

California's Tomorrow: Equity is the Superior Growth Model'



Long at the cutting edge of the nation's demographic transformation, California continues to grow more racially and ethnically diverse. This diversity will be the key to the state's future economic success—if its leaders take immediate and decisive action to increase fairness and opportunity. Even in the midst of the current budget crisis, much can be done to put all Californians on the path toward reaching their full potential—particularly those who have too often been left behind. Now is the time for action: Equity is no longer only a moral imperative—it is also an economic one.

California Needs a New Way Forward

The state's current economic model is broken. Even before the Great Recession, the state was experiencing slow job growth, stagnant wages, increasing racial and income inequality, and a withering middle class. California needs a new strategy to bring about robust growth that is widely shared among all its residents.

California's new growth model must embrace the state's changing demographics, and leverage its diversity as an economic asset. While the country is projected to become majority people of color by the year 2042, California passed this milestone more than a decade ago. Six in 10 Californians are now people of color (22 of the state's 37 million residents). By 2050, three-quarters of Californians will be people of color.

Because youth are at the forefront of this demographic transformation, there is a racial generation gap between old and young: 62 percent of Californians over age 65 are white, and 73 percent of those under age 18 are of color. Today's elders and decision makers are not investing in the same educational systems and community infrastructure that enabled their own success. This investment gap puts all of California's children—and the state's economy—at risk.

ECONOMIC TRENDS

- California has the nation's second highest state unemployment rate, and needs 1.8 million jobs to return to pre-recession levels of employment.²
- The state has the seventh highest level of income inequality in the nation.³
- California's college-educated workers of color earn about \$13,000 less than their white counterparts.⁴
- The state's median family income has been stagnant since 1980. Incomes of families in the bottom tenth declined 24 percent while incomes of the wealthiest tenth of families grew 34 percent.⁵
- Between 1980 and 2010, the share of Californian families earning middle-class incomes shrank from 60 to 50 percent.⁶

Racial and Economic Inclusion Will Help California Grow and Compete

California’s ability to maintain its leadership in the global economy hinges on its ability to remove barriers and create the conditions that allow all to flourish.

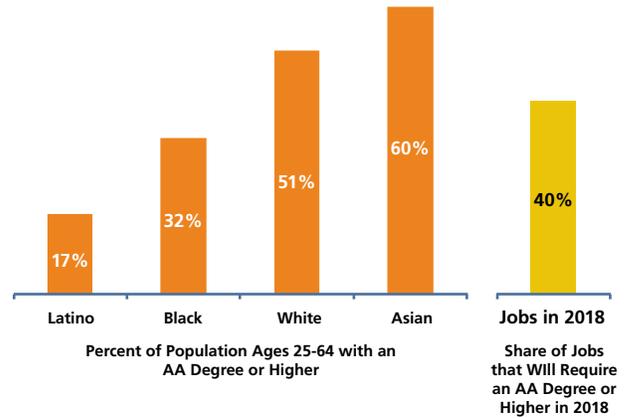
A Skilled Workforce Is Critical to the State’s Economic Future

The state’s educational and workforce systems are not adequately preparing its population for the jobs of the future. Unless education attainment levels rise, the state will face a shortfall of educated workers by 2020, both among workers with associate’s degrees and bachelor’s degrees.⁷ For example, 40 percent of jobs in 2018 will require at least an associate’s degree, but currently only 17 percent of the state’s Latinos and 32 percent of African Americans have achieved this level of education.

Increasing Equality Is Good for Growth

Inequality is not only bad for those at the bottom of the income spectrum—it places *everyone’s* economic future at risk. Countries with greater income equality have more sustained economic growth: A recent study by International Monetary Fund economists found that every 10 percent increase in equality increased the length of a country’s growth periods by 50 percent.⁸ State and national economies are ultimately made up of regional economies, and research, including by economists at the Cleveland Federal Reserve, has

California Will Face a Skills Gap Unless Education Levels Increase



Sources: PolicyLink/PERE analysis of IPUMS 2010 American Community Survey Data. Georgetown Center for Education and the Workforce, *Help Wanted: Projections of Jobs and Education Requirements Through 2018, State Projections: California.*

