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SUSTAINED, HIGH JOBLESSNESS CAUSES LASTING DAMAGE TO WAGES, BENEFITS, INCOME, AND WEALTH

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As Labor Day 2011 approaches, the nation's unemployment rate stands at 9.1%, and it has been stuck at roughly this level or higher since the spring of 2009. This level of joblessness represents a distressing economic state for America's workers, and yet discussions of the economy frequently portray the pain of this persistently high unemployment as being limited to those who are currently unemployed, as if roughly 91% of the workforce and their families are doing fine.

The common discussion of unemployment and the need for job creation vastly understates both the economic damage rendered by persistently high unemployment and the extent of the population affected. Just the simple fact that the economy is below its potential production of goods and services means that each person (man, woman, and child) lost roughly $3,000 in 2009 and another $2,850 in 2010, and more losses will come before we return to full employment.[1] These significant costs clearly reflect lower employment and fewer hours of work. But the adverse effects of persistently high unemployment include lower wages and benefits for those who have jobs. And they also include long-term "scarring": young people who cannot get a proper footing at the start of their careers suffer lower lifetime earnings, older workers see their retirement security vanish, and

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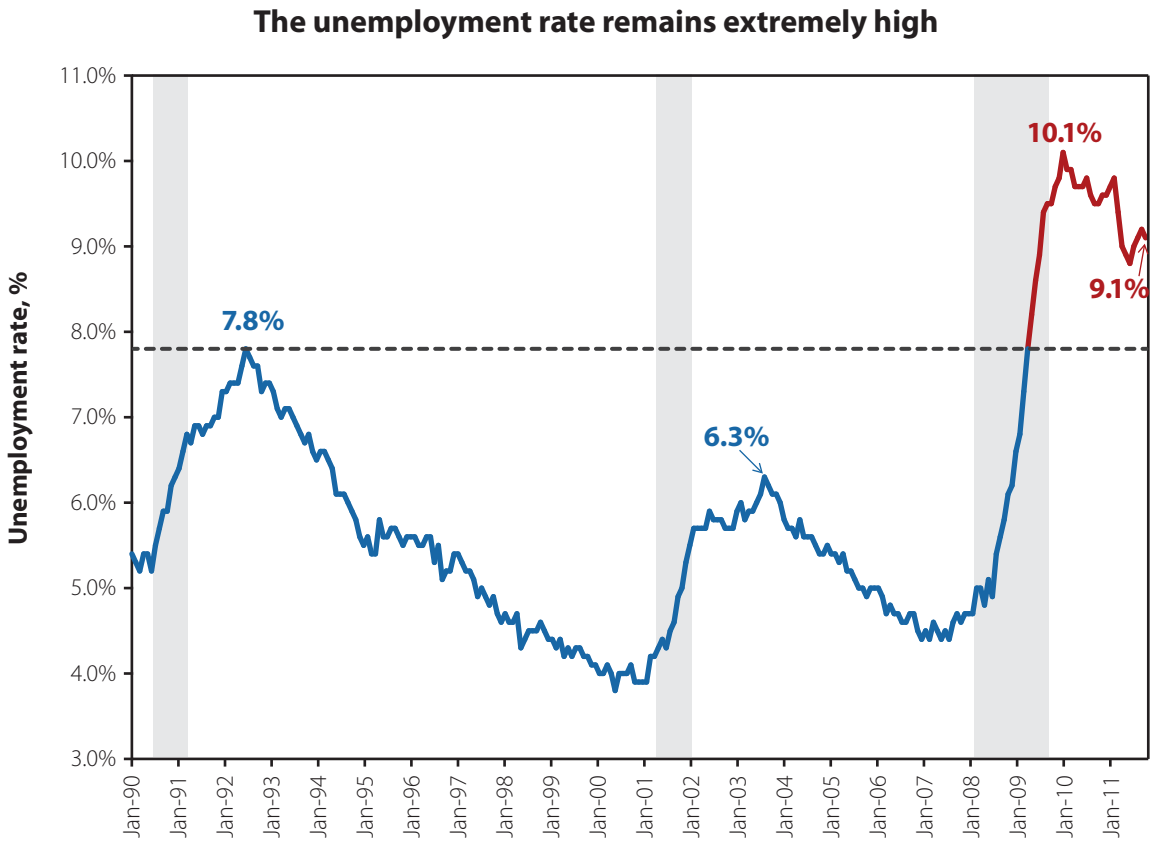
the productive potential of the economy falls as innovation and investment suffer (see Irons 2009).

To portray the many dimensions of the economy that are affecting working families in this recession, this report presents findings on trends in unemployment and underemployment, the number of children with unemployed parents, the length of time workers are stuck in unemployment, and reasonable expectations of where the unemployment rate is likely to be for the next year and a half. We also examine questions of structural unemployment, wage growth, income and poverty, and wealth.

We find that, on Labor Day 2011, the pain of historically high and persistent unemployment reaches through the entire workforce:

- The monthly unemployment rate is a snapshot that captures that month's unemployed workers in the foreground. But in the background are the employed workers who had been unemployed the previous month, and the workers who might be unemployed the next month. For the workforce overall, almost one in three – roughly 31% – were unemployed or underemployed at some point in 2009; for blacks and Hispanics the shares were 36% and 41%, respectively.
- Employed workers have not gone unscathed, as 38% of families have been directly affected by wage, benefit, or hours reduction and 24% by loss of health insurance. Eighteen percent have faced problems paying their mortgage or experienced foreclosure.
- The share of children with an unemployed or underemployed parent rose from 9.1% (6.4 million) in 2007 to 18.3% (13.0 million) in 2010. One in four children in black and Hispanic families had an unemployed or underemployed parent in 2010.
- The share of the unemployed who have been unemployed for over six months has hovered around 45% for more than a year. For the last two-and-a-half years the "job seeker's ratio" – the ratio of job seekers to jobs openings – has been substantially above 4-to-1, which means there are no jobs to be had for three out of four unemployed workers.
- Forecasters do not expect growth sufficient enough to substantially reduce unemployment in the next few years. The Congressional Budget Office expects the unemployment rate to be 8.7% in the fourth quarter of 2012 and over 8% well into 2014.
- All education categories – college-educated workers included – have seen their unemployment rates *roughly double* over the last four years. This across-the-board deterioration in employment runs directly counter to the notion that there has been some transformation of the workplace over the last four years that has left millions of workers inadequately prepared for the currently available jobs. It is not the right *workers* that the nation is lacking, it is *work*.
- Productivity has grown just 6.5% over the three-and-a-half years since the start of the recession, much lower than productivity growth in the three-and-a-half years from the start of the early 2000s recession and similar to the growth in the three-and-a-half years from the start of the early 1990s recession. If there has been a dramatic shift in the nature of work and how work gets done in recent years, it certainly left no footprint on productivity trends.
- Even those still employed have suffered. Wage growth has been slower in the last two years than at any time over the last 30 years. The current disappointing trends in wages, however, follow several decades of disappointing wage growth. This was especially the case in the recovery following the early 2000s recession, when inflation-adjusted wages for both high school graduates and college-educated workers, both male and female, failed to grow at all.
- The median working-age household saw an income decline of $2,700 from 2007 to 2009.

FIGURE A



SOURCE: EPI analysis of Bureau of Labor Statistics Current Population Survey data.

Furthermore, this recession came on the heels of the first business cycle on record in which family incomes lost substantial ground. Consequently, *the typical working-age household brought in roughly $5,000 less in 2009 than it did in 2000.*

- The weak labor market of the Great Recession and its aftermath has produced a substantial rise in poverty. In 2009, one in seven people – one in five under the age of 18 and one in four under the age of 6 – were living in poverty. Roughly one in four African Americans and Hispanics were living in poverty in 2009.
- Average wealth declined substantially between 2007 and 2009, but it fell further for the bottom four-fifths of the wealth distribution than for the upper fifth, due to the fact that the wealth of the middle class is so heavily dependent on housing values. The fall in wealth in the last few years has meant that the bottom four-fifths of households had less wealth in 2009 ($62,900) than in 1983 ($65,300). Among blacks wealth at the median has nearly disappeared, dwindling to just $2,200 in 2009.

The penetration of damage from the recession

To appreciate the pain caused by the recession, the place to start is unemployment. During the last two downturns, in the early 1990s and early 2000s, the highest the unemployment rate reached was 7.8% before declining again. As **Figure A** shows, the Great Recession and its aftermath have been far worse for

the job market. In fact, the unemployment rate has been at or above 8.8%, a full percentage point higher, for the past 28 months. Unemployment among minorities far exceeds these levels: black unemployment has ranged from 14.8% to 16.5% and Hispanic unemployment from 11.3% to 13.2% over this period.

The harm radiates to the underemployed, which includes those who are working part time but want a full-time job (involuntary part-timers) and those who want a job, are available to work, but have not actively sought work in the last month (and hence are not counted as officially unemployed). The Labor Department's measure of the unemployed and underemployed stood at 16.1% in July 2011 (25.1 million workers), and has remained between 15.7% and 17.4% since the spring of 2009. Detailed analysis of the data reveals that the rates for blacks and Hispanics are much higher, at 25.6% and 22.4%, respectively.[2] In other words, roughly one out of four minority workers are unemployed or underemployed.

Those who are unemployed or underemployed in one month may become employed the next month, and those employed may become unemployed. Bureau of Labor Statistics (BLS) data show that the number of workers who experienced unemployment *at some point* in 2009 (26.1 million) was 83% greater than the average number of unemployed in each month (14.3 million).[3] There are no such data available on underemployment, but it is reasonable to assume the incidence of underemployment over the course of a year is also far greater than in any particular month. We estimate that for the workforce overall roughly 31% was unemployed or underemployed at some point in 2009; for blacks and Hispanics the shares were, respectively, 36% and 41%. If there is anyone holding onto the hope that the recession's pain is limited to 9% of the workforce, these figures will likely unhinge it.

The impact of unemployment within families illuminates another aspect of how the damage of joblessness is felt, particularly since families these days depend on more than one earner to support themselves. In polls of likely voters conducted for Democracy Corps in June 2011 (**Figure B**), 43% said that they had been personally unemployed or one of their family members had been unemployed, and the share has hovered at 40% or more for over two years. Even these numbers likely understate the impact, since "likely voters" tend to be more advantaged than the overall workforce. For instance, 48% of likely voters had a college degree or an advanced degree beyond college, compared with 32% of the workforce overall. Likely voters also include many retired respondents not at risk of unemployment.

