

*Journal of*  
**Economics, Banking and Finance**

Volume 2, Issue 2, 2008

**Reducing California's Income Inequality Gap**

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**Abstract**

This is the final paper, of three, addressing concerns about California's income inequality levels. The first paper showed that United States fiscal policies accounted for 69% of California's income inequality. The second paper examined variables, which were different in California. These variables helped explain the 31% difference for which the United States fiscal policy did not account. It also reported the results of multiple regression tests with additional variables to strengthen the prior correlation of 69%. This concluding paper searches for proven global solutions and provides policy recommendations. The areas of focus are education, health care, crime and tax policies.

**Introduction**

This is the final paper of a three part series addressing concerns about California's income inequality levels. The first two papers were: "The Effect of United States Fiscal Policies on California's Poverty Levels" (Balassi, 2007) and "How California Creates Greater Income Inequality for Itself" (Balassi, 2008).

The first paper showed that California's income inequality was worse than that of the United States as a whole. It also showed that United States fiscal policies accounted for 69% of California's income inequality. The second paper had two parts. The first part examined the variables, which were different in California as compared to the rest of the United States. These major variables were immigration, education and health care, which helped to explain the 31% difference for which the United States fiscal policy did not account. The second part of this study reported the results of multiple regression tests with the new variables to strengthen the prior correlation of 69%.

This concluding paper is an empirical search for the best global solutions and recommendations. The areas of focus are education, health care, crime and tax policies.

**Fiscal policies, which are proven to work, need to be studied. These policies have the potential to be future recommendations.**

"Don't reinvent the wheel" is a popular phrase. It has been shown that California has higher poverty and income inequality than the United States as a whole (Balassi, 2007). Can this problem be remedied through fiscal policy? This section will explore alternatives and offer specific policy recommendations for California to implement.

## Education

Poverty in a given country could be reduced by fostering per capita GDP growth – that is, by increasing the total resources available to the population – and by increasing the share of those resources going to its poorer segments (Cashin, Mauro, & Sahay, 2001). A widely held view is that economic growth can be fostered by a set of policies aimed at promoting macroeconomic stability (low and stable inflation, low budget deficits and sustainable external debt), openness to international trade, education and the rule of law. The findings of many studies based on cross-country evidence were consistent with that view, although the evidence of whether each individual policy among those listed above raised economic growth was typically far from conclusive (Levine, & Renelt, 1992).

There is also a debate about the policies that improve the well-being of the poorer segments of the population for a given growth rate of GDP per capita and an even more fervent debate about whether certain policies imply a trade-off between increasing total available resources (increasing growth rates) and improving their distribution. In the latter respect, there is broad agreement that policies aimed at improving basic education and health care can both increase economic growth and improve distribution but, of course, there certainly is no consensus on the policies that will be most effective in improving education and health care.

California not only had a much higher share of immigrants but, relative to the rest of the nation, immigrants in the state were also more likely to have low wages (Reed, 1999). In 1989, immigrants represented 29% of the male workforce in California and only 8% in the rest of the nation. In 1997, the immigrant population in California was 36% and 12% elsewhere. In California, 67% of immigrants were in the lower half of the wage distribution in 1997 (70% in 1989). The degree of overrepresentation in the lower half of the distribution was smaller in the rest of the nation at 64% in 1997 (59% in 1989).

To address these concerns and questions, the results suggested several policy directions related to the major identified causes of income inequality: rising returns to skill and immigration. These policy directions involve education and training:

- Improve the opportunity to finish high school and enter college;
- Improve training for people who do not go on to college; and
- Promote the economic progress of immigrants through education and training.

The Clinton initiative, created in 1997 (U.S. Department of Education, 1997), allowed individuals to borrow money from the government and to repay the loan by working for the government after having finishing school, for example in the Peace Corps. Working for the government was not an obligation if the recipient simply paid off the loan. This provided people with jobs right after college and allowed more people who could not normally afford it to attend college. It offered a sense of confidence that one could more easily pay off the loan easier if he or she had guaranteed employment.

