

Dancing With Gazelles

A bipartisan panel quietly works to improve the performance of the state's economy

By Hal Plotkin

AT THE NAVY'S ramshackle conference center on Treasure Island, the Oz-like San Francisco skyline mesmerized through giant picture windows. As the bay lapped at the nearby shore last week, members of a bipartisan panel were considering the delicate and symbiotic relationship between California's environment and its economy.

"Now let me see if I've got this right," a somewhat incredulous Julie Meier Wright, Gov. Pete Wilson's secretary of trade and commerce, was asking Hewlett-Packard senior executive Stuart Cram. "You're saying that even as the feds eliminate unfunded mandates and relax the clean water regs, we should continue to impose those mandates at the state level?"

"That's right," the conservatively dressed H-P exec shot back. Cram, a widely published Ph.D. chemist who manages federal programs for H-P's analytical products group, pushed hard to make sure his message got through. "California should continue to hold the line on clean water. That will stimulate a lot of business in the environmental sector," Cram predicted confidently.

The governor's startled senior economic adviser jotted down Cram's suggestion in her already jampacked notepad.

Dozens of similarly unexpected interactions between policy makers and business leaders have been taking place at the initial meetings of the 15-member California Economic Strategy Panel. The ESP sessions are part of a collaborative effort initiated by San Jose Assemblymember John Vasconcellos. The assembly-

man last year authored the legislation that created the bipartisan group, which was appointed jointly by Gov. Wilson and former Assembly Speaker Willie Brown.

While most of the media remains fixated on rote coverage of Sacramento's ideological food fight, the unusually cooperative ESP has been quietly working for nearly a year to devise methods to improve the state's economy. Members of the ESP include Vasconcellos, Santa Cruz Assemblymember Bruce McPherson and Joint Venture Silicon Valley Network leader Rebecca Morgan, as well as senior officials from Wells Fargo Bank, First Interstate Bank, agribusiness giant Sun Diamond Growers and the influential Service Employees International Union.

Rather than fight out issues involving this year's budget, ESP members say they are testing out a less antagonistic approach to state economic development. Remarkably, until Vasconcellos crafted the ESP legislation, there was no single group at the state level formally charged with thinking about the future of California's economy, the fifth largest in the world.

At the initial sessions, members have heard a lot about clusters, gazelles and education—the three things that may most determine whether California's economy can produce good jobs at decent wages.

In the sometimes arcane parlance of economic planners, "cluster" describes an amalgamation of industries organized around a central purpose. Hollywood, where movies are produced, is a cluster. Silicon Valley, the home of computers and software, is another cluster. The Central Valley's cluster involves farming. In the San Diego region it's biotechnology.

While there is some overlapping of industries between these regions, ESP members figure that studying the state's economy as groups of clusters provides insight into what is happening in the lives of real people.

Grouping local statistics together and then making generalizations about California as a whole—a longstanding approach of Golden State economists—creates data that may be true in the aggregate, but false when it comes to describing reality.

Within clusters, the real trick is teaching the gazelles to stay put. Gazelles, in ESP-speak, are companies that double in sales every four years. These companies, which almost always start out small, are now the driving force in the state's economy. For example, companies with fewer than 245 employees created fully 83 percent of all the new jobs offered in California between 1982 and 1992, while companies with more than 245 employees created just 17 percent of the new jobs offered during the same period.

The recent uptick in the local economy is due primarily to the presence of a herd of grazing gazelles. In Silicon Valley, 15 percent of local companies can now be classified as gazelles, compared to 3 percent of companies nationwide. "We have the gazelles,"

PG&E economist Tapan Munroe notes, "but if conditions deteriorate, they could run away."

ONE TROUBLING condition, mentioned by nearly all of the witnesses who have testified before the ESP so far, is the state's crumbling education system. For example, 60 percent of the California high school graduates who apply to PG&E for jobs fail to pass even a ninth-grade proficiency exam.

"Thank God for Mississippi," quipped one witness, referring to a chart that showed California ranking 49th in the nation in terms of K-12 student-teacher ratios and the ratio of computers per student. "I'm afraid that data is old," Vasconcellos noted as the laughter died down. "We're now dead last," he told the suddenly solemn crowd, "and that is a truly shameful disgrace."

It remains an open question whether the ESP can help California's policy makers find or create the resources needed to educate the skilled workers required by the fast-growing gazelle companies. The lingering and unintended effects of Proposition 13, for example, have created a situation where enormous amounts of business property held by companies like Shell Oil, the Kern County Land Co. and the Irvine Land Co.—parcels that were owned prior to the passage of Proposition 13—are now sheltered in perpetuity from paying the much higher market-based tax rates imposed on gazelle companies.

Unlike with residential property owners, whose land is reassessed when they die and their heirs sell out, it's unlikely Shell Oil or the Irvine Land Co. will ever die, especially because they now get permanently lower property tax rates than any newcomers—a tax break that continues to suck billions of dollars out of the state budget each year.

It's likely, however, that some members of the ESP won't be inclined to change the status quo. To get Wilson's signature on the bill that created the ESP, Vasconcellos agreed to allow the governor to appoint a majority of members. Wilson has repeatedly vowed to protect the lower tax rates paid by older non-gazelle corporations. Many leaders of the corporations that enjoy this benefit, coincidentally, also have been among the most consistent and generous donors to Wilson's series of expensive political campaigns.

Nonetheless, Vasconcellos and Secretary Wright are hoping they can find common ground on the bipartisan ESP, which is due to make its report to the state Legislature by the end of the year. "I believe this panel can set an example for the rest of state government," Secretary Wright said at the initial meeting, "and that we can find a way for gazelles and dinosaurs to live together in peace."

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