

THE GOLDEN STATE ADRIFT

A GAINST THE BACKDROP of sweeping Republican advance in the 2010 US mid-term elections—a surge of 64 seats to take the House of Representatives, six more senators and eleven new state governorships—California stands out.¹ The Golden State confirmed its position as the country's Democratic stronghold, delivering convincing wins for the party's candidates in the gubernatorial and Senate elections. Democrats retained a solid two-thirds majority—32 out of 53—of the state's delegation to the House of Representatives and held onto their heavy majorities in the State Senate (25–15) and Assembly (52–28).

That California bucked the anti-incumbent trend this November is all the more striking, given that the state has been battered by the Great Recession and boasts the third-highest unemployment rate in the country—at 12 per cent, only Nevada's and Michigan's are higher. Indeed, California played a leading role in triggering the US economy's slide after 2007—a bleak inversion of its longstanding historical role. From the gold rush of the 1840s to the hi-tech boom of the 1990s, it was a world centre for inventiveness and fantasy production. The crucible for much of the economic, political and technological character of the American Century, it has been the leading engine of the US economy for most of the last fifty years. Yet today it is sputtering badly. What explains this disturbing turn of events?

Since the apotheosis of the state's favourite son Ronald Reagan, California has been at the forefront of the neoliberal turn in global capitalism.² The story of its woes will sound familiar to observers across Europe, North America and Japan, suffering from the neoliberal era's trademark features: financial frenzy, degraded public services, stagnant wages and deepening class and race inequality. But given its previous vanguard status, the Golden State should not be seen as just one more case of a

general malaise. Its dire situation provides not only a sad commentary on the economic and political morass into which liberal democracies have sunk; it is a cautionary tale for what may lie ahead for the rest of the global North.

Mortgage meltdown

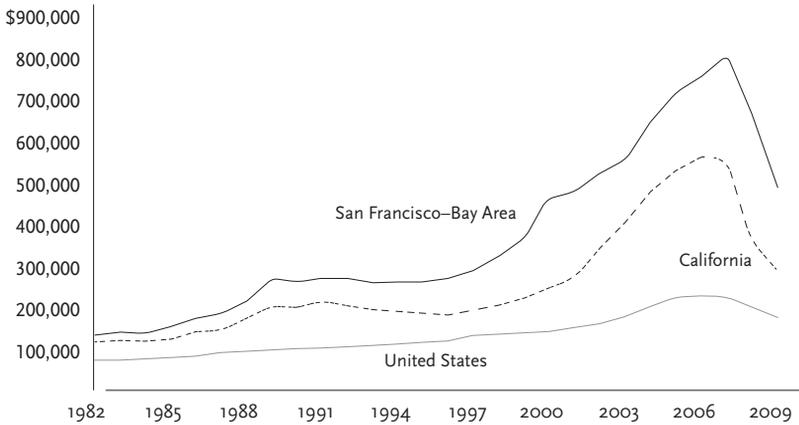
More than any other place except Wall Street, California was responsible for the bubble economy of the 2000s, and for the disaster that followed.³ The financial bubble that burst in 2008, bringing about the collapse in investment banking in New York, had been centred on mortgage lending in the US housing market. While the alchemy that turned secondary mortgages into credit derivatives and investment vehicles took place on Wall Street, the lending itself was concentrated in what were called the ‘sand states’: Florida, California, Arizona and Nevada. The principal fount of mortgage origination was California, which served as the US’s equivalent of Spain—the speculative frontier of a continent. Though around 15 per cent smaller than Spain in terms of area and 20 per cent smaller in terms of population, California’s GDP is a third larger, which puts it among the world’s top ten economies.

Between 2000 and 2008, the state’s lenders issued 6 million original mortgages and 10 million refinance loans, worth \$3–4 trillion—about 20 per cent of all US mortgage lending. California was, moreover, responsible for a stunning 56 per cent of the \$1.38 trillion in subprimes issued nationally in 2005–07. The state was home to the top five subprime lenders: Countrywide Financial, Ameriquest Mortgage Bank, New Century Financial, First Franklin Bank and Long Beach Mortgage Bank. Hyperactive finance was not new to California: in the 1980s it featured Michael Milken’s junk-bond mania and the Savings & Loan implosion, and in the 1990s it was the heartland of the largest stock bubble in history, as investment in the marvels of Silicon Valley pushed the NASDAQ to uncharted heights.

¹ Thanks to Juan Delara, Matt Williams, Ken Jacobs, Alex Schafran, Anthony Panarasse, Wendy Brown, Joe Matthews and Fred Glass for their input; special thanks to Ashok Bardhan.

² On the Reagan revolution here, see my ‘California Rages against the Dying of the Light’, NLR 1/2009, Jan–Feb 1995.

³ This section and the next are based on Ashok Bardhan and Richard Walker, ‘California, the Pivot of the Great Recession’, Working Paper #220-10, Institute for Research on Labor and Employment, University of California, Berkeley.

FIGURE 1. *Median Home Prices*

Source: California Association of Realtors; National Association of Realtors.

The booming mortgage business of the new century nonetheless produced a significant expansion of the financial sector. Between 1996 and 2006, the number of jobs in finance, insurance and real estate (FIRE) rose by 27 per cent to almost one million. No state had more real-estate agents, brokers and mortgage sellers—60,000 by 2008. They and their backers in the banks were happy to funnel the billions of investment dollars showered on them by Wall Street to unsuspecting homebuyers. Californians by the hundreds of thousands were cajoled into subprime mortgages with no down-payment, teaser rates, adjustable rates and paltry documentation.

Fuelled by mortgage mania, the housing bubble blew up more dramatically in California than anywhere else in the US. Home prices had already eclipsed those in the rest of the country in the 1970s; they powered further ahead during the booms of the 1980s and 1990s, before surging in the 2000s. At the peak of the bubble in 2006, the median house price hit \$594,000—more than two and a half times the national average of \$221,000 (see Figure 1). The San Francisco Bay Area boasted the highest prices of any metropolitan region in the country, at nearly quadruple the national average. In no other state except Hawaii is housing so unaffordable. With the average house selling, in 2006, at over ten times the median income of \$57,000—a ratio comparable to those in

London or Tokyo—this was fertile ground for the peddlers of subprime loans, as young people stretched their incomes to buy overpriced houses and older people refinanced their homes to help out their children, all on the premise that house prices would never stop rising.

