KEY ISSUES FACING CALIFORNIA

The California economy is in a period of strong economic growth. The 400,000+ jobs added in 1998 cap four consecutive years of robust job and income growth.

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 four 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 directly addressed by business, community, and public policy leaders in 1999.

1) **Californians will continue to push for development of a long term economic strategy.** More budgetary resources will bring more options for investing in California’s future. Yet there is still no basic agreement on the most appropriate or effective public policy role in creating the foundations for private sector economic growth.

2) **The impacts of growth are a major policy issue for 1999.** Job growth has led to increased congestion and escalating housing costs in many areas of California. As job growth continues and spreads, more communities will feel some negative impacts from economic growth. On the other hand a high quality of life is one of California’s major attractions for new firms and industries.
In 1998 CCSCE prepared a major report on land use and the California economy. The report, sponsored by business and community foundations, discusses the connections between land use choices, a high quality of life and economic prosperity in California.

3) **Californians know that economic growth by itself is not enough to meet the income and health needs of all residents.** Four years of strong economic growth is raising incomes for most residents including, finally in 1997 and 1998, for lower wage workers. Overall economic growth remains the most powerful weapon against poverty and poor health.

At the same time Californians recognize that there are limits to what economic growth alone can achieve. Moreover, economic growth by itself does not provide the tools for all residents to fully participate in the economy – including welfare recipients and working poor families hoping to move up or middle class workers aspiring to fill some of California’s high skilled job shortages.

CCSCE’s affiliate organization – the Institute of Regional and Urban Studies – has been working with The California Wellness Foundation to examine the connections between the health of Californians and these issues of work and income. We report below on the growing recognition that work and health are profoundly connected.

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

**Challenge One: Developing a Long Term Economic Strategy for California**

Abundant opportunity does not equal guaranteed success. California will need to work hard to convert opportunities into gains in real wages, income, and profits.

California does start with an advantage. The state’s economic base is already well positioned in future growth sectors. California’s challenge is not to create a new economic base but, rather, to nurture and expand the state’s leadership position in key industries.

The actions of California’s firms and workers will be the primary determinant of the pace of economic growth. Private sector investment and management decision will be critical for converting opportunity into prosperity.

**Public policy has a significant role to play in creating a positive environment for private investment.** Public policy affects the economy in
many ways as shown on the accompanying chart. The new administration will have a chance to develop a new set of priorities for the state’s role in supporting economic growth.

**Themes for A California Economic Strategy**

Some themes in California now are gaining momentum because they simultaneously address business and residents’ perspectives:

- The economy depends on California’s education system
- A strategic infrastructure plan is needed for the economy and for quality of life
- A high quality of life is a competitive asset for California businesses

**Education and Training**

The new California Business Roundtable Business Climate Survey confirmed the growing consensus that education is the number one public policy priority in a California economic strategy.

“This emphasis on K-12 education receives a strong endorsement from California Voters and Business Leaders alike. Both groups concur that quality education is essential for the state’s future economic growth.”

1998 California Business Climate Survey

In December another business coalition – California Business for Education Excellence – was formed with members such as the American Electronics Association, the California Business Roundtable, IBM, Hewlett-Packard and Boeing. The groups’ priority is to make sure that high academic standards are implemented in California.

1999 will bring opportunities for reorganizing California’s public sector training programs. Federal workforce program reforms were adopted last year which give flexibility to state agencies in program design.

Moreover, a year long planning effort of four key groups – the Superintendent of Schools, Secretaries of Trade and Commerce and Health and Welfare, and Chancellor’s Office of the California Community Colleges has produced a draft California Integrated Workforce Development Plan. The draft Plan will be discussed in early 1999 and, hopefully, brought to the Legislature for policy development this year.
Attracting Private Investment Requires Public Investment

A Diverse Economy Requires A Diverse Economic Strategy

**Business Costs & Regulatory Environment**
- Workers’ Compensation
- Taxes and Fees
- Housing Prices
- Tort Reform
- Capital Access
- Streamlined Permitting
- Market Based Environmental Regulations

**Education and Training**
- K-12
- Higher Education
- School to Work Transitions
- Reform of Public Sector Training Programs

**Infrastructure**
- Highways & Public Transportation
- Ports
- Airports
- Water Systems & Solid Waste Disposal

**Quality of Life**
- Good Schools
- Low Crime
- Air Quality
- World Class Amenities

**Helping Industries Organize for Success**
- Reducing Trade Barriers
- Increased R&D and Technology Support
- Fostering Industry Networks and Collaboration
- Linking Industry with Government and Schools
- Regional Economic Initiatives
The draft Plan includes principles which CCSCE has stressed for many years:

1. A workforce preparation strategy should be **universal**, applying to all segments of California’s labor force, and **lifetime oriented** by helping residents pursue upward mobility over time in response to new changing needs and the changing needs of the California economy.

