

**Assembly Committee on
Jobs, Economic Development, and the Economy**

Inclusive Economic Recovery Priorities for 2021

March 16, 2021, at the California State Capitol in
Room 4202 at 9:30 am

Sabrina Cervantes, Chair
Jordan Cunningham, Vice Chair

Appendix F

Income Inequality is Not New – Lessons from the Great Recession

This appendix includes background on the ongoing income inequality challenges California faces. Even prior to the pandemic, economic growth out of the Great recession was uneven and created conditions that often deepened the economic and social disparities.

The Challenge of Income Inequality

While California’s dominance in innovation-based industries is unquestionable, the divide between the middle- and lower-income households and the top income earners is accelerating. Even as California’s unemployment is at historic lows, unemployment within certain geographic regions and population groups remains significantly higher, as does the number of people in the state who are not participating within the core economy. *Chart 1A – Selected Data on Unemployment* shows unemployment-related information by selected counties and population groups for December 2018 and December 2019.

Chart 1A - Selected Data on Unemployment (2018-2019)					
	Unemployment Rate December 2019 (Not Seasonally Adjusted)	Unemployment Rate December 2018 (Not Seasonally Adjusted)		Unemployment Rate December 2019 (12-month moving average)	Unemployment Rate December 2018 (12-month moving average)
California	3.7%	4.1%	California	4.1%	4.2%
Colusa County	14.2%	15.7%	Blacks	5.4%	6.5%
Imperial County	17.0%	17.3%	Hispanics	4.8%	5.1%
Los Angeles County	4.0%	4.6%	Whites	4.0%	4.1%
Riverside County	3.6%	4.1%	16 to 19 years old	14.5%	16.2%
Sacramento County	3.2%	3.7%	20 to 24 years old	7.4%	7.1%
San Bernardino County	3.3%	3.8%	25 to 34 years old	4.1%	4.4%
San Luis Obispo County	2.5%	2.8%	*The Employment Development Department reports a December 2019 Labor Participation Rate (LPR) of 62.2% representing 11.8 million people in California who were not participating in the workforce. The LPR for veterans is 43.4 vs nonveterans LPR of 65.8%.		
San Mateo County	1.7%	2.0%			
Tulare County	9.3%	9.6%			

Source: www.edd.ca.gov

With unemployment at 4.1%, rural areas like Imperial and Colusa County still experienced unemployment levers more than 4 times that statewide average. As noted in the Chart, with historically low unemployment, there were still 11.8 million people not participating in the labor force.

The nearly 120 months to economic growth from the Great Recession only slightly improved employment opportunities in many areas of the state, while some others fell below what economist consider appropriate structural unemployment (below 3%).

In December 2019, California reported a not seasonally adjusted unemployment rate of 3.7% as compared to the U.S. rate of [3.4%](#). From the employment side, this represents 15.3 million people, with over 82.3% being employed in full time work.

In December 2019, 13 of California’s 58 counties had unemployment below 3%, with San Mateo reporting the lowest at 1.7%. The highest unemployment was reported in Imperial (17.0%). Year-over (December 2018-December 2019), [52](#) counties reported employment increases, and 6 counties experienced employment declines from the prior year.

Chart 1B – Selected Data on Unemployment shows unemployment-related information by selected counties and population groups for a time period that includes COVID-19, December 2019 and December 2020.

Chart 1B- Selected Data on Unemployment (2019-2020)					
	Unemployment Rate December 2020 (Not Seasonally Adjusted)	Unemployment Rate December 2019 (Not Seasonally Adjusted)		Unemployment Rate December 2020 (12-month moving average)	Unemployment Rate December 2019 (12-month moving average)
California	8.8%	3.7%	California	10.2%	4.1%
Colusa County	15.5%	14.2%	Blacks	12.2%	5.4%
Imperial County	17.7%	17.0%	Hispanics	11.7%	4.8%
Los Angeles County	10.7%	4.0%	Whites	9.9%	4.0%
Riverside County	9.1%	3.6%	16 to 19 years old	23.6%	14.5%
Sacramento County	8.5%	3.2%	20 to 24 years old	16.4%	7.4%
San Bernardino County	9.2%	3.3%	25 to 34 years old	10.7%	4.1%
San Luis Obispo County	6.7%	2.5%	*The Employment Development Department reports a December 2020 Labor Participation Rate (LPR) of 60.5% representing 12.3 million people in California who were not participating in the workforce. The LPR for veterans is 44.4 vs nonveterans LPR of 64.6%.		
San Mateo County	5.8%	1.7%			
Tulare County	11.8%	9.3%			

Source: www.edd.ca.gov

In December 2020, California reported a not seasonally adjusted unemployment rate of 8.8% as compared to the U.S. rate of 6.5%. From the employment side, this represents 14.1 million people, with 83.1% being employed in full time work. Within nonfarm industries, six sectors saw month-over increases, including professional and business services (29,600 additional jobs) and educational and health services (6,100 additional jobs) and five sectors experienced month-over job losses.

