CALIFORNIA BUDGET PROJECT

policy points

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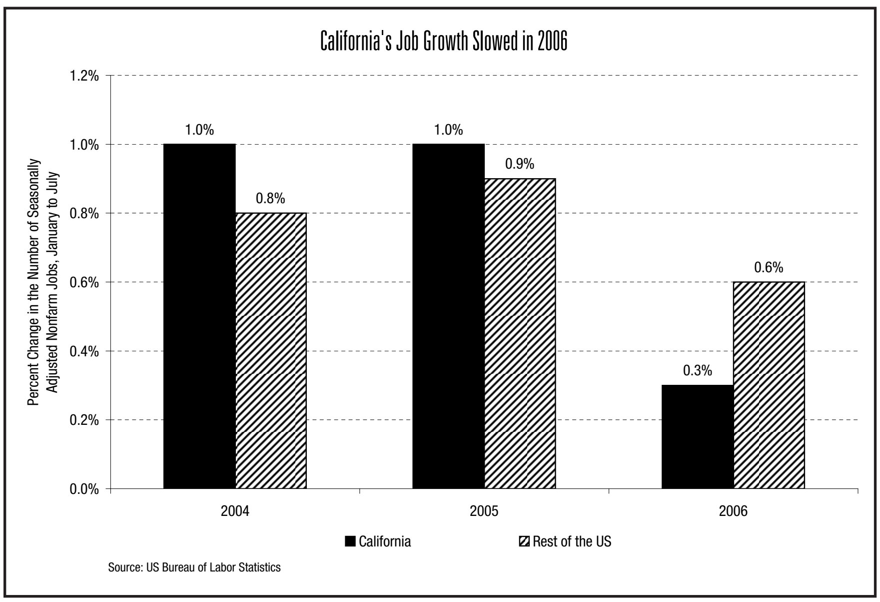
LABOR DAY 2006: JOB AND WAGE GROWTH LAG DESPITE ECONOMIC RECOVERY

Labor Day 2006 brings troubling news for California workers. Despite five years of economic recovery, job growth has been weak and workers' wages have experienced little or no growth, after adjusting for inflation. Meanwhile, corporate profits have grown substantially and only the wealthiest Californians have experienced significant gains in income. This *Policy Points* examines recent economic trends in California.

KEY FACTS

- **California's job growth slowed in 2006.**

California added 48,000 jobs between January and July 2006 for a modest 0.3 percent growth rate.[1] This was a considerably slower growth rate than that of the same period in both 2004 and 2005, when the number of jobs in the state increased by 1.0 percent in each period. Job growth in the rest of the nation also slowed in 2006, but outpaced that of California. Slow job growth in 2006, which reflects higher interest rates, a slowdown in the housing market, and rising energy costs, follows relatively weak job gains since the beginning of the economic recovery.[2] Continued sluggish job growth could lead to increased unemployment and slower wage growth.



- **California's employment rate in 2005 remained below its 2001 level.**

In 2005, 62.2 percent of Californians were employed, up slightly from 61.5 percent in 2004, but below the employment rate at the economic peak in 2001 (63.4 percent).[3] The employment rate in the nation as a whole was 62.7 percent in 2005 – also below its level at the economic peak (63.7 percent).

- **After a period of notable gains, the wages of California workers have experienced little or no growth.**

The inflation-adjusted wage of low-wage workers – those earning at the 20th percentile of the earnings distribution – decreased by 0.9 percent between 2003 and 2005.[4] During the same period, the inflation-adjusted wage of the typical worker – the worker exactly at the middle of the earnings distribution – increased by just 0.1 percent. Even the inflation-adjusted wage of high-wage workers – those earning at the 80th percentile of the earnings distribution – increased by a modest 0.9 percent over this period. Wage trends between 2003 and 2005 mark a reversal from the prior two-year period, when the wages of workers across the distribution gained considerable purchasing power.

Recent data show that the wages of many California workers have lost purchasing power in 2006. Between fiscal year (FY) 2004-05 and FY 2005-06, which includes the first six months of 2006, low-wage workers' hourly wage declined by 1.8 percent, while the typical worker's hourly wage dropped by 3.1 percent, after adjusting for inflation. In contrast, high-wage workers' inflation-adjusted hourly wage increased by 1.3 percent.[5]

