CALIFORNIA BUDGET PROJECT

SPECIAL REPORT

ON THE EDGE:

CALIFORNIA'S WORKERS STILL FACE THE TOUGHEST JOB MARKET IN DECADES

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California Budget Project

Alissa Anderson prepared this report with assistance from Samar Lichtenstein. The CBP was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving the economic and social well-being of low- and middle-income Californians. Support for the CBP comes from foundation grants, subscriptions, and individual contributions. Please visit the CBP's website at www.cbp.org.

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KEY FINDINGS

This Labor Day, California and the nation are on the edge between a recession and a recovery. While economists believe that the Great Recession technically ended in June 2009, the past couple of years have been a recovery in name only. Every economic indicator points to a job market that remains mired in the deepest downturn in the post-World War II era: A record *low* share of working-age Californians have jobs; nearly a record *high* share of the state's unemployed have been looking for work for more than half a year; and the typical California worker's hourly wage has *lower* purchasing power than at any point in the past 10 years. In other words, for most workers and their families, whose economic well-being depends on a strong job market, the past two years were a recovery-less recovery. What's more, the prospect that a real recovery – with strong job and wage growth – will begin anytime soon has grown dim. National economic growth weakened dramatically in the first half of 2011, and economists are increasingly concerned that the Great Recession will transform into the Great Stagnation – a long period of slow economic growth too weak to generate the jobs that millions of unemployed desperately need.

A Recovery-less Recovery

The past couple of years failed to bring about a real recovery for California's workers and their families. The state gained back just a fraction of the jobs it lost since the recession began, which means that millions of Californians continue to struggle in the wake of the most severe recession in decades.

- **California still has a massive jobs deficit.** In July 2011, the most recent month for which data are available, the state had gained back only 226,800 jobs – just one out of six (16.6 percent) of the nearly 1.4 million jobs the state lost during the downturn. Even more troubling, job growth stalled in early 2011. California added an average of just 2,760 jobs per month between February 2011 and July 2011.

- **Fewer than three out of five working-age Californians have jobs.** In July 2011, just 55.4 percent of the state's working-age population had jobs – the lowest employment rate ever recorded. The last time the state's employment rate was nearly this low was in 1976, when a smaller share of Californians had jobs largely because far fewer women were in the labor force.

- **Hundreds of thousands of Californians are sitting on the sidelines of the job market.** The state's unemployment rate declined over the past six months because a large number of jobless Californians stopped looking for work and "dropped out" of the labor force. In July 2011, a total of 383,000 Californians who were not in the labor force reported that they wanted and were available for employment, but many were too discouraged by limited job openings to search for work. If these individuals were counted as unemployed, California's July 2011 jobless rate would have been two percentage points higher, at 14.0 percent.

- **Jobs remain scarce.** The number of people looking for work nationwide exceeded available jobs by more than four to one in June 2011 – the most recent month for which data are available. Specifically, 14.1 million Americans were looking for work that month, but there were only 3.1 million job openings. While comparable California data are not available, the magnitude of the job shortfall in the state is likely greater, given that California's unemployment rate far exceeds that of the US as a whole.

- **The number of long-term unemployed remains near a record high.** In July 2011, nearly half (45.8 percent) of California's unemployed – nearly 1 million individuals – had been searching work for more than six months, down by just 33,000 from the record-high number reached five months earlier. One-third (33.3 percent) of the state's jobless – 727,000 individuals – had gone without work for a year or more.

Two Steps Forward, One Step Back

Since the recession hit California harder than most other states, California's job market has a longer way to go to fully recover from the downturn. The good news is that the pace of California's job growth over the past year – while modest – slightly exceeds that of the US as a whole. California's total number of jobs increased by 1.1 percent between June 2010 and June 2011, compared to a 0.8 percent increase nationally. The state's somewhat stronger job growth reflects gains across a broad range of sectors, including film and high-tech industries, where California traditionally leads the nation, as well as civil engineering construction and tourism-related industries. California's total job gains would be stronger, however, if it were not for the ongoing impact of state and local budget cuts, which resulted in deep public sector job losses that offset a large share of the state's private sector job gains.

- **Public sector job losses offset private sector job gains.** California's public sector was one of just four sectors to lose jobs over the past year, and it contributed by far the largest number of jobs lost. Between June 2010 and June 2011, California lost 24,500 state and local government jobs (1.1 percent) – approximately one job lost for every nine private sector jobs the state gained.

- **California's total public sector job losses were deeper than those of the nation.** California's state and local government employment dropped by 6.2 percent between its peak in June 2008 and June 2011 – more than double the percentage decline in state and local government employment in the nation as a whole (2.5 percent). The overwhelming majority (92.5 percent) of the jobs California lost were city, county, and public school jobs – collectively called "local government" jobs. In fact, public schools *alone* accounted more than half (54.0 percent) of the state and local government jobs that California lost during this period.

- **Most of California's counties have lost local government jobs since the recession began.** Employment with cities, counties, and public schools declined in nearly three-quarters of California's counties between 2007 and 2010. A dozen counties lost more than one out of 10 local government jobs during that period, while another 10 counties lost at least one out of 20 local government jobs. By far the largest percentage reduction occurred in Yuba County, which lost one out of three local government jobs (33.3 percent) between 2007 and 2010.

- **Foundation and nonprofit employment declined in California.** Between June 2010 and June 2011, California lost jobs while the US as a whole gained jobs in grantmaking and giving organizations; social advocacy organizations; and business, labor, and political organizations – many of which are nonprofits. Employment declines in these organizations is not surprising given that many nonprofits' traditional sources of revenue dropped sharply due to the impact of the downturn on grantmaking and charitable giving, as well as state and local budget cuts.

- **Film and high-tech industries contributed a disproportionate share of California's job gains over the past year.** Employment in the information services sector, which includes several high-tech industries as well as the film industry, increased by 6.1 percent between June 2010 and June 2011 – the state's largest percentage gain of all major sectors – while the number of information jobs in the nation declined by 0.6 percent. In fact, California's information sector accounted for more than one out of nine jobs added over the past year (11.6 percent) – significant considering that this sector represents approximately 3 percent of the state's employment.

- **California's job growth over the past year was geographically uneven.** Just nine of California's 28 metropolitan areas gained jobs between June 2010 and June 2011. San Benito and Santa Clara counties contributed the largest number of jobs (18,300), reflecting strong gains in high-tech industries. In fact, in just one year, these counties gained back nearly one-third (32.4 percent) of the jobs lost during the prior three years – twice the percentage that the state as a whole gained back (16.2 percent).

- **Job growth has yet to resume in most regions of the state.** Many of the metropolitan areas that were hit hardest by the recession continued to lose jobs over the past year. For example, the Inland Empire – Riverside and San Bernardino counties, where a bigger housing boom resulted in a bigger housing bust – lost 10,300 jobs between June 2010 and June 2011 – the largest number of any metropolitan area.

- **The Great Recession widened the gap between California's inland and coastal counties.** While unemployment rates tend to be higher inland than along the coast even when the economy is strong, more severe job losses in inland counties during the recession widened the divide between these two regions. The unemployment rate in California's inland counties as a whole rose by 9.0 percentage points between 2006 and 2010, from 6.2 percent to 15.2 percent. In contrast, the jobless rate in the state's coastal counties increased by 6.9 percentage points during the same period, from 4.4 percent to 11.3 percent.

From Mancession to He-Covery

Modest job gains over the past year have not been shared equally among all workers, as documented in prior California Budget Project reports.[1] One of the most striking trends is the disparity in job growth between men and women. While women make up nearly half of the nation's workforce, men gained approximately nine out of 10 jobs added in the US between June 2010 and June 2011 (89.8 percent). Specifically, US men gained 981,000 jobs (1.5 percent) – nearly nine times the number of jobs women gained (111,000 jobs, 0.2 percent). While the recession left more men unemployed – they lost more than twice as many jobs as women during the downturn – the larger number of men looking for work cannot fully explain their disproportionate share of recent job gains. Men fared better than women in nearly every major sector of the economy, not just in the sectors in which men lost the largest number of jobs during the downturn. Moreover, women continued to lose jobs in several sectors over the past year, even while men gained employment in those sectors. Thus, the recession – widely proclaimed to be a "mancession"– has given way to what some call a "he-covery," since men have gained a disproportionate share of jobs during the recovery.

- **The jobless rate for California's women continued to rise in recent months.** While the jobless rate for the state's men declined slightly from a high of 13.0 percent in September 2010 to 12.5 percent in June 2011, women's unemployment rate continued to rise and reached a high of 11.4 percent in February 2011, where it remained through June 2011. National data show that this is the first official recovery in more than four decades – which is as far back as data are available – in which women's unemployment rate continued to rise, while men's rate declined.

- **US women made weaker gains than US men in five major sectors over the past year, including several sectors where women represent a majority of workers.** For example, the number of men employed in private education and health services – a sector where more than three out of four workers are women – increased by 3.7 percent between June 2010 and June 2011 – more than twice the percentage increase in women's employment (1.6 percent).

- **US women lost jobs in four major sectors where US men made gains over the past year, including retail trade and financial activities – sectors where women make up half or more of the workforce.** Men's retail trade employment increased by 2.4 percent between June 2010 and June 2011, while women's employment in this sector declined by 0.5 percent. In addition, the number of men working in financial activities rose by 0.8 percent during this period, while the number of women employees fell by 1.0 percent.

- **Both US men and US women lost public sector jobs over the past year.** The nation's men and women lost public sector jobs at close to the same rate over the past year. However, women experienced a larger percentage decline in local government – the largest component of the public sector – primarily due to public school job loss.

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

Several years of high unemployment depressed the purchasing power of workers' hourly wages at the low end and the middle of the earnings distribution, while high-wage workers continued to make gains. Consequently, the recession exacerbated a more-than-three-decade-long trend of widening earnings inequality in California. This pattern is unlikely to change as long as the job market remains weak. With millions of Californians still out of work and a limited number of jobs available, competition for employment is high, which means that many workers – particularly low-wage earners – have little power to negotiate for pay increases.

- **The weak job market over the past four years eroded the purchasing power of the typical worker's hourly earnings.** The inflation-adjusted hourly wage of California's typical worker – the worker exactly at the middle of the earnings distribution – declined by 1.9 percent between 2006, the year before the Great Recession began, and 2010, the most recent year for which data are available. In fact, the typical worker's hourly wage had lower purchasing power in 2010 than at any point in the past 10 years.

- **California's low-wage workers also lost ground because of the weak job market.** The hourly earnings of workers at the 20th percentile of the distribution declined by 2.0 percent between 2006 and 2010, after adjusting for inflation. Thus, even with relatively low inflation in recent years, some workers' earnings lost purchasing power. In contrast, high-wage workers fared relatively well in spite of the recession. The inflation-adjusted hourly wages of workers at the 80th percentile of the distribution *increased* by 2.0 percent during the same four-year period.

- **Men in the middle of the earnings distribution lost significant ground.** Between 2006 and 2010, the typical inflation-adjusted hourly wage of the state's men dropped by 1.5 percent – more than seven times the percentage decline in the hourly wage of the typical woman worker (0.2 percent). This trend may reflect the fact that the construction and manufacturing sectors – where men make up the vast majority of workers – were hardest hit during the recession.

- **Workers with lower levels of educational attainment fared far worse than college graduates.** The inflation-adjusted hourly wage of California's typical worker with a high school diploma but no additional education fell by a substantial 7.3 percent between 2006 and 2010, compared to just a 1.7 percent decline for the typical college graduate. This means that the typical full-time, year-round worker with a high school degree alone earned approximately $2,400 less in 2010 than in 2006, after adjusting for inflation.

- **Many workers earned less because they worked fewer hours.** Employers cut workers' hours to such an extent in recent years that the average Californian worked fewer hours per week in 2010 than at any point since 1985. Reduced hours of work compounded the decline in workers' hourly wages. For example, the average Californian in the middle fifth of the earnings distribution not only earned 4.3 percent less *per hour* on an inflation-adjusted basis in 2010 than she did in 2006, she also worked 0.5 percent fewer hours *per week.* Consequently, the average worker's inflation-adjusted *weekly* earnings fell by a substantial 4.7 percent during this four-year period.

- **Diminished spending power is restraining the recovery.** Consumer spending remains weak, which means that businesses lack enough demand for their products and services to justify hiring. In addition, many businesses are postponing investments. Instead of hiring or investing, US corporations are stockpiling cash. They currently have the highest level of cash holdings as a share of their assets in more than four decades.

- **The gap between low-wage and high-wage workers widened during the past generation.** The Great Recession exacerbated a more-than-three-decade-long trend of widening earnings inequality. In 2010, California's high-wage workers earned $3.20 for every dollar earned by the state's low-wage workers – the widest hourly wage gap in at least three decades – up from $2.42 for each dollar earned by low-wage workers in 1979. This trend reflects the fact that California's low-wage workers earned 9.0 percent *less* per hour in 2010 than they did in 1979 ($10.57 versus $11.62), after adjusting for inflation, while the state's high-wage workers earned 20.5 percent *more* ($33.84 versus $28.08).

- **The gap between high-wage earners and the worker at the middle of the earnings distribution also widened over the past generation.** High-wage workers earned $1.83 for every dollar earned by the worker at the middle of the distribution in 2010, up from $1.51 for each dollar earned by the typical worker in 1979. This gap widened because the worker at the middle of the distribution earned 0.7 percent less per hour in 2010 than in 1979, after adjusting for inflation ($18.60 compared to $18.47), while high-wage workers earned considerably more.

- **Earnings gaps widened by a smaller margin in the US over the past generation largely because workers with wages at the low end and the middle of the distribution fared better nationally.** The typical US worker's hourly wage gained modest purchasing power between 1979 and 2010, increasing by 6.0 percent, while the inflation-adjusted earnings of the nation's low-wage workers rose by 2.3 percent. High-wage US workers' inflation-adjusted hourly earnings, on the other hand, increased by 17.9 percent between 1979 and 2010 – a somewhat smaller gain than that of California's high-wage workers.

- **While a generation ago workers across the earnings distribution tended to earn more per hour in California than in the nation as a whole, today only California's high-wage workers earn significantly higher hourly wages than their US counterparts.** In fact, the gap between high-wage earners in California and those in the US widened modestly over the past three decades because Californians at the high end of the distribution made greater gains than similar US workers.

- **While Californians at the low end and the middle of the earnings distribution historically earned more than their counterparts in the US, those earnings gaps closed or nearly closed over the past generation.** These trends reflect the fact that Californians at the low end and in the middle of the earnings distribution lost ground over the past three decades, while their US counterparts made modest gains.

Income Gains Have Not Been Broadly Shared

California's job market was weak throughout most of the last decade due to recessions at both the beginning and end of the decade, as well as an unusually weak recovery in the mid-2000s. Middle-income Californians, who derive the vast majority of their incomes from earnings from work, saw a weak job market significantly erode the purchasing power of their incomes, erasing all of their gains from the late 1990s when the labor market was strong. The wealthiest Californians, on the other hand, 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 – became increasingly concentrated among the top 1 percent of taxpayers. These uneven gains substantially widened the gap between the state's wealthiest and all other Californians, as documented in prior California Budget Project reports.[2]

- **Middle-income Californians have lost ground since 2000.** The purchasing power of middle-income taxpayers' average adjusted gross income (AGI) dropped by a substantial $5,406 (13.3 percent) between 2000 and 2009 – a decline that fully erased the gains they made during the boom years of the late 1990s. In fact, the average middle-income taxpayer's inflation-adjusted AGI was *lower* in 2009 than in any year since at least 1987, the earliest year for which published data are available.

- **The wealthiest Californians made significant gains before the recession began.** The incomes of the wealthiest sliver of the population skyrocketed to such an extent over the past two decades that even the worst recession in the post-World War II era failed to fully erase their gains. The average inflation-adjusted AGI of the top 1 percent of California taxpayers increased by a substantial 143.7 percent between 1987 and 2007 before declining by 38.4 percent over the next two years when the economy was in recession. However, the average AGI of the top 1 percent was still $391,000 (50.2 percent) *higher* in 2009 than it was in 1987.

- **Income gaps have widened over the past two decades.** While the gap between middle-income Californians and the top 1 percent narrowed in 2009, it remained substantially wider than in 1987. The average taxpayer in the top 1 percent of the income distribution had an AGI of $1.2 million in 2009 – 33 times that of the average middle-income taxpayer ($35,000). This was down from 51 times the AGI of the average middle-income Californian in 2007, but still nearly twice the gap in 1987.

- **The wealthiest households' share of income reached historic levels.** Half of all income reported for tax purposes (49.7 percent) went to the top 10 percent of US households in 2007 – the highest share on record, slightly exceeding the prior record set in 1928 (49.3 percent). 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 on record, nearly matching the highest share ever recorded (23.9 percent in 1928).

- **A small sliver of the top 1 percent – the wealthiest 400 households in the US – have made phenomenal gains since the early 1990s.** Their average income reported for tax purposes increased by 408.9 percent from $67.7 million in 1992 to $344.8 million in 2007, after adjusting for inflation. In fact, the wealthiest 400 households had combined incomes of $137.9 billion in 2007. By way of comparison, more than three-quarters of the nations in the world have economies that are smaller than the combined incomes of the wealthiest 400 US households.

- **Declining fortunes for most Californians stand in stark contrast to rising corporate profits.** Between the second quarter of 2009 and the first quarter of 2011, total corporate profits for US businesses rose by 48.6 percent – nearly 11 times the percentage gain in total wages and salaries for the nation's workers (4.5 percent). In fact, as a result of this remarkably strong growth, corporate profits represented 14.0 percent of total national income in 2010 – the *highest* share ever recorded, and records begin in 1929. In contrast, wages and salaries made up just half (49.9 percent) of national income – the *lowest* share on record.

