CALIFORNIA BUDGET PROJECT

SPECIAL REPORT

IN THE MIDST OF THE GREAT RECESSION

THE STATE OF WORKING CALIFORNIA 2009

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- **Two years of job losses erased four years of job gains.** California lost 952,800 nonfarm jobs between July 2007 and July 2009 – far more than the 846,600 jobs the state added during the growth years between July 2003 and July 2007.

- **California has approximately the same number of jobs as it did nine years ago.** The recession has been so severe that the number of nonfarm jobs in July 2009 was approximately the same as in January 2000, when the state was home to 3.3 million *fewer* working-age individuals.

- **A smaller share of Californians is working today than at any point since the late 1970s.** Fewer than three out of five of the state's working-age adults (57.5 percent) had jobs in July 2009. Employment levels in California were last this low in February 1977.

- **Recent job losses have been deeper than those of prior recessions.** California's job losses have been large not only in number, but also in percentage terms. The state's nonfarm jobs declined by 6.3 percent between July 2007 and July 2009 – a larger percentage decline in jobs than the state experienced during any prior downturn for which employment data are available.

- **Nearly all major sectors of California's economy have lost jobs during the downturn.** By far, construction has suffered the largest percentage drop since the onset of the recession, with July 2009 employment down by 29.4 percent from July 2007. The number of jobs in financial activities declined by 11.4 percent during the same period, while manufacturing jobs dropped by 11.2 percent.

California's Unemployment and Underemployment Rates Reached All-Time Highs

- **California's unemployment rate hit a record high of 11.9 percent in July 2009.** The state's jobless rate is higher than that of all but three other states and has risen faster during the current downturn than during any prior recession for which comparable data are available.

- **More than one out of four unemployed Californians (28.2 percent) had been jobless for more than six months in July 2009 – the highest level ever recorded.** Nearly half (47.9 percent) of the state's unemployed had been jobless for at least 15 weeks.

- **Nationally, there were nearly six job seekers for every job available in June 2009.** This figure reflects the fact that there were 12.2 million more unemployed individuals than job openings.

- **The monthly number of jobless Californians filing initial claims for unemployment insurance (UI) benefits increased by approximately 152,000 (81.9 percent) between June 2007 and June 2009.** Yet only half of California's unemployed (50.6 percent) received UI benefits in the first quarter of 2009 because of restrictive eligibility rules. California has a lower UI recipiency rate than 37 other states.

- **Many Californians are likely to run out of UI benefits before they can find work.** In March 2009, California enacted legislation enabling the state's jobless to take advantage of extended UI benefits available through the federal economic recovery act. However, nearly 178,000 Californians are expected to exhaust these benefits by the end of 2009.

- **The number of *under*employed Californians more than doubled in two years.** Approximately 1.4 million Californians were underemployed in July 2009, meaning that they were working part-time "involuntarily" either because their employers reduced their hours of work or because they could not find full-time jobs.

- **Nearly one out of five working-age adults (18.5 percent) was "underutilized" in July 2009.** Underutilized adults are those who are not working, but want jobs, or who are working part-time, but want to work full-time.

- **Unemployment rates for California's men and Latinos have risen steeply.** The jobless rate for men increased by 5.5 percentage points between July 2007 and July 2009, compared to a 3.7 percentage-point increase for women. The unemployment rate for California's Latino workers increased by 6.8 percentage points during this period, while the jobless rate for whites rose by 4.7 percentage points. These trends reflect the fact that men and Latinos are more likely to work in sectors of the economy that have been hardest hit by the downturn.

The Recession Has Diminished Workers' Earnings

- **Workers' hourly wages lost purchasing power across the earnings distribution as the recession deepened.** The inflation-adjusted hourly wage of the typical California worker – the worker exactly at the middle of the earnings distribution – declined by 0.5 percent between the first half of 2008 and the same months of 2009, while that of the state's low-wage earners – workers with earnings at the 20th percentile of the distribution – fell by 1.6 percent. During the same period, the hourly wage of the state's high-wage workers – those with earnings at the 80th percentile of the distribution – dropped by 1.8 percent, after adjusting for inflation.

- **Reduced hours of work diminished many workers' weekly earnings.** Weekly hours for the average worker in the middle fifth of the earnings distribution fell by 1.7 percent between the first half of 2008 and the same months of 2009. This decline in hours, together with a 0.1 percent drop in the average worker's inflation-adjusted hourly wage, diminished the average worker's weekly earnings by a total of 1.8 percent. Reduced hours of work also diminished low-wage workers' weekly earnings.

- **The gap between low-wage and high-wage California workers widened during the past generation.** The inflation-adjusted hourly wage of the state's low-wage workers declined by 6.0 percent between 1979 and 2008, while that of the typical worker increased by just 3.7 percent. In contrast, the hourly wage of California's high-wage workers rose by 21.2 percent, after adjusting for inflation – nearly six times the increase of the typical worker's wage.

Recent Income Gains Were Not Broadly Shared

- **The bulk of recent income gains went to the wealthiest Californians.** More than three-quarters (76.8 percent) of the increase in total adjusted gross income (AGI) between 2006 and 2007 went to the wealthiest fifth of California's personal income taxpayers. Nearly one-third (30.0 percent) of the gains in AGI went to the top 1 percent of taxpayers. In contrast, just 6.0 percent of the increase in AGI went to taxpayers with incomes in the middle fifth of the distribution.

- **Recent uneven income gains continue a longer-term trend.** The inflation-adjusted AGI of the average California taxpayer in the top 1 percent rose by 117.3 percent between 1995 and 2007 – nearly 13 times the gain of the average middle-income taxpayer (9.1 percent).

- **The top 1 percent of taxpayers has nearly doubled its share of AGI since the early 1990s.** One-quarter (25.2 percent) of total AGI went to the wealthiest 1 percent of taxpayers in 2007, nearly twice their share (13.8 percent) in 1993.

- **The share of income going to the top 1 percent of US taxpayers is at a 79-year high.** In 2007, the wealthiest 1 percent of the nation's taxpayers had the second-highest share of income on record; the only higher share was in 1928.

INTRODUCTION

This Labor Day, California's workers and their families face one of the toughest job markets in decades, battered by a national recession that is the longest and most severe in the post-World War II era. In just two years, the downturn has eliminated all of the jobs gained during the previous economic expansion – a first since the Great Depression – and pushed the state's unemployment and underemployment rates to their highest levels in recorded history. In fact, a smaller share of Californians was working in July 2009 than at any point since the late 1970s.

Although national data suggest the end of the recession may be near, many economists believe recovery in the labor market is a long way off. Indeed, recent forecasts project that California's unemployment rate will remain in the double digits at least through 2011. Past experience suggests that such prolonged weakness in the labor market could substantially erode the purchasing power of many workers' earnings and incomes – particularly those with incomes in the bottom half of the distribution – diminishing families' economic well-being for years to come. The prospect of declining living standards for low- and middle-income families comes at a time when a small sliver of the population is acquiring more of the nation's wealth. In 2007, the wealthiest 1 percent of Americans received the largest share of total income since 1928.[1]

THE RECESSION HAS BATTERED CALIFORNIA'S JOB MARKET

The current recession stands apart from prior downturns for both the depth and breadth of destruction in the job market.[2] California has lost more jobs at a faster rate in the past two years than during any prior recession for which data are available, and employment has fallen in nearly every major sector of the economy.[3] As the downturn deepened in recent months, California's unemployment and underemployment rates reached all-time highs, and the share of the jobless that has been without work for more than half a year rose to the highest level on record.[4]

Two Years of Job Losses Erased Four Years of Job Gains

In just two years, the recession has wiped out all of the jobs California gained during the previous four-year economic expansion. In July 2009 – the most recent month for which data are available – California had 952,800 fewer nonfarm jobs than in July 2007, when employment last peaked (Figure 1).[5] The number of jobs lost far exceeds the total number of jobs the state added during the growth years between July 2003 and July 2007 (846,600). Nationally, this is the only economic downturn since the Great Depression that has eliminated all the job gains from the previous expansion – a reflection of the severity of the current downturn, as well as the fact that it follows on the heels of one of the weakest periods of job growth on record.[6] In fact, the recession has been so severe that California now has approximately the same number of jobs as it did nine years ago, when the state was home to 3.3 million *fewer* working-age individuals.[7]

