



UCLA

Human Resources Round Table (HARRT)

**CALIFORNIA
HUMAN
RESOURCES
FORECAST
1995**

Rosalind M. Schwartz
Daniel J. B. Mitchell

**INSTITUTE OF INDUSTRIAL RELATIONS
UNIVERSITY OF CALIFORNIA, LOS ANGELES**



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For more information about the UCLA California Human
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FOREWORD



David Lewin
Chairman, HARRT;
Professor, Vice-Dean and
Faculty Director of the MBA
Program, Anderson Graduate
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The *California Human Resources Forecast* is prepared annually by members of the Human Resources Round Table (HARRT), a group of senior human resource executives that meets regularly on the UCLA campus and once a year at an off-site retreat with UCLA faculty who specialize in the area of human resources and industrial relations. HARRT's mission is to enhance the practice of human resource management in business enterprises, and to enhance the relevance to management of the faculty's research on human resource topics, issues and problems. In addition, HARRT provides a unique cross-industry network of leading human resource practitioners who, in conjunction with the University, form a true learning community.

Traditionally, HARRT activities and meetings have been private/proprietary, with members discussing the implications of faculty research for human resource policy and practice in their firms as well as the differences in human resource policy and practice among their firms. Especially in recent years, these discussions have focused on the contributions, theoretical and practical, of human resource strategy, management, policy and practice to the financial performance of firms represented in HARRT.

In 1992, the HARRT members embarked on a more "public" and more policy-oriented activity, namely, an annual forecast of key human resource trends and developments in the year ahead. As readers will note from this *Forecast*, some of these trends/developments are expressed quantitatively in estimates of unemployment, hiring activity, and compensation during the coming year. Other components of the *Forecast*, however, are devoted to potential/likely development among California-based firms in the areas of work force downsizing, organizational restructuring and job creation, and to public policy initiatives and changes in the areas of education, immigration, crime and taxes.

A forecast—even an "expert" forecast, such as this one—does not of course merely emerge out of discussions among HARRT members. Rather, the forecast is led, coordinated and otherwise managed by key HARRT officials. For the *California Human Resources Forecast 1995*, these individuals are Daniel J.B. Mitchell, Professor of Human Resources and Industrial Relations in the UCLA Anderson Graduate School of Management, and Rosalind M. Schwartz, Director of HARRT and Director of the Center for Management Research and Education in the UCLA Institute of Industrial Relations. I extend my deep gratitude to Dan and Roz for the yeoman work they undertook to bring the *California Human Resources Forecast 1995* to fruition. Readers of the *Forecast* will want to pinpoint the key trends and developments contained in it, and will also want to "track" the *Forecast's* accuracy in terms of key human resource initiatives and developments in California that occur during 1995.

David Lewin
Chairman, HARRT
Professor, Vice-Dean and Faculty Director of the MBA Program,
Anderson Graduate School of Management, UCLA

HUMAN RESOURCES ROUND TABLE (HARRT)

The UCLA Human Resources Round Table (HARRT) was established in 1986 and is affiliated with the Institute of Industrial Relations, School of Public Policy and Social Research and the Anderson Graduate School of Management. HARRT's mission is to enhance the profession of human resource management by:

- Linking the academic and practitioner human resource management communities.
- Strengthening the connections between human resource management and business strategy, policy, and practice.
- Strengthening the network of senior human resource executives across a variety of industries.
- Involving senior human resource executives in the production and dissemination of knowledge.

HARRT's membership consists of senior human resource executives in leading California businesses. The participating UCLA faculty are drawn from a variety of disciplines and have conducted research in areas of relevance to human resource management.

CALIFORNIA HUMAN RESOURCES FORECAST

This report reflects the outlook on key California human resource issues from the perspective of the HARRT membership. In this forecast, the HARRT members look to 1995 and beyond as they identify and discuss those issues that will challenge business and human resource executives.

UCLA Human Resources Round Table (HARRT) 1995 California Forecast Executive Steering Committee

Tom Cromartie*, Senior Advisor, Labor Relations, Federal Express

Randy Gorrell Vice President, Human Resources, U.S. Computer Services

Gary Hasenbank, Corporate Vice President, Human Resources, Pinkerton Security and Investigation Services

Sally Newton, Vice President and Manager, Human Resources, Kaiser Permanente

Kevin J. Sullivan, Senior Vice President, Human Resources, Apple Computer, Inc.

