

# “THEY WANT TO DESTROY ME”: HOW CALIFORNIA’S FISCAL CRISIS BECAME A WAR ON “BIG GOVERNMENT UNIONS”

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*In 2003, California voters recalled their governor and elected movie actor Arnold Schwarzenegger in his place. Two crises triggered this event: large ongoing state budget deficits and a failed electricity deregulation plan. In his first year, Governor Schwarzenegger dealt with the budget through large-scale borrowing and had a reasonably cooperative relationship with the legislature. But in 2005, with the budget still in deficit, he threatened to go to the voters with a budget solution. That decision somehow morphed into a gubernatorial campaign against “big government unions.” Ultimately, after vast sums were spent on a November 2005 special election, all the governor’s initiatives lost, including one offering “paycheck protection” to public union members. The decision to antagonize unions seemed to result from excess delegation of authority by the governor to outsiders and lack of control of his own staff.*

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California, with a population of 37 million, is by far the largest state in the nation.<sup>1</sup> It is also a place where trends have often been set in fashion, entertainment, and politics. For that reason, folks who want to create a national buzz around some issue look to California as a place to begin, or accelerate, the process.

Soon after the business cycle peaked in 2001, California developed a fiscal crisis that produced stalemate and political intrigue. With regard to its budgetary dilemma, California was not a trendsetter. Many states had similar problems when their economies—and related tax revenues—turned down. But others managed to resolve their difficulties and move forward. In California, chronic budget deficits—and an electricity crisis sparked by a flawed deregulation plan—led to a recall of the incumbent Democratic governor and his replacement by movie star and body builder Arnold Schwarzenegger, a Republican.

After a year of more-or-less cooperative relations with the Democrat-controlled legislature, the new governor changed tack and decided to resolve the ongoing budgetary problem through the ballot box. Somehow, a campaign triggered by the budget crisis turned into a November 2005 referendum about “big government unions.” Towards the finish of the campaign, referring to unions, Governor Schwarzenegger complained “They want to destroy me.”<sup>2</sup>

Ironically, that was the mirror image of the perception unions had of him; from their perspective, he wanted to destroy them. And they largely financed and conducted the campaign to defeat his ballot initiatives.

In the end, all four of Governor Schwarzenegger's proposed initiatives went down in defeat, along with every other proposition on the ballot. The story of the November 2005 special election in California provides lessons in political leadership and the changing role of unions.

### **Direct Democracy**

California's system of direct democracy provides an avenue for those wishing to pursue a state or national agenda. In the early twentieth century, Governor Hiram Johnson was elected on a progressive reform platform, bringing with him the initiative, referendum, recall, women's suffrage, and workers' compensation. The impetus behind this movement was the perceived domination of the state legislature by a special interest of that era, the Southern Pacific Railroad. Although historians now take a more nuanced view of those events, direct democracy was thereafter a major route for a wide array of causes—particularly those unlikely to pass the legislature—to be placed before the public (Orsi 2005; Starr 1985, 199–282).

In fact, it only costs \$200 to begin the initiative process in California. Proponents can simply submit proposed wording and set in motion a review by the state's Attorney General and the Legislative Analyst's Office. After that review, a ballot title, summary, and estimate of fiscal impact is provided and the initiative may be circulated for signatures. At present, an initiative requires about 400,000 valid signatures for a piece of legislation and 600,000 for a constitutional amendment. Once signatures are verified by the Secretary of State, the initiative goes on the next election ballot.

At that point, however, there is a significant departure from the vision of citizens gathering together to legislate. In fact, it is necessary to gather substantially more signatures than the minimum, because some will turn out to be invalid. Given the volume of signatures entailed, professional signature-gathering firms are generally utilized to produce the requisite number. Signature gatherers are employed on a piece rate basis—a dollar or two per name—to sit in front of supermarkets and shopping malls with their petitions. Perhaps \$2 million is needed to obtain the signatures needed to place an initiative on the ballot within the allowable timeframe.

But \$2 million is in fact merely a down payment on the funding actually needed to pass an initiative if it is at all controversial. Although the use of the Internet for political purposes is growing in importance, television advertising is a key means of generating support for, or opposition to, a ballot initiative. Radio advertising is also used along with telephone banks. A campaign—pro or con—can easily run into the tens of millions of dollars. In short, much has changed since Hiram Johnson's days when telephones were a luxury and there was no commercial broadcasting.

Although those groups with causes to push can choose between a legislative initiative and a constitutional amendment, the latter has the advantage of not being susceptible to subsequent tinkering by the legislature. Oddly, constitutional amendments only require majority votes, the same as direct legislation. If you are going to spend tens of millions on behalf of some ballot proposition, why not go the constitutional amendment route? Not surprisingly, all of Governor Schwarzenegger's endorsed initiatives in November 2005 were constitutional amendments.

### **California's Budget Problem**

California's fiscal problems tend to reflect the national business cycle. There has been a budget crisis in the early 1980s, early 1990s, and early 2000s. The crisis of the early 1980s reflected the depth of the two back-to-back recessions of that era. In addition, local governments in California had become dependent on a state bailout for reasons noted below and the state-local fiscal system was made more volatile by a voter-approved cut in property taxes.

Although the national recessions of the early 1990s and early 2000s were comparatively mild, special factors in California aggravated their economic impacts. The end of the Cold War and the resultant decline in the state's aerospace industry was a primary factor in the early 1990s. The impact of layoffs and falling production in aerospace mainly affected Southern California and the Los Angeles area. In the early 2000s, the dotcom bust had its impact primarily in the San Francisco Bay area and the Silicon Valley.

Figure 1 shows the history of the California General Fund budget. The rapid growth in expenditures in the late 1990s was fueled by capital gains tax revenues that flowed in from stock options and other stock market related transactions. Note, however, that at the peak of the cycle, there was a small deficit. The legislature seemed to project an ever-rising stock market. When the market declined instead, reserves were quickly exhausted and a chronic budgetary stalemate developed.

There are two background factors that contributed to the stalemate: supermajority requirements and budgeting by initiative. A budget in California can only be passed by a two-thirds vote in both houses of the legislature. Tax increases also require a two-thirds vote. Democrats have a majority in both houses, but they do not have enough votes to pass a budget without some Republican votes. Although in the past Democrats were able to buy off a few needed Republican votes—essentially with “pork” for local districts—there is now greater solidarity in the Republican ranks. Such buyoffs have become almost impossible.

