CalChamber
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ALERT

Court Addresses Arbitration of 'Headless' PAGA Cases

In late 2024, the use of "headless" Private Attorneys General Act (PAGA) actions — actions that do not allege an individual PAGA claim — was dealt a significant blow in *Leeper v. Shipt, Inc*.

But now, another California court has taken a different approach and affirmed the denial of a motion to compel arbitration of a headless PAGA action, finding that the case could not be compelled to arbitration because the plaintiff's complaint did not specifically plead an individual PAGA claim (*Rodriguez v. Packers Sanitation Services LTD., LLC.* (D083400, February 26, 2025).

Although the *Rodriguez* court did not address the specifaic issue present in *Leeper* (whether every PAGA action necessarily contains an individual PAGA

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CalChamber Board Promotes Barneson Galvez to CFO

Kurt Barneson Galvez

Kurt Barneson Galvez, CPA, was named chief financial officer of the California Chamber of Commerce on March 7, having served as interim CFO since last October.

In this role, he oversees financial reporting, budget preparation and critical accounting tasks for the CalChamber and affiliated entities.

Barneson Galvez joined the CalChamber Finance Department in July 2015, filling positions of increasing responsibility until being promoted to lead finance operations.

Before joining the CalChamber team, Barneson Galvez was a senior associate at Gilbert CPAs, primarily auditing nonprofit and governmental organizations.

Barneson Galvez earned a B.A. in accounting and business management, summa cum laude, at Whitworth University in Spokane, Washington. He serves as treasurer at St. John's Lutheran Church, Sacramento, and on the board of Augsburg Fortress Publishers in Minneapolis.

Former Senate Leader Toni Atkins Explains Approach to Priority Issues, Governor's Race

Former Senate President Pro Tem Toni Atkins (D-San Diego), candidate for Governor in the 2026 election, explains to the CalChamber Board of Directors how her experience as a former leader of the Senate and Assembly has prepared her to lead the state and help facilitate negotiations on contentious subjects. With touches of humor, she presented her views on issues like energy supply and sustainability, housing affordability and insurance, modernizing the transportation network, water and education. "Uncertainty is the worst thing we face," she says, adding that the state needs a leader who will work with partners "to drive innovation and economic growth…ensure every Californian has access to opportunity" like she and her partner did "…regardless of background or income."

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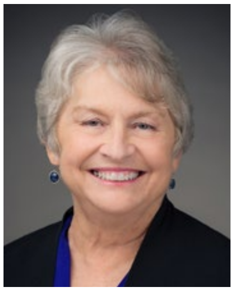
Labor Law Corner

What to Do When Pre-Job Test Shows Rehab Prescription Drug Use



Sharon Novak
Employment Law Expert

We made a conditional offer of employment to an applicant subject to a pre-employment drug test. His test came back positive for Suboxone. He has provided a copy of a prescription and a note from a doctor that states he is under the doctor's care and taking Suboxone for treatment of a drug addiction. Are there any risks to withdrawing our job offer?

Yes. An employer faces significant risks if it withdraws a conditional job offer because the applicant has tested positive for Suboxone in a pre-employment drug test.

Suboxone is one of a class of drugs prescribed by health care providers that treats opioid use disorder (OUD). Suboxone helps to control cravings and maintain recovery. It is a rehabilitation tool for treatment of OUD, just like in-patient treatment.

Protected Disability?

OUD may be a protected disability. OUD involves the use of illegal opioids, like heroin, or of prescription opioids, like morphine or codeine.

For more information about OUD, see Opioid Use Disorder, a publication of the Civil Rights Division of the U.S. Department of Justice.

Both California's Fair Employment and Housing Act (FEHA) and the federal Americans with Disabilities Act (ADA) prohibit discrimination because of a disability and require employers to provide reasonable accommodations to qualified individuals with disabilities unless it causes an undue hardship.

FEHA broadly defines disability as "a condition or impairment" that "limits a major life activity." The ADA requires that there be a substantial limitation of a major life activity. California employers should apply the broader definition.

Drug addiction is considered a physical or mental impairment under FEHA and the ADA and is recognized as a

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CalChamber-Sponsored Seminars/Trade Shows

More information at ***www.calchamber.com***.

Human Resources

Filling in the Gaps: Pitfalls in Hiring and Onboarding New Employees. CalChamber. March 20, Online. (800) 331-8877.

Supervisor Essentials: Workplace Compliance. CalChamber. April 3, Online. (800) 331-8877.

What to Expect When Your Employee Is Expecting: PDL and Child-Bonding Leave. CalChamber. April 17, Online. (800) 331-8877.

HR Boot Camp. CalChamber. April 24–25, June 5–6, September 11–12, Online. (800) 331-8877.

Leaves of Absence. CalChamber. May 8–9, August 7–8, Online. (800) 331-8877.

International Trade

2025 Sports and Fitness Taiwan (TaiSPO) Exhibition. Taiwan External Trade Development Council. March 26–29, Taipei City, Taiwan.

Beyond Borders: Navigating the Indo-Pacific Export Landscape. National Association of District Export Councils. March 27, Online. Registration required.

WCF Africa Summit 2025: Africa's Global Future. ICC World Chambers Federation and Kenya National Chamber of Commerce and Industry. April 9–11, Nairobi, Kenya. *ana.bernal@iccwbo.org*.

