California’s Fiscal Future

The Federal Role in California’s Recovery

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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
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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