

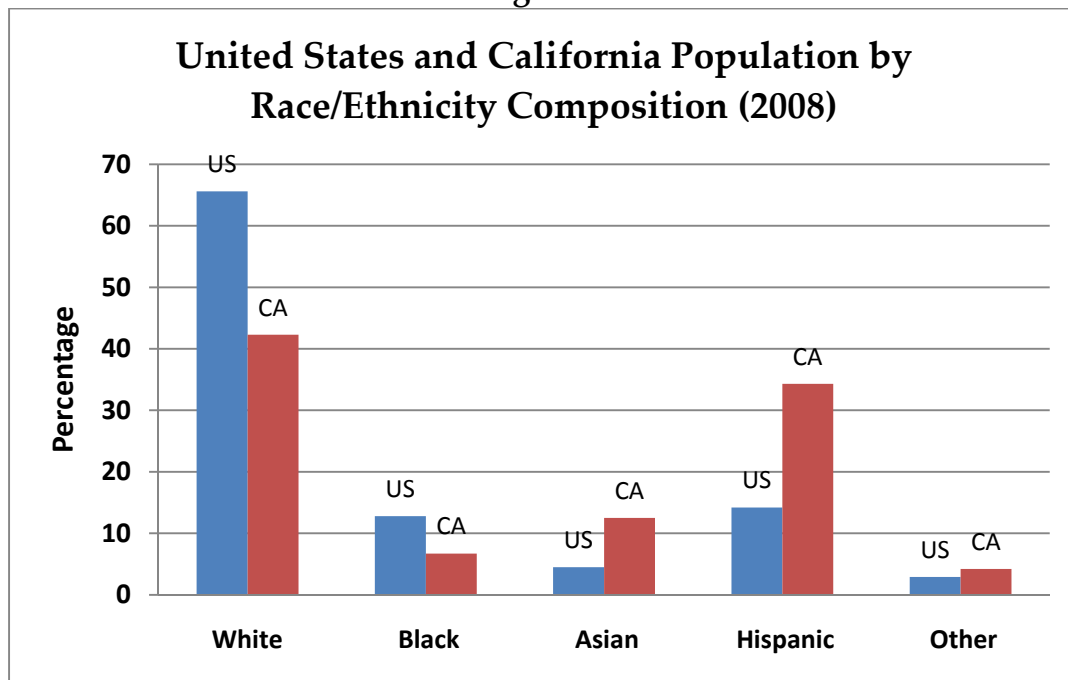
Key Features of the California Labor Market

Introduction & Demographic Characteristics

California was established as a U.S. state in 1850. Although it is the third largest state in terms of land area (behind Alaska and Texas), in the past 150 years California has grown to the largest U.S. state in terms of both size of population and economy. California comprises 13 percent of total U.S. GDP and, in fact, is the *world's* eighth largest economy behind the U.S., Japan, Germany, China, U.K., Italy and France (Legislative Analyst's Office, 2006).

California is a diverse place along a number of different dimensions. The state's geography boasts distinct coastal and mountainous areas with the central valley in between. Also, as evidenced in Figure 1, the racial/ethnic composition of California's population is much more racially/ethnically diverse than the U.S. as a whole. California has the largest minority population of any state in the union, with minorities making up about 57 percent of the state's population.

Figure 1

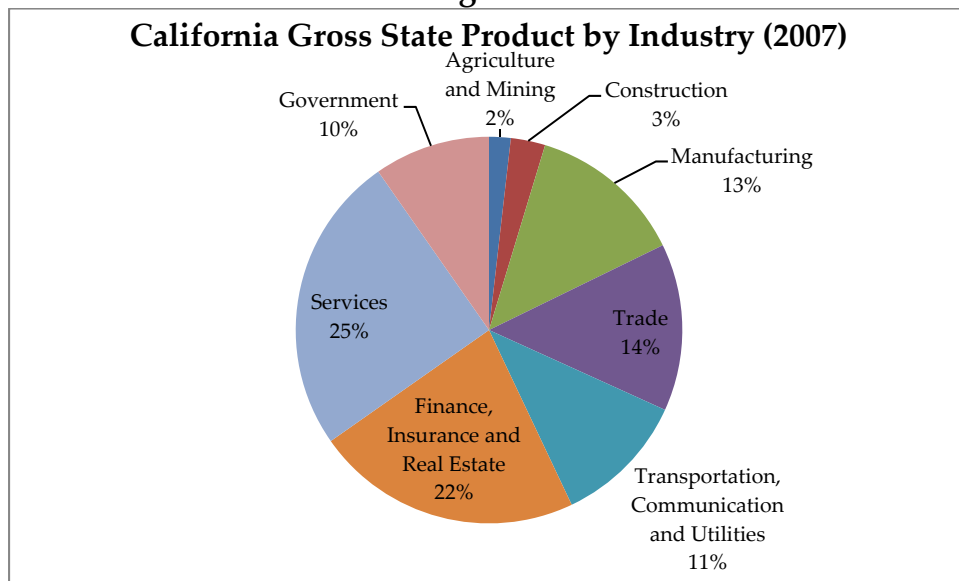


Source: <http://quickfacts.census.gov/qfd/states/06000.html>.

