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To: Those Concerned About California's Economy
From: John Husing, Ph.D.
Subject: California's Lack of Policy for Blue Collar Jobs

Date: March 14, 2012

In January, Los Angeles Times business columnist Michael Hiltzik wrote a piece dealing with the movement of a manufacturing firm out of California. He used the loss of the firm to lament the difficulties faced by the state's manufacturers and the fact California lacks any industrial development policy. In March, the paper's Sacramento columnist, George Skelton, wrote an article citing the difficulties being created for the state by misuse of the CEQA process. Key observers thus appear to be starting to understand that our state government, with Democrats now controlling every constitutional office and veto proof majorities in both houses, has done little to worry about California's prosperity and the huge portion of its residents with high school or less educations. As the Chief Economist of the Inland Empire Economic Partnership, I have had to worry about these facts as they directly affect the region about which we are concerned.

By way of background, I am a former campaign manager for the Democratic Party from the 1970s and 1980s as well as a Ph.D. in regional economics. In a sense, my economics was learned at Claremont Graduate University; my politics in the street. The political party to which I worked for so long felt that its primary mission was to increase the employment and income prospects for the state's working class people. Most were marginally educated and significant shares were Hispanics or African Americans. What is of great concern is that my former party (*I'm now an independent*) has largely abandoned this goal with devastating results. An explanation is in order.

Since 1964, my work has primarily been concerned with the quality of life and prosperity of San Bernardino and Riverside counties. Like the entire inland spine of California, from San Joaquin County south to Mexico, these two inland counties have historically been poorly educated with the share of adults with high school or less educations slowly moving down from 52% in 1990 to 50% in 2000 to 47% in 2011 (*Los Angeles County: 44%*). Meanwhile, with median housing values over \$100,000 below those in Southern California's coastal counties, they have seen very large numbers of marginally educated people migrate inland to where they could afford homes. One result has been that the share of the population that is Latino has risen over time from 26% in 1990 to 38% in 2000 to 48% in 2011. In 2011, the percentage of those in the inland counties with BAs and above was 19% as opposed to 32% in Southern California's coastal counties and 42% in the Bay Area. That last number is mentioned because so many of the policies adopted by today's Democratic Party emanate from thinking in the Bay Area where their leaders appear to think that their demographic environment is "normal."

When you look at routes to the middle class for marginally educated workers, you have to focus on the industries that have minimal entry level qualifications and skill ladders up which primary wage earners can migrate into jobs paying over \$40,000 per year. According to the CA Employment Development Department, the sectors where poorly educated workers can generally get beginning jobs include those in Exhibit 1 (*next page*). It also shows each group's 2010 mean

pay levels. Note the large difference between pay in the blue collar sectors and those essentially involved in delivering services. Essentially, the exhibit says that if marginally educated workers are to reach the middle class, most need access to jobs in blue collar firms. Here, the statement that California lacks an industrial policy rings true. It needs however to be expanded beyond manufacturing to include construction, logistics (*wholesale trade, trucking & warehousing*) and mining. Otherwise, educational levels will bar very large numbers from the access routes to middle class incomes. There is a social justice dimension to this as over 60% of Hispanics adults and 35% of African American adults in each county of the Central Valley and Southern California have stopped their educations with high school or less schooling (*Exhibits 8-9 below*).

Exhibit 1.-Employment, Payroll and Average Pay Per job by Sector, 2010, Southern California			
Sector	Total Jobs	Total Payroll	Average Pay Per Job (2)
Manufacturing	735,207	\$44,507,194,109	\$60,537
Wholesale	380,778	\$22,543,346,172	\$59,203
Logistics (<i>Wholesale. +Trucking & Warehousing</i>)	637,958	\$35,125,106,799	\$55,059
Construction	299,544	\$15,876,433,058	\$53,002
Trucking & Warehousing (1)	305,811	\$14,918,288,031	\$48,783
Retailing	854,980	\$25,811,146,443	\$30,189
Accommodation	107,231	\$3,017,236,932	\$28,138
Part Time Agencies (3)	199,764	5,470,546,210	\$27,385
Agriculture	69,949	\$1,787,133,970	\$25,549
Other Services	415,579	\$10,093,442,233	\$24,288
Eating & Drinking	608,625	\$10,557,315,377	\$17,346