A RECOVERY-LESS RECOVERY

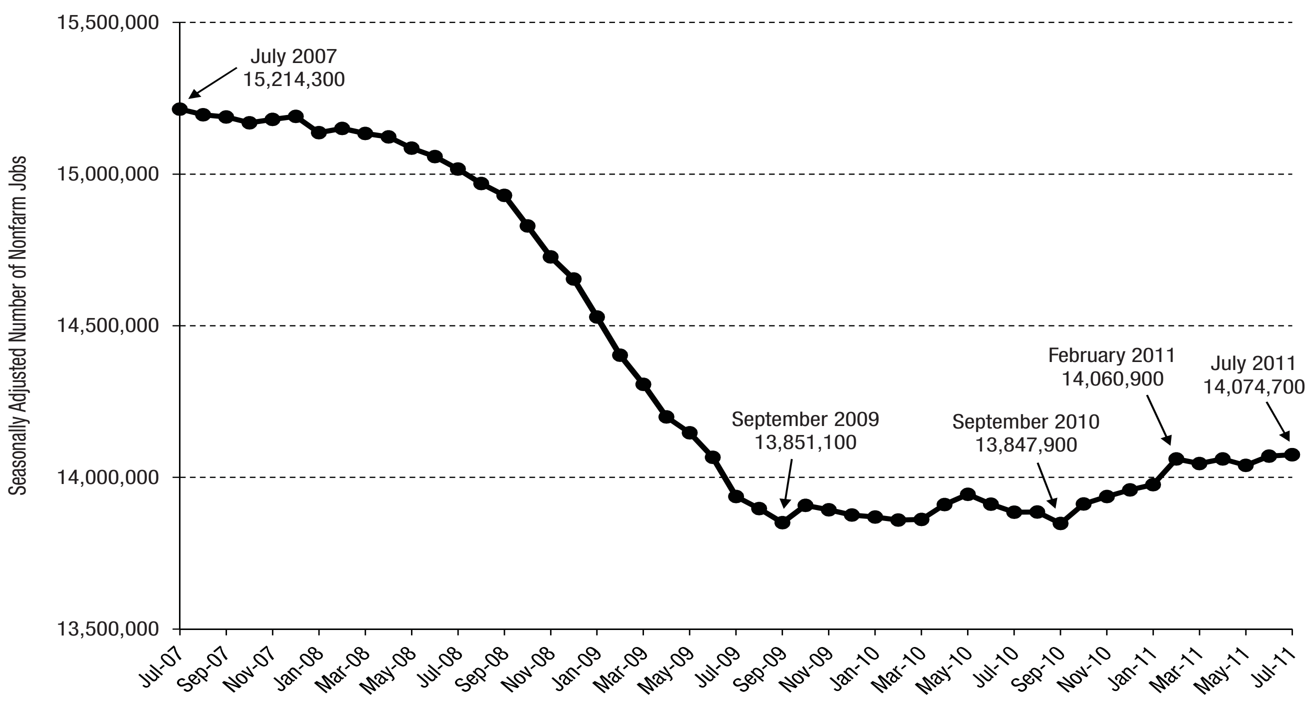
This Labor Day comes more than two years after economists declared that the Great Recession was over and that the economy was on the road to recovery.[3] Yet California's job market remains nearly as weak as it was during the depths of the downturn. The state has gained back just a fraction of the jobs it lost since the recession began, and, as a result, the number of people looking for work still far exceeds available positions. In fact, fewer than three out five Californians were working in July 2011 (55.4 percent), the lowest employment rate ever recorded. Equally as troubling, nearly half of the state's unemployed – nearly 1 million Californians – had gone without work for more than six months, while one-third had been unemployed for more than a year. Thus, while economists consider the past couple of years technically a recovery, it was not a recovery in any sense that matters for workers and their families, whose economic well-being depends on a strong job market. Millions of Californians continue to struggle in the wake of the most severe recession in decades.

California Still Has a Massive Jobs Deficit

California suffers from a massive jobs deficit. In July 2011, the most recent month for which data are available, the state had gained back only 226,800 jobs – just one out of six (16.6 percent) of the nearly 1.4 million jobs the state lost during the downturn (Figure 1).[4] This modest gain reflects the fact that California's employment declined slightly and then remained essentially flat for the first 15 months after the recession officially ended.[5] In September 2010 – well into the so-called recovery – California's total number of jobs reached its lowest point since the recession began. That month, the state had approximately the same number of jobs as it did in March 1999, even though California was home to 3.8 million *more* working-age residents.[6] While California's economy began to gain momentum between September 2010 and February 2011 – a period when the state added an average of 42,600 jobs per month – job growth stalled in early 2011.[7] California added an average of just 2,760 jobs per month between February 2011 and July 2011.

With job gains modest and uneven over the past two years, full recovery from the Great Recession is still a long way off.

Figure 1: California's Job Growth Has Flat-Lined Since Early 2011



Source: Employment Development Department

Even if California's job growth resumed at the pace set prior to the recent slowdown, it would take more than two years to regain all of the jobs the state lost during the recession.[8] Full recovery would take even longer: For employment to return to pre-recession levels, California needs to gain back far more than the 1.4 million jobs it lost during the downturn because population growth has increased the number of individuals who need jobs.[9] Indeed, projections suggest that full recovery in California's job market is not likely until the second half of this decade.[10]

Fewer Than Three Out of Five Working-Age Californians Have Jobs

With job growth weak over the past year, the share of Californians who are employed remains at a record low. In July 2011, just 55.4 percent of the state's working-age population had jobs, the lowest employment rate ever recorded (Figure 2).[11] The last time the state's employment rate was nearly this low was in 1976, when a smaller share of Californians had jobs largely because far fewer women were in the labor force.[12] By way of comparison, just before the Great Recession began, the share of Californians who were working peaked at 62.6 percent, a full 7.2 percentage points higher than the July 2011 share.[13]

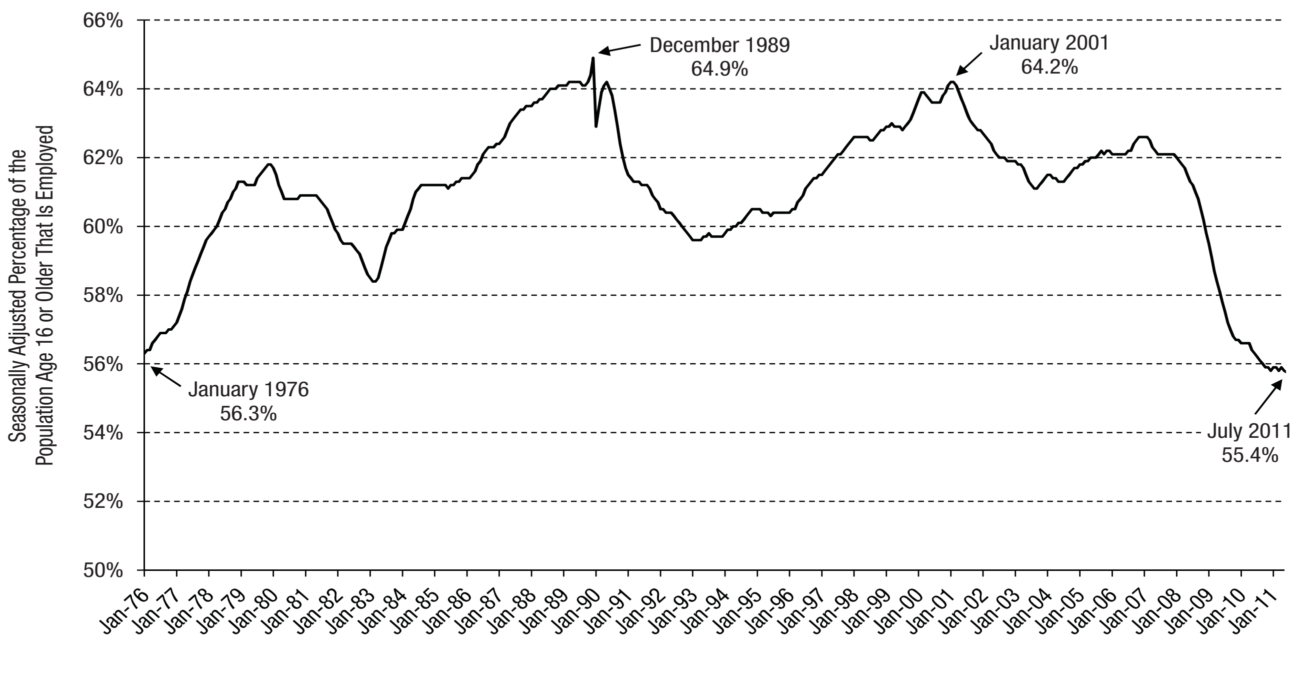
The employment rate reflects the current weakness in the job market better than the unemployment rate does. The state's jobless rate fell by 0.5 of a percentage point from its peak of 12.5 percent in December 2010 to 12.0 percent in July 2011. However, the jobless rate dropped because more than 100,000 of the unemployed stopped looking for work and "dropped out" of the labor force, not because more Californians found work.[14] Since jobless individuals are included in the unemployment rate only if they looked for work within the past four weeks, these Californians were no longer counted as unemployed, and that artificially drove down the unemployment rate.[15]

Many Californians who dropped out of the labor force in recent years want to work. In July 2011, 383,000 Californians who were not in the labor force reported that they wanted jobs and were available for employment. Many had not searched for work recently because they were discouraged by limited job openings. If these individuals were counted as unemployed, California's July 2011 jobless rate would have been two percentage points higher, at 14.0 percent.

Jobs Remain Scarce

Persistently low levels of employment reflect the fact that hiring remains below pre-recession levels. In the spring

Figure 2: The Share of Californians With Jobs Fell to a Record Low in July 2011



Note: The drop in California's employment rate in early 1990 reflects a change in data collection methodology.
Source: US Bureau of Labor Statistics

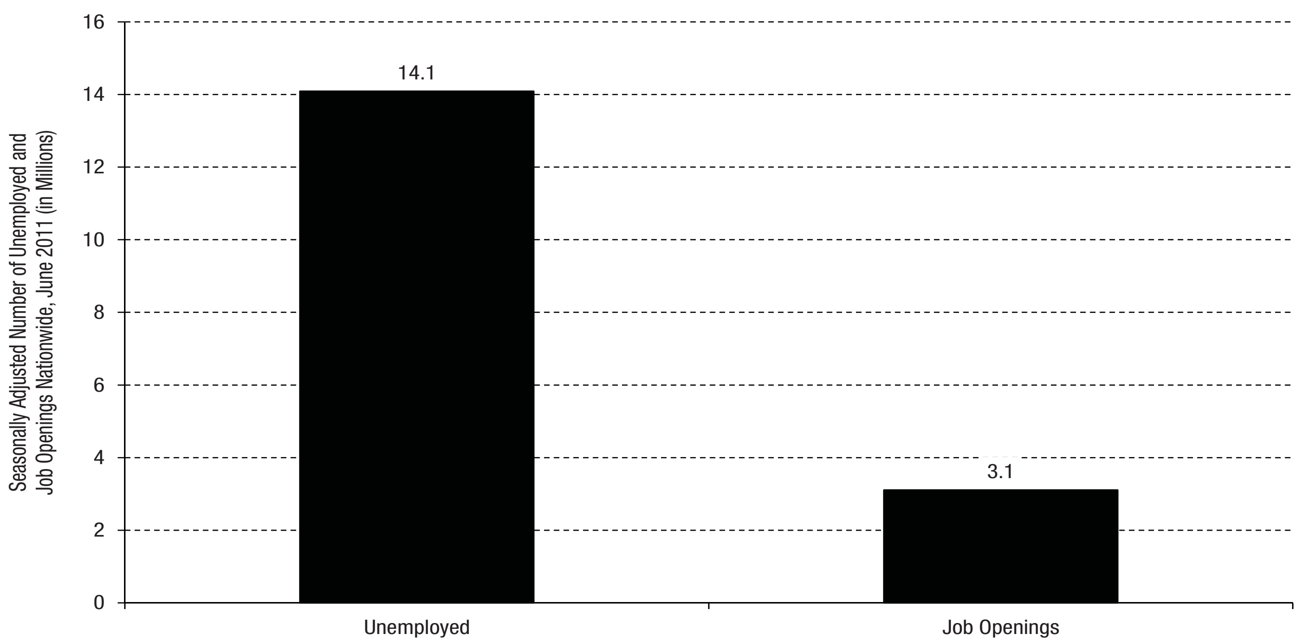
of 2011, businesses hired approximately 25 percent fewer US workers than they did before the recession began.[16] Consequently, jobs remain scarce. The number of people looking for work nationwide exceeded available jobs by more than four to one in June 2011, the most recent month for which data are available.[17] Specifically, 14.1 million Americans were looking for work that month, but there were only 3.1 million job openings (Figure 3). While these figures show an improvement from two years ago, when the number of unemployed exceeded job openings by more than six to one, the odds of finding work remain low. In contrast, before the downturn, the number of jobless only slightly exceeded the number of available positions. Moreover, these data likely underestimate the actual job shortage because, as discussed above, many workers dropped out of the labor force in recent years and are no longer counted as unemployed even though many want to work. While comparable California data are not available, the magnitude of the job shortfall in the state is likely greater, given that California's unemployment rate far exceeds that of the US as a whole.

The Number of Long-Term Unemployed Remains Near a Record High

With job openings scarce, not only are millions of Californians still out of work, but the number of long-term unemployed remains near a record high. In July 2011, nearly half (45.8 percent) of California's unemployed – nearly 1 million individuals – had been searching work for more than six months, down by just 33,000 from the record-high number reached five months earlier (Figure 4).[18] One-third (33.3 percent) of the state's jobless – 727,000 individuals – had gone without work for a year or more. While the number of long-term unemployed declined only slightly in recent months, the number of "shorter-term" jobless has steadily fallen for more than a year. Nearly 1.2 million of the state's unemployed had been searching for work for six months or less in July 2011 – approximately 171,000 fewer than in December 2009 when their numbers peaked.

The long-term unemployed appear to face the greatest obstacles to finding employment. National data show that the probability of finding a job declines significantly the longer individuals are unemployed. In December 2010 – the most recent month for which data are available – a worker who had been unemployed for less than five weeks had a roughly 30 percent chance of finding a job in the next month, while a worker who had been out of work for six months or more had just a 10 percent chance of finding employment.[19] In other words, the "short-term" jobless were three times as likely to find work as the long-term jobless. Researchers suggest that the long-term unemployed may be less likely to secure employment because they lose touch with informal

Figure 3: The Number of People Looking for Work Nationwide Exceeds Available Jobs by More Than Four to One



Source: US Bureau of Labor Statistics

job networks the longer they go without work or because they become so discouraged that they put less effort into their job search.[20] Alternatively, the skills of the long-term jobless may wane over time, making them appear less desirable to employers. Indeed, recent evidence suggests that some employers are explicitly refusing to consider job applicants who are unemployed simply because they are not working.[21] Proposed federal legislation would prohibit this type of discrimination.[22]

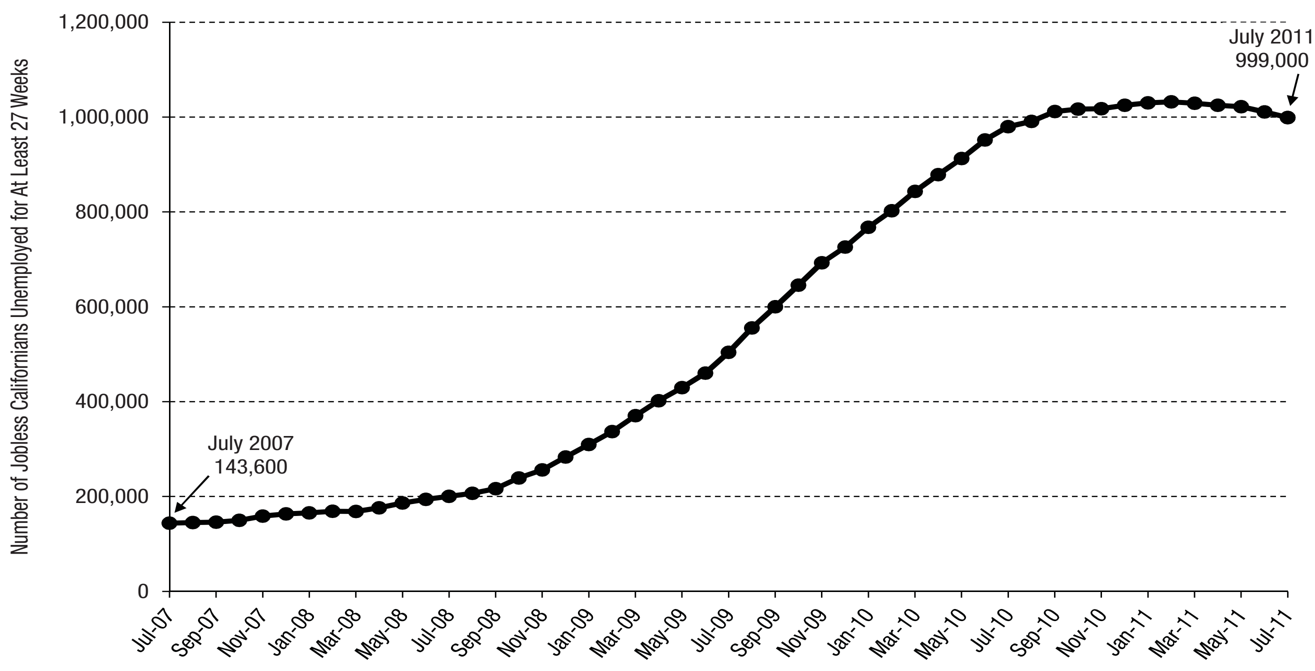
TWO STEPS FORWARD, ONE STEP BACK

Since the recession hit California harder than most other states, California's job market has a longer way to go to fully recover from the downturn. The good news is that the pace of California's job growth over the past year – while modest – slightly exceeds that of the US as a whole. California's total number of jobs increased by 1.1 percent between June 2010 and June 2011, compared to a 0.8 percent increase nationally (Table 1).[23] The state's somewhat stronger job growth reflects gains across a broad range of sectors, including film and high-tech industries, where California traditionally leads the nation, as well as civil engineering construction and tourism-related industries. California's total job gains would be stronger, however, if it were not for the ongoing impact of state and local budget cuts, which resulted in deep public sector job losses that offset a large share of the state's private sector job gains.

