



PPIC

PUBLIC POLICY
INSTITUTE OF CALIFORNIA

DECEMBER 2020

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*Supported with funding
from the James Irvine
Foundation*

Income Inequality and Economic Opportunity in California



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SUMMARY

CONTENTS

Introduction	5
Today's Economy amid Long-Term Income Inequality	6
What Could Economic Recovery Look Like?	20
Addressing Recovery and Inequality through Policy	23
Recommendations	35
References	38
About the Authors	43
Acknowledgments	43

Technical appendices to this report are available on the PPIC website.

Policy recommendations from this report are also available on the PPIC website.

The COVID-19 pandemic upended California's economy. The shutdown of most in-person economic activity in spring 2020 led to a dramatic spike in unemployment—especially in hard-hit industries like leisure, hospitality, and personal services. Nine months later, the labor market has improved somewhat but remains precarious, with low-income workers bearing the brunt of the fallout. As a result, the current crisis threatens to reinforce existing inequities and deepen the state's longstanding economic divide.

In this report, we look at the effects of the current downturn on California's labor market in the context of growing income inequality. We also examine the policy levers that could help promote an equitable recovery and address the needs of the most affected workers and regions.

- **Past recessions have exacerbated income inequality in California.** Income inequality has risen substantially in the past several decades, with relatively little progress over the long term for the lowest-income families. Past recessions have tended to worsen income gaps, as low-income families were harder hit and their earnings were slower to recover.
- **The effects of the current recession are concentrated among low-income workers, African Americans, Latinos, and women.** While no demographic group has been spared, larger increases in un- and underemployment for low-income, African American, and Latino families are likely to worsen preexisting disparities in income and economic opportunity. Women have also been disproportionately affected, jeopardizing long-term gains in their labor force participation.
- **Many workers, especially in inland California, were already struggling before the pandemic.** Low-income families in many parts of the state had only just recovered—or had not yet recovered—from the Great Recession when the pandemic began. High-income families across the state had returned to prerecession income levels. There were only two regions—the Bay Area and Los Angeles County—where families at all income levels had experienced two years of full recovery from the Great Recession before the pandemic.
- **Policy interventions can improve economic opportunity, and Californians support a state role in these efforts.** State policymakers will inevitably be limited by the level of federal support, but they still have many options available to promote an equitable recovery. While no policy is without cost, surveys indicate robust support among Californians for state government's role in reducing poverty and narrowing the divide between the haves and have-nots.

California is likely to face heightened fiscal constraints for some time, and substantially improving opportunity and reducing inequality would require equally substantial public investments. To deploy state funds most effectively, policy responses must consider how to better target both stimulus and

stabilization efforts toward the most affected workers, businesses, and regions. Second, investments need to account for the evolving future of work, including structural changes like a shift toward remote work. Third, the state should leverage financial resources and partnerships to expand investments in long-term opportunity through policies such as dependent care, early childhood interventions, higher education, and workforce training. Finally, barriers to opportunity go beyond income and drive disparities in health, education, and housing across race and region; identifying and proactively addressing these barriers are necessary to ensure the state's economic vitality now and in the future.

Since the full effects of the crisis are yet unknown, policymakers will need to continuously reexamine their priorities and options as our understanding evolves. Despite this uncertainty, ensuring the promise of the California dream is not a new challenge—though maintaining this promise will require a renewed policy commitment.

Introduction

California is in the midst of an unprecedented economic downturn. Nine months after the onset of the COVID-19 pandemic, the economy remains subdued with many in-person activities still constrained and some businesses permanently shuttered. As job losses persist and families face lost income, California has a lot of ground to make up.

Growing income inequality makes the prospect of economic recovery all the more challenging. Driven by large-scale economic factors like the increasing value of college education and international trade and competition, income inequality has been widening in California over the past several decades in times of both recession and expansion. Californians have long recognized the gap between the rich and the poor. Most Californians (64%) think that the state is divided into the haves and have-nots, and a similar share (63%) think the gap between the two groups is getting larger.¹ The belief that the state is divided into the haves and have-nots is held by solid majorities across age, education, racial/ethnic, and income groups.²

Over the past 40 years, recessions and recoveries have nearly all hit low-income families hardest. These families experienced larger relative income losses, and their earnings have taken longer to recover to prerecession levels. This trend seems to be playing out in the current crisis as well. The COVID-19 pandemic necessitated a severe reduction in face-to-face interaction. Activities deemed nonessential—including most travel, dining out, entertainment, and many personal services—were curtailed, affecting approximately one-quarter of the workforce in California and threatening the viability of many businesses.³ At the same time, more activities than ever can operate remotely: a large fraction of work in today’s economy can continue without in-person contact (probably 40% to 50% nationwide).⁴ While every sector has been affected by this recession and the potential for economic pain to spread or deepen remains, inequity is the immense challenge of this downturn to date: the largest losses have occurred in low-wage jobs and low-income families, even while essential occupations—which bear the greatest health risks—are disproportionately low wage.⁵

Uneven economic recoveries tend to exacerbate income inequality. High income inequality, in turn, can have detrimental effects on economic growth and political engagement (Hoeller et al. 2012; Benner and Pastor 2015; Solt 2008). For example, inequality may mute economic growth by dampening individuals’ chances of economic mobility and increased productivity (Jacobs and Hipple 2018). Indeed, economic mobility in California is relatively low—most children born in low-income families will earn low incomes as adults—but this also varies considerably across the state. Research shows that a child who grows up in Fresno in the bottom 20 percent of family income has only a 7.2 percent chance of making it into the top 20 percent as an adult, compared to 12.9 percent in San Jose (Chetty et al. 2014).

¹ Finding on the haves and have-nots is from the PPIC Statewide Survey, *Californians and Their Government* (October 2020). Three in ten (32%) say the state is not divided that way. Finding on the gap between the rich and the poor getting larger is from the PPIC Statewide Survey, *Californians and Their Government* (January 2020). Three in ten (32%) say the gap has stayed the same, while just 3 percent say it is getting smaller.

² Californians’ concern about the gap between haves and have-nots may reflect a wide variety of factors that extend beyond income to include other aspects of economic security like savings and wealth, housing, health insurance, access to quality education, paid leave, and other favorable job conditions. However, access to all of these is by and large predicated on income. In fact, a feature of our polarized labor market is that “good jobs” (like those that offer health insurance, paid time off, and career growth potential) tend to be at the higher end of the wage/salary distribution, and few low-wage/salary jobs are considered “good” (Holzer 2012; Ross et al. 2018).

³ In the first three months of the crisis, April to June 2020, 25 percent of the potential workforce in California was either unemployed, underemployed (working part time due to economic reasons when would prefer full time), or discouraged (not looking for work, and not counted in unemployment statistics because they do not believe a job is available). This is an estimate of the “U6” measure of labor utilization, based on our calculations from the Current Population Survey Monthly data, pooled for three months to provide sufficient sample size for California alone.

⁴ Brynjolfsson et al. (2020) estimate that about half of the US workforce was working from home as of April through May of this year, based on Google survey data. Dingel and Nieman (2020) estimate that 37 percent of jobs in the US can be done from home based on prior survey data; this estimate does not attempt to measure how many currently are working from home. See also Dey et al. (2020).

⁵ See, for example, Bohn, Cuellar Mejia, and Lafortune (2020b).

High levels of poverty and near-poverty are also worrisome features of our income distribution over the past five decades (Nolan et al. 2017). Most Californians (82%) view poverty as a problem in their part of the state, with half (49%) considering it a “big problem.”⁶ California’s pre-pandemic poverty rate remained stubbornly high at nearly 18 percent even after a decade of economic recovery, according to the California Poverty Measure, and was the highest in the country (Danielson, Thorman, and Bohn 2020; Fox 2020). While policy interventions early in the crisis may have initially limited the increase in poverty, estimates from this fall suggest that nationwide poverty rates began to rise as aid abated and the economy continued to struggle (Parolin et al. 2020; Han, Meyer, and Sullivan 2020).

High income inequality, low economic mobility, and persistent poverty raise serious questions about the economic future for low-income Californians bearing the brunt of the current crisis. And as we will show, one cannot disentangle income inequality from issues of racial equity, given the disproportionate share of people of color at the low end of California’s economic spectrum.

How policymakers respond to the economic challenges of this time will be consequential for all Californians, and especially those who struggle to make ends meet or climb the economic ladder. In this report, we dig into the details of how Californians are faring economically today and how policy can promote opportunity in the near and long term. First, we examine the state of California’s economy in the context of long-term trends in income inequality. In particular, we investigate the economic circumstances of low-income families, different racial/ethnic groups, women, and various regions of the state. To understand the potential impact of this recession on income inequality, we look to recessions over the past 40 years. Finally, we assess promising policy options and offer recommendations to support economic recovery and address inequality.

Today’s Economy amid Long-Term Income Inequality

The current economic crisis is particularly challenging because our economy has been shaped by widening income inequality. Before the pandemic, the gap between high- and low-income families in California was much higher than it was 40 years ago.

Several major trends have contributed to long-term income polarization in California. The state has lost middle-income manufacturing jobs in recent decades, in part because increased global trade and advances in technology have led to constriction in some industries and greater automation in others (Autor, Dorn, and Hanson 2016). Meanwhile, the returns to higher education have grown dramatically since 1980, driving incomes for high earners up, and the job market in California continues to favor those with advanced degrees (Autor, Katz, and Kearney 2008; Autor 2014). Other factors include growing labor force participation among women; an increasing share of high-income, dual-earner marriages; declines in unionization and collective bargaining power; greater power among individual firms in setting earnings levels; and rising numbers of less-educated workers immigrating to California in the 1990s (Reed 1999).⁷

⁶ Most Californians across the state say poverty is a problem in their part of California, with half or more residents in Los Angeles County (56%), the Central Valley (53%), the Inland Empire (50%), and the San Francisco Bay Area (50%) holding this view, compared to fewer than four in ten in Orange/San Diego Counties (36%). There are also differences across income and racial/ethnic groups. Lower-income Californians (62%) are much more likely than wealthier Californians (45% \$40,000 to under \$80,000, 40% \$80,000 or more) to view poverty as a big problem. African Americans (64%) and Latinos (54%) are more likely than whites (45%) and Asian Americans (43%) to view poverty as a big problem. Findings from the PPIC Statewide Survey, *Californians and Their Government* (January 2020).

⁷ See Greenwood et al. (2014) and Hryshko, Juhn, and McCue (2017) on dual-earner marriages; see Farber et al. (2018) and Pastor and Benner (2018) on declining unionization and worker bargaining power; see Abowd, McKinney, and Zhao (2017) on the increasing power of individual firms in setting earnings levels; see Reed

Defining income

Californians rely on an array of resources to meet their basic needs—including earnings, retirement and investment income, savings, safety net benefits, tax credits, and help from family and friends. When we describe income inequality in this report, we refer to total, pre-tax family income, which includes earnings and investment income, as well as income from CalWORKs (California’s cash assistance program), SSI (Supplemental Security Income), and unemployment insurance. We use this definition for consistency across our various data sources (see [Technical Appendix A](#)).

Different definitions of income can offer slightly different views of inequality. Excluding CalWORKs and SSI income would show higher income inequality, while accounting for taxes paid, credits, and safety net benefits would show lower inequality (Bohn and Thorman 2020; Bohn and Danielson 2016). Even for families with incomes below the 10th percentile, the majority of their resources come from work, with just 10 percent, on average, coming from CalWORKs and SSI income.

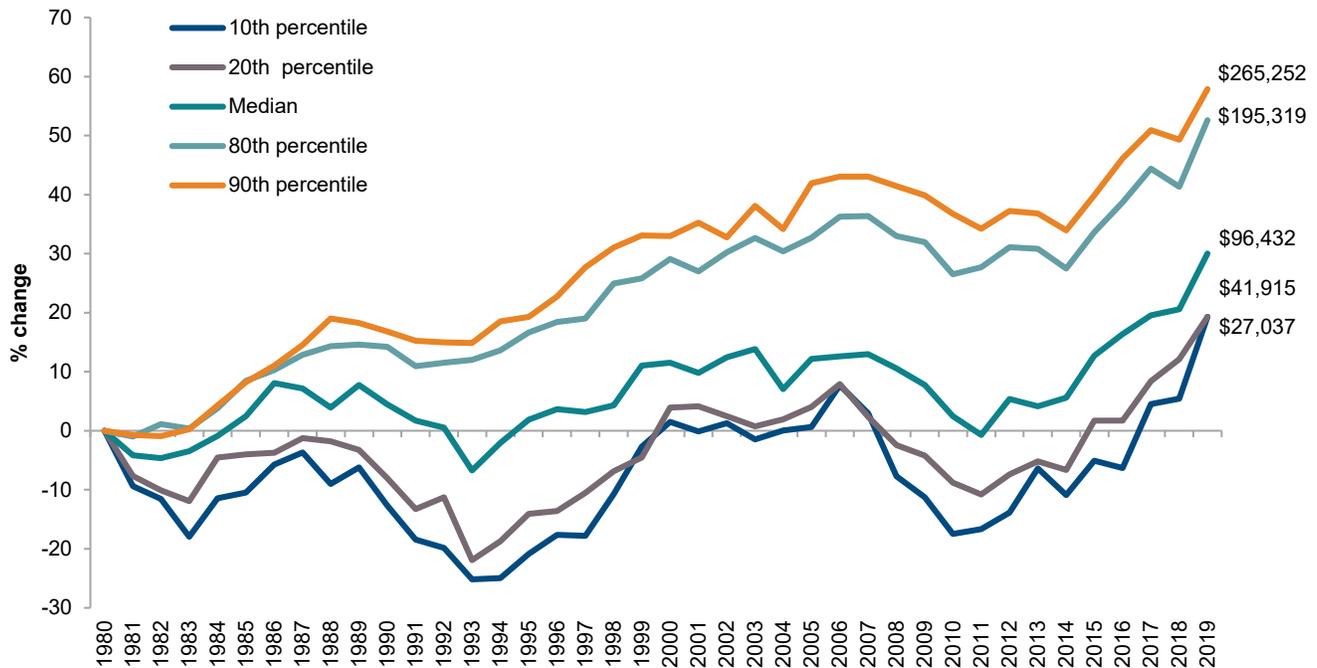
Over the last 40 years, income among the state’s top earners grew by 58 percent, far outstripping income for middle and low earners, which grew by 30 percent and 19 percent, respectively (Figure 1). By 2019, income for families in the 90th percentile was 9.8 times larger than family income in the 10th percentile, compared to 7.4 times larger in 1980.⁸

(1999) on the trend of less-educated immigrants in California. Some of the increase in inequality in recent decades is a product of the acceleration of incomes at the very top of the distribution (the top 1% and beyond), which is also driven by returns to capital income (Piketty and Saez 2003). This report does not describe trends in income for the top 1 percent due to data limitations. Nonetheless, income trends for the remaining 99 percent of households are also characterized by stark inequality over time.

⁸ The “90/10 ratio” is a common measure of income inequality that summarizes the gap between high and low incomes. The 90th percentile refers to family incomes that are higher than 90 percent of all family incomes, the 50th percentile (or median) to incomes that are higher than half of all incomes, and the 10th percentile to incomes that are higher than just 10 percent of all incomes. See also [Technical Appendix Figure A2](#).

FIGURE 1

Family incomes have polarized over the past 40 years in California



SOURCE: Authors' analysis of Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC) data for California.