Source: Employment & Payroll By Sector. CA Employment Development Department, 2010 in Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Diego & Ventura Counties

- (1) Includes self employed
- (2) Critics who stress the need to use medians instead of mean averages for pay levels operate on the assumption that a few highly paid people are biasing these numbers to the high side. Having done the numbers to create the medians in logistics I can state that they are wrong because in these sectors most of the top managers have worked their way up the skill ladders over time and that while they are better paid, the size of the differential and the number of such people is insufficient to create much of a bias.
- (3) Another point often raised is the degree to which the various sectors are made up of temporary workers. Nationally, employment agency & contract agency jobs were distributed as follows according to the U.S. Bureau of Labor Statistics in a 2005 study:

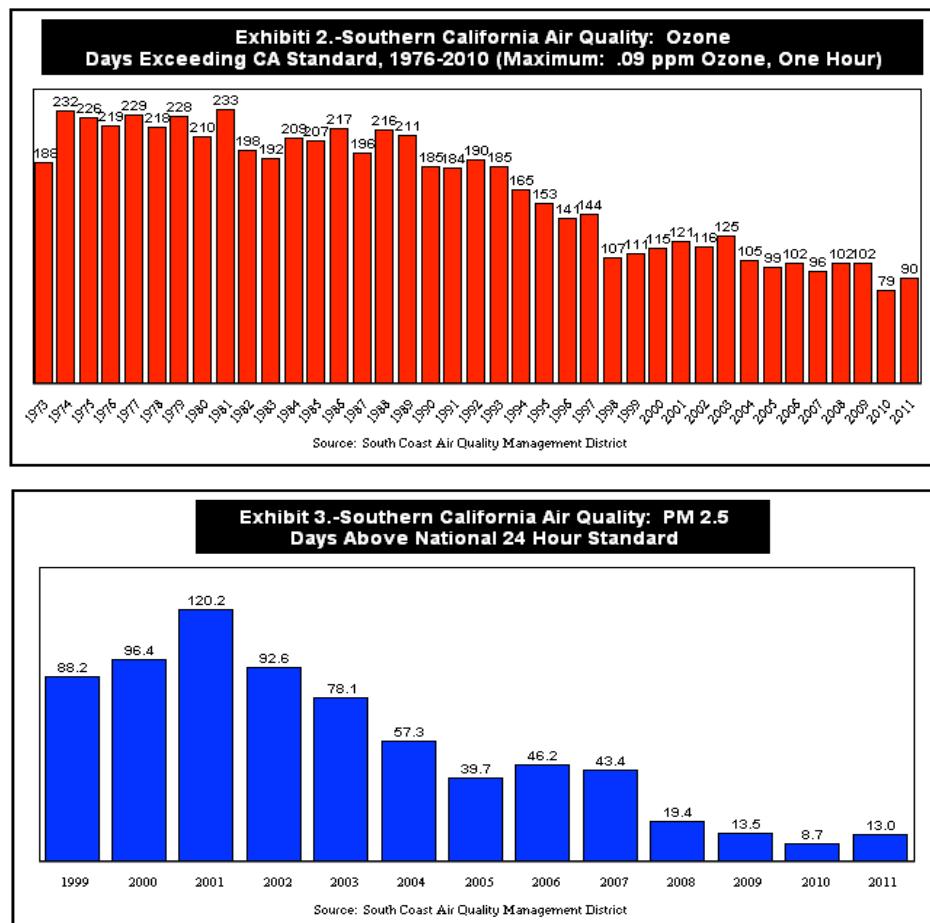
Professional and business services	23.4%
Manufacturing	22.8%
Education and health services	13.0%
Construction	8.7%
Public administration	8.4%
Financial activities	5.2%
Wholesale trade	4.6%
Transportation and utilities	3.5%
Leisure and hospitality	2.9%
Information	2.7%
Retail trade	2.5%
Other services	1.9%
Mining	0.4%
Agriculture	0.1%
Total	100.0%

Source: Employed workers with alternative and traditional work arrangements by occupation and industry, U.S. Bureau of Labor Statistics, February 2005.