Public Sector Job Losses Offset Private Sector Job Gains

California's public sector was one of just four sectors to lose jobs over the past year, and it contributed by far the largest number of jobs lost. Between June 2010 and June 2011, California lost 24,500 state and local government jobs (1.1 percent) – approximately one job lost for every nine private sector jobs the state gained. While this decline compares somewhat favorably to the US as a whole, where state and local government employment dropped by 1.5 percent, California's public sector began to shrink earlier in the recession. As a result, the state's total public sector job losses were deeper than those of the nation.[24] After peaking in June 2008, California's state and local government employment dropped by 6.2 percent over the next three years, more than double the percentage decline in state and local government employment in the nation as a whole (2.5 percent).[25] The overwhelming majority (92.5 percent) of the state and local

Figure 4: The Number of Long-Term Jobless Remains Seven Times Higher Than It Was Before the Recession Began



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

Table 1: California's Job Growth Over the Past Year Slightly Exceeded That of the US as a Whole				
	Change in the Number of Jobs (Thousands), June 2010 to June 2011		Percent Change in the Number of Jobs, June 2010 to June 2011	
Major Sector	California	US	California	US
Information	26.0	-17.0	6.1%	-0.6%
Professional and Business Services	65.0	476.0	3.1%	2.9%
Education and Health Services	48.1	403.0	2.7%	2.1%
Wholesale Trade	18.5	93.0	2.9%	1.7%
Leisure and Hospitality	38.2	190.0	2.6%	1.5%
Construction	6.9	13.0	1.2%	0.2%
Manufacturing	16.3	173.0	1.3%	1.5%
Transportation, Warehousing, and Utilities	4.9	101.0	1.1%	2.1%
Financial Activities	-0.9	-21.0	-0.1%	-0.3%
Retail Trade	-1.6	141.8	-0.1%	1.0%
Other Services	-3.0	105.0	-0.6%	2.0%
Total Private	**218.5**	**1,744.0**	**1.9%**	**1.6%**
Public Administration	-60.1	-652.0	-2.5%	-2.9%
State and Local	-24.5	-300.0	-1.1%	-1.5%
State	5.0	-47.0	1.0%	-0.9%
Local	-29.5	-253.0	-1.8%	-1.8%
Federal	-35.6	-352.0	-12.4%	-11.1%
Total Nonfarm	**158.4**	**1,092.0**	**1.1%**	**0.8%**

Note: Seasonally adjusted jobs.
Source: Employment Development Department and US Bureau of Labor Statistics

government jobs California lost over the past three years were city, county, and public school jobs – collectively called “local government” jobs.[26] In fact, public schools *alone* accounted for more than half (54.0 percent) of the state and local government jobs that California lost during this period.[27]

This significant decline in public sector employment is unusual for a recovery. In all but one of the eight national recoveries in the post-World War II era, public sector employment *increased*.[28] The one prior exception was in the early 1980s, when the nation experienced a “double-dip” recession.

Foundation and Nonprofit Employment Declined in California

Over the past year, California lost jobs in the “other services” sector while the US as a whole gained jobs in that sector, which includes a range of service jobs, from social advocacy and grantmaking to automotive repair and maintenance to personal care and laundry services. California lost 3,000 other services jobs between June 2010 and June 2011 – a 0.6 percent decline. While small in number, these losses are notable given that other-services employment in the US as a whole rose by a relatively strong 2.0 percent during the same period. The bulk of California’s other-services job losses came from grantmaking and giving organizations; social advocacy organizations; and business, labor, and political organizations – many of which are nonprofits.[29] Employment declines in these organizations is not surprising since many foundations and nonprofits were hit hard by the recession. Surveys show that nonprofit organizations’ traditional sources of revenue dropped sharply in recent years: Corporate and individual donations declined; the value of foundations’ assets fell, which meant that some foundations provided fewer and/or smaller grants to nonprofits; and state and local governments delayed payments to nonprofits – or stopped making grants altogether – for the services that they had contracted with nonprofits to provide – a direct consequence of state and local budget cuts.[30]

Film and High-Tech Industries Contributed a Disproportionate Share of California’s Job Gains

Although state and local budget cuts dampened California’s job growth over the past year, the state gained jobs, on the whole, due to private sector growth. California’s strongest private sector job gains in percentage terms came from the information services sector, which includes several high-tech industries as well as the film industry. Information services jobs increased by 6.1 percent between June 2010 and June 2011 – the state’s largest percentage gain of all major sectors – while the number of information jobs in the nation declined by 0.6 percent. In fact, California’s information sector accounted for more than one out of nine jobs added over the past year (11.6 percent) – significant considering that this sector represents approximately 3 percent of the state’s employment. California’s information services gains were largely driven by the motion picture and video industry, where employment jumped by 11.0

Most of California's Counties Have Lost Local Government Jobs Since the Recession Began

Local government employment, which includes cities, counties, and public schools, declined in nearly three-quarters of California's counties between 2007 and 2010.[31] A dozen counties lost more than one out of 10 local government jobs during that period, while another 10 counties lost at least one out of 20 local government jobs. By far the largest reduction occurred in Yuba County, which lost one out of three local government jobs (33.3 percent) between 2007 and 2010.[32] Since the local government sector accounted for more than one-quarter of the county's jobs before the recession began, these layoffs took a significant toll on local communities.[33] As job losses mounted between 2007 and 2010, Yuba County's unemployment rate leapt from 8.6 percent to 19.2 percent – the third-largest increase in the state.

Most of California's Counties Lost Local Government Jobs Between 2007 and 2010

County	Change in Local Government Jobs, 2007 to 2010		County	Change in Local Government Jobs, 2007 to 2010	
Yuba	-1,600	-33.3%	Riverside	-2,900	-3.3%
Santa Cruz	-2,500	-18.7%	San Diego	-4,500	-3.2%
Solano	-3,100	-17.3%	Humboldt	-300	-3.0%
Sonoma	-3,800	-15.8%	Santa Clara	-2,200	-2.9%
Siskiyou	-390	-13.6%	Kern	-1,000	-2.4%
Glenn	-290	-13.6%	Ventura	-800	-2.4%
San Luis Obispo	-1,600	-13.1%	Imperial	-300	-2.3%
Amador	-430	-12.4%	San Francisco	-900	-2.1%
Butte	-1,700	-12.0%	San Bernardino	-1,900	-2.1%
Sacramento	-7,900	-10.4%	Calaveras	-40	-1.8%
Tuolumne	-410	-10.3%	Madera	-100	-1.3%
Placer	-1,900	-10.2%	Monterey	-200	-0.9%
Alpine	-20	-9.1%	Merced	-100	-0.8%
Tehama	-330	-9.0%	Modoc	0	0.0%
Alameda	-6,700	-8.6%	Tulare	100	0.4%
Trinity	-80	-7.1%	Inyo	10	0.4%
San Joaquin	-2,100	-6.5%	Mono	10	0.8%
Lassen	-140	-6.4%	Napa	100	1.6%
Orange	-7,300	-6.1%	Lake	90	2.5%
Fresno	-2,900	-5.9%	Kings	200	2.6%
Colusa	-120	-5.9%	Sierra	10	3.0%
Yolo	-500	-5.0%	Plumas	70	3.5%
Contra Costa	-2,200	-4.9%	Santa Barbara	800	3.5%
Marin	-600	-4.8%	San Benito	100	4.0%
San Mateo	-1,200	-4.3%	Del Norte	80	4.1%
Stanislaus	-1,000	-4.3%	Shasta	500	5.1%
Los Angeles	-18,300	-3.9%	El Dorado	700	8.3%
Mendocino	-260	-3.9%	Nevada	430	9.2%
Mariposa	-40	-3.4%	Sutter	600	14.3%

Source: Employment Development Department

Three San Francisco Bay Area counties also saw deep declines in local government employment between 2007 and 2010. Santa Cruz County had the second-largest percentage decline (18.7 percent), followed closely by Solano County (17.3 percent) and Sonoma County (15.8 percent). Although these three counties – together with Yuba County – saw the deepest *percentage* drop in local government employment over the past three years, they each lost a relatively small *number* of jobs, together accounting for just 11,000 jobs lost, or 13.0 percent of the total decline in local government jobs statewide.[34] Large urban counties accounted for the largest share of California's local government job loss. Alameda, Los Angeles, Orange, Sacramento, and San Diego counties lost a combined total of 44,700 jobs – more than half (52.8 percent) of the total decline in local government employment between 2007 and 2010.

percent between June 2010 and June 2011.[35] In addition, the number of software publishing jobs increased by 4.7 percent and Internet service provider, web search portal, and data processing service jobs rose by 4.2 percent.[36]

Employment in high-tech industries within California's manufacturing sector also grew rapidly over the past year. While the state's total number of manufacturing jobs rose by a modest 1.3 percent between June 2010 and June 2011, computer and peripheral equipment manufacturing jobs jumped by 11.2 percent, electrical equipment and appliance manufacturing jobs rose by 3.9 percent, and semiconductor and electronic component manufacturing jobs increased by 2.3 percent.[37]

Civil Engineering Construction and Tourism Also Boosted California's Job Growth

California gained a modest number of construction jobs over the past year, while construction employment in the US as a whole was essentially flat. The number of the state's construction jobs increased by 1.2 percent between June 2010 and June 2011, largely reflecting strong growth in two industries: highway, street, and bridge construction, where employment jumped by 13.2 percent, and other heavy and civil engineering construction, where the number of jobs rose by 7.6 percent.[38] These gains may reflect increased hiring related to projects funded with American Reinvestment and Recovery Act dollars.[39]

Over the past year, California also gained a disproportionate share of jobs relative to the nation in leisure and hospitality – a sector that primarily includes restaurant and hotel employment – reflecting growth in tourism.[40] The number of the state's leisure and hospitality jobs increased by 2.6 percent between June 2010 and June 2011, compared to a 1.5 percent increase in the nation. In fact, this sector accounted for more than one out of every six jobs that California added during this period (17.1 percent) even though leisure and hospitality represents approximately 10 percent of the state's employment.

California's job gains over the past year outpaced those of the US as a whole in three additional sectors: professional and business services, education and health services, and wholesale trade. California's stronger professional and business services gains partly reflect the fact that the employment services industry, which includes temporary help employment, grew faster in California than in the nation – a positive trend given that temporary help hiring is typically a harbinger of permanent job gains. California's stronger educational and health services job growth was driven by an increase in employment at private colleges, universities, and professional schools, as well as gains at doctors' offices, hospitals, and nursing homes.

California's Job Growth Was Geographically Uneven

Just nine of California's 28 metropolitan areas gained jobs over the past year, and these gains were concentrated in the San Francisco Bay Area and along the Southern California coast.[41] The San Jose-Sunnyvale-Santa Clara Metropolitan Area, which encompasses San Benito and Santa Clara counties, contributed the largest number of jobs (18,300) between June 2010 and June 2011, followed by the San Diego Metropolitan Area – San Diego County – which added 15,200 jobs (Table 2).[42] Three additional Bay Area metropolitan areas – made up of Marin, San Francisco, San Mateo, Santa Cruz, and Sonoma counties – gained a total of 5,500 jobs between June 2010 and June 2011, and the Santa Ana-Anaheim-Irvine metropolitan area – Orange County – added 4,600 jobs.[43]

High-Tech Jobs Are Driving Job Growth in San Benito and Santa Clara Counties

San Benito and Santa Clara counties made more headway than any other region of the state. In just one year – between June 2010 and June 2011 – these counties gained back nearly one-third (32.4 percent) of the jobs they lost during the prior three years – twice the percentage that the state as a whole gained back (16.2 percent). High-tech industries produced the overwhelming majority of the gains. The number of information services jobs increased by 12.3 percent between June 2010 and June 2011 – nearly twice the percentage gain in the state as a whole (6.5 percent).[44] In addition, manufacturing employment rose by 3.7 percent – nearly three times the percentage increase statewide (1.3 percent) – due almost entirely to growth in computer and electronic product manufacturing. San Benito and Santa Clara counties also added a large number of professional and business services jobs over the past year, reflecting gains in the computer systems design industry as well as in other technical services.

A Broad Range of Services Are Boosting San Diego's Job Growth

A broad range of services drove job growth in San Diego over the past year. Three major sectors – professional and business services, education and health services, and leisure and hospitality – provided the strongest boost to the county between June 2010 and June 2011. Most industries within these sectors added jobs, including professional, scientific, and technical services; administrative support services; private colleges, universities, and professional schools; ambulatory health care services, which primarily includes doctors' and dentists' offices; and accommodation and food services – largely made up of hotels and restaurants. The county also gained a substantial number of wholesale trade and finance and insurance jobs over the past year.

Job Growth Has Yet To Resume in Most Regions of the State

Most regions of the state continued to lose jobs during the past year.[45] The Riverside-San Bernardino-Ontario Metropolitan Area, which encompasses Riverside and San Bernardino counties, lost the largest number of jobs (10,300) between June 2010 and June 2011. The Inland Empire also experienced the deepest decline in employment during the downturn.[46] Several other metropolitan areas that were hit hard during the recession also saw large declines in employment over the past year, including the Los Angeles Metropolitan Area (Los Angeles County), the Oakland-Fremont-Hayward Metropolitan Area – Alameda and Contra Costa counties – the Sacramento-Arden Arcade-Roseville Metropolitan Area – El Dorado, Placer, Sacramento, and Yolo counties – and the Fresno and Stockton metropolitan areas – Fresno and San Joaquin counties, respectively.[47] Together, these five metropolitan areas lost 18,300 jobs between June 2010 and June 2011, reflecting declines across a broad range of sectors, including significant losses in construction and state and local government. Employment in two additional metropolitan areas – Vallejo-Fairfield (Solano County) and Salinas (Monterey County) – also declined substantially over the past year, by 3,400 jobs and 3,000 jobs, respectively.

Table 2: Only Nine Metropolitan Areas Added Jobs Over the Past Year

	Change in the Number of Jobs, June 2010 to June 2011	
Metropolitan Areas That Gained Jobs		
San Benito and Santa Clara	18,300	2.1%
Santa Cruz	1,800	2.1%
San Diego	15,200	1.2%
Sonoma	1,600	1.0%
San Luis Obispo	700	0.7%
Kern	1,300	0.6%
Orange	4,600	0.3%
Santa Barbara	500	0.3%
Marin, San Francisco, and San Mateo	2,100	0.2%
Metropolitan Areas With No Job Gain or Loss		
Butte	0	0.0%
Merced	0	0.0%
Ventura	0	0.0%
Metropolitan Areas That Lost Jobs		
Stanislaus	-100	-0.1%
Tulare	-200	-0.2%
Los Angeles	-8,500	-0.2%
El Dorado, Placer, Sacramento, and Yolo	-2,800	-0.3%
Alameda and Contra Costa	-4,100	-0.4%
Imperial	-200	-0.4%
Shasta	-300	-0.5%
San Joaquin	-1,000	-0.5%
Fresno	-1,900	-0.7%
Riverside and San Bernardino	-10,300	-0.9%
Sutter and Yuba	-400	-1.1%
Kings	-400	-1.1%
Madera	-400	-1.2%
Napa	-800	-1.3%
Monterey	-3,000	-2.4%
Solano	-3,400	-2.8%

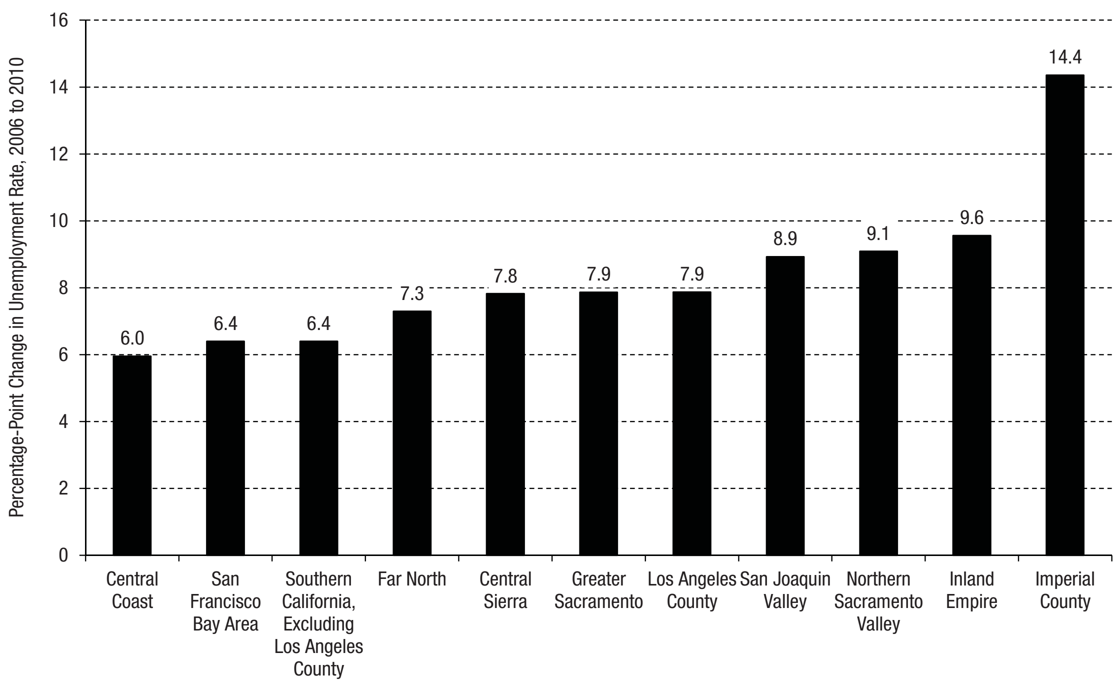
Note: Seasonally adjusted nonfarm jobs.
Source: Employment Development Department

The Great Recession Widened the Gap Between California's Inland and Coastal Counties

The Great Recession took a significant toll on workers living in California's inland counties – particularly those in the Inland Empire and Central Valley, where a bigger housing boom resulted in a bigger housing bust. The unemployment rate in California's inland counties as a whole rose by 9.0 percentage points between 2006 and 2010, from 6.2 percent to 15.2 percent.[48] In contrast, the jobless rate in the state's coastal counties increased by 6.9 percentage points during the same period, from 4.4 percent to 11.3 percent.[49] While unemployment rates tend to be higher inland than along the coast even when the economy is strong, more severe job losses in inland counties during the recession widened the divide between these two regions. The jobless rate of inland counties as a whole exceeded that of coastal counties by 3.9 percentage points in 2010 – more than double the gap in 2006 (1.8 percentage points).