NOTES: Chart shows changes in family total pre-tax income, which includes income from TANF (cash assistance) and SSI (Supplemental Security Income), but excludes resources from other safety net programs. Dollar values are adjusted to pertain to a family of four in 2019 dollars. Trends adjusted in years prior to 2017 for recent changes to income questions and processing in the CPS ASEC. Census Bureau research finds 2020 CPS ASEC data overestimate income increases for percentiles across the board between 2018 and 2019, due to lowered response rates among low-income people. See [Technical Appendix A](#) for additional details.

Incomes across the distribution rose dramatically from 2014 to 2019—reducing income inequality slightly. But for families with the lowest incomes, this growth started from a level well below what these families earned in 1980. Nevertheless, prior to the pandemic, low-income families in California had begun to make substantial gains beyond 1980 levels, for the first time since 2006—and only the second time in 40 years. The 10th percentile family had \$27,000 in income in 2019, compared to \$20,000 in 2014, reflecting 34 percent growth (adjusted for inflation to 2019 values). Meanwhile, the 90th percentile family saw income grow 18 percent during this period, from \$225,000 to \$265,000. As a result, the gap between top and bottom incomes shrank by 12 percent. Though it took many years after the Great Recession to see income growth rates for low-income families outpacing gains for high-income families, the historically long period of economic growth contributed to a tight labor market and upward pressure on wages.⁹ Unfortunately, the COVID-19 crisis has had the greatest economic toll on families at the bottom of the income distribution, likely stripping away many of these gains.

⁹ Toward the end of this period, California's minimum wage also increased, from \$10.00–\$10.50 in 2017 to \$11.00–\$12.00 in 2019 (varies depending on the size of the employer).

Wealth Inequality

Although this report focuses specifically on income inequality, wealth—whether from accumulated income or inheritance, in the form of liquid assets or equity—can play a key role in replacing earnings during times of un- or underemployment. Income losses thus have a compound effect on low-income families, who are more likely than high-income families to experience smaller dollar losses as major hits to total family income. At the same time, low-income families have less wealth to serve as a buffer to get through periods of income loss.

Wealth is highly unequally distributed in California. Prior to the pandemic, zip codes home to just 2 percent of the population held 20 percent of the state’s net worth (LAO 2019). And nationally, the median-wealth white family had 7.8 times the net worth of the median-wealth Black family and 5.2 times that of the median-wealth Latino family (Bhutta et al. 2020). We focus on income in this report in part because data on income are more widely available than data on wealth at the state level.

Fall labor market data show that while people at all points of the income distribution have lost employment, job loss is most acute for low-income workers.¹⁰ This is driven by massive employment declines in face-to-face service sectors like leisure and hospitality (e.g., restaurants, entertainment, tourism, and the like) and personal services (e.g., auto repair, beauty and barber shops, and dry cleaning). At the same time, many workers in essential occupations (e.g., cooks, farmworkers, and cashiers) earn low wages and have limited access to health insurance, creating an added risk in continuing or returning to work. After some rebound this summer, employment improvements have stalled through the fall (see [Technical Appendix](#) Figure B1).

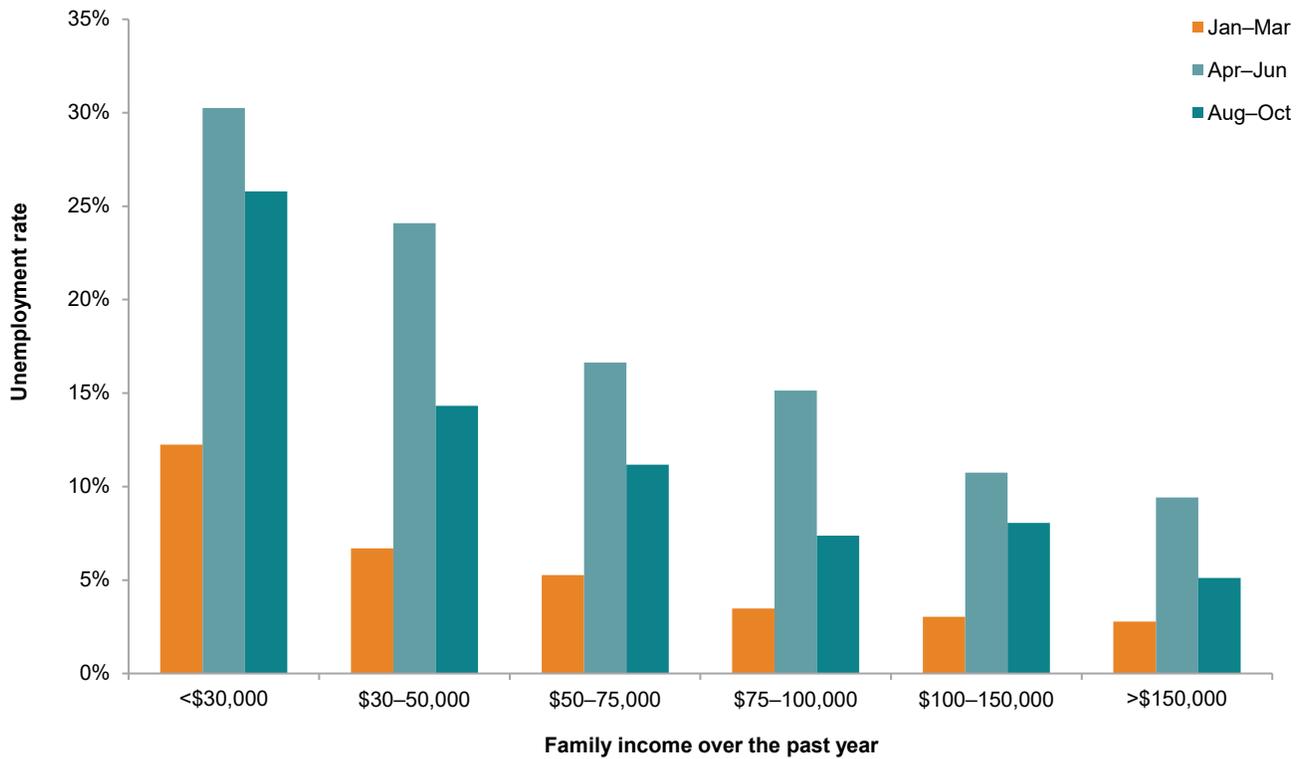
Figure 2 shows that, since the recession began, rates of unemployment range from 25 to 30 percent for families with incomes under \$30,000, compared to 5 to 10 percent for families with incomes above \$150,000.¹¹ In addition, as many as 45 percent of workers in low-income families were underutilized—unemployed, working part time when they would prefer to work full time, or not looking for work though they would like to work—during the most severe part of the recession, compared to just 15 percent in the highest-income group (see [Technical Appendix](#) Figure B2 and Table B1).

¹⁰ Throughout, we use official labor market data from the California Employment Development Department, the US Bureau of Labor Statistics, and the US Census Bureau. As of the writing of this report, the latest labor market data available pertain to mid-October 2020. In the analysis that follows we refer to August–October as the fall, tracking the latest in labor market recovery. We compare that period to January–March, which reflects economic conditions prior to the pandemic (because labor market data are sampled in the middle of the month, the late March pandemic effects are not reflected in official March data), and to April–June 2020, when the downturn was most severe.

¹¹ Though the data sources and technical details differ (see [Technical Appendix A](#)), we draw some parallels between monthly unemployment by income and the income trends in Figure 1. Families with income below \$30,000 in 2020 labor market data correspond roughly to the 10th percentile family income level used in the prior analysis. Unfortunately, we are unable to contrast that with the labor market standing for families at the other extreme (the 90th percentile) because the highest-income group we can measure in the 2020 labor market data are those with income above \$150,000, which corresponds to roughly the 80th percentile.

FIGURE 2

Low-income families have much higher rates of unemployment



SOURCE: Basic Monthly CPS, California sample for January–October 2020

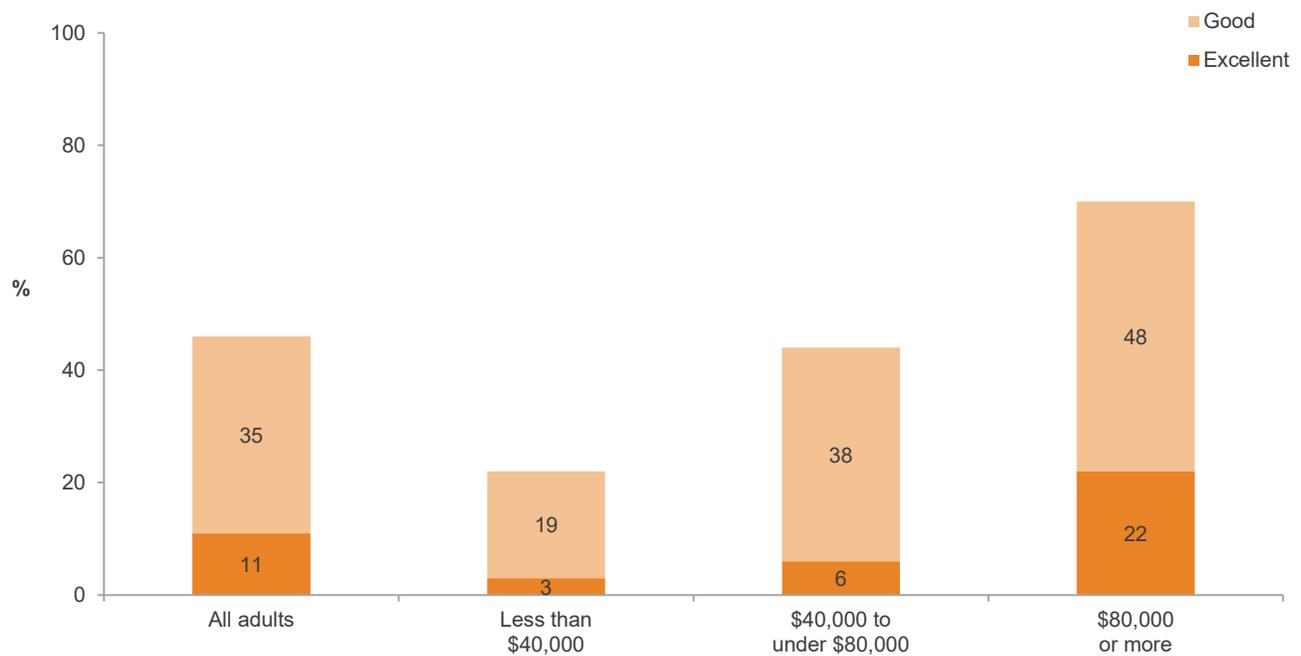
NOTES: Average unemployment rate over three-month periods is shown in chart due to limited sample size. January–March reflects the economy prior to the pandemic, April–June reflects the most severe period of the recession, and August–October reflect the most recent data available as of the writing of this report. July is omitted. Income levels refer to family income over the prior 12 months and includes all income from jobs, business, pensions, dividends, social security, and any other sources. Underemployment estimates, sample sizes, and standard errors for these estimates are provided in [Technical Appendix Table B1](#).

Job declines in the current crisis are concentrated much more heavily among low-income families than they were in the Great Recession (see [Technical Appendix Table B2](#)). Job loss in the hardest-hit sectors, which have a larger proportion of low-income workers, is at about 24 percent, when comparing October to February of this year; meanwhile, job loss in sectors that have a larger proportion of high-income workers remains at 5 to 6 percent ([Technical Appendix Figure B1](#)). Even declines of 5 to 6 percent are substantial in a historical context, as some large sectors experienced comparable declines in the depth of the Great Recession (including leisure and hospitality, professional services, and transportation and warehousing). Nevertheless, at this stage, the patterns of job loss clearly suggest that income inequality is likely to grow substantially, though we will not know the scope of the change until wage and income data for the entire year 2020 become available.

Education is a key factor in both long-term income trends and the current downturn. We estimate that prior to the pandemic, 88 percent of families in the top income category (90th percentile and above) had at least one adult with a college degree ([Technical Appendix Figure A9](#)). That is to say, very few families without a college degree in California are in the highest-income group. Education also provides a buffer during most downturns, and this one is no exception: so far, unemployment rates by education level mirror those by income level, with workers without a college degree twice as likely to be unemployed compared to degree holders (see [Technical Appendix Table B3](#)).

In September, as some local governments began to lift restrictions, just under half of Californians rated their own financial situation as excellent (11%) or good (35%), while a majority rated it fair (37%) or poor (17%) (Figure 3). There is a notable divide across income groups: just one in five Californians with household incomes under \$40,000 rated their situation as at least good (22%), compared to seven in ten of those with incomes of \$80,000 or more (70%).¹²

FIGURE 3
Perspectives of personal finances vary widely by income



SOURCE: PPIC Statewide Survey, *Californians and Their Government* (September 2020).

NOTE: Chart shows responses to the question, "How would you rate your own personal financial situation? Would you say you are in excellent shape, good shape, only fair shape, or poor shape financially?"

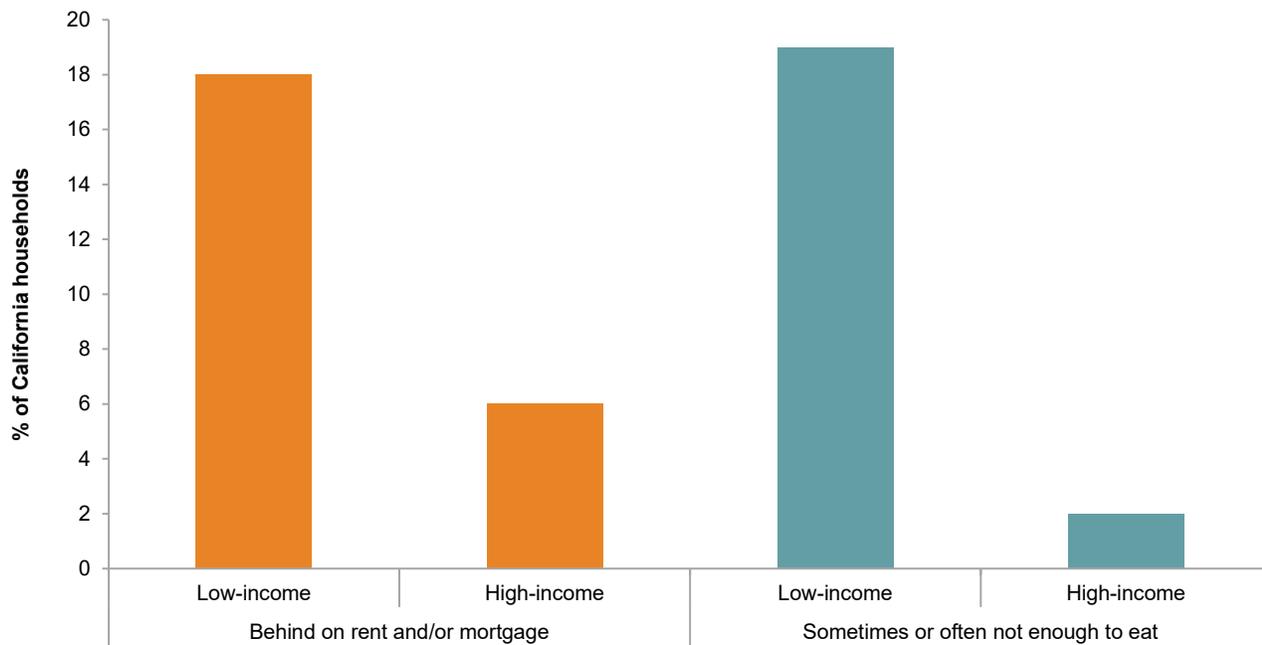
The consequences of job loss and financial shortfalls have affected California families in many ways. According to the US Census Bureau's Household Pulse Survey, about one-fifth of low-income households were behind on a rent or mortgage payment or lacked sufficient food (sometimes or often) in August, September, and October 2020 (Figure 4).¹³ As we discuss further in the next section, the consequences of today's economic distress are felt much more acutely for African American and Latino families.

