

*Californians' Assessment of the State
Economy, Its Prospects, and the
Performance of Their Elected Officials*

Mark Baldassare

*Testimony before the Assembly Committee on Jobs,
Economic Development, and the Economy
March 11, 2003*

***Public
Policy
Institute of
California***

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Distinguished members of the committee and guests, thank you for this opportunity to join you here today to talk about some of the important economic issues facing California and this legislature. My name is Mark Baldassare; I am Research Director and Survey Director at the Public Policy Institute of California (PPIC). PPIC is dedicated to improving public policy in California through independent, objective, nonpartisan research on major economic, social, and political issues. To that end, PPIC initiated a Statewide Survey series in April 1998 to track the economic, political, and social attitudes, public policy preferences, and ballot choices of state residents. We have interviewed more than 66,000 Californians in the past five years. Our surveys consist of telephone interviews, with each survey interviewing 2,000 randomly selected California adults. The surveys are conducted in English or Spanish. They have a margin of error of +/- 2 percent for the total sample, and they have large enough subsamples to analyze differences across the major regions of the state and across racial/ ethnic, socioeconomic, and political groups. In my comments today, I will highlight the results of our most recent large-scale public opinion survey of 2,000 California adults, conducted from February 6th to 17th, 2003, and which focused on a wide range of economic, budgetary, and policy topics. The entire February PPIC Statewide Survey report is available on line at www.ppic.org.

Let us start with the most important issue facing California. When asked what they consider to be the most important issue facing the state today, Californians list the economy, jobs, and unemployment (28%) as the biggest problem, followed by the state budget and taxes (15%), education and schools (11%), and war and terrorism (10%) (see Table 1). Fewer than 5 percent identify other issues such as crime (4%), health care (3%), and immigration (2%).

Although we found no single overarching issue on the minds of Californians, the percentage of residents concerned about economic issues has risen significantly since December 2001, when 15 percent of Californians considered economic issues to be most important, 14 percent mentioned the electricity crisis and its attendant costs (today, only 2 percent names electricity or energy issues), and 12 percent noted education and schools.

Californians across regions and demographic and political groups are relatively consistent in their assessments of the most important issue facing the state—that is, jobs and the economy. However, there are some noteworthy differences in opinion. Regionally, San Francisco Bay Area residents are more concerned than residents of other regions about the economy and jobs (41%). Latinos are more likely than whites to rank war and terrorism as the most important problem (18% to 7%), and less likely than whites to view the state budget as their biggest concern (8% to 20%). One in four Republicans (25%) and 15 percent of Democrats say that the budget and taxes tops the list of California's problems.

TABLE 1: "What do you think is the most important issue facing people in California today?"

	All Adults	Region				Latino
		Central Valley	SF Bay Area	Los Angeles	Other Southern California	
Economy, jobs, unemployment	28%	24%	41%	24%	23%	21%
State budget, deficit, taxes	15	19	15	13	17	8
Education, schools	11	10	13	11	11	9
War and terrorism	10	9	6	12	12	18
Crime, gangs	4	2	1	10	3	10
Health care, health costs, HMO reform	3	3	3	4	4	3
Housing costs, housing availability	2	2	3	2	2	3
Legal and illegal immigration	2	2	1	3	3	2
Electricity costs, energy crisis	2	3	3	2	3	2
Population growth and development	2	3	1	2	1	1
Drugs	2	1	1	2	3	4
Environment, pollution, water	2	3	2	2	2	1
Something else	12	13	8	6	12	9
Don't know	5	6	2	7	5	9

In terms of assessing the overall mood in California today, six in 10 residents say that the state is headed in the wrong direction, while fewer than three in 10 say it is headed in the right direction. This is the most pessimistic Californians have been since the first PPIC Statewide Survey was conducted in 1998. One year ago, 56 percent of Californians thought that the state was heading in the right direction; and as recently as this past November, 49 percent thought so. Today, only 28 percent register satisfaction with the direction the state is taking (see Table 2). The majority of Californians across age, income, education, and political parties believes things are going in the wrong direction; however, some groups are slightly less pessimistic. For example, Latinos are more likely than whites (33% to 25%) to say that California is going in the right direction, as is a higher percentage of Democrats (30%) compared to Republicans (19%). Concern that the state is headed in the wrong direction increases with age, education, and income.

