

FOLLOWING THE GOVERNOR POLITICAL OPTIONS IN CALIFORNIA FOR 2005

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California politics in 2004-2005 revolves around Governor Arnold Schwarzenegger, of whom it can be said that there are two fair views. The first is that the governor is a genuine political hero, a view shared at this writing by about 65 percent of California's voters. In this view, Schwarzenegger has brought a practical intelligence, fresh optimism, charm, and visceral energy to Sacramento. Supporters point to his overwhelming victory in the recall election, his political effectiveness in leading skeptical voters to pass a \$15 billion bond measure to cover the state debt, his acceptable solution to the workers' comp crisis, a state budget that required no new taxes, and his championing of thoroughgoing reorganization of state government and cost saving through the California Performance Review.

The second fair view, however, is that Schwarzenegger is merely a Gray Davis with tanned pecs and great special effects. Detractors note that after criticizing the borrowing of Davis's \$11 billion bond, he promoted his own for \$15 billion. The Schwarzenegger budget relied heavily on borrowing and gimmicks like the Davis budget before it, and it was 31 days late as opposed to Davis's 33 day delay the year before. Further, it did nothing to solve the state's structural deficit of between \$5 and \$6 billion, either by making cuts or raising revenues. Detractors point to his inconsistencies on the topics of special interests and political fundraising, his country fair grandstanding against those who disagree with him, his haste and deal making behind closed doors on issues ranging from support for the University of California, state prison guards, and workers' comp, to Indian casino gambling. And the reforms of the California Policy Review, in the negative view, exaggerate savings and largely serve to concentrate power in the governor's office.

It is also fair to say that Arnold Schwarzenegger, the politician and governor, is still a work in progress, defining himself issue by issue as decisions cross his desk. But in terms of public trust, the importance of which is made clear in the chapter by Daniel Mitchell and Werner Hirsch, (see *Warren's Way Back from the Budget Cliff*, p. 25) the governor still has gobs of it and the legislature and agencies of state government are clearly lacking in it. If and how Arnold Schwarzenegger uses that trust in his second year, as measured by the political battles and risks he is willing to take as he still faces a the same ugly deficit he had when he started, will define not only the success or failure of his governorship, but patterns of governance for California for years to come.

Sacramento Bee columnist Dan Walters summed up the governor's dilemma neatly in a column that ran just after the election:

“The first and foremost is, essentially, what kind of governor he wants to be: someone who wants to be popular or someone who wants to be effective.

Being ‘ready to return California to the people’ is a nice sound bite but, in fact, ‘the people’ don’t really know what they want from Sacramento, or they want things that are mutually exclusive and continue in that fantasy because politicians have been too gutless to tell them the truth.

“Schwarzenegger, with his celebrity and magnetic personality, could be a popular governor, doing all the things that polls, focus groups and political advisers tell him would sit well with Californians – a diet of political comfort food. Or he could use those same assets to convince Californians that economic and social maladies require medicines that taste bitter at first but would make the state a better place for themselves and their children in the longer run.”¹

Schwarzenegger as a Transformational Leader

Arnold Schwarzenegger has made no secret of his desire to be a transforming leader in California, a governor with the impact of the populist Hiram Johnson who left the legacy of initiative, referendum and recall laws, the direct primary election, and the workers compensation act; or Pat Brown, who built the universities, colleges and transportation systems that propelled three decades of state prosperity; or Ronald Reagan who mobilized an anti-tax, anti regulation force that continues to shape and trim the state national political agendas.

At his swearing-in ceremony, the governor intoned: “I have big hopes for California. President Reagan spoke of America as ‘the shining city on the hill.’ I see California as the golden dream by the sea. Perhaps some think this is fanciful or poetic, but to an immigrant like me – who, as a boy, saw Soviet tanks rolling through the streets of Austria. To someone like me who came here with absolutely nothing and gained absolutely everything. It is not fanciful to see this state as a Golden Dream.”²

No matter that the Soviets left Schwarzenegger’s native village of Styria three years before he was born and he grew up in the British zone, the image for him is no less real than the reach of his ambition. There was the prescient line in the 1977 film *Pumping Iron*: “I was always dreaming about very powerful people – dictators and things like that. I was just always impressed by people who could be remembered for hundreds of years, or even, like Jesus, be for thousands of years remembered”³

Schwarzenegger’s rise to the governor’s office also fits comfortably in the literature of leadership studies. John W. Gardner listed the fourteen essential attributes of leaders in his masterwork, *On Leadership*, as: physical vitality; intelligence and judgment in action; a willingness to accept responsibilities; task competence; an understanding of followers and their needs; skill in dealing with people; a need to achieve; a capacity to motivate; courage and steadiness; a capacity to win and hold trust; a capacity to manage and set priorities; confidence; assertiveness and adaptability of approach.⁴

Certainly in the recall election, the people of California were looking for exactly

the kind of heroic leadership young Arnold Schwarzenegger dreamed of in *Pumping Iron*.