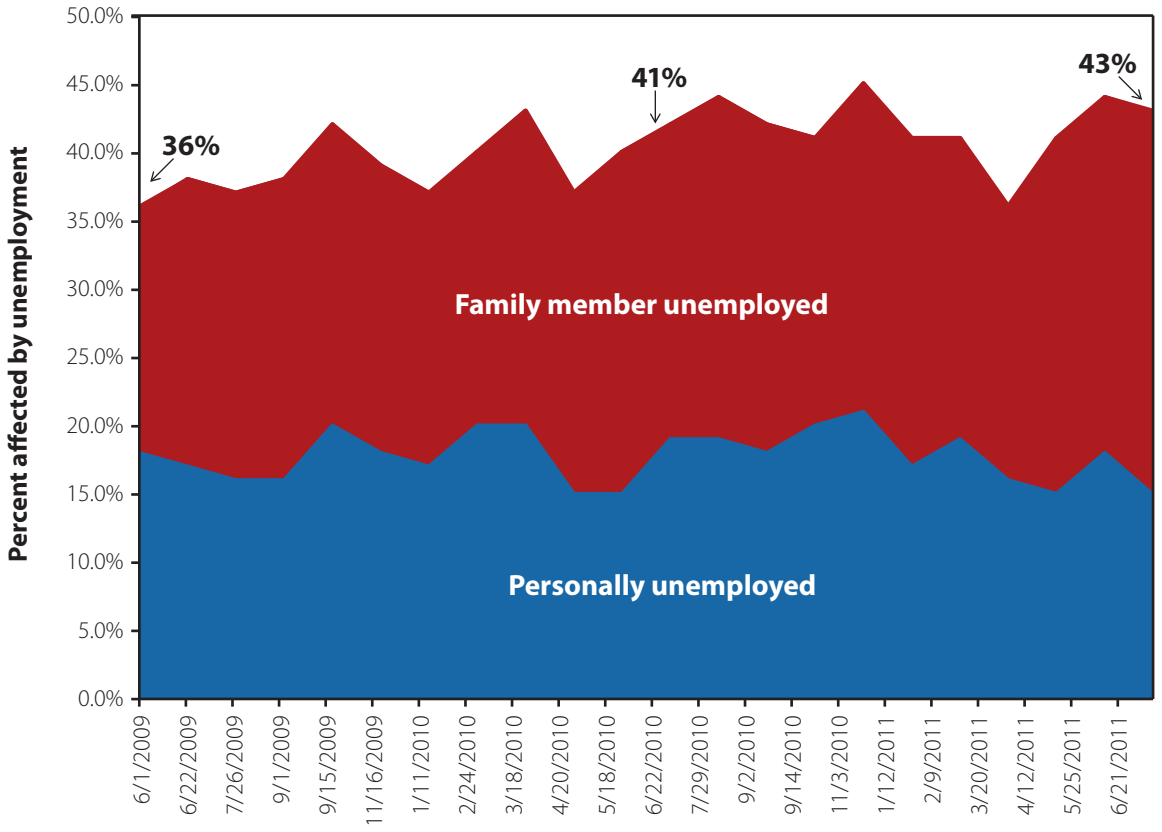
The bursting of the housing bubble and the ensuing recession have had adverse effects beyond unemployment and underemployment. **Table 1** shows the results of Democracy Corp polling on not just job loss but also loss of health insurance, wage/hour/benefit reductions, and problems keeping up with mortgage payments, including foreclosure. The poll asked respondents whether they or a family member were directly affected in the last year or whether someone they knew was affected. Roughly a third of families were directly affected by a job loss, and an additional 32% of respondents knew someone else experiencing a job loss. Employed workers have clearly not gone unscathed, as 38% of families were directly affected by wage, benefit, or hours reduction and 24% by loss of health insurance. Problems in home ownership are pervasive, too, with 18% suffering problems paying their mortgage or experiencing foreclosure.

Children with unemployed and underemployed parents

Children, of course, feel the effects when their parents become unemployed or underemployed. **Table 2** provides data on the number and shares of children affected by their parents' unemployment or underemployment, with breakdowns by race/ethnicity and family type. The overall picture is reflected in **Figure C**, which shows that the share of children with an unemployed or underemployed parent rose from 9.1% (6.4 million) in 2007 to 18.3% (13.0 million) in 2010. Since many more people experience unemployment or underemployment over the

FIGURE B

Families affected by unemployment, 2009–11



SOURCE: Democracy Corps, sample of likely voters (sample size: 835-1044).

TABLE 1

Affected by recession at work and at home

	Affected (%)			
	Directly	*Family member*	*Someone you know*	*Total*
Loss of job	11%	22%	32%	65%
Loss of health insurance	9	15	20	44
Fallen behind on mortgage/foreclosure	6	12	27	45
Reduced wages, hours, or benefits at work	16	22	23	61

SOURCE: Democracy Corps, sample of likely voters (June 21, 2011; sample size: 1000).

TABLE 2

Share and number of children with unemployed or underemployed parent(s), by family type and race/ethnicity, 2007 and 2010

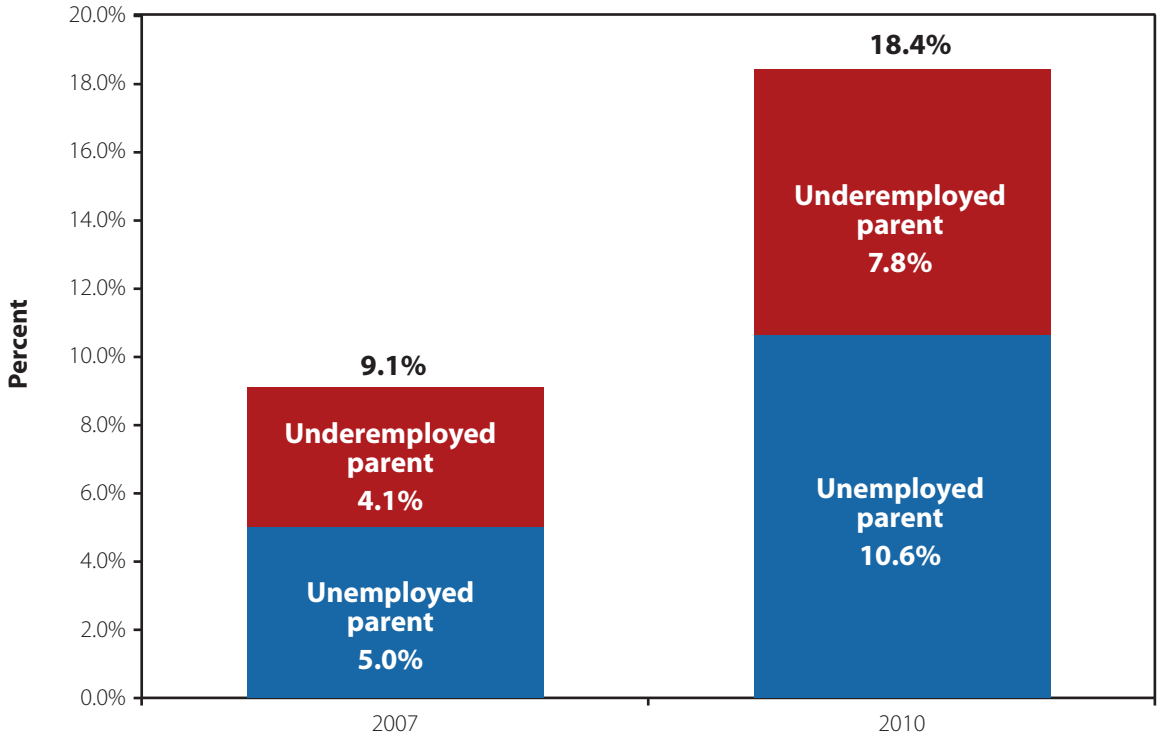
	2007				
	All	***White***	***Black***	***Hispanic***	***Asian***
Share of children with:					
Unemployed parent(s)					
1. At least one unemployed parent	5.0%	3.9%	8.2%	6.1%	3.6%
2. In a married-couple family with one parent unemployed	4.1	3.3	7.0	5.5	3.7
3. In a married-couple family with both parents unemployed	0.2	0.2	0.5	0.4	0.2
4. In a single-mother family where the mother is unemployed	6.6	5.4	8.6	6.5	2.6
5. In a single-father family where the father is unemployed	5.7	4.7	9.4	6.3	1.5
Underemployed parent(s)					
1. At least one underemployed parent	9.1%	7.2%	13.7%	12.1%	6.7%
2. In a married-couple family with one parent underemployed	7.5	6.0	10.9	10.9	6.5
3. In a married-couple family with both parents underemployed	0.6	0.4	1.1	1.2	0.6
4. In a single-mother family where the mother is underemployed	11.7	9.6	14.7	12.2	4.6
5. In a single-father family where the father is underemployed	10.4	8.8	14.9	12.3	4.9
Total number of children:					
1. With at least one unemployed parent	3,499,873	1,639,332	819,974	839,973	104,966
2. With at least one underemployed parent	6,407,945	3,011,602	1,367,898	1,669,513	194,049

	2010				
	All	***White***	***Black***	***Hispanic***	***Asian***
Share of children with:					
Unemployed parent(s)					
1. At least one unemployed parent	10.6%	8.3%	15.8%	13.1%	8.5%
2. In a married-couple family with one parent unemployed	9.0	7.2	14.5	12.5	8.2
3. In a married-couple family with both parents unemployed	0.8	0.5	2.1	1.3	0.5
4. In a single-mother family where the mother is unemployed	11.7	9.5	15.3	11.1	7.7
5. In a single-father family where the father is unemployed	14.4	12.6	16.1	16.6	7.6
Underemployed parent(s)					
1. At least one underemployed parent	18.3%	14.3%	24.3%	24.8%	15.1%
2. In a married-couple family with one parent underemployed	15.2	12.1	20.8	22.7	13.3
3. In a married-couple family with both parents underemployed	2.3	1.4	4.2	4.2	1.9
4. In a single-mother family where the mother is underemployed	19.9	16.7	23.7	20.2	14.6
5. In a single-father family where the father is underemployed	22.2	18.8	25.2	27.9	13.3
Total number of children:					
1. With at least one unemployed parent	7,485,075	3,255,088	1,521,452	2,131,977	265,063
2. With at least one underemployed parent	12,988,064	5,620,082	2,333,982	4,029,223	469,311

SOURCE: EPI analysis of Bureau of Labor Current Population Survey data.

FIGURE C

Shares of children with at least one unemployed or underemployed parent, 2007 and 2010



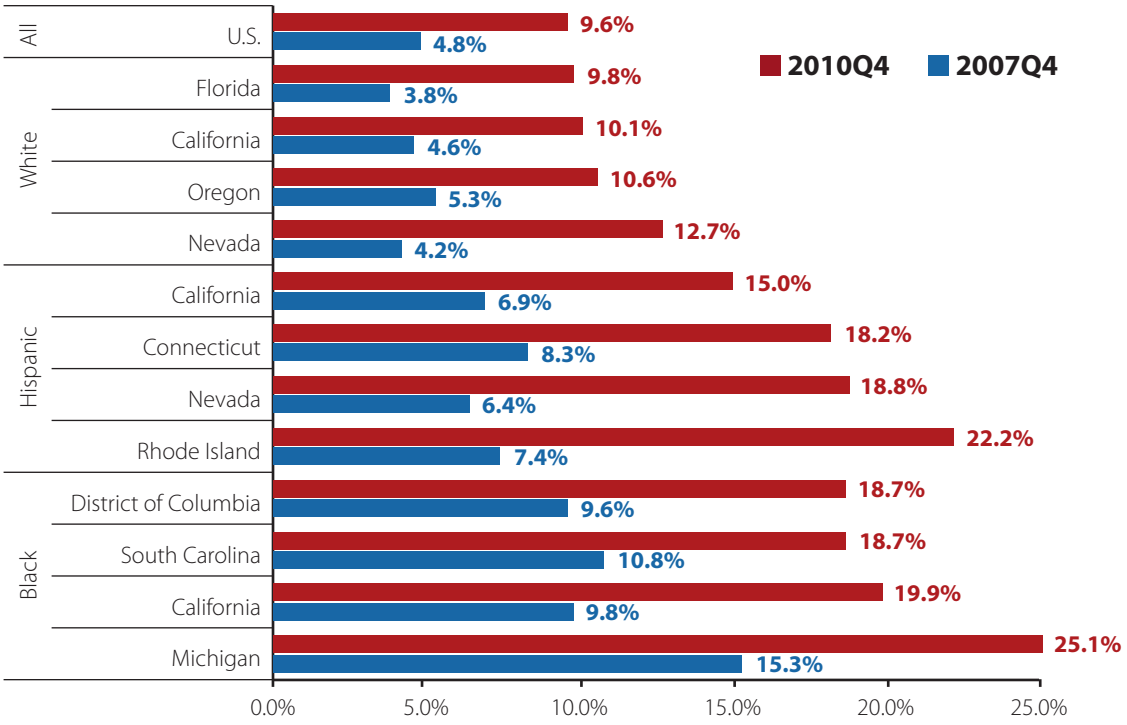
SOURCE: EPI analysis of Bureau of Labor Statistics Current Population Survey data.

course of a year than in a single month, the number of children affected will greatly exceed the computations in Table 2 and Figure C, which show only the number affected in the average month.

A salient point of this analysis is that the "unemployment rate" facing children is greater than that of the average worker. In 2010, 10.6% of children had an unemployed parent, while the unemployment rate was 9.6%. Similarly, 18.4% of children had an un- or underemployed parent, more than the actual underemployment rate of 16.8%. One in four children in black and Hispanic families had an underemployed parent in 2010. Interestingly, unemployment was comparable in both married-couple and single-parent families.

FIGURE D

Unemployment rates for racial and ethnic subgroups in selected states, 2007 and 2010 (fourth quarters)



SOURCE: EPI analysis of Local Area Unemployment Statistics and Current Population Survey data, Bureau of Labor Statistics.

