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PPIC Economic Policy Center

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Priorities for California's Economy: Building Prosperity

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Sources for this document as well as technical notes and definitions for the figures are available online.

The PPIC Economic Policy Center inspires practical policy solutions that promote a robust, resilient economy, improving the prospects of workers, families, and businesses statewide.

Letter from the Center Director

In the last few years, Californians have weathered a lot. The tumult of the pandemic on businesses, the instability of rapidly rising prices, and the anxiety caused by international turmoil and a potential recession have made for chaotic and uncertain times.

Weather extremes—one manifestation of climate change's impact—and the rapid development of new technology fuel even more questions about what's next. How will we as individuals and communities fare? How can the state work toward a future in which more Californians prosper?

Over the last century, California has established itself as a powerhouse of innovation and wealth-building, with great potential to succeed in the face of new challenges. At the same time, the gap between the rich and the poor has grown—extending across various dimensions, such as race and ethnicity, gender, region, and education. While not unique to our state or even the nation, the contrast of vast wealth alongside high poverty is particularly striking in the Golden State. Over seven in ten Californians believe that children growing up in the state today will be worse off than their parents.

What's clear from decades of evidence is that inventive ideas and hard work alone are not sufficient to achieve economic well-being. Building an economy that improves the prospects of individuals, communities, and the state as a whole means ensuring that all Californians have a chance to succeed, regardless of their family income and the zip code they were born in.

With so many accumulated challenges underfoot and more on the horizon, now is the time to ensure California and all its people can thrive. To that end, we have launched the PPIC Economic Policy Center. The center provides accessible, nonpartisan research and serves as a forum for a non-ideological, evidence-based discussion of real-world strategies and solutions. By focusing on how the state can build on the skills, diversity, and innovation of Californians, we seek to inspire practical policy solutions that promote a robust, resilient economy, improving the prospects of workers, families, and businesses statewide.

This brief considers the key economic challenges on California's doorstep—and the most critical policy priorities for surmounting them. To support effective policy change, the PPIC Economic Policy Center contributes actionable, trustworthy data and research in three key areas:

- **Tracking trends.** We create a common set of facts and facilitate a broad understanding about current economic trends and future possibilities.
- **Evaluating policies.** We analyze California's labor market to identify policies that support prosperity, for both workers and businesses.
- **Removing barriers.** We investigate labor market barriers to economic advancement and provide pragmatic policy solutions.

I am honored to be the inaugural director of the PPIC Economic Policy Center. I look forward to working alongside you and the many other engaged Californians to advance an innovative, equitable, and resilient economy for all Californians, now and in the future.

Sarah Bohn

Director, PPIC Economic Policy Center
John and Louise Bryson Chair in Policy Research

Navigating an Uncertain Future

California's economy is poised to undergo a profound transformation, driven by dynamics that are rewriting the future of work. The response to these shifts will determine the strength of the state's economy—and whether new economic opportunities will reach all Californians.