Second, in 1978, a sharp run-up of property values sent local property tax bills soaring. When the legislature did not act, voters approved Proposition 13 which sharply cut property taxes, limited the ability of state and local governments to raise other taxes, and effectively made local governments—especially school districts—more dependent on the state government for funding. Prop

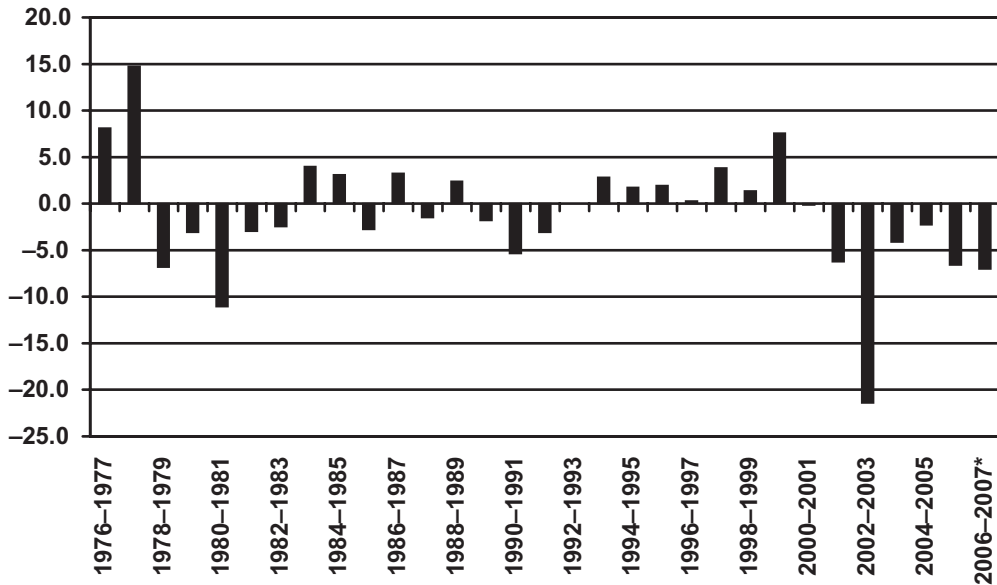


Figure 1. Surplus or Deficit in General Fund as Percent of Revenues and Transfers.

\*Workload budget estimated by Legislative Analyst.

Source: California Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov). Workload projections shown for 2006-2007 are those available at the time of the November 2005 special election.

Note: Adjusted for electricity crisis spending in early 2000s.

13 led to a substantial increase in the frequency of use of ballot initiatives. It was followed by Prop 4 which put a cap on state spending. Prop 4 was subsequently largely gutted by Prop 98 which earmarked a large share of the General Fund for K-14 (schools and community colleges).

Other budget-constraining initiatives followed. For example, in 2002, Arnold Schwarzenegger—then considering an eventual run for governor—placed an initiative on the ballot—Prop 49—earmarking a portion of the General Fund for after-school activities. His initiative passed. The practice of budgeting by ballot-box formula in combination with other entitlements means that a large fraction of the budget is not amenable to discretionary adjustment by the legislature.

### The 2003 Recall

Governor Gray Davis was first elected in 1998, a time of rising dotcom-based prosperity California. By the time he ran for reelection in 2002, the budget crisis had taken hold. Apart from large deficits, the difficulty in obtaining a two-thirds vote meant that each summer the state would begin its July 1 fiscal year without a budget in place. When no budget is in place, some state expenditures cannot be legally made and suppliers cannot be paid, adding to the crisis atmosphere.

By the 2003–2004 fiscal year, the state faced a bleak cash crisis. It had borrowed short term from Wall Street and its credit ratings were nearing junk-bond status. Borrowing would be needed to roll the short-term debt into a longer-term obligation as well as to deal with future deficits. In addition, an electricity deregulation plan passed in a bipartisan deal under Davis' predecessor had gone awry. When combined with electricity market manipulation by Enron and other suppliers, the result had been rolling blackouts in 2001–2002, the bankruptcy of one of the state's three major utilities, the near bankruptcy of another, and a substantial hike in electricity bills.

Voter anger might have ended the reelection bid of Governor Davis except for the weakness of his Republican opposition candidate, William Simon. Davis had intervened through TV ads in the Republican primary to undermine the candidacy of former Los Angeles Mayor Richard Riordan, who might well have been a stronger opponent. That cross-party intervention angered Republicans, particularly moderates who would have supported Riordan.

The upshot was a recall petition that began to circulate shortly after Davis began his second term (Starr 2004, 588–603). By itself, the mere filing of such a petition against a governor was not unusual in California history, but no such petition had gotten anywhere in the past. This time, however, the petition received financial backing from a wealthy Republican Congressman, Darrell Issa, who hoped to become a recall candidate against Davis. Issa's candidacy soon imploded. But in funding a successful recall petition, he had opened the door for Arnold Schwarzenegger, who announced his decision to run on Jay Leno's *Tonight Show*.

Under the odd rules of the recall—which had never been tested before at the gubernatorial level—voters were asked “yes” or “no” on Davis' recall and then, whether or not they voted “yes,” to select from well over 100 candidates other than Davis who had qualified for the ballot. Although only a handful were serious choices, it would have been technically possible for Davis to have been recalled but to have received more “no” votes than the winner who replaced him.

As it turned out, that did not happen. Schwarzenegger received 49% of the candidate votes while the “no” votes on recalling Davis came to 45%. Still, that result meant that there were many voters who felt that a recall was not a good idea. Schwarzenegger portrayed himself as an optimistic centrist who would get things done on a bipartisan basis in Sacramento without raising taxes or harming schools. He would set in motion a review of the administrative efficiency of state government and not take money from “special interests.” If he departed from that stance in practice, however, he risked alienating the median California voter.

### **The First Year**

Schwarzenegger's administration took office in November 2003. At that point, he faced the same budget dilemma that had faced Davis. Davis had

proposed large-scale borrowing which had in fact been built into the budget for the fiscal year 2003–2004 (beginning July 1, 2003). However, the California constitution requires that long-term borrowing be approved by voters and that the borrowing be for some particular purpose, for example, a capital project, rather than for covering general operating expenditures.

Davis' plan sought to circumvent these requirements through a complex process known as the "triple flip." (Don't ask!) But without a vote, his proposed bond was legally questionable and therefore probably not saleable. Schwarzenegger proposed a one-time larger bond issue to be approved by voters in conjunction with a constitutional amendment, thus dealing with the legal issues. In a deal with legislative leaders, the plan was put to voters in the form of two propositions—Props 57 and 58—in April 2004, and passed by a wide margin. The program was sold to voters as a one-time borrowing fix after which under the constraints of Prop 58 the state would "throw out the credit card."

In fact, the state did not throw out the credit card in April 2004; the subsequent 2004–2005 budget was also in deficit and—as in the Davis era—it was passed after the July 1 deadline. Nonetheless, the governor continually depicted the budget as "terrific" and "fantastic" and generally conveyed that the emergency was over. One of the elements of the 2004–2005 budget was a series of deals extending into the future made by the governor with various groups.