Charles W. Thomson, Vice President, Personnel Services, Federal Express

Lucy Wander-Perna, Senior Vice President, Human Resources, Sony Pictures Entertainment

Daniel J. B. Mitchell, Professor, AGSM and School of Public Policy and Social Research, UCLA; Faculty Chair, UCLA Business Forecasting Project; Co-Chair, UCLA California Human Resources Forecast

Rosalind M. Schwartz, Director, HARRT, Institute of Industrial Relations, UCLA; Co-Chair, UCLA California Human Resources Forecast

*Mr. Cromartie substituted for Charles Thomson at the discussion session.

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Susan Garelli, Vice President, Human Resources, Avery Dennison

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Brenda Welsh, Vice President, Human Resources, Automobile Club of Southern California

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CALIFORNIA HUMAN RESOURCES FORECAST 1995



Rosalind M. Schwartz
*Director,
HARRT*

Introduction

The third annual California Human Resources Forecast identifies economic, political and social issues that are of crucial importance to the management of human resources in California in 1995. These issues are presented and examined by senior human resource executives.



Daniel J. B. Mitchell
*Professor, Anderson
Graduate School of
Management and
School of Public Policy
and Social Research, UCLA*

This year's Forecast was initiated by canvassing the members of the UCLA Human Resources Round Table (HARRT) for the most important human resource issues for 1995. HARRT members are senior human resource management executives in leading businesses headquartered in California. HARRT staff developed questions based on these issues submitted by the members. The questions were sent to those members who formed the Forecast steering committee. Committee members replied to the questions in writing and then met on November 7,

1994 at UCLA to discuss these issues. A draft report based on the discussions and written responses was prepared and distributed to the greater HARRT membership. At the November 30th HARRT general meeting, the draft was discussed, and this broader group elaborated on the issues. The report was revised on the basis of these later discussions.

The issues HARRT panelists considered this year included the California economy, compensation, downsizing, job retention and creation, immigration and crime. Panel members were most focused on the California economy, approaching the issue of a lagging recovery from a variety of perspectives. With successive discussions optimism increased as the quality of the natural, technical and human resources of the state came into focus.

The California Economy: Continued Recovery Seen By Panel



Charles W. Thomson
*Vice President, Personnel Services,
Federal Express*

The recovery will continue. However, the HARRT panel was initially hesitant to commit to a fast rate of recovery in Southern California. Several reasons were put forward. "Too many issues will produce caution including taxes, ergonomics, state labor laws, and fears about the cost to rebuild the infrastructure," says Chuck Thomson of Federal Express. The continuation of downsizing of California's defense industries is seen as a major impediment to a faster recovery.

The Divided State Economy



Kevin J. Sullivan
*Senior Vice President,
Human Resources,
Apple Computer, Inc.*

Kevin Sullivan of Apple Computer Company sees California "as a grouping of economies rather than one." He predicts an outstanding year for Northern California's high tech industry; disarmament will slow Southern California's economy; and the health of the agricultural economy will depend on the availability of water, more of which may be diverted to community use.

Northern California is predicted to lead the state's recovery. The fact that we focus on technology in California will continue to be "a boon for us," says Randy Gorrell of U.S. Computer Services. The expanding technology-based service industry will be here in California. Our



Randy Gorrell
*Vice President,
Human Resources,
U.S. Computer Services*

competition is the Southeast U.S., but they don't have the technology and skilled labor (as well as the advantageous time zone) we have.

California is best situated geographically and prepared psychologically to deal with the new economic realities. Eastern U.S. sees the economic axis running from the U.S. to Western Europe. However, that is an outdated vision. Today the axes run to Asia and to South America. California has a clearer understanding of the Pacific Rim as well as ties through its Asian communities. Its businesses are also aware of the economic expansion—and expansion potential—of South America. And much of the new activity will be centered around technology, a California competency.

Unlike their East Coast cousins, Californians are open to change, new ways of doing things. The "frontier mentality" is an advantage in this period of rapid change, when new approaches and solutions are needed.

