California—State of Change

PPIC Researcher Remarks

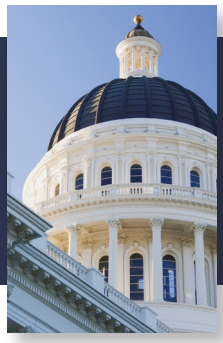
These PPIC researchers set the context for the panel discussions at the California—State of Change conference on December 3, 2014. Here are their prepared remarks.

Hans Johnson, California's New Leadership

Patrick Murphy, Government 2.0

Sarah Bohn, Economic Shifts

Ellen Hanak, Cutting Edges



Session 1: California's New Leadership

Hans Johnson, PPIC senior and Bren Fellow

This session will provide insight into the state of change of California's population and what that change means for California's new leadership. California is set apart from any other state and indeed any other region of the world by our demography. The rapid population growth that our state has experienced combined with the complexity and diversity of that growth makes California unique. California's population is one of the state's greatest strengths, but it also poses challenges.

So how has California's population changed?

First, we are by far the largest state, with a population approaching 40 million people. And although growth rates have slowed, we are projected to continue to add several million more each decade. Second, California's population is incredibly diverse and dynamic. No ethnic group constitutes a majority of the state's population. Just this year, Latinos probably surpassed whites as the state's largest group, but even Latinos make up only about 40 percent of the state's population. Third, the population is aging, with the very large numbers of the baby boom generation—who happen to be our best educated generation—beginning to hit retirement ages. Finally, we have tremendous regional diversity, with relatively poor inland areas projected to experience more rapid growth than relatively wealthy coastal areas.

So, what are some key challenges of this new California?

One challenge is providing the physical infrastructure—in water, transportation, and power—that this new population will demand. But another—and I think even more important— challenge is ensuring that all groups throughout the state have the opportunity to participate in the state's prosperity. That means having access to good jobs, health care, and education. For example, we know that as the very well educated baby boom retires, we need to improve college enrollment and completion rates among young Californians so that they can develop the skills necessary to succeed in an increasingly sophisticated economy.

Meeting these and other challenges will require an informed and engaged set of elected officials and political leaders. One sign of a healthy democracy is equitable representation and participation in the electoral process. Significant changes have occurred in California, yet the state's electorate and political leaders still do not fully reflect the state's population.

In this session, the panel will explore the effects that California's population has had and will continue to have on the state—particularly with regard to its leadership and elected officials.

Session 2: Government 2.0

Patrick Murphy, PPIC director of research, senior fellow, and Thomas C. Sutton Chair in Policy Research

We are going to shift gears now and focus on the state's governments and ask whether those institutions are prepared to address the governance challenges that lie ahead.

In order to provide something of a context for that discussion, it is worthwhile to examine recent developments that have helped shape where we are today and provide a broad description of the challenges that lie ahead.

Looking back, there have been a number of important and positive developments. Electoral reforms—particularly changes to term limits —have at least introduced the possibility greater leadership stability at the state level. Major policy shifts have devolved decision making and placed much more discretion in the hands of local officials. Here, we are talking about changes in health care, and more recently, public safety realignment and an entirely new way of funding K–12 education, the Local Control Funding Formula. The economic recovery appears to have led to more money being available for public services. And, voters have demonstrated that they are willing to pay more—raise taxes—for specific purposes.

As positive as those developments are, looking forward, the state's institutions also face significant challenges. It is no secret that revenue remains as volatile as ever. Often overlooked, however, is the growing disconnect between where the authority to make tax decisions lie—at the state level—and how we are devolving program decisions down to the local level. Structurally, we have a collection of local governments institutions that were designed to address problems that the state faced in the 1950s and '60s or earlier. And though they have evolved incrementally over time, it is not clear that these bodies have the authority and level of coordination needed to manage in the 21st century. And ironically, the state that many associate with being on the cutting edge of information technology does not have the data systems in place to hold managers responsible and use that information to improve performance.

In short, the question we are putting forward under the title Government 2.0 is: Does California have the right mix of institutions it needs to address the challenges it faces?

Session 3: Economic Shifts

Sarah Bohn, PPIC research fellow

I'm pleased to introduce this panel discussion about economic shifts and their implications for California's future, featuring leaders in business, government, and philanthropy.

Our economy has been through turmoil over the past seven years, as we all know, and we have made substantial progress in reversing it.