2. The workforce strategy should be based on information about where the economy is headed in terms of occupations and skills.

3. Any public workforce strategy should incorporate the expertise of the private sector both in terms of what is needed and how training can be done effectively.

**Business Costs and Regulatory Environment**

These issues were the lead concern of California’s business community in the early 1990s. While education, infrastructure and quality of life now lead the business agenda according to the recent California Business Roundtable Business Climate Survey, regulatory issues are still important.

Regulatory reforms are currently being discussed in several areas related to the California economy: toxic cleanup and base reuse, land recycling, school construction, more development permit streamlining and air and water quality. Moreover, there are ongoing challenges of making government more efficient both in terms of costs and customer service.

High housing costs are an area of significant concern to California businesses as well as to residents seeking new housing. Assuring that housing is available for California workers has become a priority issue for future economic growth. California had 11 of the 25 least affordable metro areas for housing in 1998.
### Housing Affordability

<table>
<thead>
<tr>
<th>City</th>
<th>Share of Homes Affordable for Median Income</th>
<th>National Rank of 193 Metro Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Francisco</td>
<td>21.6%</td>
<td>193</td>
</tr>
<tr>
<td>Santa Cruz</td>
<td>28.5%</td>
<td>192</td>
</tr>
<tr>
<td>Salinas</td>
<td>35.3%</td>
<td>189</td>
</tr>
<tr>
<td>San Jose</td>
<td>35.8%</td>
<td>188</td>
</tr>
<tr>
<td>Santa Rosa</td>
<td>37.6%</td>
<td>185</td>
</tr>
<tr>
<td>San Luis Obispo</td>
<td>42.0%</td>
<td>182</td>
</tr>
<tr>
<td>San Diego</td>
<td>42.5%</td>
<td>181</td>
</tr>
<tr>
<td>Santa Barbara</td>
<td>44.7%</td>
<td>180</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>45.6%</td>
<td>179</td>
</tr>
<tr>
<td>Oakland</td>
<td>45.8%</td>
<td>178</td>
</tr>
<tr>
<td>Orange County</td>
<td>50.9%</td>
<td>171</td>
</tr>
<tr>
<td>United States</td>
<td>64.3%</td>
<td></td>
</tr>
</tbody>
</table>

Source: National Association of Home Builders

### Infrastructure

The pressure is growing for development of a long term infrastructure strategy and related policies for California. The California Business Roundtable added another report last year in support of the need for infrastructure spending and policies and their latest business climate survey reports. “California Business Leaders and Voters also agree that increased investment in improving streets and highways, schools and colleges and other public facilities are extremely important for California’s future.”

The California Council for Environmental and Economic Balance (CCEEB) has a set of infrastructure principles and priorities (www.cceebweb.org/cpr). In December, 1998 the Legislative Analyst's Office (www.lao.ca.gov) issued a set of recommendations for “Overhauling the State’s Infrastructure Planning and Financing Process.” The Local Governance Consensus Project and the newly created Assembly Budget Commission will also wrestle with infrastructure issues in 1999.

There are four principle challenges in developing an infrastructure strategy:

- Identifying and prioritizing infrastructure needs
- Identifying the best approach to expand the state’s infrastructure capacity (e.g., new building versus more efficient use of existing capacity)
• Developing agreement on funding sources and strategies
• Developing an integrated long term planning process

An ongoing challenge is to find a balance between reform and resources. Both are desired as current education dialogues show clearly.

For example, meeting California’s infrastructure challenges will require a mix of reform and resources. Increasing infrastructure capacity doesn’t always mean more building although plenty of new construction will be required. For example, conservation has been an important tool in providing “new” water and electricity for residents and businesses.