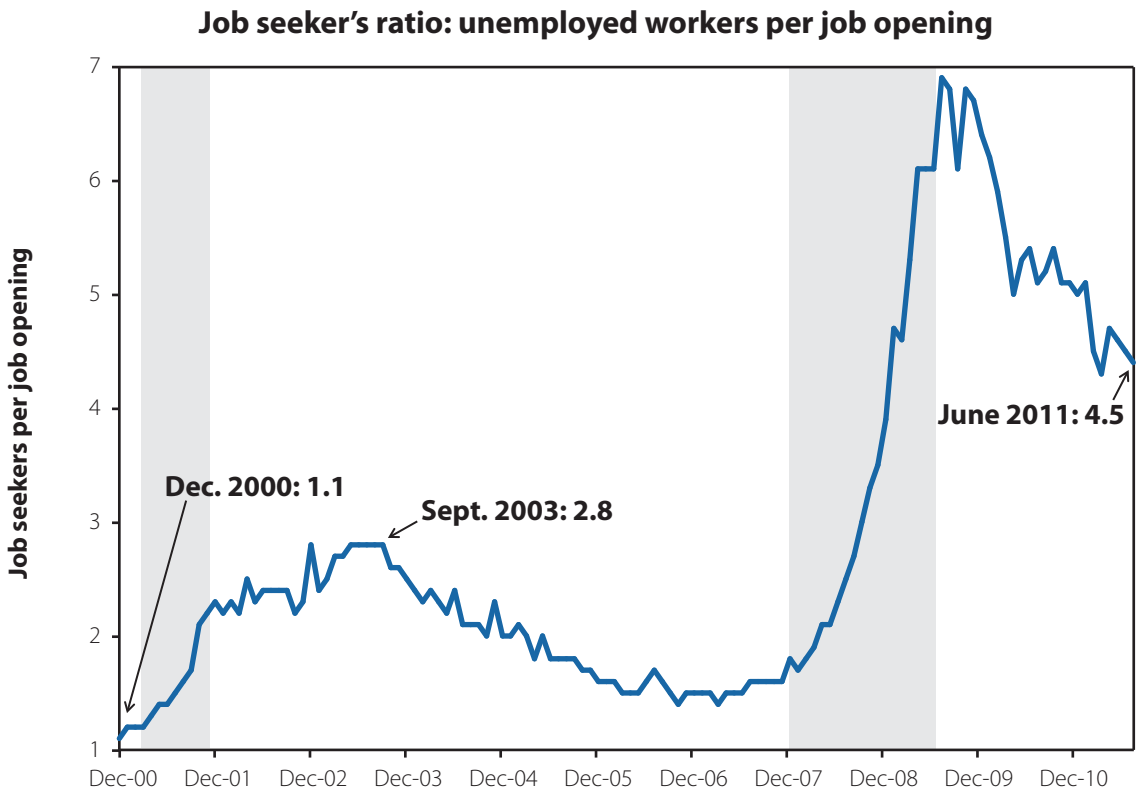
Disparities in unemployment across the country

The overall national unemployment rate masks large disparities in different parts of the country. **Figure D** shows unemployment rates over time in selected states for racial and ethnic subgroups. As mentioned above, black workers have had the highest unemployment rates in the recession. In Michigan, the black unemployment rate rose from 15.3% in the fourth quarter of 2007 to 25.1% in the fourth quarter of 2010. Hispanics also have seen particularly large increases in unemployment, often in states hard hit by the bursting of the housing bubble, including Nevada and California. In Nevada, the unemployment rate for Hispanics rose from 6.4% in the fourth quarter of 2007 to 18.8% in the fourth quarter of 2010, nearly triple the rate before the recession started. These numbers remind us that, while the national unemployment rate continues to hover around 9%, the unemployment rates in many communities around this country hover around Depression-era levels.

Record unemployment spells in the current downturn

The share of the unemployed who had been unemployed for over six months shot up from 17.2% in the first half of 2007 to 29.3% in June 2009 –the official end of the recession – to 45.6% by the spring of 2010, an all-time record. Because of weak demand, hiring remains sluggish and unemployed workers are continuing to be stuck in unemployment for extremely long periods. The share of the unemployed who have been unemployed for over six months has

FIGURE E



NOTE: Shaded areas denote recessions.

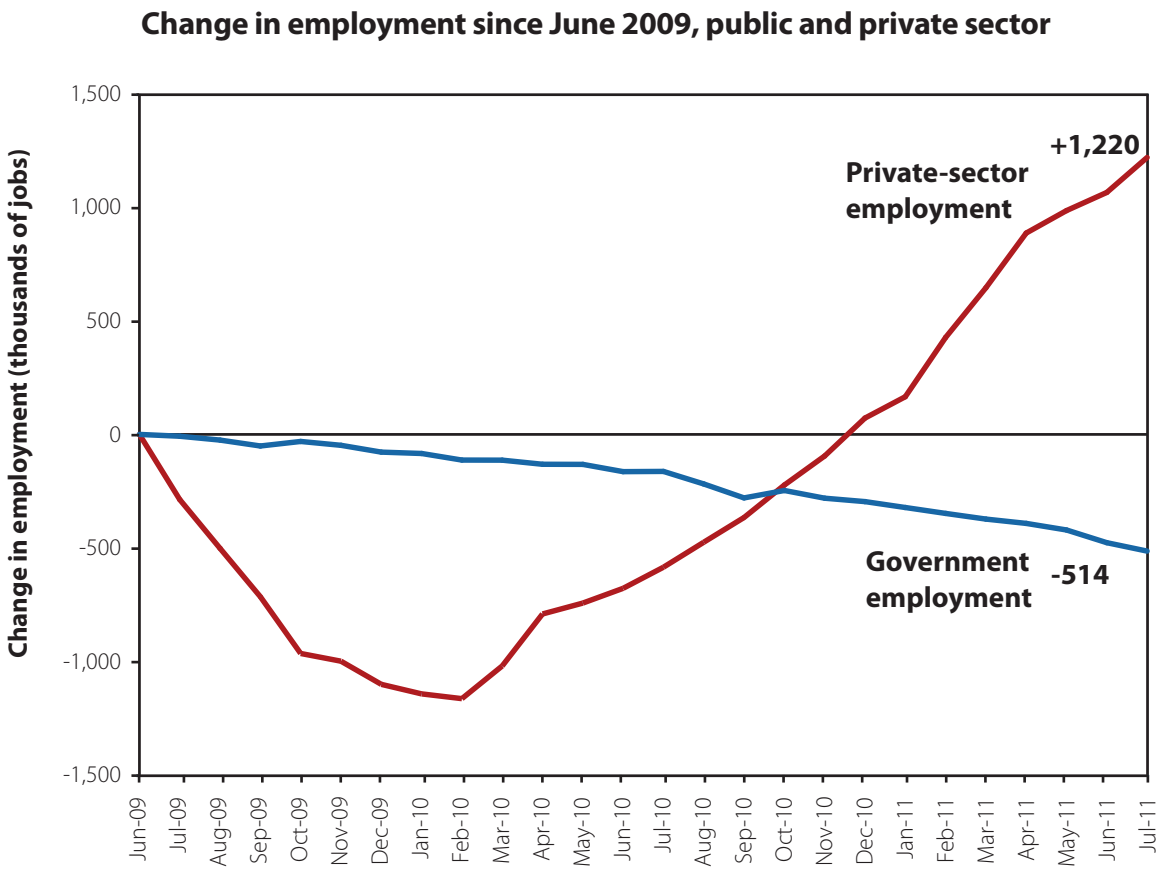
SOURCE: Author's analysis of data from the Job Openings and Labor Turnover Survey and the Current Population Survey.

hovered around 45% for more than a year, and is currently 44.4%. One way to illustrate the difficulty job seekers have finding work is to look at the "job seeker's ratio" – the ratio of job seekers to jobs openings – shown in **Figure E.** June marks two-and-a-half years straight that the job seeker's ratio has been substantially above 4-to-1, a level that means there are no jobs to be found for three out of four unemployed workers. By comparison, in December 2000 the job-seeker's ratio was 1.1-to-1, and the highest the ratio ever reached in the early 2000s downturn was 2.8-to-1. Two-and-a-half years – 130 weeks – of a job seeker's ratio above 4-to-1 is why the current extended unemployment insurance benefits, which last a maximum of 99 weeks, remain a crucial support to the unemployed.

The loss of public-sector jobs

The public sector is now shedding around 35,000 jobs per month, largely due to budget cuts at the state and local level, and these cutbacks are slowing down the overall rate of job creation. Since the official end of the recession 25 months ago, the public sector has lost over half a million jobs, while the private sector has added 1.2 million (**Figure F**). In other words, over 40% of the private-sector job gains in this recovery have been canceled out by job losses in the public sector, and that is before taking into account the fact that, for each dollar of state and local budget cuts, over half of the jobs and economic activity lost are likely to be in the private sector (Pollack 2009). By comparison, in the 25 months following the end of the 2001 recession, the public sector added 220,000 jobs, while the private sector lost

FIGURE F



NOTE: Government employment excludes the more than half a million temporary workers who were hired to conduct the Decennial Census in the spring and summer of 2010.

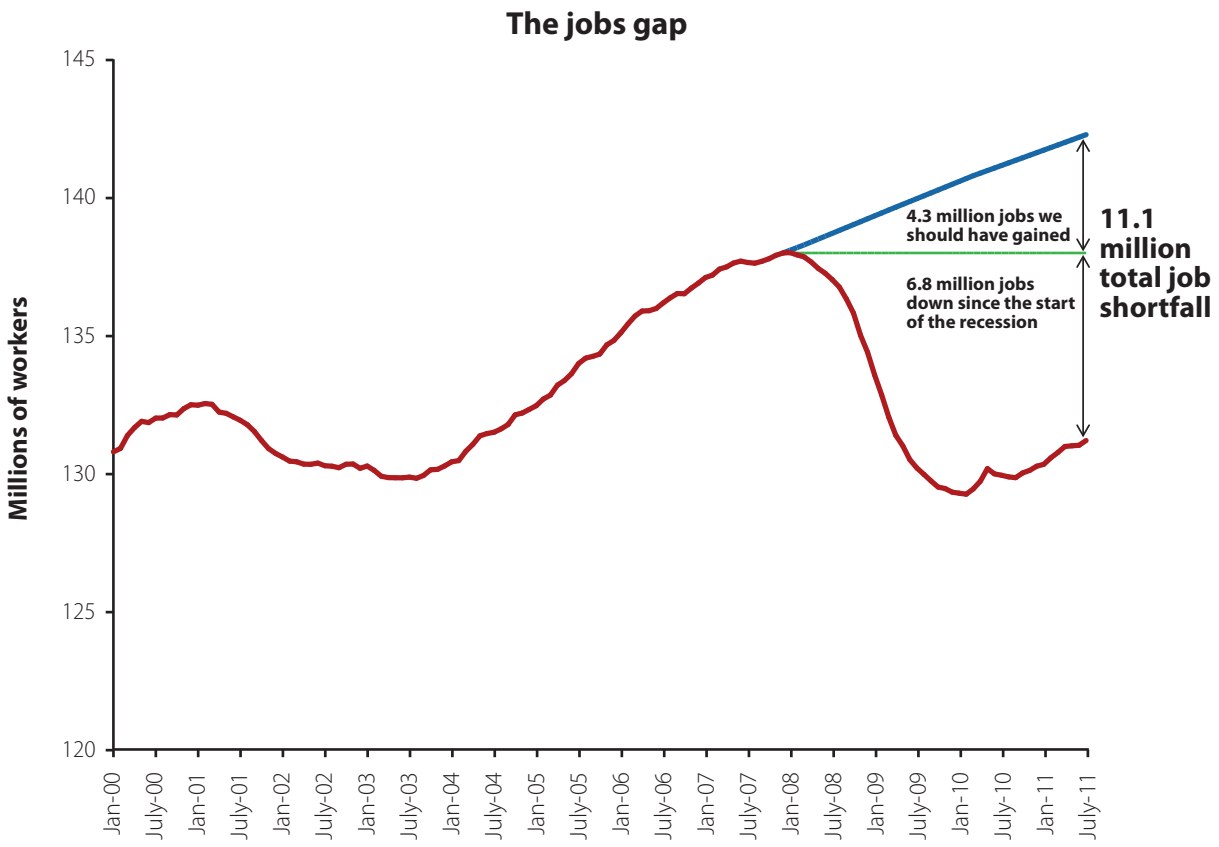
SOURCE: EPI analysis of Current Employment Statistics data, Bureau of Labor Statistics.