Such “heroic leadership” was defined by James MacGregor Burns, in his Pulitzer Prize winning book, *Leadership* as “. . . a belief in leaders because of their personage alone, aside from their tested capacities, experience, or stand on issues; faith in the leader’s capacity to overcome obstacles and crisis; readiness to grant leaders the powers to handle crisis; mass support for such leaders expressed directly – through votes, applause, letters, shaking hands – rather than through intermediaries of institutions. Heroic leadership is not simply a quality or entity possessed by someone; it is a type of relationship between the leader and the led.” (p. 244).⁵

In Schwarzenegger’s first year as governor he has maintained the image and the following of Burns’s heroic leader. But there is another, more cautionary notion of leadership that comes to mind when considering Arnold Schwarzenegger. According to Ronald Heifetz at Harvard University, genuine leadership is “mobilizing people to take on difficult tasks.” In terms of California, difficult tasks include resolving deep economic and social conflicts roiling the state in education, the environment, property taxes and funding of local governments, immigration, transportation, energy, police, and prisons.

Societies and groups have a tendency to avoid the hard work, choices, and true costs of difficult tasks, according to Heifetz. In his model, one common group strategy (after “scapegoating” in the manner of the recall) is to find a heroic leader to solve problems, preferably painlessly. “If leadership were about telling people good news, if it were simply about giving people what they wanted, then it would just be easy, it would be a celebration,” says Heifetz. “What makes leadership difficult, strategically challenging, and personally risky is that you are often in the business of telling people difficult news – news that, at least in the short term, appears to require a painful adjustment.”⁶

Schwarzenegger avoided delivering messages of painful adjustment in his first year as he exuded confidence and optimism while learning the ropes. Warren Bennis notes: “Leaders learn by leading, and they learn best by leading in the face of obstacles. As weather shapes mountains, so problems make leaders.”⁷

“Promises made, promises kept,” has been the theme of celebrations marking a smooth first year picking; the lower-hanging fruit of rescinding the car tax, finessing a worker’s comp compromise, and the success of the bond referendum. In the meantime, he displayed a mastery of the political and fundraising games of California politics that moved the nonpartisan *California Journal* to picture the Governor at his desk in Sacramento with the headline, “The Natural.”

Schwarzenegger’s Governing Philosophy

Entering his second year, a clearer understanding of Arnold Schwarzenegger has

begun to emerge. His portrait is mainly formed of celebrity, desire to be a transformational leader in the history of California, and the successful entrepreneur set out to fix the government. He is still the dazzling movie star on the stump, willing to employ smoke machines, grand entrances, and catchy sound bites, in a style that served him well in the recall election. But his governing priorities seem to reflect the values of a small business entrepreneur. This is not surprising. With the winnings from his early body-building career, Schwarzenegger completed a major in business administration at a campus of the University of Wisconsin (largely through correspondence courses and transfer credits) and invested in real estate in the area of Santa Monica where he trained. Over the years, Schwarzenegger has bought and sold apartment buildings, commercial real estate, and started a restaurant and a gift shop. When not on the set, he moved in a chamber of commerce world that links personal financial success to robust business development. It is a world in which government is often viewed as a bureaucratic drag, requiring permits and permissions, levying taxes, and imposing regulation on health care, worker's compensation, safety, and even sidewalk signage. Over 60 percent of the California workforce are now employed by such small businesses.