California's diversity is also evident in the types of industry present. The state is as well known for its wine and vast array of agricultural products as it is for high-tech industries and Hollywood. In terms of output (Gross State Product), the largest sector

is services, followed by finance, insurance and real estate; trade; and manufacturing (see Figure 2).

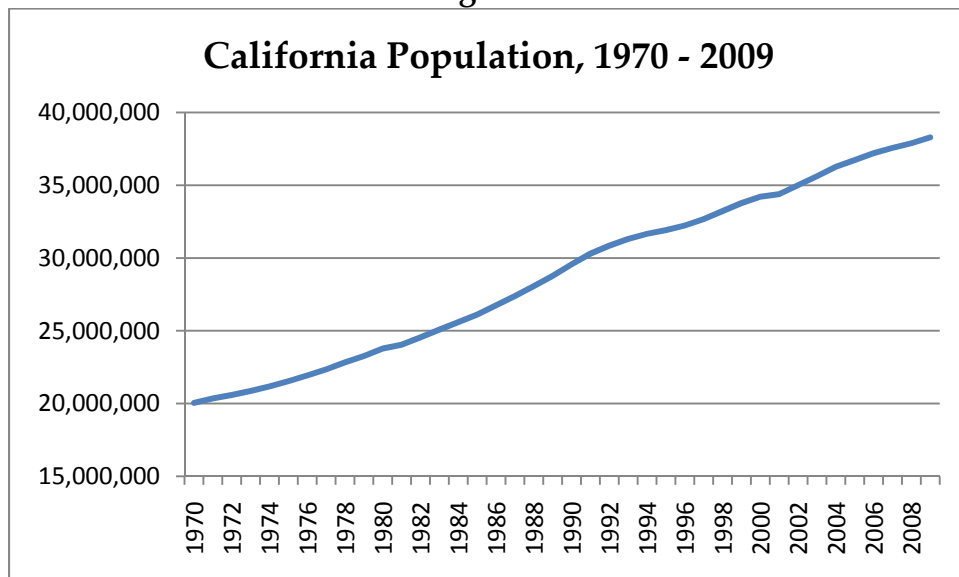
Figure 2



Source: <http://ca.rand.org>.

Currently, about 20 percent of the total U.S. population is located in California. As evident in Figure 3, that population has grown steadily over the last 40 years.

Figure 3

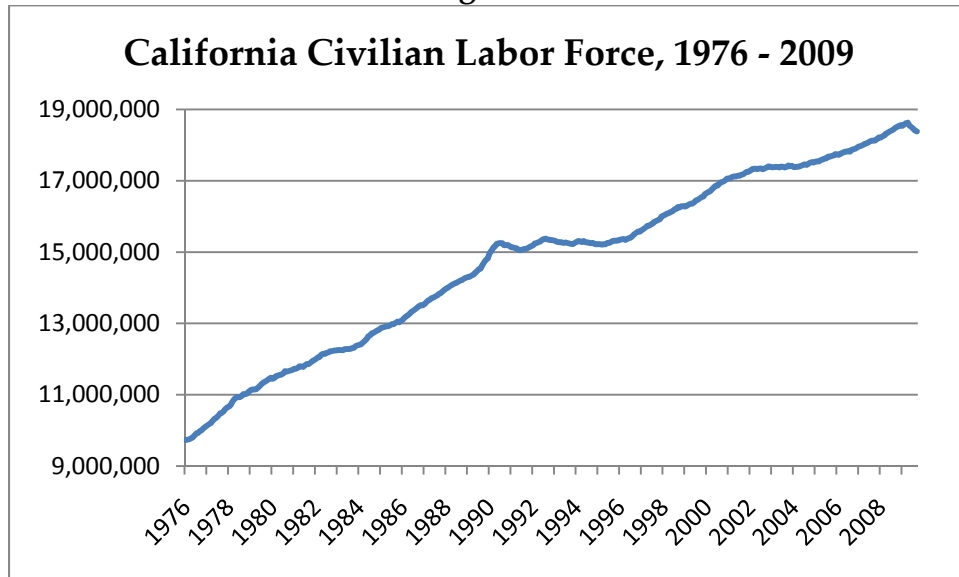


Source: <http://ca.rand.org>.

1. California's Labor Force

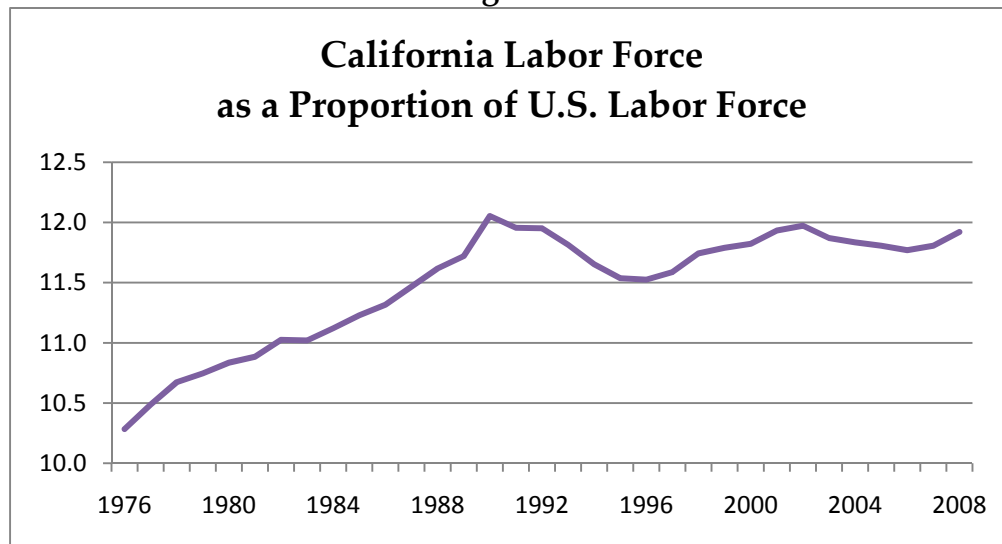
Although Figure 4 shows that the age 16 and older civilian labor force in California has grown consistently over time (driven by steady growth in population evident in Figure 3), the California labor force represents a steady 11.5 – 12 percent of the total U.S. labor force over the past 20 years (see Figure 5).

