



Sebastopol, Sonoma County and our National Economy

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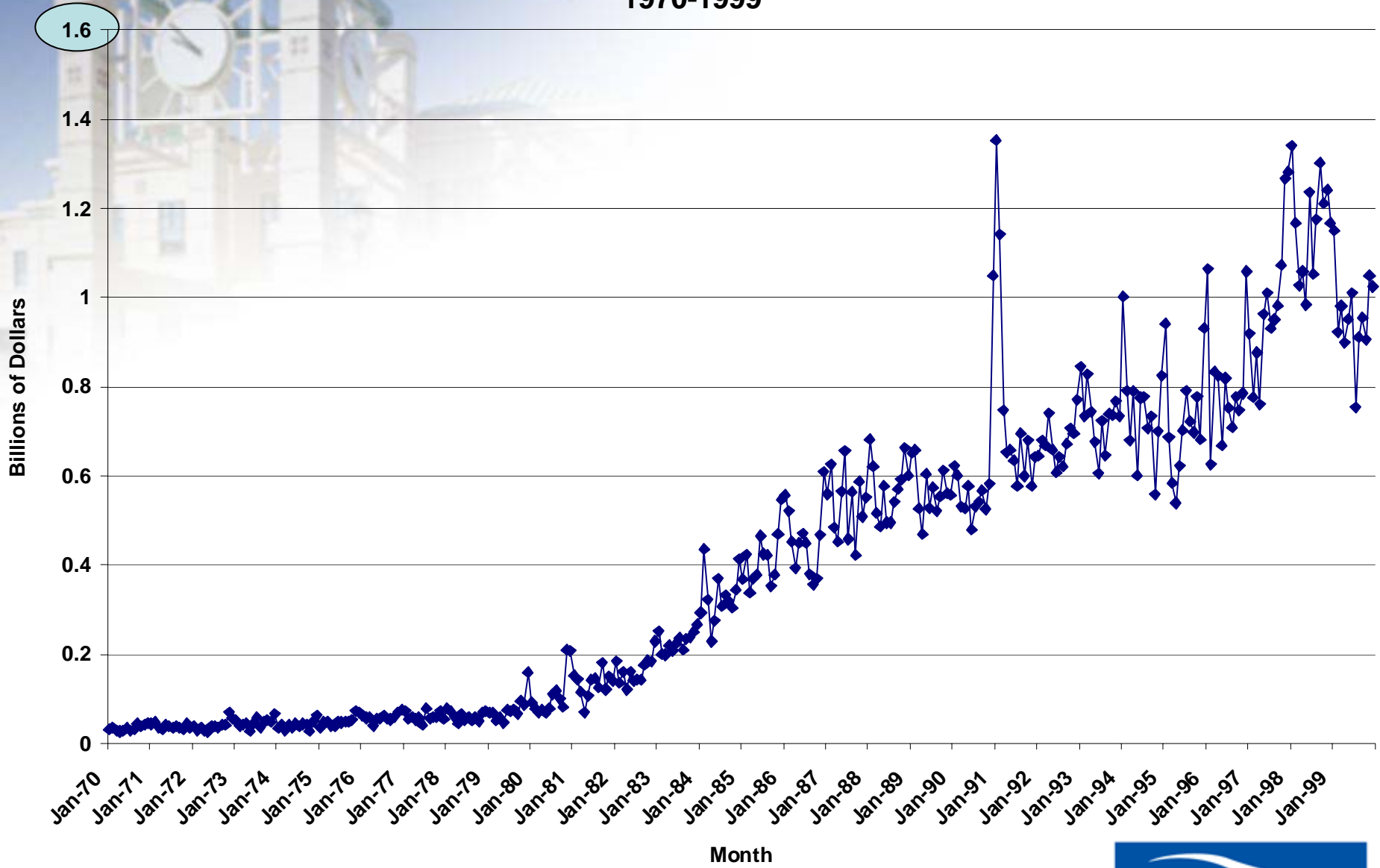
International Economic Concerns

- Slowdown is now global
 - Three considerations for this concerning U.S. and Marin County economic situation
- Exports likely to slow down, regardless of recent retreat of \$ value
- Commodity prices likely to rise again
 - Fiscal stimulus has constant demand-side pressure on prices
- May slow down real estate recovery due to reduced international demand

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?

