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economy brief

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BEYOND RECOVERY: MAKING THE STATE'S ECONOMY WORK BETTER FOR LOW- AND MID-WAGE CALIFORNIANS

California's job market continues to improve, with the state having finally regained the number of jobs that were lost in the Great Recession and the statewide unemployment rate lower than a year earlier. While the outlook for California's jobseekers is considerably better than in recent years, substantial challenges remain. Unemployment remains high in many regions across the state, and persistent weakness in the public sector job market is undermining the overall strength of the economic recovery. Moreover, the current extended period of economic growth follows decades of wage stagnation and declining economic opportunity for many workers, and low-wage work is increasingly common. Simply recovering from the Great Recession will not be sufficient to ensure broad-based economic growth that reaches workers across the wage distribution. For this reason, state policymakers should engage in a sustained, multifaceted policy response to promote economic security for California's workers. This includes investing in services that help Californians find and keep stable employment, broadening access to high-wage careers by rebuilding support for California's public higher education system, and ensuring that low-wage jobs pay adequate wages.

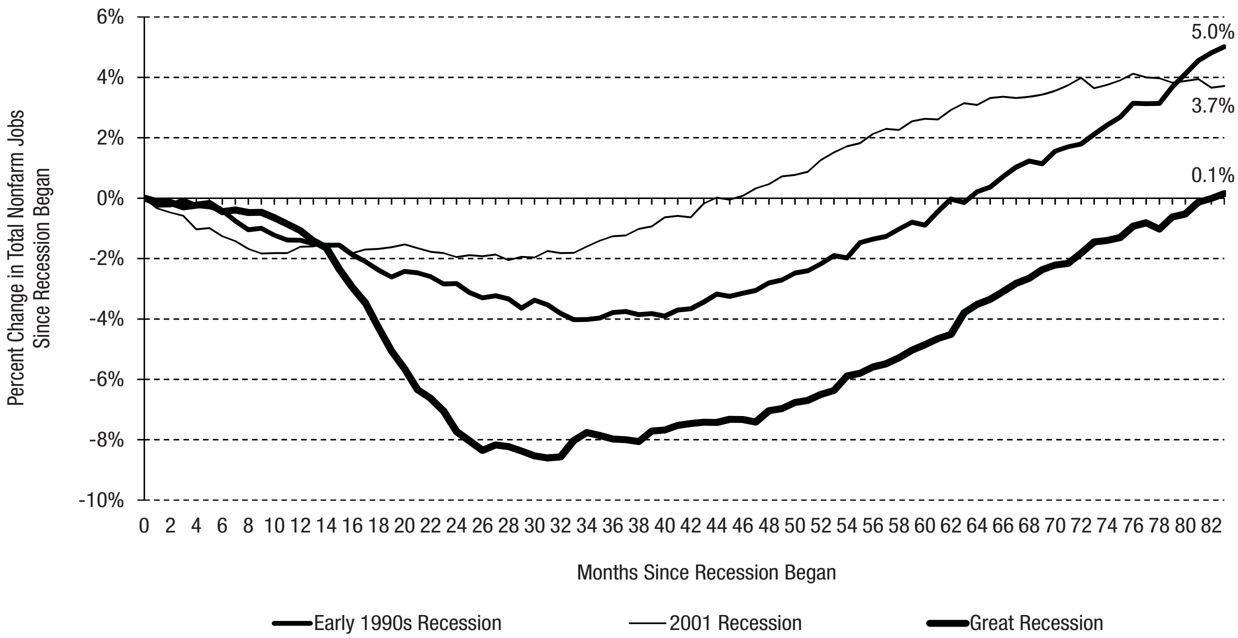
California Has Regained the Number of Jobs Lost During the Great Recession

California's labor market continues to improve, moving the state further beyond the jobs crisis created by the Great Recession. In the last year, California experienced sustained job growth and a welcome decline in the state's unemployment rate: Between June 2013 and June 2014, California added more than 356,000 jobs, and its unemployment rate declined from 9.0 percent to 7.4 percent.[1] Both the pace of job creation and the decline in the unemployment rate were faster in California than in the US as a whole.

