California: Trying to keep it real in the Trump years.

Policy Insights 2018

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Bridges, not Walls: CA in the Trump era.

- Gov. Brown: "…in California we are focusing on bridges, not walls…"

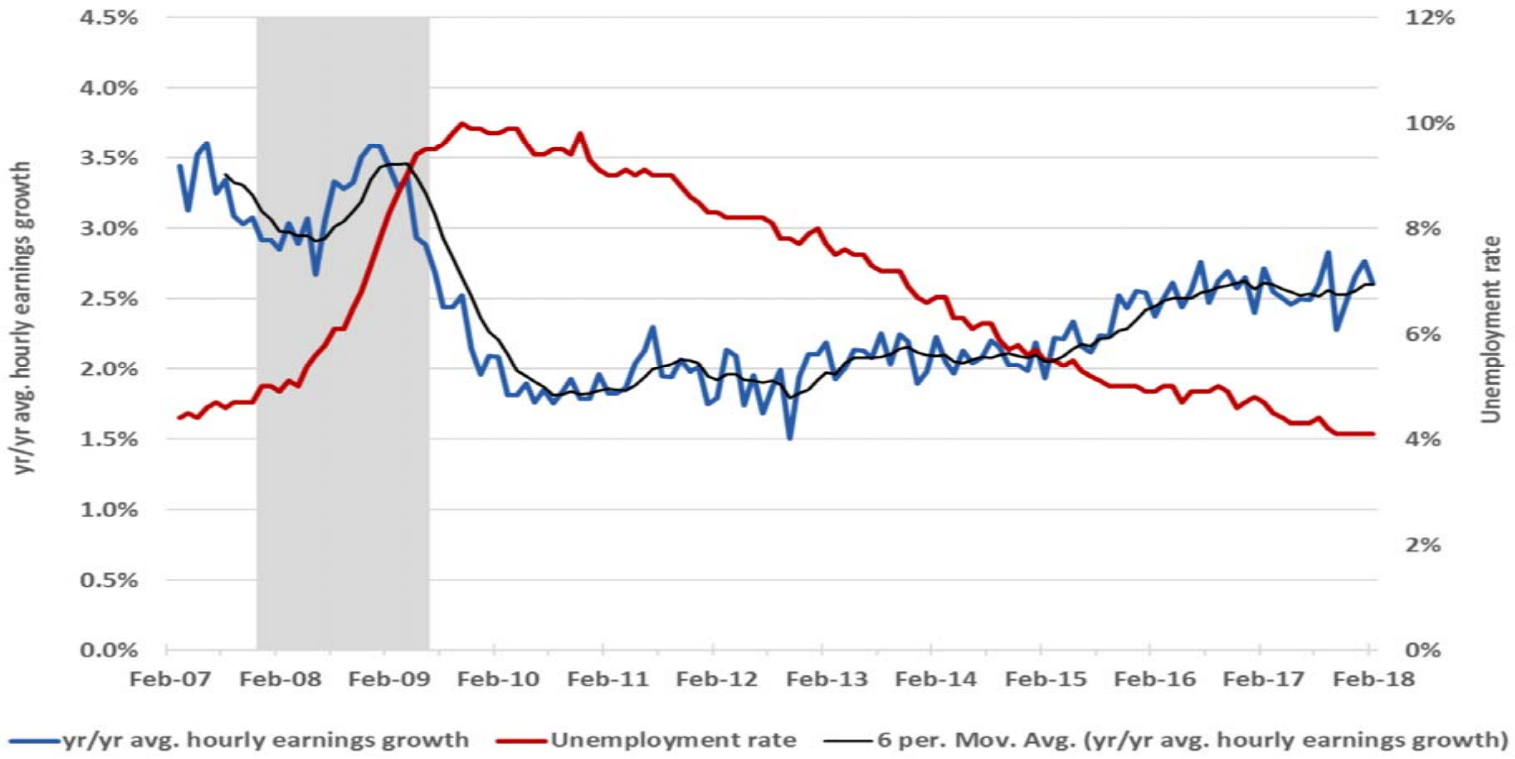
- Can you do that?
  - Economic recovery: climbing back but disparities persist. CA strong on many dimension ("CA Model*") but state not immune from forces driving up inequality.
  - Nexus between state/federal sectors; cost shifting to states, while SALT cap threatens revs.
  - *Immigration, climate, minimum wages, health care: how does this work in the age of Trump?

Economic Context

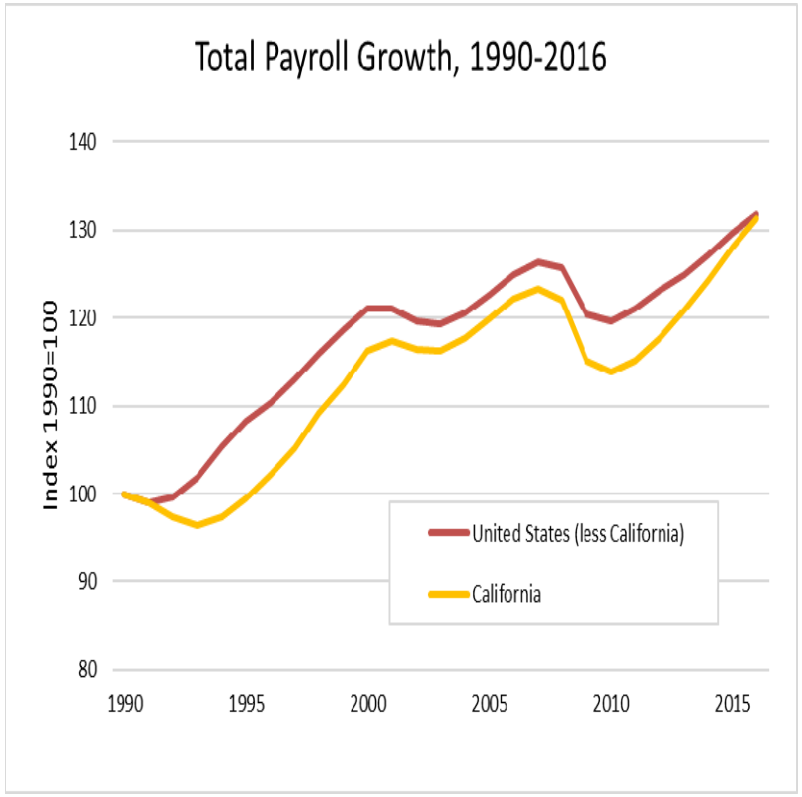
- National economy strong, but significant pockets of folks left behind.

