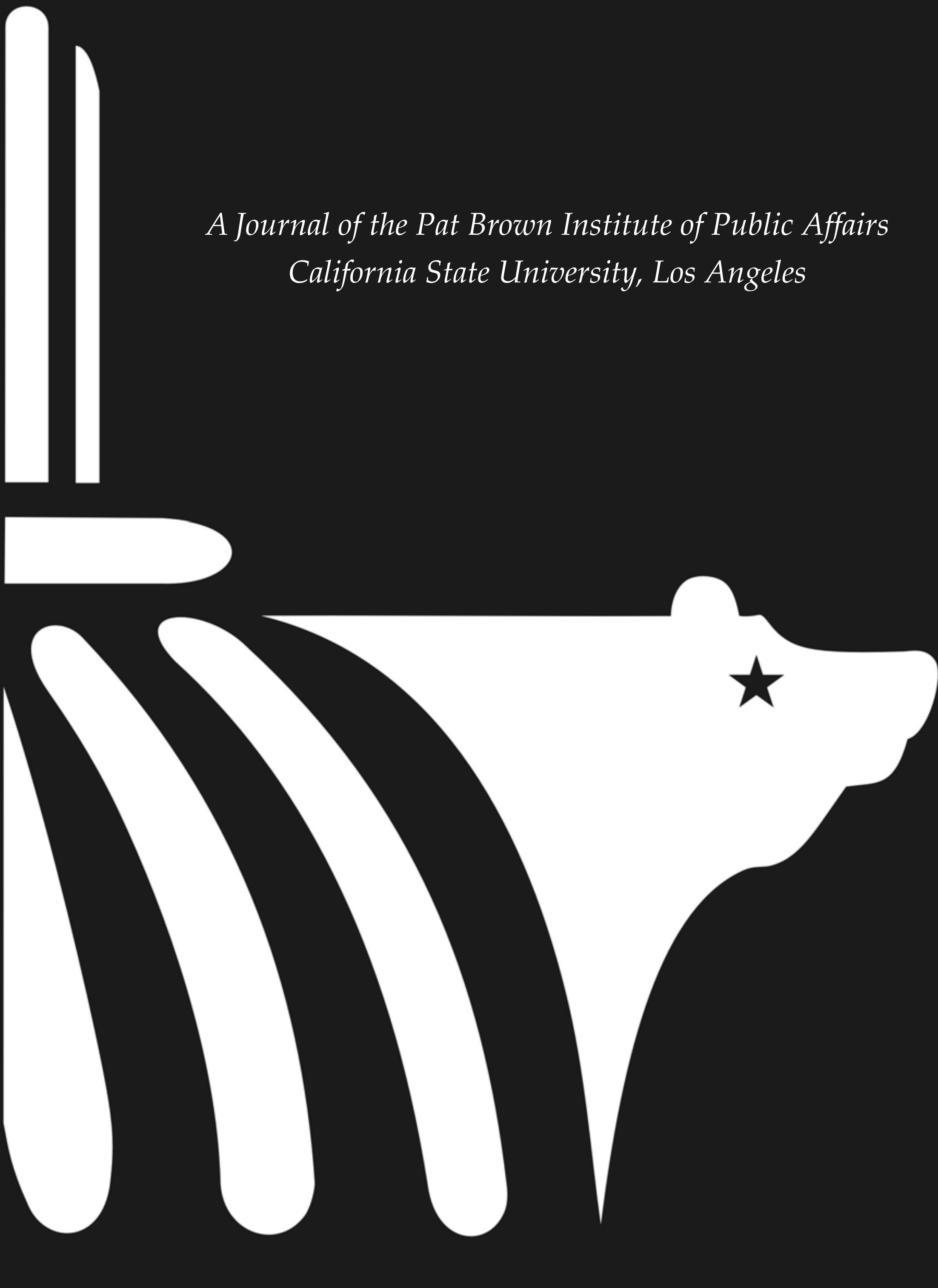
California Politics & Policy

A Journal of the Pat Brown Institute of Public Affairs
California State University, Los Angeles



California Politics & Policy (ISSN 1083-3374) (ISBN 1-878644-30-0) is published annually as a journal of the Edmund G. "Pat" Brown Institute of Public Affairs, California State University, Los Angeles, 5151 State University Drive, Los Angeles, CA 90032-8261. Copies of single issues, $15. Orders of five or more, $12 each. Use the order form at the end of this issue to submit your requests.

Publication date: November 2008

California Politics & Policy

A Journal of the Pat Brown Institute of Public Affairs
California State University, Los Angeles

Cover design: Dave McNutt
Layout and graphic designer: Julie S. Fujioka-Clouse

California Politics & Policy

NOVEMBER 2008 • VOL. 12, NO. 1

TABLE OF CONTENTS

CALIFORNIA'S RIGHT OF REMOVAL: Recall Politics in the Modern Era

DAVID L. SCHECTER, PHD
Department of Political Science
California State University, Fresno

ABSTRACT

This article compares the first gubernatorial recall of 1921 with the second such recall of 2003. North Dakota Governor Lynn J. Frazier had always been a footnote in history with his removal from office over 80 years ago, but much can be learned by systematically comparing the first recall campaign with the whirlwind campaign surrounding the demise of California Governor Gray Davis and the rise of political neophyte Arnold Schwarzenegger. An initial review of the Progressive period is given, followed by an in-depth analysis of America's first recall, which occurred in the City of Los Angeles in 1903. The article then moves through a detailed discussion of the 1921 campaign to oust Frazier. This first recall is then compared and contrasted with the 2003 California governor's race. The article concludes with a theoretical discussion of the power of the recall provision and how it may be applied to senior executives in California and elsewhere in the future. This "right of removal" has been both a threat to gubernatorial power and a tool for citizen activism.

Imagine a political race where a recently reelected governor faces a tremendous statewide budget crisis, a well-organized and financially strong opposition, and plunging support from a cynical and frustrated electorate. Adding to this incumbent's problems, the state is one of only a handful with a rarely used recall provision in its Constitution that some opponents, still bitter from the last race the previous November, plan to exploit. In fact, an unusual, but strong, candidate to challenge the struggling incumbent has surfaced. This person has only minor political experience, is European-born with what observers describe as a thick accent, and is a moderate on most issues. Imagine a volatile October recall campaign that ends with the incumbent being removed from office and the newcomer succeeding.

California in 2003, right? Not exactly. These events describe the first-ever gubernatorial recall in American history, which took place in the rural state of North Dakota in October of 1921. The troubled governor in question is Lynn J. Frazier and the triumphant challenger is Scandinavian-born Ragnvold A. Nestos. While the above events also describe the 2003 recall campaign of California Governor Gray Davis and the rise of his eventual replacement, Arnold Schwarzenegger, it is important to look at the nation's first gubernatorial recall campaign and how the events compare. To date, there has been no complete evaluation of the Frazier race, and this gap in the political science literature is remedied here with a thorough review of these historical events. This follows a review discussing how the Progressives viewed direct democracy and why so many states adopted direct democracy provisions concerning the recall, along with the frequently analyzed initiative and referendum. After this analysis it is possible to compare and contrast the 2003 race and to look for clues of how future recall races may play out.

THE RECALL AS PART OF A LARGER MOVEMENT: THE PROGRESSIVE ERA AND THE CALL FOR DIRECT DEMOCRACY IN THE STATES

The direct democracy movement and the standard recall provision itself were products of the Progressive era.[1] While a number of political scientists have covered the history of direct democracy in the states by discussing the early rise of the Populist Party and the Progressives (Smith, 1998), some primary and secondary sources are revisited here to better gauge the specific relationship between this period, the direct democracy movement, and the recall, in particular.[2]

As various historians have noted, direct democracy was one of several reforms used in the era between, roughly, 1890 and 1917 to transform government at the national, state, and local levels. At the national level, the ascendance of Theodore Roosevelt to the presidency in September of 1901 marked the beginning "of an epoch in American political life" in which new responses to industrialism, prohibition, the demand for women's suffrage, and governments' relationship to the economy were developed (Kennedy, 1971, p. vii). Even though the national government's role in Progressive reforms was dramatic, many political actors, including Roosevelt, had honed their skills at the state level prior to 1901.[3] The states were really the loci of several key tenets of the Progressive approach.

William Allen White, a Kansas newspaper editor, expressed this attitude toward the states best when he declared the remedy for the ills of democracy was more democracy (Kennedy, 1971, p. 19).[4] He stated that work done in the states is "most fundamental" as "it affects more people than the work either in the cities or in the federal government" (White, 1910, p. 25). The attitude that state democratic institutions should be more accessible and more responsive to the public was embodied in several states eventually adopting the initiative, referendum, and recall. Direct democracy was seen as a key to unlock the special interest grip on a number of partisan state legislatures (Link & McCormick, 1983, p. 34; Derthick & Dinan, 1999, p. 97) and a way to secure more legislation that upheld particular moral beliefs (Hofstadter, 1963, p. 4). In White's words, the recall provision was vital to make "statesmen nervous" (Zimmerman, 1997, p. 11), and the state was viewed as the initial place to bring more power to the people.

It took some time for all of the major tenets of direct democracy to work their way through the states, and most simply entertained the initiative and referendum without adding a recall provision. The initiative and referendum permitted voters themselves to propose and enact legislation even against the will of the legislature, and they were "adopted in twenty-two states …between 1898 and 1918" (Link & McCormick, 1983, p. 58). The first state to amend its state constitution to adopt these two provisions was South Dakota in 1898 (Smith, 1998). When Oklahoma joined the Union in 1907, it was the first state to do so with direct democracy provisions already in its original constitution (Schmidt, 1989), and the first state to vote on a proposition was Oregon in 1904.[5]

The growth and adoption of the recall were considerably different. As Zimmerman (1997, pp. 6–7) has noted, while the recall had been used as far back as ancient Rome, American states had few such provisions. The Pennsylvania Constitution of 1776 stated that "the people have a right, at such periods they may think proper, to reduce their public officers to a private station, and supply the vacancies by certain and regular election". The Articles of Confederation allowed states to replace their delegates to Congress, but the voters did not directly have the right of removal in this case.

Did the Founders take a position on the recall? Zimmerman does not specifically discuss this important point, but it does not appear so, although James Madison does discuss his

distaste of direct democracy, in general, in Federalist Paper #10 when he stated: "…pure democracy…can admit of no cure for the mischiefs of faction." Additionally, in defending the new system of representative democracy spelled out in the Constitution, Madison suggested that pure democracies "have ever been spectacles of turbulence and contention…and have in general been as short in their lives as they have been violent in their deaths." The Founders did set up a system of impeachment for the executive, however, and this can be found in Article II, Section IV of the Constitution. This section allows for the legislative branch to act as a judge and jury to remove the executive, when "high Crimes and Misdemeanors," or other offenses are committed. An actual recall provision is not found in the Constitution.

Through the Jacksonian period and the remainder of the 1800s a number of government reformers called for implementation of the recall (along with the initiative and referendum), and they looked to its use in Switzerland as proof of its necessity. There, under Cantonal law, qualified voters could sign petitions and ask the sitting government to call recall elections, and this "imperative mandate" was frequently used. Heavy debate ensued on this topic in the United States with the Socialist Labor Party adopting such a provision in its 1892 and 1896 platforms. In a number of states, the Populist Party also called for the recall provision (Zimmerman 1997, p. 9).

In other words, for the Progressives any system that allowed the legislative branch, for example, to remove an executive did not go far enough, and only when the voters could directly pull someone from office would there be true democracy in action. Part of the reason that the Progressives wanted reform in the first place was because of their deep-seated (and often justified) fear of state legislative corruption, so they were particularly interested in having someone else carry out the duties of removing an executive.

The only method to remove the executive then, in the Progressives' mind, was for the people to be given an opportunity to circumvent the legislative branch and recall an executive as necessary. They understood that many executives had come out of state legislatures.

These executives would often reward the legislators with jobs and other appointments in the executive branch, so this was a classic case of the fox guarding the henhouse.

What the Progressives devised with the recall suggested that only "the people" would be up for the job. There is an odd irony to all of this because the two gubernatorial recalls, as discussed here, could not necessarily be said to follow the truest pattern of what the Progressives intended. Both of these recalls began as elite movements to oust the incumbent, even though a pseudo-grassroots movement eventually arose. After all, signatures needed to be gathered for each recall, and citizens were ultimately involved in their "right of removal" by voting at the ballot box. Also, as the Progressives might have guessed, in the case of the California recall described next, most state legislators of both parties were in early opposition and willing to stick with Gray Davis.

Last, the Progressive Party Platform of 1912 also offers insight into the general importance of direct democracy during this period. Besides calling for "equal suffrage" and "direct election of United States Senators," the platform called for citizen rights to be "secured by the initiative, referendum, and recall…" (Progressive Party, 1963[1912], p. 129). The commitment to direct democracy has been called the "centerpiece" (Milkis, 1999, p. 7) of the entire platform. The platform also suggested the Republican and Democratic parties had become tools of corrupt interests that were part of "an invisible government owing no allegiance and acknowledging no responsibility to the people" (Progressive Party, 1963[1912], p. 128).[6]

Butler and Ranney (1978), drawing partly on the work of Hofstadter (1955), provided a strong summary of the Progressive position. They suggested the Progressives felt "that truly democratic government consists of all the John and Jane Q. Publics observing, discussing, pondering, deciding, and, finally, voting" (Butler & Ranney, 1978, p. 28). As well, the Progressives appeared to have appreciated the fact that every aspect of direct democracy, from signature gathering to voting results, was a matter of public record and available to all. In the Progressives' viewpoint, a citizen's human potential is maximized in an open, direct system. Voting will lead to "other forms" of political participation in this logic, and "…when popular votes become the true coin of political power, people will make it a point to cast them at every opportunity. People will participate in their government because they believe in it, and they will believe in it because they participate in it and control it" (pp. 32–33).[7]

Cronin (1989) also summarized the Progressive position well: The "referendum, initiative and recall are nonviolent means of political participation," and "direct democracy (according to its supporters) increases voter interest and election-day turnout" (p. 11).[8]

THE PROGRESSIVE MOVEMENT IN CALIFORNIA: AMERICA'S FIRST RECALL PROVISION—LOS ANGELES, 1903

No level of government in the United States actually adopted the recall until voters in the City of Los Angeles took up the charge in January of 1903. Bird and Ryan provide the most thorough review of this period in their 1930 book, *The Recall of Public Officers: A Study of the Operation of the Recall in California*. As they suggested, California cities at that time were concerned that the state was basically running the show, even at the local level, and they had no ability to replace their local representatives. They felt that the recall was their only opportunity to respond to state controls coming from the party machines, which were dominated by the Republicans in most cases, and the railroads.

In addition, in the City of Los Angeles things became particularly heated when the issue of government contracts came up, and some citizen groups felt their elected officials were not forthcoming on how contract bids were being handled. With on-again, off-again support from the *Los Angeles Times,* the city charter was amended with a recall provision after a vote of 9,779 in favor of such a provision and 2,469 opposed. The provision was part of a larger package of charter changes that included the initiative, referendum, and civil service reform (Bird & Ryan, 1930, p. 32).

Ironically, one year later the *Los Angeles Times* would be at the heart of America's first recall election when a Los Angeles City Council member was removed from office in 1904 for his support of a controversial printing contract with the *Times*. The petition for his removal suggested Councilmember J. P. Davenport had "violated his oath of office and betrayed his trust" (Bird & Ryan, 1930, p. 229). The local typographical union started the suit but ended as the losing side in the contract bidding with the *Times,* and Davenport was removed by a 1,837 to 1,083 vote on September 16, 2004.[9] Davenport became America's first political casualty caused by a recall provision.