California Workers' Wages Experienced Little or No Growth Between 2003 and 2005

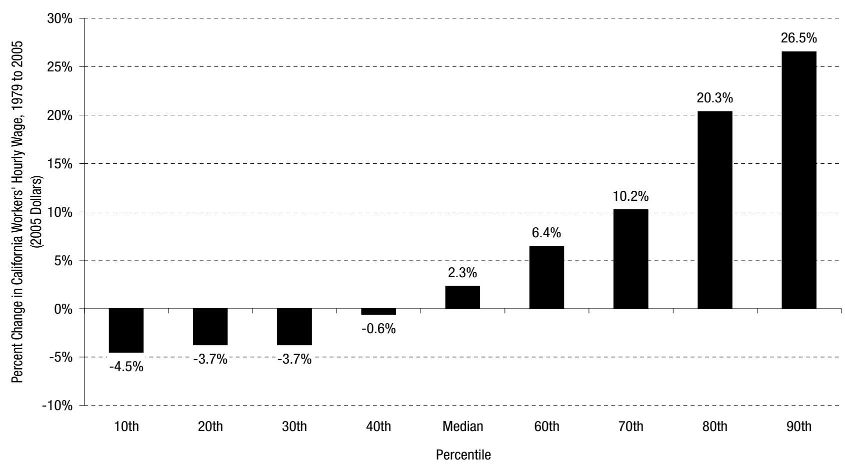
	Hourly Wage by Percentile (2005 Dollars)		
	20th	Median	80th
2001	$9.65	$16.55	$28.68
2003	$10.09	$16.99	$29.73
2005	$10.00	$17.00	$30.00
	Percent Change in Hourly Wage		
2001 to 2003	4.5%	2.6%	3.6%
2003 to 2005	-0.9%	0.1%	0.9%

Source: CBP analysis of Current Population Survey data

- **Recent wage trends reflect a historical pattern of uneven wage growth.**

Even though wage gains were weak across the earnings distribution between 2003 and 2005, they reflect a historical pattern of gains for high-wage workers and declines for low-wage workers. Between 1979 and 2005, the inflation-adjusted wage of California's high-wage workers increased by a considerable 20.3 percent. During the same period, the inflation-adjusted wage of the state's low-wage workers declined by 3.7 percent, while the typical California worker's wage increased by a very modest 2.3 percent, after adjusting for inflation.

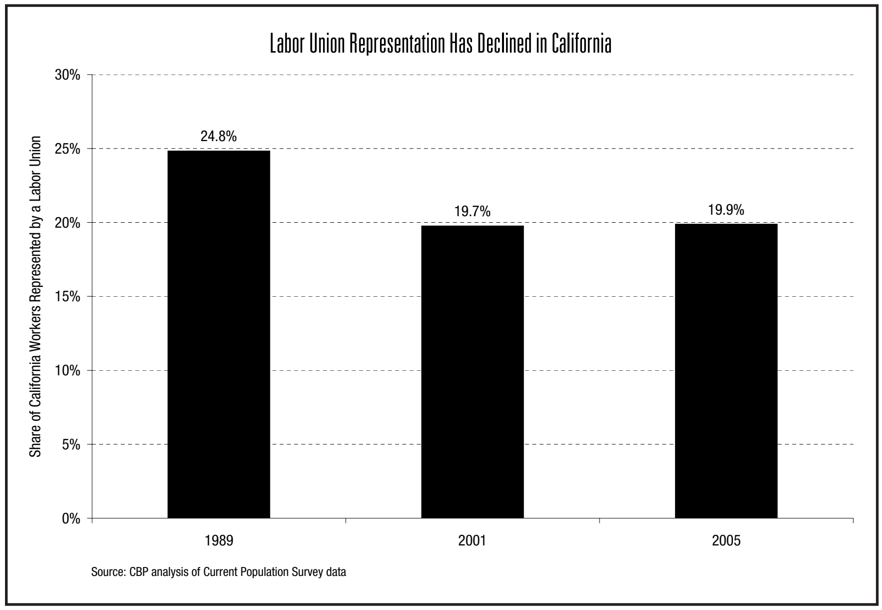
High-Wage Workers' Wages Gained Purchasing Power, Low-Wage Workers' Wages Lost Purchasing Power