Figure 4



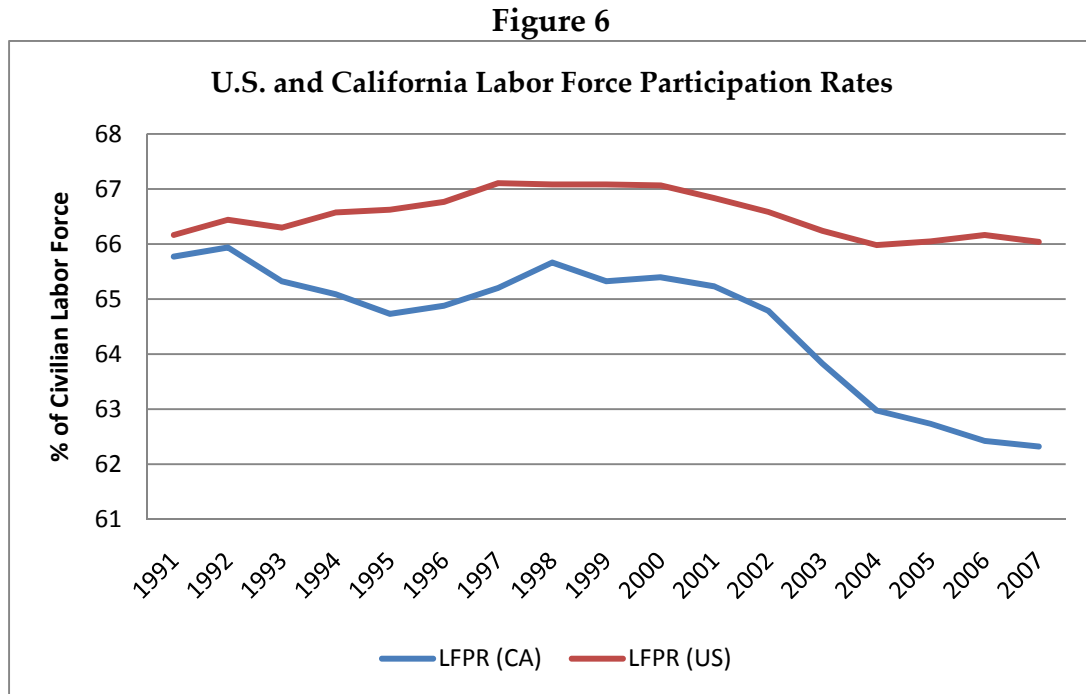
Source: <http://www.labormarketinfo.edd.ca.gov/>

Figure 5



Sources: <http://www.labormarketinfo.edd.ca.gov/> and
<ftp://ftp.bls.gov/pub/special.requests/lf/aat1.txt>.

Figure 6 indicates that the fraction of California's population that is either employed or actively seeking employment has declined in recent years even as the U.S. labor force participation rate has remained very steady at around 66 percent.

