Rising High Requires the Right Foundation: Understanding the Economies of Inland California

October 2019
Introduction

Since taking office California Governor Gavin Newsom has been busy setting new policy priorities for his administration. One of these efforts is a new initiative called Regions Rise Together, which was introduced to the Inland Empire via an op-ed1.

The program takes aim at the economic growth chasm that ostensibly exists between coastal and inland California. With the state’s high-profile prosperity concentrated heavily around coastal Los Angeles, the San Francisco Bay Area, and San Diego, the initiative seeks to convene conversations and elicit strategic input from leaders in every California region with the goal of creating a comprehensive plan that lifts the prospects of all areas and all residents. The idea is that local leaders from inland and coastal regions would help craft state-level policies that encourage more balanced economic growth statewide. The Regions Rise team has been touring the state and talking with local leaders about the various things different regions need.

The Center for Economic Forecasting could not be more supportive of this effort. Too often, California’s policy decisions are driven by the interests and political goals of the state’s large, coastal, urban centers with little regard as to how such policies may help or hurt the interior regions of the state. To actively pursue input from all regions, especially inland regions, in order to forge better state policy for all, is an auspicious start to changing that dynamic.

Good policy choices, however, must start with a solid understanding of current fundamentals, and the motivations behind this worthy initiative do not fully or accurately reflect the reality of the state’s inland economies. As happens too often, the conversation has begun with the faulty assumption that the inland economies are somehow broken, and lagging the coastal economies. The differences between the state’s coastal and inland economies are leading to an incorrect assumption and labeling of one as a success and the other as a failure.

The Regions Rise team has started with a basic assumption that the inland regions of the state are economically disadvantaged compared to the coastal ones, and that inland residents are suffering from a lack of ‘quality’ jobs. The recent op-ed stating that “nearly 70% of job growth from 2010 to 2018 came from the coastal areas around Los Angeles, San Diego, and the Bay Area” and that “residents in counties as varied as Merced, Kern, and San Bernardino have seen their per capita incomes drop from close to 90% of the state median to below 65%.” Dire straits, indeed.

Such a dismal view is hardly unique to the current administration. Rather, it is commonly expressed by well-meaning but misinformed academics and analysts, and often by inland political and businesses leaders themselves. Yet, when reasonable context is applied, it becomes evident that such statistics fail on a serious level to properly characterize what the inland regions actually are, and where they are heading. The reality is far more nuanced and requires an examination from a number of perspectives. In context, Inland California appears in a much more favorable economic light, and this shift in understanding should, in turn, inform any policies the state devises to help inland regions continue to prosper.

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California’s Regional Growth Trends

It is certainly true that since the end of the ‘Great Recession’ more new jobs have formed in California’s coastal economies than in its inland regions. But this is only because there were many more jobs there in the first place. In 2010 the coastal economies of California contained over 10 million non-farm payroll job, whereas the inland areas had slightly over 4 million. At equivalent growth rates, by definition, far more jobs will form in the state’s coastal regions because it is building off a significantly larger base. You cannot use absolute numbers of new jobs as a basis for a ranking of economic health. It’s safe to say that few in state government would consider Los Angeles a stronger economy than San Jose or San Francisco despite the fact that since 2010 Los Angeles has added more jobs than San Francisco and San Jose combined.

How do things stack up on a percentage basis? The coastal regions, in sum, grew their employment base by 21% from 2010 to 2018, considerably faster than growth in the nation as a whole (16.5%). But the state’s inland regions actually grew faster than either over this period, at 24.4%. And even this statistic misses much of the wide regional variation. Since 2010, San Jose and San Francisco have been the two fastest growing economies in the state on a percentage basis. The 3rd, 4th, and 5th fastest growing have been the Inland Empire, Fresno, and Stockton, respectively. Other inland regions have not done as well—with Kings and Imperial Counties experiencing the lowest growth—but the same disparities hold true among coastal regions where Los Angeles, Santa Barbara, and Ventura have not performed nearly as well as San Jose and San Francisco.

