cbp CALIFORNIA BUDGET PROJECT

SPECIAL REPORT

STUCK BETWEEN A RECESSION AND A RECOVERY:

CALIFORNIA'S WORKERS FACE THE TOUGHEST JOB MARKET IN DECADES

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KEY FINDINGS

This Labor Day marks approximately one year since the US economy began to grow again, leading most experts to declare that the Great Recession had ended. Yet the past year has been an economic recovery in name only. California's workers and their families have seen little improvement in the indicator that matters most to them: jobs. Recent job growth has been tepid and largely driven by temporary positions; the state's unemployment rate remains near the record high reached only months ago; and the number of "long-term jobless" – those who have been looking for work for more than half a year – continues to increase. Even more troubling, the latest economic indicators suggest that the nascent "recovery" could be running out of steam. *Stuck Between a Recession and a Recovery: California's Workers Face the Toughest Job Market in Decades* examines recent employment, wage, and income data in order to assess how California's workers and their families have fared since the beginning of the downturn.

Stuck Between a Recession and a Recovery

California and the nation are stuck between a recession and recovery. While the Great Recession may be over, the job market remains deeply entrenched in the most severe downturn in the post-World War II era. Modest employment gains in early 2010 did little to fill the massive hole in California's labor market. In July, nearly 2.3 million Californians remained unemployed, and the average jobless individual had spent a record-high eight months searching – unsuccessfully – for work in June. For the vast majority of California's workers and their families, whose economic well-being is directly linked to the strength of the job market, the economic pain caused by the Great Recession continues to be a daily reality. Given that forecasts project that the state's unemployment rate will remain high for the next several years, this pain will likely endure for many years to come.

- **Modest job growth in early 2010 was largely driven by temporary positions that are not expected to lead to permanent positions.** California added a total of 98,700 nonfarm jobs in the first five months of 2010. As many as 82.0 percent of these jobs were temporary positions, most of which were related to the 2010 Census and are expected to end in coming months. In fact, California lost a total of 33,400 nonfarm jobs in June and July 2010 – the first job losses this year – largely due to the fact that many temporary Census jobs ended.

- **Job gains in early 2010 did little to fill the massive hole in California's job market.** The 98,700 nonfarm jobs California gained in the first five months of 2010 were a drop in the bucket considering the 1.4 million jobs lost between July 2007, when employment last peaked, and December 2009, when employment reached its lowest point during the recession – the equivalent of more jobs lost than the population of the city of San Diego.

- **While many Californians renewed their search for work in early 2010, more dropped out in June and July.** California's jobless rate declined only modestly from a peak of 12.6 percent in March 2010 to 12.3 percent in July 2010 because 235,900 Californians returned to the labor force to search for work during the first five months of the year, adding to the ranks of the unemployed. In June and July, however, this trend reversed: a substantial 68,800 individuals dropped out of the labor force – the first decline in the workforce this year.

- **The average length of the workweek reached a 25-year low in the first half of 2010.** The average length of the workweek dropped from 39.0 hours per week in the first half of 2006 to 38.0 hours per week in first half of 2010. This decline represents a substantial loss of hours when multiplied across all of California's workers. In fact, restoring the average workweek for all of California's workers from 38.0 hours to 39.0 hours is the equivalent of hiring an additional 386,000 workers.

- **The average unemployed Californian has been searching for work for a record-high eight months, and nearly 1 million Californians have been out of work for more than half a year.** In July 2010, 980,000 Californians had been looking for work for more than half a year – up nearly sevenfold from July 2007. The number of these "long-term jobless" now far exceeds the number of residents of San Francisco.

- **Jobs remain scarce, in spite of recent signs of recovery.** National data show that there were five job seekers for every job opening in June 2010 – the most recent month for which data are available. This means that for four out of five unemployed individuals, there are *literally* no jobs.

- **The long-term unemployed are the least likely to find work.** National data show that the probability of finding a job declines significantly the longer individuals go without work. Fewer than one out of 10 long-term jobless individuals (9.8 percent) found work in an average month in late 2009, compared to more than three out of 10 "short-term" jobless individuals (31.9 percent) – those who had been unemployed for four weeks or less.

- **The adverse effects of job loss are likely to persist for many years.** A substantial body of research suggests that unemployment can have lasting negative consequences on workers' earnings, their health status, and their children. Given the severity of the Great Recession, its adverse consequences for workers and their families may be even more significant and longer-lasting than those documented during other, milder downturns.

Coming of Age During the Great Recession

The Great Recession has been particularly devastating for 16-to-24-year-olds who are not enrolled in high school or college – those most likely to want to work. The share of these young Californians who were working dropped precipitously during the downturn, more than for any other age group. In fact, in 2009, for the first time on record, a smaller share of out-of-school youth were working than were Californians approaching the traditional retirement age. The recession also meant that record-high numbers of young graduates have had to postpone starting their careers, delaying the acquisition of skills and experience necessary to advance in the future. These delays could have significant and lasting consequences: Research shows that young adults who graduate when the job market is weak earn substantially less than their peers who graduate in better economic times – both initially and over the long term.

- **Young Californians were the "last hired and first fired" during the Great Recession.** The share of 16-to-24-year-olds not enrolled in school who were working fell by 9.1 percentage points between 2006 and 2009 – nearly twice the decline in employment for adults age 25 to 54 and seven times that of adults age 55 to 64.

- **The 2000s represented a lost decade for out-of-school youth.** The significant drop in employment for young Californians during the Great Recession compounded declines earlier in the decade when the job market was weak due to the 2001 downturn. In total, the share of out-of-school youth with jobs declined by a substantial 12.1 percentage points between 2000 and 2009. In contrast, the share of Californians age 55 to 64 who were working increased by 1.7 percentage points during this period. In fact, a larger share of adults nearing the traditional retirement age (60.1 percent) were employed in 2009 than out-of-school youth (58.4 percent) *for the first time on record*.

- **The length of time young Californians spent jobless doubled during the recession.** The average number of weeks unemployed 16-to-24-year-olds who were not enrolled in school went without work doubled from 11.4 weeks in 2006 to 23.0 weeks in 2009. In contrast, the average number of weeks unemployed Californians age 25 to 54 went without work increased by 8.5 weeks during this period, reaching 27.1 weeks in 2009, while the average length of unemployment for jobless adults age 55 to 64 increased by just 3.9 weeks to 32.3 weeks in 2009.

- **Young men fared worse than young women during the recession.** The share of out-of-school 16-to-24-year-old men with jobs fell by 13.5 percentage points between 2006 and 2009 – more than three times the decline in the share of young out-of-school women with jobs (4.0 percentage points). This trend reflects the fact that job loss was concentrated in sectors of the economy, such as construction and manufacturing, that disproportionately employ men.

- **Young Latinos' employment fell the most during the recession, but young blacks were worse off before the downturn began.** The share of young out-of-school Latinos with jobs fell by 11.4 percentage points between 2006 and 2009, compared to a 9.8 percentage point drop for their white counterparts. In contrast, the employment rate for young out-of-school black Californians fell by just 1.8 percentage points during this period. However, even before the recession began, fewer than half of young blacks who were not enrolled in school (48.8 percent) were employed – 16 to 22 percentage points fewer than other racial and ethnic groups.

- **College degrees offered little protection for young graduates during the Great Recession.** The share of recent college graduates who had jobs dropped by 8.4 percentage points between 2006 and 2009, compared to a 2.5 percentage point drop in the share of older college-educated adults with jobs. In fact, recent college graduates were less likely to be employed than older individuals with bachelor's degrees in 2009 – a reversal from 2006.

- **Record-high numbers of young graduates were unable to achieve their full potential in the job market during the Great Recession.** More than two out of five young high school graduates (43.0 percent) were "underutilized" in 2009, meaning either that they were not working, but wanted jobs, or were working part-time, but wanted full-time employment. A smaller, but still substantial, share of recent college graduates were underutilized in 2009 (25.2 percent).

- **Graduating from college in a weak economy can have lasting negative consequences.** Many young college graduates have been forced to postpone starting their careers due to the recession and this could put them at a significant disadvantage in the future. Research suggests that workers who graduate during downturns in the economy earn less per hour – both initially and over the long term – than their peers who graduate when the job market is stronger.

The Gap Between Low-Wage and High-Wage Workers Has Widened

The weak job market depressed wage growth across the earnings distribution in early 2010. Persistent high levels of unemployment and underemployment mean workers' wages will likely gain little – if any – purchasing power in coming years. This prospect does not bode well for workers at the low end and middle of the earnings distribution, whose hourly earnings have seen little to no growth over the past generation.

- **The weak job market put the brakes on wage gains.** The inflation-adjusted hourly wage of the typical California worker – the worker exactly at the middle of the earnings distribution – declined by 2.5 percent between the first half of 2009 and that of 2010. In contrast, the hourly earnings of the state's low-wage workers – those with wages at the 20th percentile of the distribution – and the state's high-wage workers – those with wages at the 80th percentile of the distribution – were essentially flat, up by just 0.2 percent and 0.4 percent, respectively, after adjusting for inflation.

- **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 low-wage workers declined by 8.1 percent between 1979 and 2009, while that of the typical worker increased by a modest 3.9 percent. In contrast, the hourly wage of California's high-wage workers rose by 21.5 percent, after adjusting for inflation – five and a half times the increase of the typical worker's wage.

- **Uneven wage gains over the past generation have widened the gap between California's high-wage workers and those at the low end and middle of the earnings distribution.** The state's high-wage workers earned 3.2 times as much per hour as the state's low-wage workers in 2009, compared to 2.4 times in 1979. In addition, high-wage workers earned 1.8 times as much per hour as the typical California worker in 2009, up from 1.5 times 30 years earlier. The gap between low-wage workers and those in the middle of the earnings distribution also widened during this period. The typical California worker earned 1.8 times as much per hour as low-wage workers in 2009, up from 1.6 times in 1979.

- **Earnings gaps in the US as a whole have widened by a smaller margin than in California – or not widened at all – over the past 30 years.** For example, the gap between the nation's typical worker and low-wage US workers has not changed: the typical US worker earned 1.6 times as much as low-wage workers in both 2009 and 1979. These trends are notable because wage gaps in the state and the nation were identical in 1979, but are now wider in California.

Income Gains Have Not Been Broadly Shared

California's job market was weak throughout most of the 2000s due to recessions at both the beginning and end of the decade, as well as an unusually weak economic recovery in the mid-2000s. Since middle-income Californians derive the vast majority of their incomes from earnings from work, the weak job market significantly eroded the purchasing power of their incomes, erasing nearly all of their gains from the late 1990s when the labor market was strong. The wealthiest Californians, on the other hand, have made significant income gains for more than a decade, reflecting the fact that investment income, including earnings from interest, dividends, and capital gains – which reflect changes in the value of assets such as stocks and real estate – has become increasingly concentrated among the top 1 percent of taxpayers. As documented in prior California Budget Project reports, these uneven gains have substantially widened the gap between the state's wealthiest and all other Californians.[1]

- **Middle-income Californians have lost ground since 2000.** The average adjusted gross income (AGI) of taxpayers in the middle of the income distribution dropped by a substantial $4,485 (10.9 percent) between 2000 and 2008, after adjusting for inflation – a decline that almost fully erased the gains made during the boom years of the late 1990s. In fact, the average middle-income taxpayer's inflation-adjusted AGI was just $765 higher in 2008 than in 1995. While more recent income data are not yet available, it is likely that middle-income taxpayers' income declined further in 2009 when the recession deepened.

- **Income gaps have widened, reflecting significant gains among the wealthiest Californians.** The average AGI of the top 1 percent of California taxpayers increased by 77.8 percent between 1993 – the earliest year for which data are available – and 2008, after adjusting for inflation, widening the gap between middle-income Californians and the wealthiest 1 percent. The average taxpayer in the top 1 percent of the income distribution had an AGI of $1.4 million in 2008 – 39 times that of the average middle-income taxpayer ($36,600), up from 21 times the AGI of the average middle-income Californian seventeen years earlier.

- **The wealthiest households' share of income has reached historic levels.** Half of total US household income (49.7 percent) went to the top 10 percent of households in 2007 – the highest share since 1917 – and nearly one-quarter of total income (23.5 percent) went to the top 1 percent of the nation's households in 2007 – the second-highest share in history, nearly matching the highest share ever recorded (23.9 percent in 1928).

STUCK BETWEEN A RECESSION AND A RECOVERY

California and the nation are stuck between a recession and a recovery. While the Great Recession may technically be over, the job market remains deeply entrenched in the most severe downturn in the post-World War II era. Modest employment gains in early 2010 did little to fill the massive hole in California's labor market. In July, nearly 2.3 million Californians remained unemployed, and the average jobless individual had spent a record-high eight months searching – unsuccessfully – for work in June. For the vast majority of California's workers and their families, whose economic well-being is directly linked to the strength of the job market, the economic pain caused by the Great Recession continues to be a daily reality. Given that forecasts project that the state's unemployment rate will remain high for the next several years, this pain will likely endure for many years to come.