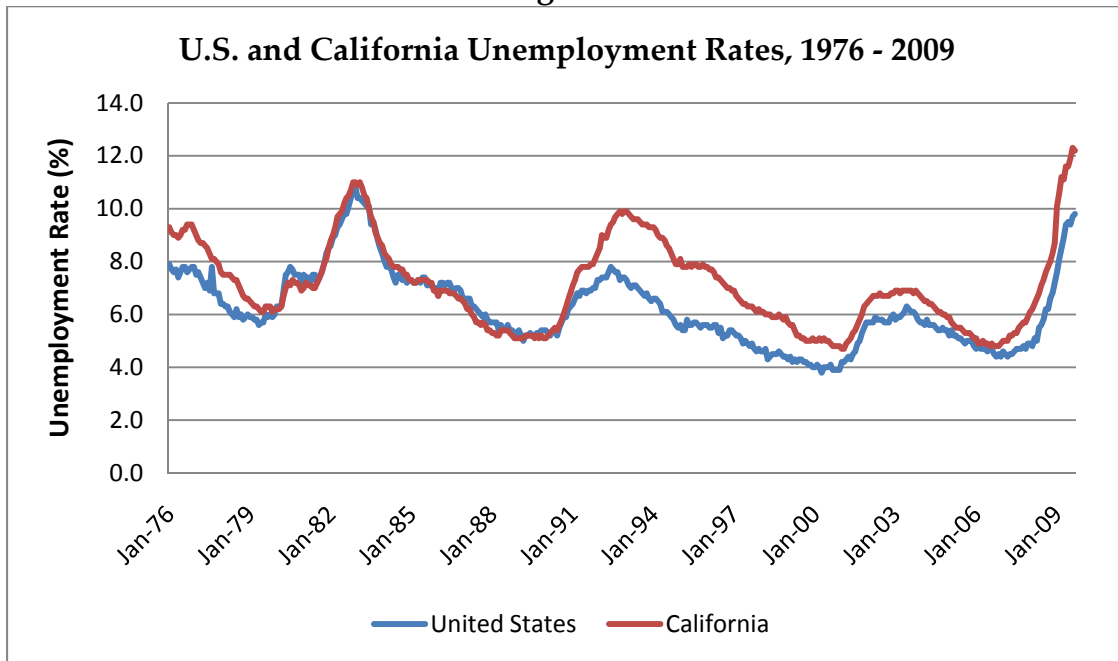


Sources: http://www.applications.dhs.ca.gov/epicdata/content/st_population.htm
and <http://data.bls.gov>.

2. Employment Overview

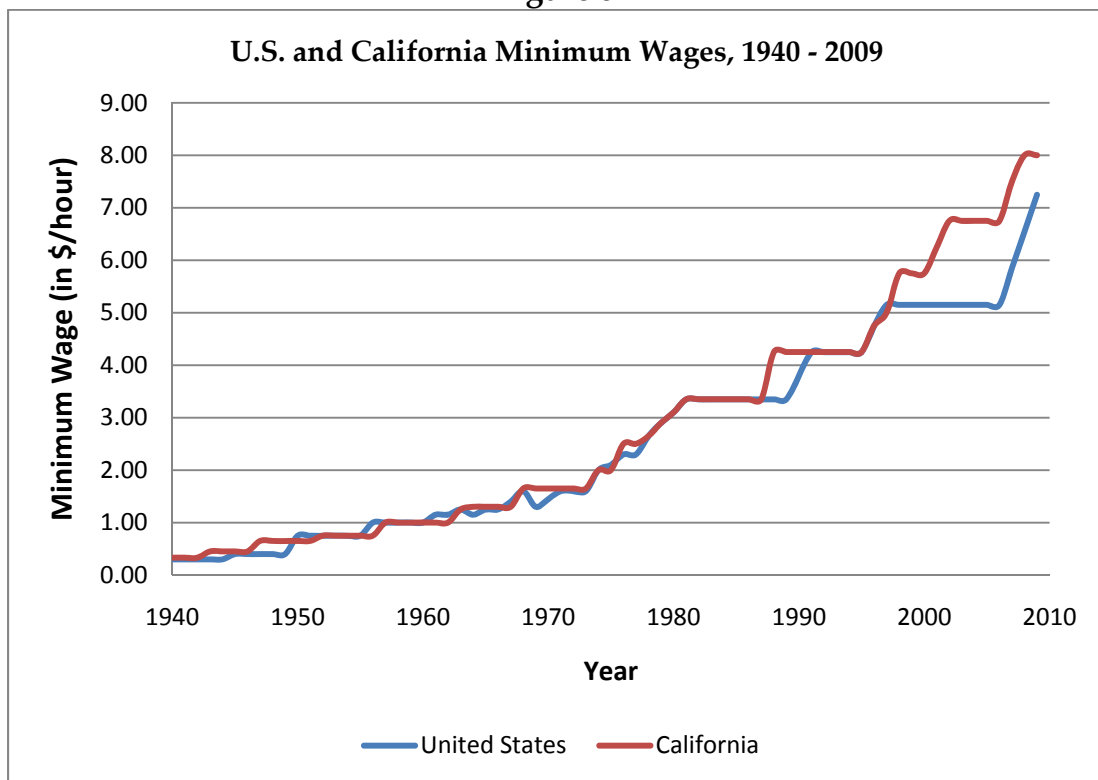
According to Figure 7, unemployment rates in California have exceeded the national average since 1991. Prior to 1991, California and U.S. unemployment rates had been much closer. Some of this gap may be due to the fact that the California minimum wage substantially exceeds the national minimum wage for much of the post-1991 time period (see Figure 8) and the labor supply and demand model predicts that unemployment results when a minimum wage is set above the equilibrium wage.

Figure 7



Source: Bureau of Labor Statistics (www.bls.gov).