Ironically, as will be evident later, the first deal was with the California Teachers Association (CTA), an affiliate of the National Education Association. In essence, the governor's deal with the CTA involved a \$2 billion reduction in what Prop 98 would ordinarily require for schools in 2004–2005. Such cuts could be made under Prop 98 but had to be paid back subsequently. In addition, the CTA was promised that in the following year, that is, 2005–2006, there would be no cut from whatever Prop 98's formulas turned out to require.

Another group cutting a deal with the governor was local governments—who gave up some funding in exchange for gubernatorial and legislative endorsement of a November 2004 ballot proposition that would constrain such take-aways from local government in the future. Other groups coming in for deals were Indian gambling interests and higher education. The net effect of this deal making was to smooth over problems in the 2004–2005 budget in exchange for less budgetary discretion to deal with the ongoing fiscal problem thereafter.

The 2004–2005 budget deal raised anxieties among fiscal conservatives. However, the governor was also able to deliver a reform of workers' compensation costs—always a matter of concern to the California business community. Basically, all constituencies had been mollified for 2004–2005. And the public was convinced that the emergency was over and the governor and legislature could henceforth be left to deal with fiscal affairs. But the stage had in fact been set for a new problem once the governor had to propose a budget for fiscal year 2005–2006 in January 2005.

## Unions in California

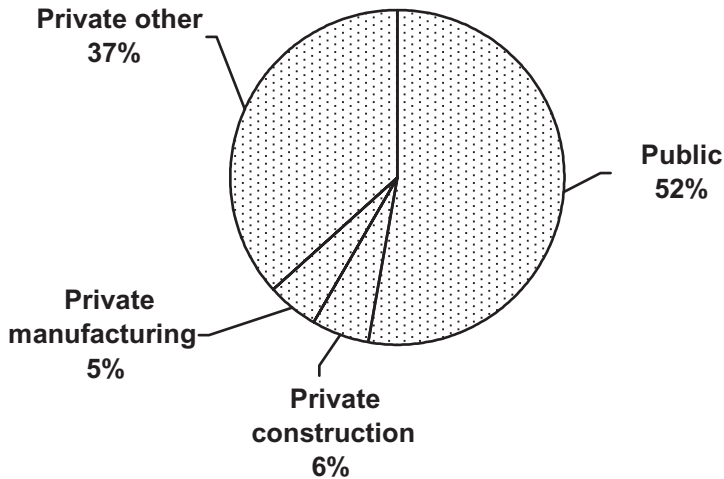
Because, as noted in the introduction, the budget problem morphed into a contest with state labor unions, it is important to review the union climate in California. California has tended to be a union-friendly state. The stereotype is that this friendliness is centered in the San Francisco Bay area, the home of the 1934 San Francisco general strike and post-World War II general strike in Oakland. In this view, Southern California is the union-unfriendly home of the “open shop.” While these stereotypes were largely true during the first half of the twentieth century, they really don’t apply today.

Substantial growth in manufacturing—particularly the military-based aerospace industry—brought significant unionization into Southern California. By the late 1950s, an attempt to pass a “right-to-work” proposition by gubernatorial candidate William Knowland backfired. He lost by a large margin to Democrat Pat Brown, the proposition was defeated (with a 60 percent “no” vote), and the Democrats took control of the state.

During the 1970s and 1980s, the state legislature passed various laws enabling public-sector collective bargaining. Unions expanded rapidly into that sector. Except for certain protective service workers, strikes among government workers are legal in California. Prior to 2005, the major attempt to limit union power in California came in the form of a “paycheck protection” proposition—Prop 226—on the June 1998 ballot. Under Prop 226, unions would have been required to obtain individual-member permission to use dues for political purposes. Although initial public opinion polls showed Prop 226 passing, a major campaign by unions defeated it with 53% voting “no.” The Prop 226 campaign success from the union viewpoint seemed to energize the political activities of organized labor thereafter.

Figure 2 shows the composition of union-represented workers in 2004. As in the rest of the country, private sector unionization as a proportion of the workforce has declined for decades. By 2004, about half of California workers represented by unions were in public employment. In public employment in California, the union representation rate was 57.5 percent compared with only 10.2 percent in private employment. Because the national averages for these ratios were 40.7 percent and 8.6 percent, respectively, it is evident that a major contrast between California and the rest of the U.S. with regard to unionization is in the public sector.<sup>3</sup>

Figure 3 illustrates the composition of union-represented workers under “major” contracts (those covering 1,000 or more workers) in the public sector. The Service Employees International Union (SEIU) is clearly a major force in the state. The SEIU also has significant private membership, in the health care and building services in particular. Indeed, the SEIU’s well-known “Justice for Janitors” campaign had its major breakthrough in the Los Angeles area with private building owners and property managers. Because the CTA has some joint membership with the American Federation of Teachers, it is difficult to separate their memberships but the CTA is significantly larger. Teachers would



**Figure 2.** California Workers Represented by Unions: 2004

*Source:* Current Population Survey data from [www.unionstats.com](http://www.unionstats.com), a database maintained by Barry T. Hirsch and David A. Macpherson.

also likely be a larger fraction of Figure 3's pie chart if contracts below 1,000 members were reflected.

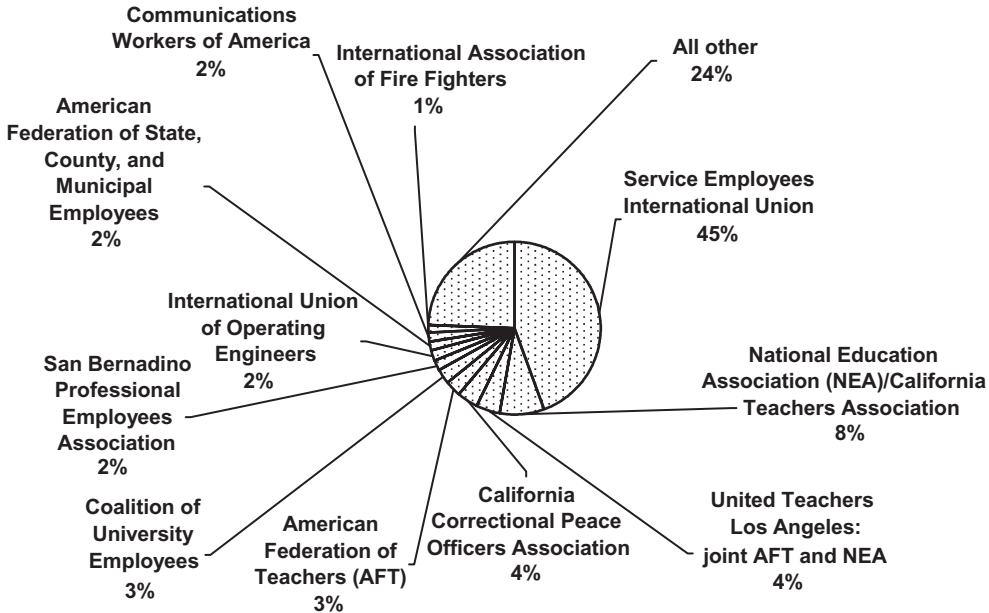
There is substantial diversity by level of government in unionization. Some union-represented workers are employed directly by state agencies including those at the University of California and California State University campuses. Others work in local school and community college districts, the sectors protected by Prop 98. And still others work for cities, counties, and other local districts such as transit agencies.