Once Los Angeles adopted its provision and other cities saw this being used for the first time, many quickly followed suit with provisions of their own, including Fresno, Pasadena, San Diego, San Francisco, and Santa Monica. According to Bird and Ryan (1930), roughly two-dozen municipalities had the recall provision in their charter before the state adopted it in 1911 (p. 33).[10]

With the support of Progressive Governor Hiram W. Johnson, and after intense debate in the legislature, a recall provision became one of 23 charter amendments considered for the state Constitution on the special election ballot of October 10, 1911. Of the most controversial amendments facing California voters that day, the *Los Angeles Times* editorialized the following on the morning of the vote:

> The whole situation is one of haste, of undue, fanatical eagerness to have the work approved before it has been studied. …Women suffrage should be defeated because it tends to unsex society and destroy the home. …The initiative and referendum should be defeated because they are instruments of the turbulent few and their adoption means recurrent elections of frivolous character. …The recall should be defeated because it makes official and judicial cowards and destroys stability and independence. (quoted in Bird & Ryan, 1930, p. 54)

Despite these pleas, women's suffrage, the initiative, referendum, and recall all passed.[11] The "right of removal" for state executives, members of the judiciary, and members of the legislature in California was then a reality.

NORTH DAKOTA IN 1921: THE FIRST GUBERNATORIAL RECALL

With this background in mind, relative to the larger Progressive movement and the early recall movement in California, it is now possible to delve more deeply into America's first gubernatorial recall in 1921.

In North Dakota that year, battle lines were drawn between farmers and the business community that came to a head after several years of political infighting in the state. The story of the 1921 recall needs to begin with an accounting of some economic and political factors to give context to the historic election. For this we must go back 6 years to the early days of World War I and the rise of the Nonpartisan League.[12]

For several decades, North Dakota had swung back and forth between Populist Party leadership, Farmers' Alliance leadership, Democrat Party leadership, and Republican Party leadership for control of state government, with some leaders proposing state regulation of certain industries. Supervision of corporations, insurance companies, and state banks was considered, and along these lines a number of "regulatory offices and boards were created" (Federal Writers' Project, 1950, p. 57).

Progressive Republicans worked with Democrats to elect North Dakota's first thee-term governor, "Honest John" Burke, in 1906, and his policies ushered in a number of changes that regulated big business even further. The classic battle between farmers and the big businesses they dealt with became fiercer, with farmers mainly perturbed by the intricate workings of the grain trade.[13] Basically, farmers could not market their products without going through the powerful grain elevator companies (often based out of state), and in 1915 they failed to get a bill through the North Dakota legislature creating a state-owned elevator system. "Indignation at the defeat of the bill resulted in the birth, in February 1915, of a new political party, the Nonpartisan League" (Federal Writers' Project, 1950, 58).

At this point, over 70% percent of North Dakotans were farmers, and former Socialist Party state organizer Arthur C. Townley led the Nonpartisan League. He traveled the state extensively, visiting farmers and gaining support for the League, or NPL, as they became known. Townley advocated state ownership of elevators, mills, and the like along with state hail insurance and reasonably run rural banks (Remele, 1981, pp. 73–77). Understanding the power of the media in getting his message out, Townley began a newspaper, the *Nonpartisan Leader*. By the time the 1916 state election calendar rolled around, he had organized precinct-level caucuses to nominate candidates for state office, including a Pembina County farmer for governor, best known for his prohibitionist tendencies. When the November elections were over that year, the NPL slate, including newcomer Lynn J. Frazier, had successfully won the governorship, control of the state house, and a good number of members in the senate.

Governor Frazier, 42 years old at the time of his inauguration, called for immediate implementation of the NPL platform in the first legislative session with behind-the-scenes organizational help coming from Townley and NPL legal counselor William Lemke (who would play a large role in the 1921 recall campaign). Moving fast to change policy, the League was not without its detractors, however, and a new group formed in opposition, the Lincoln Republican League, which later became the Independent Voters Association (The Independents, or IVA—dropping the word *Republican* in hopes of appealing to more Democrats). Both of these groups, then, were factions of the Republican Party at the same time. The IVA received considerable support from the business communities impacted by the NPL program, but most of their candidates were defeated in the 1918 election cycle. By the time the 1919 legislative session had commenced, the NPL was in firm control of the executive and legislative branches. Lynn Frazier had won reelection in November 1918 with 60% of the vote (North Dakota Votes, 1993).

The Nonpartisan League's centralization of power by this point firmed up its legislative agenda, but the leadership of the group began to splinter over a number of turf battles in late 1919. The IVA kept plugging away with its own anti-NPL agenda, and drought "crippled" the North Dakota farm economy that year (Remele, 1981, p. 88).

The IVA also understood the continued power of the media and used its own newspaper, *The Independent*, to criticize the NPL at every turn. According to one researcher: "Through the last half of 1919 and nearly all of 1920, the official newspaper devoted hundreds of column inches to stories about the Socialist evils of the League leaders and the dangers of their programs" (Contois, 1986, p. 80).

Ironically, on March 6, 1919, the NPL-led legislature passed what seemed like a standard resolution for any Progressive-leaning state at the time, allowing for the greater use of direct democracy in North Dakota. The concurrent resolution provided "for the Recall of Congressional, State, County, Judicial and Legislative Officers by the People." The process for recalling an officer was laid out fairly clearly, with much of the language duplicating what had been done in a number of other states, including California 8 years earlier. It called for filing a petition against an officeholder, the collection of signatures, and a special election to be called should the recall qualify. The resolution ended by stating, "Laws may be enacted to facilitate its operation, but no law shall be enacted to hamper, restrict or impair the right of recall" (Laws, 1919).[14] Following up the next year on March 16, 1920, the constitutional amendment adding the recall provision in North Dakota was officially adopted. In the presidential primary vote that day, voters approved the measure 63% to 37% (North Dakota Votes, 1993).

By the end of 1920, the Nonpartisan League was clearly in some trouble even though Frazier was reelected to a third consecutive term with 51% of the vote that November (North Dakota Votes, 1993). The IVA did well during the election cycle that year, infighting continued among the NPL leadership, and the state's financial crisis was getting deeper. Most important, a number of state-supported enterprises were being challenged on the grounds of mismanagement and corruption. Calls for an official investigation of the state bank, one of the state mills, and the state's Home Building Association were being made, and when the legislature convened on January 4, 1921, power had begun to shift away more dramatically from the League. In this session, the "IVA controlled the House 59 to 54; the League still held the Senate 25 to 24" (Contois 1986, p. 83).

With control of the House the IVA went full-speed-ahead with an audit and investigation into various state-sponsored activities, hoping to damage the League's reputation further and aid IVA candidates in the next election cycle. For its part, the NPL was not doing much to protect itself at this time and was on the defense for much of the year. The NPL-controlled Senate decided to do its own investigation, but attention would soon focus on the blistering House audit when it was released March 4, 1921. The report blasted the management of the state bank and criticized one of the NPL-sponsored programs for debt relief calling for the sale of bonds.[15] The report ended by stating,

> These impractical theorists have launched the State into an orgy of financial excesses and delirium of socialist experimentation, born in hate and nurtured in prejudice, the result of which are such that it will require years of conservative, practical administration of public affairs to eliminate the nefarious consequences resultant therefrom (Report, 1921).

As historian Edward Blackorby (1963, pp. 125–126) has noted, the IVA wasted no time in using the results of the report to chastise Governor Frazier and other NPL leaders. Three weeks before the final report was released, there was talk of using the new recall provision to replace the governor, other senior officers, and even members of the state Supreme Court.

Eventually, the IVA focused their attention and effort on what was called the Industrial Commission in the state. This body oversaw a number of state-sponsored entities and was made up of three people: Governor Lynn Frazier, Attorney General William Lemke (now the titular head of the NPL, as well), and Commissioner of Agriculture and Labor John Hagen. On March 30 and 31, 1921, the Independents nominated Ragnvold A. Nestos for governor, Sveinbjorn Johnson for attorney general, and Joseph A. Kitchen for commissioner of agriculture and labor.

The background on Ragnvold Nestos is particularly interesting when telling the story of the recall. North Dakota had a heavy Scandinavian population at this time, particularly from Norway, and they comprised both farmers and upwardly mobile professionals. According to Theodore B. Pedelisski, they "expressed a high degree of political efficacy for first and second generation foreign born" citizens, and they were "instrumental in supporting the Nonpartisan League" (October 10, 2004, personal communication). Nestos was a lawyer by trade, had served one term in the legislature, and was now state attorney in Ward County (Tweton, 1981, p. 115). By this point, however, he had become disillusioned with the NPL and was working for the Independents.

More important, Nestos was considered "politically available. He was not a reactionary but one of the more liberal of the Independents and as a result one likely to appeal to the border-line vote." Also, it was said he "spoke with a decided Scandinavian accent—a political asset in North Dakota" and that he was a "popular speaker" (Blackorby, 1938, pp. 47–48).

It should be noted, however, that not all IVA members were enthusiastic about Nestos or the recall as a whole. As Blackorby (1938) wrote: "One faction of the Independents thought that the best way to defeat the Nonpartisans was to allow them to face the financial stringency with their wrecked program" (pp. 45–46). This might allow for an easy NPL defeat in the next election cycle, and there were also fears that voters would question why the IVA supported the recall concept now but had been opposed to it 2 years earlier.[16]

Regardless, the recall campaign was now on, and "the IVA filed petitions containing 74,000 signatures" on September 15 (Morlan, 1955, p. 321). The vote was scheduled for October 28, 1921. During the spring and summer, the Independents campaigned heavily in favor of the recall, stressing the "inefficiency and financial bankruptcy brought about by the League leadership." They understood there was great public support for a state mill, and they agreed to keep that part of the NPL program, but they often chastised Frazier for mismanagement and Lemke, in particular, for benefiting personally from the financial arrangements made with the Homebuilders Association. Another campaign issue concerned the charge that "dummy corporations" were set up by NPL leaders to benefit their own interests and that the NPL had been too close to labor in the state, particularly the Industrial Workers of the World. Last, Independents argued that "outside confidence" in the state of North Dakota had been jeopardized and that future funding of farm programs could be halted (Blackorby, 1938, pp. 51–52).

Nonpartisan League leaders were unsure of how to handle this assault and were consistently on the defensive during the campaign. The rival newspapers each side owned did not do much beyond publishing materials to support one's own viewpoint, and voters seemed genuinely torn in the weeks leading up to the election. The NPL and the IVA had precinct workers soliciting contributions for their respective recall funds (Balazadeh, 1988, p. 168), but this appears to have been more problematic for the League. As Morlan (1955) noted, "[A] succession of poor crop years followed by a depression meant of course that the farmers had little money for political campaigns, and the League solicited contributions from all states to save the North Dakota program" (p. 324).

Unfortunately, we know very little about what was going on in the mind of Lynn Frazier during this period. He worked vigorously during the campaign to sell state bonds and relieve some of the states' debt (Balazadeh, 1988, p. 171), but not much else is known about his activity during this period. According to historians and others in North Dakota who have attempted to detail these events, he left no papers concerning his terms in office in North Dakota. It has been suggested that the Frazier family may have thrown them away or they were lost in a 1928 fire that burned down the Capitol building.[17]

Blackorby (1963) has suggested that the most important point in the campaign came 10 days before the election, when the governor was served with a restraining injunction orchestrated by the Independents and their followers in the judiciary. The injunction "was so sweeping in its nature that it impeded continued functioning of the state government and made operation of the Bank of North Dakota impossible. The administration at Bismarck was immobilized." This setback meant that Frazier and the others had to stop campaigning for several days to deal with the restraining order in the courts and "many voters were confused by the incident and were thus more easily turned against the League" (pp. 137–138).

The recall election results were as close as the gubernatorial results from the previous year, but not in Frazier's favor this time. He lost to Nestos 107,332 (49%) to 111,434 (51%) (North Dakota Votes, 1993).[18] Lemke and Hagen also lost their seats, both by similar margins.

Interestingly, on the ballot that day the voters also faced seven measures that spoke directly to the NPL's program of greater government control of entities. The measures asked voters to consider continued funding for the Bank of North Dakota, whether to reorganize the Industrial Commission, establish a rural credit system, and similar NPL program ideas. The voters decided to keep these programs in place and basically gave the nod to the NPL-style of governance, while still voting to remove from office the three most important leaders of the program. The IVA was now faced with the political reality that they would have to support many of the ideas that they had earlier protested.

Nestos proclaimed after the election that "business management" principles would be the rule in his administration and that the state should be run as a "public business." He called for reducing the "tax burden," reducing government spending, and promoting "greater economy in the public service" (Balazadeh, 1988, p. 179). We would hear many of these same ideas touted by Arnold Schwarzenegger during and after the California recall.

And what became of Lynn Frazier? A year later, he ran for and won a U.S. Senate seat from North Dakota by garnering 51% of the vote on June 28, 1922 (North Dakota Votes, 1993). He went on to serve in the Senate until 1940, and he died in January of 1947.

CALIFORNIA IN 2003: THE SECOND GUBERNATORIAL RECALL

Exactly 100 years after Los Angeles had adopted a recall provision, the voters of California would participate in the most interesting recall election in American history.[19] Since the recall provision had been placed into the California Constitution in 1911, Article II, Section 1–20, on 31 separate occasions governors were faced with opposition that threatened to use the recall and went so far as gather signatures to place it on a future ballot. As Gregg Jones and Evan Halper of the Los Angeles Times reported on July 8, 2003, none was successful in getting past the signature stage. In other words, in the largest state in the union, no governor had really ever had to take the threat of the recall very seriously.

This all changed in 2003 for a variety of reasons, the crux of which focused on the leadership of sitting Democratic Governor Gray Davis. During a lengthy career in state politics, Davis had moved up the political ladder and had held several important positions in Sacramento. He had been chief of staff to former Governor Jerry Brown, state controller (1987–1995), and lieutenant governor (1995–1999) before being elected to the governorship in 1998. Prior to this election, one longtime follower of state politics said Davis was "perhaps the best prepared governor-in-waiting that California has ever produced" (Trounstine, 2003, p. 19).

Davis' first term was a tumultuous one, however. As Bibby (2003) noted, governors are "widely perceived to be powerful officials" and are likely to be "held accountable for conditions within their states" (p. 370). Unfortunately for Davis, the conditions in California by 2001 were not the conditions any governor would want to be held accountable for. Most of these troubles were caused by a major energy crisis that swept through the state in 2001 and a state budget deficit that seemed to be growing monthly.

Hyink and Provost (2004, pp. 194–196) do an excellent job summarizing the energy debacle and what led to the problems in 2001. It is interesting that Gray Davis was not even in office in 1996, but the governor at the time, Republican Pete Wilson, worked with the legislature and power industry to dramatically change how the industry would be regulated. They moved to a deregulation model that, theoretically, was going to increase competition and lower prices. However, there were several holes in the deal, which allowed for "the possibility that major suppliers might attempt to manipulate the power market," and that is, indeed, what occurred.

The costs that electric companies were being charged for their electricity supplies began to soar, and they started passing those additional costs on to customers. Rolling blackouts occurred in some areas, "restaurants put an 'energy surcharge' on their meals" (Hyink & Provost, 2004, p. 195), hotels increased their rates, and citizens were truly up in arms.

How did Governor Davis react? Not well. For a time that spring, many elected officials felt the problem would work itself out over time, and they hoped that the Federal Energy Regulatory Commission (FERC) would step in. When FERC balked at this notion, the Davis administration began entering into long-term contracts with the industry suppliers in hopes of stabilizing prices, but much of that work was seen as too-little-too-late. The manipulation of rates turned out to be the key cause of the run-up in prices, but Davis' inability to tackle the issue quickly and decisively played into the hands of his critics, who often argued that he was not tough enough for the job.