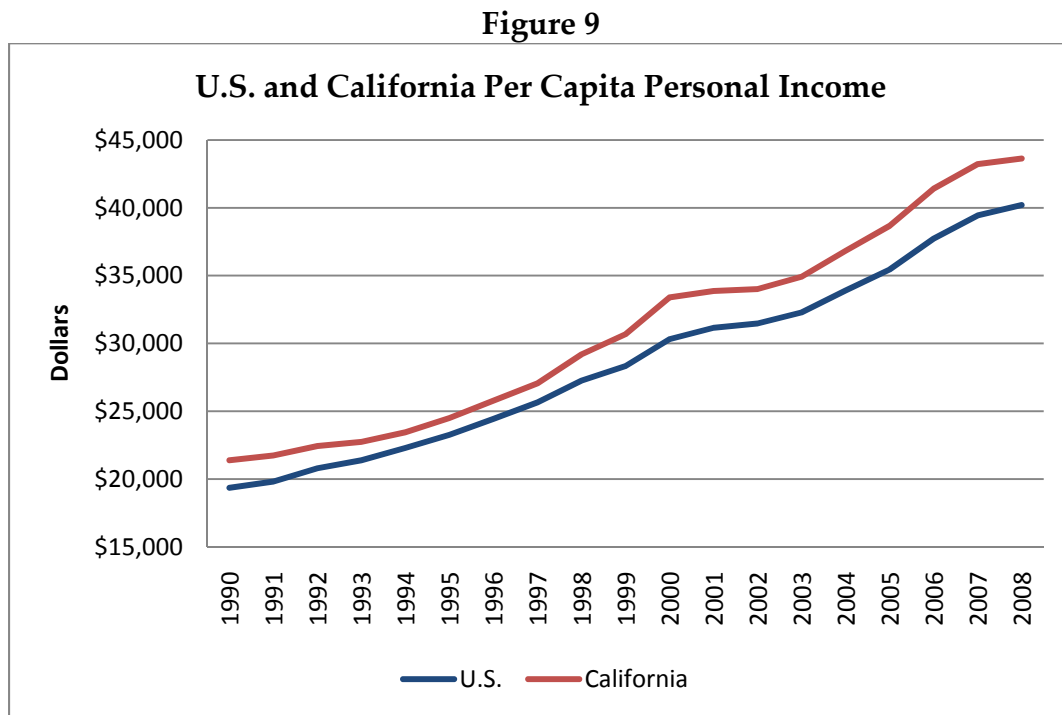
Figure 8



Source: <http://www.dol.gov/esa/minwage/chart.htm> and <http://www.dir.ca.gov/Iwc/MinimumWageHistory.htm>.

3. Measures of Income and Income Inequality

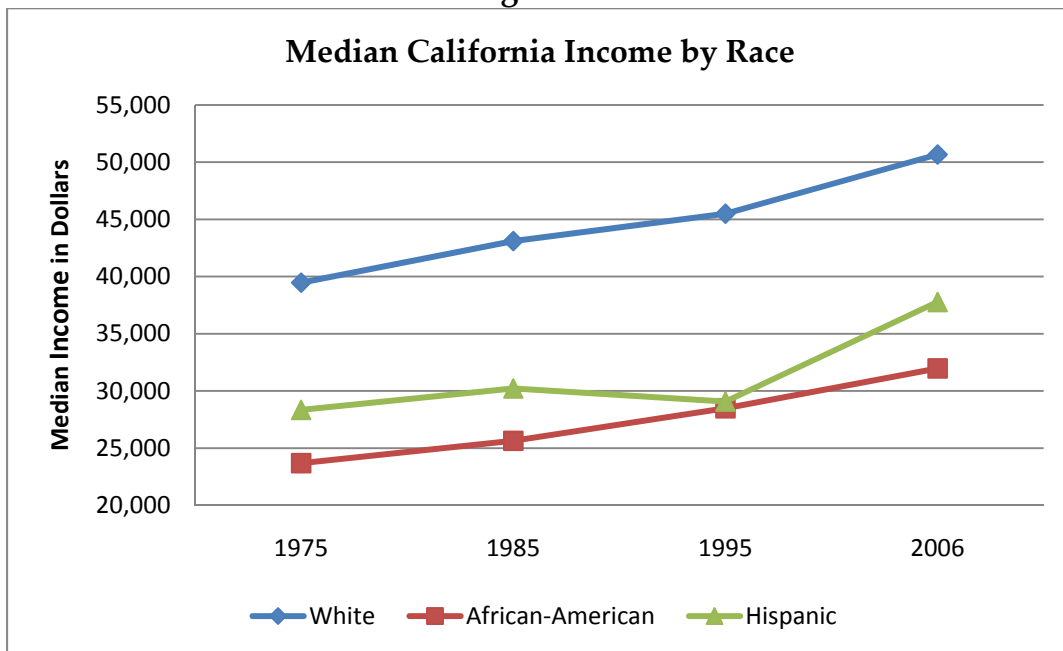
Relative to the U.S., Californians have historically enjoyed higher per capita personal income (see Figure 9), although this advantage likely disappears when California's higher cost of living is taken into consideration.



Source: Bureau of Economic Analysis (retrieved from <http://bber.unm.edu/econ/us-pci.htm>).