However, the situation is much worse than lack of an industrial policy. Rather, as a matter of California policy and its implementation, we have created a regulatory framework that is reducing employment prospects in the very sectors that huge shares of our population need if they are to reach the middle class. It is therefore not just conservative Republican policies causing our widening income disparities. This is being done in the name of public health and social justice related to the environment, but it is having the unintended consequence of causing public health and social justice side effects much more profound than those being cured.

To be specific, the modern Democratic Party plus former Governor Schwarzenegger have created and/or expanded the power of single interest regulatory agencies and laws via such thrusts as the California Air Resources Board (*CARB*), South Coast Air Quality Management District (*AQMD*), CA Environmental Quality Act (*CEQA*) and AB 32. These forces have largely impacted manufacturing, logistics, construction and mining, the four blue collar sectors, since they are the sectors where the nature of the work and the operations are “dirty.”

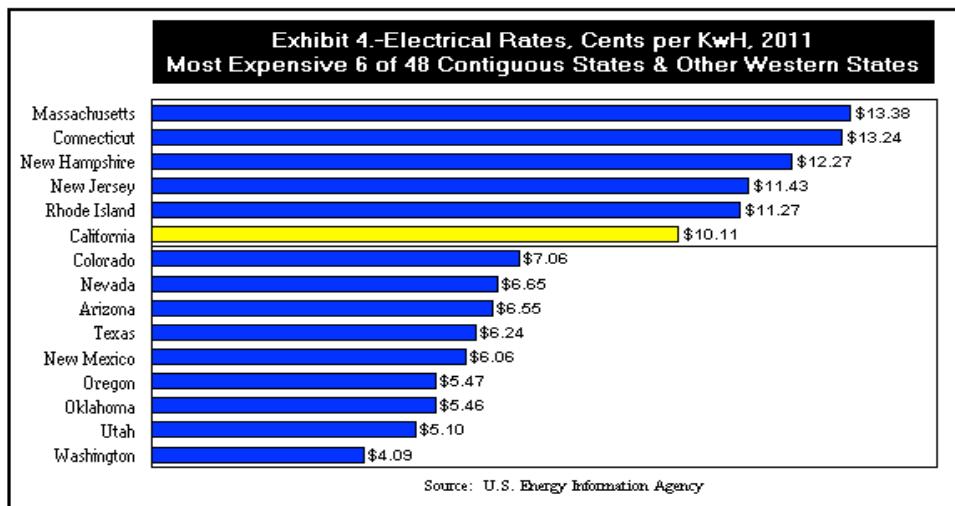
There is no question that the result has been a healthier environment than at any time in the past three decades. This can be seen in the number of days of pollution readings in Southern California that have been above state (*ozone*) and national (*PM2.5*) standards (*Exhibits 2-3*):



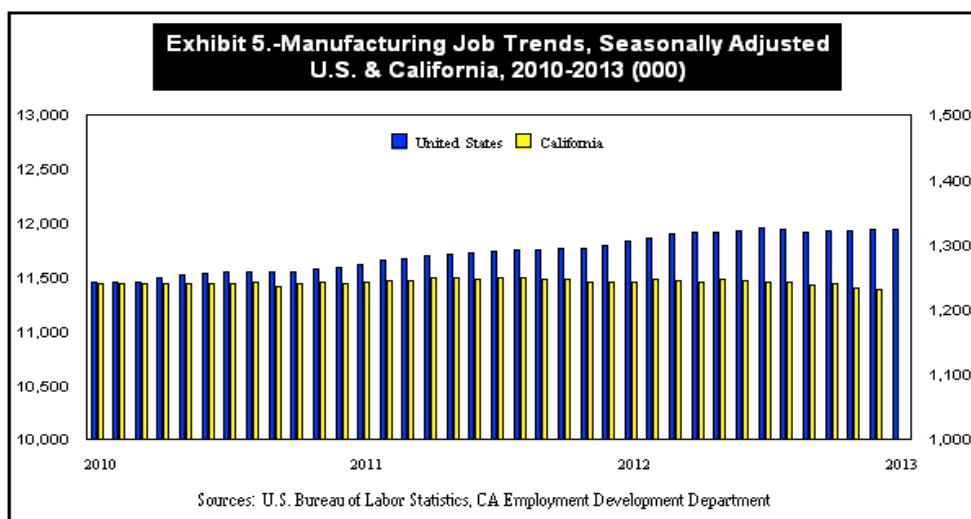
That said, there is a constant drive to attain additional *marginal* increases in environmental quality. While no one is opposed to seeing our environment become healthier, the myopic concentration on to this issue to the exclusion of its impact on blue collar employment is clearly

impacting the employability and incomes of the huge shares of poorly educated workers in California's inland counties and Los Angeles County who need those types of jobs:

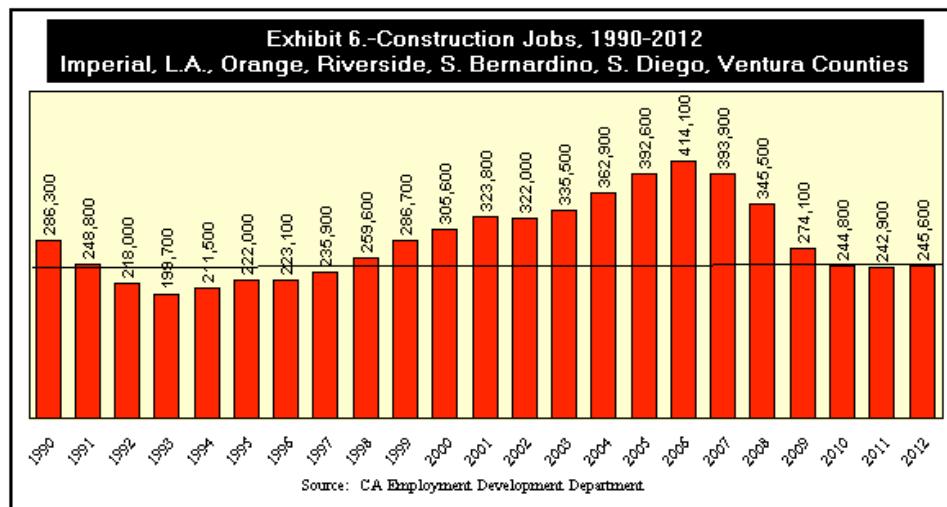
- **Manufacturing** growth has been slowly strangled in California, yet the remaining firms continue to find themselves under mounting regulatory and cost pressures. They are, for instance, constantly required to install specific pollution control equipment well before they have retired the debts from prior mandates, doubling up on their compliance costs. Oddly, there is not a state policy to promote local production of the equipment being mandated. Worse, AQMD's stated goal of electrifying the basin will exacerbate electrical costs already by far the highest in the West, and 6th highest in the U.S. This will prevent California firms from benefitting from plunging rates for relatively clean natural gas that are now creating a competitive advantage for U.S. manufacturers (*Exhibit 4*).



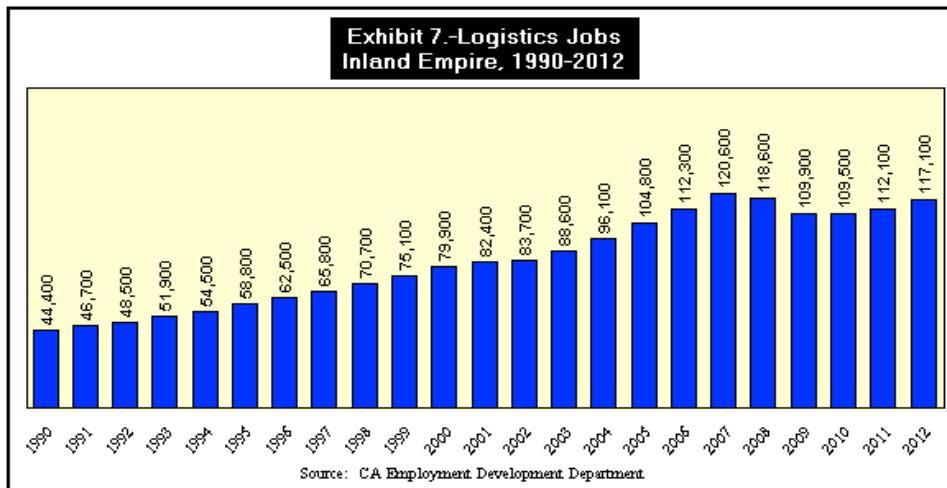
This constantly changing framework has created such regulatory instability that manufacturers cannot plan growth in their typical 5-year timeframes. Numerous firms are thus putting their expansions outside California. Some, as Hiltzik has written, are leaving the state. Certainly, few if any producers are interested in coming to the state. The impact is seen in that during 2010-2012, U.S. manufacturing employment grew by 486,000 jobs while California lost another -10,000 such jobs (*trends shown on Exhibit 5*).