Modest Job Growth in Early 2010 Was Largely Driven by Temporary Positions

California's job market began to show signs of recovery in early 2010. The state added a total of 98,700 nonfarm jobs during the first five months of 2010 – an average gain of 19,700 jobs per month (Figure 1). After more than two years of job loss, these gains, while modest, marked a significant shift. Yet this level of growth may not be sustained in subsequent months given that the vast majority – as much as 82.0 percent – of the jobs created during this period were temporary positions.[2] Traditionally, growth in temporary jobs following a downturn has been a harbinger of permanent hiring. However, most of the temporary jobs created in recent months were related to the 2010 Census and are not expected to lead to permanent positions. In fact, California lost 16,700 nonfarm jobs per month, on average, in June and July 2010 – the first job losses this year – largely due to the fact that many temporary Census jobs ended.[3]

Job Gains in Early 2010 Did Little To Fill California's Massive Jobs Hole

Job gains in early 2010 did little to fill the massive hole in California's job market. California lost nearly 1.4 million nonfarm jobs between July 2007, when employment last peaked, and December 2009, when employment reached its lowest point during the recession – the equivalent of losing more jobs than the population of the city of San Diego.[4] In fact, the magnitude of job loss was so great that California ended 2009 with approximately the same number of jobs it had in February 1999, when the state was home to 3.8 million *fewer* working-age individuals.[5] Given that the state's working-age population grows each year, adding to the number of individuals who want jobs, California will need to create far more than the 1.4 million jobs lost since mid-2007 for the state to fully recover from the recession.[6]

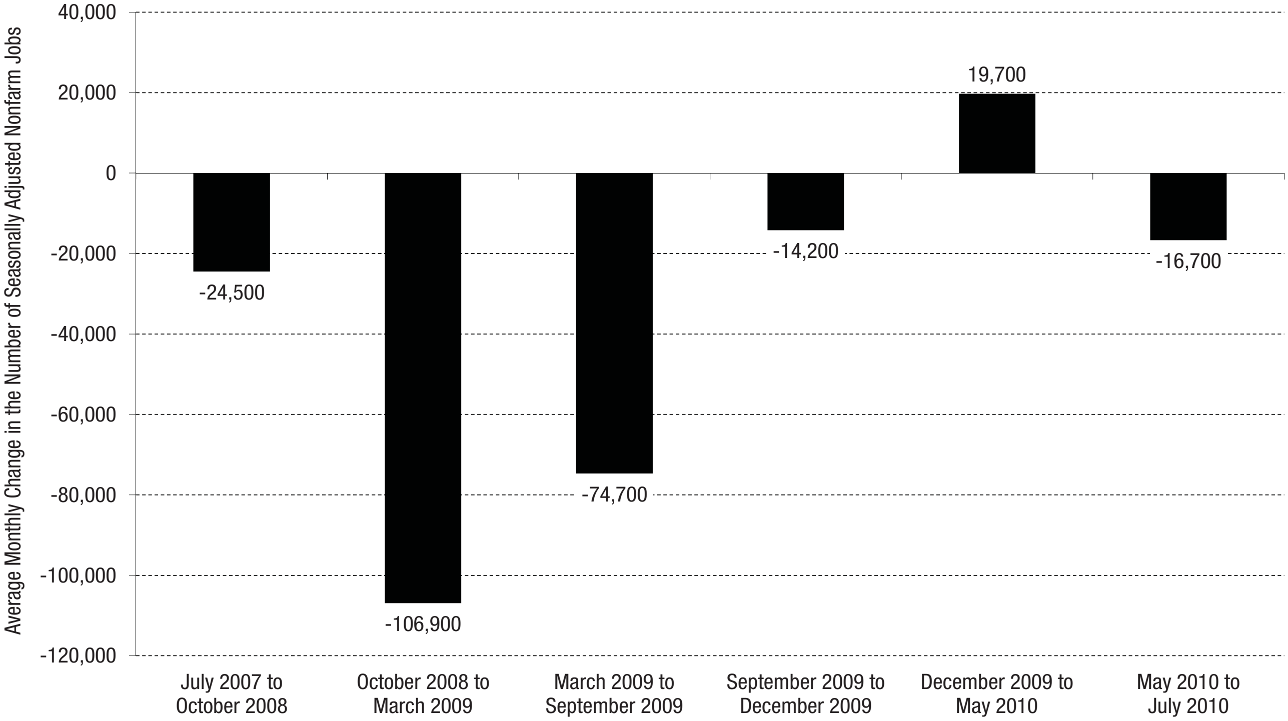
The Great Recession Decimated the Construction and Financial Activities Sectors

While nearly every major sector of the economy lost jobs during the downturn, three sectors – construction, manufacturing, and financial activities – ended 2009 with fewer jobs than in 1990, the first year for which comparable data are available. California had 24,800 fewer construction jobs (3.8 percent), 24,800 fewer financial activities jobs (3.0 percent), and 683,500 fewer manufacturing jobs (34.8 percent) in 2009 than in 1990. Yet California had 5.4 million *more* working-age adults in 2009 than in 1990. The significant drop in the state's construction and financial activities jobs occurred in just three years – between 2006 and 2009 – as a result of the housing bust and subsequent financial crisis. In contrast, California's manufacturing jobs have generally declined for more than two decades, and the Great Recession accelerated that decline.[7]

While Many Californians Renewed Their Search for Work in Early 2010, More Dropped Out of the Labor Force in June and July

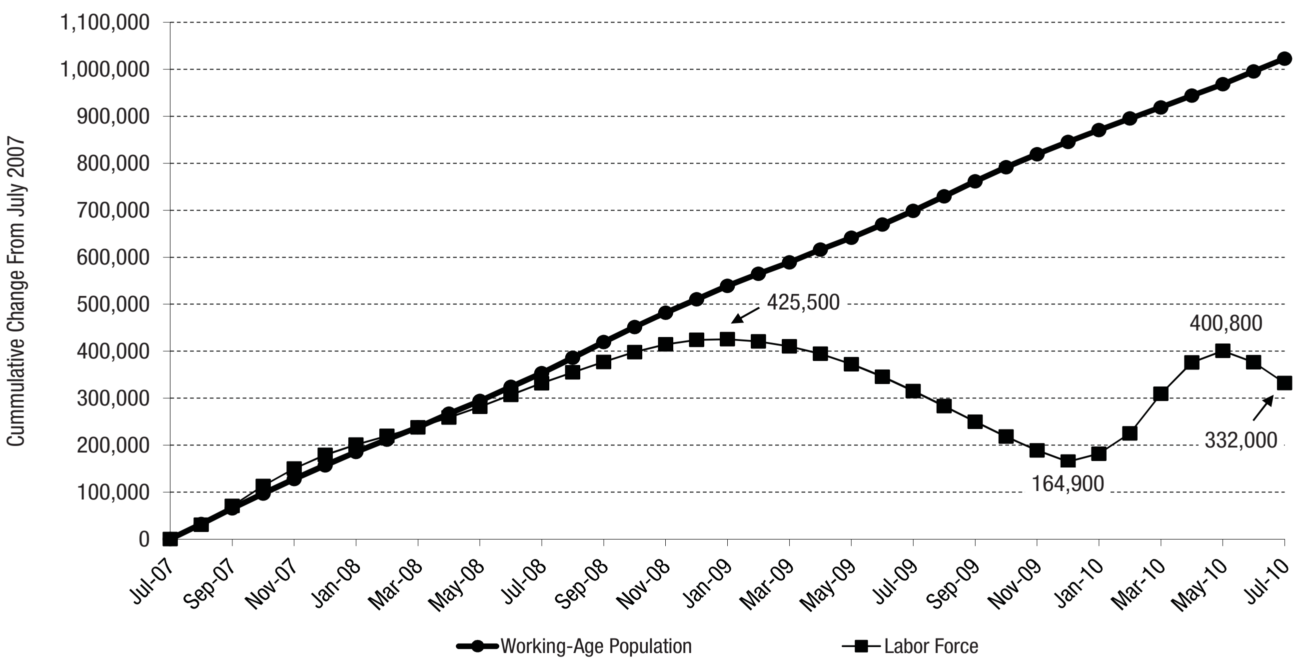
California's unemployment rate declined only modestly from a peak of 12.6 percent in March 2010 to 12.3 percent in July 2010, in spite of recent job growth, because hundreds of thousands of Californians returned to the labor force to search for work, adding to the ranks of the unemployed.[8] The state's labor force – which includes the employed, as well as the unemployed who are looking for jobs – increased by 235,900 between December 2009 and May 2010 (Figure 2).[9] This increase almost fully offset the 260,600 decline that occurred between January 2009 and December 2009, when Californians who had become too discouraged by job prospects to continue searching for work "dropped out" of the

Figure 1: California Gained Jobs During the First Five Months of 2010, Then Lost Jobs in June and July



Source: Employment Development Department

Figure 2: California's Labor Force Began To Rebound in Early 2010, Then Declined Again in June and July



Note: The working-age population includes Californians age 16 or older who are not in the armed forces and do not live in institutions.
Source: US Bureau of Labor Statistics

labor force. Although the return of many Californians to the workforce early in the year was a sign of rising optimism about the economy, a substantial 68,800 individuals dropped out of the labor force in June and July 2010 – the first decline in the workforce this year. It is unclear whether this drop is a two-month setback or the beginning of another downward trend.

The Average Length of the Workweek Reached a 25-Year Low in the First Half of 2010

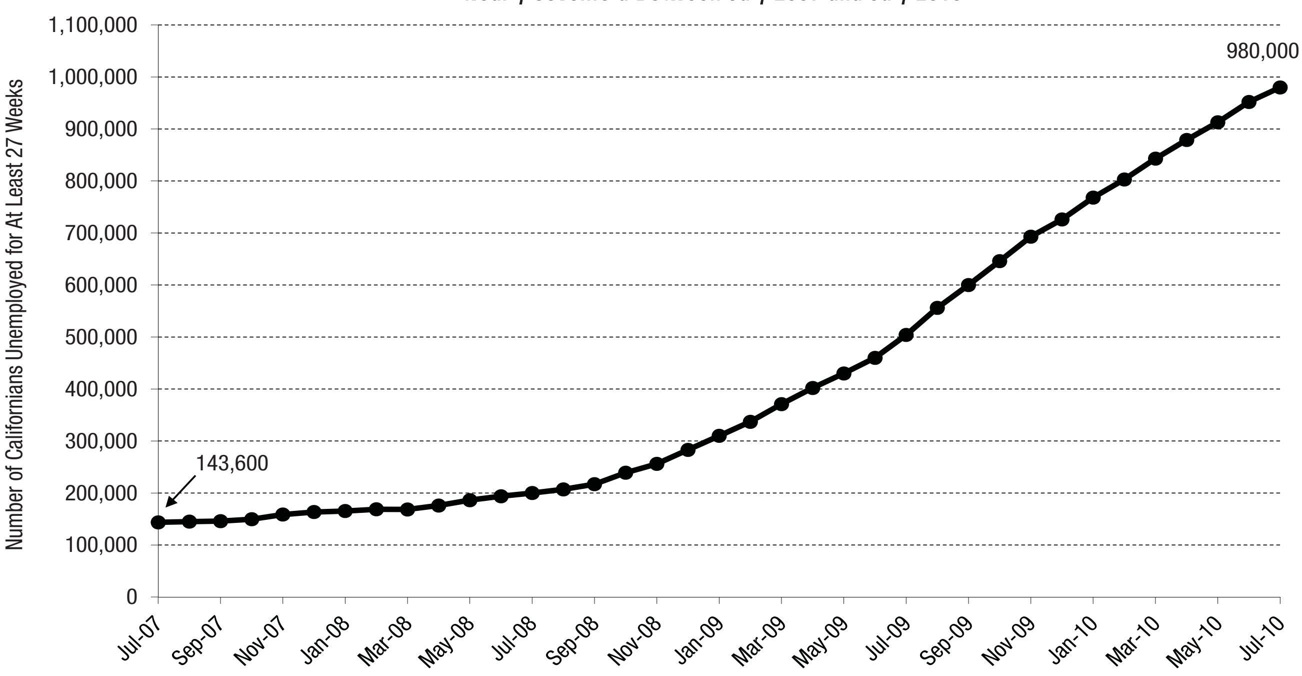
California's workers worked fewer hours per week, on average, during the first six months of 2010 than at any point since 1985. The average length of the workweek dropped from 39.0 hours per week in the first half of 2006 to 38.0 hours per week in first half of 2010.[10] This decline represents a substantial loss of hours when multiplied across all of California's workers. In fact, restoring the average weekly hours for all of the state's workers from 38.0 to 39.0 hours is the equivalent of hiring an additional 386,000 workers.[11] Economists anticipate that hiring may not pick up substantially until existing workers' hours are restored.

