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Gavin Newsom’s $18.1B Relief Package Won’t Solve Inflation

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(TNS) — An $18.1 billion inflation-relief package proposed by Gov. Gavin Newsom will put salve on key pain points for Californians most affected by rising gas and grocery prices but also likely will cause prices to tick up just a tad more, leading economists.

The Newsom package also won’t likely stave off a possible recession, the fear of which tanked the markets on Wednesday, experts said.

Newsom’s plan includes $11.5 billion in tax refunds for vehicle owners, $933 million in retention bonuses for health care workers on the front lines treating the COVID-19 patients and $750 million to provide free mass transit for a few months in some California cities.

If the package is approved as part of Newsom’s budget proposal, each vehicle owner would get a $400 refund for up to two vehicles. Hospital and nursing home workers could receive as much as $1500 in a bonus if their companies match what the state is paying out.

Economist James Wilcox of the University of California, Berkeley, said: “People who have cars are paying a lot more for gas, and it’s really hurting them. The more they’re putting into the gas tank, the less they’ve got to spend in the ... store, for example. It is painful. It’s making life more difficult for them. Giving them $400 will put some salve on that sore spot.”

There’s a tension, though, said Wilcox and Sung Won Sohn of SS Economics in Los Angeles, because state residents are going to pour this money into a consumer market that already has excruciatingly high demand for many goods and services that are in short supply.

The relief funds “will add to demand pressures, a major source of inflation for the country,” Sohn said.

He added: “From Gov. Newsom’s point of view, fiscal policy is not his responsibility. He is trying to alleviate the pain inflicted on Californians by inflation, especially for low and moderate income groups.”

Overall, prices nationally have been rising at their steepest pace in 40 years, and experts see little letup this summer. Gasoline prices nationally were up 43.6 percent in the last 12 months. California's average for a gallon of regular gas hit $6.05 Wednesday, a record. A year ago, the average was $4.13. The state has for some time had the highest gas prices in the nation.

To counter this impact, especially on low- and middle-class consumers, Newsom and other state leaders are making the choice to put some surplus revenue back in the hands of consumers.

"This is the challenge policymakers are facing across the country. It's intended to help people with these rising prices but it's putting more money into the economy that people will spend," said Jared Walczak, vice president of state projects at Washington's Tax Foundation, a research group.

"This rebate and all of the other policies states are pursuing to make one-time transfers are inflationary," Walczak said. But, he added, states have a dilemma. Other states are providing rebates, tax breaks and other means of helping people afford gas, so each state may feel both political and economic pressure to act.

Economic Stimulus in COVID Pandemic

Many experts have pointed to government-funded stimulus payments as a reason for inflationary price increases. Washington provided most people with three stimulus payments during the COVID-19 pandemic in 2020 and 2021. That gave people more money to spend, but they often found that because of supply chain bottlenecks and increased demand for goods and services, prices went up.

Give people another $400, and it just fuels that system, "unless the rebate is saved," said Mark Schniepp, director of the California Economic Forecast.

"Any government overspending at this point is going to add to the inflationary pressure," said Michael Shires, associate professor of public policy at Pepperdine University.

The key to easing inflationary pressure when a government has a surplus does not involve such strategies, Shires said.

"When the government ends up with more money than it needs, they should resist the urge to spend it, but that is never going to happen in an election year," Shires figured.

Instead, he said, "I'd love to see it invested into some of the state's big, real needs like water storage, desalination plants, water recycling infrastructure, fire prevention, etc."

Chris Edwards, director of tax policy studies at the libertarian Cato Institute in Washington, took a broader view of how to combat inflation: "To reduce inflation, policymakers should deregulate markets to increase supply in the economy. By contrast, boosting spending and regulation would increase inflation and worsen the nation's economic situation."

Retaining California Health Care Workers

Wilcox, however, didn’t think the impact on inflation would be great enough to merit concern.

The bonuses for health care workers could make some personnel feel valued enough to make the decision to stay in the profession, easing competition for labor in an exceedingly tight job market, he said, and recent earnings reports from Target and Walmart indicate that rising fuel prices are causing low- and middle-income families to spend less for food and other necessities.

“These people are buying fewer things at Target, CVS and Macy’s and Chipotle, and lots of other places,” Wilcox said. “And with the $400, in the coming weeks after they get the check, many of those people living where the pain is the greatest will spend the most.”

As the Fed acts to curb consumer demand, Wilcox said, consumers should not be alarmed to see the country roll into a recession like the eight-month downturn the nation experienced in 2001.

“There’s a really good chance that the result is we end up in what will technically be called a recession, but all recessions are not created equal,” he said. “The odds are also pretty good that it will not be a terribly sharp or long recession.