These workers and their unions do not necessarily have a unified agenda. Similarly, private unions and public unions are not necessarily always unified. But in the special elections of November 2005, the governor—inadvertently perhaps—succeeded in uniting them all in an opposition to his ballot initiatives.

### **The Special Election of November 2005**

Each January, the governor presents a "state of the state" message followed a few days later by a budget message. While in 2004, these messages were basically uplifting and bipartisan, the 2005 versions were more challenging to the legislative majority. The fact that the compromises reached to pass the 2004–2005 budget and Props 57 and 58 made future budgeting more difficult probably influenced the governor's new tone. Also, a possible influence was that Schwarzenegger's now-enacted borrowing plan had been compared to Gray Davis' unfavorably. One political cartoon showed the governor pulling off a muscle-bound Schwarzenegger suit and revealing Davis underneath. The implication was that in the final analysis, Schwarzenegger was simply a more entertaining version of Davis—his recalled predecessor—in fiscal matters.





**Figure 3.** Distribution of California Public Sector Workers by Major Union Contract Coverage.  
 Source: Major contract data available at U.S. Bureau of Labor Statistics website, <http://www.bls.gov>, spring 2005.

Essentially, the governor told the legislature in January 2005 to enact his new plans or he would go to the people with ballot initiatives. The details of what the governor actually wanted and would put on the ballot were not clear. But what was clear was that his budget proposal for 2005–2006 did not fulfill his promise to the CTA a year before, to leave the Prop 98 guarantee in place.

What seemed to be emerging was a political theory of the budget along the following lines. Democrats want to tax and spend. Republicans don't want to tax but will spend. Legislative districts set up after the 2000 Census were gerrymandered to give safe seats to incumbents. Unions give money to Democrats so maybe more moderate Republicans could be elected if that flow could be interrupted and districts could be redrawn to make them more competitive. And the teachers in particular support Prop 98's large school guarantees so the CTA needs to be weakened. Finally, if all of that doesn't work to balance the budget, the governor should have enhanced powers to cut spending.

### *The Budget: Prop 76*

The initial version of the governor's fiscal plan appeared to be an across-the-board cut mechanism whereby, if there were a budget imbalance, the governor would cut everything equally. Of course, some areas can't be cut, such as debt service, or if cut would lead to reductions in federal subsidies. So any such plan would have to spell out what would and would not be subject to cutting.

The governor initially defended the across-the-board idea. But eventually a more complicated budget initiative was written by the heads of the California Chamber of Commerce and the California Business Roundtable.

Ironically, in a former life, the Roundtable head—R. William Hauck—had cowritten a report critical of a similar ballot measure pushed by then-Governor Ronald Reagan in 1973 (which lost). And like Reagan's Prop 1, Prop 76 was complicated—a feature that helped sink the Reagan initiative. The 2005 version entailed diversions of revenue surges (such as those that occurred into the late 1990s) into reserves, a freeze of the existing budget in cases when a new one was not enacted by July 1, and powers of the governor in specified emergencies to cut the budget if the legislature couldn't do so by a designated deadline. Notably, the new initiative would override features of Prop 98's guarantees for schools.

An odd element of Prop 76 is that it did not seem to come from the governor's own finance director, Tom Campbell. Campbell was a former Stanford law professor, with a PhD in economics, a former congressman, and was on leave as dean of the University of California-Berkeley business school. He would seem to have had the technical and political skills to write a budget initiative, if one were needed. However, other than one rather modest TV ad appearance on its behalf, Campbell seemed to have little to do with the centerpiece initiative of the November 2005 special election.

Because of his broken deal with the CTA and Prop 76's override of Prop 98, it was inevitable that the governor would find the teachers in strong opposition. But what about other unions? Prop 76 arguably benefited cities and counties other than school and community college districts. It also had benefits for transportation (roads, transit districts) that would appeal to construction unions. For other state functions such as higher education, it was unclear what impact Prop 76 might have. In short, the governor might not have found unions in lockstep opposition had he focused only on the budget.

### *Redistricting: Prop 77*

There was plausibility to the notion that "neutral" legislative districts might have eased the governor's problem in dealing with the legislature had they been adopted after the 2000 Census. But it was unclear how redistricting could help him in the immediate future. Prop 77 involved delegating redistricting to a panel of retired judges. The speed with which such a mechanism could operate—particularly when the inevitable litigation challenges were considered—was questionable. And the closer the actual process came to the 2010 Census, the odder it would seem to be applying 2000 data.

Moreover, the proposed redistricting was to affect not just the legislature but the congressional delegation (which was largely opposed). By including the Congress, the governor managed to add to the opposition within his own party from Republicans with safe seats in the state legislature. At the same time, he raised the suspicion of Democrats that redistricting was part of a national

ploy to keep the U.S. House of Representatives in the hands of a Republican majority.

*Paycheck Protection Redux: Prop 75*

Lewis K. Uhler, a former official during the governorship of Ronald Reagan, sponsored Prop 75, a version of the 1998 paycheck protection initiative that had failed at the ballot box but had then energized organized labor. He had also been a major figure in Reagan's failed Prop 1 budget initiative—and was widely blamed for its defects and the problems in its campaign. One Reagan biographer referred to Uhler in that episode as an “unmanned missile” (Boyarisky 1981, 162; Cannon 2003, 368–69).

The 2005 edition of the paycheck protection initiative was aimed only at public sector unions whereas the 1998 version included all unions. However, there was some ambiguity in the language that might have led the provision to apply to all unions that had some public members—at least so some in the union movement thought. Note that several unions shown in Figure 3 have both public and private membership.<sup>4</sup> Thus, Prop 75 was taken as a declaration of war by all unions, private and public, state and local. It could not have been more effective in creating a unified opposition to all of the Schwarzenegger initiatives.

While unions would generally not be supporters of a Republican governor, they would not necessarily assume that war would be declared if the governor had limited his agenda to a budget initiative. Because the budget initiative tended to favor local governments (except schools) and transportation, it might have had some appeal to unions in local governments, transit districts, and construction.