¹² From the PPIC Statewide Survey, *Californians and Their Government* (September 2020).

¹³ See [Technical Appendix A](#) for additional detail on the Household Pulse Survey.

FIGURE 4

Low-income families are much more likely to be behind on housing payments or lack sufficient food



SOURCE: US Census Bureau Pulse survey, for August 19 through October 12, California sample; authors' calculations.

NOTE: Both differences are statistically significant. Sample includes Californian households surveyed between August 19 and October 12. Households with missing/non-reported responses are excluded from analyses. Household income is based on 2019 income: low income: < \$50,000, high income: > \$100,000.

Racial Disparities in Income Inequality

Overall trends in income inequality—and the present disparity in labor market outcomes—are linked to growing income gaps across racial/ethnic groups. That is to say, outsized gains for the highest-income families widen not just gaps between top and bottom earners overall, but racial/ethnic income gaps as well, since the highest-income families in California are disproportionately white.

The PPIC Statewide Survey finds that as of September, only about three in ten Latinos (29%) and African Americans (32%) say they are in at least good financial shape, compared to about six in ten whites (56%) and Asian Americans (61%).¹⁴ And while most Californians (63%) perceive that the gap between the rich and the poor is getting larger, African Americans (75%) are especially aware of this divide, while fewer—but still a majority—of Asian Americans and whites (64%) and Latinos (58%) say this.¹⁵

Examining income data, we find African American and Latino families were overrepresented among low-income families before the pandemic and have benefited relatively little from overall long-term economic gains. Since 2005, African Americans and Latinos have made up about 60 percent of people in the state's lowest-income families, but just over 40 percent of the total population (see [Technical Appendix Figure A8](#)).

Incomes increased across the board as part of the recovery from the Great Recession, but gaps between African American and white families, and Latino and white families, have seen little improvement. The median-income Latino family in 2005 would have had an income comparable to a white family at the 19th percentile—that is, the

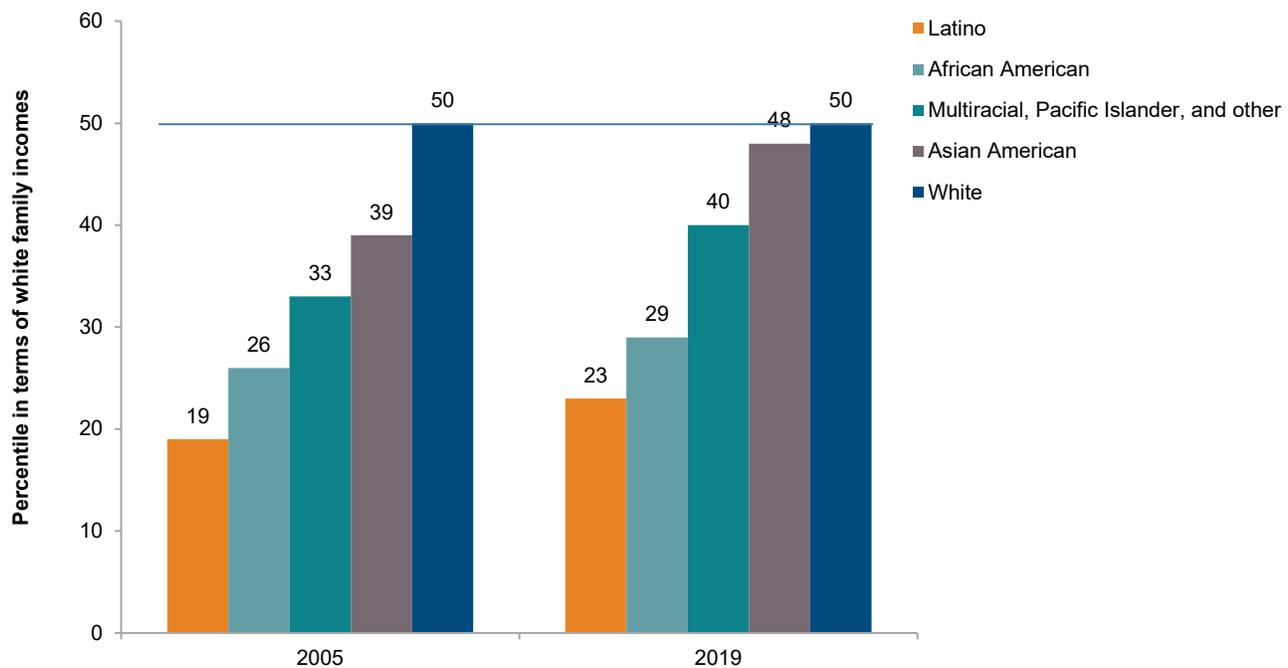
¹⁴ From the PPIC Statewide Survey, *Californians and Their Government* (September 2020).

¹⁵ From the PPIC Statewide Survey, *Californians and Their Government* (January 2020).

median Latino family was doing only as well as the bottom-fifth white family (Figure 5). In 2019, the median Latino family’s income would have matched that of a white family at the 23rd percentile—a marginal improvement. For African American families, the comparison is only slightly more favorable, with the median-income family doing as well as a white family in the bottom-fourth. In contrast, the distribution of Asian American family income has shifted closer to that of a white family between 2005 and 2019.¹⁶ The median-income Asian American family in 2019 is on par with a white family at the 48th percentile, up from the 39th percentile in 2005.

FIGURE 5

Income gaps between white families and African American and Latino families have not improved much since 2005



SOURCE: Authors’ analysis of Census Bureau American Community Survey (ACS) data accessed via IPUMS-USA.

NOTES: Figure shows median family income for each group, modified to show what its percentile would be in the white income distribution. Chart reflects the distribution of family total pre-tax income, which includes income from TANF (cash assistance) and SSI (Supplemental Security Income), but excludes resources from other safety net programs.

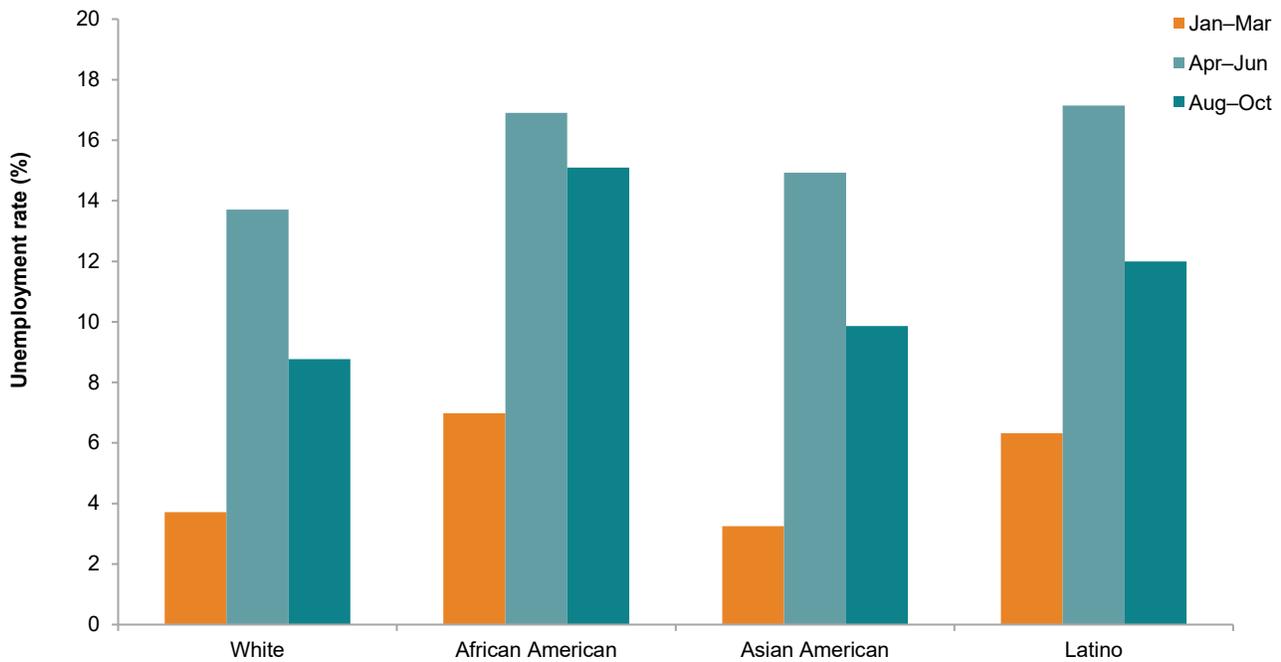
Over the course of this year, unemployment doubled—or more than doubled—for workers of all races/ethnicities (Figure 6). Unemployment rates for Asian American, Latino, and white workers improved by about 5 points from the late spring to the fall, but unemployment among African American workers improved only marginally (17% to 15%). Unemployment also remains substantially higher for Latinos (12%) and African Americans (15%), compared to whites (9%). We find similar trends in a broader measure of un- and underemployment, and we also see evidence that more Latinos have left the labor force than other groups (see [Technical Appendix](#) Figures B2 and B3).¹⁷

¹⁶ Note that because these data are snapshots of income by racial/ethnic group, changes in the distribution over time may result from compositional changes that we are not controlling for, such as immigration (which may have differentially affected Asian American income). And while we typically show a grouped Asian American/Pacific Islander category because of small sample sizes for Pacific Islanders, their median incomes were much lower than those of Asian American families in 2005 and 2019, and did not increase comparably. Grouping them in the “other” category has no impact on the trend shown here for Asian American family incomes.

¹⁷ We are concerned about how these patterns could be even more stark for low-income workers of color in California. However, these data do not permit additional cross-tabulations due to sample size. The same can be said for other cross-tabulations of interest, such as education, age, and gender.

FIGURE 6

Unemployment has spiked across racial/ethnic groups



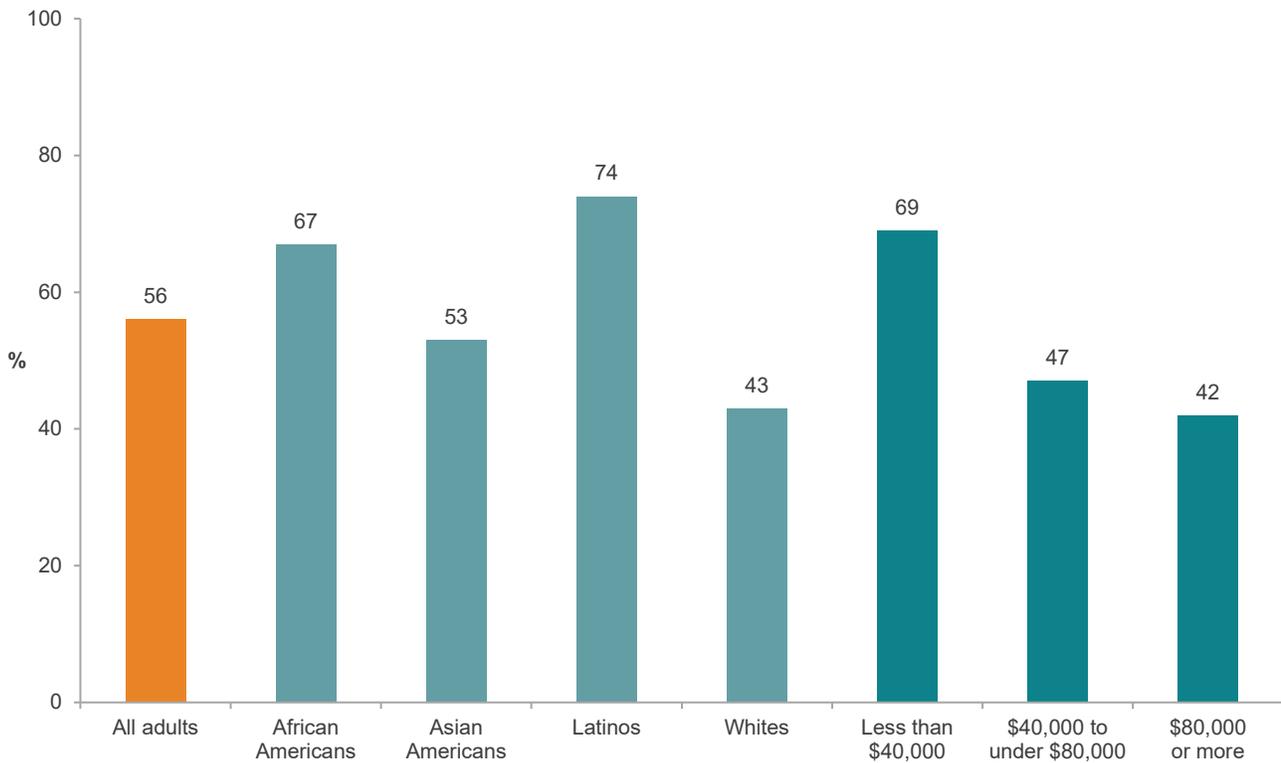
SOURCE: Basic Monthly CPS, California sample for January–October 2020.

NOTES: Average unemployment rate over three-month periods is shown in chart due to limited sample size. Mutually exclusive race/ethnic categories shown; other categories are not shown due to sample size. January–March reflects the economy prior to the pandemic, April–June reflects the most severe period of the recession, and August–October reflects the most recent data available as of the writing of this report. July is omitted. Underemployment estimates, sample sizes, and standard errors for these estimates are provided in [Technical Appendix](#) Figures B4, B5 and Table B4.

The widespread impact of COVID-19 on the economy can also be seen in the results of the May PPIC Statewide Survey. At a time when the state was entering its third month of the pandemic, a majority of Californians (56%) lived in a household that was negatively affected by the coronavirus outbreak—experiencing either job loss or reduced hours/pay cut. Low-income Californians and communities of color reported a disproportionate impact (Figure 7). It is also noteworthy that two in three Californians with children 18 and under at home (65%) experienced job loss or had hours reduced or pay cut, compared to about half of Californians without kids 18 or under at home.

FIGURE 7

The pandemic disproportionately affected the jobs of African Americans, Latinos, and lower-income Californians



SOURCE: PPIC Statewide Survey, *Californians and Their Government* (May 2020).

NOTE: Data represent the share of Californians who lived in a household where someone had lost their job or had hours or pay reduced.

Disparate economic difficulties in the current crisis go beyond income and employment. Overall, 12 percent of California households report being behind on rent or mortgage payments in early fall. These rates are notably higher for Latino (17%), Asian American (14%), and African American (13%) households than for white households (8%; [Technical Appendix](#) Figure B7). Food insufficiency also varied across racial/ethnic groups in early fall: 14 to 15 percent of African American and Latino households report not always having enough food to eat, significantly higher than among white households (7%) and Asian American households (6%).

Gender and Workforce Participation

Over the past 40 years—and indeed, even prior to that—the growing participation of women in the labor force has had a substantial positive impact on family income (Public Policy Institute of California 2004). Research suggests that were it not for this increase in labor force participation, middle-income families would likely have seen income stagnation or decline over this period (Sawhill and Guyot 2020).

