

## *Introduction*

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In 2002, California – along with the rest of the nation – faces substantial uncertainty. A high-tech investment and stock market bust was already souring economic conditions when terrorist attacks on the U.S. occurred on September 11, 2001. The resulting war on terrorism caused additional economic disruption, especially in California’s important tourism and travel sectors. A state budget that was already in structural deficit, deteriorated as revenues fell and expenditures on security increased.

Chapter 1, by forecaster Tom Lieser, notes that California escaped the immediate economic effects of expected electricity blackouts in summer 2001. But economic fundamentals were still dragging the state towards recession. In a longer-term view, California faces constraints on economic growth stemming from high housing prices.

Meanwhile, Xandra Kayden points out in Chapter 2 that state politics have not come to a halt despite adverse economic trends and terrorist attacks. There will be repercussions from the redistricting decisions made by the state legislature. And various important and controversial issues will confront the voters in the form of ballot initiatives.

Politics and economics intersect in state budget decisions. Werner Hirsch and Daniel Mitchell point out in Chapter 3 that budget terminology used by California policy makers is confusing. A more transparent system of budget description and budget making would produce better results than the fiscal crisis California found itself in by late 2001. Policy makers permitted a deficit in the budget to occur at the peak of the business cycle creating an inevitable crisis in harsher economic times.

Despite tight constraints on the public sector, Darryl Holter notes in Chapter 4 that there are mechanisms for the private sector to improve neighborhoods and the local business climate. Specifically, he points to the development of Business Improvement Districts in which firms and property owners agree to tax themselves to provide better services. The result can be a neighborhood turnaround.

Education remains of great concern to Californians. There is a widespread perception that the K-12 public schools are functioning poorly and need reform. In California, as in other parts of the country, reform is increasingly being tied to accountability and testing. As Gary Blasi explains in Chapter 5, accountability as a general principle is fine. But developing an appropriate accountability system is a major state challenge.

California has often been seen nationally as an environmentally-sensitive state. But limiting air pollution requires innovative policy approaches. Timothy Malloy and Peter Sinsheimer use a case study in Chapter 6 and draw lessons for building effective policies to reduce harmful emissions. As in the example of educational accountability, the details of policy approaches and administration are important determinants of the ultimate outcomes.

Also linked to the labor market is the distribution of income. California has seen growth in wage and income inequality during the past two decades. The plight of the working poor has become an important issue of social welfare in the state. One option for the working poor is to try and raise wages through unions and collective bargaining. However, in California and the U.S. generally, unionization rates have declined as income inequality indexes rose. A notable exception to this tendency developed among janitors, especially in the Los Angeles area. In Chapter 7, Christopher Erickson, Catherine Fisk, Ruth Milkman, Daniel Mitchell, and Kent Wong explore the implications of the “Justice for Janitors” campaign. They point to the influence of public policy in both impeding and encouraging janitor unionization.

For most people, income from the labor market is the key to their level of well-being. Individuals may rely on wage income directly, or the earnings of their parents, spouses, or other relatives. Or they may draw retirement income on the basis of past employment. In California, as in the rest of the U.S., the nature of the employment relationship is changing and an increased number of workers have “contingent” jobs. Many contingent workers prefer the flexibility that such employment provides. Others would prefer more “permanent” jobs. As Alejandra Cox Edwards and Lisa Grobar point out in Chapter 8, legal developments relating to employment termination may play a role in explaining growing contingency in California.

Finally, in Chapter 9 Christopher Thornberg examines the causes and consequences of California’s failed experiment with electricity deregulation. A policy that was ostensibly designed to lower power costs ultimately produced blackouts, substantial rate increases, and a financial drain on the state. Yet, he argues, a better-designed policy could have avoided these pitfalls. Unfortunately, Californians will be paying the costs of their flawed plan for years to come.

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