



# **Novato Rotary:**

## **North Bay Economic Issues and Outlook**

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# Introduction

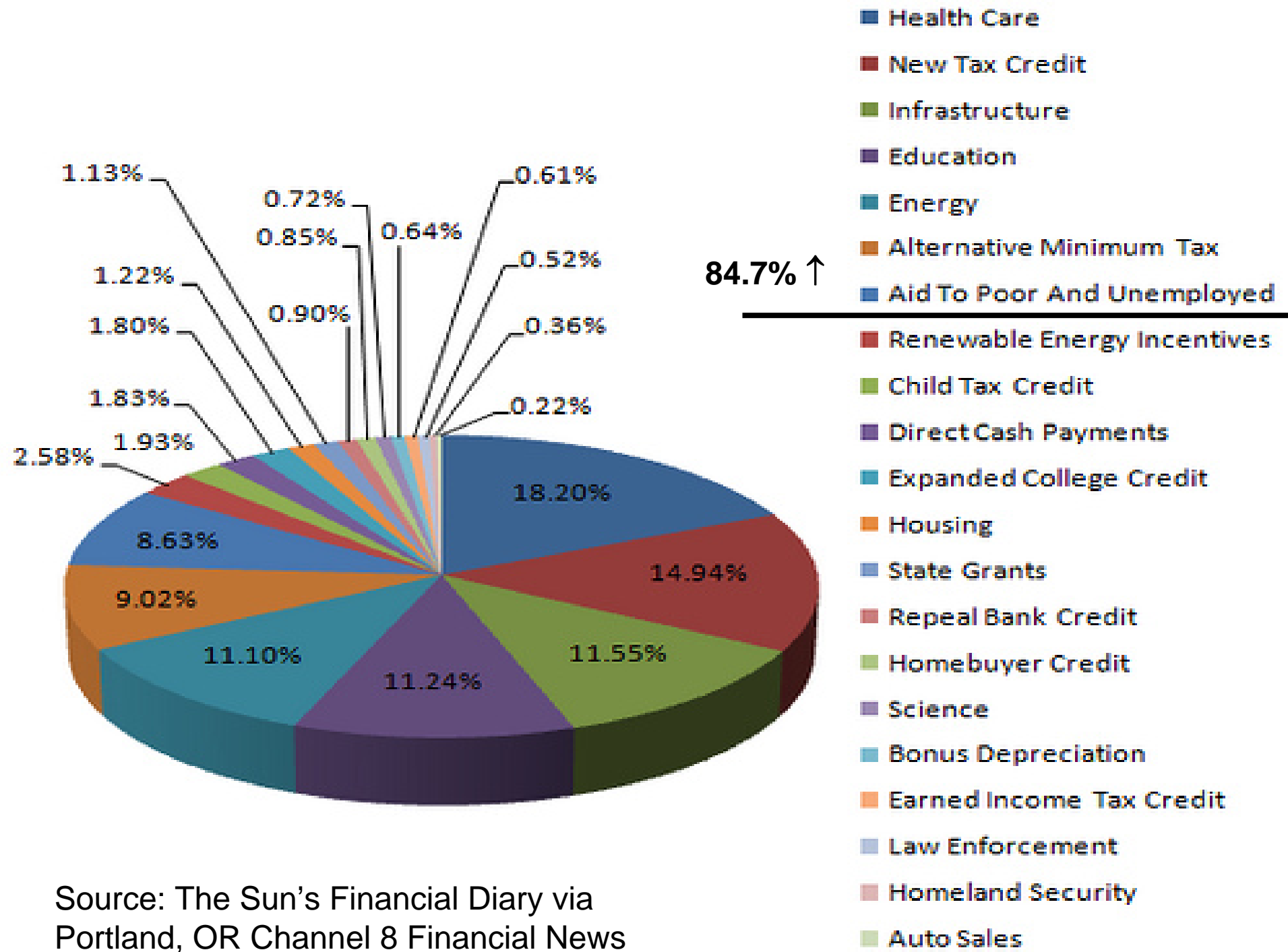
- Recession will end, but when??
- Fiscal and Monetary policies have done almost all they can
- North Bay effects beginning to show
- Marin issues
  - SMART rail provides some construction stimulus
  - State budget uncertainty affects Marin
  - Water remains an issue
  - Dichotomy between North Marin and South Marin growing

# Domestic Macroeconomy

- Expanded fiscal stimulus
  - Already have stimulus in place
    - Defense spending expansion since 2002
    - Bailouts are fiscal policy funded by monetary policy
    - Tax rebates and corporate bonus depreciation
- Need supply-side movements in trend
  - Job creation through innovation, not through consumption
- Monetary policy at a policy endpoint
  - What else could possibly be done?
  - Why have banks not started lending again?