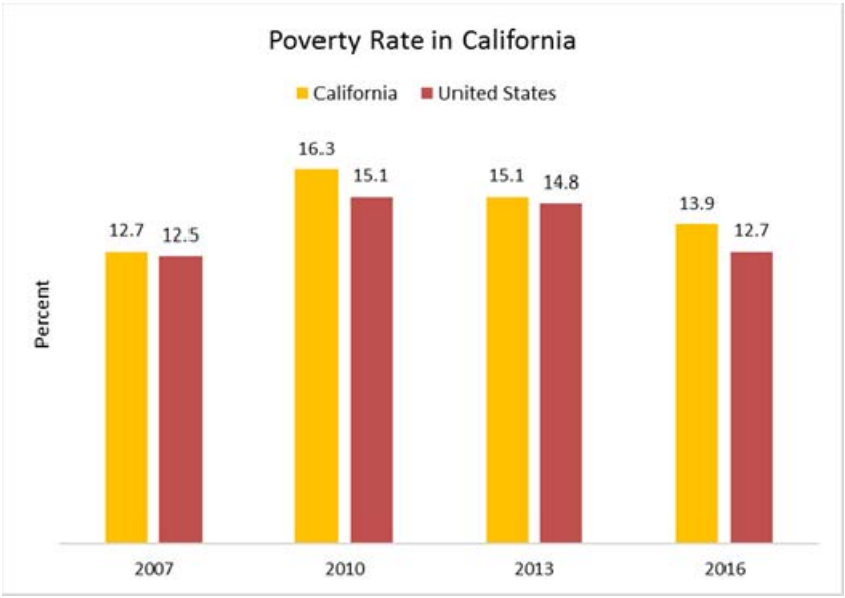
- And wage growth, though positive in real terms, is nothing that special. Why not??
  - Usual econ stuff (trade, tech, etc.)
  - Full emp? (Look at the EPOPs)
  - Bargaining clout

Year/Year Average Hourly Earnings Growth and Unemployment Rate



Source: BLS, Author's Calculations

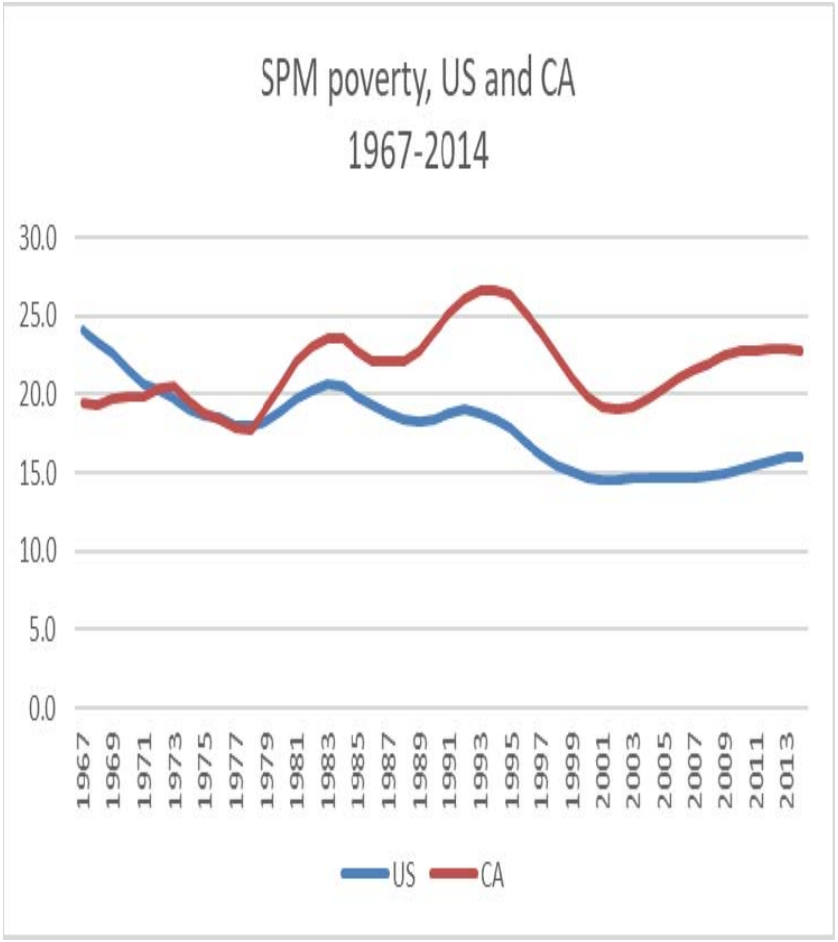


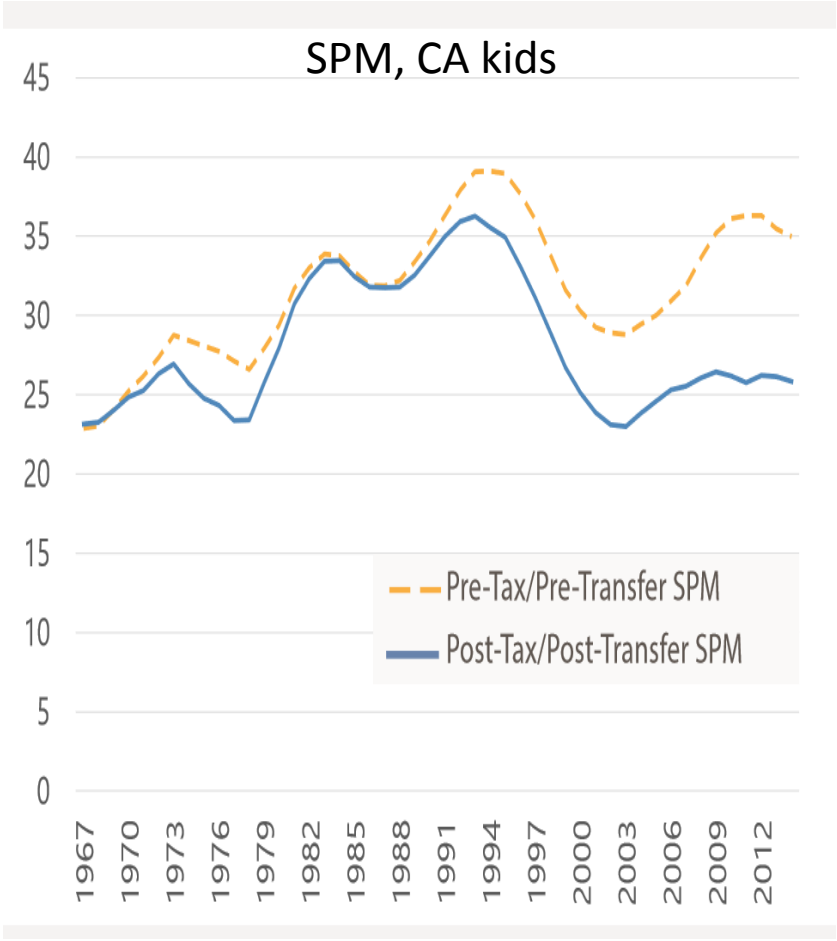


SPM 2014-16:

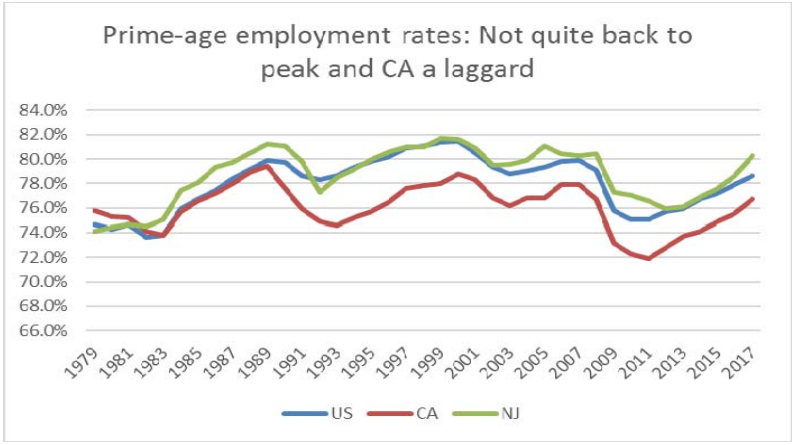
US: ~15%; CA: ~20%

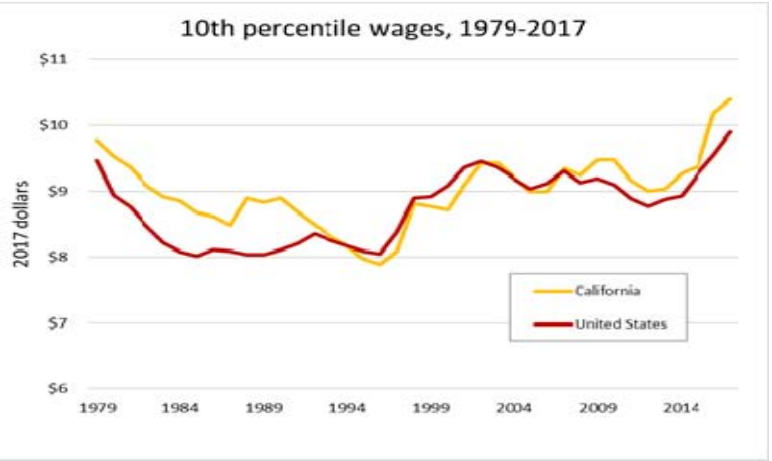
CA ppt diff between official and SPM **largest in country (~6 ppts)**

