California Postwar Economic Developments

Presented to:
Senate Labor and Industrial Relations Committee
Hon. Mark DeSaulnier, Chair

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California’s Postwar Growth Has Been Dramatic

**California Population and Jobs**

<table>
<thead>
<tr>
<th>Year</th>
<th>Population (in millions)</th>
<th>Jobs (in millions)</th>
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</thead>
<tbody>
<tr>
<td>1950</td>
<td>10</td>
<td>5</td>
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<tr>
<td>1960</td>
<td>15</td>
<td>10</td>
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<tr>
<td>1970</td>
<td>20</td>
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<td>1980</td>
<td>25</td>
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<tr>
<td>1990</td>
<td>30</td>
<td>25</td>
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<tr>
<td>2000</td>
<td>35</td>
<td>30</td>
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<tr>
<td>2008</td>
<td>40</td>
<td>35</td>
</tr>
</tbody>
</table>

- **Population** has grown nearly four fold, averaging 2.2 percent annually.
  - Most of this growth has been due to in-migration from other states and nations.

- **Employment** has risen even more—almost five fold—averaging 2.7 percent annually.
  - The share of the population employed has gone from 30 percent to 40 percent, largely reflecting increased female jobholders.
California’s Postwar Growth Has Been Dramatic (Continued)

- **Gross state product (GSP)** now tops $1.8 trillion, ranking California among the world’s top ten nations.
  - Postwar growth in real GSP has averaged 3.6 percent annually after controlling for inflation.
  - Real GSP per worker has risen by more than 75 percent, due to higher productivity.
  - California’s share of national gross domestic product has increased over time by about 20 percent, from roughly 11 percent to 13 percent.

- Coastal counties account for most jobs and postwar job growth. However, non-coastal geographic areas also have experienced considerable growth, as population, jobs, and production have “spilled over” from the more congested coastal areas.

- A key factor in California’s economic expansion over the years has been government-supported goods and services—such as an educated workforce, reliable transportation network, and other infrastructure like water storage and delivery systems.
California’s Economy Also Has Been Volatile, However

About once each decade, the state has had significant growth disruptions, a major slowdown, or a recession.

These episodes have caused reduced or slowing production, job losses, and increased unemployment.

The causes for, and severity of, these episodes have varied:

- The 1970s experience was related to higher prices and reduced supplies of energy.
- In the early 1980s, tight monetary policy adopted to control inflation was the prime determinant.
- In the early 1990s, major declines in the aerospace industry were a key factor.

Percent Changes in Gross State Product (GSP) and Jobs

1963 Through 2008

Jobs
Real GSP
California’s Economy Also Has Been Volatile, However  

- The popping of speculative bubbles characterized by excessive prices and overbuilding in the real estate market also have often been factors, especially in the early 1990s and 2000s.

- The severity, length, and recovery period of these disruptions also has varied. For example:
  - In the 1980s, annual real GSP never fell, although job losses were significant.
  - In the 1990s, it took five years for annual GSP to recover to its 1990 level.
The Composition of California’s Economy Has Changed

California Nonfarm Employment by Sector

1960
- Government
- Construction
- Manufacturing
- Finance-related
- Services
- Trade

1980
- Government
- Construction
- Manufacturing
- Finance-related
- Services
- Trade

2000
- Government
- Construction
- Manufacturing
- Finance-related
- Services
- Trade
The relative growth of California’s different economic sectors has varied over time. This is because some industries are more cyclical than others, certain new industries have emerged, and other industries have downsized or contracted.

As a result, the composition of California’s economic activity and jobs has changed significantly during the postwar years. For example:

- The share of jobs in manufacturing has contracted by half, to less than 13 percent. In 2000, the number of manufacturing jobs was less than in 1980.

- Services-related jobs have grown more than six-fold. This has increased their share of total jobs from less than 15 percent to nearly one-third.

The changes in the economy—including such things as electronics-related activities and entirely new categories of production and services—have been so great that the U.S. Department of Commerce has had to rebuild its accounting system for classifying jobs and output.
Overall U.S. workforce participation has risen, with two out of every three people now in the labor force.

- This is largely because women are now far more likely than before to be in the workforce.
- In 2000, women accounted for nearly 47 percent of the labor force, compared to only 38 percent in 1970.

The age-mix of workers has shifted due to aging of the baby-boomers, their increased labor force participation, and reduced birth rates.