School and transportation construction will pose challenges to our creativity in expanding capacity to meet the requirements of growth. Reforms in construction practices and how schools and roads are used can be important tools in making the large upcoming public investments effective in terms of outcomes and cost.

There is hope that 1999 will bring the development of a long term capital planning strategy in California as more and more groups are realizing its importance to both economic growth and quality of life.

Infrastructure issues are also discussed later in this section related to land use decisions and the California economy.

Quality of Life

The importance of quality of life to the California economy is discussed later in Section 6 in the excerpt from CCSCE’s report Land Use and the California Economy: Principles for Prosperity and Quality of Life.

Helping Industries Organize for Success

One of the major developments in this area has been the explosion of collaborations between business and government, business and schools and business and the community. All of these efforts, patterned after the path-breaking collaboration in Silicon Valley – Joint Venture: Silicon Valley Network, emphasize the importance of regional economies and regional connections. In many ways the California economy is a collection of regional economies and many public policy challenges like air quality, transportation, land use and education are regional in scope.

The state has a role in supporting these regional efforts through the development of statewide policies, e.g., on education, workforce, and infrastructure, that meet the need of California's regional economies. One part of developing an economic strategy for California in 1999 is deciding the best way for the Legislature and Governor to work with regions and regional groups.
Challenge Two — Combining Economic Growth with a High Quality of Life: The Need to Improve Land Use Decisions

In 1998 CCSCE was asked by Californians and the Land to examine the connections between land use decisions, quality of life and the California economy. This section contains an excerpt from the final report Land Use and the California Economy: Principles for Prosperity and Quality of Life. A copy of the full length report is available at no charge from Californians and the Land (415) 281-0415.

Introduction

For many years California’s rapid growth has created tensions between the goals of economic prosperity and quality of life. These tensions have often focused on land use decisions – from battles over individual development proposals to statewide initiatives to protect the coast and preserve open space for all present and future residents. Many groups have searched for comprehensive solutions that combine economic and environmental goals and values but so far Californians have not found agreement on how to plan for the future.

This report was commissioned from the Center for Continuing Study of the California Economy (CCSCE) by “Californians and the Land,” a group of leaders from California’s business, government and environmental sectors. Californians and the Land, convened by the William and Flora Hewlett, James Irvine, Environment Now and David and Lucile Packard Foundations and the Bank of America, works to foster public discussion and to develop public and private sector actions that will improve the alignment of Californians’ common desire for continued economic growth and for protection and improvement of our quality of life.

Summary

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.

Californians should be prepared for 3 million more jobs, 6 million more residents, and 2 million more households in the next ten years. This growth
will give California a slowly increasing share of the nation’s jobs, people, and households – consistent with the state’s strong economic growth prospects.

After ten years California’s growth will slow but only modestly. By 2020, based on conservative CCSCE projections, California will add approximately 5.1 million jobs, 12.4 million people, and should need 4.3 million more housing units.

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.

Residents have many choices about where growth will occur and what the impacts will be. **This report is about those choices.** The place to begin is by recognizing the importance of a high quality of life to business and to general economic prosperity.

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.

“Silicon Valley remains a center of innovation and entrepreneurship because of its people. If we lose the talent that distinguishes us – whether to congestion, poor schools, inadequate housing, or environmental degradation – we lose the essential element of our success.”

Becky Morgan
President & CEO
Joint Venture:Silicon Valley Network

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. The blunt fact is that residents and business leaders cannot assess the impact of local land use decisions without a regional perspective.

Planning for adequate land for housing, jobs, preservation of unique land resources and open space requires a regional perspective. However, Californians remain in conflict about bringing a regional focus to land use decision making. Local communities control most land use decisions in California today. Local funding mechanisms make it impossible for local communities to assess and act on regional impacts, even if local residents are willing.

Developing a regional perspective should be based on analyzing existing information and developing new information where appropriate. Figuring out how local land use plans fit together to meet regional needs requires more than agreement on goals and values. Developing a regional perspective requires the simultaneous and active analysis of information about regional jobs, population, households, infrastructure, and land resources.