California has now regained the number of jobs that were lost in the economic downturn, although the road to this milestone has been long. It took just 31 months – from July 2007 to February 2010 – for the California economy to shed over 1.3 million jobs, compared to more than 50 months – from February 2010 to June 2014 – to regain a similar number of jobs.[2] The length of time it took California to regain the number of jobs lost during the Great Recession – counting from the beginning of the downturn – was considerably longer than it took to regain the number of jobs lost in other recent recessions (Figure 1). However, this is because of the severity of the job losses during the Great Recession and not because recent job growth has been slower than in earlier recoveries.[3]

There are other signs that the labor market is rebounding. Notably, the number of jobseekers per available job in the US continues to decline. (While such estimates are not available for California exclusively, national data are still a valuable indicator of growing job opportunities for the unemployed.) In February 2010, there were 6.0 jobseekers for every available job; by June 2014,

Figure 1: California Took Much Longer to Regain the Number of Jobs Lost in the Great Recession, Compared to Other Recent Downturns



Source: US Bureau of Labor Statistics

that ratio had dropped to 2.0.[4] This improvement is due in large part to expanded hiring by businesses – rather than to people leaving the labor market – as can be seen in the rising number of job openings in the US economy. In June 2014, the number of job openings reached – and, in fact, surpassed – the previous peak of 4.6 million from June 2007. As of June 2014, there were 2.1 million more openings than there were in February 2010, the month the recession ended in California.

California Workers Are Not Yet Seeing a Labor Market at Pre-Recession Health

The labor market is moving in the right direction, but for many California workers the current economic recovery is not yet strong enough to heal the scars left by the Great Recession. Many near-term challenges persist, both for those who have found jobs and for the unemployed who are still looking for work.

Unemployment Remains High Throughout Much of California

The share of workers who are searching for a job but cannot find one (7.4 percent in June 2014) is down from a year earlier, but is still at a level typically seen during recessions, rather than this far into an economic recovery. In fact, California's unemployment rate remains higher than at any point during or following the recession that occurred in 2001.[5] A key reason: While the number of jobs has returned to its pre-recession level, California's labor force grew by more than 700,000 people between July 2007 – the start of the recession – and June 2014. Thus, far more jobs are needed to account for these additional Californians who are searching for work.

Unemployment is also still unacceptably high in many of California's individual regions. Across metropolitan areas, the unemployment rate for the first half of 2014 – based on a six-month average – ranged from just 4.7 percent in the San Francisco-San Mateo-Redwood City region to 21.9 percent in the El Centro region (Table 1).

Moreover, long-term unemployed workers still make up a large share of California's jobless residents. In the 12 months ending in June 2014, a monthly average of nearly 600,000 Californians had been out of work for at least half a year. This represented more than a third of jobless Californians (37.7 percent) in this period.[6] While the number of long-term unemployed in California is declining, it is still *quadruple* that in the 12 months ending in July 2007 (144,000). These jobseekers often face difficulty in securing work and regaining their economic footing, and the persistence

Table 1: The Unemployment Rate Is Still Elevated in Many Regions of California			
Metro Region*	Unemployment Rate**	Metro Region*	Unemployment Rate**
El Centro	21.9%	Riverside-San Bernardino-Ontario	8.8%
Yuba City	14.7%	Los Angeles-Long Beach-Glendale	8.4%
Merced	14.6%	Sacramento-Arden Arcade-Roseville	7.6%
Visalia-Porterville	13.7%	Vallejo-Fairfield	7.4%
Hanford-Corcoran	13.4%	Oxnard-Thousand Oaks-Ventura	6.7%
Modesto	12.4%	San Diego-Carlsbad-San Marcos	6.5%
Fresno	12.3%	Oakland-Fremont-Hayward	6.3%
Stockton	12.0%	Santa Barbara-Santa Maria-Goleta	6.2%
Bakersfield	11.6%	San Jose-Sunnyvale-Santa Clara	5.9%
Madera	11.1%	Santa Rosa-Petaluma	5.7%
Salinas	10.5%	San Luis Obispo-Paso Robles	5.7%
Redding	9.9%	Napa	5.5%
Santa Cruz-Watsonville	9.3%	Santa Ana-Anaheim-Irvine	5.4%
Chico	9.1%	San Francisco-San Mateo-Redwood City	4.7%

* Metro areas are listed in order of the highest average unemployment rate to the lowest.
** Unemployment rate reflects the average unemployment for the first six months of 2014.
Source: Employment Development Department

of long-term unemployment further shows that the economic recovery is not yet reaching all groups of workers.[7]

Jobs in the Public Sector Have Been Slow to Recover in California

Unlike previous labor market recoveries, the current economic expansion has been hindered by public sector job losses (Figure 2). As of June 2014, the public sector in California – which includes federal, state, and local governments – had 121,800 *fewer* jobs than before the recession began, a decline of 4.9 percent. In a comparable period following the early-1990s and 2001 recessions, the number of public sector jobs statewide was *up* by 2.1 percent and 7.3 percent, respectively.