Easy money and stratospheric prices induced a huge wave of housing construction. In 2006, new home sales peaked at a rate of over 200,000 per year, roughly 16 per cent of the national total, in a state comprising 12 per cent of the US population. Construction and real estate were California's biggest job generators of the decade. High prices meant robust profits for builders, including firms based in the state such as KB, Shappell and Shea, as well as national giants Lennar, Centex and Horton. The vast majority of new development took place on the exurban fringes of the big cities, although there was also considerable infill and high-rise construction; indeed, California now has the highest urban densities in the country, in greater Los Angeles and the Bay Area.

Housing crash

When the housing bubble burst, California ended up with more bad loans and foreclosures than anywhere else, and its mortgage banks were among the most prominent failures in the financial meltdown. In 2007, New Century declared bankruptcy and a failing Ameriquest was sold to Citicorp; in early 2008, IndyMac Bank was seized by the Federal Deposit Insurance Corporation and First Franklin was shuttered by Merrill Lynch, which had bought it two years earlier; in mid-2008, Washington Mutual closed Long Beach Mortgage, which it had acquired a decade before, and a failing Countrywide was swallowed by Bank of America (much to Bank of America's later regret). Bigger things were yet to come. Washington Mutual, based in Seattle, had ballooned to become the nation's sixth-largest bank and, on the strength of its many acquisitions in Southern California, the third-largest operating in the Golden State. Its collapse in late 2008 was the largest bank failure in American history to date—only to be exceeded by Lehman Brothers a month later. Meanwhile Golden West Savings of Oakland, the biggest originator of adjustable rate mortgages in the country, had been acquired by Wachovia Bank in 2006, helping the latter rise to fourth place among US banks. By late 2008, the fallout from Golden West's faulty loans overwhelmed Wachovia, which was gobbled up by Wells Fargo of San Francisco.

Behind the financial turmoil came a surge in foreclosures, as California's housing market collapsed and hundreds of thousands of homeowners could no longer meet their mortgage payments. By the end of 2009, there had been nearly 500,000 foreclosures in the state—one fifth of the nationwide total of 2.5 million; by mid-2010, around 360,000 homes were still in foreclosure. The overextension of households was most dramatic in the inland cities of Southern California, such as Riverside, Ontario and San Bernardino, and those of Northern California's Central Valley, including Stockton, Merced and Bakersfield. Here, monthly foreclosure rates above 50 per 1,000 households became common, and were amongst the worst in the country (see map overleaf).

At the same time, the median house price in California fell by 35–40 per cent from the height of the bubble, as banks dealt off repossessed homes in panic sales. This meant that by the summer of 2010, there were 2.3 million 'underwater' mortgages (where houses are worth less than the value of the outstanding loan), affecting up to a third of California mortgage-holders, versus 23 per cent nationally. The total loss of equity was at minimum \$2 trillion out of \$6 trillion, a severe blow to middle-class finances and aspirations. In interior counties such as Merced and San Joaquin, median prices fell by an astounding 60 per cent, between 2006 and 2010. Home values have held up much better on the coast, with the important exception of older working-class and minority neighbourhoods in the central cities.

The housing implosion has had other, visible results: residential tracts are riddled with vacant houses, and those who have lost their homes have been scattered to the winds. Community organizers have taken up the cause of housing displacement. The two most important groups are the church-based PICO National Network, which has two dozen local affiliates in California, and ACCE (Association of Californians for Community Empowerment, formerly the California branch of ACORN), with a dozen offices around the state. The Community Reinvestment Coalition in San Francisco, which brings together 250 non-profits and public agencies, has been dealing with banks' malfeasance in poor neighbourhoods for thirty years. Inner-city tenants'-rights activists, such as LA's Strategic Action for a Just Economy (SAJE) and the Bay Area's Just Cause/Causa Justa (both founding members of a nationwide coalition, The Right to the City), have also been fighting evictions due to foreclosures.



The principal target of anger is, not surprisingly, the banks. As of 2008, state law now requires tenants of foreclosed properties to be given notice, and allows city authorities to fine banks for failure to maintain vacant properties; but activists will have to keep pressing local officials to enforce blight penalty laws. Most localities have no idea how many foreclosed homes they contain nor who owns them, so ACCE has conducted door-to-door surveys. Getting banks to restructure loans so that people can stay in their homes has proven difficult, despite federal and state legislation.

Grass-roots organizers have sought to apply pressure in other forms: in April 2010, a coalition of community groups, faith organizations and unions held a protest at a shareholders' meeting of Wells Fargo Bank in San Francisco. Despite such actions at the local level, no unified state-wide movement against banks and foreclosures has emerged.⁴

Desolation valley

The long housing boom remade the state's class and race geography. The upper classes, mostly white, have rushed to the coast. Silicon Valley and Westside LA are virtually unaffordable for anyone without a six-figure income—meaning almost all clerical, service and retail workers, not to mention the state's industrial workforce. San Francisco, in particular, has become dramatically richer, older and whiter. Meanwhile the working class, especially young families of colour, have moved to the fringes of the major conurbations in a bid to find both jobs and affordable housing. Greater Los Angeles, nearly twenty-million-strong, continues to spread across the Inland Empire of Riverside and San Bernardino counties, which doubled in population between 1990 and 2010. The Bay Area has developed its own inland empire in the Central Valley, where it collides with Greater Sacramento and Stockton to form a Northern California megapolis of over ten million.

Even prior to the latest downturn, California was among the top 5–10 states in income inequality and growth of inequality, depending on the measure used. The Golden State leads the country in its proliferation of millionaires and billionaires: it is home to 81 of the Forbes 400 wealthiest Americans, compared to 76 for New York and 25 for Florida. Meanwhile, employers have steadily held down the wages of ordinary workers, using the levers of unemployment, flexible hiring and immigration; real wages have barely budged for manual labour over the last forty years, and those at the bottom have lost ground. The working class of California bears a clear racial stamp, moreover, being made up overwhelmingly of immigrants and their children.⁵

⁴ Local activists generally keep their distance from unions and the Democrats, whose involvement would be necessary to gain traction at the state level, though SEIU has worked with ACCE on a banks campaign.

