



WORKING HARD, FALLING SHORT: INVESTING IN CALIFORNIA'S WORKING FAMILIES

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Executive Summary

California will successfully compete in an increasingly global economy principally on the strength of its people.

Education and training must be a central focus of the state's economic development strategy.

Low-income Californians must have the same opportunity as affluent Californians to develop the skills necessary for higher-paid jobs.

At the same time, forecasts suggest that low-wage jobs will continue to dominate the California economy.

Policymakers need to ensure that the workers in those low-wage jobs are able to provide their families with a decent standard of living.

California will compete successfully in an increasingly global economy principally on the strength of its people. The competitive advantages California can and must offer employers are a skilled workforce, modern infrastructure, effective public services, and a dynamic mix of peoples and cultures. This is the road to economic strength and to a broadly shared prosperity.

Education and training must therefore be a central focus of California's economic development strategy. Education and training will ensure that the state's future workers have the skills they need to enter the jobs the baby boomers are leaving and to fill the new high-skill jobs being created. In addition, education and training offer a path out of poverty for many of California's working poor. Low-income Californians must have the same opportunity as affluent Californians to develop the skills necessary for higher-paid jobs. In fact, California's future prosperity may depend on it.

Over the next two decades, demographic changes will provide greater opportunities for workers new to the labor market and for low-wage workers to move into better-paid employment. The impending retirement of the baby boom generation means that many skilled employees will be vacating high-wage jobs. Moreover, the labor force is expected to increase more slowly than in the past two decades, reducing the competition for jobs.

Most of California's low-income families are working families.

A greater share of California's working families are low-income than in the rest of the US.

Children are more likely to live in low-income families.

In California, almost half of low-income and very low-income working families are married couples with children, compared to slightly more than one-third in the remainder of the US.

The majority of California's working low-income and very low-income families are Latino.

California's low-income and very low-income working families are much more likely to be headed by an adult without a high school degree or GED than low-income working families in the remainder of the US.

At the same time, not all jobs will pay high wages. Currently, more than half the jobs in the California economy provide full-time, year-round wages that are below twice the federal poverty level, a level of income that falls short of providing an adequate standard of living. Most of these low-wage occupations are in the service sector. Forecasts suggest that for the coming decade and beyond, low-skill, low-wage jobs will continue to dominate the California economy. California policy makers must ensure that the workers in those jobs are able to provide their families with a decent standard of living.

Working Hard, Falling Short: Investing in California's Working Families examines the prospects of California's low-income working families in the context of a changing economic and demographic environment. This report recommends changes in state policy that help low-income working families achieve higher standards of living and that strengthen California's economy. The primary focus of the report is education and training, since skills acquisition is essential to economic competitiveness and has an important effect on lifetime earnings. The report also looks at two other important policy areas: policies that support the economic well-being of low-wage workers, and economic development policies. The key findings and recommendations of the report are detailed below.

Many of California's Working Families Fail to Make Ends Meet

Almost half a million of California's working families are "officially" poor; that is, they had incomes below the federal poverty level (FPL) in 2002.¹ Many more – nearly 1.4 million – had incomes between the FPL and twice the FPL, a level of income that falls short of providing an adequate standard of living. The adults in these families work hard and pay taxes, but struggle to make ends meet and build a secure future.

In this report, families with incomes below the FPL are defined as very low-income. Families with incomes between the FPL and twice the FPL are defined as low-income.

Key Findings

Most of California's low-income families are working families in which the adult members had significant employment over the past year.² In 2002, more than nine out of 10 (90.6 percent) low-income families with children were working families. Almost six out of 10 (59.0 percent) very low-income families with children were working families.

A larger share of California's working families are low-income than in the rest of the US. In 2002, 21.1 percent of California's working families with children were low-income and 8.6 percent were very low-income. In the rest of the US, 18.6 percent of working families with children were low-income and 6.6 percent were very low-income.

Children are more likely than adults to live in low-income families. In 2002, almost one out of four children (23.4 percent) lived in low-income families, compared to less than one out of five adults (18.4 percent). California's children also were almost twice as likely as adults to live in very low-income families – 19.5 percent of children compared to 11.1 percent of adults.

In California, nearly half (45.8 percent) of low-income and very low-income working families are married couples with children, compared to slightly more than one-third (34.4 percent) in the remainder of the US. In contrast, a smaller share of low-income and very low-income working families in California are headed by a single parent.

The majority of California's low-income working families are Latino. In 2002, nearly two-thirds (62.7 percent) of California's low-income working families with children were headed by a Latino, compared to less than a quarter (22.5 percent) in the rest of the US. An even larger share (70.4 percent) of California's very low-income working families with children were Latino, compared to 28.8 percent in the remainder of the US.

California's low-income working families are much more likely to be headed by an adult without a high school degree or GED than low-income working families in the rest of the US. In 2002, the head of 39.7 percent of low-income working families with children lacked a high school degree or GED, compared to 23.2 percent in the remainder of the US. The head of more than half (57.5 percent) of California's very low-income working families with children lacked a high school degree or GED, compared to one-third (33.5 percent) in the remainder of the US.

Investing in the Future: Will California Have the Skilled Workforce It Needs?

Education and training are paths out of poverty for many of California’s low-income and very low income working families. The competitiveness of the California economy will also depend on improving the skills of low-income workers and their children.

Workers with a low level of education are at a disadvantage, as higher levels of education bring significant economic rewards. In 2003, a worker with less than a high school degree earned roughly half (56.3 percent) of the median hourly wage of all California workers and slightly more than one-third (36.0 percent) of the median hourly wage of workers with a bachelor’s degree or higher.