TABLE 2: "Do you think things in California are generally going in the right direction or the wrong direction?"

	All Adults					
	Apr 98	Jan 99	Feb 00	Jan 01	Feb 02	Feb 03
Right direction	55%	63%	65%	62%	56%	28%
Wrong direction	36	28	27	29	36	60
Don't know	9	9	8	9	8	12

Turning to the state’s economic conditions, seven in 10 residents think that California will face financially bad times over the next 12 months (see Table 3 for time trend). The proportion of Californians who said that the state would experience good economic times in the upcoming year was 78 percent in February 2000, 51 percent in January 2001, 46 percent in February 2002, and stands at 20 percent in February 2003. While perceptions of the economy are generally negative today, some Californians appear more optimistic than others. Men are more likely than women (23% to 16%), and Latinos are more likely than whites (24% to 18%), to think good economic times lie ahead. The percentages of respondents who believe that the future will bring bad times financially increase with education and income. Democrats (74%) and Republicans (74%) are equally pessimistic in their forecast of the state’s economy. San Francisco Bay Area residents are the least likely to think there will be good times ahead (16%), while Other Southern Californians (23%) are the most likely to believe that better times are coming.

TABLE 3: “Turning to economic conditions in California, do you think that during the next 12 months we will have good times financially or bad times?”

	<u>All Adults</u>			
	Feb 00	Jan 01	Feb 02	Feb 03
Good times	78%	51%	46%	20%
Bad times	15	38	47	71
Don't know	7	11	7	9

Moreover, six in 10 residents consider their region of the state to be in a serious (21%), moderate (28%), or mild recession (11%). The proportion of Californians who say that their region is in a serious-to-moderate recession was 39 percent a year ago in February 2002, 36 percent in November 2002, and 49 percent in February 2003. Today, as in last November’s survey, residents across the state’s major regions vary in their assessment of the seriousness of the recession affecting their regions. Thirty-nine percent of San Francisco Bay Area residents say their region is in a serious economic recession, and nearly three in four residents (72%) in this part of the state say that their region is in a serious-to-moderate recession today, while in other regions residents are more likely to say they are in a mild recession or not in a recession at all (see Table 4).

TABLE 4: “On another topic, would you say that your region is in an economic recession or not? (if yes: Do you think it is in a serious, moderate, or mild recession?)”

	<u>All Adults</u>	<u>Region</u>			
		Central Valley	SF Bay Area	Los Angeles	Other Southern California
Yes, serious recession	21%	19%	39%	16%	14%
Yes, moderate recession	28	26	33	31	23
Yes, mild recession	11	14	5	11	14
No	35	36	19	35	43
Don't know	5	5	4	7	6

Is the state government’s budget deficit a serious concern of Californian residents? Nearly three-quarters (74%) of residents think that the state’s budget deficit of around \$30 billion is a big problem (see Table 5). Across all major regions of the state, and among all partisan groups, more than two-thirds of Californians view the budget deficit as a big problem. Whites (82%) are much more likely than Latinos (58%) to consider the deficit a serious problem. Overwhelmingly, likely voters (86%) say the budget deficit represents a big problem. Public concern about the deficit increases with age, education, and income. As another sign of their concern about the deficit, 62 percent of Californians are very closely or fairly closely following the news about the state budget deficit, even as other national and world events, such as the economic slowdown, the conflict with Iraq and Saddam Hussein, and threats of terrorist attacks, compete for their attention.

TABLE 5: “Do you think the size of the California state budget deficit is a big problem, somewhat of a problem, or not a problem for the state?”

	All Adults	Region				Latino
		Central Valley	SF Bay Area	Los Angeles	Other Southern California	
Big problem	74%	81%	78%	68%	72%	58%
Somewhat of a problem	21	14	19	25	23	32
Not a problem	3	3	2	4	3	7
Don't know	2	2	1	3	2	3

Nine in 10 Californians (91%) are concerned that the budget deficit will bring severe cuts in program areas such as education, health care, and the environment (see Table 6). Sixty-three percent of all residents, say they are very concerned about the possibility of severe cuts in government programs, and a majority in every subgroup is concerned about the effects of the budget shortfall. Although there are only modest differences across age, education, and income categories, there is considerable difference across race/ethnicity, gender, political party, and political ideology: whites (64%), women (68%), Democrats (74%), and liberals (73%) are much more likely to say they are “very concerned” than are Latinos (57%), men (57%), Republicans (55%), and conservatives (52%).