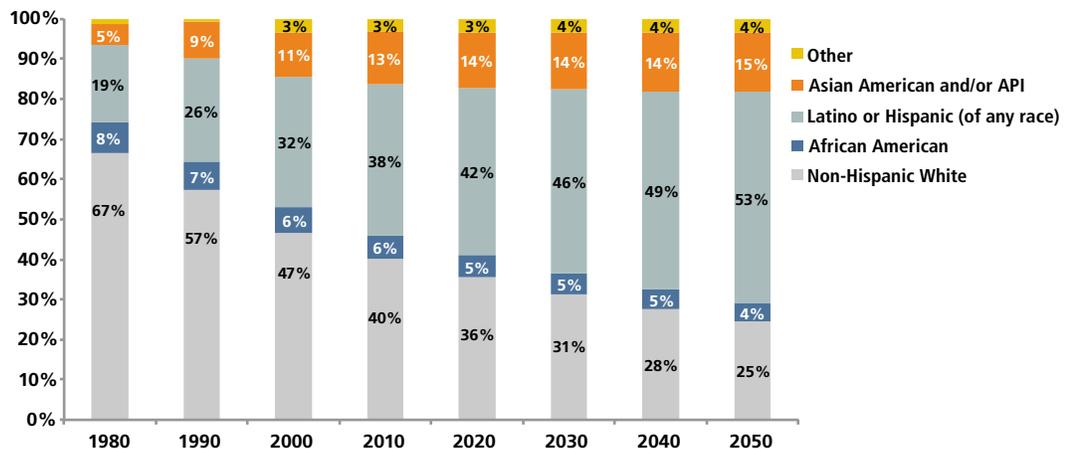
shown that greater economic and racial equality in regions also corresponds with more robust growth.⁹

Diversity Is An Economic Asset

California’s multiracial population contributes significantly to the state’s economy and provides linkages to the global marketplace. Across the country, businesses owned by blacks, Latinos, and Asians

California is Leading the Nation in Demographic Change

California Demographics, 1980-2050



*Other includes all persons who are not included among the other groups shown, and includes non-Latinos who identify racially as being Native American or Alaska Native, some other race alone, or multiracial.

Sources: 1980-2010 decennial census data from CensusScope and American FactFinder, and 2020-2050 data from California Department of Finance projections data adjusted using the 2010 Census.

grew more than three times as fast as white-owned businesses between 2002 and 2007, and immigrants began new businesses at twice the rate of non-immigrants.¹⁰ In California, 1.2 million of the state's 3.4 million small businesses are owned by people of color.¹¹ The state's Latino, African American, and Asian populations are also a large and growing consumer base for businesses: In 2010, they represented half a trillion dollars in purchasing power.¹²

Implementing an Equity-Driven Growth Model

California needs a new approach to rebuilding the economy—one that puts equity in the driver's seat. The private sector must take the lead in producing economic growth that is truly inclusive. But public sector leaders need to establish the right framework of policies, investments, incentives, and strategies to guide that growth. Adopting the following principles and policy priorities can set the state on the path of equity-driven growth.

Principles

- **Choose strategies that promote equity and growth simultaneously.** Equity and growth have traditionally been pursued separately, but the reality is that both are needed to secure California's future. The winning strategies are those that maximize job creation while promoting health and economic opportunity for low-income workers.
- **Target programs and investments to the people and places most left behind.** Public resources must be spent wisely. Focusing the state's programs and investments on the low-income families and communities that have been left behind will produce the greatest returns.
- **Assess equity impacts at every stage of the policy process.** As the policy process begins, and throughout, ask who will benefit, who will pay, and who will decide and adjust decisions and policies as needed to ensure equitable impacts. For example, when considering revenue-raising approaches, policymakers should examine how they will build the capabilities of its diverse young population and strengthen its low-income communities and communities of color.

- **Ensure meaningful community participation, voice, and leadership.** California's new majority needs avenues for participating in all aspects of the political process—from the basic act of voting to serving on boards and commissions to being elected as state leaders.

Policy Priorities

Rebuild Our Public Infrastructure

High-quality infrastructure—roads, transit lines, schools, bridges, sidewalks, etc.—is essential to competitiveness, yet California's infrastructure is crumbling and in need of \$765 billion in additional investment.¹³ The right infrastructure investments can set the stage for private-sector reinvestment and catalyze economic revitalization in distressed and underinvested communities. Decision makers should target infrastructure jobs and projects to the people and communities most in need, choose infrastructure projects that maximize job opportunities and improve conditions in underinvested communities, and create opportunities for local- and minority-owned businesses along the infrastructure supply chain. The state must also develop more sustainable and reliable funding streams to support the building, maintenance, and operation of its infrastructure.

Prepare Workers for the Jobs of Tomorrow

The state's leaders must develop an education and workforce training system that ensures current and future workers—including those who face high barriers to employment—can get the advanced training and education needed to access quality jobs that pay family-supporting wages and offer career growth. Specific ways that the state can prepare its disconnected youth for tomorrow's jobs include:

- Increase access to academically rigorous "Linked Learning" career technical high schools that prepare youth for careers in high-growth, high-wage industry sectors.
- Expand the state's Career Advancement Academies, which develop the skills of those who have dropped out of school or lack basic reading, writing, and math skills, and link them to additional training and careers.
- Replicate successful partnerships between community-based organizations, unions, and community colleges.