Health Engineering and Minerals Show (HEMS) 2025 – Pakistan. Trade Development Authority of Pakistan (TDAP). April 17–19. 92-345-465-8469, *omer.bajwa@tdap.gov.pk*.

Exim 2025 Annual Conference. Export-Import Bank of the United States. April 29–30, Washington, D.C. In-person only. Registration now open.

Access Africa Now: Empowering Africa's Financial Future-Exploring Fintech's Role in Growth and Opportunitity-Webinar Series. U.S. Commercial Service. April 29-June 24, Online. Webinar website.

Annual Export Conference. National Association of District Export Councils. May 19–20, Washington, D.C. Conference website.

14th World Chambers Congress. World Chambers Congress. September 2–September 4, Melbourne, Australia. ***https://wcc.iccwbo.org/***.

CalChamber Calendar

Women's Leadership Forum & Reception: March 25, Sacramento

California Business Outlook and Dinner: June 4, Sacramento

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The Workplace: It's All in the Handbook

Creating and Maintaining an Effective Company Resource

In Episode 217 of The Workplace podcast, CalChamber Associate General Counsel Matthew Roberts and CalChamber Employment Law Subject Matter Expert Vanessa Greene discuss the importance of a well-built and up-to-date employee handbook.

Widely considered by employment law experts as the policy backbone of daily operations, these handbooks contain critical information, like meal and rest break laws, and set the tone for employee conduct.

A faulty handbook can mean more than just confusion among employees and management; it also can open up a business to compliance liability.

Why Even Bother with an Employee Handbook?

Even though there is no legal requirement that employers have an employee handbook that outlines their policies and procedures, these living documents can be the difference between showing compliance with state and federal law and potentially costly litigation.

An up-to-date employee handbook will help legal counsel defend against potential claims, give managers and supervisors a useful resource to guide day-to-day operations, and set the tone for employee conduct.

"Sometimes employers might underestimate how complicated this process is, not just to create but to maintain, a compliant handbook, particularly in California," Greene says. "And so, sometimes, because of that complexity, we see a lot of mistakes."

Pitfalls and Problems: Common Handbook Mistakes

Greene notes that one of the more common mistakes she sees in her work with employers is the use of an outdated handbook or overly generic templates that don't align with actual company practices.

"We see things that don't make sense for the workplace, and that can lead to liability and risk," she says.

Greene points to the National Labor Relations Act (NLRA) as one example of an area where employers may misstep by assuming that the law applies only to unionized workplaces, which isn't the case, as it applies to all private employers.

Including overly broad or restrictive policies limiting employee discussions about wages or working conditions could be seen as a direct violation of the NLRA.

"We need to be really careful about the way that we word our policies. Now we want to make sure we're balancing our business interests, but we're also not having overly broad policies or things that could be interpreted to chill employees' rights under the NLRA," Greene says.

Updates and Keeping It Real(istic)

The constantly changing legal landscape — especially in California — means that employers need to carefully review and update their handbooks annually, at a minimum, and throughout the year as laws change.

"One of the biggest things I see when we have an outdated handbook is [that] policies no longer align with the current laws," Greene says.

She also urges employers to beware of putting specific processes in the handbook that don't match practice, such as describing a multi-step disciplinary process that managers don't use. Greene stresses that it's important to include only policies that are followed in practice.

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What to Do When Pre-Job Test Shows Rehab Prescription Drug Use

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disability because it limits one or more major life activities, such as caring for oneself, concentrating, communicating, and working. OUD also affects the operation of neurological and brain functions.

Discrimination Protection

People taking prescribed medication to treat OUD are protected from discrimination by FEHA and the ADA

In 2022, the Equal Employment Opportunity Commission issued a guidance describing an employer's obligations under the ADA regarding job applicants or employees who legally use opioid medications or who have a history of addiction to opioids.

See The ADA and Opioid Use Disorder: Combating Discrimination Against People in Treatment or Recovery.

The ADA guidance makes clear that it is illegal to discriminate against people who have gone through or are going through drug rehabilitation. Taking Suboxone or a similar drug legally prescribed by a doctor to treat OUD is not considered to be current illegal drug use when it is taken as directed.

This means that FEHA and the ADA protect individuals using Suboxone as part of their treatment for OUD. An employer who refuses to hire someone because his pre-employment drug screen shows only the presence of Suboxone is discriminating against the applicant in violation of FEHA and the ADA.

Illegal Drug Use

FEHA and the ADA do not protect individuals who are currently using drugs illegally.

The guidance also clarifies that employers can refuse to hire and discipline employees based on their illegal use of drugs. If drugs other than Suboxone are present on the drug screen, the employer may be able to withdraw the job offer.

Like the facts presented in the question, however, an individual's use of prescribed medication to treat OUD is not an "illegal use of drugs" if the individual uses the medication under the supervision of a licensed health care professional. This means that withdrawal of a job offer solely on the basis of Suboxone use would violate the FEHA and the ADA.

Column based on questions asked by callers on the Labor Law Helpline, a service to California Chamber of Commerce preferred members and above. For expert explanations of labor laws and Cal/OSHA regulations, not legal counsel for specific situations, call (800) 348-2262 or submit your question at www.hrcalifornia.com.