In December 2020, 5 of California’s 58 counties had unemployment below 6.5%, with Marin County reporting the lowest at 5.5%. The highest unemployment was reported in Imperial (17.7%). Year-over (December 2019-December 2020), 58 counties experienced employment declines from the prior year.

These disparities shown in these charts are driven by and also influence a range of economic and societal issues, including, but not limited to, low educational attainment, economic insecurity, poor health outcomes, lack of a safety net for the elderly and individual with special needs, negative engagements with law enforcement, and homelessness.

The California Latino Economic Institute released a new policy brief in December 2020, which provides new data on the disparate and growing negative impact of COVID-19 on Latinos in California. Among other findings, the briefing noted the following:

- Latinos are overrepresented among California’s COVID-19 cases and deaths—59% of cases and 49% of the state’s deaths.
- Latino overrepresentation in California’s cases has increased since April 2020.
- Nearly 12% of California Latinos are currently uninsured—double the rate of other groups.
- Latino unemployment rates are double those from the same time last year.
- Nearly two-thirds of California Latinos report experiencing a loss of employment income since March 2020.
- Over 40% of Latinos currently report that it is somewhat or very difficult to pay their usual household expenses in the last 7 days.
- Over three-quarters of California small business owners report that COVID-19 has had a moderate to large effect on their businesses.

Chart 2 provides information from the California Department of Public Health relating to COVID-19 cases in California by race and ethnicity.

Chart 2 - All Cases and Deaths Associated with COVID-19 by Race and Ethnicity					
Race/Ethnicity	No. Cases	Percent Cases	No. Deaths	Percent Deaths	Percent CA population
Latino	1,449,831	55.1%	21,466	46.2%	38.9%
White	526,046	20.0%	14,689	31.6%	36.6%
Asian	178,375	6.8%	5,371	11.6%	15.4%
African American	106,708	4.1%	2,891	6.2%	6.0%
Multi-Race	39,026	1.5%	578	1.2%	2.2%
American Indian or Alaska Native	8,574	0.3%	163	0.4%	0.5%
Native Hawaiian and other Pacific Islander	14,915	0.6%	280	0.6%	0.3%
Other	307,116	11.7%	1,028	2.2%	0.0%
Total with data	2,630,591	100.0%	46,466	100.0%	100.0%
California Department of Public Health: 2/20/21 https://www.cdph.ca.gov/Programs/CID/DCDC/Pages/COVID-19/Race-Ethnicity.aspx					

The chart above, *All Cases and Deaths Associated with COVID-19 by Race and Ethnicity*, represents data from 3,421,720 total cases with 23% of those cases missing race/ethnicity. Approximately 2% of the death data is missing race/ethnicity.

Are these Lessons to be Learned from the Recovery of the Great Recession?

California is not unique in experiencing a rise in income inequality in the post-Great Recession era. The following is information from a September 2019 hearing JEDE held on income inequality.

National data shows that while the top 1% of income households were significantly impacted by the recession, by 2017 annual revenues had risen to the highest levels ever. Between 1979 and 2017, the income for the top 1% of income households cumulatively rose by 157%.

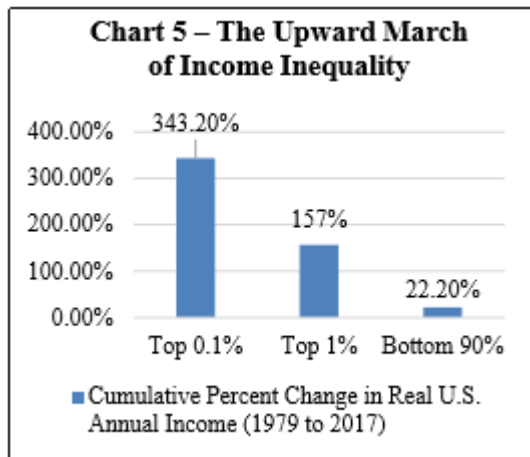


Chart 5 – The Upward March of Income Inequality is based on data from “Working Economies,” a blog of the Economic Policy Institute, and shows the significant divergent increases in income between three groups during the period of 1979 through 2017. For the top 0.1% of income households, earnings had increased by 343.2%, as compared to the earnings of the bottom 90% of households, which experienced an increase of only 22.2%.