The Average Jobless Californian Has Been Searching for Work for Eight Months

One indicator that sets the Great Recession apart from prior downturns is the length of time many of the jobless have gone without work. In June 2010, the average unemployed Californian had been searching for work for eight months – a record high – and nearly half of all jobless individuals (46.0 percent) had been seeking employment for more than six months.[12] In fact, the number of "long-term unemployed" – those who have searched for work for more than half a year – increased nearly sevenfold, from 143,600 in July 2007 to 980,000 in July 2010 (Figure 3).[13] The number of long-term unemployed now far exceeds the number of residents of San Francisco.

National data, which are available over a longer period, show that long-term unemployment rose more during the Great Recession than during any other downturn in the post-World War II era. Long-term jobless individuals as a share of all of the nation's unemployed peaked at 46.0 percent in May 2010 – nearly twice the highest share reached following the severe recession of the early 1980s (26.0 percent).[14] This fact

Figure 3: The Number of Long-Term Unemployed Increased Nearly Sevenfold Between July 2007 and July 2010



Note: Data reflect 12-month averages ending in the month displayed.
Source: Employment Development Department

is even more striking given that a smaller share of the nation's workforce was jobless at the height of the Great Recession than at the peak of the early 1980s downturn.[15] This means that the nation's workers were somewhat less likely to be unemployed as a result of the Great Recession, but those who did lose their jobs faced significantly longer periods without work.

Jobs Remain Scarce

The substantial number of long-term unemployed reflects the fact that jobs remain scarce, in spite of recent signs of recovery. National data show that there were five job seekers for every job opening in June 2010, the most recent month for which data are available.[16] This means that for four out of five unemployed individuals, there are *literally* no jobs. While this figure is down from its peak in November 2009, when more than six people were looking for work for every available job, the odds of finding employment in June 2010 remained significantly lower than in 2006 – the year before the recession began – when the number of individuals looking for work only slightly exceeded the number of available jobs.[17]

Permanent Job Loss Became More Common During the Great Recession

A record-high share of layoffs during the Great Recession resulted from the permanent elimination of jobs. In July 2010, more than eight out of 10 US workers who involuntarily lost their jobs (86.1 percent) were laid off because their positions were permanently eliminated, while the remainder were laid off temporarily, meaning that their employers had agreed to eventually recall them to their former jobs.[18] In other words, more than six jobs were permanently eliminated for every temporary reduction in July – more than in any prior downturn for which data are available. Temporary layoffs reflect "cyclical" declines in industries – declines due to lulls in demand for companies' products and services. In contrast, permanent layoffs are more likely to result from "structural" declines in industries – declines due to fundamental changes in the economy. The significant share of permanent layoffs as a result of the Great Recession may reflect a structural decline in construction and financial activities due to the housing bust.[19] Some experts believe these structural changes have contributed to the unusually high numbers of long-term unemployed. Workers laid off from declining sectors of the economy must look for jobs in other sectors, and that process can take a long time, particularly if it requires that workers obtain additional training or education.[20]

The Housing and Financial Crises Make It Difficult for the Unemployed To Move in Search of Work

Record-long periods of unemployment during the Great Recession may also reflect the fact that the housing bust and financial crisis make it difficult for jobless homeowners to sell their homes in order to move in search of work. The share of Americans who changed residences between 2007 and 2008 was the lowest level on record.[21] Researchers have attributed this to the fact that some homeowners who want to move have been unable to find financing to purchase new homes or buyers for their existing homes, while others owe more on their mortgages than their houses are worth and are unwilling to relocate if it means selling their homes at a loss.[22] These factors suggest that many homeowners who are unemployed are "locked in" to their current residences and unable to move to obtain work.[23]

The Long-Term Unemployed Are the Least Likely To Find Work

The long-term unemployed face the greatest obstacles to finding employment. National data show that the probability of finding a job declines significantly the longer individuals go without work. Fewer than one out of 10 long-term jobless individuals (9.8 percent) found work in an average month in late 2009, compared to more than three out of 10 "short-term" jobless individuals (31.9 percent) – those who had been unemployed for four weeks or less.[24] The long-term unemployed may be less likely to secure employment because their skills wane over time or because long periods without work make them appear less desirable to employers. Alternatively, the long-term jobless may lose touch with informal job networks the longer they go without work, or they may become so discouraged that they put less effort into their job search.[25]

The Adverse Effects of Job Loss Are Likely To Persist for Many Years

A substantial body of research has documented the long-term negative effects of job loss during prior downturns in the economy. Studies have found that workers who lost their jobs in past recessions earned considerably less when they subsequently found a job and continued to earn less even 10 to 15 years after their initial job loss.[26] Some evidence suggests that the long-term jobless experience the largest reductions in earnings upon returning to work.[27] Research also suggests that job loss results in lower health status and, in particular, an increase in stress-related health problems that may ultimately shorten one's life.[28] In addition, some studies have shown that parents' job loss can adversely affect their children's academic performance and future earnings.[29] The Great Recession may have even more significant and longer-lasting consequences for workers and their families given that it was far more severe than any other downturn in recent history.

COMING OF AGE DURING THE GREAT RECESSION

The Great Recession has been particularly devastating for 16-to-24-year-olds who are not enrolled in high school or college – those most likely to want to work.[30] The share of these young Californians who were working dropped precipitously during the downturn, more than for any other age group. In fact, in 2009, for the first time on record, a smaller share of out-of-school youth were working than were Californians approaching the traditional retirement age. The recession also meant that record-high numbers of young graduates have had to postpone starting their careers, delaying the acquisition of skills and experience necessary to advance in the future. These delays could have significant and lasting consequences: research shows that young adults who graduate when the job market is weak earn substantially less than their peers who graduate in better economic times – both initially and over the long term.

Young Californians Were the "Last Hired and First Fired" During the Great Recession

When the economy is weak, young adults tend to be the "last hired and first fired." Indeed, employment for young Californians fell far more than for older individuals during the Great Recession. The share of 16-to-24-year-olds not enrolled in school who were working dropped by 9.1 percentage points between 2006 and 2009, from 67.5 percent to 58.4 percent – a record low (Figure 4).[31] This decline was nearly twice that of prime-working-age adults – those age 25 to 54 – and seven times that of older adults – those age 55 to 64. Employment for young adults as a whole – including those enrolled in school – also dropped substantially during the downturn. The share of all 16-to-24-year-olds who were working declined by 8.4 percentage points between 2006 and 2009, from 49.9 percent to 41.5 percent – the lowest employment rate for this age group in at least 30 years.[32]

A Lost Decade: Employment for Young Adults Was Low Even Before the Recession Began

The 2000s represented a lost decade for out-of-school youth. Employment for California's young adults who were not attending school never fully rebounded from the downturn of the early 2000s before the Great Recession began. Consequently, young adults entered the recession with relatively low levels of employment. The share of out-of-school 16-to-24-year-olds with jobs declined by 3.8 percentage points between 2000 and 2003 – a period when the job market was weak due to the 2001 downturn (Figure 5).[33] Over the next three years, job growth in the state picked up, but employment for out-of-school youth was essentially flat, increasing by just 0.8 of a percentage point. Together, the significant drop in employment for these young adults during the Great Recession, coupled with declines earlier in the decade, reduced the share of out-of-school youth who were working by a substantial 12.1 percentage points between 2000 and 2009.

Employment trends for young Californians during the 2000s stand in stark contrast to those of adults nearing the traditional retirement age. The share of Californians age 55 to 64 who were working held steady when the job market was weak in the early 2000s, increased more than for any other age group between 2003 and 2006, and then fell only modestly during the Great Recession. The combination of these trends meant that the share of older adults with jobs *increased* by 1.7 percentage points between 2000 and 2009. In fact, the share of Californians age 55 to 64 who were employed in 2009 (60.1 percent) exceeded that of out-of-school youth (58.4 percent) *for the first time on record.*[34]

Young Californians Remained Jobless Longer During the Downturn

The average length of time young Californians spent jobless doubled during the recession, increasing far more than the average time older Californians were unemployed. The average number of weeks unemployed 16-to-24-year-olds who were not enrolled in school spent without work doubled from 11.4 weeks in 2006 to 23.0 weeks in 2009 (Figure 6).[35] In contrast, the average number of weeks unemployed Californians age 25 to 54 went without work increased by 8.5 weeks during this period, reaching 27.1 weeks in 2009, while the average length

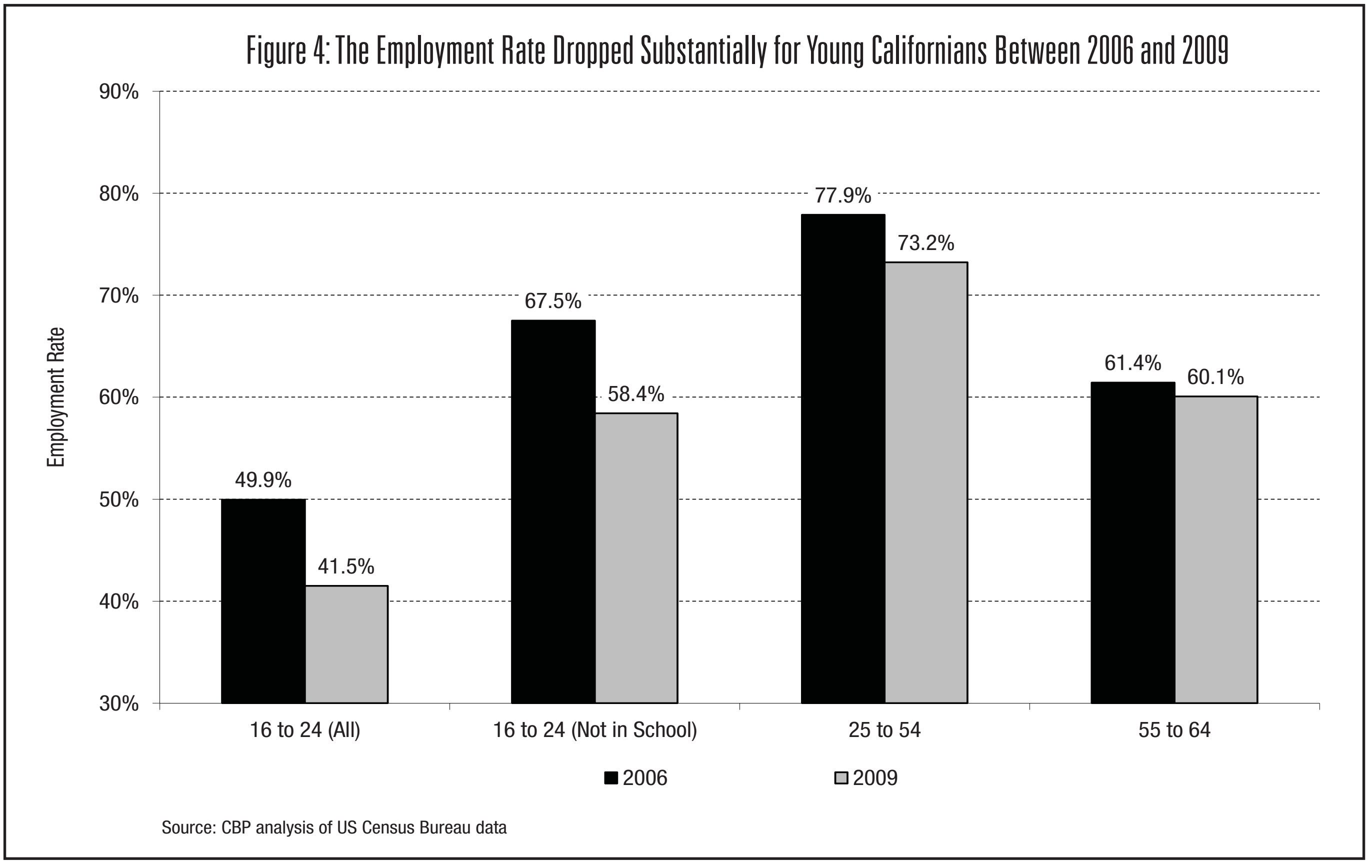


Figure 4: The Employment Rate Dropped Substantially for Young Californians Between 2006 and 2009
Employment Rate
90%
80%
70%
60%
50%
40%
30%
49.9%
41.5%
67.5%
58.4%
77.9%
73.2%
61.4%
60.1%
16 to 24 (All)
16 to 24 (Not in School)
25 to 54
55 to 64
2006
2009
Source: CBP analysis of US Census Bureau data