CalChamber Outlines Trade Priorities, Concerns for Federal Officials, Congress

As the Trump administration and 119th Congress continue their work, the California Chamber of Commerce is communicating its international trade priorities and concerns to federal officials.

Those officials include the newly sworn in secretaries of Treasury, Commerce and Agriculture, and the U.S. Trade Representative (USTR), in addition to California members of Congress.

Below are brief biographies of the department secretaries and USTR, and a recap of CalChamber trade priorities and concerns.

U.S. Treasury Secretary

Secretary Scott Bessent is a hedge fund manager, Wall Street veteran, and former colleague of George Soros. He has been described as pro-tariff, with President Donald Trump saying, "He will support my policies that will drive U.S. competitiveness and stop unfair trade imbalances."

Bessent graduated from Yale University with a B.A. in political science.

U.S Commerce Secretary

Secretary Howard Lutnick is a billionaire investor and longtime Wall Street CEO, former chairman and CEO of Cantor Fitzgerald and BGC Group.

He studied at Haverford College in Pennsylvania with a B.A. in economics and is a big supporter of technology and crypto currencies. Lutnick has been a large part of President Trump's transition team and a staunch supporter of his tariff plan.

U.S Agriculture Secretary

Secretary Brooke Rollins previously served as deputy general counsel, ethics adviser and policy director to Texas Governor Rick Perry. Rollins was the president and CEO of the Texas Public Policy Foundation, an Austin-based conservative think tank.

She graduated from Texas A&M University with a B.S. in agricultural development and earned a J.D. from the University of Texas School of Law.

U.S. Trade Representative

Ambassador Jamieson Greer is an attorney, veteran and former chief of staff to Robert Lighthizer, U.S. Trade Representative in the first Trump administration. Greer has worked in private law firms, specializing in trade law.

The Ambassador previously represented U.S. Steel in a lawsuit against China and was involved in trade talks about the renegotiation of the North American Free Trade Agreement (NAFTA) during his tenure as USTR chief of staff.

Greer was an officer in the U.S. Air Force, serving in Iraq. He holds a B.A. in international relations from Brigham Young University and master's degrees in law from both Paris 1 Panthéon-Sorbonne University and the University of Virginia School of Law.

CalChamber Trade Priorities/ Concerns

In a letter to the secretaries and USTR, the California Chamber of Commerce emphasizes that it is committed to supporting a free trade agenda that fosters economic growth and job creation — and opposes protectionist measures, which disrupt global supply chains, raise consumer prices, and hinder the competitiveness of California businesses.

The letter points out that a focus on trade agreements instead will ultimately lower both tariff and non-tariff barriers and help create long-term, sustainable economic growth.

While strategic use of tariffs or the threat of tariffs may be a meaningful negotiation tool, the reality of tariffs would be quite different. Raising tariffs results in higher prices to the consumer for the specific product protected and in limited choices of products for consumers. Further, increased tariffs cause a net loss of jobs in related industries, retaliation by U.S. and California trading partners, and violate the spirit of our trade agreements.

The CalChamber instead seeks commercially meaningful outcomes in negotiations with regions around the world and supports bilateral, regional and multilateral trade agreements which are critical to consumers, workers, businesses, farmers and ranchers, and would allow the United States to compete with other countries that are already negotiating agreements with each other.

California is the fifth largest economy in the world with a gross state product of nearly $4 trillion. In 2023, California exported close to $180 billion to 227 foreign economies. Its top trade partners are the same as the United States: Mexico, Canada and China.

International trade and investment are a major part of the economic engine for the state of California that broadly benefits businesses, communities, consumers and state government.

California's economy is more diversified than ever before, and the state's prosperity is tied to exports and imports of both goods and services by California-based companies, to exports and imports through California's transportation gateways, and to inflows and outflows of human and capital resources.

The CalChamber, in keeping with longstanding policy, supports expansion of international trade and investment, fair and equitable market access for California products abroad, and elimination of disincentives that impede the international competitiveness of California business.

Staff Contact: Susanne T. Stirling

Trade Policy Expert Details Economic Impacts of Newly Declared Tariffs

John Murphy, senior vice president, head of international, for the U.S. Chamber of Commerce.

U.S. consumers and businesses will bear the costs of the tariffs imposed this month on Canada, Mexico, and China via presidential executive orders, according to a senior trade specialist for the U.S. Chamber of Commerce.

Tariffs create "concentrated benefits and widely distributed losses," John Murphy, senior vice president, head of international, for the U.S. Chamber of Commerce, said at the March 7 breakfast meeting of the CalChamber Council for International Trade.

Research on the impacts of the 2018–2019 tariffs offers evidence of what to expect from the tariffs proposed this month, which already are the biggest tax increase in 30 years, Murphy commented.

The studies on the 2018–2019 tariffs confirmed that 100% of the costs were passed through to American consumers and businesses. Those tariffs also sapped business confidence; executives were reluctant to invest in new plants or expansion. Hiring decisions were slowed. The manufacturing sector contracted and went into a recession in 2019. Jobs were lost in manufacturing-heavy states. Agriculture prices also were driven down to a 42-year low — the lowest since 1977.

The tariffs ordered this month are estimated to cost the typical U.S. household about $2,000, Murphy said.

Murphy went on to discuss country tariffs and product tariffs, in addition to the concern for the tariff impact on manufacturing, possible retaliation, and cost impact.