The Economic Policy Institute also reviewed income inequality by state and major metropolitan area. Based on 2015 data, every state had a sizable gap between the top 1% and the bottom 99%, with the national average being a top-to-

bottom ratio of 26.3-to-1. In eight states, plus the District of Columbia (30.4-to-1), the top-to-bottom ratio exceeded the national average, including California which received a 30.7-to-1.

Other states with above national average income inequality included New York (44.4-to-1); Florida (39.5-to-1); Connecticut (37.2-to-1); Nevada (32.7-to-1); Wyoming (31.2-to-1); Massachusetts (30.9-to-1); and Illinois (27-to-1). These income discrepancies were also reported by metropolitan areas, where 45 of the 916 major metropolitan areas in the U.S. had income gaps wider than the national average.

In order to qualify as a top 1% household in 2015, family income needed to be above \$421,926. There were 13 states and 107 metro areas in the U.S. with 1% household incomes above the national average, themselves averaging a 1% household income of \$514,694. Further, of all income that accrued to 1% households in 2015, a full 50% accrued to households in five states, including California.

The average annual income in California for a top 1% household was \$1.69 million. The top 1% took home 23.7% of all income in California. By comparison, the average income for the other 99% of households in California was \$55,152. The San Jose-Santa Clara metro area had the most unequal income distribution in the state, with the top 1% making 34.6 times the income of the bottom 99%. Overall, California ranks 7th of all 50 states in income inequality.

According to the report, “The New Gilded Age,” these findings are particularly significant, as the rise of top incomes relative to the bottom 99% represents a reversal of the trend that prevailed in the U.S. during the mid-20th century. From 1928 to 1973, the share of income held by the top 1% declined in every state for which data was available.

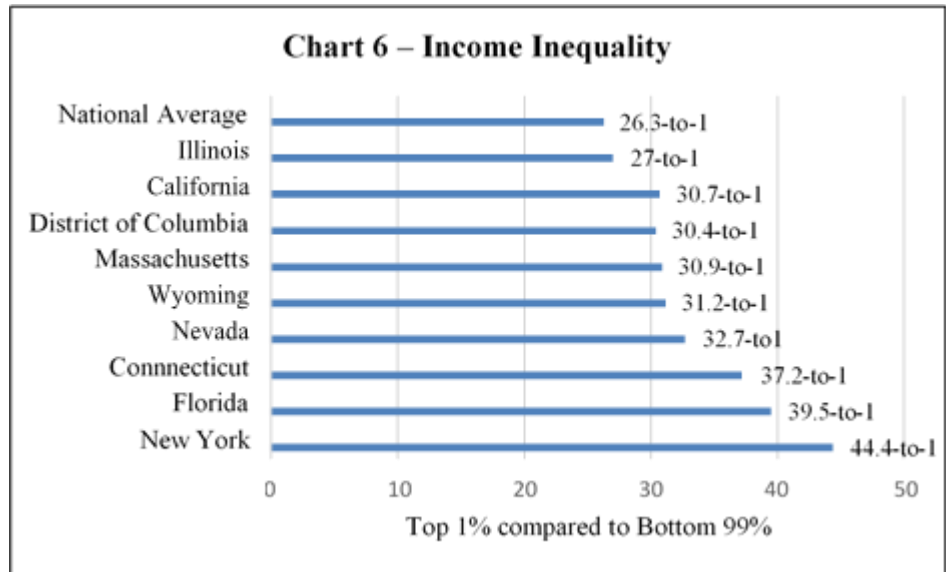
What Happened to the California Dream?

The impact of income inequality was being felt across a broad spectrum of our society in the post-Great Recession era. The ability to get an education, pursue a career, purchase a home, and live-out old age

with some level of economic security is being challenged. While median income remains above \$80,000 a year, nearly 12% of households in California have incomes below the federal poverty line, including 12.5% of all children. For too many people, a big medical bill or an unforeseen home repair, could result in a downward spiral potentially even ending in homelessness. An estimated 151,278 individuals experienced homelessness in 2019, based on the single-night survey method.

In 2016, McKinsey issued a study that found that for the first time since WWII – across the top 25 most developed economies in the world – household incomes had actually decreased. Historically, every generation had experienced an increase in income. However, between 2005 and 2014, real incomes were flat or fell for 65% to 70% of households.

The Public Policy Institute of California published data for a similar time span for



households in California. **Chart 6 – Income Inequality in California** shows the growing income inequality within six major regions in the state. Between 2007 and 2014, the income gap grew most significantly in the Inland Empire, followed by the Sacramento Region.

Additional information about the California economy can be found in **Appendix B** (page 31).