead on developing a new economic development agenda for California by enlisting the help of top organizations and business leaders to develop an action plan and timeline to improve the state's business climate. This plan is based on solid economic research from leading groups, such as the Brookings Institute and the McKinsey Global Institute, as well as input from the state's CEOs and business groups.

California's elected political leaders must put aside their partisan ideology and internal bickering for enough time to understand the cutting edge economic research and join Lt. Governor Gavin Newsom's effort to develop a shared strategic vision for how to improve the state's business climate and create jobs in this state.

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