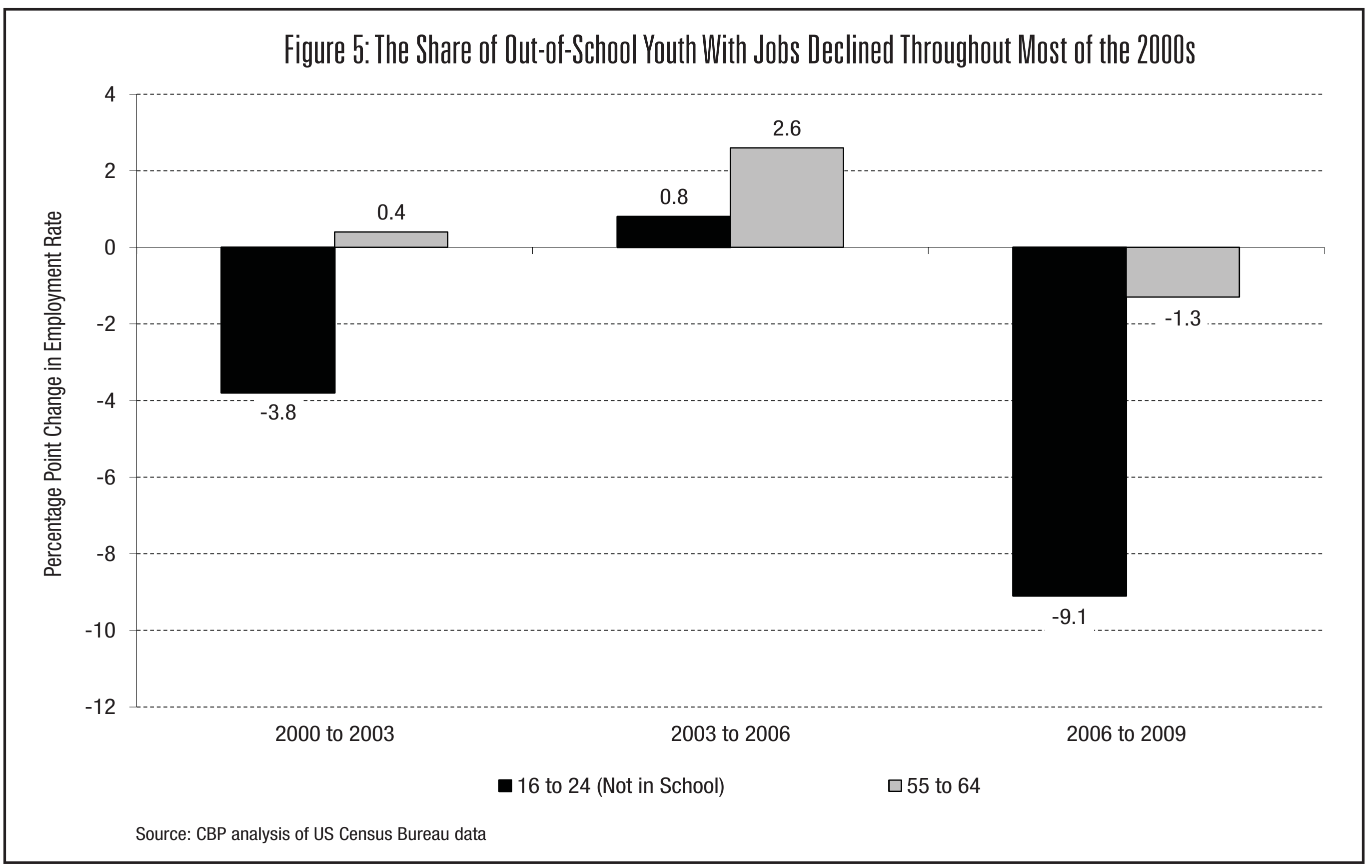


Figure 5: The Share of Out-of-School Youth With Jobs Declined Throughout Most of the 2000s
Percentage Point Change in Employment Rate
4
2
0
-2
-4
-6
-8
-10
-12
-3.8
0.4
0.8
2.6
-9.1
-1.3
2000 to 2003
2003 to 2006
2006 to 2009
16 to 24 (Not in School)
55 to 64
Source: CBP analysis of US Census Bureau data

of unemployment for jobless adults age 55 to 64 increased by just 3.9 weeks to 32.3 weeks in 2009. While young adults still tended to spend less time without work in 2009 than their older counterparts, who are typically unemployed for longer periods even when the job market is strong, the gap narrowed considerably during the downturn.

Coping with long periods without work can be challenging for young adults, who tend to face significant financial pressure while unemployed. Young adults are more likely to lack sufficient work histories to qualify for Unemployment Insurance (UI) benefits, and they often have limited savings to live off while jobless.[36] Young adults also tend to have significant amounts of debt – both school-related and otherwise.[37]

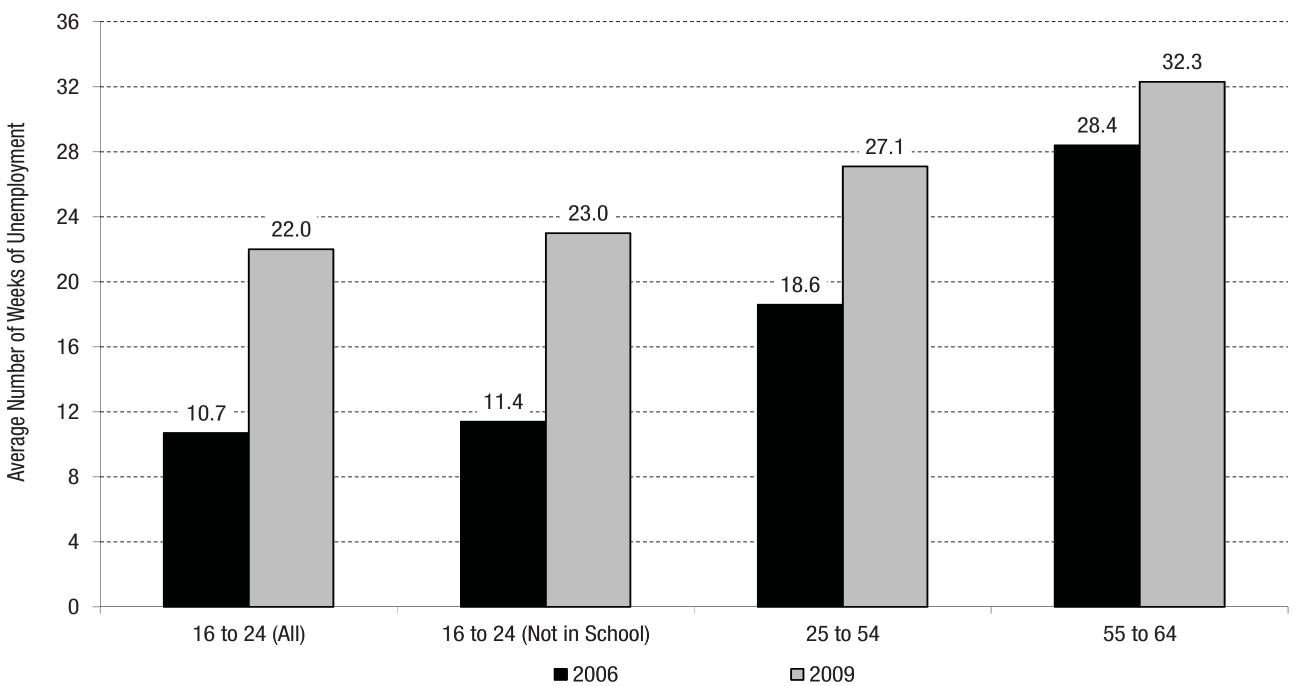
Young Men Fared Worse Than Young Women During the Recession

The Great Recession had a disparate impact on young men, reflecting the fact that job loss was concentrated in sectors of the economy, such as construction and manufacturing, that disproportionately employ men.[38] The share of men age 16 to 24 who were not enrolled in school and were working fell by 13.5 percentage points between 2006 and 2009 – more than three times the decline in the share of young out-of-school women with jobs (4.0 percentage points) (Table 1).[39] Unemployed young men were also more likely to stop looking for work and "drop out" of the labor force.[40] The share of young out-of-school men in the workforce declined by 2.8 percentage points between 2006 and 2009. In contrast, the share of young out-of-school women in the labor force increased by 1.7 percentage points during this period.

Employment Among Young Latinos Fell the Most During the Recession, But Young Blacks Were Worse Off Before the Downturn Began

Employment dropped substantially for young Latinos and whites during the recession, but only modestly for young Asians and blacks.[41] The share of young out-of-school Latinos with jobs fell by 11.4 percentage points between 2006 and 2009, compared to a 9.8 percentage point drop for their white counterparts. In contrast, the employment rate for young Asians who were not enrolled in school declined by just 1.3 percentage points during this period.[42] This small decline

Figure 6: The Average Number of Weeks Young Adults Went Without Work More Than Doubled During the Recession



Source: CBP analysis of US Census Bureau data

meant that young Asians were more likely than young adults in other racial and ethnic groups to be employed in 2009. The employment rate for young out-of-school blacks also fell modestly between 2006 and 2009 – by just 1.8 percentage points. However, young blacks were far less likely than other groups to be employed even before the recession began. Fewer than half of blacks age 16 to 24 who were not attending school (48.8 percent) were working in 2006 – approximately 16 to 22 percentage points lower than other racial and ethnic groups. In 2009, just 47.0 percent of young out-of-school blacks had jobs. Young blacks were also more likely than other groups of young adults to drop out of the labor force during the recession, suggesting that young blacks perceived their employment prospects as particularly bleak.

College Degrees Offered Little Protection for Young Graduates During the Great Recession

While having a bachelor's degree has traditionally provided greater job security when the labor market is weak, it provided less of an advantage for young college graduates during the Great Recession. The share of young Californians with four-year college degrees, but no further education, who were employed dropped by 8.4 percentage points between 2006 and 2009, from 85.7 percent to 77.3 percent – the lowest rate for this group on record (Figure 7).[43] In contrast, the share of older college-educated adults with jobs fell by just 2.5 percentage points.[44] The substantial drop in employment for young graduates is particularly noteworthy. In 2006, recent college graduates were *more* likely to be employed than older individuals with bachelor's degrees: 85.7 percent of young graduates had jobs in 2006 compared to 81.0 percent of their older counterparts. However, the Great Recession reversed this trend: 77.3 percent of young adults with college degrees had jobs in 2009 – 1.2 percentage points *lower* than older college-educated adults. This reversal suggests that young graduates faced significant competition for jobs during the recession, perhaps because individuals with greater work experience were more willing to take the entry-level jobs that ordinarily go to younger individuals.

Employment among recent high school graduates who were not pursuing further education also fell far more during the recession than it did for older adults with the same level of educational attainment. The employment rate for young adults with a high school degree, but no further education, fell by 11.1 percentage points between 2006 and 2009, from 67.2 percent to 56.1 percent – a record low.[45] In contrast, the employment rate for older adults with a high school degree alone declined by less than half that amount (4.3 percentage points).[46] These trends show that even among individuals without a college degree, those with greater work experience had a substantial advantage during the downturn.