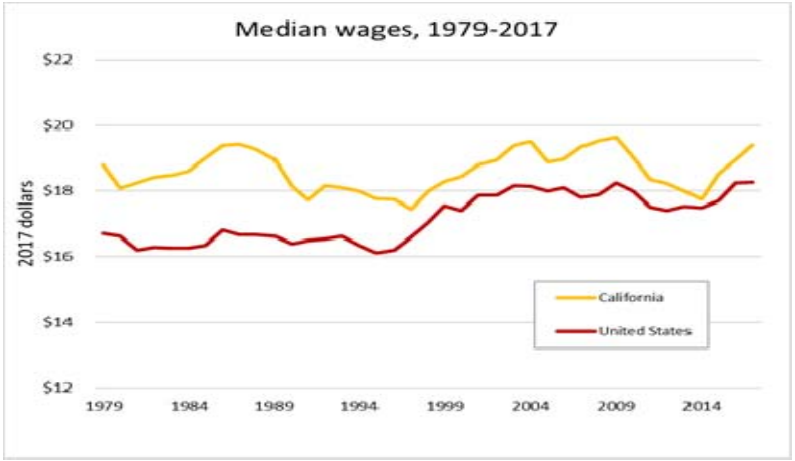


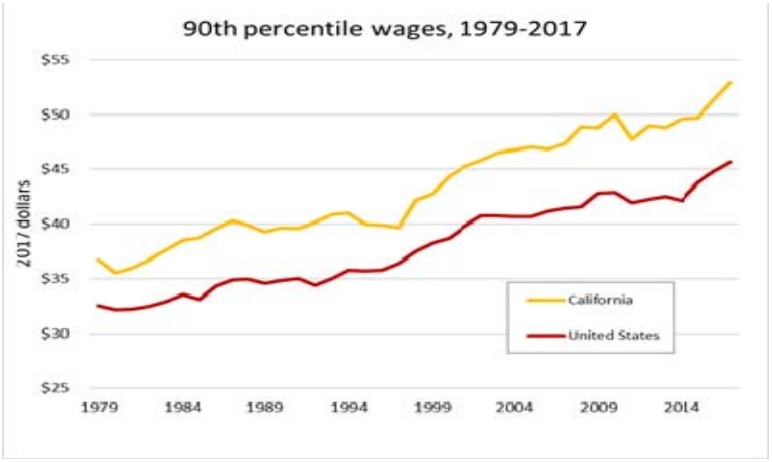


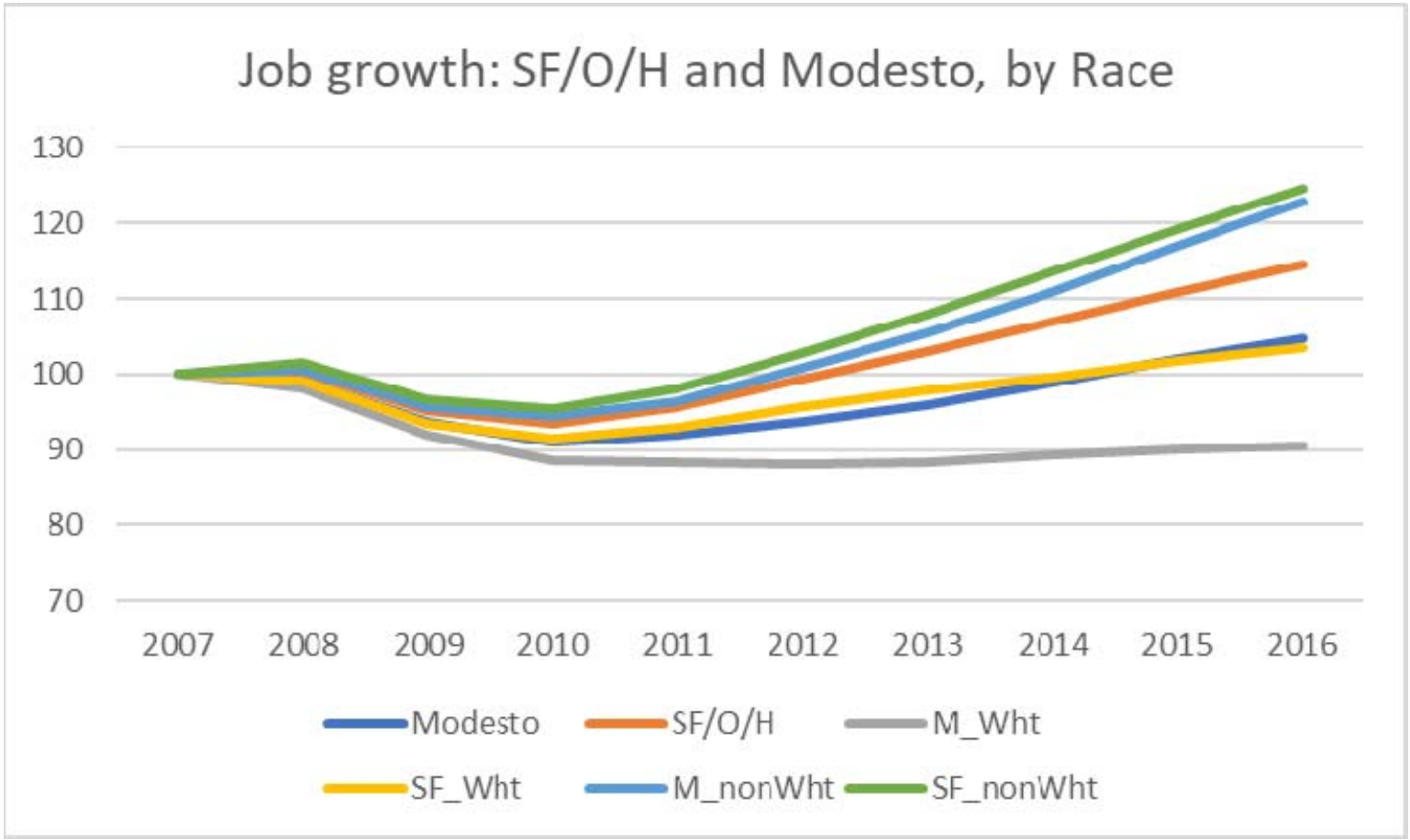
Source: https://www.povertycenter.columbia.edu/state-fact-sheets


Prime-age employment rates: Not quite back to peak and CA a laggard
84.0%
82.0%
80.0%
78.0%
76.0%
74.0%
72.0%
70.0%
68.0%
66.0%
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
2013
2015
2017
US
CA
NJ


10th percentile wages, 1979-2017
$11
$10
$9
$8
$7
$6
2017 dollars
1979
1984
1989
1994
1999
2004
2009
2014
California
United States


Median wages, 1979-2017
$22
$20
$18
$16
$14
$12
2017 dollars
1979
1984
1989
1994
1999
2004
2009
2014
California
United States

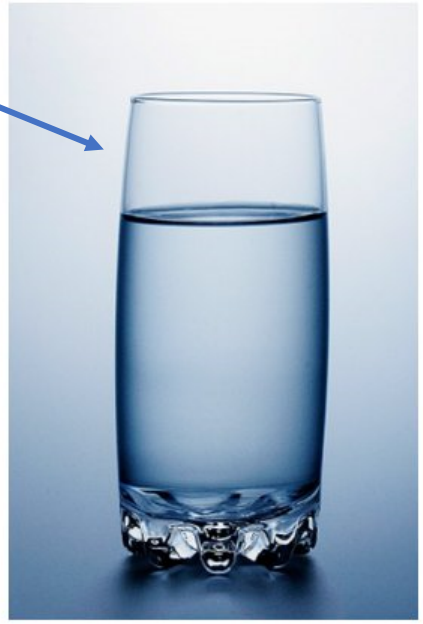

90th percentile wages, 1979-2017
$55
$50
$45
$40
$35
$30
$25
2017 dollars
1979
1984
1989
1994
1999
2004
2009
2014
California
United States


Job growth: SF/O/H and Modesto, by Race
130
120
110
100
90
80
70
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Modesto
SF/O/H
M_Wht
SF_Wht
M_nonWht
SF_nonWht

Based on jobs, inflation, wages: which of these do you think best represents the current economy?

A

Room to run!