U.S.-Mexico-Canada Agreement

Murphy closed his prepared remarks with a quick overview of how the upcoming review of the U.S.-Mexico-Canada Agreement (USMCA) will work. The July 1, 2026 deadline is to review the USMCA, not renegotiate it, he explained.

Any changes to U.S. law would require action by Congress, but trade ministers can make other changes. If there is no agreement by July 2026 to continue the USMCA, it will expire by 2036, unless the required annual meetings overcome the disagreements.

Murphy said the U.S. administration is looking for stricter rules of origin to reserve the benefits of preferential trade for North America and additional rules to shut the door to Chinese goods (such as China-made car components that could enter the United States from manufacturers in Mexico, for example).

Also of concern are Canada's digital and dairy policies, and Mexico's energy and agriculture policies.

Staff Contact: Susanne T. Stirling

(From left) Sima Patel, chair, CalChamber Council for International Trade; John Murphy, senior vice president, head of international, U.S. Chamber of Commerce; Susanne Stirling, CalChamber senior vice president, international affairs; and Nikkie Nguyen, government affairs manager, Western Region, U.S. Chamber of Commerce.

Impact of New U.S. Tariffs on Mexico


Christian Tonatiuh González Jiménez

I appreciate the California Chamber of Commerce for its invitation to share with you the Mexican perspective on the impact of the new U.S. tariffs on Mexico, on the economy and trade.

For this purpose, allow me to recall some facts:

In January 2025, the United States announced the eventual imposition of tariffs on imports from Mexico and Canada to be set in February. [On March 3], it was announced that from March 4, a 25% tariff will be imposed on products coming from Mexico. This policy aims to pressure Mexico to take stronger actions against undocumented migration and fentanyl trafficking—issues that the Mexican government takes very seriously. However, the economic consequences of this decision will be significant, impacting businesses, consumers and trade relations across North America.

Economic Disruptions and Trade Relations

Imposing a 25% tariff on Mexican imports will create economic and social instability in both countries, disrupting deeply integrated trade relations between the United States and Mexico, as well as in Canada. The North American Free Trade Agreement (NAFTA), launched in 1994, eliminated tariffs and facilitated cross-border trade. In 2020, it was updated to reflect contemporary economic realities by the United States-Mexico-Canada Agreement (USMCA).

The USMCA has strengthened economic ties between the U.S. and Mexico, benefiting multiple industries. In 2024, U.S. imports from Mexico totaled $509.9 billion, while exports reached $334 billion. Tariffs threaten these economic gains, risk violating trade commitments, and could prompt retaliatory measures from Mexico, escalating into a trade war and destabilizing supply chains and economic growth across North America.

Economic Consequences for Mexico

The United States is Mexico's largest trading partner, with bilateral trade in goods exceeding $800 billion annually.

Guest Commentary
By Christian Tonatiuh González Jiménez

California plays a significant role in this relationship, exporting $33.3 billion in goods to Mexico and importing $61.51 billion in 2023. These numbers make Mexico the most important partner when it comes to foreign trade.

The imposition of tariffs threatens key economic sectors:

• **Manufactures**: In 2024, Mexico exported nearly $466.6 billion worth of manufactured goods to the United States, with the automotive industry as a major contributor. In California, computer and electronic products constituted $5.8 billion of exports to Mexico in 2023. Tariffs will raise production costs, potentially leading to reduced output, job losses, and lower foreign direct investment (FDI).

• **Agriculture**: Mexico is a major supplier of avocados, tomatoes, and berries to the United States. Fresh avocado imports from Mexico were valued at nearly $3 billion in 2023. A 25% tariff will reduce price competitiveness, hurting Mexican farmers and leading to higher costs for U.S. consumers, particularly in California, where these products are in high demand.

• **Foreign Investment**: Mexico attracted $35 billion in foreign direct investment (FDI) in 2024, much of it tied to U.S.-dependent industries, such as manufacturing (automotive, electronics, aerospace), agriculture (avocados, tomatoes, berries) and supply chain logistics. Tariffs will create uncertainty, discouraging investment in these sectors and disrupting cross-border trade and economic growth.

Impact on U.S. Consumers and Businesses

The imposition of tariffs on Mexican imports is poised to have significant repercussions for American consumers and businesses, with California standing to be particularly affected due to its strong trade relationship with Mexico.

As California's top export market, (accounting for 18.8% of total state exports in 2023) and second-largest import source, Mexico plays a crucial role in the state's economy.

• **Higher Prices**: California imported approximately $61.5 billion in goods from Mexico in 2023, including transportation equipment ($14.7 billion), computer and electronic products ($13.5 billion), and agricultural products ($7 billion). A 25% tariff on these imports would escalate production costs, leading to higher prices for consumers.

• **Supply Chain Disruptions**: California's economy depends on Mexican manufacturing, particularly in the automotive and electronics sectors. Tariffs could disrupt supply chains, causing production delays, higher operational costs, and potential job losses.

• **Inflationary Pressures**: Increased import costs will force businesses to either absorb expenses or pass them on to consumers, contributing to inflation. Economists estimate these tariffs could add up to 0.5% to U.S. inflation rates in 2025. For California, where the cost of living is already high, additional inflation could further strain household budgets and overall economic stability.