## Health Care

According to The World Health Report-2000 (World Health Organization, 2000), four of the top ten countries with the best overall health care had some type of universal health care. These countries were:

1. France
2. Italy
3. Spain
4. Austria

Universal health care systems vary with respect to what services are covered completely, covered partially or not covered at all. Some of these services may include medically necessary services from physicians, physical therapy, occupational therapy, mammography screenings, immunization services, treatment of sexually transmitted diseases, HIV testing, optometry and opticianry services, alcohol and drug abuse treatment and rehabilitation services, mental health services, gambling addiction services, dentistry services, prescription drugs, medical supplies and appliances, podiatry services, chiropractic services, emergency medical transportation, nursing home care and home care services.

The majority of universal health care systems are funded primarily by tax revenues. Some nations, such as Germany and France, employ a multi-payer system in which health care is funded by private and public contributions. Japan also employs a multi-payer system. "Single-payer" describes a type of financing system in which a single entity, typically a government-run organization, acts as the administrator (or "payer") to collect all health care fees and pay out all health care costs. Some advocates of universal health care assert that single-payer systems save money that could be used directly for health care by reducing administrative waste. Denmark, Sweden and Canada are examples of countries that employ single-payer financing of health care.

The country with the best health care system is France. It uses a form of universal health care. This study will examine France's health care system in more detail to find recommendations, which can be then used for California.

#### France vs. U.S. – Similarities in Health Care

As in the United States, autonomous physicians dominated ambulatory health care in France (Dutton, 2003). Patient choice of physician, direct access to specialists, patient payment of fees (with subsequent reimbursement), physicians' freedom of diagnosis and prescription, fees for service and ultra-high levels of medical confidentiality remain well-entrenched features of French medicine. Also, as in the United States, French workers and their employers pay for the bulk of their medical care through premiums assessed on gross wages. French employers and their employees pay wage levies of approximately 20%; employers contribute 13% and workers, 7%.

Simple comparisons with United States expenditures are difficult because of the wide array of medical insurance plans with premiums varying considerably according to firm size. Also, health insurance is priced, not as percentage of wages as in the French case, but in flat dollar premiums. A large employer, such as the state of Arizona, which provides coverage that approximates French medical insurance, pays \$9,348 per year for each enrollee with dependents and leaves \$1,704 per year to the employee. Hence, for moderate-income earners (\$40,000 annually), medical insurance costs are significantly higher than in the French case – approximately 27% of their gross wages.

In France, insurance premiums flow into one of several quasi-public insurance funds that are jointly administered by employer and employee representatives. These insurance funds negotiate national medical fee schedules with the leading French physician associations. These conventions, as they are called, form the basis of physicians' remuneration. Although more than 25% of French physicians charge fees above the convention rates, their patient reimbursement – usually 70% of expenses in ambulatory care – is tied to it. Thus, as in the United States, where private insurers and Medicare employ "normal and customary" fee schedules to determine payments to physicians, the fees for French doctors are ultimately constrained by the insurers' willingness to pay. Changes to this convention caused the recent successful rally by French doctors in Paris.

France also possesses significant private not-for-profit and for-profit medical insurance sectors (over three hundred companies) that, while competing against each other, work in complementary fashion with the quasi-public insurance funds. Indeed, fully 84% of the population

benefits from supplementary insurance coverage that pays all or part of the medical fees not covered by their health insurance fund. In 1996, these supplementary providers financed 12% of all health care expenditures, while 13% of what Americans would term deductibles or co-payments was left to households.

United States private insurers account for nearly three times the share of total expenditures of their French counterparts (35% versus 12%) and Americans pay more out of their own pockets than the French (17% versus 13%) for personal health care spending. The federal and state governments in the United States play a substantial role in health care, mostly through Medicare and Medicaid (43%). But even this large fraction is dwarfed by France's quasi-public insurance funds, which account for almost three-quarters of total health care spending.