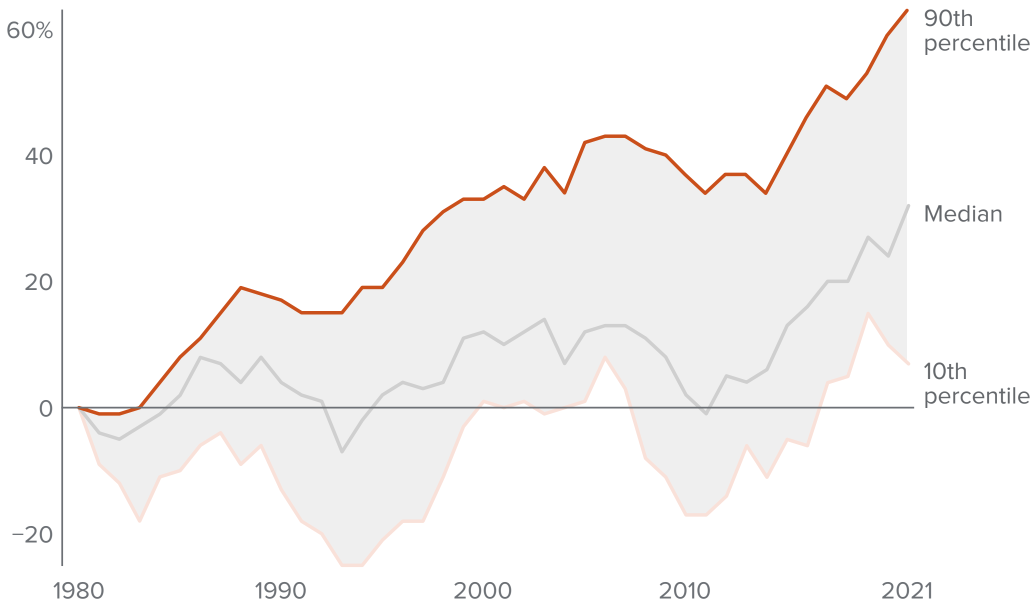
The state needs an economy that can withstand mounting climate risks. Recent experience with flooding and wildfires shows how climate-driven events endanger people's lives *and* livelihoods, hindering job growth and interrupting economic activity. Over the long term, sectors that are advancing the state's climate goals through electrification, wind, and solar energy are projected to grow, requiring workers in construction, engineering, and other infrastructure-related occupations. Meanwhile, the oil and gas sector—vital to Kern County—and agriculture—vital to the broader Central Valley and other rural areas—may shrink. Helping these sectors, workers, and communities transition to promising new opportunities is essential.

New forms of automation and artificial intelligence (AI) may alter the job market and business environment. Historically, automation has most affected blue-collar jobs, and advancements in IT and robotics will continue to reshape manual and service occupations. However, new technology like generative AI is most likely to replace or assist with office tasks. While these shifts may eliminate some white-collar jobs, they could also increase demand for managing these new technologies and boost worker productivity. Exactly how this will affect economic activity is uncertain, but regions like the Bay Area—which could be home to these innovations but also has many professional workers whose jobs could change—may see disproportionate impact.

The shift toward a slowly growing or shrinking population will have long-lasting consequences. California's economy has long benefited from people moving here in search of greater opportunity, and lower levels of international and interstate migration could dampen growth. At the same time, our population is aging and the birth rate is slowing, with significant impacts on the demand for goods and services, such as transportation and housing. In addition, the need for health care services—already one of the state's biggest, most widespread industries—will rise even more. Aging will also have an enormous impact on our workforce, which we discuss further below.

Top incomes have grown dramatically over the long term

Change in family incomes since 1980



SOURCE: Author calculations from IPUMS Current Population Survey–Annual Social and Economic Supplement data.

California has endured upheavals and transformations before, but past transitions raise a cautionary note. Over the last 40 years, income inequality has widened drastically as technological changes and global trade propelled a long-term shift toward jobs that require and reward college-educated workers—with benefits largely accruing to the top income brackets. Since 1980, incomes have grown 63 percent at the top, but only 7 percent at the bottom (reaching $291,000 at the 90th percentile vs. $26,000 at the 10th percentile in 2021). Low incomes coincide with persistent poverty; in 2023, 5 million Californians were unable to meet their basic needs.

High levels of income inequality and poverty dampen the likelihood of advancement for all Californians. It often takes time and money to invest in the skills and experiences needed to move up the economic ladder, but for many these resources are lacking. Data over the past four decades shows that most children born in low-income families in California earn low incomes as adults.

Even in times of great change, policy can support upward mobility—and bolster the economy—with the right tools. Most recently, policymakers took steps to protect public health during the COVID-19 crisis while also addressing the economic fallout. Thanks in part to wide-ranging investments in businesses, workers, and families, labor markets recovered quickly, the unemployment rate reached historic lows, and low-wage workers saw record high wage growth.

Historic investments in infrastructure and climate—including the federal Inflation Reduction Act, the Infrastructure Investment and Jobs Act, Build Back Better grants, and California Jobs First (formerly the Community Economic Resilience Fund)—could likewise strengthen California's economy amid the challenges outlined above. But whether these investments better position workers, employers, and communities for the future depends on the ability of the state and local leaders to prepare for these transitions, accurately monitor regional needs, and assess the impact of investments.

