

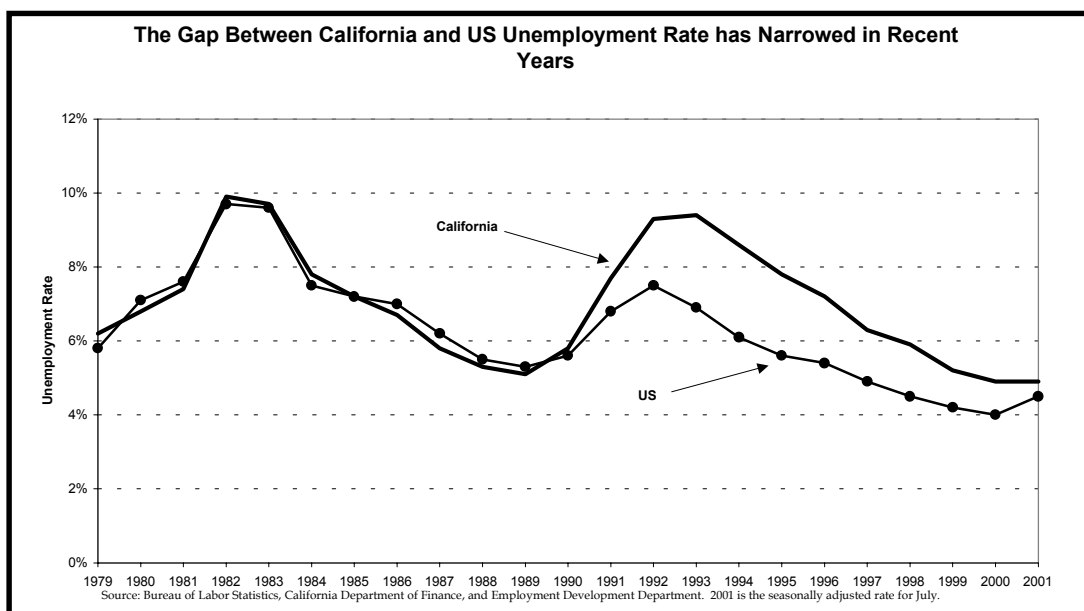
THE STATE OF WORKING CALIFORNIA: INCOME GAINS REMAIN ELUSIVE FOR MANY CALIFORNIA WORKERS AND FAMILIES

The outlook for California's working families on Labor Day 2001 is decidedly mixed. On the one hand, despite highly publicized corporate layoffs – particularly in the high tech sector – California's unemployment rate was lower in July 2001 than in the same month a year ago. On the other hand, the slowdown in the national and international economies has clearly begun to take its toll on the regions and industries that led the state's growth during the boom of the late 1990s, with the unemployment rate for Santa Clara County, for example, rising from 1.7 percent in January 2001 to 4.7 percent in July.¹ Statewide growth in personal income has slowed substantially, falling from 11.5 percent in 2000 to a forecast 2.0 percent in 2001, and most other economic indicators are showing signs of weakness.²

The distinct slowdown in the economy raises important questions regarding the extent to which typical California workers benefited from the strong economic growth of the past several years. If the benefits of growth had been broadly shared, the present slowdown could represent a temporary pause and workers could legitimately expect the recovery to lead to resumed advances. Unfortunately, the evidence cuts in the other direction: the benefits of the recent period of economic growth have been, at best, unevenly shared.

Employment Growth Begins to Slow

After emerging from the deep recession of the early 1990s, California's job growth was nothing short of stunning. Between 1993 and 2000, the state added 2.3 million jobs with more than 500,000 added in 2000 alone.³ Moreover, the California-US unemployment gap – the disparity between the state and national unemployment rates – has narrowed substantially in California's favor in recent years. In 1993, California's unemployment rate was 2.5 percentage points above that of the nation (9.4 percent