#### France vs. U.S. – Differences in Health Care

Medical practice and health care in France and the United States are also marked by deep differences in hospital practices, efficiency and access to preventative and curative care. French hospitals lie mostly in the public sector and their physicians, about one third of the country's total, are salaried. As in the United States, regional medical centers are closely associated with medical education and research and, therefore, benefit from the relatively low-paid services of interns and residents.

The French health care system is one of the most expensive in the world and cost containment is an imperative for the government and insurers alike. Yet, French costs remain far outpaced by the United States. France spends \$2,047 per capita on health care, compared to America's \$4,096. One of the major factors behind the relative expense of the United States system is the higher earnings of health professionals. The average American physician earns over five times the average United States wage, while the average French physician makes only about two times the average earnings of his or her compatriots. That said, French physicians have remained more firmly attached to fee-for-service medicine, albeit at lower rates, than their American colleagues and continue to enjoy a very high level of prescriptive freedom. Their services are prospectively approved for payment through the national conventions and are rarely questioned by insurers. This is in great contrast to the increasingly strict post-service payment reviews that American doctor's face from American insurers and Medicare.

The relatively low income of French physicians is allayed by two factors. Practice liability is greatly diminished by a tort-adverse legal system and medical schools, although extremely competitive to enter, are essentially free. Thus, French physicians enter the market with little, if any, debt and pay much lower malpractice insurance premiums.

Different degrees of efficiency also distinguish the American and French health care systems. The development of managed care providers in the United States, especially since the late 1980s, resulted in a rapid spread of productivity enhancement measures throughout American health care. The French were slower in applying such measures. Many French practitioners view the new productivity measures as a threat to their prescriptive freedom and have hampered thorough implementation. Also, the new techniques require computerized information gathering and processing systems, an area where French health care lags well behind the United States.

At the same time, the French system exhibits enviably low administrative costs: 5% of total expenditures versus 14% in the United States. United States physician fee increases are increasingly driven by doctors' efforts to recover office personnel and non-physician payroll expenses, which have risen at a compounded annual growth rate of 7.1% since 1986. These increases far exceed hikes in liability insurance premiums (3.5%) and medical supplies (1%) during the same period. Although numerous, French insurance funds adhere to a nationally standardized billing and reimbursement procedure. This practice, along with the fact that physicians' services are preapproved for payment through the national convention, permits French medical offices to operate with relatively few administrative personnel.

Access constitutes the most striking difference between the American and French health care systems. Sixteen percent of the United States population lacks health insurance and many possess insurance with such high deductibles that they forego medical needs for financial reasons. A large number of uninsured puts additional strains on the health care system. In order to recapture the costs of uncompensated care, providers raise the price of services for the insured, thereby, creating a vicious cycle since higher insurance premiums ultimately lead to more uninsured patients. One needs to return to the France of the 1960s to find America's current rate of the uninsured. Ninety-nine percent of the French population obtained health insurance by 1980, either through the above-mentioned work-related insurance funds, as a dependent of an insured person or through special insurance funds for the unemployed. A 2000 law extended coverage to the remaining 1% who somehow had fallen between the cracks of the health insurance funds.

#### France vs. U.S. - Learning from Each Other

American policy makers would do well to take note of France's successes, especially in the reduction of insurance administrative costs and the country's achievement of universal coverage. Breakthroughs in medical science and pharmacology have made possible dramatic improvements in health in France and the United States. But those improvements remain in peril without an effective containment of rising medical costs, especially as populations age and require more and increasingly expensive medical care. Under these stresses, a health care system depends on the achievement of cost containment, efficiency of delivery and equity of access.