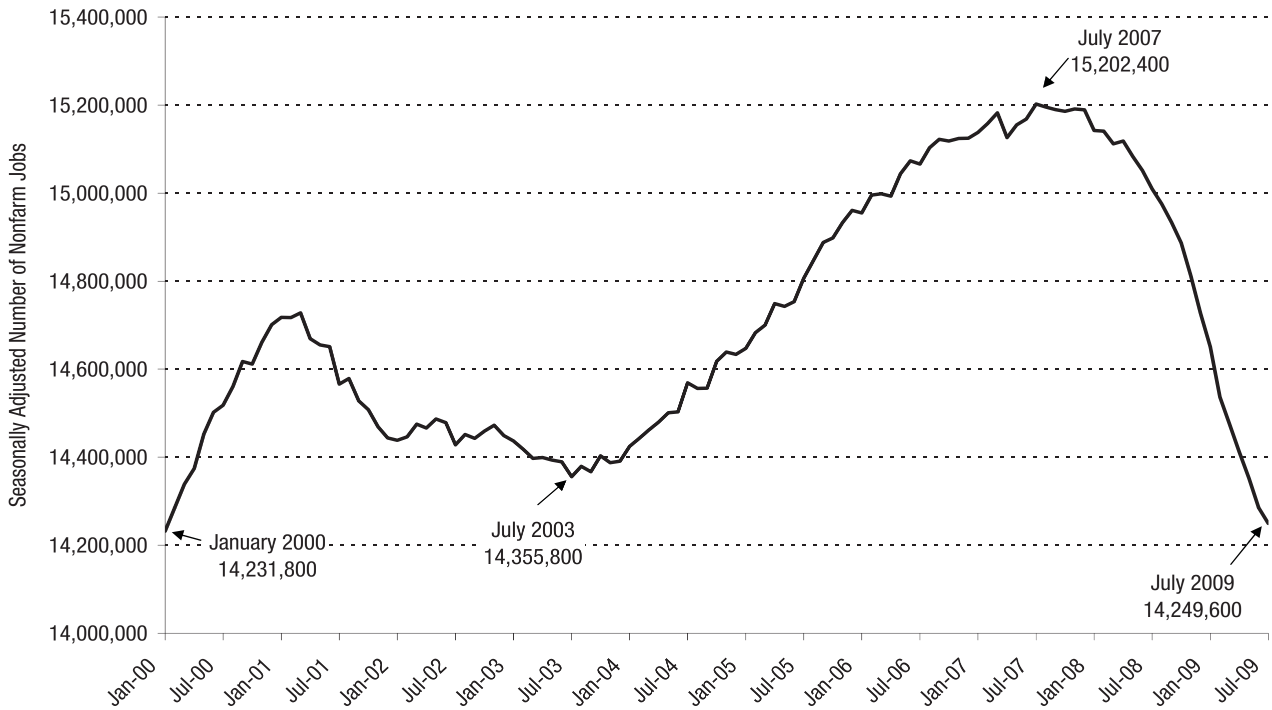
Recent Job Losses Have Been More Severe Than Those of Prior Recessions

California's job losses during the recession have been large not only in number, but also in percentage terms. In the past two years, the state experienced a larger percentage job loss than it did during each of the prior downturns for which employment data are available. Nonfarm jobs declined by 6.3 percent – 952,800 jobs – in the 24 months that the current recession has lasted so far (Table 1).[8] In contrast, California's nonfarm jobs fell by a smaller percentage over a much longer period – 4.1 percent (511,000 jobs) in 34 months – during the recession of the early 1990s, which, until the current downturn, was the state's most severe recession in at least a generation.[9]

California's Unemployment Rate Reached a Record High

As job losses have mounted, the state's unemployment rate has more than doubled, reaching an all-time high in July 2009. California's July 2009 jobless rate of 11.9 percent was the highest rate since record-keeping began in 1976 and higher than that of all but three other states (Figure 2).[10] In addition, the state's unemployment rate has risen faster during the current downturn than during any prior recession for which comparable data are available. In the 32 months since its most recent low in November 2006, California's jobless rate increased by 7.1 percentage points. In contrast, the state's

Figure 1: California Has Lost All of the Nonfarm Jobs Gained During the Recent Economic Expansion



Source: Employment Development Department

Table 1: Recent Job Losses Have Been More Severe Than Those of Prior Recessions

Dates of Recessions in California	Number of Months From Employment Peak to Trough	Decline in Nonfarm Jobs From Peak to Trough (Number)	Decline in Nonfarm Jobs From Peak to Trough (Percent)	Number of Months To Recover Lost Jobs
December 1969 through January 1971	13	172,200	2.5%	11
October 1974 through April 1975	6	145,000	1.8%	6
February 1980 through July 1980	5	90,400	0.9%	4
July 1981 through December 1982	17	336,200	3.3%	10
July 1990 through May 1993	34	511,000	4.1%	30
March 2001 through July 2003	28	372,300	2.5%	21
July 2007 through July 2009	24 so far	952,800 so far	6.3% so far	?

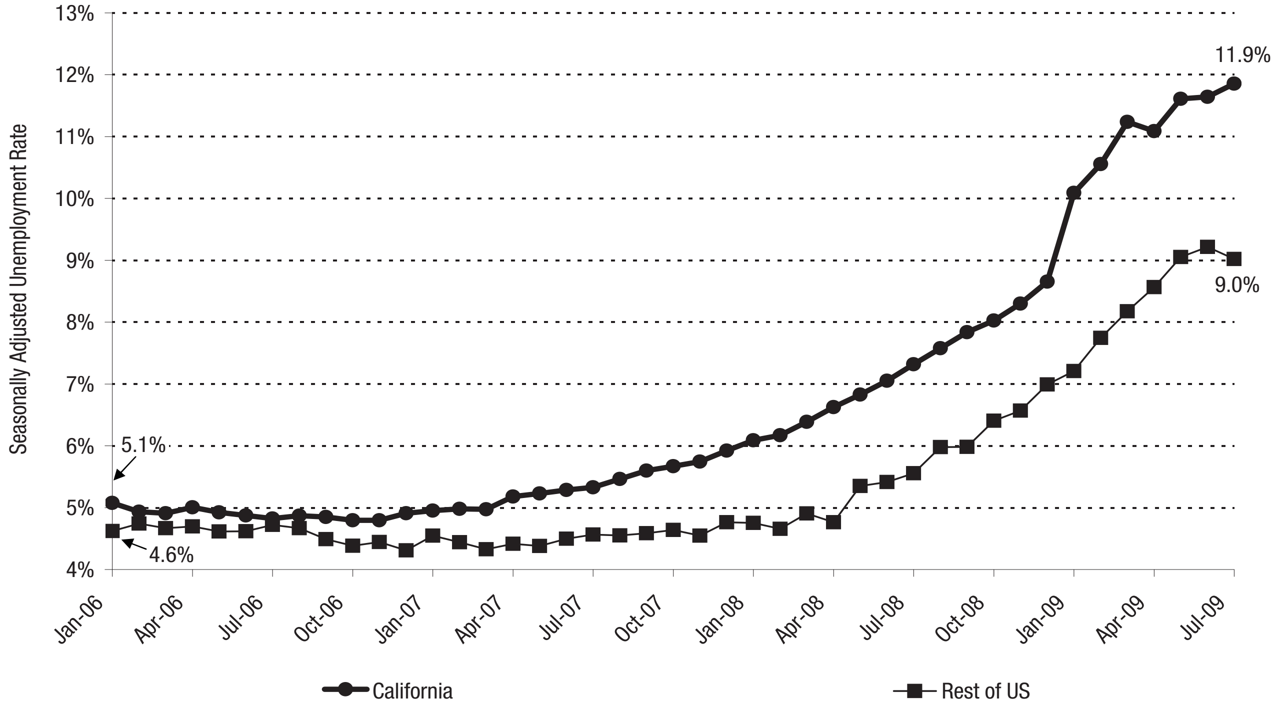
Note: The current recession is not yet over; however, July 2009 is the most recent month for which data are available.
Source: Employment Development Department

unemployment rate rose by 4.9 percentage points over 34 months during the early 1980s.[11]

