

California's Fiscal Future

The Federal Role in California's Recovery

Jed Kolko

Public Policy Institute of California



The U.S. Now Has a \$787B Stimulus Package

- The package includes
 - 65% spending (\$513B)
 - 35% tax cuts (\$274B)
- The money will be spent:
 - 23% by September 2009
 - 74% by September 2010
 - 91% by September 2011
(CBO estimates)
- Roughly \$95B for California economy



Stimulus Is Designed to Meet Multiple Goals

- Boost economic activity now
 - Income support programs
 - Individual tax cuts
 - “Shovel-ready” infrastructure investments
- Raise longer-term economic growth
 - Business tax cuts
 - “Forward-looking” infrastructure investments
- Deal with uncertainty of stimulus effects
 - Diversity of overall package



Stimulus Spending Goes to Investments and Aid Programs

- 60% for investments, including:
 - Education
 - Transportation
 - Energy and environment
- 40% for aid programs, including:
 - Medicaid
 - Unemployment and COBRA
 - Food stamps



Most of the Tax Cuts Go to Households

- 80% to households, including:
 - \$115B for payroll tax credit
 - \$70B for AMT exemptions
- 20% goes elsewhere, including:
 - Business investment deductions
 - Economic recovery zones
 - Tax incentives for infrastructure bonds
 - Tax cuts for renewable energy investments



Stimulus Won't Make State Budget Crisis Go Away ...

- Primary fiscal support for states:
 - Fiscal stabilization fund (\$54B)
 - Medicaid support (\$90B)
- California's likely shares:
 - \$6B for fiscal stabilization
 - \$11.3B for Medi-Cal
- Budget impact: Possibly \$11B through FY2010
 - Some money in FY2011
 - Nothing extra for states with bigger fiscal crises
 - Other stimulus money is outside general fund



... Nor Will It Make Recession Disappear

- Stimulus should:
 - Lower unemployment by 0.6–1.9 points
 - Slightly more in California
 - Reduce GDP shortfall by 15–50%
 - Slightly reduce long-term growth
- Stimulus attacks symptoms, but Financial Stability Plan would fix root causes:
 - Banking system
 - Housing markets



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