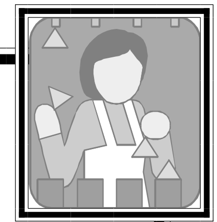

UNEQUAL GAINS:
THE STATE OF WORKING CALIFORNIA

California Budget Project

September 1998

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The California Budget Project

The **California Budget Project (CBP)** was founded in 1994 to provide Californians with a reliable source of policy expertise on state and local tax and budget issues. The CBP strives to promote a better understanding of state fiscal policy issues in order to encourage the development of a healthy public sector based on a fair and equitable tax system. Financial support for the work of the CBP comes from foundation grants, subscriptions, and individual contributions.

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INTRODUCTION

By many indicators, California's economy is booming. The state's economy added 375,000 jobs between July 1997 and July 1998 and unemployment is at its lowest level in eight years.[1] After a long period of decline, inflation adjusted wages posted across-the-board gains during the first half of 1998.

Despite this good news, many California families are worse off than they were a decade ago. While growth remains strong, recent developments suggest that the economy will slow over the upcoming months. Job growth is down and a number of California's high tech firms, leaders in the recent recovery, have announced lower earnings, layoffs, and have scaled back hiring in response to the Asian financial and economic crisis. Both inflation and unemployment are anticipated to rise over the next year, with income and em-

Selected California Economic Indicators

	1997 Actual	1998 Forecast	1999 Forecast
Personal income (percent change)	7.3%	7.2%	5.7%
Nonfarm employment (percent change)	3.3%	3.2%	2.9%
Unemployment rate (percent)	6.3%	5.6%	5.8%
Consumer Price Index (percent change)	2.2%	2.2%	3.4%

Source: California Governor's Budget May Revision 1998-99

ployment growth slowing modestly.

This report examines the economic well-being of California's families using data from a variety of sources. The story is consistent and one of great disparities. Despite the strength of the state's economy, inequality is on the rise and California continues to lag the nation with respect to unemployment, wage growth, and the share of the state's population living below the poverty line. Moreover, the purchasing power of most families is lower today than it was two decades ago, causing families to work harder and longer just to get by. This report makes three key findings:

- ✓ Incomes have failed to keep pace with inflation for the majority of California families. During the 1990s, declining incomes for low and middle income households, coupled with strong income gains for the wealthy, have led to increased inequality.

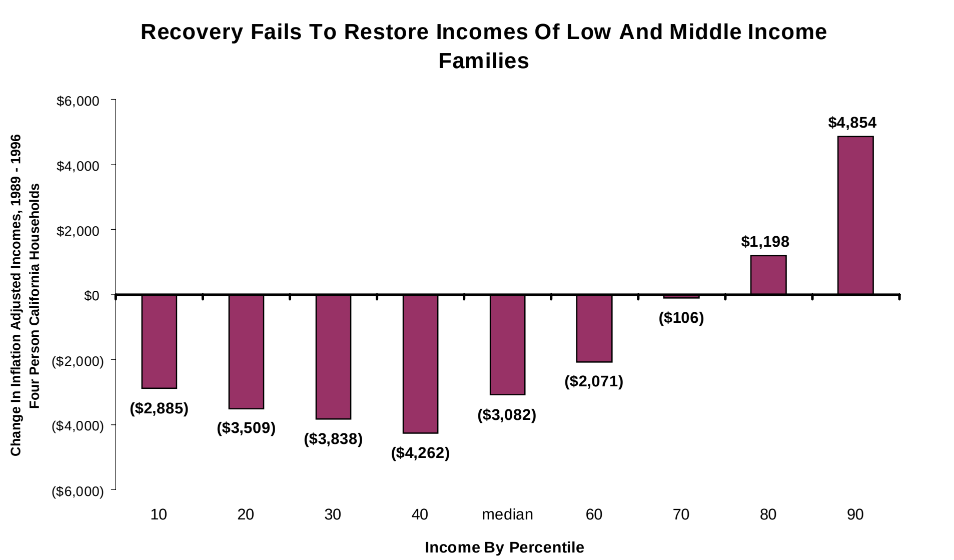
- ✓ Declining real wages are a major reason why incomes have stagnated for working families. Across-the-board, hourly wages declined between 1989 and 1997, after adjusting for inflation. Between 1979 and 1997, inflation adjusted wages dropped for the bottom 80 percent of California earners. While strong gains during the first half of 1998 have reversed some of the decline, wages are lower than they were in 1989 for all but the top 10 percent of California workers. Minority and less educated workers have fallen furthest behind over the past two decades.

- ✓ Growth in low wage jobs and higher than average unemployment rates have kept the share of Californians living below the poverty line above the national average.

How significant are these findings? What do they mean for the future of California's workers and families? This report compares and contrasts the economic well-being of California's families and workers since 1979, a period including the last two business cycles. While many of the trends witnessed in the 1990s began much earlier, this recovery has produced wider disparities and smaller gains for most workers and their families. The 1990s are also distinctive with respect to the declining standard of living experienced by Californians relative to the rest of the country.

SLOW AND UNEQUAL INCOME GROWTH CONTINUES FOR CALIFORNIA FAMILIES

The current economic boom comes on the heels of the state's deepest recession since the 1930s. California lost over a million jobs during the early years of this decade, largely attributable to reductions in federal defense and aerospace spending. For a majority of California families, the recession worsened the trend toward stagnating family incomes that began in the 1980s. Seven out of ten households saw their purchasing power decline from 1989 to 1996, the most recent year for which information is available.[2] For a household of four at the midpoint of the income distribution, the drop was substantial: $3,082 (6.1 percent) after adjusting for inflation. Even more disturbing, family incomes stagnated during the 1990s despite an increase in the total number of hours worked in



Source: California Department of Finance analysis of Current Population Survey data prepared for the Assembly Select Committee on the California Middle Class.

two-earner households. While California specific data is not available, combined work hours in married couple families increased by 3.8 percent – 135 hours per year – between 1989 and 1996.[3]

The recession also narrowed the gap between middle income Californians and their counterparts in other states. As recently as 1989, the income of the median California family sur-

