

# Conclusion

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than its deficits.

Public discourse around California's future focuses increasingly on what's wrong with the state, particularly its finances—titanic deficits, plummeting revenues, costly entitlements, and drastic cuts. The budgetary situation is grave, and clear-eyed realism is called for, to be sure; however, doomsday scenarios are not a useful starting point for rallying Californians around a new vision for the Golden State.

Yes, California—like many other states—has serious financial woes, caused in no small measure by a revenue free-fall fueled by tax cuts and a national downturn that hit the state particularly hard. California was already facing severe budget shortfalls on the eve of the recession in late 2007. The stage was set by Proposition 13, a 1978 amendment to California's constitution that dramatically limited property taxes, previously the state's largest and most stable revenue source. Decades of tax cuts then placed the state in an increasingly precarious budgetary situation—California had some \$13 billion less in annual revenue in recent years than it would have had were those taxes still in place.<sup>1</sup> Then the Great Recession arrived, pushing the state into the financial abyss. California's 2010–2011 revenues, dependent largely on the volatile personal income tax, fell more than \$40 billion short of the nonpartisan Legislative Analyst's 2007 forecast.<sup>2</sup>

But California is far more than its deficits. It has tremendous assets: a richly diverse population uniquely well-suited to capitalize on globalization; a history of educational excellence that has fueled innovation in the past and offers valuable lessons for the future; thriving entertainment, high-tech, and tourism sectors; some of the planet's most productive agricultural lands; abundant natural resources; tremendous personal and corporate wealth; and the future orientation, openness to new ideas, and spirit of innovation for which California is famous. Were California a country, it would have the world's eighth-largest economy, sandwiched between the United Kingdom and France,<sup>3</sup> two countries whose people enjoy some of the highest levels of well-being in the world. As a state, it ranks eighth in terms of state GDP per capita. In short, California has the ingredients necessary for a thriving—not a failed—state.

The recommendations that follow highlight areas for actions with **the greatest potential for increasing scores on the American Human Development Index for all Californians and narrowing the well-being and opportunity gaps that sharply divide the state today.**

The recommendations relate to the key dimensions of the index—health, education, and standard of living. In addition, there are also three considerations that cut across these and other human development dimensions: fixing the broken governance system, addressing demographic change, and focusing on prevention. The state government is broke; now is not the moment to propose grand public investment plans. Some priority areas identified, however, such as reforming the governance system, wouldn't cost anything to tackle now. Other priorities, such as responding to and planning for demographic change, can be at least partially addressed by reallocating existing resources. As “Tale of Two” examples in this book show, for instance, the quality of public goods like parks, libraries, and schools varies widely, even when they are part of the same system and funded out of the same pot. And preventing costly problems from developing in the first place sometimes requires only a modest upfront investment in things like public health campaigns that encourage exercise or mentoring programs that link young men to positive role models—but they save the state far greater sums in the medium and long term in areas like diabetes treatment or incarceration.

Also, the state alone should not be expected to solve all of California's problems. The corporate sector in California has tremendous financial and human resources, as do wealthy individuals. Older Californians have far more resources at their command than younger Californians, on average. More broadly shared sacrifice is the only way California can climb out of today's financial ditch.

## Fix the broken governance system.

Political divides, the state legislature's unusual supermajority requirement, and the proliferation of referenda and direct ballot initiatives have curtailed policy-makers' room to maneuver and distorted the democratic process. Proposition 25, which changed the supermajority requirement for passing a budget to a simple majority, was a step in the right direction. But without an equivalent move on the revenue side of the equation—taxes still require the approval of two-thirds of the legislature—this reform falls one step short. The need for supermajority approval for tax policy and budgetary decisions has generated a crazy quilt of quick fixes, gimmicks, and stop-gap measures that have merely postponed California's fiscal woes. The 2011 redistricting exercise, in which the drawing of congressional and state legislative boundaries has been taken out of back rooms and into a transparent, participatory process, opens the possibility for new, more constructive political processes.