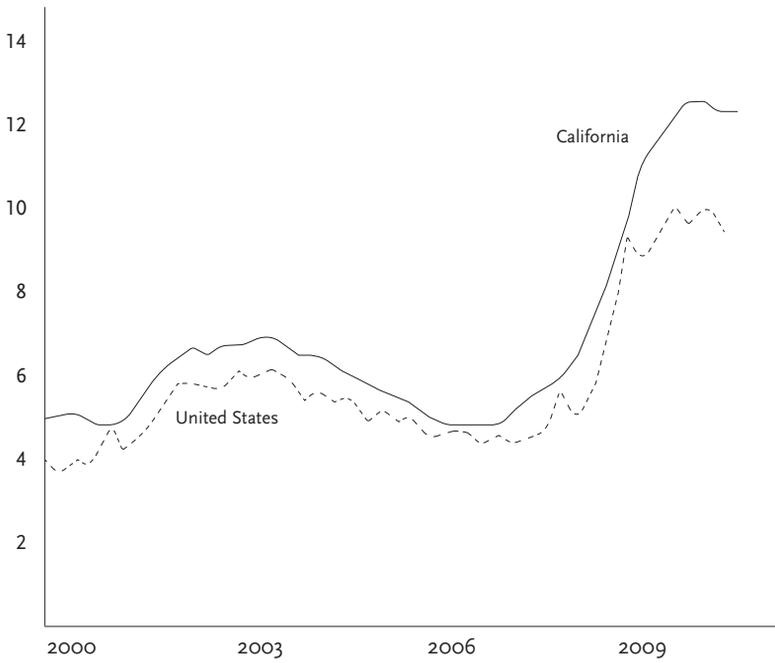
⁵ Jared Bernstein, Elizabeth McNichol and Andrew Nicolas, *Pulling Apart: A State-by-State Analysis of Income Trends*, Washington, DC 2008; Ruth Milkman, *LA Story*, New York 2006; see also reports by the Public Policy Institute of California, www.ppic.org, and California Budget Project, www.cbp.org.

When the Great Recession hit, California's workers took the hardest blow. By the end of 2009, 2.3 million people or 12.4 per cent of the workforce were unemployed—3 per cent above the national average. Under-employment, counting part-time and discouraged workers, reached a staggering 24 per cent. The job losses during this recession have proved more severe than in previous downturns: where the 2001 dot-com bust resulted in a 2 per cent drop, and the early 1990s crash in one of 4 per cent, the current recession has brought job losses of up to 9 per cent.⁶ Despite a pallid recovery in profits and commerce, there has been little new hiring, and the outlook for the labour market remains gloomy for the foreseeable future.

Workers in inland areas have fared particularly badly. They have suffered job losses at double the rate of the coast, with unemployment hitting 30 per cent and more in Central Valley agricultural towns such as Firebaugh and Mendota. There have been massive redundancies in warehousing, transport and agriculture, but the housing collapse did the most damage: as home-building fell by three-quarters, half a million jobs were lost in construction, real estate, mortgage finance and building supplies.

But gross inequality, financial frenzy and unaffordable housing are not just excesses atop an otherwise thriving California economy. The signs of decay are everywhere. Skilled work has long been the basis of the state's innovative industry—postwar aerospace and film production in Los Angeles, electronics in Silicon Valley—and thanks to its high-tech and creative sectors California largely escaped the deindustrialization that afflicted the Rustbelt of the Northeast by the 1980s. Indeed, California has been the largest manufacturing state in the Union for decades, and still employs over a million production workers. But goods output has declined since 1990, and half of all manufacturing jobs have disappeared, driving the sector's share of employment below 8 per cent. In Southern California, the strongest growth has come in international trade through the ports of LA and Long Beach, which together form the largest shipping centre in North America and feed an enormous warehousing, transport and logistics corridor that runs right out through the Inland Empire. The region has thus prospered in part from the imports that have undermined US manufacturing.

⁶ Sylvia Allegretto, 'The Severe Crisis of Jobs in the United States and California', Center on Wage and Employment Dynamics, Berkeley, August 2010.

FIGURE 2. *Unemployment rate (%)*

Source: Current Population Survey, Bureau of Labor Statistics.

Meanwhile, low-skilled occupations—usually poorly paid, part-time and insecure—have risen sharply. The greatest employment gains have occurred in education, health care and social-assistance services, and in hotel and food services. Southern California, in particular, has thrived on a bulging, low-wage immigrant labour force, as has the Central Valley, long the heart of California agribusiness (still by far the largest food production area in the United States). This has helped to drag down incomes among blue-collar workers. Indeed, between 1980 and 2000, California's average income grew at only half the rate of the rest of the country. Silicon Valley's electronics industry, meanwhile, has been the country's leader in sending work off-shore, as mid-level white-collar and blue-collar jobs in electronics have been shipped out to India, China and elsewhere.

Investors continued to pour surplus capital into the Golden State in the 2000s, as they had in the previous two boom decades. But the flood of mortgage money did little to stimulate the underlying industrial

foundation, beyond pumping up house construction during the bubble. Job creation, which outran the rest of the country for decades, levelled out after 2000, and there is little sign that any eventual recovery will fundamentally alter this pattern. This leaves a troubling question: if California is in such bad shape, what does this bode for the US as a whole?

Fiscal follies

California's government is in profound disarray. The proximate cause is the worst fiscal crisis in the United States, echoing at a distance that of New York in the 1970s. Behind the budgetary mess is a political deadlock in which the majority no longer rules, the legislature no longer legislates, and offices are up for sale. At a deeper level, the breakdown stems from the long domination of politics by the moneyed elite and an ageing white minority unwilling to provide for the needs of a dramatically reconstituted populace.

The Golden State is now in permanent fiscal crisis. It has the largest budget in the country after the federal government—about \$100 billion per year at its 2006 peak—and the largest budget deficit of any state: \$35 billion in 2009–10 and \$20 billion for 2010–11. The state's shortfall accounts for one-fifth of the total \$100 billion deficit of all fifty states.⁷ These fiscal woes are not new. They stem in large measure from the woefully inadequate and inequitable tax system, in which property is minimally taxed—at 1 per cent of cash value—and corporations bear a light burden: at most 10 per cent. Until the late 1970s, California had one of the most progressive tax systems in the country, but since then there has been a steady rollback of taxation. In the 1970s, it was one of the top four states in taxation and spending relative to income, whereas it is now in the middle of the pack.

