



# Ending Poverty in California

A Blueprint for a  
Just and Inclusive Economy

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# Foreword

The status quo in California is broken, and it has been for a very long time.

In many respects, there are two Californias, fractured by deep-seated economic inequality. California is both the state with the most wealth and the highest rate of poverty. We're the fifth largest economy in the world, yet more than a third of Californians are living below or near the poverty line. We're home to some of the most innovative and successful companies in the world, but rank fifth in the country for the worst income inequality and have the lowest amount of available affordable housing units. Millions of Californians work day in and day out at poverty-wage jobs, hundreds of thousands are homeless, and many of our children are hamstrung by separate and unequal educations that close doors on their futures before they even have the chance to begin.

These injustices are the result of fundamental inequalities that have been built into our institutions for generations. We've come to accept this status quo as fact, but no one in the Golden State should live in poverty. Full stop.

We live in a world of infinite possibility, and the existence of poverty is not an inevitability. People-made policies created poverty, and people-made policies can dismantle them. We can end poverty, but only if we think bigger, bolder, and smarter, and act with a greater sense of urgency to stop the forces that perpetuate it.

The task at hand is daunting, but not impossible. As recently as 2020, we have seen how public policy was able to keep 53 million Americans above the poverty line.

California has an opportunity to be the nation's testing ground for ambitious policies that can dramatically reduce poverty and fulfill the promise at the heart of our nation's ideals. We have the chance to develop and deliver a policy roadmap that is grounded in data and inspired by the stories and ideas of people actually *living* in poverty. For too long, people in poverty have seen their stories dismissed or their lives treated as disposable. But people in poverty are experts on their own condition. By listening, we ensure the solutions we advance take full account of the world as it is. And like any good roadmap, it will point to tangible solutions that can create a more just and equitable world—the world as it should be.

That's the kind of work I began while serving as Mayor of Stockton when I pioneered the first major guaranteed income pilot in any American city. The success we saw was remarkable. At the end of the two-year pilot of the Stockton Economic Empowerment Demonstration (SEED), people receiving the benefit saw reduced income volatility; increased full-time employment; lower rates of depression; enhanced well-being; and a greater sense of agency to pursue things like new learning opportunities that bolstered self-determination and made Stockton stronger. The SEED program laid the groundwork for more cash-based payment programs that then sprung up across the country, including California's five year, \$35 million Guaranteed Income Pilot Program. Momentum is building. Now, more than 60 mayors across the country—and 14 in California—have committed to guaranteed income as a tool to abolish poverty while the public's support of guaranteed income programs continues to grow.

It's time now to take the spirit of that effort and the fundamental belief that ending poverty is possible, and use it to advance bold anti-poverty initiatives across the state at scale to create a more inclusive and just economy for California. The task before us is to harness the entrepreneurial spirit of this great state, and put it to work to ensure greater opportunity for all.

If that effort is to be successful, it must be clear-eyed about the facts on the ground and maintain a steadfast commitment to center the lived experience and dignity of those experiencing poverty. Those closest to the pain should be closest to the power.

That's what the paper you're about to read is all about. I've learned time and again that the status quo is usually the way it is only because the right questions haven't yet been asked. The paper that follows confronts the world as it is and questions what might be possible if we advance bold solutions to get us to where we need to go: a California free from poverty that offers equal access to opportunity.

The paper will give you a comprehensive look at the systemic drivers of poverty in our state, and propose key policy options that address those drivers head on. It offers a vision in which bold initiatives like cash transfers, guaranteed income, and baby bonds are layered on top of system-wide changes that address the root causes of poverty before they take hold. You will be invited to consider how we can build a stronger safety net that centers children and families; make quality, empowered jobs available to all who want them; guarantee housing as a human right; create wealth-generating mechanisms accessible to everyone, no matter your zip code or family history; and ensure that everyone has the chance to live with the peace of mind that safety and second chances can bring.

I am as committed as ever to upset the setup that creates and sustains poverty so we can end it once and for all in the Golden State, and I've launched a new nonprofit, End Poverty in California (EPIC), to do just that.

The ideas and solutions this paper points to are at the center of EPIC's agenda, and they will guide our work moving forward. EPIC will be using our platform to elevate the voices and ideas of the people who are living in poverty; connect our neighbors in the community, government, and private sector for a shared focus on poverty elimination and economic opportunity for all; and create bold, new policies that center individual and community needs like the ones outlined in this paper. I thank the Stanford Center on Poverty and Inequality and lead author David Grusky for helping us develop this roadmap that shows how we can eliminate poverty in California.

Of course, this paper and all of EPIC's work to come stand on the shoulders of giants. There have been scores of advocates and lawmakers fighting for change for decades. Indeed, without their help in ushering recent federal and state reforms concerning the safety net, education policy, labor policy, and the tax system, we would be unfathomably worse off. But we still have a long way to go.

It's my hope that you read this paper with a hunger for bold reform and a willingness to believe that ending poverty is possible. In many ways, this paper is an invitation to join us in that fight.

I hope you will take us up on that invitation so we can rise to the challenge of ending poverty together.

Mayor Michael Tubbs  
*Founder, EPIC (End Poverty in California)*

# Review Team

We would like to express our deepest thanks to the team of reviewers who helped to design this blueprint, who read multiple drafts of it, and who revised and improved it in innumerable ways. We are also grateful to the 300 people across California who participated in the American Voices Project, who very generously shared their lives with us, and who thereby informed this report far more than they may appreciate.

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*Note: All errors, omissions, and oversights in this report remain the full responsibility of the authors.*

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# Executive Summary

The objective of this report is to lay out how California can build a just and inclusive economy that provides opportunities to flourish to everyone ... not just to those born into privilege, not just to white people, not just to men, and not just to citizens. We will describe how California can build a new economy in which poverty is eliminated, opportunities are widely available, and inequities are rooted out.

It might be thought that this is impossible. We'll show, to the contrary, that we can get the job done and that the benefits of acting now vastly outweigh the costs. The simple fact of the matter: We have more evidence than ever before on why California has so much poverty, why people of color, immigrants, and women bear the brunt of that inequality, and how to take on these inequities. It's time to *act* on the evidence.

This evidence points very directly to a two-pronged approach in which we proceed by (a) rebuilding our upstream institutions (e.g., the labor market) that generate inequities, and (b) rebuilding our downstream institutions (e.g., the safety net) that are intended to remediate inequities but that, to date, have failed to fully do so. We will show that enduring change and shared prosperity rests on combining these upstream and downstream reforms and allowing them to adjust to one another.

- The first step, that of *institutional overhaul*, entails reforming the institutions that create poverty and other inequities. This means rebuilding the state's labor markets, housing markets, justice system, and wealth-generating institutions. We will refer to such

institutional overhaul as “predistributional” because it takes on poverty and inequities at their upstream sources and thus reduces the amount of inequality that then needs to be addressed via redistribution.

- The second step, that of *redistributional overhaul*, rests on the premise that this institutional work will likely fall short and that we must also engage in aggressive adjustments to correct for remaining inequities. These “after-the-fact” adjustments must not only be large enough to eliminate all residual inequities but must also be delivered in respectful and dignity-enhancing ways ... rather than in ways that reinforce the great many tropes that blame or “other” the very people who have been harmed by our institutions.

The bulk of this report describes in detail just how each of these two steps can be taken on. For those who want to skip to the bottom line, we have concluded each of the sections of this report with a bullet-point list of tasks. We obviously aren't suggesting that these bulleted tasks represent the one and only way to proceed or that we have adequately addressed all of the many institutions that lie

behind poverty and other inequities. The objective, instead, is to get concrete enough to establish that, if we so choose, we can indeed get the job done.

It is often presumed that anti-poverty work is all about “fixing” the safety net. As important as doing so is, poverty and other inequities are too deeply institutionalized to ever expect the safety net alone to redress them. If our commitment to building a just and inclusive economy is authentic, we have to recognize the magnitude of the task and the need for a thorough overhaul of both our upstream inequality-generating institutions and our downstream redistributive institutions (including the safety net).

We lay out each of these pillars of change in more detail below. Although we begin by describing institutional reforms and then turn to redistributive reforms, we proceed in this order only because our institutions are the causes of inequity and are thus logically prior. It goes without saying, however, that both types of reform need to happen together.

### Overhauling our Institutions (i.e., “predistributive reform”)

The key starting point in building a just and inclusive economy is *institutional overhaul*. Because California’s economy has been built on a long history of economic, racial, and other forms of injustice, we need a blueprint that lays out how to repair our institutions and the poverty and inequities that they generate. This institutional work is “predistributive” because, when it’s done well, it prevents poverty and other inequities from happening in the first place and thus reduces the amount of after-the-fact redistribution that the safety net has to take on. Although it’s immensely important to build a better safety net, we need to begin our work with the upstream institutions that are failing us and are the reason why our last-resort institution—the safety net—was originally created as a stopgap.

This predistributive work is arduous because it entails reforming a host of institutions in a host of ways. There is no overstating the magnitude of

work needed to root out centuries of injustice that are built into our institutions. Because there is so much work to be done, we proceed by focusing on four key inequality-generating institutions, with the blueprint then targeting the most important starting-point reforms within each of them:

- We show that our *labor markets* need to be rebuilt by (a) breaking down labor-supply barriers, (b) equalizing access to education and training, and (c) empowering and protecting workers.
- We show that our *justice system* needs to be rebuilt by (a) decriminalizing quality-of-life offenses, (b) ending practices that target people of color, and (c) providing meaningful second chances.
- We show that our *wealth-generating institutions* need to be rebuilt by (a) increasing access to homeownership, (b) opening up opportunities for entrepreneurship, and (c) regulating predatory financial services.
- We show that the supply of *affordable housing* needs to be increased by (a) reforming zoning and incentivizing and funding development, (b) streamlining building approvals, and (c) enforcing affordable housing targets.

This predistributive work, which is described in detail in each of the relevant sections of this report, targets the institutional sources of poverty and inequity and seeks to cut them off at those sources. It’s hard and messy work but it’s critical insofar as we want *our* institutions to express *our* commitment to justice and inclusiveness ... rather than directly undermining those commitments.

These reforms are but first steps. Even if they were fully implemented and had precisely the intended effects, they would not come close to rooting out all inequities built into our institutions. This is partly because the reforms described here, although arguably key starting points, are hardly the only ones that need to be undertaken. We additionally need fundamental reforms in many other

domains (e.g., health care, transportation, neighborhood services). Because institutional work is necessarily ongoing and incomplete, it is critical to back it with a redistributive system that can complete the job.

### Overhauling the Redistributive System

By “redistributive system,” we mean the various organizations (e.g., tax system, safety net programs, other service providers) that provide cash, tax credits, vouchers, or direct services to people who have borne the brunt of our institutional failures and are therefore in poverty or facing other obstacles or inequities. The goal, in other words, of the redistributive system is to redress all residual design failures of our institutions.

When used in conjunction with predistributive policy, redistributive tools are critical because they always stand at the ready, fully adjustable to respond to changes in the performance of our upstream institutions. If predistributive reforms deliver in excess of our expectations, we can simply reduce the amount of redistribution. If they fail to deliver, we can leave the “automatic stabilizer” of redistribution fully in play.

This type of system could—in principle—completely eliminate poverty and other inequities through a dynamic adjustment between upstream and downstream remediation. But of course we’re currently far from realizing that goal. To get there, we need to undertake a massive overhaul of our redistributive systems, just as we need to undertake a massive overhaul of our predistributive systems.

Is such an overhaul feasible? It indeed is. The blueprint presented here describes how we can and should combine a key set of safety net reforms with two new programs. The safety net *reforms* outlined in this report entail (a) supporting “overlooked” populations (e.g., undocumented households) that currently aren’t eligible for all the safety net benefits they need, (b) reducing housing instability and homelessness by bolstering support for housing-insecure households, (c) coordinating the delivery

of existing safety net benefits, and (d) eliminating dignity-stripping and time-consuming barriers to securing support. The two new *supplemental programs* outlined in this report—guaranteed income and baby bonds—address problems that cannot easily be handled via reforms alone. These two programs establish minimum income and wealth floors that make it possible for everyone to participate in our economy on a secure and more nearly equal footing.

The latter two upgrades are an especially critical part of our recommendations. Why do we need a guaranteed income? Given the eligibility rules and exclusions of existing safety net programs, it will be impossible to eliminate poverty over the long term without a guaranteed income supplement that closes the gaps in coverage and gets the job done. This new program, which would establish a minimum income floor, would symbolize our no-excuses commitment to eradicating poverty in the Golden State.

The second program, a baby bonds program, establishes a parallel “minimum wealth floor” that takes on the massive inequalities of opportunity that are exacerbated by California’s growing wealth gap and that continue to be borne disproportionately by people of color. The key point here: Because wealth buys opportunity, some of our children grow up in a world rich with opportunity, while others don’t have access to the capital needed to realize their dreams. If baby bonds were established, all of our state’s children would have guaranteed access to the capital needed to pursue their dreams of going to college, starting a business, or contributing in all manner of other ways. Although massive inequalities in access to capital will of course remain after baby bonds are established, this new program will begin to take on the inequalities of opportunity that arise when children who are not born into wealth attempt to compete with those who are.