Additionally, while the state was enjoying some increased revenues during Davis' first 2 years in office, by 2001 money was getting tight in Sacramento, and a brutal fight was taking place in the legislature over the governor's spending priorities. The state literally had to do more, with a lot less. In the polls, Davis was taking a hit throughout 2001 and early 2002 and appeared in jeopardy of winning reelection, even though every governor since 1942 had enjoyed a second term in California.[20]

By early 2002, Gray Davis had become the personification of both the energy and budget crises and all other ailments affecting the state. Although the entire nation was in a post-September 11 recession, the Golden State seemed particularly adrift and off-course. It was in this context that the Republican Party felt inspired to topple the governor, and several candidates emerged to do so.

Bill Jones, the Republican secretary of state, stepped forward, as did former Los Angeles Mayor Richard Riordan and political neophyte Bill Simon. Riordan was encouraged by the Bush administration in Washington to enter the race and was immediately deemed the frontrunner. Bill Jones was considered a reasonable candidate with a strong resume, but his home base was the Central Valley of California—making it difficult to gain votes in the key population centers of Southern California and the San Francisco area. Simon's father had been Treasury Secretary under former President George H. W. Bush, but the son had never run for public office before. But Bill Simon had a personal fortune in the millions he was willing to put on the line and solid conservative credentials that impressed the party faithful. Clearly, however, the more centrist Dick Riordan would be the toughest candidate for the centrist governor to face in the November 2002 general election, so the Davis campaign immediately went to work poisoning the well.

In its effort to influence the March Republican primary, the Davis campaign poured nearly $10 million dollars into a flurry of advertisements criticizing Riordan on such issues as abortion and the death penalty.[21] Because the target audience was Republican primary voters, the Davis camp was doing a careful job balancing spending money in the campaign against what it might need in November with the hope of influencing the primary enough to get the candidate it wanted.

By the end of the race, Riordan's numbers had been pulled down considerably, and Simon won the primary with 49% of the final vote. Davis was willing to spend a tremendous amount of cash in the primary, and one observer keenly noted: "The Democratic governor was the single biggest spender in a GOP primary." Simon's total spending amounted to roughly $4.4 million, and Riordan spent a little over $8 million (Goldstein, 2002).

Even though his first term was marked with several controversies, the voters of California reelected Davis to a second, and final, 4-year term in November 2002. He defeated Simon, winning the race 47% to 42%, a margin suggesting that the sitting governor was still not popular with a majority of voters. Similar to the way things were going for the NPL in North Dakota after the 1918 election cycle, Democrats in California controlled the governorship, both houses of the legislature and almost every other executive office by the time 2003 rolled around.[22]

It should be noted that the future governor, Arnold Schwarzenegger, was also involved in the 2002 general election campaign, but not as a candidate as might be expected. During that campaign, Schwarzenegger was getting his feet wet, so to speak, barnstorming the state on behalf of a ballot initiative he was supporting—Proposition 49. This proposition earmarked roughly half-a-billion dollars each year for after-school programs and Schwarzenegger spent nearly $1.1 million dollars of his own money to push the initiative along. He was the number one donor to the cause, beating out even the California Teachers' Association by half-a-million dollars (California Online, 2002).

Prior to the November 2002 election, Schwarzenegger repeatedly traveled the state on behalf of Prop 49 and made no secret of the fact that he was supporting education this time around and supporting his own political ambitions at the same time.[23] In short, while Schwarzenegger has been accused of being a newcomer to California politics, this is not really the case. He did not hold public office before 2003, but he did campaign on behalf of many candidates and issues prior to the recall campaign—building up a nice list of contacts for himself filled with the state's most important players and interest groups.

Against this backdrop and immediately following the November election. a small group of Republican leaders began circulating a petition to recall Gray Davis. Media coverage of this signature-stage of the process was relatively light. Most political reporters, pundits, and academics understood that other governors had faced the threat of recall before and that only one governor in history had ever been removed from office. The media coverage became more intense, however, after the state Republican Party convention was held in Sacramento on Saturday, February 22. Nearly 1,400 Republicans attended the convention and every major newspaper in the state covered the event and noted the convention rallying cry: "Dump Davis!"

In an article, titled "Davis Recall Bid Has Supporters and Doubters at GOP Convention," published in the *Los Angeles Times,* February 23, 2003, Michael Finnegan reported that the "nascent move to try to oust the Democratic governor in a special election became a centerpiece of the state Republican convention here as a few hundred delegates and other Davis foes held a demonstration outside the Capitol to show support for a recall." Republicans, however, including top leaders in the Assembly and Senate, were not very supportive of the recall idea, stating that "key resources" would be wasted on such an effort and that talk of a recall would jeopardize their ongoing discussions with Davis concerning the latest state budget. This was similar to some IVA proclamations in 1921 that the recall might not be reasonable at that time.

The anti-tax group, People's Advocate, led by Republican Ted Costa, was the real driving force behind the recall, and Costa was quick to point out in interviews that this was a nonpartisan effort, with support from Democrats and independents. A few months down the road, Costa would be proven correct as signatures were gathered and votes were counted. His comments about the recall are similar to those made in 1921 by IVA leaders who knew that Democrats would have to align with Republicans for the recall to be successful, and they did.

Governor Davis' initial reaction to the pro-recall events at the GOP convention was reported in the *San Francisco Chronicle* on February 24, 2003. John Wildermuth quoted Davis as saying: "This is simply sour grapes. My opponents lost the election fair and square. Now they want another election. I'm focused on the job they elected me to finish. I'm not going to forecast the results of this recall". It would prove to be more than just sour grapes as the recall effort proceeded into early March.

By March 25, pro-recall forces had filed all of the necessary paperwork with the secretary of state's office to begin collecting signatures and they put together a Web site (www.recallgraydavis.com) to help raise funds. By the end of April, much of the media focus on the recall began to fade temporarily and headlines such as the "Davis Recall Drive Hurting for Cash" appeared in the *San Francisco Chronicle* on April 27.

However, the *Oakland Tribune,* across San Francisco Bay, and the *San Diego Union-Tribune,* in Southern California, were running stories that same weekend about a well-known United States Congressman from California, Darrell Issa, who was rumored to be interested in bankrolling the recall effort. With some mixed messages coming from Issa, Steve Geissinger reported in the Oakland paper on April 25 that "Issa said he would not donate directly to the recall campaign but that he might contribute funds to independent efforts aimed at advancing the cause." Within 10 days, Issa made up his mind and pledged $100,000 to the pro-recall efforts. He also began gearing up his own not-so-subtle campaign to replace Davis if the recall succeeded. Within weeks, Issa would pledge nearly $1.5 million of his own money to the cause, and for a while he looked like the only candidate who could afford to face Davis and be willing to put his money where his mouth had been.[24]

On the Democrat side of the ledger, most potential candidates by mid-May were sticking with the party line that the recall was a Republican "coup" attempt and they would stick by their newly reelected governor. No Democrat wanted to be the first to break ranks and come forward, and it is important to review the structure of the recall ballot momentarily to see why this is the case. The structure of the ballot worried Democrats, because the recall ballot in California (unlike in North Dakota) is actually divided into two questions on which the voters had to choose. The first question pertained only to Gray Davis and stated, "Shall Gray Davis be recalled (removed) from the office of Governor?" Voters were asked to simply say "Yes" or "No" to this question. They then proceeded down the ballot to view a list of names of those qualified by the secretary of state to run for the seat. The governor in question must beat the recall on the first ballot question; in doing so, no successor is even needed. If the sitting governor gets fewer than 50% of the "No" votes, he or she is removed from office and the replacement is chosen from among those qualified on the second question. There is no run-off, either, in this type of format; a simple plurality of votes determines the winner.

This presented a problem for the Democrats because it was widely believed that any prominent Democrat who came forward to challenge Davis could take votes from him on Question 1, by providing a reasonable Democratic alternative to the voters, and thus raise the chances of his defeat. For Davis and his supporters to win, they needed to impress on voters that this was a Republican-led effort that should not be supported by loyal Democrats and that all votes and campaign cash should be steered toward Davis and Davis only. By mid-June, however, a number of prominent Democrats began questioning this logic and several felt that providing a reasonable alternative to Davis on Question 2 might keep the governorship in their hands.

On July 23, 2003, 120 days after initiating the recall drive, proponents had obtained the proper number of signatures and Secretary of State Kevin Shelley, a Democrat, certified their number. Fulfilling his constitutional duties, on the following day Lt. Governor Cruz Bustamante, also a Democrat, called for a special election on October 7 to pose the recall questions to the voters.

It was official—California would have its first recall election for a governor, and candidates were given until Saturday, August 9, to submit nomination papers to their local election office. The threshold to qualify was tremendously low. Candidates were required only to complete their paper work correctly, pay the $3,500 filing fee, and submit 65 valid signatures from registered voters from their own party. By August 6, 621 individuals had pulled papers to run.

In the meantime, Arnold Schwarzenegger announced that on Wednesday, August 6, he would appear on NBC's *The Tonight Show With Jay Leno* and make an official announcement about his plans. The former *Dating Game* contestant was wrapping up his world tour, promoting his latest film, *Terminator 3: Rise of the Machines*, and would return to Southern California for the late night television appearance. There are numerous, competing explanations of exactly who-knew-what-and-when, but Schwarzenegger certainly made the most of his moment in the national spotlight and stunned the political world with his announcement. After all, how many governors or governors-in-waiting can be guests on the most popular late-night show in America and surprise everyone in attendance at the same time?

Of all of the accounts of the incident, Karen Tumulty and Terry McCarthy's in *Time* magazine did a good job capturing the moment. They reported that prior to the show, Jay Leno had asked Schwarzenegger if he was going to run, and the former star of the film *Running Man* said he would not, adding, "I am bowing out." His top advisor, George Gorton, a former advisor to previous Republican Governor Pete Wilson, stood on the set of the show, and as Schwarzenegger was introduced, Gorton was holding the concession speech that they had prepared. At that moment, Schwarzenegger "threw a muscular arm around his shoulder and said, 'Let's do it'" (p. 23).

The show taped in the afternoon on the West Coast, and as Schwarzenegger announced his intentions to the live studio audience, they went crazy. Gorton, at first, thought Schwarzenegger was possibly joking with the crowd, but after the first commercial break, he was ejected from the studio for "using his cell phone to begin alerting Schwarzenegger's other clueless advisers."[25] During the taping, Schwarzenegger spoke excitedly with Leno and promised to "pump up Sacramento" because the politicians there were not doing their job.

He blamed Davis by name and paraphrased a famous scene from the film *Network* by stating: "We are mad as hell and we're not going to take it anymore." He added, "I know they're going to throw everything at me and say I have no experience and I'm a womanizer and I'm a terrible guy…[but] I do not have to bow to any special interests. I have plenty of money. No one can pay me off. Trust me: No one." With that, Schwarzenegger left the stage and held an impromptu press conference with reporters. While there had been earlier concerns that his wife, Maria Shriver, of the famous Kennedy clan, had not wanted him to run, he immediately said that she supported him "no matter what."

How did Gray Davis react to the hullabaloo surrounding the Jay Leno announcement? In a post-election interview with Beth Fouhy of the Associated Press, published November 9, Davis "recalled the sinking feeling he had when Schwarzenegger" made the announcement. "I knew it wasn't good news. These superstars are in the subconscious of all Americans—we've seen these folks for years. And the only reason they're superstars is there's a reservoir of good will for them. I've beaten plenty of wealthy people, but they were just mere mortals. I had to take down a megastar."

Darrell Issa quickly retreated from the scene even after basically bankrolling the entire signature-gathering drive. The 49-year-old Issa understood the star power associated with Schwarzenegger, and in an emotional, teary-eyed news conference on Thursday, August 7, he backed out of the race. He stated that his mission was "accomplished" and that "in 61 days [Davis] will be gone."

The list of candidates who filed to run 2 days later, August 9, included Schwarzenegger and a who's who of oddballs, former stars, and wannabes. *Hustler* magazine publisher

Larry Flynt joined the group, as did child-star Gary Coleman (from the 1970s show *Diff'rent Strokes*). Many dubbed Coleman "the other Arnold," because of the name of his famous television character. His trademark, "What you talkin' 'bout, Willis?" was resurrected from the lexicon and used throughout the campaign. The comedian Gallagher, of watermelon-smashing fame, got involved, as did an electrical engineer named Michael Jackson; an Edward Kennedy; a Richard Simmons; a George B. *Schwartz*man; a Los Angeles billboard model named Angelyne; Ned Roscoe, owner of the Cigarettes Cheaper! discount chain; Jack Grisham, front man for the punk band TSOL; a porn star; and a gentleman named Trek Thunder Kelly who asked people to vote for him, "thus breaking the Seventh Seal and incurring Armageddon" (California, 2003, 18).

After all was said and done, 135 candidates' names appeared on the October 7 ballot—50 Democrats, 42 Republicans, and 43 independents. These numbers are particularly interesting, considering the early charge by Davis that the recall was a blatant attempt by the right to take over the governorship. It appeared there were more Democrats than Republicans willing to replace him, with the floodgates partially being opened by Lt. Governor Cruz Bustamante's entrance in the race.

This left Schwarzenegger and Bustamante on the replacement side of the ballot as the most serious contenders in the sprint-to-the-finish, 8-week race, and things never really looked good for Davis. In the closing days, it was reported that his internal poll numbers, mainly from polls taken by the state teachers' union, were poor, and on Friday the 26th of September he publicly challenged Schwarzenegger to a debate, "right here, right now." Followers of American political campaigns know that, for the most part, incumbents avoid their opponents at all costs, and it appeared here that Davis was breaking this cardinal rule in a last minute attempt to save his job.

CNN's Larry King offered to host a debate between the two candidates that weekend, but the Schwarzenegger camp declined immediately. Davis humorously countered, "I don't know what Mr. Schwarzenegger is afraid of. I mean I never participated in a Mr. Universe contest. I weigh maybe 165 pounds on a good day. [Why is he] on the run?"[26]

A majority of California newspapers weighed in that Sunday with their endorsements, and it did not look good for the Democrats. The *Los Angeles Times*, *San Jose Mercury News*, and *Sacramento Bee* urged a "No" vote on the recall and declined to endorse any candidates as a replacement. The *San-Diego Union-Tribune* called for Davis' removal, and they supported Schwarzenegger as a reasonable replacement. In total, Schwarzenegger received the endorsement of four major dailies; Bustamante and the others received none.

When Tuesday, October 7, rolled around, it was relatively clear to most observers that Gray Davis was not going to be able to save his seat and that Arnold Schwarzenegger would be the next governor. Following a turnout rate of roughly 51% in November 2002, turnout on this day was strong—61% of eligible voters, or 15.4 million Californians. On the first ballot question to recall Davis, the official votes were 55.4% (4,976,274) "Yes" and 44.6% (4,007,783) "No"; 4.6% (429,431) chose not to cast a vote. Davis became only the second governor in U.S. history to be removed from office by the voters. On the second question of who should become the new governor, the results were startling: Schwarzenegger won outright with 48.6% (4,206,284), and Bustamante came in a distant second with 31.5% (2,724,874). Of note, *Hustler* publisher Larry Flynt pulled in 17,458 votes in seventh place, and Gary Coleman came in eighth place with 14,242.[27]

Schwarzenegger took the oath of office from State Supreme Court Chief Justice Ronald George on November 17.

DISCUSSION

Throughout this article, I have tried to show some of the interesting parallels between the 1921 and 2003 recall campaigns. At the same time, I admit that it is a stretch to see too many things as similar as we look back at these two events in hindsight. Nevertheless, perhaps it is important to begin a discussion on this topic by focusing on what I might call "conditions for a recall." In other words, if certain political events do come together simultaneously, might other governors be susceptible to recall in the future? What are those conditions? Admittedly, many of these same conditions would be similar to what one might expect to beat any gubernatorial incumbent, but thinking of them just relative to a recall possibility adds to the literature on elections in general and the literature on the pros and cons of direct democracy itself.