The lynchpin of the anti-tax offensive is Proposition 13, passed by state-wide referendum in 1978, which capped local property taxes and required a two-thirds majority in the state legislature for *all* subsequent tax increases—a daunting barrier if there is organized opposition. Proposition 13 was the brainchild of Howard Jarvis, a lobbyist for the Los Angeles Apartment Owners' Association. Support for it came not so much from voters in revolt against Big Government as from discontent

⁷ Average 2008–12 fiscal years, National Association of State Budget Officers report, June 2010.

with rising housing costs and property-tax assessments. But it was to prove a bridgehead for American neoliberalism, which triumphed two years later with Reagan's ascent to the presidency.⁸

Proposition 13 had an immediate impact, as local governments lost half their income. Sacramento had to pick up the burden, while county and municipal authorities suffered a dramatic loss of autonomy. To make matters worse, the Reagan administration cut federal aid. In the long run, the tax cuts made the growth of revenues sluggish relative to needs—and even more so relative to the surge in the wealth of the super-rich that began in the 1980s. With the economic upturn of that decade, prosperity returned, but the state's Republican governor at the time, George Deukmejian, used the inflow of funds to launch the greatest prison-building programme in US history, so that jails now consume almost as much of the state budget as higher education. When the great Southern California boom of the 1980s collapsed, the state government was hit by a \$14 billion revenue shortfall on a budget of \$50 billion for 1991–92.⁹

Spending rose again during the boom of the late 1990s, as the Democrat-dominated legislature raised income- and capital-gains tax rates to harvest a small portion of the wealth flowing out of Silicon Valley.¹⁰ Democrat Governor Gray Davis moved to cut sales taxes and provide other forms of tax relief worth a total \$5.1 billion over his term in office. At the turn of the century, the state was registering surpluses; but the bursting of the New Economy bubble in 2000 left it with a \$24 billion shortfall on a budget of \$100 billion for 2002–03. By this time opposition to tax increases had hardened—notably among Republicans following the lead of Newt Gingrich's second wave neo-conservatism. Yet California's constitution, like those of all other US states bar Vermont, requires the governor and legislators to pass balanced budgets. Davis's solution was to slash spending and borrow, with \$21 billion of cuts and the loss of 2,000 state jobs announced in 2003.

⁸ Lenny Goldberg, 'Proposition 13: Tarnish on the Golden Dream', in R. Jeffrey Lustig, ed., *Remaking California: Reclaiming the Public Good*, Berkeley 2010, pp. 42–59.

⁹ Mike Davis, 'Who Killed Los Angeles?', *NLR* 1/197, Jan–Feb 1993 and 1/199, May–June 1993; Ruth Gilmore, *The Golden Gulag*, Berkeley 2007.

¹⁰ The rich complain that California has high income-tax rates, but its feeble property taxes and high sales taxes make the overall system barely progressive. Goldberg, 'Proposition 13'.

During the economic maelstrom of 2001–03, Davis's popularity plummeted—having already been severely dented by his handling of the electricity crisis of 2000–01, in which deregulation of energy markets resulted in state-wide brownouts while Enron creamed off record profits. Re-elected in 2002, Davis was recalled by referendum in 2003 and ejected from office in favour of Arnold Schwarzenegger, the latest Hollywood hero to catapult onto the public stage. A liberal Republican, solidly pro-business but free of right-wing moralism, and married to a Kennedy, 'The Governator' was going to right the ship of state. But fame and bravado were not enough, so six years later he exits with the lowest poll numbers in memory, below twenty per cent. He has been a solid representative of business conservatism, opposing any meaningful fiscal reform or tax increases and laying the blame for the widening deficit at the feet of the legislature and unions.

The Great Recession opened the gap still wider. To close it, the state helped itself to billions in local government revenues, while the collapse of property values further undermined local authorities' finances. The city of Vallejo has declared bankruptcy, Maywood had to lay off all its workers, and others teeter on the brink. State authorities have implemented their own austerity programme: in 2009, they slashed spending by 20 per cent, cutting schools by \$6 billion, universities by \$3 billion and medical care by \$4 billion.¹¹

The fiscal crisis overlays a profound failure of politics and government in California. The origins of the stalemate lie in the decline of the legislative branch, which has popularity ratings even lower than Schwarzenegger's. Led by Assembly Speaker Jesse Unruh in the 1960s, California's legislature was admired across the country for its professionalism. But by the 1980s, under Speaker Willie Brown, it had become largely a patronage system for the Democratic Party, which has controlled the state legislature continuously since 1959. Republicans went after Brown and the majority party by means of a ballot proposition imposing term limits on elected officials in 1990. Term limits neutered the legislature, taking

¹¹ To counter Schwarzenegger's cuts, the California Labor Federation persuaded Assembly Speaker John Perez to draw up a 'Jobs Budget', arguing that cutbacks are not only bad for those needing services but contribute to California's continuing jobs deficit. Contrary to popular opinion, the number of state employees is among the lowest in the country on a per capita basis, and state employees are paid slightly less than comparable private-sector workers. See Larry Gerston, 'Are State Workers Overpaid?', *Prop Zero* blog on NBC Los Angeles site, 17 November 2010.

away its collective knowledge, professional experience and most forceful voices, along with much of the staff vital to well-considered legislation. Sold as a way of limiting the influence of ‘special interests’, term limits have reinforced the grip of industry lobbyists over legislators.¹²

The legislature has been further disabled by what became a yearly ritual of deadlock over the budget, because of the two-thirds majority vote required for approval (a rule introduced by proposition in 1934). Despite the Democrats’ unbroken string of legislative majorities, the Republican minority has refused to give ground on tax increases since the 1990s, and in 2009 even demanded \$2.5 billion in business tax cuts before passing the budget. This November the public-sector unions—led by the California Federation of Teachers (CFT), California Teachers Association (CTA), California Nurses Association (CNA) and the Service Employees International Union (SEIU), and backed by the California State Federation of Labor—put forward Proposition 25 to allow a simple majority of the legislature to pass the budget. Its approval by a margin of 55 per cent to 45 was one of the most significant outcomes of the recent election. Unfortunately, the two-thirds rule still obtains for tax increases and Proposition 26, approved this year, actually makes things worse by extending the supermajority rule to a range of state and local fees. The latter proposition, financed by the state Chamber of Commerce and Chevron, shows once again the malign effects of government by proposition: voters are assaulted in every election by waves of measures that are bought and sold by big business.¹³

Efforts to jettison Proposition 13, such as that by the public-sector unions in 2004, have been stillborn because the Democratic Party leadership refuses to touch the ‘third rail’ of California politics.¹⁴ Most left-liberal

¹² Christopher Witko, ‘The California Legislature and the Decline of Majority Rule’, in Lustig, *Remaking California*, pp. 60–77.