The slow growth rate in coastal Southern California is nothing new. Since 1994, the Central Coast and coastal Southern California have grown their employment bases 33% and 30%, respectively. Over this period, the nine-county San Francisco Bay Area performed modestly better at 37%, but that is a relatively new phenomena, with half that growth occurring in the last decade. The true laggard of the state is the far north with just 17% growth since 1994. In contrast, the central and southern inland regions of the state have been the economic rock stars in the past 25 years. Northern inland areas (Fresno up through the greater Sacramento region) have grown their total jobs base by 45%, while southern inland areas have grown theirs by a massive 85% (a large majority of that job growth was in Riverside and San Bernardino Counties).
Despite all the expansion, because California’s inland regions are building off a much smaller base, they still have fewer than half the total number of jobs than exist in coastal regions. But a broader national context is necessary to gain a sensible and representative perspective. The 4.9 million payroll jobs that are located in the inland regions of California would make the area the 8th largest state in the nation by job count, larger than Georgia, North Carolina, Michigan, New Jersey, or Virginia. That is a big economy, even if not as large as California’s coastal regions.

The two biggest components of Inland California’s economy are the Inland Empire and the greater Sacramento region. Sacramento was the first true metropolis in the state by virtue of its location in some of the most productive farmland in the United States. While Sacramento is still largely dominated by government employment (managing the world's 5th largest economy is no small feat), it has been having its own renaissance in recent years, driven in part by strong growth among the economies that stretch into the foothills east of the capital as well as the addition of many businesses that have migrated to the region to get out of the high-cost San Francisco Bay Area. Sacramento's job growth has been running close to 3% for the last two years, and its total nonfarm employment stands at well above 1 million positions. Its population base makes it the 26th largest metropolitan statistical area in the nation, roughly the same size as Portland, Austin, and Las Vegas.

The Inland Empire, in contrast, is the state’s newest metropolis. Since 1970, one-third of all new residents to the Southern California have located in Riverside and San Bernardino Counties. Today, 4.6 million people call the Inland Empire home, making it the 13th largest metropolitan area in the nation by both population and labor force; that’s larger than Denver, Tampa, St. Louis, and Baltimore. The Inland Empire is vastly more than a large ‘bedroom community’ of Los Angeles as it has commonly and historically been characterized.
Moreover, the growth rates in the Inland Empire don’t just stand out in the state—they are among the highest in the nation. Between 2012 and 2017 the number of employed residents in the region grew by 325,000, representing the 12th highest growth rate in the United States, and a greater rate of growth than occurred in Seattle, Philadelphia, Denver, or Austin. Over this period, the Inland Empire also came in 4th among the 50 fastest growing economies in the nation, which collectively represent two-thirds of all urban jobs. The biggest problem in the Inland Empire today is the same problem much of the state (and nation) faces—a growing shortage of workers. Unemployment in the region currently sits at an all-time low of 4.0%.

While a significant share of Inland Empire residents still commute daily to neighboring coastal economies for work, the region has close to 1.5 million local payroll jobs, more than the entire state of Nevada. Moreover, the Inland Empire's employment base has grown consistently faster than its coastal neighbors over the last two decades. Recently, the region surpassed the San Diego MSA in terms of total number of local payroll jobs, and at its current pace, will exceed Orange County within a few short years. Local jobs are growing faster than the number of commuters, and the share of resident workers who leave the region daily for work is nearing an all-time low level.

In sharp contrast to its growth statistics, the inland portions of the state are often characterized as economically underdeveloped and lagging other areas of California. The reasoning for this has primarily been based on the fact that wages in inland areas, on average, are lower than in coastal areas. For the Inland Empire, specifically, they are lower than in many similarly sized economies across the nation. This single statistic has led to a leap in judgement that many Inland Empire residents are financially distressed and trapped in 'bad' jobs with few prospects for long run prosperity.