851,000. In other words, private-sector job growth in this recovery has been *faster* than in the recovery following the early-2000s recession, a trend totally inconsistent with claims that an upsurge in regulations or uncertainty in areas such as tax policy are currently holding back private-sector job creation. (For more on the comparison with this recovery to prior recoveries, see Bivens and Shapiro 2011.)

Unemployment going forward

To get an idea of what we can expect going forward, it is useful first to have a clear sense of the scope of the jobs deficit. The U.S. is currently 6.8 million jobs below where it was when the recession started. But because the working-age population grows as the population expands, in the three years and seven months since the recession started we needed to have added around 4.3 million jobs to keep the unemployment rate from rising. As shown in **Figure G,** putting these numbers together means the current gap in the labor market is roughly 11.1 million jobs. To fill that gap in three years – by mid-2014 – while still keeping up with the growth in the working-age

FIGURE G

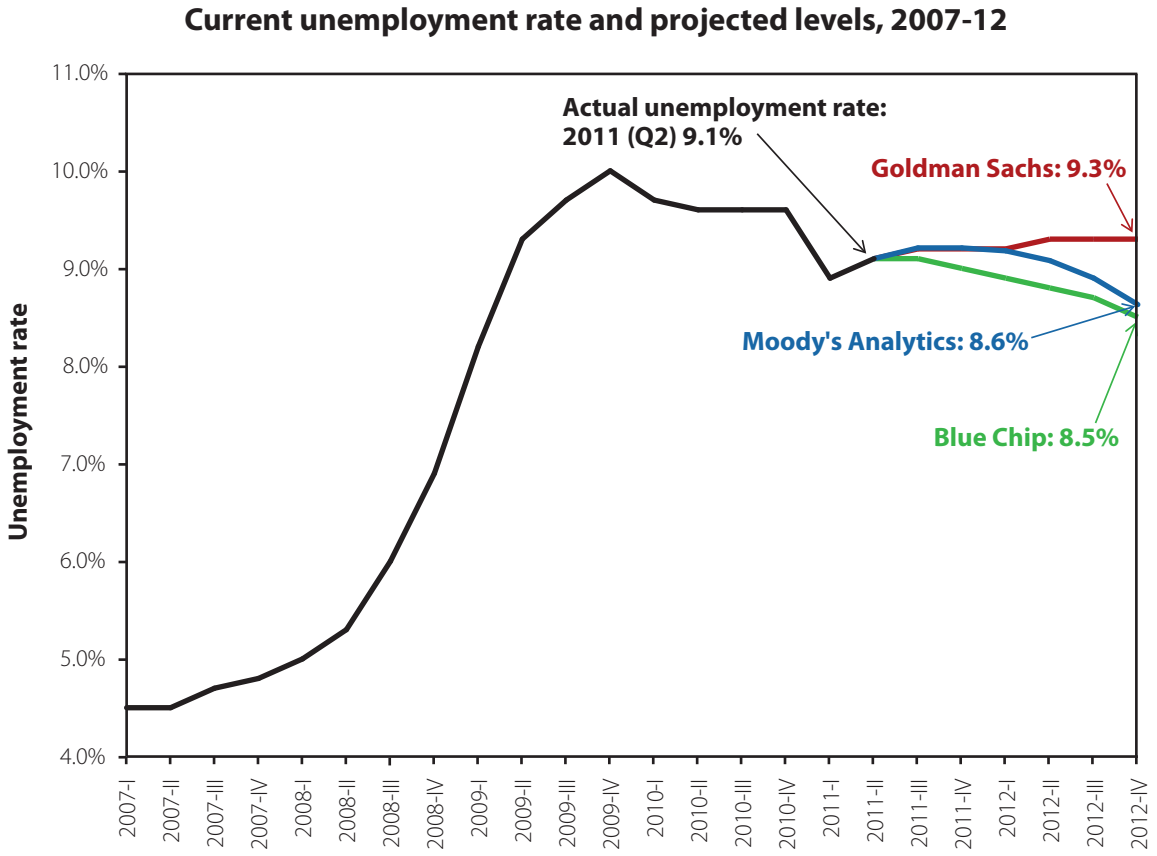


SOURCE: EPI analysis of Current Establishment Survey and the Current Population Survey data, Bureau of Labor Statistics.

population would require adding around 400,000 jobs every single month. To fill the gap by mid-2016 would mean adding 280,000 jobs each month. By comparison, over the last six months the economy added just 144,000 jobs per month on average; at that rate, it will take around 15 years to get back to the pre-recession unemployment rate. Furthermore, the jobs growth rate has slowed recently – over the last three months, the labor market has added an average of just 72,000 jobs per month. More than two years into the official recovery, the U.S. has yet to produce anything close to the rate of job growth that will put its backlog of unemployed workers back to work before the end of this decade.

Given current policy expectations, forecasters do not expect sufficient growth to be able to substantially reduce unemployment in the next few years. The Congressional Budget Office expects the unemployment rate to be over 8% well into 2014 (CBO 2011). At the end of 2012 (we focus on this shorter time frame because we do not have great confidence in forecasters' ability to see beyond a year or two), the current *Blue Chip Economic Indicators* consensus forecast (which has consistently under-projected the level of unemployment) puts the average unemployment rate at 8.5%, while economic forecasters at Moody's Analytics put it at 8.6% and analysts at Goldman Sachs put it at 9.3% (**Figure H**). If even the most optimistic of these is true, the country will have suffered an unemployment rate over 8% for at least four years straight. By comparison, the *highest* the unemployment rate ever reached in the two recessions prior to the Great Recession was 7.8%.

FIGURE H



SOURCE: EPI analysis of Current Population Survey data, Goldman Sachs, Moody's Analytics, and Blue Chip Economic Indicators.

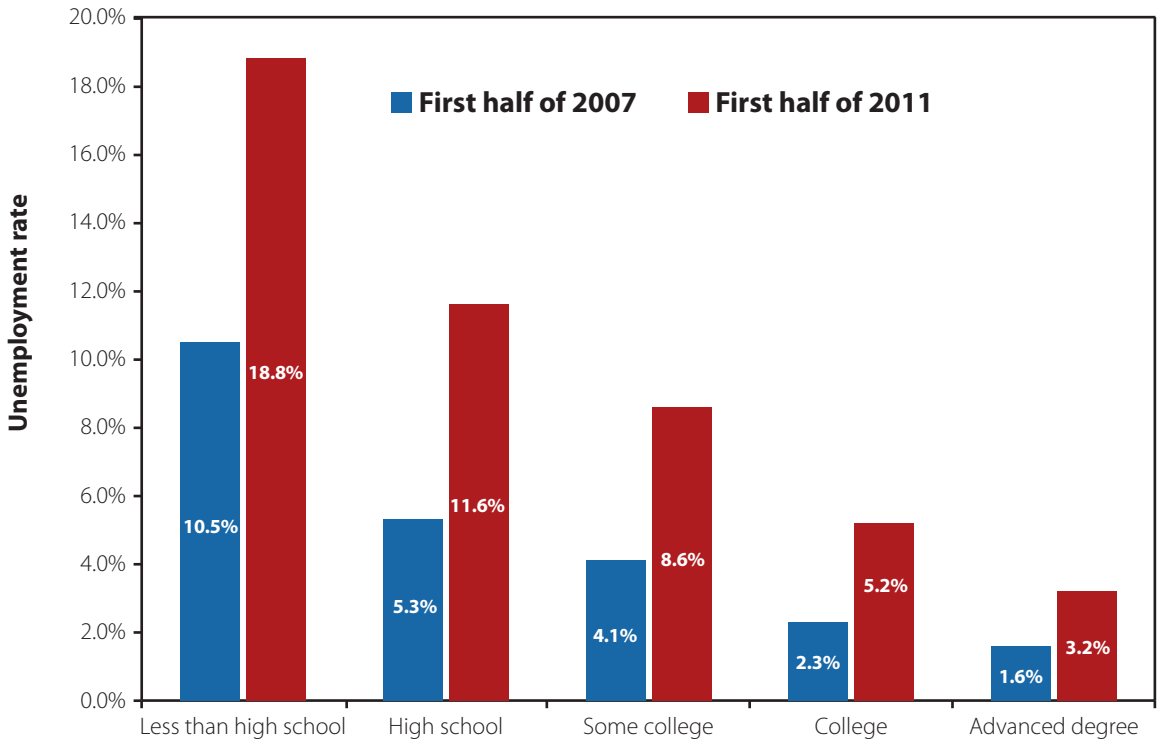
Today's unemployment crisis is not 'structural'

Prominent commentators have claimed that hiring has not yet picked up substantially because employers can't find workers with the needed skills. There are always structural changes going on in any labor market that will create some degree of mismatch between the workers who are available and the workers employers need. However, we cannot find any evidence that "structural unemployment" – many firms having openings but few finding appropriate workers – is a predominant story right now. One piece of information that runs counter to the structural unemployment perspective is the job seeker's ratio (Figure E), which tells us that, with more than four unemployed workers per job opening, more than 75% of the unemployed workers in the country would remain jobless even if *all* the job openings were filled. The fact that unemployed workers vastly outnumber job openings demonstrates a profound lack of demand for workers, not that employers can't find the people they need.

Though the job seeker's ratio demonstrates a broad lack of demand for workers, could it be the case nevertheless that there is a skills mismatch for the job openings that *are* available? It is true, for example, that workers with higher levels of education have much lower unemployment rates than workers with lower level of education, and perhaps this signifies a significant skills mismatch. **Figure I** sheds light on this claim, showing unemployment in the first half of 2007 (before the recession began) and

FIGURE I

Unemployment rates by educational attainment, 2007 and 2011



SOURCE: EPI analysis of Bureau of Labor Statistics data.

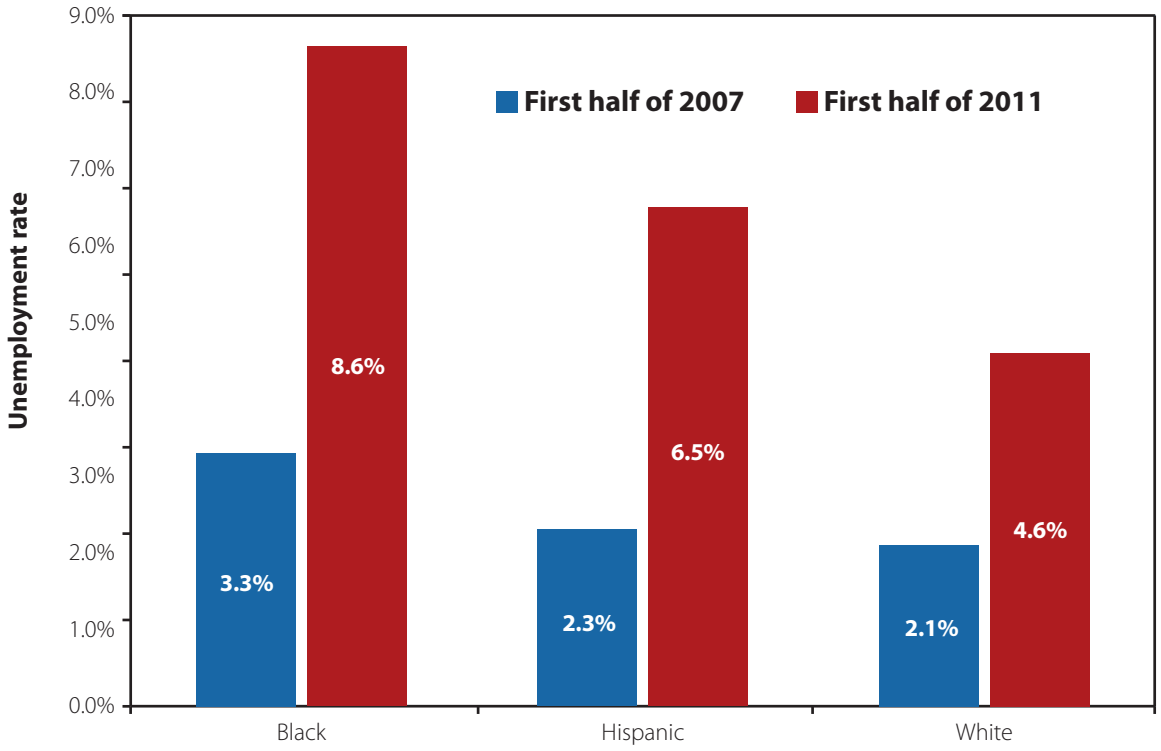
the first half of 2011, by education level. What we see is that, while workers with higher levels of education do indeed have lower unemployment rates, these workers too have seen a large percentage increase in unemployment since before the recession started. In fact, all education categories have seen their unemployment rates *roughly double* over the last four years. In other words, there has been an across-the-board drop in demand for workers at all skill levels. This pervasive deterioration in employment runs directly counter to the notion that there has been some transformation of the workplace over the last four years that has left millions of workers inadequately prepared for the currently available jobs. It is not that this country is lacking the right workers, it is lacking *work*.