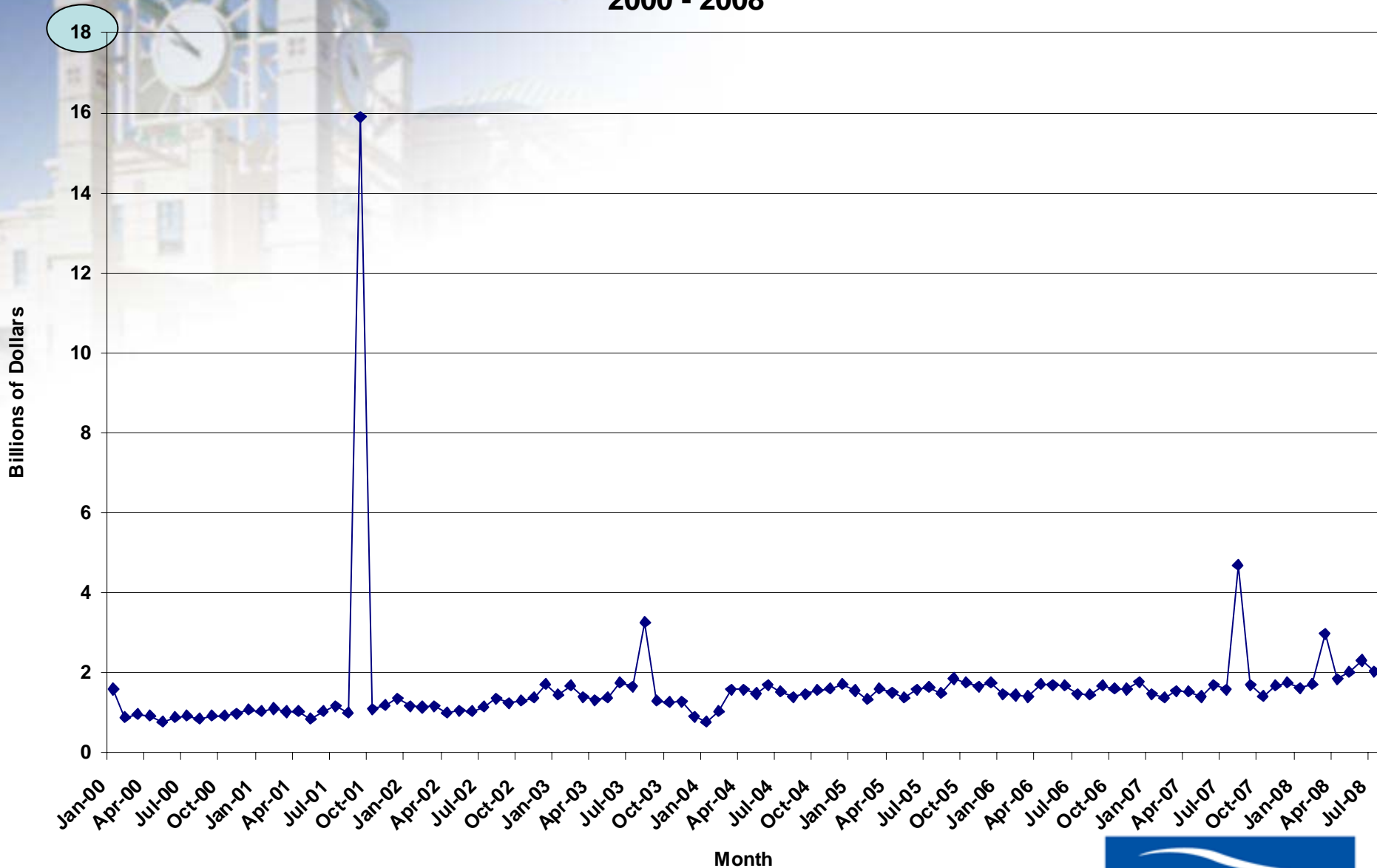
Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ 1970-1999



