POLICY RECOMMENDATIONS

Income Inequality and Economic Opportunity in California

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Low-income workers, communities of color, and women have been hit hardest by the current economic crisis, and past recessions suggest their incomes will take longer to recover. Without deliberate policy action, the COVID-19 recession threatens to deepen the state's economic divide—worsening existing racial and regional disparities while jeopardizing recent gains in women's labor force participation.

Long-term trends of widening income inequality, stagnant economic mobility, and persistently high poverty raise serious questions about the future of economic opportunity for Californians bearing the brunt of the current downturn. Whether these patterns continue will be in part a reflection of state and federal policy actions over the coming months and years. California will likely face heightened fiscal constraints for some time. State policymakers will inevitably be dependent on federal support, but they still have many options available to promote an equitable recovery. PPIC surveys indicate robust support among Californians for state government's role in reducing poverty and narrowing the divide between the haves and have-nots.

Substantially improving opportunity and reducing inequality in California would require large-scale investments. In the short term, controlling the public health crisis is paramount. Until economic activity can fully resume, support for job growth, business relief, and consumer spending should focus on the hardest-hit sectors, households, and regions. To counteract longstanding economic inequality, policymakers will need to tackle barriers to work and systemic patterns of underinvestment while planning for the future of the labor market and investing in opportunity for younger generations.

What would these principles look like in action? To promote short-term recovery, we recommend:

Target economic stimulus and stabilization efforts to the most affected Californians. Safety net programs like unemployment insurance, CalFresh, and CalWORKs can provide an immediate backstop during the recession and early stages of recovery. However, undocumented workers have been left out of most safety net programs, meaning that fully stabilizing the economic circumstances of California's workers and their families would require state intervention outside of existing programs. Absent additional federal support, state policymakers should consider alternative revenue options to continue short-term supplemental benefits, such as the unemployment insurance expansions under the CARES Act. Similarly, targeting support to the businesses most affected by the pandemic is necessary to set the state up for a strong recovery once COVID-19 abates, especially in communities that have historically not received much investment. While financing such an endeavor may be cost-prohibitive, leveraging funds through public-private partnerships could prove fruitful, with conditions set to ensure that funds are directed to businesses with the greatest need.

Invest in future-oriented training and development for workers in the hardest-hit sectors and regions. The economy is likely to undergo structural changes over the coming years, such as shifting toward remote work. Employment in many of the most affected industries—including leisure and hospitality (e.g., restaurants, entertainment, and tourism) and personal services (e.g., auto repair, beauty and barber shops, and dry cleaning)—may not fully recover to pre-crisis levels. Investments in job training for workers who may need to transition will be crucial, especially for mid- and late-career workers who may otherwise be at risk of leaving the labor force and retiring early. The community college system will be essential for providing broad access to retraining at a low cost. Investments in regions with larger initial losses, like Los Angeles County and the Central Valley, and in local communities with longstanding underinvestment in education and job skills would provide the largest benefits over the short and long run.

Expand availability of and subsidies for dependent care. Many child care providers are at risk of financial insolvency, and in-person care jobs have become perilous to workers' health due to the coronavirus. A lack of options for families has imposed new burdens and threatens to affect labor force participation over the coming years. Indeed, labor force declines were initially larger among women, which could slow their return to the labor market as the economy recovers. While the spread of the virus continues to constrain in-person care and K–12 schools remain mostly closed to in-person instruction, policy options will be limited. But once the pandemic subsides and in-person activities resume, ensuring the fiscal health of dependent care systems will be critical to support this growing sector of our economy and encourage a return to full employment among workers with dependents. To this end, policymakers should offer subsidies or expand existing programs and family leave if many Californians continue to forgo employment to care for a dependent.

To address income inequality over the long term, we recommend:

Invest in child care and early education. Improving access to high-quality child care—particularly early childhood education—will provide long-term benefits in the form of improved educational outcomes, higher earnings, reduced crime, and intergenerational economic mobility. New investments are of course difficult in a constrained fiscal climate, but research shows benefits that accrue over the long run result in financial savings for the state government.

Expand access and capacity to public higher education institutions. The state's higher education systems, including the community colleges, California State University, and the University of California, do not have the capacity to serve all qualified high school graduates. Moreover, the projected number of college-educated workers falls far short of California's future labor market needs—and this gap may grow if declines in service sector employment persist. Since four-year degrees and postsecondary credentials still offer well-documented benefits to earnings and upward mobility, expanding the capacity of public higher education systems would improve the employment prospects and economic outlook for young Californians. As distance-learning technology improves, policymakers should consider increasing remote options as a way to improve capacity in a more cost-effective manner. However, careful attention should be paid to the quality of these offerings, as a bifurcated higher education system could exacerbate inequities if remote options are of inferior quality.

Address racial and regional disparities in opportunity. The COVID-19 pandemic has laid bare substantial disparities in health, employment, education, and housing across racial, regional, and socioeconomic divides. Without acknowledging these persistent divides and addressing the barriers that perpetuate them, policies to promote recovery and economic mobility will be limited in their effectiveness. Ensuring that the investments in infrastructure, education, training, and dependent care noted above are equitable is a first step toward reversing longstanding disparities in outcomes. This means corrective policy actions must reach communities that have historically been subject to underinvestment, especially low-income communities and communities of color. The state's emphasis on health equity in COVID-19 protocols is an example of policy that creates incentives to address racial disparities. A newly created state task force to examine California's options for offering reparations to African Americans could also result in policies that reduce the effects of systemic racism.

The full consequences of this recession are yet unknown, and it is likely that California's economy will undergo structural changes that present new obstacles. Policymakers will therefore need to reevaluate past thinking and continuously reexamine their priorities and options as our understanding evolves. Despite this uncertainty amid an unprecedented crisis, ensuring the promise of the California dream is not a new challenge—though maintaining this promise will require a renewed policy commitment.

These recommendations are adapted from *Income Inequality and Economic Opportunity in California* by Sarah Bohn, Dean Bonner, Julien Lafortune, and Tess Thorman (PPIC, 2020). This research was supported with funding from the James Irvine Foundation.