Indeed, early in his governorship, Schwarzenegger seemed to signal an interest in cooperation with unions. He appointed Pat Henning—son of a former head of the California Federation of Labor—as his director of the Employment Development Department, for example. There seemed to be some awareness by the governor of the explosive potential of Prop 75; he initially did not make it part of his endorsements. But eventually, Uhler's proposition became part of the official package.

In many respects, the union movement was disunited prior to the November 2005 election. The Change-to-Win coalition had split off from the American Federation of Labor–Congress of Industrial Organizations at the national level with uncertain effects within California. Change-to-Win's most prominent member union was the SEIU which, as noted, is a major element in California's public (and private) sector. Moreover, local unions can let local affairs interfere with larger objectives.

The biggest local within the California State Employees Association (CSEA) is associated with the SEIU and is in ongoing conflict with its CSEA parent. The American Federation of State, County and Municipal Employees had a major jurisdictional fight going over representation of home-care aides

with the SEIU in San Diego. At the time the campaign against Prop 75 and the other Schwarzenegger initiatives was heating up, there was a threatened school strike in San Francisco, a threatened transit strike in the entire Bay Area (and in Long Beach), and a threatened nurses strike at University of California hospitals. In the end, none of these strikes occurred. But even the strike threat could have affronted otherwise sympathetic voters.

And not all public-sector strikes were avoided. A one-day grievance strike on San Francisco's cable cars in March 2005 in which passengers were ordered out wherever they happened to be hardly elicited public sympathy. Moreover, until fairly close to the election, there was concern within organized labor that while TV advertising was going well, the traditional grassroots-get-out-the-vote effort was not being well coordinated. Yet despite these limitations on union unity and self-restraint, Prop 75 was enough of a threat that a sufficiently effective union campaign against the initiatives could be mounted.

One argument raised against paycheck protection was that it was asymmetrical. If union members had to opt into political campaigns before their dues were spent for such purposes, why shouldn't the same apply to corporate shareholders? Why not have a shareholder protection initiative requiring individual stock owners to give permission before corporate revenues could be used for politics? Indeed, unions began circulating such an initiative, presumably as a threat to the business community. If paycheck protection passed in November 2005, shareholder protection might be put on the ballot and pass at the next election in June 2006. At one point, the governor—when asked about the asymmetry—suggested that he might also endorse shareholder protection. Business representatives quickly expressed disquiet, but it seemed unlikely that any such endorsement was likely to occur in practice.

#### *Teacher "Tenure": Prop 74*

Prop 74 was really a substitute for another idea. Originally, the governor wanted to mandate "merit pay" for teachers via constitutional amendment. Eventually, it dawned on someone that there is no effective way of writing such a principle into a constitution. Merit is too general a principle to mandate. And becoming more specific would lock a particular micropersonnel policy into the state constitution. Furthermore, the CTA argued that the actual language that was proposed would have inadvertently overridden existing bans on hiring sex offenders and other felons.

Since the governor had suggested that there would be something on the ballot relating to teacher performance, a substitute was drafted. Teachers acquire "regular status" after a probation period. Regular status is not really "tenure" in the university sense, since teachers are subject to layoffs if there are budget exigencies. But they become more difficult to fire for poor performance with regular status. Prop 74 therefore proposed raising the service period before regular status can be attained from two to five years.

It is doubtful that the CTA would have been keen on Prop 74, regardless of other events. But the fact that it came along when the CTA along with other unions was confronted with Prop 75 was a goad. Moreover, the fact that the governor had broken a promise to the CTA on Prop 98 meant to the union that the governor was especially gunning for it. From the CTA's perspective, it had helped the governor shortly after his inauguration by making a concession on Prop 98 for 2004–2005, a kind of goodwill gesture. And in 2002, it had worked with then private citizen Schwarzenegger in his campaign for earmarking General Fund monies for after-school programs under Prop 49.

In any event, breaking a promise in politics is extremely risky. Political understandings can't be legally enforced—but a reputation for breaking them means future deal making is undermined. What is true in politics is also true in the world of collective bargaining. Not everything can be written into a contract. Keeping one's word and maintaining trust in a relationship is very important in the “repeated game” of labor negotiations.

### *Other Ballot Items*

Because of the rules of California elections, once a proposition has enough signatures to qualify, it goes on the next available ballot. There would not have been a statewide election in November 2005 if the governor had not called one. But once he did, every proposition that was ready to go, went. Thus, Prop 73, a proposition supported by national right-to-life groups, was included. A major figure in the campaign for Prop 73 was Gary Marx, a veteran of the Bush-Cheney 2004 campaign and the Family Foundation of Virginia.

Prop 73 required a notification of parents before a teen could have an abortion. In principle, the governor was on record as “pro-choice.” And for much of the campaign he avoided discussing Prop 73. Nonetheless, there was a feeling among some of his staff that Prop 73 would bring out conservatives who would also vote for the Schwarzenegger initiatives. (It is not clear why the staff thought it might not equally bring out those who were strongly on the pro-choice side.) Toward the end of the campaign, the governor—apparently assuming his four initiatives would be aided by expressing support for Prop 73—stated he would want to “kill” anyone who took his daughter for an abortion without his knowledge.

Unions put two unrelated items of the ballot, possibly as bargaining chips, hoping to discourage the governor from going the special election route. One was an electricity reregulation plan—something opposed by the governor that became Prop 80. The other was a mandated drug discount plan that pharmaceutical companies would oppose—Prop 79. Pharmaceutical firms did oppose Prop 79; they put on the ballot a competing voluntary discount plan as Prop 78 and spent large sums supporting it. In the end, all of these propositions went down in defeat, along with the governor's initiatives.

*Missing from the Ballot*

Four items were, in effect, missing from the ballot. One was the governor's above-mentioned requirement that teachers be paid on merit. A second was electricity. The only electricity item that was on the ballot was something the governor did not favor. Yet since he was calling a special election, and since the electricity crisis helped bring about the recall that put him into office, one might have expected an electricity proposal that he did favor. As it turned out, a summer blackout in 2005 caused by a technical problem served to remind voters that electrical capacity was still an issue; there was still insufficient margin to ensure against system failure. But no Schwarzenegger plan for electricity was up for voter approval.

*The Unblown Boxes*

As a recall candidate, Schwarzenegger suggested that he would reorganize and streamline state government to cut costs; he would "blow up the boxes." Pursuant to this objective, he established the California Performance Review, a process that produced a massive report suggesting state efficiencies and economies. During the fall of 2004, a series of hearings were held on the report around the state with great fanfare. But when it was all over, there was no far reaching legislative or ballot proposal. The California Performance Review seemed to have ended up in a drawer; it was the third missing item in the special election of November 2005.

