Economic Policy Institute

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The State of Working America 2004/2005

RECOVERY YET TO ARRIVE FOR WORKING FAMILIES

Continuing weakness in labor market leads to drop in real wages, decline in job quality, and unbalanced growth

Labor Day 2004 finds many working families still waiting for the benefits of an economic recovery that has been uniquely unbalanced, characterized by weak job creation and falling real incomes.

After almost three years of recovery, our job market is still too weak to broadly distribute the benefits of the growing economy. Unemployment is essentially unchanged, job growth has stalled, and real wages have started to fall behind inflation. Today's picture is a stark contrast to the full employment period before the recession, when the tight labor market ensured that the benefits of growth were broadly shared.

Prolonged weakness in the labor market has left the nation with over a million fewer jobs than when the recession began. This is a worse position, in terms of recouping lost jobs, than any business cycle since the 1930s.

The State of Working America 2004/2005, which the Economic Policy Institute released today, offers a detailed look at the effect this jobs deficit is having on American working people and their families. This 9th edition – written by EPI's president Lawrence Mishel, senior economist Jared Bernstein, and economist Sylvia Allegretto – paints a comprehensive portrait of the condition of the economy and its impact on jobs, wages, wealth, and living standards. The data it presents are the most recent available at press time, July 2004.

One positive development over the recovery is the 3.8% annual productivity growth between 2000 and 2003, up from the 2.4% growth in the late 1990s and the minimal 1.4% annual growth from 1973 to 1995.

"This faster productivity growth could be laying a foundation for broad-based improvements in living standards somewhere down the road," said Mishel, "but labor market slack and very unbalanced growth have kept those improvements from materializing. Whether this positive trend will yield benefits for working families in the future will depend on policies yet to be decided."

The Economic Policy Institute is a nonprofit, nonpartisan economic think tank founded in 1986. The Institute can found on the web at http://www.epinet.org.

"So far, the recovery has not generated either the quantity or quality of jobs families need to lift their living standards," said Allegretto. "The costs of basic necessities like health care, housing, and college keep rising, and many working families' incomes are not keeping pace."

EMPLOYMENT DOWN. The contrast between this recession/recovery cycle and the nine others since World War II tells the story. In the seven post-war recoveries of this length, all the jobs lost to the recession had been regained by 20 months, on average, after the recession began. In the "jobless" recovery of the early 1990s, it took about 30 months to reach this break-even point. In this current recovery, 39 months after the peak, we were still 1.2 million jobs short.

UNEMPLOYMENT & UNDEREMPLOYMENT UP. The unemployment rate remains 1.3 points higher than the 4.3% rate at the beginning of the recession.

- In June 2004, more than one-fifth of the jobless were unemployed long term, that is, 27 weeks or more.
- Underemployment – which includes unemployment plus involuntary part-time work, discouraged job seekers, and others who have tried but failed to find work in the last 12 months and are no longer counted as "officially" unemployed – has increased by 2.3 points to 9.6%, as high as when the recovery began.
- There are 2.5 million who are missing from the labor force, reflected in the uniquely large drop in the share of the population in the labor force in recent years.
- Unemployment among African Americans hit 10.1% in June 2004, up from 9.8% at the November 2001 start of the recovery.
- The unemployment rate among computer programmers was 7.6% for the first half of 2004, significantly higher than the overall unemployment rate of 5.6%.

WAGES, JOB QUALITY ERODE. *The State of Working America, 2004/2005* documents the erosion of job quality in the current weak labor market. Of broadest concern is the recent erosion of wages for most working families. For example:

- For blue-collar manufacturing and non-supervisory service workers – about 80% of the workforce – the average real (inflation-adjusted) hourly wage fell 1.2% over the past year.
- Despite far higher productivity and lower inflation, wage growth in 2003 was substantially slower than in the latter years of the 1990s recovery.
- From 2000 to 2002, the real income of the median family fell 2.4% and comparable figures for 2003, when they become available, are expected to show a further drop, since wages fell or were stagnant for all but the highest 5% of earners.
- Wage erosion was most severe for men at the 50th percentile of earnings, whose wages fell nearly a full percentage point (0.9%) in 2003.