Lost Potential: Record-High Numbers of Young Graduates Were "Underutilized" During the Recession

Record-high numbers of young graduates were unable to achieve their full potential in the job market because of the Great Recession. More than two out of five young high school graduates who were not pursuing further education (43.0 percent) were "underutilized" in 2009, meaning either that they

Table 1: Employment Dropped Substantially for Young Men and Latinos, 2006 to 2009

	Californians Age 16 to 24, Not Enrolled in School					
	Percent Employed		Percentage Point Change	Percent in Workforce		Percentage Point Change
	2006	2009	2006 to 2009	2006	2009	2006 to 2009
Gender						
Men	74.7%	61.2%	-13.5	83.6%	80.8%	-2.8
Women	59.4%	55.4%	-4.0	66.9%	68.6%	1.7
Race/Ethnicity						
Asian and Other	64.7%	63.4%	-1.3	71.2%	75.5%	4.3
Black	48.8%	47.0%	-1.8	71.0%	65.7%	-5.3
Latino	68.3%	56.9%	-11.4	75.6%	75.3%	-0.3
White	70.8%	61.0%	-9.8	78.0%	76.2%	-1.8
All	**67.5%**	**58.4%**	**-9.1**	**75.7%**	**75.0%**	**-0.7**

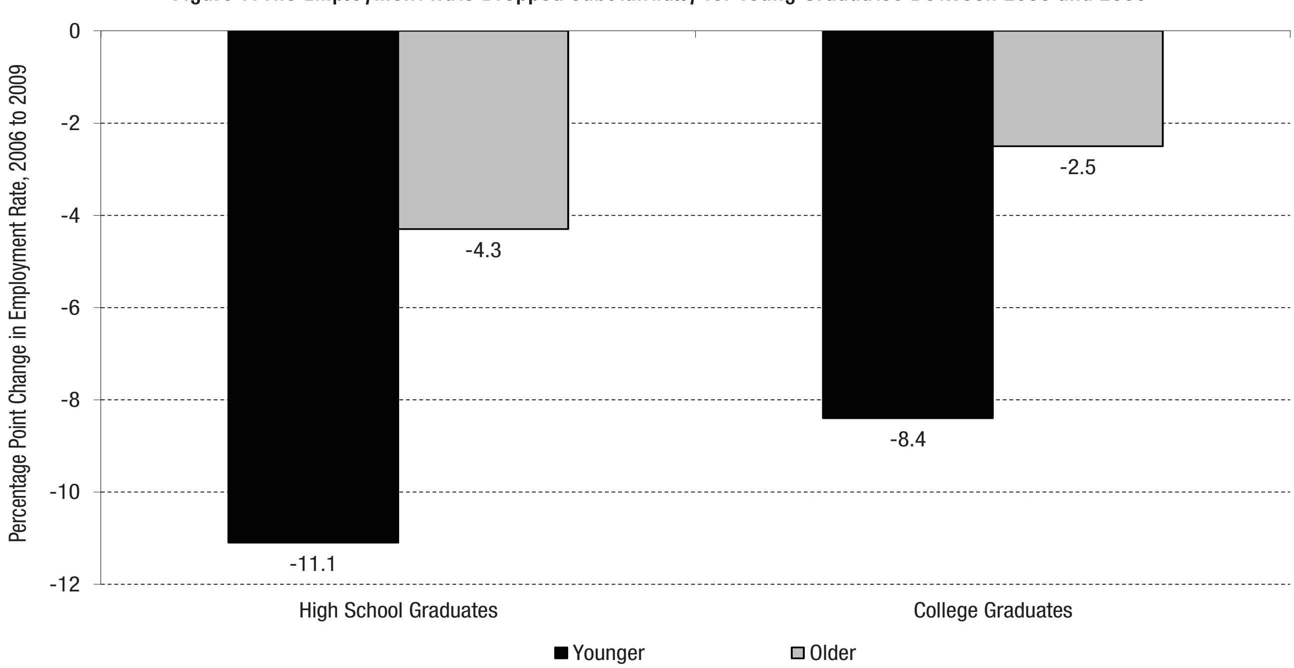
Note: The workforce is equal to the number of individuals who are employed plus the number who are unemployed who have searched for work within the past month.
Source: CBP analysis of US Census Bureau data

were not working, but wanted jobs, or were working part-time, but wanted full-time employment (Figure 8).[47] This was more than double the share of underutilized young high school graduates in 2006 (20.9 percent). A smaller, but still substantial, share of recent college graduates who were not enrolled in school were underutilized in 2009 (25.2 percent), up from 10.7 percent in 2006. These trends mean that large numbers of young graduates have been forced to postpone starting their careers. This could put them at a significant disadvantage in the future. Young adults who are unable to find work after graduating, or who can only find dead-end jobs, delay the acquisition of skills and experience necessary to advance in their desired fields of work. As a result, they will likely be less competitive candidates for jobs in the future, which could diminish their employment prospects even after the labor market recovers.[48]

Graduating From College in a Weak Economy Can Have Lasting Negative Consequences

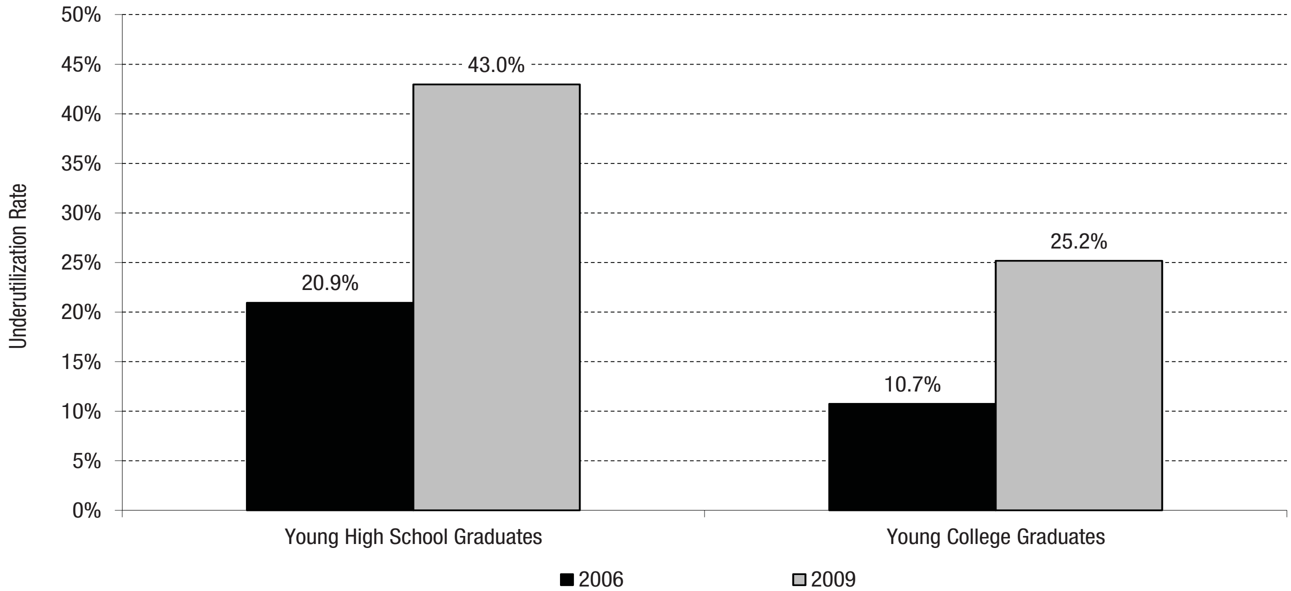
Research suggests that graduating from college when the economy is weak can have a lasting impact on workers' earnings. One study found that the initial hourly wage of white male college graduates was 6 percent to 7 percent lower for each 1 percentage point increase in the national jobless rate the year that young graduates entered the labor force.[49] Even more than a decade and a half after graduating, hourly earnings were lower for those who had joined the workforce when the job market was weak.[50] Over time, the cumulative effect on workers' earnings was substantial: seventeen years after graduation, white men who had graduated in 1982, when the national jobless rate was 9.7 percent, earned hourly wages that were 20 percent lower, on average, than those of their counterparts who graduated in 1989, when the national jobless rate was 5.3 percent. Other studies, including one examining trends for women and blacks, have found similar results.[51] These findings suggest that some college graduates who enter the job market during recessions are unable to fully catch up to their peers who graduate when the economy is stronger. Given that the Great Recession was more severe than prior downturns, its adverse impact on young adults' earnings may be even greater and longer-lasting.

Figure 7: The Employment Rate Dropped Substantially for Young Graduates Between 2006 and 2009



Note: Young high school graduates are individuals age 18 to 24 who have a high school degree, but no further education, and who are not currently enrolled in school. Young college graduates are those age 21 to 26 who have a bachelor's degree, but no further education. This group excludes individuals age 21 to 24 who are currently enrolled in school. School enrollment data are not available for individuals age 25 or older. Older graduates exclude those age 65 or older.
Source: CBP analysis of US Census Bureau data

Figure 8: More Than Two Out of Five Young High School Graduates and One Out of Four Young College Graduates Were Underutilized in 2009



Note: Young high school graduates are individuals age 18 to 24 who have a high school degree, but no further education, and who are not currently enrolled in school. Young college graduates are those age 21 to 26 who have a bachelor's degree, but no further education. This group excludes individuals age 21 to 24 who are currently enrolled in school. School enrollment data are not available for individuals age 25 or older. Underutilized graduates are either unemployed – including those who are not currently searching for work but who want jobs – or working part-time, but report that they want to work full-time.
Source: CBP analysis of US Census Bureau data

THE GAP BETWEEN LOW-WAGE AND HIGH-WAGE WORKERS HAS WIDENED

The weak job market depressed wage growth across the earnings distribution in early 2010. Persistent high levels of unemployment and underemployment mean workers' wages will likely gain little – if any – purchasing power in coming years. This prospect does not bode well for workers at the low end and middle of the earnings distribution, whose hourly earnings have seen little to no growth over the past generation.

The Weak Job Market Put the Brakes on Wage Gains

California's workers saw little to no wage growth in early 2010. The inflation-adjusted hourly wage of the typical California worker – the worker exactly at the middle of the earnings distribution – declined by 2.5 percent between the first half of 2009 and the first half of 2010 (Figure 9). This drop followed a period of essentially no growth in the typical worker's wage between 2007 and 2009.[52] In contrast, the inflation-adjusted hourly earnings of the state's low-wage workers – those with wages at the 20th percentile of the distribution – and the state's high-wage workers – those with wages at the 80th percentile of the distribution – were essentially flat between the first half of 2009 and the first half of 2010, up by just 0.2 percent and 0.4 percent, respectively.[53] For many workers, a shorter workweek has compounded declines – or diminished minimal gains – in hourly wages. For example, the typical California worker's inflation-adjusted weekly earnings dropped by 2.5 percent between June 2009 and June 2010.[54]

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

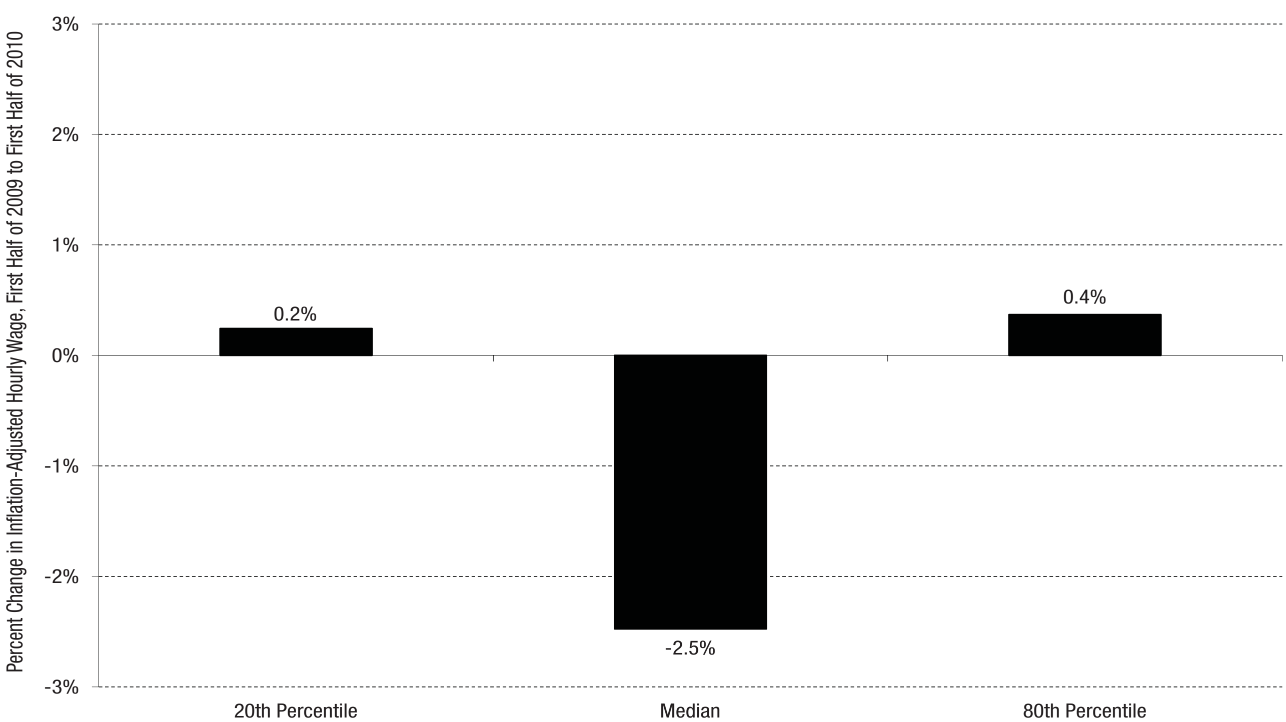
High-wage workers' wage gains have far outpaced those of workers at the low end and middle of the earnings distribution for at least a generation. The inflation-adjusted hourly wage of the state's low-wage workers declined by 8.1 percent between 1979 and 2009, while that of the typical worker increased by a modest 3.9 percent (Figure 10). In contrast, the hourly wage of California's high-wage workers rose by 21.5 percent, after adjusting for inflation – five and a half times the increase of the typical worker's wage.

