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*The powers delegated by the Constitution to the federal government are few and defined. Those that are to remain in the State governments are numerous and indefinite.*

In case you wonder, that's James Madison in Federalist #45. But it just as easily could have been California Governor Jerry Brown when he gave his State of the State address in Sacramento at the end of January.

What Brown actually said was, "California is not turning back. Not now, not ever."

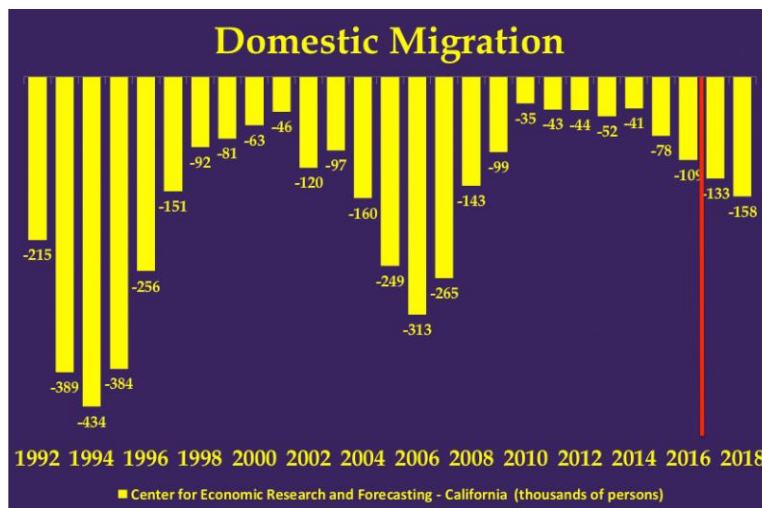
His defiant remarks were delivered as California policy makers attempt to stand athwart the new political regime in Washington D.C. and amidst concerns that the Trump Administration will try to retaliate against the State that voted for Trump's political opponent by a margin of nearly 2-to-1.

Early signs indicate that Trump might actually try to stick it to California. In less than two months in office, the Trump administration, with the help of Congressional Republicans, has already explored the possibility of: [denying federal funds](#) to so-called "sanctuary cities;" conducting a targeted immigration [enforcement surge](#) in California; revoking the special [federal waiver](#) that allows California to regulate automobile emissions; and [limiting the reimbursement](#) of California for its massive expansion of Medicaid eligibility, through the expanded Medi-Cal program under ObamaCare.

With former attorney general Eric Holder now [on retainer](#), prepared to wage legal battles against the Trump Administration on behalf of California's Democratic legislature, *we are all federalists now*.

The situation is apparently so worrisome that there is even a secession movement, not-surprisingly called [Calexit](#), which is currently collecting signatures in the hope of putting secession to a statewide referendum.

We welcome the change in political identity currently revealing itself in the nation's most populous state. In fact, we were advocates for States' rights and federalism before it was cool. We believe that the states were always intended to be laboratories for policy experimentation (within constitutional limits, of course). In fact, we see healthy policy experimentation and useful competition among states all across the nation. The dramatic expansion of right-to-work laws, now adopted in 28 states, is the direct result of experimentation and competition of this sort. The flight of California residents, very often moving from California to right-to-work states, over the past 25 years is too.

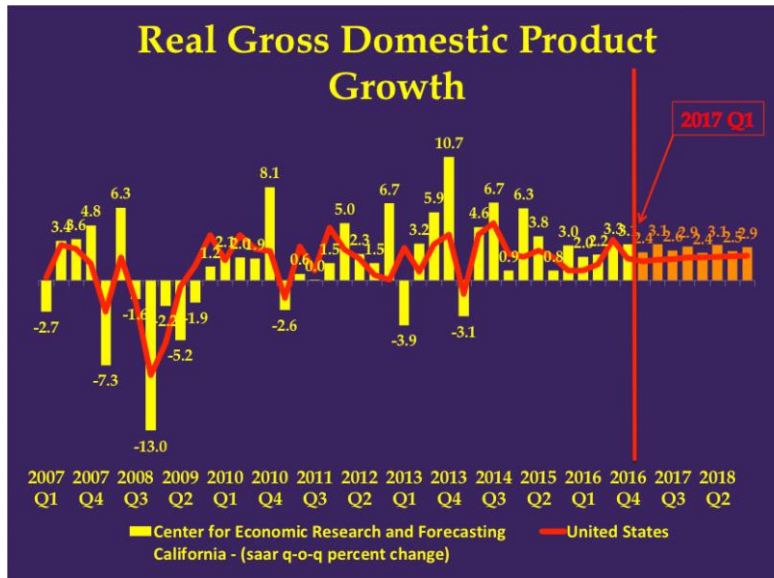


The nearby chart, from the U.S. Census Bureau, shows that for 25 consecutive years, more people have left California to seek opportunity in other states than have come to California from other states. The current forecast predicts an increase in that outmigration over the next two years.

Ironically, California would benefit more than many other states from the types of reforms that are being discussed in Washington DC – broad regulatory rollback; rationalization of the healthcare and energy markets; reductions in the level of taxes. Yet, here federalism is being wielded in order to protect the State from these reforms should they be handed down from Washington D.C.

As discussed in detail in the previous forecast publication, and revisited in the nearby U.S. Forecast essay, we do not believe that the reforms discussed and Tweeted about by the Trump Administration are actually likely to be implemented; however, California's new enthusiasm from federalism simply means that the State would be less likely to benefit even if D.C. did get its act together.

Dodging such reforms could prove instructive. California's economic performance has long outperformed that of the Nation, due in large part to a rich endowment that includes abundant natural resources, exceptional climate, auspicious geographic location, and a legacy of creative and technical innovation. But as discussed at length in the nearby California Highlights essay, the growth premium that California enjoys over the Nation is shrinking. Decades of policy experimentation are having an effect. In addition, growth in State revenues has declined in recent months, and the Governor is predicting a 1.6 billion dollar [budget deficit](#), after running in the black for four consecutive years.



Unfortunately, California’s newfound enthusiasm for federalism makes preserving the status quo in California even more likely. As such, the growth premium enjoyed by California is likely to continue to decline.

And besides, California federalism has an expiration date. The newfound love of federalism is set to expire on either Election Day 2020 or Election Day 2024, whichever delivers the next Democrat for President.

Forecast charts are included on the next page.

## Forecast Charts