There is little doubt that the Inland Empire has fallen behind when looking at wage metrics. In 1990, when the Inland Empire was still a small component of the overall state economy, the average wage in Riverside and San Bernardino Counties was 85% of the average wage in the state as a whole and two-thirds the average payroll wage in Santa Clara County. Over the years, despite the Inland Empire’s spectacular employment growth, this wage gap has grown substantially. Today, the average payroll wage in the Inland Empire is 70% of the statewide average and one-third what it is in Santa Clara County. A similar gap is apparent when analyzing earnings by place of residence. In 2017 median earnings for residents of the Inland Empire (full and part time) were slightly over $36,000 per year compared to $40,000 for the United States as a whole and $41,500 for California.

Again, however, before leaping to conclusions regarding this negative trend, consider that Santa Clara County is the heart of Silicon Valley and one of the highest income economies in the entire world. Suggesting that the Inland Empire’s economy is failing or in trouble because local wages are not keeping up with Santa Clara County is no more relevant a comparison than suggesting an average Americans’ degree of personal health can only be determined by comparing it to the vital statistics of an Olympic athlete.
Incomes are lower in the Inland Empire because the region is home to a different type of job base with a different type of workforce. Prosperity within a community or local economy is not properly measured by a static comparison to a completely different type of economy. If state leaders begin with the assumption that there is a problem in California's inland regions because they don't look more like San Jose or Orange County, and if they develop strategies accordingly, it becomes a good way of ensuring that most any policy prescription will fail.

A better way of looking at the Inland Empire is to examine workers' incomes by education level to see if the region offers comparable opportunities at comparable skill levels. As it turns out, average pay for workers with less than a bachelor's degree is roughly the same in the Inland Empire as it is in the state and the nation. For those with bachelor or graduate degrees, average pay in the Inland Empire is lower than in the state as a whole, but higher than in the United States overall.

**Table 1 - Median Income by Level of Education (2017)**

<table>
<thead>
<tr>
<th></th>
<th>United States</th>
<th>California</th>
<th>Riverside</th>
<th>San Bernardino</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>$40,069</td>
<td>$41,122</td>
<td>$36,321</td>
<td>$36,684</td>
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<tr>
<td>&lt; High School</td>
<td>$23,031</td>
<td>$22,648</td>
<td>$25,340</td>
<td>$23,642</td>
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<tr>
<td>High School</td>
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<td>$30,829</td>
<td>$30,663</td>
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<tr>
<td>Some College</td>
<td>$36,190</td>
<td>$38,296</td>
<td>$36,943</td>
<td>$36,977</td>
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<tr>
<td>Bachelors Degree</td>
<td>$52,484</td>
<td>$60,940</td>
<td>$55,461</td>
<td>$53,264</td>
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<tr>
<td>Graduate Degree</td>
<td>$71,097</td>
<td>$85,555</td>
<td>$80,064</td>
<td>$75,241</td>
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</table>

Source: American Community Survey, Analysis by UCR Center for Economic Forecasting and Development
And there is an upside that can be applied to the Inland Empire relative to the state—while earnings by education level are fairly similar, the region offers a substantially lower cost of living. The Center for Economic Forecasting calculates that residents in California’s inland regions spend approximately one-third less on housing than they would if they lived in coastal regions. What this means is that the share of income used by inland households for housing ends up being smaller for workers at every level—but more so for low skilled workers.