Uneven wage gains were particularly pronounced in the 1980s and 1990s. The inflation-adjusted hourly earnings of California's high-wage workers increased by 6.4 percent between 1979 and 1989 and by another 6.1 percent between 1989 and 2000, while the typical worker's inflation-adjusted hourly wage was essentially flat in the 1980s – down by 0.8 percent – and rose by a modest 1.2 percent in the 1990s (Table 2). Low-wage workers' hourly earnings, on the other hand, lost significant purchasing power during both of these periods, declining by 6.1 percent between 1979 and 1989 and another 5.2 percent between 1989 and 2000. The drop in the latter period reflects the fact that low-wage workers' earnings were slow to recover from the severe downturn of the early 1990s: their earnings lost purchasing power through 1997, in spite of strong job growth in each of the prior four years. However, once low-wage workers' earnings began to rebound in 1998, they continued rising well beyond 2000 – the height of the economic boom, when the state's unemployment rate fell to a record low.[55] In fact, low-wage workers' inflation-adjusted hourly earnings increased by a substantial 4.4 percent between 2000 and 2006 – nearly matching the 4.7 percent increase in high-wage workers' earnings.[56] In contrast, the typical California worker's hourly wage was essentially flat during this period, up by just 0.8 percent.[57]

Uneven wage gains over the past generation have widened the gap between California's high-wage workers and those at the low end and middle of the earnings distribution. The state's high-wage workers earned 3.2 times as much per hour as the state's low-wage workers in 2009, compared to 2.4 times in 1979. In addition, high-wage workers earned 1.8 times as much per hour as the typical California worker in 2009, up from 1.5 times 30 years earlier. The gap between low-wage workers and those in the middle of the earnings distribution also widened during this period. The typical California worker earned 1.8 times as much per hour as low-wage workers in 2009, up from 1.6 times in 1979.

Earnings gaps in the US as a whole have widened by a smaller margin than in California – or not widened at all – over the past 30 years. The nation's high-wage workers earned 2.8 times as much per hour as low-wage workers in 2009, up from

Figure 9: The Hourly Wages of California's Workers Were Flat or Lost Purchasing Power in the First Half of 2010



Source: CBP analysis of US Census Bureau data

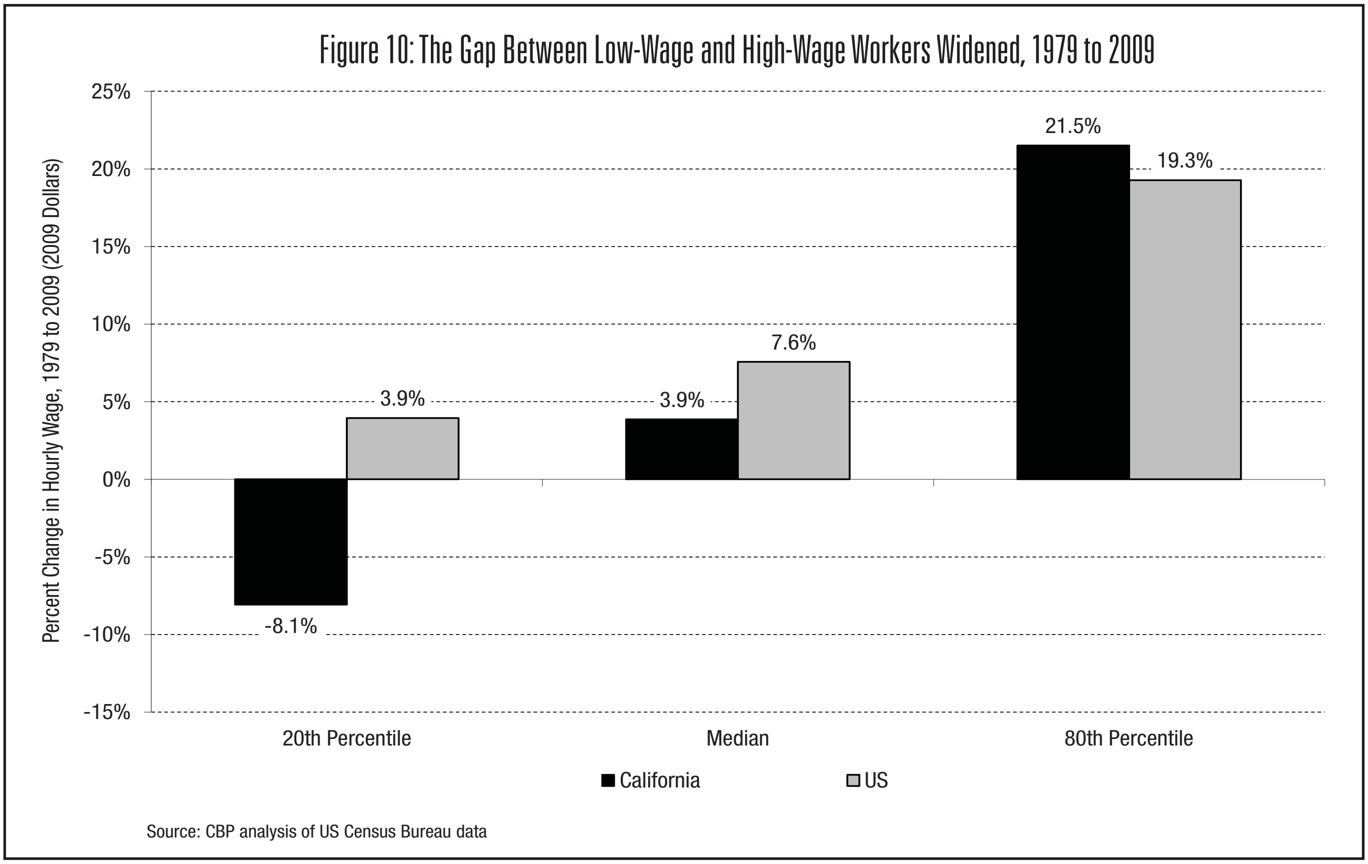


Table 2: The Gains of California's High-Wage Workers Have Far Outpaced Those of Workers at the Low End and Middle of the Earnings Distribution Since 1979			
	Hourly Wage (2009 Dollars)		
	20th Percentile	Median	80th Percentile
1979	$11.43	$18.30	$27.63
1989	$10.73	$18.16	$29.39
2000	$10.16	$18.38	$31.17
2006	$10.61	$18.53	$32.65
2009	$10.51	$19.01	$33.57
	Percent Change		
1979 to 1989	-6.1%	-0.8%	6.4%
1989 to 2000	-5.2%	1.2%	6.1%
2000 to 2006	4.4%	0.8%	4.7%
2006 to 2009	-0.9%	2.6%	2.8%
1979 to 2009	**-8.1%**	**3.9%**	**21.5%**

Source: CBP analysis of US Census Bureau data

2.4 times in 1979. In addition, high-wage US workers earned 1.7 times as much per hour as the typical worker in 2009, compared to 1.5 times 30 years earlier. On the other hand, the gap between the nation's typical worker and low-wage US workers has not changed: the typical US worker earned 1.6 times as much as low-wage workers in both 2009 and 1979. These trends are notable because wage gaps in the state and the nation were identical in 1979, but are now wider in California.

Earnings gaps widened to a lesser extent in the US as a whole over the past generation because workers at the low end of the wage distribution fared better nationally than they did in California, while high-wage workers did not fare quite as well. The hourly earnings of low-wage US workers gained modest purchasing power between 1979 and 2009 (3.9 percent), while their counterparts in California lost substantial purchasing power. In fact, as a result of these trends, the gap between low-wage workers in California and the US as a whole closed during this 30-year period. In 2009, the nation's low-wage workers earned $1.01 for every dollar earned by California's low-wage workers, up from just 90 cents for each dollar in 1979. The typical worker has also fared better in the nation as a whole than in California over the past generation. The inflation-adjusted hourly wage of the nation's typical worker increased by 7.6 percent between 1979 and 2009 – nearly twice the gain of the typical California worker's wage. This disparity somewhat narrowed the gap between workers at the middle of the distribution in California and the US. In 2009, the nation's typical worker earned 92 cents for every dollar earned by his or her counterpart in the state, up from 89 cents for every dollar in 1979. High-wage workers in the US as a whole have not gained as much as those in California over the past generation. The hourly earnings of the nation's high-wage workers rose by 19.3 percent between 1979 and 2009, after adjusting for inflation – slightly less than the increase for similar California workers. As a result, the gap between high-wage workers in the state and the US as a whole widened slightly by 2009. The nation's high-wage workers earned 89 cents for every dollar earned by California's high-wage workers, down from 90 cents for each dollar 30 years earlier.

INCOME GAINS HAVE NOT BEEN BROADLY SHARED

California's job market was weak throughout most of the 2000s due to recessions at both the beginning and end of the decade, as well as an unusually weak economic recovery in the mid-2000s. Since middle-income Californians derive the vast majority of their incomes from earnings from work, the weak job market significantly eroded the purchasing power of their incomes, erasing nearly all of their gains from the late 1990s when the labor market was strong. The wealthiest Californians, on the other hand, have made significant income gains for more than a decade, reflecting the fact that investment income, including earnings from interest, dividends, and capital gains – which reflect changes in the value of assets such as stocks and real estate – has become increasingly concentrated among the top 1 percent of taxpayers. As documented in prior California Budget Project reports, these uneven gains have substantially widened the gap between the state's wealthiest and all other Californians.[58]

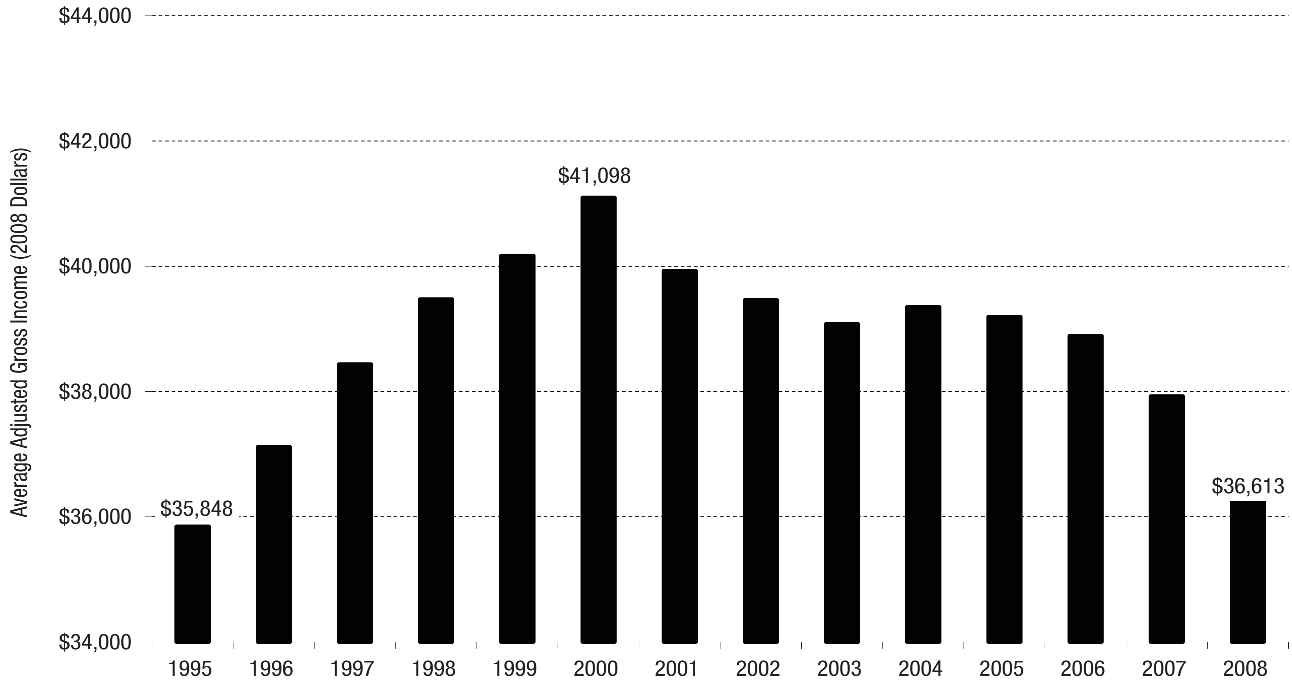
Middle-Income Californians Have Lost Ground Since 2000

The incomes of California taxpayers in the middle of the income distribution have declined substantially since 2000. During the first three years of this decade, when California's job market was weak due to the 2001 downturn, the average adjusted gross income (AGI) of taxpayers in the middle fifth of the income distribution fell by $2,020 (4.9 percent), after adjusting for inflation (Figure 11).[59] Over the next three years, the unusually weak economic recovery meant that middle-income taxpayers were unable to regain that lost income before the onset of the Great Recession. In fact, middle-income taxpayers' average inflation-adjusted AGI declined slightly – by $187 (0.5 percent) – between 2003 and 2006. Then, between 2006 and 2008 – the most recent year for which data are available – middle-income Californians' average AGI fell by another $2,278 (5.9 percent) as the labor market weakened once again. In total, the purchasing power of middle-income taxpayers' average AGI dropped by a substantial $4,485 (10.9 percent) between 2000 and 2008 – a decline that almost fully erased the gains made during the boom years of the late 1990s.[60] In fact, the average middle-income taxpayer's inflation-adjusted AGI was just $765 higher in 2008 than in 1995. While more recent income data are not yet available, it is likely that middle-income taxpayers' income declined further in 2009 when the recession deepened.

