

CALIFORNIA JOBS: A MULTI-DIMENSIONAL PROBLEM



CALIFORNIA REPUBLIC

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California Jobs: A Multi-Dimensional Problem

“From the Beginning, California promised much. While yet barely a name on the map, it entered American awareness as a symbol of renewal. It was a final frontier: of geography and of expectation.”

– Kevin Starr, “Americans and the California Dream, 1850-1915” (1973)

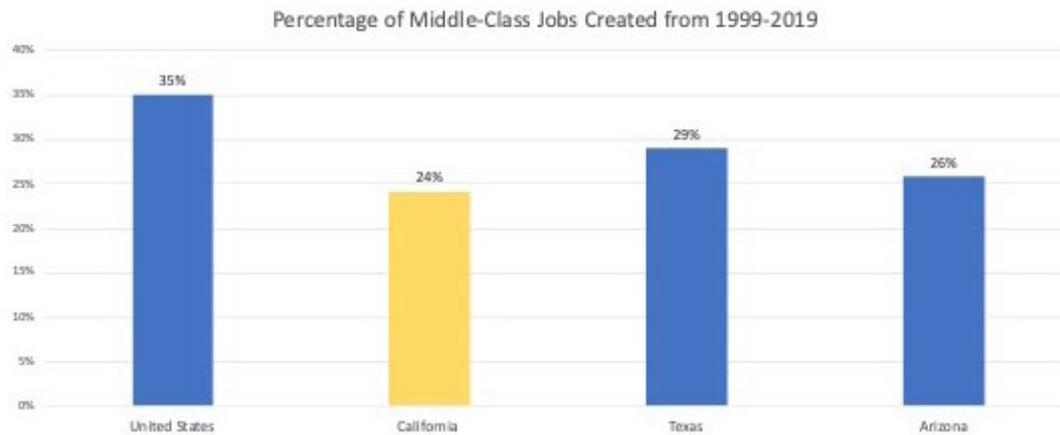
On the surface, California’s job story seems positive. The “headline” unemployment number for December 2022 is low (4.1%). Payroll jobs continue to bounce back to close to pre-pandemic levels. https://edd.ca.gov/en/about_edd/news_releases_and_announcements/unemployment-november-2022/. As **Mad** Magazine’s Alfred E. Newman would say, “What? Me worry?”

But a closer look at the longer-term, 20-year statistics shows a state with some very worrisome issues related to jobs, some of which are unique to California’s set of past policy choices.

Here are the highlights from our findings:

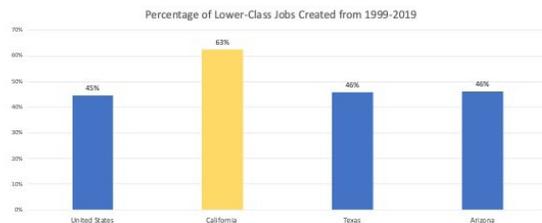
1. California is not creating jobs as quickly as other states – From 1999 to 2019, California increased its total jobs by 24%. That sounds good when compared to the total U.S., which saw an 18% increase in total employment over the same period. However, when you look at California’s key competition for people, Arizona and Texas, their increases over the same period were 38% and 43% respectively. (QCEW statistics from the Bureau of Labor Statistics: <https://www.bls.gov/cew/downloadable-data-files.htm>).
2. Overall wage levels in California are not keeping up with the rise in California’s already high cost of living. California saw an 82% increase in overall average annual pay per worker from 1999 to 2019. That was higher than the U.S. as a whole, where wages rose by 63%. However, the cost of living, as measured by the CPI increased in California by 66.5% over the 20-year period, while only increasing 53.5% in the U.S. over the same period (<https://www.dir.ca.gov/OPRL/CAPriceIndex.htm> and <https://www.bls.gov/cpi/data.htm>) Arizona saw a CPI increase in the Phoenix metro area of 46% in the same period (<https://fred.stlouisfed.org/series/CUUSA429SA0>). Texas saw a similar increase in the Dallas/Ft. Worth area of 50.9%. (<https://fred.stlouisfed.org/series/CUURA316SA0>). As a result of these disparities in both wage growth and cost-of-living growth, workers outside of California experienced more buying power than those inside the Golden State.
3. California seems to be strong at creating low-paying jobs, but is not keeping pace with key competitive states in creating both middle-pay and high-paying jobs.