Enormous and continued variation in unemployment among college graduates

If employers were struggling to fill their demand for skilled workers, one would expect to see the large unemployment differentials among different groups of skilled workers diminish, as any excess unemployment is diminished. But that is not what we see. **Figure J** shows unemployment rates in the first half of 2007 and 2011 for college graduates, by race and ethnicity. Unemployment rates have more than doubled across all racial and ethnic categories of college graduates – but disparities in unemployment between college graduates of different races and ethnicities have, if anything, *grown*. In the four years between the first half of 2007 and the first

FIGURE J

Unemployment rates for college graduates by race and ethnicity, 2007 and 2011



SOURCE: EPI analysis of Current Population Survey data , Bureau of Labor Statistics.

half of 2011, the unemployment rate for black college graduates grew from 3.3% to 8.6%, the rate for Hispanic college graduates grew from 2.3% to 6.5%, and the rate for white non-Hispanic college graduates grew from 2.1% to 4.6%. It is remarkable that the unemployment rate for black college graduates, 8.6%, was just slightly lower than the average unemployment rate for all workers in the first half of 2011, 9.0%. If there were an excess demand for skilled workers and college graduates, we would not expect to see such high unemployment rates among any broad group of college graduates.

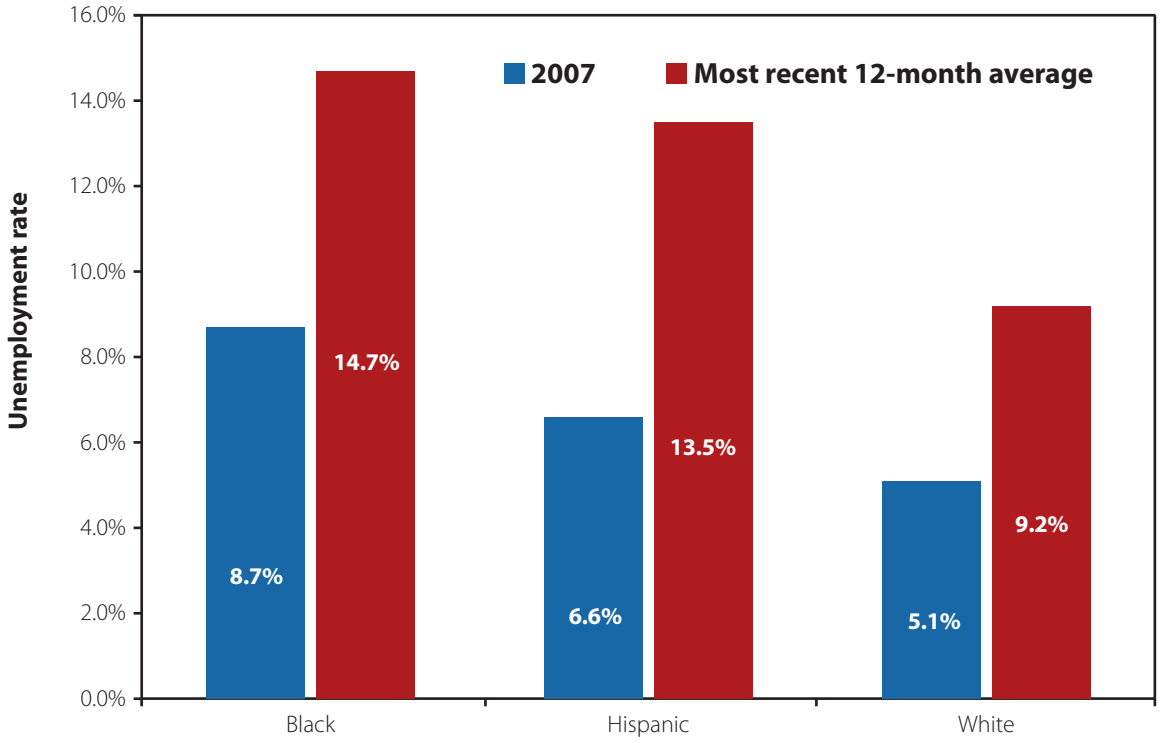
When considering just *young* college graduates (under the age of 25), we see the same basic story, though these young workers face much higher unemployment rates. As shown in **Figure K**, between 2007 and the most recent 12 months (August 2010–July 2011), the unemployment rate rose from 8.7% to 14.7% for young black college graduates, from 6.6% to 13.5% for young Hispanic college graduates, and from 5.1% to 9.2% for young white college graduates. The fact that hundreds of thousands of newly minted college graduates are unable to find work strongly suggests that a lack of skills is not a predominant issue in today's labor market.

Productivity growth not particularly strong in the Great Recession

Another way to investigate the question of whether today's workers lack the right skills is to examine productivity growth. If the nature of work and how work gets done has changed so dramatically since

FIGURE K

Unemployment rate of recent college graduates, by race and ethnicity, 2007 and last 12 months



NOTE: Data are unemployment rates for college graduates under the age of 25 who are not enrolled in further schooling. Twelve-month averages are used because seasonally adjusted data are not available. Most recent 12 months are Aug. 2010 - July 2011.

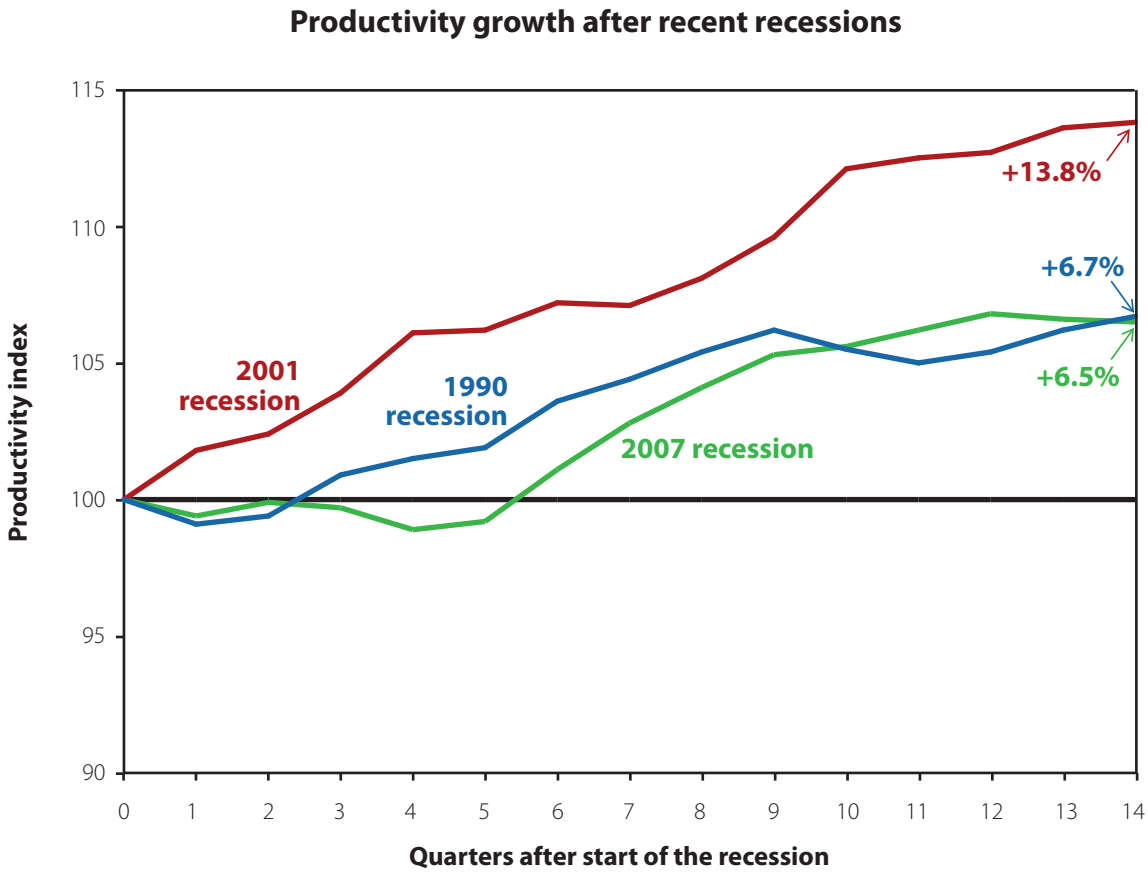
SOURCE: EPI analysis of the Current Population Survey data, Bureau of Labor Statistics.

the end of 2007 that millions of workers are now inadequately prepared for available jobs, even though they were fruitfully employed just a few months or years ago, one would imagine that such a transformation would be associated with sizeable productivity gains (reflecting changes in the workplace as technology and new work methods were introduced). Productivity did grow strongly (6.2%) from the first quarter of 2009 to the first quarter of 2010, but that was basically the extent of it; productivity growth was very weak both before and after that period. Altogether, productivity grew just 6.5% over the entire three-and-a-half years since the start of the recession (**Figure L**). By comparison, productivity grew 6.7% in the three-and-a-half years from the start of the early 1990s recession and 13.8% in the three-and-a-half years from the start of the early 2000s recession. If there was a dramatic shift in the workplace, it certainly left no footprint on productivity trends.

Slowest wage growth in three decades

One of the consequences of persistently high unemployment is that wage growth is beaten down (Mishel et al. 2009, Chapter 3). This is one of the main ways that those who remain employed or now have jobs are adversely affected by a recession. As we saw earlier in Table 1, many people have experi-

FIGURE L



NOTE: The period of 14 quarters is chosen because that is the length of time from the end of the Great Recession until the present.

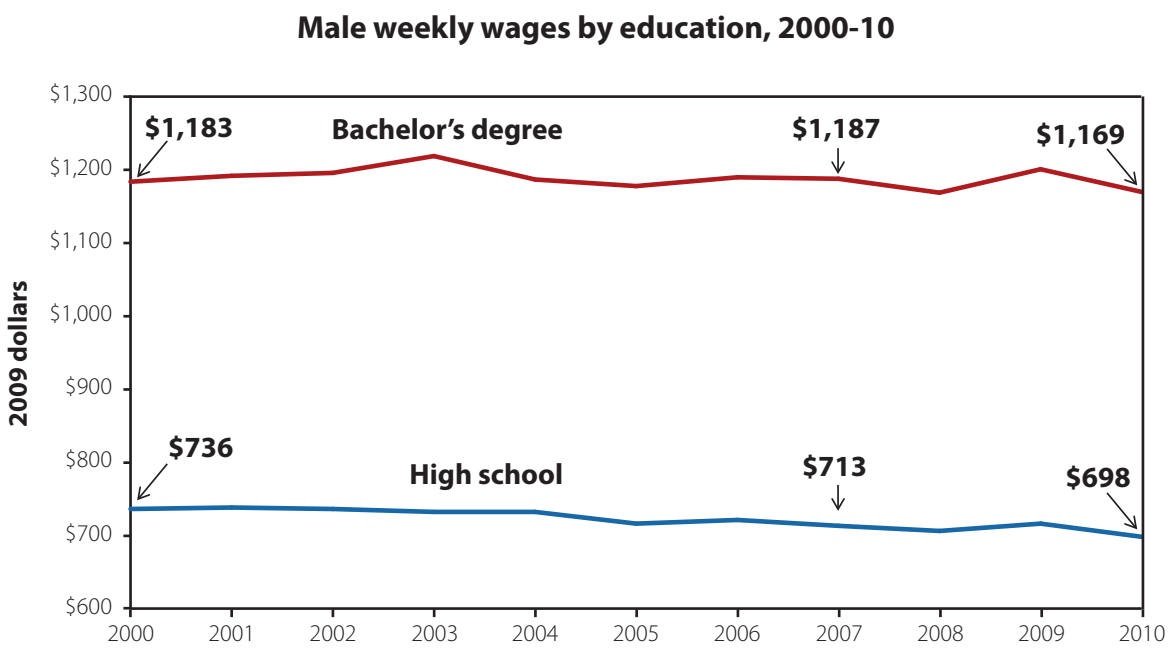
SOURCE: EPI analysis of nonfarm business productivity data , Bureau of Labor Statistics.

enced absolute reductions in wages and benefits in this recession.

