KEY ISSUES FACING CALIFORNIA

The California economy has just completed six years of strong economic growth. With unemployment rates below 5% and wages rising faster than inflation, living standards have improved for most residents during the past six years.

The findings in Section 5 suggest that California firms and workers are well placed to participate in the leading sectors of the 21st century economy. California should regain its traditional role as a growth leader in the U.S. economy in the coming years.

The economic trends of the past six years have erased two concerns that were voiced often in the early 1990s:

- **California remains an attractive location for growth industries.** California is a center of innovation and leadership in many highly competitive world growth sectors like motion pictures, multimedia, Internet tools, semiconductor equipment manufacturing, and many other sectors that draw on the technological, design, and creative talents of California firms and workers.

- **California can prosper without high defense procurement spending.** California’s economy has absorbed substantial cuts in defense related manufacturing and has re-emerged as a manufacturing job leader.

Each year CCSCE reminds readers that abundant opportunities do not mean guaranteed success. In this section each year CCSCE discusses some of the major public policy challenges facing California in securing prosperity for the state’s workers and their families.

Three challenges will be faced by business, community, and public policy leaders in 2001:

1) Californians will face the challenge of not being distracted by the economic and energy volatility in 2001. The economy will slow temporarily and the summer may not be free of blackouts but these are not the most serious long-term challenges. It will take great concentration and focus for Californians to “keep our eye on the ball” for the serious challenges of infrastructure investment, growth management and workforce skill building.

2) The housing and transportation problems in the state’s major living areas are getting worse and, if not corrected, will decrease the economic competitiveness of the state’s firms and workers. Businesses and residents agree that substantial investments in expanding infrastructure capacity are needed to maintain California’s quality of life and economic growth strength.
The state is still struggling to develop a consensus on how to proceed. Moreover, the strong economy will bring many more jobs and households to California during the next twenty years.

3) During the past six years:

- economic growth has left many employers struggling to find enough workers with the appropriate skills and,

- many residents have moved into the workforce and experienced a rise in living standards BUT still have incomes near or only slightly above the poverty level.

Both workers and employers now recognize that California’s workforce policies should make “move-up” skill building programs the highest priority. It is time to move the primary focus of California’s workforce investment system from employment to “move-up”.

CCSCE’s discussion of these issues in Section 6 has two purposes: ① to show how the California economy is related to each issue and ② to discuss how information and, particularly, information about the economy is helpful in making public policy choices.

Challenge One: Keeping Our Eye on the Ball

Two points about the California economy for 2001 are clear:

- Economic growth will be much slower than during the past six years.

- The possibility of electricity blackouts during the summer still exists.

The magnitude of these short-term fluctuations is not known. Economists have a bad record anticipating the magnitude or length of economic cycles. Section 3 makes the case for a brief and mild cycle (the Fed is on the case; productivity growth remains strong).

It is also clear that long-term challenges often get forgotten when leaders and citizens narrow their focus to short-term events. CCSCE’s Director, Stephen Levy, wrote about energy, the economy and the dangers of “taking our eye off the ball” in the following two articles published in the San Jose Mercury News in 2001.
From February 4, 2001: Energy and the Economy

Each day for the past month most Californians have awakened without knowing whether there would be enough power to get through the day – enough power to allow all the daily activities in our homes, workplaces, schools and public facilities to proceed without interruption.

The facilities that generate and distribute power to residents and businesses are one part of California’s infrastructure system – those systems that we all depend on and generally assume will be there for us. Other infrastructure systems include water, roads, airports, schools, courts, prisons, garbage disposal and parks, and there is broad understanding that they all are needed to maintain a high quality of life and vibrant economy.

Distressing as today’s energy troubles may be, they actually could not have come at a better time. Californians are struggling to keep up with the need for additional infrastructure capacity in many areas. We don't have enough classrooms, runways, transportation capacity and not nearly enough housing to keep up with the demands of our current residents or the 6 million new jobs and 11 million new residents expected in the next 20 years.

Governor Gray Davis has appointed a commission to study the state’s long-term infrastructure needs, and some key decisions are due to be made by May. The energy situation is a timely reminder that infrastructure is, indeed, very important to maintaining California’s prosperity and quality of life.

The good news is that as long as the state takes action to solve the energy shortage – even if it means signing contracts that bring higher prices – the effect on the state’s economy is likely to be small and short-lived. A greater threat to the state’s economic health would be doing nothing, simultaneously putting residents at risk and convincing some companies that the state can’t provide the necessities of a world-class business climate.

The state is also lucky that energy is probably the easiest of California’s infrastructure shortages to fix. So energy will provide a relatively easy first step for Californians to show that we have our act together as far as meeting the state’s infrastructure needs.

Nine new power plants are scheduled to be in operation within two years, meaning that there is no long-term energy shortage in sight. In contrast, there is no way that California will have enough new transportation capacity, schools or housing in the next two years. Those shortages will take much longer to erase.

In the short-term, before the new plants come on line, California has two strategies to minimize or prevent shortages. Conservation can immediately minimize the danger of blackouts. We have all now received lists of relatively simple steps that
residents and businesses can take to save a small, but critical, amount of power each day.

There is also power available from out-of-state plants. The state recently solicited bids from those suppliers for long-term power contracts that would cover the two years before new plants here are open, and beyond. Because suppliers want to charge more than consumers currently pay, bills may well go up, but the bottom line is the lights will stay on.

Right now many Californians are caught up in the drama of who, if anyone, is to blame for the energy shortage. The “blame game” has carried over to very strong feelings about who should pay for the higher costs of energy. That debate is the biggest single sticking point in getting contracts signed and keeping the lights on.

I have no opinion on who is to blame. I know we have oversight and court procedures that will eventually sort these issues out. But as an economist, I do have strong feelings about the information that price movements contain.

**Low supply, high demand.**

The higher prices of energy are telling us that there is a market imbalance. We don’t have enough energy to meet the demands of users at the old prices. Whether that is because costs have gone up or whether there was management incompetence or even some kind of conspiracy, the bottom line is that right now energy prices will probably go higher again for a short time if we want to maintain our current level of consumption.

We all know about markets and prices. In the Bay Area, the rapid rise in housing prices and rents is telling us that we don’t have enough housing to keep prices stable. Last year gasoline prices told us that there wasn’t enough gasoline to keep prices at $1.20 a gallon.

So Californians have an immediate decision to make. Do we want to delay securing power contracts until we reach consensus on who is to blame, or should we accept that energy prices are now higher (at least for a while) and move ahead?

In fact, higher prices serve a purpose – they give us the signal to save energy since conservation can help solve the short-term shortages. In earlier energy shortages, higher prices also played a key role in long-term change, improving the energy efficiency of cars, factory equipment and household appliances. We may be on the edge of another set of breakthroughs that will help future generations minimize their energy needs without any loss in quality of life.

If the public decides that certain groups, such as low-income residents, should be shielded from the effects of higher prices, we can give cash rebates or income tax credits but keep the higher prices to encourage conservation.
Complicating matters is the question of who will pay for the debt that utilities assert they ran up last year, when they say they paid $12 billion more for power than they were allowed to recover from customers. Californians are now in active discussion about who should pay that additional bill.

I don’t know whether these estimates will eventually prove accurate, but I do know that $12 billion is approximately one tenth of one percent ($1 for every $1,000) of our state income. Moreover, $12 billion is just slightly more than 10 percent of the increase in personal income in California in 2000 i.e., a relatively small part of one year’s gain in income.

Will companies leave? Some high-tech companies have said they’re drawing up contingency plans to shift operations out of California in case the energy situation isn’t resolved quickly enough. Since the companies have a deep interest in having the state solve the problem as soon as possible, it’s understandable there’s a lot of posturing going on while the leaders are negotiating a solution.