Among inland counties, Imperial saw the largest increase in unemployment during the recession. The jobless rate in that county rose by 14.4 percentage points between 2006 and 2010, from a recession-like 15.3 percent even before the downturn began to a depression-like 29.7 percent in 2010 – the highest unemployment rate of any of California's counties. The Inland Empire saw the second-largest rise in the jobless rate during the same period – a 9.6 percentage point increase. In fact, in just four years, this region went from one of the lowest to one of the highest unemployment rates in the state (4.9 percent in 2006 to 14.5 percent in 2010). The recession also took a significant toll on the Northern Sacramento Valley, the San Joaquin Valley, and the Greater Sacramento region, where the unemployment rate rose by 9.1 percentage points, 8.9 percentage points, and 7.9 percentage points, respectively, between 2006 and 2010.[50] Within those regions, workers living in San Joaquin, Sutter, and Yuba counties saw the largest increases in unemployment.

Inland Areas Were Hit the Hardest by the Great Recession



Source: CBP analysis of Employment Development Department data

Jobless rates increased by the smallest amounts during the recession along the state's central coast, and in the San Francisco Bay Area, and Southern California, excluding Los Angeles. The counties least impacted by the recession include Marin, San Francisco, San Mateo, and Santa Barbara, where unemployment rates rose by between 4.7 and 5.3 percentage points between 2006 and 2010. Los Angeles County was the only county on California's coast where the increase in unemployment during the recession was similar to that of inland regions of the state. The jobless rate in Los Angeles County rose by 7.9 percentage points between 2006 and 2010, on par with the increase in unemployment in the Greater Sacramento region.

FROM MANCESSION TO HE-COVERY

Modest job gains over the past year have not been shared equally among all workers, as documented in prior California Budget Project reports.[51] One of the most striking trends is the disparity in job growth between men and women. While women make up nearly half of the nation's workforce, men gained approximately nine out of 10 jobs added in the US between June 2010 and June 2011 (89.8 percent). Specifically, US men gained 981,000 jobs (1.5 percent) – nearly nine times the number of jobs women gained (111,000 jobs, 0.2 percent) (Figure 5).[52] While the recession left more men unemployed – they lost more than twice as many jobs as women during the downturn – the larger number of men looking for work cannot fully explain their disproportionate share of recent job gains.[53] Men fared better than women in nearly every major sector of the economy, not just in the sectors in which men lost the largest number of jobs during the downturn. Moreover, women continued to lose jobs in several sectors over the past year, even while men gained employment in those sectors. Thus, the recession – widely proclaimed to be a "mancession"– has given way to what some call a "he-covery," since men have gained a disproportionate share of jobs during the recovery.

Data suggest that California's men also were more likely than the state's women to find work over the past year.[54] The jobless rate for California's men declined slightly in recent months from a high of 13.0 percent in September 2010 to 12.5 percent in June 2011, while women's unemployment rate continued to rise and reached a high of 11.4 percent in February 2011, where it remained through June 2011 (Figure 6).[55] National data show that this is the first official recovery in more than four decades – which is as far back as data are available – in which women's unemployment rate continued to rise while men's rate declined.[56]

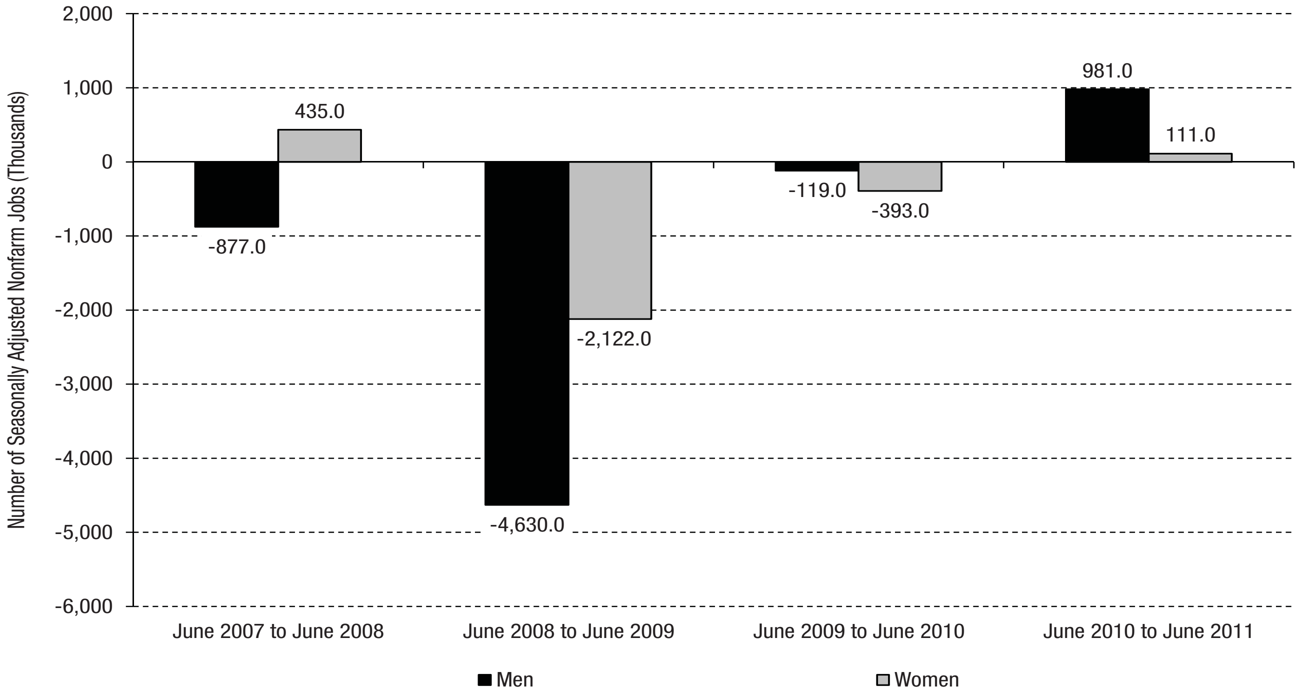
US Women Made Weaker Gains Than US Men in Five Major Sectors

Nationally, both men and women gained jobs in six major sectors of the economy over the past year, but men's percentage gains exceeded those of women in all but one of those sectors. In fact, men even made stronger gains in several sectors where women represent a majority of workers. For example, the number of men employed in private education and health services – a sector where more than three out of four workers are women – increased by 3.7 percent between June 2010 and June 2011 – more than twice the percentage increase in women's employment (1.6 percent) (Table 3). Men also made greater percentage gains than women in leisure and hospitality, where just over half of the workers are women. Men's employment in this sector increased by 1.7 percent between June 2010 and June 2011, compared to a 1.3 percent increase in the number of women working in this sector. Similarly, men's employment in "other services," where women also make up more than half of the workers, rose by 2.5 percent, while women's employment increased by just 1.5 percent. Men also made stronger gains in transportation, warehousing, and utilities, as well as in professional and business services. Only in one sector – wholesale trade – did women's percentage gain in employment over the past year nearly match that of men.

US Women Lost Jobs in Four Major Sectors Where US Men Made Gains

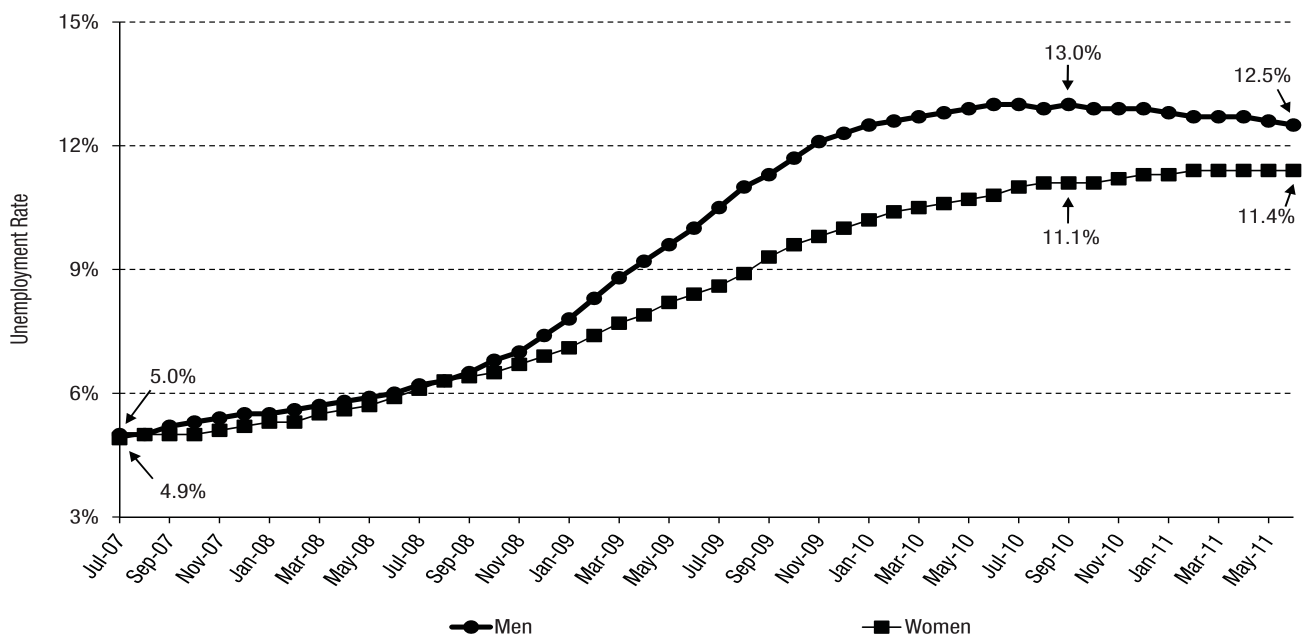
Over the past year, US women *lost* jobs in four major sectors of the economy where men *gained* jobs, including construction and manufacturing – sectors where men lost a large number of jobs during the recession. The number of men employed in construction increased by a modest 0.6 percent between June 2010 and June 2011, and the number of men working in manufacturing rose by 2.4 percent. In contrast, women's

Figure 5: The Nation's Women Made Weaker Gains Than US Men Over the Past Year



Source: US Bureau of Labor Statistics

Figure 6: Women's Unemployment Rate Continued To Increase in Recent Months, While Men's Jobless Rate Declined Slightly



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

employment in construction and manufacturing fell by 2.1 percent and 0.9 percent, respectively, during the same period. Men also gained jobs in retail trade and financial activities, while women lost jobs in these sectors. Men's retail trade employment increased by 2.4 percent between June 2010 and June 2011, while women's employment in this sector declined by 0.5 percent. In addition, the number of men working in financial activities rose by 0.8 percent during this period, while the number of women employees fell by 1.0 percent. This latter trend is particularly surprising given that women represent the majority of financial activities workers – approximately six out of 10.

Both Men and Women in the US Lost Public Sector Jobs

The nation's men and women lost public sector jobs at close to the same rate over the past year. However, women experienced a larger percentage decline in local government – the largest component of the public sector – while they gained state government jobs. The number of women local government workers declined by 2.0 percent between June 2010 and June 2011, compared to a 1.4 percent drop in men's local government employment. Public schools accounted for the vast majority of the jobs women lost, while cities and counties accounted for the bulk of men's local government job losses. Women's deeper declines in local government were offset slightly by gains in state government. Women's state government employment rose by 0.4 percent between June 2010 and June 2011, while men's state government employment dropped by 2.3 percent. Women's gains were driven entirely by increases in state government education, which includes employment with state colleges and universities as well as with state departments of education.[57]

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

Several years of high unemployment depressed the purchasing power of workers' hourly wages at the low end and the middle of the earnings distribution, while high-wage workers continued to make gains. Consequently, the recession exacerbated a more-than-three-decade-long trend of widening earnings inequality in California. This pattern is unlikely to change as long as the job market remains weak.

Table 3: The Nation's Women Made Weaker Gains Over the Past Year

	Change in the Number of Jobs (Thousands), June 2010 to June 2011		Percent Change in the Number of Jobs, June 2010 to June 2011		Women's Share of Jobs in Each Sector, 2007
Major Sector	US Men	US Women	US Men	US Women	
Public Administration	-296.0	-356.0	-3.0%	-2.8%	56.6%
Local	-78.0	-175.0	-1.4%	-2.0%	60.8%
State	-58.0	11.0	-2.3%	0.4%	51.8%
Federal	-160.0	-192.0	-8.9%	-13.8%	44.0%
Construction	28.0	-15.0	0.6%	-2.1%	12.4%
Financial Activities	26.0	-47.0	0.8%	-1.0%	59.7%
Information Services	-7.0	-10.0	-0.4%	-0.9%	42.4%
Manufacturing	201.0	-28.0	2.4%	-0.9%	28.8%
Retail Trade	175.4	-33.6	2.4%	-0.5%	50.0%
Transportation, Warehousing, and Utilities	97.9	3.1	2.7%	0.3%	24.7%
Leisure and Hospitality	103.0	87.0	1.7%	1.3%	52.5%
Other Services	63.0	42.0	2.5%	1.5%	51.9%
Wholesale Trade	63.9	29.1	1.7%	1.8%	30.4%
Education and Health Services	167.0	236.0	3.7%	1.6%	77.4%
Professional and Business Services	280.0	196.0	3.0%	2.6%	44.6%
Total Nonfarm	**981.0**	**111.0**	**1.5%**	**0.2%**	**48.6%**

Note: Jobs are seasonally adjusted.
Source: US Bureau of Labor Statistics

With millions of Californians still out of work and a limited number of jobs available, competition for employment is high, which means that many workers – particularly low-wage earners – have little power to negotiate for pay increases.[58]

Workers at the Low End and Middle of the Earnings Distribution Fared Worse Than High-Wage Workers

The weak job market over the past four years eroded the purchasing power of many workers' earnings. The inflation-adjusted hourly wage of California's typical worker – the worker exactly at the middle of the earnings distribution – declined by 1.9 percent between 2006, the year before the Great Recession began, and 2010, the most recent year for which data are available (Figure 7).[59] In fact, the typical worker's hourly wage had lower purchasing power in 2010 than at any point in the past 10 years. California's low-wage workers also lost ground because of the weak job market. The hourly earnings of workers at the 20th percentile of the distribution declined by 2.0 percent between 2006 and 2010, after adjusting for inflation. High-wage workers, on the other hand, fared relatively well in recent years, in spite of the recession. The inflation-adjusted hourly wages of workers at the 80th percentile of the distribution *increased* by 2.0 percent during the same four-year period.

Since the recession hit California harder than most states, it took a greater toll on Californians' earnings. For example, while the purchasing power of the typical California worker's hourly wage fell by 1.9 percent between 2006 and 2010, the inflation-adjusted hourly wage of the typical US worker actually increased by 1.0 percent. Similarly, the inflation-adjusted hourly earnings of high-wage US workers rose by 2.9 percent – outpacing the gains made by California's high-wage workers. In fact, only the nation's low-wage workers lost ground over the past four years: Their inflation-adjusted hourly earnings dropped by 1.5 percent between 2006 and 2010. Yet even this decline was somewhat smaller than the decline experienced by low-wage California workers.

Men in the Middle of the Earnings Distribution Lost Significant Ground

California's men in the middle of the earnings distribution lost significant ground in recent years, which may reflect the fact that the construction and manufacturing sectors – where men make up the vast majority of workers – were hardest hit during the recession. Between 2006 and 2010, the typical inflation-adjusted hourly wage of the state's men dropped by 1.5 percent – more than seven times the percentage decline in the hourly wage of the typical woman worker (0.2 percent) (Figure 8).[60] In fact, men with earnings in the middle of the distribution saw a larger reduction in their inflation-adjusted hourly earnings than both low-wage women and low-wage men, whose hourly wages declined by 0.4 percent during the same four-year period. The hourly earnings of high-wage men, on the other hand, gained purchasing power, increasing by 2.7 percent between 2006 and 2010 – more than twice the percentage gain made by high-wage women (1.2 percent).

Workers With Lower Levels of Educational Attainment Fared Far Worse Than College Graduates

Over the past four years, workers without four-year college degrees experienced steep declines in their hourly earnings. The inflation-adjusted hourly wage of California's typical worker with a high school diploma but no additional education fell by a substantial 7.3 percent between 2006 and 2010 (Figure 9).[61] This drop amounted to a significant loss in annual earnings: After accounting for inflation, the typical full-time, year-round worker with no more than a high school degree earned approximately $2,400 less in 2010 than in 2006 – the year before the recession began. Workers who did not graduate from high school also fared relatively poorly in recent years, as did workers with only some college education. The inflation-adjusted hourly wage of California's typical worker without a high school diploma declined by 3.6 percent between 2006 and 2010, a slightly larger decrease than the 2.8 percent decline in the hourly earnings of the typical worker with some post-secondary education. Workers with bachelor's degrees also lost ground in recent years, but not nearly as much as other workers. The typical college graduate's inflation-adjusted hourly wage dropped by 1.7 percent between 2006 and 2010, less than one-quarter of the decline experienced by the typical high school graduate without any post-secondary education.