TABLE 6: “How concerned are you that the state budget deficit will cause severe cuts in areas like education, health care, and the environment?”

	All Adults	Party Registration			Gender	
		Dem	Rep	Ind	Male	Female
Very concerned	63%	74%	55%	61%	57%	68%
Somewhat concerned	28	21	30	29	29	26
Not very concerned	5	3	8	6	8	3
Not at all concerned	4	2	7	4	6	3

Public opinion is divided about where to assign blame for the state budget deficit: 23 percent say that Governor Gray Davis is primarily responsible for the state budget deficit, compared to 17 percent saying population growth and immigration, 16 percent saying the state’s economic downturn, and 13 percent saying the state’s electricity and energy crisis, while fewer point to the Democrats (6%) or the Republicans (4%) in the legislature.

Importantly, as state officials search for solutions to improving the problems that face Californians today, residents are expressing relatively little confidence in the ability of state government to solve problems and spend money wisely. About one in three Californians (36%) say they trust the state government in Sacramento to do what is right just about always or most of the time. Nearly six in 10 (58%) say they trust the state government only some of the time, and 4 percent volunteer that they cannot trust the state government at all (see Table 7). By contrast, in both our January 2001 and January 2002 surveys (46% and 47%, respectively), nearly half of Californians said they could trust the state government to do what is right just about always or most of the time. A solid majority of all Californians (55%) also believe that the state government wastes a lot of taxpayer money. Indeed, the percentage of Californians who believe that there is a lot of waste in state government spending has increased substantially from our survey in January 2002 (38%).

TABLE 7: “How much of the time do you think you can trust the government in Sacramento to do what is right?”

	All Adults	Party Registration			Latino
		Dem	Rep	Ind	
Just about always / Most of the time	36%	36%	25%	29%	49%
Only some of the time	58	61	68	63	45
None of the time	4	3	6	7	2
Don't know	2	0	1	1	4

Not surprisingly, given the current mood, nearly two-thirds (63%) of all Californians say they disapprove of the job that Governor Davis is doing in handling the state’s budget and taxes. The governor’s approval ratings in this area have declined markedly over the past few years, falling from 57 percent in 2000 to 53 percent in 2001, 42 percent in 2002, and 26 percent in the current survey. Californians are similarly negative in their assessment of the job the state legislature is doing on the budget and taxes. Twenty-six percent say they approve of how the legislature is handling these fiscal issues, while 57 percent disapprove (See Table 8). In September 2002, 29 percent approved and 54 percent disapproved of the legislature’s handling of the budget and taxes.

TABLE 8

	All Adults	Party Registration			Latino
		Dem	Rep	Ind	
<i>Do you approve or disapprove of the way Governor Davis is handling the state budget and taxes?</i>					
Approve	26%	32%	11%	24%	37%
Disapprove	63	57	84	68	51
Don't know	11	11	5	8	12
<i>Do you approve or disapprove of the way the California legislature is handling the state budget and taxes?</i>					
Approve	26%	27%	18%	23%	39%
Disapprove	57	57	69	63	47
Don't know	17	16	13	14	14

However, it is important to note that confidence in the federal level of government also shows signs of weakness in the current economic climate. Thirty-eight percent of Californians say they trust the federal government in Washington to do what is right just about always or most of the time. Nearly six in 10 (56%) say they trust the federal government only some of the time. By contrast, nearly half of Californians (46%) in our January 2002 survey said they could trust the federal government to do what is right just about always or most of the time.

Fewer than half (45%) of the state’s residents say they approve of the way President Bush is handling the federal budget and taxes (see Table 9). Republicans are much more approving of the president’s handling of fiscal issues than are Democrats and independent voters. A majority of Central Valley (55%) and Other Southern California residents (51%) voice their approval, while a majority in the San Francisco Bay Area (64%) and nearly half of the residents in Los Angeles (48%) say they disapprove.