Unionization has become relatively less prevalent. Over the past 25 years, union membership as a percentage of workers has declined by nearly a quarter in California, and workers covered by union agreements by close to a third.
The distribution of earnings by income level and sex has also been changing. For example:

- Some studies have shown that men, on average, continue to earn more than women but the gap has been narrowing.

- The earnings gap between workers at the upper end versus lower end of the income distribution has been widening, and the higher-income share of total income has been increasing.
  - This, in part, reflects such factors as the increased importance of education and up-to-date training in today’s modern economy.

Relatively fewer workers now receive such employer-provided benefits as health care and retirement compared to previously. For example:

- Over the past 20 years, the share of private-sector workers covered by employer-sponsored retirement plans has fallen.

- The share of employers providing health care also has been drifting down, and there also has been increased use of part-time workers and “affiliated” workers like independent contractors who often do not qualify for such coverage.
California’s recession, like the nation’s, was triggered primarily by bubbles in the housing and investment markets and lack of discipline in the financial markets.

- The state’s downturn has been particularly severe, given its disproportionately large housing bubble and reliance on subprime loan activity.
- A significant number of home foreclosures are anticipated to still take place in 2009 and 2010.

The state’s economy is still very soft overall, with marked weakness in such key areas as jobs growth, unemployment, and construction activity.
Regarding jobs:

- In October, the unemployment rate rose to 10.2 percent for the nation (highest in 26 years), and in September stood at 12.2 percent for California.

- It is considerably higher—over 17 percent nationally—when adjusted for people who either have given up looking for work or are forced to work only part time.

- California has lost nearly three-quarter million jobs over the past year, and monthly job losses are still occurring.

Due to these job losses, unemployment insurance (UI) claims and the UI fund’s deficit are at record highs.
New residential building permits are at record lows—for 2009, less than a quarter of the prior ten-year average.

When adjusted for population growth, the weakness in permits is even more pronounced.
Some positive economic signs have been emerging in the California economy, however. For example:

- Housing seems to have stabilized in certain respects, with prices no longer sharply falling and sales experiencing some gains.
- Job losses, although continuing, have been getting smaller, and export activity has been growing.

Thus, it looks like the state's economy is now starting to transition from contraction to recovery.

There are many uncertainties in the outlook, however, including:

- How long will it take the recovery to gain strength and momentum?
- When will the unemployment picture improve significantly?
- Are the nation’s credit markets on firm ground?
- Will the housing market continue to stabilize in the face of the continued foreclosures that are expected in the year to come?
- How strong will consumer spending be in the wake of high unemployment, job insecurities, and losses in housing equity?
Most forecasters expect California to experience only very subdued recovery during the rest of 2009 and in 2010.

This, in large part, is due to:

- The depth of the subprime loan problem and size of the housing bubble that had developed in the state. For example, additional foreclosures are still anticipated to occur and price softness is still expected in certain regional markets.
- Weaknesses in the job market in the financial sector due to various restructuring activities.
- Budgetary problems facing California’s state and local governments, which will adversely affect their spending and staffing.

The consensus view is that:

- The number of jobs will likely fall again in 2010 after dropping by more than 4 percent in 2009.
- As a result, the state’s unemployment rate will likely continue to rise in the near term and could average over 12 percent in 2010.
- New residential building permits will remain at near-record lows through 2010 and commercial real estate activity will be very soft.
- Personal income will rise only slightly in 2010 after declining in 2009.
Facilitating California’s Economic Recovery

In the near-to-medium term, California’s economic performance is largely driven by:

- National economic conditions.
- Federal fiscal and monetary policies.
- The state’s underlying physical, demographic, and economic characteristics. These include its physical access to markets, availability of an educated and skilled labor force, labor costs, transportation infrastructure, overall climate, availability of land for expansion, regulatory and tax environment, and overall quality of public services.

Given this, the state’s ability to significantly influence the pace of near-term economic recovery is inherently limited.

There are some state actions that at the margin can be beneficial, however, such as:

- Making sure that the state budget is well managed, including:
  - Adopting budgets on time so as to avoid cash shortages, associated short-term borrowing costs, and delays in the marketing of our bonds.
  - Ensuring that the highest-priority public services are being provided in a cost-efficient manner.
- Exercising good oversight of the state’s bond programs, including:
  - Having a good capital outlay planning process.
  - Moving forward in a timely manner with bond-financed capital outlay infrastructure projects.
- Ensuring that the state’s regulatory environment is appropriate.