¹³ Other successful ballot propositions include one on redrawing Congressional district lines and one put forward by local governments to block the state from taking their funds. Proposals to legalize marijuana and to overturn last year’s tax cuts were among those to fail. For details on California’s ballot measures, see www.ballotpedia.org. On the hazards of government by proposition, see Peter Schrag, *Paradise Lost: California’s Experience, America’s Future*, New York 1998.

¹⁴ The 2004 initiative to repeal the two-thirds majority rule on taxes was defeated by 66 to 34 per cent. Some of the unions behind 2010’s Proposition 25 have made educating the public on tax policy a priority. But moves to alter the system—for example, by reassessing commercial property, a major tax loophole—have yet to get off the ground.

commentators attribute this impasse to an anti-tax electorate and organized opposition from the right, but this does not square with the evidence. Electorally, the Democrats have easily dominated the state for the last four decades: both houses of the legislature, one or both US Senate seats, the majority of the House delegation, and the mayoralties of Los Angeles, San Jose, Oakland and San Francisco; and, from Clinton onwards, every Democrat presidential candidate has carried the state by at least 10 per cent.

Rather than electoral vulnerability, it is the Democrats' fundamental identification with the agenda of Silicon Valley, Hollywood and financiers—and dependence on money from these sources—that explains their unwillingness to touch the existing system. Among the state's leading Democrats, few were more closely identified with promoting the interests of California business in Washington than former House Speaker Nancy Pelosi, resident of San Francisco's plush Pacific Heights area and multi-millionaire, thanks to a huge portfolio of real-estate and hi-tech investments. Senator Dianne Feinstein, also from the Bay Area and married to billionaire private-equity fund manager Richard Blum, was once dubbed 'The Best Senator Money Can Buy', and her financial disclosure statement to Congress was once described as 'the size of a phone book'. They are among several recent millionaire Congressional Democrats—Tom Lantos, Ellen Tauscher, Pete Stark—who made fortunes in finance, real estate and electronics.¹⁵

The Senate contest in 2010 pitted another millionaire incumbent, Barbara Boxer, against the vast fortune of Carly Fiorina, former chief executive of Hewlett Packard. As elsewhere, the campaign focused mainly on economic issues, Fiorina pushing for tax cuts and fiscal austerity while Boxer defended the Obama stimulus, as well as her own record in attracting Washington funding for California's budding 'green economy'. Backed by big law firms, Hollywood and retirees, Boxer outspent Fiorina by \$22m to \$17m, and eased home with 52 per cent of the vote to Fiorina's 43. Exit polls gave Boxer 80 per cent of votes among blacks, 65 per cent among Latinos, and 68 per cent among residents of large cities—a pattern that was replicated in other contests this year.

¹⁵ Larry Benske, 'The Best Senator Money Can Buy', *East Bay Express*, 18 November 1994; Zachary Coile, 'Bay Lawmakers among Wealthiest', *San Francisco Chronicle*, 26 June 2004.

Road to Sacramento

In a further reassertion of Democratic control, Jerry Brown convincingly won the race for governor this year by a margin of 54 to 41 per cent. On the Republican side was billionaire Meg Whitman, former CEO of eBay, who spent \$160 million of her personal fortune to saturate the airwaves with her image and message—roughly three times the amount dispensed by both candidates in the last race—making this the most expensive gubernatorial contest in US history. Her platform consisted of the usual neoliberal nostrums of tax cuts to attract business, efficiency in government and curbs on regulation, seasoned with attacks on public-sector unions.¹⁶

Whitman had little political background—she admitted to rarely even voting—and not much formal connection to the Republican Party, though she co-chaired McCain's 2008 campaign. The GOP right found her too liberal on gays, climate change and immigration. The latter issue contributed centrally to her defeat in November: after adopting a hardline stance towards the employment of undocumented immigrants, she was found to have illegally employed a Mexican housekeeper for nine years; in the ensuing scandal, Whitman repudiated the woman in question, saying she should be deported. While this alienated many Latinos—exit polls suggest she won only 32 per cent of their votes—her connections with Goldman Sachs—a board member from 2001–02, she retained multi-million-dollar holdings in various investment funds—likely put off lower-income voters of all kinds: only 34 per cent of those earning under \$30,000 a year backed her.

The victor, septuagenarian Democrat Jerry Brown, was governor of the state from 1975–83 and mayor of Oakland from 1999–2007; his most recent post was that of state Attorney General. Once a knight-errant of the liberal-left, it was his blunders in dealing with a budget surplus that paved the way for Proposition 13, and his harping on the theme of an 'era of limits' made him a rhetorical precursor to neoliberalism. In Oakland, his main contribution was to revivify the downtown area through massive condo development in the midst of the housing boom; he was also instrumental in pushing through charter schools. Brown's

¹⁶ Michael Reich, 'Can Californians Trust What Meg Whitman is Selling?', Center for American Progress Action Fund, August 2010.

low-key campaign kept its promises vague, but adhered to a broadly neoliberal agenda: pledging to cut public spending, trim the pensions of public employees, and put pressure on the unions to 'compromise'. He has a fine nose for the political winds, but lacks any strong connection to a popular base.

Brown won by a comfortable distance, performing particularly well among blacks, Latinos and residents of large cities: exit polls gave him 77, 63 and 66 per cent of the vote in these categories respectively. Among those earning under \$30,000, he scored 58 per cent and among those earning \$30–50,000, 63 per cent. Much of the credit for his victory must go to the public-sector unions, which formed the backbone of his campaign. The nurses union, the most disciplined and motivated, attacked Whitman directly, mocking her ads, launching a stockholders' suit against eBay, and picketing her home in the millionaires' enclave of Atherton, south of San Francisco. Other unions, under the umbrella of the California Labor Federation, preferred to work through phone banks or by going door-to-door. But it is not only the Democrats' continued hold on organized labour that has helped to keep California blue for the foreseeable future; the demographic situation has also been working in their favour.

End of the White Republic?

Beneath the rough seas of contemporary Californian politics run deeper currents of shifting demography. A fundamental cause of the political and governmental impasse in the state is a longstanding 'crisis of representation'.¹⁷ To paraphrase Gramsci, the old White Republic is dying and the new Latino borderland has yet to be born. People of European origin are now a minority in California—42 per cent—and people of colour the majority: Latinos make up one-third, Asians one-eighth and African-Americans one-twelfth of the state's population of 37 million. Some 10 million people born abroad now live in the state, over a quarter of the populace—and a quarter of all US immigrants. Immigration has slowed and shifted to elsewhere in the country as Californian labour demand has ebbed and militarization of the border increased under Operation Gatekeeper. Nevertheless, the children of immigrants are still swelling the numbers of non-white residents, workers and students.