First, for recalls of this nature even to be considered at the state level, recall provisions clearly need to be in the state constitution. Like many other provisions, these are often buried deep in lengthy documents and rarely see the light of day. Currently, only 18 states have such a provision, so it is fair to say that any future gubernatorial recalls can and will take place only in those locales, unless other states amend their constitutions to include the proper language. According to the National Conference of State Legislatures, the qualifying states are as follows:

Alaska	Kansas	New Jersey
Arizona	Louisiana	North Dakota
California	Michigan	Oregon
Colorado	Minnesota	Rhode Island
Georgia	Montana	Washington
Idaho	Nevada	Wisconsin

Second, it is imperative that there be a divided or confused electorate, or both, in a state considering a gubernatorial recall. This may be true especially if the last election cycle produced close races for any statewide office. What also seems to push the recall agenda along quickly is if there are bad feelings over the previous election. If the incumbent does not make a good faith effort to heal wounds after a victory, this may sow the seeds of discontent for a future recall.

Third, in this same way, lingering doubts about the incumbent's standing, stature, competency, and truthfulness are aplenty in the Frazier and Davis recalls. Both became associated, fairly or not, with impropriety and charges of mismanagement. This was exacerbated by tough economic times. Contextually, this may be the most important variable, as both Davis and Frazier were caught up in economic issues that appeared way beyond their control. Yet, as the literature often suggests, governors are held responsible for these failings more times than not and need to be better prepared for this fallout. An interesting commonality between these two recalls seems to be the impact of the wheat crash in 1919–1921 and the dot.com crash in California in 2000–2002. Bonds were a part of both Davis's and Frazier's plans to close their structural deficits and put the state on better footing, but more drastic measures were needed. It did not help Frazier, in particular, to be charged with scandals and malfeasance. If a governor is seen to be personally gaining in the job while others suffer, the opposition will exploit that.

This leads to an important fourth condition, an organized and well-defined opposition. One or two key players appear to be able to lead recall movements with some success, particularly if personal wealth comes into play, but in 1921 and 2003, they were able to bring new people along with them. Without Issa, there would have been no recall in California I believe it is fair to say. Also, Schwarzenegger's personal wealth allowed him to dump roughly $10 million of his own money into the race. The opposition seems to favor moderates as reasonable replacements, however, knowing that a campaign must be waged attracting all kinds of voters (particularly if the ballot is nonpartisan in structure).

A fifth condition might be considered a complacent, biased, or otherwise disinterested media that allow the recall to take root. Media coverage played a large role in each of these recalls, and their influence cannot be underestimated. The other side of this argument might be that while political coverage rarely tops the news each evening, at least in the 2003 recall, the media covered nearly every detail of the story from start to finish. So at one point they were complacent, rarely covering the recall during the early logistics stage; and then they more than made up for it later by hyping the story constantly.

Last, recalls seem to need a contentious legal environment to develop. What I mean by that is court cases are an inevitability in recall campaigns. I do not go into detail here, but in North Dakota there was a court challenge to the signature-gathering phase of the recall, and talk of recalling members of the Supreme Court occurred until they supported the IVA in one particular case; in California, a variety of lawsuits met nearly every phase of the campaign. As Bird and Ryan stated in 1930, the "history of obstructive litigation" (p. 227) on recalls began with the first one in Los Angeles in 1904. The media enjoys these court dramatics and both sides need to gear up for extensive, constant litigation.

What can we learn from this analysis? I believe we now have a better grasp on how recall elections develop and play themselves out. While much can be learned from an analysis of both gubernatorial recalls separately, I believe a full telling of both stories, side by side, provides a somewhat haunting and important lesson similar to the oft-quoted "History repeats itself" refrain. Direct democracy is alive and well in the states, but I am unsure if the original supporters of the movement would be pleased with how things have developed. I think that any governor serving in a recall state would do well to learn about these events and figure out ways to shield oneself from the possible fallout. There was no rash of recalls throughout the nation following the events in California in 2003, but that is not to say future elections will not hinge on the voters' constant "right of removal."

REFERENCES

Balazadeh, N. H. (1989). *The process of power and the relative autonomy of the state: Nonpartisan League in North Dakota, 1915–1922*. Unpublished doctoral dissertation, Southern Illinois University at Carbondale, 1989 (Order # 8922373).

Banducci, S. A. (1998). Direct legislation: When is it used and when does it pass? In S. Bowler, Todd Donovan and Caroline E. Tolbert (Eds.), *Citizens as legislators: Direct democracy in the United States* (pp. 132-148). Columbus: Ohio State University Press.

Barber, B. R. (1984). *Strong democracy: Participatory politics for a new age*. Los Angeles: University of California Press.

Bibby, J. F. (2003). *Politics, parties, and elections in America* (5th ed.). Belmont, CA: Thomson-Wadsworth.

Bird, F., & Ryan, F. M. (1930). *The recall of public officers: A study of the operation of the recall in California.* New York: Macmillan.

Blackorby, E. C. (1938). *Political factional strife in North Dakota from 1920 to 1932.* Unpublished master's thesis, University of North Dakota.

Blackorby, E. C. (1963). *Prairie rebel: The public life of William Lemke*. Lincoln: University of Nebraska Press.

Bowler, S., & Donovan, T. (1998). *Demanding choices: Opinion, voting, and direct democracy*. Ann Arbor: University of Michigan Press.

Broder, D. (2000). *Democracy derailed: Initiative campaigns and the power of money*. New York: Harcourt.

Butler, D., & Ranney, A. (Ed.). (1978). *Referendums: A comparative study of practice and theory*. Washington, DC: AEI Press.

Burdick, U. L. (1944). *History of the Farmers' Political Action in North Dakota*. Baltimore, MD: Wirth Brothers.

California Statewide Special Election Official Voter Information Guide, Tuesday, October 7, 2003, Secretary of State, 1500 11th St, Sacramento, CA 95814.

California Online Voter Guide: A Project of the California Voter Foundation. (2002). *Top Ten Contributors to California Propositions*. Available from http://www.calvoter.org/2002/general/propositions/topten.html.

Contois, T. M. (1986). *The fight against the Nonpartisan League: The Independent Voters' Association.* Honors thesis, Department of History, Duke University, Durham, North Carolina.

Cronin, T. E. (1989). *Direct democracy*. Cambridge, MA: Harvard University Press.

Derthick, M., & Dinan, J. J. (1999). Progressivism and Federalism. In S. M. Milkis & J. M. Mileur (Eds.), *Progressivism and the new democracy* (pp. 81-102). Amherst: University of Massachusetts Press.

Erickson, N. (1986). *The gentleman from North Dakota: Lynn J. Frazier*. North Dakota Mini-Biography Series. Bismark: State Historical Society of North Dakota.

Federal Writers' Project. (1950). *North Dakota: A guide to the northern prairie state*. American Guide Series. New York: Oxford University Press.

Formisano, R. P. (1999). The 'Party Period' revisited. *Journal of American History*, *86*(1), 93–120.

Francis, W. L., & Kenny, L. W. (2000). *Up the political ladder: Career paths in U.S. politics*. Thousand Oaks, CA: Sage.

Glassheim, E. (1992). *To fuel a fire: Gender, class, and ethnicity in the North Dakota*

Nonpartisan League—1915–1921. Honors thesis, Department of History, Dartmouth College, Hanover, New Hampshire.

Goldstein, K. (2002). *Over $100 million in political TV ads in 2002*. [Press release of the Wisconsin Advertising Project]. Retrieved June 13, 2002, from: www.polisci.wisc.edu/tvadvertising.

Gorton, G. (2003). Post-recall conference, sponsored by the University of California, B e r - keley. Retrieved from http://www.uctv.tv/library-public.asp?tabs=all&summary=show&sort=date.

Hofstadter, R. (1955). *The age of reform*. New York: Random House.

Hofstadter, R. (Ed.). (1963). *The Progressive movement: 1900–1915*. Englewood Cliffs, NJ: Prentice Hall.

Hyink, B. L., & Provost, D. H. (2004). *Politics and government in California*. San Francisco: Pearson Education.

Jonassen, C. T. (1983). *Value systems and personality in a Western civilization: Norwegians in Europe and America*. Columbus: Ohio State University Press.

Kennedy, D. M. (Ed.). (1971). *Progressivism: The critical issues*. Boston: Little, Brown.

King, A. (2000). Running Scared. In Bruce Stinebrickner (Ed.), *American Government, Annual Editions 2000/01* (13th ed.) (pp. 144-154). Guilford, CT: Dushkin/McGraw-Hill.

Laws passed at the Sixteenth Session of the Legislative Assembly of the State of North Dakota. (1919). *Bismarck Tribune* [Bismark, ND], Chapter 93. State Printers, Bismarck, ND.

Link, A., & McCormick, R. (1983). *Progressivism*. Arlington Heights, IL: Harlan Davidson, Inc.

Magleby, D. (1984). *Direct legislation: Voting on ballot propositions in the United States.* Baltimore, MD: Johns Hopkins University Press.

Magleby, D. (1994). Direct legislation in the American States. In D. Butler & A. Ranney (Eds.), *Referendums around the world: The growing use of direct democracy* (pp. xx-xx). Washington, DC: AEI Press.

Manin, B. (1997). *The principles of representative government*. Cambridge, MA: Cambridge University Press.

Milkis, S. M. (1999). Introduction: Progressivism then and now. In S. M. Milkis & J. M. Mileur (Eds.), *Progressivism and the new democracy*. Amherst: University of Massachusetts Press.

Morlan, R. L. (1955). *Political prairie fire: The Nonpartisan League, 1915–1922*. Minneapolis: University of Minnesota Press.

North Dakota Votes. (1993). Bureau of Governmental Affairs, University of North Dakota, Grand Folks, ND 58202. Not copyrighted.

Pateman, C. (1970). *Participation and democratic theory*. New York: Cambridge University Press.

Price, C. M. (1975). The initiative: A comparative state analysis and reassessment of a Western phenomenon. *Western Political Quarterly*, *27*, 243-262.

Progressive Party Platform of 1912. (1963[1912]). In R. Hofstadter (Ed.), *The Progressive Movement: 1900–1915* (pp. 128 – 132). Englewood Cliffs, NJ: Prentice Hall.

Remele, L. (1981). Power to the people: The Nonpartisan League. In T. W. Howard (Ed.), *The North Dakota Political Tradition,* pp. 73-77. Ames: Iowa State University Press.

Report on Legislative Investigation of Public Industries. (1921, March 4). House Committee, Seventeenth Legislative Session Assembly. Source: State Historical Society.

Robinson, E. B. (1966). *History of North Dakota*. Lincoln: University of Nebraska Press.

Schecter, D. L. (2003, March 27–30). *Poison in the well: A Depensation model explanation for voter behavior in primary elections.* Paper presented at the Western Political Science Association, Denver, Colorado.

Schecter, D. L. (2004). Lights, camera, and an action hero! Arnold Schwarzenegger and the media frenzy in the California recall. In D. Schultz (Ed.), *Lights, camera, campaign! Media, politics, and political advertising* (pp. 239-272). Peter Lang Publishing. (Material used here is with permission of the publisher).

Schmidt, D. (1989). *Citizen lawmakers*. Philadelphia: Temple University Press.

Smith, D. (1998). *Tax crusaders and the politics of direct democracy*. New York: Routledge.

Stansbury, J. (2002, January 19). *Workers and the municipal state: Los Angeles in the Progressive era, 1890–1915*. Paper presented at the Institute for Labor and Employment Conference, University of California, Santa Cruz.

Trounstine, P. J. (2003, November 19–21). Democratic daze. *California Journal*, p. 19.

Tumulty, K., & McCarthy, T. (2003, August 18). All that's missing is the popcorn. *Time*, pp. 23–26.

Tweton, D. J. (1981). The anti-League movement: The IVA." In T. W. Howard (Ed.). *The North Dakota political tradition* (pp. 93-122). Ames: Iowa State University Press.

Waters, M. D. (2001, August). Do it the Warren Way. *Campaigns and Elections*, p. 56.

Watson, H. L. (1997). Humbug? Bah! Altschuler and Blumin and the riddle of the Antebellum electorate. *The Journal of American History*, *84*(3), 886–893.

White, W. A. (1963[1910]). The revival of democracy. In R. Hofstadter, R. (Ed.), *The Progressive movement: 1900–1915* (pp. xx-xx). Englewood Cliffs, NJ: Prentice Hall.

Wilkins, R. P., & Wilkins, W. H. (1977). *North Dakota: A bicentennial history*. New York: W.W. Norton.

Zimmerman, J. F. (1997). *The recall: Tribunal of the people*. Westport, CT: Praeger.

NOTES

1 Occasionally, discussions of direct democracy begin with an evaluation of changes made during the colonial period (Broder, 2000; Cronin, 1989), or to trace its roots even earlier to Athenian democracy (Manin, 1997). While it is recognized here, as Manin (1997) noted, that representative governments have never given an institutional role to citizens, as the direct democracy states do, the discussion of direct democracy and the recall are studied in a twentieth-century context only. See Manin for a rich discussion tracing the roots of direct democracy from the drawing of lots in Ancient Greece through the Philadelphia Constitutional Convention of 1787. For an assessment of why certain states adopted direct democracy and what reasons account for current usage, see Price (1975) and Banducci (1998).

2 Several political science researchers have studied important aspects of the Progressive era, but few have given any considerable time to the recall other than Joseph Zimmerman, who will be reviewed here. Bowler and Donovan (1998) covered the history of the movement in seven pages—mainly retelling the history quoted by Magleby (1984 and 1994). Smith (1998) covered the history in two pages, relying heavily on Schmidt (1989), Magleby (1984), and Cronin (1989). Although these researchers have done an excellent job in combing through the direct democracy literature, they have often tailored their citations and discussions to more general explanations and research questions. The current research project looks specifically at the use of the recall and direct democracy while reexamining primary and secondary sources.

3 Hofstadter (1963) made an interesting point on this subject by listing the ages of several Progressive era political leaders in 1900: Robert La Follette was age 45, Woodrow Wilson and Louis Brandeis were 44, Roosevelt, 42, and W.J. Bryan, 40 (p. 7).

4 Interestingly, a similar argument was offered in Barber's (1994) "strong democracy" thesis three quarters of a century later when he stated, "…[It] is more rather than less experience of government that will insulate voters against manipulation and prejudice" (p. 282). In contrast, King (2000) provocatively suggested that "when Americans become dissatisfied with government, they call for more democracy. The more they call for more democracy, the more of it they get. The more they get, the more dissatisfied they become" (p. 141).

5 See Schmidt (1989) for a thorough overview of the state-by-state growth in the direct democracy movement. Of Oregon, he suggested that their 1904 votes were the product of 7 years of organizing by one person, in particular, controversial Populist leader William Simon U'Ren, whose motives are discussed more fully in Broder (2000). The citizens of Oregon approved two ballot issues on June 6, 1904: "The first gave voters the right to choose candidates for state office in primary elections (instead of in party conventions); the second gave counties the right to ban liquor sales" (Schmidt, 1989, p. 8).

6 Expressing an antiparty mood was not new to the Progressive era. There is strong evidence that the Gilded Age (the political participation / party period) concept of the late nineteenth century, where it is argued that political parties held broad power, may be somewhat overstated. Recent debate among historians suggests the existence of strong antiparty fervor (ironically, even expressed by new parties) through much of the mid- and late nineteenth centuries. This is found to be the case at the state level, but perhaps it is more pronounced at the local, township level. For more on this debate about party strength and antiparty sentiment, see Watson (1997) and Formisano (1999).

7 Butler and Ranney (1978) admitted that some writers feel the act of voting, in and of itself, does not improve human potential, for it can be an easy task that requires little real commitment. Some have argued that democracy can be (and should be) more than that. Butler and Ranney cited Pateman (1970), in particular, for this take on the Progressive argument.

8 Cronin (1989) stated later, however, "Few promoters of direct democracy ever claimed that everyone would vote and that the public would vote with equal levels of enthusiasm on all measures put before them. They merely wanted a 'safety valve' process…" (p. 210).

