

## *The State of Working America 2008/2009*

# FOR MOST, ECONOMY YIELDS MORE OF LESS

Despite surging productivity, Americans suffer from dwindling income, rising inequality, eroding living standards and declining expectations



### NEWS FROM EPI

EMBARGOED UNTIL  
Thursday AM  
August 28, 2008

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As business cycles go, the one that started in 2001 is a study in sharp contrasts. The men and women of the America workforce were incredibly productive, but more than in any previous cycle, the economic fruits of this growth eluded them. Unless current trends take an unexpected new direction, this will be the first business cycle ever recorded in which America's middle-class families will end the cycle with less real (that is, inflation-adjusted) income than they had at the beginning.

It's not that the potential wasn't there for a happier outcome. After all, during the round of contraction and recovery just ended, GDP rose a healthy 2.5% per month. But the promise implied by that growth – nearly 20% across the full cycle – never materialized for the vast majority. Instead, the lion's share of the benefits only reached the wallets at the highest end of the income scale, bypassing most of the people whose work made that growth possible.

*The State of Working America 2008/2009*, released today by the Economic Policy Institute in an online preview version, provides a detailed picture of the 2000-2007 business cycle, its impact on America's working people and families, and its implications for the current downturn. In this 11<sup>th</sup> edition, EPI economists Lawrence Mishel, Jared Bernstein and Heidi Shierholz update and expand on previous volumes with the latest data and analysis in a new introduction and commentary, plus chapters on jobs, wages, family income, and income mobility released today. (Additional chapters on poverty, and wealth will follow, along with a new chapter on health care, with the publication of the full print edition of the book by Cornell University Press in January 2009.)

In their review of the current economic picture, five dominant factors emerge: strong growth in productivity, weak growth of jobs; stagnant or falling real household income for most families; increasingly unequal distribution of the benefits of economic growth; and the increasingly rigid economic stratification this inequality produces. The book discusses these factors in their historic context and describes their implications given the downturn now underway.

### **Weak Jobs Growth**

The 2000-2007 business cycle was the first ever to record a drop in the share of the working age population that was actually working. The 1.1 percentage point decline in labor force participation translates to about 1.4 million people who could otherwise have been working or actively job-hunting. The economy's failure to generate enough jobs shows up quite dramatically in measures of long-term unemployment, which rose dramatically in the 2000-2007 cycle. The share of the unemployed who were out of work six months or longer rose from 12.1% during the 1990s to 19.4% in the 2000s. Disproportionately large shares of the long-term unemployed in 2007 were more experienced workers (age 45 and older) and college educated.

This cycle's jobs growth performance was dramatically slower than in past recoveries. While, on average, jobs grew 2.0% a year during previous business cycles, growth was one-third as fast – just 0.6% during the period from 2000-2007. Just to regain the jobs lost during the 2001 recession

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took nearly four years (47 months) – more than twice as long as the 21-month average in all other post-World War II cycles.

“If job growth from 2000 to 2007 had matched the 1990s cycle, the economy would have added 7 million more jobs than it did,” co-author Heidi Shierholz noted. “The weak jobs situation means that the potential of millions of productive, hard-working Americans has been left untapped -- a profound disservice to them, their families, and the economy as a whole.”

### **Squeezed Paychecks**

The cost of weak jobs growth is also borne not solely by the unemployed but also by those with jobs. When jobs are scarce, employees have little leverage to bargain for better wages and benefits. The share of involuntary part-timers (that is, those would want but cannot find full-time work) has continued to rise as employers cut costs by reducing work hours. As of June 2008, with the economy again shedding jobs at a recessionary pace, the number of people involuntarily working part-time has risen to about 5 million. That same month, nearly a fifth (18%) of the unemployed had been out of work for at least half a year.

Although the economy has expanded by 18% since 2000, most Americans’ household income does not reflect that growth. Quite the opposite: real income for the median family fell by 1.1% from 2000-2006. A small increase in the median family’s hourly wages (1%) was more than wiped out by the 2.2% drop in annual work hours. Moreover, whatever wage growth occurred since 2000 was based on the momentum from the 1990s recovery—wages did not improve at all over the 2002-07 recovery.

This performance contrasts sharply with the previous business cycle. From 1989 to 2000 hourly wages that grew 4.7% and annual work hours that expanded 4.1% were the biggest factors that generated real income growth of 10.5% for middle-income families.

### **Unbalanced Growth**

The growth that economic statistics report may have seemed imaginary to most American families, but it was very real for another group. The people at the very top 10% of the income ladder reaped the lion’s share of the rewards of economic growth, more than 90% of all the growth from 1989 to 2006. And the higher up the ladder they started out, the greater the rewards. For the bottom half of that top 10% (the 90<sup>th</sup> to the 95<sup>th</sup> percentile) income grew 32%. But in the rarefied air of the top 1%, income more than tripled (203.7% increase) – and in the top 1% of *that* top 1%, incomes more than quintupled – increasing by 425% to an average income of \$30.5 million for that group in 2006.

“While most Americans were struggling, the good times were rolling among the top 10%,” said co-author Lawrence Mishel. “We have seen a large scale skimming of the benefits of growth from the bottom 90% of Americans to the top 10%, and especially to the top one percent and, even more so, the top one-tenth of a percent.”

### **Income Immobility**

It may not be surprising to see the old saying “the rich get richer” coming true. But if another saying is true, that in America we can all work hard and “pull ourselves up by our bootstraps,” maybe we can count on upward mobility to get us a bigger share of the pie. But the authors’ exploration of data on income mobility shows that the “bootstrap” theory does not describe most peoples’ experience. While some mobility exists, significant shares of families remain near their same position in the income scale. For example, about 60% of families that start in the bottom fifth are still there a decade later. At the other end of the income scale, 52% of families that start in the top fifth finish there at the end of the decade.

There is also less income mobility in the United States than in many other advanced countries, including European countries like Germany and Denmark whose societies are perceived to be more rigidly stratified than ours.

Inequality itself leads to diminished mobility. The greater concentration of income tends to limit access to the tools that would help make that climb possible. The report examines the gap between top and bottom in completion of a college degree among students with similar academic potential. So wide is that gap that high-achievement students from low-income families are no more likely than low-achievement students from high-income families to complete a college degree.

“When income concentration creates barriers to the resources and opportunities that would enable people to get ahead through their own initiative and efforts, that violates our fundamental sense of fairness,” said co-author Jared Bernstein. “Americans do not object to unequal outcomes if they mean that some people are working harder and smarter, but we do object if the deck is being stacked by unequal opportunities.”

### **Challenges Ahead**

With the next recession underway, Americans now face fresh challenges. Over 400,000 jobs were lost in the first half of 2008 as the unemployment rate rose to 5.5% - up from its 4.4% low point in March 2007. Economists expect unemployment to reach 6.4% in 2009. For African-Americans and Hispanics the outlook is graver. While both groups made significant gains in employment rates during the full-employment recovery of the latter 1990s, those gains were reversed in the 2000-2007 cycle. Based on historic patterns, the authors expect unemployment among African-Americans to be around 11% - by the end of 2009.

The story of working America today is one of promise – the vigorous growth achieved by the hard and smart work of millions of Americans. It is also a story of how that promise has been broken, as too few of those contributions are fairly rewarded.

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*The Economic Policy Institute (EPI) is an independent, nonprofit, nonpartisan think tank that researches the impact of economic trends and policies on working people in the United States and around the world. EPI's mission is to inform people and empower them to seek solutions that will ensure broadly shared prosperity and opportunity.*