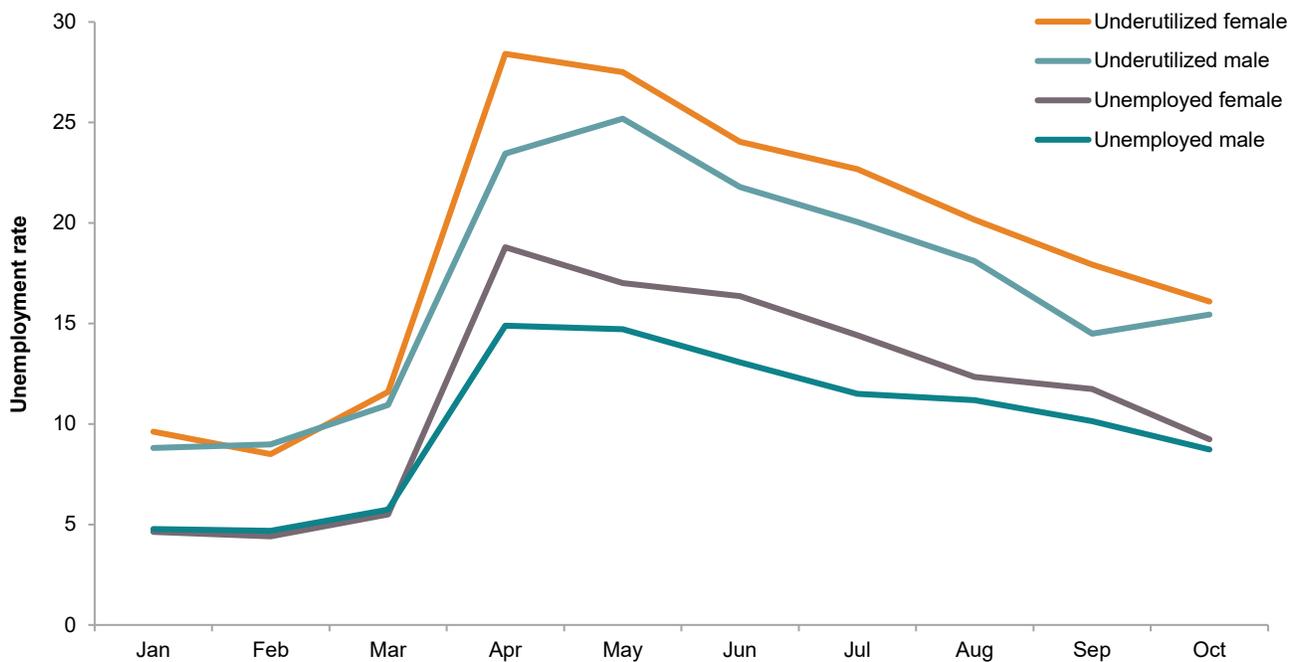
The current economic crisis may be upending these trends—at least so far. Women appear to have borne a larger decline in labor market activity, reflecting their higher likelihood of working in the most affected sectors and the extent to which women disproportionately provide care for children and elders.¹⁸ Prior to the recession, men and

¹⁸ For the overrepresentation of women in low-wage sectors, see [UC Berkeley Labor Center's Low-Wage Work in California Data Explorer](#) (2018). The Bureau of Labor statistics provide tabulations of time use among adult women and men and show that women, on average, spend substantially more time than men on child care and household tasks (Bureau of Labor Statistics 2020). Lastly, the COVID-19 crisis likely exacerbated patterns of dependent care by working-age women, where the lack of affordable care options presents a barrier to work. For further discussion of women's experience in this downturn, see Bateman and Ross (2020).

women in the labor force had similar rates of unemployment, but by April the COVID-19 crisis had created a 3 point gap in unemployment by gender (Figure 8). A similar gap emerged in the share of men and women who were unemployed or underutilized—working part time when they would prefer to work full time or not looking for work despite being available. As of October, these gaps showed signs of narrowing. While signs of improvement are welcome news, more data are needed to determine if this pattern will hold and, even so, six months of greater un- and underemployment among women could have longer-term effects on their income and earnings trajectories.

FIGURE 8

The recession opened up a divide in un- and underemployment rates for men and women in California



SOURCE: Basic Monthly CPS, California sample for January–October 2020.

NOTE: Chart shows unemployment rate and the share of those in the labor force who are unemployed, underemployed (working part time when would prefer full time), and marginally attached (not looking for work despite being available). Detailed estimates, sample sizes, and standard errors for these estimates are provided in [Technical Appendix Table B5](#).

What does this mean for income inequality? The evidence to date suggests that most of the increase in un- and underemployment for women comes from the decline in opportunity for low-income women—if this trend continues, it will exacerbate income inequality (Alon et al. 2020). For example, between August and October the unemployment rate for women in families with income of \$50,000 or less was 15 to 29 percent, compared to only 6 percent in families with income above \$150,000 ([Technical Appendix Table B6](#)). This is likely to further worsen the economic standing of low-income families overall, whether they rely on income from a single earner or dual earners. However, because the increase in high-income, dual-earner households over time drives some of the long-term increase in inequality, we might expect to see a little less overall inequality to the extent that high-income women also face income losses. For women at all income levels, leaving the labor force means lost productivity and wages, and this may have “scarring” effects that diminish the long-term earnings trajectories of women who take time away from work (Stevenson 2020).

Regional Variation in Economic Opportunity

Economic opportunity varies substantially across California, even in good economic times. Today, families in some parts of the state are experiencing the effects of the current downturn without ever having fully recovered from the Great Recession. The uneven effects of the current crisis are likely to exacerbate existing regional differences in economic opportunity—though potential changes in the prevalence of remote work could produce different patterns in the future as compared to the past.

In general, incomes are higher in parts of coastal California—the Bay Area, Orange County, and San Diego County—and the Sacramento area (Table 1). In 2019, median family income was highest in the Bay Area at \$141,000 and lowest in the Central Valley and Sierra region at \$69,000.¹⁹ The far north of California, as well as Los Angeles County and the Inland Empire, also had lower median income levels than many coastal regions and the Sacramento area. Incomes at the top and bottom of the distribution tend to vary similarly across regions—for example, low-income families in the Bay Area tend to have higher income levels than in other parts of the state (see [Technical Appendix Table A3](#)).²⁰

However, in high-income areas, inequality is also higher, when measured by the ratio of incomes at the 90th percentile and the 10th percentile (the “90/10 ratio”). This means that even if low-income families in the Bay Area earn a bit more than in other parts of the state, they fare relatively worse than their neighbors within the region (Table 1). One exception to this is Los Angeles County, where incomes are a bit lower than in other parts of coastal, southern California but inequality is higher. Income inequality is lowest in the Inland Empire, Central Valley and Sierra, Central Coast, and the far north of the state, where high-income families earn 8.5 to 9.5 times more than low-income families. And it is highest in the Bay Area—where incomes for top earners far exceed that of most regions. Overall, we find that in all parts of the state, inequality is quite high relative to historical standards.

TABLE 1

Income and income inequality vary substantially across the state

Region	Median family income as of 2019	Income inequality (90/10 ratio) as of 2019
Far north	\$77,000	9.5
Sacramento area	\$101,000	10.2
Bay Area	\$141,000	11.5
Central Valley and Sierra	\$69,000	9.4
Central Coast	\$96,000	9.5
Inland Empire	\$79,000	8.5
Los Angeles County	\$84,000	10.7
Orange County	\$112,000	10.2
San Diego County	\$101,000	9.7

SOURCE: Authors’ analysis of IPUMS ACS data.

NOTES: These regions include all counties in California; [Technical Appendix A](#) provides the definitions. Income percentiles based on family total pre-tax income, which includes income from TANF (cash assistance) and SSI (Supplemental Security Income), but excludes resources from other safety net programs. Dollar values are adjusted to pertain to a family of four. See [Technical Appendix A](#) for details.

¹⁹ The higher cost of living in coastal California defrays some of the higher income earned there.

²⁰ See also [Technical Appendix](#) Figures A4, A5, and A6, for detail on regional representation in the state’s highest and lowest income brackets, as well as shifts in this representation since 2005. See [Technical Appendix](#) Figure A7 for regional median incomes since 2005.

Had low-income families (10th percentile) recovered fully from the last recession—or recovered more quickly—we would have seen smaller income gaps leading into the current crisis. Instead, across almost all regions, recovery for low-income families and middle-income (median-income) families from the Great Recession took at least a decade, and high-income families (90th percentile) returned to their pre–Great Recession income levels earlier than low-income families did (Table 2). This is especially true in the Bay Area, where high-income families recovered in just five years. Low-income families in the Bay Area recovered in nine years, more quickly than in other regions. Middle-income families recovered most quickly in Los Angeles County (nine years). In the Central Valley and Sierra, top, middle, and low earners reached their prerecession income levels only after 12 years, in 2019, as did middle-income families in the Central Coast and Inland Empire. Low-income families had yet to recover by 2019 in three of the state’s nine regions: the far north, the Sacramento area, and the Inland Empire.²¹

TABLE 2

Most regions took a decade or more to recover to prerecession income levels

Region	Years to recovery from Great Recession, by income group		
	10th percentile	Median	90th percentile
Far north	Has yet to	10	9
Sacramento area	Has yet to	11	8
Bay Area	9	11	5
Central Valley and Sierra	12	12	12
Central Coast	10	12	9
Inland Empire	Has yet to	12	10
Los Angeles County	10	9	8
Orange County	12	11	9
San Diego County	12	10	9

SOURCES: Authors’ analysis of IPUMS ACS data.

NOTES: These regions include all counties in California; [Technical Appendix A](#) provides the definitions. Income percentiles based on family total pre-tax income, which includes income from TANF (cash assistance) and SSI (Supplemental Security Income), but excludes resources from other safety net programs. Calculating recovery based on a 95-percent confidence interval rather than the point estimate results in a median 2- to 3-year shorter return to pre-recession peak, and for recovery plus additional growth, an additional 0 to 2 years. See [Technical Appendix A](#) for details.

The current economic crisis has thus far played out differently across the state, in ways that largely mirror the differences in income levels and inequality discussed above. The state unemployment rate was 9 percent in October 2020, the fifth-highest rate in the country. High unemployment in Los Angeles (12% as of October) is largely driving the state’s high overall rate, but several inland counties (Imperial, Kern, Mono, Alpine, San Joaquin, and Tulare) also have higher-than-average unemployment rates.²² Unemployment rates are substantially lower in the Bay Area (7% for the nine-county region) and the far north of the state. But unemployment does not tell the whole story. Exits from the labor force and underemployment do not show up in unemployment rates but have a clear impact on family income and well-being. Early evidence suggests that exits from the labor force contributed to lower unemployment rates in many Central Valley and Central Coast areas early in this crisis (Bohn, Cuellar Mejia, and Lafortune 2020a).

²¹ See [Technical Appendix](#) Table A2 for more detail on impacts of the Great Recession on low-, middle-, and high-income families by region.

²² Data from [California Employment Development Department](#).

Though broad regional trends in this recession mirror longstanding disparities, workers within these regions may not be equally affected. The distribution of industries and the types of workers and families that live in different regions is one factor driving economic disparities. In addition, emerging evidence suggests that remote work plays an important but varying role across regions. In areas where many workers have jobs that can be done remotely, like the Bay Area, a large share of the workforce is unaffected economically by the labor market downturn. However, the service industries that support central business districts—and the low-wage workers who often work in this sector—are particularly hampered.²³

Lastly, as remote work becomes more common, some high-wage workers have moved away from urban areas with high costs of living, bringing with them potential economic benefits to lower-cost regions of the state as well as the challenges of added infrastructure needs and increases in housing costs.²⁴ These changes, if they persist, have the potential to change patterns of inequality within and between regions.

Regional differences also emerge in PPIC Statewide Surveys when it comes to how Californians perceive their own finances and how they view the gap between the rich and the poor. Residents in Orange and San Diego Counties (55%) and the San Francisco Bay Area (54%) are more likely than residents elsewhere (46% Central Valley, 39% the Inland Empire, 35% Los Angeles County) to rate their own financial situation as excellent or good.²⁵ Notably, residents in the San Francisco Bay Area (76%) are also more likely than those elsewhere (65% Los Angeles, 63% Orange/San Diego, 56% Inland Empire, 48% Central Valley) to think the gap between the rich and the poor is getting wider.²⁶

Californians' Outlook on Recovery

Although the future is uncertain, current conditions will likely persist for the near term, with full economic recovery a long-term prospect.²⁷ Californians are well aware of the challenges the economy currently faces, with seven in ten saying that the state is currently in a recession in our September PPIC Statewide Survey. As shown in Figure 9, a plurality of adults think the state is in a serious recession (31%), although there is some variation across the state's regions, with nearly four in ten adults in Los Angeles (38%) saying the state is in a serious recession, compared to about one in four in Orange and San Diego Counties (23%). Younger Californians are less likely than older Californians to say the state is in a serious recession (23% 18 to 34, 34% 35 and older), while about three in ten across income and education groups hold this view.²⁸

²³ Data from Chetty et al. (2020), see [Technical Appendix](#) Figure B6.

²⁴ The extent to which moves have occurred and might be permanent is difficult to assess at this early stage. Survey results suggest that migration due to the shift to remote work could increase by three to four times (Upwork 2020).

²⁵ From the PPIC Statewide Survey, *Californians and Their Government* (September 2020).

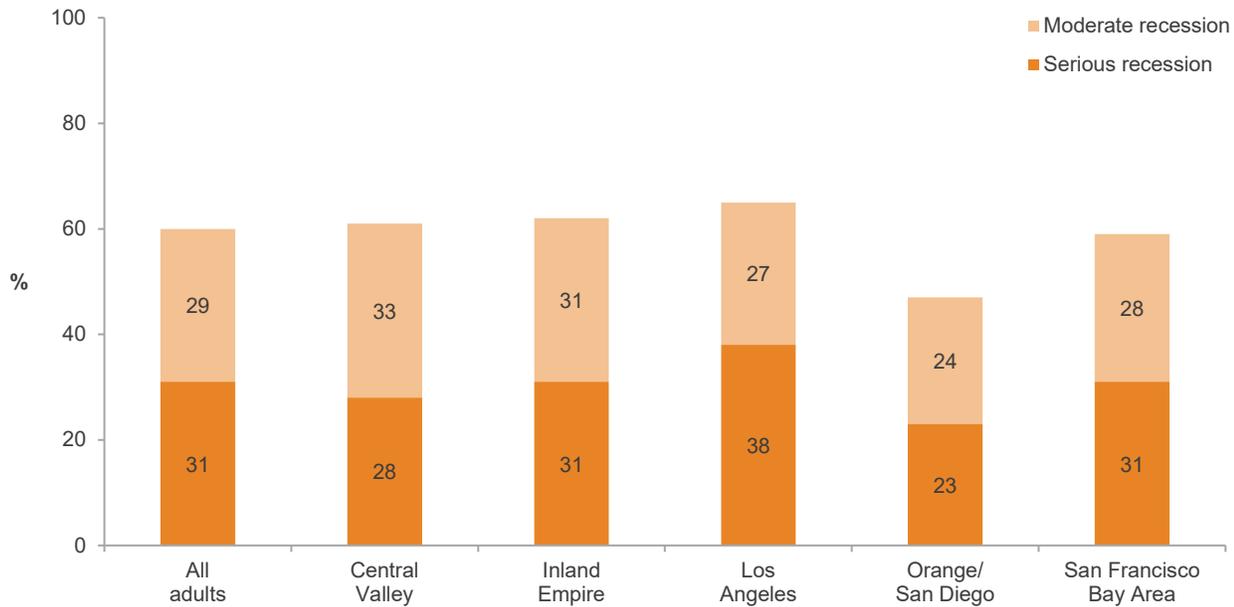
²⁶ From the PPIC Statewide Survey, *Californians and Their Government* (January 2020).

²⁷ In July 2020, PPIC convened a series of workshops with economists in California to gather insights on what expectations the state can have for its recovery from the current crisis (see Bohn, Cuellar Mejia, and Lafortune 2020c). See also current forecasts from UCLA Anderson (Roosevelt 2020).