9 For an interesting take on the role of labor unions in the adoption and implementation of the recall in Los Angeles, see Stansbury (2002). He argued that the recall was a bottom-up movement, which was brought by labor dissatisfaction with city contract implementation, among other issues.

10 A good example to explain the rash of recall provisions in municipal charters between 1903 and 1911 might be to compare this time period with the term-limits period in the 1980s and 1990s (see Francis & Kenny, 2000). During that period, a number of states adopted term limits one right after the other, which suggested the heavy copycat nature of direct democracy, in general. Another example might be the spread of lotteries, gambling provisions, same-sex marriage proposals, and eminent domain issues of the last 2 decades.

11 Albeit some of the votes were close—while the recall passed 178,115 to 53,755, the women's suffrage vote was 125,037 to 121,450 (Bird & Ryan, 1930, p. 54).

12 For a more complete evaluation of the history of the Nonpartisan League, see Morlan (1955), Burdick (1944), Tweton (1981), Remele (1981), Robinson (1966), Federal Writers' Project (1950), Wilkins and Wilkins (1977), Glassheim (1992), Contois (1986), Balazadeh (1988), and Blackorby (1963).

13 I use the phrase "classic battle" because this is reminiscent to me of the farmer-business struggles that took place after the American Revolution. These culminated in Daniel Shay's Massachusetts rebellion in 1786, leading, in part, to the Founders' desire to revamp the Articles of Confederation.

14 I wish to specifically thank Dr. Theodore B. Pedeliski, University of North Dakota Professor Emeritus of Political Science and Public Administration, for his diligence in tracking down copies of this resolution and others reviewed for this section.

15 The "sale of bonds" issue is an important piece of the Nonpartisan League puzzle, but I am not going into detail on it here. Most, if not all, of the sources mentioned in footnote 12 cover this issue. In short, trying to avert further financial crisis, Governor Frazier and the NPL leadership sought continued relief on the bond market, but with little success. Opponents understood that if the bonds did not sell, for instance, that would make the NPL look even worse, and so there appears to have been no statewide, bipartisan effort to sell them. This is similar to Gray Davis' problems in late 2002, when heavy bonding was also considered (and used) as the state tried to balance its budget.

16 Blackorby (1938) also suggested that some IVA members may have liked the fact that the recall ballot itself would be a "no-party" ballot, implying that would give "conservative Democrats an opportunity to vote for the Independent candidate without abandoning their Democratic Party" (p. 46).

17 These ideas come from my personal discussions with Theodore Pedeliski, D. Jerome Tweton, and Sandy Slater. A biography of Frazier exists and includes three paragraphs on the entire recall. It suggests that "the recall did not embitter" him. Frazier's son, Vernon, later remarked that "the recall election, after the initial shock, actually didn't disappoint my parents too much." He added, "The governor was losing money on the $3,000 a year salary and was glad to get back to run the farm where he could

make some money" (Erickson, 1986, p. 18). A number of important papers do exist on Lemke and can be found in the special collections library at the University of North Dakota. I thank Sandy Slater for sharing them with me.

18 For an excellent breakdown of the vote across several counties by gender, class, and ethnicity, see Glassheim (1992).

19 For a more thorough review of the 2003 recall, with particular emphasis given to the role the media played in the race, see Schecter (2004). Part of the material in this section can be found in that work.

20 For a further discussion on the history of California gubernatorial races, see Hyink and Provost (2001).

21 All of the major newspapers in the state covered this aspect of the race, but for more specific articles on this topic, see Werner, 2002; Smith, 2002; and Berke, 2002 (as quoted in Bibby, 2003).

22 One thing that did stand out during the fall campaign, however, was that Davis may have misled the public as to the actual size of the state deficit in early 2002. This would come back to haunt him following his victory in November. Unlike Governor Frazier of North Dakota, Davis did not enact any particular program to have the state become more involved in any industries, but like Frazier he may not have understood completely the political ramifications of the deficit or the problems faced by 'average' voters.

23 Dubbed the "Warren Way," after former California Governor Earl Warren, M. Dane Waters of the Initiative and Referendum Institute has written that this is "the strategy by which a candidate uses a statewide ballot initiative to increase his or her name recognition" for future political runs (Waters, 2001, p. 56).

24 It is difficult to gauge the exact amount Issa spent during the recall campaign, as there were numerous pro-recall committees gathering signatures and coordinating efforts and it appears he gave to nearly all of them. Numbers ranging from $1.3 million total to $1.5 million to $1.73 million to $2.96 million were reported at different times during the campaign. The number most often cited is $1.5 million, which is why it is used here.

25 Gorton would later say publicly that "[t]he story is absolutely true. He went out and shocked me." Schwarzenegger campaign members Sean Walsh and Don Sipple agreed. None knew he would enter the race and all three later suggested that Maria knew but had not said anything to them. For a post-recall interview with campaign representatives from all of the parties involved in the recall, see Gorton (2003).

26 Except as otherwise noted in this section on the California recall, the chronology of events and specific quotes from reporters were taken from the *Fresno Bee,* August 1 – October 7, 2003. Copies of these articles and all materials quoted in this section are available from the author upon request.

27 For complete results, see the secretary of state Web site: http://www.ss.ca.gov/elections/sov/2003_special/sum.pdf

WHAT DETERMINES WHETHER A MANUFACTURING FIRM LOCATES AND REMAINS IN CALIFORNIA?

ROBERT W. WASSMER
Department of Public Policy and Adminstration
California State University, Sacramento

KATHERINE CHALMERS
Department of Economics
California State University, Sacramento

WALTER SCHWARM
Demographic Research Unit
California Department of Finance

ABSTRACT

Manufacturing currently provides high-paying jobs for nearly 10% of working Californians. However, between 1990 and 2003, the state lost almost 400,000 manufacturing jobs. Some believe that a significant portion of this loss in manufacturing base is attributable to statewide public policies that raise the cost of doing business in California. In this article, we offer a perspective on this issue by examining the following: (1) whether it is in California's best interest to pursue manufacturing jobs, (2) the factors blamed by many as responsible for the state's manufacturing losses, (3) what previous academic studies found as important to manufacturing location, and (4) the likely effect of California's business climate on its manufacturing investment. We also use "shift-share" analysis to document the strong tie between national trends in manufacturing and job losses in California, and identify state-specific components that point to the relative strength of most types of manufacturing in California. We conclude with a cautionary note to policymakers that this relative strength may not always continue.

INTRODUCTION

The State of California is a manufacturing powerhouse. In 2007, over 1.6 million Californians worked in manufacturing at over 27 thousand different firms. This raw employment number is far greater than in the next highest state, Texas, which employs a little fewer than one million of its residents in manufacturing. If the five-county Los Angeles Metropolitan Area and San Diego County were a state, its manufacturing employment would be just behind that of Texas. California's manufacturing employment comprises nearly 9% of national manufacturing employment and over 60% of this industry's sector in the American West (Business News Press Release, 2007).

Manufacturing provides high-paying jobs for nearly 10% of working Californians and generates about $150 billion in value added (final sales less intermediate input purchases). Compared with the 2004 California median income of slightly more than $37,000, the average annual income earned in manufacturing was $57,000 (Keystone Group, 2004, p. 10). Manufacturing employment offers an economic base for California as well as many regional and local economies within the state. Economic impact studies estimate that manufacturing in California supports more than four million jobs and close to one third of the state's total employment (Schell, 2006).

Given the contribution of manufacturing to California's economy, it is reasonable that policymakers are concerned about some dismal trends related to it. California lost almost 400,000 manufacturing jobs between 1990 and 2003. In 1990, nearly 16% of employed Californians worked in manufacturing; 13 years later, this figure fell below 11%. The *Directory of California Manufacturers* (2008) recorded that in 2008 the state entered its fifth straight year of overall factory losses. Some believe that a significant portion of California's loss in manufacturing base is attributable to statewide public policies that raise the cost of doing business in the state. The California Manufacturers and Technology Association (2008) reported that state business costs are 24.2% higher than the national average and thus contribute to the greater loss in manufacturing employment experienced in California than in the rest of the United States. A study commissioned by the Bay Area Economic Forum (2005) noted the competitive challenges imposed by state policy upon California's manufacturing firms.

The previous information offers the necessary background as to why we chose to offer this perspective on manufacturing activity in California. We next explore whether it is in California's best interest to encourage manufacturing activity. Following is a description of the factors most often cited in business discussions as explaining why California is losing manufacturing. Next, we review the findings of academic empirical studies on what actually drives differences across state manufacturing activity. We then summarize the academic consensus of the effects of variables often cited in business climate studies on California. We conclude the discussion with a "shift-share" analysis of changes that separates the overall trend in activity in different California manufacturing sectors between the portion due to a national trend and the portion due to a state-specific trend. We also include a cautionary note to policymakers that California's current relative advantages are not guaranteed.

SHOULD CALIFORNIA CONTINUE TO PURSUE MANUFACTURING JOBS?

The importance of manufacturing activity in the state goes beyond sheer magnitude. The economic benefits of manufacturing activity reach the entire state to a larger degree than the economic benefits generated in most other sectors. These economic benefits include the following: (1) stronger multiplier effects, (2) greater research and development capacity, (3) higher productivity, (4) higher income and fringe benefits, and (5) greater state and local tax revenue.

MULTIPLIER EFFECTS

Differences in multiplier effects arise because economic activity in a state consists of "basic" and "nonbasic" sectors (or "export-based" and "nonexport-based" sectors). Basic sectors, of which manufacturing is a part, sell a large percentage of their output outside the state in which they produce. By selling output produced in a state to consumers outside the state, new dollars flow into the state's economy. Outside dollars become payments to factors of production in the export-based industry. This process continues and the progressive stream of in-state spending produces a multiplier effect, whereas a given change in earnings or employment in a specific industry produces a greater change in the same variable in the state's economy. The U.S. Department of Commerce's Regional Input-Output Modeling System (RIMS II) illustrates the expected eventual effect of a one-unit increase in either earnings or employment on these measures for the entire state (based upon 2002 data). Table 1 lists some of these multipliers.[1]

Table 1. RIMS II Multipliers for State of California

INDUSTRY	EARNINGS MULTIPLIER	EMPLOYMENT MULTIPLIER
Nonmanufacturing		
Agricultural, Forestry, and Fishing Services	2.1	1.6
Construction	2.1	2.1
Retail Trade	1.8	1.6
Insurance	2.5	2.8
Hotel, Amusement, Rec Services, Motion Pictures	2.2	2.0
Health Services	1.8	2.0
Manufacturing		
Food and Kindred Products and Tobacco Products	3.6	4.0
Apparel and Other Textile Products	2.6	2.1
Chemicals, Allied Products, Petroleum and Coal	2.8	4.4
Primary Metal Industries	2.3	2.5
Industrial Machinery and Equipment	2.7	4.2
Electronic and Other Electric Equipment	2.6	3.9
Motor Vehicles and Equipment	2.9	3.5
Instruments and Related Products	2.0	2.9

Multiplier values for manufacturing industries are generally larger than for nonmanufacturing industries. Nevertheless, policymakers need to be aware that not all manufacturing multipliers are equally potent. An additional manufacturing job in a textile mill, printer, or plastic producer generates only two jobs in the state, or an increase very similar in magnitude to the multiplier predicted for many nonmanufacturing sectors.

RESEARCH AND DEVELOPMENT CAPACITY

The purpose of spending on research and development (R&D) is the discovery of more efficient production processes that benefit a state's economy. One benefit is the use of fewer resources to produce a good or service. This translates into a combination of a lower price for the product, greater wages paid to workers producing the product, and/or higher returns for the owner of the production process. Not to be ignored are the secondary spillover benefits whereby innovation by one firm or industry benefits other firms or industries. Oftentimes these spillover benefits are geographically specific and stay within a state (e.g., Silicon Valley).

HIGH PRODUCTIVITY

Active R&D spending by manufacturing has paid off in the form of greater productivity increases in this sector than in others. Productivity increases guarantee more things produced with fewer resources. Between 1995 and 2001, labor productivity in U.S. manufacturing grew at an annual rate of 4.2%, while the same productivity in the private nonfarm economy grew at only 2.4% annually (Hersh & Weller, 2003).

HIGH INCOME AND BENEFITS

The high value added generated by the typical worker in the manufacturing sector allows the payment of relatively high wages and benefits. Table 2 offers information from the U.S. Bureau of Labor Statistics (2006a) about the average wage earned by all workers employed in a selection of nonmanufacturing industries and different categories of manufacturing industries.The overall mean annual wage earned in manufacturing of $40,320 is relatively high in comparison with the mean annual wages listed for nonmanufacturing industries. Table 2 also lists the far lower mean annual wages for many of the sectors in which Californians are likely to find a job if they lose their manufacturing job: Agriculture, Forestry, Fishing, and Hunting ($22,960); Retail ($27,040); Real Estate and Rental ($36,020); and Arts, Entertainment, and Recreation ($29,260).

Furthermore, as recognized by Hersh and Weller (2003) and Popkin (2003), the nonwage fringe benefits offered to manufacturing employees are typically greater. Table 3 offers evidence for this from a Bureau of Labor Statistics (2006b) publication, *National Compensation Survey: Employee Benefits in Private Industry in the United States*.

Table 2. Mean Annual 2006 California Wage for All Occupations in Listed Industry

INDUSTRY	MEAN ANNUAL WAGE
Nonmanufacturing	
Agriculture, Forestry, Fishing and Hunting	$22,960
Mining	$46,310
Utilities	$55,750
Construction	$41,950
Wholesale	$44,930
Retail	$27,040
Transportation and Warehousing	$40,340
Information	$51,860
Finance and Insurance	$51,150
Real Estate and Rental	$36,020
Professional, Scientific, and Technical Services	$60,590
Health Care and Social Assistance	$41,050
Art, Entertainment, and Recreation	$29,260
Accommodation and Food Services	$19,650
Other Services	$31,680
Manufacturing	
Overall	$40,320
Food	$29,870
Beverage and Tobacco Products	$38,940
Textile Mills	$30,310
Wood Products	$30,660
Paper	$40,430
Printing	$37,510
Petroleum and Coal Products	$53,380
Chemical Products	$48,650
Plastic and Rubber Products	$34,390
Nonmetallic Mineral Products	$35,370
Primary Metal	$39,390
Fabricated Metal	$37,370
Machinery	$42,340
Computer and Electronic Product	$59,390
Electrical Equipment, Appliance, and Components	$39,230
Transportation Equipment	$47,450
Furniture	$32,220
Miscellaneous	$38,910

STATE AND LOCAL TAX REVENUE

Popkin (2003,) reported that in the last decade, manufacturers have paid about one third of all state and local taxes, social security and payroll taxes, excise taxes, import and tariff duties, environmental taxes, and license taxes collected in the country. Though no specific estimates exist regarding the percentage of California's state and local tax revenue originating from the manufacturing sector, it is likely higher than in other states where the reliance on the personal income tax and corporate income tax as sources of state general revenue is not as great. According to the California Legislative Analyst's Office, these two sources of revenue respectively account for about 53% and 11% of the state's 2005–2006 general revenue.[2]

Though manufacturing activity offers heightened benefits to California's economy, it would be remiss if we failed to mention that many forms of manufacturing activity also impose heightened costs on California's natural environment. We do not mean to imply that the state's policymakers should embrace the expansion of all forms of manufacturing activity without careful consideration of economic benefits weighed against environmental costs. That being said, and the need for it being carefully considered when looking at the desirability to the state of encouraging a specific manufacturing plant or industry, our conclusion is that it is in California's general interest to retain most of its existing forms of manufacturing and pursue policies that attract and encourage even more of it.