CCSCE suggests that a first step is to take existing regional growth projections along with data on land use, zoning and environmental needs and see whether and how the growth can be accommodated. Can the projected jobs and households be located while conserving unique land resources and providing open space? What are the choices that emerge when you see “how to fit the growth on the land”?

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

There are four reasons why higher densities must be a key element of the solution to California’s growth:  
① higher densities are the only way to accommodate expected growth in California’s major urban regions; ② there is a direct trade-off between higher density, the options for open space and the pressures for unplanned growth patterns; ③ if California’s existing urban regions cannot accommodate the anticipated growth, then the pressure for growth to spill out into California’s agricultural, coastal, and mountain regions will intensify; and ④ enormous investments have been made in existing cities which are available to serve future growth.

It will not be possible to accommodate expected growth in most California regions unless large cities like Los Angeles, San Diego, San Jose, San
Francisco, Oakland and Fresno are part of the solution. Cities have the largest potential for increasing densities, for re-using abandoned and underutilized land, and for integrating job, housing and shopping sites to reduce travel demands.

“Sprawl negatively affects the quality of life for employees. Silicon Valley has to grow up – not out”

Carl Guardino, President
Silicon Valley Manufacturing Group

The requirements for making the major cities in California vital and attractive places to live and work are broad and challenging. They include affordable and attractive housing, good schools, a tax base and fiscal rules that support high quality public services, jobs and programs that provide opportunities and raise incomes for low skilled workers, and safe neighborhoods for all residents and businesses. In addition these cities need to remain centers for culture, dining, and shopping – places where Californians want to work, live and visit.

“Land use decisions determine whether we have a livable, tolerant community in Southern California. Economic development and environmental needs must be connected. Inner cities must be attractive, vital and safe or residents will want to leave”

Denise Fairchild, President
Community Development Technologies Center, Los Angeles

One approach to increasing densities and making cities more attractive at the same time is urban land recycling. California’s older cities have abandoned or deteriorated manufacturing plants, dry cleaning facilities, closed gas stations and stores and homes which have seen better days. Some sites are in neighborhoods that need better policing and transportation. Some sites have toxic contamination from past uses.

There are numerous problems to be worked out from funding toxic cleanup to providing public services in neighborhoods to land use and tax policies that promote redevelopment. The payoff, however, is substantial in terms of the potential to redirect growth to areas that want growth and have a basic foundation of existing infrastructure and public services.

“Land recycling is a vital tool for making California a more livable place. Land recycling can form the centerpiece of a more sensible, and sustainable approach to land use and development.

By using our land in a way that increases the average density in existing urban areas to an average of only 3 housing units per acre, all new
residents could be housed without developing a single additional acre of open space.”

George B. Brewster, Executive Director, California Center for Land Recycling

Principle Three: Public Investment is Required

Public facilities are over crowded throughout most of California. Roads are over capacity at peak hours. Schools were short of classroom space even before class size reductions created more demand. Airports and ports are operating near peak capacity.

This is before the coming surge of growth.

A conservative estimate of ten year infrastructure requirements totals well over $100 billion. Even though these infrastructure projects could help attract high wage growth industries and, simultaneously, improve the quality of life for Californians, serious obstacles have left a large funding gap.

Economic prosperity and quality of life goals will also require long term funding for open space, air quality, habitat protection, and preserving California’s unique land resources – in short, funding to maintain and improve California’s environmental infrastructure.

One obstacle is that money is not the only way to increase infrastructure capacity and Californians have been skeptical to write large checks until they are comfortable that other options have been considered and that there are mechanisms to assure accountability. Peak hour (congestion) pricing, sharing facilities among communities, and the use of technology in some teaching settings are all ways to increase capacity without more building. The bottom line is that one part of an infrastructure strategy for California must address issues of accountability and non building approaches to capacity expansion.

Another obstacle is that Californians are not in agreement on who should pay for new infrastructure. Californians are particularly divided on the question of whether new residents and businesses should be entirely responsible to pay for new infrastructure – “growth should pay for itself.” While this slogan is initially attractive to some people, there are two reasons to take a different view.

• While some infrastructure directly serves new residents and businesses (e.g., new schools and roads in an undeveloped area), much of the new infrastructure either modernizes existing facilities or also serves existing residents and businesses.