Table 2 - Median Percent Share of Income Used for Housing by Level of Education (2017)

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Los Angeles</th>
<th>Orange County</th>
<th>Riverside</th>
<th>San Bernardino</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; High School</td>
<td>39.0</td>
<td>41.4</td>
<td>34.9</td>
<td>33.6</td>
</tr>
<tr>
<td>High School</td>
<td>36.2</td>
<td>36.9</td>
<td>31.6</td>
<td>31.5</td>
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<tr>
<td>Some College</td>
<td>32.0</td>
<td>31.8</td>
<td>28.4</td>
<td>29.2</td>
</tr>
<tr>
<td>Bachelors Degree</td>
<td>27.6</td>
<td>26.8</td>
<td>25.8</td>
<td>26.3</td>
</tr>
<tr>
<td>Graduate Degree</td>
<td>24.7</td>
<td>25.7</td>
<td>23.4</td>
<td>24.3</td>
</tr>
</tbody>
</table>

Source: American Community Survey, Analysis by UCR Center for Economic Forecasting and Development

This isn’t to suggest that there isn’t a growing income gap between the inland regions of the state and the coastal areas. But the gap that is forming largely mimics the global income gap between high and low skilled workers, which in turn, is being driven by trends in global trade and technological change. A state government, no matter how well intentioned, isn’t going to solve those kinds of broad issues.
The wrong, and illogical, answer is that the educational or economic development systems in these regions are failing. Consider Riverside County, home to 2.5 million people, one million more than lived in the area 20 years ago. Any region that is growing this fast is gaining from people moving into the area so it should be understood that a very large portion of the local labor force hasn’t received their education locally. The high concentration of lower skilled workers is clearly being driven by a self-selection mechanism whereby lower skilled workers are more likely to move to the region than higher skilled ones.

This issue is compounded by another interesting trend. Past studies by the Center for Economic Forecasting indicate that in inland regions that closely border coastal regions (such as the Inland Empire), skilled workers are more likely to commute to the coast on a daily basis. Moreover, anecdotal evidence suggests that many high achieving graduates of local educational institutions often leave the region for work. In other words—it isn't a failure to develop skilled workers but rather a lack of local jobs to employ such workers.

But, again, analysts and policymakers have to be careful about leaping to conclusions. This dearth of skilled jobs is not driven by a failure of economic development efforts in the inland regions of the state. Economic development agencies in San Francisco or Orange County haven’t found some ‘secret sauce’ that is lacking inland. And while some inland area pundits have suggested that anti-business legislation in Sacramento is to blame—that ignores the obvious success of certain high-skilled/high-income economies on the coast.
The Center for Economic Forecasting believes that the lack of high skilled employment in California’s inland regions revolves around land use and land use policies. For example, in places such as Fresno and Bakersfield, much of the local economy is still driven by California’s booming agriculture industry. That industry relies heavily on lower skilled labor. For every crop picker’s child who is assisted by local economic development and educational programs to succeed through college and gain skills that widen and elevate their opportunities, another very low skilled farm worker must be brought in for labor. Short of shutting down this essential industry it is difficult to imagine how one could shift the local demographic base to something more high skilled.

In the Inland Empire, the lack of higher skilled employment opportunities is largely connected to the lack of a dense job center, which typically characterizes any area that is home to high skilled industry sectors and jobs (the Center for Economic Forecasting published a previous White Paper addressing job concentration in the Inland Empire⁵). The absence of a dense job center in the region is a function of local zoning decisions rather than a failure of economic development. If the region continues to use zoning to maintain a suburban environment, then it will continue to create largely suburban jobs (i.e. lower skilled/lower paid) and significant numbers of local workers will continue to commute to denser coastal areas where skilled jobs are more plentiful and wages are higher.

Notably, the tech industry has successfully created a huge number of high skilled/high paying jobs in the San Francisco Bay Area. But local zoning has prevented anything close to enough housing being built to accommodate all these new workers, sending home prices into the stratosphere and driving lower skilled workers and the companies that hire them to inland regions of the state, or out of California altogether. In short, the concentration of incredibly high paid workers in the San Francisco Bay Area has not been driven by incomparable education systems or unique economic development, but by gentrification. At the same time, the concentration of lower paid workers and jobs in the state’s inland regions is not due to failed development, but revolves around land use and density.