Educational attainment levels in California vary widely by race and ethnicity. Compared to the US as a whole, California has both a higher percentage of adults who lack a high school diploma or GED and a higher percentage of adults with at least some postsecondary education. Latinos and blacks are less likely to graduate from high school and college, and are less likely to take the courses in high school that would prepare them for college.

Over the next two decades, the demographic shifts already under way in California will change the state’s population, particularly the prime working-age population. Forecasts project that by 2020, California’s prime-age workforce, individuals age 25 to 54, will be slightly more than 70 percent non-white. The challenge confronting California is to ensure that the new workers have the skills they will need to succeed in the labor market and that the state’s employers will need to compete in the global economy.

Key Findings and Recommendations	
Findings	Recommendations
Many students are inadequately prepared for postsecondary education.	Improve opportunities for high school dropouts and other working adults to obtain the basic skills they need to qualify for admission to postsecondary education. California should also expand programs in postsecondary institutions that improve retention and completion rates for low-income and working students.

Findings	Recommendations
<p>Low-income and working students face financial barriers to accessing postsecondary education.</p>	<p>Maintain and improve the affordability of postsecondary education by keeping fees modest, particularly in community colleges; by maintaining an adequately funded, need-based financial aid system; and by providing greater access to financial aid for working adults.</p>
<p>Low-income and working students face “informational” barriers that restrict their access to postsecondary education.</p>	<p>Provide California’s low-income youth and workers with the information they need to make informed decisions about postsecondary education. The state’s current outreach programs should be evaluated and targeted to provide information and services to students who would otherwise be unlikely to attend postsecondary institutions.</p>
<p>Low-income and other California students face barriers to advancement in public postsecondary education.</p>	<p>Coordinate course requirements so that students can transfer more easily between community colleges and four-year colleges and universities.</p>
<p>California needs a cost-effective strategy for expanding access to postsecondary education.</p>	<p>Increase enrollment in public postsecondary institutions by encouraging students to take lower division courses in community colleges.</p>
<p>A college education is not the only pathway to a well-paying job. Career technical education may be a better choice for many students.</p>	<p>Increase the number of high quality vocational and technical training programs. One approach is to increase the rate at which community colleges are reimbursed for non-credit courses.</p>
<p>The Workforce Investment Act (WIA) and CalWORKs funding can be used to provide low-income workers a pathway to career advancement.</p>	<p>Increase funding for adult education, occupational skills training, and other career advancement services for low-income workers by taking maximum advantage of the WIA and CalWORKs programs.</p>

Maximizing Returns: Improving the Accountability of California's Investments in Economic Development

Educational attainment and job training can only help low-wage workers move out of poverty if there are sufficient well-paying jobs to employ them. Public investment can help build a healthy economy by ensuring that businesses have access to a skilled workforce, quality infrastructure, and a desirable quality of life for workers and their families. States, including California, also spend large sums to promote certain types of economic activity, create markets for state products, and promote private investment.

California has made significant investments in economic development; however, the state has done little to evaluate whether this spending has achieved the desired policy goals. Moreover, in many instances, the state has failed to collect the minimal amount of information that would be needed to identify the outcomes associated with public spending.

Key Findings and Recommendations	
Findings	Recommendations
California lacks an overarching vision and strategy to guide its economic development investments.	Adopt a unified economic development strategy and focus spending on programs that will provide maximum benefit to all Californians.
There is little accountability for most economic development expenditures; most economic development spending occurs through the tax code and goes to general support for business.	Focus economic development investments on areas of strategic importance to California and use performance standards to hold recipients of economic development incentives accountable for the delivery of promised jobs and investment.
California makes a relatively small investment in workforce development and very little of the funding to train employed workers targets low-income workers.	Launch a comprehensive effort aimed at improving the skills of low-wage workers.

A Shared Prosperity: Do California’s Public Policies Ensure That Low-Income Workers Share in the Prosperity They Help Create?

Over the past decade, relatively low-skill jobs have dominated California’s labor market. Economic forecasts project that low-wage jobs will continue to constitute the largest share of the state’s employment over the next decade. Public policies therefore play a critical role in ensuring that low-income workers share in the economic prosperity that their work helps create.

Many of these policies are of concern to employees, as well as workers. High housing, health care, and child care costs can make it difficult for businesses to attract the workers they need. While California has taken a number of steps to support low-income working families, additional steps are needed to help many of the state’s hardest working families make ends meet.

Key Findings and Recommendations	
Findings	Recommendations
Affordable housing is scarce in many California communities.	Take steps to increase the supply of affordable housing, focusing particularly on the poorest households, whose housing needs are the least likely to be addressed by the private market.
Increasing numbers of Californians lack health care coverage.	Improve outreach and enrollment efforts to boost enrollment in publicly supported health coverage programs, such as Medi-Cal and Healthy Families. California should also implement policies to expand job-based health coverage.
California is restricting access to affordable child care.	Guarantee child care to low-income families and fully fund California’s subsidized child care system.
The Food Stamp Program could supplement low wages, but almost half of eligible Californians do not receive aid.	Increase state funding to boost outreach to eligible individuals and provide counties with incentives and resources to establish non-traditional office hours.
A state Earned Income Tax Credit would increase the income of low-income working families.	Create a state Earned Income Tax Credit.

Findings	Recommendations
Minimum wage increases have boosted the earnings of low-wage workers without costing jobs.	Restore the purchasing power of the minimum wage and index it to inflation.
Many low-income workers fail to qualify for Unemployment Insurance (UI) when they lose their job through no fault of their own.	Create a more equitable approach to UI eligibility determination by adopting an alternate base period.
Living-wage policies can ensure that public dollars do not subsidize low-wage work.	Adopt a living-wage policy for firms that contract with the state for goods and services.

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