Moreover, a substantial share of California's unemployed has been jobless for at least half a year. On average, more than one out of four unemployed Californians – 28.2 percent – had gone without work for 27 weeks or more during the 12 months ending in July 2009 – the highest level ever recorded.[12] Nearly half (47.9 percent) of the state's unemployed had been jobless for at least 15 weeks. Since these data are reported as 12-month averages and include months in which the job market was stronger than it is today, they likely *understate* the share of California's unemployed that has been jobless for long periods of time. National data, which are reported for individual months, show that one out of three unemployed individuals (33.8 percent) had been out of work for 27 weeks or more in July 2009 – the highest percentage on record.[13] This figure reflects the fact that there were 12.2 million more unemployed Americans than available jobs in June 2009 – equivalent to 5.8 job-seekers for each job opening.[14]

Forecasters expect the state's unemployment rate to remain in the double digits at least through 2011, which means that many Californians are likely to run out of unemployment

Figure 2: California's Unemployment Rate Hit a Record High of 11.9 Percent in July 2009



Source: Employment Development Department

insurance (UI) benefits before they can find work.[15] In March 2009, California enacted legislation enabling the state's jobless to take advantage of extended UI benefits available through the federal economic recovery act.[16] However, nearly 178,000 Californians are expected to exhaust these benefits by the end of the year.[17] Hundreds of thousands more jobless Californians currently struggle to make ends meet without UI benefits because of restrictive eligibility rules.[18] Only half of California's unemployed (50.6 percent) received UI benefits in the first quarter of 2009 – a lower recipiency rate than in 37 other states.[19]

Employment in California Fell to Its Lowest Level in More Than 30 Years

A smaller share of Californians is working today than at any point since the late 1970s. Fewer than three out of five of the state's working-age adults (57.5 percent) had jobs in July 2009 (Figure 3).[20] This means that approximately two out of every five adults were jobless. Employment levels in California were last this low in February 1977 – a time when far fewer women were working. Half of California's women (49.9 percent) had jobs in 1979 – the earliest year for which data are available – compared to a peak of 55.9 percent in 2000. In contrast, three-quarters of men were employed in 1979 (74.7 percent), somewhat higher than in 2000 (72.4 percent). Since 2000, employment has declined by a greater degree for California's men than for the state's women, reflecting the fact that men disproportionately work in sectors of the economy that have lost many jobs during the recession. The share of men with jobs dropped by 3.7 percentage points to 68.7 percent in 2008, while the share of women with jobs declined by 2.2 percentage points to 53.7 percent.[21]

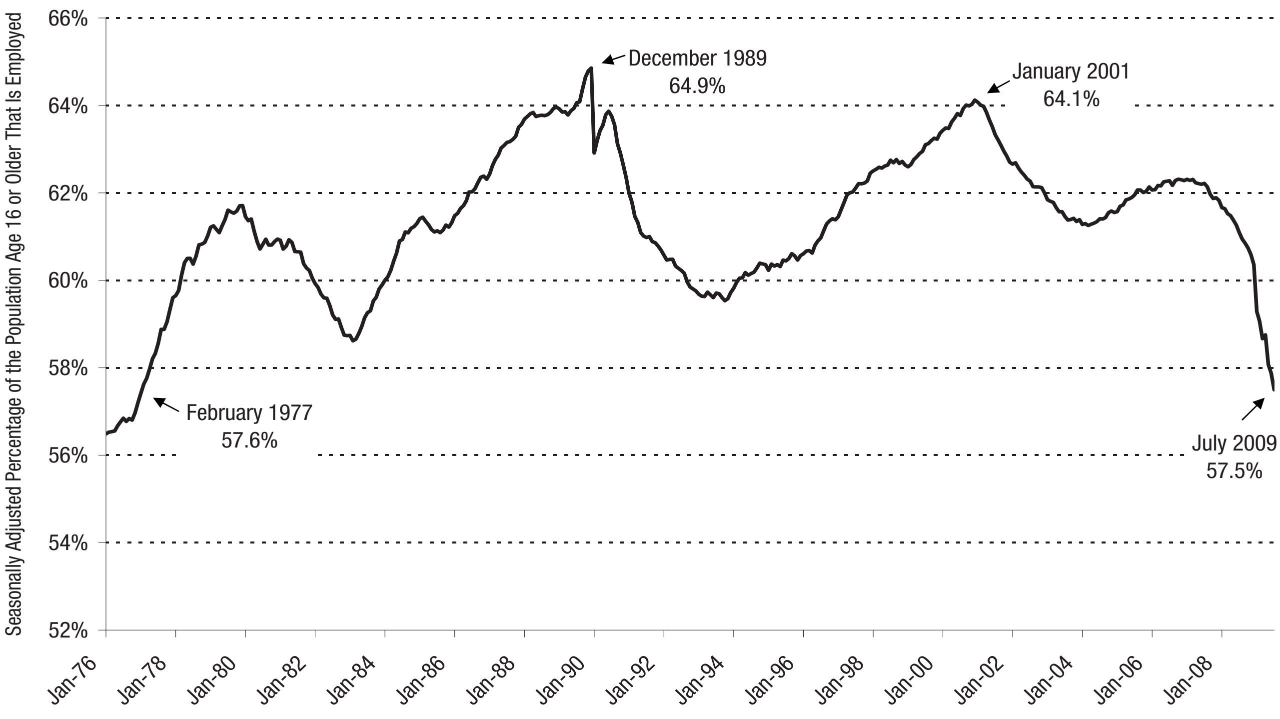
The Number of Underemployed Californians More Than Doubled in Two Years

The current recession also has increased the ranks of the *under*employed – individuals working part-time "involuntarily" either because their employers reduced their hours of work or because they could not find full-time jobs. On average, approximately 1.4 million Californians were underemployed during the 12 months ending in July – more than double the number two years earlier.[22] California's underemployment rate – the number of underemployed as a share of all workers – reached a record high in July 2009.[23] Nationally, the average worker's weekly hours fell to the lowest level on record in June 2009.[24] The rise in underemployment means that the unemployment rate alone is an inadequate measure of the current weakness in the job market. Together, on

California's Unemployment Insurance Fund Has Run Out of Money

As the recession deepened and unemployment increased, the number of jobless Californians filing initial claims for UI benefits increased by approximately 152,000 (81.9 percent), from 185,000 in June 2007 to 337,000 in June 2009.[25] The dollar amount of UI benefits paid by the state nearly tripled, from $371.5 million in June 2007 to more than $1.0 billion in June 2009.[26] This additional demand for UI benefits has pushed California's UI fund, which has operated with relatively low reserves for most of the decade, into insolvency; in January, the state's UI fund ran out of money.[27] California began borrowing money from the federal unemployment trust fund on January 26, 2009 and had borrowed more than $2.9 billion as of August 17, 2009.[28] Unless action is taken to change the way the state's UI fund is financed, the fund is expected to have a deficit of $17.8 billion at the end of 2010.[29]

Figure 3: California's Employment Fell to Its Lowest Level in More Than 30 Years in July 2009