• There is broad agreement that California’s last wave of infrastructure spending ended in the 1960s. Since then residents and businesses
have not paid to keep pace with growth and serious infrastructure shortages have developed.

For these reasons, placing the burden of funding infrastructure solely on new residents and businesses will lead to inadequate funding relative to the state’s economy and create an equity imbalance between new and existing residents and businesses.

**Principle Four: Fiscal Reform is Essential**

Meeting economic prosperity goals requires fiscal reform. Funding infrastructure for economic and quality of life goals requires fiscal reform. Creating land use planning incentives for sustainable regions requires fiscal reform.

1) Current fiscal rules give the wrong land use planning incentives. Cities compete against each other for retail activity while housing, and even manufacturing, projects don’t pay fiscally. High development fees are imposed because other revenue sources are inadequate but the fees raise the price of housing and encourage sprawl.

“Today, however, land use planning no longer creates a healthy balance in California’s communities. All too often, communities are forced to make land use planning decisions based entirely on budget decisions. The question of how to create healthy, balanced communities has become secondary to the immediate need to balance the budget.”


High development fees are a feature of California’s post-Proposition 13 local government finance system. These fees, designed to help revenue-starved communities finance infrastructure and public services, add substantially to the cost of new housing.

“Our analysis shows that the fees imposed on new construction are significant, typically falling in the range of $20,000 to $30,000 per development. In one community, the fees and assessments totaled 19 percent of the mean sales price.”


2) Current fiscal rules make infrastructure funding difficult. There is no requirement for a long term infrastructure strategy even though ten
year funding requirements exceed $100 billion. In addition, the two-thirds vote requirement for the state budget and local bond issues means that California’s future infrastructure is controlled by just one-third of the Legislature and the voting public.

“The tax structure should enhance the state’s economic competitiveness, taking into consideration the level and quality of public services the tax system finances. Particular concern should be paid to the capability of the tax system to support investment in planned infrastructure critical to the state’s economic competitiveness and to accommodating the state’s rapid population growth. In particular a simple majority of local voters should be able to approve general obligation bonds for infrastructure projects if the projects are included in a local capital improvement plan. The tax system should not include fiscal disincentives to sustainable development and should have minimal influence on local land use decisions.”

Concepts for State and Local Tax Structure Reforms, California Prosperity Through Reform Project, California Council for Environmental and Economic Balance

3) Fiscal reform must include mechanisms that allow local government revenues to keep pace with economic growth. The sales and property tax base that local communities depend on is not growing as fast as the California economy. Fiscal reform must simultaneously improve land use planning incentives and provide a revenue base that keeps pace with demands of job and population growth.

Since 1990 total personal income in California has grown by 35.5% – slightly outpacing the rate of population growth and inflation (30.9%). Personal income tax revenues – the state government’s major tax base – have grown even faster.
The sales tax base has grown by just 20.9% during the same seven years while assessed value has grown by 23.6%. Sales tax revenues are likely to continue falling behind income growth as consumers spend an even greater fraction of their income on non-taxable items such as many Internet transactions.

While the property tax base has grown rapidly in some years and some communities, the overall property tax base will always be limited by the 2% annual cap on assessed value increases of specific property. The sales tax and property tax bases that currently finance local governments in California are not keeping pace with economic growth. Even one time adjustments, such as giving local governments a higher share of the sales tax, do not solve the long term challenge of providing local governments with a revenue base that keeps pace with economic growth and provides positive incentives for smart land use decisions.

If local communities do not have enough revenues to adequately fund public services, one clear impact of growth will be a decrease in the level of public services for existing residents.

Principle Five: Equity Considerations Must Be Included

Complicated, and usually unintended, equity impacts can result from land use planning and decisions. For example, policies that restrict housing have relatively more impact on young and newly arriving households. Policies that limit job growth can block opportunities for upward mobility. On the other hand, policies that make California’s cities more vital and attractive will also especially help California’s poorer and minority residents.
“Addressing urban poverty will require the political and moral commitment of significant numbers of people who are not poor. Some have sought to appeal for such support by raising fears that urban problems will “spill over” to outlying areas, an approach which predisposes suburbanites to view urban areas as places to be avoided and contained. Others have evoked the power of conscience and compassion, motives which are unfortunately less present when a broad range of people feel economically insecure.