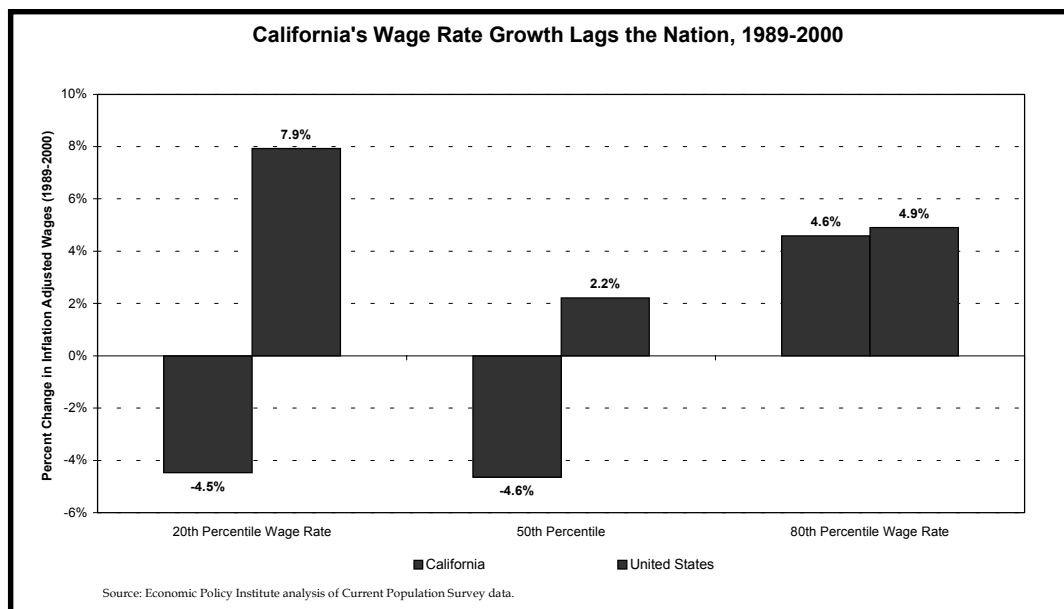


as compared to 6.9 percent).⁴ The gap had narrowed to 0.4 percentage points by July of this year.⁵

California's job growth continues to lead the nation. Over half (57 percent) of the nation's job growth between June 2000 and June 2001 occurred in California.⁶ However, there are signs of substantial weakening, both in the nation and here in California. The state added an average of 7,230 jobs during each of the first seven months of this year, down from over 46,000 per month in 2000.⁷ Ten of the state's 58 counties had double digit unemployment rates in July, and Bay Area unemployment rates rose substantially during the first half of the year.⁸

Hourly Wages Fail to Keep Pace with Inflation

California's extraordinary job growth of recent years failed to translate into higher wages for many California workers. Hourly wages fell, after adjusting for inflation, for workers at the 20th and 50th percentile between 1989 and 2000. Wages increased for workers at the 80th percentile, but at a slower rate than for similar workers in the nation as a whole.

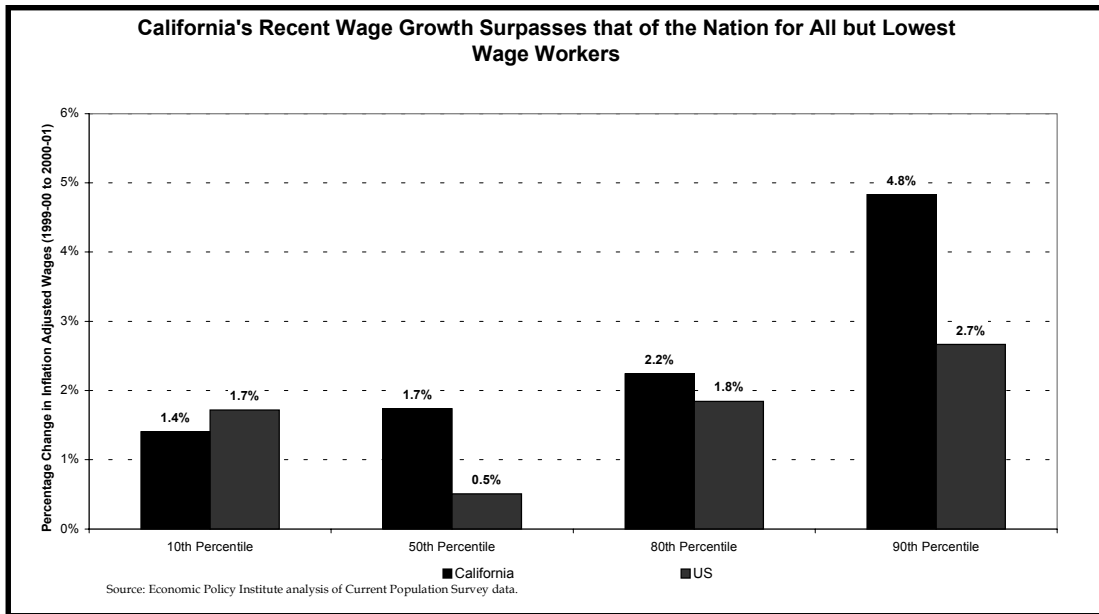


Just over one out of every four (26.0 percent) California workers earned poverty level wages in 2000, up from 24.0 percent in 1989.⁹ The increase in California poverty level earners stands in marked contrast to the nation as a whole, where the share of the workforce earning poverty level wages fell from 28.5 percent in 1989 to 25.1 percent in 2000.