High-Tech Opportunities

The recovery for 1995 will differ by economic sector. Telecommunications should be robust in California. There will be growth in cable and software. As these areas transition to the information superhighway, new services will develop. An example is "transaction management"—billing for a variety of utilities and services and payment of these bills. In the future, they may arrive all in one envelope, or via TV or personal computer. Payment could be at a collection point, or by phone, or by computer. We do not have all the technology yet, but as change occurs there will be a need for varying services and California is in a position to provide them. It has much of the technology and the people that are needed.

These new services will replace older services and although California will benefit, other parts of the country will pay the price. Some of Southern California's defense industry technology could be utilized in this transformation. Much of the hardware work, the manufacturing of computers, has moved to less expensive localities. But California is still a major center for systems technology, the software that drives the systems,

as well as the applications. Technology is seen as a big factor contributing to a robust recovery.

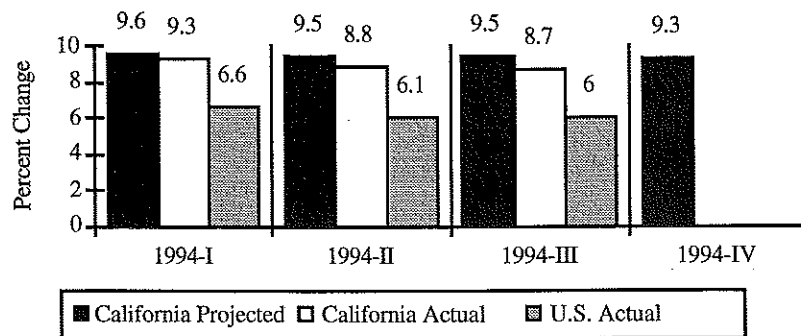
The pace of technological change may not be that rapid initially, with some observers considering the superhighway at this point "a super dirt road." For rapid change, a new infrastructure must be built, applications must be developed and people must be willing to change the way they do things.

In short, technology is seen as a key to California's recovery. The market is open to use the state's lead in technology to service the Pacific Rim. Growth of the high-tech sector is preferable to growth of many service industries which are sometimes tied to low-paying jobs.

The California Employment Picture

California employment picked up in 1994. The state's unemployment rate registered 9.3 percent the first quarter of 1994, moving to 8.7 percent by the third quarter. This trend supports the other signs of economic recovery.

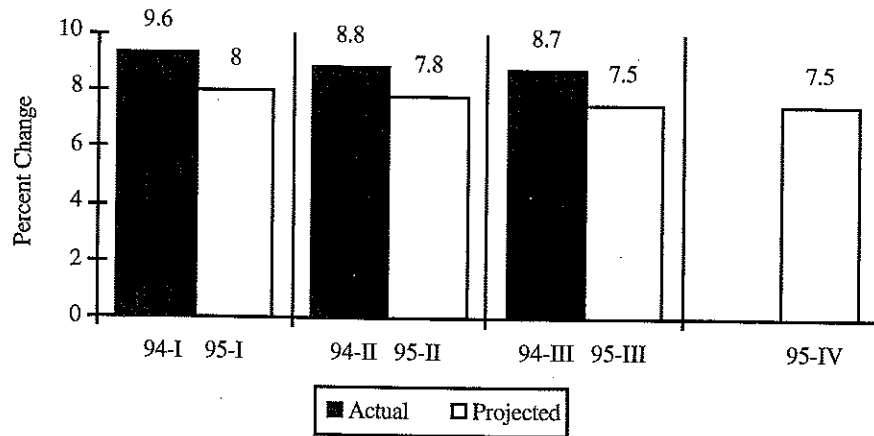
Figure 1. Unemployment: 1994 California and U.S.