Priorities

Help workers and businesses navigate upcoming transitions. Prior economic transitions have benefited some—but not all—residents. To ensure that more Californians can take advantage of promising new opportunities in clean energy, technology, health care, and more, bridging the gap between employers and educational institutions will be critical to adapt to evolving skill requirements, to achieve greater equity in training and employment, and to ultimately meet workforce and worker needs.

Track shifting labor market and business needs. Monitoring the impact of long-term challenges on employment and wages across sectors and regions is critical for adjusting policies to support a high-functioning labor market. Right now, it is not entirely clear what skills will be most valuable to workers and businesses as climate adaptation and AI technology unfold; tracking these emerging workforce needs is a first step to helping more Californians benefit.

Evaluate the impact of new policies and investments. With the near-term influx of funds for climate, infrastructure, and regional economic development, it will be vital to assess what works to expand businesses in needed areas and to increase the number and quality of jobs (in terms of wages but also benefits, predictable scheduling, and paid leave). Since many organizations are engaged locally on a wide range of efforts, taking stock of these initiatives from a statewide perspective would help stakeholders scale up effective approaches and refine future economic development efforts.

LEARN MORE

Making Sense of California's Economy. Bohn et al., PPIC, 2024.

Income Inequality. Thorman et al., PPIC, 2023.

"Soft Landing? What the Latest Data Says about California's Economy." Duan et al., *PPIC Blog*, 2023.

Addressing Regional Needs

Understanding the immense diversity—and disparate challenges—of the state's regional economies will be crucial to fostering an environment where all Californians, regardless of their geographic location, can reap the rewards of the state's economic vibrancy.

The state's economic diversity is seen through the wide variation in jobs and businesses across California, contributing to higher incomes in some regions. Higher-wage professional and technical jobs are more common in the Bay Area and Orange, Los Angeles, and San Diego Counties. These regions also generally boast more businesses and jobs relative to their portion of the population, while the Central Valley/Sierra region and the Inland Empire have relatively fewer businesses and jobs.

Other economic circumstances also differ across regions:

Higher-income parts of the state face higher costs of living. This affects major metropolitan hubs the most, but even in regions that are more affordable, the cost of living remains high relative to the rest of the country. Higher living costs raise the bar on what it takes to start a business and hire workers while simultaneously affecting where Californians choose to live—all of which may prevent high-cost areas from maximizing their economic potential. Wages do tend to be higher in coastal regions, even in low-wage jobs. But coastal residents nonetheless have a harder time making ends meet, a key contributor to higher poverty rates and greater income inequality.

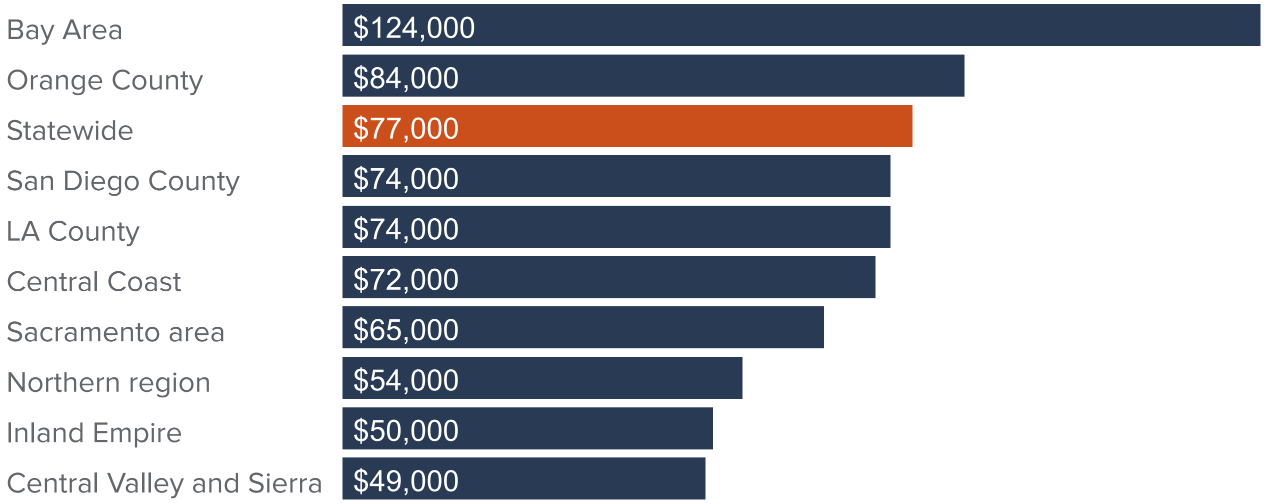
Regions are experiencing different demographic and migration patterns. Before the pandemic, inland California was growing more quickly than coastal areas, contributing to younger and more diverse populations there. The pandemic accelerated this shift as remote work made relocating farther from coastal metro areas feasible for many. If the movement away from places with higher costs of living persists, regional economies will also evolve. Urban areas must navigate changes in economic activity in downtowns dominated by office buildings; elsewhere, population surges are providing a boost to local economies but also shifting demand for physical and social infrastructure and services.