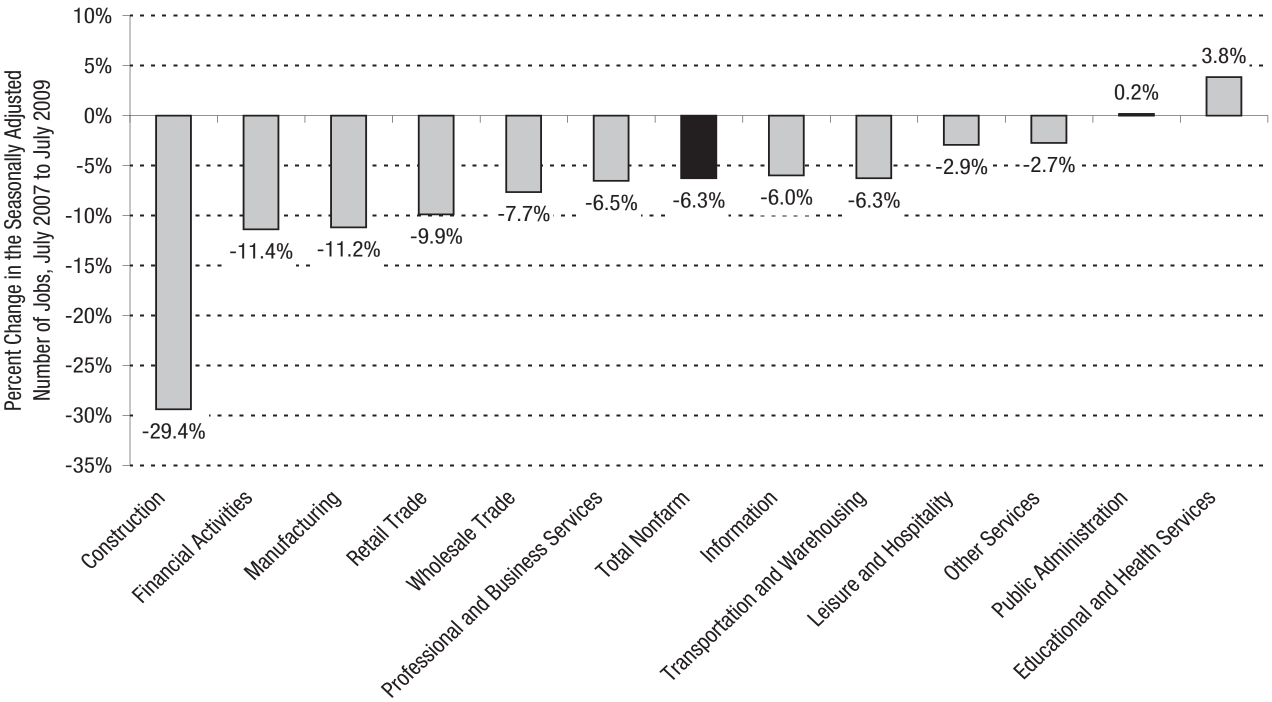
Source: US Bureau of Labor Statistics

average, nearly one out of five working-age Californians (18.5 percent) was underutilized during the 12 months ending in July 2009, meaning that they were not working, but wanted jobs, or they were working part-time, but wanted to work full-time.[30]

Nearly All Major Sectors of the Economy Have Lost Jobs

The current downturn is not only deep, it is broad: Nearly every major sector of California's economy has lost jobs during the downturn. By far, construction has suffered the largest percentage drop since the onset of the recession, with July 2009 employment down by 29.4 percent from July 2007 (Figure 4).[31] The number of jobs in financial activities, which includes the real estate industry as well as finance and insurance, declined by 11.4 percent during the same period, while manufacturing jobs dropped by 11.2 percent.[32] Consumption-related sectors, particularly wholesale and retail trade, also lost a substantial share of jobs, due to diminished spending by individuals and businesses. Only two major sectors of the economy – public administration and educational and health services – had more jobs in July 2009 than at the beginning of the recession. However, after fairly steady job growth for the first year of the recession, the public sector began to lose jobs in July 2008, driven by a drop in local

Figure 4: Nearly All Sectors of the California Economy Have Lost Jobs Since the Recession Began



Source: Employment Development Department

government employment, which includes public education. In addition, job growth in educational and health services has been essentially flat since early 2009.[33]

The recession has taken a particularly harsh toll on California's job market relative to that of the rest of the US. The number of the state's nonfarm jobs dropped by 6.3 percent between the employment peak in July 2007 and July 2009, compared to a 4.7 percent decline in the number of nonfarm jobs in the rest of the nation.[34] In fact, California has lost a greater percentage of its jobs than the rest of the US in most major sectors of the economy.[35] California's job losses compared to the rest of nation have been especially deep in housing- and consumption-related sectors, including construction; financial activities; and trade, transportation, and utilities.[36]

Unemployment rates for men and Latinos have risen steeply during the past two years because they are more likely to work in sectors of the economy that have been hardest hit by the downturn.[37] The jobless rate for men increased by 5.5 percentage points from an average of 5.0 percent during the 12 months ending in July 2007 to an average of 10.5 percent in the 12 months ending in July 2009. In contrast, women's unemployment rate rose by 3.7 percentage points from an average of 4.9 percent to an average of 8.6 percent during the same period.[38] The unemployment rate for the state's Latinos more than doubled in two years, increasing by 6.8 percentage points from an average of 5.9 percent in the 12 months ending in July 2007 to an average of 12.7 percent in the 12 months ending in July 2009. In contrast, the jobless rate for whites rose by 4.7 percentage points during the same period, from an average of 4.8 percent to an average of 9.5 percent.[39]

Recovery in the Job Market Is Likely To Be Long and Slow

Once the recovery begins, many economists anticipate that the labor market will rebound slowly because job growth immediately following the recession is likely to be weak. Even with relatively strong job growth, it would take several years for the state to return to pre-recession employment levels. For example, California added 268,700 jobs in 2005, the strongest year of job growth between the 2001 recession and the onset of the current downturn.[40] At this rate of growth, it would take more than three years for the state to regain the 952,800 jobs it lost in the past two years.[41] It would take even longer for California to add enough jobs to account for recent growth in the working-age population, which has increased by more than 700,000 since the onset of the recession. This means that more Californians are looking for jobs today than at the beginning of the downturn. Therefore, for the employment rate to fully rebound, the state needs to add potentially hundreds of thousands more jobs in addition to the 952,800 it lost in recent years.

THE RECESSION HAS DIMINISHED WORKERS' EARNINGS

The weak job market has taken a toll on workers' earnings in two respects. In early 2009, the hourly wages of workers across the earnings distribution lost purchasing power. Average weekly earnings declined for many workers, as well, largely as a result of reduced hours of work. These reductions in earnings are likely to diminish many families' incomes since wages and salaries make up the bulk of most families' incomes.

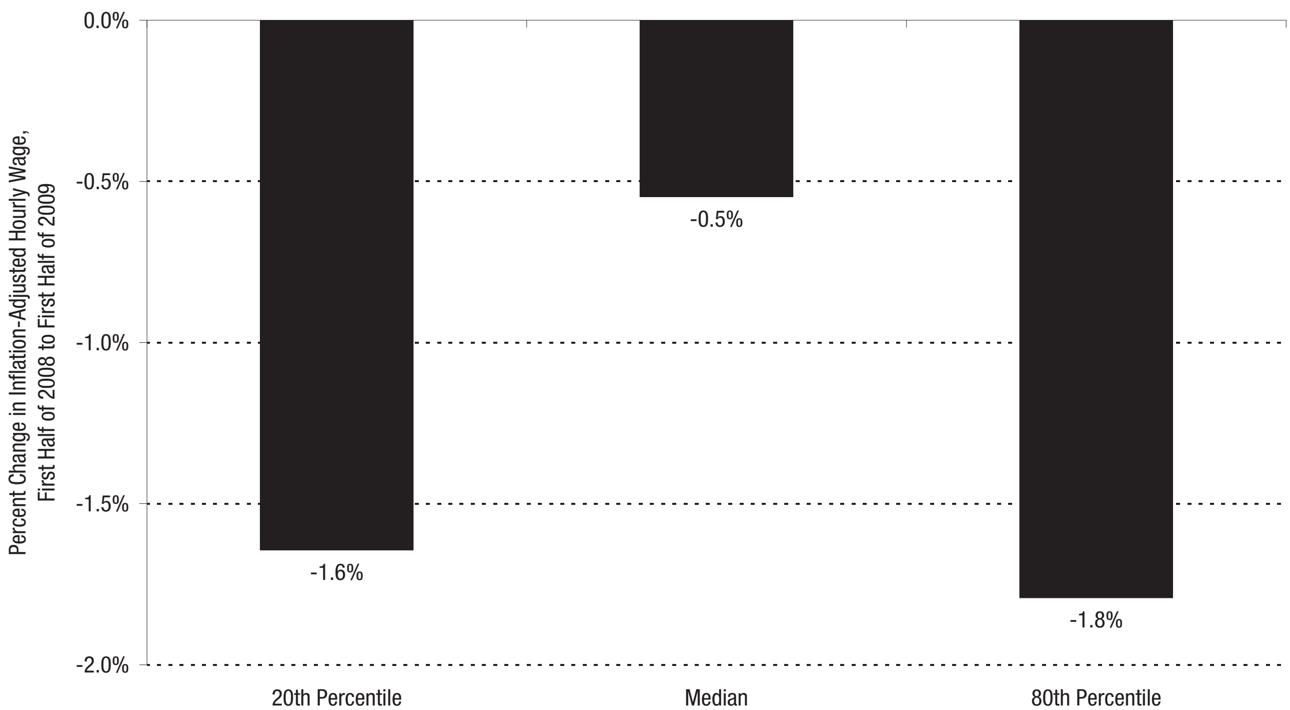
Workers' Hourly Wages Lost Purchasing Power as the Recession Deepened