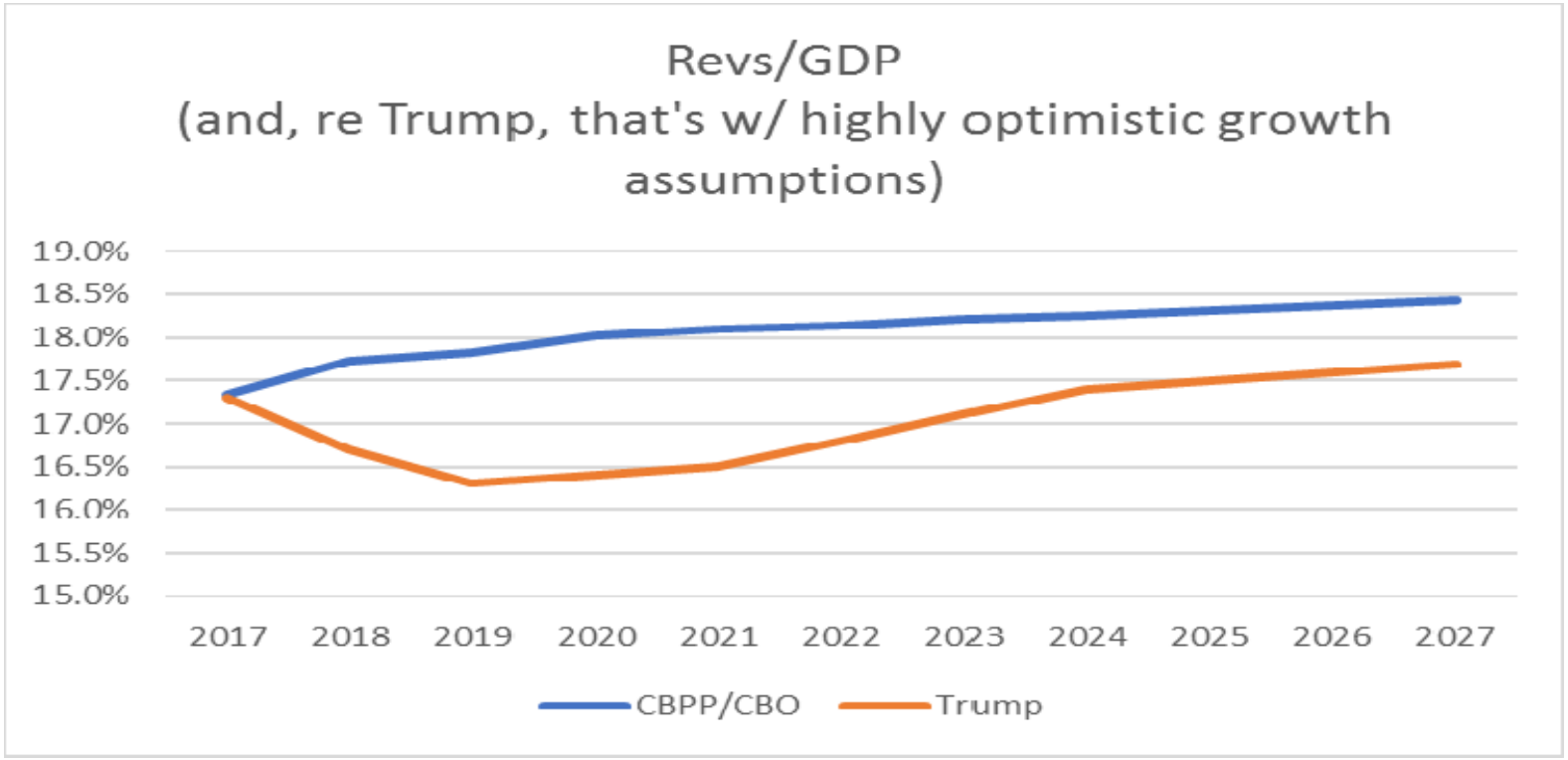
B

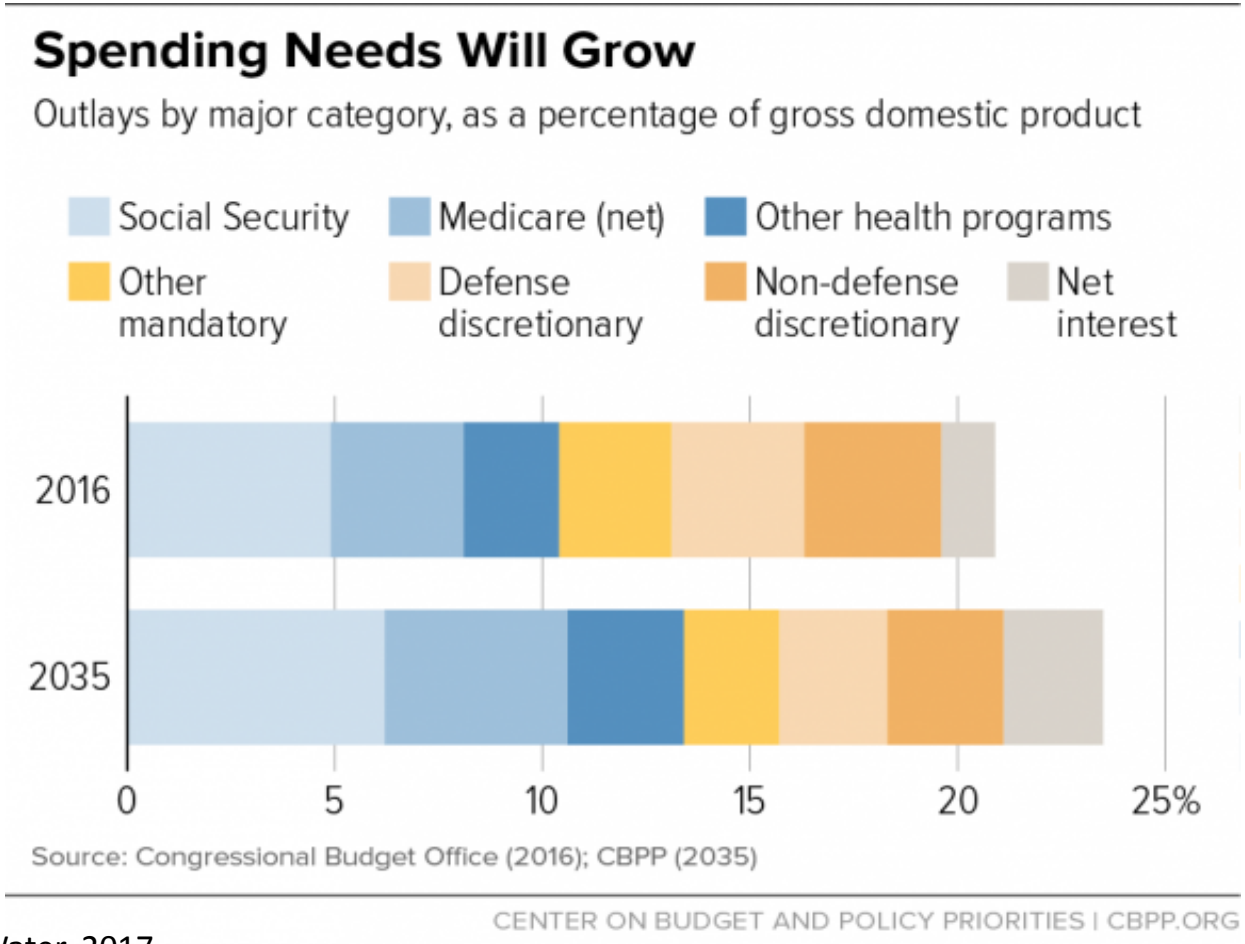
Inflation!

Taxes, revenues, spending, deficits: a cluster mess.