Income Gaps Widened Through 2007, Reflecting Significant Gains Among the Wealthiest Californians

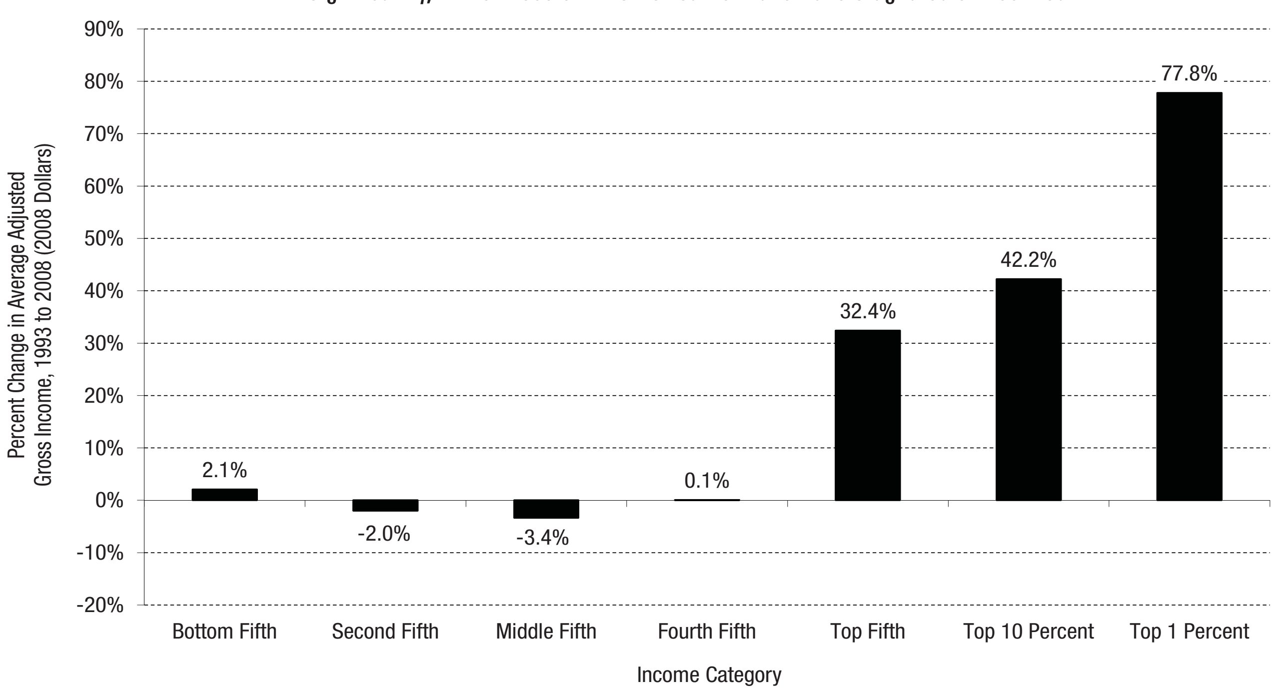
The decline in the incomes of middle-income Californians stands in stark contrast to trends for the wealthiest sliver of the population, whose incomes have skyrocketed since at least the early 1990s. The average AGI of the top 1 percent of California taxpayers increased by 77.8 percent between 1993 – the earliest year for which data are available – and 2008, after adjusting for inflation (Figure 12).[61] This increase reflects a substantial 139.3 percent increase in the average AGI of the wealthiest 1 percent of taxpayers between 1993 and 2007, followed by a 25.7 percent decline between 2007 and 2008. Since wealthy taxpayers derive a large share of their incomes from capital gains, their incomes tend to fall

Figure 11: The Average Adjusted Gross Income of California's Middle-Income Taxpayers Has Steadily Declined Since 2000



Source: Franchise Tax Board

Figure 12: The Incomes of the Wealthiest Californians Have Increased Significantly, While Those of All Other Californians Have Stagnated or Declined



Source: Franchise Tax Board

when stock values decline, as they did in 2007 and 2008.[62] As a result of these trends, the gap between middle-income Californians and the top 1 percent narrowed in 2008, but remained substantially wider than in 1993. The average taxpayer in the top 1 percent of the income distribution had an AGI of $1.4 million in 2008 – 39 times that of the average middle-income taxpayer ($36,600). This was down from 51 times the AGI of the average middle-income Californian in 2007, but still nearly twice the gap in 1993.[63] Emmanuel Saez, an economist at the University of California, Berkeley and a leading national expert on income trends, anticipates that the recent narrowing of income gaps will only be temporary. He explains:

> Based on the US historical record, falls in income concentration due to economic downturns are temporary unless drastic regulation and tax policy changes are implemented and prevent income concentration from bouncing back. Such policy changes took place after the Great Depression during the New Deal and permanently reduced income concentration until the 1970s. In contrast, recent downturns, such as the 2001 recession, lead to only very temporary drops in income concentration.[64]

The Wealthiest Households' Share of Income Has Reached Historic Levels

National data, which are available since 1913, show that the concentration of income among the wealthiest US households in 2007 nearly topped records set early in the previous century. Half of total household income (49.7 percent) went to the top 10 percent of US households in 2007 – the highest share since 1917 – and nearly one-quarter of total income (23.5 percent) went to the top 1 percent of the nation's households in 2007 – the second-highest share in history, nearly matching the highest share ever recorded (23.9 percent in 1928).[65] National data also show that a small sliver of the top 1 percent – the wealthiest 400 households in the US – have made phenomenal gains in recent years. The AGI of the typical US household in the top 400 *quintupled* between 1992 and 2007.[66] This substantial growth meant that the typical household in the top 400 had an AGI that was 6,900 times that of the typical four-person family in 2007.

CONCLUSION

With the job market neither getting worse nor much better, California appears to be stuck between a recession and a recovery. Barring further efforts to bolster job creation, the state will likely continue to languish for several more years with recession-like high levels of unemployment. The consequences of such pervasive and persistent joblessness for California's workers and their families will be great, and the longer the weak labor market persists, the deeper the scars will be. Even past downturns, which were shorter and milder than the Great Recession and were followed by stronger recoveries, had significant and lasting impacts on workers' earnings, their health status, and their children. This suggests that it will take many years for families to recover from the devastation caused by the longest and most severe recession in recent history.

ENDNOTES

[1] The gap between the wealthy and all other Californians has been widening for at least a generation and has continued to widen in recent years. See California Budget Project, *A Generation of Widening Inequality: The State of Working California 1979 to 2006* (August 2007) and California Budget Project, *New Data Show That California's Income Gaps Continue To Widen* (June 2009).

[2] CBP analysis of Employment Development Department data. More than half (55.2 percent) of the total 98,700 nonfarm jobs California gained during the first five months of 2010 were in federal government, and it is likely that nearly all of these gains were temporary jobs related to the 2010 Census. Another 26.8 percent of recent job gains were jobs in the administrative and waste services industry, which includes temporary help agencies. It is likely that a large share of these newly created jobs were in temporary help agencies. Temporary help jobs typically represent more than four out of 10 jobs in administrative and waste services, and they could make up an even larger share of new jobs given that temporary help hiring tends to increase when the economy begins to recover from a recession. Seasonally adjusted data for temporary help agencies alone are not available. See also Employment Development Department, *May 2010 California Employment Highlights: Unemployment Rate Falls to 12.4 Percent; Nonfarm Payrolls Grew by 28,300 Jobs,* downloaded from http://www.calmis.ca.gov/file/lfmonth/Employment-Highlights.pdf on June 30, 2010.

[3] In early August 2010, the US Census Bureau still had 196,000 temporary employees on its payroll; these jobs are expected to end in coming months. Heidi Shierholz, *A Labor Market Stuck in Neutral* (Economic Policy Institute: August 6, 2010).

[4] Employment Development Department.

[5] 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.

[6] One recent forecast projects that California will gain back only one-fifth of the total jobs lost during the recession by July 2011 and that it will take until the first quarter of 2015 before the state gains back all of the jobs lost during the recession. However, these projections do not account for the additional jobs needed because of growth in the working-age population. University of the Pacific, Eberhardt School of Business, *California and Metro Forecast: July 2010* (July 15, 2010).

[7] According to one forecast, 2011 could mark the first annual increase in manufacturing jobs in a decade. The state's construction sector, on the other hand, is not expected to begin to rebound until 2012. In fact, construction is projected to lose a total of 10,000 jobs by the end of 2010. University of the Pacific, Eberhardt School of Business, *California and Metro Forecast: July 2010* (July 15, 2010).

[8] In fact, California's jobless rate has remained at or above 12.0 percent since August 2009 – a level of unemployment never before reached in the post-World War II era. Employment Development Department, *Economic Update,* handout provided at the Labor Market Information Division Advisory Group Meeting on April 22, 2010. State unemployment data prior to 1976 are not considered to be "official." The unemployment rate in the rest of the US peaked at 9.9 percent in October 2009, then declined to 9.1 percent in July 2010. Recent forecasts project that California's jobless rate will remain at or above 12.0 percent throughout 2010 and will stay in double-digits until 2012. University of the Pacific, Eberhardt School of Business, *California and Metro Forecast: July 2010* (July 15, 2010) and UCLA Anderson Forecast, *National Economic Recovery Will Be a Long Slow Climb* (June 15, 2010).

[9] To be counted as unemployed, an individual must have searched for work within the past four weeks. Jobless individuals who have not looked for work within the past month are not considered to be part of the labor force.

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

[11] Assuming each additional worker works 38.0 hours per week – the average in the first half of 2010.

[12] CBP analysis of US Census Bureau, Current Population Survey data. These data represent the average length of jobless spells for individuals who were unemployed at some point during the first six months of 2010.

[13] Employment Development Department. These data represent the average number of long-term unemployed in the 12 months ending in June 2007 and June 2010, respectively.

[14] US Bureau of Labor Statistics. The share of long-term jobless peaked in June 1983, which up until the Great Recession had been the highest share on record.

[15] The US unemployment rate reached a high of 10.1 percent in October 2009, compared to a high of 10.8 percent in November 1982.

[16] Heidi Shierholz, *For Four Out of Five Unemployed Workers, There Are No Jobs* (August 11, 2010).

[17] In 2006, there were approximately 1.5 job seekers for every job opening, on average. US Bureau of Labor Statistics, "Job Availability During a Recession: An Examination of the Number of Unemployed Persons Per Job Opening," *Issues in Labor Statistics* (March 2010).

[18] CBP analysis of US Bureau of Labor Statistics data. This analysis excludes the unemployed who chose to leave their jobs, as well those who had not been in the labor force prior to becoming unemployed.

[19] Employment in these sectors, which was inflated during the housing boom, is not expected to rebound to pre-recession levels. Puneet Chehal, Prakash Loungani, and Bharat Trehan, "Stock-Market-Based Measures of Sectoral Shocks and the Unemployment Rate," *Federal Reserve Bank of San Francisco Economic Letter* (August 2, 2010). See also Ellen R. Rissman, "Employment Growth: Cyclical Movements or Structural Change?" *Economic Perspectives* (Fourth Quarter 2009), pp. 40-57.

[20] In contrast, temporary layoffs can be reversed quickly: Once demand picks up, companies simply recall their workers to their former positions. Congressional Budget Office, *Losing a Job During a Recession* (April 22, 2010); Edward S. Knotek II and Stephen Terry, "How Will Unemployment Fare Following the Recession?" *Economic Review* (Third Quarter 2009), pp. 5-33; and Erica L. Groshen and Simon Potter, "Has Structural Change Contributed to a Jobless Recovery?" *Current Issues in Economics and Finance 9* (August 2003), pp. 1-7.

[21] Only 11.9 percent of Americans moved between 2007 and 2008. This increased slightly to 12.5 percent between 2008 and 2009. William H. Frey, *The Great American Migration Slowdown: Regional and Metropolitan Dimensions* (The Brookings Institution: December 2009).

[22] In the fourth quarter of 2009, nearly one-quarter of residential properties with mortgages (24 percent) had negative equity. First American CoreLogic data cited in The PEW Charitable Trusts, *A Year or More: The High Cost of Long-Term Unemployment* (April 5, 2010), p. 11.