²⁸ From the PPIC Statewide Survey, *Californians and Their Government* (September 2020).

FIGURE 9

Most Californians believe that the state is in an economic recession



SOURCE: PPIC Statewide Survey, *Californians and Their Government* (September 2020).

NOTE: Chart shows responses to the question, "Would you say that California is in an economic recession, or not? If yes: Do you think it is in a serious, a moderate, or a mild recession?"

Californians are also generally pessimistic about the economic outlook for the state and the nation. In the July PPIC Statewide Survey, taken when much of the state was seeing a tightening of coronavirus restrictions, eight in ten Californians—including three in four or more across the state's regions and demographic groups—thought the state would have bad economic times in the next 12 months.²⁹ More recently, in September, nearly six in ten Californians (58%) thought the United States would have bad times financially over the next 12 months. This view was widely held, with majorities across regions and demographic groups pessimistic about the economic outlook.³⁰

What Could Economic Recovery Look Like?

It is clear from the evidence that so far the current crisis has followed a similar pattern to previous recessions, with low-income families experiencing the largest initial drops in income. Does that mean economic recovery will also hold true to past trends, further exacerbating income inequality? Or is there a way to break the mold?

In the past 40 years, every recession except the dot-com bust of 2001 has resulted in a growing gap between high- and low-income families. This outcome stems entirely from larger income declines and slower recovery experienced by families at the bottom of the income distribution. As Figure 10 shows, the gap in incomes grew by about 10 percent in the first year of the recessions starting in 1980, 1989, and 2007, when measured by the ratio of incomes at the 90th percentile and the 10th percentile. In these recessions, incomes for top earners fell by only a very small margin (1% to

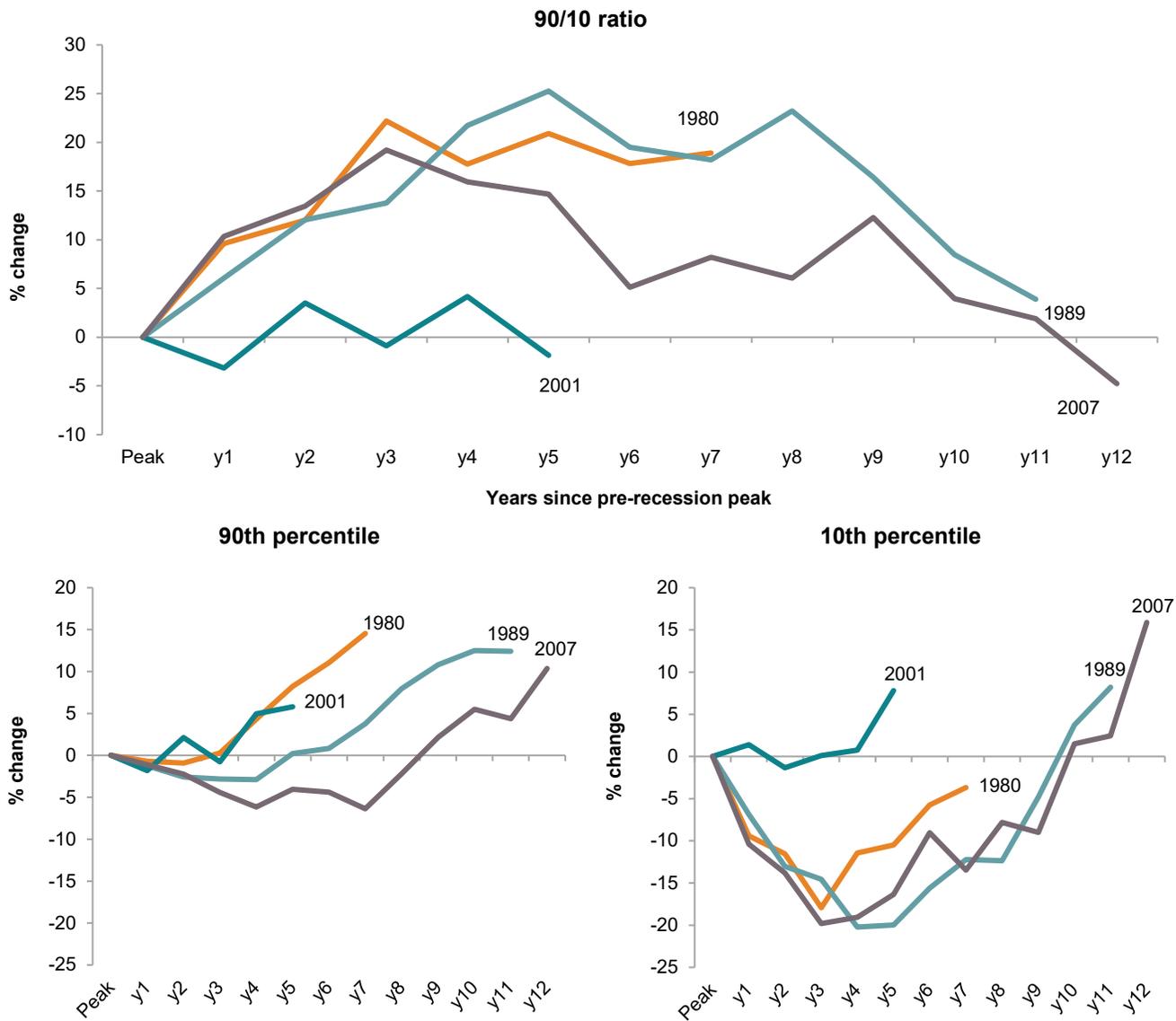
²⁹ From the PPIC Statewide Survey, *Californians and the Environment* (July 2020).

³⁰ From the PPIC Statewide Survey, *Californians and Their Government* (September 2020).

3%) early in each recession, compared to the large declines low-income families experienced (7% to 14% in the first two years). Both high- and low-income families took years to recover, but the length of time was systematically longer for low-income families. In fact, only when recoveries were sustained—in the case of the 1989 and 2007 recessions—did incomes for families at the bottom of the income distribution eventually recover to prerecession levels. The one exception to these trends is the dot-com bust of 2001, when family incomes across the board—at the top and bottom of the distribution—fell only slightly and thus this measure of income inequality was unchanged.

FIGURE 10

Three of the last four recessions have resulted in increasing income inequality



SOURCE: Authors' analysis of CPS ASEC data.

NOTES: Charts show changes in family income relative to the year noted in line label. Income is family total pre-tax income, which includes income from TANF (cash assistance) and SSI (Supplemental Security Income), but excludes resources from other safety net programs. Dollar values are adjusted to pertain to a family of four. Trends adjusted in years prior to 2017 for recent changes to income questions and processing in the CPS ASEC. Census Bureau research finds 2020 CPS ASEC data overestimate income increases for percentiles across the board between 2018 and 2019, due to lowered response rates among low income people. See [Technical Appendix A](#) for more details, including trends for 20th and 80th percentile incomes in [Technical Appendix Table A10](#).

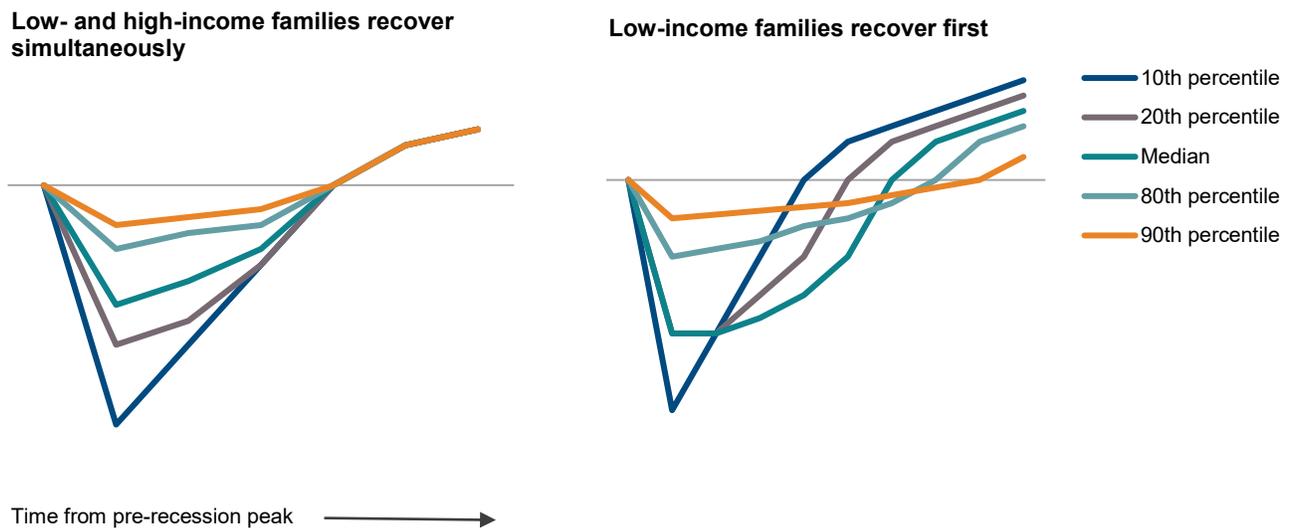
During recessions and recoveries, families hit hardest may have relied more heavily upon savings or incurred debt to make up for income losses, or they may have reduced spending on investments like education or new businesses that can lead to economic mobility. At the same time, those less affected could have continued saving income, holding wealth in diverse assets, and investing in future endeavors.³¹ In this way, the dynamics of recovery across the income distribution may exacerbate wealth inequality and affect material well-being in the long term.

It is too early to tell what the trajectory of this recession and recovery will look like in its length, severity, and effects on income inequality. It is already clear, however, that low-income families have seen larger initial declines in labor market opportunity than high-income families, which will translate to decreases in annual income from earnings and wages and, in all likelihood, widen longstanding income gaps.

Generating an equitable recovery would require breaking the mold of nearly every recession in recent history. An equitable recovery might be characterized by job growth and income growth at a pace proportional to losses experienced across the spectrum—that is, growth that results in a return to prerecession levels at the same time across the distribution (Figure 11 left panel). Or, gains could accrue more quickly to the groups, workers, and families who lost the most during the recession and could continue to accrue beyond their previous levels (Figure 11 right panel). These differences matter for long-term inequality; the former would address only the inequities of the current recession, while the latter would begin to address preexisting inequities as well.³²

FIGURE 11

An equitable recovery would see low-income families recovering at the same time as high-income families—or sooner



NOTE: Figures show hypothetical recovery paths for different parts of the income distribution. Figures do not show authors' projections or expectations for future economic recovery.

One way to address growing inequities during a recession is to prop up income for those bearing the brunt of the recession in real time. Job loss or a reduction in work hours leads to income loss, but it is possible for government

³¹ Dettling, Hsu, and Llanes (2018) find that only the top 10 percent of families in terms of income experienced a full recovery from the Great Recession in terms of wealth, reflecting their greater rates of homeownership, stock market participation, and distribution of wealth across asset types.

³² In depicting income trajectories, of course, neither model fully reflects how an equitable recovery would include family wealth returning to prerecession levels across the board.

programs to fill some of that gap. Stimulus payments, unemployment insurance, and cash and near-cash aid (e.g., CalWORKs and CalFresh) are the largest programs that provide this kind of income support. Stimulus payments and unemployment insurance are the most universal, though even these do not reach all affected workers or families, including undocumented workers who make up a sizeable share of the California workforce.³³ Nonetheless, research estimates that because of government intervention during the crisis, poverty likely did not rise between March and July (Parolin, Curran, and Wimer 2020; Han, Meyer, and Sullivan 2020; Giannarelli et al. 2020).

Even if government intervention can stanch income declines, recessions may also generate shifts in the economy that create challenges for any recovery, let alone an equitable one. For example, sectors may shrink, the nature of jobs—and thus the skills required—may shift, and people and businesses may relocate. The pandemic is the major cause of the present recession, and its abatement will generate recovery simply from businesses reopening and layoffs ending. Yet there is growing consensus that this crisis may also result in fundamental shifts in the economy that will shape recovery. These could include:³⁴

- Changes in the share of the labor market that works remotely part or all the time, which could shift dynamics related to the location of businesses and workers, and the demand for goods and services that support office work and business travel.
- Decline in employment or shifts in the types of skills needed in sectors that may offer services virtually at a greater level than in the past (e.g., education and health sectors).
- Further automation of business processes that would replace the need for in-person work.
- Further consolidation of firms due to the challenge of maintaining profitability amid the pandemic, potentially reducing job choice and/or increasing market power.

The current crisis also presents opportunities that might help policymakers lay the foundation for an equitable recovery. At this point, job loss is highly concentrated in low-wage sectors. It may seem strange to consider this an opportunity. However, by intentionally targeting those most hampered by the recession, policy can drive recovery and equity simultaneously.

Addressing Recovery and Inequality through Policy

The potential for this crisis to exacerbate existing inequities over the next several years—a pattern that has emerged in past recessions and recoveries—is particularly worrisome and warrants ongoing policy attention. Millions of Californians are un- and underemployed, and the economic fallout has been concentrated among low-income families. Meanwhile, income inequality and low economic mobility have been persistent and growing problems over the past decades. Whether these trends continue will be in part a reflection of state and federal policy actions over the coming months and years.

³³ Unemployment insurance was expanded during the current crisis, reaching nearly one in five California workers as of fall 2020 (Bell et al. 2020). Estimates suggest that as many as one in ten California workers are undocumented (Hayes and Hill 2017).

³⁴ Though predicting the likelihood of these changes is impossible at this point in time, these were among the top concerns we heard during a series of workshops we held in summer 2020 with fellow researchers across the state as well as in conversations throughout the fall (see Bohn, Cuellar Mejia, and Lafortune 2020c).

Health policy and inequality

The pandemic shines a spotlight on the importance of health policy and access to health insurance. In terms of the long-term trend in income inequality, health care plays an indirect role, supporting health and financial well-being that improve upward mobility (Hu et al. 2018). However, workers across the income distribution have varying degrees of access to health insurance. Middle- and high-income families are much more likely to access health insurance through employer-sponsored plans, whereas low-income families are much more likely to access it through public insurance like Medi-Cal. Kaestner and Lubotsky (2016) find that counting employer-sponsored insurance in the definition of income would increase inequality; meanwhile, adding Medicaid and Medi-Cal benefits substantially reduces the growth of inequality over time.

Expansions of coverage through the Affordable Care Act and state efforts that extended coverage for children and adults regardless of immigration status have the potential to further reduce inequality, broadly defined. In addition, evidence from the Great Recession suggests that federal aid to states through the Medicaid program has benefits to recovery and job growth (Chodorow-Reich et al. 2012). Health outlays are a major part of the state's budget and rely to a great extent on federal funding (Murphy et al. 2019).

Near-Term Recovery Priorities

To reverse an economic downturn and support a robust recovery, the economy must generate job growth and improvements in productivity—often measured by the unemployment rate, increases in participation in the labor market, and, over time, improvements in income. But these overall indicators mask differences across the income distribution. As shown above, low-income households were only able to make up for recession losses in extended recoveries with a decade or more of job growth. What could make this recovery different?

Containing the virus. Control of the public health crisis is primary. Jobs in the service sector and face-to-face businesses will be constrained until the virus abates, even in the absence of shutdowns or other restrictions.³⁵ And whether those jobs come back may be a function of businesses being able to outlast the virus.

Targeted support for job growth and business relief. The sectors best positioned to grow are those that have experienced less disruption from the COVID-19 crisis, most notably the tech sector. To generate job growth and business recovery in the near term and reverse the losses of this year (as illustrated in Figure 11), policy must target the businesses, sectors, households, and areas hit hardest.