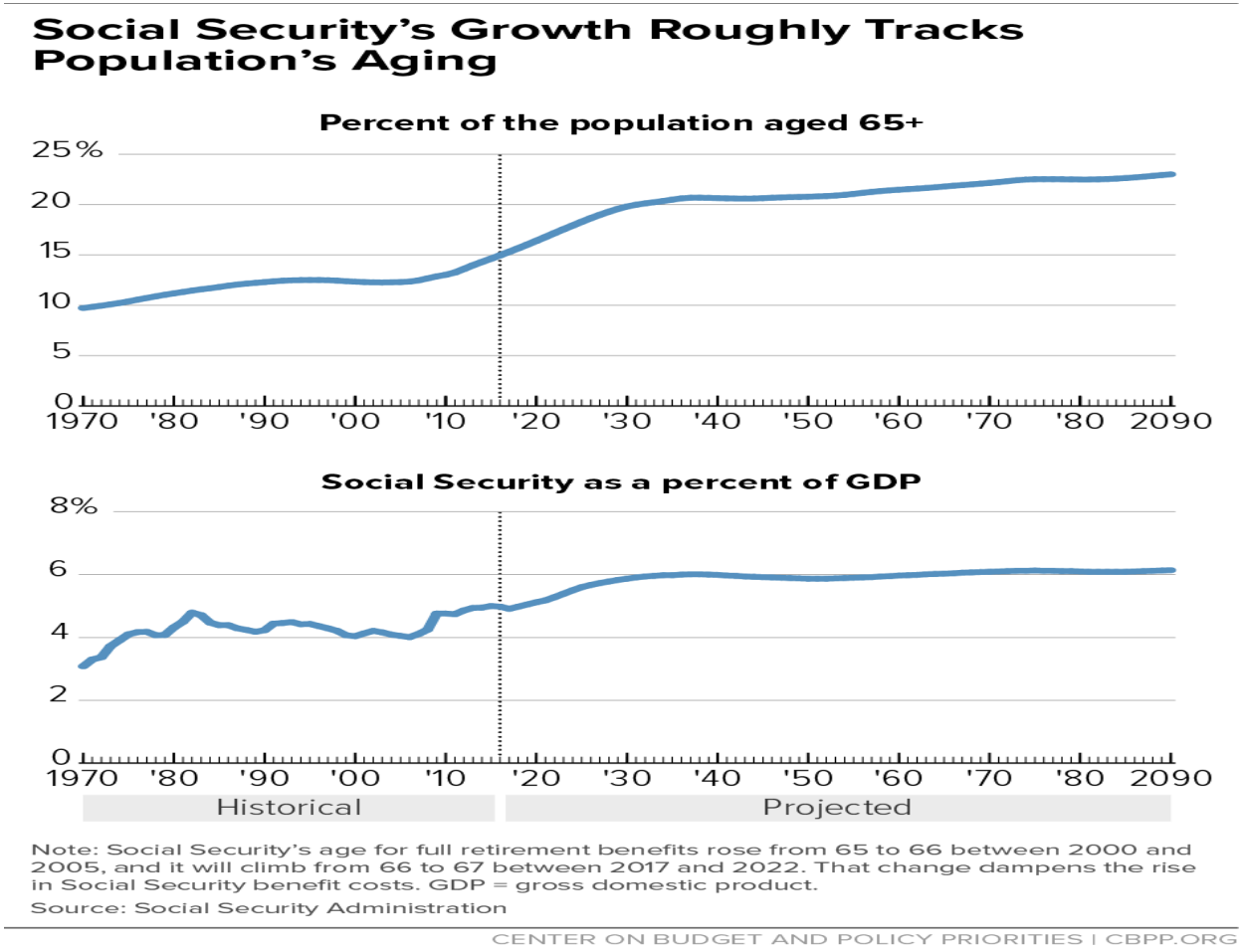
- The R's don't hate deficits. They leverage them to insist on spending cuts.
- But while this works in theory, less so in practice.
- Can it really be the case that (federal) revenues are off the table "forever?"
- What's the deal with deficits/debt?
- Current fiscal events: there's actually an interesting experiment ongoing.

Revs/GDP, CBPP Baseline & Trump





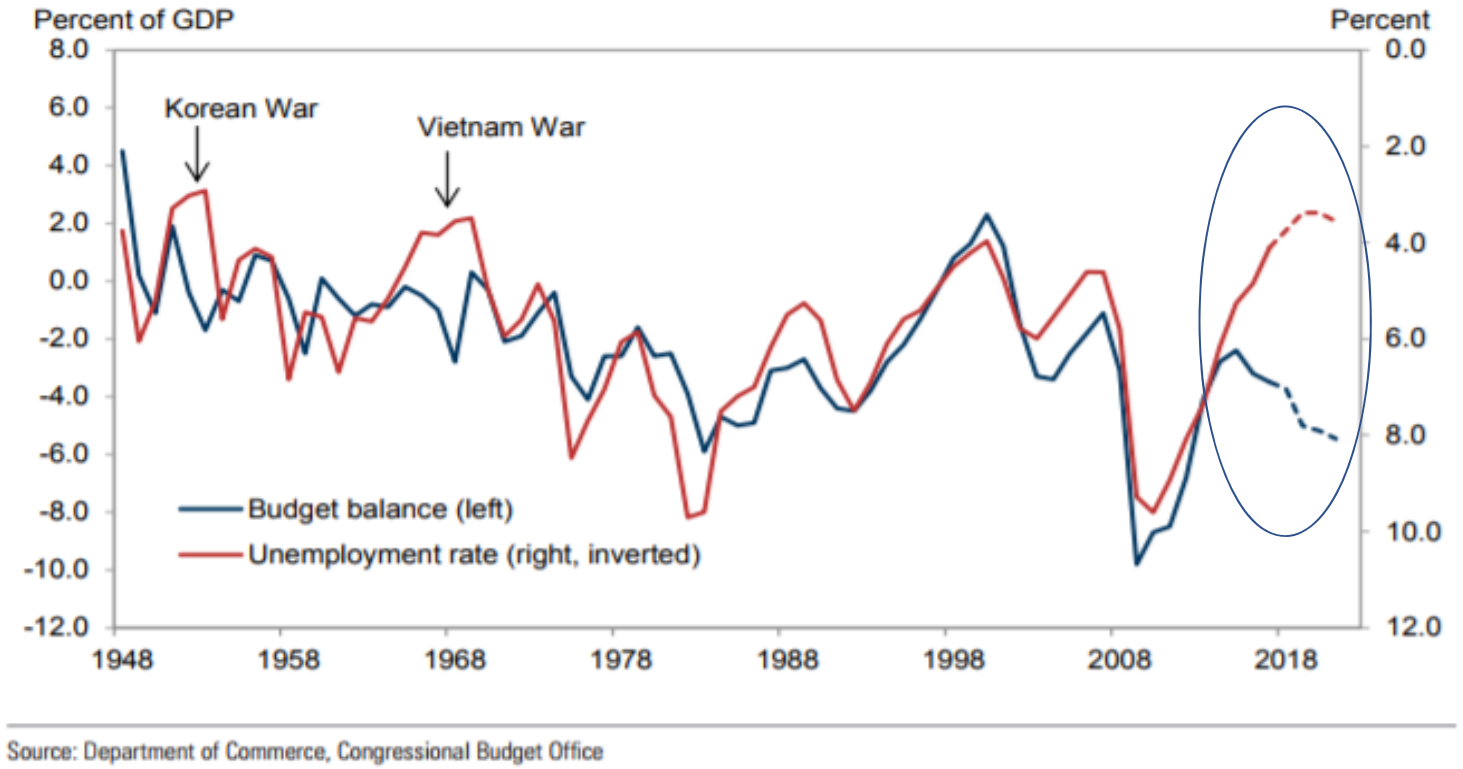
Source: Van de Water, 2017



Source: Van de Water, 2017

Three ~~billboards~~ questions about deficits.