*Public Pensions*

The fourth item missing from the ballot was public pensions. As in much of the public sector, California state and local governments tend to offer employees defined benefit pension plans. There are three major plans at the state level, one for the state civil service, California Public Employees' Retirement System (CalPERS); another for teachers, California State Teachers' Retirement System (CalSTRS); and a third for the University of California, University of California Retirement Plan (UCRP). The last is in fact overfunded and has required no state or employee contributions for many years. The other two are underfunded, as are some local government plans.

San Diego's municipal pension plan became the poster child for public pension underfunding. Liabilities of that plan have undermined that city's bond ratings, provoked talk of bankruptcy, and threw local politics into turmoil. After being named one of the worst mayors in the country by *Time* magazine, Mayor Dick Murphy resigned. However, San Diego's problems are not the liability of the state. Indeed, when Orange County—to the north of San Diego—did go bankrupt in the mid-1990s (for reasons unrelated to pensions), the state stayed out of it. Thus it is not clear if the state should involve itself in local

retirement plans, although it obviously has an interest in those plans covering state employees.

Members of the state assembly and senate face term limits, thanks to a voter initiative—Prop 140—passed in 1990. When given a chance modestly to relax the limits in 2002, voters decisively rejected the proposal. Typically, as the limits approach, legislators begin to search for other offices for which to run. One moderate Republican termed-out assemblyman from the Los Angeles area—as part of his campaign for state Treasurer—proposed an initiative that would mandate defined contribution plans (rather than defined benefit) for new public-sector hires, state and local. The governor quickly endorsed this idea and engaged in photo ops circulating the petition for it.

However, the pension proposal provoked immediate controversy. CalPERS' board of administration openly opposed the initiative. Even more of a problem for the governor was the reaction of four of five trustees he had just named to the CalSTRS board who also opposed the initiative. Because the new trustees had yet to be confirmed by the state senate, the governor quickly terminated them. And the remaining trustee—because she had not opposed the initiative—was not confirmed by the senate.

The pension initiative turned out to have two language flaws. It appeared to threaten survivor benefits. This element raised the specter of widows and children of fallen police and firefighters being denied entitlements. The initiative also included the University of California with its overfunded pension, creating a cash-flow problem for the University (since defined contribution plans require immediate funding) and raising other personnel issues. The chair of the board of regents—a former chair of the Bush-Cheney campaign in California in 2004—testified that the proposed initiative would not work for the university.

Eventually, the public-pension initiative was shelved. CalPERS came up with a cosmetic methodology for disguising its underfunding, a 15-year averaging of investment returns. And the governor's office appeared to go along with the new methodology, leaving it unclear as to whether the pension issue would be pursued in the future.

### **Gaps in Leadership and Staffing**

Governors face a multitude of tasks. They appoint judges, members of boards and commissions, and other officials. They must approve or veto numerous bills. A host of regulations on diverse subjects must be produced or modified. No single individual can keep track of all of these tasks. Delegation to trusted aides is a necessity.

However, governors can pick a few—very few—key issues to pursue on a personal basis. Their careers may rise or fall, depending on those issues they pick and whether they deliver promised results related to the selected issues. Although some delegation is necessary even for key objectives, they cannot simply be outsourced or left to unsupervised underlings. A fine balance must be achieved between micromanaging and responsible monitoring and control.

*Lack of Focus and Consultation*

Especially in 2005, Governor Schwarzenegger did not achieve this balance. As noted, his eventual endorsements of ballot propositions showed little thematic coherence: union dues, teacher tenure, budget control, redistricting. The selection of these issues—and the two abandoned ones (public pensions, merit pay for teachers)—was at best haphazard. Moreover, the governor seemed disinterested in the particulars of these proposals. For example, was the method of budget control to be across-the-board cuts or discretionary cuts and procedures dictated by formulas? There was basically a lack of focus.

Governor Schwarzenegger seemed to want to play Hiram Johnson, that is, be seen as a major reformer, without much concern about what the reforms would be and how they could be sold to voters. There is little evidence of consulting outside the governor's immediate circle. In politics, it can pay to have discussions even with likely opponents simply to gauge their attitudes and probable objections. Staying within a closed circle invites the danger of groupthink.

*Lack of Control*

The governor's staff was reported to be split and sometimes uninformed about the governor's agenda. He was thus pushed into issues bound to be losers. For example, regulations that appeared to relax state standards for worker lunch hours suddenly arose from the bureaucracy—led to controversy—and had to be withdrawn.

Disarray showed up in the campaign. The governor liked photo ops but many ended up as problematic. One showed him driving in a Hummer with a "reform" sign on the front. However, the governor—who had made energy saving and "the hydrogen highway" as two of his many themes—was criticized a) for the Hummer and b) for the lack of a license plate, a violation of state law.

He was forced during the campaign to abandon a contractual relationship with a publisher of "nutritional supplement" magazines. Apparently to deter the resulting bad publicity, a photo op was arranged at a school with a table of healthy foods. But the picture showed various brand-name products, raising complaints (valid or not) about product placements.

Yet another photo op featured the governor speaking with a line marked in the street between two houses, supposedly showing the absurdity of particular legislative boundaries. But his staff apparently was confused about the actual boundary and took the photo at the wrong location. Finally, there was controversy about the cost of the photo ops. Were state employees used to build a giant faucet discharging red ink, for example?

A noted Republican California political consultant defined the problem:

Team Arnold seems to be playing by Blanche Dubois rules, depending on the kindness of strangers to do their work for them . . . The Governor should fire his political team. Thanks to their incompetence, he is being mercilessly dragged through the political muck . . .<sup>5</sup>



## Making Enemies

A particular mistake of the Schwarzenegger administration was an attempt to override state standards for nurse-to-patient ratios. Hospitals had fought the bill, pushed by the California Nurses Association and other nurse unions, which established these standards during the Davis administration. Nonetheless, the bill was passed and signed into law; it could not be undone by regulation. Yet a deregulatory approach was tried by the Schwarzenegger staff. The upshot was litigation, defeat in court, and eventual retreat. But an inadvertent result was to make an enemy of the nurses who thereafter picketed many of his public events.

At one such event, the governor made a comment about “kicking their butts.” Nurses, however, are generally viewed positively by the public. As a former state senate leader noted, “He’s getting bad advice and following it. You know, taking on the nurses—talking about kicking their butt. I mean, who’s ever mad at a nurse unless, you know, they’ve given you an enema or something?”<sup>6</sup> Having nurses as enemies—along with the police and firefighters whose survivor benefits had been threatened by the abortive pension initiative—was a major political mistake.

After 9/11, the public had an especially positive view of “first responders.” The governor thus added nurses, police, and firefighters to the teachers already angry with him about breaking his promise to fund Prop 98 fully in his 2005–2006 budget. Even if the California public is concerned about inadequacies of the educational system, it does not have a high propensity to blame individual teachers. For example, an appeal on the governor’s “joinarnold.com” website for the public to contribute stories about bad teachers quickly backfired amidst negative publicity and had to be withdrawn.