The hourly wages of California's workers generally outpaced inflation at the beginning of the downturn, but lost purchasing power more recently as the recession deepened.[42] The inflation-adjusted hourly wage of the typical California worker – the worker exactly at the middle of the earnings distribution – declined by 0.5 percent between the first half of 2008 and the same months of 2009, while that of the state's low-wage earners – workers with earnings at the 20th percentile of the distribution – fell by 1.6 percent (Figure 5).[43] During the same period, the hourly wage of the state's high-wage workers – those with earnings at the 80th percentile of the distribution – dropped by 1.8 percent, after adjusting for inflation.[44]

Reduced Hours of Work Diminished Weekly Earnings

A substantial drop in hours worked per week has compounded weak hourly wage gains for many California workers. Weekly hours for the average worker in the middle fifth of the earnings distribution fell by 1.7 percent between the first half of 2008 and the same months of 2009 (Table 2).[45] This decline in hours, together with a 0.1 percent drop in the average worker's inflation-adjusted hourly wage, diminished the average worker's inflation-adjusted weekly earnings by a total of 1.8 percent. Similarly, a 1.7 percent drop in weekly hours for the average worker in the second fifth of the earnings distribution more than offset a modest 0.7 percent increase in this worker's inflation-adjusted hourly wage in early 2009. As a result, the inflation-adjusted weekly earnings for the average worker in the second fifth of the distribution declined by 1.0 percent. Weekly hours dropped by a substantial 4.9 percent for the average worker in the bottom fifth of the earnings distribution between the first half of 2008 and the

Figure 5: The Hourly Wages of California's Workers Lost Purchasing Power in Early 2009



Source: CBP analysis of US Census Bureau data

Table 2: A Decline in Hours Worked Reduced Many California Workers' Weekly Earnings Between the First Half of 2008 and the First Half of 2009			
	Percent Change in Average:		
Earnings Category	Inflation-Adjusted Hourly Wage	Hours Worked Per Week	Inflation-Adjusted Weekly Earnings
Lowest Fifth	2.6%	-4.9%	-2.3%
Second Fifth	0.7%	-1.7%	-1.0%
Middle Fifth	-0.1%	-1.7%	-1.8%
Fourth Fifth	-2.1%	1.5%	-0.6%
Highest Fifth	0.2%	1.5%	1.7%

Source: CBP analysis of US Census Bureau data

same months of 2009. This decline in hours more than offset a 2.6 percent increase in this worker's hourly wage. Together, these changes reduced this worker's inflation-adjusted weekly earnings by 2.3 percent.

Wage Gains Prior to the Recession Were Relatively Weak

The recent drop in the purchasing power of workers' hourly wages follows several years of relatively weak wage gains. The hourly wages of California's workers gained considerably less purchasing power across the earnings distribution during the first seven years of this decade than during the second half of the 1990s (Table 3).[46] For example, on average, the typical worker's inflation-adjusted hourly wage increased by 0.5 percent per year between 2000 and 2007 – less than half the average annual increase between 1995 and 2000 (1.1 percent).[47] On average, low-wage workers' inflation-adjusted hourly wage rose by 0.5 percent per year during the first seven years of this decade, compared to an average annual 0.8 percent increase during the second half of the 1990s.[48] These trends are significant because national productivity growth – the increase in the amount of goods and services produced per hour worked – was nearly the same during these two periods.[49] Productivity gains increase the size of the "economic pie," making increases in wages and salaries possible.[50] However, evidence suggests that increased productivity between 2000 and 2007 translated into substantial gains for the wealthiest Californians, with little trickle-down to low- and middle-income families.[51]

Table 3: The Gains of High-Wage Workers Have Far Outpaced Those of Workers at the Low End and Middle of the Earnings Distribution Since 1979			
	Average Annual Percent Change in Hourly Wage (2008 Dollars)		
	20th Percentile	Median	80th Percentile
1979 to 1989	-0.6%	-0.1%	0.6%
1989 to 2000	-0.5%	0.1%	0.5%
1989 to 1995	-1.6%	-0.7%	-0.1%
1995 to 2000	0.8%	1.1%	1.4%
2000 to 2007	0.5%	0.5%	0.9%
2007 to 2008	2.0%	-0.1%	0.7%
1979 to 2008	-0.2%	0.1%	0.7%

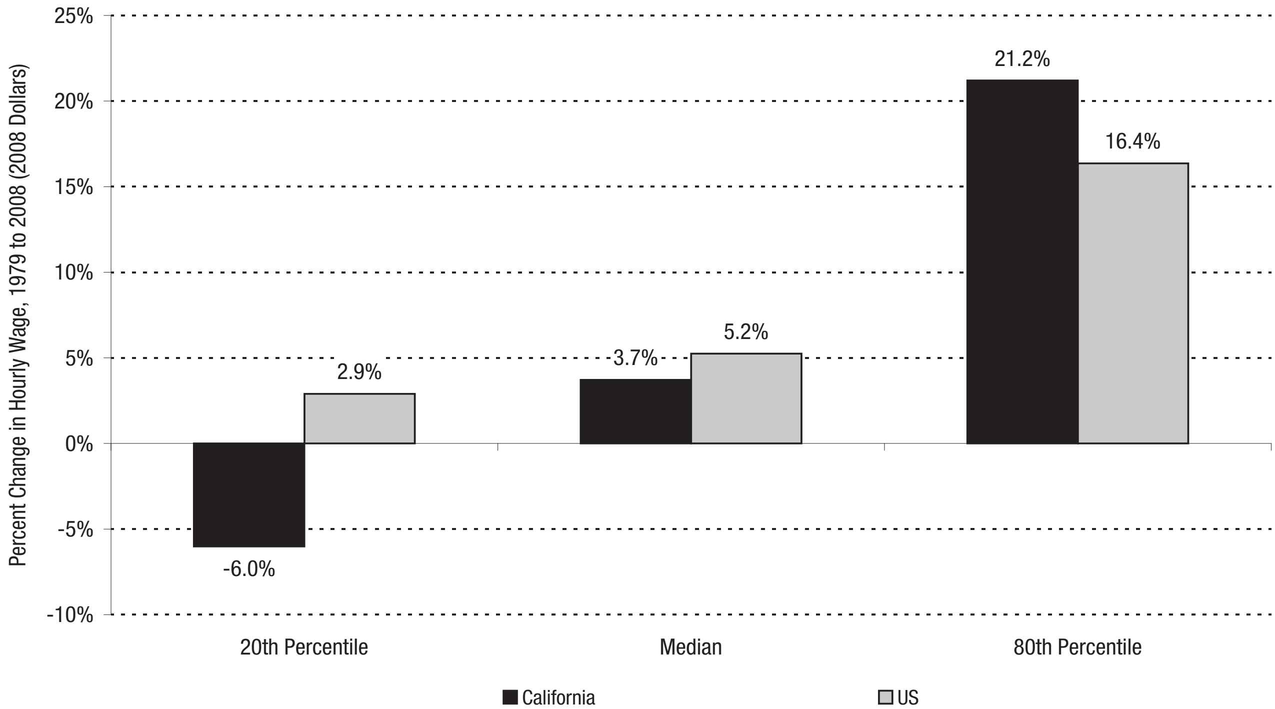
Source: CBP analysis of US Census Bureau data

The Gap Between Low-Wage and High-Wage California Workers Widened During the Past Generation

High-wage workers' wage gains have far outpaced those of workers at the low end and middle of the earnings distribution for at least a generation. The inflation-adjusted hourly wage of California's high-wage workers increased by 0.6 percent per year, on average, between 1979 and 1989, while that of the typical worker declined by an average of 0.1 percent per year and that of low-wage workers fell even further, by an average of 0.6 percent per year.[52] The trend between 1989 and 2000 was similar.[53] During the 2000s, high-wage workers' wage gains were even greater than in prior decades. The inflation-adjusted hourly wage of the state's high-wage workers increased, on average, by 0.9 percent per year between 2000 and 2007 – nearly twice the average annual increase in the hourly wage of the state's low-wage workers and the typical California worker (0.5 percent).