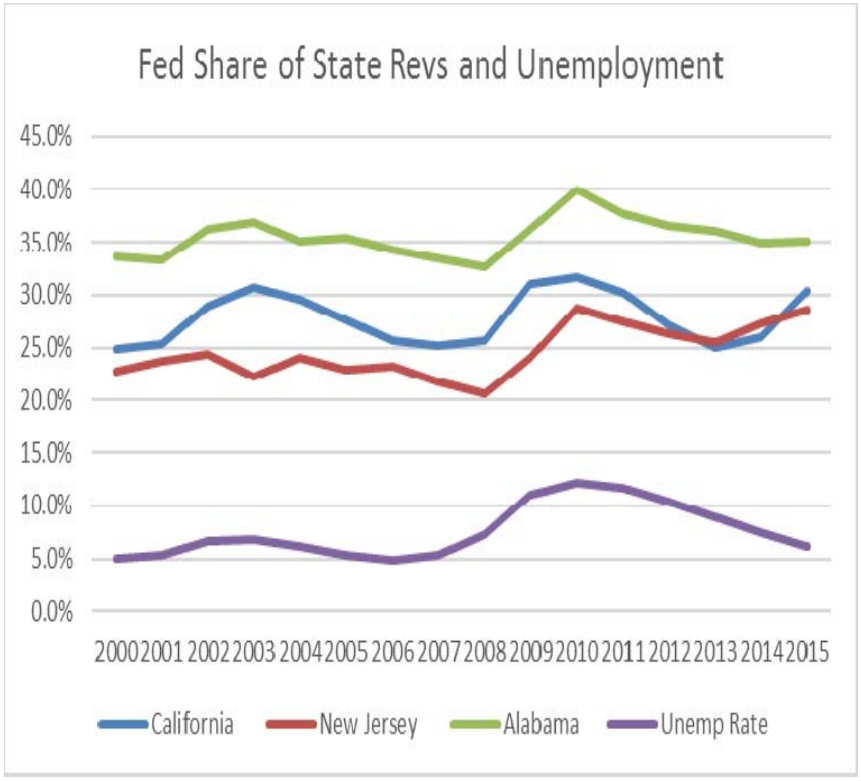
- Are higher deficits a problem?
  - It depends on where we are in the cycle
  - What it's for
  - Current fiscal experiment
- If so, what can be done about them?
  - There's lots of talk about spending cuts, but either raise revenues or learn to love red ink.
- What is it that politicians never seem to pay a price for any of this debt stuff?
  - Because constituents don't see any real downside…yet.