The HARRT projections a year ago for the 1994 unemployment rates were somewhat higher than the actual rates (Figure 1). These projections were made in a very pessimistic economic environment, with continuing large downsizings. Again, the panel believes that a portion of the actual decline in unemployment figures is a reflection of people withdrawing from the labor market (early retirements, "discouraged

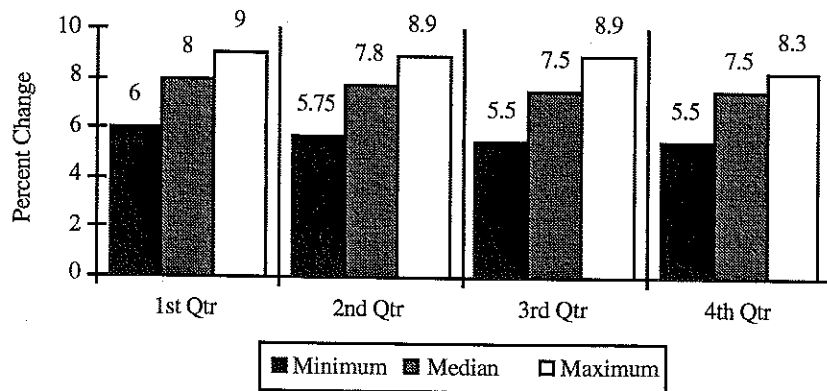
workers") or working in part-time jobs, as well as continued migration to other parts of the country which had more robust job markets in 1994.

Figure 2. California Unemployment Rate: 1994 Actual and 1995 Projected



The HARRT projections for unemployment rates in 1995 reflect an optimism about the economy, with an expectation of 8 percent unemployment in the first quarter, decreasing to 7.5 percent by the third and fourth quarters (Figure 2).

Figure 3. California 1995 Unemployment Rate: Range of Projections



The range of individual projections of the 1995 unemployment rates was notably large, as seen in Figure 3. This variance indicates the uncertainty about the pace of the economic recovery.

Employer Hiring Intentions.

It is useful to look at the results of the Manpower, Inc. Employment Outlook Survey for the first quarter of 1995 in comparison to the HARRT panel data. The Manpower forecast is the product of a national telephone survey of over 15,000 employers in 469 U.S. cities. Employers are asked if they plan to maintain or change the size of their workforce during the next quarter of the year. The percentage of employers expecting to increase their workforce minus the percentage of employers expecting to decrease their workforce results in the net change, which can be used as an index to examine employment trends.

Table 1. Anticipated Hiring Trends: 1st Quarter 1995

	Increase	No Change	Decrease	Don't Know	Net (Inc.-Dec.)
Greater Los Angeles	19%	64%	10%	7%	9%
So. Calif. Average	19%	62%	13%	6%	6%
No. Calif. Average	20%	60%	16%	4%	4%
Calif. Average	19%	62%	14%	5%	5%
U.S.	22%	63%	12%	3%	10%

Source: Manpower, Inc. Employment Outlook Survey, First Quarter of 1995

As seen in Table 1, California still lags the nation in hiring strength. The national figure for increased hiring, 22 percent is reported to be the highest rate for a first quarter since 1985, illustrating the rate of the U.S. economic recovery.

There is a mix of hiring intentions across California, with Southern California showing a slight edge in net hiring at 6 percent as compared to 4 percent for Northern California. The City of Los Angeles provided very optimistic projections, with 27 percent of the employers surveyed planning to add to their workforce and 5 percent planning to decrease their workforce, leading to a net hiring of 22 percent. However, the Greater Los Angeles area, considered as a whole, shows a 9 percent net

increase, a projection considered only fair when compared with other U.S. large urban areas. Additionally, San Francisco reported a 0 percent net gain, with 18 percent of its employers reporting an increase in workforce size and 18 percent reporting a decrease. Santa Clara County reported a 38 percent increase, an 8 percent decrease, resulting in a 30 percent net hiring index. This last set of figures is in line with the HARRT panel's prediction of the high-tech north leading the state's recovery.

In terms of industries, construction employment is seen as steady. Although there is more confidence in the economy, rising interest rates have put a lid on any significant increase in activity. As noted in several other places, high technology industries are expected to continue growing. The service areas are also expected to grow this first quarter, responding to the upbeat attitude about the economy. Manufacturing is predicted to increase. Growth will be most noticeable in "small production," e.g., small firms producing parts for electronic equipment. This kind of growth will continue in areas such as Orange County, where there are many small manufacturing facilities.

