

Matthew Fienup
March 22, 2018

As soon as A observes something which seems to him wrong, from which X is suffering, A talks it over with B, and A and B then propose to get a law passed to remedy the evil and help X. Their law always proposes to determine what C shall do for X, or, in better case, what A, B, and C shall do for X.

What I want to do is to look up C. I want to show you what manner of man he is. I call him the Forgotten Man. He is the victim of the reformer, social speculator, and philanthropist...He works, he votes, generally he prays—but he always pays.

- William Graham Sumner, 1883

I was reminded of the Forgotten Man and Woman in Sumner's formulation when I recently attended a regional economic outlook event hosted by a well-known financial institution. The event's keynote speaker made some remarkable claims:

"California's economy is on fire!"

"The labor market is literally as good as it gets!"

Then, as if reading my mind, the speaker noted, "You know, I often hear from other economists that the problem with California is that the jobs we're producing are not *'good jobs.'*" After a lengthy, pregnant pause, he declared "EVERY job is a good job!"

My heart broke for California's Forgotten Men and Women.

One of these Forgotten Men is the human resources professional in one of California's bio-technology companies, who survived two rounds of layoffs and has now been offered the chance to re-apply for his own job, in another state at a lower salary.

One of these Forgotten Women is another human resources professional from that company, this one with an MBA and a deeply rooted family, who now works as a part-time administrative assistant having failed to find work which is comparable to the job that was relocated out of state.

One of these forgotten ones is the high school graduate who has been closed out of the administrative assistant profession, because there are too many displaced MBAs who are searching for whatever job they can find.

Yet another is the worker in one of coastal California’s many hospitality jobs, who must choose between commuting more than an hour from a more affordable inland community or packing 16 residents into a single family home a little closer to work.

Is a job that requires so much accommodation a *good job*? Is one that provides little economic opportunity and no upward mobility a *good job*? Has California forgotten what a good job used to be?

California's Job Market					
seasonally adjusted data		Changes During the Last Year		Changes Since Peak Prior to Great Recession	
Sectors	Jan-18 Thousands	Jan 2018 - Jan 2017 Change-thousands	Jan 2018 - Jan 2017 Percent change	Jan 2018 - Oct 2007 Change-thousands	Jan 2018 - Oct 2007 Percent change
Natural Resources and Mining	22.0	0.5	2.3	-5.2	-19.1
Construction	847.8	75.5	9.8	-22.5	-2.6
Durable Goods Manufacturing	834.7	12.9	1.6	-87.6	-9.5
Non-Durable Goods Manufacturing	483.8	-8.1	-1.6	-49.0	-9.2
Wholesale Trade	727.0	7.7	1.1	8.2	1.1
Retail Trade	1,708.2	20.0	1.2	22.7	1.3
Transportation, Warehousing, & Utilities	640.1	22.3	3.6	129.9	25.5
Information & Technology	533.6	12.0	2.3	65.7	14.0
Financial Activities	836.5	7.7	0.9	-42.6	-4.8
Professional and Business Services	2,584.5	48.3	1.9	313.1	13.8
Educational and Health Services	2,686.3	95.7	3.7	698.1	35.1
Leisure and Hospitality	1,986.0	58.4	3.0	415.3	26.4
Personal, Repair, & Maintenance Services	567.7	8.1	1.4	51.8	10.0
Government	2,580.2	39.1	1.5	79.6	3.2
Federal Government	247.5	-1.7	-0.7	1.0	0.4
State Government	537.4	13.0	2.5	52.3	10.8
Local Government	1,795.3	27.8	1.6	26.3	1.5
Total Non-Farm	17,038.4	400.1	2.4	1,576.6	10.2

Source: US Bureau of Labor Statistics

To put some numbers on the job situation, since the recession, manufacturing jobs are down nearly 10 percent. Financial activities are down nearly 5 percent. On a per capita basis, these jobs are down even more. These are among the highest paying sectors in the economy. Jobs in the Education and Health services sector are up 35 percent, while Leisure and Hospitality are up 26 percent. These are among the lowest paying sectors in the economy, and between them, more than a million jobs have been added in California during the last 10 years.