Source: Federal Reserve Board



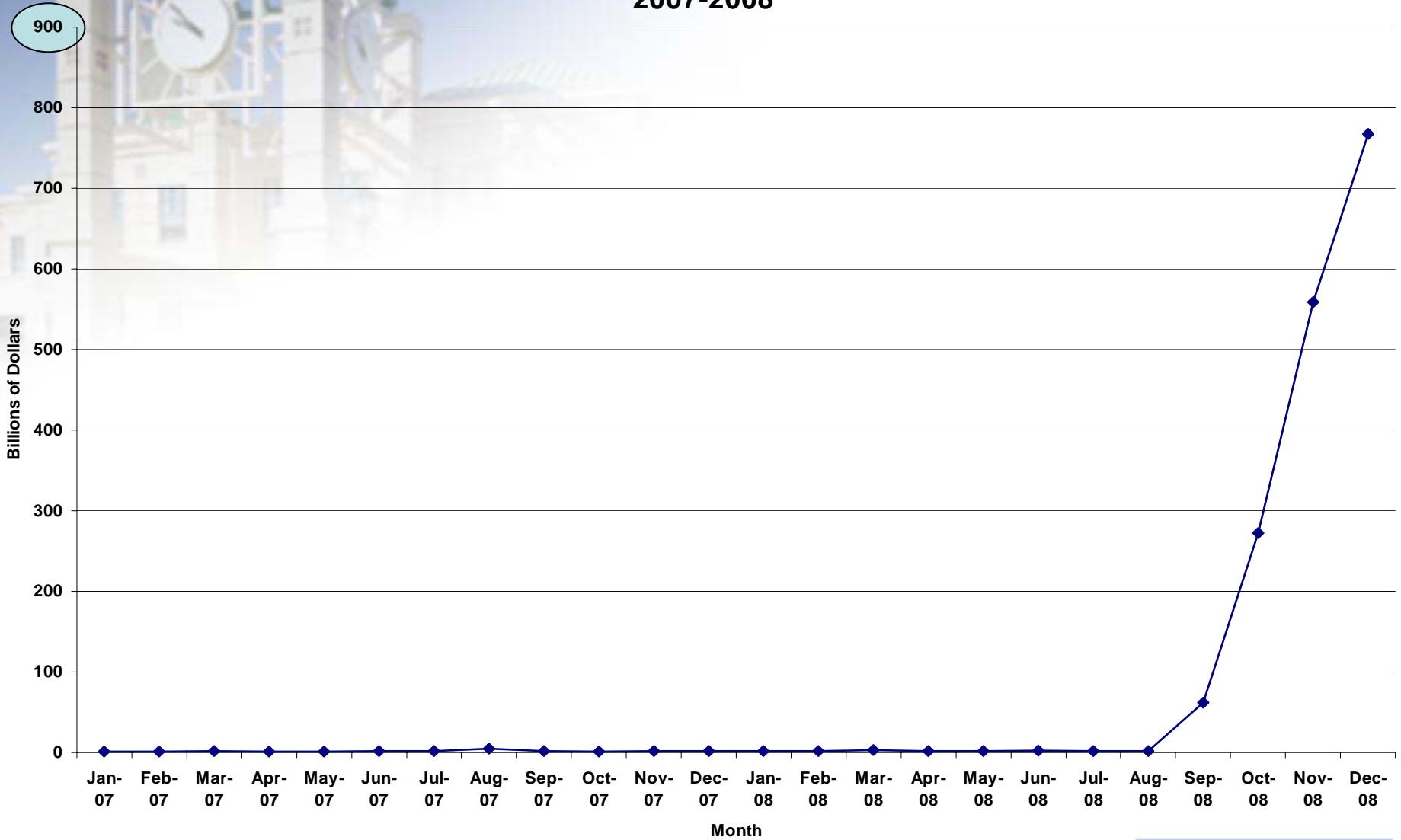
Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ 2000 - 2008