¹⁷ Lustig, 'Voting, Elections and the Failure of Representation in California', in *Remaking California*, pp. 99–120.

Yet whites have continued to dominate electoral politics, still making up two-thirds of the state's regular voters. The majority of colour is vastly under-represented, because so many are non-citizens (60 per cent), underage (45 per cent) or not registered to vote. Turnout rates among California's eligible Latinos are an abysmal 30 per cent, and the number of Latino representatives in city councils, the legislature and Congress remains far below what would be proportionate; Antonio Villaraigosa is the first Latino Mayor of Los Angeles since the 19th century.¹⁸ The fading white plurality continues to exert a disproportionate influence on the state. Markedly older, richer and more propertied, the white electorate has correspondingly conservative views: for many, immigrants are the problem, the Spanish language a threat, and law and order a rallying cry. Even the centrist white voter tends to view taxes as a burden, schools of little interest, and the collective future as someone else's problem.

By contrast, though Latinos and Asians are often conservative on issues such as abortion and same-sex marriage, they are solidly aligned behind better public schools and social services. The state's rising numbers of newly registered voters are overwhelmingly young, first- or second-generation immigrants, and Democrat.¹⁹ If the last election is any indication, California may have experienced a tectonic shift: the support of people of colour was a major reason for the Democrats' continued success there in the face of a national sweep by the Republicans. That these voters did not support legalization of marijuana is not surprising, but signs are that their views on the highly charged question of gay marriage are shifting, in the context of the ongoing battle to reverse the ban passed in 2008 as Proposition 8.

Immigrant rights have been a highly charged issue for thirty years, bringing important shifts in the political landscape. The focal points have generally been ballot propositions of a nativist bent, which have summoned counter-mobilizations from communities of colour. A 1986 proposition made English the official language of California, while in 1994 Proposition 187, backed by Republican Governor Pete Wilson, tried to bar illegal immigrants from access to schools and social services; though nullified by the courts, it pushed millions of the state's new citizens to register and vote, mostly as Democrats. In 1996, Proposition

¹⁸ Figures from Public Policy Institute of California, www.ppic.org.

¹⁹ Jane Junn, 'Why California Will Stay Blue', *San Francisco Chronicle*, 8 November 2010.

209 ended California's affirmative-action programmes. More recently the focus has been on Arizona's new anti-immigrant law; protests have swept through California's Latino communities.²⁰

Along with the new demography has come a new political geography. The old split was North–South, with a century of Bay Area domination of state government followed in the 1980s by the counter-revolution of a New Right bursting out of populous Southern California. Now, the geographic split runs East–West, between the coast and the interior valleys. Broadly speaking, the coast is rich, urbane, polyglot and liberal; the interior is poor, workaday, Christian, rural (or only recently suburbanized) and conservative. While the population of the interior is increasingly working-class and Latino, politics there is still dominated by a local white elite, drawn either from the ranks of the old agrarian order or from among a newer real-estate cohort, and backed by a white electorate as reactionary as in any red state.²¹

In Southern California there have been tentative moves by unions to organize warehouse operations or the building trades in the Inland Empire. In the north, the CFT has pulled together the Alliance for a Better California, uniting Central Valley community organizers, faith-based groups and African-American and Latino activists, while the state Labor Federation has consolidated local labour councils in the Central Valley to further its voter-registration drives. Community organizers from PICO and the ACCE are well established in the inland towns, seeking to mobilize on issues of fiscal reform, schools, health care and immigration. Nonetheless, the level of activism remains well below that in the coastal cities.

Cheating the children

The current economic and fiscal crises are just the latest symptoms of the slow decline of California's postwar commonwealth. Here, as much as anywhere in the US, the golden age of American capitalism was built on a solid foundation of public investment and competent administration.

²⁰ Arizona recapitulates California in the 1990s: it has today's worst budget deficit in proportional terms, thanks to its massive housing crash, and the most clandestine crossings now that California's border has been walled up.

²¹ See Lisa McGirr, *Suburban Warriors: The Origins of the New American Right*, Princeton 2001 and Frédéric Douzet et al., eds, *The New Political Geography of California*, Berkeley 2008.

Here, too, the steady advance of neoliberalism has undermined the public sector, and threatens to poison the wellsprings of entrepreneurial capitalism as well. This is especially apparent in the realm of education, from primary to university levels. The state's once-great public-school system has been brought to its knees. Primary and secondary education (K–12: from kindergarten to twelfth grade) has fallen from the top of national rankings to the bottom by a range of measures, from test scores to dropout rates; the latter is currently at 25 per cent. There are many reasons for the slide, but the heart of the matter is penury—both of pupils and of the schools themselves, as economic inequalities and budget cuts bear down on California's children.

Childhood poverty in California is at unprecedented levels—over 20 per cent. The state contains one-sixth of all children in poverty in the US, compared to one-tenth thirty years ago. Poor children perform worse in school than their better-off peers. Little wonder, then, that standardized test scores around the state correlate closely with the class (and hence race) of their surrounding communities.²² At the same time, since 1970 school spending per pupil has fallen dramatically, and California has moved from being among the top five states to the bottom five, in the same league as Mississippi. Before Proposition 13, school districts got three-quarters of their income from local property taxes; now this is down to one-third, and Sacramento has to pick up the rest. In every recession, cutbacks have been imposed anew, and school programmes sliced to the bone; music, art and other options are the first things to go. Thousands of teachers have been laid off, and class sizes have grown to unmanageable numbers.

In 1988, an attempt was made to staunch the bleeding of education funds through Proposition 98, which mandated that forty per cent of the annual state budget go to K–12 education. Nevertheless, the Proposition cannot guarantee absolute levels of funding and is redundant when the state has no money to spend. In each recession, a new wave of bankruptcies rolls across California's school districts—always in the poorest places, such as Richmond in the Bay Area or Lynwood in LA County. In the worst cases, as in Oakland in 2003, the state sends in a team to shrink the budget and downsize people's aspirations. Today the state lists 175 out of 1,050 school districts as being in serious financial straits. Charter schools are a favoured neoliberal nostrum; nominally under the control of school

²² For data, see the National Center for Children in Poverty, www.nccp.org.

districts, they are operated by outside contractors, often for profit. There is no evidence that they do better than public schools on average; more relevant is the fact that they are not covered by union accords which would allow teachers to secure decent pay and other protections.