Workers with lower levels of educational attainment experienced steeper reductions in their hourly earnings over the past four years because they tend to work in occupations where job losses were concentrated during the recession. National data show, for example, that approximately seven out of 10 construction workers and just under seven out of 10 manufacturing workers had no more than a high school diploma in 2008 – and job losses in the construction and manufacturing industries were more severe than in any other sector of the economy during the downturn.[62] In contrast, workers with higher levels of educational attainment are more likely to work in fields that were less affected by the

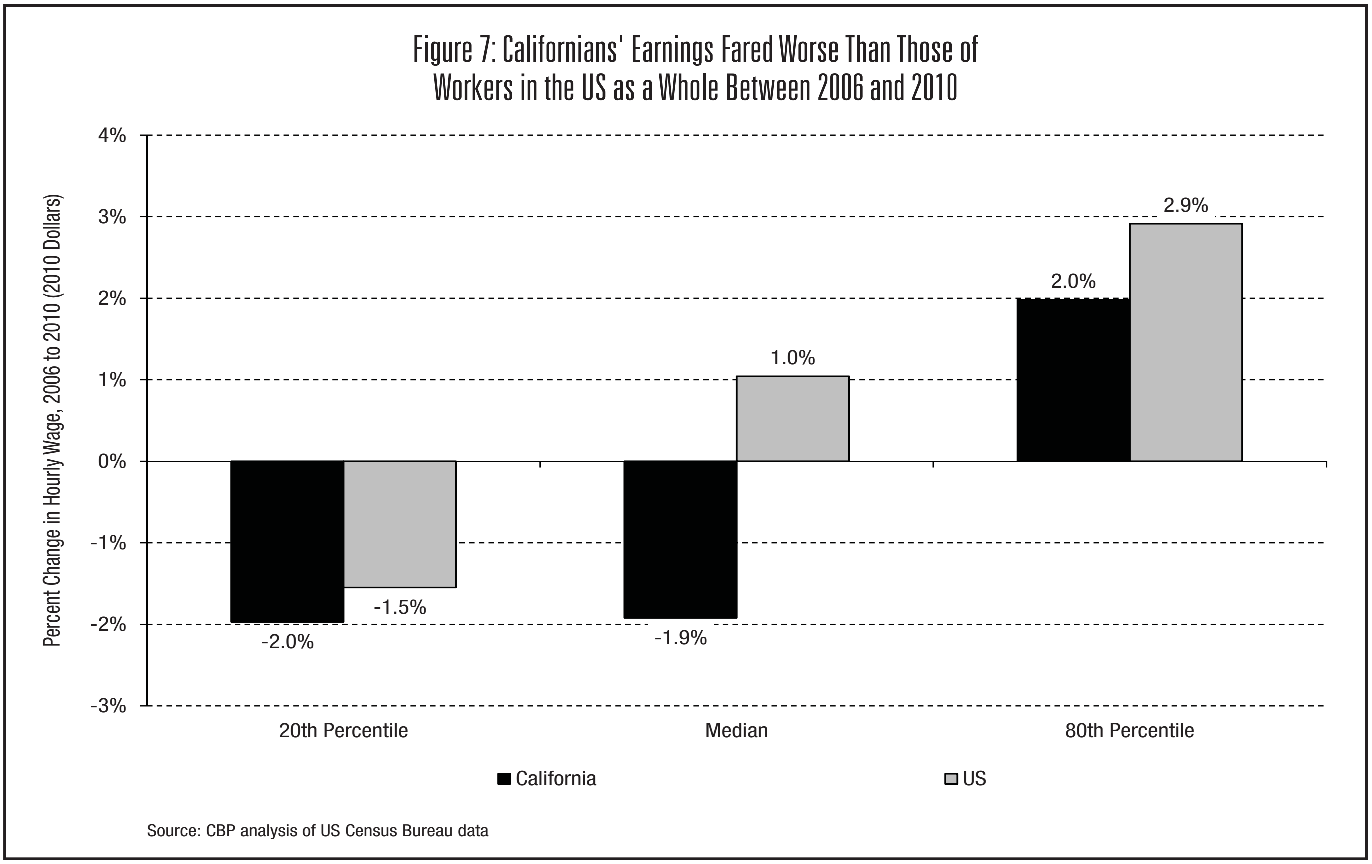


Figure 7: Californians' Earnings Fared Worse Than Those of
Workers in the US as a Whole Between 2006 and 2010
Percent Change in Hourly Wage, 2006 to 2010 (2010 Dollars)
4%
3%
2%
1%
0%
-1%
-2%
-3%
-2.0%
-1.5%
-1.9%
1.0%
2.0%
2.9%
20th Percentile
Median
80th Percentile
California
US
Source: CBP analysis of US Census Bureau data

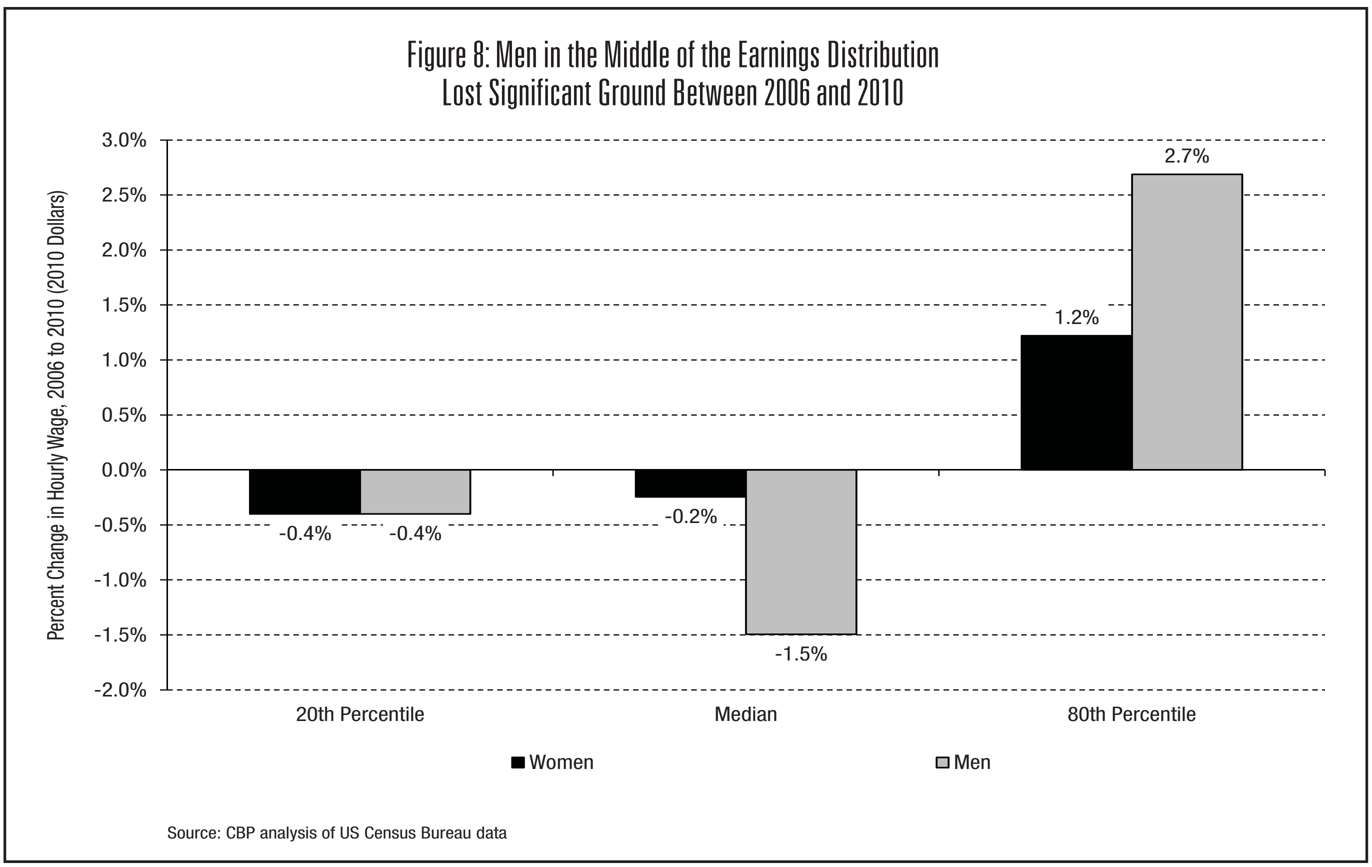
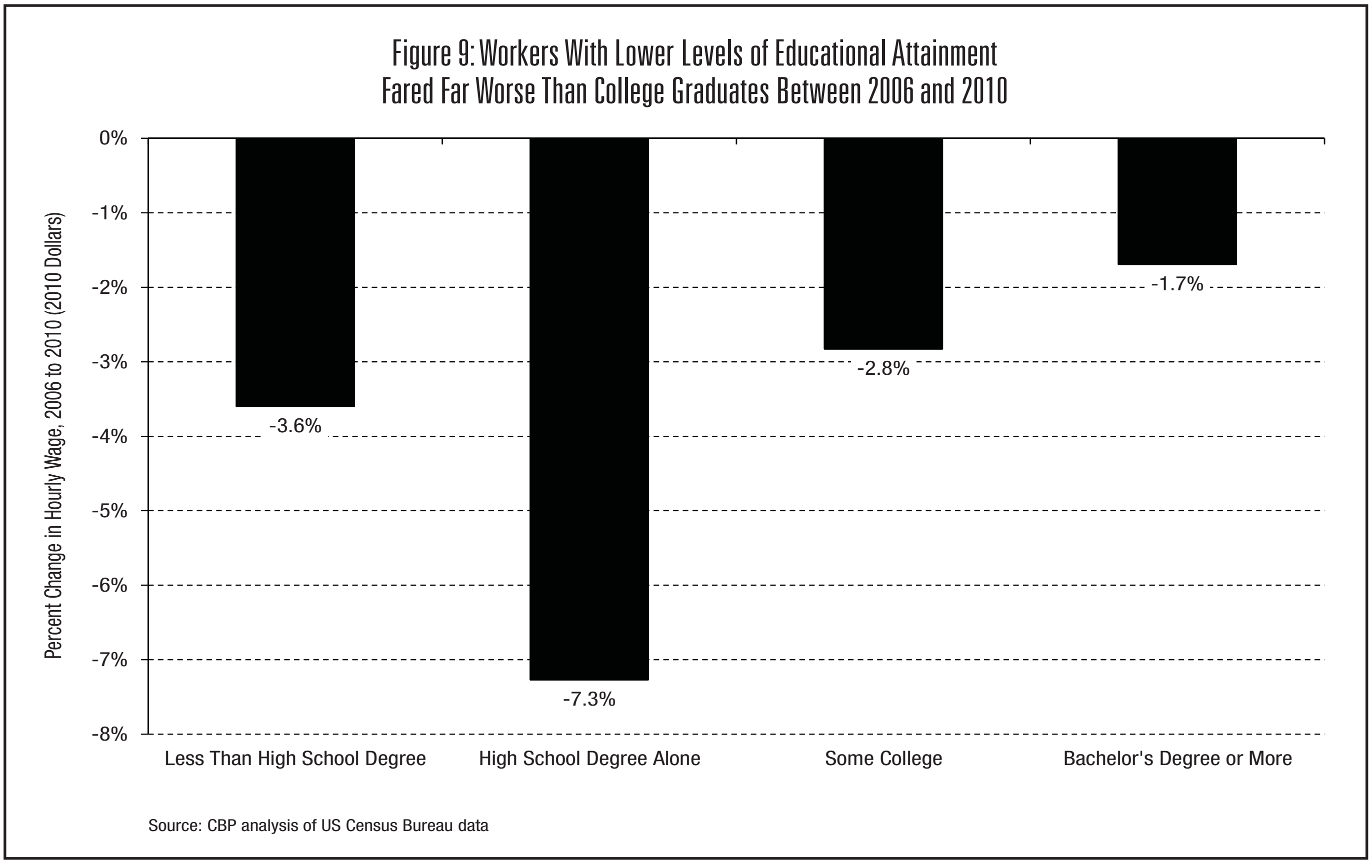


Figure 8: Men in the Middle of the Earnings Distribution
Lost Significant Ground Between 2006 and 2010
Percent Change in Hourly Wage, 2006 to 2010 (2010 Dollars)
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
-0.5%
-1.0%
-1.5%
-2.0%
-0.4%
-0.4%
-0.2%
-1.5%
1.2%
2.7%
20th Percentile
Median
80th Percentile
Women
Men
Source: CBP analysis of US Census Bureau data



recession. For instance, the majority of workers employed in health-related occupations have at least some college education, and health services is one of the few industries that continued to add jobs throughout the downturn.

Many Workers Earned Less Because They Worked Fewer Hours

In addition to laying off workers, many businesses significantly reduced their employees' work hours in recent years. In fact, employers cut workers' hours to such an extent that the average Californian worked fewer hours per week in 2010 than at any point since 1985.[63] Reduced hours of work compounded the decline in workers' hourly wages. For example, the average Californian in the middle fifth of the earnings distribution not only earned 4.3 percent less *per hour* on an inflation-adjusted basis in 2010 than she did in 2006, she also worked 0.5 percent fewer hours *per week* (Table 4).[64] This decline in hours, coupled with a lower hourly wage, meant that the average worker's *weekly* earnings fell by a substantial 4.7 percent during this four-year period, after adjusting for inflation.

Lower-wage Californians' weekly work hours dropped even more substantially. For instance, the average Californian with earnings in the second fifth of the distribution worked 2.7 percent fewer hours in 2010 than she did in 2006. This steep reduction in hours is more than five times that of the average worker in the middle of the distribution and is the equivalent of losing nearly a week and a half of work for a full-time, year-round worker. In addition to working less, the average Californian in the second fifth of the distribution earned 3.9 percent less per hour in 2010 than she did in 2006, after adjusting for inflation. This lower hourly wage combined with fewer hours of work significantly eroded the purchasing power of this worker's weekly earnings, which dropped by a substantial 6.5 percent between 2006 and 2010 – amounting to a loss of approximately $1,800 in income for a full-time, year-round worker.

Table 4: A Decline in Hours Worked Reduced Many Workers' Weekly Earnings

	Percent Change, 2006 to 2010 (2010 Dollars)		
Earnings Category	Hourly Wage	Weekly Hours	Weekly Earnings
Lowest Fifth	4.1%	-6.2%	-2.4%
Second Fifth	-3.9%	-2.7%	-6.5%
Middle Fifth	-4.3%	-0.5%	-4.7%
Fourth Fifth	0.7%	-1.0%	-0.3%
Highest Fifth	6.5%	0.3%	6.9%

Source: CBP analysis of US Census Bureau data

Diminished Spending Power Is Restraining the Recovery

Consumer spending remains weak, and economists identify this as one of the key factors restraining job growth.[65] Consumer spending dropped sharply in recent years due to the decline in families' wealth that resulted from the bursting of the housing bubble as well as the deterioration of families' incomes due to unemployment, reduced work hours, and the diminished purchasing power of workers' wages.[66] Total US consumer spending fell by an estimated $7,356 per person, on an inflation-adjusted basis, between December 2007, when the national recession began, and May 2011 – a reduction of $175 per person per month during that period.[67] In fact, in May 2011 – nearly two years since the recession technically ended – inflation-adjusted per capita consumer spending remained 1.6 percent below its pre-recession peak. Weak consumer spending means that many businesses lack enough demand for their products and services to justify hiring. Indeed, a national survey shows that weak sales remains many small businesses' primary concern.[68] In the face of relatively weak demand, many businesses are postponing investments. Instead of hiring or investing, US corporations are stockpiling cash. They currently have the highest level of cash holdings as a share of their assets in more than four decades. In the first quarter of 2011, corporations' holdings of cash and other liquid assets totaled $1.9 trillion, up 37.5 percent from a recent low in the first quarter of 2009.[69] These holdings represented 6.8 percent of corporations' total assets in the first quarter of 2011, the highest share since 1964.

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

While the Great Recession resulted in a major setback for California's low-wage workers, high-wage workers fared relatively well. As a result, the downturn exacerbated a more-than-three-decade-long trend of widening earnings inequality. In 2010, California's high-wage workers earned $3.20 for every dollar earned by the state's low-wage workers – the widest hourly wage gap in at least three decades – up from $2.42 for each dollar earned by low-wage workers in 1979 (Figure 10).[70] The earnings of workers at the 20th percentile and the 80th percentile of the earnings distribution pulled apart during this period because low-wage workers lost considerable ground, while high-wage workers made significant gains. California's low-wage workers earned 9.0 percent *less* per hour in 2010 than they did in 1979 ($10.57 versus $11.62), after adjusting for inflation (Figure 11).[71] In contrast, high-wage workers' inflation-adjusted hourly wage was a substantial 20.5 percent higher in 2010 than in 1979 ($33.84 versus $28.08).

The gap between high-wage earners and the worker at the middle of the earnings distribution also widened over the past generation. High-wage workers earned $1.83 for every dollar earned by the worker at the middle of the distribution in 2010, up from $1.51 for each dollar earned by the typical worker in 1979. This gap widened because the worker at the middle of the distribution earned 0.7 percent less per hour in 2010 than in 1979, after adjusting for inflation ($18.60 compared to $18.47), while high-wage workers earned considerably more.