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Yet even with this promising progress, it is hard to see how a state so dominated by ballot-box governance can summon the political will and long-term perspective necessary to enact the structural changes the state needs. Good governance requires a grasp of the big picture and the ability to make trade-offs between valuable objectives in ways that maximize the public good. The situation in California brings to mind the Indian tale of the blind men and the elephant. The emperor asks several blind men to feel just one part of an elephant and say what it is. The man holding the animal's sinewy tail thinks the elephant is a rope; the man gripping its sturdy leg thinks the elephant is a pillar; the one holding its tusk thinks the elephant is a plowshare; and so on. Because each man feels only a small portion of the animal, none can discern the nature of the whole beast.

It is similarly difficult for voters to visualize the entirety of California's obligations and resources from contact with single-issue ballot propositions. When voters approve an initiative on funding for education, they are not at the same time required to grapple with where that funding will come from; when they eliminate a tax, they are not also required to identify another revenue stream, or a program to cut. A January 2011 Public Policy Institute of California survey found that "most Californians' views about the budget are not based on an understanding of where the money comes from and where it goes." Although 54 percent of adults surveyed said that they had some or a lot of knowledge about how the government raises and spends money, only 16 percent were able to correctly answer questions about state expenditures, and only 29 percent were able to identify personal income tax as the biggest source of California's revenue.<sup>4</sup>

Understanding the big picture well enough to make informed choices about trade-offs is the function of representative democracy. Voters have passed fifteen different referenda since 1978 that dictate spending requirements to legislators, and half the state's budget is now allocated by mandates; the budget thus has so little leeway as to be in a perpetual state of near-crisis.<sup>5</sup> Why, given its negative unintended consequences, does the referendum system as currently designed persist? In short, powerful groups benefit from it. Well-organized, well-funded groups can use ballot initiatives to define the debate, drown out opposing voices, and drive a narrow agenda forward. Developed to bring democracy to the people, the referendum system has in too many cases pushed it out of reach of ordinary citizens.

## Address demographic change.

California is changing fast. Population growth overall is slower than it was in the past, but the state's demographic makeup is in the midst of significant transformation in terms of race and ethnicity, geography, and age.

**Race and ethnicity:** Whites are California's largest racial or ethnic group today, making up 41 percent of the state's population. But by 2016, Latinos will replace whites as the state's most populous racial or ethnic group.<sup>6</sup> The growing share of Latinos in the population is particularly evident among children, signaling a long-term and lasting trend. Of California's 9.3 million children, 4.8 million are Latino, compared to 2.5 million who are white, close to 1 million who are Asian American, and a half million who are African American. By contrast, among adults 18 years and older, whites outnumber Latinos four to three.<sup>7</sup>

Asian Americans are the fastest-growing demographic group in California, increasing by 32 percent between 2000 and 2010. Today, Asian Americans and Asian immigrants makeup 13 percent of California's population.<sup>8</sup> Immigration from Asian countries is transforming the demographic profile in parts of the state. For example, Cupertino, 91 percent white in 1980, is 63 percent Asian or Asian American today.

What do these changes mean for the future? The picture is mixed.

The poor educational outcomes among Latinos today are driven largely by the low educational attainment levels among immigrants. In the next several decades, however, the growth of the Latino population will be fueled primarily not by immigrants but by their U.S.-born children. Like immigrant groups before them, the second generation tends to have higher levels of educational attainment than their parents.<sup>9</sup> In California today, 80 percent of U.S.-born Latinos have completed high school, nearly double the rate of foreign-born Latinos, only 43 percent of whom are high school graduates. In twenty years, the majority of working-age Latino adults in California will either be long-settled in the United States or U.S. born, and their levels of education will be much higher—particularly if priority is given to improving the quality of the K-12 schooling available to Latino children today.<sup>10</sup> However, currently Latino children disproportionately attend large, segregated, overcrowded, and underresourced schools and live in neighborhoods where access to formal knowledge and social capital is limited. Today's Latino children will be the majority of tomorrow's adults, so their start in life affects not just their freedoms to pursue the goals that matter to them but also the well-being and economic position of the state as a whole.

The growing share of the Latino population that is second- and third-generation—good news though it is for educational attainment levels in California—is a cause for concern from the perspective of health. As discussed in the health chapter, the Latino health advantage for foreign-born Latinos

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diminishes among long-settled and U.S.-born Latinos. Better understanding the factors that support healthy outcomes among newly arrived Latinos and finding ways to replicate them among U.S.-born Latinos as well as other Californians is an important health priority for the state.

