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Introduction to *California Policy Options 2008*

In last year's edition of *California Policy Options*, Christopher Thornberg noted the worsening condition of the housing market and its potential for adverse effects on the state's economy. By 2007, the housing market downturn had spilled over into the financial sector in the form of the sub-prime mortgage meltdown. The impact of that crisis, in turn, spilled out into other components of national and international finance. In Thornberg's opinion, forcefully expressed in his chapter for this volume, a recession is the likely consequence. But even if there is not a technical recession, an adverse effect on the California state budget has already been felt. After the chapter was written, Governor Schwarzenegger called on state departments to propose deep spending cuts. And the Legislative Analyst warned of an impending budget crisis.

The direction of the economy and of state revenues looms large, as William B. Parent points out in his chapter, for the political outlook. Grand plans for expanding health insurance and developing new water projects may well be delayed. And the initiatives that will be on, or are likely to be on, the state ballot in 2008 make the political outlook still more uncertain. Governor Arnold Schwarzenegger, now in his second term after the unprecedented 2003 recall and the 2006 gubernatorial election, had hoped to transform California's political institutions as well as its infrastructure. But as the budget problem grows, the capacity for other achievements is becoming more and more limited.

Daniel J.B. Mitchell points to the cyclical nature of the California state budget and the seeming failure of the state to learn from the past. California did not really resolve the budget problems that led to Governor Gray Davis' recall in 2003. As a result, Governor Schwarzenegger runs the risk of repeating the history of earlier Governor George Deukmejian. Deukmejian took over in the midst of a severe budget crisis in 1983. During his first term, the California economy rebounded and the crisis evaporated. He was re-elected to a second term, pointing to the shift of the state's finances from "IOU to A-OK." But when he left office, he passed a new budget crisis on to his successor, Pete Wilson. Each time the state has had a budget crisis, political leaders have pointed to "unique" causes, Mitchell notes. But the unlearned lesson is that one should expect these unique factors on a regular basis.

The changing demographics of California have been the target of much study. But the focus has tended to be on the growing Latino presence in the population and electorate. A statistical report for the legislature, summarized in the chapter by Steven Raphael and Michael A. Stoll, presents an index of equality (or inequality) by race and ethnicity that highlights a variety of economic and social indicators for the black population, broken down by region. On many dimensions, blacks and Latinos share similar characteristics relative to whites and Asians. The authors suggest a variety of steps that could be taken related to education, health, and criminal justice that could promote improved outcomes.

Although we tend to think of public services as provided by government, there is in fact a large nonprofit sector, as Helmut K. Anheier, Marcus Lam, Eve Garrow, and Jocelyn Guihama point out in their chapter, focused on Los Angeles. However, in recent years, growth in the nonprofit sector has slowed, if not halted. As a result, the authors find,

nonprofit institutions need to increase their advocacy and entrepreneurial activities as they compete for scarce resources.

The saying that “whiskey is for drinking; water is for fighting over,” is often attributed to Mark Twain. Much of California’s political and economic history in the post-Gold Rush era revolved around water access. One way of allocating water, as Michael Bazdarich and Christopher Thornberg discuss, is through a market process. Much of California’s water has historically been consumed by agriculture (and allocated to agriculture) although the population is now largely urban. This discrepancy has led to water transfers whereby farmers essentially sell water rights to urban users. Despite fears that such transfers would undermine agriculture and rural economies, in fact the authors find that agricultural users will modify their water usage when offered a market price. Actual policies surrounding transfers differ from an idealized market. But they nonetheless reduce the current inefficiencies that result from artificially low farm water pricing.

In the final two chapters, the changing political role of labor unions in California is discussed. Historian John H.M. Laslett notes that for decades, San Francisco was considered a union town whereas Los Angeles was the land of the “open shop.” That situation began to change during and after World War II as Los Angeles industrialized and unionized. However, unions generally began to slip in their representation of the workforce after the 1950s. New forms of unionization arose in the L.A. area, often linked to the growing immigrant and Latino population, after 1980. The rise of union political influence in L.A. (absolutely and relative to San Francisco) may not spill out to the rest of the U.S. But it does affect state and local public policy and political outcomes.

One puzzle about unions, however, as Daniel J.B. Mitchell points out, is their reluctance to engage in the special characteristic of California politics: direct democracy (initiative, referendum, and recall). Since direct democracy involves grass roots petitions and get-out-the-vote campaigns, this past reluctance is difficult to understand. Unions would seem to be structured to take advantage of such processes. Mitchell looks at initiatives on the ballot since the Proposition 13 era of the late 1970s. While some initiatives are hard to characterize, others are roughly evenly split between conservative and liberal (although conservative initiatives have had a higher success rate at the ballot). Unions have tended to be involved defensively (resisting initiatives others put on the ballot that they don’t like) rather than pushing their own initiatives. However, this political stance of unions may be changing, symbolized by recent efforts by the UNITE HERE union to repeal certain Indian gaming compacts by referendum as part of its effort to organize Indian casinos.

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