Another indication of deteriorating job quality emerges when the pay rates are compared in two kinds of industries: those that are adding jobs faster than average and expanding as a share of total employment and those that are contracting as a share of overall employment.

As detailed in the book, this comparison shows that through the recession and recovery, the industries that are expanding their share of the workforce pay substantially lower wages and compensation than industries whose share is shrinking.

Since the recovery started, in November 2001:

- Contracting industries paid $61,983 in annual *compensation*, including all wages and benefits, while expanding industries paid $35,546 in compensation ($26,437, or 42.7%, less).
- Contracting industries paid annual *wages* of $51,270, while expanding industries paid $30,368 ($20,902, or 40.8%, less).
- On the benefits side, the reduction in quality was even greater: contracting industries paid $10,713 per year for *benefits* but expanding industries paid $5,178 – less than half as much.

UNBALANCED RECOVERY. In the second half of the 1990s, as the job market moved toward full employment for the first time in decades, historically low unemployment ensured that the benefits of faster productivity growth were broadly shared. Poverty rates fell sharply, especially for minorities and single-mother families, and incomes rose quickly, not just at the top of the scale, but across the income spectrum. With the return of higher unemployment and weaker labor demand, the poverty rate has risen again and real incomes have fallen most quickly for the least well off.

The book notes:

- After falling 2.5 percentage points from 1995-2000 (6.8 points for African Americans, 8.8 for Hispanics), poverty rates rose 0.8 percentage points from 2000-2002, adding three million more to the ranks of the poor (the increases for blacks and Hispanics were 1.6 and 0.3 percentage points).
- After rising 2.6% per year, 1994-2000, the real income of low-income, single-mother families fell 0.8% per year, 2000-02.
- In 2000, the share of income held by the top 1% by income was the largest since the run-up to the Great Depression.
- The tax cuts that took effect between 2001 and 2003 exacerbated the income gap by redistributing income from lower to higher-income households. The tax savings from those cuts for the top 1% was about $67,000 per household, for middle-income families the cuts added up to just under $600, and for the bottom 20% of households, the average tax saving was $61. The result has been to shift 0.8% of after-tax income from the bottom 99% to the top 1% of households.
- Since the recession began in the first quarter of 2001, 85% of the growth of corporate income has accrued to profits, and 15% to compensation. In contrast, compensation comprised 79% of the income growth in the corporate sector in the eight prior business cycles, with profits contributing 21% of the growth
- Income inequality in the U.S. is far greater than that of all other advanced countries, as is poverty, particularly of children.

WEALTH & OWNERSHIP. Basic ownership and wealth trends in recent years do not reflect a broad or growing ownership in America.

- The average household's net worth fell 2.1% per year from 2000 to 2003.
- Just over half of Americans are invested in the stock market, with only 40.1% having more than $5,000. The distribution of stock ownership (whether directly or indirectly through

mutual funds or 401(k) or IRA accounts) is even more highly skewed, with the top 1% of wealth holders owning 33.6% of all stocks, while the bottom 80% own a mere 10.7%.
- Less than half the workforce (45.5%) had an employer-provided pension plan in 2002, a drop from 48.3% in 2000.

ECONOMY AT THE CROSSROADS.

"The findings in this book provide a stark reminder of what's at stake when the job market remains as weak as it has been over the past few years," said Bernstein. "When such conditions prevail, the overall economy may be posting impressive gains, but the benefits of growth elude the millions of working families largely responsible for that progress."

The authors describe the current status of the economy as a crossroads, a point where policy directions chosen now will determine our future.

"The preferable path leads to a broad-based, balanced recovery, where tight labor markets ensure that the benefits of the higher productivity we have seen since the mid-1990s flow to all income classes," Bernstein explained. "The other path, where many of the current trends are pointing, leads toward an economy like the one we experienced during the 1980s, with large and growing budget deficits, high average unemployment, sharply growing inequality, and declining real wages and incomes for many in the bottom half of the income scale."

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