#### Crime

During the 1990s, Maine remained relatively immune from the hysteria about violent crime that played a prominent role in political campaigns and drove policy and spending decisions in many states (McEwen, & Hanneman, 2000). At one extreme, for example, prison populations in California expanded by almost 600% between 1979 and 1994, while spending for corrections grew from less than 4% of the state budget – roughly Maine's current rate – to more than 10%, outstripping expenditures for higher education. During the same period, California's violent crime rate increased by 66%. Maine stands in stark contrast. With a 1994 violent crime rate about one-eighth the size of California's and essentially the same as it was in 1979, Maine's prison population grew by 90% during that period but became relatively stable, unlike California, where the rate is projected to triple during the next decade.

Since crime rates in Maine remain low, criminal justice expenditures appear under control and prison populations are projected to rise only modestly due to a recent reduction in the amount of "good time" granted to reduce time served, why should criminal justice policy be a priority in that state? One reason is to avoid the policy choices of California, which could bankrupt the state with its prison expansion program. Second, although violent crime rates are relatively low in Maine, they remain of concern to local citizens and cannot be ignored. Third, criminal justice policy is especially challenging because it must bridge the executive, judicial and legislative branches; connect state, county and town or city government; and be coordinated with other social agencies and policies. Finally, Maine – by the very fact of its modest crime problems – provides an opportunity to think innovatively about criminal justice policy in ways that could help provide a national model.

Criminal justice policy presumably advances two central public purposes – control of crime and justice. Powerful assumptions about how crime can be controlled and about what justice means drive contemporary criminal justice policy, making it increasingly expensive at the same time it proves to be ineffective.

The primary, or even exclusive, burden for controlling crime typically is placed on the police, courts and corrections system. Yet, it is easy to overestimate the power of government intervention to control individual behavior. In fact, a quick glance at some of the experiences, nationally and in Maine, suggests these limits. In the period from 1979 to 1994, the United States tripled the number of people it imprisoned. Yet, the FBI's annual report, *Crime in the United States*, showed that the rate of reported violent crime grew by 30% during the same period, while the rate of property crime fell by only 6%. The dramatic and unprecedented increase in the use of imprisonment – arising from longer prison sentences and greater proportions of offenders sentenced to prison – appears, on the surface, not to have a clear downward effect on crime rates. Why not?

If changes in the criminal justice system – defined primarily as making it "tougher" – were to control crime rates, that effect must be achieved largely through increases in deterrence or incapacitation. On one hand, punishing criminals presumably "sends a message" to other potential lawbreakers and, thus, deters future crime. On the other hand, people kept under correctional supervision are not free to engage in criminal activity in the community. Certainly, the presence of a criminal justice system acts both to provide some deterrence and some incapacitation, while also teaching and reinforcing moral lessons about right and wrong conduct. But the crucial policy question is not whether the system deters or incapacitates at all but whether changes in that system significantly increase or decrease deterrence or incapacitation and, thus, have clear effects on crime rates.

Those who study deterrence generally agreed that: 1) punishment that was highly likely deterred more than punishment that was unlikely; 2) severe punishment deterred more than less severe punishment; and 3) punishment that was administered as soon as possible after the act it punished would deter better than punishment administered at a more distant time (Andenaes, 1974). Of these three, the first – certainty of punishment – is understood as, by far, the most significant. Unfortunately, it also proves to be the most difficult to change radically. In the United States, for example, only thirty-two of every 1,000 serious crimes lead to conviction (Senna, & Siegel, 1995), largely because in 90% of felonies, the crimes either were not reported to the police or the police could not identify the offender (Petersilia, 1992). Prosecutors then screen out and dismiss cases with insufficient evidence to offer a reasonable chance of conviction.