The downward trend in the number of public sector jobs during this economic recovery has been driven primarily by weakness in *local* government hiring. The number of local government jobs in California, which includes jobs in K-12 schools and community colleges, is 119,100 lower than before the Great Recession started.

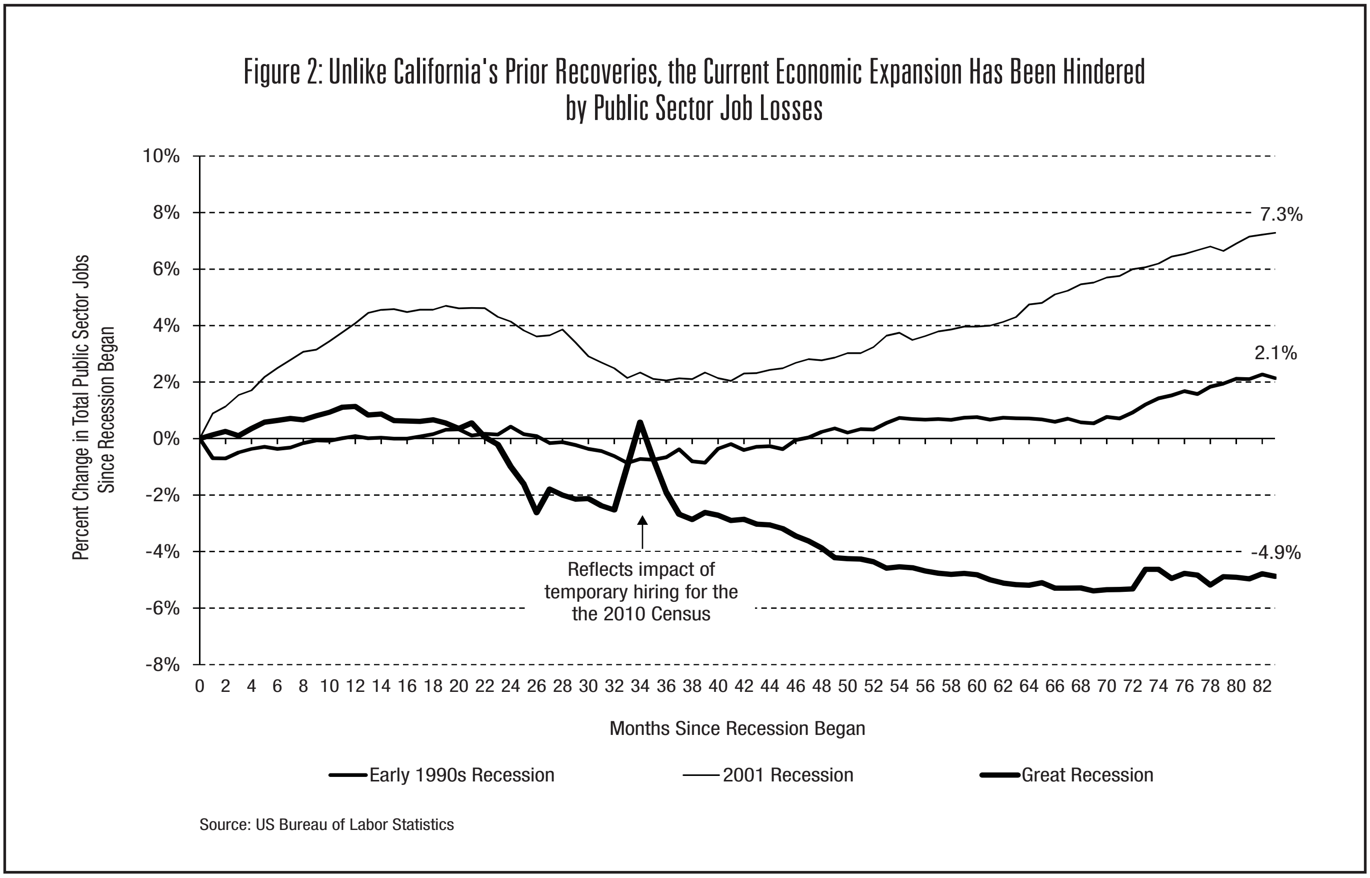
Weakness in public sector hiring has implications that go beyond just the number of jobs created in the California economy. This is because the public sector has historically provided better opportunities to workers who have faced obstacles in the labor market, such as many women and African Americans. For instance, the average wage gap between women and men with college degrees and between African Americans and white workers of all education levels is smaller in state and local government than in the private sector.[8] Diminished job opportunities in the public sector are also a concern given that African Americans – who still face a statewide unemployment rate of more than 13 percent – make up a larger share of California workers in the public sector (8.3 percent) than the private sector (4.1 percent).[9]