That the fastest-growing ethnic group is also the best educated—Asian Americans—will help California’s economy in the coming decades. Fifty-five percent of native-born Asian Americans have completed college, as have 46 percent of Asian immigrants to the state. Nonetheless, even growing numbers of Asian Americans will not entirely meet the state’s future needs for college graduates. As paradoxical as it may sound in this moment of record-breaking unemployment, the state will soon face a shortage of skilled workers. The Public Policy Institute of California estimates that as soon as 2025, fulfilling labor market demand will require that more than four in ten workers have completed college—and if current trends continue, the state will fall short.<sup>11</sup> More must be done to increase educational attainment among other groups in the state if California is to remain economically competitive.

**Geography:** The geographic location of the population is changing as well. The bulk of the population is still found along the coast, but the population of inland California, especially the Inland Empire, the San Joaquin Valley, and the Sacramento region, grew at a much faster clip than elsewhere in the state between 2000 and 2010; in Riverside, the population grew by 41 percent in this period. High housing costs and a growing population fuel the transformation of large swaths of once-rural inland California into an exurban landscape. This shift has implications for delivering health and education services as well as for infrastructure planning to support robust economies in these areas, where earnings today are typically below the state average.

**Age:** The age profile of the state is also in the midst of a shift, in particular in terms of the share of the population that is of working age. Today 11 percent of the population is 65 years of age and older. In just fourteen years, 16 percent of the population—nearly one in six Californians—will be 65 or older. An aging population means greater health-care costs—expenditures for those over 50 are five times greater, on average, than those for children—on top of increasing pension obligations.<sup>12</sup>

Today the state spends disproportionately on meeting the needs of the old as compared to the needs of the young, and in a business-as-usual scenario, this reality will become more pronounced. Maintaining universal benefits even for affluent older Californians while cutting health and education programs for poor children raises a host of ethical questions. But the economics are problematic as well. Health and education investments made in the early years pay dividends to individuals and society as a whole for seven or eight decades, on average, whereas

investments made toward life's end bring fewer benefits. At the same time, older Californians are shielded from making greater contributions to the revenue side of the equation. Proposition 13 most benefits those who owned their homes when the proposition passed in 1978; even the youngest of such homeowners now are in their mid-fifties.

Redressing the skewed allocation of public resources will not be easy; children don't vote, and the future has no lobby in Sacramento. But doing so is urgent. Today's children are the adults of tomorrow—future doctors, teachers, entrepreneurs, police officers, and workers of all stripes whose tax dollars will support the elderly and upon whom the social and economic life of the state will depend. These future adults, including those who do not go to college, will need viable career paths; thus educational and economic investments in revitalizing manufacturing in the state, creating more jobs for workers without higher education, and investing in vocational education and vocational tracks in community colleges are all critical.

## Prioritize prevention.

If today's Californians are to leave their children a thriving state, they must give far greater priority to prevention. Stopping problems before they start is, in almost every instance, less expensive and more effective than delaying action until a crisis is full-blown. Three examples are especially relevant to California: diabetes and obesity, incarceration, and chronic homelessness.

**Diabetes and obesity:** California's growing obesity rate is the harbinger of a skyrocketing diabetes epidemic that will cost the state dearly. Already in 2010, diabetes contributed to the deaths of 35,500 Californians.<sup>13</sup> And a recent study forecasts that by 2025, 6.5 million Californians—nearly 15 percent of the population—will have diabetes, a staggering increase of 70 percent from 2010.<sup>14</sup> The direct medical costs of diabetes, combined with its indirect social and economic costs, will amount to more than \$45 billion in 2015, and nearly \$63 billion annually by 2025.

Yet this devastating and costly disease is largely preventable with appropriate diet and adequate exercise; even those with pre-diabetes can forestall diabetes or delay its onset. Excess weight is the leading cause of diabetes. If just half of all Californians with pre-diabetes got regular exercise and lost weight, 587,000 fewer people would have diabetes by 2025—saving billions of dollars as well as the eyesight, kidneys, legs, and lives of tens of thousands of people. Unfortunately, most people with pre-diabetes are unaware of their increased risk for developing the disease.