At his swearing-in, Schwarzenegger charged: "We have the worst business climate in the nation. . . I will not rest until California is a competitive job – creating machine. And I will not rest until the people of California come to see their government as a partner in their lives...not a roadblock to their dreams." And in his state of the State address, he declared, "I am a salesman by nature. And now most of my energies will go to selling California."⁸

Ending his first year in office, Schwarzenegger demonstrated his business-first philosophy by rejecting a minimum wage increase, efforts to promote the importation of less expensive Canadian drugs, and a new protection for car buyers that would have required dealers to take a car back within three days of selling it. Indeed, the California Chamber of Commerce, which lobbies on behalf of business in Sacramento trumpeted Governor Schwarzenegger "for vetoing all 10 'job killer' bills (including the minimum wage and the car bill) sent to him by the legislature," calling it, "a victory for California's recovering economy." The Chamber endorsed Schwarzenegger in the recall race last year – the first such endorsement in its 112-year history.⁹

Schwarzenegger also showed that his Republicanism is almost confined to the pro-business, economic growth philosophy of the party, ensuring his popularity with moderates of both parties. At the close of this year's legislative session, he also signed a ban on .50 caliber rifles, strengthened the hate-crime law to include transgender people, allowed drug felons to obtain food stamps and signed a bill to allow the sale of syringes without a prescription. In addition, he won the ire of some right-wing Republicans by signing a bill sponsored by Planned Parenthood that protects the privacy of reproductive health workers and one requiring insurers to cover domestic partners. And environmentalists, while disappointed with his veto of some emissions reduction and renewable energy measures, applauded his signing legislation protecting 25 million acres of forest in the Sierra Nevada.

The Businessman as Transforming Leader: The California Performance Review

“Every governor proposes moving boxes around to reorganize government. I don’t want to move boxes around; I want to blow them up. The Executive Branch of this government is a mastodon frozen in time and about as responsive. This is not the fault of our public servants but of the system. We have multiple departments with overlapping responsibilities. I say consolidate them. We have boards and commissions that serve no pressing public need. I say abolish them. We have a state purchasing program that is archaic and expensive. I say modernize it. I plan a total review of government – its performance, its practices, its cost. Some of the recommended actions, I will make by executive order. Some will require legislation, and some will need constitutional change. I want your ideas and the more radical the better.”

Governor Arnold Schwarzenegger
State of the State Address, January 6, 2004

On July 30, 2004, the Governor received a 2,547-page report, the California Performance Review, from a team of 275 state employees and outside consultants. The report proposed more than 1,000 recommendations that included the elimination of 1,153 paid and unpaid posts on 118 boards and commissions. It proposed consolidating scores of state agencies and functions to 11 new “mega-agencies,” including a powerful Office of Management and Budget under the Governor’s office. It also called for such measures as allowing Californians to do more business, such as applying for driver’s licenses and welfare, on the internet. It called for the elimination of county school superintendents and county education boards. It proposed delaying entrance to kindergarten, and phasing out the Air Quality board, which monitors smog.¹⁰

Schwarzenegger is staking much on the successful implementation of the California Performance Review, estimated by its authors to save potentially \$31 billion in state costs, including \$10 billion for the state’s general fund. Full implementation of the recommendations would as well concentrate more power in the governor through the elimination of commissions, review panels and bureaucracy. And since most of the 12,000 positions slated for elimination would be through retirement and attrition, the Review seems more “painless” than across the board cuts.

The roots of the Review go back to the recall campaign when Schwarzenegger promised to “open the books” and identify “billions” in waste, fraud and abuse. The waste proved difficult to find in the work-ups to the Governor’s first budget, so the administration sought the assistance of Billy Hamilton, the deputy state comptroller of Texas. In the early 1990’s, Hamilton engineered a statewide management review that was reported to have saved Texas taxpayers \$8 billion in a budget less than half the size of California’s.

Hamilton followed the same road he took in Texas. He recruited experienced state employees to work in teams in and out of their areas of expertise. There was one group of

“functional teams” that looked at policy areas like health and human services, public safety, education, and corrections, and another group of “cross-cutting teams” that viewed the state in terms of procurement, information technology, performance-based budgeting, and customer service. The report recommends, by far, the most sweeping and thorough reorganization of California state government in modern history.