We suggest a third approach which emphasizes common ground: The fates of our region and its low-income communities are inextricably intertwined, which means that attempts to address poverty and neighborhood decline help all residents of the region. We are, after all, in the same boat – and if one end springs a leak, the whole vessel will eventually go down.”

Growing Together: Linking Regional and Community Development In A Changing Economy, Summary Report – April 1997; Manuel Pastor, Jr.; Peter Dreier; J. Eugene Grigsby III; Marta López-Garza

Equity considerations must be part of the public discussion about developing strategies to deal with future growth in California. A discussion about equity is especially important in California where ethnic minorities will soon be a majority of the state’s population and where immigrants come everyday seeking the American dream.

Breaking the Logjam on Land Use Decisions – Finding Comprehensive Solutions

Californians have many good ideas for encouraging economic growth and many good ideas for strengthening our quality of life. Separate groups are working for more housing, greenbelts and agricultural preservation, environmental justice, fiscal reform, streamlining regulatory processes, and revitalizing urban neighborhoods.

None of these ideas alone is a solution to combining economic growth and a high quality of life. Greenbelts are not the solution. More housing is not the solution. Fiscal reform, regulatory reform and attractive cities are not the solutions. These ideas are parts of the solution.

Real agreement, real compromise, and real solutions will only come when residents and business, agriculture, community and environmental groups, and local and state political leaders reach beyond their individual narrow agendas to embrace part of someone else’s agenda. Solutions must combine housing and
open space – both in adequate amounts to meet projected growth. Solutions must combine fiscal and regulatory reform and accountability.

California’s economy has been through wrenching changes so far in the 1990s. Industries have had to develop new products and markets in a fast-paced global economy. Workers have had to adjust to new skill requirements and new ways of working. Yet, Californians are adapting to the new economy. Californians will enter the 21st century with a stronger economic base, higher incomes, and more opportunities than were present ten years earlier.

The question today is whether Californians can show the same resilience and innovation in meeting the unprecedented challenges of land use planning to sustain our economy, environment and quality of life as we did in responding to defense downsizing and the global economy.

**Challenge Three: Economic Growth Alone Does Not Address All the Work and Health Needs of Californians**

Four years of economic growth have made a difference to many Californians. Average wages and income are up strongly reaching record levels and far outpacing consumer price increases. Moreover, in 1997 and 1998 low income Californians finally shared in the wage growth. A strong economy had substantial impact on reducing unemployment and raising incomes. Economic growth remains the most important tool for raising incomes and reducing poverty.

Other policies are also important. The increase in California’s minimum wage contributed to the strong wage gains for low income workers. The federal Earned Income Tax Credit has a substantial impact on reducing poverty for working families. Many working Californians are facing difficulties in obtaining and paying for health insurance.

For several years CCSCE has discussed the need for comprehensive workforce policies in California. Such policies help prepare residents to fully participate in the state’s economic growth. Welfare recipients, residents working at poverty level wages, and middle class workers facing stagnant wages and obsolete skills can all benefit from skill building policies.

Moreover, California’s economy requires more skilled workers. The most important economic challenge facing California firms is finding qualified workers.

**The Connection Between Work and Health**

There are strong connections between the work and health status of Californians. Income, job satisfaction, and related issues like work schedules and job security
all show strong theoretical and statistical connections to measured and reported health status.

CCSCE’s affiliate organization, the Institute of Regional and Urban Studies, is working with The California Wellness Foundation on a multi-year program (The Future of Work and Health) examining the connections between work and health and the implications of these connections for public policy in California.

One reason to emphasize the connections between work and health in California Economic Growth is that they offer the possibility of broadening the discussion of California’s workforce preparation policies to include constituencies who are primarily focused on improving the health of Californians.

The strong connections between jobs, income and health are symbolized by the motto of the Future of Work and Health Program – “a good job is one of California’s best health promotion policies”.

**Income Affects Health**

The following summary is from a presentation by George Kaplan, Professor and Chair of the School of Public Health at the University of Michigan at a conference on April 23, 1998 sponsored by the Future of Work and Health Program of the California Wellness Foundation.