Regional growth will depend on workforce preparation. Inland California currently has lower incomes and less business activity, but migration from coastal areas could be a boon. New residents could benefit from the lower cost of living, and businesses could emerge to meet the needs of the growing population. Supporting the potential for innovation and growth means ensuring that inland residents—especially young adults—have access to education and training to prepare them for future job opportunities and lay the groundwork for new businesses.

Federal and state investments to support climate and infrastructure development have the potential to inject resources across the state. Though additional resources are not a guarantee of a better economic future, these investments—if properly targeted and leveraged—could be a rare opportunity to ensure that growth is not concentrated in a few privileged areas. However, these funds come with an expiration date; determining how to get and leverage funding effectively is a time-sensitive endeavor.

California's regions—especially the Bay Area—are far apart economically

Per capita income by region, 2022



SOURCE: Author calculations from US Bureau of Economic Analysis, Personal Income and Population data.

Priorities

Tailor investments and policies for regional needs. Effective policy approaches must take into account California's diverse regional economies. While regional planning and economic development efforts are already underway, these efforts could benefit from (1) a deeper understanding of regional and local labor market and business needs, and (2) greater coordination and communication across regions to share success stories and lessons learned.

Empower workers with the skills they need. California's workers need a diverse and flexible set of skills as the labor market evolves. While higher education institutions, workforce development agencies, and community-based training organizations all seek to prepare Californians for good jobs, bringing these local entities into dialogue to collaborate on programming would better align education and training with in-demand, well-paying jobs.

Nurture new businesses and the expansion of existing ones. Shifting migration patterns and the increase in remote work may alter the location of businesses and jobs long term. To improve the business climate in California, it will be necessary to investigate the factors that lead some businesses to leave the state and others to remain and expand. Increasing funding and training for organizations that support new business owners—especially those from low-income communities—could also help boost entrepreneurship.

LEARN MORE

"Regional Trends in Unemployment." Bohn and Duan, *PPIC Blog*, 2023.

"How Is Remote Work Affecting Worker Preferences and the Economy?" Bonner and Bohn, *PPIC Blog*, 2022.

"Who's Leaving California—and Who's Moving In?" Johnson and McGhee, *PPIC Blog*, 2024.

Adapting to a Smaller Workforce

The state's labor force has been shrinking for some time and future declines will affect California's ability to meet workforce needs, sustain economic growth, and provide for children and the elderly.

Aging is the key driver of the shrinking labor force. Since 2005, the share of workers 55 and older has risen 39 percent, and more and more workers will transition into retirement over the coming years. Lower levels of immigration may also constrain our workforce. Even before the drastic drops in international immigration during the pandemic, immigration slowed in the last decade. Immigrants are major contributors to California's economy, making up a third of all workers—and even higher proportions of business owners and workers in technology, health care, agriculture, and hospitality.