If the prevailing doxa is that the schools are failing the state, there is an even more pernicious idea in circulation—that the children themselves are failures. They cannot read, do badly on standardized tests, are restless and insolent, they do not graduate. The solution: throw out the troublemakers, lock down school yards and bring in police patrols; assign hours of boring, repetitive homework, so that anxious parents will believe their children are getting a rigorous education; and above all, make them sit test after test after test.

All this has taken place against the backdrop of shifts in the composition of the school population, as millions of children of immigrants have entered California's classrooms. Latinos make up half of all school-age children, but the other half comes from households speaking over 100 mother-tongues. Most bilingual classes were swept away by Proposition 227, passed in 1998, which reinforced the use of English and restricted teaching in other languages. Nativists argue that the system has been overwhelmed by mass immigration; but if the number of people arriving between 1975 and 2000 was no greater than that arriving from 1950 to 1975, the failure to invest in schools has a clear racial taint: while the postwar wave of migrants was mostly white and US-born, the second is non-white and born to foreign parents.

The decline of the schools bespeaks 'forty years of failed inclusion'.²³ After the passage of the Civil Rights Act of 1964, fierce battles broke out in cities across the country over school integration. In the early 1970s, court decisions forced cities to bus students from one district to another (though not between cities and suburbs) in order more effectively to desegregate education. Los Angeles and countless other areas were torn apart by the ensuing struggles over busing. Another landmark was the California Supreme Court's Serrano decision of 1971, which required the state authorities to redistribute tax revenues to compensate for the egregious inequalities of funding and resources between school districts. Yet despite efforts to equalize funding, imbalances between districts are

²³ Ronald Schmidt, 'Immigration, Diversity and the Challenge of Democratic Inclusion', in Lustig, *Remaking California*, pp. 121–39.

worse than ever. The upper middle class shield themselves by simply taking their children out of the public-school system and sending them to private institutions instead; previously rare, such withdrawals have now become commonplace—along with another alternative for the well-off, which is to move to prosperous, whiter suburbs where the tax base is richer. If public funds are insufficient, parents raise money amongst themselves for school endowments. In July of this year, a combination of civil-society groups launched a lawsuit over the injustice of school funding, hoping to produce a ‘son of Serrano’ ruling.

The main opposition to the present state of affairs in education comes from the teachers’ unions. The CTA led the fight to win Proposition 98 and is a perennial force to be reckoned with in Sacramento. CTA local branches have tried to hold the line against charter schools and layoffs, and teachers have received regular backing from parents, pastors and community organizers. The CFT has been active, too; it put together a California Schools Coalition with the SEIU and the local-government and health-care employees’ union, the AFSCME. In March and April 2010, the Coalition formed part of a month-long march from Los Angeles to Sacramento to defend public education and public services, agitating for reforms to school funding and the tax system. Community groups, for their part, have set up a coalition—Parents and Students for Great Schools—to push for better and more equal funding. But within the vortex of the Great Recession, the schools continue to spiral downward.²⁴

The higher learning?

California’s three-tier public university system is by far the largest in America and in the past has been one of the best in the world. The nine-campus University of California (UC), with Berkeley the flagship, is widely acknowledged to be the finest public university in the country. The open-access, two-year California Community Colleges (CCC) serve almost three million students a year on 110 campuses, while the 23 campuses of the California State University (CSU) enroll almost half a million. The latter two serve the bulk of California’s working-class students of colour, as they try to make their way into a hostile labour market.

Higher education has felt the cold winds of fiscal decline for twenty years. The CSU and CCC systems have fared the worst. They have taken

²⁴ David Bacon, ‘California’s Perfect Storm’, *Rethinking Schools*, Fall 2010.

major cuts in recessions and received little in return during the boom times. At least half the teaching staff at the CSUs and two-thirds at the CCCs are now adjunct lecturers, rather than regular faculty—in line with national trends.²⁵ The Great Recession has cut a swath through all college budgets. In the summer of 2009, the UC authorities imposed a 20 per cent cut in the operations budget, a 5–10 per cent cut in pay and a 32 per cent increase in tuition. Faculty recruitment came to an abrupt halt, and hundreds of staff were laid off. The CSU and CCC systems, faced with similar cutbacks, have eliminated hundreds of courses, made lecturers and staff redundant and halted new construction, while raising fees and turning away hundreds of thousands of students.

Within the universities, there is a growing class divide. Administrators and top UC faculty have lined their pockets with hugely inflated salaries, while lecturers, junior UC faculty and CSU/CCC professors find themselves hard pressed to pay the rent. One study shows that in the last decade, administrative hires at UC have doubled, while other employment has risen only by a third. At Berkeley, a consultant's report identified tens of millions of dollars that are spent inefficiently in procurement and on extra layers of management; yet no managerial heads have rolled, the main burden instead falling on lower-level employees through organizational restructuring and layoffs.²⁶ Departmental cutbacks leave teaching staff with little time to think and students with less support in navigating college life. At the same time, the raising of tuition fees has become a regular ritual; though UC has maintained a decent system of grants for needy students, annual fees of over \$11,000—likely to rise inexorably—are driving many others, especially students of colour, away.

The UC administration is eager to restructure the university in order to increase revenues. Among the proposals they favour are a three-year undergraduate degree to run students through the mill more quickly and bringing in more foreign students, who pay at least double. Another idea involves offering more online courses and degrees, as a means of selling

²⁵ On the broader shifts in education, see Frank Donoghue, *The Last Professors*, New York 2008, and Christopher Newfield, *Unmaking the Public University*, Cambridge MA, 2008.