TABLE 9: “Do you approve or disapprove of the way that President Bush is handling the federal budget and taxes?”

	All Adults	Party Registration			Latino
		Dem	Rep	Ind	
Approve	45%	26%	77%	43%	46%
Disapprove	47	67	19	53	43
Don't know	8	7	4	4	11

More specifically, on the issue of taxes, one in two Californians (50%) would prefer that the federal government focus on balancing the national budget rather than proceed with its proposed \$670 billion tax cut, which is supported by only about one-third of the state’s residents (34%) (see Table 10). Similarly, 55 percent of likely voters prefer to balance the budget. The majority of Democrats (64%) and independents (54%) are more interested in trying to balance the budget, while the majority of Republicans prefer the tax cut (55%).

State residents are divided about the president’s economic plan. When asked about the fairness of the proposed tax reduction, 47 percent think it would be unfair to people like them, while 43 percent think it would be fair. Women are much more likely than men to think it unfair (51% to 42%). A majority of Latinos think the proposed tax cut is unfair to people like them (56%), while a near majority of whites think it is fair (49%). Fifty-one percent of residents with incomes of \$80,000 and higher think that the proposed tax cut is fair, compared to 47 percent of those with incomes between \$40,000 and \$80,000, and 35 percent of those with incomes under \$40,000.

TABLE 10: “Do you prefer to have the president’s proposed tax cut or to use this money to help balance the budget?”

	All Adults	Party Registration			Latino
		Dem	Rep	Ind	
Have the federal government use the money to help balance the budget	50%	64%	36%	54%	45%
Have the tax cut	34	22	55	35	33
Both	3	4	2	3	4
Neither	3	5	1	2	3
Don't know	10	5	6	6	15

Given the public’s concerns about the economy and state budget, and their low ratings of elected officials when it comes to handling fiscal issues, what are Californians preferences regarding state spending and taxes? Survey respondents were asked to choose their number-one priority for public funding, given the state’s limited funds. From a list of five of the major program areas in the state budget—Kindergarten through 12th grade public schools; public health and social services; public colleges and universities; corrections, including prisons; roads and other infrastructure projects; or any other state program that they wanted to name—more than half of all Californians (52%) say K-12 public schools are their first priority for state spending. One in four (25%) mention public health and social services, and fewer than one in 10 residents name public colleges (7%), roads and other infrastructure (6%), and corrections and prisons (2%). Five percent name something else (see Table 11).

TABLE 11: “Which of the following should be the number-one priority for public spending in the state budget?”

	All Adults	Party Registration			Latino
		Dem	Rep	Ind	
K-12 public schools	52%	54%	50%	55%	50%
Public health and social services	25	30	18	20	31
Public colleges and universities	7	6	5	8	10
Roads and other infrastructure projects	6	3	9	8	3
Corrections, including prisons	2	1	3	1	2
Something else	5	4	9	6	3
Don't know	3	2	6	2	1

We also asked respondents if they think the state government should spend more money, less money, or the same amount of money in six program areas. Majorities of all Californians would like to see more money spent by the state government on K-12 public schools (65%) and public health (52%), while lower percentages want more spending on public colleges (37%), the environment (32%), roads and other infrastructure (27%), and prisons (13%). Despite the current budget deficit, few want to see less money spent on K-12 public schools (5%), public health (12%), public colleges (15%), roads and infrastructure (21%), or the environment (23%). Only prisons and corrections—at 42 percent—represent a state program area where a relatively high percentage of Californians would prefer reduced government spending (see Table 12).

TABLE 12: “Do you think the state government should spend more money than it does now, the same amount as now, or less money than now on ...?”