Supporting income and consumer spending. Job growth will be limited until all sectors of the economy can completely reopen. That means employment and income will be curtailed, especially for low-income families and those entering the labor force. Without proportionate policy responses, this will exacerbate poverty and reduce overall spending in the economy. However, unemployment insurance, safety net programs, and stimulus can stave

³⁵ Evidence from national data suggest that state-ordered economic reopenings had small impacts on spending and employment, and that traditional economic stimulus tools may have a more limited impact while economic activity is depressed by health concerns (Chetty et al. 2020a). Goolsbee and Syverson (2020) also find that legal restrictions on economic activity explain only a small percentage of the decline in consumer traffic and conclude that individual choices (likely fears about the virus) are the primary driver of spending declines in many sectors. Forsythe et al. (2020) show that vacancy postings and unemployment insurance claims declined similarly across areas regardless of stay-at-home orders.

off these consequences—and have done so for much of 2020. Continued support and targeting of these interventions toward the most affected residents will mitigate economic hardship until economic activity can fully resume.

Long-Term Priorities to Address Economic Inequality

Over the past 40 years, the dynamics of recession and recovery have exacerbated income inequality. Initial job losses are even more concentrated among the lowest-income households in the current crisis, which portends a widening of income inequality over the coming years. What policy choices could change that long-term picture?

Address barriers to work. The challenge of child and dependent care during this crisis shows that labor market outcomes and access to care cannot be disentangled—particularly for women in the workforce.

Address systemic disparities. Persistent disparities across race, gender, and region demand more intentional policy efforts to overcome them. Historical patterns of underinvestment across these dimensions have contributed to disparities in income, education, health care, and housing. These patterns should not be repeated. Policymakers will need to take action to reverse these trends and to identify the structural barriers that perpetuate these divides.

Invest with future jobs in mind. We expect some structural shifts in sectors and the labor market. Future employment and industry patterns—including changes in remote work, skill/education requirements, automation, and in-person economic activity—have the potential to induce long-term changes in the nature of work. As our understanding of these shifts unfolds, policymakers will want to ensure investments respond to these changes and plan for the future of the labor market, not its past.

Invest in opportunity for future generations. Inequality and economic opportunity reflect long-term structural economic forces, and many potential solutions may take years until their full impact is felt. While the focus on near-term recovery is paramount, efforts to transform economic opportunity in the state over the long term may require investments that do not pay immediate dividends.

It is important to recognize that even if policy interventions have these features, moving the needle on long-term income inequality will not be easy. The forces that have shaped our economy into one characterized by substantial inequality are both global and longstanding. Rising income inequality and limited upward mobility have been the product of decades of economic, social, and political dynamics. Counteracting these trends will require sustained and deliberate policy commitments.

Californians' Views on Reducing Income Inequality

Importantly, policy actions to address inequality and opportunity would require sufficient political support. In addition to recognizing that the gap between the rich and the poor is getting wider, solid majorities of Californians have consistently said that government should do more to reduce income inequality.³⁶ Most recently, six in ten Californians said the state government should be doing more to reduce this gap—a perception that is unchanged from prior to the pandemic (Figure 12).³⁷ African Americans, Latinos, and low-income adults are more likely to say the state should do more, perhaps reflecting differences in how they experience or perceive economic opportunity in the state. Notably, women (66%) are much more likely than men (53%) to think the state should do more.³⁸

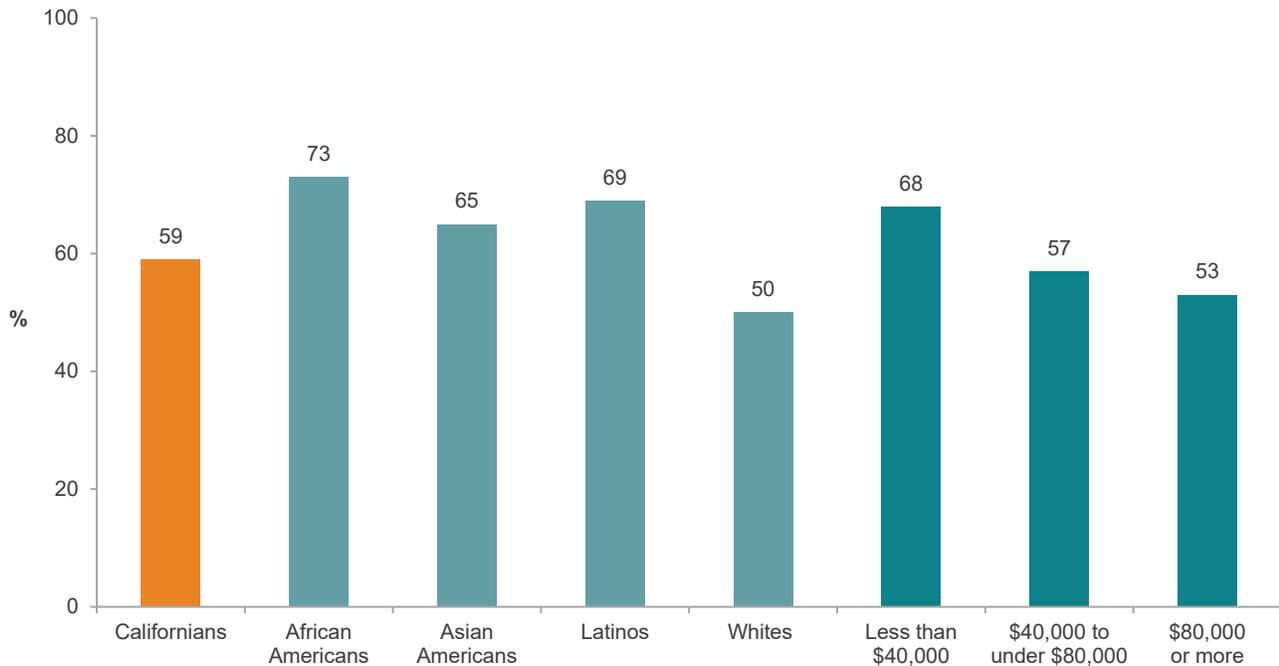
³⁶ In PPIC Statewide Surveys from 2014 to 2016, more than six in ten Californians said government should do more. In 2017 we began asking this question in the state context and have found similar results.

³⁷ In the September 2018 PPIC Statewide Survey, 60 percent said the government should do more to reduce the gap between the rich and the poor.

³⁸ From the PPIC Statewide Survey, *Californians and Their Government* (September 2020). There are no difference among those with (61%) and without (59%) children 18 or under in the household.

FIGURE 12

People of color and low-income Californians are more likely to say the state should do more to reduce income inequality



SOURCE: PPIC Statewide Survey, *Californians and Their Government* (September 2020).

NOTE: Chart shows responses to the question, “Should the state government be doing more to reduce the gap between the rich and the poor in California, or is this something the state government should not be doing?”

Policy Levers to Improve Near- and Long-Term Economic Outcomes

Policies to promote an equitable economic recovery, improve opportunity, and/or reduce inequality often come at significant cost and involve tradeoffs that may make them politically difficult to achieve. Moreover, some policy options are more effective at addressing immediate needs in the current crisis (i.e., policies to provide stimulus and stabilization to the state’s economy) while others target long-term transformations to improve opportunity and reduce inequality. Although state policymakers are more limited in their options than the federal government—the state cannot operate at a deficit—there are still many policy levers at their disposal.

Table 3 outlines potential policies to provide support during the current crisis and/or reduce inequality and improve economic opportunity over the long term. We then discuss each policy lever in detail, providing specific examples of existing and/or proposed policies in California, and linking them to the recovery priorities outlined above. We conclude with a discussion of tax policy, which is a potential funding mechanism for promoting recovery.

TABLE 3

Policy levers offer different short- and long-term benefits—and come with important downsides and constraints

Policy lever	Relevance in current crisis	Longer-term benefits	Downsides and constraints	Recovery priorities	Notable examples
Safety net expansion	Immediate targeting of need, especially for those with low income or lost income	Reduced poverty can improve opportunity; some programs improve long-run outcomes	Significant cost; reliance on federal government; imperfect coverage	Target support for relief; Support income and spending; Invest in opportunity	Unemployment Insurance, CalFresh, EITC, CalWORKs
Employment training	Many jobs may not return; retraining workers can improve economic prospects	New opportunities for workers in sectors that will likely see structural changes	Expensive if state-run; hard to scale public-private partnerships; uncertainty over future workforce needs	Target support for job growth; Invest with future jobs in mind; Invest in opportunity	Community college/sector training programs; JVS, QUEST
Higher education	Improving access can help young Californians, who have experienced greater losses	Pathways to good jobs and upward mobility; expanding access could reduce inequality	Significant cost; longer-term benefits; affordability concerns; uncertainty over structural changes like virtual learning	Invest with future jobs in mind; Address systemic disparities; Invest in opportunity	Community Colleges; UC/CSU; Cal Grant
Dependent care	Inadequate child care depresses labor supply, particularly among mothers; care facilities face hardship	Benefits to gender gaps; child care investments shown to have favorable cost-benefit ratio	Significant cost; longer-term benefits; care expansion may not be feasible in pandemic	Address barriers to work; Address systemic disparities; Invest in opportunity	Subsidized child care; TK/Pre-K; paid family leave
Minimum wage, employment policy	Direct benefits to low-wage workers and areas	Accelerated earnings trajectory for some; less turnover (min. wage); employment growth (wage subsidies/hiring credits)	Higher business costs; limited impact on inequality; potential disemployment effects (min. wage); significant cost (wage subsidies/hiring credits)	Support income and spending; Address systemic disparities; Invest in opportunity	Minimum wage increase; wage subsidies; hiring credits
Housing costs, protections, supply	Protections shield households from housing insecurity in current crisis	Improve affordability; broaden wealth building; mitigate housing cost pressures	Higher costs for landlords; mortgage credit market tightening; housing supply effects not immediate; state/local zoning constraints	Address systemic disparities; Invest in opportunity	Eviction/foreclosure protections; mortgage forbearance; housing production incentives
Tax policy	Can fund new spending; tax changes can mechanically reduce inequality	Reduced wealth accumulation at top of distribution; new fiscal capacity for programs	Contractionary policy; high-income earners may leave state; politically difficult to increase taxes	(Possible funding mechanism for all priorities)	Income tax increases; wealth taxation; property tax reform; payroll tax reform

Safety Net Policy

Expanding safety net programs is arguably the most targeted way for policymakers to direct funds to affected households during times of economic crisis and help stabilize family incomes. The effects of the current crisis have been uneven, and policies that target economic hardship are especially effective as health concerns continue to depress consumer spending and economic activity. The most notable examples of such programs include unemployment insurance (UI), Earned Income Tax Credits (EITC and CalEITC), CalFresh food assistance, CalWORKs cash assistance, and Supplemental Security Income/State Supplementary Payment (SSI/SSP).³⁹ With the exception of the CalEITC and CalWORKs, most funding for these programs comes from the federal government, and the state has varying—but overall quite limited—latitude to change, target, or redirect efforts (Danielson 2020).

³⁹ We include unemployment insurance in the discussion of safety net policy even though it has some features that differ from the other programs considered here. In particular, unemployment insurance is not a means-tested program but rather directs resources to individuals depending on work status and prior income.

The federal CARES Act greatly expanded the kinds of workers covered by unemployment insurance, addressing, at least temporarily, well-known gaps in coverage for gig workers, immigrants, younger workers, and others while increasing the compensation amount for many low-wage workers (von Wachter 2019; Duggan, Guo, and Johnston 2020). The Family First Coronavirus Response Act increased access to CalFresh (Tan and Danielson 2020). Research suggests that these federal expansions, along with the stimulus payment to many households, stanching a rise in poverty early in the recession (Parolin, Curran, and Wimer 2020; Han et al. 2020; Giannarelli et al. 2020). However, these expansions relied on federal funding, and state options to mimic these supports would be limited by cost, lower state revenues, and increasing fiscal uncertainty. During the Great Recession, the three largest state safety net programs in California registered cuts of nearly \$2 billion per year from 2008 to 2012 (Murphy et al. 2019).

Without further federal action, ensuring that these programs can meet current needs will be a significant fiscal challenge for state policymakers. Expansions in state aid, such as extending the amount of time families may participate in the CalWORKs program, may be critical for some families.⁴⁰ However, the magnitude of these investments pales in comparison to the federal assistance extended in the CARES Act, especially the expansion of unemployment insurance benefits.⁴¹ Furthermore, addressing gaps that remain in the safety net and/or expanding the reach of these programs would also involve significant new financial investments (Bitler, Hoynes, and Schanzenbach 2020).

Nevertheless, these programs are of particular importance in the current economic crisis, when many families—particularly low-income, African American, and Latino families—are facing continuing income losses, food insecurity, and difficulty paying their rent or mortgages. And because many federal safety net programs restrict eligibility for immigrants, state spending typically provides the bulk of assistance to noncitizens.⁴² These expenditures will be of primary importance until the spread of the virus abates and full economic activity can resume statewide.

In general, state and federal expenditures on safety net policies have a mechanical dampening effect on income inequality, as they reduce poverty and improve economic well-being for those at the low end of the income distribution. Statewide, research shows that safety net programs reduce income inequality at a given point in time by 40 percent (Bohn and Danielson 2016). However, safety net programs may play a smaller role in reversing the long-term growth in income inequality, which has been driven by powerful global economic trends. For instance, national taxes and transfers have offset only a small fraction of the increase in inequality over recent decades (Piketty, Saez, and Zucman 2018).⁴³ While government transfers have increased over this time, many are targeted to seniors and middle-class individuals, meaning they have little overall effect on most measures of income inequality.

Importantly, safety net programs have the most potential to improve income inequality when they not only mitigate poverty in the short run but also support the long-term economic mobility of participants. Indeed, some programs have been shown to reduce poverty and improve later outcomes—including earnings, health, and educational attainment—for both children and adults. Evidence is particularly strong for the EITC and food

⁴⁰ See, for example, the extension of the limit from 48 to 60 months (California Department of Social Services 2020).

⁴¹ See LAO (2020) for an estimate of the state cost of extending similar benefits.

⁴² For example, the state funds a program to provide SSI/SSP benefits to people who would be eligible but for immigration status, and the state has funded Medi-Cal expansions for undocumented immigrants. In 2019 and 2020, California expanded access to the CalEITC for undocumented immigrants, who are ineligible for the federal EITC. And in the current crisis, the state used state and philanthropic funds to establish a Disaster Relief Fund for undocumented workers, who were not eligible for federal stimulus payments.