The report that follows lays out in more detail how these predistributive and redistributive reforms can come together to build a just and



inclusive economy. Although the reforms are large, it would be wrong to pretend that small nudges are enough or to misrepresent the scale of the task ahead. It's important to be transparent about what is required to get the job done.

It's equally important, however, to be honest about the implications of deciding that the challenge is too great and that it's enough to do something wholly symbolic. If we were to go down that very unfortunate path, it would mean that

we've opted for a land of shrunken dreams, lip-service commitments, and yawning and racialized inequalities of opportunity.

We doubt that very many of us are keen to commit to that path. We suspect, to the contrary, that most of us are dead tired of the usual cynicism and symbolism and are ready to commit to building a genuine new model for a new world. This report is founded on just that hope.

# Introduction

What would it take to end poverty in California? If California were to commit to building a just and inclusive economy, how might it go about doing so? The purpose of this brief is to attempt to answer these two questions with a roadmap that lays out what it will take to build an economy that works for everyone.

We have chosen the term “just and inclusive economy” as an explicit reminder that the United States was founded on the ideal of equal opportunity and that California has long led the struggle to make that commitment authentic. In emphasizing the importance of “inclusiveness,” we’re making it clear from the start that the goal of our economy must be to serve everyone, not just stockholders or the well-off, not just citizens, men, or white people, and not just those who are treated as deserving by certain groups or individuals. In emphasizing the importance of “justice,” we’re making it clear from the start that our economy is unjust, that it is built on and continues to rest on racist, classist, and otherwise unjust practices and institutions, and that our task is not just to acknowledge those unjust foundations but to root them out.

As obvious as these points may be, there’s no room for anything but North Star clarity on them and our resulting mission: To build an economy that provides *everyone* with open pathways for participation and authentic opportunities for a meaningful life. This means that no one should be consigned to a life of deprivation and isolation, that racial, ethnic, and other inter-group inequities should be eliminated, and that one’s social and economic fate shouldn’t be governed by one’s neighborhood, one’s networks, or the wealth or income of one’s parents. If the Golden State is truly to serve as a model for the country, then we have

to get the job done by building a poverty-free economy in which opportunities are available for all.

This is hardly a radical agenda. It is a statement of widely shared and frequently rehearsed ideals that already inform much of our social and economic policy. But well-intentioned policy is not enough. Despite all the policy and proclamations and good intentions, California still has the highest poverty rate in the country.<sup>1</sup> It still has extremely high rates of homelessness.<sup>2</sup> It still runs a de facto caste system in which opportunities to get ahead depend on a birth lottery.<sup>3</sup> It still pays women far less than men.<sup>4</sup> And it still allows profound racial and ethnic disparities in poverty, income, wealth, and much more.<sup>5</sup>

We state all this because it’s true ... but also with full appreciation that it would be much worse were it not for very important federal and state investments in the safety net, education policy, labor market policy, and the tax system. We will be documenting those important achievements here. The key purpose of this brief, however, is not just to document where we are but also to lay out what remains to be done to make California a just and inclusive economy with opportunities for all. It is not inconsistent to appreciate the hard work of those who have labored on behalf of a just and inclusive economy and to admit that, even after all that work, a long and hard road lies ahead.

The road ahead *is* indeed long and hard. We will

not attempt to seduce a commitment with the ruse that we can achieve a just and inclusive economy with one last push. It is sometimes argued that, were we fully honest about what it would take to build a just and inclusive economy, the magnitude of the task would simply scare people off. This calculus then leads to incremental policy and disingenuous claims to the effect that one more tax credit, one more subsidized employment program, one more educational reform, or one more mentoring program will get us to the promised land.<sup>6</sup> In some cases, it may be impossible to bring about anything more than incremental change, but we should never promote the fiction that partial steps are anything more than that. Although it is seductive in the short run to overpromise, the long-run effect of doing so is only to arm the opponents of inclusiveness with the talking point that the latest round of reform, despite all the promises made, failed again and demonstrates again the impossibility of the dream. The dream is *not* impossible ... it's just big. It's better to be brutally honest by acknowledging that, because fundamental inequities have been deeply built into our many institutions, the task of undoing centuries of such work is not an easy one.

This is precisely where the blueprint comes in. We don't have to pretend that each of the component pieces of the blueprint will yield the full payoff of the blueprint in its entirety. We can test and monitor the effects of each piece as it's slotted in and make adjustments as necessary. We can ensure that, as each new piece is unveiled, it interacts well with the pieces already in place and doesn't create destructive or unintended feedbacks. And we can evaluate new proposals, as they inevitably come in, against the existing blueprint to ensure that what's new and shiny is indeed likely to be better. The blueprint will—in each of these ways—represent California's commitment to tell

the truth about its shortcomings, to lay out a clear road to a better future, and to challenge itself and the rest of the country to do better.

This is the right time to build such a roadmap because, after nearly two years of pandemic conditions, we've gained at least some clarity on which of the federal pandemic-induced additions to the safety net will be retained and which will be discontinued (or already have been). We also know that California's economy may continue to experience disruptions over the near-term as new variants surface, as supply-chain problems continue, and as the labor market adjusts to a new equilibrium. Although there's always much uncertainty, enough of the uncertainty has receded that it would be unwise to further delay California's long-range planning.

We well appreciate that “change does not roll in on the wheels of inevitability” (Dr. Martin Luther King, Jr., 1956). If we have an opportunity now to act, it's because the people of this state have organized and demonstrated, laid out how our economy has failed, and pieced together a compelling vision of a new economy in service to the people.<sup>7</sup> This document seeks—however imperfectly—to capture the spirit of this work by so many others.

The balance of our brief will be divided into three parts. The first section of the brief sets out the types of reforms, interventions, and programs on offer and the principles by which they can be successfully combined into a high-payoff package (“The Principles of Reform”). We then turn to the concrete problems that California is facing and how they can be approached (“The Problems”). We conclude by considering the methodological and operational requirements for successfully implementing a long-range plan (“Implementing a Long-Range Plan”).

# The Principles of Reform

It is sometimes argued that there's a shortage of innovative ideas about how to take on poverty and inequality.<sup>8</sup> Although it's obviously important to encourage the development of new ideas, as a practical matter the main task that one faces in assembling a blueprint isn't a shortage of ideas but rather a surplus of them. The task of identifying the best poverty-reducing proposals from among those on offer is especially daunting because it doesn't reduce to simply identifying which ones work and which ones don't.

It's unfortunately not quite that mechanical. The available evidence isn't always conclusive because of questions about the quality of the evidence, because the payoff to a given intervention may vary across groups, and because that payoff may be realized over very different time horizons. The latter consideration—that of the “waiting time” before benefits are realized—is especially critical and typically leads one to prefer a mix of (a) redistributive reforms that lock in permanent benefits but often require a longer waiting time before they are realized, and (b) redistributive reforms that can deliver benefits more quickly.<sup>9</sup> The twofold purpose of this section is to describe these two types of reforms in some detail and to then lay out the rationale for a carefully tailored combination of them.

## The Predistributive Foundation

The simple goal of a predistributive reform is to prevent poverty, disparities, and inequities from emerging by rebuilding the institutions that generate them. This approach is fundamentally preventative: Instead of letting poverty and inequality happen and then redistributing resources “after

the fact” (via, e.g., cash transfers), the predistributive goal is to *prevent* poverty and inequality from happening by (a) equalizing access to training, (b) reducing discrimination by employers, (c) increasing the earnings (and benefits) of low-paying jobs, (d) improving housing and neighborhood conditions, and (e) engaging in a host of other institutional reforms (e.g., justice system reforms, educational reforms) that broaden access to the labor market, democratize access to capital, and increase the leverage of workers relative to employers. The goal throughout is to make the safety net a last-resort defense. If our predistributive reforms do not complete the job, the safety net's task is to handle that last—and hopefully very small—residue of remaining poverty and inequity.

This predistributive approach is especially attractive when such institutional reforms work to increase economic efficiency as well as reduce poverty and inequality. The classic case of employer discrimination nicely illustrates the potential for an efficiency-increasing effect.<sup>10</sup> When a manager discriminates by refusing to hire a well-qualified member of a group that's systematically oppressed (e.g., Black people, women, immigrants,

LGBTQIA), it's not just a problem for the worker who isn't hired but also for the business itself because it's settling for a less-qualified workforce (or, equivalently, paying more for the preferred group even though it's no more qualified). The business is, as a result, operating less efficiently by virtue of the hiring manager's discriminatory practices. By rooting out such discrimination, we can thus have our cake and eat it too: We will not only reduce disparities and the poverty they generate but will also ensure that businesses are more efficient ... and thereby increase the total output of California's economy as a whole. In the blueprint that follows, we will be featuring a host of predistributional reforms that have precisely this dual effect.

This is not to say that all predistributional reforms will necessarily increase total output as well as reduce inequality. Although many sources of inequality reduce total output (as in the preceding example), it's not likely that all sources of inequality do so. The effects of a given reform on total output are often unclear and a matter of ongoing debate among social scientists. If we have to wait for that debate to settle before acting, we're going to be paralyzed into accepting an economy that's ridden with poverty, disparities, and inequality. Moreover, because most analyses of the effects of an intervention on total output don't factor in the full social costs of poverty or disparities, it would be a signal mistake to be held hostage to them. For far too long, we've deferred excessively to such analyses, with the consequence that we've lost sight of our North Star commitment to building an economy that works for everyone.

The foregoing does *not* call into question the usefulness of predistributional reforms that operate by increasing the total supply of a critical good or service. These types of reforms are useful because deprivation and disparities are often very effectively reduced by working on the supply side. We care about supply, in other words, not because it's some sacred objective unto itself but because it can be a vehicle for realizing our commitment to an inclusive economy.

The housing market nicely illustrates this point. The key dilemma here: If the state's housing policy involved nothing more than housing subsidies to assist the low-income population, we would have to deal with the fallout that housing prices would increase as families compete over a fundamentally fixed supply of housing. Because of zoning and other regulatory barriers, the supply of housing is not always very sensitive to changes in prices, thus leading to a vicious cycle in which subsidies for supply-constrained goods or services increase prices and, in turn, necessitate ever-larger subsidies. Although this is a classic example of good intentions gone awry, the prescription in this case is fortunately quite uncomplicated. It's simply a matter of combining subsidies with predistributional policies (e.g., changes in zoning) that increase the supply of housing.

We will be featuring such hybrid policy throughout the blueprint below. For many goods and services, we'll be laying out why the clearest road to an inclusive economy is to rely on predistributional policy that increases the total supply of a critical good or service, thereby reducing the amount of redistribution that is then needed to achieve the targeted reduction in poverty, inequality, or disparities.

### The Redistributive Foundation

We have emphasized that predistributional reforms target the upstream institutional sources of poverty and inequality and are accordingly preventative in their approach. The purpose of this section is to lay out why these reforms, while clearly critical, must be blended with redistributive approaches that rely on cash, tax credits, vouchers, or direct services.<sup>11</sup> The safety net may be understood as an "add-on" institution that uses these redistributive tools to take on the residual inequities that our predistributional reform fails to root out.

The empirical backdrop to this discussion is that, relative to other well-off countries, the U.S. has tended to underuse redistributive policy tools, a decision that partly accounts for its unusually high rates of poverty.<sup>12</sup> When used in conjunction

with predistributive policy, redistributive tools are critical because they can (a) address inequities relatively swiftly (and thus get important work done before predistributional policies take hold), (b) take on the many forms of deprivation that are not easily addressed via predistributional policy, and (c) meet policy targets very straightforwardly. The last point is especially critical. As attractive as predistributional reforms are, it is often difficult to predict their long-run behavioral effects, given that they are typically implemented in concert with other policies and may interact with those changes in unanticipated ways. We thus need redistributive tools standing at the ready to remediate swiftly and as needed. If a predistributional reform fails to deliver, we can always ramp up the amount of redistribution accordingly.

As will be discussed below, there are a host of ways in which redistribution can be delivered, including the direct provision of services to qualifying families (e.g., home visiting), a voucher targeted to particular goods or services (e.g., food), or tax credits or direct cash transfers in the form of income or wealth supplements (e.g., child tax credits, baby bonds). Although the U.S. has relied heavily on vouchers or direct provision of services, the virtue of cash or near-cash transfers is that they (a) reduce the transaction costs, administrative burden, and take-up problems associated with specialized programming, (b) increase the dignity and agency of recipients, and (c) allow recipients to identify their most pressing needs and deploy resources to solve them. As always, there are a host of possible costs to such approaches as well, including the worry that some types of guaranteed income may lead to reductions in labor supply. Because the existing evidence suggests that, for many types of cash transfers, the short-run effects on labor supply are only moderate,<sup>13</sup> we will be discussing guaranteed income at length

in the blueprint laid out below. In early 2022, the California Department of Social Services (CDSS) will be unveiling its five-year program to support local guaranteed income pilot projects, a commitment that will assist in building out California's cash-transfer programs.<sup>14</sup>

The attractiveness of cash subsidies and many other types of redistribution rests in part on their long-run effects on the children whose familial and neighborhood environments are improved by virtue of them. These types of redistribution may be understood as predistributional in the sense that they cut off at their source the early-childhood causes of adult poverty. Although cash transfers might be understood as "mere redistribution" from the point of view of parents, insofar as such transfers enable them to raise their children in opportunity-enhancing environments they become predistributional from the point of view of those children.