	All Adults			
	More money	Same amount	Less money	None / Don't know
K-12 public schools	65%	28%	5%	2%
Public health and human services	52	32	12	4
Public colleges and universities	37	45	15	3
Environmental protection	32	42	23	3
Roads and other infrastructure projects	27	49	21	3
Corrections, including prisons	13	39	42	6

How do Californians feel about some of the measures that are proposed to close the state’s budget gap? Seventy-four percent favor the governor’s proposal to increase the per-pack excise tax on cigarettes from 87 cents to \$1.97. About half favor the proposals to extend the state sales tax to all sales over the Internet (56%) and to raise state income tax rates for the top 2 to 3 percent of wage earners (52%). Fewer than half favor the proposals to raise the state’s sales tax from 6 to 7 percent (44%), to restore the vehicle license fee (VLF) to its pre-1999 level (39%), and to extend the state sales tax to services that are not currently covered (37%). Another option on the table is to raise student fees at public colleges and universities. Overall, only 22 percent of Californians favor raising student fees at public colleges and universities. In addition to measures for increasing revenue, there is a proposal to cap the amount by which state spending can grow annually. A majority of Californians (52%) favor such an amendment (see Table 13). However, support varies along party lines: Republicans (63%) and conservatives (55%) are much more likely than Democrats (48%) and liberals (42%) to favor this amendment. White Californians (56%) are more likely than the state’s Latino residents (44%) to support such an amendment.

TABLE 13: “Would you favor or oppose an amendment to the state constitution that limited the amount of money that state spending could increase each year?”

	All Adults	Party Registration			Likely Voters
		Dem	Rep	Ind	
Favor	52%	48%	63%	55%	56%
Oppose	40	44	32	40	38
Don't know	8	8	5	5	6

In closing, our latest PPIC Statewide Survey finds that six in 10 residents say the state is headed in the wrong direction, seven in 10 expect bad economic times over the next year, and six in 10 believe that their region is currently in a recession. These are dismal numbers for consumer confidence by historical standards, and certain to have both political and economic consequences. We find that Californians are focused on the troubling events of current times—the economic slowdown, the state’s budget deficit, and the possibilities of war abroad and terrorism at home. It is not surprising, in the current economic context, that the state and federal governments are receiving low ratings in confidence, that state and federal elected officials have low approval ratings, and that both state and federal government plans to deal with budget, tax, spending, and economic issues are met with little public enthusiasm. I have not seen Californians in such a sour mood in my public opinion surveys since 1994 – toward the end of last recession, when unemployment was stubbornly high, and when home prices were declining because many people had lost hope in the California Dream and were leaving the state. However, I do want to point to the fact that there are important differences between now and 1994. The current economic slowdown is not nearly as steep as the one the state experienced a decade ago – unemployment rates are not as high, and housing prices have remained remarkably resilient – so there is a chance that the current mood of Californians may not remain bleak for as long a period. If the economy picks up later in the year – and much depends on whether we go to war with Iraq and for how long and with what outcome – I think that this pessimism could fade very fast.

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AGENDA

MARCH 11, 2003
9:30 – 11:30 A.M.
STATE CAPITOL, ROOM 447
SACRAMENTO, CALIFORNIA

Opening Remarks:

The Honorable Mark Ridley-Thomas, Chair

Committee Members

The State of the California Economy:

Overview

Elizabeth Hill, Legislative Analyst

Economic Forecast

Howard Roth, Principal Economist
Department of Finance

Consumer Confidence/ Public Perceptions

Mark Baldassare, Director of Research and Senior Fellow
Public Policy Institute of California

Industry Perspectives:

California Chamber of Commerce

Richard Costigan III, Vice President, Government Relations

California Manufacturers & Technology Association

Matt Sutton, Legislative Director, Tax and Corporate Liability

California Manufacturing Technology Center

Michael Y. Corbett, Legislative Advocate

California Farm Bureau

George J. Gomes, Administrator

National Association of Women Business Owners, Los Angeles
Helen Han, Executive Director

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Steve Hammond, President and CEO
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Labor Perspectives:

California Works Foundation
Sally Covington, Director

California State Council of Service Employees
Allen Davenport, Director, Government Relations

American Federation of State, County and Municipal Employees, AFL-CIO
Willie L. Pelote, Legislative Advocate

The State of Regional Economies:

Los Angeles Area
Jack Kyser, Senior Vice President, Chief Economist
LA Economic Development Corporation

Bay Area
R. Sean Randolph, President
Bay Area Economic Forum

San Diego/Border Area
Marney Cox, Chief Economist
San Diego Association of Governments

Closing Remarks:

The Honorable Mark Ridley-Thomas, Chair

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