

Will Work Pay? Job Creation in the New California Economy

April 2000

Executive Summary

By many measures, California's economy is booming. Unemployment rates are the lowest they've been in a decade. The state has regained the million jobs lost during the recession and added a million more. Tight labor markets have reduced unemployment among minority workers to all-time lows and the number of millionaires is at an all-time high. However, not all Californians have shared in the benefits of economic prosperity:

- Average hourly wages were lower in 1998 than in 1979 for the bottom 70 percent of California earners, after adjusting for inflation.
- The purchasing power of the California household exactly at the middle of the income distribution was lower in 1998 than it was in 1989.
- The share of Californians living in poverty rose by 19 percent between 1989 and 1998, from 12.9 percent to 15.4 percent.
- While the income of the wealthiest fifth of California households rose by 28 percent between the late 1970s and the late 1990s, the incomes of the poorest fifth fell by 19 percent; making California's income distribution the fifth most unequal in the country.

There are a number of reasons why many Californians are falling behind. Frequently cited factors include changes in the structure of the state's economy, particularly the declining share of the workforce employed in manufacturing and the rising share of employment in the service sector; changing technology that favors high- over low-skilled workers; declining rates of unionization; global competition; and the relatively large number of immigrants in California's workforce. This report explores whether changing employment patterns are likely to reverse this trend for those who work or seek to work to support themselves and their families. Specifically, this report attempts to answer three questions:

- Will there be enough jobs for those who want to work and must work to support themselves and their families?
- Do the skills required for the jobs that are available match the skills of those seeking work?
- Is the state's economy creating jobs that provide sufficient income to support a family?

These questions are particularly timely in light of the recent changes to state and federal welfare laws. The new welfare laws were predicated on the implicit assumptions that there would be enough jobs available for those asking to work and that available jobs would provide sufficient income to support a family.

The findings presented in this report pose a critical challenge to policymakers and individuals concerned about the future of the state's economy and the well-being of California's families. This report concludes with policy recommendations offering a blueprint for programs and policies that will ensure that the jobs available in the future provide adequate wages for those who work to support themselves and their families. The strength and diversity of the California economy, combined with the resourcefulness of the state's populace, create an opportunity for progress on behalf of California's low-income working families.

California's Job Growth is Concentrated in Low-Wage Industries and Occupations

- By 1998, service industries accounted for more than 30 percent of California's employment, up from 26 percent in 1989. Projections indicate that the service sector will account for 35 percent of the state's employment in 2005. Manufacturing dropped from 21 percent of the state's employment in 1979 to 14 percent in 1998. Forecasts predict that only 13 percent of the state's workforce will be employed in manufacturing in 2005.
- Six of the 10 occupations expected to post the largest *percentage* growth between 1996 and 2002 are among the highest paid in our economy, with average hourly wages in excess of \$20 per hour. However, the 10 occupations expected to post the largest percentage increase account for just 5 percent of California's total projected job growth between 1996 and 2002.
- The 10 fastest growing jobs in *absolute* terms account for nearly four times as many jobs as those in the high-percentage growth category and 19 percent of total projected job growth during the forecast period. Fully seven out of the top 10 jobs pay, on average, less than \$11 an hour - equivalent to \$22,880 a year for a full-time worker.
- The six high-percentage growth occupations paying in excess of \$20 per hour require college degrees, while the seven low-wage, high absolute-growth occupations require minimal formal education and short on-the-job training.
- Overall, 39 percent of the state's projected employment growth between 1995 and 2002 is forecast to occur in occupations where the median 1997 hourly wage was less than \$10 per hour. An additional 12 percent of the growth is projected for occupations paying less than \$12.50 per hour. In contrast, only 28 percent of projected growth is forecast in occupations with a 1997 median wage of \$20 per hour or more, equivalent to an annual income of \$41,600 for a full-time worker.

The Gap Between Low- and High-Wage Workers is Growing

- Wage inequality in California - measured by the difference in hourly wages between the highest- and lowest-earning 10 percent of the wage distribution - has increased significantly over the past two decades. In 1979, workers at the 90th percentile (the point where 10 percent earned more and 90 percent earned less) earned 3.8 times more than workers at the 10th percentile. In 1998, workers at the 90th percentile earned 4.9 times more than those at the 10th percentile - a 29 percent increase in less than two decades.

- Inflation-adjusted hourly wages for workers at the 90th percentile rose 9 percent between 1979 and 1998. During the same period, inflation adjusted earnings for workers at the 10th percentile fell by 16 percent. Workers in the middle of the pack did not fare much better than those at the bottom: a worker exactly at the middle of the wage distribution earned 8 percent less in 1998 than in 1979.