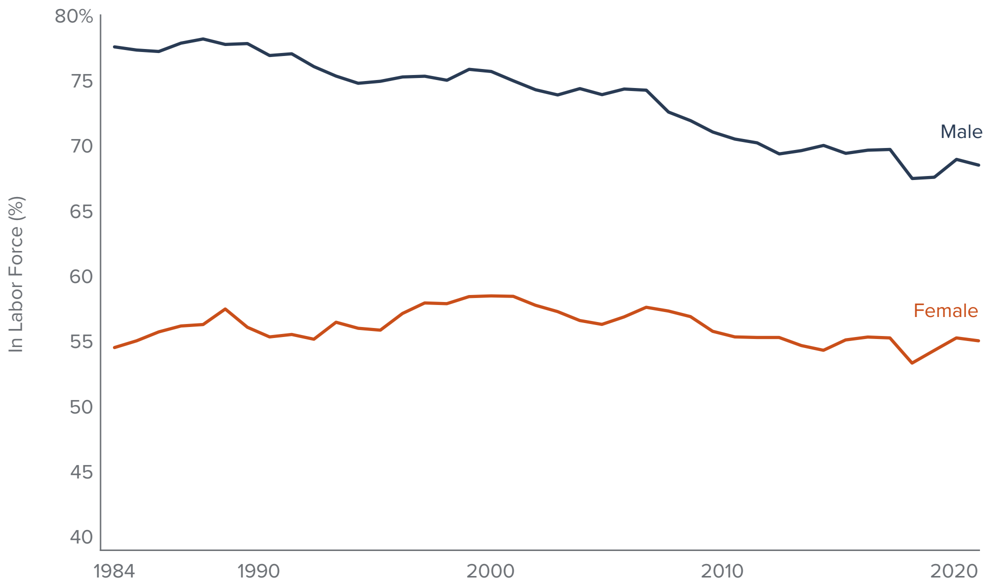
An aging workforce poses several challenges for businesses in recruiting and hiring. Employers facing a scarcity of labor may invest in wage increases and benefits such as training, paid leave, or advancement opportunities to attract more workers. A labor shortage also gives employers more incentives to boost worker productivity through increased automation, AI, or other technological means, which could affect the types and number of jobs available.

Increasing employment among certain demographic groups is vital for tapping into the full potential of the workforce:

Women are much less likely than men to be in the workforce. Today, overall labor force participation rates for women—including women with children in the household—are above pre-pandemic levels. But gaps between men and women are still large, especially for those with young children (93% of men in this group are in the labor force, compared to 72% of women). Mothers with less education are even less likely to be working. Supporting families' child care and elder care needs—in part by improving access to care and addressing the low pay and precarity of work in this sector—would help relieve a significant constraint on employment that disproportionately affects women.

Californians without a college education, particularly Latina women and Black men, are among the least likely to be in the labor force. Two strategies could help encourage these Californians to join the workforce: (1) helping people without a college education attain the right skills for jobs that offer good wages and career prospects, and (2) addressing barriers like lack of stable housing, disability, immigration status, and criminal history. Similar approaches may also help those who are already in the workforce to obtain better jobs. These efforts are especially

Labor force participation has been declining for men but is still much higher than for women



SOURCE: Author calculations from Current Population Survey microdata.

important since many promising opportunities related to state and federal investments in infrastructure and climate may be available to workers with training or experience in trades and no formal postsecondary education.

The factors affecting labor force participation vary across regions. Even among younger workers, a smaller percentage of the population is working or looking for work in inland California than on the coasts. High-quality jobs in promising, high-growth sectors like clean energy could change this dynamic and improve employment and wages in inland California, but only if local workers have the skills to fill these jobs.

Together, this set of facts underscores the need to address educational and other barriers that prevent some Californians from working. Part of this endeavor should include promoting high-quality training and apprenticeships to counter our shrinking workforce and improve individual outcomes.

LEARN MORE

Labor Force Participation in California. Lafortune et al., PPIC, forthcoming 2024.

California's Businesses. McConville et al., PPIC, 2024.

Improving Career Education Pathways into California's Workforce. McConville et al., PPIC, 2021.

Priorities

Enable work among more of the population. Various factors keep people from working or limit their hours—care responsibilities, transportation, and an inability to move to another area, to name just a few. The state will need to develop a more comprehensive understanding of the reasons driving the biggest gaps in workforce participation and determine how to target some of these areas so that more people can work. For example, programs for health insurance, child care, training, retirement savings, and workers with disabilities could all help support work among more Californians, especially for workers in small or medium-sized businesses where certain benefits are impractical to provide.