Wage growth has been slower in the last two years than at any time over the last 30 years. Specifically, the BLS Employment Cost Index for wages and salaries for civilian workers has been growing at a 1.6% annual pace since September 2008.[4] (Inflation has been volatile because of energy price spikes and declines, so at some points wages grew in inflation-adjusted terms while at others they did not.)

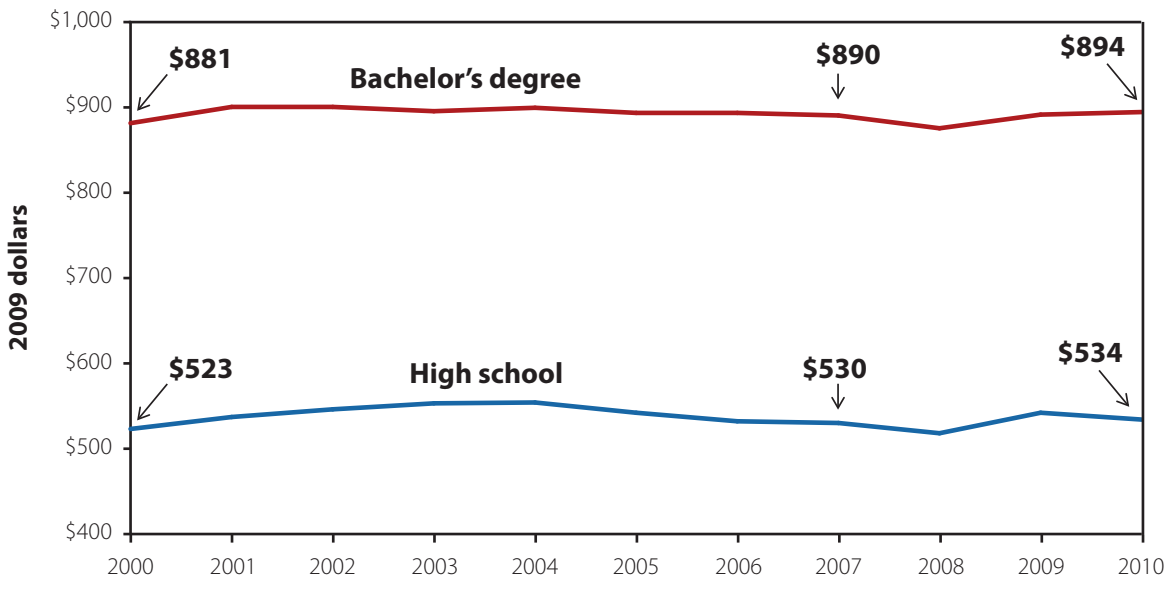
The current disappointing trends in wages, however, follow several decades of disappointing wage growth that now besets workers across the occupation and education spectrum. This was especially the case in the last recovery, when inflation-adjusted wages for both high school graduates and college-educated workers failed to grow at all (Mishel et al. 2009). To illustrate these trends over the last decade, **Figures M** and **N** show the BLS series on the inflation-adjusted median weekly wages of full-time workers for those with a college degree (but no advanced degree) and a high school degree for, respectively, men and women workers. These data show that inflation-adjusted weekly wages did not improve after 2000 for either college- or high-school-educated men, and that this situation prevailed even before the current recession. This lack of wage growth may be particularly surprising to those used to reading about the vast unfilled need for college graduates that, if true, would correspond to sharp increases in their earn-

FIGURE M



SOURCE: EPI analysis of Bureau of Labor Statistics series on median weekly wages of full-time workers.

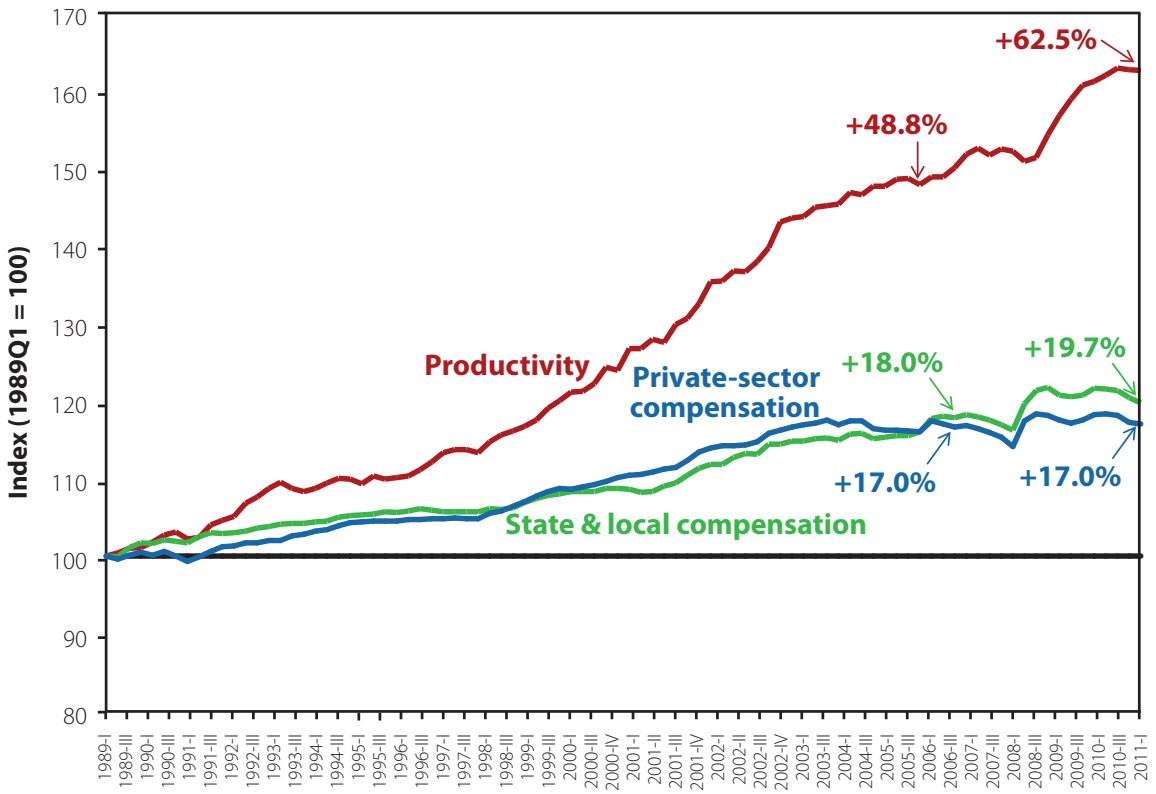
FIGURE N



SOURCE: EPI analysis of Bureau of Labor Statistics series on median weekly wages of full -time workers.

FIGURE O

Growth of state & local and private-sector hourly compensation and productivity, 1989-2011



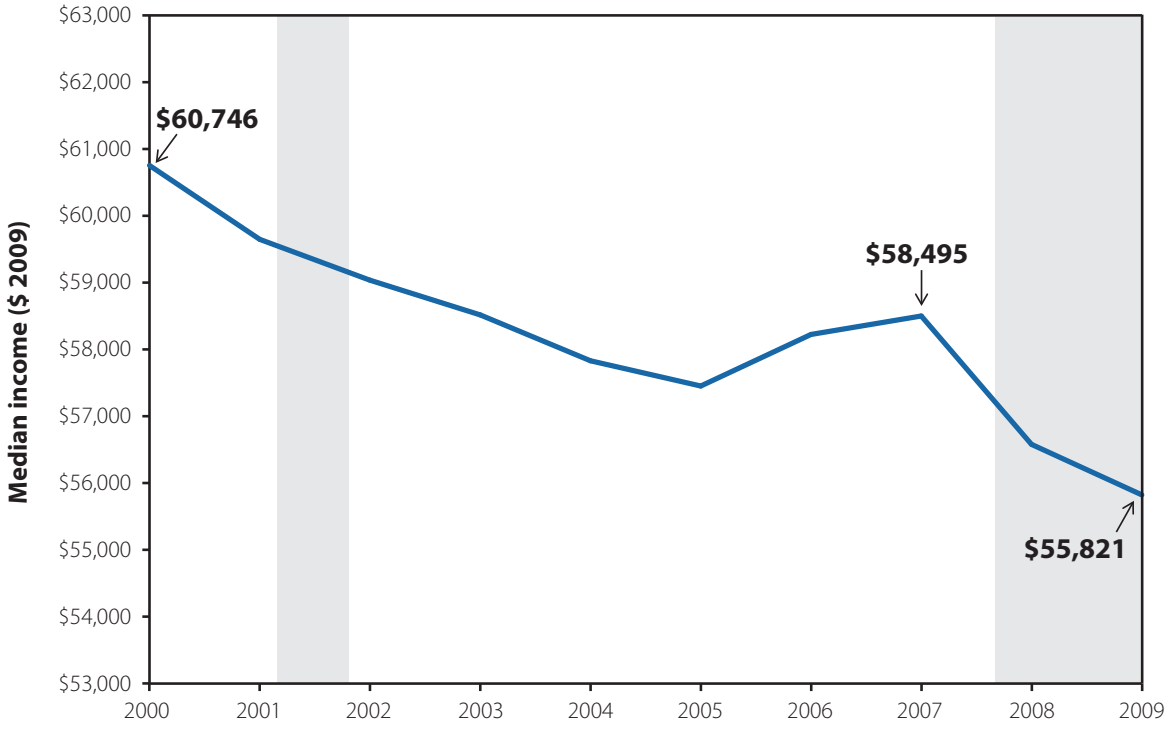
SOURCE: EPI analysis of Bureau of Labor Statistics, Employment Cost Index data.

ings. Stagnant wages also prevailed for both college- and high-school-educated women, perhaps surprisingly since wages for more-educated women have fared the best over the last few decades.

Legislative battles in various states have made the pay levels of state and local public-sector workers a high-profile issue, with several governors contending that public employees are privileged relative to private-sector workers. This contention has been shown to be false in a variety of studies (Keefe 2010; Schmitt 2010; Bender and Heywood 2010), which compare state and local employees on an apples-to-apples basis (i.e., comparable levels of education and skill) with private-sector workers. In terms of overall compensation growth over the last two decades, state and local employees have fared the same as private-sector workers, and the modest growth for both has substantially lagged the growth of overall productivity. **Figure O** shows that inflation-adjusted compensation growth – including all wages and benefits – for state and local government workers since 1989 was 19.7%, slightly more than the 17.0% growth for private-sector workers. By contrast, productivity growth was 62.5%.

FIGURE P

Real median income of working-age households, 2000-09



NOTE: Shaded areas denote recessions.

SOURCE: EPI analysis of U.S. Census Bureau data.

