THE FUTURE OF FISCAL REFORM

A CALIFORNIA 100 ISSUE ROADMAP FROM RESEARCH TO ACTION

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Fiscal policy is the set of decisions a government makes to collect revenue (taxes) and pay for programs (spending), and touches on nearly every policy issue in California. Budgets are more than a collection of numbers; they represent a quantification of a community's values and aspirations for the future. Fiscal policy, for example, can support economic growth by investing in infrastructure. Alternatively, a community that values economic mobility can focus public funds on providing a high-quality education for students and adults to prepare them for an evolving workforce. Public resources can also provide a safety net to support vulnerable citizens during a crisis.

While in recent years California state government has enjoyed record state budget surpluses, its revenue system is very volatile because it relies heavily on income taxes when compared to other states that have a greater mix of sales taxes and property taxes. Even during flush fiscal times, however, California's high level of public expenditures does not translate to dramatically better outcomes when compared to those in other states. Budgeting through ballot propositions has also added complexity and reduced flexibility with respect to public expenditures. Finally, long-term liabilities, in the form of inadequately funded pension systems and under-investments in public infrastructure, leave the state vulnerable to future shocks and unable to consistently provide services.

FROM RESEARCH TO ACTION

What will these challenges mean for current and future generations of Californians, and how can we make sure that California's future in fiscal policy remains innovative, resilient, inclusive, sustainable, and equitable?

In June 2022, the California 100 Initiative released a policy and future scenarios report on fiscal reform, developed by researchers at the Opportunity Institute. The team conducted extensive primary and secondary research, and spoke with a wide array of experts in the public and private sectors to examine possible scenarios and policy options for future-focused action.

"Californians are committed to a progressive tax system and have supported a relatively expansive social safety net. However, some fiscal policies are driving socioeconomic & racial inequities throughout the state and contribute to school funding disparities impacting students and families in underserved communities," said **Patrick Murphy, fellow at the Opportunity Institute**. "Our research findings show that there is an opportunity to set the state on a new path – one that accepts the responsibility of ensuring fiscal sustainability for all Californians for many years to come."

FUTURE SCENARIOS

Other key takeaways from the California 100 report include a consideration of policy options that improve fiscal reform under **four future scenarios** that center around two critical dimensions: whether or not the state's economy performs well or stagnates, and whether or not the public and elected leaders embrace major policy changes or resist them.

In a context where California experiences rapid economic growth, the scenarios range from a future where resistance to policy change limits the extent to which flush public revenues can fully address the state's thorny challenges, to a scenario where the state has the will and the means to solve its most pressing problems. In a context where California experiences slow economic growth or stagnation, the scenarios range from a future where resistance to policy change deepens various economic and social problems to a future where embracing policy change amidst economic scarcity leads to a focus on policy innovation and efficiency.

Whatever the scenario, the research commissioned by California 100 indicates that we should refrain from "doing nothing" as a default or fall-back option. In order for California to perform better under these various scenarios, the state will need to investigate, deliberate over, and enact innovative solutions that advance **resilience** (such as such as enabling individuals, families, and communities recover from hardship and trauma), **inclusion** (building trust and meaningful, respectful, and ongoing engagement among stakeholders and communities), **sustainability** (such as improving community health and natural resource management under conditions of climate change), and **equity** (with well-resourced policies that are designed to repair the damage from past and ongoing inequities).

Artist rendering of future scenarios on fiscal reform
Source: California 100

THE CALIFORNIA 100 ROADMAP

The California 100 report on policies and future scenarios is the first step in a multi-stage process that is designed to inspire and engage Californians—from a variety of sectors and all walks of life—to build a stronger future for current and future generations. In the summer of 2022, our expert and intergenerational Commission will conduct a series of listening sessions throughout the state, to solicit feedback on the ideas generated by our research and to generate additional big and bold ideas for consideration by public and private agencies, as well as by everyday Californians. We will also be generating insights from our policy innovation projects throughout the state that cover a variety of topics, and our deep engagement on questions of science and technology as they relate to a variety of issues, including fiscal reform.

In early 2023, we will take these various policy ideas and scenarios, and engage in a process of deliberative democracy featuring a representative cross-section of California residents. The goal of this deliberative exercise is to understand the conditions under which Californians from various walks of life can come to agreement on the long-term challenges facing the state and, importantly, the kind of bold and visionary solutions we need to put the state on a stronger trajectory for the next century.

California 100 will also be engaging intentionally with young Californians, who have the most to gain or lose in the coming century. Our team members will engage young people throughout the state, including in high school and college settings, and will organize a statewide youth summit that will produce a manifesto for the future of California.

Finally, in Winter and Spring 2023, our intergenerational Commission will draft a vision and strategy document for the future of California, based on briefing materials that build on insights from the various streams of work. California 100 will then launch a culminating event in early summer 2023 that serves as the formal launch of the vision and strategy document and, importantly, also brings together leaders and partners from our various streams of work and prior engagement.

Our culminating event in the summer of 2023 will:

1. Showcase the pressing need for California to prioritize long-term futures,
2. Build an ambitious yet achievable vision and strategy that are grounded in rigorous research and community engagement, and
3. Inspire others to do the same, providing tools that a variety of partners (including policymakers, government agency officials, business leaders, activists, researchers, and next-gen leaders from various sectors) can use to build their own aspirational visions and strategies for California's long-term success.

ABOUT CALIFORNIA 100

The California 100 Initiative envisions a future that is innovative, sustainable, and equitable for all. Our mission is to strengthen California's ability to collectively solve problems and shape our long-term future over the next 100 years. California 100 is organized around 15 policy domains and driven by interrelated stages of work: research, policy innovation and engagement with Californians. California 100's work is guided by an expert and intergenerational Commission. Through various projects and activities, California 100 seeks to move California towards an aspirational vision—changing policies and practices, attitudes and mindsets, to inspire a more vibrant future.

California 100 staff members compiled this roadmap document, drawing on research in two publications—a Policies and Future Scenarios Report and a Facts-Origins-Trends Report—by authors from the Opportunity Institute. The two fiscal reform-related publications are part of California 100's larger research stream of work, built in partnership with 20 research institutions across the state.

California 100 sponsored grants for data-driven and future-oriented research focused on understanding today and planning for tomorrow. This research, anchored in California 100's 15 core policy domains, forms the foundation for the initiative's subsequent work by considering how California has gotten to where it is and by exploring scenarios and policy alternatives for what California can become over the next 100 years.

The California 100 Initiative is incubated through the University of California and Stanford.

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To learn more about the future of fiscal reform in California, visit the California 100 website at California100.org, where you will find our detailed reports on the topic, and more information about our research partners.