# The Stimulus Plan

- Five major sectoral targets as of Feb 19
  - **Health Care:** \$141.3 billion
  - **New Tax Credit:** \$116 billion
  - **Infrastructure:** \$90 billion
  - **Education:** \$87 billion
  - **Energy:** \$86 billion
  - Rough total of \$787 billion
- Specific industries locally
  - Construction
    - Heavy and new residential
  - Green tech and medical tech
    - Also health care in general
  - Federal government jobs



# Long-Term Effects

- A decade of fiscal stimulus has made national debt soar
- Current “monetary” package is fueled by a combination of debt and money printing
- Permanent cuts have larger short-term effects than temporary
  - Temporary cuts or spending provide better long-term signal of discipline
- Social security suffers during downturns due to reduced tax revenue and larger draw

# California has Deeper Problems

- 2002 saw use of fiscal surplus from capital gains taxes spent on **permanent** spending
  - We are now paying for that in current deficit of > \$40 billion through 2009-10
  - Federal spending may stimulate state economies
    - May be direct bailouts
    - Lag structure here between federal and state budgets affects speed of growth
  - Cannot rely on this model
    - Pension system to be stretched soon
    - School spending in CA now 50<sup>th</sup> in nation (≈\$18K per pupil)
    - **Opportunity: public-private partnerships in education**

# The California Budget: to 2010

- Tax Hikes
  - VLF to 1.15% of estimated car value
  - Sales tax to rise 1%, Gas tax up \$0.12/gal
  - Income taxes up, dependent care credit down by \$200
  - **No change in property taxes**
- Spending cuts: Total about
  - Education hammered: almost \$9 billion
  - Disabled and blind also hurt: \$750 million
  - State employees salaries (job cuts, O/T): \$1.4 billion
- Tax breaks:
  - \$100 million for credits for those that buy new homes
  - \$200 million for credits for small business hiring new workers
  - \$790 million for larger firms to subsidize innovation

# What is California Likely to Do

- Budget gap closed through borrowing
  - **Approx \$10 billion**
    - Depends on ability to sell debt
    - Depends on amount of fiscal stimulus to state government
  - **Reform is needed**
    - A consumer-led expansion may provide an ephemeral, illusory boost to state coffers
    - Tax reform: What about Prop 13?
    - Budget reform: need a change to 2/3 vote and term limits?
    - How can one vote hold up this process?

# North Bay Economic Outlook

- Recession for both Marin and Sonoma through 2009
  - Mild compared to both California and U.S. overall
    - Reduced exposure to major employers over last 10 years
  - Napa County doing better than North Bay otherwise
    - Exposed to risks in tourism and associated construction
    - Able to use tourism and wine to advantage for now
  - Sonoma County hit hardest
    - Large exposure to residential real estate issues
    - Commercial real estate vacancies rising
    - Lack of common vision and public-private partnerships reducing future growth

# Marin's Economic Vision

- Economic development
  - Does the available labor force attract companies?
    - Need to produce skills to attract a certain industrial mix
  - Do local companies draw workers?
    - Need to provide skills to match the jobs available
  - Is the Disney cluster a microcosm of a “new” Marin?
- Social equity
  - Will low wage workers be able to live in Marin?
  - If not, exporting income to Napa, Solano counties
  - Does increased residential and medical care facilities count as social equity?
- Environment
  - Can Marin become a green tech incubator?

# Conclusions

- Economic downturn here: Time to
  - think about costs: can anything be done?
  - think about global revenues, if available
  - think about expansion: while costs are relatively low
- Changing demographics and markets
  - Economic development still a question in North Bay
  - Businesses and labor force changing throughout region
- Recognize regional connections
  - All counties are going to scramble for firms
  - Competition for sales tax \$  $\Rightarrow$  business location decisions



**[www.sonoma.edu/org/crea/novatorotary1.pdf](http://www.sonoma.edu/org/crea/novatorotary1.pdf)**

