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
Job growth: SF/O/H and Modesto, by Race
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

Revs/GDP
(and, re Trump, that's w/ highly optimistic growth assumptions)
Spending Needs Will Grow

Outlays by major category, as a percentage of gross domestic product

Source: Congressional Budget Office (2016); CBPP (2035)

Source: Van de Water, 2017
Social Security’s Growth Roughly Tracks Population’s Aging

Percent of the population aged 65+

Social Security as a percent of GDP

Note: Social Security’s age for full retirement benefits rose from 65 to 66 between 2000 and 2005, and it will climb from 66 to 67 between 2017 and 2022. That change dampens the rise in Social Security benefit costs. GDP = gross domestic product.

Source: Social Security Administration

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.
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.
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.

New Tax Cuts for Top 1% Dwarf State Revenue Gains From Federal Tax Changes

Estimated 2018 impact of federal changes enacted December 2017

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<th>Net tax cut for top 1%</th>
<th>New personal income tax revenue for states</th>
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<td>About $80 billion</td>
<td>About $7.5-$10 billion</td>
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Note: Net tax cut for top 1% includes cuts in personal, corporate, and estate taxes. Estimate of new personal income tax revenue for states assumes states maintain current linkages to federal code. Estimate does not reflect states’ modest revenue loss due to changes in federal estate tax or loss due to changes in expensing provisions. The state revenue impacts this year of federal changes to corporate income taxes are uncertain, but any revenue gains will be modest at best.

Source: Institute on Taxation and Economic Policy
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
Employment and GDP Growth from 2011 to 2016
California vs. Average of Republican Controlled States

Source: Author's analysis of Quarterly Census of Employment and Wages and Bureau of Economic Analysis data.

Figure 2: Employment and GDP Growth from 2011 to 2016

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