

# Executive Summary

California's economic, social and political future is inextricably bound to the Human Capital Economy that has driven economic development in the United States since 1973 and the world since 2000. Economic prosperity and success for individuals, families, cities, states and countries are now being driven by the productivity of college educated workers and the industries that employ them. High school graduates lack the skills and training required for productive contribution to prosperity. There is no turning back, no denying, no delaying and no hiding from these relentless and pervasive economic forces.

California's economy is changing in directions that are consistent with changes in the national Human Capital Economy. The share of the California's Gross State Product (GSP) generated by private sector service providing industries has grown from 55.4% of the total in 1963 to 72.3% by 2006. During this period the share of GSP generated by goods producing industries has declined from 30.8% of the total in 1963 to 16.7% in 2006, and the share of GSP generated by government has declined from 13.8% to 11.0%. These changes are paralleled by changes in employment by industry in California. Between 1990 and 2007 the shares of total California employment increased in professional and business services (+2.8%), education and health services (+2.1%) and leisure and hospitality (+1.4%). The shares of California's total employment declined in manufacturing (-6.1%) and agriculture (-1.2%) between 1990 and 2007.

California's success in the Human Capital Economy will depend on the higher educational attainment of its workforce and the supportive business environment the state provides for the growth industries of the Human Capital Economy. Meeting these challenges will be especially difficult for California because of quite extraordinary demographic changes: the new populations of future college students and adult workers that are moving through the K-12 education pipeline are increasingly minority and low income populations that higher education has never served well.

Currently California's workforce is fairly well college educated. In 2007 30.9% of those 25 and over held at least a bachelor's degree. This ranked California 14th among the states. But in 1989 California had ranked 8th among the 50 states, and as recently as 1981 California had ranked 1st among the 15 largest states. Other states have made greater gains in building a college educated workforce and have moved past California. California is slipping toward educational and economic mediocrity among states on this critical measure of state competitiveness, prosperity and success in the Human Capital Economy.

Beyond this point the California picture has deteriorated substantially in recent decades.

- California ranks 49th in the share of its population age 25 and over that is at least a high school graduate. Between 1977 and 1983 California had ranked 1st among the 15 largest states on this measure.
- In 2004 30.4% of California 19 years olds were enrolled in college. This was down from 43.4% in 1996. In 2004 California ranked 46th among the states in the share of its 19 year olds that were enrolled in college, down from 17th in 1996.

- The college continuation rate for California high school graduates has slipped from 66.4% in 1996 to 43.7% by 2004. The state's rank among the states declined from 5th in 1996 to 47th by 2004.
- The college participation rate for 18 to 24 year old students from low income families was 21.2% in 2006, down from 30.0% in 1997. The state's rank declined from 23rd in 1997 to 31st by 2006. These low income students are now a majority of the state's K-12 student enrollment population headed toward higher education and, eventually, California's workforce.

California's state tax fund investment effort in higher education has likely contributed to this deteriorating picture.

- In 1980 California appropriated \$12.86 from state tax funds for the operations of higher education for every \$1000 of state personal income. This ranked California's investment effort 11th among the states. By FY2008 this had dropped \$7.71 per \$1000 of state personal income, a decline of 40.0%. California ranked 21st among the states by 2008.
- The state's need-based grant system, while large, pales by comparison to the federal Pell Grant program efforts to assist financially needy California students from low and lower-middle income backgrounds. In 2006 state need based grant dollars were 50.9% of federal Pell Grant dollars provided to needy California undergraduate students, and California ranked 10th among the states on this measure. But California only provided state need-based grants to 34.3% of those Californians who received federal Pell Grants. By this measure California ranked 22nd among the states.

Ultimately California will have to decide whether to accept its now well-established slide toward mediocrity or to reverse course in pursuit of a more economically prosperous, socially harmonious, politically vital and healthier future. The higher education policy choices to be made about how much to invest and in what form to make those investments will follow from this first choice about California's future.