This second-generation effect is secured through a variety of intermediary mechanisms. When cash or near-cash transfers are provided, they can (a) improve parenting by reducing parental stress, (b) improve child nutrition and health by reducing food insecurity and allowing parents to move to safer and less-stressful neighborhoods, and (c) increase human capital investments by making high-quality training and schooling affordable. The evidence in support of these two-generation effects is substantial and growing.<sup>15</sup> Moreover, new evidence suggests that such effects continue on into the third generation, given that the beneficiaries of such early-childhood enhancements have higher adult incomes and thereby provide their own children with similarly enhanced environments.<sup>16</sup> The total effects, therefore, of an early investment are likely grossly underestimated when such ongoing multi-generational payoffs are ignored.

# The Problems

We now turn to a discussion of (a) the main poverty, disparity, and inequality problems that California needs to solve, and (b) the types of predistributional and redistributive approaches that could address these problems. We start by discussing California's complex of "safety net" institutions because, unlike the other institutions we will be discussing, these are explicitly charged with taking on poverty and disparities.

Because the safety net's job is to undo the poverty and disparities wrought by other institutions, it typically works as an "after-the-fact" institution that isn't so much preventative as ameliorative. This means that it relies principally on redistributive approaches (with the important caveat, as stressed above, that redistributive interventions have redistributive effects for the children of beneficiaries).

We next examine the core institutions that create this downstream poverty and inequality in the first place. To highlight the role of predistributive policy, we begin by discussing the institutions that govern how wealth is amassed, as these institutions provide an archetypal example of how disparity-generating outcomes are built into the rules of the game (and can, therefore, equally be rooted out). Although wealth-generating institutions are sometimes seen as outside the province of poverty and disparity policy, in fact they're critical to a predistributional approach given the growing evidence that downstream disparities in income and labor market outcomes are generated by wealth inequalities at birth. We then examine other key institutions—the labor market, the housing market, and the justice system—that likewise generate much downstream poverty and inequality and that would benefit from predistributional reforms.

## Safety Net

The safety net can be understood, as stressed above, as our poverty-reducing and disparity-reducing tool of last resort. Although we have made much of the payoff to predistributional policy, the safety net's redistributive policy is just as critical because it's charged with taking over where institutional reforms fall short. By using cash transfers and in-kind programming to close gaps in basic needs, the safety net is designed to reduce the inequality that our labor market and other institutions have created. There are three key ways in which California's safety net, as it's currently formulated, simply isn't living up to this ideal. We review each of these problems in turn.

## The "Overlooked Populations" Problem

The first—and arguably most fundamental—problem is that many Californians aren't receiving the safety-net assistance they need. Although the safety net lifts millions of Californians out of poverty each year (see Figure 1),<sup>17</sup> the very groups that face the most extreme discrimination (e.g., undocumented immigrants) are often not receiving adequate support.

The safety net is supposed to take over and provide relief to such groups when our labor market and other institutions fail, but Figure 2 shows that

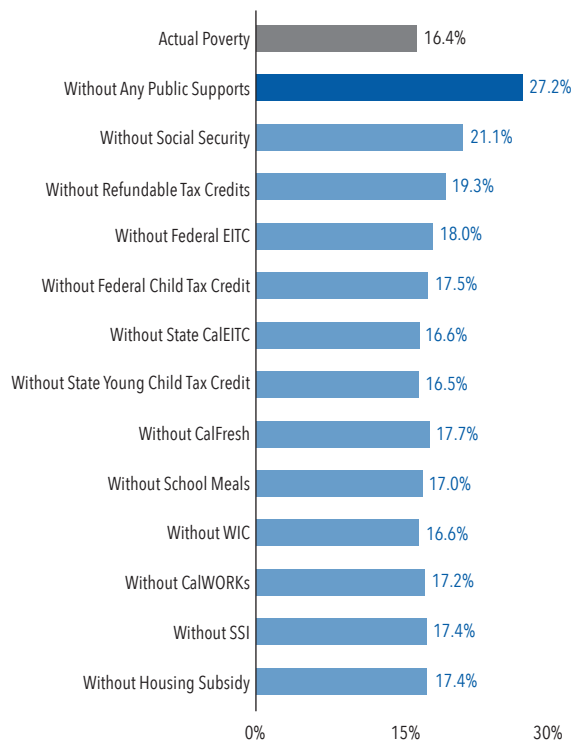
it implicitly treats some low-income populations as *undeserving* of this relief.<sup>18</sup> This result arises, at least in part, because California is shackled to federal rules and guidelines that treat these groups as undeserving. The largest safety net programs are federally funded (either wholly or primarily) and incorporate eligibility rules and implementation guidelines set by the federal government. In many cases, these rules and guidelines either (a) unjustly exclude certain groups from assistance, or (b) obstruct effective and respectful provision of support. Although it would be most straightforward to address these federal problems with federal reforms, such reforms are not likely to happen in the near term.

How, then, should California proceed? In the absence of federal reforms, state and local policymakers are sometimes allowed to exercise

discretion in implementation, thus making it possible to circumvent some of the most egregious problems. If discretion of this sort is not allowed, another fallback is to use local and state funds to operate parallel programs that provide support to excluded individuals (thereby compensating for the federal shortfalls).<sup>19</sup> There are three groups, in particular, that are strong candidates for such fallback solutions.

- The first such group—undocumented individuals—has a poverty rate that is more than twice that of U.S.-born individuals (see Figure 2).<sup>20</sup> Although undocumented individuals could benefit from many safety net programs, they are often ineligible for them (as is the case, for example, for federally-funded CalFresh, federal EITC, and state unemployment benefits). At the same time, mixed-status families are often only eligible for reduced benefits, and even documented immigrants have a complicated eligibility status that depends on such factors as the year they arrived in the U.S., their current immigration status, and the number of years they’ve worked in the U.S.<sup>21</sup>
- The second under-served group is working-age households that are weakly attached to the labor force (i.e., households with only part-time workers or no workers at all). The last two bars in Figure 2 show that these households have a poverty rate that is nearly four times higher than the rate for working-age households that are well-attached to the labor force (i.e., households that have at least one full-time, full-year worker).<sup>22</sup> The poverty gap between these two groups has grown in recent decades because federal and state programs are increasingly targeted to families with earnings.<sup>23</sup> Because of these policy decisions, the safety net is not serving many groups that have persistent labor market challenges, such as domestic violence survivors, formerly incarcerated individuals, people exiting homelessness, and former

**Figure 1. The Powerful Poverty-Reducing Effects of the Safety Net**



Note: 2019 California Poverty Measure is used throughout.  
Source: Stanford Center on Poverty & Inequality and Public Policy Institute of California



foster youth. These policy decisions also mean that groups that face structural racism and consequent barriers to employment (i.e., people of color) are not well served.

- The foregoing groups are failed by the labor market and then again by the safety net. In similar fashion, groups with nontraditional family arrangements are also under-served, even when they clearly could benefit from assistance. The poverty rate for single adults living alone is, for example, more than twice the rate of married or cohabiting adults, a disparity that arises because adults without children receive very limited support from federal and state refundable tax credits, cash welfare (which is locally funded for

California adults without children), and other programs.<sup>24</sup>

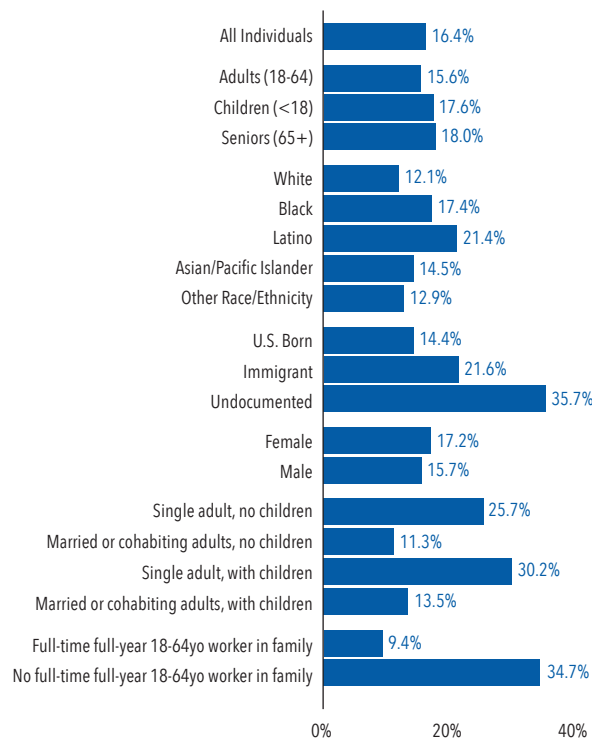
The simple implication: The safety net, as it is currently configured, is not fully meeting its charge of correcting for predistributional sources of poverty. The very individuals that face institutional barriers to forming families or to entering the labor market are also facing “safety net barriers” to accessing relief. The fallback solution to this overlooked-populations problem is twofold: (a) the relevant eligibility requirements and budgeting shortfalls can be directly addressed whenever they are under state (rather than federal) control, and (b) the overlooked populations can otherwise be incorporated by setting up parallel state-funded programs.<sup>25</sup>

The latter fallback solution, which will at best be partial, should be supplemented with a guaranteed income that ensures a minimum income floor for everyone.<sup>26</sup> Three years ago, the *Lifting Children and Families Out of Poverty* (LCFP) task force recommended a targeted tax credit to address the “overlooked populations” problem, a recommendation that was partly implemented via a Young Child Tax Credit for families with low incomes and at least one child under age 6.<sup>27</sup> This new credit only covers, however, some of the overlooked families. The three federal Economic Impact payments and the state’s Golden State Stimulus payments also provided relief during the pandemic for some overlooked families,<sup>28</sup> but it’s not the ongoing solution we need. The CDSS’s local guaranteed income pilots, which will be rolled out in 2022, will hopefully inform efforts to build ongoing solutions.

### The Transaction Costs Problem

We have focused to this point on assisting “overlooked populations” by expanding eligibility for safety net benefits and the amount of such benefits. As important as eligibility is, safety net scholars have long known that it is only half the battle, given that those who are eligible for benefits don’t always apply for benefits and sometimes stop receiving benefits even when they remain eligible.

**Figure 2. The Risk of Being Poor (indexed by 2019 California Poverty Measure) Is Very Unequally Borne**



Note: Poverty rates by family type pertain to rates for all individuals in each family. Source: Stanford Center on Poverty & Inequality and Public Policy Institute of California



Why might this be? It's not just that programs are often poorly advertised or misunderstood (i.e., an information problem). It's also costly—in terms of time, money, and anxiety—to apply for and renew many safety net programs (i.e., a transactions cost problem). These transaction costs entail (a) a lengthy and confusing application and renewal process, (b) punitive requirements for receiving and retaining benefits, (c) an intrusive and dignity-stripping application and documentation process, (d) perceived exposure to risk (especially in the case of undocumented immigrants), and (e) direct monetary costs (e.g., the costs of tax preparation software or assistance).<sup>29</sup> The available evidence suggest that these types of barriers and challenges in navigating the bureaucratic process can indeed reduce program participation.<sup>30</sup> In their worst form, such barriers are not just inadvertent administrative burdens, but are used instrumentally to discourage Black people, other people of color, or anyone seen as “undeserving” from securing benefits.<sup>31</sup>

There is a long history of failed efforts to overcome these problems. In part, the participation problem has historically been misunderstood as simply one of “excessive paperwork,” an interpretation that ignores the importance of worries about surveillance and dignity and that fails to appreciate that some transaction costs stem from

legal requirements (in establishing eligibility) that cannot be overcome by removing paperwork or building an app. Although apps are clearly a critical and necessary vehicle, it is high time to take the follow-up steps of making fundamental structural changes in the programs themselves, thereby supercharging the many apps that are being built or are already available. There are five structural changes, in particular, that need to be undertaken:

- *Eliminate “make-work” requirements:* We need to eliminate all program requirements that require clients to “jump hoops” (e.g., work participation mandates, frequent recertifications of eligibility, unnecessary in-person interviews) rather than engage in activities that will authentically improve their lives. Because application and renewal requirements are often federally mandated, we must meet the challenge of softening the destructive effects of unnecessary requirements while still meeting all federal mandates. This might entail, for example, converting in-person interviews to telephone or online meetings that are principally used to ensure that all available programs are in play.
- *Coordinate programs:* We need to coordinate requirements across programs, provide automatic referrals between programs, and provide unified caseworker training. The key challenge, again one that *can* be met, is to effect such coordination while meeting all federal mandates.
- *Data integration and automation:* We need to mandate data-alignment and data-sharing between programs, prefill application forms, enable automatic documentation of income and calculation of benefits, and automate referrals for individuals who are likely eligible for support (e.g., automate an application for CalFresh when a low-wage worker files for unemployment benefits). If our data systems for employment, social services, and tax administration were integrated in

this way, we could more easily identify gaps, reduce barriers to enrollment, and automate burdensome administrative processes (see “Implementing a Long-Range Plan” for more details on data integration).