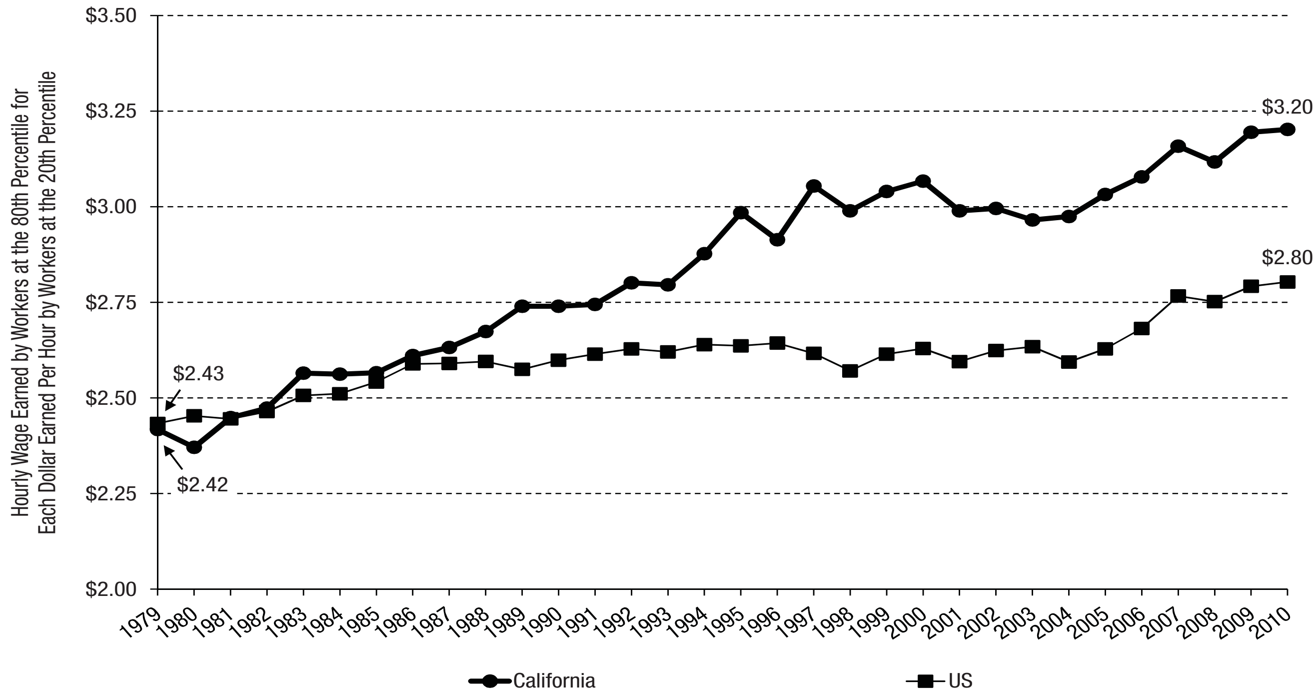
Earnings Gaps Widened by a Smaller Margin in the US

Earnings gaps for the US as a whole also widened over the past three decades, but by a smaller margin than in California. The nation's high-wage workers earned $2.80 for every dollar earned by low-wage US workers in 2010, compared to $2.43 for each dollar low-wage workers earned in 1979. In addition, high-wage US workers earned $1.70 for each dollar earned by the nation's typical worker in 2010, up from $1.53 for every dollar earned by the typical worker 31 years earlier. These gaps widened to a lesser extent largely because workers with wages at the low end and the middle of the distribution fared better nationally. The typical US worker's hourly wage gained modest purchasing power between 1979 and 2010, increasing by 6.0 percent, while the inflation-adjusted earnings of the nation's low-wage workers rose by 2.3 percent. High-wage US workers' inflation-adjusted hourly earnings, on the other hand, increased by 17.9 percent between 1979 and 2010 – a somewhat smaller gain than that of California's high-wage workers.

The Gap Between High-Wage Earners in California and the US Widened Modestly

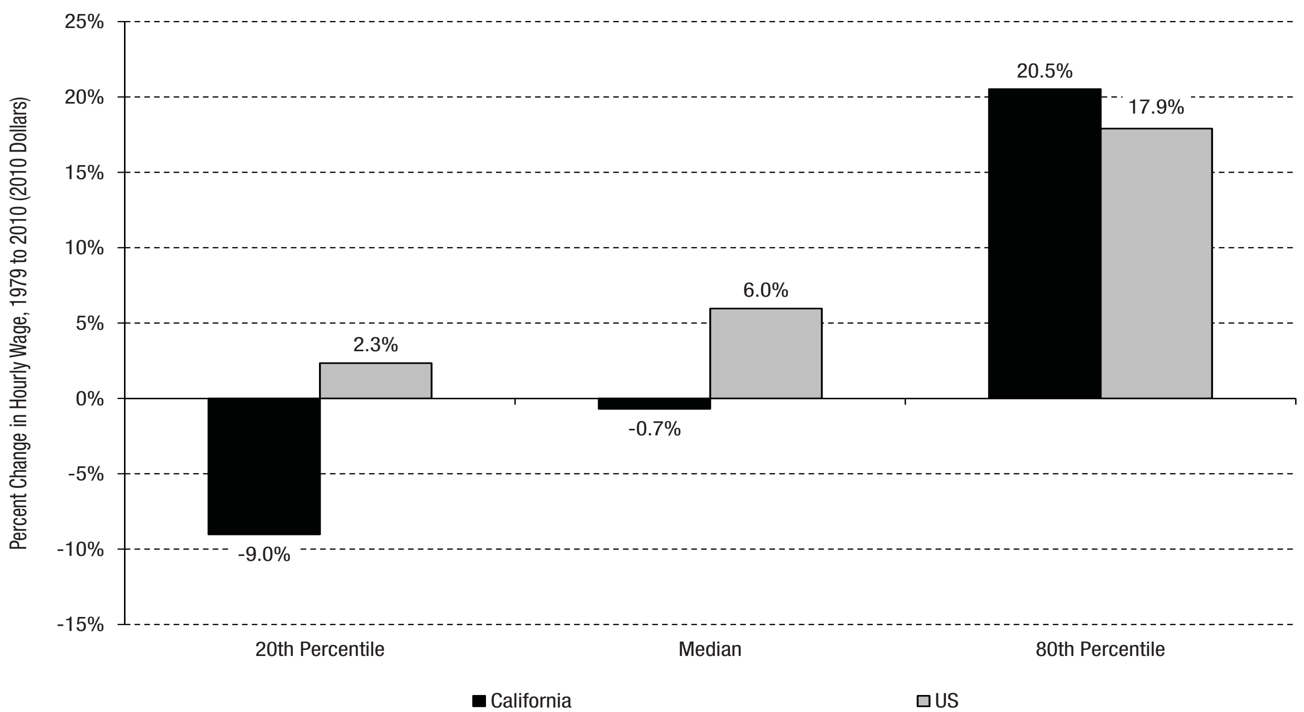
A generation ago, workers across the earnings distribution tended to earn more per hour in California than in the nation as a whole. Today, only California's high-wage workers earn significantly higher hourly wages than their US counterparts. In fact, the gap between high-wage earners in California and those in the US widened modestly over the past three decades. In 2010, high-wage Californians earned $1.13 for every dollar earned by the nation's high-wage workers, up from $1.11

Figure 10: Wage Gaps Have Widened More in California Than in the US as a Whole



Source: CBP analysis of US Census Bureau data

Figure 11: The Gap Between Low-Wage and High-Wage Workers Widened, 1979 to 2010



Source: CBP analysis of US Census Bureau data

in 1979 (Figure 12). This widening gap reflects the fact that Californians at the high end of the distribution made greater gains than similar US workers.

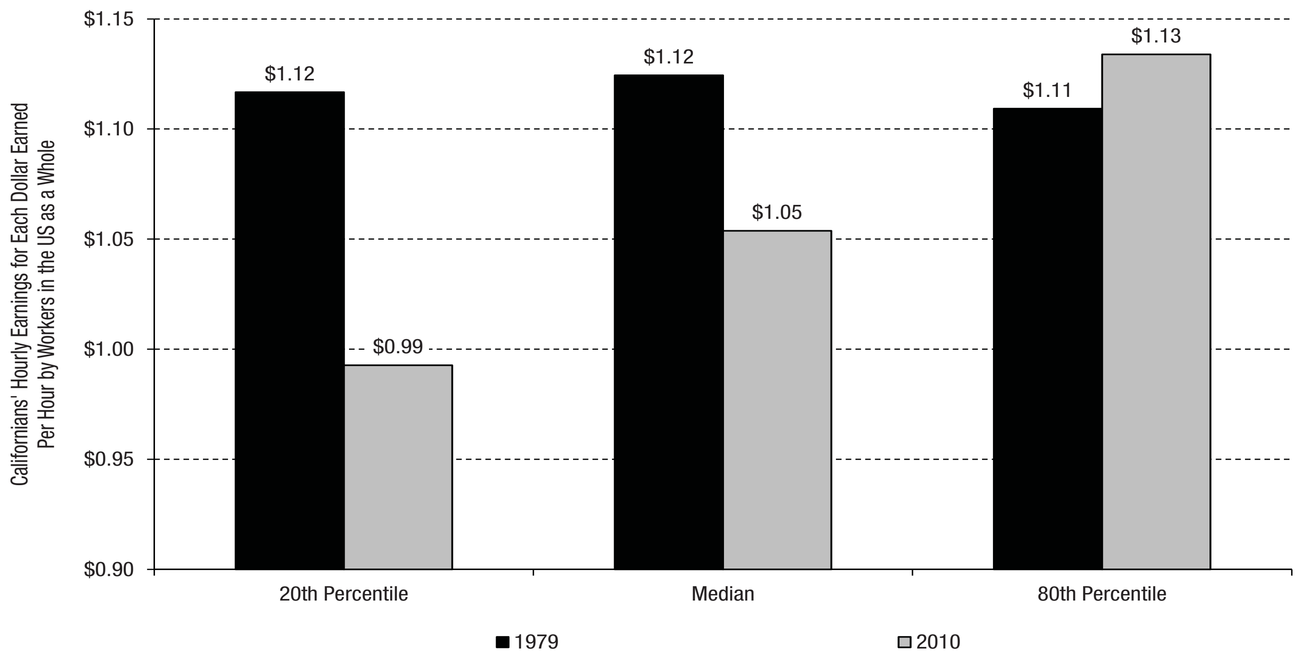
The Gap Between Low-Wage Workers in California and the US Closed

The earnings gap between low-wage workers in California and the US as a whole closed over the past generation, and it nearly closed for workers with earnings in the middle of the distribution. While California's low-wage workers earned $1.12 for every dollar earned by similar US workers in 1979, they had close to the same hourly wages in 2010, when they earned $0.99 for each dollar earned by their US counterparts. Similarly, California's workers with earnings in the middle of the distribution earned $1.05 for every dollar earned by comparable US workers in 2010, down from $1.12 in 1979. These trends reflect the fact that Californians at the low end and the middle of the earnings distribution lost ground over the past three decades, while their US counterparts made modest gains.

INCOME GAINS HAVE NOT BEEN BROADLY SHARED

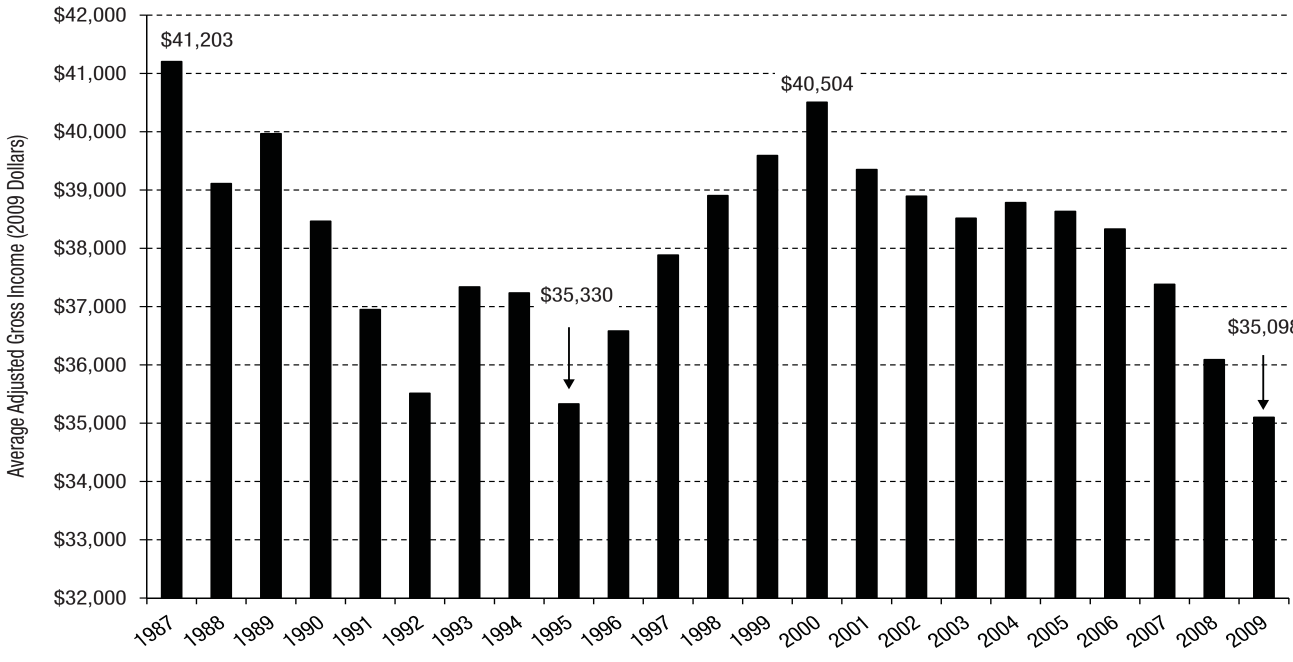
California's job market was weak throughout most of the last decade due to recessions at both the beginning and end of the decade, as well as an unusually weak recovery in the mid-2000s. Middle-income Californians, who derive the vast majority of their incomes from earnings from work, saw a weak job market significantly erode the purchasing power of their incomes, erasing all of their gains from the late 1990s when the labor market was strong. The wealthiest Californians, on the other hand, 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 – became increasingly concentrated among the top 1 percent of taxpayers. These uneven gains substantially

Figure 12: The Gap Between Workers in California and the US as a Whole Narrowed at the Low End and Middle of the Earnings Distribution, But Widened at the High End Between 1979 and 2010



Source: CBP analysis of US Census Bureau data

Figure 13: The Average Adjusted Gross Income of Middle-Income Californians Reached a More-Than-Two-Decade Low in 2009



Source: Franchise Tax Board

widened the gap between the state's wealthiest and all other Californians, as documented in prior California Budget Project reports.[72]

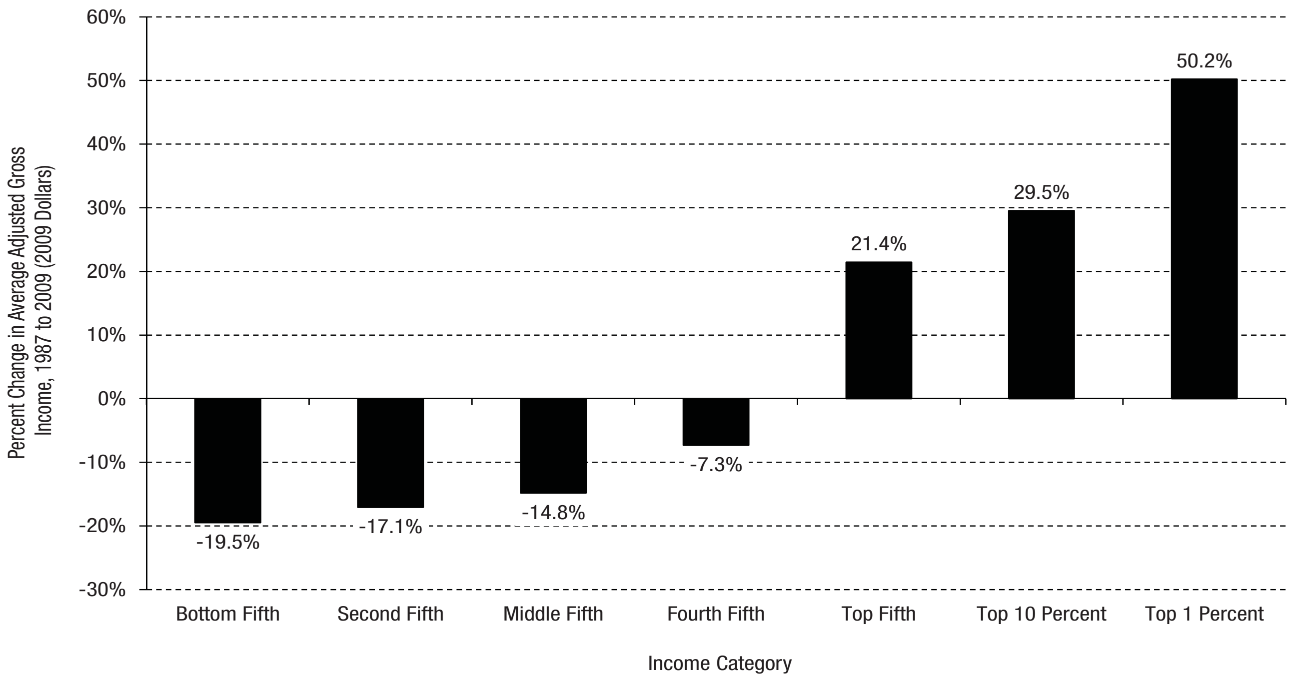
Middle-Income Californians Have Lost Ground Since 2000

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 $1,991 (4.9 percent), after adjusting for inflation (Figure 13).[73] Over the next three years, an 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 $184 (0.5 percent) – between 2003 and 2006. Then, between 2006 and 2009 – the most recent year for which data are available – middle-income Californians' average AGI fell by another $3,231 (8.4 percent) as the labor market weakened once again. In total, the purchasing power of middle-income taxpayers' average AGI dropped by a substantial $5,406 (13.3 percent) between 2000 and 2009 – a decline that fully erased their gains made during the boom years of the late 1990s.[74] In fact, the average middle-income taxpayer's inflation-adjusted AGI was *lower* in 2009 than in any year since at least 1987, the earliest year for which published data are available.