Compensation

Panelists consider the cost of labor in California in terms of wage and salary cost. HARRT members were provided with historical data from the U.S. Bureau of Labor Statistics Employment Cost Index, which shows changes in private sector wages and salaries for the U.S. and the West. Members were then asked to project changes in wages and salaries for California for 1995.

The prediction for change in wages and salaries was a 3.5 percent rise for 1995. This number is higher than changes in the past several years. However, the panel's conversation around change in compensation indicated a modest approach to changes in wages and salaries.

A number of reasons were put forward to explain why changes will be modest. Businesses are getting healthier, but because they do not anticipate substantial hiring, there is no big bidding up of compensation. There has also been no significant acceleration in price inflation to push up salaries. The soft job market in California still makes employees



Tom Cromartie
*Senior Advisor,
Labor Relations,
Federal Express*

fearful about their own jobs and lessens the push for increases. As Tom Cromartie of Federal Express noted, "Given the still high unemployment rate in California where employees are paid fairly and see what the economy is doing, they do not see any reason for high demands. They prefer to stay put and accept the modest gains they are making."

Variable Pay Systems

Additionally, there is less going into base salaries. More variable pay in the form of bonuses and lump sums is being used. More compensation is being tied to measurable performance outcomes—gain sharing and profit sharing. These performance awards tend to be more team-based rather than individual. Unions are often not happy about these profit-sharing schemes, and are characterized as "viewing them with as much eagerness as another earthquake." They are concerned about the uncertainty variable pay creates for employees. Nonetheless, market forces have propelled acquiescence.

Regional Pay

There is a greater tendency to consider locale in pay scales for companies with broad geographical distribution of employees. Although common for non-exempt employees, other employees, including managerial, are being included. Federal Express tends to be locale specific, and makes geographical adjustments. Apple had been applying its California wage scale nationally; it has since adjusted its pay system to reflect regional norms. U.S. Computer Services was using a national standard, with the result of employees in Atlanta receiving the same salaries as California staff. That standard has since been localized.

Executive Pay

Looking more closely at the structure of managerial salaries, the at-risk component is going to be higher. Bonuses are being tied to company performance to a greater extent than individual performance. Individual performance measurements are very difficult to use—perhaps because there has never been an accurate enough measurement system. At-risk compensation for management outside of California will rise,

according to panelists. Managerial salaries outside California are predicted to rise significantly more than California because they started at a much lower base. In that respect, executive pay differs from general pay totals for all employees. California wages have been rising faster relative to U.S. wages, despite the recession.

In industries, such as entertainment where there are individual executive contracts which lock in salaries, management has been trying to negotiate the numbers down so that increases over the life of the contract are in line with external increases.

Pay Dispersion

Will there be more dispersion of salaries? Some, although such variations can produce problems in the ranks. If there is a "pot", a fixed total sum, it is easier to justify more to high performers and less to low performers. Problems can also be minimized by implementing an entirely new system and clearly communicating the program to employees. Where there is visible support at the top for a changed pay system, there are fewer difficulties.

California managers are more willing to create alternative systems for compensation. For example, in an organization which was implementing performance-based merit raises, it was the Southern California region which showed dramatic differences among the raises awarded. In another organization, retention bonuses are paid to keep key talent. Systems are more likely to be transformed where people have had change—and in California people have experienced more change. Long time employees are more interested in job security. But, where there is organizational change and new people, there is a desire to differentiate.

Downsizing

The issue of downsizing has been one of debate more recently. What are the true reasons for downsizing? What are the benefits and what are the other impacts on the organization?

From the vantage of the health care industry, the downsizing trend is expected to continue. According to our health care panelist, Sally



Sally Newton
*Vice President and Manager,
Human Resources,
Kaiser Permanente*

Newton of Kaiser Permanente, describing her own organization, the "major contributing factors...include increasing pressures to decrease the cost structure to be competitive, improved processes and care delivery systems which create needs for re-engineering efforts, and flattening the organization."

Pressure From Financial Markets

Some downsizing is seen as a gesture resulting from pressure from stockholders and boards for some action or change. Gary Hasenbank of Pinkerton Security and Investigation Services comments that companies may not postmortem changes such as restructuring as it may be "impolitic to critique past actions because we are too busy demonstrating our commitment to the future.... Boards need to monitor the changes they endorse instead of listening to the latest "Spin Doctor" regarding the future."