California lags the nation and its competitors on the percentage of new jobs created for the middle-class



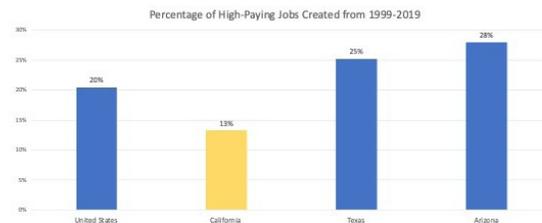
Source: Bureau of Labor Statistics, U.S. Census, Quarterly Census of Employment and Wages, 1999, 2009 and 2019 annual summaries

California leads the nation in creating jobs that pay below the average annual pay level



Source: Bureau of Labor Statistics, U.S. Census, Quarterly Census of Employment and Wages, 1999, 2009 and 2019 annual summaries

California also lags the nation and competitive states in creating high-paying jobs



Source: Bureau of Labor Statistics, U.S. Census, Quarterly Census of Employment and Wages, 1999, 2009 and 2019 annual summaries

4. Underlying the sub-par mid- and high-paying jobs creation is a business regulatory and tax policy that has:
 - a. Driven out manufacturing companies (which is a large employer of middle-wage workers). Over the 20-year period from 1999 to 2019, California lost 15,215 manufacturing establishments, about one-quarter of its total, much more than its competitors and the nation. Texas and Arizona saw flat growth during that time period in the number of manufacturing establishments, while the country as a whole lost 13.6% of its manufacturing establishments. (Source: <https://www.bls.gov/cpi/data.htm>)
 - b. While California was the prime beneficiary of the growth in technology, more recently, growth in the high-paying “advanced” industries (a 50-sector group of industries defined by Brookings Institution) has moved OUTSIDE of California metro areas:

% Growth In Advanced Industry Establishments

Rank	MSA or County	% Change from 19:4 to 21:4
1	Nashville-Davidson-Murfreesboro-Franklin, TN MSA	47.7
2	Louisville-Jefferson County, KY-IN MSA	39.2
3	Salt Lake City, UT MSA	35.1
4	Providence-Warwick, RI-MA MSA	33.1
5	Austin-Round Rock, TX MSA	30.4
6	Raleigh, NC MSA	30.1
7	Memphis, TN-MS-AR MSA	29.6
8	Seattle-Tacoma-Bellevue, WA MSA	28.5
9	Denver-Aurora-Lakewood, CO MSA	28.4
10	New Orleans-Metairie, LA MSA	25.2
↓	↓	↓
33	San Diego-Carlsbad, CA MSA	8.5
39	Orange County, California	7.4



- c. Has led to the migration of both corporate headquarters operations and capital projects (which boost both construction and local economies) out of the state. (Source: Vranich/Hovnanian Hoover Institute Study. https://www.hoover.org/sites/default/files/research/docs/21117-Ohanian-Vranich-4_o.pdf)

Policy Implications

Looking at the data, it is hard to imagine that there is one single, simple policy solution to solve what is clearly a multi-dimensional problem. As we see it, there are four policies which need to be addressed in order to put California back on a competitive path and to grow overall prosperity for its citizens. In short, policymakers have two routes to middle class job creation: direct and indirect. Direct options include public works and infrastructure projects and public sector employment in civilian and defense agencies. The interstate highway system is one of the most well-known, job-creating public works projects. And for its part, government employment has historically served as a crucial path for the middle-class aspirations and advancement of underrepresented groups, including Black, Hispanic, and less well-educated Americans.

However, there are constraints on these direct methods. The government purse is not limitless — especially at the state and local level where budgets must balance every year — while

preferences for smaller government and concerns about government overreach may prevent some policymakers from authorizing large-scale provision of middle-class government jobs. A recovery in our ability to restore upward mobility rests on making California attractive to ALL businesspeople, in order to stem the exodus of companies. Based on the research we have done on attitudes and perceptions of businesspeople; the policy solutions must be focused on these aspects of doing business in the state:

This includes creating a more positive attitude between business and state regulators through better “customer service” training and a supportive attitude by managers of the state’s bureaucracy. Our approach should be informed by the success stories of business development agencies both inside the state — largely at the local level — and from other locales. To some extent this will require something of an industrial policy in the state.