Threat to USMCA and North American Trade Stability

The United States-Mexico-Canada Agreement (USMCA) was established to strengthen regional economic integration and promote free trade. The imposition of tariffs by the United States risks breaching trade commitments, potentially triggering retaliatory measures from Mexico and Canada. Such actions could escalate tensions, disrupt supply chains, and weaken investor confidence, ultimately hindering economic growth across North America.

As the USMCA undergoes its scheduled review in 2026 — maybe sooner

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Risks to Economic Growth Trajectory Include Federal Deficit, Asset 'Bubble'

New Administration

What does the new administration mean for the current economic expansion?

For the second time, President Donald Trump is taking the helm of a nation that is already on a solid growth trajectory—one the Wall Street Journal called "The Envy of the World" just eight months ago.

As 2024 drew to a close, the U.S. economy continued to beat expectations. Real gross domestic product (GDP) growth has averaged 3% over the past nine quarters, and preliminary data for the last quarter of 2024 suggests little change in that momentum, with growth expected to land in the mid-2% range. The big question is how Trump's win might change this trajectory.

Causes for Optimism

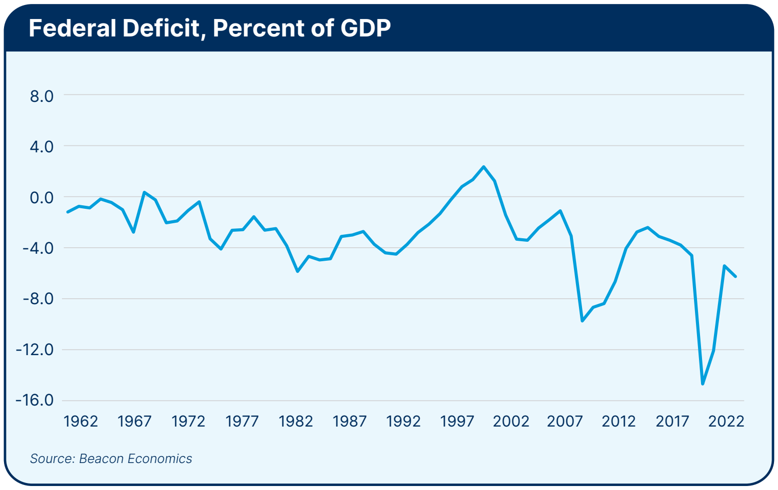
The short answer is "not much," at least in the near term. Beacon Economics' optimism continues to stem from the strength of U.S. household finances. Despite ample rhetoric to the contrary, incomes have risen faster than inflation over the last five years.

During this time, hourly earnings have grown by 4.8% annually, whereas consumer prices have risen 3.7% per year. Household debt-to-income ratios are falling, savings rates are running at a decent pace, and U.S. household net worth is at a record high.

And this isn't just an average. Although still high, income inequality is lower today than it was a decade ago. Workers in the bottom 50% of the earning pool have seen their incomes grow by 5.3%, compared to 4.4% growth for those in the top half.

Wealth inequality is also down if we exclude the top 0.01% who skew the data. U.S. poverty rates are near all-time low levels.

Given that consumer spending accounts for almost 70% of U.S. output, when American households do well, so does the rest of the U.S. economy, despite interest rate spikes. This is exactly why Beacon Economics rejected the recession calls that were so prevalent in 2023.



Real Risks

The real risks of Trump's second term won't come from what he does but rather from what he doesn't do. This boils down to the fact that the U.S. economy looks as strong as it does right now because of two stimulative (and unsustainable) drivers: the yawning Federal deficit and sky-high asset prices. Neither of these trends can continue indefinitely, which implies the same for the strength of the current expansion.

The big question before Trump's victory—and one that remains unanswered—is when these trends will revert to more sustainable levels and what impact that will have on economic growth. Trump's efforts will likely amplify today's growth trends in the short run, but only at the cost of intensifying the imbalances and making their eventual bust far more dangerous when it inevitably occurs.

The Political-Economic Dichotomy

Historically, during elections, a good economy typically favors the incumbent party; a stellar economy should practically guarantee a big win. Yet, despite the positive economic trends, the electorate was not happy in the lead-up to November's election. The University of Michigan consumer sentiment index was running at 70-80, well below the 90-100 range typical during expansions. Gallup's economic confidence index remained far below where it was prior to the pandemic.

In the end, the election swung solidly to the Republicans, who gained control of the White House and U.S. Senate while maintaining control of the U.S. House.

Protest Vote

As Beacon Economics noted in a recent commentary, what's particularly interesting about Trump's big win in 2024 is that it was a protest vote—with very little to protest.

Specifically, it was a protest against inflation, which has played, and continues to play, a large role in any conversation about the U.S. economy despite the fact that it was driven by excess consumer demand, has largely subsided, and the nation's economy has continued to grow regardless.

Yet, the social narrative regarding inflation trumped reality. As it turned out, Chairman Jerome Powell's Federal Reserve and its excessive reaction to the pandemic that drove the nation's bout of inflation, became Trump's ace in the hole.

Of course, inaccurately dismal views of the economy long predate Trump. Even before his first win in 2016, a steady drum beat of "miserabilism" was

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Risks to Economic Growth Trajectory: Federal Deficit, Asset 'Bubble'

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a defining feature of much economic commentary. The Democrats, while bemoaning how voters ignored statistics showing the obvious health of the economy, have themselves been front and center in terms of spreading the "miserabilist" narrative that has so deeply infected the national psyche.