Gap Between California And The US Narrows: Median Income For Four-Person Families, 1974-96 (1996 Dollars)							
					Percentage Change		
	1974	1979	1989	1996	1974-79	1979-89	1989-96
California	$48,161	$53,238	$54,172	$53,807	10.5%	1.8%	-0.7%
Total US	$44,582	$47,483	$51,578	$51,518	6.5%	8.6%	-0.1%
Gap Between CA and US	$3,579	$5,755	$2,594	$2,289	60.8%	-54.9%	-11.8%

Source: Economic Policy Institute analysis of Current Population Survey data.

passed that of the nation by $2,594. By 1996, the gap narrowed to $2,289 – an 11.8 percent drop.[4]

An analysis of averages masks the winners and losers. For unlike the recoveries of prior decades, where economic growth was like a rising tide that lifted all boats, California's lower income families fell far behind during the 1990s, while the state's wealthiest residents made substantial gains. Among households required to file California income tax returns, a group that leaves out the very poor, the long-term trends are striking. Incomes of the bottom 80 percent declined between 1980 and 1996, while those of the wealthiest one percent nearly doubled.[5] At the same time, lower middle income families earned $13,735, $561 less then they earned in 1980. This trend further concentrated income among the very wealthiest Californians. In 1980, the bottom 60 percent of households received just under one out of every four dollars (24.4 percent) of income earned in California. In 1996, the bottom 60 percent received less than one out of every five (18.7 percent) dollars of income earned.

Income Growth Greatest Among High Income Taxfilers						
	Adjusted Gross Income Per Return (AGI, 1996 Dollars)			Percent Change in AGI		
Income By Quintile	**1980**	**1988**	**1996**	**1980-88**	**1988-96**	**1980-96**
Bottom Quintile	$ 3,634	$ 3,956	$ 3,049	8.9%	-22.9%	-16.1%
2nd Quintile	$ 14,296	$ 13,735	$ 11,498	-3.9%	-16.3%	-19.6%
Middle Quintile	$ 26,061	$ 25,984	$ 22,765	-0.3%	-12.4%	-12.6%
4th Quintile	$ 42,739	$ 44,605	$ 40,746	4.4%	-8.7%	-4.7%
Top Quintile	$ 94,337	$116,597	$121,696	23.6%	4.4%	29.0%
Top 10%	$125,995	$166,073	$178,066	31.8%	7.2%	41.3%
Top 1%	$372,563	$654,636	$723,190	75.7%	10.5%	94.1%
TOTAL	$ 35,740	$ 40,362	$ 39,018	12.9%	-3.3%	9.2%
	Share of Total AGI			Percent Change in Share		
Income By Quintile	**1980**	**1988**	**1996**	**1980-88**	**1988-96**	**1980-96**
Bottom Quintile	2.0%	2.0%	1.5%	-3.5%	-21.5%	-24.3%
2nd Quintile	7.9%	6.8%	5.8%	-14.9%	-14.8%	-27.5%
Middle Quintile	14.5%	12.8%	11.4%	-11.7%	-10.9%	-21.3%
4th Quintile	23.8%	22.0%	20.4%	-7.6%	-7.1%	-14.1%
Top Quintile	52.4%	57.4%	60.9%	9.5%	6.2%	16.2%
Top 10%	35.3%	41.2%	44.6%	16.7%	8.3%	26.4%
Top 1%	10.4%	16.2%	18.1%	55.7%	11.6%	73.7%
TOTAL	100.0%	100.0%	100.0%	N/A	N/A	N/A

Source: State of California, Franchise Tax Board

Another frequently used indicator of income inequality looks at the ratio of the income of the wealthiest fifth of households to that of the poorest fifth. By this measure, California's gap between the rich and poor was wider than in all but four other states in 1994-96.[6] By 1996, the average income of the wealthiest fifth of California families was 11.9 times that of the poorest fifth. Among the eleven largest states, the gap between the average income of the wealthiest five percent and bottom 20 percent grew wider in California between 1978-80 and

Income Inequality On The Rise					
	Ratio Of The Average Income Of The Top 20% To The Lowest 20%			Change in the Ratio of the Top 20% to the Lowest 20%	
	1978-80	1988-90	1994-96	Late 70s-Late 80s	Late 80s-Mid 90s
California	7.9	10.0	11.9	2.1	2.0
US Total	7.7	9.5	10.7	1.9	1.2
	Ratio Of The Average Income Of The Top 5% To The Lowest 20%			Change in the Ratio of the Top 5% to the Lowest 20%	
	1978-80	1988-90	1994-96	Late 70s-Late 80s	Late 80s-Mid 90s
California	12.5	16.1	19.6	3.6	3.6
US Total	12.1	15.3	18.5	3.2	3.2

Numbers may not sum due to rounding.
Source: Economic Policy Institute analysis of March Current Population Survey data.

1994-96 than in any state except New York.[7]

While there has been little or no rise in real incomes for most Californians, growth in high technology sectors and the entertainment industry, among others, has brought tremendous wealth to a few very fortunate Californians. The number of Californians reporting incomes in excess of $5 million per year nearly doubled between 1989 and 1996.[8] The number of households reporting incomes in excess of $1 million increased by 62 percent over the same period.

The incomes of California's wealthiest households have been boosted by the strong performance of the stock market in recent years. The average income from capital gains reported by the state's top one percent of households more than doubled from $82,439 to $177,334 between 1994 and 1996.[9] During the same period, the average capital gains received by the bottom 90 percent of households actually declined by 0.09 percent and nearly doubled for the top ten percent, growing from $11,401 to $22,408. Capital gains also constitute a much larger share of the income of the wealthy: 24.5 percent of that reported for the top one percent and 12.6 percent for the top ten percent, as compared to 1.2 percent for the bottom 90 percent.