- *Unified benefit system:* We need to show respect and preserve dignity by delivering benefits through a single integrated system that symbolizes inclusion and eliminates a false distinction between (a) a tax system that provides benefits to high-income households, and (b) a safety net that provides benefits to low-income households. This unified system becomes feasible once data are fully aligned, integrated, and shared.
- *Remove financial barriers:* We need to remove financial barriers to accessing support by providing free tax preparation assistance, free ITIN application assistance, and affordable internet access (e.g., free smartphone plans).

The foregoing five changes will make app-based delivery fully realize its promise. Although some of these changes can only happen at the federal level, there are efforts underway to indeed make those changes.<sup>32</sup> In the interim, much can be achieved at the state and local levels, especially if we’re willing to engage in workarounds that fully meet federal mandates but soften their destructive effects. The upshot: We have an unparalleled opportunity to build a unified redistribution system that fully eliminates the long-standing “administrative burden” problem.

### The Workplace Benefits Problem

The third—and equally troubling—problem is that many low-wage workers in California don’t have access to the employer-provided benefits that are routinely provided to other workers. Among workers with above-median wages, 80 percent have access to employer-provided retirement benefits, 85 percent have access to employer-provided health insurance, and more than 90 percent have access to employer-provided paid sick leave. The

corresponding statistics for workers in the lowest wage quartile are 44 percent (retirement benefits), 40 percent (health insurance), and 52 percent (sick leave).<sup>33</sup> Because Black, Latino, and female workers are more likely to fall into the lowest wage quartile, they are disproportionately vulnerable to this “benefits problem.”<sup>34</sup>

The benefits problem also looms large for independent contractors. Regardless of wage level, individuals who are working as independent contractors (e.g., “gig workers,” day laborers) are typically excluded from employer-sponsored benefits, are not covered by standard public social insurance programs (e.g., unemployment insurance, worker’s compensation), and are fully responsible for contributions to Social Security (whereas employers typically pay half of the contributions for employees). With the rise of online platforms, the share of individuals working as independent contractors appears to be increasing, although there is some debate about the extent of this increase.<sup>35</sup> The rate of increase in the future will likely depend on how current legal complications resolve. Although California’s AB 5 provides a legal basis for reclassifying independent contractors as employees (including many in low-wage occupations), app-based drivers were excluded from AB 5 coverage under a recent ballot proposition. The legality of that proposition is currently being tested in the courts, and possible changes in federal law may also require some employers to reclassify independent contractors.<sup>36</sup>

There are two main approaches to addressing the benefits problem. For benefits that are regularly exercised by workers (e.g., paid family leave), the simplest solution is to improve California’s existing paid leave program by increasing the wage replacement rate for low-wage employees and bolstering the program’s finances.<sup>37</sup> For other benefits, it is important to implement “portable benefits” systems. By delinking critical health and retirement benefits from specific jobs, publicly-sponsored portable benefits systems can offer access to benefits for all workers, including independent contractors as well as those without

employer-provided benefits. These systems can be funded through voluntary contributions by workers and can include public subsidies for individuals with low incomes. The federal Affordable Care Act (ACA) provided a foundation of portable health insurance benefits through ACA marketplaces (i.e., Covered California) and tax credit subsidies, while

the state CalSavers program serves as a base for portable retirement benefits for California employees who do not have access to employer-sponsored retirement plans.<sup>38</sup> If these systems expanded eligibility and provided enhanced public subsidies, they could assist in solving the benefits problem for many low-income workers.

**Table 1. Summary Sheet of Safety Net Recommendations**

<b>Support Overlooked Populations</b>
<b>Support undocumented and mixed-status households:</b> Include undocumented and mixed-status households in safety net programs by reforming eligibility rules or providing parallel state-funded programs
<b>Support households without workers:</b> Include households without any workers or with only part-time workers in safety net programs by reforming eligibility rules or providing parallel state-funded programs
<b>Support adults not living with children:</b> Increase safety net supports for adults not living with children
<b>Provide guaranteed income:</b> Supplement existing safety net supports with guaranteed income to close gaps and ensure a minimum income floor
<b>Reduce Transaction Costs</b>
<b>Eliminate dignity-stripping and time-consuming barriers to support:</b> Soften the destructive effects of federal “make work” program requirements
<b>Enhanced coordination:</b> Coordinate requirements, referrals, and caseworker training across safety net programs
<b>Data integration and automation:</b> Implement data integration and alignment and data sharing across safety net programs ... thus making it possible to automate application and recertification (e.g., prefill forms, automate income documentation and benefits calculation, trigger automatic applications for individuals who are likely to be eligible)
<b>Unified delivery system:</b> Deliver benefits through a single integrated system
<b>Remove financial barriers:</b> Remove financial barriers to accessing support by reducing costs of internet access and by providing free assistance for tax preparation and ITIN application
<b>Ensure Universal Workplace Benefits</b>
<b>Upgrade paid family leave program:</b> Improve state paid family leave by increasing the wage replacement rate for low-wage employees, increasing weeks of job protection and leave, and bolstering the program’s finances
<b>Portable benefits:</b> Improve portable health insurance benefits with expanded eligibility and enhanced public subsidies (via enhancements to Medi-Cal and Covered California). Improve portable retirement benefits with expanded eligibility and public subsidies (building on CalSavers)

### Wealth-Creating Institutions

As we have stressed throughout this brief, the safety net is charged with the very difficult task of remediating the poverty, disparities, and inequities that our labor market and other institutions have generated. The purpose of the preceding section was to lay out some key reforms that will ensure that the safety net lives up to this charge. It is just as important, however, to reduce the burden on the safety net by repairing the “feeder institutions” that generate poverty, disparities, and inequities in the first place.

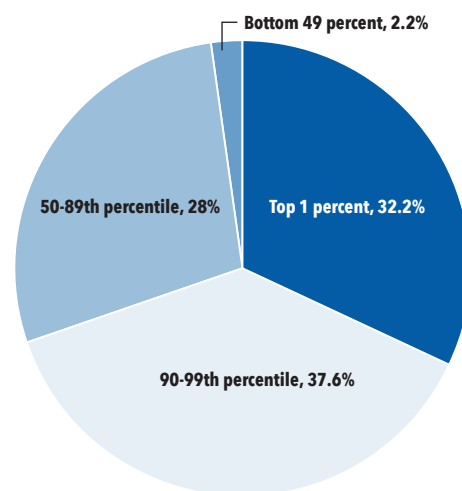
Among the many feeder institutions in play, it is especially important to examine those that govern how wealth is generated. Why does wealth matter? It matters because it allows individuals and families to “buy opportunity” for themselves and their children. As Darrick Hamilton and William Darity have stressed, wealthier families are better positioned to finance high-quality training for themselves and their children, to start a business themselves or to help their children do so, to live in high-amenity neighborhoods that provide networks, schools, and opportunities for themselves and their children, to maintain a high “reservation wage” and thus hold out until a decent job becomes available, and to handle the various emergencies (e.g., a car breaking down, medical emergencies) that are part and parcel of life.<sup>39</sup> The foregoing list, which is far from comprehensive, makes it clear that inequalities in wealth affect the opportunities available to both adults and their children.

Although we should care about maximizing opportunities at every point in the life course, the U.S. has long had a special commitment to equalizing opportunities at birth. It is not always appreciated that wealth inequality, in and of itself, is inconsistent with that commitment. The key problem here: The winners of California’s “birth lottery” are dropped into households with substantial wealth and assets and have access, by virtue of winning this lottery, to opportunities of the sort that only wealth can buy.

Because wealth is even more unequally distributed than income, the winners of this birth lottery tend to win big. As of 2021, the wealthiest one percent of U.S. households held approximately one-third of all wealth, while the top ten percent of households held approximately 70 percent of all wealth. The bottom 49 percent of households, by contrast, held approximately 2 percent of the nation’s wealth.<sup>40</sup> Moreover, because of racial and ethnic disparities in access to income and wealth-building opportunities, the median Black family in the U.S. had only one-eighth of the net worth of the median white family, while the median Latino family had only one-fifth of the net worth of the median white family.<sup>41</sup>

In this section, we lay out a two-pronged strategy for reform. The first prong addresses the unequal opportunities that children face, and the second prong addresses the unequal opportunities that adults face. We then conclude with a third prong that addresses barriers to accumulating savings and building wealth.

**Figure 3. Only Two Percent of Total Wealth is Held by Bottom Half of U.S. Households**



Source: Federal Reserve, Survey of Consumer Finances and Financial Accounts. Data pertain to second quarter of 2021.

### Reducing the Wealth Gap at Birth

In a society that commits to equal opportunity, it is problematic that children born into wealthy families have access to many opportunities that only wealth can buy (e.g., elite schooling, entrepreneurial opportunities), whereas children born into families without wealth have more circumscribed opportunities. This inequality affects California's children in two ways:

- *Reduced aspirations and investments:* Because children born into low-wealth families know that they haven't fared well in the birth lottery and that their opportunities are correspondingly limited, they lower their hopes and aspirations and plan for a low-opportunity future. If these children (and their parents) knew that they would have the downstream resources needed to build their skills or start a business, they would approach their future more hopefully and make investments throughout childhood that position them for that future.
- *Reduced capacity to buy opportunity:* It's also important that capital constraints affect the actual opportunities that are available. That is, it's not just that children born into low-wealth families plan for an adulthood in which they are "capital constrained," but additionally they eventually face this capital-constrained environment as adults. If your parents don't have capital, it's more difficult to attend a high-quality college, to start a business, or to hold out for a decent job.<sup>42</sup>

These two effects are inconsistent with California's commitment to an inclusive economy in which everyone—not just those with wealthy parents—has reason to plan for a rewarding life and an authentic opportunity to make good on those plans.

The first-order task, then, is to limit the opportunity-reducing effects of being born into a family without wealth. We can do so directly and immediately with publicly-sponsored savings accounts



Photo: Corner Baker on Unsplash

that are provided to children at birth, that are seeded with public contributions at birth, and that provide larger publicly-funded contributions for families with lower incomes (i.e., baby bonds). At age 18, beneficiaries can then access the funds and use them to open up opportunities typically only available to those born into wealth (e.g., education, entrepreneurship). As with guaranteed income programs, it is important to avoid restrictive limitations on the use of such funds, given that our overriding goal is to build an inclusive economy that respects the dignity and autonomy of individuals and allows for individual circumstances and needs to be taken into account.<sup>43</sup> This program could be coordinated with the recently established CalKids college savings accounts (which provide publicly-seeded accounts for higher-education expenses to babies born in California as well as low-income first-graders in public schools).<sup>44</sup> Although it is important to begin a baby bonds program immediately, a parallel research track

should also be established that examines the effects of (a) changing the size of the bonds, (b) changing eligibility and program rules, and (c) changing how baby bonds are integrated with safety net programs and guaranteed income payments.

### Increasing Opportunities to Create Wealth

As with a guaranteed income program or other unrestricted cash support, the purpose of a baby bonds program is to immediately remediate the underlying inequality problem, a type of remediation that is predistributional from the point of view of the child. Even if wealth inequality had been fairly generated in the first place (e.g., no redlining, no employer discrimination, fair zoning laws), such inequality is still highly problematic from the child's perspective, as it offers unfair advantage to those who just happen to be “dropped into” wealthy families at birth. As many have noted, a baby bonds program doesn't come close to eliminating this type of unfairness (as children born into ultra-rich families still have far more opportunities than those with a baby bond), it does at least reduce some of the most egregious opportunity problems arising from wealth inequality.



The second type of problem that needs to be taken on is that wealth inequality is unfairly generated. Although this may be irrelevant to the child (as they're harmed by wealth inequality even when it's the outcome of a fair competition), it's deeply problematic from the point of view of building a fair, inclusive, and efficient economy. The competition for wealth is marred by a host of highly uncompetitive practices: It's affected by explicitly racist policies (e.g., redlining) as well as more covert inequities built into the institutions that govern opportunities for employment and hence the capacity to accumulate savings.<sup>45</sup> Moreover, because opportunities to build wealth typically depend on access to some baseline amount of wealth (i.e., “wealth begets wealth”), any inequity that affects initial opportunities will tend to be magnified over time. These are very large problems that are not easy to root out. We lay out below two tractable—but very incomplete and partial—steps in reducing inequalities in the opportunity to build wealth.

- *Opportunities for homeownership:* Because homes are the primary asset for households in the bottom half of the wealth distribution, a useful first step is to address inequalities in access to homeownership.<sup>46</sup> It may suffice to expand existing programs, offered through California's Housing Finance Agency (CalHFA), that offer loans and down payment assistance to first-time homebuyers who are lower-income.<sup>47</sup> If these programs cannot get the job done, other approaches include (a) expanding existing self-help housing plans (such as Habitat for Humanity), (b) exploring a state-sponsored shared equity program for first-time homebuyers (as recently directed by AB 140), and (c) changing zoning in ways that reduce racial and economic segregation and thereby open up new opportunities to build wealth.<sup>48</sup>
- *Business opportunities:* It's likewise important to reduce barriers to entrepreneurship and small business ownership via (a) seed

grants and low-interest loans for small businesses headed by low-income individuals, (b) similar grant and loan programs for microentrepreneurs, and (c) training and technical assistance to help new or small business owners develop successful business plans, navigate legal requirements, and access available public and private resources. The latter programs, if done well, can protect against inadvertently luring first-time entrepreneurs into taking excessive risks.<sup>49</sup>

The foregoing initiatives may have a business-as-usual feel. Although they're not based on shiny new ideas, they nonetheless have the potential to be transformative if they're scaled up in accord with the magnitude of the problem. It is critical to begin just such a scale-up now.

