CALIFORNIA BUDGET PROJECT

Testimony Before the Assembly Labor and Employment and Senate Labor and Industrial Relations Joint Committee Hearing

Luke Reidenbach

November 13, 2013

Thank you for the invitation to speak today. My name is Luke Reidenbach, and I am a Policy Analyst with the California Budget Project, which is an independent, nonpartisan organization that researches economic and policy issues affecting low- and middle-income Californians.

I'm going to begin by providing an overview of where our job market stands today, then discuss key trends in wages and job growth. I'll conclude by discussing the challenges facing many California families in affording everyday necessities.

First: where we are today. The economy started adding jobs in February 2010, and since then it has added over 800,000 jobs. This is good news. One important point here is that the rate of job growth is actually consistent with what we saw the last two times the state emerged from an economic downturn. But given the severity of the Great Recession – which resulted in the loss of more than 1.3 million jobs – California's economy is still quite a long ways away from returning to pre-downturn strength.

We have so far recovered 60 percent of those lost jobs, but we will not recover the rest until around 2016 at our current pace of job creation. Thus, while California's job market is improving, we're in the aftermath of the worst economic downturn since the Great Depression.

The job market isn't just tough for those who are looking for work; it's also difficult for those who *have* work. The next issue I will discuss is what is happening to workers' wages. If economic growth were broad-based, workers across the wage distribution would be seeing real gains in their wages. However, so far in this recovery, only high-wage workers – which we define as those falling into the top 20 percent – have seen any significant wage gains over the last few years.

Between 2011 and 2012, the inflation-adjusted hourly wage for low-wage workers remained virtually unchanged, leaving their hourly wage still around 6 percent *below* its 2006 value. The median earner's wage was nearly 4 percent *below* its 2006 level, the last full year before the recession began. Meanwhile, wages for high-wage workers continued to rise and have nearly recovered the losses incurred during the recession.

Part of this wage weakness is because of the still-weak economy for low-wage workers. A stronger economic recovery would likely result in stronger wage gains for everyone as workers are more in demand and have more negotiating power.

1107 9th Street, Suite 310
Sacramento, California 95814
P: (916) 444-0500
F: (916) 444-0172
cbp@cbp.org
www.cbp.org

However, wage stagnation is a problem that has been around for a while now, even during recent periods of economic growth. As a result of long-term wage stagnation, wages for the bottom fifth of earners were nearly 13 percent lower in 2012 than they were for the bottom fifth of workers in 1979. In conclusion, those in the bottom of the earnings distribution just aren't seeing real gains in their wages.

The third issue I'd like to discuss is the short supply of opportunities for low-wage workers to move up the economic ladder. A healthy, broad-based economy is one that creates jobs across a variety of industries, job types, and wage levels, giving workers opportunities for economic mobility. However, right now there is a "missing middle" in California's recovery. The state's job opportunities are concentrated at both ends of the wage spectrum – with employment growth in low-wage and high-wage occupation types – but job prospects continue to worsen in the middle.

For example, between 2010 and 2012, employment in food service occupations, which tend to pay lower wages, grew by 5.2 percent. Employment in personal care service occupations, another type of job that typically pays wages on the lower end of the distribution, grew by 6.5 percent in that same period. High-wage occupations, such as business operations and management, have grown overall by nearly 8 percent in this period. Employment in mid-wage occupations, which include jobs in social service occupations, education, libraries, government, and construction, went the other direction, falling by 1.6 percent in this period.

So given these two troubling trends for workers – wage stagnation and limited opportunities for economic mobility – there is the simple question of whether this is an economy that is working for everyone. California can be an expensive place to live, and for workers who aren't seeing real gains in their wages, making ends meet can be a constant struggle. By our estimates, a single adult in California needs at least $32,600 a year to pay for housing, food, health care, transportation, taxes, and other expenses. A family of four with two working parents needs $81,500 a year to pay for those necessities as well as child care.

Californians' ability to pay their rent can be a useful benchmark of how financially constrained families are. The US Census Bureau defines "burdened renter" households as those who spend at least 35 percent of their income on rent, and by that definition California ranks around the top of the nation. Last year, more than 45 percent of renters were burdened under the Census definition. Furthermore, more than a quarter of Californians paid at least *half* their income on rent.

The US Census Bureau publishes an alternative poverty measure, which they call the Supplemental Poverty Measure. This measure estimates a different poverty rate that takes into account the regional costs of housing, as well as the expected costs of necessities like clothing and food. It also takes into account income from public programs. With this measure, California has the highest poverty rate in the nation, with 23.8 percent of Californians in poverty.

In summary, our economic recovery has been uneven, exacerbating longer-term trends in rising inequality in California. Combating these trends means rebuilding the middle in the California economy.

If you look at the industries and jobs that typically pay middle wages now, it includes manufacturing and jobs in the public sector. It is not an accident that these industries provide pathways to middle-class wages. In earlier years, policy choices were made that ensured people working these jobs would have access to a higher quality of life.

Similar policy choices are needed again, to ensure that jobs in sectors and industries like services and leisure are also valued more highly and provide access to a middle-class quality of life in California. The recently passed increase in the minimum wage is a step in the right direction.

This isn't all about wages. It's also about systems and supports – access to affordable health care, access to affordable housing, assistance for people left vulnerable by the Great Recession, investing in the entire education continuum from early education/pre-K to K-12 to higher education and adult education/workforce training. Solving this issue is complicated, and it has to be attacked from numerous fronts in a sustained way. Thank you.

# # #

The California Budget Project (CBP) engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. Support for the CBP comes from foundation grants, subscriptions, and individual contributions. Please visit the CBP's website at www.cbp.org.