But California has a very large and strong economy. California firms are the leaders in many fast-growing, high-wage industries, and there are many, many reasons why most major corporations have a significant presence here. So the “we’re going to pick up our marbles and leave” statements at this point should be taken with a certain amount of disbelief.

On the other hand, these companies are delivering a very serious message about infrastructure and the economy that Californians need to hear and believe. Infrastructure is very important to companies (as it is to residents), and if shortages of necessities like roads and water do not get addressed within a reasonable amount of time, we should expect in-state companies and worldwide investors to seriously reassess California as a location for business. Southwest Airlines recently, and reluctantly, announced plans to end service at San Francisco International Airport after years of waiting to see if additional runway capacity would be added.

I have not used the word “crisis” in describing our energy situation, and the omission has been deliberate. It seems inappropriate when the problem is easily solved, and there has been no substantial damage or destruction. The earthquake in India qualifies as a crisis – officials estimate the death toll could reach 35,000 and damage is expected to take years or decades to rebuild.

But we are in a critical test of our management ability as a people and a state. Can we meet our power needs now and make plans to meet our needs in transportation, classrooms, housing, airports and other infrastructure before we seriously disrupt the quality of life and economic vitality of California’s residents and businesses?
How we handle this management test will provide a good indication of whether Californians are up to the task of maintaining both a high quality of life and a prosperous economy.

**From March 4, 2001: What Does it Mean if the Economy Slows**

Since the start of this year, there has been a steady outpouring of bad news stories about the economy – in the U.S., in California and in Silicon Valley. We have heard about dot-com layoffs, how energy problems are going to devastate the California economy, how the U.S. recession is escalating, and how Valley companies are facing declining profits and stock prices. Some of these worries are at least partly justified.

But in one day, February 23, the real economy struck back against the fear-mongers. In January the California unemployment rate went down, not up, and to a thirty year low of 4.5%. Job growth estimates for 2000 were revised up and year-end job gains continued into January. To cite one example, job gains for 2000 in Santa Clara County were revised up to 54,000 from a previous estimate of 21,100. This figure represents the largest number of new jobs ever added in one year in the Valley. And Silicon Valley added 15,000 software jobs in 2000, which puts the dot-com layoffs in perspective.

Venture capital funding reached $25 billion in 2000 in the Bay Area, up 67% over the previous record of $15 billion in 1999. This enormous surge in new companies is one reason why job estimates were revised up because the monthly job survey does not do a good job of capturing new firms. It is true that VC funding dropped to $5 billion in the fourth quarter of 2000, but $5 billion is more than the funding in any year except 1999 and 2000.

And, finally, home prices in the Bay Area went up in January, not down as expected.

There will, almost certainly, be a slowdown in the regional, state and national economy in 2001. The slowdown should be brief and milder in California than elsewhere. The national economy has been slowing since mid-year but, as shown above, the state and regional economies are still strong.

If we have a really bad year in the economy in 2001, venture capital funding will have only the second best year on record, job growth will be close to the 1990s average, unemployment may get as high as 2% in Silicon Valley, and home prices may be up less than 10% this year.

There are three reasons why it matters whether we are viewing the economy realistically. First, it is true that we can talk ourselves into a deeper slowdown than necessary by losing confidence and reducing our spending based on false expectations.
The second, and most important, reason why the doom and gloom stories hurt us in the Valley is that they draw our attention to the wrong problems. Remember back in the early 1990s. Everyone was worried that the California and Silicon Valley economies were doomed to slow growth, Jobs, jobs, jobs became the mantra and we stopped planning for the future.

Now there is broad agreement that the challenges of Silicon Valley are the challenges of prosperity – congestion, not enough housing so prices and rents are escalating out of sight, maintaining our quality of life while our leading-edge economy continues to draw companies and families to the opportunities in the Valley. Add to that the challenges of helping families without education and skills get the schooling and training that will help them have a chance to prosper in our community.

If we get scared about the possibility of a short-term mild slowdown, we may repeat the failures of ten year ago – the failure to keep our eye on the ball and carry through with the long-term investments in transportation, building enough schools, airports, water and energy. We paid a great price for getting distracted ten years ago. As most economists predicted, the regional and state economies roared back, based on the ingenuity and hard work of our entrepreneurs and workforce. What did fall behind was our quality of life because we stopped planning for the future.

The third reason to get the economic facts straight is so we can distinguish what is going on in the economy from stock market movements. Last year Silicon Valley added the largest number of new jobs and the largest amount of new venture capital funding in our history. And the NASDAQ index fell by 50%. Silicon Valley ended the year with a 1.3% unemployment rate and Silicon Valley company stocks ended at lows for the year.

Still, most local companies have seen large gains in their stock price over the past five years and most have truly outstanding futures ahead. Let us not let the volatility in stock market valuations divert us from the critical task of investing to maintain our quality of life and our reputation as a great place to launch a new idea.

Our long-term economic prospects remain strong and exciting. But our quality of life is at risk if we cannot find ways to move forward with investments in our schools, transportation systems, airports, environment, energy and water. It would be a serious mistake to let short-term worries about the economy delay or prevent these investments.

**Challenge Two: Land Use, Infrastructure and Growth: A 2001 Update**

CCSCE has written about land use, infrastructure and growth in Section 6 of each of the past three editions of *California Economic Growth*. In 1998 and 1999 CCSCE published *Land Use and the California Economy* and *Smart Public*
**Investments and the California Economy.** All five reports cited above may be downloaded from CCSCE’s website, [www.ccsce.com](http://www.ccsce.com).

In the section below, CCSCE discusses a new planning and citizen participation process which is beginning to be used or considered in each of the major regions of California. An excellent description of this process, which is ongoing in the Salt Lake City region is available on the Envision Utah website, [www.envisionutah.org](http://www.envisionutah.org).

There are three major components of this process:

1. The process begins with
   - a set of regional job, population and household projections
   - a GIS and mapping system capable of showing the region’s land use and making visual displays of alternative land use patterns
   - a broad based group of citizens from the region

2. Participants, with the aid of technical staff, create land use and development alternatives for putting the projected jobs, population, and housing on the land.

   In the Bay Area this process is being implemented and it is called a “footprint” process because the alternative patterns of development create different “footprints” on the land.

3. Participants get a direct understanding of land use and development “tradeoffs” and can begin to evaluate alternatives and, hopefully, reach some consensus.

   The alternatives involve different residential densities and different patterns of investment in transportation and other infrastructure.

   The Envision Utah process can be visualized as a “game” where participants are given a number of “chips” representing new jobs, population and housing and are asked to place the “chips” on a land use map. Participants can retain more land in open space and agriculture only by designing alternatives where residents will be encouraged (and allowed) to live in more dense patterns of residential development.

   Envision Utah is, in CCSCE’s view, an excellent process, as long as it is applied at the regional level in California. See **Land Use and the California Economy** for why growth, land use and infrastructure planning should be conducted at the regional level – even when all communities retain local land use powers.

   Since the process **works by accepting the initial regional growth projections**, citizens will almost always select alternatives that include higher density residential
development, more public transit, reliance on concepts like “livable communities”, “walkable neighborhoods” and “transit villages” as a tradeoff to keep more open space and greenbelts. Citizens are then left with the task of developing public policies to encourage higher density residential development from the point of view of 1) communities, 2) neighbors and 3) prospective new residents. These high density developments must be fiscally sound, attractive to buyers and meet the approval of existing residents.

This has been a long introduction to the central point of Challenge 2 – how do we get to “enough” when this process is applied in California regions. Enough primarily means enough housing to meet the regional projections and be acceptable to communities, neighbors and buyers.

Here are the three major problems in getting to “enough” in California:

1. The major regional planning agencies are under intense pressure to produce regional projections that are either unrealistic and/or unbalanced. Ongoing battles are continuing at ABAG, SCAG and SANDAG to lower population projections while maintaining or even raising job projections.