Income Gaps Have Widened, Reflecting Significant Gains Among the Wealthiest Californians

The decline in the incomes of middle-income Californians stands in stark contrast to the experience of the wealthiest sliver of the population, whose incomes skyrocketed to such an extent that even the worst recession in the post-WWII era failed to fully erase their gains. The average inflation-adjusted AGI of the top 1 percent of California taxpayers more than doubled between 1987 and 2007, increasing by a substantial 143.7 percent. Then, over the next two years, when the economy was in recession, the average inflation-adjusted AGI of the top 1 percent declined by 38.4 percent but was still $391,000 (50.2 percent) *higher* in 2009 than it was in 1987 (Figure 14).[75] Since wealthy taxpayers derive a large share of their incomes from capital gains, their incomes tend to fall when stock values decline, as they did in 2007 and 2008.[76] As a result of these trends, the gap between middle-income Californians and the top 1 percent narrowed in 2009, but remained substantially wider than in 1987. The average taxpayer in the top 1 percent

Figure 14: The Incomes of the Wealthy Increased Significantly
Over the Past Two Decades, While Those of All Other Californians Declined



Source: Franchise Tax Board

of the income distribution had an AGI of $1.2 million in 2009 – 33 times that of the average middle-income taxpayer ($35,000). This was down from 51 times the AGI of the average middle-income Californian in 2007, but still nearly twice the gap in 1987.[77] 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:

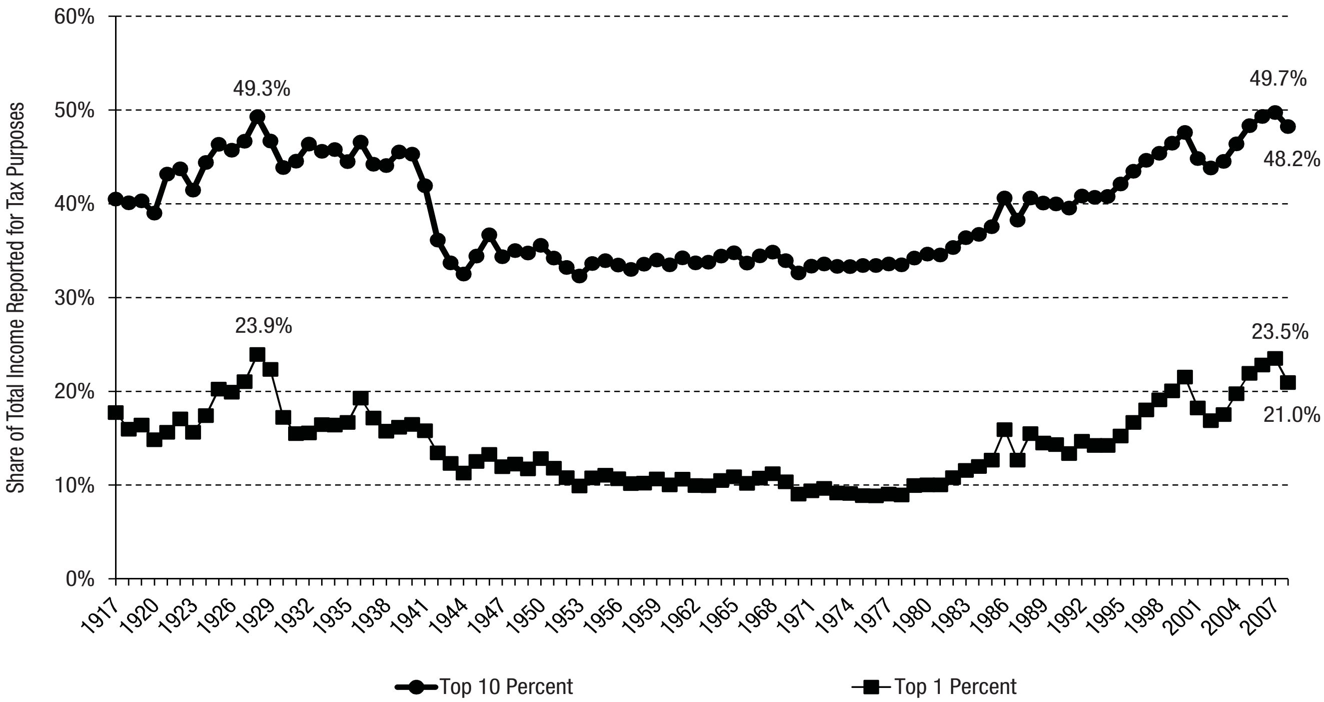
> Based on the US historical record, falls in income concentration due to economic downturns are temporary unless drastic regulation and tax policy changes are implemented and prevent income concentration from bouncing back. Such policy changes took place after the Great Depression during the New Deal 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.[78]

The Wealthiest Households' Share of Income 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 all income reported for tax purposes (49.7 percent) went to the top 10 percent of US households in 2007 – the highest share on record, slightly exceeding the prior record set in 1928 (49.3 percent) (Figure 15). 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 on record, nearly matching the highest share ever recorded (23.9 percent in 1928).[79] National data also show that a small sliver of the top 1 percent – the wealthiest 400 households in the US – have made phenomenal gains since the early 1990s. Their average income reported for tax purposes increased by 408.9 percent from $67.7 million in 1992 to $344.8 million in 2007, after adjusting for inflation.[80] This amounted to a gain of $277.0 million per household. The wealthiest 400 households had combined incomes of $137.9 billion in 2007. By way of comparison, more than three-quarters of the nations in the world have economies that are smaller than the combined incomes of the wealthiest 400 US households.[81]

State-level data, which are available only since 1987, show that the concentration of income among California's wealthiest taxpayers peaked in 2000, at the height of the dot-com boom. That year, the top 1 percent of the state's taxpayers had more than one-quarter (27.5 percent) of total AGI – the largest share on record.[82] In contrast, taxpayers with incomes in the middle fifth of the distribution had just 10.0 percent of total AGI. In other words, the wealthiest 1 percent had more than 25 times

Figure 15: The Concentration of Income Among the Wealthiest US Households Remains Near Record Highs

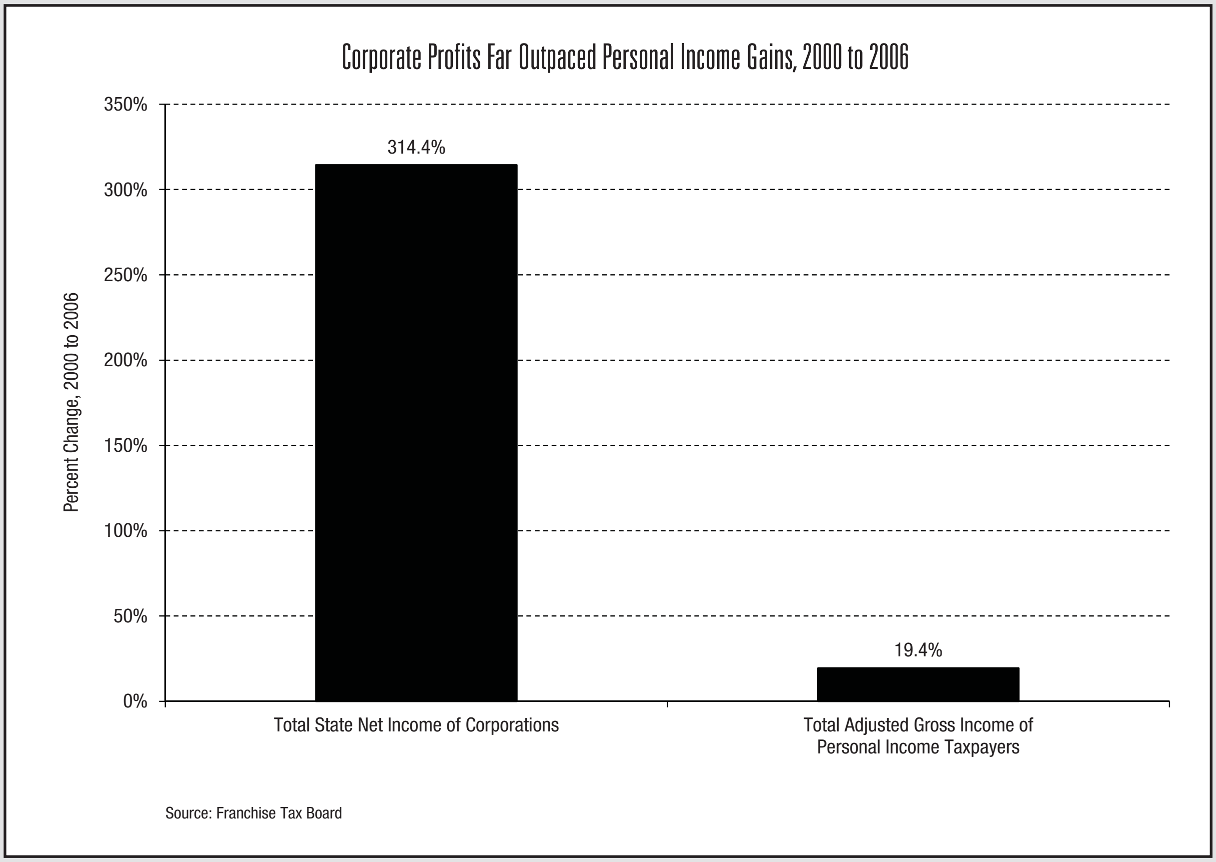


Source: Facundo Alvaredo, Tony Atkinson, Thomas Piketty, and Emmanuel Saez, *The World Top Incomes Database* (January 2011)

their proportionate share of income, while middle-income taxpayers received half their proportionate share of income. Although wealthy taxpayers' incomes dropped in 2001 and 2002 due to the bursting of the tech bubble, which caused stock values to plummet, their incomes almost fully rebounded by 2007 as stock values rose, boosting their capital gains income. That year, the top 1 percent of California's taxpayers had 25.2 percent of total AGI, the second-highest share on record.

Declining Fortunes for Most Californians Stand in Stark Contrast to Rising Corporate Profits

Declining fortunes for the vast majority of Californians reflect the fact that recent gains in productivity – the amount of goods and services produced per hour worked – translated into skyrocketing corporate profits, but comparatively modest increases in most families' earnings. National productivity increased by an average of 1.9 percent per year between 1973 and 2010, after adjusting for inflation, while US workers' inflation-adjusted hourly compensation – their total wages, salaries, and benefits – increased by an average of just 1.0 percent per year.[83] The gap between productivity and pay was particularly large during the economic expansion that preceded the Great Recession. Between 2000 and 2006, national economic output per hour worked rose by 2.7 percent per year, on average, while workers' inflation-adjusted earnings increased at less than half that rate – an average increase of just 1.2 percent per year. Such a large disconnect between productivity and earnings growth is unprecedented and "reflects a giant-scale shift from wages to profits."[84] Indeed, California's Franchise Tax Board data show that net corporate income – profits reported for state tax purposes – more than quadrupled between 2000 and 2006, increasing by 314.4 percent, while the total AGI of personal income taxpayers rose by just 19.4 percent.[85] Moreover, more than one-quarter (29.1 percent) of the increase in total AGI during that period went to the top 5 percent of California's taxpayers.[86]



More recent national data show that productivity growth since the recession officially ended in June 2009 continued to boost corporate profits, with few benefits for workers. Between the second quarter of 2009 and the first quarter of 2011, total corporate profits for US businesses rose by 48.6 percent – nearly 11 times the percentage gain in total wages and salaries for the nation's workers, which increased by just 4.5 percent.[87] In fact, as a result of this remarkably strong growth, corporate profits represented 14.0 percent of total national income in 2010 – the highest share ever recorded, and records begin in 1929.[88] In contrast, wages and salaries made up just half (49.9 percent) of national income – the *lowest* share on record. Historically, workers' earnings accounted for well over half of national income.[89]

This shift from wages to profits will likely widen income gaps. High-income households disproportionately benefit from growth in corporate profits since they hold a large share of corporate stock, while low- and middle-income households derive most of their incomes from wages and salaries.

CONCLUSION

More than two years have passed since the Great Recession technically ended, but few Californians have seen improvement in the indicators that matter most to them: jobs and wages. Indeed, for millions of workers and their families, the economic pain caused by the most severe downturn in decades continues to be a daily reality. Without additional efforts to bolster the economy, families are unlikely to see relief anytime soon. Recently revised data show that the national recovery weakened dramatically during the first half of 2011 as the boost to the economy provided by federal recovery efforts faded and state and local government spending cuts continued to dampen economic growth.[90] In fact, national economic growth between January and June was well below the level necessary just to keep the unemployment rate where it is. If sustained throughout the second half of the year, such weak growth could cause the nation's unemployment rate to rise, possibly sending the country back toward recession.[91] Workers and their families have already endured nearly four years of an exceptionally weak job market, and the longer it remains weak, the deeper the scars will be. Even past downturns, which were shorter and milder than the Great Recession and were followed by stronger recoveries, took a significant and lasting toll on workers' earnings, their health status, and their children. Any further delay in recovery will no doubt come at a great human cost.

Why Is Income Inequality a Problem?

While the adverse consequences of poverty are well-documented, some research suggests that inequality – the gap between rich and poor – may also have negative consequences for society.[92] For example, research shows that the residents of places where incomes are more unevenly distributed tend to have poorer health status based on a variety of measures, including mortality rates.[93] Studies that compare US states provide the strongest evidence supporting a link between income inequality and poor public health outcomes.[94] According to a review of nearly 100 peer-reviewed studies, "it seems that the US is somewhat exceptional in that it is the country where income inequality is the most consistently linked to population health."[95] This link may help explain why the US does not have the longest average life span or the lowest infant mortality rate even though it is one of the wealthiest nations in the world and it spends more on health care than other industrialized nations. According to one researcher, "if the benefits of US income growth after 1979 had been more equally shared, the average health and life spans of Americans, especially poor Americans, might have improved faster than they did."[96]

Some research also suggests that increased income inequality exacerbates disparities in the educational attainment of low- and high-income children and may contribute to increased income inequality in the next generation. One study, for example, found that in states where income gaps widened between 1970 and 1990, the total number of years of schooling decreased for low-income children, but increased for high-income children, even after controlling for the impact of family income on children's educational attainment.[97] These findings suggest that "living in a high-inequality state improves all educational outcomes for high-income children and hurts all educational outcomes for low-income children."[98]

Other research suggests that income inequality is associated with higher crime rates, particularly homicide and other violent crimes. A review of 34 studies conducted at various geographic levels, from cities and counties to states and nations, found "strong support for the general assumption that poverty and income inequality are each positively associated with violent crime."[99] Researchers have interpreted these findings to mean that inequality increases "social tensions as the less well-off feel dispossessed when compared with wealthier people," and such feelings of disadvantage and unfairness motivate criminal activity.[100] In fact, some evidence suggests that policies that reduce economic insecurity, poverty, and inequality discourage terrorism. Countries with higher levels of "social welfare spending," including spending on health care, education, and social security, suffer fewer incidents of terrorism and are less likely to have their own citizens perpetrate terrorism.[101]