There really is substantial reason to believe that there is a strong, intimate, and important connection between people’s economic and physical well-being and health. There is also an important connection between the economic well-being of communities and the health of those communities. So, both at an individual and population level, economic forces may be considered some of the fundamental causes of health and disease.1

It is not just that poor people have worse health than rich people. There is a steady gradient relating increasing income and wealth to better health status. Kaplan followed 7,000 adults in Alameda County from 1965 on and compared their household income and death rates. Even from the start, those who had inadequate family incomes did worse, those who had very adequate did best, and those in the other two groups did intermediate in an ordered way. That ordering remains constant over 19 years.

The areas in which people live and the economic health of the areas in which people live are also strongly associated with their mortality. Initially, Kaplan and colleagues collected data on the health status of those people who lived in impoverished Oakland communities and those who lived in more affluent Oakland communities. Nine years later, when the health outcomes of those two

1 A full transcript of Kaplan’s remarks and charts in available at www.tcw.orgwhi_conference.htm. All 25 presentation charts are accessible in color at the website.
groups was compared, researchers found that people who lived in the impoverished areas actually died at a faster rate than those who did not. This finding couldn't be explained away. People weren't dying at a faster rate because they were smoking, drinking, and staying out late at night, had lower incomes or education, or were without health insurance or jobs. There seemed to be something about the areas in which they lived.

Different research shows similar findings on rates of disability and a variety of other health outcomes. At least two dozen studies indicate that socioenvironmental properties of residential areas seem to be strongly associated with the health and risk factor trajectories of the residents of those areas. Many of these characteristics are rooted in the socioeconomic structure of the areas. People who live in economically troubled areas are more likely to become less physically active over time and to die faster than people in areas with greater economic health. That finding seems to be independent of their individual characteristics. So, the economic level of areas seems to be important.

Even beyond that, there are now a whole series of studies which show the level of income inequality within a city or area seems to be important. So, the equity, or fairness, of income distribution is beginning to look like another fundamental structuring device for health.

In the United States, at the state level, there is a strong relationship between the proportion of total household income received by the least well-off 50% and age- and income-adjusted mortality. So, states with the most unequal distribution of income, like Louisiana, Mississippi, Alabama, Kentucky, and New York, have higher mortality rates than those with more equal distribution of income, like Hawaii, Utah, New Hampshire, Wisconsin, and Vermont.

The equality or inequality of the income distribution was not just related to mortality. It was also related to infant mortality, disability rates, violent crime rates, homicide rates, medical expenditures, unemployment rates, rates of incarceration, the percent of people on AFDC or food stamps, and the percent of people without insurance. So, the equity of the income distribution seems to capture a lot of what's happening in terms of health and social indicators at the state level.
1999 – An Opportunity to Develop a Workforce Preparation Strategy for California

Four current trends symbolize California’s challenges in developing new workforce preparation strategies and programs:

- In 1997 California developed state rules and programs to move welfare recipients into the workforce. Despite recent caseload declines, there are more than 400,000 adult welfare recipients in California who must find jobs or eventually face reduced welfare support.

  The first step for most welfare recipients will be low paying entry level jobs – in competition with millions of Californians seeking similar jobs.

- There are approximately 1 million California workers who meet the strictest definition of “working poor”. These workers are doing everything that the new laws require of welfare recipients yet they live in households with incomes below poverty level.

- California’s business leaders are calling for increases in the number of highly skilled workers. It is in the high skilled occupations that employers have difficulty filling available jobs. Moreover, California’s economy is anchored by industries that depend on technological leadership for competitive advantage.

- Most Californians work in jobs that require somewhere between entry level skills and highly technical training. Four years of strong income growth has brought some increases in living standards for these workers and their families. Yet, even in 1999 many “in the middle” have seen two decades of wage stagnation, increasing pressures and changes in their work life.

- Including the middle class in California’s workforce preparation strategy is very important for several reasons:

  — The middle class target for welfare recipients. The major goal of welfare reform is to help recipients and their families move out of poverty through work.

  — If escaping poverty for workers and children is an accepted goal for welfare recipients, then the same goal must apply to people who are already working but still poor.

  — Many members of the middle class are also being left behind in terms of rising living standards.
— It is existing middle skilled workers who are the best candidates for getting additional training to fill existing high skilled job vacancies.