[23] Heather Boushey, *Possible Public Policy Responses to Long-Term Unemployment,* testimony before the Congressional Committee on Ways and Means Subcommittee on Income Security and Family Support (June 10, 2010); Lawrence F. Katz, *Long-Term Unemployment in the Great Recession,* testimony before the Congressional Joint Economic Committee (April 29, 2010); and Michael Reich, *High Unemployment After the Great Recession: Why? What Can We Do?* (University of California, Berkeley Center on Wage and Employment Dynamics: June 2010).

[24] Data are for the fourth quarter of 2009. Specifically, 9.8 percent of individuals who had been unemployed for more than half a year in one month of that quarter were employed in the following month, and 31.9 percent of individuals who had been unemployed for four weeks or less in one month of that quarter were employed in the following month. Jesse Rothstein, *Long-Term Unemployment: Causes, Consequences, and Solutions,* downloaded from http://www.epi.org/publications/entry/labor_departments_jesse_rothstein_on_long-term_unemployment/ on August 19, 2010 and personal communication with Jesse Rothstein, formerly the Chief Economist of the US Department of Labor, on August 19, 2010.

[25] Congressional Budget Office, *Long-Term Unemployment* (October 2007).

[26] For an overview of the research, see Till von Wachter, *Long-Term Unemployment: Causes, Consequences, and Solutions,* testimony before the Congressional Joint Economic Committee (April 29, 2010). One study found that workers who lost full-time jobs due to layoffs or plant closures between 2001 and 2003 had significantly lower weekly earnings – up to 17 percent lower, on average – when they subsequently found new full-time jobs. This trend was similar for workers laid off during the downturns of the early 1980s and early 1990s. Henry S. Farber, "What Do We Know About Job Loss in the United States? Evidence From the Displaced Workers Survey, 1984-2004," *Economic Perspectives* (Second Quarter 2005), pp. 13-28. Another study found a substantial decline in earnings for California manufacturing workers who lost their jobs in the early 1990s, particularly for those who were reemployed in other sectors of the economy. Robert F. Schoeni and Michael Dardia, *Estimates of Earnings Losses of Displaced Workers Using California Administrative Data* (Population Studies Center at the Institute for Social Research, University of Michigan: December 2003). Another study found that men who lost their jobs due to a mass layoff in the early 1980s earned approximately 20 percent less 15 to 20 years after being laid off than similar men who did not lose their jobs. Till von Wachter, Jae Song, and Joyce Manchester, *Long-Term Earnings Losses Due to Mass Layoffs During the 1982 Recession: An Analysis Using US Administrative Data From 1974 to 2004,* preliminary draft cited with permission (April 2009). Research shows that earnings losses are greater for individuals who lose their jobs during or soon after a recession as opposed to during periods when the economy is stronger. Congressional Budget Office, *Losing a Job During a Recession* (April 22, 2010).

[27] Approximately two out of five individuals who lost a full-time job in 2003 and were unemployed for 27 weeks or more earned at least 20 percent less when they were reemployed than they had at their previous job. In contrast, approximately one-quarter of jobless individuals as a whole experienced an earnings loss of at least that magnitude. Congressional Budget Office, *Long-Term Unemployment* (October 2007).

[28] Till von Wachter, *Long-Term Unemployment: Causes, Consequences, and Solutions,* testimony before the Congressional Joint Economic Committee (April 29, 2010).

[29] One study found that parental job loss increased by 15 percent the probability that children would repeat a grade. Ann Huff Stevens and Jessamyn Schaller, *Short-Run Effects of Parental Job Loss on Children's Academic Achievement* (National Bureau of Economic Research: November 2009). Another study, which followed nearly 60,000 father-child pairs between 1978 and 1999, found that children whose fathers lost their jobs had annual earnings that were 9 percent lower than their counterparts whose fathers did not lose their jobs. Philip Oreopoulos, Marianne Page, and Ann Huff Stevens, *Intergenerational Effect of Worker Displacement* (National Bureau of Economic Research: August 2005).

[30] This chapter examines trends for 16-to-24-year-olds rather than 18-to-24-year-olds to be consistent with other research, including reports by the US Bureau of Labor Statistics. The analyses in this chapter exclude 16-to-24-year-olds who are currently enrolled in high school or college in an effort to focus on those who are most likely to want to work. Californians age 16 to 24 who were not enrolled in school represented 43.0 of all 16-to-24-year-olds in the civilian population in 2009, down slightly from 46.8 percent in 2006. The employment and unemployment trends for 16-to-24-year-olds who are not enrolled in school that are described in this chapter are nearly identical to trends for out-of-school youth age 18 to 24.

[31] CBP analysis of US Census Bureau, Current Population Survey data. Employment data for this group first became available in 1984.

[32] Even before the recession began, 16-to-24-year-olds were far less likely than their older counterparts to work. In part, this may reflect the fact that some young adults choose not to work because they are enrolled in school and/or are supported by their parents. In 2009, 64.3 percent of 16-to-24-year-olds who were attending school were not in the labor force. Employment also tends to be lower for young adults than for other groups because young adults tend to change jobs frequently in order to try out different career options. See Kathryn Anne Edwards and Alexander Hertel-Fernandez, *The Kids Aren't Alright: A Labor Market Analysis of Young Workers* (Economic Policy Institute: April 7, 2010).

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

[34] In 2009, 58.4 percent of out-of-school 16-to-24-year-olds were employed, compared to 60.1 percent of adults age 55 to 64. Employment data for out-of-school youth first became available in 1984. These trends are similar in the US as a whole. See Andrew Sum, et al., *Out With the Young and in With the Old: US Labor Markets 2000-2008 and the Case for an Immediate Jobs Creation Program for Teens and Young Adults* (Northeastern University Center for Labor Market Studies: December 2008).

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

[36] Individuals age 16 to 24 who lose their jobs are less likely than older individuals to apply for and to receive UI benefits. Wayne Vroman, "Unemployment Insurance Recipients and Nonrecipients in the CPS," *Monthly Labor Review* (October 2009), pp. 44-53. In part, this reflects the fact that many young adults have not yet established a sufficient work history to qualify for benefits. Andrew Stettner, Heather Boushey, and Jeffrey Wenger, *Clearing the Path to Unemployment Insurance for Low-Wage Workers: An Analysis of Alternative Base Period Implementation* (National Employment Law Project and Center for Economic and Policy Research: August 2005).

[37] Kathryn Anne Edwards and Alexander Hertel-Fernandez, *The Kids Aren't Alright: A Labor Market Analysis of Young Workers* (Economic Policy Institute: April 7, 2010).

[38] Construction and manufacturing lost a larger share of jobs than any major sector of the economy during the recession, both in California and in the US as a whole. US Bureau of Labor Statistics data show that US men held 86.7 percent of construction jobs and 71.4 percent of manufacturing jobs in 2009. Comparable data for California are not available, but there is no reason to expect this trend to be significantly different.

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

[40] The labor force includes the employed plus the unemployed. However, to be counted as unemployed, an individual must have searched for work within the past four weeks. Jobless individuals who have not looked for work within the past month are not considered to be part of the labor force.

[41] Changes in how the US Census Bureau has historically collected data on race require that Asians, Pacific Islanders (including Hawaiian natives), Native Americans, Alaskan Natives, and those of multiple races be grouped together to report wage data consistently across time. Because Asians make up the largest share of this group, this report refers to this category as "Asian" in the text.

[42] The employment rate is the share of noninstitutionalized civilians who are employed. Noninstitutionalized civilians 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.

[43] Young college graduates are those age 21 to 26 who have a bachelor's degree but no further education. This group excludes individuals age 21 to 24 who are enrolled in school. School enrollment data first became available in 1984, but are not available for individuals age 25 or older.

[44] Older college graduates are those age 27 to 64 who have a bachelor's degree but no further education. Individuals with master's degrees or other higher degrees are excluded in order to be comparable to young college graduates, very few of whom have completed higher degrees.

[45] Young high school graduates are those age 18 to 24 who are not enrolled in school. Employment data for this group first became available in 1984.

[46] Older high school graduates are those age 25 to 64.

[47] CBP analysis of US Census Bureau, Current Population Survey data. The "underutilization rate" is a measure published regularly by the US Bureau of Labor Statistics that provides a more complete picture of the weakness in the labor market than the regular unemployment rate does.

[48] See Andrew Sum, et al., *Out With the Young and in With the Old: US Labor Markets 2000-2008 and the Case for an Immediate Jobs Creation Program for Teens and Young Adults* (Northeastern University Center for Labor Market Studies: December 2008).

[49] Lisa B. Kahn, *The Long-Term Labor Market Consequences of Graduating From College in a Bad Economy* (August 13, 2009), downloaded from http://mba.yale.edu/faculty/pdf/kahn_longtermlabor.pdf on July 6, 2010. This study examined white male college graduates in the 1980s because employment for this group of workers is "least sensitive to external factors such as childbearing or discrimination."

[50] However, the impact declined over time. Hourly wages 15 years later were 2.5 percent lower for each 1 percentage point increase in the national jobless rate the year college graduates began working.

[51] Ayako Kondo, *Differential Effects of Graduating During a Recession Across Race and Gender* (Institute for Social and Economic Research and Policy Working Paper: May 2007) and Philip Oreopoulos, Till von Wachter, and Andrew Heisz, *The Short- and Long-Term Career Effects of Graduating in a Recession: Hysteresis and Heterogeneity in the Market for College Graduates* (National Bureau of Economic Research Working Paper: April 2006).

[52] The inflation-adjusted hourly wage of the typical worker increased by 2.6 percent between 2006 and 2009, but all of this growth occurred in the first year.

[53] The inflation-adjusted hourly earnings of low-wage workers declined by 0.9 percent between 2006 and 2009, while those of high-wage workers increased by 2.8 percent. Most of the gains in high-wage workers' hourly earnings during this period occurred before the recession began.

[54] California Budget Project and Economic Policy Institute analysis of US Census Bureau, Current Population Survey data. The typical California worker's weekly earnings fell from $828 in the 12 months ending in June 2009 to $807 in the 12 months ending in June 2010, after adjusting for inflation.

[55] Official state unemployment data first became available in 1976.

[56] Low-wage workers' inflation-adjusted hourly earnings peaked in 2004, then began to decline, perhaps in a delayed response to the downturn earlier that decade. In spite of that decline, low-wage workers' inflation-adjusted hourly earnings in 2006 remained well above where they were in 2000.

[57] The typical worker's inflation-adjusted hourly wage also declined through 1997, then rose through 2000. During the first couple years of the new decade, the typical worker's hourly wage was flat; it rose again, peaking in 2004, before falling again in 2005 and 2006.

[58] The gap between the wealthy and all other Californians has been widening for at least a generation and has continued to widen in recent years. See California Budget Project, *A Generation of Widening Inequality: The State of Working California 1979 to 2006* (August 2007) and California Budget Project, *New Data Show That California's Income Gaps Continue To Widen* (June 2009). Unless otherwise noted, the data reported in this chapter are from the Franchise Tax Board.

[59] Taxpayers include both single and joint filers. 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.

[60] Middle-income taxpayers' average AGI increased by $5,250 (14.6 percent) between 1995 and 2000, after adjusting for inflation.

[61] Disproportionate gains at the high end of the income distribution have resulted in the wealthiest Californians significantly increasing their share of income. In 2008, the wealthiest 1 percent – which includes fewer than 146,000 taxpayers – had 20.9 percent of the total AGI of all California taxpayers, up from 13.8 percent in 1993.

[62] The stock market bust earlier in the decade also caused the incomes of wealthy taxpayers to fall substantially. However, as soon as stock values increased, the incomes of the wealthy began to rebound.

[63] In 1993, the AGI of the average taxpayer in the top 1 percent was 21 times that of the average middle-income Californian.

[64] Emmanuel Saez, *Striking It Richer: The Evolution of Top Incomes in the United States (Updated With 2008 Estimates)* (July 17, 2010), p. 1. Additionally, Saez writes that, "The stock market and corporate profits partial recovery in 2009 should contribute to increasing top incomes in 2009 (relative to 2008). … In my view, the most likely outcome is that the top income shares will continue falling in 2009, but modestly. This suggests that the Great Recession is unlikely to have a very large impact on top income shares and will certainly not undo much of the dramatic increase in top income shares that has taken place since the 1970s."

[65] Avi Feller and Chad Stone, *Top 1 Percent of Americans Reaped Two-Thirds of Income Gains in Last Economic Expansion: Income Concentration in 2007 Was at Highest Level Since 1928, New Analysis Shows* (Center on Budget and Policy Priorities: September 9, 2009) and Emmanuel Saez, *Striking It Richer: The Evolution of Top Incomes in the United States* (Updated With 2008 Estimates) (July 17, 2010).

[66] The pre-tax incomes of the wealthiest 400 American households increased by 409 percent between 1992 and 2007, while their after-tax incomes increased even more – by 476 percent. Lawrence Mishel, *Where Has All the Income Gone? Look Up* (Economic Policy Institute: March 3, 2010).