The Great Recession Eroded the Earnings of Low- and Mid-Wage Workers

The steady economic recovery has failed to generate robust gains in earnings for many of those who are working. The Great Recession and the subsequent recovery have left many workers with little power to negotiate pay increases amid intense competition for jobs. As a result, earnings have not kept up with the overall rate of inflation, with low- and mid-wage workers in particular still coping with the substantial erosion of their wages. In 2013, the hourly wage for low-wage workers – those earning at the 20th percentile of the wage distribution – was still 5.4 percent below its 2006 level, after adjusting for inflation.[10] Mid-wage workers – those earning California's median wage – earned 5.1 percent less in 2013 than similar workers did in 2006, after adjusting for inflation.

Returning to Pre-Recession Conditions Does Not Guarantee a Strong Economy

The severity of the Great Recession led to a job crisis in California and the nation as a whole. However, even prior to the start of the



Great Recession, California workers were already coping with decades of wage stagnation and an economy in which low-wage work was increasingly common. These trends show that California simply recovering from the Great Recession is not sufficient to produce broad-based growth that reaches workers across the wage distribution.

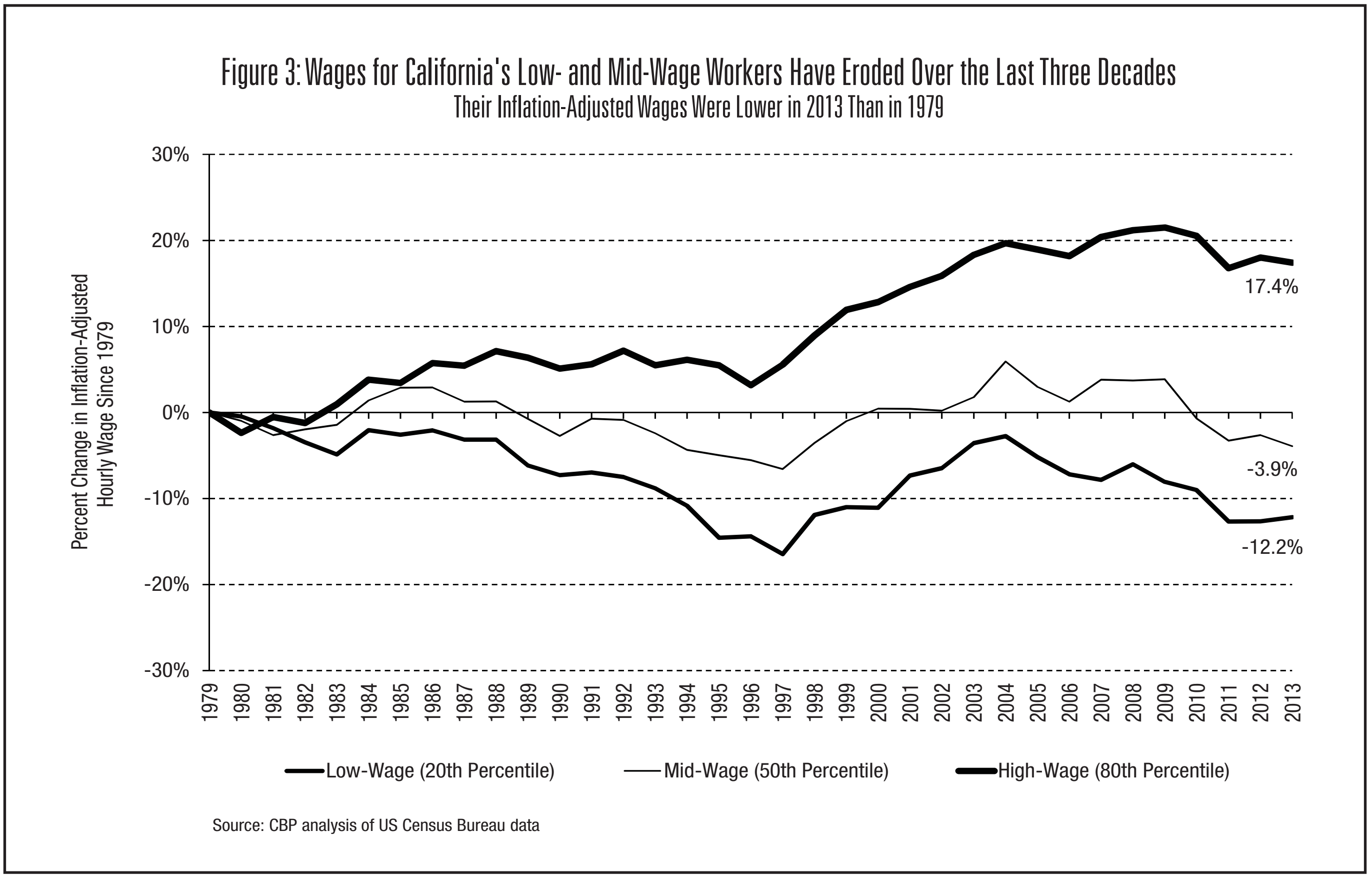
Many Workers Were Coping With Weak Wage Growth Before the Great Recession Began