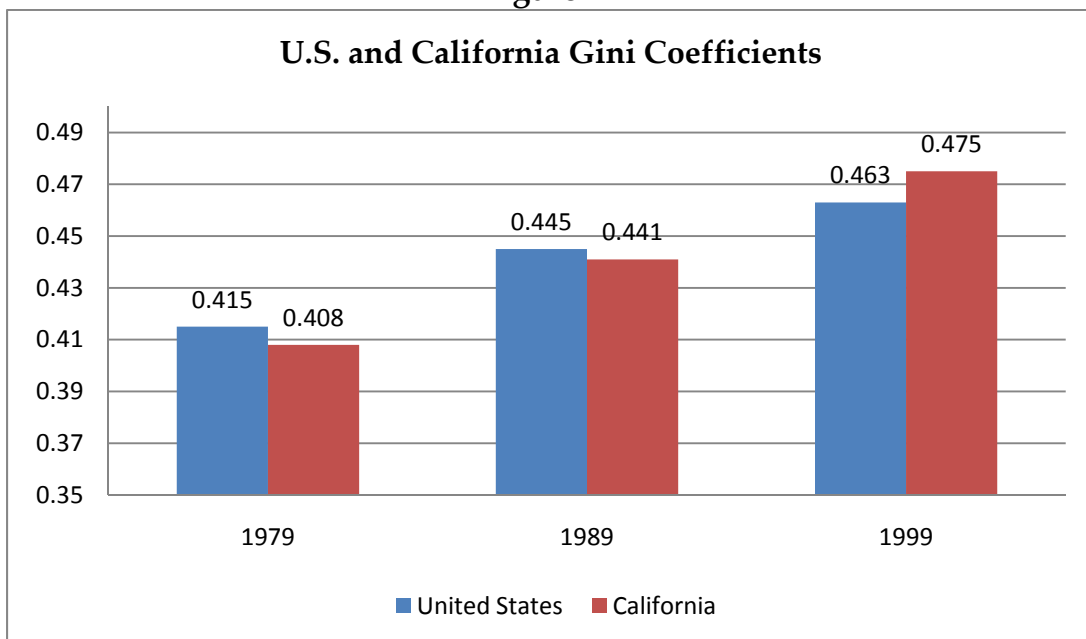
There is substantial variation in median income by race/ethnicity (see Figure 10), with whites earning roughly 50 percent more at the median than blacks and Hispanics. Additionally, Figure 11 indicates that the distribution of income has gotten more unequal over time (in both the U.S. and California) and the distribution of income in California is more unequal than in the U.S. as a whole. The Gini coefficient is a measure of income inequality that ranges between the values of 0 (perfect equality) and 1 (perfect inequality). The higher the Gini, the more unequal is the distribution of income across households. To give Figure 11 some context, Brazil and Mexico have Gini coefficients in excess of 0.50, while the Gini in Germany and Canada is below 0.30.

Figure 10



Source: The National Center for Higher Education Management Systems (<http://www.higheredinfo.org/>).

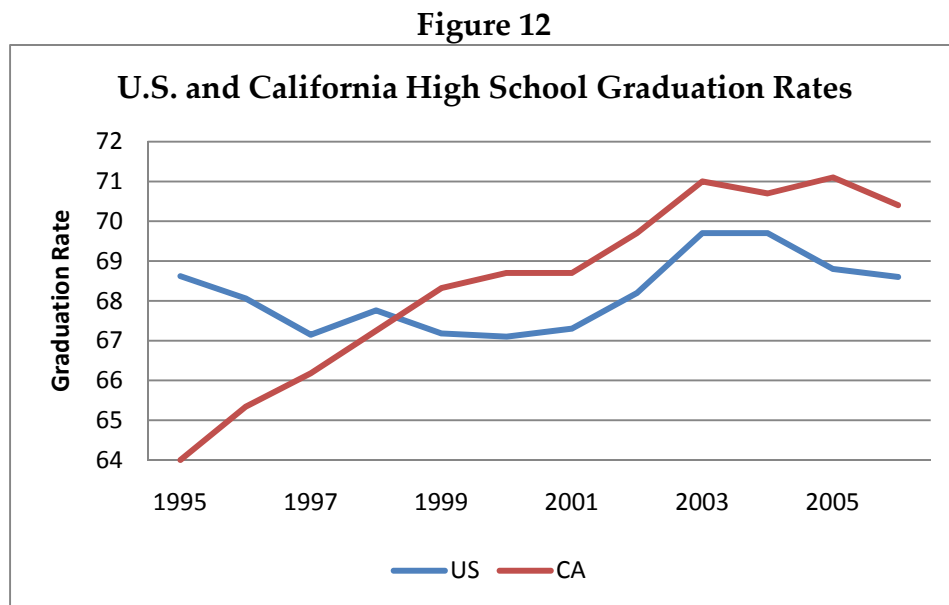
Figure 11



Source: U.S. Census Bureau (retrieved from <http://www.census.gov/hhes/www/income/histinc/state/state4.html>).

4. Education

Differences in educational attainment by race/ethnicity are the most likely explanation for the racial/ethnic median wage gaps evident in Figure 10. According to The National Center for Higher Education Management Systems, in 2007, 92.6 percent of white Californians had received a high school diploma, while only 85.9 and 65.6 percent of blacks and Hispanics, respectively, had received a high school diploma. Despite these gaps by race/ethnicity, Figure 12 indicates that overall high school graduation rates in California are slightly higher than the U.S. rate after 1998.



Source: The National Center for Higher Education Management Systems (<http://www.higheredinfo.org/>).