Uneven wage gains during the past generation have widened the gap between the state's low-wage and high-wage workers. The inflation-adjusted hourly wage of the state's low-wage workers declined by 6.0 percent between 1979 and 2008, while that of the typical worker increased by just 3.7 percent (Figure 6).[54] In contrast, the hourly wage of California's high-wage workers rose by 21.2 percent, after adjusting for inflation – nearly six times the increase of the typical worker's wage.[55] Consequently, the hourly wage of California's high-wage workers increased from 2.4 times that of the state's low-wage workers in 1979 to 3.1 times low-wage workers' hourly wage in 2008. This gap widened by a greater margin in California than in the US as a whole because the state's low-wage workers fared worse than their counterparts nationally, while the state's high-wage workers fared better.[56]

Figure 6: The Gap Between Low-Wage and High-Wage Workers Widened, 1979 to 2008



Source: CBP analysis of US Census Bureau data

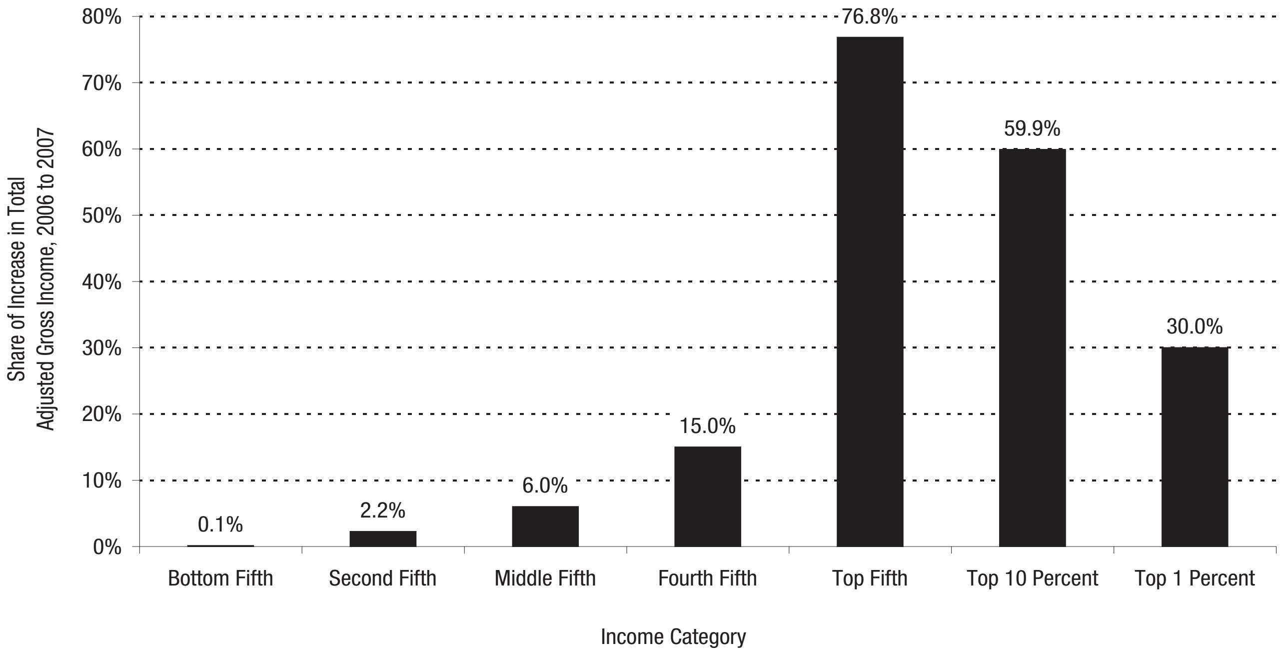
RECENT INCOME GAINS WERE NOT BROADLY SHARED

Income gaps have widened even more than wage gaps in recent years, reflecting the increased concentration of investment income among the wealthiest Californians.[57] While incomes reported for tax purposes are largely composed of earnings from work, they also include earnings from interest, dividends, and capital gains – which reflect the increase in the value of assets such as stocks and real estate.[58] The latest income data, which predate the recession, show that more than three-quarters (76.8 percent) of the increase in total adjusted gross income (AGI) between 2006 and 2007 went to the wealthiest fifth of California's personal income taxpayers (Figure 7).[59] Nearly one-third (30.0 percent) of the gains in AGI went to the top 1 percent of taxpayers. In contrast, just 6.0 percent of the increase in AGI went to taxpayers with incomes in the middle fifth of the distribution. These uneven gains mean that the inflation-adjusted AGI of the average taxpayer in the top 1 percent increased by $75,071 (4.3 percent) between 2006 and 2007, compared to a $188 (0.5 percent) increase for the average middle-income taxpayer (Table 4).

Recent uneven income gains continue a longer-term trend. The inflation-adjusted AGI of the average California taxpayer in the top 1 percent rose by 117.3 percent between 1995 and 2007 – nearly 13 times the gain of the average middle-income taxpayer (9.1 percent).[60] In fact, only the wealthiest fifth of taxpayers made significant gains during this period. The inflation-adjusted AGI of the average taxpayer in the top fifth of the distribution rose by 51.0 percent between 1995 and 2007 – four to six times the gains of the average taxpayer in each of the bottom four fifths.

Substantial income gains among the wealthiest Californians mean that the top 1 percent of taxpayers has nearly doubled its share of AGI since the early 1990s. One-quarter (25.2 percent) of total AGI went to the wealthiest 1 percent of taxpayers in 2007, nearly twice their share (13.8 percent) in 1993, the earliest year for which data are available.[61] In contrast, taxpayers with incomes in the middle of the distribution had just 10.0 percent of total AGI in 2007, down from 13.0 percent in 1993.[62] National data, which are available since 1913, show that the share of income going to the wealthiest 1 percent in 2007 was the second highest in history; the only higher share was in 1928.[63]

Figure 7: Three-Quarters of the 2007 Gain in Adjusted Gross Income Went to the Wealthiest Fifth of Taxpayers



Source: Franchise Tax Board

Table 4: The Gains of the Wealthiest Taxpayers Have Far Outpaced Those of Middle-Income Taxpayers

	Percent Change in Average Adjusted Gross Income (2007 Dollars)	
Income Category	1995 to 2007	2006 to 2007
Bottom Fifth	7.7%	-2.8%
Second Fifth	8.7%	-0.7%
Middle Fifth	9.1%	0.5%
Fourth Fifth	11.3%	2.2%
Top Fifth	51.0%	4.2%
Top 10 Percent	64.1%	4.2%
Top 1 Percent	117.3%	4.3%

Source: Franchise Tax Board

CONCLUSION

Although some evidence suggests that the “great recession” may be nearing its end, the state’s labor market is projected to remain weak for several more years. Indeed, many economists anticipate that the economy will suffer another “jobless recovery” – a period with little to no job growth in spite of an expanding economy.[64] This prospect does not bode well for California’s workers and their families, whose economic well-being is directly linked to the strength of the job market. The jobless recovery that followed the 2001 recession diminished the purchasing power of the typical California household’s income well after the downturn ended. Consequently, it took six years for the typical household’s income to rebound from a national recession that lasted just nine months. A jobless recovery following the current recession, which has lasted much longer and is far more severe than that of 2001, could have an even greater and longer-lasting impact on families’ living standards.

ENDNOTES

[1] The most recent income data are for 2007.

[2] According to the Employment Development Department (EDD), nonfarm employment data are used to determine the beginning and end dates of recessions in California. The length of a recession is measured from the month in which nonfarm employment peaks to the month when employment reaches a trough. The beginning and end of California's recessions do not necessarily coincide with recessions for the US economy, which are identified by the National Bureau of Economic Research and reflect changes in inflation-adjusted gross domestic product (GDP), inflation-adjusted income, industrial production, and wholesale-retail sales as well as employment. Personal communication with the EDD (June 16, 2009).

[3] Data are available only for the prior six recessions, which date to the late 1960s. All jobs and employment data are seasonally adjusted.

[4] Unemployment data are available since 1976, underemployment data are available since 1990, and long-term unemployment data are available since 1985.

[5] Employment Development Department. California lost 35,800 nonfarm jobs in July 2009, down from an average of 63,000 nonfarm jobs lost per month between March 2009 and June 2009, and an average of 87,000 nonfarm jobs lost per month between November 2008 and February 2009. It will take another couple of months of data to determine whether the reduction in the number of jobs lost in July is the beginning of a trend.