Trump didn't invent miserabilism—he just used it, and very effectively, to achieve his political ends. A hopeful view is that once in office, Trump will acknowledge the strength of the U.S. economy and focus on other pursuits, but don't bet on it. He will almost certainly test the guardrails of the presidency in his second term, as he did in his first.

Difficulty with Predictions

On the other hand, the forecast "game du jour" is to take Trump's various economic policy threats during the campaign at face value and attempt to predict their impact. The problem is that one can never take Trump at face value—this is, after all, the same man who made over 30,000 false or misleading claims during his first term.

His current threats sound like amplified versions of what we heard leading up to 2016: in 2024, Trump threatened tariffs of 25% across the board, whereas in 2016, he floated a 10% across-the-board tax. As President, he did ultimately impose some tariffs on a limited selection of products but never came close to his initial threats.

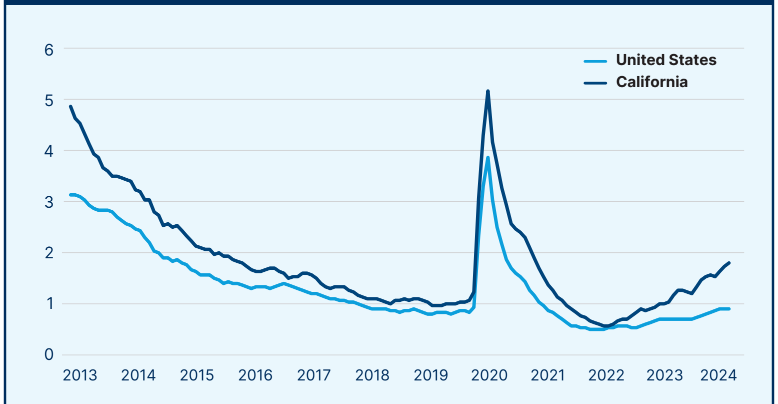
This time, these moves will be heavily influenced by a cluster of billionaires who have become part of his inner circle. Elon Musk clearly has the President's ear (at least for now), and Musk, for one, could surely do without a major trade war given the global supply chains involved with his many businesses. Scott Bessent and Howard Lutnick have also been appointed to important government positions, and as members of the finance industry, they will have little interest in rocking the economic boat.

All of this suggests that Trump will be held back—at least at the start—from some of his worst tendencies. How this dynamic morphs over time, however, is very difficult to predict. Some of his efforts are likely to be stimulating, at least in the short run. Ergo—expect growth to continue.

The Risks of Doing Nothing

The real risks of Trump's second term lie in what he doesn't do—tackle the Federal deficit and the nation's growing asset bubble. The current Federal debt-to-GDP ratio stands at 120%, higher than that of any developed nation except Japan and Italy. And over the last two years of the Biden administration, the national deficit has widened to roughly 7% of GDP.

California Labor Markets: Unemployed to Job Opening Ratio



Source: Beacon Economics

Current estimates from the Congressional Budget Office project no near-term narrowing of the deficit because of increased spending on entitlements, and the insolvency dates for both Social Security and Medicare have been moved forward.

Clearly, dealing with the deficit should be a central focus of any new administration—and just as clearly, it won't be.

Trump's first term in office saw a sharp increase in the pace of Federal borrowing, from 3% of GDP to 5% just prior to the onset of the pandemic.

Tax Cuts

One of his top priorities in the coming year will surely be extending the tax cuts he enacted in 2017, which are set to expire at the end of 2025. Trump has also promised cuts in Federal spending, guided by Musk and Vivek Ramaswamy through their so-called Department of Government Efficiency (DOGE). But realistically, this is little more than a red herring. After all, it is Congress that controls spending, and while lawmakers are happy to support spending cuts in principle, they rarely do when it comes to specific line items.

Global Investors

With household savings rates insufficient to cover the deficit, the United States has become ever more reliant on global investors to make ends meet. The nation's current account deficit is widening again, hitting -4% of GDP in the third quarter of last year. The only extended period where the United States borrowed this much from the rest of the world occurred in the run-up to the Great Recession—an ominous parallel.

However, there is a major difference between then and now: in 2006, the U.S. net international investment position (the value of U.S.-owned assets abroad minus foreign ownership of assets in the United States) was -12% of GDP, whereas it currently stands at -77% of GDP.

In short, the United States has been on a massive borrowing spree, raising questions about when lenders might start to worry about being repaid. For now, foreign investors seem to be oblivious to these growing risks, as evidenced by the strong value of the dollar despite the trends.

Some of this may be attributed to the nation's status as a safe haven for global investors. More likely, however, investors are bringing their dollars to the United States, not to buy government securities but rather to buy equities—which have seen some astonishing gains over the past five years—as well as other liquid assets

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like cryptocurrencies. The U.S. asset bubble has become a global phenomenon.

Asset Bubble

Calling a bubble is always risky business. When can we truly say that assets are overvalued given the vagaries of future outcomes? That said—this is clearly a bubble. Consider that from 2014 to 2024, corporate profits as a share of GDP grew modestly from 8.2% to 10.2%, while stock market capitalization soared from 115% of GDP to over 200%. Shiller's CAPE (cyclically adjusted price-to-earnings) ratio hit its second highest level ever in November 2024, surpassed only by October 1999.