- Meanwhile, the ease of lawsuits under CEQA is constantly postponing expansion projects even after environmental reviews are completed. **Construction** job growth is thus being delayed or halted by NIMBYs, lawyers using the CEQA process as a cash cow and/or activists wanting to stop any kind of growth. Even environmentally sensitive projects such as infill efforts are subject to these difficulties. This is also seen in the years needed for infrastructure projects to be built. This process will make it difficult for employment creation to recover for a blue collar sector that is already in a depression with Southern California's 2012 construction job level at its lowest level since 1997 (*Exhibit 6*).



- International trade and logistics are a bright spot for Southern California's blue collar workers. For instance, in the Inland Empire, the sector added an average of 5,000 jobs during 2012 making it the most important supplier of blue collar job growth in these high unemployment (10.9%) counties. Logistics employment is moving back towards its high in 2007 (*Exhibit 7*). However, AQMD is now focused on slowing that sector's inland growth. It has actively opposed the proposal by Moreno Valley to specialize in the sector. It is also doing its own research on the traffic impacts of the high cube warehouses that are being built in the inland area in an attempt to counter research by the respected and expert U.S. Institute of Transportation Engineers. If AQMD is successful, they will blunt the expansion of this key inland provider of blue collar job opportunities.



With these regulatory efforts suppressing blue collar job growth in California, Southern California and the Inland Empire, they are potentially preventing thousands of people from accessing employment that could otherwise lead them to the middle class. While the regulatory regime is being managed in the name of public health and social justice, by having this unintended consequence, it is in fact causing exactly those problems only in a different form. It is doing so by limiting workers to lower income work who might otherwise have access to jobs in sectors averaging \$40,000-\$50,000 a year:

- On the **public health** front, a recent 2/22/2013 post by Richard Longworth, a Senior Fellow at the Chicago Council on Global Affairs, on *Newgeography.com - Economic, demographic, and political commentary about places*, summed up the problem:

“Poor people get less schooling, which leads to worse jobs, which leads to poorer lifestyles, which leads to stress, which leads to more smoking and drinking, which increases the chances of joblessness, which means no health insurance, all of which adds up to the kind of debilitating despair that never lengthened anyone's life.”

In California, this statement is confirmed by 2012 public health data from the University of Wisconsin which found that on overall public health metrics, each of California’s inland counties from San Joaquin to Mexico ranked in the bottom half of the state’s 56 counties, ranging from Riverside (32nd) to Kern (49th). Interestingly, environmental quality was not the reason for these poor rankings as those metrics made up just 10% of this study’s weighting. More important were metrics including health behaviors (30%), clinical care (20%), and most critically, social and economic factors (40%).

By focusing solely on the public health impacts related to diseases like emphysema or cancer, but failing to account for the health impact that reduced access to the middle class is having on the poverty, California policy is contributing to a public health crisis albeit of a different kind, one that interestingly enough affects people outside the consciousness of most of the proponents of the existing regulatory framework.

- On the **social justice** front, those advocating the current regulatory approach focus on the fact that inordinate numbers of those living along freeways, near rail yards or the ports or adjacent to manufacturing facilities are Hispanic and African American. While that is a concern, it again misses a far greater social justice consideration related to the need for blue collar job opportunities by the large share of marginally educated primary wage earners from these groups who need access to upward mobility to middle class incomes.