The philosophy behind the California Performance Review is clear from remarks made by Billy Hamilton with the release of the report. “Government’s mission is fundamentally different from that of the private sector,” he said. “Its responsibility is to deliver services to those who need these services most, and it means that government cannot function with the same single-minded focus on the bottom line as a business. But government can and should strive to deliver the best service for every dollar taxpayers send to Sacramento. . . . A tenuous economic recovery is under way, but many Californians have yet to see its benefits. They are in no mood to be saddled with new demands for more money, and Governor Schwarzenegger has made it clear that he opposes tax increases. Government’s only option is to live within its means and cut costs whenever possible; this is the fundamental charge of the California Performance Review.”¹¹

Among the recommendations:

- The creation of a Department of Infrastructure that would manage transportation, water, energy, and housing – duties now performed by 25 agencies, including such giants as Caltrans and the Department of Water Resources.
- A state Environmental Protection Agency (EPA), eliminating 16 legislatively created boards including the Air Resources Board and the department of Forestry and Fire Protection.
- A single Department of Commerce and Consumer Protection that would oversee everything from the licensing doctors and barbers to the lottery, horse racing, and vehicle registration.
- A statewide Office of Management and Budget that would replace the departments of Finance, General services and the state personnel board.
- The state budget would cover two years, not one, as is the practice in 21 other states.
- A single department of Public Safety and Homeland Security that would include the California Highway Patrol and Alcohol Beverage Control among others.
- Billions of dollars in Health and Human Services would devolve to counties and be out-sourced out to private contractors. County child support agencies would be eliminated and competition for case management would be open to private contractors.¹²

The first reactions were mixed. “It isn’t going to come to fruition,” outgoing Senate President John Burton told the *Los Angeles Times*, reflecting the views of

Democratic lawmakers, “They are clearly biting off more than they can chew.”¹³

But Republican Senator Jim Brulte, who became a member of the Hearings Commission for the Review said, “The California Performance Review takes an honest and nonpartisan look at government efficiency at the state level . . . When completed, the California Performance Review and the hearings by the Commission will shed light where the state can run more efficiently and save the taxpayers of this state literally billions of dollars each year.”¹⁴

And throughout the summer of hearings across the state on the proposals, concerns were raised about the elimination of such bodies as the California Air Resources Board, which has been recognized as the leader in improving air quality in Southern California over the last three decades. Others praised the elimination of boards such as the Unemployment Insurance Appeals Board and those that look after single professions as examples of waste and duplication.

The Office of the Legislative Analyst, a non-partisan policy analysis agency, produced an initial assessment that concluded, among other things, that the plan does not go far enough: The Legislative Analyst concluded:

“The CPR provides the state with a valuable opportunity to comprehensively examine how it does business. It has made a serious effort at rethinking the current organization of state government and how it delivers services to the people of California. We find that many of its individual recommendations would move California toward a more efficient, effective, and accountable government.

At the same time, the rationale for some of its reorganization proposals is not clear, it does not examine whether the state should continue to perform certain functions, and many of its fiscal savings estimates are overstated.

For these reasons, it will be important for the Legislature to evaluate the merits of the proposals individually, looking at their policy trade-offs, their likely effectiveness, and their fiscal implications. The Legislature also may wish to consider broadening the scope of reforms offered by CPR to include a more comprehensive examination of the state and local tax system, the role of constitutional officers, the state’s system of funding education, and the relationship between state and local government.”¹⁵

Following public hearings, the California Performance Review will go to the Little Hoover Commission, an independent state oversight agency that was created in 1962 to investigate state government operations. By statute, the Commission is composed of five citizen members appointed by the current and past governors, four citizen members appointed by the legislature, two senators and two assembly members. The Little Hoover Commission will then submit recommendations on implementing the review, in whole or part, to the Governor.

Governor Schwarzenegger, for his part, has made it clear that the recommendations of the Review will be a driving force for his governorship, a way of closing the deficit without raising taxes and improving the way government works. At one point, he raised the possibility of submitting the plan to voters as a referendum if it gets bogged down in the legislature. The idea of a referendum question as long as the Bakersfield white pages aside, the governor would be restricted because the state Constitution only allows amendments by referendum, not revisions as would be required by many of the review recommendations.

It is also interesting to note that the Texas Performance Review that is a model for the California version, was a legislative initiative. In Texas, a state with a strong-legislature-weaker executive constitutional set up, the Performance Review was driven by legislatures, and supported by both the Democratic governor, Ann Richards, and her successor, George W. Bush.

But Schwarzenegger also has it in his power to enact many of the recommendations by executive order such as building better state Web sites that allow purchases online and requiring procurement reform for state agencies. Other recommendations will require legislative approval, and some would require Constitutional amendments.

More Power to the Governor

Perhaps the most singularly controversial and far-reaching effect of the Review, however, would be its magnification of the powers of the Governor and weakening of the legislature if it is adopted.