Control of crime rates by marginal increases in deterrence is difficult to achieve but incapacitation seems to be a sure thing. The criminal justice system certainly had some downward effect on crime by keeping more offenders under correctional control but the capacity to affect crime rates meaningfully had substantial limits (Zimring, & Hawkins, 1995). These limits resulted largely from the fact that the social forces that helped produce and reproduce crime quickly replaced many of those people who were removed from communities through imprisonment. The sorts of crime that foster the greatest public concern are largely the work of young men who replace those who are imprisoned almost as quickly as they are convicted. Individuals typically did not receive long prison sentences until they were in their early to mid-twenties or older, a period during their life course when many were maturing out of crime as they took on jobs and accept family responsibilities (Petersilia, 1992). Thus, the turn to longer and longer sentences during the past decade results in the lengthy incarceration of many people who are apt to have relatively low offending rates in the future. As a result, incapacitation turns out to be a very expensive strategy with surprisingly little effect on crime rates. Yet, its general failure as a long-term crime control strategy does not mean incapacitation is inappropriate or ineffective when used selectively for multiple offenders whose crimes – like drug sales – will not simply be replaced by others.

Unfortunately, retributive justice also has economic and social costs. As Californians are discovering, retribution is very expensive, at \$25,000 per person per year. The social costs of retribution are less clear but perhaps even more worrisome in the long run. Retribution enlists the state as an agent of private vengeance and emphasizes the imposition of pain as a public good. It turns the collective focus on crime to the contest between the state and the alleged offender over culpability, while neglecting efforts to assist individual victims. It highlights the small minority of

crimes that lead to an arrest and tends to ignore the much larger number for which no offender is identified. It emphasizes the individual offender to the exclusion of the community and social context of crime. Because most offenders plead guilty without trial, they never have to face their victims or recognize the human costs of their crime. By stigmatizing and alienating offenders, retribution can make their successful return to communities more difficult. Finally, a retributive approach has no built-in limits and easily can lead to unchecked escalation in the severity of punishment.

To begin assessing the causes of crime, comparison between Maine and California is useful to determine why crime rates in California are so much higher than those in Maine. Before answering that question, it is important to observe that, in both Maine and California, the people most likely to find themselves in the criminal justice system are young men with few resources – low income, weak formal education, unemployed or marginally employed and often unmarried (e.g., Perkins, 1994). Significant differences in crime rates between Maine and California, therefore, are likely to reflect differences in the numbers and concentrations of such young people in those states and in the capacity of their communities to involve even those most marginal members in the life of the "mainstream."

To explain the differences between Maine and California crime rates, it also helps to recognize that the most powerful forces that shape individual behavior are families, communities, friends and peers, schools and employers. They guide and direct us through rewards of status, security, respect, love and income, as well as the threat of their loss. In other words, they create a stake in conformity. When they offer or deliver few rewards, however, families, employers, schools and community institutions have a weaker hold on individuals, who then have a reduced commitment to conformity. Under these circumstances, the lure and acceptability of illegitimate opportunities increase.

Crime occurs most often when these controls are weakened. Large cities, especially areas of concentrated poverty, may have the weakest institutions and controls and, thus, the highest crime rates. One of the primary differences between Maine and California, therefore, is the concentration of residents in the former state in smaller communities, while California has sixteen cities with more than 170,000 residents. When considering the reasons for higher crime rates in California than those in Maine, the focus should not be on differences in criminal justice policies in the two states but rather on the distinctive features of community life.

#### Policy Initiatives Connecting a Restorative Criminal Justice to Communities

Those policies most likely to succeed in controlling crime rates are those that connect the powers of legal control to the even more powerful social controls in communities, families, work and schools. Policies to promote restorative justice also need to involve communities centrally in repairing harm and holding offenders accountable. Recognition of this need to connect criminal justice to communities has begun to reshape police departments across the United States through community policing. This innovative approach to policing provides an important model for other parts of the criminal justice system.

Community policing generally rests on the assumption that active cooperation between community residents and police is essential to effective law enforcement and crime prevention. Thus, community policing practices can help change public understanding about who is responsible for crime control. In community policing, that task is no longer delegated exclusively to the police and criminal justice system but is shared by community residents and organizations. A well-developed community policing system engages local police with community leaders and service providers in designing coordinated and targeted enforcement and preventive responses to local crime patterns. In this model, police de-emphasize routine patrols that have questionable effectiveness in crime control and devote more attention to analyzing crime patterns and finding solutions to the problems that produce them.