Looking at Hispanics, in 2011, California’s inland counties from San Joaquin County to Mexico were home to 1,459,782 adults who had stopped their schooling with high school or less education. That was 68.2% of the Hispanic adults in those 11 counties. In Los Angeles, Orange, San Diego and Ventura counties, 66.7% of Hispanic adults were marginally educated or 2,657,870 people. Altogether, the need for jobs providing upward mobility into the middle class thus applied to the existing and potential workers among 4,117,652 marginally educated Latinos in the Central Valley and Southern California (*Exhibit 8*). Putting in place policies that stop or reduce the growth of these sectors is clearly a social justice issue for them, one with public health consequences.

Exhibit 8.-Marginally Educated Hispanics, 2011
San Joaquin County to Mexico, 25 & Over

County	Total Hispanic 25 & Up	High School or Less	Share
Riverside	529,863	355,523	67.1%
San Bernardino	533,129	352,080	66.0%
Imperial	80,623	49,213	61.0%
Inland So. CA	1,143,615	756,816	66.2%
Fresno	244,300	165,919	67.9%
Kern	211,636	154,970	73.2%
Kings	42,161	29,580	70.2%
Madera	41,949	31,366	74.8%
Merced	71,404	51,609	72.3%
San Joaquin	138,779	95,998	69.2%
Stanislaus	111,365	79,626	71.5%
Tulare	134,117	93,898	70.0%
Central Valley	995,711	702,966	70.6%
Inland Spine	2,139,326	1,459,782	68.2%
Los Angeles	2,685,944	1,847,407	68.8%
Orange	562,138	358,891	63.8%
San Diego	550,249	333,563	60.6%
Ventura	183,696	118,009	64.2%
Southern California Coast	3,982,027	2,657,870	66.7%
Total	6,121,353	4,117,652	67.3%

Source: U.S. Census Bureau, American Community Survey, 2011

Exhibit 9.-Marginally Educated African Americans, 2011
San Joaquin County to Mexico, 25 & Over

County	Total Hispanic 25 & Up	High School or Less	Share
Riverside	85,432	30,591	35.8%
San Bernardino	100,094	36,687	36.7%
Inland So. CA	185,526	67,278	36.3%
Fresno	26,747	11,899	44.5%
Kern	27,222	12,003	44.1%
Kings	6,548	3,722	56.8%
Merced	5,299	2,183	41.2%
San Joaquin	30,666	10,282	33.5%
Stanislaus	8,063	3,680	45.6%
Tulare	4,833	2,095	43.3%
Central Valley	109,378	45,864	41.9%
Inland Spine	294,904	113,142	38.4%
Los Angeles	547,603	200,625	36.6%
Orange	33,986	9,529	28.0%
San Diego	97,344	35,861	36.8%
Ventura	9,720	3,223	33.2%
Southern California Coast	688,653	249,238	36.2%
Total	983,557	362,380	36.8%

Source: U.S. Census Bureau, American Community Survey, 2011

Looking at African Americans, in 2011, the California's inland counties from San Joaquin County south to Mexico were home to 113,142 adults who had stopped their schooling with high school or less education. That was 38.4% of the African American adults in the nine inland counties for which data was available. In Los Angeles, Orange, San Diego and Ventura counties, 36.2% of African American adults were marginally educated or 249,238 people. Altogether, the need for jobs providing upward mobility into the middle class thus applied to the existing and potential workers from this base of 362,380 marginally educated people (*Exhibit 9*). Again, putting in place policies that stop or reduce the growth of these sectors is a social justice issue for the African American community, one also with public health consequences.

Please note that the argument is not that regulation aimed at cleaning up the environment should be reduced or its advancement totally halted. Rather, it is an argument that by focusing solely on that consideration and putting no effort into ensuring that the speed and burden of the next *marginal* increase in environmental quality does not fall inordinately on the portions of our society least able to afford it, California is helping exacerbate income inequality as well as the public health and social justice issues related to it. The fact that virtually no attempt has been made by the regulators and their adherents to quantify the income and employment impacts on marginally educated workers of their actions underscores this bias. This is a totally inappropriate way for the state's policies to be balanced, particularly for a Democratic Party which counts lower income voters including Hispanics and African Americans as a major part of its base. To paraphrase an often stated argument about cleaning up the environment:

It does working class families little good if we create a totally pristine environment but let them increasingly die of the diseases and behaviors fostered by poverty.