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Tackling the twin causes of diabetes—the inadequate physical activity and poor diet that lead to obesity—requires improving conditions of people’s daily lives so that everyone can make healthy choices. This means living in safe neighborhoods where children can play outside and adults can exercise; having access to nutritious food; having time for and knowledge about healthy cooking; eliminating high levels of toxic stress that fuel health risk behaviors; and home, neighborhood, work, and school environments that do not encourage overconsumption of sweet, salty, and fatty processed foods. More effective use of economic instruments, such as subsidies for fresh vegetables and taxes for sugary drinks, would go a long way in helping millions of Californians meet their perennial New Year’s resolutions, while in some cases even bringing in much-needed revenue. Changes to the physical environment that make healthy choices not just possible but probable, such as well-lit sidewalks and safe parks, offer great promise. Targeted, preemptive investments in healthy environments have enormous potential for trimming the astronomical health bills for diabetes treatment that will soon come due.

California’s prison crisis is a crisis on many levels.

**Incarceration:** California’s prison crisis is a crisis on many levels—a crisis of governance that led the prison population to increase three times faster than the general adult population from 1990 to 2005;<sup>15</sup> a crisis in the system’s rehabilitation mission that has led to the nation’s highest recidivism rate, about 70 percent; a crisis in social justice that allows a grossly disproportionate rate of imprisonment for men of color; and a humanitarian crisis that required the federal government to take over management of the prison health-care system. All of these crises are profound failures of prevention. An important avenue for effective prevention is evident in the powerful link between education and incarceration. Forty-four percent of California’s prisoners never completed high school or earned a GED. This pattern holds across the country; the majority of those behind bars have extremely low levels of educational attainment.

The cost of failing to provide low-income boys and young men, especially those of color, with a good education and a toehold in the labor market is paid in large part with funds from the California prison budget. Keeping a prisoner behind bars for one year costs about \$47,000. What if instead the state were to invest that sum in the education of an at-risk child—in a quality preschool education, summer enrichment, after-school programs, mentoring, a specialized high school, a vocational program directly tied to a first job? The amount California spends per year per prisoner would easily cover two years’ room, board, and tuition at any campus of California State University. That sum would also cover four years’ tuition at many private California high schools. Moving the focus away from the cost of improving lives and future prospects toward the costs already paid in lives lost or wasted, in crime, imprisonment, and family and neighborhood dissolution, is a critical first step to addressing the state’s prison crisis.

**Chronic homelessness:** California has a larger population of the chronically homeless than any other state. The chronically homeless are among society's most vulnerable individuals, typically suffering from persistent and severe mental illness, addiction disorders, or other disabling health conditions that erect formidable barriers to social integration, stable employment, and independent living. Though they account for under one-fifth of the total homeless population, they use over three-fifths of the public resources dedicated to homelessness<sup>16</sup> as they cycle between life on the streets and stretches in various public institutions—emergency rooms, shelters, and prison. Yet a rich body of research demonstrates conclusively that providing supportive housing—stable, affordable housing units joined with on-site mental health and social integration services—to the chronically homeless costs the same or less than the revolving door of emergency response that results when their underlying conditions are untreated or poorly managed. The revolving-door approach costs about \$42,000 per year<sup>17</sup> and yields terrible outcomes for the chronically homeless, including worsening illnesses, greater obstacles to participation in society, and an increased risk of death; supportive housing, for the same price or less, yields a life of stability, safety, dignity, and hope. A recent study in Los Angeles found that the costs associated with providing supportive housing for those who had been chronically homeless, including housing construction costs, rent, and health services, were 44 percent lower than the costs associated with continued homelessness, chiefly due to health-related expenditures that were about eight times higher.<sup>18</sup>

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# Agenda for Action: The Five Californias

These twelve priority actions—discussed in detail in the **health**, **education**, and **income** chapters—are key to boosting index scores across the state. The matrix below shows how they apply to the Five Californias. The Forsaken Five Percent, where people’s real-world opportunities to fulfill their potential and live freely chosen lives of value are limited, requires urgent action in all twelve areas. Only one priority action applies to Silicon Valley Shangri-La, where well-being levels are already extraordinarily high.