The rehabilitative efforts in prisons and jails should also advance restorative justice by highlighting the accountability of offenders to their victims and encouraging them to undertake restitution in some form. Imprisonment in a retributive system demands that the offender pay a "debt to society" but that debt often can be paid passively by "doing time." A restorative justice system would actively encourage offenders to make amends, to earn money to pay back victims and to make contributions to their communities. Reparation could go far to connect offenders positively to communities in ways that might help them reintegrate more successfully upon release.

Finally, if any state were to make serious strides toward crime control, it must plan carefully for general prevention efforts that take place largely outside the purview of the criminal justice system but should be coordinated with it. General prevention focuses either on individuals at risk of offending or on the social processes or structures that produce delinquent and criminal conduct. Prevention programs might include home visits and day care for poor single mothers, training for parents whose young children "act out" and graduation incentives for disadvantaged high school students. A recent study by RAND underlined the potential of early crime prevention efforts. It reported limited effects on crime rates of prison building and incarceration and much more substantial impacts for each dollar expended on targeted crime prevention programs (Greenwood et al., 1996).

#### Tax Policies

Measured as a share of family income, California's poorest families paid the most in taxes (CA Budget Project, 2006). The poorest fifth of the state's non-elderly families, with an average income of \$11,100, were assessed 11.3% of their income on state taxes in 2002. In comparison, the wealthiest 1%, with an average income of \$1.6 million, spent 7.2% of their income on state taxes.

The total tax burden on California's families is a function of the state's highly progressive personal income tax and regressive sales and excise taxes. Higher income households pay more in income taxes. Lower income households pay more in property taxes. Households also bear a share of the burden of taxes imposed on business through higher prices and reduced corporate earnings. Higher income households pay a relatively greater share of the corporate income tax, while lower income households pay a greater share of businesses' sales and excise tax burden.

A single mother with one child had no 2006 state income tax liability unless she earned over \$36,658. A family of four with two children had no 2006 income tax liability unless their income exceeded \$45,658.2 California's high income tax threshold was attributable to the increases in the dependent credit enacted in 1997 and 1998. The state's high tax threshold also means that low- to moderate-income families receive minimal or no benefits from the state's various credits, deductions and other tax benefits, since they have little or no tax liability to offset.

Small businesses pay a miniscule share of the corporate income tax. While 589,310 corporations filed tax returns in 2003, the 1.7% with taxable incomes of \$1 million or more paid 82.2% of the tax. The most costly corporate tax credit is the Research and Development (R&D) Credit. In 2003, 1,349 corporations claimed \$552.2 million in R&D credits, averaging \$409,327 per firm. Overall, relatively few corporations claimed the various state tax credits. In 2003, fewer than 3% of the state's corporations claimed any of the state's tax credits.

California is a moderate tax state. In 2004-05, California ranked 12th among the 50 states with respect to state taxes as a percentage of personal income. The state ranked 18th with respect to total "own source" revenues – the broadest measure of state and local revenues – raised by state and local governments in 2001-2002, the most recent year for which data are available. California ranks relatively high in respect to personal and corporate income tax collections, although the available data fail to take into account the relatively modest growth in revenues in

recent years. The state ranks relatively low with respect to property, vehicle fuel and alcoholic beverage taxes.

Over the past two decades, the burden of funding state services shifted from corporate to personal income taxpayers. The personal income tax was expected to provide 53.2% of General Fund revenues in 2006-07, up from 35.4% in 1980-81. Corporate tax receipts were expected to provide 10.9% of General Fund revenues in 2006-07, down from 14.6% in 1980-81. New, increased and expanded corporate tax breaks and the 1996 corporate rate reduction were responsible for the decline in the share of state revenues provided by the corporate income tax. Tax cuts enacted between 1993 and 2005 alone reduced the 2005-06 state General Fund revenues by \$9.9 billion.