And let's not forget crypto, where Bitcoin recently crossed over the $100,000 mark. Its P/E ratio? Infinity—because there are no earnings, yet another reason to question its intrinsic value.

How will the new administration deal with the asset bubble? Probably not at all. Trump has already made it clear that he plans to rein in regulators. This, combined with an easing Federal Reserve, is likely to cause asset prices to continue their path "to the moon" in the near term. But what goes up must come down. These unsustainable trends have to revert at some point in the future, crashing back to earth like some defective satellite.

Fed Policy, The New Administration, and How It Will Unwind

Where is the Federal Reserve in all of this? Inflation has cooled, with the October PCE deflator up just 2.3% over the past year. Given the lofty P/E ratios, one might expect the Fed to continue tightening monetary policy rather than loosening it—as the old saying goes, the Fed's job is to take away the punch bowl before the party really gets going. But tight credit throughout 2023 and much of 2024 did not affect the financial bubble at all.

Meanwhile, banks and real estate markets have struggled under the weight of the rate hikes and the inverted yield curve. And so, in response, the Fed has started loosening, cutting rates by 100 basis points so far—and promising more next year, albeit at a slower pace.

Credit conditions are still tight but are loosening, at least for now. Still, the news isn't as good as it might seem—the Fed has continued quantitative tightening, reducing its balance sheet by $60 billion to $95 billion per month. This is constraining money supply growth and has driven the bounce back in the 10-year bond rate since rate cuts began. These actions seem to be about unwinding the yield curve, not stimulating the economy.

Short-Term Trajectory

Perhaps the Fed is hoping that a tighter money supply will succeed in constraining asset prices where higher short-term rates have failed. So, with the Fed on the sidelines and the new administration unlikely to tighten the nation's fiscal belt, expect the U.S. economy to continue on its current growth trajectory in the short term.

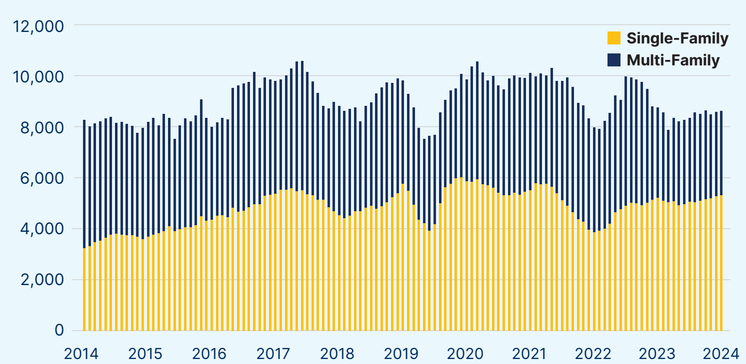
But all parties come to an end. The big question is whether the inevitable bust will happen before Trump leaves office—spoiling the latter part of his second term as the pandemic derailed the first—or if he will manage to exit before it hits, leaving the cleanup for the next administration.

How it will unravel seems clear: when financial markets turn, foreign investment will dry up, the dollar will weaken, and interest rates will spike yet again. The impact on the rest of the economy will depend critically on two factors: the extent of the imbalances that have accumulated and the speed of reversion when it finally happens.

For now, the new administration will likely keep the economy growing well for the next couple of years by prolonging these imbalances—but at the cost of intensifying the inevitable bust.

This economic outlook report is adapted from the special report presented to the CalChamber Board of Directors by Christopher Thornberg, Ph.D., founding partner of Beacon Economics.

California Residential Permits



Source: Beacon Economics

Insurance Commissioner Updates CalChamber Board on Office Actions

California Insurance Commissioner Ricardo Lara speaks to the CalChamber Board of Directors on March 7 to present an overview of his activities since taking office in 2019. Noting that the Los Angeles blazes included the 115th catastrophic wildfire since his election, Lara says dealing with the aftermath of the fires is a priority. The consumers his office protects, he says, include every entity that consumes insurance, with reinsurance and workers' compensation carriers being part of the mix. Subjects covered in his talk included modernizing how his department deals with gathering data from insurance companies and approving rate changes; the need to revisit Proposition 103 (the 1988 voter-approved initiative that created his position and established the system requiring insurers to receive prior approval of rates); the workers' compensation fraud insurance program; and his sustainable insurance strategy aimed at creating more certainty in the insurance market to give businesses the confidence they need to invest in California.

CalChamber Board Member Presents Industry Perspective on Insurance

Katie Evans, executive vice president and chief legal officer for the CSAA Insurance Group, discusses the California insurance market from an industry perspective on March 7, her first meeting as a member of the CalChamber Board of Directors. Her overview covered the impact of Proposition 103 on insurance availability, the multibillion-dollar impact of the Los Angeles fires and elements of a sustainable insurance strategy. Decreasing wildfire risk, she notes, requires change at the property, community, state and forestry levels. Research has identified top obstacles for home mitigation as including cost, perceived effort, homeowner denial/resignation, confusion and aesthetics. She reports that CSAA sponsored a landscape design challenge with the University of California, Berkeley and the Insurance Institute for Business and Home Safety. Student contestants developed eight ready-to-use home designs. Information about the contest and the winning designs is available here.