THE FIVE CALIFORNIAS	12 PRIORITY ACTIONS												
	1	2	3	4	5	6	7	8	9	10	11	12	
Silicon Valley Shangri-La													●
Metro-Coastal Enclave California										●		●	●
Main Street California								●	●	●	●	●	●
Struggling California				●	●	●	●	●	●	●	●	●	●
The Forsaken Five Percent	●	●	●	●	●	●	●	●	●	●	●	●	●

## 12 Priority Actions:

### 1 MAKE EDUCATIONAL EQUITY A REALITY

The Forsaken Five Percent is predominantly Latino and African American. Latino and African American children are far more likely than white or Asian American children to attend failing, overcrowded, and segregated schools; to have unqualified teachers; and to lack access to courses required for college.

### 2 IMPROVE THE CONDITIONS OF DAILY LIFE

A baby born today in The Forsaken Five Percent can expect to live nine fewer years than one born today in Silicon Valley Shangri-La. Chronic stress, residential segregation, high crime rates, limited access to healthy food and places to exercise, and other features of concentrated poverty contribute to premature death.

### 3 ADDRESS THE AFRICAN AMERICAN HEALTH CRISIS

African Americans in California today have life spans typical of the U.S. thirty-five years ago. Reducing premature death requires urgent attention to four conditions—hypertension, HIV, diabetes, and homicide—from which African Americans die at a higher rate than whites.

### 4 REDUCE RESIDENTIAL SEGREGATION

Los Angeles is the third-most-segregated city for Latinos, the eleventh for African Americans. Segregated neighborhoods too often mean segregated schools, poor access to mainstream social networks, concentrated poverty, and limited access to public goods like parks, libraries, and transport.

### 5 FACILITATE HEALTHY BEHAVIORS

People in Struggling California live seven fewer years, on average, than people in Silicon Valley Shangri-La. Public health campaigns that tackle physical inactivity, junk foods, and smoking, as well as school- and work-based exercise and nutrition programs, can help people make healthy choices.

### 6 SUPPORT HIGH-QUALITY PRESCHOOL EDUCATION

Only 42 percent of 3- and 4-year-olds attend preschool in Struggling California, compared to nearly 70 percent in Silicon Valley Shangri-La. A high-quality preschool is the most cost-effective educational intervention, yielding up to \$17 worth of benefits for every \$1 invested.

### 7 TARGET HIGH-DROPOUT HIGH SCHOOLS

Struggling California is home to many of the state's struggling schools. Preventing dropouts requires more adults to provide guidance and academic help and effective, experienced teachers in every school, with a focus on those 100 high schools that account for nearly half of the state's dropouts.

### 8 FOSTER JOB CREATION

Unemployment stands at 10.6 percent in Main Street California. Two proven ways to create jobs are hiring credits and worker subsidies, such as the state Earned Income Tax Credit, now available in twenty-four U.S. states. These policies create jobs and improve a state's long-term fiscal health.

### 9 LEARN FROM LATINO HEALTH ADVANTAGES

Latinos outlive whites by four years, and foreign-born Latinos outlive native-born Latinos by about two and a half years. Understanding the "Latino Paradox" can inform efforts to improve the health of all Californians as well as help the second generation retain their parents' good health practices.

### 10 INCREASE EDUCATIONAL ATTAINMENT

Half the adults in Metro-Coastal Enclave California have a bachelor's degree, compared to 70 percent of adults in Silicon Valley Shangri-La. The financial returns to higher education have never been greater, and college graduates are crucial for California's long-term competitiveness and prosperity.

### 11 STABILIZE HOUSING COSTS

More than one in five renting households in Metro-Coastal Enclave California spend half or more of their income on rent. Rates of homeownership lag behind the national average. Priorities include economic incentives for new multifamily rental housing and targeted assistance in areas with high foreclosure rates.

### 12 REDUCE THE GENDER GAP IN EARNINGS

Women in Silicon Valley Shangri-La earn 49 cents for every \$1 men earn. Family-friendly workplaces contribute to greater worker productivity and satisfaction, less turnover, and improved child health. Tackling wage discrimination and supporting girls to pursue careers in science, technology, engineering, and math are high priorities.