   For an Envision Utah type process to be successful, the number of “chips”, i.e., projected jobs, population and households, must be realistic.

2. Realistic regional projections are simply not accepted by many residents. Community after community is under pressure to reduce growth targets. Polls in California do not show the same acceptance of future growth that citizens expressed in the Envision Utah process.

   Unless each California region has an open discussion about growth, the citizen planning process outlined above will be significantly distracted by fights over growth instead of assessment of alternative growth “footprints”.

3. More dense urban developments such as “transit villages” and other infill development can contribute to meeting regional housing needs, but these projects alone cannot get to “enough” regional housing. In the Envision Utah preferred alternative, there was still a significant amount of housing built in new suburban settings.

   In other words, it will almost certainly not be “enough” to rely on more dense urban developments to meet regional housing projections in the Los Angeles, Sacramento, San Diego and San Francisco regions.

   It is possible for regional growth in California to be lower than currently projected but only if each region’s leading industries grow more slowly. This can happen without direct intervention, as when population growth slowed significantly in the Los Angeles Basin while the aerospace sector was losing half its jobs.
Or, residents can take steps to encourage leading industries to expand elsewhere or relocate.

These steps would probably be controversial because they bring significant negative impacts along with the potential to reduce population growth.

It is now the time for Californians to have an open debate about whether to plan to accommodate growth in ways that help our economy, environment and quality of life OR take active steps to encourage leading high wage sectors to move elsewhere. Effective regional planning will be severely hindered in the absence of resolution of this key growth issue.

Challenge Three: Investing in California’s Current and Future Workforce

CCSCE and our affiliate organization, the Institute of Urban and Regional Studies (IRUS), have produced two reports in 2001 about the economy and workforce.

For five years IRUS has worked with The California Wellness Foundation on the foundation’s Work and Health Initiative. In March 2001 IRUS published Five Years of Strong Economic Growth: The Impact on Poverty, Inequality and Work Arrangements in California. IRUS gratefully acknowledges the support of The California Wellness Foundation for preparation of the report. The theme of the Wellness initiative is “a good job is one of California’s best health promotion strategies” and the goal of the initiative is to improve the health of Californians through employment based approaches.

The IRUS report looks back at the past five years and ahead to the next decade focusing on the connections between economic trends and policies in California and poverty, inequality and changing work arrangements.

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1 For more information, see www.tcwf.org.
2 The report can be downloaded from www.irus.org.
The Executive Summary of **Five Years of Strong Economic Growth** is presented below.

1. When the Work and Health Initiative began in 1996, there was significant concern about increases in poverty and inequality. During the past five years California experienced a period of strong economic growth. This growth resulted in raising incomes for most residents.

   - The unemployment rate in December, 2000 was 4.6%, down from 9.7% at the peak of the early 1990s recession. Unemployment rates for Black and Hispanic residents reached the lowest levels on record during 2000.

   - Between 1995 and 2000 jobs increased by 17.2% in California compared to 12.3% in the nation. Job levels had declined in the state between 1990 and 1995.

   - A surge in productivity growth pushed annual productivity gains to 2.7% since 1995 – the highest since the post World War II boom. In contrast productivity grew by 1.5% annually between 1973 and 1995.

   - Average wage levels rose as a result of productivity growth. Real (i.e., inflation adjusted) wages increased by 3.5% annually in California for the 1996-1999 period – far above the 0.9% annual gains between 1989 and 1996. Moreover, the state’s 1996-99 wage growth outpaced the 2.8% annual national growth rate.

   - Wage levels have risen for low wage workers in California since 1995 – reversing two decades of real wage stagnation and decline. Real wages for the bottom 20% of California workers rose by near 10% for the 1996-1999 period – slightly better than the state average.

   - Real per capita income surged during the past five years of strong economic growth in California. Between 1989 and 1994 (the California recession) real per capita income fell by 0.9% per year. However, since 1994 real per capita income has risen by 2.7% per year – well above the 1.0% growth rate of the 1980s.

   - The poverty rate in California fell as a result of the state’s strong job and income growth. The state’s poverty rate in 1999 was 13.6% – down from the high of 18.2% in 1993.

2. The past five years have brought substantial progress in reducing unemployment and poverty rates and in raising real wages for most residents. In addition, the decade ahead is expected to have continued
strong economic growth with job and income levels rising faster in California than in the nation.

Most poor and near poor California families are now headed by workers. The rise in real wages for low-skilled workers has helped and will continue. The minimum wage will rise from $5.75 in 2000 to $6.75 by January 1, 2002.

However, these wage gains come after two decades of wage stagnation and leave many families at or just above the poverty level. The poverty rate in California remains higher than a decade ago and above the national poverty rate.

There are four principal strategies for helping low income families:

1) **Economic Growth:** Without sustained productivity growth and low unemployment, substantial gains in real wages and income are not possible. Though federal macroeconomic policies seem far away and out of our control, they are, nevertheless, crucial to making continued progress for all workers and especially for low wage workers.

2) **Income Support Policies:** Not all Californians will be able to get high wage jobs even with bold new education and training programs. Income support policies like the minimum wage, Earned Income Tax Credits and subsidies for health care and childcare will continue to be needed to reduce poverty.

3) **Revitalizing California’s Urban Areas:** Programs to help urban areas improve infrastructure and public services simultaneously improve the lives of residents and make these areas more attractive for economic growth.

3. The fourth strategy for helping low income families is also the principal strategy for promoting continued productivity wage and income growth – **workforce investment**.

   - In the decade ahead the focus of workforce investment policy in California must shift from a primary emphasis on employment (helping people get a job) to move-up (helping people prepare for better jobs and careers).

      — Move-up strategies will help workers (low wage workers and middle class workers alike) to have the skills needed to secure a rising standard of living for their families.

      — Move-up strategies simultaneously address the needs of California employers for more skilled workers.
• California is now in the process of developing a new workforce investment strategy at the state Workforce Investment Board (WIB), created as a result of the 1998 Workforce Investment Act (WIA), and at the 50 local WIBs throughout the state. A major challenge is to develop a comprehensive and universal workforce investment system that recognizes the connections between the economic prospects of all workers.

For example, former welfare recipients who are working for relatively low wages are now in the similar situation as the millions of relatively low wage workers who were never beneficiaries of any public assistance. Both groups share the similar need for programs that help them “move up” and develop career ladders through skills acquisition. Yet, almost none of our public programs, whether related to workforce or welfare, have this focus or mandate.

• IRUS’ affiliate organization, the Center for Continuing Study of the California Economy (CCSCE), is preparing a report on the issues developing a workforce investment strategy for California. The report, Shared Prosperity and the California Economy, will be available after publication on the Center’s website, www.ccsce.com.

• One critical component of a move-up strategy will be the replication of successful workforce partnership programs like the Fashion Design Center of LA Trade Technical College and the Cisco-Sun Academy at OICW in San Mateo County. These partnerships, with strong business involvement, are training workers for better paying jobs that are immediately available.

4. When the Work and Health Initiative began in 1996, there was significant concern about recent trends in work arrangements – for example, contingent work, job tenure, daily work schedules and health insurance coverage. The past five years have brought a reversal in some of these trends and virtually no change in some areas like health insurance coverage.

Contingent and Alternative Work Arrangements

• With the exception of temporary help agency jobs, which have been increasing rapidly, all of the other categories of contingent or alternative work arrangements now represent a smaller share of total jobs in California than was true five years ago.

• Temporary help agency jobs have grown by 8.5% annually since 1979 in California and now represent 3.0% of all jobs.
• The share of part-time workers has fallen steadily in the state and nation since 1994. Most part-time workers do so voluntarily. The proportion of workers who work part-time but wish for a full time job was 2.4% in the nation in 2000 and 4.0% in California for 1998 – the latest year for which data was available.