ENDNOTES

[1] California Budget Project, *On the Road to Recovery* (May 2011).
[2] 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).
[3] The National Bureau of Economic Research determines the start and end dates of recessions by examining various broad measures of economic activity, including inflation-adjusted Gross Domestic Product (GDP), inflation-adjusted income, and employment.
[4] Employment Development Department.
[5] While the national recession technically ended in June 2009, California continued to lose jobs during the first three months of the so-called recovery; then over the next 12 months, the state's employment remained essentially flat.
[6] US Bureau of Labor Statistics.
[7] Employment Development Department.
[8] Between September 2010 and February 2011 California added an average of 42,600 jobs per month. At this rate, it would take approximately 28 months for the state to return to its July 2007 (pre-recession) level of employment.
[9] US Bureau of Labor Statistics data show that California's working-age population – individuals age 16 or older – increased by 1.3 million between July 2007, when the state's recession began, and July 2011.
[10] Earlier this year, the Legislative Analyst's Office (LAO) projected that the state's unemployment rate would remain in the double digits through 2012, then fall to 6.5 percent in 2016 – the latest year in the LAO's projections. By way of comparison, the state's unemployment rate was 4.9 percent in 2006 – the year before the recession began. Legislative Analyst's Office, *Summary of LAO Findings and Recommendations on the 2011-12 Budget* (February 15, 2011), downloaded from http://lao.ca.gov/laoapp/budgetlist/PublicSearch.aspx?PolicyAreaNum=70&Department_Number=-1&KeyCol=381&Yr=2011 on July 16, 2011. More recent forecasts project that the state's unemployment rate will remain in the double-digits through 2012 or 2013, but these forecasts do not extend beyond 2015. See UCLA Anderson Forecast, *US Economy Growing But "No Recovery in Sight": In California, Slow Growth Through 2011* (June 15, 2011); University of the Pacific, Eberhardt School of Business, *California and Metro Forecast: July 2011* (July 29, 2011); Beacon Economics, *Beaconomics: A Quarterly Economic Forecast for the US and California,* downloaded from http://beaconecon.com/Beaconomics/index.php?DataSet=California|eun_0&Heading=California:%20Unemployment%20Rate on July 16, 2011; Department of Finance, *California Economic Forecast* (April 2011), downloaded from http://www.dof.ca.gov/HTML/FS_DATA/LatestEconData/FS_Forecasts.htm on July 16, 2011.
[11] US Bureau of Labor Statistics. Official state employment records begin in 1976. 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.
[12] In January 1976, 56.3 percent of Californians age 16 or older had jobs.
[13] At the height of the high-tech boom, when jobs were plentiful, 64.2 percent of Californians had jobs.
[14] Employment Development Department. The labor force is the sum of individuals who are working plus those who are unemployed but have searched for work within the past four weeks. The state's unemployment rate declined from 12.5 percent in December 2010 to 11.7 percent in May 2011, then rose to 12.0 percent in July 2011. Between December 2010 and July 2011, the number of unemployed declined by 105,400 and the number of employed declined by 30,700. Consequently, the total number of Californians in the labor force dropped by 136,100.
[15] In fact, in July 2011, approximately 275,000 fewer Californians were in the labor force than in January 2009, when the size of the state's workforce peaked. During the same period, the state's working-age population increased by 819,000. While some of the decline in California's labor force reflects individuals choosing not to search for work due to the weak job market, some of it could also reflect demographic shifts, such as the aging and retirement of the "baby boomers." See Congressional Budget Office, *CBO's Labor Force Projections Through 2021* (March 2011) for the estimated impact of demographic changes on the US labor force.
[16] Heidi Shierholz, *Ten Facts About the Recovery* (Economic Policy Institute: July 6, 2011), p. 5. Layoffs, on the other hand, returned to pre-recession levels. The nation's workers were no more likely to be laid off in the spring of 2011 than they were before the recession began.
[17] US Bureau of Labor Statistics.
[18] Employment Development Department. These data represent the average number of long-term unemployed in the 12 months ending in July 2011.
[19] Randy Ilg, "How Long Before the Unemployed Find Jobs or Quit Looking?" *Issues in Labor Statistics* (May 2011).
[20] Congressional Budget Office, *Long-Term Unemployment* (October 2007).
[21] National Employment Law Project, *Hiring Discrimination Against the Unemployed: Federal Bill Outlaws Excluding the Unemployed From Job Openings, as Discriminatory Ads Persist* (July 12, 2011), p. 2.
[22] National Employment Law Project, *Hiring Discrimination Against the Unemployed: Federal Bill Outlaws Excluding the Unemployed From Job Openings, as Discriminatory Ads Persist* (July 12, 2011), p. 6.
[23] Employment Development Department and US Bureau of Labor Statistics. Unless otherwise specified, total jobs refers to nonfarm jobs. These modest gains were an improvement over the prior year, when the number of jobs declined by 1.1 percent in California and 0.4 percent in the US as a whole.
[24] Employment Development Department and US Bureau of Labor Statistics. This analysis focuses on state and local government employment and excludes federal government employment, which fluctuated significantly in 2010 due to the hiring and subsequent dismissal of temporary workers who assisted in the 2010 US Census. Including federal government employment distorts the overall employment trend in the public sector in 2010. Aside from these temporary fluctuations, federal government employment was essentially flat over the past four years.
[25] Employment Development Department and US Bureau of Labor Statistics.
[26] Local government also includes employment with special districts. Altogether, local government employment represents approximately 70 percent of California's total public sector employment.
[27] Public school jobs include jobs with community colleges.
[28] Josh Bivens and Isaac Shapiro, *Historically Deep Job Loss, But Not an Unusual Recovery: Decline in Government Jobs Noteworthy Recovery Feature* (Economic Policy Institute: July 6, 2011).
[29] Employment Development Department data show that between June 2010 and June 2011, employment in "grant-making and giving" organizations declined by 6.5 percent, social advocacy organization employment fell by 0.9 percent, and business, labor, and political organization employment dropped by 2.7 percent.
[30] National Council of Nonprofits, "A Respectful Warning Call to Our Partners in Government: The Economic Crisis Is Unraveling the Social Safety Net Faster Than Most Realize," *Economic Stimulus & Recovery Special Report Number 8* (August 10, 2009).
[31] Employment Development Department. While the number of private sector jobs is estimated based on a survey of a small number of employers and is therefore subject to error, the number of public sector jobs represents the full universe of government workers.
[32] During this period, Yuba County lost 1,600 local government jobs.
[33] In 2006, the year before the recession began, local government jobs represented more than one-quarter (29.3 percent) of Yuba County's employment. In contrast, local government jobs made up just 11.5 percent of total statewide employment.
[34] Altogether, the 42 counties that lost local government jobs between 2007 and 2010 lost 84,650 jobs. The remaining counties added a total of 3,800 local government jobs during that period.

35 Employment Development Department.
36 Employment Development Department.
37 Employment Development Department. Similarly, while California's retail trade employment declined by 0.1 percent between June 2010 and June 2011, the number of electronics and appliance store jobs jumped by 3.3 percent.
38 Employment Development Department. California also gained nonresidential construction and specialty trade contracting jobs over the past year. Employment in these industries increased by 2.2 percent and 0.8 percent, respectively. In contrast, the state's home-building industry continued to lose jobs.
39 Los Angeles County Economic Development Corporation, *2011-2012 Economic Forecast and Industry Outlook* (February 2011), p. 34.
40 Total inflation-adjusted direct travel spending in California increased by 4.4 percent between 2009 and 2010, after declining by 4.6 percent during the prior year. See Dean Runyan Associates, *California Travel Impacts by County, 1992-2009: 2010 Preliminary State & Regional Estimates* (April 2011).
41 This analysis focuses on metropolitan areas because recent seasonally adjusted data are not available for all of California's counties individually. The state's 28 metropolitan areas are drawn along county boundaries. While most include just one county, a small number encompass multiple counties.
42 Employment Development Department. Data are seasonally adjusted.
43 The San Francisco-San Mateo-Redwood City Metropolitan Area encompasses Marin, San Francisco, and San Mateo counties; and the Santa Cruz-Watsonville and Santa Rosa-Petaluma metropolitan areas include Santa Cruz and Sonoma counties, respectively.
44 Employment Development Department. Data are not seasonally adjusted.
45 Employment in 16 of the state's metropolitan areas declined between June 2010 and June 2011. In addition, all but one of California's 21 rural counties lost jobs during this period. Alpine County gained 140 jobs between June 2010 and June 2011 – a 40.9 percent increase. County data are not seasonally adjusted.
46 The number of jobs in the Inland Empire declined by 12.5 percent between June 2007 and June 2010. The Inland Empire had the largest percentage decline in employment among California's 28 metropolitan areas during that period, tied with the Yuba City Metropolitan Area (Yuba County).
47 Employment Development Department. Data are not seasonally adjusted.
48 Employment Development Department.
49 Coastal counties include all those that touch the Pacific Ocean as well as Alameda, Contra Costa, Napa, Santa Clara, and Solano counties.
50 The Northern Sacramento Valley includes Butte, Colusa, Glenn, Shasta, Sutter, Tehama, and Yuba counties. The San Joaquin Valley includes Fresno, Kern, Kings, Madera, Merced, San Joaquin, Stanislaus, and Tulare counties. The Greater Sacramento region includes El Dorado, Nevada, Placer, Sacramento, and Yolo Counties.
51 California Budget Project, *On the Road to Recovery* (May 2011).
52 US Bureau of Labor Statistics. Researchers are only beginning to explore this trend and do not yet fully understand why men made substantially greater employment gains than women during the recovery. See Rakesh Kochhar, *In Two Years of Economic Recovery, Women Lost Jobs, Men Found Them* (Pew Research Center: July 6, 2011). Some researchers speculate that it may reflect discrimination or be due to stronger demand for jobs in occupations that employ large shares of men. See Institute for Women's Policy Research, *The Job Loss Tsunami of the Great Recession: Wave Recedes for Men, Not for Women* (July 2011). A recent analysis found that women's job losses over the past two years were concentrated in office and administrative support occupations, which are present in many sectors of the economy. These job losses could help to explain why women's employment declined across a large number of industries. See Bryce Covert and Mike Konczal, *Women Laid Off, Workers Sped Up: Support Staff Hold a Clue to the Gendered Recovery* (The Roosevelt Institute: July 28, 2011).
53 Rakesh Kochhar, *In Two Years of Economic Recovery, Women Lost Jobs, Men Found Them* (Pew Research Center: July 6, 2011). US Bureau of Labor Statistics data show that approximately seven out of 10 (69.1 percent) of the total number of jobs lost between December 2007, when the national recession began, and February 2010, when US employment bottomed out, were jobs held by men. Between February 2010 and June 2011, men gained more than eight out of 10 (84.9 percent) of the total number of jobs added.
54 The number of men and women working in each sector of the economy is only available at the national level. Therefore, it is not possible to analyze California employment trends by industry and gender. The unemployment rate is the only state-level labor market data available by gender.
55 Employment Development Department. These data represent 12-month averages.
56 Rakesh Kochhar, *In Two Years of Economic Recovery, Women Lost Jobs, Men Found Them* (Pew Research Center: July 6, 2011), p. 24. Employment data for women were first collected in 1964. Since then, the US has experienced six recessions and recoveries.
57 In addition, both men and women lost a large share of their federal government jobs between June 2010 and June 2011 (8.9 percent and 13.8 percent, respectively). These substantial declines primarily reflect the dismissal of temporary workers who were hired in 2010 to assist in the US Census. In addition, women lost a large share of US postal service jobs over the past year while men gained jobs in this sector, which is included as part of federal government.
58 High unemployment tends to adversely affect workers with lower wages and therefore is one factor that contributes to widening wage gaps. Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, *The State of Working America 2008/2009* (Economic Policy Institute: 2009), p. 180. Economists anticipate that workers' wages will remain depressed as long as the unemployment rate stays high. See Lawrence Mishel and Heidi Shierholz, *Recession Hits Workers' Paychecks: Wage Growth Has Collapsed* (Economic Policy Institute: August 31, 2010), p. 6.
59 CBP analysis of US Census Bureau data. The analyses reported in this section include workers between the ages of 25 and 64 who were employed in the public or private sector, excluding the unincorporated self-employed.
60 CBP analysis of US Census Bureau data.
61 CBP analysis of US Census Bureau data.
62 Wonho Chung, Phil Davies, and Terry J. Fitzgerald, *Degrees of Job Security* (Federal Reserve Bank of Minneapolis: December 2010).
63 CBP analysis of US Census Bureau data. Specifically, the average Californian worked 38.0 hours per week in 2010, down from 39.2 hours per week in 2006. This decline represents a substantial loss of hours when multiplied across all of California's workers.
64 CBP analysis of US Census Bureau data. For this analysis, workers were divided into fifths based on their weekly earnings.
65 US Bureau of Economic Analysis data show that national inflation-adjusted personal consumption expenditures declined in the spring of 2011 for the first time in two years.
66 Rising home values during the housing boom allowed many homeowners to refinance their mortgages in order to obtain cash from the increased value of their home. Nationally, homeowners "cashed out" $1.2 trillion in home equity between 2001 and 2006, more than six times the amount cashed out between 1995 and 2000 ($189 billion). See California Budget Project, *Locked Out 2008: The Housing Boom and Beyond* (February 2008), p. 19. This additional cash helped fuel consumer spending during the housing boom. Between 1998 and 2007, consumer spending accounted for 82.5 percent of national economic growth as measured by the GDP – the sum of all goods and services produced in the US. In contrast, consumer spending only made up around 65 percent of GDP growth between 1988 and 1997. See Bill Emmons, "Economic Hangover: Recovery Is Likely To Be Prolonged, Painful," *The Regional Economist* (April 2010). In March 2011, total family wealth was still down by $12.4 trillion from its June 2007 peak.
67 Kevin J. Lansing, "Gauging the Impact of the Great Recession," *Federal Reserve Bank of San Francisco Economic Letter 2011-21* (July 11, 2011).
68 National Federal of Independent Business, *NFIB Small Business Economic Trends* (August 2011).
69 Board of Governors of the Federal Reserve System. Includes nonfarm, nonfinancial corporations.
70 CBP analysis of US Census Bureau data.
71 CBP analysis of US Census Bureau data. Low-wage workers' hourly earnings generally lost purchasing power between 1979 and 1997, then gained much of that lost purchasing power back between 1997 and 2004 due to the strong job market of the late 1990s. Since 2004, the inflation-adjusted hourly wages of low-wage Californians have generally declined. Similarly, the hourly wage of California's typical worker generally lost purchasing power between 1985 and 1997, then gained all of that lost purchasing power back between 1997 and 2004, before declining again in 2005 and 2006 and then again in 2010.
72 The gap between the wealthy and all other Californians has widened for at least a generation. 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.

73 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.

74 Middle-income taxpayers' average AGI increased by $5,174 (14.6 percent) between 1995 and 2000, after adjusting for inflation.

75 Disproportionate gains at the high end of the income distribution over the past two decades mean that the wealthiest Californians have significantly increased their share of income. In 2009, the wealthiest 1 percent – which includes fewer than 144,000 taxpayers – had 18.4 percent of the total AGI of all California taxpayers, up from 13.0 percent in 1987.

76 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.

77 In 1987, the AGI of the average taxpayer in the top 1 percent was 19 times that of the average middle-income Californian.

78 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."

79 Emmanuel Saez, *Striking It Richer: The Evolution of Top Incomes in the United States (Updated With 2008 Estimates)* (July 17, 2010).

80 Internal Revenue Service, *The 400 Individual Income Tax Returns Reporting the Highest Adjusted Gross Incomes Each Year, 1992-2008* (no date), downloaded from http://www.irs.gov/pub/irs-soi/08intop400.pdf on July 5, 2011.

81 United Nations Statistics Division, *National Accounts Main Aggregates Database,* downloaded from http://unstats.un.org/unsd/snaama/dnlList.asp on July 5, 2011.

82 Franchise Tax Board.

83 US Bureau of Labor Statistics. Data are for nonfarm businesses, which produce approximately three-quarters of total national economic output.

84 Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, *The State of Working America 2008/2009* (Economic Policy Institute: 2009), p. 162. Historically, rising productivity provided the basis for rising living standards. Throughout the middle of the last century, productivity growth directly translated into increases in workers' compensation, as employers shared the benefits of that growth with their workforce. Productivity gains averaged 2.8 percent per year between 1947 and 1973 – nearly on par with the 2.6 percent average annual growth in workers' inflation-adjusted earnings.

85 Franchise Tax Board data.

86 Franchise Tax Board data.

87 US Bureau of Economic Analysis. Moreover, US Bureau of Labor Statistics data show that average inflation-adjusted weekly earnings for nonsupervisory and production workers in the private sector, who make up around 80 percent of the nation's workforce, were essentially flat during this period, up by just 0.6 percent.

88 US Bureau of Economic Analysis.

89 For example, wages and salaries averaged 57.0 percent of national income between 1929 and 1970 and 54.0 percent of national income between 1979 and 2010.

90 US Bureau of Economic Analysis data show that the national GDP increased by less than 1 percent in the first six months of this year – well below the 2.5 percent growth rate needed just to keep the unemployment rate where it is.

91 Josh Bivens, *Slow Economic Growth Raising Unemployment Rate* (Economic Policy Institute: July 29, 2011).

92 See, for example, Greg J. Duncan and Jeanne Brooks-Gunn, eds., *Consequences of Growing Up Poor* (Russell Sage Foundation: September 1999) and Harry J. Holzer, et al., *The Economic Costs of Poverty in the United States: Subsequent Effects of Children Growing Up Poor* (Institute for Research on Poverty: April 2007).

93 John Lynch, et al., "Is Income Inequality a Determinant of Population Health? Part 1. A Systematic Review," *The Milbank Quarterly* 82:1 (2004), pp. 5-99 and S. V. Subramanian and Ichiro Kawachi, "Income Inequality and Health: What Have We Learned So Far?" *Epidemiologic Reviews* 26 (2004), pp. 78-91.

94 The evidence from studies conducted in smaller geographic areas, such as counties, metropolitan areas, or Census tracts, is more mixed. The stronger evidence at the state level suggests that disparities in state spending on health care, education, and welfare could help explain how income inequality affects public health. In other words, "economic polarization leads to political polarization, as reflected by state variations in the generosity of benefits to the poor." S. V. Subramanian and Ichiro Kawachi, "Income Inequality and Health: What Have We Learned So Far?" *Epidemiologic Reviews* 26 (2004), p. 82.

95 John Lynch, et al., "Is Income Inequality a Determinant of Population Health? Part 1. A Systematic Review" *The Milbank Quarterly* 82:1 (2004), p. 81. Although researchers cannot definitively conclude that inequality is "a public health hazard" – doing so would require more sophisticated analyses that could separate the impact of inequality from other factors that affect health – there is little question that *reducing* income gaps by boosting the incomes of individuals with low incomes would improve their health and increase the average health of the population. S. V. Subramanian and Ichiro Kawachi, "Income Inequality and Health: What Have We Learned So Far?" *Epidemiologic Reviews* 26 (2004), p. 84 and John Lynch, et al., "Is Income Inequality a Determinant of Population Health? Part 1. A Systematic Review," *The Milbank Quarterly* 82:1 (2004), p. 83.

96 Gary Burtless, *Growing American Inequality: Sources and Remedies* (The Brookings Institution: 1999), p. 33.

97 Susan E. Mayer, "How Did the Increase in Economic Inequality Between 1970 and 1990 Affect American Children's Educational Attainment?" *American Journal of Sociology* 107 (2001), pp. 1-32. Low-income children are those from families with incomes below the median income in their state, while high-income children are those from families with incomes above the median. Increased income inequality could affect the resources available for public education. For example, high levels of income inequality may motivate high-income parents to remove their children from public schools and vote against taxes that support public education. Alternatively, increased income inequality could increase resources for education in states with a progressive tax system.

98 Susan E. Mayer, "How Did the Increase in Economic Inequality Between 1970 and 1990 Affect American Children's Educational Attainment?" *American Journal of Sociology* 107:1 (July: 2001), p. 15.

99 Ching-Chi Hsieh and M. D. Pugh, "Poverty, Income Inequality, and Violent Crime: A Meta-Analysis of Recent Aggregate Data Studies," *Criminal Justice Review* 18:182 (1993), p. 198.

100 Pablo Fajnzylber, Daniel Lederman, and Norman Loayza, "Inequality and Violent Crime," *Journal of Law and Economics* 45 (April 2002), p. 2.

101 Brian Burgoon, "On Welfare and Terror: Social Welfare Policies and Political-Economic Roots of Terrorism," *Journal of Conflict Resolution* 50:2 (April 2006), pp. 176-203.