Seeing Labor Force Policy Connections

One of the criticisms of existing workforce preparation programs is that the nation has many separate programs but no overall policy or strategy. For example, there are programs for 1) unemployed workers, 2) workers displaced by trade policies, 3) welfare recipients, 4) disadvantaged youth, and 5) workers affected by defense conversion.

Moreover, the nation has a workforce policy for the most skilled workers in the forms of large programs of support for college students and students in specialized graduate training.

On the other hand there is no organized workforce strategy for existing workers. The working poor and middle level workers who want training to raise their living standards face a hit and miss system of both world class private sector training and a total vacuum of programs depending on what industry and size of firm they work in. For example, there is no workforce strategy designed to help the working poor escape poverty.

CCSCE believes that the best answer for meeting the needs of the California economy is a universal workforce strategy, i.e. a strategy that addresses the needs of all workers and firms simultaneously. With that goal in mind, a starting point is to understand the labor force connections between different groups of workers.

Connection 1: Welfare Recipients and the Working Poor

Developing workforce strategies to help working poor families will be the next step in welfare reform policy. It is already being discussed in many states and the National Governors’ Conference has identified the working poor as a policy focus area in 1998.

Welfare recipients are interested in strategies to help the working poor escape poverty because that is where they will be soon. The working poor are interested in escaping from poverty and have the additional incentive that unless more upward paths out of poverty are established, their job markets will see substantial increased competition from former welfare recipients.

There will be a strong push to make the support programs designed for welfare recipients available to existing low wage workers. There are two reasons why this push will occur:
1) Many welfare recipients will not be able to retain jobs without some support, for example, with child care.

2) If support is given to former welfare recipients who are now working and poor, it will be difficult to justify withholding similar services from similarly situated residents who have been working all along.

Finally, it will then be clear to everyone that former welfare recipients and other working poor residents share a common hope – to get a better job and escape from poverty for themselves and their families.

**Building Skills Will Get Increased Attention**

As former welfare recipients and the working poor become one group trying to move up from poverty, public policy strategies to increase skill and training levels will become more important. While public policies to help welfare recipients get first jobs may emphasize job search and “good worker” attributes like effort and punctuality, the next step up will be based primarily on skills acquisition.

Since there is no organized public and private approach to helping low wage workers move up from poverty, developing an overall strategy will be a first necessary step. This will require the bipartisan commitment that public policies to help existing workers upgrade their skills is appropriate.

**Connection 2: Middle Class Workers and Meeting California’s High Skill Shortages**

The labor force challenge that threatens California’s lead industries is a shortage of skilled workers.

It is not realistic to expect that these shortages will be filled mainly by new entrants into the labor force or by people moving up from entry level jobs.

It is more realistic to expect that existing workers with experience and some skills already are the best candidates to move up in the near term. This is the strategy being used by companies who can afford to do in-house training.

Most companies cannot afford to do their own technical training. The Intel – San Jose City College model suggests a broader approach. Private companies working with community colleges and specialized post – secondary training institutions can develop programs that have a larger scale but retain direct industry input into the program design.

Policies that help existing workers move up to take higher skilled vacancies directly support the expansion of high wage jobs in California.
Connection 3: Connecting the Top, Middle and Entry Level Workforce

There is little disagreement that California needs a workforce strategy to help welfare recipients enter the job market and a workforce strategy to help California’s lead industries find all the highly skilled workers they can hire. What is now being increasingly understood is the implication that California also needs a workforce strategy for the middle groups.

1) A middle class move up strategy helps middle class workers and directly addresses critical skills shortages.

2) A middle class move up strategy gives hope to the working poor (including former welfare recipients) that upward mobility into middle class jobs is a real possibility for escaping poverty.

3) A middle class move up policy is a welfare to work policy.

There is no great shortage of entry level workers in California. Helping existing entry level workers move up is critical to the transition of welfare recipients into entry level jobs. Otherwise California will have instituted a sort of “musical chairs” in the low skills job market where an increasing number of workers compete for a limited number of jobs.

Workforce Preparation: Developing a Universal Approach in California

A major effort is underway in California to reexamine the state’s workforce preparation ideas and programs. Based on our ongoing work on the California economy, CCSCE offers some principles to guide the state’s effort. We believe that California can be a model for the nation in developing information on future workforce trends and finding successful approaches.

- 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.