Source: CBP analysis of Current Population Survey data

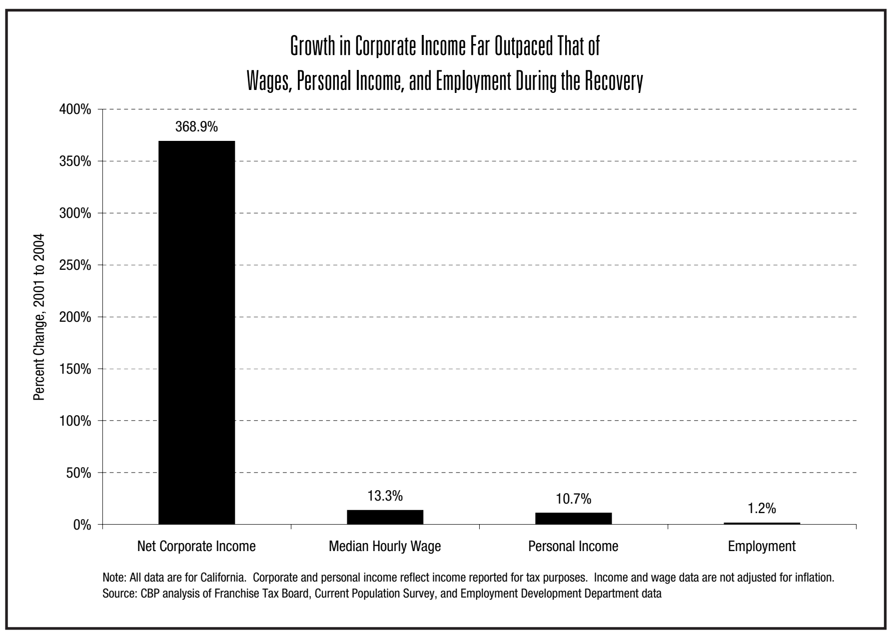
- **Labor union representation has declined.**

The decline in labor union representation is one factor contributing to minimal gains in the purchasing power of workers' wages at the middle and low end of the earnings distribution. Approximately one in five California workers (19.9 percent) was represented by a union in 2005, down from approximately one in four workers (24.8 percent) in 1989. In 2005, the typical union worker earned $1.27 for every dollar earned by the typical non-union worker, down slightly from $1.30 in 1989.[6]



- **Growth in corporate income has far outpaced that of wages, income, and employment.**

The income reported by corporations for California tax purposes increased more than fourfold (368.9 percent) between 2001 and 2004. In contrast, the hourly wage of the typical California worker rose by 13.3 percent, the income reported by Californians for personal income tax purposes increased by 10.7 percent, and employment in the state rose by 1.2 percent during the same period.



- **High-income California taxpayers have experienced significant income gains.**

The average adjusted gross income (AGI) of the top 1 percent of California taxpayers increased by a considerable 22.6 percent between 2003 and 2004, after adjusting for inflation.[7] Over the same period, the inflation-adjusted AGI of the top fifth of taxpayers rose by 9.2 percent. In contrast, the inflation-adjusted AGI of the middle fifth of taxpayers increased by less than 1 percent.

High-Income Taxpayers Experienced Significant Income Gains Between 2003 and 2004

	Average Adjusted Gross Income by Income Percentile (2004 Dollars)		
	Middle 20%	Top 20%	Top 1%
2003	$33,515	$177,145	$1,118,506
2004	$33,750	$193,475	$1,371,030
Percent Change	0.7%	9.2%	22.6%

Source: Franchise Tax Board

The disproportionate income gains of high-income California taxpayers reflect, at least in part, growth in investment income. More than one-third (37.2 percent) of the increase in total personal income reported by Californians for personal income tax purposes between 2003 and 2004 was attributable to capital gains – income derived from the increase in the value of assets, such as stocks and real estate.[8] A full 94.6 percent of the 2004 income from capital gains was attributable to taxpayers with an adjusted gross income (AGI) of more than $100,000.[9]

Alissa Anderson Garcia prepared this Policy Points. Support for this Policy Points was provided by the Rosenberg Foundation. The California Budget Project (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 public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

1 US Bureau of Labor Statistics data downloaded from http://www.bls.gov/ces/home.htm on August 18, 2006.

2 According to the National Bureau of Economic Research (NBER), the economic recovery began in November 2001, marking the end of the recession that began in March of that year. National data show that employment has grown at an average annual rate of 0.7 percent since November 2001, compared with an annual average of 2.4 percent during comparable periods of other post-World War II recoveries. See Isaac Shapiro, Richard Kogan, and Aviva Aron-Dine, *How Good Is the Current Economic Recovery?* (Center on Budget and Policy Priorities: August 4, 2006).

3 US Bureau of Labor Statistics data downloaded from http://www.bls.gov on August 16, 2006. The employment rate – also known as the employment to population ratio – is the percentage of non-institutionalized civilians age 16 and older who are employed.

4 CBP analysis of Current Population Survey data. Hourly earnings are calculated for public and private sector workers ages 25 to 64.

5 Economic Policy Institute analysis of Current Population Survey data. Hourly wages are calculated for public and private sector workers ages 18 to 64.

6 CBP analysis of Current Population Survey data.

7 Franchise Tax Board data. These data provide a more complete picture of income at the high end of the distribution than Census data because they include income from a wider variety of sources, such as capital gains.

8 Franchise Tax Board data. Another 44.0 percent of the increase in personal income reported by Californians for personal income tax purposes was attributable to wages, salaries, and tips.

9 Franchise Tax Board data. Approximately one in eight California taxpayers (12.6 percent) have an AGI of $100,000 or more.