### Eliminating Disincentives

It is also important to reform policies that have the inadvertent—but perverse—effect of discouraging or blocking low-income households from accumulating savings and building wealth. These barriers can be found in three key institutions.

- *Safety net:* The safety net, as it stands, is not immune from criticism on this point. For some safety net programs, there are “asset tests” that limit eligibility to households that fall under a threshold level of assets, a threshold that often is set absurdly low. To qualify, households must first sell or spend down virtually all savings or other assets, leaving them with no financial reserves to cover essential needs, like maintaining reliable transportation, providing childcare or schooling, or coping with the next emergency. By eliminating asset tests, we not only remove a disincentive to build assets, we also reduce administrative burden by simplifying eligibility requirements. Although California has removed or reduced asset tests in most safety net programs (e.g., CalFresh, Medi-Cal), an asset limit is still applied in CalWORKs.<sup>50</sup>
- *Financial services:* The financial services system is the long-standing poster child for predatory practices that target low-income households. Because many low-income individuals lack bank accounts, they rely on “fringe” financial services (e.g., check cashing services, payday lenders, some fintech apps) that charge predatory fees and interest rates.<sup>51</sup> Likewise, some tax preparation services overcharge clients seeking assistance in filing for refundable tax credits, often doing so without any transparency on pricing.<sup>52</sup> These predatory fees and interest rates can be eliminated by (a) strengthening and enforcing consumer protection laws, (b) providing direct access to banking services through a state or federal public bank (such as California’s proposed CalAccount or the proposed U.S. Postal Service bank), and (c) providing free tax preparation services (as noted above).<sup>53</sup>
- *State interception of debt:* When low-income individuals claim refundable tax credits, their refunds can be intercepted by the state to cover some types of debts to the government, including state tax debt from prior years, fees owed to state or local government agencies (e.g., parking citations), and child support to reimburse state CalWORKs expenditures.<sup>54</sup> Although there is of course a local logic to such practices, this is an opportunity to extend grace to those who are struggling and to show that the tax system does more than provide tax breaks and credits to the ultra-rich.<sup>55</sup> It is especially problematic that the state collects and retains the child support debt (with interest) that is owed by noncustodial parents of children who have received CalWORKs. This debt is used to “reimburse” government costs rather than to support the children of the parents who owed support. By ending this diversion of payments (and charging of interest), the state could make it clear that it prioritizes low-income children and parents.



We well appreciate that the foregoing initiatives are but first steps and do not address the magnitude of the problem. The state’s inequitable distribution of wealth is simply shameful ... and will require an ongoing commitment to repair the untold damage it has wrought. As California’s core industries have come to mature, the state has an unprecedented amount of second-generation wealth, and California is at risk of showcasing how such wealth distorts opportunity by allowing the privileged few to buy advantage for their children. If our commitment to an inclusive economy is truly a North Star commitment, we need to recognize this for the existential threat it is and move ahead, at minimum, with the very tractable initiatives outlined here.

**Employment and Wages**

If the rise of second-generation wealth is California’s emerging problem, the “employment and wages problem” might be understood, by contrast, as California’s long-standing problem. Although California is often represented as a jobs machine, in fact its unemployment rate has long been higher than that of the U.S. and its labor force participation rate has long been lower than that of the U.S.<sup>56</sup> These problems arise, in part, because of regional pockets of high unemployment and because cross-region differences in housing costs often make it difficult for Californians to move to high-employment regions. At the same time, many Californians face severe structural impediments to securing and maintaining paid employment,

Table 2. Summary Sheet of Recommendations for Reducing the Wealth Gap

<b>Reduce the Wealth Gap at Birth</b>
<b>Baby bonds:</b> Provide baby bonds to children in families with low incomes (without restrictive limitations on uses)
<b>Expand Opportunities to Build Wealth</b>
<b>Increase opportunities for homeownership:</b> Expand programs providing homebuyers with loans and down payment assistance, expand self-help housing plans, and expand shared equity programs. Change zoning in ways that open up new opportunities to build wealth among people of color.
<b>Increase opportunities for entrepreneurship and small business ownership:</b> Provide seed grants, loans, and technical assistance for low-income small business owners and microentrepreneurs
<b>Eliminate Disincentives and Barriers to Building Wealth</b>
<b>Eliminate safety net asset tests:</b> Eliminate all asset tests in safety net programs
<b>Regulate predatory financial services:</b> Strengthen and enforce consumer protection laws for “fringe” financial services and tax preparation
<b>Provide a public bank option:</b> Establish a public banking option via the proposed CalAccount and/or the proposed U.S. Postal Service bank. Provide free tax preparation (see Safety Net proposals).
<b>End state interception of debt:</b> End the state diversion of low-income tax credits to cover debts (and interest charges) and the use of such diversions to cover government costs

including caregiving responsibilities, employer discrimination, limited educational opportunities, and disabilities. The burden of many of these structural impediments (e.g., employer discrimination) are disproportionately borne by undocumented workers, women, Black and indigenous individuals, and other people of color.

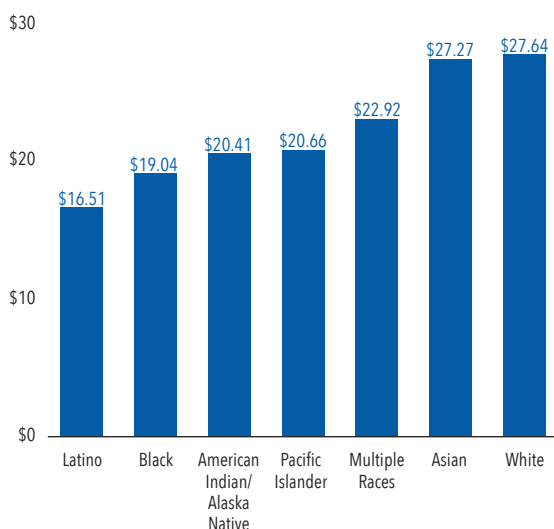
The relationship between poverty and labor force attachment is strong. As was shown in Figure 2, the poverty rate for individuals in families with a weak attachment to the labor force (i.e., families with no workers or only part-time workers) is nearly four times higher than the poverty rate for individuals in families with a strong attachment to the labor force (i.e., families with a full-time, full-year worker). This gap has grown larger in recent decades because safety net programs are increasingly targeted to families with a stronger work attachment.

The “wages problem” is just as important as the employment problem. For many low-wage workers, earnings are not sufficient to cover living expenses, especially in areas with high housing costs. Even among families with a strong labor force attachment (i.e., families with a full-time, full-year worker), poverty rates are relatively high (i.e., 9.4 percent in 2019 using the California Poverty Measure).<sup>57</sup> This is because workers in these families often have jobs that come with inadequate wages (relative to housing and other expenses), unreliable working hours, and relatively few opportunities for advancement.<sup>58</sup>

The wages problem has worsened over the last four decades. From 1979 to 2018, inflation-adjusted hourly wages for the lowest-wage workers (at the 10th percentile) grew by only 4 percent, while hourly wages for the highest-wage workers (at the 90th percentile) grew by 43 percent.<sup>59</sup> In the recent recovery, low-wage workers have seen relatively large wage gains, but typically not large enough to pull them out of poverty (and certainly not enough to meet conventional definitions of a “living wage”).<sup>60</sup> The wages problem is also borne very unequally. As shown in Figure 4, the median hourly wage for Latino, Black, American Indian, Alaska Native, and Pacific Islander workers is much lower than that for white workers, with the gap for Latino and Black workers especially large. Throughout the wage distribution, women are also paid much less than men.<sup>61</sup> These disparities arise from explicit and implicit discrimination and the associated unequal access to high-payoff schooling, training, networks, and neighborhoods.

The employment statistics laid out here are well-known, but they’ve been met, to date, with policy that’s simply too weak. The good news is that a set of predistributional solutions stands at the ready and need only be implemented at a scale that meets the magnitude of the problem. In the balance of this section, we discuss some of the key institutional sources of the problems, and we lay out a set of predistributional policy responses that can get the job done.

**Figure 4. Racial and Ethnic Gaps in Median Hourly Wages are Very High**



Note: Data pertain to California workers, ages 25-64, 2016-2018. Source: California Budget & Policy Center analysis of Economic Policy Institute Current Population Survey extracts

### Eliminating labor-supply bottlenecks

The first step in taking on the employment problem is to ensure that those who want to enter the paid workforce can indeed do so. The key bottleneck here, and one that has only become more prominent during the pandemic, is that workers with young children (especially mothers) often find it difficult to find reliable and affordable child care. For working families with children, child care is typically the second largest basic-needs expense, second only to housing.<sup>62</sup> It follows that access to *affordable* child care is especially important in reducing poverty among working families. Before the pandemic, California faced a woefully inadequate supply of affordable child care, with just 1 in 9 income-eligible children receiving subsidized care.<sup>63</sup> The pandemic has exacerbated the state's child care crisis, driving thousands of providers to close due to (a) revenue losses during shelter-in-place orders, (b) increased operating expenses because of pandemic-related disruptions, and (c) increased pandemic-related health risks in the workplace.<sup>64</sup>

The state recently convened a Blue Ribbon Task Force to develop recommendations for expanding the supply of child care and increasing its quality and affordability.<sup>65</sup> The task force's recommendations, which are now out, provide a comprehensive roadmap for (a) increasing state subsidies and reforming financing, (b) expanding and upgrading facilities, (c) investing in child care training, (d) improving the child care data infrastructure, (e) coordinating across programs and systems, (f) raising pay for child care workers and improving their working conditions, and (g) empowering child care workers. The funding to implement many of these recommendations will need to come from state and federal sources (including COVID-19 response funds). At this point, a key task is that of ensuring that the task force's recommendations are successfully implemented.

The task force also addressed the associated supply-side bottleneck that arises when workers have to go on leave to handle family caregiving respon-

sibilities (for children or other family members). The existing state-sponsored system for paid family leave is fully funded by worker contributions, provides workers with up to 8 weeks of leave annually, and replaces 60-70 percent of wages. As was noted in the *Safety Net* section, this system is inadequate and needs to be upgraded by (a) providing a higher wage-replacement rate for low-wage workers, (b) increasing the number of weeks of job protection and leave, and (c) eliminating the cap on the taxable wage base and requiring businesses to contribute to the costs of the program. These reforms, if implemented, will go a long way to ensuring that paid work can be integrated with care work.



It is also very difficult for low-wage workers to get by when they lose their job. Although unemployment insurance should, in principle, allow low-wage workers to continue to meet basic needs while they search for a new job, the wage replacement rate (i.e., one-half of wages) is not enough for paycheck-to-paycheck workers to continue to pay rent in areas with high housing costs.<sup>66</sup> This is again a readily solvable problem: The replacement rate for low-wage workers could be increased by raising the taxable wage base (and linking it to the maximum wages that are insured).<sup>67</sup> If California restructured its unemployment insurance system in this way, low-wage workers wouldn't face a cascade of downstream problems when they lose their jobs.

### Training workers

The second key step, when taking on supply-side employment problems, is providing high-quality training for the jobs that are available in California. We will bracket off, for the purpose of this discussion, ongoing reforms within California intended to deliver high-quality primary and secondary schooling for students who face “special challenges” (e.g., children in low-income families). The long-run effects of these school reforms, implemented via California’s Local Control Funding Formula (LCFF), are not yet established (given that the LCFF was only signed into law approximately 8 years ago). Although it is still too early to know how the LCFF will ultimately play out, our strong instinct is that a further round of yet more aggressive reform will be needed to make headway on California’s commitment to equalize opportunities for high-quality primary and secondary training.

We will not, however, prejudge that ongoing experiment and will instead focus on three zones that fall outside of conventional primary and secondary education and that clearly require substantial investments. As was the case with child care policy, these zones are again ones in which there’s much excellent policy work, and the main task before us is that of adequately funding approaches that have already been shown to work.