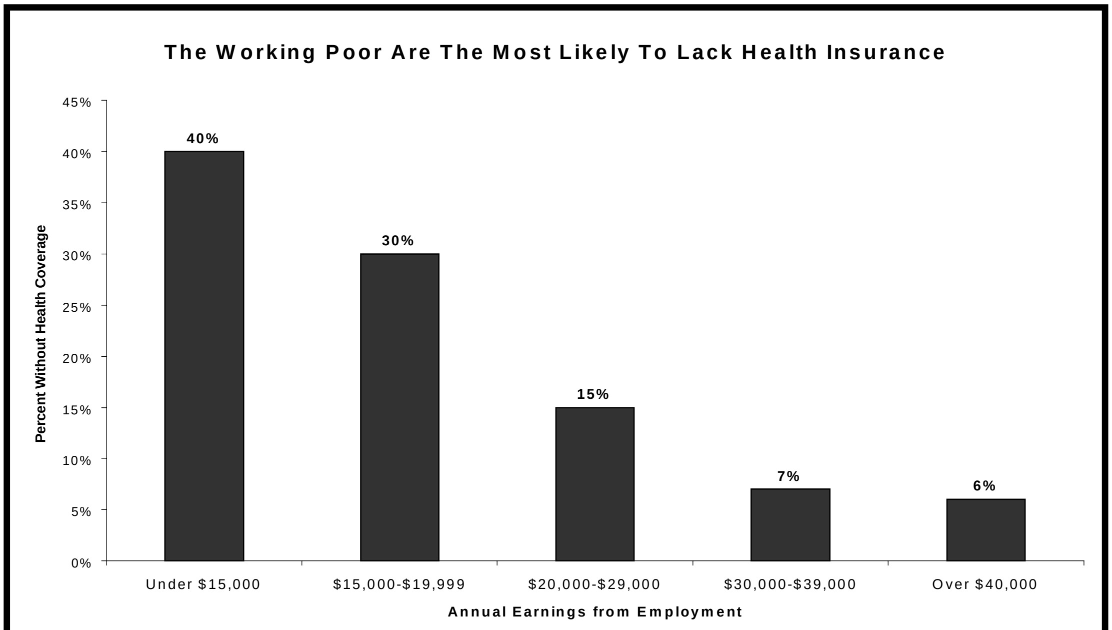
Income Gap Exacerbated By California's High Cost Of Living, Lack Of Benefits

From the standpoint of living standards, California's poor performance with respect to

Fewer California Households Can Afford The Median Priced Home					
	Median Home Price (Existing Single Family Homes)			Percent of Households Who Can Afford To Purchase The Median Priced Home	
	California	United States	Gap Between CA and US	California	United States
1968	$23,210	$20,100	$3,110	--	--
1979	$84,150	$55,700	$28,450	--	--
1989	$196,120	$93,100	$103,020	17%	47%
1997	$186,490	$124,100	$62,390	39%	54%

Source: California Association of Realtors, March 1998.

wage and income growth is exacerbated by the state's relatively high cost of living. California's housing costs, in particular, are significantly higher than the nation as a whole.[10] In 1997, 54 percent of the nation's households could afford to purchase the median-priced home. In California, only 39 percent of all households could afford the median priced home.[11] Californians are more likely to lack health insurance than are Americans as a whole. In 1994-95, 19.7 percent of non-elderly Californians were uninsured, as compared to 15.5 percent nationally. The gap between California and the nation with respect to employer-sponsored coverage is even larger, with 56.9 percent of Californians receiving employer-sponsored benefits as compared to 66.1 percent for the nation.[12] Lack of health coverage presents a particular burden for those with the least financial resources. Low waged workers are also more likely to lack health insurance than are their higher paid counterparts.



Source: UCLA Center For Health Policy Research , *The Uninsured in California : Causes, Consequences, and Solutions,* September 1997.

RISING INEQUALITY FUELED BY STAGNATING WAGES

California Hourly Wages by Percentile, 1979-98

	10	20	30	40	50	60	70	80	90
Real Hourly Wages (1997 dollars)									
1979	$ 6.72	$ 8.01	$ 9.51	$ 10.99	$ 12.78	$ 15.01	$ 17.34	$ 20.47	$ 25.49
1989	$ 6.02	$ 7.34	$ 9.03	$ 10.62	$ 12.80	$ 14.87	$ 17.51	$ 21.04	$ 26.56
1997	$ 5.23	$ 6.41	$ 7.84	$ 9.62	$ 11.43	$ 13.89	$ 16.82	$ 20.25	$ 26.21
Dollar change									
1979-89	$ (0.70)	$ (0.67)	$ (0.48)	$ (0.37)	$ 0.02	$ (0.14)	$ 0.17	$ 0.57	$ 1.07
1989-97	$ (0.79)	$ (0.93)	$ (1.19)	$ (1.00)	$ (1.37)	$ (0.98)	$ (0.69)	$ (0.79)	$ (0.35)
1979-97	$ (1.49)	$ (1.60)	$ (1.67)	$ (1.37)	$ (1.35)	$ (1.12)	$ (0.52)	$ (0.22)	$ 0.72
Percentage Change									
1979-89	-10.4%	-8.4%	-5.0%	-3.4%	0.2%	-0.9%	1.0%	2.8%	4.2%
1989-97	-13.1%	-12.7%	-13.2%	-9.4%	-10.7%	-6.6%	-3.9%	-3.8%	-1.3%
1979-97	-22.2%	-20.0%	-17.6%	-12.5%	-10.6%	-7.5%	-3.0%	-1.1%	2.8%