### *Tarnishing the Image*

In the recall, Arnold Schwarzenegger’s optimistic personality—everything was “fantastic”—was a definite plus. But as governor, the celebrity persona appeared to be wearing thin. Once you are the governor, everything that happens cannot be fantastic. Moreover, a major element of appeal to the voters in the recall was that as a wealthy individual, Schwarzenegger could not be bought by “special interests.” Schwarzenegger contrasted himself with Governor Davis and Davis’ well-publicized fundraising. Once the 2005 campaign for the initiatives started, however, Governor Schwarzenegger had to raise substantial sums for TV advertising. That meant highly visible trips—outside the state in some cases—to fundraising events.

Unions pressured some firms not to contribute to the pro-initiative campaign. They probably were not very successful although one mortgage company—Ameriquest—went along. However, the PR obtained in the effort at outreach to business highlighted the fundraising the governor was doing. It emphasized the theme that the initiatives were part of a business agenda to attack labor unions.

The special interest/fundraising charge that dogged Governor Davis in the 2003 recall became an issue in the Governor Schwarzenegger's 2005 campaign for the initiatives. Of course, unions raised substantial sums for the anti-initiative campaign – but they had never pledged not to. The governor's fundraising problem was compounded by the various “outside” committees to which the pro-initiatives campaign had been outsourced. Significant sums raised by the governor (as well as his own contributions) seemed to end up in payments to consultants rather than as TV ads—thus requiring still more fundraising to buy actual airtime.

### *The Polls*

Table 1 shows Governor Schwarzenegger's job approval ratings from the *Field Poll*, a regular California survey. After concluding a budget deal for the 2004–2005 fiscal year, and before he moved into confrontational mode with the legislature and unions, he had a 65 percent popularity rating. Once the confrontation posture was adopted, however, the rating began to sink immediately. In the interval between January 2005—when the rating had already fallen to 55 percent—and June 2005 when the special election was officially set in motion—his rating fell below 40 percent.

Table 2 shows the public support for the governor's four initiatives. What is striking is the very low support for the budget initiative, Prop 76. The budget crisis—combined with electricity—was one of the two items that brought Schwarzenegger into office. Yet passing what was (or should have been) the priority item of the four propositions appeared to be virtually impossible.

**Table 1.** Job Approval Ratings for Governor Schwarzenegger by Release Date

Release date	(%)
January 2004	52
October 2004	65
February 2005	55
June 2005	37
September 2005	36
November 2005	38

Source: Field Poll archives, <http://www.field.com>.

**Table 2.** Percent Supporting Propositions among Likely Voters by Date of Poll and Actual November 2005 Vote

		June 2005	Late October 2005	Actual vote
Prop 74	Teacher tenure	61	44	45
Prop 75	Paycheck protection	57	40	46
Prop 76	Budget controls	35	32	38
Prop 77	Redistricting	35	35	40

Source: Field Poll archives, <http://www.field.com>.

California political aficionados generally believe that a proposition that starts with such low levels of support is dead on arrival (DOA). Prop 77 on redistricting also appeared to be DOA.

In contrast, Props 74 (teacher tenure) and 75 (paycheck protection) seemed to have a chance at passing. Yet even those were vulnerable to ultimate failure; the 1998 paycheck protection initiative also started with strong voter support but was defeated. Voter opinion in favor of paycheck protection at the start of the 1998 campaign had been initially above 70 percent, according to the *Field Poll*. Apparently, it is easier to persuade voters to vote “no” on something they initially feel positive about than to go the other way.

The *Field Poll* and a similar poll by the Public Policy Institute of California told a consistent story throughout the campaign season. Results of these polls were attacked by the pro-initiative campaign which cited less well-known polls including one associated with the conservative Hoover Institution. However, immediately before the election, all of the polls showed the budget, redistricting, and teacher tenure initiatives losing. Only the Hoover-associated poll showed paycheck protection winning by election day.

### *The Television Campaign*

It is difficult to obtain precise figures on the campaign expenditures surrounding the November 2005 special election. *Electiontrack.com*, a California reporting service available on the web, showed over \$300 million in expenditures for various campaign committees. If we subtract off the expenditures for the initiatives not explicitly in the governor's package (teen abortion, voluntary and mandatory drug discounts, and electricity), about half that sum remains. Because the cost of having the special election to state and local governments itself became controversial, it is also difficult to obtain a precise estimate for that expense. But \$50 million is probably a reasonable guesstimate. So on the order of \$200 million was spent to put the governor's initiatives before the voters. And of the campaign expenditures, much went to TV advertising.

TV attack ads that aired during the first half of 2005 were aimed at the governor personally; not specifically at propositions (since the special election had not been called yet and the propositions did not even have numbers).<sup>7</sup> There were two themes in the attack ads, which were funded by the CTA and other unions. First, sympathetic teachers, nurses, police officers, firefighters, and home-care aides were featured saying that the governor was blaming the ills of the state on “people like me.” Ironically, one of the teachers shown had appeared in an ad that supported the Schwarzenegger after-school initiative in 2002.

A second theme was that Schwarzenegger was “not the governor we thought he would be,” an appeal to disappointed voters who had supported him in the recall. “He's not fighting special interests; he's fighting us.” Some ads picked up on a *Los Angeles Times* article that contained a transcript of a conference call in which Schwarzenegger supporters discussed creating a “phenomenon of anger” against public workers.

Although there were early TV ads generally favoring the governor, the attack ads appeared to be more effective and at least coincided with the drop in his job approval ratings. The governor appeared in some of the early ads that supported his four initiatives. He took aim at “big government labor unions” explicitly in these ads.

But in response to the decline in his approval, the later pro ads featured ordinary people—including a humorous grandmother type—saying there was a mess in Sacramento that needed fixing. “Let’s face it; Sacramento is screwed up.” Arizona Senator John McCain appeared in one pro ad. Some ads were directed at particular propositions; others focused on the package of four. It was hard, however, to explain the virtues of four initiatives in a minute or less of ad time. Union anti-initiative ads either focused on particular initiatives or just said vote “no” on all of them. Two anti-Prop 77 ads featured actors playing retired judges with mischievous expressions carving up the redistricting map. In one ad, the map they produce looks like Texas. Retired Judge Joseph Wapner—a former judge on the *Peoples Court* TV series—denounced redistricting by jurists in other ads.

As the governor was being eliminated from the pro-initiative ads, his image—often with a scowl—was featured in the union-sponsored anti ads. Video clips showed his joking about kicking the butts of nurses and promising during the recall that he was so wealthy he didn’t need special-interest money. The governor did appear in one pro-initiative ad toward the end of the campaign. In it he rather plaintively said that sometimes he had to “learn the hard way” but that his “heart was in this” and he wanted “to do right by you.”