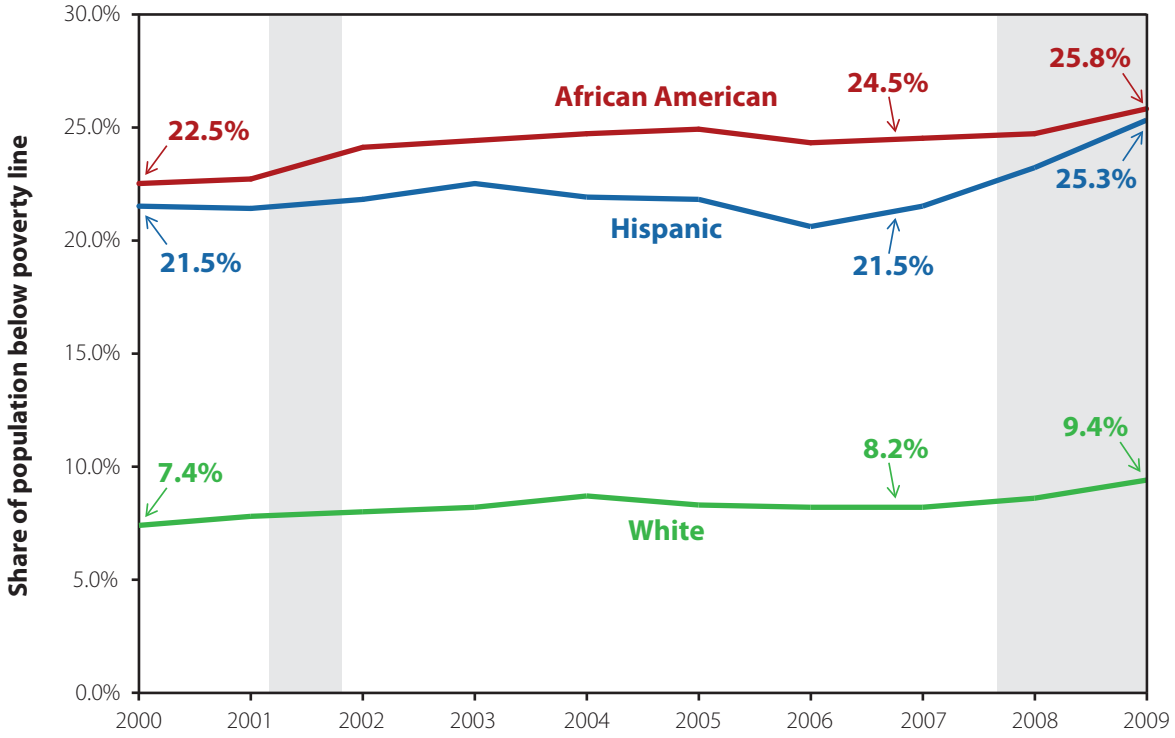
Persistently high unemployment causes family incomes to fall, poverty to rise

The labor market is the foundation of income for nearly all American families, so when the labor market deteriorates, family incomes suffer. Family incomes are affected through both job loss and through hours and wage cuts for those who have work. As **Figure P** shows, the median working-age household saw an income decline of $2,700 from 2007 to 2009. Furthermore, this recession came on the heels of one of the worst business cycles (2000-07) on record in terms of job creation, one in which the income of the median working-age household fell $2,250 – the first business cycle on record in which incomes did not end higher at the end of the recovery than at the peak of the last one. Consequently, *the typical working-age household brought in roughly $5,000 less in 2009 than it did in 2000.* Incomes will stay reduced until the unemployment rate drops toward full employment, a prospect that is years away.

The weak labor market of the Great Recession and its aftermath has produced a substantial rise in poverty. In 2009, one in seven people, and one in five under the age of 18, was living in poverty. For children under age 6, one in four live in poverty. Racial and ethnic minority families are more likely to live

FIGURE Q

Poverty rate by race and ethnicity, 2000-09



NOTE: Shaded areas denote recessions.

SOURCE: EPI analysis of U.S. Census Bureau data, historical poverty tables.

in poverty than white non-Hispanic families regardless of whether the economy is in an expansion or contraction, but Hispanic families in particular have seen a disproportionate rise in poverty in the Great Recession and its aftermath. In 2009, roughly one in four African Americans and Hispanics were living in poverty, as shown in **Figure Q**. The American Recovery and Reinvestment Act of February 2009 was instrumental in fighting impoverishment, with unemployment insurance (UI) benefits alone (both regular and extended benefits) keeping 3.3 million adults and children out of poverty.[5] With roughly half of UI recipients now on extended benefits, it is crucial to continue the extensions that are set to expire at the end of 2011.

Data on 2010 income and poverty to be released by the Census Bureau in September 2011 are likely to show that income deteriorated further and that poverty continued its rise in 2010.

Short-term decline and longer-run inequalities in wealth

Both the accumulation and decline of wealth have played a large role in the nature of the recovery leading up to the Great Recession and the decline in well-being and stunted consumer spending since 2007. **Table 3** analyzes wealth (net worth) from 1962 to 2009 (see Allegretto 2010).[6]Average wealth declined 17.3% a year for the two years between

TABLE 3

Changes in average wealth by wealth class, 1962-2009 (thousands of 2009 dollars)

Wealth class*	1962	1983	1989	1998	2001	2004	2007	2009**	Annualized growth 1962-83	1983-89	1989-2001	2001-07	2007-09
Top fifth	$773.0	$1,137.6	$1,338.4	$1,482.7	$1,943.5	$2,069.5	$2,357.5	$1,711.5	2.1%	2.7%	3.2%	3.3%	-14.8%
Top 1%	6,384.5	9,441.7	11,976.9	13,427.1	15,371.8	16,795.5	19,167.6	13,976.8	2.1	4.0	2.1	3.7	-14.6
Next 4%	1,010.8	1,561.7	1,728.3	1,896.5	2,970.9	3,039.4	3,782.1	2,734.3	2.3	1.7	4.6	4.1	-15.0
Next 5%	472.5	679.2	744.2	820.4	1,135.4	1,197.6	1,242.7	908.4	2.0	1.5	3.6	1.5	-14.5
Next 10%	267.0	366.8	415.7	453.8	593.9	654.4	664.0	477.5	1.7	2.1	3.0	1.9	-15.2
Bottom four-fifths	$45.5	$65.3	$66.0	$73.9	$89.6	$93.7	$103.8	$62.9	1.9%	0.2%	2.6%	2.5%	-22.2%
Fourth	128.0	175.8	197.4	212.3	260.8	276.6	301.0	208.3	1.7	2.0	2.3	2.4	-16.8
Middle	51.9	73.0	77.4	80.3	90.8	93.0	109.6	65.0	1.8	1.0	1.3	3.2	-23.0
Second	9.1	16.5	13.5	14.6	16.9	16.4	18.4	5.5	3.2	-3.3	1.9	1.4	-45.3
Lowest	-7.0	-4.2	-24.2	-11.7	-9.9	-12.9	-13.8	-27.2	-2.7	33.9	-7.2	5.7	-40.4
Average	$191.0	$279.8	$320.5	$355.6	$460.4	$488.8	$554.5	$392.6	2.0%	2.3%	3.1%	3.1%	-15.9%
Median	51.1	71.9	76.9	79.8	89.0	88.4	106.0	62.2	1.8	1.1	1.2	3.0	-23.4
Median white	n.a.	94.1	111.8	107.5	128.9	134.3	148.6	97.9	n.a.	2.9	1.2	2.4	-18.8
Median black	n.a.	6.3	2.9	13.2	12.9	13.4	9.6	2.2	n.a.		13.2	-4.8	-52.1

*Wealth defined as net worth (household assets minus debts).
**2009 update based on asset prices between 2007 and 2009 using Federal Reserve Flow of Funds data.

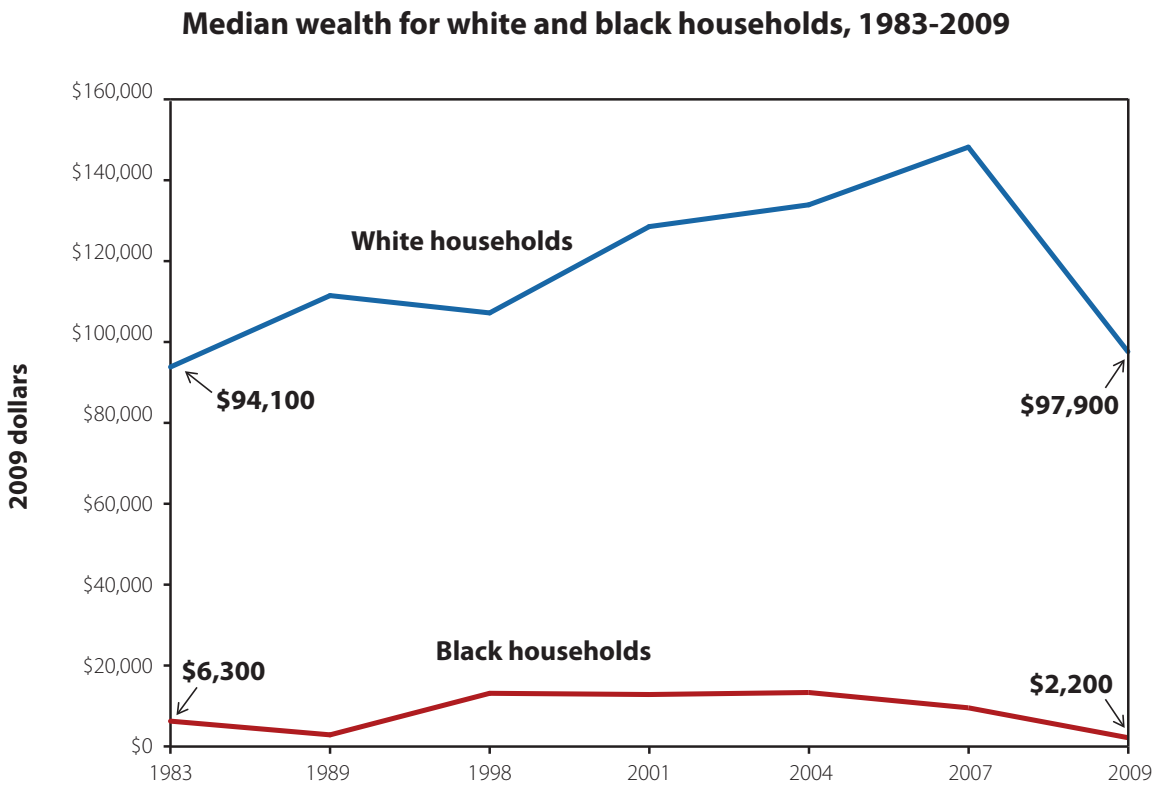
SOURCE: EPI analysis of Bureau of Labor Current Population Survey data.

2007 and 2009 and fell among every wealth class. However, wealth declined substantially faster for the bottom four-fifths (-39.4%) than among the upper fifth (-27.4%), due to the fact that the wealth of the middle class is so heavily dependent on housing values, which stumbled deeply in these years. In fact, the fall in wealth in the last few years has meant that the bottom four-fifths of households had less wealth in 2009 ($62,900) than in 1983 ($65,300). In other words, over the course of a generation the vast majority in the world's richest nation accumulated no wealth overall. In contrast, the wealth of the top fifth was 50% higher in 2009 ($1.7 million), than it was in 1983 ($1.1 million), primarily reflecting the growth of wealth among the upper 5%.

The disparity of changes in wealth over the last generation is portrayed in **Table 4,** which shows the shares of the wealth gains that accrued to the various wealth classes. Nearly all of the gains in wealth accrued to the upper fifth, with 40.2% of the gains going to the upper 1% of households and 41.6% going to the next wealthiest 4%. Thus, the richest 5% of households obtained 81.8% of all the gains in wealth between 1983 and 2009. This translated to gains of $4.5 million per household in the richest 1% and roughly $1.2 million per household in the next richest 4%.

The statistic that perhaps best illustrates the failure of wealth accumulation since 1983 is median wealth, or the wealth of the household that

FIGURE R



SOURCE: Wolff (2010).

NOTE: 2009 update based on asset prices between 2007 and 2009 using Federal Reserve Flow of Funds data.