Many of California's workers were coping with decades of weak or no wage growth even before the start of the Great Recession. This is especially true for low-wage workers. In 2013, low-wage workers – those earning at the 20th percentile of the wage distribution – earned 12.2 percent less than similar workers earned in 1979, after adjusting for inflation (Figure 3). However, even in 2006, the first full year before the recession began, wages for low-wage workers were 7.2 percent below what they were for similar workers in 1979, after adjusting for inflation. Therefore, even if low-wage workers' hourly earnings do recover from the Great Recession, *decades* of wage stagnation mean that their wages would still be lower than in 1979.

Mid-wage workers – those earning California's median wage – were also experiencing weak wage growth before the Great Recession began. In 2006, the median hourly wage in California was only 1.3 percent above the 1979 level, after adjusting for inflation. While mid-wage workers fared better than low-wage workers during this period, their wage growth has been weak compared to that for high-wage workers. In 2006, wages for high-wage workers – those earning at the 80th percentile of the wage distribution – were 18.2 percent higher than those of similar workers in 1979.

The erosion of wages over time can have a substantial impact on workers and their families. If the hourly wage for low-wage workers had simply maintained the same purchasing power as it had in 1979, then a full-time, year-round low-wage worker would have earned an additional $3,100 in 2013 ($25,800 in annual pre-tax wages instead of $22,700). Similarly, a full-time, year-round worker earning the state's median wage would be making an additional $1,600 annually – $41,300 in pre-tax wages instead of $39,700 – if the median wage had maintained the same value it had in 1979.

When wages do not grow, households may have to work additional hours in order to make ends meet. This could mean that more adults in a household must work or that those who were already employed work more hours than before. Nationally, the average annual wages earned by low-income households



increased by 12.3 percent from 1979 to 2007.[11] However, nearly three-quarters of this increase was attributable to additional hours worked. In other words, to the extent that low-income households increased their earnings from their jobs, much of it was due to those households working more hours rather than earning more per hour.