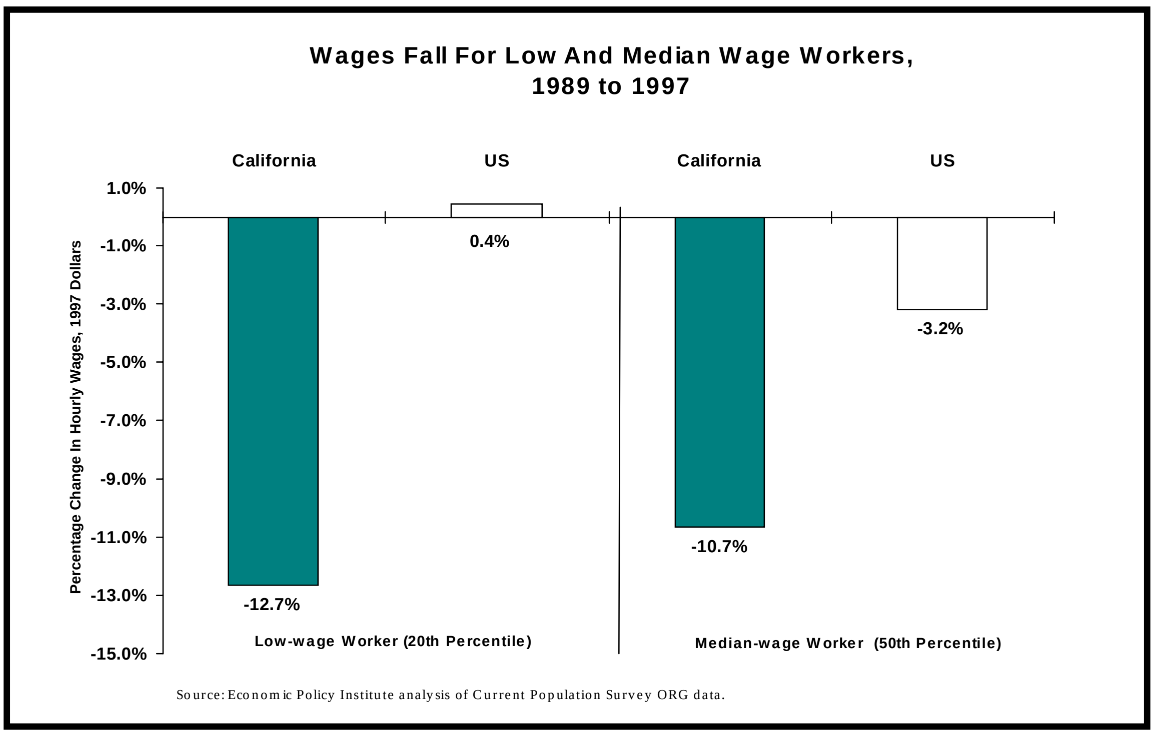
Source: Economic Policy Institute analysis of Current Population Survey ORG data

Since wages make up more than 80 percent of the income for the bottom 90 percent of California households, wage trends are the primary factor contributing to stagnating incomes.[13] Hourly wages failed to keep pace with inflation between 1989 and 1997. In California, unlike the rest of the country, wages have stagnated for even the highest paid workers, with wage level at the 90th percentile dropping 1.3 percent.[14]

Between 1979 and 1997, inflation adjusted wages fell for the bottom 90 percent of California wage earners. Inflation adjusted median wages fell 10.6 percent ($1.35 per hour) between 1979 and 1997. The lowest paid workers fell furthest behind, experiencing a 22.2 percent drop in hourly wages, from $6.72 to $5.23 per hour in inflation adjusted dollars.

California Lags The Nation

While wage deterioration is a long-term national trend, Californians have experienced sharper declines than the nation as a whole. Between 1989 and 1997, median hourly wage levels dropped 10.7 percent in California, but only 3.2 percent nationwide.[15] Between 1989-1997, the hourly earnings of low wage workers (wages at the 20th percentile) increased slightly (0.4 percent) for the nation, while dropping 12.7 percent in California.



California's decline was the largest in the country. Moreover, Californians are more likely to work for low wages than are Americans as a whole. In 1997, 29.6 percent of California workers earned less than $7.80 per hour, as compared to a US total of 28.6 percent.[16] The disparity between California and the rest of the nation becomes even more significant when the state's high cost-of-living, and particularly the high cost of housing are taken into account.

Education Helps Protect Against Wage Erosion

Education still provides the best protection against stagnating wages. Workers with less than a high school education experienced the steepest wage declines in both the 1980s and 1990s,

Percentage Change In California Average Hourly Wages (1997 Dollars)			
Men	**1979-89**	**1989-97**	**1979-97**
Less than a High School Degree	-21.6%	-19.0%	-36.5%
High School	-10.8%	-13.4%	-22.8%
Some College	-0.9%	-12.8%	-13.6%
College	1.2%	2.3%	3.5%
Advanced Degree	12.5%	1.8%	14.6%
Women			
Less than a High School Degree	-13.7%	-11.4%	-23.5%
High School	1.1%	-6.0%	-5.0%
Some College	10.1%	-5.2%	4.5%
College	18.7%	7.3%	27.3%
Advanced Degree	11.3%	7.6%	19.8%

Source: Economic Policy Institute analysis of Current Population Survey data.

while a college degree enabled male workers to stay just ahead of inflation and women workers to make significant gains. For male workers, a college degree brought slightly stronger growth during the 1990s than in the 1980s. This trend was reversed for women workers, with a college or advanced degree bringing smaller rewards than during the previous decade.[17]

Wage Trends Vary Significantly By Race, Gender

Both hourly wages and wage trends vary significantly by race and gender. Over the past two decades, white women have experienced the largest gains in average hourly earnings, while inflation adjusted wages declined for both Hispanic men and women. While white male wages rose during the 1980s, they failed to keep pace with inflation during the 1990s, dropping by 3.7 percent. Perhaps most striking are the substantial drops in Black workers' wages during the 1990s. Average hourly wages for Black men fell 10.8 percent, with Black women's wages dropping 15.9 percent.

California Average Hourly Wages By Race And Gender (1997 Dollars)						
				Percentage Change		
	1979	**1989**	**1997**	**1979-89**	**1989-97**	**1979-97**
White Male	$19.06	$19.95	$19.21	4.6%	-3.7%	0.8%
Black Male	$14.69	$15.06	$13.43	2.5%	-10.8%	-8.5%
Hispanic Male	$13.31	$11.66	$10.52	-12.4%	-9.8%	-21.0%
Other Male	$15.88	$15.93	$16.48	0.3%	3.4%	3.8%
White Female	$12.08	$13.97	$14.80	15.6%	5.9%	22.5%
Black Female	$11.67	$14.59	$12.27	25.0%	-15.9%	5.1%
Hispanic Female	$9.65	$9.70	$9.08	0.5%	-6.4%	-5.9%
Other Female	$11.77	$12.89	$13.39	9.5%	3.9%	13.8%

The gap between male and female median wages has narrowed substantially over the past two decades. Median hourly wages for women workers were 64.4 percent that of male workers in 1979. By 1997, a woman earning the median hourly wage earned 85.9 percent of her male counterpart. Almost the entire difference is attributable to the drop adjusted male wages. While real median hourly wages for women increased by $0.18 per hour, the male wage fell by $3.81 per hour between 1979 and 1997.