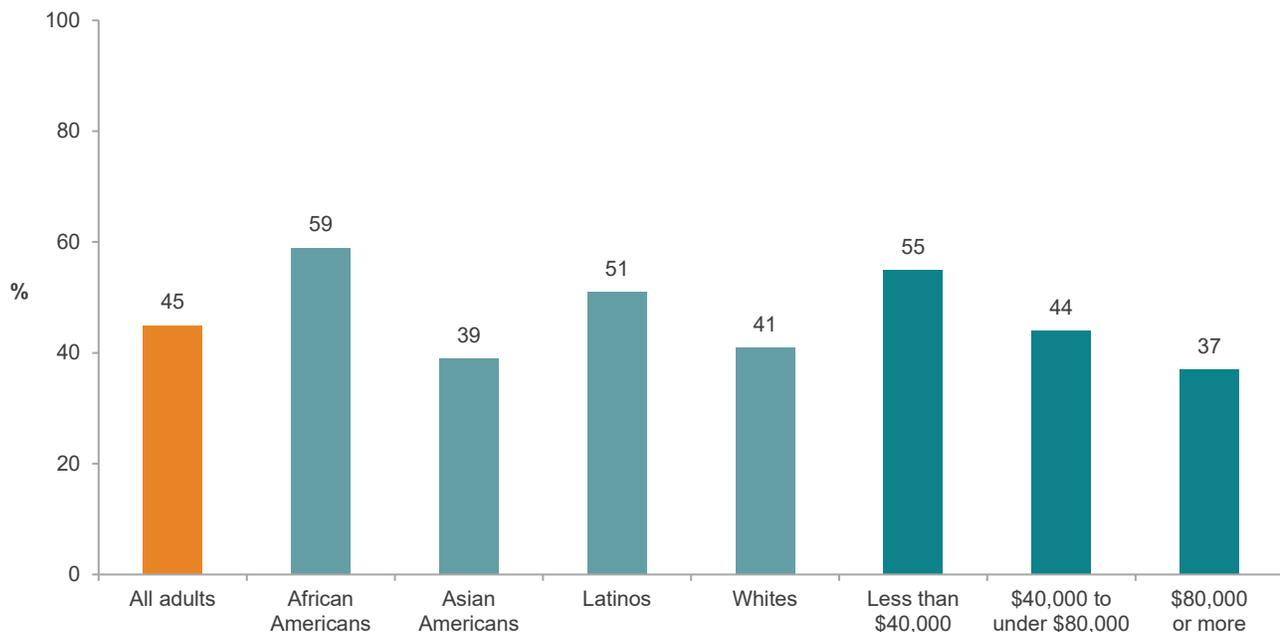
⁴³ Indeed, we find there has been close to zero growth in earnings for working-age adults in the bottom 50 percent of the distribution since 1980, even after accounting for taxes and transfers.

assistance programs like CalFresh.⁴⁴ Unlike in the last recession, California now has its own EITC program, which could be a vehicle for directing support to low-income families, though while unemployment is high it may be less effective (Schanzenbach and Strain 2020). Some localities are also experimenting with universal basic income–type programs (UBI), which aim to provide direct cash aid that is not necessarily contingent on work, presence of children, or income. If truly universal, a UBI-type approach to cash assistance would not meet the goal of targeting those most affected by this recession and would require substantial new revenue to mitigate growing inequality over time (Hoynes and Rothstein 2019).

When it comes to the effectiveness of policies and programs aimed at reducing poverty in the state, three in four Californians think these policies can do a lot (45%) or some (31%) to reduce poverty (Figure 13). These preferences were measured before the pandemic, but it is interesting to note that those affected most by the pandemic were more likely to believe policy can do more to reduce poverty, including women (49% compared to 41% for men), African Americans, Latinos, and lower-income Californians.⁴⁵

FIGURE 13

Lower-income Californians are more likely to think government policies can do a lot to reduce poverty



SOURCE: PPIC Statewide Survey, *Californians and Their Government* (January 2020)

NOTE: Chart shows responses to the question, “How much do you think government policies and programs can do to reduce poverty in California: a lot, some, not much, or nothing at all?”

Employment Training and Education Policy

Employment losses in the current recession have been concentrated among workers in the leisure and hospitality and personal service sectors—and have been slow to recover after a large partial bounce-back in June 2020. Many of these jobs were low wage with fewer prospects for upward mobility and career pathways than in other sectors,

⁴⁴ For evidence on the EITC, see Hoynes (2019), Bastian and Micheltore (2018), and Hoynes and Patel (2018). For evidence on food assistance, see Bailey et al. (2020) and Hoynes, Schanzenbach, and Almond (2016).

⁴⁵ From the PPIC Statewide Survey, *Californians and Their Government* (January 2020).

and losses were greater among workers without a college degree.⁴⁶ Future employment levels in these sectors are highly uncertain, and parts of these sectors may shift permanently away from in-person work.

To the extent such structural changes emerge, policies to retrain workers in these sectors with new skills to provide them opportunities in new careers will be important for a broad-based recovery. Community colleges offer many degree and certificate programs that improve upward mobility (Bohn, Jackson, and McConville 2019). Expanding access to and success in these programs would require new investments in the community college system that may be difficult to achieve given state budget constraints. However, efforts inside colleges to align curriculum to high-demand, well-paying careers and to create clear and streamlined academic pathways have been shown to improve student outcomes and can be quite cost-effective (Grosz, Kurlaender, and Stevens 2020; Bohn and McConville 2018; Bailey, Jagers, and Jenkins 2015).

In addition, successful employment outcomes from job training, especially for adults, often result from effective partnerships with nonprofit organizations, employers, and workforce intermediaries. Examples of successful national programs that improve employment and earnings include Jewish Vocational Services, Technology Centers, Courses to Employment, and Project QUEST (Maguire et al. 2010; Carruthers and Sanford 2018; Conway, Blair, and Helmer 2012; Roder and Elliot 2019). Though scaling and replicating successful models is a challenge, leveraging private investments in these collaborative efforts is more cost-efficient from a state perspective and engaging employers may enhance effectiveness (Miller et al. 2005; Scott et al. 2018; Tan and Moore 2020). The state may also leverage federal investments in job training, which—though smaller now than in prior decades—have generated some promising outcomes in targeted areas.⁴⁷

Over the long term, policymakers wishing to increase economic opportunity and reduce inequality may want to expand access to higher education and four-year institutions. Despite rising costs and ever-increasing numbers of college graduates, the economic return to a four-year degree is still very large. Moreover, a significant degree gap persists across the state, with the number of college-educated workers projected to fall far short of future labor market needs (Johnson, Cuellar Mejia, and Bohn 2016). Nevertheless, the state’s higher education system lacks capacity to serve all qualified students, and access is lower among students with lower family incomes and for African Americans, Latinos, and Native Americans. National research estimates that increasing access among low- and middle-income students in higher education and eliminating differences in students’ parental incomes across colleges could substantially increase intergenerational mobility (Chetty et al. 2020b).

Support for Caregivers and Dependents

The pandemic has disrupted dependent care and in-person education for K–12 students, requiring many children to stay home and receive education virtually. Policies to ensure the fiscal health of child care centers and shore up this sector would ensure that dependent care issues do not continue to depress labor force participation—particularly among women—once the spread of COVID-19 subsides and many in-person activities return.⁴⁸

Recent expansions of worker eligibility for paid family leave will help prevent short-term caregiving from disrupting employment in the long run, but expansions will need to target low-wage workers—who are less likely to use family leave—to ensure that those most affected by the economic crisis can meet their basic needs while taking paid leave (Schumacher 2020).⁴⁹ Research has shown that gender wage gaps emerge around the time of

⁴⁶ See, for example, the Georgetown University Center on Education and the Workforce [Good Jobs Project](#) and Shearer and Shah (2018).

⁴⁷ For example, the health profession opportunity grants aim to train low-income individuals for well-paying careers in the health sector (Peck et al. 2019). And the Trade Adjustment Assistance Community College and Career Training grant program directed assistance to build capacity in connecting students to in-demand jobs in a number of sectors (Eyster 2019; Kuehn and Eyster 2020).

⁴⁸ Many child care and preschool centers have closed or at risk of closing due to financial distress (Doocy, Kim, and Montoya 2020). Similar to many of the most affected industries in the current crisis, dependent care workers are predominately low income, people of color, and women, exacerbating already persistent inequities.

⁴⁹ [Senate Bill 1383](#) was signed into law in September 2020.

child rearing, as many women leave the labor force temporarily and eventually return on a lower earnings trajectory (Kleven, Landais, and Sogaard 2019). As California’s population continues to age, elder care also may constrain labor supply, especially for women (Johnson and Lo Sasso 2006).

Over the long term, expenditures on high-quality child care and early childhood education produce benefits that far outweigh their costs, exhibiting the highest return of any government interventions on average (Hendren and Sprung-Keyser 2020). Such expansions come at considerable cost to the state—but may be better thought of as investments that eventually pay dividends in the form of higher adult earnings, improved mobility, lower crime rates, and higher tax revenues in future decades. California’s Master Plan for Early Learning and Care, released in December 2020, aims to help the state plan for a system of care that is equitable, effective, and efficient.⁵⁰

Investments in the dependent care sector may also be thought of as subsidies for employment and—if policymakers prioritize improving the wage levels of providers—a pathway for economic mobility for workers. But expanding the size of the care sector while also promoting higher wages and improved working conditions would require even greater investments by the state and/or federal government through programs like CalWORKs, In-Home Supportive Services, the California State Preschool Program, Head Start, and Transitional Kindergarten.⁵¹ Care services, particularly those focused on health and personal care for the aging population, are among the fastest-growing occupations. However, earnings levels are quite low in most cases (Bohn, Jackson, and McConville 2019; Thorman, Danielson, and Bohn 2018). Understanding this growing sector as critical to the health of our economy and transforming it into a vehicle for mobility across generations could have a meaningful impact on near- and long-term economic inequality.

Wage and Employment Policy

Policies that target wage and employment structures can be used as a tool to decrease inequality and increase economic mobility. State-level minimum wage increases have persisted throughout the pandemic, despite concern that increasing employment costs may be difficult for businesses and government (in its capacity as an employer) to bear amid unprecedented losses. In general, research tends to find that modest increases to minimum wages have little detectable negative employment effects (see Marotta and Greene 2019 for a review). The impact of larger changes to minimum wage—and of changes made during economic downturns—is more uncertain, as there are few such examples in recent history.⁵² In addition, the effect of these policies on inequality is limited to only the very bottom of the wage distribution, and it is more difficult for state policy to target wages for the vast majority of workers earning above minimum wage. Moreover, much of the increased inequality in the US over the past four decades has been driven by the very top income earners (Chetty et al. 2014).

Wage subsidies and hiring credits can target a broader range of jobs than minimum wage policies. Moreover, if targeted to the workers and regions most affected by the current crisis, these could improve opportunity and reduce inequality. Wage subsidies—like the EITC and CalEITC—offer wage supplements that typically phase out as earnings increase. Hiring credits target specific workers, such as unemployed workers or workers in economically struggling areas, by financially incentivizing businesses to hire new workers (Neumark 2011). For example, the California New Employment Credit offers financial incentives for firms to hire certain workers in geographic areas designated by the state due to high unemployment and/or poverty. Expansions of these policies would come at significant cost to the state, but this approach is more able to specifically target job growth among the most affected workers and regions.

⁵⁰ See California Health and Human Services Agency [California for All Kids website](#).

⁵¹ For preschool-specific programs see Thorman and Danielson (2019).

⁵² Seattle’s recent minimum wage increase—which was large in comparison to changes in other states or cities—showed that it led to reduced hours and employment while at the same time increasing hourly earnings (Jardim et al. 2018).

Housing Policy

About 12 percent of California households were behind on their rent or mortgage payments in early fall 2020. A temporary moratorium on evictions and foreclosures has meant that the fallout from these missed payments has been delayed until at least February 2021, when the moratorium is slated to expire. The high cost of housing across the state as well as continued income losses and high rates of unemployment suggest that many of these struggles will persist into the coming years. Continued eviction and foreclosure protections would protect the most affected households and prevent housing instability, but they also impose a cost on landlords and property management companies—many of which are at risk of financial insolvency during the recession. Policymakers will also want to monitor mortgage credit markets to ensure that foreclosure moratoriums and forbearance policies do not lead to tightening credit markets, which would disproportionately affect households with lower incomes and/or credit scores that seek financing, potentially exacerbating racial disparities among current and would-be homeowners (Neal, Zhu, and Schwartz 2020).

The high cost of housing will remain a pressing economic issue that affects well-being and economic opportunities for many lower-income California households. Direct state and local investments in affordable housing—such as the state’s Low-Income Housing Tax Credits (LIHTC), the state’s Project Homekey grants, and local affordable housing bonds—offer relief to households strained by the high cost of market-rate housing. Over the long term, policies to increase the supply of housing, whether through direct state investments or reductions in barriers to new construction, would reduce upward pressure on prices and improve affordability (Woetzel et al. 2016). Statewide, the growth in housing supply has failed to meet demand for many years, and continued underinvestment in housing and impediments to growth will put upward pressure on prices, even as population increases subside (Johnson, Lafortune, and Cuellar Mejia 2020). Though not directly related to the measures of income inequality documented earlier in the report, homeownership is an important form of wealth accumulation for many low-income households (Wainer and Zabel 2020).

Tax Policy

Given the state’s limited ability to finance operations through debt, any new expenditures must require either cuts to other programs or increased taxes (Murphy, Paluch, and Mehlotra 2019).⁵³ While the state’s tax revenues have proved better than expected in the first half of the 2020–21 fiscal year—and a robust rainy day fund has provided an additional backstop to the budget—in the absence of additional federal investments, most of the state policies outlined in this section will require new funding. State-level tax increases can be considered as a means to fund expanded state actions to address the current crisis and long-term inequality. Moreover, tax increases targeted to the highest-income earners would also have a dampening effect on income inequality more generally.

Various tax policies have been proposed in recent years, including increasing corporate taxes, increasing commercial property taxes, increasing taxes on top earners, allowing prepayment of future taxes, and imposing new taxes on large accumulations of wealth.⁵⁴ However, political support for such options may be limited; in November, California voters rejected a proposition to exempt commercial properties from Proposition 13 protections, which would have generated billions in new tax revenue (Ito, Scoggins, and Pastor 2020).

In general, tax increases must be considered carefully in times of economic distress; increasing taxes is a “contractionary” policy option that may depress economic activity, depending on the nature of the tax and how

⁵³ There are some ways for the state to borrow during downturns without violating the balanced budget requirement. Most notably, voters passed Proposition 57 in 2004, approving \$15 billion in Economic Recovery Bonds. In the Great Recession and in the first budget of the current crisis, the state also deferred billions in payments to schools, which is implicitly a form of short-term borrowing. See Murphy, Paluch, and Mehlotra (2019) for a more comprehensive discussion of the state’s fiscal options during economic downturns.

⁵⁴ For example, Assembly Bill 1253 would increase the tax rate on the top bracket from 13.3 to 16.8 percent. Assembly Bill 2088 proposes to create a 0.4 percent wealth tax on wealth accumulations above \$30 million. Both are currently pending approval in the legislature.

the money is spent. Notably, California’s system for financing unemployment insurance relies on payroll taxes that, absent additional federal support, will likely require large increases to maintain solvency, which could hurt businesses and workers in the coming years.⁵⁵

More broadly, tax policy can also be a “mechanical” vehicle for reducing inequality if taxes are increased on those with the highest incomes or the largest accumulations of wealth. This approach may be more difficult at the state than the federal level; high-income and high-wealth individuals may move states or shift where assets and incomes are generated in response to tax increases. Past increases in top tax rates have not led to notable migration out of California (Varner, Young, and Prohofsky 2018). But it is not clear whether this pattern would continue with additional increases, especially since the pandemic itself might encourage relocation. Nearly half of all income taxes collected by the state come from the top 1 percent of earners, who account for about a quarter of adjusted gross personal income (Murphy et al. 2019). Relocation among wealthy households in response to tax increases would dampen the potential revenue increases generated by such taxes.⁵⁶

The balance between raising taxes and providing more services gets at the basic question of the role of government. About half of Californians (53%) would prefer to pay higher taxes and have a state government that provides more services, while fewer (43%) would prefer to pay lower taxes and have fewer services. A majority across most demographic groups prefer bigger government, including many most affected by the current downturn, such as low-income Californians (59%), women (59%), Latinos (55%), and African Americans (53%). One notable exception is men, 47 percent of whom support higher taxes and more services.