Table 3. Percentage of Workers in Goods or Service Producing Types of Industrial Sectors Receiving a Particular Nonwage Benefit in United States

NONWAGE BENEFIT	GOODS-PRODUCING INDUSTRY	SERVICE-PRODUCING INDUSTRY
Life Insurance	62%	49%
Short-Term Disability	53%	35%
Retirement	88%	83%
Medical Care	81%	72%
Dental Care	86%	75%
Vision Care	83%	72%
Paid Holidays	85%	74%
Nonproduction-Related Bonuses	55%	44%

FACTORS OFTEN CITED BY NONACADEMICS AS IMPORTANT TO MANUFACTURING LOSS

Reports generated by business groups (see the Keystone Group (2004), Bay Area Economic Forum (2005), and Silicon Valley Leadership Group (2005, 2006, and 2007) as examples) point to the higher cost of doing business in California as the primary reason that manufacturing has declined in the state. Policymakers have all heard that California's above average labor cost, worker's compensation cost, energy cost, corporate tax rate, and a more stringent regulatory environment are the primary drivers of this higher cost of doing business. We extend this discussion further by an examination of three "business climate" studies. Two place California in the bottom of states concerning desirability; another places it in the middle. In doing so, we uncover the variables and methodology that earned California these vastly different designations.

The three representative business climate studies discussed here are the Tax Foundation's (Dubay & Atkins, 2007) *State Business Tax Climate Index*, Pacific Research Institute's (Huan, McCormick, & McQuillan, 2004) *U.S. Economic Freedom Index*, and Consumer News and Business Channel's (CNBC) (2007) *America's Top States for Business.* Below the top state listed as most "business friendly," California is respectively ranked 45th, 49th, and 28th in these three studies.

STATE BUSINESS TAX CLIMATE INDEX

Dubay and Atkins (2007), for the Tax Foundation,use 113 different tax variables to develop its ranking of the 50 state business climates. All tax variables are placed into component indexes by scaling them each from zero (worst) to ten (best), based on how they contribute to the "competitiveness" of each state's tax system in regard to the corporate income tax, individual income tax, sales tax, unemployment insurance tax, and property tax. Across these five component indexes, California did best on the property tax (16th) and worst on the individual income tax (46th). On unemployment insurance, it was ranked 18th, while on the corporate income tax and sales tax it was respectively ranked 40th and 39th.

As an example of how this index is calculated, consider that the corporate tax rate index is created by looking at the top marginal rate (lower is better), taxable-income level at which the highest rate kicks in (higher is better), number of tax brackets (fewer are better), and the average width of brackets (narrower is better). In a critical evaluation, Fisher (2005) pointed out that Dubay and Atkin's interpretation of competitiveness is really about "low taxes, and not neutral taxes" (p. 18). In addition, he stated that nowhere is the multitude of tax preferences (investment and job tax credits, R&D tax credits, enterprise zones, foreign-source income, etc.) accounted for in this index. Fisher concluded, "As a tool for assessing public policy, it is fatally flawed…" (p. 28).

U.S. ECONOMIC FREEDOM INDEX

Huan, McCormick, and McQuillan (2004), writing for the Pacific Research Institute (PRI) believe that they designed an *Economic Freedom Index* to measure how friendly a state government is toward free enterprise and consumer choice. To calculate this overall index, the generation of scores for each state occurs using 47 different variables spread over five different categories (fiscal, regulatory, judicial, government size, and welfare spending) that PRI considers to best capture the degree of "economic oppression" in a state. For each variable, each state is given a rank of one for the "most free" and 50 for the "least free." The five sector scores for a state are simple averages of the ranks of variables included in the score. As an example, four of the eight variables included in the judicial sector measure are number of attorneys (fewer are better), compensation of judges (higher is better), terms of judges (shorter is better), and medical liability reform (caps on damages are good).

Huan, McCormick, and McQuillan chooses not to report the specific rank of a state regarding a sector but instead lists whether a state was in the first group of 10 states from the top, second group, third group, fourth group, or fifth group. In the fiscal, regulatory, and welfare categories, California finished in the fifth or lowest group. In government size, it finished in the second group. In the judicial category, it finished in the first group. In a somewhat biased weighting scheme that has been criticized by Fisher (2005, p. 55), PRI counts a state's score in the fiscal, regulatory, and welfare spending categories much higher than in the two categories in which California did well. This arbitrary weighting largely determines California's 49th ranking.

AMERICA'S TOP STATES FOR BUSINESS

Two members of the Consumer News and Business Channel (CNBC) newsgroup designed a mid-2007 study that they believe captures which states are better at attracting new business. They began by designating 10 broad categories that they felt describe the "competitiveness" of a state for business, including Cost of Doing Business (22%), Workforce (17%), Economy (16%), Education (12%), Quality of Life (12%), Technology and Innovation (7%), Transportation (5%), Cost of Living (3%), Business Friendliness (3%), and Access to Capital (3%). They then chose 40 different variables (4 for each of the 10 categories) that they believed offer a measure of how states compared across these categories. Choosing not to weigh each of the 10 categories equally in the final calculation of their state ranking, the CNBC researchers decided to anonymously request a packet of economic development marketing materials from all 50 states and count the number of times each of the 10 categories is cited. This led to the relative weights listed in the parentheses next to each of the stated categories.

California's overall ranking of 28th was the result of applying the weights derived from the business marketing tools to the ranks given to California of 48th for business cost, 33rd for workforce, 6th for economy, 31st for education, 9th for quality of life, 1st for technology, 19th for transportation, 49th for cost of living, 48th for business friendly, and 1st for capital access. The methods used in the derivation of this middling ranking for California exhibit a greater balance than in the other two studies. CNBC captured in its choice of 40 variables a vast majority of the elements that could attract or repel a business (including a manufacturer) from a state. A potential flaw in the CNBC methodology is the exclusive use of the literature used by the states to promote their own economic development in assessing the relative importance of the 10 categories. A state will emphasize in such literature what it hears business people say as important to economic development. As discussed next, this may or may not be what is actually important. Business cost and regulation categories drive about two thirds of the determination of where a state ranks.

Academics completing statistical studies, and questioning business location decisions, have long been skeptical of soliciting only the personal opinions of business people on this issue (see Anderson & Wassmer (2000, pp. 32–35); Bittlingmayer, Hall, & Orazem (2005), Courant & Fulton (1985), and Fisher (2005) as examples). Business people likely view the opportunity to answer such a question as an opportunity to lobby for a public policy change that increases their bottom line. The preferred method of determining what really drives a manufacturing firm to locate in one state as opposed to another is to examine studies of real-world data that correlate the observed relationship between explanatory variables thought to cause differences in business location to real-world measure of differences in manufacturing activity across the states.[3] We offer a brief review of such studies next.

DETERMINANTS OF MANUFACTURING LOCATION

A MANUFACTURING FIRM'S LOCATION DECISION

A business is most likely to locate in the jurisdiction where it earns the largest profit. As noted by Schmenner (1982), differences in profit across jurisdictions are determined by differences in the market for the good or service the firm sells, differences in the availability and quality of inputs needed to produce the firm's output, and differences in state and local government activities across jurisdictions that influence the firm's profitability. State policymakers possess little ability to affect the market (either increase the number of demanders or reduce the number of alternate suppliers) for a firm's product. Policymakers also possess limited ability to improve the input markets needed by a firm. Policymakers have the greatest ability to alter the government provision of goods and services that benefit a business, or alter the tax and regulatory policies that cost a business.

When holding sales constant, profit maximization is the same as cost minimization. Thus, businesses prefer lower taxes, lower labor costs, and less regulation that would force them to alter their production methods from the least costly method. Everything else equal, firms also prefer high-labor productivity and access to government-provided infrastructure, goods, and services they use in production. Government-provided inputs used in production allow a firm to produce the same number of goods and services with fewer purchased inputs, thereby lowering costs and raising profits.

Most data-driven studies that assess what variables influence where a manufacturing firm locates, and whether variables influenced by public policy can exert an influence, rely upon this model of profit maximization to determine which variables to examine. Next, we discuss several categories of the variables widely cited as likely to influence the location choice of a firm, limiting our consideration to those that are possibly influenced by the decisions of state policymakers.

LABOR COSTS

The relationship between the observed cost of labor in a state and the interstate location decision of manufacturing firms is not clear-cut. Lower wages and benefits are not attractive to a firm's bottom line if they are the result of less skilled or educated workers. Using regression analysis, Bartik (1985) found (holding other location factors constant) that higher wages were a negative influence on the probability of locating a new branch plant in a state. Little (1978), and Lugar and Shetty (1985), deduced through sound empirical studies that state wage differentials influenced foreign manufacturing investment more than domestic. These findings contrast with Glickman and Woodward (1987), who observed that wage differentials across states did not affect the observed differences in the employment growth of foreign-owned firms. Unfortunately, because these studies have varyingly controlled for the positive factors (higher skills, higher education, healthier, etc.) and negative factors (lack of labor supply, unionization, etc.) that can drive labor costs higher in a state, little consensus has been reached on the influence of high wages on the degree of manufacturing activity in a state.

UNIONIZATION

Empirical studies have tried to isolate the independent influence of statewide unionization on intrastate manufacturing location decisions. Carlton (1979, 1983) was one of the first to examine whether the presence of state laws restricting union activity affected business location decisions between states. Later researchers improved upon Carlton's analysis by using the unionized percentage of the private workforce as a separate variable in their regressions. Bartik (1985) found that high-unionization levels within a state serve as a strong deterrent to the formation of new branch plants. These results mirror those reported earlier by Newman (1983) and Plaut and Pluta (1983), who both record an average union elasticity of about -0.4.[4] Similarly, Woodward (1992) argued that foreign manufacturing firms perceive the presence of unions as an impediment to their own corporate "culture" and discourage foreign direct investment. Likewise, Glickman and Woodward (1987) discovered that the presence of state right-to-work legislation negatively affected the growth of foreign firms in a state.

In contrast, Coughlin, Terza, and Vachira (1991) found a positive relationship between higher rates of unionization and foreign direct investment in a state. They noted that this positive effect may be the result of an interaction between unionization and lower rates of unemployment. Beeson and Husted (1989) also reported a correlation between higher rates of unionization and greater productive efficiency in manufacturing at the state level. Dalenberg and Partridge (1995) found a very small, but positive and statistically significant, effect for unionization on state business activity. As just described, there exists a mix of empirical findings regarding the influence of unionization in a state on industrial activity in that state, with a slightly greater number of studies finding a negative influence.

TRANSPORTATION NETWORKS

By facilitating the movement of inputs from suppliers and goods to consumers, the transportation infrastructure of a state or region can significantly affect a manufacturing firm's profit margins and hence its location decision (see California Infrastructure Coalition (2005); California Performance Review (2004)). Woodward (1992) argued that a measure of firms' accessibility to regional and national markets is the presence of transportation linkages and reported evidence that greater linkages of this form correlate with greater manufacturing activity. Interstate highways are especially attractive for firms, given their role in connecting nonurban counties to larger markets. Moriarity (1983) earlier found a similar role for transportation access in the location decision of foreign firms at the substate level. Bartik (1985) included a transportation variable in his study as a proxy for public services and found that it exerted a positive influence on a measure of business activity.

Fisher (1997) reviewed the literature on transportation's effects on economic growth (controlling for other public services such as highways, education, and public safety) and found that nearly 70% of previous studies yielded a statistically significant and positive influence for transportation. Of the 15 studies reviewed by Fisher, 8 reported a statistically significant positive relationship between the presence of transportation/highways in a state and the state's economic development.

With the exception of the findings recorded by Dalenberg and Partridge (1995) that highway and other public spending had a negative effect on economic growth, transportation networks in previous empirical studies exert a near uniform positive effect on a state's economic development. However, this is not true of other types of public spending, such as on education or public safety, in which the empirical results are mixed.

STATE AND LOCAL TAXES

As discussed by many previous reviewers (Anderson & Wassmer, 2000; Bartik, 1991, 1992; Fisher & Peters, 1997; Papke, 1993; and Wasylenko, 1997) of the extensive economic literature on the impact of state and local taxes on business, decision makers must exercise care in their interpretation of findings for policy purposes. Many of these studies look at the impact of state and local taxes on economic activity or economic growth (as measured by employment or income growth) rather than specifically on business creation or location. These studies report findings using the concept of elasticity, or the percentage effect in state and/or local business activity expected to occur after a 1% change in state and/or local taxes.

Luger and Shetty (1985) noted that the importance that taxes exert upon business location decisions depends upon the type of industry studied. Wasylenko (1997) observed that manufacturing industries are not as tied to locating in one region or state because they typically sell their products in national and international markets. Such firms are naturally more migratory and thus responsive to differences in cost factors influenced by subnational government tax choices. This theoretical argument concurs with the findings of other researchers that manufacturing location decisions are more sensitive to taxes than nonmanufacturing location decisions (Anderson & Wassmer, 2000; Fisher, 1997; Testa, 1989; Wasylenko & McGuire, 1985).

Research that studies the effect of taxes on economic growth focuses on detecting its influence at either the intraregional (within a state or metropolitan area) or interregional level (between states or metropolitan areas). The consensus among empirical researchers is that differences in the rate of taxation across potential locations within a given region or state are much more likely to exert an influence on business location choices than differences between regions or states. As argued by Bartik (1991), and Anderson and Wassmer (2000), the reason is that other factors that influence where a firm locates are held constant across possible interregional or interstate locations. Differences in taxes paid are more likely to be the swing factor in determining whether a firm chooses a location in one city as opposed to another in the same metropolitan area or same state. In support of this belief, Papke (1995) found that for six states in the Great Lakes Region, net of tax returns on investment for various types of manufacturing were similar enough that one state could not be preferred over another.

Wasylenko (1981) suggested that taxes have a significant negative effect on business formation at the intrastate level. Newman (1983) observed state corporate income taxes also had an effect on business location decisions at the interstate level. A further study by Newman and Sullivan (1988) tentatively concluded that there was a negative tax effect, but only under certain model specifications at the interstate level. Bartik (1985) argued that state taxes on corporate profit had a negative and significant effect on manufacturing branch plant formation at the intrastate level. Helms (1985) observed that a state's tax pattern would have a significant effect upon its ability to attract and retain businesses, particularly if the tax revenue funds transfer payments. Papke and Papke (1986) found that tax differentials may play an important role in business location decisions because higher taxes consistently deter business activity. Bartik (1989) examined the effect of taxes on start-up firms and mentioned a statistically significant negative effect, particularly for property taxes.

Wasylenko (1997) identified 74 interregional and/or interstate tax studies with most studies showing a negative tax elasticity of economic activity (i.e., lowering the tax rate would result in an increase in economic activity). Studies that found statistically significant negative elasticities include Bartik (1989); Brown, Micszkowski, and Syron (1980), McConnell and Schwab (1990), Munnell (1990), Papke (1991), and Wasylenko and McGuire (1985). Phillips and Goss (1995) performed one of the only formal meta-analyses found in the literature on the effects of taxation on business location. Their results generally confirm the previously discussed conclusions that the influence of taxes on business location is greater at the intrastate than interstate level, and that taxes are more likely to influence the location of manufacturing than commercial activity. Therefore, a review of the empirical literature reveals that, in certain instances, the level of subnational taxation influences the location decision of a manufacturing firm.

When firms were surveyed, they unsurprisingly responded that lower taxes were a key variable in their location decision without explicitly acknowledging the benefits that also accrue to them from the programs that taxes finance. It is for this reason that Wasylenko (1997) examined over 70 previous studies to ascertain the role taxes play in stimulating economic development by attempting to explain why the estimates of tax effects vary so widely across those studies. After discussing the nonfiscal variables (such as labor costs, energy costs, unions, and agglomeration economies) that previous studies have included in their analyses of what influences a firm's location decision, Wasylenko then dissected how previous studies have included fiscal policy variables. He noted how the quality and quantity of public services are measured, as well as the fact that certain industries may value some services and not others, which complicates the interpretation of different analyses. For example, most surveys report that firms value transportation infrastructure, and high-quality primary and secondary education for their ability to move inputs and goods and attract workers, respectively, while firms do not value government spending on welfare and prisons. An additional complication is whether the measurement of fiscal policy variables is as nominal rates or by the ratio of revenue collected to personal income or population. He concluded that the imprecision with which most explanatory variables are measured is an ongoing problem in this area of research. However, Wasylenko did note an important lesson that emerges from the data. Intraregional studies consistently report higher elasticity values than interregional studies. Studies that analyze a smaller geographical area are likely to see less variation in nonfiscal variables since jurisdictions in the same geographical area will have access to the same labor force or transportation infrastructure, but they can distinguish themselves from other locations through the use of distinct local fiscal policies.