Unfortunately, in the Inland Empire, changes in zoning and local home permitting systems have prevented the local housing market from expanding as it has in the past. The number of residential building permits in the region today amount to less than one-third what they were in 2005 despite the hot housing market across the state. The Inland Empire now has a record low unemployment rate—and will surely see home prices rise sharply in the years ahead. This will cause lower skilled workers to flee, yet again, and may leave the Inland Empire with a higher and growing average income, but that is the wrong kind of success.

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The inland parts of the state offer their residents real opportunity and a path forward – something that would not likely be true if they lived in San Jose or San Francisco, regions that look prosperous overall, but because their tech-industry-driven economies have squeezed more traditional businesses out, simply don’t offer lower skilled workers viable opportunities. It is interesting how this seems more clear to those outside the state than those inside. Consider a recent Washington Post article “Bakersfield, once the butt of jokes, is booming. So are many other inland California cities” (June 18, 2019) relative to another in the Press Enterprise “Inland Empire wages lowest among big U.S. counties, L.A., O.C. middle of the pack” (September 3, 2019).

California does need to pay more attention to its inland regions, but not because they represent a problem the state needs to solve. Rather, these regions need more attention because in many ways they are the future of growth in California, offering middle class residents a quality of life they are unable to obtain along the coast. These economies need to be better supported through state policy and investment because the state needs these economies to flourish. This means most importantly that state regulators need to understand that what is good policy for the inland areas is different than along the coasts. This includes major issues such as the minimum wage which clearly should be different in Fresno and San Francisco, or transit priorities inasmuch as light rail is simply not an effective solution in the less dense inland regions. One size fits all is the wrong approach.

Conclusion: Different is Not Inferior

That policymakers and political leaders continue to propagate a relatively bleak narrative about the state’s inland regions does a true disservice because it affects strategic initiatives and policy decisions. While it’s true that Inland California doesn’t look or operate like San Francisco or Orange County, that doesn’t suggest failure—only that these regions have a different sort of economy and a different sort of resident. Telling inland businesses and residents that they need help because they don’t match or mimic some of the highest end economies on the planet misses the mark.
It is equally important for leaders in the state's inland regions to understand that many of the issues they face may be driven by local decisions, such as land use policies, rather than by policies handed down from Sacramento or some fundamental flaw in the economic base. Local strategies and decision making can play a vital role in helping Inland California attract more high skilled industries and grow in a more balanced way into the future. Placing the blame for any and all ills on State regulators is a good way of hamstringing such efforts.

In many ways California needs its inland regions more than the inland regions need California. This is not a trivial turn of phrase, but a shift that suggests an entirely different range of policy approaches, which should be discussed at Regions Rise Together forums. California should address the needs and economic development issues related to lower income families the same way in Los Angeles as it does in San Bernardino. We hope that the contextual analysis provided here will be considered and that the conversation will shift accordingly.
The UC Riverside School of Business Center for Economic Forecasting and Development opened its doors in October 2015 and represents a major economic research initiative in one of California’s most vital growth regions. The Center produces a wide variety of research both independently and in collaboration with academic, business, and government partners. Research products include monthly employment analyses, quarterly regional economic forecasts, a quarterly business activity index, a white paper series, and a major regional economic forecast conference, hosted annually.

About the Author

Christopher Thornberg is Director of the UC Riverside School of Business Center for Economic Forecasting and Development and an Adjunct Professor at the School. He is also the Founding Partner of Beacon Economics LLC.

An expert in economic and revenue forecasting, regional economics, economic policy, and labor and real estate markets, Dr. Thornberg has consulted for private industry, cities, counties, and public agencies in Los Angeles, San Francisco and the Bay Area, San Diego, the Inland Empire, Seattle, Orange County, Sacramento, Nevada, and other geographies across the nation. Dr. Thornberg became nationally known for forecasting the subprime mortgage market crash that began in 2007, and was one of the few economists on record to predict the global economic recession that followed.