

In this issue of *California Policy Options*, we again review the pressing issues before the state, economic, social, and political. California went through a special election in November 2005, with samples of all of these concerns represented on the ballot. There was one proposition dealing with abortion, one dealing with education, one dealing with public-sector labor relations, one dealing with California's fiscal problems, one dealing with legislative districts, two dealing with drug discounts, and one dealing with electricity regulation. In the end, voters rejected *all* of these initiatives, suggesting that there are concerns by the electorate that direct democracy is not necessarily the best way to resolve important issues.

In his review of California's economic outlook, Christopher Thornberg notes that by mid-2005, state payroll employment finally surpassed the peak level reached before the recession of the early 2000s. In addition, non-payroll jobs in the informal sector have been growing. Despite the economic progress the state has made, there are still concerns about its short-term vulnerability to a negative shock. Thornberg sees a speculative real estate bubble in residential housing as having the potential to provide such a shock. From a longer-term perspective, Thornberg notes that taxation of real estate under Proposition 13 (1978) has a regressive impact; those homeowners with the greatest amount of equity in their homes pay the lowest percent of that equity in tax. The state and local tax base is especially volatile as a result of California's approach to real estate taxation.

Fiscal problems of the state have continued to elude comprehensive solutions. As Daniel J.B. Mitchell and Werner Z. Hirsch point out, California's structural state budget deficit continues to aggravate relations between the Governor and Legislature. Governor Schwarzenegger's ballot box solution to the fiscal problem, however, seemed to morph into a battle with labor unions. Two problems with the Governor's approach were identified. It was unfocused, leading to a batch of seemingly unrelated propositions on the ballot in the November 2005 special election. And the specifics of these propositions were outsourced to individuals and groups whose agendas were not necessarily the same as the Governor's and whose efficacy in running a campaign was questionable. Mitchell and Hirsch contrast the Schwarzenegger failure in the special election with an earlier failure to control the budget via initiative under Governor Ronald Reagan. Unlike the Schwarzenegger episode, Reagan's effort was focused on a single fiscal initiative. But as in the Schwarzenegger episode, outsourcing and lack of attention to detail sank the Reagan proposition.

Kirk Stark notes that at the federal level, a major anti-poverty fiscal program has been the Earned Income Tax Credit (EITC). Low income workers under this component of the tax code receive rebates which can be larger than their tax liabilities. Although it has an income tax, California has not adopted a state-level version of the EITC. One possibility would be that the state could simply mimic the federal EITC as some other states have done. But Stark notes that the structure of the federal EITC might allow a state such as California to extract a larger federal subsidy for its low-income workers. Basically, the state can raise the federal subsidy if it provided certain work-for-pay opportunities for workers at the lowest end of the EITC scale of rebates. The lesson is that with regard to fiscal support of low-income earners, simpler may not be better for California.

California has viewed itself as a leader in environmental regulation. However, merely passing regulations does not ensure that environmental improvements will follow. Regulatory programs must be effective in actually carrying out their agendas. In the case of dealing with

hazardous wastes, California – beginning in the early 1990s – sought to modify the processes and resources with which local governments handle enforcement. Bo Cutter and J.R. DeShazo examine the resulting local programs. Details of how the diverse local-level programs operate turn out to matter in terms of actual results. Among the suggestions made by Cutter and DeShazo is that enforcement programs should be supported by dedicated fees that are adequate to achieve compliance.

Grace Blumberg tackles the contentious issue of domestic partnership law in California. She notes that in many respects, but not all, registered domestic partnerships are equivalent in rights and obligations to marriage. However, there are gaps when it comes to rights of parents who are not the biological progenitors of their children. Moreover, Blumberg notes, many domestic partnerships are not registered with the state. Thus, partners whose relationships are terminated do not always have adequate legal protection. Because of the federal and state level controversy surrounding “gay marriage,” it is likely that such issues will remain in the public spotlight for some time to come.

It has become a commonplace to note the growth in demographic diversity of California. The growth of the Latino and Asian populations during the past few decades has been particularly striking. With these changes have come controversies surrounding illegal immigration and bilingual education. One impact on the K-12 system is the processing of over one and a half million students classified as “English Learners.” Yang Sao Xiong and Min Zhou note that about 85% of these students have Spanish as their primary language. Under current arrangements, once students are classified as English Learners, they are thereafter tracked through testing of English proficiency. Xiong and Zhou believe that as the result of such testing, many students are not able to take challenging or advanced courses, particularly college-preparatory courses. Yet such students may well have the same English proficiency as monolingual Anglophone students who are not subject to English proficiency tests.

Various public opinion polls in California track political orientation and voter intentions. But a new survey in Southern California provides more general public opinions about major issues facing the region. Kim Haselhoff and Paul Ong report that transportation is a key concern, followed by the state of the economy, education, crime, and housing. Although there is general interest in stimulating economic activity, there is a strong reluctance to encourage commercial development near one’s neighborhood. There is evidence in the survey of the so-called NIMBY problem (Not In My Back Yard). NIMBY resistance poses a problem for the state, since the tax base for resolving the issues of concern cited by respondents ultimately depends on economic development.

In the final chapter, Renee Moilanen provides a case study of the problems entailed in obtaining public support for development. The example she discussed was a project in the City of Redondo Beach which involved both retail and residential expansion. City officials misgauged the degree of public resistance to the expansion. The interplay of city politics and direct democracy led to a stalemate which has yet to be resolved. In the current climate, elected officials must anticipate resistance and manage strategies for development more artfully than occurred in Redondo.

Daniel J.B. Mitchell
Ho-su Wu Professor, Anderson Graduate School of Management
Distinguished Professor of Public Policy, UCLA School of Public Affairs

December 2005