• The share of workers who are self employed has fallen steadily in the state and nation since 1993. In California approximately 8% of workers were self employed in 2000 – the same share as in 1979 – and most choose self-employment over working for someone else.

• The share of workers with contingent and alternative work arrangements fell between 1995 and 1999 according to U.S. Bureau of Labor Statistics compilations.

Job Tenure and Job Displacement

• The median number of years that workers have been with their current employer is called employee tenure. The median tenure of jobs in the United States was 3.5 years in 1983 and also 3.5 years in 2000.

• Median tenure for men, especially older men, has fallen slightly while median tenure for women has risen since 1983.

The proportion of workers with ten or more years with their current employer was 32% in 1983 and again in 2000. The proportion has fallen for men and risen for women.

• The proportion of workers who are displaced (lose their jobs) generally rises during recessions and falls during periods of strong economic growth.

In the United States 2.7% of all workers were displaced during the 1997-99 period, the second lowest share on record. The share of displaced workers who were quickly reemployed rose to 86% in 2000 – the highest rate in the 1990s.

Job Growth by Size of Establishment and Firm

• An establishment is an individual job site, such as a store or factory. Some firms, such as Marriott and Longs, have many small and medium sized establishments. Most job data is collected by establishment although pay, benefit and training policies often are set at the firm level.
• Most of the job growth in California in the 1990s was in small and medium sized establishments. The number of workers in establishments with 500 or more employees actually fell in the 1990s.

• In 1998 there were 2.2 million employees (17.7% of all jobs) in establishments with 500 or more employees but 4.3 million employees (34.9% of all jobs) in firms with 500 or more employees.

Flexible and Alternative Works Shifts

• The share of workers in the United States with flexible work shifts more than doubled from 12.4% in 1985 to 27.6% in 1997. Most of these arrangements were informal and represented voluntary arrangements between employee and employer. Most flexible shifts involved shifting the time of arriving and leaving work.

• In contrast the share of workers with alternative shifts (evening, night, rotating) has remained between 15% and 18%.

• The share of workers who do not work a Monday through Friday daytime shift of 40 hours is over 50%. The dispersal of work hours through the day and week (e.g., 24/7 open for business) began over two decades ago and is now a permanent feature of American work life.

Health Insurance Coverage

• Health insurance coverage rates increased in California in 1999 for the first time in several years. Nevertheless, a higher share of Californians (20.1%) lacked health insurance in 1999 than a decade earlier (19.0%).

• A greater proportion of Californians (20.1%) lacked health insurance in 1999 compared to the national average (15.5%).

• One reason for the low coverage rates in California is the large proportion of foreign-born non-citizens (5.7 million or 16.7% of all residents in 1998) and the high share (50%) of non-citizens without health insurance.

In the spring of 2001, CCSCE will publish Shared Prosperity and the California Economy: Implications for the State’s Workforce Investment System. CCSCE gratefully acknowledges the support of The James Irvine Foundation for preparation of this report.3

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3 The report will be posted on CCSCE’s website, www.ccsce.com after publication.
The principal conclusion of the report is that a workforce investment focus on "move-up" skill building and career ladder development strategies will simultaneously respond to the needs of California’s employers and workers. A “move-up” focus, while not a new idea, will require a significant broadening of existing workforce programs which focus primarily on helping poor and disadvantaged workers get a job.

The executive summary of Shared Prosperity is presented below:

1. California’s workforce investment system refers to the institutions and programs by which people are educated, trained, upgraded and retrained for employment and participation in the workforce. Included are all segments of the system – from K-12 education and postsecondary institutions to public and private sector training programs and the workforce activities of unions and community based organizations.

   This report focuses primarily on the people already in the labor force and on skill building strategies. However, it is clear that the opportunities for successful skill building strategies depends on a solid K-12 education and, where necessary, on the availability of workforce readiness and family support programs.

2. The national Workforce Investment Act of 1998 requires states to develop new workforce investment strategies. The California Workforce Investment Board and the state’s 50 local Workforce Investment Boards are currently beginning this process.

   Past state and national workforce programs have been primarily oriented to helping poor and disadvantaged residents find employment. The new legislation places a stronger emphasis on the additional goal of making workforce investments meet the needs of the economy.

3. California faces a unique opportunity to solve two workforce challenges simultaneously through a focus on strategies that help workers “move up” through skill building and the development of career ladders. Six years of strong economic growth have raised living standards for most residents, including the first sustained real wage gains in more than 20 years for the state’s lowest paid workers. Incomes are up and unemployment and poverty rates are falling.

   Even so:

   • Many workers do not earn enough to bring their families significantly above the poverty level and
• at the same time, California’s employers face continuing shortages of workers with needed skills.

Strategies focused on helping workers acquire skills and “move up” meet both challenges simultaneously.

4. Workforce investment will be increasingly important for maintaining economic prosperity in California.

This report uses the metaphor of a train to discuss California’s workforce investment issues. The train represents the California economy and the speed of the train represents the rate of economic growth. The passengers on the train represent California’s workforce.

During the past six years the speed of the California economy train increased, partly because the train added more passengers and partly because the passengers became more productive. During the next ten years the speed of the train in California will depend much more on the productivity gains of its passengers.

• First, most workers are already “on the train” i.e., employed. In a low unemployment economy, increases in living standards come almost completely from higher productivity.

• Second, skills requirements are continually increasing – for workers in technology industries and for workers in all industries who use technology. If Californians cannot meet the challenge of acquiring higher skills, some economic opportunities will be lost to the state.

• The importance of skill building is even more critical given California’s high share of technology industries and high share of workers with less than a high school education.

5. The new California workforce investment system can best meet the needs of workers and employers by adding a primary focus on “move-up” (getting a better job through skills acquisition) to the existing focus on employment (getting a job).

• Most workers, including most low-wage workers, are already employed (i.e., on the train). A move-up focus speaks to their training needs and their hopes for a higher standard of living.

• Many California employers have unfilled job openings – unfilled from a shortage of workers with the appropriate skills. Existing workers, especially workers who already have some skills and experience, are the most likely candidates to “move-up” to fill these openings. A workforce investment strategy focused on move-up will
simultaneously speak to the needs of low skilled and middle-class workers.

Implementing a move-up focus for public workforce investment funding will require a rethinking of current priorities and rules.

The new Workforce Investment Act has the promise of universality – of being applicable and available to all workers. Move-up is the central concept in moving from a categorical to a universal workforce investment approach.

6. There are many partners in California’s workforce investment system including:

   — educational institutions from K-12 to community colleges, and the CSU and University of California systems
   
   — private sector firms which provide the majority ($7 billion in 2000) of training dollars
   
   — public sector funding and programs including the state and local workforce investment boards, the Employment Training Panel, welfare to work funding and the California Employment Development Department
   
   — public and private workforce training providers and the California Workforce Association
   
   — labor and community based organizations

   The large number of partners provides both an opportunity to develop a wide variety of “move-up” career ladder skill building approaches and a challenge because responsibility and funding is diffuse and no integrated workforce investment system exists today.

7. New and innovative workforce partnerships are emerging as one answer to the workforce investment priorities of workers and employers. The workforce partnerships involve some combination of business, labor, education and community based organizations. In most partnerships one or more community colleges are partners.

For example, Glide Tech is a partnership of Glide Church in San Francisco, Mission College and San Francisco City College, and Manpower – a partnership that helps low-income residents with skills to build career pathways in information technology.

   • The partnerships focus on specific sectoral skill requirements and job opportunities. For example, the Cisco-Sun Academy at OICW
in San Mateo County prepares students to meet Cisco and Sun technician certification standards with immediate job opportunities in the $50,000 salary range.