TABLE 4

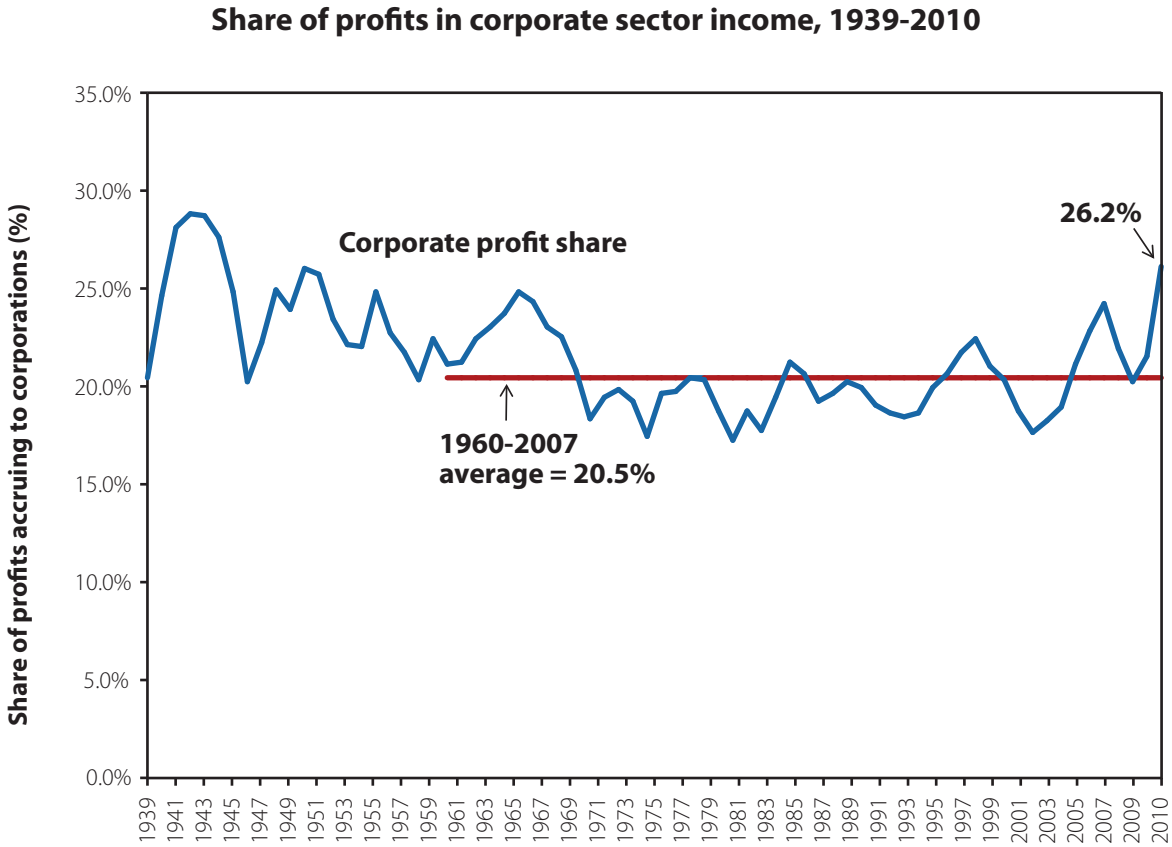
Shares of wealth gain by wealth class, 1983-2009

Wealth class	*Share of increased wealth 1983-2009*
Top fifth	101.7%
Top 1%	40.2
Next 4%	41.6
Next 5%	10.2
Next 10%	9.8
Bottom four-fifths	-1.7%
Fourth	5.7
Middle	-1.4
Second	-2.0
Lowest	-4.1

SOURCE: Wolff data analysis in Allegretto (2010).

has more wealth than half of households and less than the other half. As shown in Table 3, median wealth in 2009 was $62,200, down 13.5% from the $71,900 median wealth in 1983. Among blacks, wealth at the median has nearly disappeared, dwindling to just $2,200 in 2009, down from $6,300 in 1983. White median wealth also fell substantially in the last two years, to $97,900, but it remains a bit higher than the 1983 level of $94,100. White median wealth remains more than 44 times higher than black median wealth. The trends in median wealth among blacks and whites from 1983 to 2009 are illustrated in **Figure R**. The unbalanced growth we have seen in this recovery accentuates these wealth (and income) inequalities. Wage growth has been disappointing, with high unemployment knocking it down to historically low rates. In contrast, cor-

FIGURE S



SOURCE: EPI analysis of Bureau of Economic Analysis data.

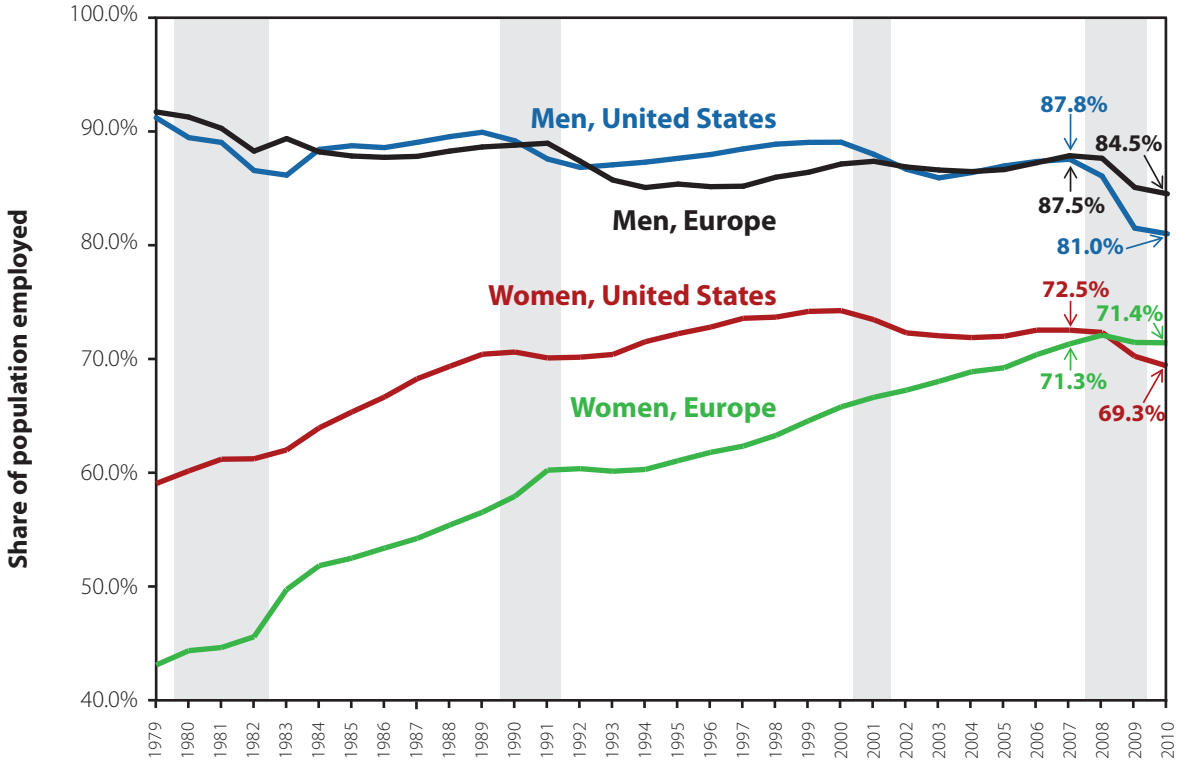
porate profits have done exceedingly well, rising more than a third since the start of the recession.[7] As a result, the share of corporate-sector income going to profits has reached historic highs – 26.3% in the last four quarters. Correspondingly, the share of corporate income going to workers in all forms of compensation – wages and benefits – is historically low. **Figure S** shows the share of corporate income accruing to profits (non-labor income) since 1939 (using annual data). The horizontal line shows the average share over the 1960-2007 years, which was 20.5%. In 2010 the share of corporate income going to profits was 26.2%, the highest share since the years during World War II, when national policy used wage and price controls to consciously suppress wage growth.

Europe's jobs record surpasses U.S.

In the 1990s, the U.S. economy – with its strong employment growth – was praised by international organizations as a model for the rest of the world's economies. In particular, Europe's wealthy countries, with their stronger unions, higher minimum wages, more generous social benefits, and higher taxes, were urged to emulate the more "flexible" U.S. model to improve their jobs growth. However, starting around 2000 the employment situation in the U.S. relative to Europe began to change, as shown in **Figure T**. From 2002 to 2007, the employment-to-population ratio (EPOP) of prime-age (age 25-54) men in the United States and Europe was essentially identical,

FIGURE T

Employment-to-population ratios of prime-age workers (25-54) by gender, U.S. and Europe, 1979-2010



NOTE: Data for Europe include the countries in the EU 15 (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom).

SOURCE: Organization for Economic Cooperation and Development (OECD).

but during the Great Recession and its aftermath, from 2007 to 2010, the male EPOP declined much more significantly in the United States than it did in Europe. In 2010, the EPOP for prime-age men in Europe was 84.5% – 3.5 percentage points higher than in the United States.

Employment trends for women over time are different than those of men, but the basic story of the recent relationship between the U.S. and European EPOPS is the same. In the United States, the EPOP for prime-age women stopped increasing in 2000 and began losing ground, while that of their European counterparts continued rising through 2008. Since 2008, the EPOP for European women has declined significantly less than that of their U.S. counterparts. In 2010, the EPOP for prime-age women in Europe was 71.4%, more than two percentage points higher than that of their counterparts in the United States. These employment outcomes suggest that those who look exclusively to the United States for solutions for job creation during expansions or for mitigating the effect of recessions, rather than to its global peers, will miss a great deal. These employment trends in Europe and the United States also point to macroeconomic policy and not social spending or labor market institutions as the prime driver of job growth in both economies.

Conclusion

High unemployment has been with us and can be expected to stay with us for some time. Its persistence is unacceptable in a modern, developed economy, and the means to address it are no mystery: stimulate demand, which will create jobs. Congress can implement programs to rejuvenate the labor market, including the repair and upgrading of the nation's 100,000 public school buildings; direct job creation in hard-hit communities; additional spending on transportation infrastructure; fiscal relief to states; and the expansion of the safety net, which both helps those most hurt by the downturn and stimulates the economy by getting money into the hands of people who will immediately spend it. These actions would be most effective in stimulating the economy and creating jobs if they were not offset with budget cuts or tax increases in the near term. The debt ceiling agreement of August 2011, however, all but rules out deficit-financed stimulus of an appropriate magnitude, which means that the deal should be renegotiated to allow for additional deficit spending, or better yet, the statutory debt limit should be repealed altogether. Another option would be to offset this spending over 10 years with increased taxes in 2013 and beyond on the rich, who have a low propensity to consume out of income, or with a financial transactions tax (see EPI 2009 and Fieldhouse and Shapiro 2011).

But policies to mitigate the pain from persistently high unemployment do not need to stop at fiscal stimulus. Additional job-creating policies include work sharing to avoid layoffs; boosting manufacturing by ending currency manipulation by foreign governments; encouraging the Federal Reserve to lower long-term interest rates through the resumption of asset purchases and to target a higher inflation rate (e.g., 3-4%) to reduce real interest rates and erode debt; and reducing household debt through mortgage forgiveness and refinancing.

All of these policies are in our power to accomplish as the world's largest economy. We can make the choice to pursue them and deflate the high unemployment that will otherwise scar the country and its workers for a generation.

— Nicholas Finio and Natalie Sabadish provided research assistance in the preparation of this report.

Endnotes

1. These figures are based on the output gap estimated by the Congressional Budget Office from Table E11 in "Historical Budget Data," as presented in CBO, *The Budget and Economic Outlook: Fiscal Years 2011 to 2021* (January 2011), www.cbo.gov/doc.cfm?index=12039. The output gap per person (population from National Income and Product Accounts, Table 7.1) was converted into 2010 dollars based on the CPI-RS.
2. The Bureau of Labor Statistics does not provide demographic breakdowns of underemployment; these data are from EPI; see http://www.stateofworkingamerica.org/charts/view/69.
3. See http://www.bls.gov/news.release/pdf/work.pdf.
4. See the 12-month changes in the wage and salary index for civilian workers at http://www.bls.gov/web/eci/ecicois.pdf .
5. U.S. Bureau of the Census, 2010, available at: http://www.census.gov/newsroom/releases/pdf/09-16-10_slides_plot.pdf.
6. Data for 2009 are an estimate based on 2007 data and changes in particular types of wealth between 2007 and 2009.
7. See Mishel (2011) for an exposition of this point. The latest data (National Income and Product Accounts, Table 1.14), reflecting revisions of data for the last few years, show 2011 Q1 profits 34% higher than in 2007 Q4.

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