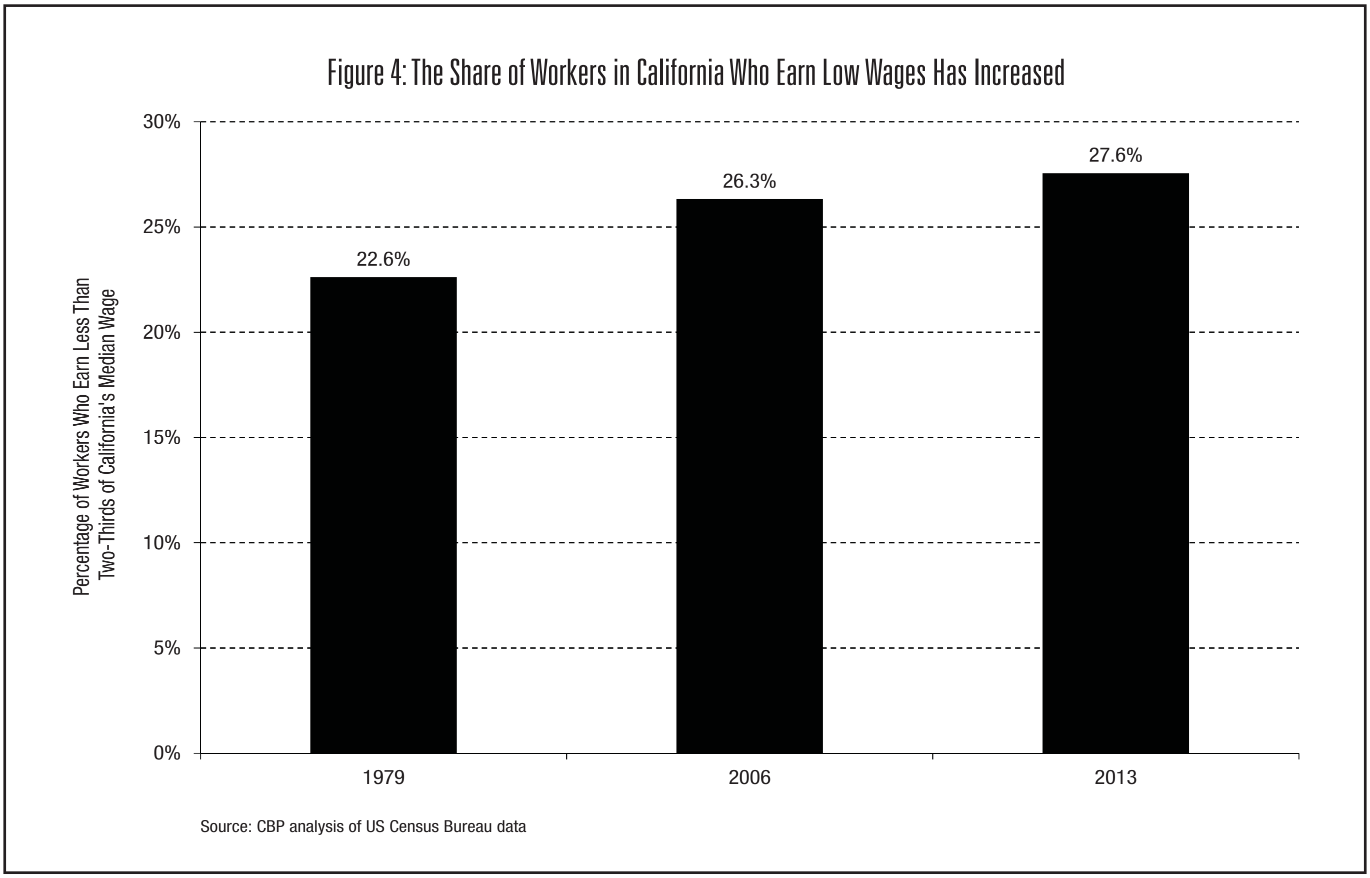
Low-Wage Work Is Increasingly Common

A growing share of California's workers are employed in low-wage jobs, a trend that began prior to the Great Recession. The share of California workers earning below two-thirds of the median wage – a measure of the *concentration* of low-wage workers relative to the typical earner – rose from 22.6 percent in 1979 to 26.3 percent in 2006, the year before the recession began. That share further increased to 27.6 percent in 2013 (Figure 4).[12]

The fact that low-wage workers account for a rising share of the workforce is due in part to the types of jobs being created in California. The kinds of jobs that would typically pay lower wages – defined as those with a median hourly wage that's in the bottom fifth of the distribution – made up a disproportionate share of overall job growth in California from 1979 to the mid-2000s. Between 1979 and 2005, more than one-quarter of all jobs created in California (26.9 percent) were low-wage jobs. These jobs were primarily in low-wage service occupations, such as food service and preparation.[13] Many of these low-wage service occupations are forecasted to continue growing in the near future. For instance, food service and preparation occupations – which had a median wage of $9.37 an hour in 2013 – are forecasted to produce the largest number of new jobs by 2015 of any major occupation type, according to the Employment Development Department.

State Policy Should Protect and Invest in California Workers

The challenges that workers face require a sustained, multifaceted policy response from state policymakers. The persistent challenges of wage erosion and the rising share of workers in low-wage jobs call for a mix of policies that expand opportunities for Californians while boosting the pay for low-wage workers.