The following table reveals the relative economic value of the average job in each of the sectors of California’s economy. The right hand column provides an index of the relative economic value of the average job in each sector. Values of greater than 1.0 represent high value-added jobs. By comparing the index values, we see that jobs in Nondurable Manufacturing (relative economic value of 1.6) produce more than 3 times the economic output per job of those in the Education and Health Services sector (index value of 0.5). Jobs in the nondurables sector produce more than 4 times the economic output per job of Leisure and Hospitality (index value of 0.4). Generally, high value jobs provide higher average salaries. There is more, lower value jobs often lack upward mobility. How does a worker in the

Leisure & Hospitality, Education & Health Services, or Personal Repair & Maintenance sectors improve their station in life? Economic mobility for these workers means shifting sectors or leaving the state altogether—one is simply very difficult to achieve while the other involves considerable social and economic costs.

California, 2016			
Sectors	GDP Share percent	Jobs Share percent	Ratio: GDP share to Jobs share
Agriculture, Natural Resources & Mining	0.02	0.03	0.59
Construction	0.04	0.05	0.84
Durable goods manufacturing	0.06	0.05	1.32
Nondurable goods manufacturing	0.05	0.03	1.61
Wholesale Trade	0.05	0.04	1.26
Retail	0.06	0.10	0.56
Transportation, Warehousing & Utilities	0.04	0.04	1.00
Information & Technology	0.08	0.03	2.69
Financial Activities	0.22	0.05	4.46
Professional & Business Services	0.13	0.15	0.87
Educational & Health Services	0.07	0.15	0.49
Leisure & Hospitality	0.04	0.11	0.38
Personal, Repair & Maintenance	0.02	0.03	0.67
Government	0.12	0.15	0.82

Sources: CA Employment Development Department, U.S. Bureau of Economic Analysis

Sectoral changes like those mentioned above are not accidental or inevitable. Unfortunately, they are the result of decades of policy-making in California which increase the cost of doing business. These include crushing taxes and regulation. They also include growth restrictions which drive up the cost of housing, leading to wage demands which can not be met by businesses which face price competition from lower-cost states. This of course leads to relocation of high-paying jobs, accompanied by the outmigration which has become so characteristic of California. This is our loss. In so many cases, California’s forgotten men and women become the building blocks of another state’s growing prosperity.

We long for much more for the forgotten ones of California.

Their story is nearing a potential crossroads. We are currently forecasting a convergence in the economic fortunes of California and the nation. While California has historically grown at a rate that is significantly higher than the nation’s, 2017 may have marked a turning point. Despite being in an expansionary phase of the business cycle and despite a national growth rate that is well below the post-World War II average growth rate, California registered two quarters of growth that were slower even than the nation’s. While growth was accelerating around the country, it appeared to slow down in

California. We are forecasting that this dynamic continues in the years ahead. It is even possible that the growth premium maintained by California may vanish altogether.

Our heart breaks at the thought, because this would mean even more forgotten men and women.

California			
Gross Domestic Product (Real SAAR Growth)			
Quarter	CA GDP	US GDP	Premium
2017 Q1	0.6	1.2	-0.6
2017 Q2	2.1	3.1	-1.0
2017 Q3	3.4	3.2	0.2
2017 Q4	3.1[†]	2.5	0.6
2018 Q1	2.8	2.5	0.3
2018 Q2	2.8	2.8	0.0
2018 Q3	2.7	2.7	0.0
2018 Q4	2.6	2.5	0.1
2019 Q1	2.5	2.5	0.0
2019 Q2	2.4	2.4	0.0
2019 Q3	2.4	2.4	0.0
2019 Q4	2.3	2.3	0.0
Average	2.6	2.5	0.1

Sources: U.S. BEA, CERF *† CERF Preliminary estimate*

Forecast Charts