Gary Hasenbank
*Corporate Vice President,
Human Resources
and Training,
Pinkerton Security and
Investigation Services*

Overall, the HARRT panel expects some continued downsizing across the state. In some instances, it will be done to meet tactical objectives, as in defense. Some periodic downsizing is seen as inevitable in a global economy. Pressures and changes in other parts of the world may lead to downsizing in California, even if the local economy is improving

Entertainment

The entertainment industry is not seen as planning downsizing. Much of the work is on a project basis. Project by project, the industry is putting the emphasis on making better use of available technology to gain efficiencies. On the business side, re-engineering of work occurs as people leave. This process may result in fewer workers, but is not actual downsizing.

Outplacement

Outplacement services are widely used across industries. Given the structure and makeup of the outplacement industry, it is felt that employee displacement and re-placement is going to continue into the longer term. Outplacement services are believed to be very effective for

employee transition. Not only does the service assist in locating new jobs, but also communicates to employees that the company still cares about them, even if they no longer have their old jobs. Evidence of caring may mitigate possible violent behavior triggered by lay-off. And remaining employees appreciate the effort that was made to help others find new employment.

Still, despite the impression that outplacement is effective, there has not been careful measurement of the success of formal outplacement efforts. Nevertheless, the panelists sense that with outplacement, people do get jobs faster, and may, on advice, actually change careers. Most of the laid off employees appear to stay in California.

Apple does its transition assistance (outplacement) in-house. The company has terminated about eight thousand people since 1989 and hired back about seven thousand. It has redistributed employees from 100 percent in Silicon Valley to 60 percent in Southern California and 40 percent to the Bay area. Apple's procedure is: 1) explain the need to downsize 2) explain the process 3) invest the necessary time and effort in outplacement. This approach not only helps the let-go employees emotionally, but also helps the survivors. Apple's transition center operates on an ongoing basis. Training as a key element in keeping people employable is central to its philosophy.

Impact On Organization And Survivors

As expected, downsizing creates stress in the organization. In a unionized facility it is estimated that for each person laid off, another five to ten employees are affected through continued bumping rights, reduction in hours, and interdepartmental transfers, etc.

Sally Newton of Kaiser Permanente says of this phenomenon, "Many employees at all levels of the organization, unionized or not, feel that management has thrown out the traditional contract with employees without replacing it with a new contract. In fact, that is what businesses are being required to do. Job security is no longer a given, employee benefits are being reduced, career paths are changing and many job classifications are being eliminated altogether. Creating and maintaining a motivated

workforce is a tough challenge under these circumstances and it is even more difficult since having a workforce committed to the organization and aligned with the organizational goals is critical if an organization is to thrive in today's business climate."

Burn Out

There is a concern that if work is not re-configured after downsizing it will be done the same way with fewer people, leading to employee burn-out and eventually more hiring, bringing the workforce up to its original size. Employees are felt to be "stretched out." There is concern that downsizing is creating a lack of trust by employees, affecting productivity. As one panelist, quoting his employees, put it—employees were working at "redline", and like an engine working at redline on the gauge, they will eventually blow up. Overall, however, employers are still preferring to use overtime to new hires.

Panelists emphasized that downsizing was not a business strategy: constantly reducing cost does not by itself make a successful business. Companies have cut costs. They are now looking at improving margins, value added, and innovations to increase competition. The cost factor has been dealt with throughout the process making the U.S. very cost effective and very competitive on labor cost with Europe and Japan.

Job Retention and Creation



Lucy Wander-Perna
*Senior Vice President,
Human Resources,
Sony Pictures Entertainment*

The role of job retention and creation is seen as critical to the continued recovery of the California economy. Lucy Wander-Perna of Sony Pictures Entertainment sees two factors as necessary: "The first is that Sacramento must have an open mind and believe that the future of California is linked to a positive business environment. In addition, the business community needs to be better organized and do a better job of lobbying Sacramento and educating them with respect to the needs of the community and the contributions that a positive business environment can make." She believes that a concerted effort on the part of business could result in success. On an industry level, the entertainment industry made such an effort this past year, demonstrating to Sacramento the impact Hollywood has on the California economy and the U.S. economy.