Impact of New U.S. Tariffs on Mexico

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— tariffs could complicate negotiations, eroding trust among the three nations and prompting stricter trade terms or modifications to the agreement.

From our point of view, the proposed tariffs on imports will have clear widespread economic consequences, by straining trade relations, increasing costs for businesses and consumers, and threatening regional economic stability. The uncertain consequences of imposing tariffs could shape the future of North American trade and affect the competitiveness of our countries by offering expensive products due to broken supply chains and facing competition with cheaper products offered by countries from other regions.

Beyond the critical role of tariffs in the negotiations between our countries, and their immediate effects on the supply chain, price increases, and inflation, we must also seriously consider the risk of economic instability in the region. Investments are typically long-term, and investors often avoid instability. The challenges we face today, and the decisions we make, will have repercussions, not only in our nations, but also for the entire region for decades to come.

Mexico, aside from being a neighbor, has been and will continue to be a trustful and strategic partner, serious, and committed to the development of both countries.

Christian Tonatiuh González Jiménez is Mexico's Consul General in Sacramento.

Creating and Maintaining an Effective Company Resource

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Once the hurdle of creating an employee handbook is cleared, getting staff to read and retain the information is another battle. Greene says employers should have employees sign an acknowledgment form confirming they have received, read and understood the handbook. Greene also says to consider hosting a handbook-specific meeting or other process to boost engagement with the material.

"[Otherwise,] let's be real — are they really going to read the handbook? Probably not, right?" Greene says.

Don't Go It Alone

Perhaps the most important part of developing an employee handbook is not doing it on your own, Greene and Roberts note.

"I would not recommend going it alone. It's just complex — and we're in California — you all know how complicated things are here," Greene says.

She encourages employers to do their research, find what works for them and get a good partner to help them through the process.

CalChamber's Employee Handbook Creator, which allows employers to build a customized handbook based on their specific needs, and Employee Handbook Creator Plus, an add-on that includes the help of an employment law expert, are available for those who may not know where to start.

"I think there are a lot of great tools out there, and I highly recommend that employers do [their] research, find what's going to work for you and get a good partner to help you through this process," Greene says.

Court Addresses Arbitration of 'Headless' PAGA Cases

From Page 1

claim that can be compelled to arbitration), the decision does create some uncertainty regarding how courts will respond to motions to compel arbitration of these types of PAGA cases.

Arbitration of PAGA Actions

After Viking River and Adolph

After the U.S. Supreme Court's 2022 decision in *Viking River Cruises v. Moriana* that an employee's individual PAGA claims could be separated from their non-individual (or "representative") PAGA claims and compelled to arbitration, and the California Supreme Court's 2023 decision in *Adolph v. Uber* that PAGA plaintiffs could continue to pursue their representative claims in court after their individual claims were ordered to arbitration, some PAGA plaintiffs attempted to avoid arbitration entirely by filing PAGA actions that purported to include only representative claims that wouldn't be subject to arbitration.

Leeper

All PAGA Actions Include an Individual Claim

In *Leeper*, the Second District Court of Appeal considered how a PAGA action is defined under the law — specifically, whether a PAGA action includes both individual and representative claims.

The court concluded, based on the PAGA's plain language and legislative history, that "every PAGA action necessarily includes an individual PAGA claim." Thus, the court held that the action was subject to arbitration, even though the plaintiff's complaint did not specifically allege an individual PAGA claim.

Rodriguez

Court Must Defer to Plaintiff's Complaint

In *Rodriguez*, the plaintiff's complaint stated that it was alleging a PAGA claim "in a Representative Capacity only" and not asserting an individual PAGA claim.

The defendant employer moved to compel arbitration of the plaintiff's individual PAGA claim, and the trial court denied the motion on the ground, finding that the PAGA claim was not subject to arbitration.

The Fourth District Court of Appeal affirmed the denial of arbitration, holding that the plaintiff's complaint did not contain an individual PAGA claim that could be compelled to arbitration. The court's decision was based on its evaluation of the plaintiff's complaint and its conclusion that the complaint did not specifically plead an individual PAGA claim.

The court acknowledged the holding in *Leeper* but stated it was not persuasive. The court disagreed with the *Leeper* court's conclusion that because an individual PAGA claim is a necessary component of a PAGA action, all PAGA actions **must** include an individual PAGA claim.

Instead, the *Rodriguez* court explained, the proper conclusion is that all PAGA actions **should** contain an individual PAGA claim, not that a particular complaint **does** in fact contain an individual claim.

In the context of a motion to compel arbitration, the court noted, the court's role is to examine the complaint at issue to determine if there is an arbitrable claim; it should not read such a claim into the complaint, as the court concluded was done in *Leeper*.

The court declined to address the question of whether it is permissible for a plaintiff to file a PAGA complaint that asserts only representative claims because that issue was not presented to the court on appeal.

However, the court noted that if a plaintiff files a PAGA complaint without alleging an individual claim, the complaint may be subject to a pleading challenge.

Differing Approaches

Differing Approaches to Determining Arbitrability of Headless PAGA Complaints

Given the differing approaches of the Second and Fourth District Courts of Appeal, employers' strategies for compelling arbitration and/or challenging the complaint in headless PAGA actions may vary depending on the court in which the case is being heard. Employers utilizing arbitration agreements should consult with legal counsel regarding the impact of these decisions on any pending or anticipated PAGA actions.

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