[6] Heidi Shierholz, *Nine Years of Job Growth Wiped Out* (Economic Policy Institute: July 2, 2009). Seasonally adjusted California nonfarm jobs data dating back to the Great Depression are not available. California data that are not seasonally adjusted suggest that this is the first recession at least since the end of World War II to wipe out all the job growth of the prior expansion.

[7] Employment Development Department and US Bureau of Labor Statistics. California had approximately the same number of jobs in July 2009 as it did in January 2000. Working-age individuals are those age 16 or older who are not on active duty with the Armed Forces and do not live in institutions such as prisons.

[8] Employment Development Department. Data are available only for the prior six recessions.

[9] Although California has lost nearly twice as many jobs in the past two years as it did during the early 1990s downturn, the total number of jobs in the state is much larger today than it was then because the size of the workforce has increased.

[10] Employment Development Department. US Bureau of Labor Statistics data show that Michigan, Rhode Island, and Nevada had higher July unemployment rates than California. Oregon's July unemployment rate was the same as California's.

[11] Employment Development Department. Until the current downturn, this was the greatest increase in the unemployment rate since official monthly unemployment record-keeping began at the state level in 1976.

[12] Employment Development Department. Data are not publicly reported for individual months. Records start in 1985. The share of unemployed Californians without work for 27 weeks or more last peaked at 25.7 percent in October 1994.

[13] US Bureau of Labor Statistics. Records start in 1948. The July share of unemployed who have gone without work for 27 weeks or more is likely higher in California than in the US as a whole given that the state's unemployment rate is considerably higher and has been increasing longer than the nation's.

[14] Lawrence Mishel, *Nearly Six Unemployed Workers Per Job but Ratio Does Not Worsen* (Economic Policy Institute: August 12, 2009).

[15] In March, the UCLA Anderson Forecast projected that California's unemployment rate would not dip below double digits until 2012. The Department of Finance's April forecast projected the state's unemployment rate would peak at 12.0 percent in 2010 and remain in double digits in 2011. More recent forecasts by the University of the Pacific and the University of California Santa Barbara project that the state's jobless rate will reach at least 12.0 percent in 2009 and exceed 12.0 percent in 2010. UCLA Anderson School of Management, *UCLA Anderson Forecast: National Recovery Linked to Global Solutions* (March 25, 2009); Department of Finance, *Economic Forecasts, US and California* (April 2009); University of the Pacific Eberhardt School of Business, *California and Metro Forecast 2009-2013: California To Lose Over 1 Million Jobs Before Recession Ends* (June 24, 2009); and University of California Santa Barbara Economic Forecast Project, *California's Economy: The Beating Goes On* (June 2009).

[16] Regular UI benefits provide a maximum of 26 weeks of assistance to unemployed workers. In 2008, the temporary Emergency Unemployment Compensation (EUC) program enabled jobless Californians to receive up to an additional 33 weeks of benefits. The American Recovery and Reinvestment Act (ARRA) of 2009, signed into law by President Obama in February, offered full federal funding of the Extended Benefits (EB) Program for claims filed for this program before the end of 2009. This provision made it possible for high-unemployment states, such as California, to provide an additional 20 weeks of extended benefits to the jobless who run out of EUC benefits without using state funds. See California Budget Project, *Legislature Must Act for Californians To Receive Additional Unemployment Insurance Benefits and $838.7 Million in Federal Funds* (March 2009). AB 23xxx (Coto, Chapter 22 of 2009) made the necessary statutory changes to enable California's long-term unemployed to access these additional benefits.

[17] National Employment Law Project, *Number of Workers Exhausting Federal Extensions of Unemployment Benefits* (July 2009).

[18] Federal law requires virtually all wage and salary employees to be covered by the UI Program. However, workers must have lost their job through no fault of their own and meet monetary and other eligibility criteria in order to receive UI benefits. For more information, see California Budget Project, *Hard Work and a Fair Shot: Helping California's Low-Income Working Families Make Ends Meet* (August 2007).

[19] US Department of Labor. Includes the unemployed who receive extended UI benefits.

[20] US Bureau of Labor Statistics. The employment rate is the share of noninstitutionalized civilians who are employed. Noninstitutionalized civilians are defined as those age 16 or older who are not on active duty with the Armed Forces and do not live in institutions such as prisons. Some economists consider the employment rate a better measure of labor market conditions than the unemployment rate because the unemployment rate excludes jobless individuals who have not recently searched for employment. This means that the unemployment rate can decline if jobless individuals give up their search for employment. The employment rate, on the other hand, does not fall when the unemployed stop looking for work. During recent periods of strong economic growth, nearly two out of three Californians had jobs. For example, employment in California peaked in December 1989, when 64.9 percent of working-age adults had jobs, and rose nearly as high (64.1 percent) again in January 2001. Job growth following the 2001 recession was so weak that the state's employment rate failed to fully rebound, reaching a high of only 62.3 percent in September 2006.

[21] CBP analysis of US Census Bureau, Current Population Survey data.

[22] Employment Development Department. Data represent the average monthly number of "involuntary" part-time workers during the 12 months ending in July 2009. Data are not publicly reported for individual months. Since these data are averaged during a period in which the job market was stronger than it is today, these data likely understate the number of workers who were underemployed in July 2009.

[23] Personal communication with the Employment Development Department (August 3, 2009). Records start in 1990. A recent analysis shows that the rise in the number of involuntary part-time workers in the US during 2008 was largely due to "slack work or business conditions." This trend is typical because employers tend to reduce workers' hours before resorting to layoffs. See James Marschall Borbely, "US Labor Market in 2008: Economy in Recession," *Monthly Labor Review* 132 (March 2009), p. 10.

[24] US Bureau of Labor Statistics data show that nonsupervisory and production workers in the private sector – who make up approximately 80 percent of the workforce – worked an average of 33.0 hours per week in June 2009, compared to 33.9 hours per week in June 2007. Records date back to 1964. Comparable California data are not available.

[25] US Department of Labor.

[26] US Department of Labor. Data are not adjusted for inflation.

[27] California's UI fund is financed by payroll taxes paid by employers.

28 US Department of Labor, *UI Budget* (n.d.). The ARRA waived interest due on federal UI loans through 2010 and offered $838.7 million to California's UI fund to encourage the state to expand UI coverage. In order to receive this money, California had to agree to use workers' recent earnings for determining eligibility for UI. AB 29xxx (Coto, Chapter 23 of 2009) made this statutory change and set a deadline for implementation of April 3, 2011. For more information, see California Budget Project, *Legislature Must Act for Californians To Receive Additional Unemployment Insurance Benefits and $838.7 Million in Federal Funds* (March 2009).

29 US Department of Labor data show that California paid $5.6 billion in UI benefits during the first six months of the year. The Employment Development Department projects California will pay a total of $11.8 billion in UI benefits in 2009 and $17.3 billion in 2010. These estimated payments far exceed total projected receipts of $5.3 billion in 2009 and $5.7 billion in 2010. See Employment Development Department, *May 2009 Unemployment Insurance (UI) Fund Forecast* (n.d.).

30 CBP analysis of Employment Development Department data. This alternative measure of labor market conditions includes the underemployed, as well as the approximately 300,000 unemployed Californians who want to work, are available for work, and have searched for work within the past 12 months, but not in the most recent four weeks. These individuals are considered to be "marginally attached" to the labor force and are not included in the official unemployment rate, which counts individuals as unemployed only if they have actively searched for work within the past four weeks. Many of these marginally attached individuals specify that they have stopped looking for work because they are discouraged by their employment prospects. As hiring slowed, the average monthly number of marginally attached Californians increased by 65.0 percent between the 12 months ending in July 2008 and the 12 months ending in July 2009. Data on the underemployed and the marginally attached likely *understate* the current weakness in the economy, since they are reported as 12-month averages and include months in which the job market was stronger than it is today. Some research suggests that an even higher share of the state's workers were "underutilized" during the first four months of 2009. See Andrew Sum, et al., *The Great Recession of 2007-2009: Its Post-World War II Record Impacts on Rising Unemployment and Underutilization Problems Among US Workers* (Center for Labor Market Studies, Northeastern University: June 2009). The authors find that 22.4 percent of California's adults were underutilized between January 2009 and April 2009 – the third-highest share in the nation. This analysis defines "underutilized" adults as those who are underemployed or unemployed, regardless of whether or when they last searched for a job.

31 Employment Development Department. Job losses are measured relative to July 2007, when nonfarm employment peaked. However, not all major sectors of the economy peaked at the same time. Employment in construction, for example, peaked in February 2006.