Male-Female Wage Gap, Median Hourly Wage (1997 Dollars)			
	1979	**1989**	**1997**
Male	$16.04	$14.33	$12.23
Female	$10.33	$11.05	$10.51
Female as a Percent of Male	**64.4%**	**77.1%**	**85.9%**

Source: Economic Policy Institute analysis of Current Population Survey data.

Good News About Recent Wage Trends

Preliminary indications suggest that 1998 will bring some good news about wage trends. Tight labor markets and successive increases in the state's minimum wage have combined to produce across-the-board wage gains in the first half of 1998.[18] Inflation adjusted hourly wages for the state's lowest paid workers, those in the bottom 10 percent, are 10.4 percent above the same period in the previous year after adjusting for inflation. This increase is largely attributable to the March 1998 $0.50 per hour increase in the state's minimum wage. Interestingly, the state's lowest waged workers, those in the bottom 20 percent, experienced the strongest gains, most likely due to the "trickle up" impact of the rising minimum wage. Despite the highly touted tight labor market for more highly skilled employees, there is one dark cloud over 1998 wage trends. Hourly wages for college educated workers dropped between the first half of 1997 and 1998, a trend foreshadowed by the slow wage gains experienced by this group during the earlier years of the decade.

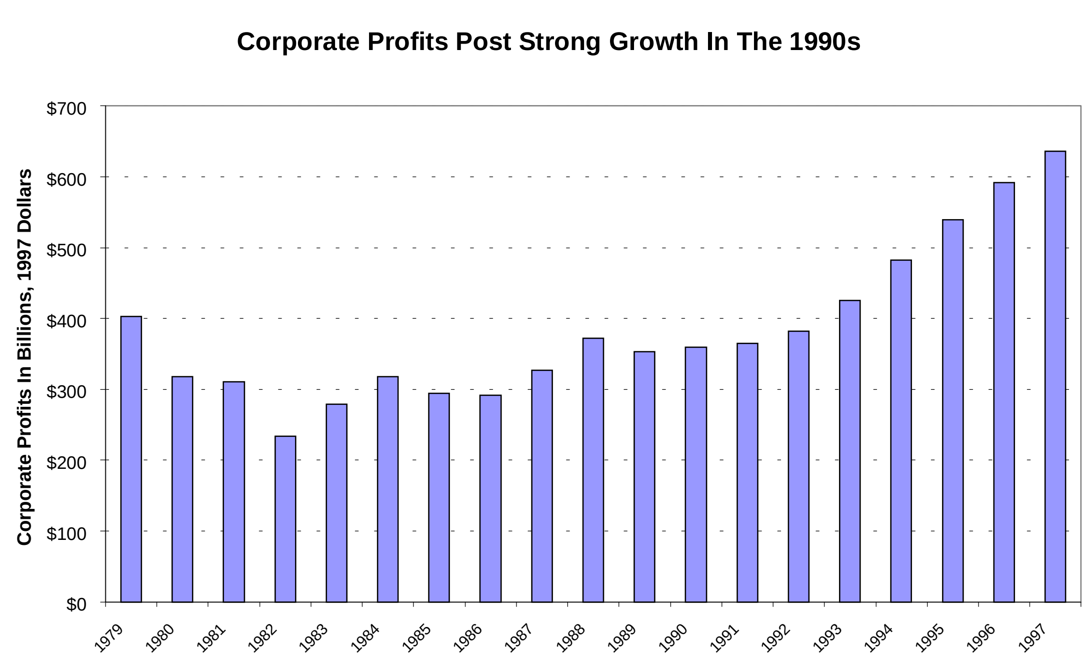
California Hourly Wages (1998 Dollars)

Decile	1st Half 1997	1st Half 1998	Percentage Change 1997-98
1	$5.20	$5.74	10.4%
2	$6.33	$6.97	10.2%
3	$7.85	$8.22	4.7%
4	$9.79	$10.07	2.9%
5	$11.61	$12.00	3.3%
6	$14.16	$14.78	4.4%
7	$16.92	$17.68	4.5%
8	$20.49	$21.22	3.6%
9	$26.40	$28.90	9.5%
Education Level			
All	$14.54	$15.26	4.9%
Less Than High School	$7.80	$8.37	7.3%
High School	$11.61	$12.06	3.9%
Some College	$13.49	$14.95	10.8%
College	$20.20	$19.28	-4.5%
Advanced Degree	$27.57	$31.16	13.0%

Source: Economic Policy Institute analysis of Current Population Survey data.

Why Are Wages Stagnating?

There is no single factor that explains the decline in hourly wages. Economists point to a number of causes including the declining rates of unionization, erosion of the purchasing power of the minimum wage, the shift from an economy dominated by manufacturing to one dominated by services, and global competition. Two factors that are ***not*** responsible for the decline are corporate profits and productivity, since both have been rising. Over the past two decades, productivity has increased by approximately one



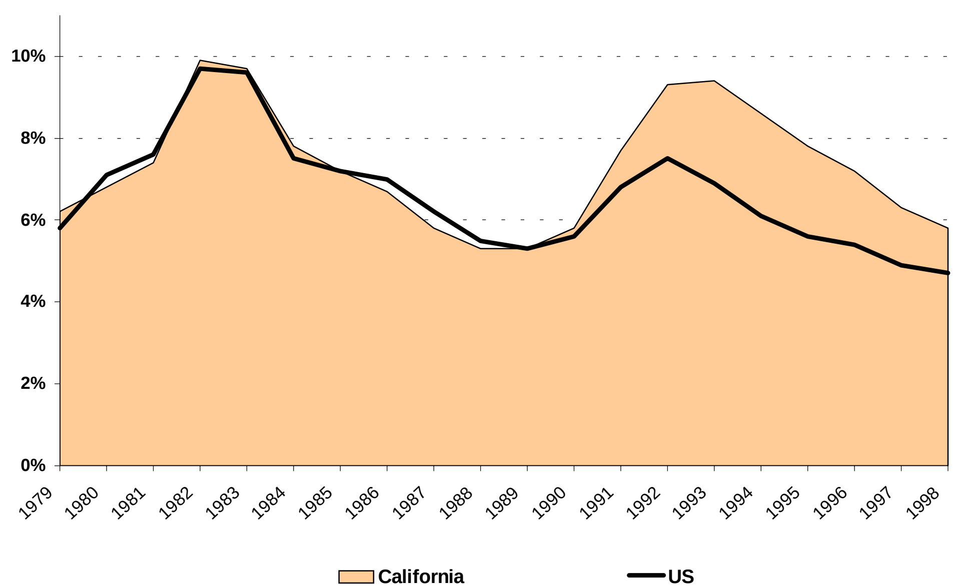
Source: Economic Report of the President, Fiscal Year 1999, Bureau of Economic Analysis. Profits of domestic corporations with inventory valuation adjustment and without capital consumption adjustment.