We do not have to do this in an intrusive way. Instead, we should identify, with input from workers and employers, precisely what are the “hot buttons” that inform hiring and investment decisions. This could include tax policy but also labor and environmental regulations. A good first step would be to survey employers and investors to get their views on what would be most effective in reviving growth in our higher wage sectors.

Some, particularly conservatives, argue, often reasonably, that industrial policy might often be gamed by insider players and that government officials certainly do not always have an accurate crystal ball. Yet we live in an era where our major foreign competitors, notably China, whose stated aim is to target “the industries of the future”, precisely those where California long been preeminent. Many of our key competitor states — Texas, Florida, Arizona — are also targeting these issues, and these approaches are often cited by employers as key reason for relocation.

Ohio, Kentucky, Nebraska and Tennessee also have developed flexible training programs following the successful approach employed in European countries like Germany, Sweden and Denmark. Tennessee has used its training program as a lure for car companies such as Ford and other manufacturers; it’s become a critical part of its success in transforming the state into a center for the emerging electric car industry. Tennessee has developed programs not only for welders and other skilled workers, but has employed and developed an extensive apprenticeship system to cope with the perennial shortage of teachers and training of cyber-security professionals.

Learning from other states is not beneath us. After all, many of the ideas developed in California, particularly in terms of infrastructure and education, have long looked to our state as a model. But this does not mean we should not innovate our own policies, particularly at the regional level. Our diversity of our regions and population demands a more holistic approach that seeks to increase innovation or commercialize the products and findings of research and development; as well as those that increase access to advanced telecommunications, improve transportation, or lower the cost of housing, among others.

In our next paper, we will focus specifically on specific industries that have potential to create new and better jobs for Californians. This is critical part of a new focus on employment that looks less at aggregate jobs but those things that can bring higher wage employment to the fore. California still has the lead in many fields, but we could squander this if we don't act boldly now.

About the Authors

Marshall Toplansky is an award-winning Clinical Assistant Professor of Management Science at the Argyros School of Business and Economics at Chapman University. He is a research fellow at the Center for Demographics and Policy, and is director of the school's Analytics Accelerator program. He and co-author Joel Kotkin recently published an economic and social policy brief entitled, "Restoring The California Dream", which discusses the issues the state faces in maintaining home ownership for the middle class and rebuilding a positive business climate. Marshall is also co-host of "The Feudal Future Podcast", which is seen twice monthly by viewers around the world.

Dr. Kenneth (Ken) Murphy is an Assistant Professor of Teaching and Director of Data and Systems at the Merage School of Business, University of California Irvine. He teaches predictive analytics, operations management, and management science courses in executive, MBA, MS, and undergraduate programs. He has published in scheduling, technology implementation, and organizational effectiveness, in leading operations and systems journals. Along with his colleagues, he created an innovation index, which measures the degree to which an economy is engaged in advanced industrial and service activity. His current interests include digital transformation in higher education, equity in STEM education, and the measurement of economic activity with respect to jobs of the future.

Heather Gonzalez is an independent policy analyst with over two decades of experience in federal and state government. She served as a specialist with the non-partisan Congressional Research Service (CRS), where she advised Members of Congress and their staff on the America COMPETES Act(s) and U.S. competitiveness and innovation-related programs, funding, and policies. At the state level, she worked on issues related to technology and education as senior staff to two Silicon Valley state senators (Vasconcellos and Simitian). Gonzalez graduated Phi Beta Kappa with a B.A. in Anthropology from the University of California, Santa Cruz and has a master's in public policy from Pepperdine. She lives in San Francisco.

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Endnotes

5. For more information on the employment effects of the development of the interstate highway system, see Keane, Thomas, “The Economic Importance of the National Highway System,” in *Public Roads Magazine*, v. 59, no. 4, Spring 1996.
6. See Ivanova, Irina, “Federal Jobs Aren’t the Ticket to a Middle-Class Life That They Used to Be,” *Money Watch*, CBS, January 23, 2019 at <https://www.cbsnews.com/news/shutdown-shows-that-federal-jobs-are-no-longer-a-ticket-to-the-middle-class/>
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