Invest in Core Public Systems and Services That Keep Working Parents in the Workforce

State policymakers could do more to help families find work and advance in their careers, especially amid a deeply challenging job market. Lawmakers could ensure that all low-income families have access to safe, affordable child care and preschool that helps prepare children for school and enables parents to find and maintain employment. In addition, policymakers could increase the amount of time California Work Opportunity and Responsibility to Kids (CalWORKs) parents may receive cash assistance while participating in the broad array of welfare-to-work activities available under state law, such as adult basic education classes.

Increase Economic Mobility by Investing in Higher Education

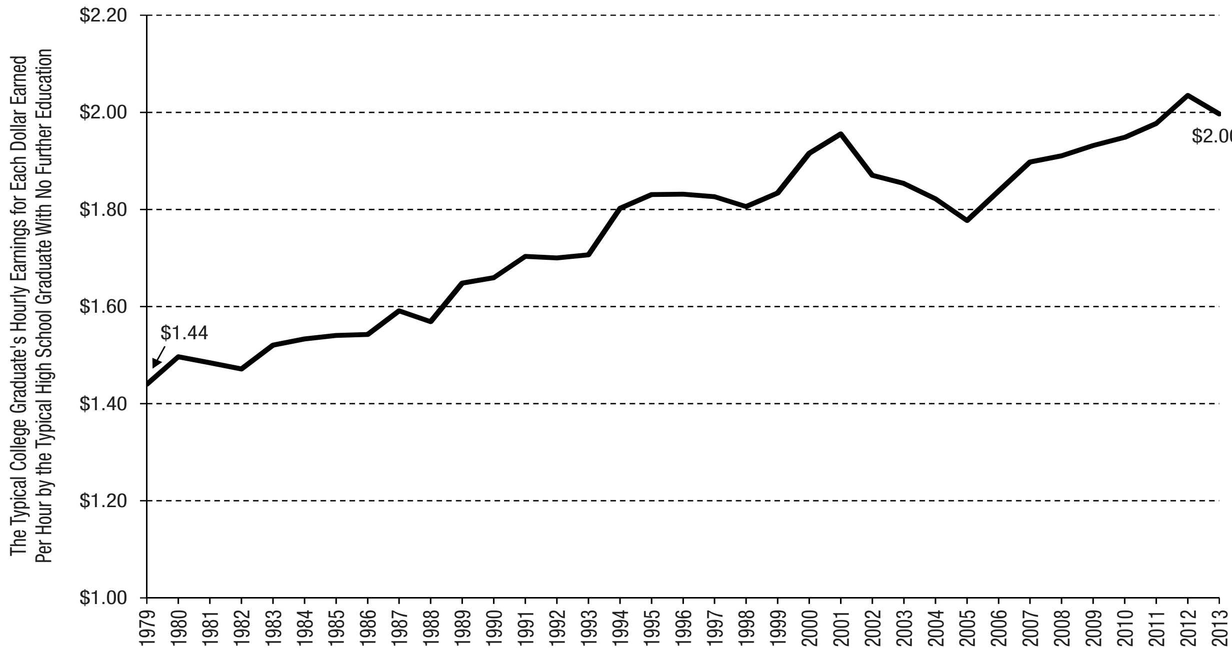
Educational attainment remains a key ingredient for social and economic mobility. It increases the productivity of workers and can provide a pathway to higher-paying work. A college-educated worker in California typically earns more than a worker with no more than a high school degree, and this "wage premium" has increased over time. In 1979, a college graduate typically earned $1.44 for every dollar earned by a worker with just a high school education. By 2013, this ratio rose to $2.00 (Figure 5).

Despite the importance of higher education to economic security, state policymakers in recent decades have implemented cuts in General Fund support for California's public higher education system. These cuts led to substantially increased tuition and fees for students.[14] Rebuilding state support for higher education and recommitting to providing an affordable, quality education that is accessible to all eligible Californians is essential to strengthening pathways to economic opportunity.

Boost the Earnings of Low-Wage Work

While offering more Californians access to high-wage jobs, policymakers should also seek to lift the pay of low-wage work. The growth of low-wage jobs – and their forecasted growth in the near future – calls for policies that help workers in these jobs attain basic economic security. The recent increase in California's minimum wage, as well as several individual cities' efforts to raise minimum wages, are a first step in the right direction. State policymakers could gradually raise California's minimum wage further and index it to inflation so that it prevents future erosion of wages for low-wage workers.