percent per year.[19] Corporate profits have increased throughout the 1990s, posting double-digit increases for the past five years. Since 1989, corporate profits have more than doubled, while California's median hourly wage increased by only 15.6 percent.[20] In fact, some part of the growth in corporate profits may be attributable to stagnant wages. While conventional wisdom holds that college educated workers have done well in today's economy, the relatively low growth in wages received by this group, particularly male workers, suggest a more complex picture. Average wages for workers with at least a college degree have more than kept pace with inflation since 1989, however the gains experienced by this group are not sufficient to offset the loss of purchasing power experienced by other California workers. Other factors contributing to wage stagnation include the declining value of the state's minimum wage and the growth of low wage jobs. Even with the recent increases, the purchasing power of the minimum wage has dropped by $2.00 per hour since 1968 and by $0.78 per hour since 1979.

MORE CALIFORNIANS ARE WORKING

The California economy has added 1.6 million jobs since bottoming out in early 1993, when the jobless rate rose into double digits. Job growth has repeatedly surpassed projections during the state's economic recovery. The 2.3 percentage point drop in the state's un-

California's Unemployment Rate Falling, But Still Above National Average

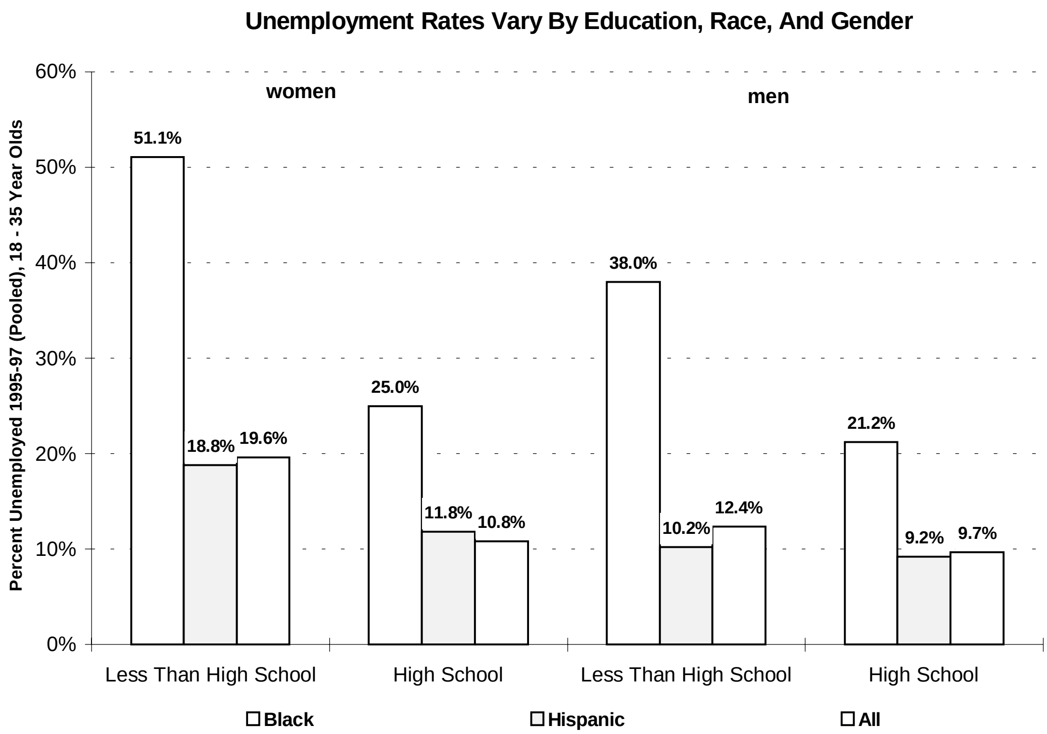


Source: Bureau of Labor Statistics and Economic Development Department. 1998 is for the month of June.

employment rate was the sharpest in the nation between 1994 and 1997.[21] Yet, despite several years of outstanding job growth, California's unemployment rate remains the 5th highest in the nation.[22] In addition, nonfarm employment declined in July 1998 for the first time since April 1996.[23] While the decline was small -- 500 jobs -- it adds to the evidence that the California economy is beginning to slow.

Employment Growth Uneven

While statewide unemployment is down, July unemployment rates remained in excess of ten percent in 16 California counties.[24] Unemployment rates ranged as high as 29.6 percent in Imperial County. For many of these counties, persistently high unemployment has become the norm, not the exception. In fact, unemployment rates in much of rural California can be expected to climb in the winter when seasonal jobs in agriculture and tourism disappear.