- The partnerships have a strong regional focus serving potentially all firms in a region. For example, the auto mechanics training partnership at Shoreline College in Puget Sound serves the job needs of auto dealers throughout the region just as the Fashion Design Center at LA Trade-Tech serves apparel firms throughout the Los Angeles Basin.

- Many partnerships include community colleges. California’s 107 community colleges represent a unique resource with the opportunity to develop regionally based, sector specific training partnerships accessible to every community in the state.

- Workforce partnerships are generally small in scale and have large waiting lists and funding is developed through combining a variety of public and private sector resources. The partnership model presents a tremendous opportunity to develop innovative, regionally based approaches to workforce investment.

- The private sector is a critical workforce investment partner. Private sector firms bring crucial information about skill requirements and job opportunities and can, in some cases, provide significant funding. Business participation in the new workforce investment boards has been substantially increased for precisely these reasons.

8. In the train that represents the California economy, there are many cars. Imagine that the workers with high skills and experience are riding in the front cars, workers with low skills and experience are riding in the back cars, with the majority of workers in the middle cars.

In the California economy train all the cars are connected. Workers in the middle cars can acquire new skills and fill the vacant seats in the front cars. Workers in the back cars can gain skills and experience to fill the vacancies in the middle cars that were created when workers moved up to other front cars. Workers who are off the train (unemployed) now have a better chance of finding a seat on the train.

CCSCE believes that the state’s social and economic policy objectives will be most effectively addressed if workers in all cars are the focus of California’s new workforce development system. California’s regions have one economy and one workforce. As a result, in CCSCE’s view, California’s regions should have one, universal workforce strategy and system – a system implemented with the help of many partners.
9. In 2000 Governor Davis and the Legislature made a substantial commitment to increasing access to higher education with a major increase in funding for the Cal Grants program. Now is the time for California’s workforce investment partners to think about a similar commitment to existing workers and employees – a commitment to develop a vision and implementation strategy for a “GI Bill”, i.e., universal, approach to helping existing workers build skills, career ladders and income.
Challenge One: Combining Economic Growth and Quality of Life – Keeping California’s Regions Attractive Places to Live and Work

In 1998 CCSCE published Land Use and the California Economy: Principles for Prosperity and Quality of Life which set out the connections between economic competitiveness and quality of life. After eighteen months of presenting and discussing the report, here is our view of the public debate today:

- The connections between economic growth and quality of life have become even more real and understandable:
  - regions with strong economies have seen rapid escalations of housing prices and congestion
  - companies trying to hire skilled workers in a tight labor market increasingly face issues of how workers can find housing, good schools and a tolerable commute
  - regional and statewide polls regularly list housing and transportation as the top concern of both businesses and residents

- There is broad agreement that California will continue to add significant numbers of jobs and people which will place even more pressure on the quality of life and economic competitiveness of California’s regions.

- There is growing recognition that the problem is a lack of appropriate tools and incentives – not a lack of good will:
  - Current fiscal rules discourage cities (and their residents) from approving new housing. New housing rarely brings enough revenue to provide new services and maintain or improve services to existing residents.
  - While infill housing is touted as a “smart” regional land use/housing strategy, there are few incentives to encourage infill housing, redevelop brownfield sites and make urban communities attractive places to live.

- Finally, there are two areas where continued discussion is needed to develop a real and durable consensus:
  - Many groups say “The issue is not whether we grow, but how we grow”, but this statement does not always imply agreement about

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4 The report was sponsored by the Hewlett, Irvine and Packard Foundations, the Bank of America and Environment Now and is available on CCSCE’s website, www.ccsce.com.
growth. To date, no region has successfully identified practical strategies to house projected job and population growth. Without such strategies and the accompanying commitment and resources, it is easy to say “let’s limit this (proposed) growth” without having to understand and face up to where else the growth might go in the region. Similarly, there is little understanding or discussion about the consequences if leading industries are unable to expand in California.

— The “smart growth” debate is full of advice to people on how to live smartly: e.g., live near public transit, live in higher density urban settings, don’t build roads because they always get full. Yet without incentives for such housing to be built and such communities to have excellent public services, and since auto travel is still faster and more convenient than public transit, these exhortations sound preachy and treat private choices as if housing were like tobacco – a dangerous consumer good which needs to be heavily regulated.

The Economic Case for Better Land Use Planning

Californians must be prepared for a resumption of high levels of job, population and household growth. The strength of California’s leading industries should push California growth rates above the national average for at least the next twenty years.

There is a compelling business case for improving land use decision making in California – to attract the entrepreneurs and workers who will lead California’s knowledge-based industries. There is also a compelling community case for improving land use decision making in California – to maintain a high quality of life for ourselves and future generations.

A strong economy is raising incomes for most Californians and providing an increase in living standards for the first time in the 1990s. A continuing strong economy provides opportunities to include more and more residents in the state’s prosperity.

This growing prosperity attracts even more new residents to California and increases pressures on land, the environment and quality of life. More jobs attract more people and most new residents want to live in California’s existing urban regions. Taking bold actions to preserve California’s quality of life and environment in the face of a strong economy will make California even more attractive to workers and entrepreneurs. This is the paradox of a strong economy. Yet it is the only realistic chance for Californians to have both economic prosperity and a great place to live.
A high quality of life is, increasingly, a critical determinant in attracting entrepreneurs and workers in global industries. Firms and employees in these industries have choices about where to locate. They can and do demand good schools, clean air and water, efficient transportation, excellent public services and great recreational and cultural amenities – in short, a high quality of life.

Land use decisions play a critical role in determining the quality of life in California and, therefore, in how many high wage, high growth firms can locate and actually choose to locate in California’s regions. These locational choices have a direct impact on the opportunities available to California workers to earn a rising standard of living for their families. Failure to protect the natural attractiveness of California can, therefore, hurt the state’s future prosperity.

CCSCE has identified five principles for improving California’s land use decision making – principles for simultaneously achieving economic growth, environmental and quality of life goals.

**Principle One: Regional Perspectives are Required**

Regions are the critical geographic area for organizing land use decisions in California. Planning for adequate land for jobs, housing, and open space requires a regional perspective. Currently, local land use decisions often hinder economic growth. Business costs will be higher and the quality of life will be lower if local land use decisions are made without assessing the regional impacts on housing, transportation, and the economy.

**Principle Two: Land Must Be Used More Efficiently**

Higher densities in California’s urban regions are necessary to house the projected job and population growth. The challenge is to make California’s existing cities attractive places to live and work for many of the 12+ million new residents expected by 2010. Failure will bring lost jobs and income, and will increase the pressure for unplanned growth away from existing cities.

**Principle Three: Public Investment is Required**

California faces more than $100 billion in infrastructure investments in the next ten years. The need for substantial increases in public investment – in schools, transportation, airports, and water – has been documented again and again in analyses of California’s economic competitiveness. These same investments are also needed to support smart land use planning and maintain a high quality life for all Californians.

**Principle Four: Fiscal Reform is Essential**

Current fiscal rules give the wrong land use planning incentives. Current fiscal rules make infrastructure funding difficult. Current fiscal rules prevent local
governments from providing high quality public services for California’s growing number of businesses and residents.

**Principle Five: Equity Considerations Must Be Included**

Smart land use planning must include job and housing opportunities for all Californians, as well as open space and preservation of the state’s unique land resources. Californians share the same land, the same economy, and the same environment. The challenge is to ensure that increases in economic prosperity and quality of life reach all residents.

**Tools and Incentives**

Every time new housing is built and occupied, two sets of decisions are made: ① decisions by the community and developer to build new housing and ② decisions by residents to purchase and live in the new housing. If California’s major regions are to build enough housing to keep pace with projected job growth, new tools and incentives will need to be developed to address these two sets of decisions.

Three reforms, all difficult to achieve so far, would be helpful:

① The fiscal system needs to make housing “pay” from the viewpoint of local residents and communities. Under the current system usually only very expensive housing covers the costs of related public services without diminishing the services to existing residents.