In 2003, the most recent year for which data were available, 380,075 taxpayers reported incomes of \$200,000 or more. However, 1,659 of these households paid no California personal income tax. How did they do it? The largest tax breaks claimed by "no tax" households included enterprise zone tax breaks, the Manufacturers' Investment Credit and miscellaneous deductions. The number of high-income, "no tax" returns more than tripled between 1996 and 2003, rising from 510 to 1,659. With the high-income taxpayers not paying taxes, it placed more of a tax burden on the rest of the tax base. The rest of the tax base had to make up for the income lost from the high-income tax breaks. The system is supposed to be regressive, meaning the more you earn, the higher percentage you should pay in taxes. These loopholes do not allow the system to be as regressive as it should be.

## **Recommendations**

Four major areas examined in this paper are major contributors to poverty. They are education, health care, crime and tax policy. The researchers sought the countries and states that were most successful in implementing programs through fiscal policy. Below are the four areas with recommendations that California should examine ways to implement.

### **Education**

Education is the key to any economy's future. We must constantly invest money in our betterment so that we have a workforce with the skills necessary to do the jobs which are needed. We also need people who will start companies to provide new innovation and jobs for others. California has one of the largest education budgets in the country but the quality of education is very bad. There are three major areas where CA could focus to make it better for the poor:

1. Improve the opportunity to finish high school and enter college.
2. Improve training for people who do not go to college.
3. Promote the economic progress of immigrants through education and training.

The bottom line is that we must require everyone to get a high school degree. Many young people drop out of high school and go to work to support their families; however, this hurts their earning potential in the long run. We need qualified teachers with credentials teaching at all levels. Too many times, unqualified teachers take positions in poorer schools because others do not want to teach in those areas. However, poorer schools are where we need our best teachers.

Parents need to get involved with their children's education. They need to make sure children go to school and do their homework. Many parents see little value in education because they do not have degrees. They need to be educated on the value of an education so they can steer their children in that way. Children should not be moved up a grade until they are ready. Age does not mean education level or grade. In addition, we should consider requiring students to earn an Associates degree from a community college.

One idea is to have the government pay for college upfront. After graduation, you would have the option of paying off the loan or working for the government. The other option would be to go to work in a government job until the loan is paid. This would provide people with jobs right after college and would encourage more people to attend college. It would give a sense of confidence that you could pay off your loan if you had guaranteed employment. The tradeoff of guaranteed employment for a higher degree would encourage people to attend college because they would know the time spent in college would translate to a guaranteed job and higher lifelong income. This would take the uncertainty out of finding a job after college.

Companies need to train their employees continuously to make their employees more valuable and keep their skills up-to-date. When people are laid-off, the unemployment department needs to provide training so those persons can get back into the workplace. Education and training should be a lifelong pursuit so that people do not fall behind. It takes the cooperation of the government (state and federal), parents, children and educators to be successful.

## Health Care

The World Health Organization came out with a report in 2000, which ranked the countries in the world for their health care. Number 1 was France and Italy was Number 2. Both of these countries have Universal Health Care systems. This type of system makes sure that everyone in the country has some type of health care, which is paid for by the government, businesses and citizens.

The United States and California's health care systems are the same. There is a major problem in the health care system and many people do not have coverage. The problem is called "adverse selection," which refers to people who do not need the coverage dropping it and leaving only the people who need health care paying for it. These people drive up the costs and everyone who has health care pays more for it. The more people who drop out of plans, the more expensive it will become. Because hospitals cannot turn people away, the costs are still high because people who do not have insurance use the emergency rooms. This trend cannot continue and needs to be fixed or our system will go bankrupt. Here is what we can learn from the French system:

- Cost containment is an imperative for the government and insurers alike. The average American physician earns over five times the average United States wage, while the average French physician makes only about two times the average earnings of his or her compatriots.
- French physicians enter the market with little, if any, debt and pay much lower malpractice insurance premiums.
- The French system exhibits enviably lower administrative costs: 5% of total expenditures versus 14% in the United States.
- French insurance funds adhere to a nationally standardized billing and reimbursement procedure. This practice, along with the fact that physicians' services are preapproved for payment through the national convention, permits French medical offices to operate with relatively few administrative personnel.
- Access constitutes the most striking difference between the American and French health care systems. Sixteen percent of the United States population lacks health insurance and others possess insurance with such high deductibles that they forego medical needs for financial reasons. A large number of the uninsured puts additional strains on the health care system. In order to recoup the costs of uncompensated care, providers raise the price of services for the insured, thereby, creating a vicious cycle, since higher insurance premiums ultimately lead to more uninsured patients.

The recommendation of this study is a universal health care plan for California. It would be a tiered system where someone with higher income would pay a higher amount for a service than someone with a lower income. This would ensure access to medical care for everyone and spread the cost around more evenly. This study also recommends finding ways to save money on malpractice insurance for doctors, administrative costs and education costs for doctors.

## Crime

The State of Maine has one of the lowest crime rates in the nation. They constantly examined how they could do better and made some interesting discoveries when comparing their state to California. Here are this study's recommendations for California:

- By providing modest support for increased local training and initiatives to further develop community policing, California policy makers could significantly advance crime control and restorative justice.
- Criminal justice officials must understand their roles more broadly and make connections to other public officials at a policy-making level whose work relates to crime and crime prevention.
- California needs to rely more heavily on intermediate sanctions – punishments between low supervision probation and imprisonment.
- Courts, prosecutors and corrections officials in California should expand their support of restorative justice approaches that help repair harm and respond to the needs of victims.
- California policy makers need to address the serious shortage of rehabilitation and assistance programs for offenders in jails and prisons and those under probation supervision in the community.
- California must plan carefully for general prevention efforts that take place largely outside the purview of the criminal justice system but should be coordinated with it.

Crime is a very complex and expensive problem in the United States and in California. It needs to be addressed at every level. Police need to work with communities. Communities need to help out each other. Areas with high concentrations of poverty need to be lifted from that condition because it fosters crime. Money at the government level needs to be spent wisely. Criminals need to be trained so when they are released from jail, they can get jobs and not go back to crime. All these ideas could benefit California and must be implemented together; there is not just one solution to crime.

## Tax Policies

Measured as a share of family income, California's poorest families pay the most in taxes. The poorest fifth of the state's non-elderly families, with an average income of \$11,100, spent 11.3% of their income on state taxes in 2002. In comparison, the wealthiest 1%, with an average income of \$1.6 million, spent 7.2 percent of their income on state taxes. This is not a system to reduce income inequality. Rather, it makes it harder for the poor to get ahead.

The total tax burden on California's families is a function of the state's highly progressive personal income tax and regressive sales and excise taxes. Higher income households pay more in income taxes. Lower income households pay more in property taxes. Households also bear a share of the burden of taxes imposed on businesses through higher prices and reduced corporate earnings. Higher income households pay a relatively greater share of the corporate income tax, while lower income households pay a greater share of businesses' sales and excise tax burden.

When people have less money to spend, costs like gasoline and sales taxes take up a larger proportion of their income.

A single mother with one child had no 2005 state income tax liability unless she earned over \$36,658. A family of four with two children had no 2005 income tax liability unless their income exceeded \$45,658.2 California's high income tax threshold is attributable to the increases in the dependent credit enacted in 1997 and 1998. The state's high tax threshold also means that low-to-moderate-income families receive minimal or no benefits from the state's various credits, deductions and other tax benefits since they have little or no tax liability to offset. From this, we can recommend:

- Certain subsidies can help the low-to-moderate income families in California.
- California can implement a negative tax program for low-to-moderate income families. This would return money to them from the State.
- California can give low-to-moderate income families some sort of tax credit.

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