At the same time, another ad appeared in which citizens say “I want a big tax increase,” a threat that voting against the initiatives would lead to just that. The governor at one point hinted that a tax increase might result from a negative vote, although there was no mention of it after election day. But the governor had to contend with an ad featuring a former finance director from the administration of Republican Governor Pete Wilson—now a lobbyist for the prison guard’s union—saying that Prop 76 “doesn’t fix the budget or stop new taxes.”

Notably, given the state’s demographic trends, some ads aired in Spanish. The pro ads used the ordinary (Latino) people approach or showed children playing with blocks with the initiative numbers on them. There were several notable anti ads. In one, State Controller Steve Westly, a candidate for governor in 2006, repeated in Spanish an ad opposing all the initiatives he had also done in English. Another featured popular Los Angeles Mayor Antonio Villaraigosa, who had taken office in July 2006 amidst widespread national publicity as the first Latino mayor of Los Angeles in modern times. Like Westly, Villaraigosa urged a simple “no” vote on all the governor’s initiatives.

Finally, there was a Spanish-language ad in which Schwarzenegger was linked to Davis’ Republican predecessor, Governor Pete Wilson. Wilson was anathema among many Latino voters for his support in 1994 of Prop 187, an initiative that sought to deny public services to illegal immigrants. Prop 187 was

effectively a component of Wilson's successful bid for reelection that year. (It passed but was subsequently largely nullified through litigation.) Schwarzenegger, on talk radio, had supported the actions of "the Minutemen," a private group of citizens patrolling the U.S.–Mexico border in the Summer of 2005 to stop illegal immigration. Wilson's image morphed into Schwarzenegger's in that ad.

Both sides made use of campaign websites and mass e-mails. TV ads were made available on the websites for viewing in various formats. In addition, Internet animated cartooning was utilized. A pro-Prop 75 ad on the governor's "joinarnold.com" website showed a teacher being taken out of school and literally shaken upside down to draw out money for politics. A website maintained by gubernatorial candidate and state Treasurer Phil Angelides tied the governor to the Bush administration, to Fox News, and to former Enron executive Ken Lay. Of course, maintaining a website is substantially less expensive than buying TV time.

Radio advertising is also less expensive than television and there were ads on that medium. One pro-initiative radio ad featured state senator Tom McClintock, a Republican fiscal conservative who had run against Schwarzenegger in the recall. An anti-initiative radio ad sponsored by the California Nurses Association was made by movie actor Warren Beatty—who was hinting at running for governor in 2006.

There was never much money behind the campaign for Prop 73 (teen abortion notification). But, as noted above, it was thought that pro-Prop 73 voters—if they turned out—would vote also for the governor's four initiatives. While TV advertising was limited, a DVD was circulated to sympathetic churches, featuring teen girls who had gotten pregnant, had abortions, and hadn't told their parents. Their appeal to viewers was "protect me," that is, that if parents had known, they could have intervened to protect their daughters. The daughters ask, "Can God forgive me?" for having an abortion.

### In the End

The final vote outcome is shown on Table 2. All of the governor's initiatives—and all the other initiatives on the ballot—failed. Of the four endorsed by the governor, the budget initiative, arguably the most important, fared worst.

In a surprising speech as the results were coming in on election night, the governor seemed unwilling to acknowledge the debacle that was unfolding. Indeed, his remarks were closer to what might have been said in a victory statement. In his remarks, the governor thanked all of the voters, suggested that the results would not be known for sure until the next day, and said he felt just as good as when he won the governorship in the recall two years earlier. He talked of the need for more state infrastructure as well as more nurses, teachers, firefighters, and police. The tenor of the governor's remarks suggested that the earlier attack made on the *Field Poll* and other polls may have been more than

campaign rhetoric; perhaps the governor and those immediately around him thought they were winning.

After the election, the governor departed for China. During the campaign, the “joinarnold.com” website featured an image of Governor Schwarzenegger alternating with one of progressive reformer Hiram Johnson and another with Democratic Governor Pat Brown (1959–1967). Brown has been virtually sanctified in California in hindsight as the governor responsible for freeway expansion, a major water project, and the Master Plan for higher education. (Forgotten are the many controversies during his years as governor and the budget crisis he left behind for his successor—Ronald Reagan.) Soon after election day, governor Schwarzenegger hinted at a \$50-billion state bond for infrastructure. If he could not be Hiram Johnson, he would instead be Pat Brown.

In any event, the November 2005 election reaffirmed that California remained a place in which statewide campaigns framed in antiunion terms are likely to be defeated. But it also highlighted the new image of unions as representing public-sector employees as opposed to the traditional blue-collar factory or construction worker. The heavy concentration in government leaves unions vulnerable to the charge that they are a narrow special interest group and a burden to the taxpayer. That charge didn’t work in California but it might work elsewhere. And in California it forced unions to devote large sums of money essentially to defensive activity.

Despite Governor Schwarzenegger’s battle with the unions in 2005, a large infrastructure program in California would be popular with many elements of organized labor including construction unions and those in transit districts and local governments. If “infrastructure” is defined to include schools and hospitals, even teachers and nurses might come on board. While \$50 billion would be huge—it would roughly double state indebtedness—the infrastructure proposal may have been intended as a gubernatorial olive branch to organized labor and Democrats in the legislature.

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## Notes

1. This essay draws heavily on news accounts in various California newspapers and their related websites. Only direct quotations are cited and refer to Web-based articles. The precise texts of the ballot initiatives described and election results are available at the California Secretary of State website: <http://www.ss.ca.gov>.
2. Quoted in Beth Fouhy, “AP Interview: Schwarzenegger Says Unions ‘Want to Destroy Me,’” *Sacramento Bee*, October 28, 2005.
3. A relatively small portion of public-sector workers shown on Figure 2 are in federal employment, for example, postal employees.

4. Unions initially voiced the concern about the coverage spillover to the private sector of Prop 75 and then went silent on that issue. They may have feared that if Prop 75 passed and its coverage was litigated, they did not want to be on the record as supporting the broad coverage interpretation.
5. Tony Quinn, "Other View: Arnold's Own Keystone Kops," *Sacramento Bee*, July 26, 2005. Quinn was an official in the Republican Deukmejian administration in the 1980s and was an advisor to the California Republican Caucus before that.
6. Former state senator leader John Burton quoted in a political column by Phillip Matier and Andrew Ross, "City Fails to Rock MTV's World," *San Francisco Chronicle*, April 6, 2005.
7. Many of the TV ads were also available on the Internet. The author downloaded what was available during the campaign and preserved the ads for reference.

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