Support businesses in hiring the workers they need. Technology could be an asset if it supports work among older adults, parents, or those with disabilities who might otherwise stop working or reduce their hours. For new technologies like AI, federal and state policy will play a role in setting guardrails for deployment and should account for the impact on workforce opportunity. Direct support for job creation can also help ease the challenges of recruiting, as could policies focused on high school and postsecondary training pipelines. Opportunities for collaboration between policymakers and businesses are particularly important to ensure that policy actions and business realities are aligned and to strengthen the connection between training and careers.

Making Work Pay Off

California's impressive record of innovation, economic growth, and entrepreneurship coexists with high levels of poverty and stagnant upward mobility. Addressing this paradox requires a comprehensive approach to ensure that Californians can get ahead by working hard.

Currently, more than a third of California workers earn less than $20 an hour. Even though workers—especially younger ones—earn more as they gain experience, significant advancement from low-wage work is rare. Over the decades, the adoption of computers and automation have reduced the need for jobs that used to provide workers with middle-class incomes. For many, there is no longer a straightforward way to advance from low-wage work to higher-paid jobs. Instead, the latter typically requires substantial training or education, often a college degree.

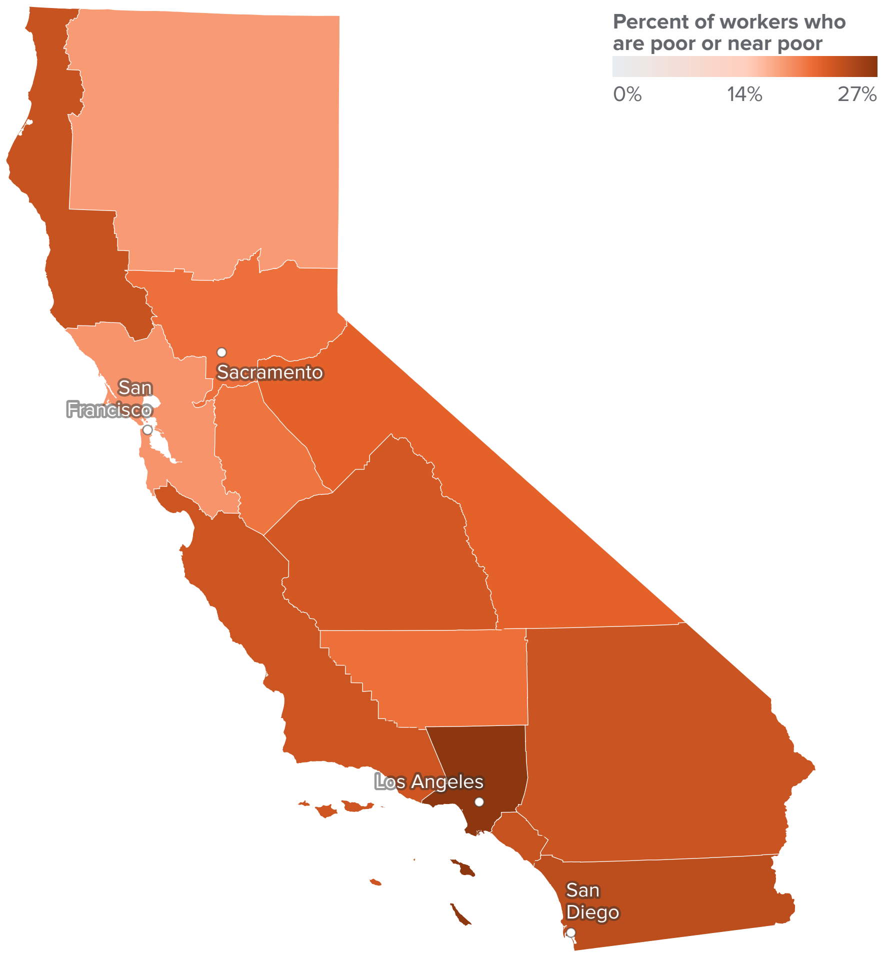
Yet most jobs do not require a college degree, and many of these jobs are low paid. The pandemic highlighted the fact that essential work in food service, agriculture, and transportation is often low wage. In particular, workers who provide care for the elderly and children generally receive low wages even as the cost of care is unaffordable for many families. One of the central challenges that the state faces is how to ensure that these jobs are sustainable and rewarding.