Preliminary data for the twelve-month period ending in May 2001 suggest that wage growth has remained strong for all but the state's lowest paid workers.¹⁰ While the recent gains are not substantial enough to reverse the trends of the past decade for workers in the middle of the wage distribution, a comparison with national figures illustrates the relative vitality of the state's economy in the recent downturn. However, recent wage trends exacerbate the disparities between high- and low-wage workers, with wage growth strongest for earners near the top of the distribution and weakest for those near the bottom.

Family Incomes Up, Household Incomes Down

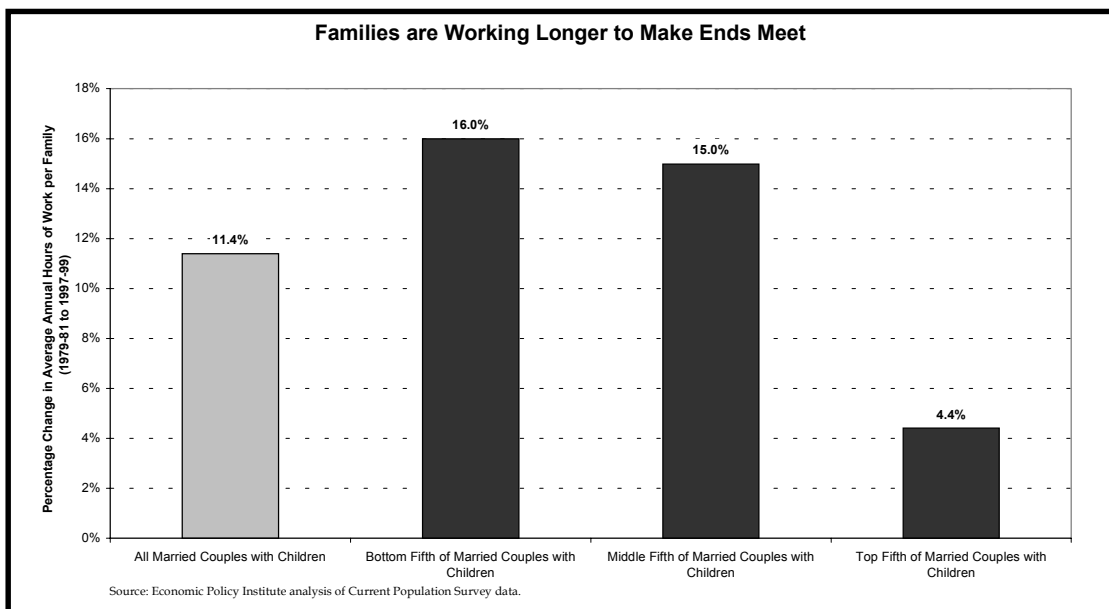
The inflation-adjusted income of the median California four-person family rose by 9.7 percent between 1989 and 1999.¹¹ However, caution is warranted in interpreting this finding. First, the entire increase



is attributable to a single year, an 11.8 percent jump – from \$56,428 in 1998 to \$63,100 in 1999.¹² Second, the inflation-adjusted income of the median California household, as opposed to family income, actually declined by 1.4 percent during the same period.¹³

Families Work Longer, Harder to Make Ends Meet

The rise in family incomes during a period of falling hourly wages reflects the fact that families worked longer and harder to make ends meet. On average, married couples with children worked 185 hours more per year during the late 1990s than they did the decade before, the equivalent of just over an extra month of work each year.¹⁴ The need to work longer and harder just to make ends meet is illustrated by the fact that low income families, those in the bottom fifth, increased their work effort substantially more than those in the highest fifth, adding 165 extra hours of work as compared to 91 extra hours for those at the top of the income distribution.