Source: Federal Reserve Board



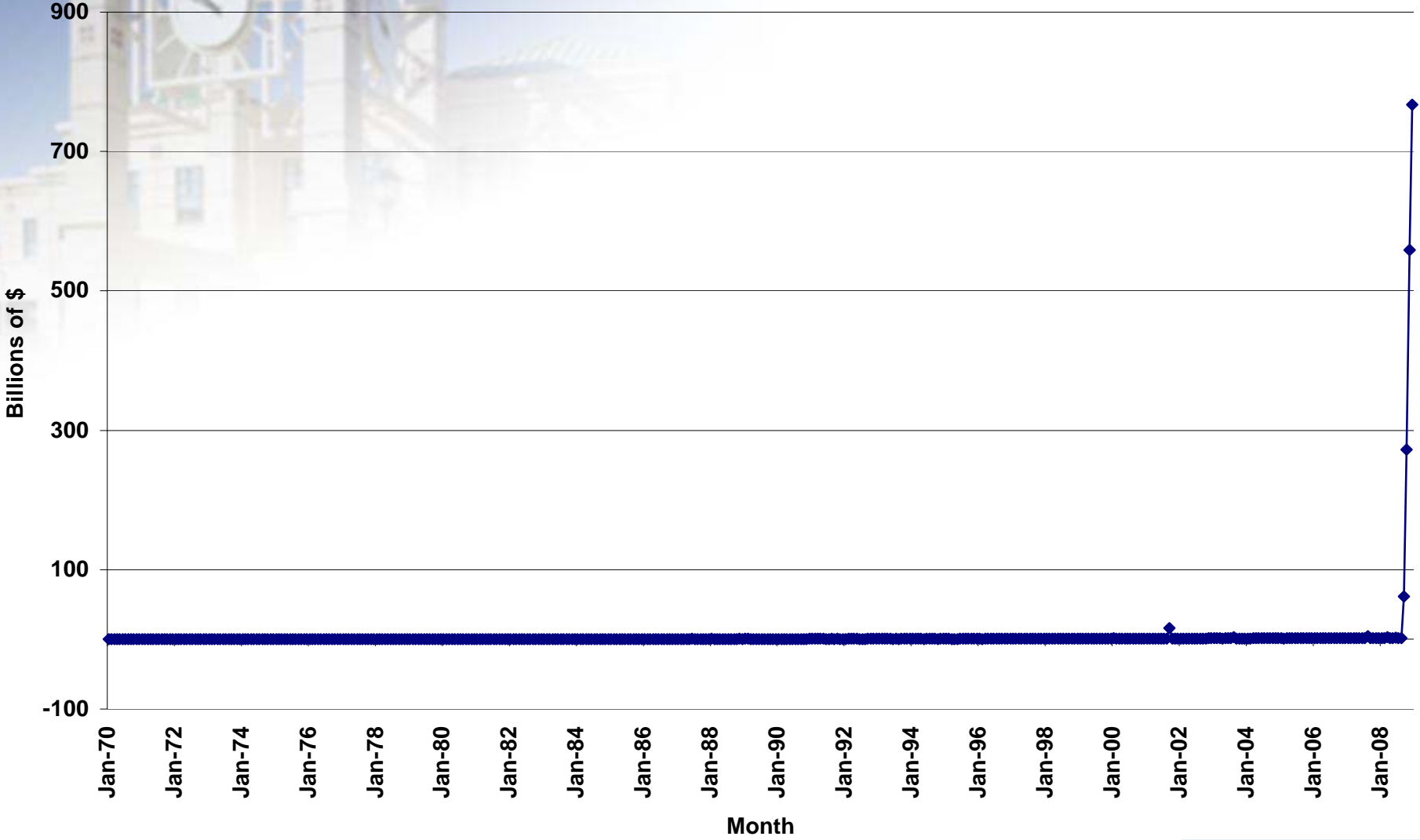
Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ 2007-2008