The prevalence of low-wage work and the lack of advancement opportunity mean that working poverty is widespread; 3.6 million California workers are poor or near poor. Los Angeles County has the highest rate of such workers at 27 percent, but across all regions, at least 17 percent of workers are living in or near poverty. Although low-wage workers have seen wage increases in recent years, inflation has outpaced wage growth in most major sectors.

Many factors exacerbate California's high levels of working poverty:

Low wages fall short against high housing costs. The majority of California renters spend more than 30 percent of their income on rent, and about three in ten adults say they worry every day or almost every day about housing costs. High costs have left many—especially younger, lower-income, and nonwhite residents—unable to purchase a home, a vital path to wealth creation for earlier generations.

Working poverty is widespread



SOURCE: Estimates from the California Poverty Measure, first quarter of 2023.

Gender and racial disparities intensify the challenge. Across all levels of educational attainment, women earn less than men—and Black and Latino workers make less than white and Asian workers. Jobs that are nearly entirely female—often in education, health care support, and social assistance—tend to pay lower wages. Similarly, sectors where Latino or Black workers are overrepresented—like agriculture, construction, cleaning, and health care support—pay lower wages overall.

The rewards of entrepreneurship are not broadly shared. Business owners typically earn more than wage and salary workers, but women, Latinos, and African Americans own fewer businesses relative to their share of the workforce. Women own 23 percent of businesses, though they make up 45 percent of the workforce. And only 14 percent of businesses are Latino-owned and 2 percent are Black-owned, though Latinos and African Americans comprise 39 and 5 percent, respectively, of the state's workforce. Though gig work has become more common in recent years and can provide the flexibility that many workers desire, it results in lower earnings on average than wage and salary work, adding to the precarity of workers' circumstances.

Improving Californians' economic security and chances of upward mobility through work is a multifaceted challenge. Broad efforts to reduce the cost of housing, support small businesses, and help families meet their basic needs are necessary and ongoing. Additional approaches must target factors that enhance upward mobility in the long run.

Priorities

Support worker well-being. For workers and businesses that provide essential goods and services but are constrained by what Californians can afford, there is a role for government intervention. Supplementing wages and benefits through tax credits is an effective current strategy, but it does not reach all who could benefit. In sectors like child care and elder care, where the government is a major provider, increasing and reforming subsidies and rates paid to providers are areas that merit further policy debate. Lastly, improving jobs directly through minimum wage policy, benefit access, and worker protections are also options for policy intervention that should be evaluated for their effectiveness.

Strengthen the safety net–career connection. The safety net helps many families make ends meet. Many safety net programs require participants to work or be in school, but unfortunately those activities do not generally lead to long-term economic mobility. The state needs to rethink how to strategically use the safety net to increase work and earning potential. This would include redesigning programs to help participants achieve the stability needed to maintain a job (by supporting needs like housing, transportation, and child care) and advance in their careers through training and education.

Build better career pathways. Traditional educational pathways that result in college degrees provide reliable opportunities for upward mobility, and policy should continue to focus on improving college access and success. But even college-educated workers may need to learn new skills—possibly many times over. Building a coherent and flexible educational and workforce system that allows all workers to attain valuable skills and all employers to identify and attract needed workers is critical to helping more Californians access a brighter future.

LEARN MORE

The Working Poor in California. Bohn et al., PPIC, 2023.

Who Are California's Workers? Thorman et al., PPIC, 2024.

Self-Employment in California. Cuellar Mejia et al., PPIC, 2024.

Strengthening the Path to Prosperity

Though California faces considerable uncertainty, it also has tremendous potential to overcome the obstacles ahead.

Even without knowing exactly how factors like climate change, AI, and population dynamics will reshape the economy, much can be done to ensure that Californians are well-prepared for these transitions. At the PPIC Economic Policy Center, we are committed to furthering these efforts by investigating the challenges facing workers and businesses across the state, bringing together key stakeholders in dialogue and problem-solving, and informing decision-makers about potential solutions to help advance individual and collective prosperity in our state.

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