Business-Government Cooperation And The Business Climate

It is felt that government and business have to work together to change the environment to make California affordable for industry to stay/move back. Incentives that are offered should be selective rather than blanket. There is little faith in the assistance of the public bureaucracy. Specific interventions by officials and other interested parties are seen as necessary when accommodation is needed.

It was noted (post election) that Sacramento is in a time of change, due to the new makeup of the legislature, term limits and decreasing budgets for legislative staff. This provides a two-year window of opportunity for business to affect what happens.

While overall the state is seen as not having a particularly friendly business climate—restrictive regulations, high taxes, crime, poor school systems were cited—it is still felt that California is a very desirable locale. The weather is a significant factor as well as a location appropriate to increasing interaction with the Pacific Rim and South America. Our Asian communities are very cohesive and produce excellent connections with emerging Asian businesses. We also have the technology and technological know-how valued in Asia. If government would remove the obstacles, the panel felt, industry could create the jobs.

Specific Reforms

Generally, a need is seen for government and business to work together to retain jobs in the state. Changes in the infrastructure must be made to create an environment inviting to businesses to move back to California. As noted, this may be a period where change is possible. That includes looking again at taxes and programs such as workers' compensation. Changes in the state legislature now open the possibility of tort reform. Enterprise zones are seen as positive efforts, particularly in light of the importance of small business fueling the state's economy. It would be helpful to create incentives and support for new ventures. Some of the joint partnership activities of California companies are seen to contribute to educational quality and job opportunities. These include collaborative efforts with education, government, and with other firms.

State Fiscal Outlook

Taxes and the state budget this year are expected to stay the same or rise some as new sources of revenue are sought. In the future some reductions might be possible as a result of immigration and welfare reform efforts.

In regard to the state budget, Randy Gorrell of U.S. Computer Services would like to see an emphasis on "real jobs generation platforms and programs to attract and retain industry." Chuck Thomson reflects a theme heard often from business: "the budget emphasis should be on education related to business needs and tax codes designed to create jobs."

Education

There is great concern over the quality of education, be it for broader societal or for more narrow business reasons. Sally Newton of Kaiser Permanente states that "a major overhaul of the education system is a priority and I would prefer to see budget emphasis in this area. Education and job opportunity are investments in our youth and the future of our community as well as our country. I find the increasing underclass and disparity between the haves and the have-nots to be extremely distressing. I know it may sound a bit radical, but I fear we could be setting the stage for our own Bolshevik revolution sometime. The hopelessness, alienation and lack of options felt by so many of our youths is frightening. I do not view education as a panacea for all of our ills, but I believe it is a major pathway to create productive, responsible citizens in our society."

Support of education is seen as necessary not only for K-12, but also for higher education, including university and technical education. The educational level of our population is seen as key to attracting and maintaining high tech industry as opposed to the lower level service sector.

Government Accountability and Change

How government, including education, operates is seen as a core problem. There is a question of accountability of government. Business

must continually reevaluate itself and re-engineer itself. If it does not change, does not meet the needs and expectations of its customers and does not use its resources efficiently, it will go out of business. Government, particularly the bureaucracy, does not have the incentives to examine itself and re-engineer. The civil service system, as well as tenure and protective labor agreements, add to the rigidity of the systems as they support the status quo. This rigidity will result in change by default, rather than by design—a more difficult and less effective method.

Tax Resistance

The people of California will not allow themselves to be taxed any more unless they see their money used wisely, according to the panel. As long as there are few efforts at self-examination and change in government, the public will have no confidence in the system. The initiative process will be widely used for a variety of issues until funds are redistributed to emerging issues, instead of a continuation of funding of established programs. But initiatives are blunt tools; the "three strikes" sentencing law, for example, is projected eventually to divert the state's entire higher education budget to prison construction and operation.

Immigration

The HARRT panel predicted (correctly) that Proposition 187—which denies many social services to illegal immigrants—would pass. What its appearance on the ballot accomplished was putting the immigration issue on the table and allowing for open discussion. But protracted litigation is likely to prevent implementation of its key provisions, or at least delay them.