Post-secondary education in California is provided within a structured three-tiered system initially outlined in the 1960 *Donohoe Higher Education Act*, but better known as the collection of constitutional amendments, legislation, and documents called the *Master Plan for Higher Education in California*.¹ The *Master Plan* clearly divides higher education in California into three segments with unique missions:

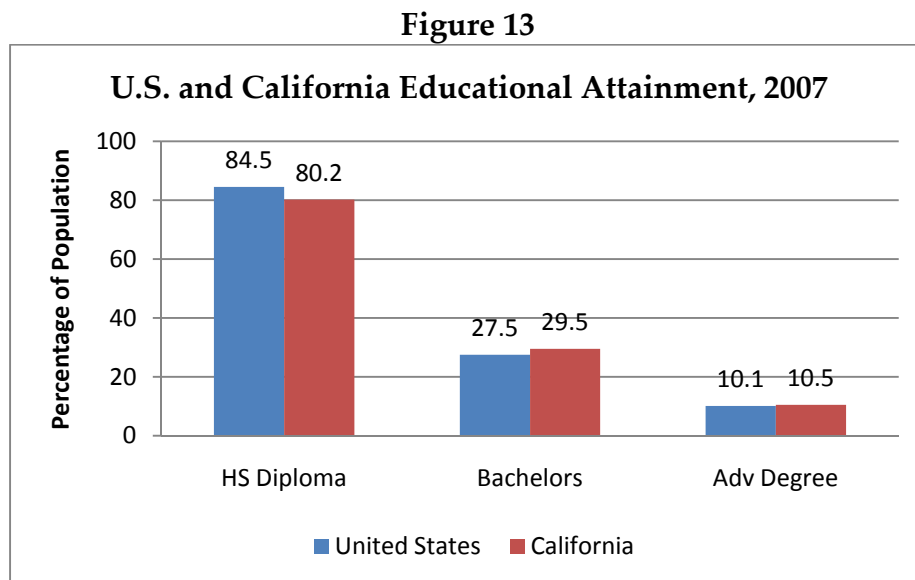
- (1) The University of California (UC) colleges provide undergraduate, graduate, and professional education, with exclusive jurisdiction over doctoral degrees,
- (2) The California State University (CSU) colleges provide undergraduate, graduate, and professional education through master's degrees and teacher education, and

¹ See http://sunsite.berkeley.edu/uchistory/archives_exhibits/masterplan/ for an overview of the *Master Plan*.

- (3) The California Community Colleges (CCC) provide academic and vocational instruction in lower-division undergraduate education.

The *Master Plan* further differentiates student access to these segments by guaranteeing the top one-eighth of the statewide high school graduating class a place in the UC system, the top one-third a place in the CSU system, and any high school graduate who could plausibly benefit from postsecondary study a place in the CCC system. Clearly, college access is a priority in California. According to RAND California, approximately 76 percent of all California undergraduate students are enrolled at community colleges, 16 percent at CSU campuses and 8 percent at UC campuses.

Even with this *Master Plan*, high school, college, and advanced degree completion rates in California are very similar to national completion rates.



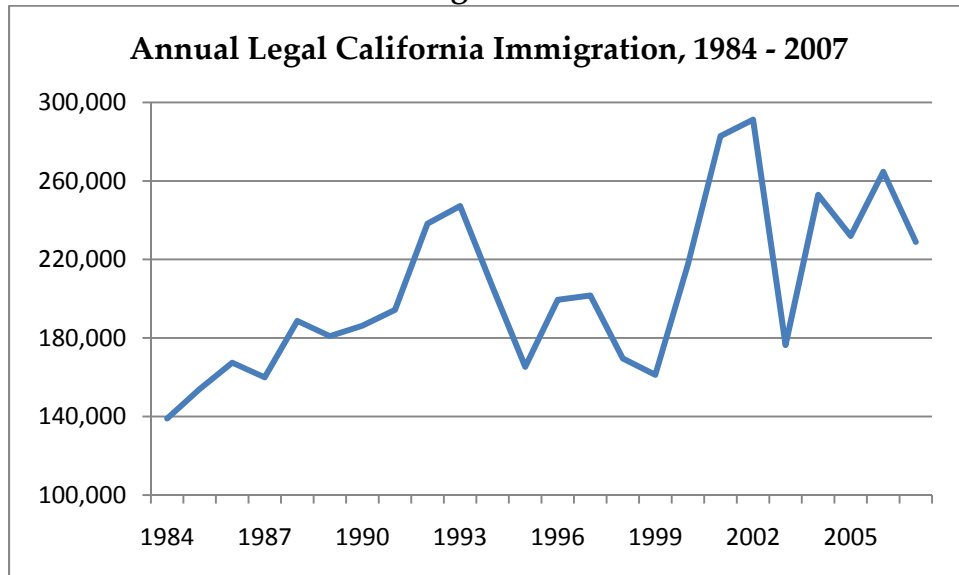
Source: U.S. Census Bureau (<http://www.census.gov/compendia/statab>).

5. Immigration

California not only shares a border with Mexico, but as a coastal state, it also has a large number of immigrants from East Asia. According to the U.S. Census, roughly 80 percent of California's foreign-born population comes from Mexico and Asia. In 2006, California had nearly 10 million foreign-born residents (27.1 percent of the state's total population). By contrast, only 12.5 percent of the total U.S. population was foreign-born in 2006 (Pew Hispanic Center, 2006).

Although there is year-to-year variation in new legal immigrants to California, there is a visible upward trend over the past 25 years (see Figure 14).