Source: Federal Reserve Board



Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ Jan 1970 - Nov 2008

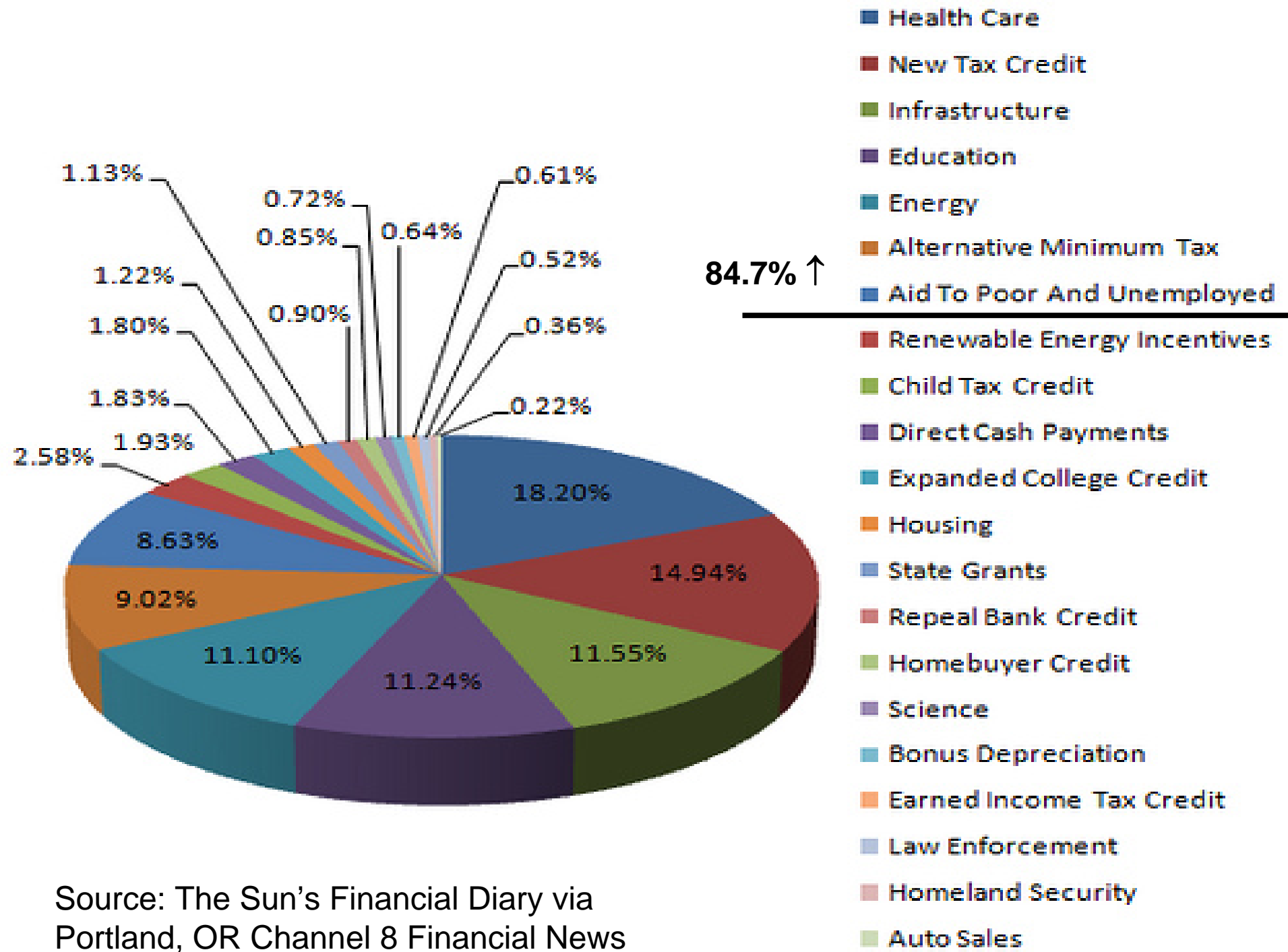


Source: Federal Reserve Board



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



Source: The Sun's Financial Diary via Portland, OR Channel 8 Financial News

North Bay and Federal Stimulus

- Health Care
 - May see demand for health care supported through Medicare support
 - Increase in medical visits
 - Increase in dental visits
 - Decrease in residential care vacancies
- AB 811, Energy and new start-ups
 - May see retrofit demand rise for water and energy conservation
 - May see green/clean tech businesses incubate here
- Education
 - Will local schools, COM and Dominican see any new demand from stimulus
 - Capital building projects
 - Student loan supports
 - Education cut in state budget

Possibilities (cont.)

- Need to consider supply-side versus demand-side
 - Would providing tax breaks or subsidies for firms innovating energy products provide supply-side stimulus?
 - What about defense spending if trained personnel go back into labor force versus war veterans?
- High social value projects the key here
 - Energy seems like best in short-term
 - All of these have relatively high social value

California as Microcosm

- 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 50th 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 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

NB Outlook (cont.)

- Housing should be seen as a follower not leader
 - Exposure of North Bay to real estate markets is a microcosm of local economy
 - Services and population-serving first
- Think regionally for markets and workers
- Consider how to utilize public and private sectors working together
 - AB 32 as a springboard for new businesses
 - In the trades, training in new tech and installations key
 - AB 811 a way to generate jobs and use property taxes to do it directly
- Recognize regional connections
 - All counties are going to scramble for firms
 - Housing markets should react not drive

Local Economic Vision

- Three Es to be the focus, as in other counties
- Economic development
 - Regional economy: should North Bay worry about housing its workers?
 - Is the Disney cluster a microcosm of a “new” Marin?
 - Use of Latino workforce is key to North Bay’s job future: Sonoma more than Marin
- Social equity
 - Aging demography an opportunity: Marin more than Sonoma
 - Cost of living still an issue: no great solutions
 - Non-profit support: public-private partnerships
- Environmental Protection
 - Marin can also be an incubator for green/clean tech
 - Sonoma Mountain Business Cluster in Rohnert Park a model
 - Look at AB 811 and AB 32 to generate jobs



www.sonoma.edu/org/crea/sebasrotary1.ppt