② Incentives for clean-up and re-use of brownfield and vacant sites would further the objective of constructing housing on existing urban infill sites.

③ Residents must want to live in communities where new housing is built. If land use principles (e.g., preserving open space and unique natural resources) favor infill housing, then these communities must have sufficient resources to meet the expectations for schools, public safety and other public services of prospective buyers.

Without better tools and incentives, the land use and housing choices that minimize commutes and maximize use of existing land are unlikely to happen no matter how loudly some groups tell others how they “should” live.

**Challenge Two: Smart Public Investments for the California Economy**

CCSCE has just completed an examination of long term infrastructure investment planning in California. The work was prepared for Californians and the Land and sponsored by the Hewlett, Irvine and Packard Foundations, the Bank of America, Environment Now and the McCaw Foundation and resulted in a report Smart
Public Investments for the California Economy: Information and Analysis for Infrastructure Planning.

The issues and challenges of developing a long term infrastructure investment strategy are currently being addressed by the Governor and Legislature and will result in a number of ballot initiatives. The executive summary of CCSCE’s recent report is reproduced below as our contribution to the public dialogue.

The complete report is available on our website, www.ccsce.com.

Smart Public Investments for the California Economy

California residents are contemplating infrastructure investments of nearly $200 billion in the next ten years for state, local and regional projects. If done wisely, these investments will significantly enhance the state’s economy and quality of life. If done poorly, these investments will be a waste of taxpayer dollars and a missed opportunity to plan for California’s future.

Californians face both short-term and long-term investment choices. In 2000, residents will vote on bond issues and tax policy changes that would immediately add billions to the state’s infrastructure investment funding pool. At the same time, decision-makers are working to develop a long-term infrastructure investment strategy. This report addresses the long term planning challenge.

All parties in California’s infrastructure policy discussions agree that the level of information available to develop a long term infrastructure investment strategy is inadequate. The current information base is poorly organized and incomplete. No family or private business would willingly make serious long-term investments decisions with the paucity of information currently available to decision-makers and voters about California’s infrastructure.

Two major improvements are needed in the process of compiling and evaluating infrastructure needs:

1. California’s infrastructure investment is and must be treated as a partnership effort.

   The state government should take responsibility for compiling a comprehensive picture of statewide infrastructure needs and not focus solely on individual state funding choices. The state government is one of many partners who can meet California’s infrastructure investment challenges. The best role for state government in California’s infrastructure investments should be determined by simultaneously considering the role of the state’s other infrastructure investment partners – local and regional agencies, the federal government and California’s private and non profit sector investment partners. The current compilation of infrastructure needs must be broadened in scope and improved in quality.
For example, current compilations of K-12 school needs do not provide easy access to basic information such as 1) how many new classrooms need to be built under various growth and class size reduction alternatives, 2) what are the repair and upgrading needs in existing facilities and 3) how much local school infrastructure funding might be available under different local school bond voting majority rules.

Concepts for a Comprehensive and Partnership Approach to California’s Infrastructure Investment

- Compilations of infrastructure investment needs and funding availability should be comprehensive in scope and reflect the activity of all partners – not just the state government.

California’s infrastructure will be planned, funded and built by many infrastructure investment partners – the state government, local governments, regional agencies, the federal government and the state’s private and non-profit investment partners. The partnership roles will vary by type of infrastructure investment, e.g., regional agencies are key partners in transportation, local school districts in K-12 planning, public land trusts in open space acquisition while the state government has the dominant role in planning for higher education facilities.

“In its work over the last several months, the committee has come to appreciate the complexity of attempting to evaluate, compare, and prioritize the wide variety of state and local facility needs. Though the committee received valuable information from a variety of experts and interested parties, it is apparent that the State would benefit if decision-makers had a comprehensive inventory of its facilities needs and options for financing those needs. The state should develop a long-range capital plan that identifies its infrastructure needs, establishes priorities, and presents funding mechanisms to implement the plan.”

Interim Report to the Governor
Commission on Building for the 21st Century
August 2, 1999

- Many infrastructure needs are not related to future growth. California has needs to both improve and increase infrastructure service capacities. California faces significant investments to replace old infrastructure, introduce new standards and technology (e.g., class size reductions), catch-up with the underinvestment of past decades and also plan for future growth.

Compilations of investment needs should clearly identify these different components of infrastructure investment to facilitate the inevitable investment choices that will occur between improving existing infrastructure and building new facilities. Moreover, residents still need more information to clarify misunderstandings about the relationship between future growth and infrastructure investments.
• Joint use opportunities are one example of why California’s infrastructure investment must be a partnership effort.

Joint-use can be a cost-effective approach when new facilities need to be built. There will need to be significant new infrastructure facilities construction. For example, K-12 classroom needs are large and will be even larger if class-size reductions are expanded to additional grade levels. One way to get more capacity from infrastructure is to share the use. School districts and cities throughout the state are increasingly looking to develop joint-use of facilities.

• The need for integration of different agency planning activities is another illustration that infrastructure investment must be treated as a partnership process. For example, integrating land use and transportation planning – an idea that can economize on transportation investments and improve the quality of life for residents – will also require a new look at how California’s planning and investment partners can work together.

California’s infrastructure investments must be developed and evaluated with the same rigorous investment criteria used by families and firms.

Hard questions should be asked and answered about whether proposed investments represent the best way to solve an infrastructure capacity need, i.e., whether the proposed solutions meet economic criteria of cost-effectiveness and return on investment. There are significant unanswered questions about the best way to reduce congestion, the best way to meet water needs, the best use of park money and the best way to build new schools. Californians deserve to have these question answered before they commit public funds, just as a family or firm requires answers before they make serious investment commitments.

For example, transportation investment needs exceed $100 billion in the decade ahead, yet regional transportation planning agencies forecast that after these investments are made, congestion will still be worse than today. Is there a better approach?

Concepts for Developing and Evaluating Cost-Effective Approaches to Improve California’s Infrastructure Capacity

• Focus on improving infrastructure service capacities first, then decide what infrastructure needs to be built. For example, residents want increased mobility, not necessarily more transportation facilities, and adequate water, not necessarily more water facilities. There are significant unresolved questions about the best way to improve infrastructure service capacities and the state needs to make sure these questions get addressed as part of a long term planning process.
• **Building infrastructure capacity doesn’t always require building.** Making better use of existing infrastructure capacity will often be the cost-effective approach. For example, Southern California is meeting increased urban water demands primarily through conservation.

It will be especially important to explore better use of existing transportation facilities since current estimates of conventional investment needs are so large and without the prospect of significantly improving current levels of congestion and mobility.

• **Market forces – prices, incentives, competition and private sector expertise – can serve public investment purposes.** California has had success in using prices and market incentives to reduce investment needs in electricity, water, and air pollution clean-up. Experimentation with more extensive use of prices and other market forces to guide infrastructure investment decisions should be able to reduce funding needs in the long term.

• **Return on investment should be made an explicit criterion for investment choices.** Evaluating public investments is more difficult than for private investments and it must take account of social as well as financial benefits and costs.

However, there are useful models for rigorously evaluating the benefits and costs of public investments. Moreover, families and firms have extensive experience in carefully evaluating their own serious investments decisions and expect that government will be equally careful in investing public funds. Development of a more rigorous process to evaluate public investments should be a high priority in California’s new comprehensive infrastructure planning process.

“California is faced with many conflicting transportation priorities that compete for scarce transportation funds. To maximize the return on our investment, in terms of mobility, economic, and environmental benefits, a uniform process for determining critical projects should be developed that is performance-based. The act of determining such a system, including categories of measurement and appropriate performance indicators, will be a lengthy process and require input from all key transportation stakeholders. This committee believes this will require additional discussion before a final recommendation can be made.”