California has grown jobs at twice the national rate, over the past three years. As of June 2014, California recovered all the 1.3 million jobs lost in the Great Recession. The unemployment rate, currently at 7.3%, is falling faster than the U.S. rate. The construction industry has grown the fastest out of all industries in California over the past year, which is great news reflecting a rebounding housing market. These are all signs that although recovery has been slow—some say anemic—California is certainly catching up.

On the other hand, by many measures we're only back to where we were seven years ago. Yes, though the state unemployment rate is dropping fast, we are still only at roughly 2008 levels. And yes, though we've recovered the jobs lost in Great Recession, that is not enough job growth to keep up with our growing labor force. Except for service industries—science & technology, health care, and hotel and food services—that have created 60% of new jobs in the recovery, no other industry in the state is back to pre-recession level of employment.

And as we all know, California is large and diverse, so statewide economic facts only tell part of the story. Some regions—and some workers and families—find that they are falling behind where they were before the recession. But many regions of California are close to recovering the jobs lost during the recession. In fact, the Silicon Valley and San Francisco are well above that, adding twice as many jobs as were lost. Sacramento has only recovered about 70% of the jobs lost, and Los Angeles and Riverside are only slightly better, at 80–86%. Given that most regions are barely back to where we were in 2007, it's not surprising that we do not see much evidence that the large share of people who stopped looking for work during the recession are returning to the labor force. A full 17% of Californians are either unemployed, underemployed, or have stopped looking for work.

As a result, although we've grown jobs and lowered the unemployment rate, family incomes have yet to rebound much—the median family in California earned only 90% of what it did before the Great Recession. Because the trend over the business cycles of the past three to four decades has been for high-income families to recover more quickly and lower-income families

to lag behind, the gap between high- and low-income families in California has soared in recent years. Even in regions that can be characterized as thriving based on some indicators, economic circumstances of California families vary widely. Poverty rates—under our new measure that accounts for the cost of living—are actually highest in coastal California. Though these regions are thought of as affluent, and certainly have economic engines that are creating a lot of jobs, housing costs and other factors contribute to wide disparities in economic circumstances. Creating broad-based economic opportunity and mobility in California is key to our future—both for families and for business.

Before turning it over to our panel, I'd like to reinforce the importance of a skilled workforce in creating opportunity and mobility, an idea that previous panels have also touched on. We talk about the need to create jobs, and the questions I'd like to raise are: What type of jobs are being created? And will Californians be prepared for them? By 2020 nearly 70% of new jobs created will require education beyond high school. But only 66% of the work force currently has post-high school training, and that percentage is projected to decline slightly in the near term. Our skilled workforce has traditionally been a draw for businesses to California, and education is a buffer for families during the booms and busts of our economy. But PPIC estimates suggest that the skills of our future workforce are likely to fall short, leaving opportunities for the economy—and Californians –on the table. In this way, leadership in the realm of education policy can play a pivotal role in shaping our shared economic future.

Session 4: Cutting Edges

Ellen Hanak, PPIC senior fellow

California has long been known both nationally and internationally as a trend-setter when it comes to innovations in both the economic and the policy realms

This next session will give us a chance to hear from people who are leading efforts in some cutting-edge areas where both the state's voters and the state's elected leaders have supported getting California out ahead of national policy:

- Action on climate change, with the enactment of Assembly Bill 32, the Global Warming Solutions Act, in 2006 and numerous other laws and regulations promoting the use of clean and renewable energy and energy efficiency;
- Development of a high speed rail network, supported by the passage in 2008 of a $10 billion state bond to support part of the investment costs and since 2014, by revenues from the cap and trade program established by AB 32;
- Advancement of stem-cell research, supported by the passage in 2004 of a $3 billion state bond to support the establishment of the California Institute for Regenerative Medicine.

Like any cutting-edge action, these policy moves haven't happened without controversy. But trend-setting in these three areas also offers opportunities for advancing California's economic, social, and environmental well-being.

Some see opportunities for the state to get "first mover" economic advantage in new energy and biotech technologies.

And there are potential environmental and public health benefits from the adoption of cleaner energy and transportation, as well as potential health improvements with successful investments in regenerative medicine.

California is also creating a policy lab that can be useful beyond our borders, by experimenting with environmental markets (the cap and trade program of AB 32) and exploring the potential role of public-private partnerships in both regenerative medicine and high-speed rail.