“A document whose basic thrust is ‘Give me power’ is not going to be credible when it hits the legislature and it shouldn’t be credible,” Robert C. Fellmeth executive director of the Center for Public Interest Law and a professor at the UC an Diego School of Law, told the Commission at a hearing in Davis.¹⁶

In reality, legislative power in California has been in decline for the past 25 years. When voters passed Proposition 13 in 1978, the required two-thirds majority to pass any budget or tax legislation weakened majority rule and resulted in common annual gridlocks. Term limits have diminished the power of long-standing leadership. And legislative redistricting has increased representation from the left side of the Democratic Party and the right side of the Republican party, removing moderate voter identification with the body as a whole. In a Public Policy Institute of California poll before the recall, voters ranked the legislature’s job performance below even that of Gray Davis, with only 21 percent agreeing that the Legislature could be trusted to do what is right just about always or most of the time.

And shortly after the recall, a public television forum featuring former governors Jerry Brown, George Deukmejian, Pete Wilson, and Gray Davis delivered a consensus

that the time is right for an aggressive and popular governor to further concentrate power in the executive. They raised the idea for the first time in such a forum of reverting back to a part-time legislature, with even Jerry Brown, whose father pushed for a full time legislature in the 1960s, weighing in on the part-time side. Wilson and Brown also called for strengthening the executive branch accountability by allowing the governor to place referendum measures on the ballot and to appoint such currently elected offices as the superintendent of public instruction, treasurer, and insurance commissioner.

Vacationing in Hawaii during the Easter recess, Schwarzenegger said to a reporter that he would like to see a part-time Legislature in California. He explained that lawmakers waste too much time and too often produce pointless legislation, a point he alluded to at least in passing in subsequent speeches, at rallies and in published interviews. Ted Costa, the conservative activist who helped launch the recall election, has picked up the baton and begun circulating a petition to put the measure on a referendum ballot next fall. Schwarzenegger has also back-pedaled on the idea, but the legislature does not want to see him back a referendum question on the issue. And after a rally during the budget stalemate where he created a national stir by calling legislators “girlie men,” the legislature reacted with righteous indignation and, in less than a week, gave the governor a budget he could sign.

“You’ve got to cleanse the Augean stables about every twenty years,” said Jerry Brown to explain the need for major reform. “And a governor has to take the lead in that.”¹⁷

In the coming year, with his popularity and ambition in full force, with the substance of the California Performance Review in hand, and with the Legislature on the ropes, Governor Arnold Schwarzenegger appears ready to return to his very first film role, as Hercules, and attempt just that.

Endnotes

¹ Dan Walters, “Governor Compiles a Mixed Record, but Remains Wildly Popular.” *Sacramento Bee* October 8, 2004.

² Governor Arnold Schwarzenegger. Swearing In Remarks. November 17, 2003

³ Arnold Schwarzenegger from *Pumping Iron*, 1977

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- ⁵ Burns, James MacGregor. *Leadership* (New York: Free Press 1990) pp. 48-54
- ⁶ Flower, Joe. "Interview With Ronald Heifetz). *The Healthcare Forum Journal*, Vol. 38, #4, July-August 1995, www.well.com/user/bbear/heifetz.html.
- ⁷ Bennis, Warren. *On Becoming a Leader* (Cambridge MA: Persues Books 2003) p. 136
- ⁸ Governor Arnold Schwarzenegger. State of the State Address January 6, 2004
- ⁹ California Chamber of Commerce website, calchamber.com
- ¹⁰ Government for the People for a Change: A Report of the California Performance Review www.cpr.ca.gov
- ¹¹ Hamilton, Billy. "The California Performance Review: Making Government Work Better and Cost Less." *California Tax Digest* June 2004 p. 1
- ¹² "Government for the People for a Change: A Report of the California Performance Review" www.cpr.ca.gov
- ¹³ Nichols, Peter and Salladay, Robert "Radical Revamp of State Bureaueacy" *Los Angeles Times* July 30, 2004
- ¹⁴ Brutle, Jim. Press Release June 29, 2004. <http://republican.sem.ca.gov/news/31/pressrelease2833asp>
- ¹⁵ Office of the California Legislative Analyst. "An Initial Assessment of the California Performance Review." August 27, 2004 www.lao.ca.gov/pubdetails.aspx?id=198
- ¹⁶ Talev, Margaret. "State Overhaul Plan Blasted." *The Sacramento Bee*. September 28, 2004
- ¹⁷ "Can California Be Governed," on *California Connected* February 16, 2004, KCET Television.