Interim Report to the Governor
Commission on Building for the 21st Century
August 2, 1999

• **The numbers matter.** Serious investment decision making always involves numbers. Infrastructure demand assessments depend on forecasts about future growth. Infrastructure investment analyses depend on careful estimates of benefits and costs.

The numbers must be carefully developed, transparent (i.e., it is easy to figure out how each set of numbers was derived), and easily accessible to public
scrutiny and debate. As the President’s Commission to Study Capital Budgeting recommends: “Given the many billions of dollars at stake each year, it would be penny-wise and pound-foolish not to spend millions of dollars for analysis to help produce better information for decision-makers”.

How Much Infrastructure Investment Can We Afford?

How much to invest in California’s infrastructure should depend on the return on investment or “payoff” from these investments. This report sets out concepts and practical steps to address the serious information and analysis gaps that currently hinder Californians from being able to effectively answer the “how much to invest” question.

California’s personal income should grow from $960 billion in 1999 to $1.7 trillion in 2009. Devoting an extra ½% of state income to public infrastructure investment over the next ten years would provide a ten year investment pool of $65 billion in addition to existing funding. Today it is too early to conclude that California “cannot afford” to fund all infrastructure investments with demonstrated high rates of economic and social return.

“Good investment policy dictates that the nature and exact level of public investment should be driven by a set of principles guiding California’s future economic growth, not by a “magic” percentage of the state’s budget or a compilation of capital projects desired by various agencies. To date, much of the discussion surrounding infrastructure investment has revolved around dollar needs versus dollar availability, in the absence of a strategic investment plan.”

Smart Investments
Philip Angelides, California State Treasurer

Challenge Three: Reducing Poverty and Meeting California’s Need for a Highly Skilled Workforce

California has the opportunity to develop a new workforce development strategy and system in 2000. California is required under the Federal Workforce Investment Act of 1998 to develop a new workforce strategy and implementation program and the California Workforce Investment Board, appointed by Governor Davis, had its first meeting in January 2000.

The board will face two different statements of “critical need” in its work:

1. Despite five years of strong economic growth, some workers and welfare recipients do not have jobs. Many more workers do have jobs that still leave their families in or near poverty.

2. California employees are facing increasing problems in finding skilled workers. At the same time, many workers want to upgrade their skills but
are uncertain how they can acquire these skills and “move up” to a higher paying job.

These are very complicated challenges. While the Workforce Investment Act speaks of a universal workforce system where all workers are eligible and private sectors involvement is critical, most of the resources are targeted to poor and/or disadvantaged residents. CCSCE made a presentation at the first Workforce Investment Board meeting which focused on two themes:

① There is broad agreement on the components of a workforce development system oriented to the needs of the California economy:

— It should be universal, open to existing workers and unemployed workers alike.

— It should be oriented around specific regional workforce needs which may differ from region to region.

— Regional workforce programs should be designed by partnerships between the private sector and educational and training institutions (including newly developed institutions) within each region.

② While workforce programs can play a role in reducing poverty, a successful anti-poverty strategy has at least three other major components:

— policies in support of strong economic growth

— policies to directly raise incomes of low wage workers and their families

— policies to improve the attractiveness of poor communities as places to live and work

The California Workforce Investment Board and other participants in public workforce policies face the challenge of combining a focus on poverty reduction with a focus on economic growth given limited resources and the policy directive to achieve both goals in one workforce development system.


The dominant focus of the existing publicly funded workforce programs in the state and nation is on helping unemployed residents find and keep jobs. Funds in these programs are directed primarily at helping specific eligible groups – e.g., welfare recipients, unemployed adults, disadvantaged youths and dislocated workers.
The major focus of the current round of reforms is to provide these services in a more coordinated and efficient approach organized around the concepts of One Step Career Centers and the active involvement of private sector and nonprofit community institutions in local areas throughout California.

Implementing these reforms will not change the fact that most dollars will still be directed towards helping people without jobs find employment.

The strategy of reducing poverty through employment faces three very large challenges:

1. There is a major difference between getting a job and lifting your family out of poverty. Most of the first jobs that welfare recipients and other unemployed adults get do not pay enough to lift families out of poverty in most regions of California. Furthermore, the reality is that many workers will work for much of their work-life in jobs that do not pay enough to bring families very far above the poverty level.

2. The experience of welfare reform is establishing that an expensive package of services (child care, transportation, training) is required to help recipients find and keep employment. As yet, employment programs for other groups do not have funding for these services and there is no agreement on how long these services can or should be provided even to welfare recipients. Moreover, the role of strong economic growth is being more recognized as the primary factor that helped unemployed Californians find jobs during the past five years.

3. Programs to help unemployed residents find and keep jobs do not significantly address either the career training needs of most workers (who already hold jobs) or the skilled worker needs of California’s employers who are hoping to find ways to get help in upgrading skills in the existing workforce.

**Getting a Job Versus Getting Out of Poverty**

The skill requirements of the U.S. economy are increasing but there will still be a large number of jobs in ten years that have modest skill requirements and relatively low pay.

<table>
<thead>
<tr>
<th>Jobs by Educational and Training Requirements</th>
<th>United States</th>
<th>1998-2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and Training Category</td>
<td>Jobs</td>
<td>Percent of Jobs</td>
</tr>
<tr>
<td>(Thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>More than Bachelor’s degree</td>
<td>13,439</td>
<td>15,834</td>
</tr>
<tr>
<td>Bachelor's degree</td>
<td>17,379</td>
<td>21,596</td>
</tr>
<tr>
<td>AA degree</td>
<td>4,930</td>
<td>6,467</td>
</tr>
<tr>
<td>Other post secondary experience</td>
<td>49,639</td>
<td>54,197</td>
</tr>
<tr>
<td>Short term on-the-job training</td>
<td>55,125</td>
<td>62,701</td>
</tr>
<tr>
<td>Total Jobs</td>
<td>140,514</td>
<td>160,795</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Labor Statistics

The fact that so many jobs – now and ten years from now – will be in BLS’s category called “short term on-the-job training” gets a lot of attention. The statistic is more complex than is generally recognized.

1. On the one hand many jobs in this category presume a good K-12 education. These jobs require short term training in addition to good K-12 skills.

2. On the other hand, most of these jobs pay near minimum wage (55.8% pay less than $7.76) or well below average (35.8% pay $7.76 to $10.89).

3. Finally, it is clear from the table that many Americans will continue to work in these jobs ten years from now.

Reducing Poverty in a Low Unemployment Economy

California has seen major progress in getting jobs for unemployed residents in recent years.

- The statewide unemployment rate is down to 4.9% and the number of unemployed workers has been reduced from 1,501,000 to 824,000. The unemployment rate is below 4% in the Bay Area, San Diego and Sacramento regions. The unemployment rate for Hispanic and African American workers has dropped by more than for other workers.

- Approximately 200,000 welfare recipients (by and large the most work-ready) have found jobs.

- Some formerly “discouraged” workers have come back into the labor force and found jobs.

As a result, California’s poverty rate declined from 18.2% in 1993 to 15.4% in 1998.
In the next decade the focus of poverty reduction and reducing the number of families who live just above the poverty level must switch from placing people in jobs to helping families who work raise their incomes. If training opportunities could be developed for low wage workers as part of California’s new workforce system, that would be a step towards meeting the goal of poverty reduction but there are other, more powerful policy choices as well:

1) The minimum wage could be raised. The last increase in the minimum wage helped low wage workers get above average wage gains for the first time in three decades. Another increase would probably lift more families out of poverty than all existing training programs combined. Moreover, increases in the minimum wage help workers who are unlikely to get better jobs any time soon.

2) The Earned Income Tax Credit (EITC) is a more targeted tool for raising incomes for low income families. While minimum wage increases also go to workers in high income families (and this may, of course, be a desirable social goal), the EITC can be targeted solely to low income families.