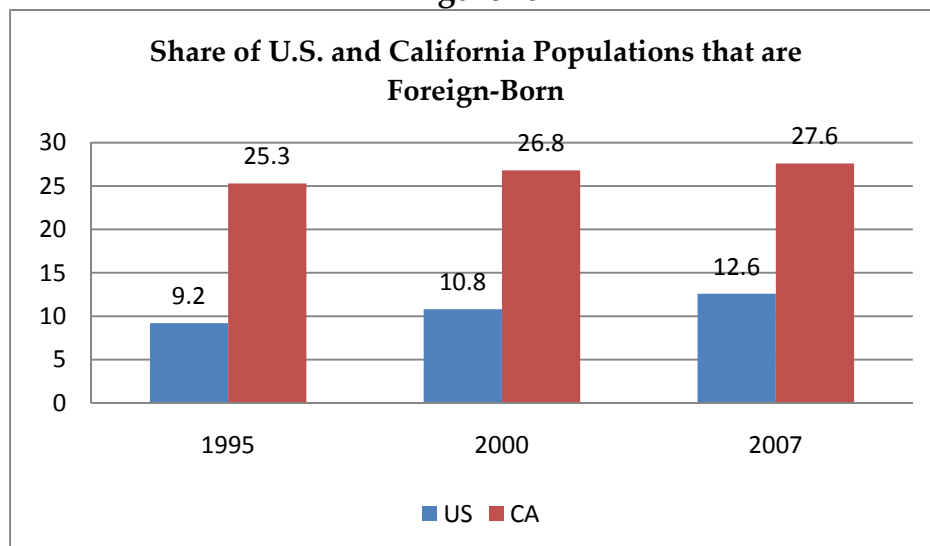
Figure 14



Source: California Department of Finance (retrieved from <http://www.dof.ca.gov/research/demographic/reports/#immigration>)

The foreign-born population has grown in both California and the U.S. overall over time.

Figure 15

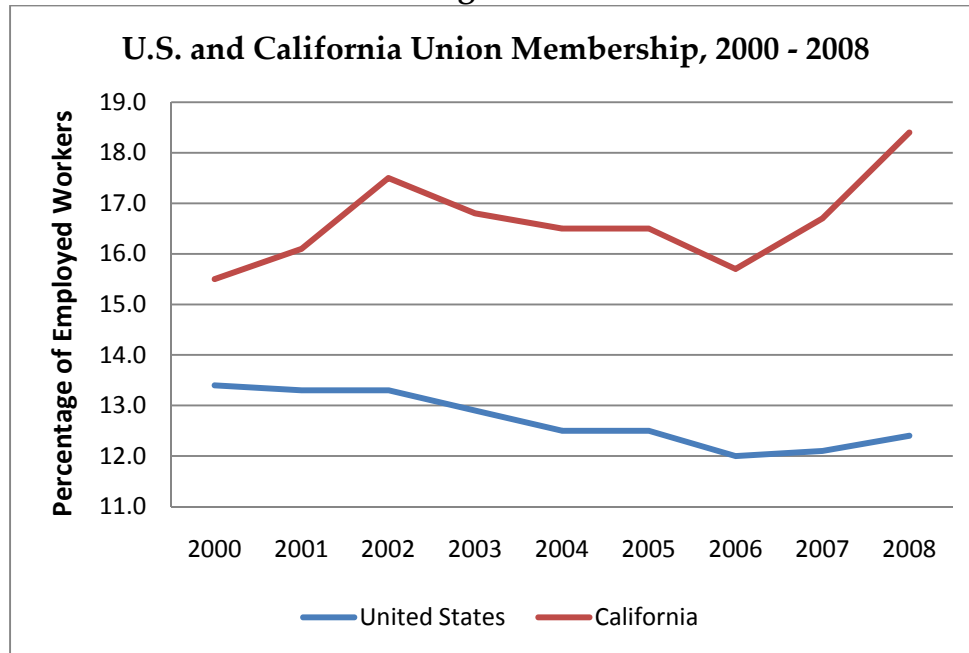


Source: Current Population Survey (retrieved from http://cis.org/immigrants_profile_2007).

6. Unionization

California is a “forced unionism” state, which means that employees are not protected by “Right to Work” laws and are required to join or financially support a union if one exists in their workplace. As a result, unionization rates in California are considerably higher than national rates and appear to be rising in recent years.

Figure 16



Source: Bureau of Labor Statistics (www.bls.gov).

Conclusion

The strengths and weaknesses that will continue to affect the California economy and labor market are more complex than the descriptive information provided in this report. Economic success across all socioeconomic groups in the state is very likely a complicated combination of tax policies, educational investments, and government expenditures on a variety of programs that influence the decisions of both individuals and firms. California’s labor market will likely continue to be heavily influenced by immigration and the human capital investment decisions of all workers.

References

Legislative Analyst's Office (2006). *CAL Facts: California's Economy and Budget in Perspective*. Retrieved from http://www.lao.ca.gov/2006/cal_facts/2006_calfacts_econ.htm.

Pew Hispanic Center (2006). *Statistical Portrait of the Foreign-Born Population in the United States, 2006*. Retrieved from <http://pewhispanic.org/files/factsheets/foreignborn2006/Table-10.pdf>.