Plan for Sustainable and Healthy Communities

Healthy communities—ones that provide their residents with access to jobs and services, quality schools, clean air and water, safe streets, and other ingredients needed for economic and social success—form the backbone of strong regional economies. Too many of California’s neighborhoods fail to provide these supports, especially the state’s low-income communities and communities of color. Unhealthy communities not only burden their residents—those costs come back to the state and employers in the form of health-care expenses and work absences.¹⁴ The state’s transportation and land use planning investments and policies need to promote equitable development patterns: reviving distressed communities, increasing mobility and access to jobs within regions, and ensuring that low-income residents can live in the region’s job centers and high-opportunity communities. As implementation of California’s groundbreaking climate change legislation (AB 32 and SB 375) proceeds, every California region will be developing its own plan for sustainable, equitable regional development. The state should continue to provide guidance and direction to ensure equity and sustainability goals are met.

Conclusion

A half-century ago, California set a precedent for investing in its people—and succeeding. Under the leadership of Republican Governor Earl Warren and Democratic Governor Pat Brown, the state built a world-class education system and infrastructure that enabled a poor, uneducated population to create the world’s ninth largest economy.

Bold leadership is again needed to build the next economy and showcase for the nation, and the world, how equity is the superior growth model. Some of the ideas presented require investments during a period of strained fiscal coffers. But the costs of investing now must be compared to the much larger costs of not investing in our future. And in determining how to pay

for these efforts through belt-tightening and resource-raising, including any changes in taxation, policymakers should apply the same principles outlined above: a focus on the future, an eye toward growth, and a commitment to equity.

Notes

¹ This paper was drafted by Jennifer Tran and Sarah Treuhaft, with contributions from Judith Bell, Chione Flegal, Ruben Lizardo, and Manuel Pastor. It is based on the longer report *America’s Tomorrow: Equity is the Superior Growth Model*, published by PolicyLink and the Program for Environmental and Regional Equity (PERE) in 2011. The authors acknowledge the organization California Tomorrow for their early leadership in this arena.

² Doug Hall, “State Employment Trends Stuck in Neutral (or Reverse),” Economic Policy Institute, October 21, 2011.

³ DeNavas-Walt, Carmen, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*, U.S. Government Printing Office, Washington, DC, 2011. Inequality was measured by the Gini coefficient.

⁴ Analysis of wage gaps based on 2005–2007 American Community Survey data, National Center for Higher Education Management Systems Information Center.

⁵ Sarah Bohn and Eric Schiff, *The Great Recession and Distribution of Income in California*, Public Policy Institute of California, December 2011.

⁶ Ibid.

⁷ Deborah Reed, *California’s Future Workforce: Will There Be Enough College Graduates?*, Public Policy Institute of California, December 2008.

⁸ Andrew G. Berg and Jonathan D. Ostry, “Inequality and Unsustainable Growth: Two Sides of the Same Coin?,” International Monetary Fund Staff Discussion Note, April 8, 2011. Inequality was measured by the Gini coefficient.

⁹ Manuel Pastor, “Cohesion and Competitiveness: Business Leadership for Regional Growth and Social Equity,” OECD Territorial Reviews, Competitive Cities in the Global Economy, Organisation For Economic Co-Operation And Development (OECD), 2006; Randall Eberts, George Erickcek, and Jack Kleinhenz, *Dashboard Indicators for the Northeast Ohio Economy: Prepared for the Fund for Our Economic Future*, (Federal Reserve Bank of Cleveland: April 2006).

¹⁰ PolicyLink/PERE, *America’s Tomorrow: Equity is the Superior Growth Model*, 2011.

¹¹ Small Business Administration, “California Small Business Profile,” February 2011.

¹² Sam Fahmy, “Despite Recession, Hispanic and Asian Buying Power Expected to Surge in U.S., According to Annual UGA Selig Center Multicultural Economy Study,” Selig Center for Economic Growth, November 4, 2010.

¹³ California Think Long Committee, *Jobs, Infrastructure & the Workforce*, Nicolas Berggruen Institute, September 2011.

¹⁴ Jane Hall, Victor Brajer, and Frederick Lurmann, “The Benefits of Meeting Federal Clean Air Standards in the South Coast and San Joaquin Valley Air Basins,” California State University Fullerton, November 2008.

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