3) Public support for health insurance for poor families could be increased. While the poverty rate has fallen during California’s recent economic surge, the percentage of Californians without health insurance has risen – from 19.6% in 1993 to 22.1% in 1998.

4) Public support for child care for poor families could be increased. Although potentially very expensive, child care assistance would probably be the largest dollar contribution to poor and near poor families and could advance public education goals as well.

**Working and Poor (or near poverty) – Does it Matter How You Got There?**

When welfare reform policies have been successful in helping recipients find jobs, in the vast majority of cases the family moves from being poor and on welfare to being poor and at work. The family then joins the millions of poor working families and working families with incomes between 100% and 200% of the poverty level.

The California Workforce Investment Board, charged with helping Governor Davis develop a new state workforce strategy, faces several challenging issues in charting a strategy for working poor families:

1) Can the state, in partnership with businesses and community institutions, develop effective “move up” training programs to help those who can create upward career paths?

2) What level of public support services, if any should be given to working poor families. The welfare reform program provided substantial resources to
recipient families (child care, transportation, employment services) to facilitate the transition to work.

— Should these services continue or be phased out as recipients find work? Using what criteria?

— If welfare recipients need services when they are working and poor, do other families who are working and poor but have never been on welfare deserve fewer or no services?

Currently, California does not have a single program of health insurance assistance for poor and near poor families. As a result, there is confusion as to who is eligible, confusion as to whether families who leave welfare are entitled to public health care assistance and an array of programs with different eligibility criteria.

At the same time, the link between work and access to health insurance is weakening not just for low paid workers but more broadly. Since workers consider health insurance coverage in making job choices, developing a comprehensive strategy for how work and health insurance should be related in today’s economy (especially for low paid workers) should truly be part of California’s workforce strategy for the 21st century.

Meeting the Demand for Skilled Workers in California

When viewed in the broad context of public policies to support economic prosperity, helping unemployed workers get jobs is not the top priority. There is broad agreement that developing opportunities for all workers to improve their skills is California’s number one workforce priority in terms of an overall contribution to economic growth and competitiveness.

“Every industry cluster told our Panel that skills’ improvement through education and workforce training was its top priority. Our Panel strongly heard that California’s workforce preparation programs (including vocational education, job training, adult education and school-to-career) must change. Ongoing skills improvements is necessary for California industries to maintain a leadership position in the global economy, and for creating opportunities for our workers to share in future economic growth.”

Collaborating to Compete in the New Economy, California Economic Strategy Panel
http://commerce.ca.gov/california/economy/neweconomy

Many organizations have reported similar findings and priorities: e.g., American Electronics Association (www.aeanet.org), California Business Roundtable (www.cbrt.org), and the California Council for Environmental and Economic Balance (www.cceeb.org).
Universal skill building strategies and programs offer three significant contributions to Californians:

1. They respond to the stated needs of California’s leading industries.
2. They offer hope of long term career advancement to Californians.
3. They speak directly to the workforce challenges of the 90% of California’s workers who already have jobs.

The draft State Plan being reviewed by the California Workforce Investment Board contains language directed to meeting the challenges of universal access to skills improvement opportunities.

“The draft State Plan emphasizes the importance of linking economic development and workforce development. California’s workers and employers must have the skills needed to remain competitive in the global economy. The strategic direction of California’s workforce development system will be to provide the customers with the information and services they need to obtain education and training that responds to the career opportunities and industry requirements of the new economy.”

**Draft State Workforce Investment Plan**, California Workforce Investment Board (www.calwia.org)

The state faces significant policy and resource challenges in going beyond helping people find jobs to meet these broader, lifetime workforce objectives. CCSCE offers two principles to guide this effort:

- **Workforce preparation should be viewed as a universal challenge** – not as a set of programs for special groups. The different groups listed above share part of a common challenge – to prepare for the future world of work in California.

  Workforce preparation is for everybody and needs to be continually pursued. America’s businesses are the leaders in workforce preparation. Many of the nation’s best models for lifelong workforce preparation have been developed by private corporations where the value of highly skilled and motivated employees is well known.

- **The primary focus of workforce preparation should be oriented to the future California economy**. What skills, education, and specific training will be needed to be successful not just today but over time and into the 21st century economy?

  Many current programs are oriented to putting people to work immediately. While this is a worthy goal, it forces attention on today’s, not tomorrow’s, jobs and skills.
By focusing on workforce preparation as a universal challenge oriented to future needs, California can be a leader in developing policy approaches that will help the state and nation.

A significant foundation of information and ideas for the newly appointed California Workforce Investment Board has been established by a two-year joint effort of the State Superintendent of Public Instruction, Secretary of the California Trade and Commerce Agency, Secretary of the California Health and Human Services Agency and Chancellor of the California Community Colleges. Their first report California Workforce Development: A Policy Framework for Economic Growth was published in January 2000 (www.regcolab.cahwnet.gov).

The main concepts underlying their recommendations are:

- Organize workforce activities around regional labor markets
- Develop a universal approach to workforce development, i.e., one that creates opportunities for all workers
- Incorporate a “move up” strategy as a key workforce objective
- Develop workforce partnerships with private sector and community institutions within each region

Specific recommendations from California Workforce Development include:

Expand the state partnership required by the Regional Workforce Partnership and Economic Development Act to reflect the full scope of workforce development:

- Include the University of California and the California State University System in the state partnership
- Recognize the important roles of private post-secondary schools, colleges, and universities in the workforce development system
- Continue the direct participation of local agencies and the private sector in the development of workforce policy
- Establish formal communication and coordination links from the state partnership to governing and advisory bodies and administrative agencies
- Provide sufficient management and staff to meet state partnership commitments

Sustain and expand collaboration among workforce development policy bodies and service providers, including social support services:
• Make effective use of existing methods of collaboration
• Develop methods for coordinated planning
• Make use of state discretionary funds

Engage the private sector as full partners in every aspect of workforce policy and systems development, program operations, and delivery of services:

• Identify and implement strategies to increase private sector leadership and engagement in state and regional workforce development systems
• Disseminate information on successful models of public-private collaboration
• Measure the extent to which regional workforce needs for each industry are actually being met
• Expand successful work-based learning programs, including those that build entrepreneurial skills and encourage small business development
• Expand the apprenticeship system in the number of participants and scope to maximize the effectiveness of the apprenticeship mode

Incorporate a “move up” strategy within all segments of the workforce development system to continuously improve the knowledge and skills of every person in the labor force and ensure opportunities for career development and increased earnings:

• Provide universal access to services
• Establish the “move up” strategy as a basic element of the workforce development system
• Infuse work readiness and continuous growth skills and knowledge into all educational curricula

Support local development of regional boundaries for workforce development systems and service delivery methods:

• Continue state support for analysis of regional economies
• Promote maximum flexibility for local elected officials, local agencies, and the private sector to define economic and functional regions
Remove fiscal, eligibility, and other regulatory requirements that create barriers to accessing services:

- Establish policy through the governing and advisory bodies
- Remove barriers established administratively
- Remove or reduce barriers established in law

Expand accountability for program results and system-wide outcomes, to ensure continuous improvement in service delivery:

- Hold the K-12 system accountable to achieve academic standards
- Fully implement the “report card system” required in SB 645
- Use existing information systems as the basis for data needed to support performance-based accountability
- Continue to address information systems and data sharing issues raised by federal and state confidentiality laws

Continue and expand existing systems development initiatives as the foundation for regional and statewide systems.

Thus, the challenge before the California Workforce Investment Board is to simultaneously pursue two objectives with equal vigor: ① to reform the workforce system that helps unemployed workers find jobs and ② to create a workforce system that helps workers with jobs find ways to move up career ladders and meet the needs of the California economy.