²⁶ Charles Schwartz, 'Who Pays the Hidden Cost of University Research?', *Minding the Campus* blog, 9 August 2010. For information on Berkeley's restructuring and faculty critiques, see the 'Reforming the University' section of the UC Berkeley Faculty Association website, ucbfa.org.

the UC brand around the world. Meanwhile, the professional schools within the UC system—medicine, law, public health and so on—are being allowed to price their ‘product’ at the level of their choosing. All of these moves undermine the ideals of the public university. The notion of education as a social investment, contributing to the advancement of human knowledge, is being replaced by a money-making activity, in which academics produce patentable inventions and students make a personal investment in their ‘human capital’, to be financed by taking out massive loans. On current trends, we may be witnessing the end of liberal education for all but the elite.²⁷

Students up and down the state rose up in anger against the cutbacks and fee increases last year (one slogan read: ‘Raise Hell, Not Costs!’). From Santa Cruz to Berkeley to Los Angeles, they held public debates and protests and occupied buildings, in a show of strength not seen since the 1960s. Starting in late September 2009, mass walkouts of staff and students took place across the UC system, and a group of students at Santa Cruz began the wave of occupations, which then spread to UCLA, Berkeley and UC Davis in November.²⁸ UC administrators responded by repeatedly calling out the cops—both the UC force and local police—to break up protests and end the occupations. The UC Regents went ahead with the fee increase all the same.

In January 2010, in response to the turmoil, the governor offered a greater share of the state budget to higher education. Then, on March 4, tens of thousands of students and teachers across the state, from primary schools to universities, staged a massive walkout and demonstrations to defend public education; these then spread to campuses around the country. State allocations did rise a bit in the final budget passed in early autumn, but the Regents were soon raising tuition by another 8 per cent—despite a new round of protests on October 5 and violent confrontations between demonstrators and police at their meeting in San Francisco on November 17. But the students face a Sisyphean task in trying to face down a recalcitrant government and administration

²⁷ Even though the public supports raising taxes over increasing student fees, according to a recent poll by the Public Policy Institute of California; see Mark Baldassare et al., ‘Californians and Higher Education’, November 2010, available at www.ppic.org.

²⁸ For more on the protests and changes in the university, see the Occupy California and Remaking the University blogs.

at the same time. There are also divisions within the student movement, along three fault-lines: between the inert mass and more activist student organizations; between the latter and the radical 'occupationists'; and between white left and radical students of colour. While not hard and fast distinctions, they are long standing and debilitating in their own right.

Among the faculty, the strongest opposition to budget cuts comes from the California Faculty Association in the CSU system and from the CFT, which represents a mix of CSU and CCC faculty, UC lecturers and K-12 school teachers. A minority of UC professors still care deeply about the purposes of the public university and have rallied to the cause, notably under the banners of SAVE UC at Berkeley and the Faculty Organizing Group at Santa Cruz.²⁹ But the elite professoriate is mostly in denial—hunkering down in their labs, relying on the good faith of administrators, pursuing corporate research grants or offering their services in lucrative consultancies.

Whither the Golden State?

California has been living off the accrued capital of the past. The New Deal and postwar eras left the state with an immense legacy of infrastructural investments. Schools and universities were a big part of this, along with the world's most advanced freeway network, water-storage and transfer system, and park and wilderness complex. For the last thirty years, there has been too little tax revenue and too little investment. To keep things running, Sacramento has gone deeper and deeper into debt through a series of huge bond issues for prisons, parks and waterworks. By this sleight of hand, Californians have been fooled into thinking they could have both low taxes and high quality public infrastructure. The trick was repeated over and over, in a clear parallel to the nationwide accumulation of excessive mortgage debt. As a result, California now has the worst bond rating of any state.

Examples of failures to invest abound. California's highways are rated the second worst in the United States. Its prisons are so overcrowded that they are in federal receivership. And state pension funds for employees, teachers and UC staff are all in a parlous state, because the state government stopped paying into them in the recession of the early 1990s,

²⁹ See www.saveuc.org and The New UC blog for ongoing news.

leaving the endowments to ride the stock markets. With some estimates of unfunded liabilities running as high as \$500 billion, now everyone is scrambling for ways to make the problem disappear—by reducing benefits, increasing contributions, raising the retirement age or shifting to privatized pension plans.³⁰ A High Speed Rail link between the Bay Area and Los Angeles ought to be a sign of forward thinking, except that it is about thirty years too late. A generation ago the LA–San Francisco air corridor was one of the busiest in the world, land prices were reasonable and a rail line would have put California at the forefront of transportation technology. Now it is laughably behind the Europeans and Asians. Furthermore, despite new federal aid and an enormous bond issue approved by voters, the state may be unable to afford the bloated price, and the project is beset by local objections to routing, particularly from wealthy residents of the San Francisco peninsula.

One area where long-term thinking is in evidence is in the response to climate change. California has a history of energy-conservation policy going back to the 1970s, resulting in the state now having the lowest per capita energy use in the US. In 2006, the legislature passed AB32, a law that mandated reductions in greenhouse-gas emissions of 25 per cent by 2020. Governor Schwarzenegger jumped on the environmental bandwagon, and Silicon Valley capitalists saw gains to be made from the new technologies that would be required. When two Texas oil companies tried to use the current recession as an excuse to rescind AB32 through a ballot proposition in November 2010, it was rejected decisively by the voters, 61 to 39 per cent. Opposition came not only from environmentalists, but from Silicon Valley's TechNet lobbying group—comprising the likes of Google, Yahoo and Apple—and the venture-capital crowd. The Valley's capitalists are some of the few left in the US who are more interested in production and innovation than speculation, and who understand their dependence on government programmes.³¹ Despite the failure of the Obama administration to make headway on the climate front, California may yet lead the transition to a Green Economy.

During the postwar era, California's prosperity was underwritten by massive government investment and overseen by a reformed administration in the mould of the New Deal. At the same time, it rested on the

³⁰ 'A Gold-Plated Burden', *Economist*, 14 October 2010.

³¹ Tom Abate, 'Why Silicon Valley Faces Fresh Threats', *San Francisco Chronicle*, 11 February 2010.

basis of a skilled labour force, who were paid healthy wages, supported by unions and proud to see their children advance by means of public education. Inequality was muted, thanks to progressive taxation, inexpensive land and a quiet stock market. California lived off that legacy for many years, even as it entered the era of global competition and neo-liberalism; indeed, its continued success seemed to vindicate the New Economy, even as the rest of the country sank into a post-industrial stupor. But the Golden State was sailing on sunk capital. Today, California has run aground on the reefs of inequality and racial division, inferior schooling and incapacitated government, while those who profited from the boom times have refused to share their good fortune with new arrivals. Without California's dynamism, the US will lose its chief motor of growth and continue its long decline. The new working class in California will have to break the bonds of race and ideology, and demand good schools, more democratically accountable government and a more equitable economic settlement, if there is to be any hope that this gloomy trajectory can be averted.