- Hourly wages for men with less than a high school education averaged \$8.96 in 1998, down 16 percent from 1989 and 34 percent from 1979, after adjusting for inflation. Women with less than a high school degree fared only slightly better, with their average hourly wages falling by 21 percent between 1979 and 1998.

- Over the past two decades, the gap between workers with a college degree and those without one has grown substantially. In 1979, men with a college degree earned, on average, 1.34 times the hourly wage earned by high school graduates. In 1998, male college graduates earned 1.85 times the average wage of a male high school graduate. The trend for women workers is similar. In 1979, hourly earnings of women with a college degree were 1.28 times those of women with a high school degree. In 1998, women with a college degree earned, on average, 1.75 times the average hourly wage of women with no more than a high school degree.

What is an Adequate Wage?

- In a companion study, the California Budget Project (CBP) estimated the income needed to support a family at what is considered a basic standard of living. To meet that standard, each parent in a two-parent family with two children would need to work full-time for an hourly wage of \$10.79. If only one parent works outside the home, he or she needs a full-time hourly wage of \$15.08, while a single parent with two children needs to earn \$17.71.

Who are California's Job Seekers?

- California's job seekers include the currently unemployed, recipients of public assistance (CalWORKs and General Assistance), discouraged workers and the underemployed.

- Even with an unemployment rate below 6 percent, there are still nearly 1 million unemployed workers in California.

- Under the state's new welfare laws, an estimated 411,362 CalWORKs recipients who are not now in the labor force will also need to find jobs, along with 57,222 employable General Assistance recipients.

- Adding to the competition are underemployed persons - part-time workers who would prefer full-time jobs, "discouraged" workers, and persons who are constrained from seeking work due to lack of child care, transportation or other barriers to employment. In 1998, 908,641 Californians were underemployed.

- Nearly two-thirds (63 percent) of the job seekers identified in this report have at least a high school education. However, more than a third (37 percent) of potential job seekers, including approximately half of the state's welfare recipients, lack even a high school degree.

How Do the Jobs that are Available Match the Skills of Those Looking for Work?

- Nearly half (45 percent) of California's projected job growth will occur in occupations requiring only short or moderate on-the-job training. Twenty percent of the jobs will be available to new workers with vocational training, a community college degree or long-term on-the-job training; 16 percent will require a four-year degree; and 2 percent will require a graduate degree. The remaining 16 percent require significant work experience, and thus will not be available to persons entering the workforce for the first time.

- A similar analysis of job openings - new jobs plus openings due to separations - finds a similar distribution, but with a slightly heavier concentration of openings in occupations requiring relatively less experience or education.

- The most significant mismatch between jobs and job seekers is the shortage of seekers with at least a college degree. While nearly a quarter (23 percent) of projected openings will require at least a college degree; just 8 percent of the job seekers identified in this report possess a college degree.

- Overall, the number of job seekers exceeds the number of available jobs. California's "job gap" - the gap between the number of projected job openings and the number of job seekers - is 2.6-to-1. If job seekers are assumed to compete only for new jobs, there will be 5.4 job seekers for each available job.

- The number of job seekers lacking a college degree exceeds the number of job openings that do not require a degree by a ratio of more than 3-to-1.

Fewer than One Out of Ten Job Openings Pays the Basic Family Wage to Entry-Level Workers

- The good news is that half of the state's projected job openings pay at least the basic family wage needed by a family headed by two full-time working parents (\$10.79 per hour).

- However, only one out of 10 of the state's projected job openings paying enough to support a two-working-parent family is an entry-level job requiring short to moderate on-the-job training.

- In contrast, many (44 percent) of the job openings paying at least the basic family wage for a two-working-parent family - 23 percent of all job openings - require at least a college degree.

- The situation confronting single parent families is even tougher. Just one out of four (27 percent) of the state's projected job openings pay at least the basic family wage for a single parent family (\$17.71). Virtually none (1 percent) of the projected openings are entry-level jobs paying enough to support a single parent and her two children.

- Only 19 percent of job openings requiring only short or moderate on-the-job training pay at least CBP's basic family wage for a two-parent family.
- Occupations requiring more education are much more likely to pay at least the basic family wage: 81 percent of openings requiring long-term training or vocational education and 94 percent of openings requiring college degrees pay at least the basic family wage for a two-working-parent family.