As seen in summary Table 4, the preceding review of the literature reveals that high levels of transportation networks and regional markets are likely to act as attracters of manufacturing activity to a state, and that the level of taxation imposed upon a manufacturing entity within a state is likely to exert a negative influence (albeit relatively small) on the amount of industrial activity observed in a state. The problem with putting this information to use in designing manufacturing friendly policies in a state is the difficulty and expense, or both, in manipulating these statewide variables in a manner that attracts additional, or retains existing, manufacturing activity. The next section examines the cumulative effect of these variables on the performance of California's manufacturing sector compared with manufacturing at the national level.

Table 4. Summary Effects of Variables on Firm Location Decisions
(As Predicted by Empirical Literature)

POLICY VARIABLE	PREDICTED EFFECT
Labor Costs	*Generally negative, though complicated by positive correlation between high wages and high labor productivity*
Unionization	*Mixed results, though leaning to negative*
Transportation	*Almost uniformly positive*
Regional Markets	*Positive*
State and Local Taxes	*Negative, but likely small influence*

SHIFT-SHARE ANALYSIS

A shift-share analysis can separate the overall growth or decline in an economic variable for a state into a state-specific component and a national component. Shift-share analysis is not a behavioral model. It does not explain why a state grows or declines differently than the nation. It merely utilizes a well-accepted framework for identifying these two components of growth or decline (Andrikopolous, Brox, & Carvalho , 1990). We next use shift-share analysis to provide insights into the recent employment performance of specific industrial sectors in California.[5] The components of growth calculated for the various industries are as follows:

(1) a "national share" (N) or the effect of the national overall growth rate component;

(2) an "industrial mix" (IM) or the effect of the industrial structure in California as compared with the nation;

(3) a "competitive effect" (C) or the amount of growth not due to N or IM.

NATIONAL SHARE COMPONENT

The national share (N) reflects expected growth in the state had it grown at the same rate as the nation. The calculation of N involves multiplying the base-year employment in each economic sector by the growth rate of total national employment between the base year and terminal year.

INDUSTRIAL MIX COMPONENT

Industry mix (IM) refers to the initial industrial structure of a given state. The industrial mix component measures the influence of fast or slow growing industries within a state economy. If a state is growing faster than the national average, it may be due in part to a concentration of rapid growth industries. For example, the service sector of the national economy has been growing faster than all other national economic sectors. Given that a large proportionate share of California's economy is in service-related industries, it would not be too surprising to find California's rate of economic growth far exceeding national growth. However, this might not be a sign of a healthy economy, because a reversal in this one economic sector could cause overall state economic reversal. By isolating the industry mix component, it becomes clearer when positive and diversified growth is occurring.

COMPETITIVE COMPONENT

The competitive (C) component for a specific industrial sector is the most important to examine in terms of state-specific effects on a particular industry. A positive C for a specific industry (sometimes called the state share) is an indicator of a state's competitiveness with other states for a particular economic sector. Economists therefore consider the competitive component as the dynamic element in state employment increases (Andrikopoulos et al., (1990); Curtis (1972); Kalbacher (1979); and Petrulis (1979)).

METHOD

We analyzed two periods, 1998–2001 and 2002–2005. The 2001 break accounts for the economic difficulties and recessionary pressures the nation and California were experiencing at that time. Data beyond 2005 were unavailable at the time of the study. In the analysis, the industry mix (IM) component is positive for industries that grew above the overall national average during the periods. The competitive component (C) is positive if the industry in California out-performed the industry at the national level. Overall, when comparing California with the United States during the periods under consideration, California benefited from competitive local factors that counteracted dampened employment growth in national manufacturing sectors. This is clear from the information in Tables A1 and A2 offered in the Appendix.

Appendix Table A1 decomposes California's job growth in comparison with that of the nation's employment as a whole. With rare exceptions, California's unique competitiveness reverses the downward trend in manufacturing in both periods and one observes overall manufacturing increases for most subsectors in California across the two periods. The exceptions to the employment growth pattern in the most recent 2002–2005 period were Food, Beverage, and Tobacco Products; and Chemical Manufacturing. Also important to note from the shift-share analysis are the following:

- Positive state factors helped most California industries grow faster at the state level than the national level.
- Durable Goods experienced the greatest decline nationally; however, strong state factors help this industrial sector out-perform Nondurable Goods.
- Computer, Transportation, and Apparel had the greatest percentage of employment growth between 2002–2005, both in actual workers and in growth attributable to state factors.

Appendix Table A2 results have used shift-share to examine the effect of the within-manufacturing differences in employment attributable either to California or the sector itself. The national trend toward loss in manufacturing employment, which manifested itself in the industrial mix columns in the previous tables, is in the national columns in this table. If employment in the manufacturing sectors in California had grown at the same rate as the national manufacturing sectors, then California would have lost jobs in all subsectors across both periods. Since California mostly gained manufacturing jobs during these two periods, additional factors must be in play. The industry mix column provides evidence for the relative strength or weakness of each subsector versus manufacturing in general. As can be seen, there are a number of sectors (i.e., Textiles; Apparel, Printing and Paper) that lost employment nationally at a faster rate than the manufacturing sector as a whole. Other sectors, such as Food and Printing and Furniture, did better than the overall manufacturing rate. Thus, the industry mix column reveals California employment changes resulting from changes in the relative importance of each particular subsector nationally.

The largest and most notable value here is the large employment loss component in 2002–2005 within the Computer and Electronics sector, attributable to the increasing internationalization of such manufacturing.

The state share column in Table A2 shows unique state factors at work. It is the state's comparative advantage that ultimately yields mostly positive employment growth within these manufacturing subsectors in California. This is particularly true in the Computer and Electronics, Transportation, and Printing sectors. Chemical Manufacturing is notable for being one of the few sectors to have negative state factors work against it in the 1998–2001 series and negative national factors in the 2002–2005 series. Though the Transportation, Apparel, and Textile and Computer/Electronics industries struggled nationally, they posted strong gains in California. Transportation and Fabricated Metal products stand out as industries with both strong local factors and in-

Table 5 2002–2005 California Manufacturing Employment Changes Due to National and State Factors

INDUSTRY SECTOR	NATIONAL JOB CHANGE	NATIONAL % CHANGE	CALIFORNIA JOB CHANGE	CALIFONRIA % CHANGE
Manufacturing	-1.012,000	-7.2%	192,500	11.7%
Food, Beverage, and Tobacco Products	-75,000	-4.6%	-2,300	-1.2%
Textile Product Mills	-98,000	-26.0%	5,100	15.8%
Apparel	-107,000	-35.5%	30,800	30.3%
Wood Products	-2,000	-0.3%	3,600	8.9%
Paper Mfg.	-59,000	-12.5%	4,700	14.9%
Printing and Related Support Activities	-61,000	-9.4%	13,500	19.4%
Petroleum and Coal Products Mfg.	-7,000	-6.4%	2,000	12.9%
Chemical Mfg.	-51,000	-5.9%	-300	-0.3%
Plastics and Rubber Products Mfg.	-44,000	-5.5%	8,500	13.3%
Nonmetallic Mineral Product Mfg.	-15,000	-3.0%	500	1.0%
Primary Metal Mfg.	-39,000	-8.5%	3,400	12.6%
Fabricated Metal Product Mfg.	-23,000	-1.5%	20,800	14.1%
Machinery Mfg.	-61,000	-5.3%	11,500	12.4%
Computer and Electronic Product Mfg.	-183,000	-14.1%	53,200	14.5%
Electrical Equipment and Appliance Mfg.	-62,000	-14.4%	2,300	5.7%
Transportation Equipment Mfg.	-54,000	-3.0%	21,600	15.7%
Furniture and Related Product Mfg.	-37,000	-6.6%	6,800	9.9%
Miscellaneous Mfg.	-34,000	-5.2%	6,800	7.2%
Durable Goods	-510,000	-5.7%	130,400	12.3%
Nondurable Goods	-501,000	-9.6%	62,100	10.6%

creased national pressure for employment growth. The greatest changes in state share factors between the two periods occurred in the Food/Beverage sector (negative), Fabricated Metal sector, Printing sector, Computer/Electronics sector, and the Miscellaneous Manufacturing sector. This indicates a strengthening of these sectors versus the others, with the exception of the Food/Beverage sector.

Table 5, calculated from the previous shift-share analysis, shows that manufacturing sectors in the state have outpaced the rest of the United States for purely California-specific reasons. This is most evident in the Transportation, Apparel, and Textile and Computer/Electronics industries. Both of these struggled nationally but posted strong gains in California between 2002 and 2005. Additionally, Transportation and Fabricated Metal products stand out as industries with both strong state factors and increased national factors causing employment growth.

CONCLUSION

As shown by the results in Table 5, California is in a unique position to chart its industrial future because it has weathered past economic downturns more effectively than other states and will likely do the same over the current recession. The results of our shift-share analysis demonstrate the **relative** success of California's manufacturing. We purposefully emphasize relative in comparison with other states and not **absolute** success**,** as done by others concerned about manufacturing trends in the state. California's relative success is attributable to statewide factors that naturally bless California (location and climate) and public policies toward business that are not too far out of line with the average (as documented in the more holistic CNBC business climate study). Kolko and Neumarck (2007) also documented California's relative success in manufacturing through a recent study for the Public Policy Institute of California that shows the state's 1992–2004 loss in manufacturing as primarily the result of firm closures and not firm relocations out of state. Not surprising, given the theoretical arguments and empirical evidence we have cited, firm movements between adjacent counties within the state and toward inland California dominate the types of manufacturing firm relocations observed in the state over this period. Nevertheless, we must conclude our perspective on manufacturing in California with the caveat that California's policymakers would be wise to heed some general advice whenever they craft public policies that could potentially impact the desirability of a manufacturer remaining in the state.

First, policymakers need to remember that the presence of manufacturing activity in California offers unique economic benefits that justify public attention toward attempts at retaining firms. Second, it is true that manufacturers in the state do face higher labor costs, worker's compensation costs, energy costs, corporate tax costs, and regulatory costs than in some other states. But this disadvantage to manufacturing is offset in part by location, climate, quality of life, transportation, and access to capital and regional markets that place California somewhere in the middle of the states regarding its business climate (as determined by the CNBC assessment) and not at the bottom (as determined by the Tax Foundation and Pacific Research Institute). Third, it is not safe for California's policymakers to just sit back and rest on these positive offsets as they attempt to minimize the loss in manufacturing activity over the next recession. According to the academic literature summarized in Table 4, manufacturing activity in a state very likely responds negatively to a decline in a state's regional markets and transportation infrastructure, to high wages paid to a workforce declining in skill and/or education, and to taxes levied on business that are far out of line with those being levied in neighboring states and/or with competing states that offer a similar menu of business amenities.

We finish by disagreeing with previous studies that blamed California's recent decline in manufacturing activity on purely unfriendly business policies. However, we must caution policymakers of the need to preserve the positives that enter into a calculation of California's business climate if they wish to continue to enjoy the state-specific advantages found in our shift-share analysis.

REFERENCES

Anderson, J., & Wassmer, R. (2000), *Bidding for business: The efficacy of local economic development incentives in a metropolitan area.* Kalamazoo, MI: Upjohn Institute.

Andrikopolous, A., Brox, J., & Carvalho, E. (1990). Shift-share analysis and the potential for predicting regional growth patterns: Some evidence for the region of Quebec, Canada. *Growth and Change*, *21*, 1–10.

Bartik, T. (1985). Small business start-ups in the United States: Estimates of the effects of unionization, taxes, and other characteristics of states. *Journal of Business and Economics Statistics, 3*, 14–22.

Bartik, T. (1989). Small business start-ups in the United States: Estimates of the effects of characteristics of states. *Southern Economic Journal*, 55, 1004–1018.

Bartik, T. (1991). *Who benefits from state and local economic development policies?* Kalamazoo, MI: Upjohn Institute.

Bartik, T. (1992). The effects of state and local taxes on economic development: A review of recent research. *Economic Development Quarterly*, *6*, 102–110.

Bay Area Economic Forum. (2005, March). *One million jobs at risk: The future of manufacturing in California*. Retrieved from http://www.bayeconfor.org/media/files/pdf/CAManufacturingReport.pdf

Beeson, P., & Husted, S. (1989). Patterns and determinants of productive efficiency in state manufacturing. *Journal of Regional Science, 29*, 15–28.

Bittlingmayer, G., Hall, A., & Orazem, P. (2005). *Business climate indexes: Which work, which don't, and what can they say about the Kansas economy?* Kansas City, MO: Kansas Incorporated. Retrieved from http://www.kansasinc.org/pubs/working/Business%20Climate%20Indexes.pdf

Brown, L., Micszkowski, P., & Syron, R. (1980, July/August). Regional investment patterns. *New England Economic Review*, *23*, pp. 5–23.

Bureau of Labor Statistics (2006a). *May 2006 National Industry-Specific Occupational Employment and Wage Estimates.* Washington, D.C.: Department of Commerce. Retrieved August 2008 from http://www.bls.gov/oes/current/oessrci.htm.

Bureau of Labor Statistics (2006b). *National Compensation Survey: Employee Benefits in Private Industry in the United States.* Washington, D.C.: Department of Commerce. Retrieved August 2008 from http://www.bls.gov/ncs/ebs/sp/ebsm0004.pdf .

Business News Press Release. (2007, March 29). *Manufacturing remains leading provider of jobs in Southern California region despite mixed trends*. Los Angeles: L.A. County Economic Development Corporation.

California Economic Strategic Panel (2002), *Using Multipliers to Measure Economic Impacts*. Sacramento, CA: California Labor and Workforce Development Agtancy. Retrieved from http://www.labor.ca.gov/panel/pdf/Multipliers.pdf .

California Infrastructure Coalition. (2005). *Report card for America's infrastructure receives near failing grade*. Retrieved from http://www.calinfrastructure.org/press_releases/20050309_1.html

California Manufacturers and Technology Association. (2008). *Manufacturing employment data*. Retrieved from http://www.cmta.net/turning_california_around/employment_report.php

California Performance Review. (2004). *Deteriorating highway quality is costly for taxpayers*. Retrieved from http://cpr.ca.gov/CPR_Report/Issues_and_Recommendations/Chapter_4_Infrastructure/INF20.html

Carlton, D. (1979). Why new firms locate where they do: An econometric model. In W. Wheaton (Ed.), *Interregional movements and regional growth* (pp. 13–50). Washington, DC: Urban Institute.

Carlton, D. (1983). The location and employment choices of new firms: An econometric model with discrete and continuous endogenous variables. *Review of Economics and Statistics, 65*, 440–449.

Consumer News and Business Channel (CNBC). (2007). *America's top states for business*. Available at http://www.cnbc.com/id/19482802

Coughlin, C., Terza, J., & Vachira, A. (1991). State characteristics and the location of foreign direct investment within the United States. *Review of Economics and Statistics*, *73*, 675–683.

Courant, P., & Fulton, G. (1985, November). What do business climate studies have to do with business? *The Economic Outlook for 1986*, NOT AVAILABLE.

Curtis, W. (1972). Shift-share analysis as a technique in rural development research. *American Journal of Agricultural Economics, 54*, 267–270.