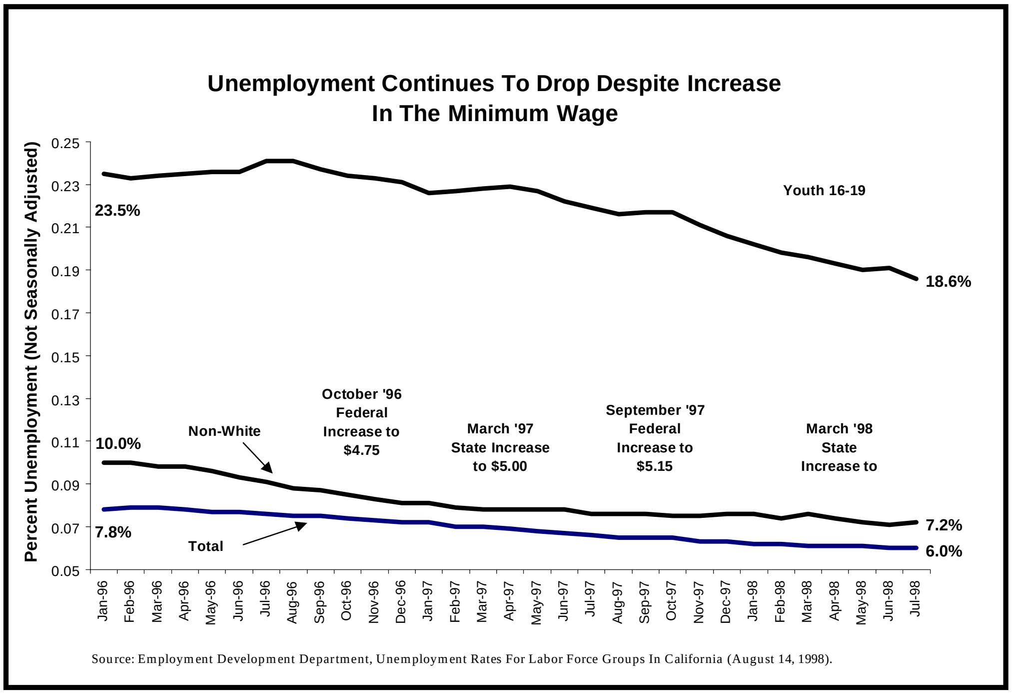


Source: Economic Policy Institute analysis of Current Population Survey data

Other disparities include those between white and minority workers and those with and without a high school degree. Significant numbers of nonwhite workers, particularly those without a high school degree, continue to lack employment despite relatively low overall unemployment.

Jobless Rates Show No Negative Impact Due To Minimum Wage Increase

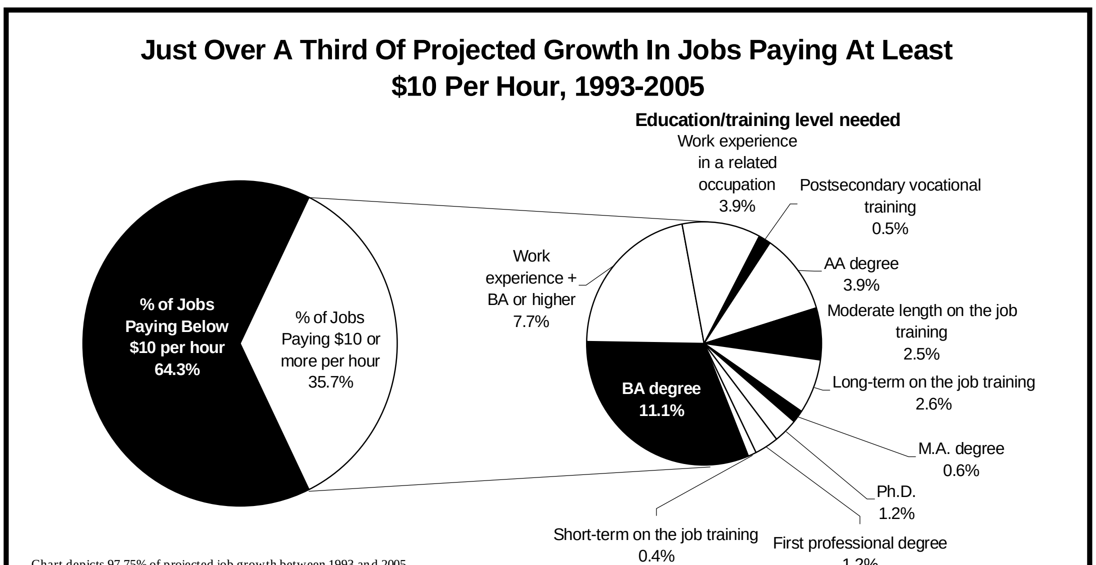
Contrary to conventional wisdom, there is no evidence to suggest that the recent increases in the state and national minimum wage have increased joblessness. From March 1997 to March 1998, California's private sector job growth outstripped that of the nation as a whole in every sector. In fact, between 1994 and 1997, the drop in California's unemployment rate was the largest of any state in the nation at 2.3 percentage points.[25] Total nonfarm employment grew by 3.6 percent in California, as compared to 2.6 percent for the US, despite the fact that California's minimum wage exceeded the federal standard. During the same pe-



riod, California's job growth in services surpassed that of the nation (4.8 percent compared to 4.0 percent), as did that in wholesale and retail trade (3.0 percent to 2.3 percent).[26] Unemployment among young and nonwhite workers, those most likely to work for low wages, has dropped by more than 20 percent since January 1996.[27]

Most New Jobs Are Low Wage Jobs

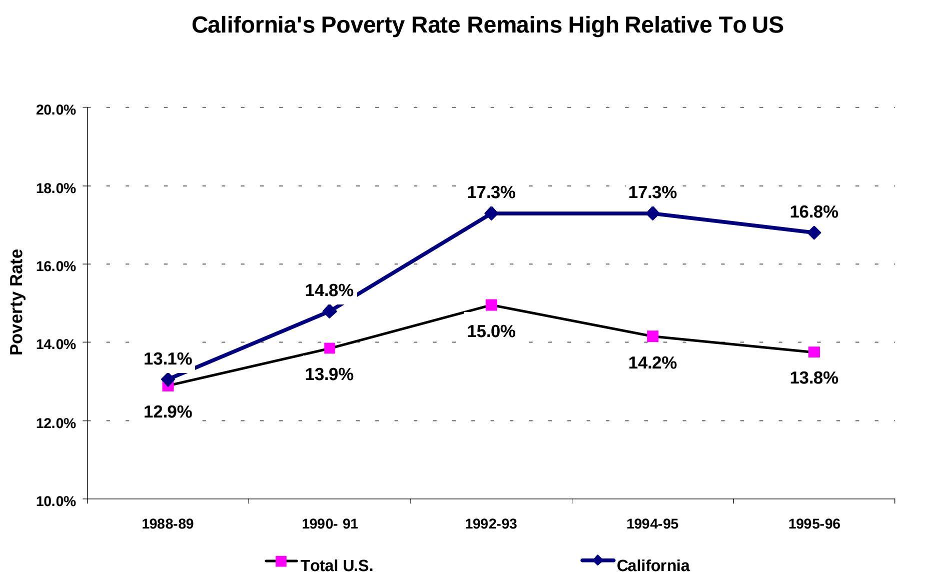
Most of the state's job growth remains concentrated in low wage jobs. While some highly specialized and highly paid jobs in technology-based industries are anticipated to post large *percentage* growth, the largest *number* of new jobs will require minimal education or training and offer low pay. Just over a third (35.7 percent) of the jobs state forecasters pre-



Source: Employment Development Department, California State Personnel Board, and Los Rios Community College District dict will be added to the California economy in the near future pay at least $10 per hour – equivalent to an annual income of $20,040 for a full-time, full-year worker. Only 3 percent of projected growth in jobs paying at least $10 per hour is in entry level jobs, defined as those requiring no more than a high school degree and short to moderate on-the-job training. These forecasts suggest that growth alone will not be sufficient to reverse the wage and income trends of the past two decades.