Figure 5: In 2013, California Workers With a College Degree Typically Earned $2 for Every $1 Earned by a Worker With No More Than a High School Degree



Source: CBP analysis of US Census Bureau data

Luke Reidenbach prepared this Economy Brief. *The CBP was established in 1995 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The 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. General operating support for the CBP is provided by foundation grants, subscriptions, and individual contributions. Please visit the CBP's website at www.cbp.org.*

ENDNOTES

1 US Bureau of Labor Statistics. Unless otherwise specified, the number of jobs refers to nonfarm jobs. Data for June 2014 are preliminary estimates. The change in jobs is the difference between the number of jobs created and the number of jobs lost. A positive change in the number of jobs – with the number of jobs created outnumbering the number of jobs lost – reflects job growth.

2 California regained the number of jobs lost during the Great Recession faster than projected. In January 2013, the Department of Finance had projected an average 15.0 million nonfarm jobs in 2014, short of the 15.4 million nonfarm jobs in the state prior to the Great Recession. In fact, the number of nonfarm jobs in California reached 15.5 million in June of 2014. This is partly because the number of payroll jobs in California was significantly revised in early 2014 as part of the annual "benchmarking" process. This process adjusts the Current Employment Survey (CES) estimates using tax records. The results of this year's benchmarking led to a substantial upward revision in the number of jobs in California.

3 The percent increase in the number of jobs since the end of the Great Recession (9.6 percent) is similar to an equivalent period following the early-1990s recession (9.8 percent) and faster than the same period following the 2001 recession (6.1 percent).

4 CBP analysis of US Bureau of Labor Statistics data.

5 Employment Development Department.

6 Employment Development Department. For estimates of the duration of unemployment, the EDD reports data as 12-month averages ending in the month displayed in order to improve the accuracy of the estimates.

7 Congressional Budget Office, *Understanding and Responding to Persistently High Unemployment* (February 2012) and Rand Ghayad and Williams Dickens, *What Can We Learn by Disaggregating the Unemployment-Vacancy Relationship?* (Federal Reserve Bank of Boston: 2012).

8 David Cooper, Mary Gable, and Algernon Austin, *The Public-Sector Jobs Crisis: Women and African Americans Hit Hardest by Job Losses in State and Local Governments* (Economic Policy Institute: May 2, 2012).

[9] CBP analysis of US Census Bureau data. Similarly, California women are more likely than men to be employed in the public sector: In 2013, 57.7 percent of public sector workers were women compared to just 44.4 percent in the private sector. Unlike women and African Americans, California Latinos make up a smaller share of the public sector workforce than the private sector workforce. However, the share of public sector workers who are Latino increased by 4.3 percentage points from 2006 to 2013, compared to a 3.0 percentage point increase in Latinos' share of the private sector workforce during the same period.

[10] Hourly wage data are for workers between ages 25 and 64 and are from the US Census Bureau's Current Population Survey. For detailed methodology information, see the technical appendix in California Budget Project, *A Generation of Widening Inequality: The State of Working California, 1979 to 2006* (August 2007).

[11] Lawrence Mishel, et al., *The State of Working America, 12th Edition* (Economic Policy Institute: November 2012).

[12] CBP analysis of US Census Bureau data. In analyses of wage trends over time, the CBP typically defines a low-wage worker as someone who earns the 20th percentile hourly wage. This methodology does not directly estimate how the share of California workers who earn low wages changes over time. For this reason, an alternative definition of a low-wage worker is used to examine whether the percentage of workers in low-wage jobs has increased. For additional analysis of low-wage work using this measure, see John Schmitt, *Low-Wage Lessons* (Center for Economic and Policy Research, January 2012).

[13] This is part of a larger trend of polarized job growth, with more than half of all jobs created between 1979 and 2005 having typical hourly earnings either in the bottom fifth or the top fifth of the wage distribution. Meanwhile, the share of jobs created that typically paid around the middle of the wage distribution was substantially smaller: Just 20.0 percent of jobs that were created in this period had typical hourly earnings in either the second or third fifth of the wage distribution. For additional analysis of this trend, see California Budget Project, *A Generation of Widening Inequality: The State of Working California, 1979 to 2006* (August 2007).

[14] See California Budget Project, *From State to Student: How State Disinvestment Has Shifted Higher Education Costs to Students and Families* (May 6, 2014) for additional analysis.