32 According to an analysis of national employment data, job losses first occurred in construction and housing-related manufacturing, then spread to housing-related wholesale and retail trade industries. With the onset of the financial crisis, job losses spread to financial activities and "industries that rely on consumer credit for large purchases of durable goods, such as appliances and automobiles." Eventually employment declines showed up in consumer-driven industries beyond housing, such as retail trade and leisure and hospitality, because of diminished consumption and reduced access to credit. See Laura A. Kelter, "Substantial Job Losses in 2008: Weakness Broadens and Deepens Across Industries," *Monthly Labor Review* 132 (March 2009), pp. 20-33. Manufacturing jobs have been steadily declining in California for more than eight years; therefore, job losses in this sector are not entirely related to the current downturn.

33 Health services job growth has essentially been flat since early 2009, while educational services has generally lost jobs.

34 Employment Development Department. While California's nonfarm jobs peaked in July 2007, the rest of the nation's nonfarm jobs peaked in December 2007.

35 This analysis compares the percent change in jobs between the month when nonfarm employment peaked and July 2009. Nonfarm employment peaked in California in July 2007 and peaked in the rest of the US in December 2007.

36 Trade, transportation, and utilities is primarily composed of wholesale and retail trade jobs. The number of public administration and educational and health services jobs has increased since the beginning of the downturn in the rest of the nation, as in California.

37 For example, men and Latinos disproportionately work in construction and manufacturing relative to women and whites, and these two sectors together lost more than 425,000 jobs between July 2007 and July 2009.

38 Employment Development Department. These figures represent the average monthly unemployment rate for men and women during the 12 months ending in July 2007 and July 2009, respectively. Since these averages include months in which the economy was stronger than it is today, they are lower than the overall July 2009 unemployment rate, reported earlier, which reflects only a single month of data. Unemployment rates for men and women are not publicly reported for individual months.

39 Employment Development Department. These figures represent the average monthly unemployment rate for Latinos and whites during the 12 months ending in July 2007 and July 2009, respectively. Since these averages include months in which the economy was stronger than it is today, they are lower than the overall July 2009 unemployment rate, reported earlier, which reflects only a single month of data.

40 Employment Development Department.

41 Even if the state experienced job growth comparable to that of the boom of the late 1990s – a prospect that is unlikely – it would take about two years to regain the jobs lost during the recession.

42 Workers' earnings tend to be one of the last labor market indicators to show weakness during a downturn because employers are often reluctant to cut workers' wages. Instead, they typically reduce workers' hours, lay off employees, and/or do not provide raises to the employees that they keep. National evidence suggests that workers' average earnings may have outpaced inflation during the first part of the recession because the lowest-paid workers were the most likely to lose their jobs. As a result, the composition of the workforce changed – relatively higher-wage workers remained employed – making it appear that average earnings increased. Personal communication with the Economic Policy Institute (August 3, 2009).

43 CBP analysis of US Census Bureau, Current Population Survey data. Deflation between the first half of 2008 and that of 2009 helped to mitigate the drop in workers' nominal (not adjusted for inflation) earnings. For this analysis, percentiles were determined based the distribution of workers' hourly wages.

44 The recent decline in workers' earnings is likely to erode the purchasing power of many families' *incomes*, as well, since wages and salaries make up approximately three-quarters of total US family income, and an even larger share of middle-income families' incomes. See Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, *The State of Working America 2008/2009* (Cornell University Press: 2009), p. 121. Comparable California data are not available, but there is no reason to expect a substantially different finding. Earnings include wages and salaries, commissions, and tips as well as self-employment earnings. Income includes earnings, as well as interest, dividends, and other sources of income such as cash assistance.

45 CBP analysis of US Census Bureau, Current Population Survey data. For this analysis, workers were divided into fifths based on their weekly earnings.

46 This analysis examines workers' earnings during periods of comparable growth in national productivity. For more information, see Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, *The State of Working America 2008/2009* (Cornell University Press: 2009), pp. 124-127.

47 CBP analysis of US Census Bureau, Current Population Survey data. Since 2000, wage trends for California workers have followed two distinct patterns. For the first four years of the decade, hourly wages generally gained purchasing power across the earnings distribution. Then, for the next two to three years, hourly wages lost purchasing power. Since wage trends often lag job trends, this pattern may reflect the delayed effects of the tight labor market of the late 1990s boom, which boosted earnings, followed by the effects of the weak job market of the early 2000s, which ultimately dampened earnings growth.

48 In addition, high-wage workers' hourly wage increased by 0.9 per year, on average, between 2000 and 2007, compared to an average of 1.4 percent per year between 1995 and 2000.

49 US Bureau of Labor Statistics data show that national productivity growth rose by an average of 2.6 percent per year between 2000 and 2007 and 2.7 percent per year between 1995 and 2000.

50 Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, *The State of Working America 2008/2009* (Cornell University Press: 2009), p. 125.

51 See Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, *The State of Working America 2008/2009* (Cornell University Press: 2009), pp. 2 and 58-60 for national evidence and California Budget Project, *New Data Show That California's Income Gaps Continue To Widen* (June 2009) for evidence in California. Relatively weak job growth between 2000 and 2007 may explain why workers' earnings gained comparatively less purchasing power during this period. The number of California's nonfarm jobs increased by 0.7 percent per year between 2000 and 2007, compared to 1.5 percent per year between 1990 and 2000, and 3.1 percent per year between 1995 and 2000. (Although 1989 was the economic peak, California jobs data are not available for that year.) Since the labor market is the primary means through which economic growth reaches workers and their families, slow job growth tends to result in weak wage and income growth for working families.

[52] CBP analysis of US Census Bureau, Current Population Survey data.
[53] The inflation-adjusted hourly wage of the state's high-wage workers increased by an average of 0.5 percent per year between 1989 and 2000, while that of the typical worker rose by 0.1 percent per year, on average, and that of low-wage workers declined by an average 0.5 percent per year.
[54] CBP analysis of US Census Bureau, Current Population Survey data. Low-wage workers have lost ground for most of the past generation. Their hourly wages generally lost purchasing power throughout the 1980s and most of the 1990s, then gained purchasing power between 1997 and 2004 – but not enough to offset prior losses. Between 2004 and 2007, low-wage workers' wages once again lost purchasing power, before increasing somewhat in 2008. The typical worker's wage has been relatively flat for most of the past generation. The most substantial drop in the purchasing power of the typical worker's wage occurred in the early to mid-1990s; however, this lost purchasing power was regained in the late 1990s and early 2000s.
[55] The gains in high-wage workers' hourly wage during the past generation have primarily occurred since 1997.
[56] The hourly wage of the nation's high-wage workers increased from 2.4 times that of the nation's low-wage workers in 1979 to 2.8 times low-wage workers' hourly wage in 2008. For more on widening wage gaps during the past generation, see California Budget Project, *A Generation of Widening Inequality: The State of Working California, 1979 to 2006* (August 2007).
[57] See California Budget Project, *A Generation of Widening Inequality: The State of Working California, 1979 to 2006* (August 2007), p. 35.
[58] Adjusted gross income (AGI) – income reported for tax purposes – differs from family and household income reported by the US Census Bureau. The most significant difference is that AGI includes income from capital gains that are reported for tax purposes, whereas family and household income reported by the Census Bureau do not. Family and household income data, on the other hand, include cash assistance, while AGI data do not.
[59] Franchise Tax Board. Taxpayers include both single and joint filers. For more information, see California Budget Project, *New Data Show That California's Income Gaps Continue To Widen* (June 2009).
[60] Franchise Tax Board.
[61] Franchise Tax Board.
[62] The wealthiest 1 percent of taxpayers' share of AGI peaked at 27.5 percent in 2000 at the height of the economic boom, then fell to 17.8 percent in 2002, largely as a result of the drop in investment income due to declines in the stock market. As the economy recovered, the wealthiest 1 percent of taxpayers' share of AGI rebounded. In contrast, the share of AGI going to taxpayers with incomes in the middle fifth of the distribution has been relatively flat since 2000.
[63] Emmanuel Saez, *Striking It Richer: The Evolution of Top Incomes in the United States (Update With 2007 Estimates)* (August 5, 2009).
[64] Economic expansions are measured primarily by gains in national GDP. Therefore, the economy can expand even at time when there is little to no job growth.