Overall, California is a blue state, but differences across regions in the preferred size of government highlight the fact that the state encompasses many people with differing political views (Figure 14). And these views may play a larger role than the experience of income inequality in individuals’ support for higher taxes and more services—for example, support is higher in the San Francisco Bay Area than in Orange/San Diego, though both regions have the highest levels of income inequality in the state (as shown in Table 1). Notably, majorities of low-income residents, women, and people of color across the state’s regions prefer a bigger government.⁵⁷

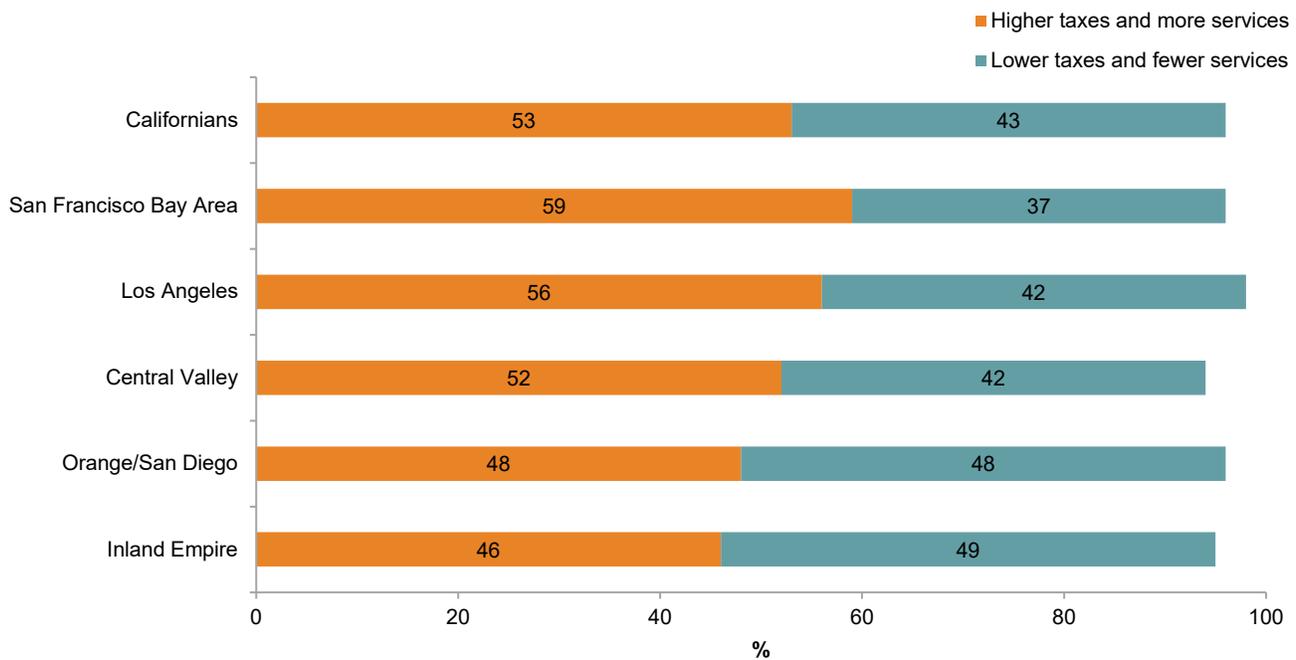
⁵⁵ California’s system is also more regressive than in other states, with a tax base of only the first \$7,000 in earnings despite insuring wages up to \$47,000. Reforms to improve solvency by broadening the tax base would also make the system less regressive. See Duggan, Guo, and Johnston (2020) for a discussion of unemployment insurance financing.

⁵⁶ The elimination of the state and local tax (SALT) deduction in the 2017 federal tax bill also significantly raised the effective tax rate for top earners in California, representing a larger change in top tax liabilities than considered in previous studies of out-migration from California.

⁵⁷ From the PPIC Statewide Survey, *Californians and Their Government* (January 2020).

FIGURE 14

Support for higher taxes and more government services varies by region



SOURCE: PPIC Statewide Survey, *Californians and Their Government* (January 2020).

NOTE: Chart shows responses to the question, "In general, which of the following statements do you agree with more: I'd rather pay higher taxes and have a state government that provides more services, or I'd rather pay lower taxes and have a state government that provides fewer services?"

Deep Partisan Divides

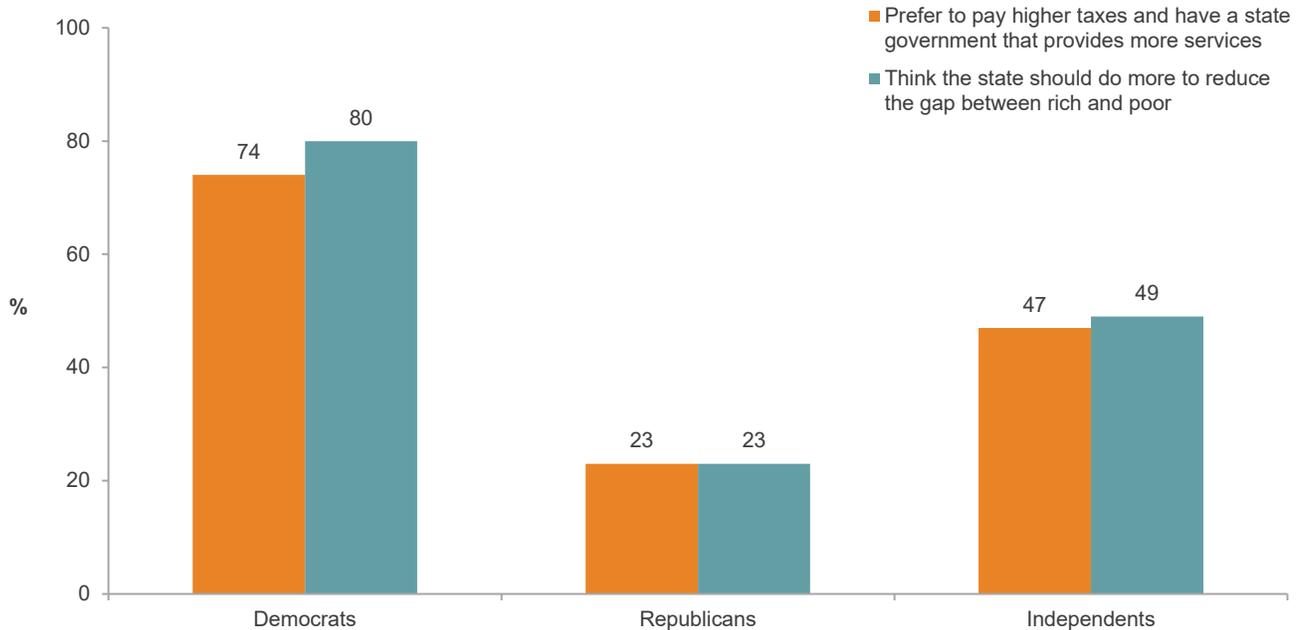
As policymakers consider potential avenues to provide support during the current crisis and improve inequality and economic opportunity over the long term, it is important to be aware of potential challenges to enacting these policies. One notable hurdle is that many of these policies would grow the role of government and require increased taxes. The passage and implementation of any new policies will likely be more successful if they involve political consensus at the state or local level.

Californians overall are supportive of a bigger role for government (Figure 14 above), but there is a wide divide between Democrats and Republicans (Figure 15). On the basic question of the size of government, an overwhelming majority of Democrats have a preference for a bigger government role, while an overwhelming share of Republicans prefer a smaller government. When it comes to whether state government should do more to reduce the gap between the rich and the poor, a similar pattern emerges, with most Democrats saying the state should do more, while most Republicans say the state should not do more. On both questions, independent voters fall in between Democrats and Republicans and are slightly less likely than Californians overall to see a more expansive role for government. As noted above, it is not clear that these views are linked with individuals' income levels or with their local experience of poverty or income inequality.⁵⁸

⁵⁸ Descriptive regression analyses find that both household income and partisan registration matter in attitudes towards the size of government.

FIGURE 15

Partisans are deeply divided regarding the preferred size of government



SOURCE: PPIC Statewide Survey, *Californians and Their Government* (January, September 2020).

NOTE: Chart shows responses to the question, “In general, which of the following statements do you agree with more: I’d rather pay higher taxes and have a state government that provides more services, or I’d rather pay lower taxes and have a state government that provides fewer services,” and “Should the state government be doing more to reduce the gap between the rich and the poor in California, or is this something the state government should not be doing?”

Recommendations

A solid majority of Californians believe the state could do more to address the growing divide between the rich and the poor. To promote recovery and address inequality, we argue state policy should go beyond basic economic stimulus and stabilization. Instead, the state should provide targeted relief for those most affected by the current crisis while simultaneously expanding investments to improve economic mobility over the long term. While there are always economic and political tradeoffs—especially for state policymakers who face binding fiscal limitations—we offer the following policy recommendations to help promote an equitable recovery.

To promote short-term recovery, we recommend that policymakers:

Target economic stimulus and stabilization efforts to the most affected Californians. The economic fallout of the pandemic has been concentrated among the lowest-income families—and without targeted relief, present conditions will increase poverty and worsen inequality. Safety net programs like unemployment insurance, CalFresh, and CalWORKs can provide an immediate backstop during the recession and early stages of recovery. Moreover, undocumented workers have been left out of most safety net programs, meaning that fully stabilizing the economic circumstances of California’s workers and their families would require state intervention outside of existing programs. Absent additional federal support, state policymakers should consider alternative revenue options to continue short-term supplemental benefits, such as the unemployment insurance expansion under the CARES Act, which expired at the end of July 2020. Similarly, targeting support to the businesses most affected

by the pandemic is necessary to set the state up for a strong recovery once COVID-19 abates, especially in communities that have historically not received much investment. While financing such an endeavor may be cost-prohibitive, leveraging funds through public-private partnerships could prove fruitful, with conditions set to ensure that funds are directed to businesses with the greatest need.⁵⁹

Invest in future-oriented training and development for workers in the hardest-hit sectors and regions. The economy is likely to undergo structural changes over the coming years, such as shifting toward remote work, and employment in many of the most affected industries—including leisure and hospitality as well as personal services—may not fully recover to pre-crisis levels. Investments in job training for workers who may need to transition will be crucial, especially for mid- and late-career workers who may otherwise be at risk of leaving the labor force and retiring early. The community college system will be essential for providing broad access to retraining at a low cost. Investments in regions with larger initial losses, like Los Angeles and the Central Valley, and in local communities with longstanding underinvestment in education and job skills would provide the largest benefits over the short and long run.

Expand availability of and subsidies for dependent care. Many child care providers are at risk of financial insolvency, and in-person care jobs have become precarious to workers' health due to the coronavirus. A lack of options for families has imposed new burdens and threatens to affect labor force participation over the coming years. Indeed, labor force declines were initially larger among women, which could slow their return to the labor market as the economy recovers. While the spread of the virus continues to constrain in-person care and K–12 schools remain mostly closed to in-person instruction, policy options will be limited. But once the pandemic subsides and in-person activities resume, ensuring the fiscal health of dependent care systems will be critical to support this growing sector of our economy and to encourage a return to full employment among workers with dependents. To this end, policymakers should offer subsidies or expand existing programs and family leave if many Californians continue to forgo employment to care for a dependent.

To address income inequality over the long term, we recommend that policymakers:

Invest in child care and early education. Improving access to high-quality child care—particularly early childhood education—will provide long-term benefits in the form of improved educational outcomes, higher earnings, reduced crime, and intergenerational economic mobility. New investments are of course difficult in a constrained fiscal climate, but research shows benefits that accrue over the long run result in financial savings for the state government.

Expand access and capacity to public higher education institutions. The state's higher education systems, including the community colleges, California State University, and the University of California, do not have the capacity to serve all qualified high school graduates. Moreover, the projected number of college-educated workers falls far short of California's future labor market needs—and this gap may grow if declines in service sector employment persist. Since four-year degrees and postsecondary credentials still offer well-documented benefits to earnings and upward mobility, expanding the capacity of public higher education systems would improve the employment prospects and economic outlook for young Californians. As distance-learning technology improves, policymakers should consider increasing remote options as a way to improve capacity in a more cost-effective manner. However, careful attention should be paid to the quality of these offerings, as a bifurcated higher education system could exacerbate inequities if remote options are of inferior quality.

⁵⁹ For example, California allocated resources to the state's iBank, which has, among other efforts, helped to seed a public-private partnership to direct loans to small businesses struggling due to COVID-19. However, it is important to ensure that funds are directed to businesses that would not have otherwise had access to capital. This has been a criticism of the federal Paycheck Protection Program as well as previous financing efforts like the Enterprise Zones (Kolko and Neumark 2009).

Address racial and regional disparities in opportunity. The COVID-19 pandemic has laid bare substantial disparities in health, employment, education, and housing across racial, regional, and socioeconomic divides. Without acknowledging these longstanding divides and addressing the barriers that perpetuate them, policies to promote recovery and economic mobility will be limited in their effectiveness. Ensuring that the investments in infrastructure, education, training, and dependent care noted above are equitable is a first step toward reversing longstanding disparities in outcomes. This means corrective policy actions must reach communities that have historically been subject to underinvestment, especially low-income communities and communities of color.⁶⁰ The state’s emphasis on health equity in COVID-19 protocols is an example of policy that creates incentives to address racial disparities.⁶¹ A newly created state task force to examine California’s options for offering reparations to African Americans could also result in policies that reduce the effects of systemic racism.⁶²

The economic, health, and social challenges brought forth by the COVID-19 pandemic are among the greatest California has faced in its 170-year history. Without deliberate policy action, the disproportionate effects of the pandemic and the recession will likely exacerbate longstanding trends of growing income inequality and limited economic mobility. The full consequences of the crisis are yet unknown, and it is likely that California’s economy will undergo structural changes that present new obstacles. Policymakers will therefore need to reevaluate past thinking and continuously reexamine policy priorities and options as our understanding evolves. Despite this uncertainty amid an unprecedented crisis, ensuring the promise of the California dream is not a new challenge—though maintaining this promise will require a renewed policy commitment.

⁶⁰ USC Equity Research Institute, Committee for Greater LA, and UCLA Luskin School of Public Affairs (2020) describe the impacts of COVID-19 felt in these communities in Los Angeles and principles for a more equitable future.

⁶¹ The California Health Equity Metric is a feature of the [Blueprint for a Safer Economy](#), introduced in October 2020. See Shih Bion (2020) for an assessment of the impact of the metric on communities disproportionately affected by COVID-19 and poverty.

⁶² Assembly Bill 3121 was signed into law in September 2020. See Luna (2020).

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ACKNOWLEDGMENTS

We are grateful to a number of colleagues who provided indispensable comments and guidance on this research. They include Marisol Cuellar Mejia, Eric McGhee, Lynette Ubois, Heather Harris, Vicki Hsieh, and Caroline Danielson. Carolyn Chu, Mark Duggan, and Manuel Pastor provided valuable comments on early stages of this research; we appreciate their insights at the PPIC labor market workshops in summer 2020 as well. We benefited greatly from the insights shared by Irena Asmundson, Leila Bengali, Marianne Bitler, Michael Chui, Rob Fairlie, Matt Horton, Jed Kolko, Fernando Lozano, Karthick Ramakrishnan, Jesse Rothstein, Rob Valletta, and Till Von Wachter at the PPIC workshops and in subsequent conversations. Sarah Bohn gratefully acknowledges Louise and John Bryson as well for their support of the John and Louise Bryson Chair in Policy Research. Last but not least, we gratefully acknowledge the support and thought partnership of the James Irvine Foundation this year as we have endeavored to conduct research to inform California stakeholders during this unprecedented economic crisis. Any errors of fact or interpretation are our own.

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