Poverty Remains High Relative To National Levels

The one out of six Californians living in poverty are those left farthest behind in today's growing economy. Declining wage levels, pockets of persistently high unemployment, and the continued growth in low paid jobs have kept the state's poverty rate high even as the economy expanded. Despite the state's tremendous wealth, California has the ninth



* A moving average was taken for the last two-years due to lack of 1997 data.
Source: Economic Policy Institute analysis of Current Population Survey data.

highest share of residents living in poverty.[28] Moreover, the share of the state's residents living below the poverty line increased by 28 percent between 1988-99 and 1995-96 and California's poverty rate remains three percentage points above the national average. Because of the prevalence of low wage work, along with part-time and seasonal employment, approximately half of California's poor are the working poor – some two million California workers and their families.[29]

CONCLUSION

The story of the California economy over the past two decades is one of great disparities. While more Californians are working, real wages and incomes are down for the majority of the state's working families. Recent developments offer some promise of gains, particularly for the state's lowest paid workers. Much of the recent growth in real wages is directly attributable to the recent increases in the state's minimum wage. At the same time, it is unclear how long the current expansion will continue and when the next recession will occur. The recent gains have not reversed the losses of the early years of the decade. Welfare reform will continue to increase competition at the lower end of the labor market and it is unclear how these individuals will fare when the next downturn occurs.

Perhaps the most significant challenge confronting state policymakers and leaders is that of bringing the gains of a growing economy to all Californians. California brings to the table abundant riches and opportunity. Yet, these assets have failed to translate into improved living standards for most California families.

ENDNOTES

[1] Employment Development Department, *Civilian Labor Force, Employment, and Unemployment* (August 13), http://www.edd.cahwnet.gov/.
[2] Department of Finance analysis of the US Census Bureau, Current Population Survey prepared for the Assembly Select Committee on the California Middle Class. The data used for this analysis was adjusted to reflect four person households.
[3] Lawrence Mishel, Jared Bernstein, and John Schmitt, *The State of Working America, 1998-99* (Cornell University Press, forthcoming), p. 18.
[4] Median income for a family of four.
[5] State of California Franchise Tax Board, Economic and Statistical Research Bureau (June 1998). Adjusted gross income. This analysis is based on personal income tax returns and excludes low income households that did not file tax returns. Unlike Census data, tax return data is not "top coded," that is, values above the maximum were all assigned the same value. In order to facilitate direct comparisons between different years, the Franchise Tax Board imputed roughly 1 million taxpayers who did not file returns in 1994 and 1996, but who would have filed returns in those years if the renters' credit had still been available.
[6] Lawrence Mishel, Jared Bernstein, and John Schmitt, *The State of Working America, 1998-99* (Cornell University Press: forthcoming), Table 7.3.
[7] Lawrence Mishel, Jared Bernstein, and John Schmitt, *The State of Working America, 1998-99* (Cornell University Press: forthcoming), Table 7.4. These are the states with large enough samples to allow for reliable estimates of the average income of the top five percent.
[8] Assembly Select Committee on the California Middle Class, *The Distribution of Income in California and Los Angeles: A Look at Recent Current Population Survey and State Taxpayer Data* (June 1998). The number of taxfilers reporting incomes in excess of $5 million increased from 2,300 in 1989 to 4,396 in 1996.
[9] State of California Franchise Tax Board, Economic and Statistical Research Bureau (June 1998). In 1996 dollars.
[10] US Bureau of the Census, *Statistical Abstract of the United States: 1997*, Table 715 (117th Edition), Washington, DC: 1997). Housing represented 32.4 percent of the average annual expenditures of households in 1995.
[11] California Association of Realtors, "*California Existing Single-Family: Housing Market Historical Data Summary*" (March 1998).
[12] Stephen Zuckerman, et al, *Health Policy for Low-Income People In California*, The Urban Institute (August 1998), p. 8.
[13] State of California, Franchise Tax Board. If pension and annuity income is excluded, wages make up 86 percent of the adjusted gross income of the bottom 90 percent of California income taxfilers.
[14] Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group (ORG) data.
[15] Lawrence Mishel, Jared Bernstein, and John Schmitt, *The State of Working America, 1998-99* (Cornell University Press: forthcoming), Tables 7.8 and 7.9.
[16] Lawrence Mishel, Jared Bernstein, and John Schmitt, *The State of Working America, 1998-99* (Cornell University Press: forthcoming), Table 7.6.
[17] Authors' analysis of Economic Policy Institute data.
[18] Economic Policy Institute analysis of Current Population Survey ORG data. 1998 data should be considered preliminary and reflects data for the first six months of 1998.
[19] Economic Report of the President, Fiscal Year 1999, Table B – 49.
[20] US Department of Commerce, Bureau of Economic Analysis and Economic Policy Institute of Current Population Survey ORG data. In current, rather than constant, dollars.
[21] Lawrence Mishel, Jared Bernstein, and John Schmitt, *The State of Working America, 1998-99* (Cornell University Press, forthcoming), Table 7.6.
[22] Ibid. Excluding the District of Columbia 1-4 are Alaska, West Virginia, New York, and Hawaii.
[23] Employment Development Department. Seasonally adjusted nonfarm employment.
[24] State of California, Employment Development Department, Labor Market Information Division. http://www.calmis.cahwnet.gov/file/lfmonth/9807pcou.txt
[25] Lawrence Mishel, Jared Bernstein, and John Schmitt, *The State of Working America: 1998-99*, Economic Policy