Labor Market Prospects Vary Significantly Across California

- Despite the strength of the state's current economy, 13 of the state's 58 counties actually lost jobs between 1990 and 1998.
- More than 40 percent of projected employment growth will occur in occupations paying less than \$10 per hour in more than half the state's counties.
- While the number of job seekers exceeds projected job openings in all but three California counties, the overall job gap - the ratio of job seekers to job openings - ranges from a low of 0.8-to-1 in Marin County to a high of 13.3-to-1 in Imperial County.
- The disparities between job seekers and basic family wage jobs are even wider at the county level. The ratio of job seekers to jobs paying at least the basic family wage for a two-working-parent family ranged from a minimum of 1.7-to-1 in Santa Clara and San Mateo counties - where jobs are relatively plentiful but the cost of living is high - to 28.2-to-1 in Tulare County, where unemployment is high but the cost of living is low.
- The prospects for workers lacking a college degree are worse in every county. Job seekers lacking a college degree outnumber openings requiring short or moderate on-the-job training by 1.1-to-1 in Marin County and 26.2-to-1 in Imperial County.
- The gap for jobs paying at least the basic family wage is much larger. In Santa Clara County, where the low-skill family-wage gap is the least severe, there are still 9.6 job seekers without a college degree for every short or moderate training family-wage job. The worst gap for these workers is in Imperial County, where it is 154-to-1.

A Policy Agenda for California's Working Families

The findings presented in this report suggest the need for a four-pronged strategy to address California's job gap:

- Public policies should promote access to those high-skilled, high-wage jobs that do exist.
- Policies should strive to ensure that "work pays."
- Welfare policies should reflect the reality of the labor market and recognize that many families will be unable to find jobs that permit self-sufficiency.

· Policymakers should target economic development programs and policies to firms and industries that demonstrate the greatest potential to create jobs that pay enough to support a family.

1. Promote Access to High-Wage Jobs

Education remains the best guarantee of higher earnings and improved job prospects for individual job seekers. Public policies should strive to:

· ***Improve access to higher education.*** Public policies should be designed to equalize the opportunity for higher education through tools such as expanded student aid, community college transfer programs and early outreach aimed at ensuring that high school graduates are equipped to enter college should they desire to do so.

· ***Use workforce investment policies to boost upward mobility.*** Investing in training programs to help those already in the workforce achieve upward mobility and ease competition for entry-level jobs can help workers achieve higher earnings over the course of their careers.

2. Make Work Pay

Since no policy can completely eliminate lower-skilled jobs in favor of higher-wage alternatives, public policies should strive to insure that no Californian who is willing and able to work should be forced to live in poverty. Fortunately, there are a range of policy options that address this goal:

· ***Raise the minimum wage and index it to inflation.*** "Trickle up" economics works. Raising the minimum wage boosts the earnings of workers at the bottom of the earnings distribution, as well as those earning slightly higher wages, as employers strive to maintain differentials between entry-level workers and those just above them.

· ***Expand the Earned Income Tax Credit (EITC).*** The federal EITC provides a supplement to low-income families with earnings from work. Expansion of the federal EITC, coupled with creation of a state EITC, would boost the incomes of working families most in need of assistance.

· ***Increase access to services that working families need.*** Policies that improve access to health coverage and quality, affordable child and after-school care can go a long way toward helping families make ends meet.

· ***Adopt living wage policies.*** Living wage ordinances are a good way for government to demonstrate its commitment to decent wages for all workers.

3. Make Welfare-to-Work Policies Reflect the Realities of the Labor Market

Welfare-to-Work policies should reflect the reality that competition for entry-level jobs is stiff and that few people who are required to work to support their families will earn enough to make ends meet.

· *Continue assistance without time limits for those with minimal earnings from work.*

California should consider exempting those individuals who work, but earn so little as to remain eligible for public assistance, from the time limits imposed by welfare reform.

· *Create exceptions from time limits for recipients in areas where the entry-level job gap is greatest.* Unemployment remains high in many parts of California. In particular those recipients with the least education or work experiences may, through no fault of their own, fail to find employment within CalWORKs' 18- to 24-month initial time limits.

· *Encourage welfare recipients to continue their education.* Encouraging welfare recipients to pursue an education will reduce competition at the low end of the labor market and increase the odds that individuals leaving assistance for employment will earn enough to become self-sufficient.

4. Target Public Subsidies to High-Wage Jobs

Economic development programs should target assistance to those firms and industries that show the greatest promise of creating high-wage jobs. Although this will not eliminate the job gap overnight, it will ensure that public resources are devoted to bringing and keeping high-wage jobs in California.