The Fiscal Aspect Of Immigration

Like most Californians, our panelists recognize the role of immigration in our history, applaud the contributions of immigrants, and believe in a reasonable federal immigration policy. However, they do have concerns about illegal immigration, particularly in terms of the costs of public services provided to illegal immigrants and not reimbursed by the federal government. In the current economic climate, it is felt that

state funding of these services is an unfair burden on California. The law itself may not be a good piece of legislation, and there is concern about implementing it in a humane way, but some action was seen as necessary by the panel.

California As A Trend-Setter

California is viewed as the leader in raising social problems—such as increased illegal immigration—that have national significance. National policy will be affected by the raising of the issue. Lucy Wander-Perna of Sony Pictures Entertainment's expectations are "that there will be more monies focused on protecting our borders to slow the flow of immigrants and continued efforts on the state level to obtain federal funding to provide both the education and health services to individuals who reside in our state illegally. California is not alone in this and we, therefore, see states like Arizona, Texas and Florida as continuing to put the pressure on the federal government as well."

But the effect of significantly slowing the stream of illegal immigrants and greater vigilance in employment of the undocumented (as emphasized by Chuck Thomson of Federal Express) might be harmful to many small businesses. This sector of the economy often depends on cheap labor, primarily illegal immigrants, because other workers will not take these jobs at current wage rates. Tom Cromartie of Federal Express reminds us of the experience of some San Diego growers in the 1980's who insisted that they were going only to employ legal residents to do their picking. Crops decayed in the field because there were no takers to do that work at the going wage. Many small enterprises could go out of business without a pool of cheap labor available. So immigration control could also impose a cost on the California economy.

Crime

Although the local media highlight crime in California, crime is seen by the panel as a national issue. It is endemic to major urban areas throughout the country, and spreading to suburbia as well.

Crime affects business by imposing higher costs for taxes and additional costs for protecting property and employees. These costs are ultimately passed on to the consumer or contribute to business failures. With less confidence in the ability of the police to assist, companies are increasing their own security forces and use of security devices. There is also an increase in training, policies and procedures designed to prevent violent incidents from occurring. Sally Newton of Kaiser Permanente notes the increasing concern as organizations must cope with violence in the workplace, industrial theft, sabotage of equipment and security violations. In effect, crime control is being privatized.

California businesses now feel at a disadvantage in recruiting, and sometimes retaining, employees due to the crime factor in combination with the high cost of living. And, at the social level, Kevin Sullivan of Apple Computer Company believes that "crime in our inner cities is fueling economic apartheid. The unwillingness to invest in inner cities and the growing cost of entitlements for the old will intensify as societal issues and create conflict between economic groups and generations."

The public's reaction to the crime situation is the building of more prisons and California's "three strikes" sentencing law. There is lessening tolerance for criminals, shown in a greater desire to punish than rehabilitate. "Ultimately," says Lucy Wander-Perna of Sony Pictures Entertainment, "the cost to incarcerate criminals at the current conviction rates and for longer jail sentences is something that will have to be re-examined. At the point that the costs of continuing the current trend results in a tax rate unacceptable to the taxpaying population, we will see more innovative ways of dealing with the issue." Nonetheless, Gary Hasenbank of Pinkerton Security and Investigation Services believes that "society needs visible deterrents to crime." He predicts "continued support of initiatives labeled 'anti-crime.'"

Other responses put forward included a need for quicker trials, penalizing families in order to control young criminals, and developing more programs to keep youths off the streets. Strengthening the educational system and providing jobs that utilize graduates' education were seen as positive steps in grappling with a rising crime rate.

Conclusion

Hesitancy marks the prediction of the pace of California's economic recovery, but the recovery definitely continues. As the HARRT panelists discussed the advantages of California—including weather, technology, a skilled workforce and location on the Pacific Rim—and the actions their organizations have been taking, they became more optimistic. They have seen the beginnings of the California come-back in 1994, and expect it to build in 1995. Overall, panelists describe themselves as being "bullish on California."

Still, there are concerns about difficult, unresolved issues, particularly social issues. And there is frustration about the slow pace of change of the state's business climate. But panelists have faith in the unique ability of California to create solutions and are willing to bet on the state's future.