Poverty Rate Remains Higher Than in 1989

One of the most troubling features of the state's recent economic expansion is its failure to lift more Californians out of poverty. While the national poverty rate dropped by a full percentage point between 1989 and 1999, California's poverty rate increased from 12.9 to 13.8 percent.¹⁵ In 1999, nearly one out of five (19.5 percent) of California's children lived in families with incomes below the federal poverty level, 2.4 percentage points higher than in the nation as a whole.¹⁶

Conclusion

California's low- and middle-waged workers lost ground between 1989 and 2000, the purchasing power of their wages eroded by inflation. As the economy now slows, California's working families face new challenges trying to make ends meet. Families have responded to slow wage growth by working more and more hours, reducing the time they have for family and community. Moreover, the disparity between low- and high-wage workers continues to widen, with larger gains going to those already near the top of the earnings distribution.

These trends raise troubling questions for the future of California's workers and families. What will slowing employment growth mean for wage and income trends? Will the recent and upcoming increase in the state's minimum wage help low-wage workers make up for lost earnings power? How will new entrants to the workforce, including those that have left welfare for work, fare as the job market tightens?

Endnotes

¹ Employment Development Department, *Santa Clara County Civilian Labor Force, Employment, and Unemployment – Updated 08/14/2001* (Not Seasonally Adjusted), downloaded from [http://www.calmis.ca.gov/file/lfhist/sanj\\$hlft.txt](http://www.calmis.ca.gov/file/lfhist/sanj$hlft.txt) on August 22, 2001.

² California Department of Finance, *Economic Indicators May – June 2001* (no date).

³ California Department of Finance, *Unemployment Rate, California and US* (Seasonally Adjusted), downloaded from http://www.dof.ca.gov/html/fs_data/latestecondata/fs_employment.htm on August 27, 2001.

⁴ California Department of Finance, *California Civilian Labor Force and Employment* (Seasonally Adjusted), downloaded from http://www.dof.ca.gov/html/fs_data/latestecondata/fs_employment.htm on August 27, 2001.

⁵ Employment Development Department, *California's Unemployment Rate Drops to 4.9 Percent* (August 10, 2001).

⁶ US Department of Labor, Bureau of Labor Statistics, *National and State Employment, Hours and Earnings, Total Nonfarm Employment* (Not Seasonally Adjusted), downloaded from <http://www.bls.gov/top20.html#OEUS> on August 22, 2001.

⁷ California Department of Finance, *Finance Bulletin* (August 2001).

⁸ Employment Development Department, *California's Unemployment Rate Drops to 4.9 Percent* (August 10, 2001).

⁹ Economic Policy Institute analysis of Current Population Survey data. Poverty level wages are defined as the hourly equivalent of the federal poverty threshold for a family of four for a full-time full year worker (\$17,601 divided by 2,080 hours), or \$8.46 per hour in 2000.

¹⁰ Economic Policy Institute analysis of Current Population Survey data.

¹¹ CBP calculations based on US Census Bureau data downloaded from <http://www.census.gov/hhes/income/4person.html>, downloaded on August 13, 2001. Adjusted for inflation using the CPI-U for the US. Median four-person family income is the income exactly in the middle of the income distribution for four-person families.

¹² CBP calculations based on US Census Bureau data, *Median Income for 4-Person Families, by State and US*, downloaded from <http://www.census.gov/hhes/income/4person.html> on August 13, 2001.

¹³ US Census Bureau, *Median Household Income by State: 1984 to 1999*, downloaded from <http://www.census.gov/hhes/income/histinc/h08.html> on August 10, 2001. The year-over-year increase was far larger in both dollars and as a percentage of family income in California than for any other of the ten largest states. While unusual, the discrepancy in trends – median household incomes decline while median four-person family incomes climb – may reflect actual developments during the 1989-99 period. Analysts with the US Census Bureau and the Economic Policy Institute suggest that the differing trends may be attributable to the relatively higher percentage of multiple earners among four-person families and a relatively higher percentage of single-person households in the median household category.

¹⁴ Economic Policy Institute analysis of Current Population Survey data for married couples with children with a head of household aged 25 – 54.

¹⁵ US Census Bureau, *Historical Poverty Tables*, Tables 9 and 21, downloaded from <http://www.census.gov/hhes/poverty/histpov/perindex.html> on August 13, 2001.

¹⁶ CBP calculations based on Census 2000 Supplementary Survey Summary Tables, downloaded from <http://factfinder.census.gov> on August 7, 2001.