- *Early childhood education:* The payoff of high-quality early childhood education for later school achievement, employment, and earnings is well established.<sup>68</sup> In the preceding section, we noted that the shortage of



Photo: PTTI/EDU on Unsplash

affordable and reliable child care prevents many workers, especially mothers, from pursuing paid employment. Although it is clearly critical to address this supply-side bottleneck, early childhood education is also important for all children (regardless of whether their parents are working) because it’s a high-pay-off human capital investment in the children themselves. The main reforms that should be pursued here, beyond those outlined above, entail improving the quality of the education (because long-run payoffs depend critically on quality enhancements).<sup>69</sup>

- *Sectoral training programs:* It is also important to provide high-quality job training for adults. There is a large literature documenting the payoff to sectoral training programs in which (a) attractive jobs in growth industries are targeted, (b) training organizations (e.g., community colleges) form a close partnership with employers in these industries, and (c) the training process integrates learning with on-the-job activities (e.g., apprenticeships) and may be structured to lead to stackable credentials and progressive skill building.<sup>70</sup>
- *Subsidized employment:* The other main adult-training model—subsidized employment—is designed for individuals who face significant barriers to employment (e.g., those reentering the community after incarceration, those with limited English language proficiency, or those with significant education or work experience gaps). Because these workers require more support to secure and maintain employment, the preferred model is one in which (a) employers are provided with wage subsidies for a fixed term (with workers transitioning, after that fixed term, into regular employment), and (b) workers are provided with ongoing support services throughout this term (and sometimes beyond it). This model has documented long-term positive effects on earnings, employment, and homelessness.<sup>71</sup>

Although both sectoral and subsidized-employment programs have solid track records, we should of course continue experimenting with alternative education and training approaches that could yield even higher payoffs. This includes, for example, such proposals as (a) trialing enhanced forms of subsidized employment that train for ongoing career paths (thus protecting against dead-end employment), (b) providing life-long “learning tax credits” or other subsidies to new workforce entrants or workers needing to switch industries, (c) improving caseworker advising and mentoring by providing clients with real-time estimates (based on local employment data) of the payoffs to alternative career strategies, and (d) experimenting with a host of other successful “active labor market policies” (ALMPs) used in many other late-industrial countries.<sup>72</sup>

### Empowering workers

The foregoing reforms address the supply of workers by improving access to child care, training, and jobs. If these reforms work as intended, they will not just increase the supply of qualified workers but will also, at least in some cases, provide these workers with relatively high-paying jobs. These reforms will not, however, raise the wages of low-income workers who do not participate in sectoral programs (and indeed they may exert a slight downward pressure on their wages by increasing the supply of competitors). It follows that we need a second set of reforms oriented toward increasing wages at the bottom of the wage distribution. As noted in the introduction to this section, an important part of California’s poverty problem is that, even when workers do have jobs, their wages are often so low that their families remain in poverty.

Although there are of course many very important approaches to taking on such “working poverty” (e.g., minimum wage, EITC), none of these address the root problem that low-wage workers have less power, relative to employers, than they once did.<sup>73</sup> This is partly because the share of workers who are union members or are covered by a union contract continues to decline in

California, dropping from 25 percent of California’s workers in 1984 to only 16 percent in 2018, with a particularly large drop for private-sector workers.<sup>74</sup> Because unions increase worker leverage, they lead to higher wages for union workers, and they even generate spillover wage increases for non-union workers because employers are pressured to match the new higher wage standards.<sup>75</sup> As unions have declined, workers have lost some of their former leverage, and wages have fallen. The simple upshot: If the resulting power imbalance were successfully taken on, it would address the wage problem on the natural rather than require prop-up interventions or subsidies.

The decline of unions could be reversed or dampened by protecting and expanding the right to organize. Because the National Labor Relations Act (NLRA) grants workers the legal right to organize and collectively bargain, federal law is in principle more important here. The most relevant federal initiative, the recently proposed federal PRO Act, increases the number of workers who have a protected right to organize by reclassifying independent contractors as employees (because employees, unlike independent contractors, have a protected right to organize). The PRO Act would also allow public unions to raise funds through required union dues (which is important because recent federal court decisions have restricted such fundraising).

This federal approach, if it were ultimately successful, would assist in restoring worker leverage in California. There are, however, various state-level approaches that could have a similar effect. The following two possibilities are of special interest here:

- *Sectoral bargaining*: The “sectoral bargaining” approach entails resuscitating an upgraded version of California’s legacy wage boards and using them to negotiate wage standards and workplace conditions for entire sectors of industries or occupations.<sup>76</sup> These wage boards could, in principle, set standards for all workers within a given sector, not just

employees but also independent contractors (although any attempt to set standards for independent contractors would likely trigger legal challenges).<sup>77</sup> As it stands, California’s wage boards are unfunded and not operating, yet California has had operational wage boards in the past. In early 2021, a legislative proposal to establish a sectoral council for California’s fast food workers was narrowly defeated, but proposals of this sort could be pursued again.<sup>78</sup> If they were, it would be important to reorganize these legacy boards in ways that ensure they work in concert with union-based collective bargaining.

- *Stakeholder model:* The “stakeholder model” of corporate governance empowers workers by requiring corporations to either (a) directly include worker representatives on their boards, or (b) consult councils of workers when appointing board members. This model, which is popular in Europe, has often (but not always) led to higher wages among workers and lower income inequality among them.<sup>79</sup>

These are, to be sure, big-ticket reforms rather than the usual tinkering-at-the-margins reforms. This is as it should be: Because we have a big-ticket problem, it’s high time to stop pretending that the usual tinkering is up to the magnitude of the task.

This is not to suggest that other approaches shouldn’t also be pursued. The good news here: If it proves impossible to provide additional leverage to workers by enabling them to organize, then there are other—also very powerful—ways to convey leverage. It can be secured, for example, by (a) increasing the demand for labor (e.g., running a “hot economy”), or (b) increasing the capacity of workers to withhold their labor. The former approach is mainly (but not entirely) the province of federal policy, whereas the latter approach is not. It bears emphasizing that two of the featured initiatives within our blueprint – the guaranteed income and baby bonds initiatives – provide workers with additional capacity to maintain a higher

reservation wage (meaning that they can withhold their labor until that wage is met). This leverage-enhancing effect, which has not always been adequately stressed in past discussions of these initiatives, means that California could have a powerful new policy lever for bringing power relations into balance. If worker power is flagging (relative to employer power), then it’s simply a matter of ramping up the amount of income that’s guaranteed or the size of the baby bonds program. This type of adjudication would presumably rest on a careful reading of employment, wage, and related economic evidence by a board charged with ensuring that California’s economy is strong and inclusive.

### Protecting workers

The rising power of employers has also exposed workers to new workplace hazards, including (a) workplace health threats (including, most recently, threats of infection), (b) workplace safety hazards, (c) wage theft, and (d) workplace harassment, discrimination, and retaliation. When workers have

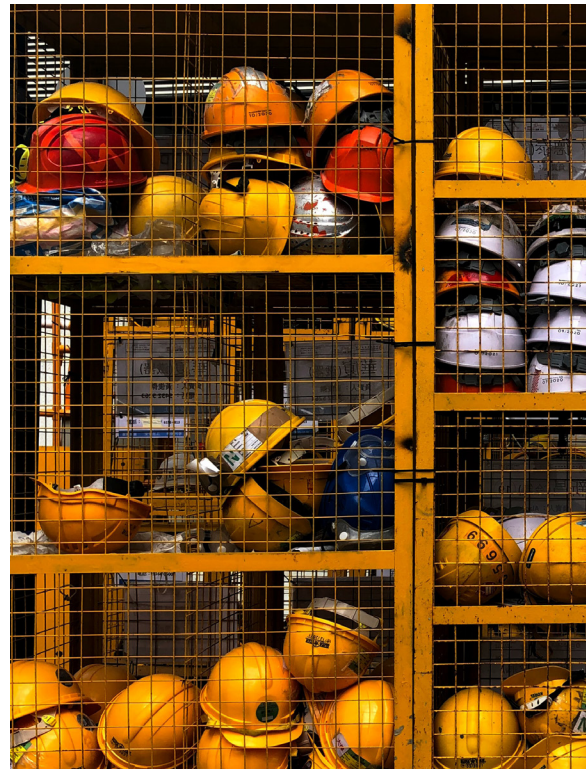


Photo: Pop & Zebra on Unsplash

leverage, they can protect against such threats “on the natural,” just as leverage allows them to protect against wage deterioration on the natural. Because workers have lost leverage over the last half-century, the burden of protecting against such

threats has come to rest increasingly on regulation. The two main challenges, as a result, are those of upgrading regulation to protect against new and continuing threats and adequately enforcing such regulation as already exists.

**Table 3. Summary Sheet of Employment Recommendations**

<b>Eliminate Labor-Supply Barriers</b>
<b>Address child care bottleneck:</b> Increase access to and quality of child care by (a) increasing state subsidies and reforming financing, (b) expanding and upgrading child care facilities, (c) investing in child care training, (d) improving the child care data infrastructure, (e) coordinating across programs and systems, (f) raising child care worker pay and improving working conditions, and (g) empowering child care workers
<b>Upgrade paid family leave:</b> Improve the state’s paid family leave program by (a) increasing the wage replacement rate for low-wage employees, (b) increasing the number of weeks of job protection and leave, and (c) bolstering the program’s finances (see Safety Net section)
<b>Increase unemployment benefits for low-wage workers:</b> Increase the wage-replacement rate for low-wage workers by raising the taxable wage base and linking it to the maximum wages that are insured.
<b>Enhance Education and Training</b>
<b>Increase access to high-quality early childhood education:</b> Expand the supply of high-quality education by increasing state subsidies, expanding facilities, and improving child care worker pay and working conditions. Improve educational quality by investing in child care training and infrastructure.
<b>Expand sectoral training programs:</b> Increase the number of openings in sectoral training programs
<b>Expand subsidized employment programs:</b> Expand support for subsidized employment and trial enhanced forms of subsidized employment that reach out to new subpopulations and that train for jobs with prospects for rapid career advancement
<b>Experiment with new approaches:</b> Pilot new tax credits that subsidize training (as well as employment) and new models of real-time data-driven casework advising and mentoring
<b>Empower Workers</b>
<b>Advocate for labor law reform:</b> Advocate for reform to federal labor laws that suppress the capacity of workers to organize and bargain collectively
<b>Sectoral bargaining:</b> Develop and pilot improved forms of sectoral bargaining
<b>Stakeholder models:</b> Develop and pilot stakeholder models of corporate governance
<b>Protect Workers</b>
<b>Upgrade enforcement:</b> Fund enforcement agencies and support “co-enforcement” partnerships with unions and other worker organizations
<b>Improved regulation:</b> Expand protections for domestic workers and independent contractors

- Upgrading enforcement:* In recent years, important new workplace protections have been introduced at both the state and federal levels, including new protections against the risk of workplace-generated infections, new penalties for employer wage theft, new restrictions on quotas preventing workers from taking breaks, and new prohibitions against piece-rate pay systems.<sup>80</sup> As always, new regulations imply new enforcement challenges, and these challenges cannot easily be met without additional funding to relevant agencies. These agencies can also increase their enforcement capacity by partnering with unions and other worker organizations to (a) inform workers of their rights, and (b) learn about violations that should be targeted for enforcement. This model of “co-enforcement” leverages the social networks and cultural and linguistic competence of non-government partners to improve compliance in the short term and build long-term capacity to enforce more effectively.<sup>81</sup>
- Upgrading protective regulation:* We also need new regulations for workers that are currently uncovered and face especially high risks of exploitation. Under current workplace safety laws, domestic workers are excluded from coverage, an especially pressing problem that a new advisory board (convened by Cal-OSHA) will be investigating.<sup>82</sup> Likewise, independent contractors are also excluded from most standard worker protections, including wage and hour laws, anti-discrimination laws, and workplace safety laws. These workers can be protected either by (a) extending workplace protections to independent contractors, or (b) expanding the share of workers classified as employees rather than independent contractors (and enforcing penalties to prevent worker misclassification).<sup>83</sup>

The obvious point here is that, although this regulative work is critical, the task of enforcing reg-

ulations is inevitably costly and difficult. If workers had more leverage, this task would become easier because workers could then “vote with their feet” and thereby serve as enforcers on the natural. This is precisely why leverage-enhancing reforms are so important and pay off across a wide range of worker outcomes.

### Housing

If California is to build an inclusive economy, it must of course also solve its housing problem. Because Californians have lived with high housing costs for so long, it’s easy enough to come to view them as inevitable, as a fixed feature that’s just the price one has to pay for living in California. But of course high housing costs are not inevitable. Although no one thinks that they’re the intended objective of California’s housing policy, they’re nonetheless an inadvertent effect of a host of California’s policies (only some of which we tag as “housing policy”). If policy can create high housing costs, so too can policy reduce them.



Photo: Max Böhme on Unsplash

Why is it important to do so? There are three key reasons why the high cost of housing undermines our capacity to create an inclusive economy.

- The “squeezing out” effect:* Because low-income Californians spend a large share of their income on housing, other equally critical basic needs cannot be adequately met.



In 2019, the vast majority of California’s extremely low-income households dedicated over half of their income to housing, thus qualifying them as “severely housing cost-burdened” (according to the U.S. Department of Housing and Urban Development standards).<sup>84</sup> Under the California Poverty Measure, housing costs likewise account for approximately half of the poverty threshold.<sup>85</sup> The simple implication: If California’s housing problem were solved, millions of California’s families would suddenly be able to meet their basic needs for food, clothing, schooling, and utilities without any increase in their income. This is an opportunity that we should want to exploit.