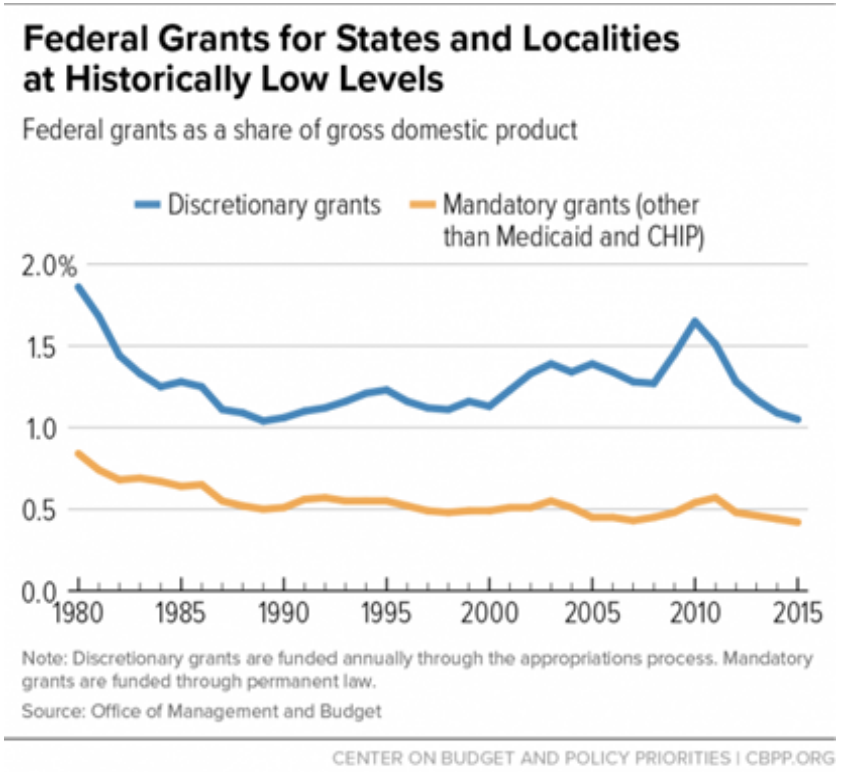


Source: Alec Phillips, GS Research

States and the federal budget, #1

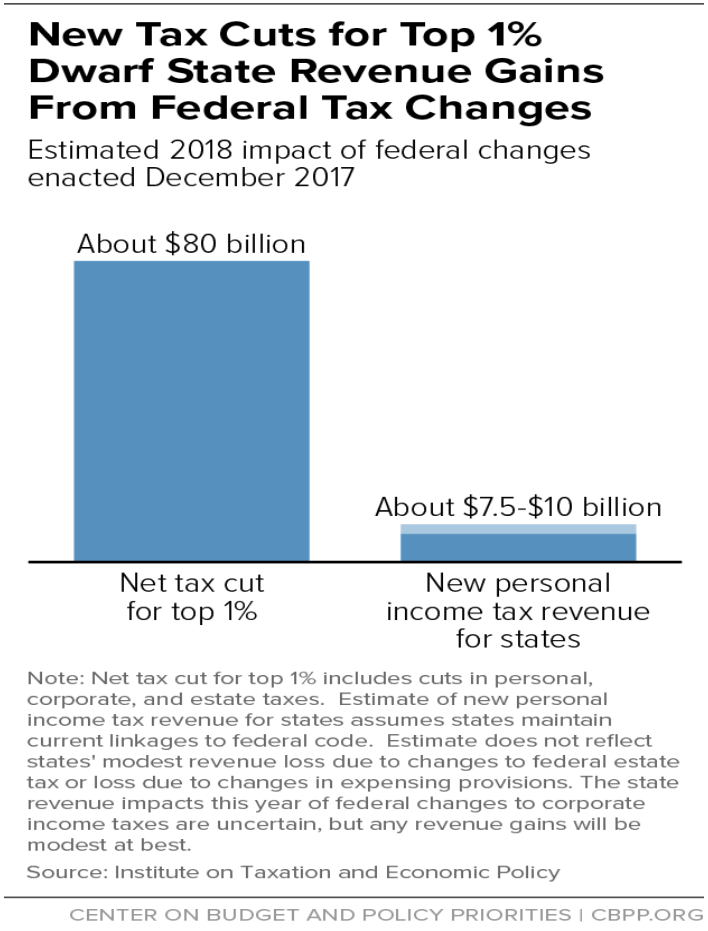
- Cost shifts
  - Block grants
  - Medicaid waivers for work requirements
  - Reduced SALT diet (rev impacts)
  - NDD, SNAP cuts
- Infrastructure: Liz McN: “the [Trump] plan is a mirage that would cut federal support for infrastructure over the long term and shift costs to states and localities.”
- Rainy Days
  - Gov. Brown is wise re next downturn.
  - That said, for some people, the rain never stops.


Fed Share of State Revs and Unemployment
45.0%
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015
California
New Jersey
Alabama
Unemp Rate


Federal Grants for States and Localities at Historically Low Levels
Federal grants as a share of gross domestic product
Discretionary grants
Mandatory grants (other than Medicaid and CHIP)
2.0%
1.5
1.0
0.5
0.0
1980
1985
1990
1995
2000
2005
2010
2015
Note: Discretionary grants are funded annually through the appropriations process. Mandatory grants are funded through permanent law.
Source: Office of Management and Budget
CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

States and fed budget, #2: SALT cap

- "Workarounds?"
  - Charitable contributions
- Biz income tax
- Pass throughs: CA already has low rate on these businesses
- Key point is…see figure
- The claim "we've got to cut taxes to offset impact of SALT cap" doesn't hold water.



The agenda

- We need one (an agenda). Not enough to play defense.
- CA teaches us that progressive agenda is not anti-growth.
  - Perry's work on CA policy model (min wg, HI, climate, taxes)
- Let's be clear about "growth" versus well-being.
- Getting jobs to people/places left behind
  - Monetary, fiscal, jobs policies
- Collecting the revenues we need

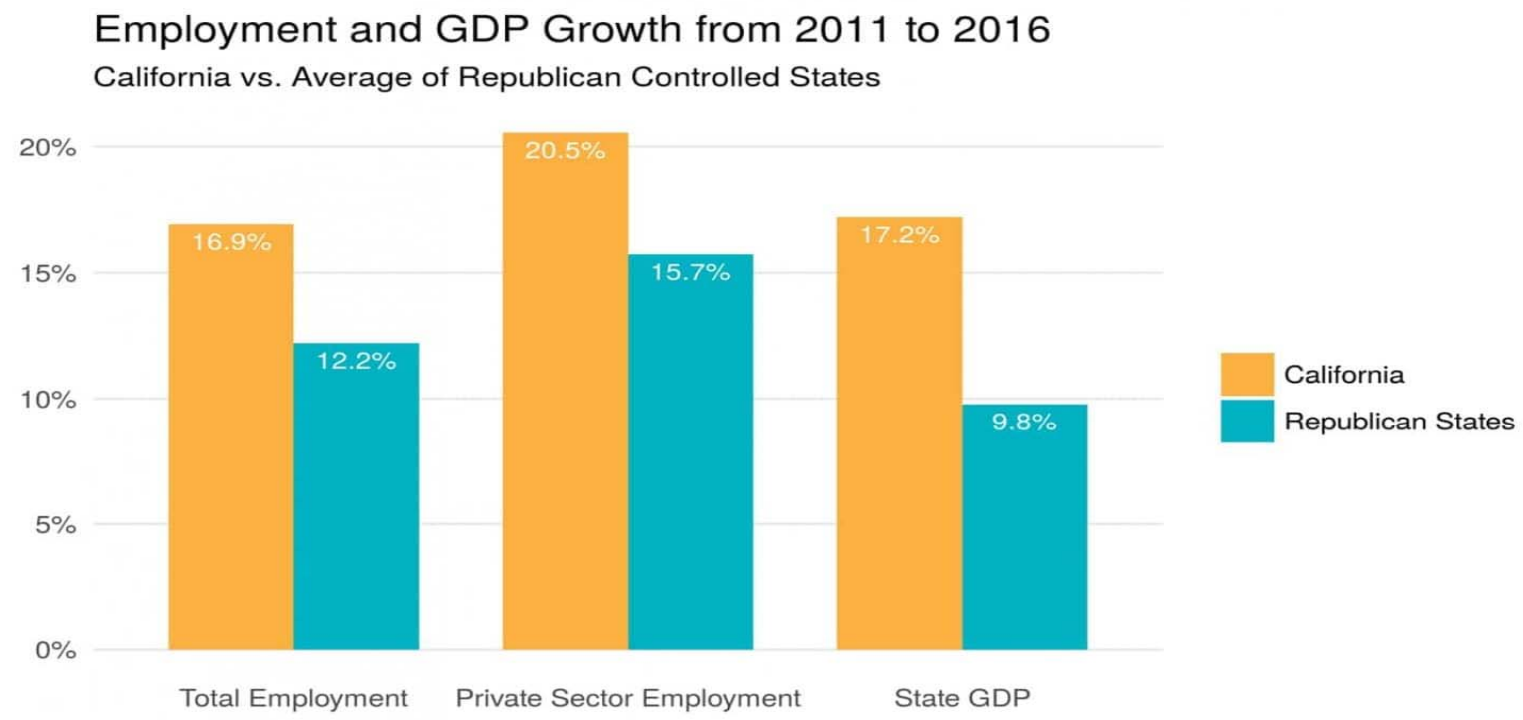


Figure 2: Employment and GDP Growth from 2011 to 2016

Source: Ian Perry, http://laborcenter.berkeley.edu/california-is-working/