Dalenberg, D., & Partridge, M. (1995). The effects of taxes, expenditures, and public infrastructure on metropolitan area employment. *Journal of Regional Economics,* 35, 617-640.

Dardia, M., & Luk, S. (1999). *Rethinking the California business climate.* San Francisco: Public Policy Institute of California. Retrieved from http://www.ppic.org/content/pubs/report/R_899MDR.pdf

Directory of California Manufacturers. (2008). Available at http://www.mnistore.com/products.asp?STATE=CA

Dubay, C., & Atkins, C. (2007). *State Business Tax Climate Index* (4th ed.). [Background paper]. Washington, DC: Tax Foundation. Retrieved from http://www.taxfoundation.org/files/bp52.pdf

Fisher, P. (2005). *Grading place: What do the business climate rankings really tell us?* Washington, DC: Economic Policy Institute.

Fisher, R. (1997, March/April). The effects of state and local public services on economic development. *New England Economic Review*, pp. 53–67.

Fisher, R., & Peters, A. (1997, March/April). Tax and spending incentives and enterprise zones. *New England Economic Review*, pp. 109–130.

Gerston, L.. (2005). *Assessing the competitiveness of California's business climate: Silicon Valley CEOs speak out.* San Jose, CA:Silicon Valley Leadership Group. Retrieved from http://www.svlg.net/press/library/ceosurvey_2005.pdf

Gerston, L. . (2006). *Third Annual CEO Business Climate Summit*. XXLocation: San Jose, CA: Silicon Valley Leadership Group. Retrieved from http://www.svlg.net/press/library/ceosurvey_2006.pdf

Glickman, N., & Woodward, D. (1987). *Regional patterns of manufacturing foreign direct investment in the United States*. [Special report]. Washington, DC: U.S. Department of Commerce, Economic Development Administration.

Helms, L. (1985). The effect of state and local taxes on growth. *Review of Economics and Statistics, 67*, 574–582.

Hersh, A., & Weller, C. (2003). Does manufacturing matter? *Challenge*, *46,* 59–79.

Huan, Y., McCormick, R., & McQuillan, L. (2004). *U.S. Economic Freedom Index: 2004 report*. San Francisco: Pacific Research Institute.

Kalbacher, J. (1979). Shift-share analysis: A modified approach. *Agricultural Economics Research, 31*, 12–25.

Keystone Group. (2004). *Manufacturing in California*. Temecula, CA: Kosmont Partners and Rose Institute of State and Local Government. Available at http://www.cmta.net/multimedia/kosmont_20040623_1.ppt

Kolko, J., & Neumark, D. (2007). *Business location decisions and employment dynamics in California*. San Francisco: Public Policy Institute of California. Retrieved from http://www.ppic.org/content/pubs/report/R_1107JKR.pdf

Little, J. (1978, July/August). Location decisions of foreign investors in the United States. *New England Economic Review*, pp. 43–63.

Luger, M., & Shetty, S. (1985, Spring). Determinants of foreign plant start-ups in the United States: Lessons for policymakers in the southeast. *Vanderbilt Journal of Transnational Law*, pp. 223–245.

McConnell, V., & Schwab, R. (1990). Impact of environmental regulation on industry location. *Land Economics*, *66*, 67–81.

Moriarity, B. (1983). Hierarchies of cities and the spatial filtering of industrial development. *Papers of the Regional Science Association*, *53*, 59–82.

Munnell, A. H. (1990, September/October). How does public infrastructure affect regional economic performance? *New England Economic Review*, pp. 11–33.

Newman, R. (1983). Industry migration and growth in the south. *Review of Economics and Statistics*, *65*, 76–86.

Newman, R., & Sullivan, D. (1988). Econometric analysis of business tax impacts on industrial location: What do we know and how do we know it? *Journal of Urban Economics*, 23, 215–234.

Papke, J., & Papke, L. (1986). Measuring differential state-local tax liabilities and their implications for business investment location. *National Tax Journal*, 39, 357–366.

Papke, L. (1991). *Tax policy and economic development*. [Working paper]. Boston: Boston University Press.

Papke, L. (1993). *What do we know about enterprise zones?* [Working paper No. 4251]. Cambridge, MA: National Bureau of Economic Research.

Papke, L. (1995). Interjurisdictional business tax cost differentials. *State Tax Notes*, *9*, pp. 1701–1711.

Papke, L. (1997, March/April). Discussion. *New England Economic Review*, pp. 135–137.

Petrulis, M. (1979, June). *Regional manufacturing employment growth patterns*. [Rural Development Research Report, No. 13]. Washington, DC: U.S. Department of Agriculture, Economics, Statistics, and Cooperative Service.

Phillips, J., & Goss, E. (1995). The effect of state and local taxes on economic development. *Southern Economic Journal, 62,* 320–333.

Plaut, T., & Pluta, J. (1983). Business climate: Taxes and expenditures, and state industrial growth in the United States. *Southern Economic Journal, 50,* 99–119.

Popkin, J. (2003). *Securing America's future: The case for a strong manufacturing base*. Washington, D.C.: NAM Council of Manufacturing Associations.

Schell, W. (2006, August 28). State policy puts California manufacturing at disadvantage. *Los Angeles Business Journal*.

Schmenner, R. (1982). *Making business location decisions*. Englewood Cliffs, NJ: Prentice Hall.

Testa, W. (1989). *Metro area growth*. [Working paper]. Chicago: Federal Reserve Bank of Chicago.

Wasylenko, M. (1981). The location of firms: The role of taxes and fiscal incentives. *Urban Affairs Annual Review, 20,* 155–89.

Wasylenko, M. (1997, March/April). Taxation and economic development. *New England Economic Review*, pp. 37–52.

Wasylenko, M., & McGuire, T. (1985). Jobs and taxes. *National Tax Journal*, *38,* 497–512.

Woodward, D. (1992). Locational determinants of Japanese manufacturing start-ups in the United States. *Southern Economic Journal, 58,* 690–708.

NOTES

1 A full list of multipliers is at California Economic Strategic Panel (2002).

2 See http://www.lao.ca.gov/2006/cal_facts/2006_calfacts_pdf_toc.htm

3 Dardia and Luk (1999) make the same points.

4 This elasticity is the percentage effect in state and local business activity expected to occur after a 1% increase in state and local unionization rates in the labor force.

5 Three criticisms are leveled against shift-share analysis: (1) calculation of the structural component takes no account of linkages between the industries of a state and that, for example, a fast growing industry may promote growth in other industries which supply it, (2) industrial classifications are to some degree arbitrary, and (3) it offers no explanation of the residual or unexplained growth.

APPENDIX

Table A1. California Shift-Share Calculated Against U.S. Employment

USING NATIONAL EMPLOYMENT		1998-2001 NATL.	1998-2001 INDUSTRY MIX	1998-2001 STATE SHARE	1998-2001 TOTAL CA	2002-2005 NATL.	2002-2005 INDUSTRY MIX	2002-2005 STATE SHARE	2002-2005 TOTAL CA
30000000	Manufacturing	69,624	-160,025	14,0401	50,000	38,588	-149,124	303,036	192,500
311000	Food, Beverage, & Tobacco Products	8,918	-7,562	-1,955	-599	4,496	-12,939	6,143	-2,300
313000	Textile Product Mills	1,236	-7,049	9,313	3500	756	-7,413	11,757	5,100
315000	Apparel Manufacturing	3,795	-24,672	35,277	14,400	2,382	-29,001	57,419	30,800
321000	Wood Product Manufacturing	1,740	-3,063	3,123	1,800	948	-1,091	3,743	3,600
322000	Paper Manufacturing	1,282	-3,620	4,338	2,000	739	-4,259	8,220	4,700
323000	Printing and Related Support Activities	2,744	-3,510	5,466	4,700	1,628	-7,633	19,505	13,500
324000	Petroleum and Coal Products	676	-1,921	2,145	900	361	-1,291	2,929	1,999
325000	Chemical Manufacturing	3,934	-5,693	-4,540	-6,299	1,872	-6,330	4,158	-300
326000	Plastics and Rubber Products	2,592	-6,054	6,963	3,501	1,490	-4,836	11,846	8,500
327000	Nonmetallic Mineral Product	2,194	-1,836	-2,757	-2,399	1,079	-2,430	1,850	499
331000	Primary Metal Manufacturing	1,171	-3,802	2,531	-100	631	-2,738	5,507	3,400
332000	Fabricated Metal Products	6,581	-13,411	3,930	-2,900	3,449	-5,663	23,014	20,800
333000	Machinery Manufacturing	3,735	-10,882	13,048	5,901	2,175	-6852	16,177	11,500
334000	Computer and Electronic Product	14,827	-32,851	30,624	12,600	8,595	-53,918	98,523	53,200
335000	Electrical Equipment and Appliance	1,486	-2,451	4,466	3,501	936	-5,975	7,338	2,299
336000	Transportation Equipment	5,919	-15,165	10,747	1,501	3,229	-7,320	25,692	21,601
337000	Furniture and Related Product	2,656	-3,287	6,731	6,100	1,605	-5,873	11,068	6,800
339000	Miscellaneous Manufacturing	4,142	-5,870	3,628	1,900	2,215	-6,901	11,486	6,800
31000000	Durable Goods	44,440	-96,647	80,407	28,200	24,863	-82,512	188,048	13,0399
32000000	Nondurable Goods	25,184	-63,091	59,707	21,800	13,725	-65,306	113,682	62,101

Table A2. California Shift-Share Calculated Against U.S. Manufacturing Employment

USING NATIONAL EMPLOYMENT		1998-2001 NATL.	INDUSTRY MIX	STATE SHARE	TOTAL CA	2002-2005 NATL.	INDUSTRY MIX	STATE SHARE	TOTAL CA
30000000	Manufacturing	-90,401	0	14,0401	50,000	-110,536	0	30,3036	192,500
311000	Food, Beverage, & Tobacco Products	-11,579	12,934	-1,954	-599	-12,879	4,436	6,143	-2,300
313000	Textile Product Mills	-1,604	-4,,209	9,313	3,500	-2,164	-4,493	11,757	5,100
315000	Apparel Manufacturing	-4,927	-15,950	35,277	14,400	-6,822	-19,796	57,418	30,800
321000	Wood Product Manufacturing	-2,259	937	3,122	1,800	-2,716	2,573	3,743	3600
322000	Paper Manufacturing	-1,664	-674	4,338	2,000	-2,117	-1,403	8,220	4,700
323000	Printing and Related Support Activities	-3,563	2,797	5,466	4,700	-4,665	-1,340	19,505	13,500
324000	Petroleum and Coal Products	-877	-368	2,145	900	-1,035	106	2,928	1,999
325000	Chemical Manufacturing	-5,107	3,348	-4,540	-6,299	-5,364	906	4,158	-300
326000	Plastics and Rubber Products	-3,365	-98	6,963	3,500	-4,268	922	11,846	8,500
327000	Nonmetallic Mineral Product	-2,848	3,205	-2,756	-2,399	-3,092	1,742	1,849	499
331000	Primary Metal Manufacturing	-1,520	-1,111	2,531	-100	-1,808	-299	5,507	3,400
332000	Fabricated Metal Products	-8,544	1,714	3,930	-2,900	-9,881	7,667	23,014	20,800
333000	Machinery Manufacturing	-4,849	-2,299	13,049	5,901	-6,231	1,554	16,177	11,500
334000	Computer and Electronic Product	-19,252	1,228	30,624	12,600	-24,621	-20,702	98,523	53,200
335000	Electrical Equipment and Appliance	-1,929	963	4467	3,501	-2,682	-2,356	7,337	2,299
336000	Transportation Equipment	-7,685	-1,561	10,747	1,501	-9,249	5,157	25,693	21,601
337000	Furniture and Related Product	-3,449	2,818	6,731	6,100	-4,598	330	1,1068	6,800
339000	Miscellaneous Manufacturing	-5,378	3,650	3,628	1,900	-6,345	1,660	11,485	6,800
31000000	Durable Goods	-57,702	5,495	80,407	28,200	-71,222	13,573	188048	130,399
32000000	Nondurable Goods	-32,699	-5,207	59,706	21,800	-39,314	-12,267	113,682	62,101

BIOGRAPHY

KATHERINE CHALMERS is an Assistant Professor in the Department of Economics at California State University, Sacramento. She holds a Ph.D. in Economics from Colorado State University (2004). Her research has appeared in the Journal of Economic Issues as well as Property Management

DAVID SCHECTER is Associate Professor of Political Science at California State University–Fresno. He received his BS (1988) and MS degree (1989) from Florida State University and his PhD in Political Science from the University of Florida in 2000. He has previously taught at the University of Nevada – Las Vegas. His research interests include state and local politics, direct democracy, public administration and executive-legislative relations. His previous research has appeared in *Politics and Policy*, *Legislative Studies Quarterly*, *Public Integrity* and *Women and Politics*, among others. He also served for four years as a City Commissioner in his hometown of Ormond Beach, FL, in the mid-90s. He most recently served as Campaign Manager for Ashley Swearengin's successful 2008 mayoral campaign in Fresno, CA, and he co-chaired the Mayor-elect Transition Team.

WALTER SCHWARM is a researcher in the Demographic Research Unit of the California Department of Finance. He holds a Ph.D. in Economics from Colorado State University (2003). His research has appeared in The Annals of Regional Science, Journal of Macroeconomics, and the Review of Urban and Regional Development Studies.

ROB WASSMER is chairperson and professor in the Department of Public Policy and Administration at California State University, Sacramento. He holds a Ph.D. in Economics from Michigan State University (1989). His research has appeared in the Journal of Policy Analysis and Management, National Tax Journal, and Journal of Urban Economics.

.

All scholars are invited to submit their unpublished, original articles. Please use the following instructions in submitting your manuscripts.

Manuscripts should be submitted to: Jaime Regalado or Ali Modarres
Journal of California Politics & Policy
Edmund G. "Pat" Brown Institute of Public Affairs
California State University, Los Angeles
5151 State University Drive
Los Angeles, CA 90032

Requirements:

- ☐ Articles should not exceed 25 pages (including graphs, charts, maps, tables and any other necessary components. All components should be produced in black and white).
- ☐ All texts should be typewritten with one-inch margin and double-spaced (all references to the author's previous work should be omitted).
- ☐ Use Times New Roman font, 12-point. No underlining or bold face type; use italics. Use black type only for text, headings, tables, references, etc. No borders or dividing lines within text.
- ☐ Citations should conform to American Psychological Association (APA) style (please see www.apastyle.org).
  - *Citations within text - use author-date system e.g. (Jones, 2001)*
  - *Notes (if any) should be listed in numerical order at the end of the text.*
  - *Reference list should follow notes at the end of the text, following APA format for references (no underline, no boldface, use italics).*
- ☐ Follow APA format for titles, headings and subheadings, tables, and figures.
- ☐ Please provide a running head for your article, otherwise one will be chosen by the editor.
- ☐ Please provide the following information on the cover page:
  - *Author(s) full name*
  - *Affiliation*
  - *Address*
  - *Phone Number*
  - *E-mail*
- ☐ Please include a short biography for each author (not to exceed 100 words).
- ☐ Please submit one hard copy of the manuscript AND a copy on a disk.Please use either Word or Word Perfect for PC format.
- ☐ Manuscripts will not be returned. Please keep copies of your paper. Editor assumes that each submitted article is original, has not been published elsewhere, and is not being reviewed elsewhere. Authors are provided with 10 reprints and one original copy of the volume in which their article appears.

Edmund G. "Pat" Brown Institute of Public Affairs
California State University, Los Angeles
5151 State University Drive, Los Angeles, CA 90032-8261
Telephone: (323) 343-3770 Facsimile: (323) 343-3774
Email: pbi@cslanet.calstatela.edu
Website: www.patbrowninstitute.org

CALIFORNIA POLITICS & POLICY

NOVEMBER 2008 • VOL. 12, NO. 1

TABLE OF CONTENTS

ISBN 1-878644-30-0