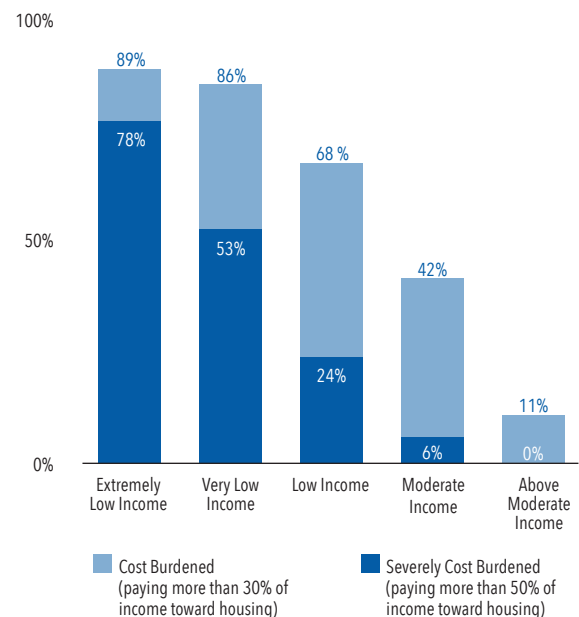
- *The stress of poverty:* Because housing costs are so high, low-income Californians face ongoing worries about meeting the next rent payment. The burden of this stress falls disproportionately on Black and Latino households because they are especially likely to have to deal with unaffordable housing costs.<sup>86</sup>
- *Eviction and homelessness:* The high cost of housing forces many Californians into unstable living situations (e.g., doubling up with other families), temporary shelters, homeless encampments, or the streets or their cars. As of January 2020, more than 161,000 individuals were homeless on a given night in California, accounting for more than one quarter of all people experiencing homelessness nationally. This homelessness has very predictable and profound negative effects on physical health, mental health, employment, and educational progress.<sup>87</sup> These extreme costs are again unequally shared: The risk of being homeless is, for example, far higher for Black Californians than for other Californians.<sup>88</sup>

These three problems pertain to the poverty-inducing effects of high housing costs. Although such poverty-inducing effects are profound, they

are only part of the fallout of high housing costs. The second main fallout is extreme residential segregation: Because many of California’s neighborhoods don’t offer any low-income housing, the affordability crisis has the effect of crowding low-income households into a small number of neighborhoods that do offer such housing. The resulting segregation is in turn responsible for inequalities in the amenities that are delivered via neighborhoods (e.g., schooling, networks).

What’s to be done? We lay out a two-pronged strategy that entails (a) expanding the supply of affordable housing over the long term, and (b) providing rental subsidies and vouchers, services for those experiencing homelessness, and other support that ensures that, until the supply of affordable housing is increased, basic housing needs are met. Although this strategy is hardly new or original, it’s again a matter of owning up to the magnitude of the problem and then committing the resources needed to get the job done.

**Figure 5. Large Swaths of California’s Low-Income Renters are Severely Burdened by Housing Costs**



Source: California Housing Partnership analysis of 2019 American Community Survey data using U.S. Dept. of Housing & Urban Development income categories based on household income as percentage of Area Median Income (AMI)

**Increase the supply of affordable housing**

The main underlying problem is that California faces a severe shortfall of housing that low-income Californians can afford.<sup>89</sup> For a low-income household, the available choices are (a) to rent a decent unit by allocating a large share of total income to rent (and then shortchanging all other basic needs), (b) to crowd into a very small unit with many other families, or (c) to resort to a cycle of continuous eviction and homelessness. These are not good choices. As Figure 5 shows, many low-income households “opt” to pay a large share of their total income for rent, a decision that then makes it difficult to afford child care, to meet other basic needs, or to handle emergencies.

We can solve this problem—simply and straightforwardly—by building and preserving more affordable housing. This can be done by mixing and matching from the following reforms (as outlined in the Roadmap Home 2030 report):<sup>90</sup>

- *Streamlining:* The “streamlining approach” entails reducing transaction costs by removing burdensome requirements and speeding up the permitting and review of housing developments that include affordable and very small units.

- *Reforming zoning and incentivizing development:* The “zoning approach” entails reforming zoning laws to allow more affordable housing (especially in high-amenity neighborhoods) and then incentivizing developers to take advantage of these opportunities.
- *Doubling down on RHNA targets:* The “doubling-down approach” entails strict enforcement of existing RHNA (Regional Housing Needs Allocation) targets that specify the number of affordable units that must be accommodated in each local jurisdiction.
- *Direct funding:* The “direct funding approach” uses public funds (in the form of grants, loans, or tax credits) to develop new affordable housing, preserve at-risk affordable housing, or rehabilitate existing affordable housing.

These reforms are tractable. Although each approach has its opponents, the payoff to proceeding vastly outweighs the costs of capitulating to these opponents.<sup>91</sup> The obvious point here: We need to get the job done at a scale that’s commensurate with the problem. This means rejecting symbolic initiatives that give talking points to poli-

**Table 4. Summary Sheet of Housing Recommendations**

<b>Expand Affordable Housing Supply</b>
<b>Commit to robust supply-side interventions:</b> Ensure a rapid and substantial increase in the supply of affordable housing through streamlining, reforming zoning and incentivizing development, enforcing affordable housing targets, and increasing direct funding to develop, preserve, and rehabilitate affordable housing
<b>Protect Housing-Insecure Households</b>
<b>Assist those at risk:</b> Protect struggling renters by (a) providing rental subsidies and emergency rental assistance, (b) bolstering tenant legal protections in just cause, rent cap, unlawful detainer, and owner move-in laws, and (c) increasing legal aid for tenants (including guaranteeing a right to counsel for low-income tenants facing eviction)
<b>Provide swift assistance to those who are homeless:</b> Ensure homelessness is brief, rare, and non-recurring by supporting robust local services that provide immediate permanent housing, supportive housing, dedicated vouchers and affordable units, shallow rent subsidies, and housing subsidy pools

ticians and policymakers but don't in the end come close to getting the job done.

**Protect the especially vulnerable**

Even if implemented very aggressively, the foregoing approaches will only bear fruit over a relatively long time period. How can we help low-income households in the interim? The most realistic short-term plan is to simply ramp up existing ameliorative approaches.

This means continuing to offer tenant-based rental subsidies, continuing to offer federal Housing Choice Vouchers (and pressing to increase California's allotment of such vouchers), and continuing to offer short-term emergency rental assistance.<sup>92</sup> The preceding approaches, all of which rely on subsidies of some type, can be complemented with legal approaches that strengthen tenant rights by closing gaps in just-cause eviction and rent cap laws, providing tenants with more time to respond to eviction notices, reducing owner move-in evictions, guaranteeing a right to counsel for low-income tenants facing the threat of eviction, and increasing public funding of legal aid for tenants.<sup>93</sup>

Even if all of the foregoing are ramped up, some individuals and families will still experience crises that cause them to lose their housing. When that happens, we need to support robust local services that ensure that homelessness is brief, does not engender new problems, and does not recur. These local services should include "housing first" approaches that provide immediate permanent housing, other types of supportive housing for individuals with physical or mental health needs, dedicated housing vouchers, shallow rent subsidies, dedicated deed-restricted affordable units, and housing subsidy pools that allow for flexible individually-targeted solutions.<sup>94</sup>

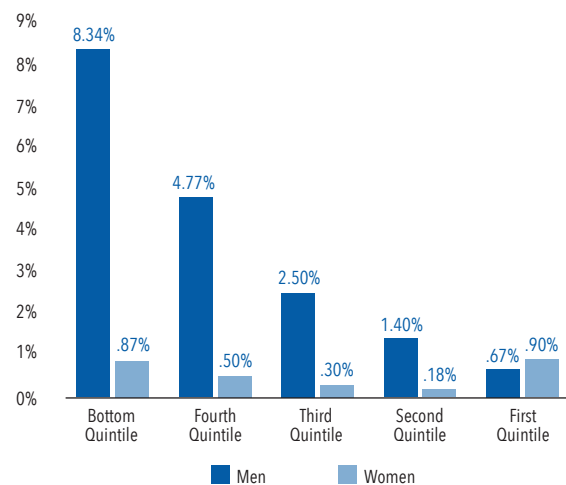
Although these local-service solutions will almost always be necessary when someone becomes homeless, the key long-term goal is to dramatically reduce rates of housing insecurity and homelessness by (a) building more affordable units, and (b) ensuring that all Californians have

adequate resources to meet basic needs through their earnings, conventional safety net programs, a guaranteed income to close gaps in available resources, and baby bonds. If we commit to (a) and (b), we can show the world that California takes a steely-eyed view of the problem ... and gets the job done.

**Justice System**

The justice system, our fifth and final zone, is arguably California's premier poverty-generating and disparity-generating institution. It reproduces poverty by enmeshing low-income individuals in a system that (a) disrupts their education, employment, and family relationships, (b) blocks those with arrest and conviction records from access to jobs, housing, and help, and (c) imposes fines and fees that undermine their financial stability.<sup>95</sup> If a male grows up in a family in the bottom quintile of the income distribution, he is approximately 12.4 times more likely to experience adult incarceration than a male who grew up the top quintile (see Figure 6).<sup>96</sup> This overrepresentation is attributable to socioeconomic barriers to opportunities and to

**Figure 6. Children Growing up in Bottom-Quintile Families Face Dramatically Higher Risks of Prison or Jail**



Note: Figures pertain to individuals born between 1980-1986. Source: Looney, A. & Turner, N. (2018). *Work and Opportunity Before and After Incarceration*. Brookings Institution.

law enforcement practices that target poor individuals and neighborhoods.

The justice system is also a leading source of racial disparities. Because of racist bias in justice system policies and practices, and because of racially inequitable barriers to opportunities, Black men and women make up more than one-quarter of all men and women incarcerated in California state prisons (which is more than four times their share of the overall state population).<sup>97</sup> Likewise, American Indian men and women are heavily overrepresented in California state prisons, as are Latino men (but not women).<sup>98</sup> This bias runs deep throughout the system and shows up, for example, at the point of arrest, sentencing, and conviction.<sup>99</sup> These disparate practices within the justice system account for an appreciable share of the racial and ethnic inequality in labor market outcomes.<sup>100</sup>

The justice system is tailor-made, then, for a predistributional approach because it's so deeply implicated in creating poverty and disparities. Because it is a sprawling system, and because it is studded with problems, our summary of points of entry and reform should be understood as very partial and far from comprehensive.

#### “Quality of life” offenses

The first point to be made is that the justice system has often criminalized the everyday activities of those who live in poverty, lack stable housing, struggle with mental health issues, or rely on the informal economy to make ends meet. The distinctive feature of these so-called “quality of life” crimes is that they target the regular and unavoidable activities of people who have been marginalized. The resulting involvement with the justice system then causes further harm to people who have not been given opportunities or have been unlucky and need help.

These types of crimes loom large, for example, in the lives of people experiencing homelessness. By criminalizing activities that are unavoidable for people without homes (e.g., public camping, overnight RV parking, loitering), we effectively



punish people for our collective policy decision to under-produce affordable housing.<sup>101</sup> This criminalization of everyday activities can be addressed by changing local laws, changing enforcement priorities, or establishing state-level protections for individuals who are unhoused (by, for example, adding housing status as a protected class under existing state anti-discrimination law).<sup>102</sup>

Likewise, when mental health challenges or substance addiction go untreated, this again puts individuals at risk of arrest or citation for “quality of life” crimes, such as disorderly conduct. In California’s state prisons and county jails, approximately 30 percent of those incarcerated have open mental health cases or were receiving mental health treatment.<sup>103</sup> This criminalization of people with mental health challenges led E.F. Torrey to refer to jails and prisons as the “new mental hospitals.”<sup>104</sup> As with homelessness, it is very costly to criminalize mental health challenges, as doing so not only reduces the chances that treatment will be offered but layers on the additional harm of justice system involvement. The obvious point here: We should address behavioral health challenges with behavioral health services. We can do so by expanding such services and coordinating with the justice system to provide individuals with needed support instead of repeatedly citing or incarcerating them.

### Targeting of Black and Brown individuals

The justice system has often taken up functions that it is not well suited to carry out and that cause grievous harm to people of color when it attempts to carry them out. If these functions are excised and relocated to other institutions, we eliminate or reduce the harm and can achieve positive outcomes. There is much evidence, for example, showing that crime is reduced by providing jobs for youth, by hiring outreach workers, and by improving the safety and quality of the physical environment.<sup>105</sup> This type of evidence-based crime prevention reduces justice system interactions that often result in disproportionate harm to Black and Brown individuals and communities.

It is also important to hold firm on California's sentencing reforms that have reduced penalties for many less-serious crimes and led to sizable reductions in state prison incarceration rates. Although Black men and women continue to have the highest incarceration rates in California, the number of incarcerated Black men and women in state prisons has declined substantially since these sentencing reforms.<sup>106</sup> Moreover, by taking into account the ability to pay when setting bail amounts (as mandated by a recent state Supreme Court decision), the number of individuals incarcerated *before* trial is reduced. This matters because nearly three-fourths of those in California county jails are awaiting trial.<sup>107</sup> The key problem here: We actively perpetuate poverty by incarcerating people without a valid public safety objective for doing so. For low-income people, even one or two nights in jail for an unpaid parking ticket can lead to loss of employment, with spiraling effects on their family's housing, safety, and security.

We also need to reduce racial disparities in sentencing. Because older people are much less likely to reoffend, we can eliminate long sentences (which are disproportionately given to Black individuals) without any risk of increasing crime rates.<sup>108</sup> The CCRPC (i.e., California Committee

on Revision of the Penal Code) recently recommended reducing exceptionally long sentences by (a) reforming parole processes, (b) ending mandatory minimum sentences for nonviolent crimes, (c) expanding "second look" policies to allow *any* individual who has been incarcerated for more than 15 years to request resentencing, and (d) narrowing the use of sentencing enhancements (which are more likely to be applied to Black and Latino individuals and on average more than double the length of a sentence).<sup>109</sup>

### A meaningful second chance

It is unjust to continue punishing people after they have completed their sentence. It is also counterproductive to amplify their punishment and prevent reintegration by blocking access to jobs, housing, or other opportunities. The present system actively harms individuals, seemingly intentionally, with the odds stacked against them at every turn. The goal of an inclusive society should instead be to provide meaningful second chances by building strong reintegration programs.

The available evidence suggests that such programs should include (a) high-quality educational opportunities during incarceration, (b) automatic enrollment in safety net programs that assist in reintegration (e.g., Medi-Cal, CalFresh, CalWORKs), (c) automatic post-release participation in affordable housing programs, and (d) assistance with job training and job search (and, as necessary, participation in subsidized employment programs). These reforms should be carefully tailored in accord with recent evidence on the most effective designs.<sup>110</sup>

It is also important to ensure that formerly incarcerated individuals are not automatically disqualified from employment. Although California has taken important steps to expunge criminal records, this effort remains incomplete and more individuals should be made eligible for expungement.<sup>111</sup> Likewise, California currently restricts the

conditions under which employers and landlords may consider criminal records, but some of these restrictions could be broadened and enforcement needs to be improved.<sup>112</sup>

The state’s commitment to providing second chances also means ending the assessment and collection of state and local government fines and fees imposed on individuals who have no realistic ability to repay these debts. Here again, California

has made progress by establishing debt forgiveness and ability-to-pay programs, and by eliminating some fees charged to those who come into contact with the criminal justice system.<sup>113</sup> The main remaining tasks are eliminating all criminal justice fees and stopping the interception of CTC, EITC, and child support payments to cover child support debt and other debts owed to the government by low-income individuals.

Table 5. Summary Sheet of Justice System Recommendations

<b>Decriminalize “Quality of Life” Offenses</b>
<b>End the criminalization of poverty and homelessness:</b> Eliminate or rewrite laws that have the effect of criminalizing poverty and homelessness. Deprioritize enforcement of “quality of life” crimes.
<b>Expand behavioral health services:</b> Prevent criminalization of behavioral health challenges by expanding availability, accessibility, and coordination of behavioral health services
<b>End Practices Targeting Black and Brown Individuals</b>
<b>Deliver prevention programs with non-police personnel:</b> Invest in non-police interventions shown to reduce crime (e.g., outreach workers, jobs for youth, improved neighborhood quality)
<b>Sentencing and bail reform:</b> Hold firm on sentencing and bail reforms that reduce incarceration
<b>Reform disparity-generating sentencing:</b> Reform sentencing practices that contribute to racial disparities by reforming parole, ending mandatory minimum sentences for nonviolent crimes, expanding “second look” policies, and narrowing the use of sentencing enhancements
<b>Provide Meaningful Second Chances</b>
<b>Improved reintegration programming:</b> Expand high-quality educational opportunities during incarceration, provide pre-release enrollment in safety net programs, and provide post-release housing support and employment support
<b>Criminal record reform:</b> Expand expungement of criminal records, and broaden and enforce restrictions on use of criminal records by landlords and employers
<b>Debt forgiveness and payment interception reforms:</b> End collection of fines and fees imposed on individuals who have no realistic ability to repay, and end state diversion of refundable tax credits and child support payments to cover government costs and debts (see Wealth above)

# Implementing a Long-Range Plan

If California were to commit to this aggressive program of reform, it would be unwise to continue to limp along with data systems that are inadequate to the task of implementing the recommendations and monitoring their effects. The purpose of this final section of the report is to lay out some of these “data problems” and examine how they can be addressed.

The good news is that, although we have many problems, most of them can be solved by linking existing data and automatically refreshing the resulting panel with new data as they become available. The following are the five main data problems that we’re facing.

*Small samples:* The first and simplest “data problem” in play is that the state is currently unable to measure poverty as well as it should. The main resources for measuring poverty in California—the Current Population Survey (CPS) and the American Community Survey (ACS)—are simply not up to the demands we place on them. When the CPS is used for poverty measurement, the samples are not large enough to reliably monitor trends in poverty for subpopulations defined by intersections of region, race, ethnicity, and other variables. The ACS is a much larger sample, but it is still not large enough and, worse yet, it does not provide the comprehensive program measures we need. The upshot is that we’re hamstrung when it comes to identifying pockets of poverty and evaluating the effects of potential anti-poverty policy for smaller racial and ethnic groups, smaller areas (e.g., counties and cities), and subpopulations facing particular obstacles (e.g., eviction).

*Snapshot measurement:* These existing data sources also fall short because they’re based on cross-sectional data or very short-run panels (i.e., the “mini-panel” of the CPS) and cannot, therefore, be used to ascertain who is moving into and out of poverty. Because most poverty spells are short-term, and because the extent to which they are short-term varies across subpopulations, this snapshot approach to measurement can be very misleading, especially for policy evaluation. The usual short-run program evaluations can be undermined by “washout” of short-run effects or, conversely, the presence of “ sleeper effects” that only surface much later in the life course. Although these two processes are well-known, the vast majority of evaluations are nonetheless still short-duration assessments by virtue of the high cost of collecting panel data.

*Crisis detection problems:* The most important recent developments in poverty, such as the rise of extreme poverty, were not detected by social scientists until the crises were well underway. It is likely that more challenges will emerge as automation and robotics spread, the gig economy grows, supply-chain problems fester, the pandemic continues on, or disaffection with work grows. These and other developments suggest that the low-income

population may be undergoing rapid changes over the next several decades, yet California does not have an adequate infrastructure for detecting problems before they diffuse widely and become costly to address. Although the usual survey and administrative data can detect changes in income, family structure, and employment, we need to supplement these data with a qualitative monitoring infrastructure that makes it possible to detect changes in the rhythm of everyday life, the obstacles that people are facing, and the decisions that they're making.

*Legacy microsimulation modeling:* The gold standard for policy analysis is to simulate short-run and long-run effects using various microsimulation models (e.g., TRIM3). These models are not, however, tuned to California's population, nor do they leverage recent developments in machine learning, causal inference, and surrogate analysis to build a stronger foundation for understanding the effects of proposed policy on employment, the income distribution, and related outcomes. We need to build a new generation of microsimulation models that will allow us to understand the likely effects of introducing new predistributional or redistributive reforms.

*Coordinating applications:* We have already discussed the need to allow data-sharing between programs to make it possible to prefill application forms, automatically calculate benefits, and automatically refer individuals who are likely eligible for support. If our data systems for employment, social services, and tax administration were integrated in this way, we could more easily identify gaps, reduce barriers to enrollment, and automate burdensome administrative processes.

These five problems can be solved by building a new data system based on linked administrative and qualitative data. It is not widely appreciated that the state already has a well-developed system of matching data across state and federal agencies for the purpose of *preventing* people from receiving

public support that they are not eligible to receive. As required by federal law, this "income and employment verification system" (IEVS) matches data for applicants and recipients of CalWORKs, CalFresh, and Medi-Cal to examine their income, assets, and employment status, thereby ensuring that they are in fact eligible to receive benefits.<sup>114</sup> For noncustodial parents of children receiving CalWORKs, California likewise matches child support orders to Franchise Tax Board (FTB) data, thus making it possible to collect their payments (and charge interest) to cover CalWORKs costs.

This is all to stress that a linked data system of the sort that we need is already used to detect ineligible claims and collect payments to cover CalWORKs costs. We simply need to build a system of this very same sort, but now for the obverse purpose of *assisting* people to secure the benefits for which they qualify (and to make it possible to monitor trends and evaluate program effects).

This type of initiative is preceded by a host of relevant research efforts. There is a long history, for example, of research projects that entail linking FTB or Employment Development Department (EDD) data to program data.<sup>115</sup> The Stanford Center on Poverty and Inequality likewise has an ongoing research project that combines Census Bureau and FTB data for the purpose of building a second-generation California Poverty Measure. Although these are important precursory efforts, they are one-off research projects rather than the ongoing program application, poverty measurement, and evaluation system that the state needs.

How might this ongoing system be built? The key task is simply to match data from the Census Bureau, the FTB, the Social Security Administration (SSA), the EDD, and California's Health and Human Services agency (CHHS). These matched data would be continuously updated in real time and be stored and protected in high-security facilities. The state legislature has already authorized at least parts of such a system in its Cradle to Career initiative.<sup>116</sup> But authorization



is not action. The authorizing statute states that the requisite health and human services data will be the very last to be made available.

This leads, then, to our simple—but very important—recommendation: We need to elevate this initiative to a much higher priority. If this data system were developed more expeditiously, we could turn quickly to building (a) a streamlined application system that reduces barriers to enrollment, (b) a second-generation poverty

measure that makes it possible to monitor trends at the detailed neighborhood level, and (c) a new capacity to evaluate existing programs as well as policy counterfactuals. Unlike many other states, California is operating its poverty policy largely in the blind, without the capacity to engage in continuous monitoring, assessment, and evidence-based reform. Given the many challenges of the 21st century, it will only grow increasingly costly to continue doing so.

# Conclusions

The objective of this report has been to describe a tractable pathway to building a just and inclusive economy.

We have laid out a two-pronged approach that entails (a) reducing the extent to which our upstream “predistributive institutions” generate poverty and inequities, and (b) increasing the capacity of our downstream “redistributive institutions” to address the residual poverty and inequities that remain after such predistributive reform. By upgrading our data infrastructure for monitoring and evaluating reforms, California will be able to continuously improve its predistributive institutions, thereby reducing—slowly but surely—the need for after-the-fact redistribution.

This new suite of reforms will require new advisory institutions for managing them. Because the predistributive and redistributive sides of the equation must be carefully balanced, California needs its own “council of social and economic advisors” charged with making recommendations on the income and wealth floors needed to eliminate poverty and to establish the optimizing balance of power between workers and employers. This board might, for example, decide on the basis of the evidence that worker power is flagging (relative to employer power) and that a ramp-up in guaranteed income is needed to restore the balance of power and maintain wages. The key rationale for establishing this board: To make poverty, disparities, and inequities the explicit target of California’s day-to-day social and economic policy.

These reforms, if indeed implemented, will usher in a new day for California. Given the

magnitude of the transformation, it’s perhaps useful to pause for a moment and imagine what life in this “new California” would be like:

- For children born into low-income families, new opportunities will suddenly become real and viable, as they’ll know that they’ll have the resources (via the baby bonds program) to attend college, to start a business, or to otherwise compete more fairly with those born into wealth. The same “presumption of opportunity” that’s characteristic of children born into advantage will, in other words, now begin to show up more widely.
- Because of guaranteed income and other improvements to the safety net, parents will be able to increase their investments in their children and thereby ensure that they can realize their dreams. This capacity to support children will be further enhanced because key labor-market bottlenecks that now prevent workers from working (e.g., unaffordable child care, substandard parental leave programs) will have been eliminated.
- Instead of being targeted and criminalized by the justice system, children in Black, Brown, or low-income neighborhoods will be allowed to thrive, with the “prevention programs” that are currently administered by police personnel converted into ones that help rather than harm. When arrest and incarceration are no

longer ever-present risks, children can plan and invest for the future on a bedrock of real opportunity.

- The usual labor market shocks that are often incapacitating for low-income workers will become far less so. When workers have difficulty, for example, upgrading their skills or finding a good job, they can enroll in state-of-the-art training programs or take advantage of new entrepreneurial opportunities.
- Just as important, wages will improve because of labor law reforms, new types of governance and bargaining, and the leverage-increasing effect of guaranteed income. Likewise, new portable benefits will protect workers against the shock of medical bills, and portable retirement benefits will protect against poverty.
- The wealth gap will be reduced not just via baby bonds but also through aggressive rezoning, programs to increase homeownership, and new regulations reducing predatory financial services. The many opportunities that are currently dependent on capital (e.g., entrepreneurship) will now be open to everyone.
- As the supply of affordable housing is swiftly expanded, housing costs will take up a smaller share of total expenses, and evictions and homelessness will dramatically fall. The cascade of problems that evictions and homelessness induce will now be cut off.

- The safety net will step up during those far fewer—but still inevitable—times of crisis. It will stand at the ready with supportive caseworkers, streamlined and coordinated application procedures, and a swift response (to evictions, homelessness, job loss, and all other shocks).

Although this list is a very partial sampling of the reforms that we have been discussing, it nonetheless reveals the transformative potential of this blueprint. It's within our reach to build an inclusive economy and show the world the payoff to doing so.

This payoff doesn't just come in the form of living up to our founding commitments to justice, equity, and equal opportunity. These are sacred commitments and surely reason enough to proceed. There's nonetheless ample evidence that the reforms laid out here will not only make for an inclusive economy but also a stronger and more efficient one. Because the 21<sup>st</sup> century is shaping up as an especially daunting time, it's no small bonus that California could face emerging challenges with an economy that harnesses the talents of everyone.

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