BOOM, BUST, AND BEYOND: THE STATE OF WORKING CALIFORNIA

KEY FINDINGS

This report explores the fortunes of California's workers in the boom and the bust, and examines the prospects for the future. The economic expansion, which ended in early 2001, produced mixed results for California's workers and their families. California experienced unprecedented job growth during the expansion, adding more than 500,000 jobs between 1999 and 2000 alone. However, the wages and incomes of many workers and their families barely surpassed inflation, despite strong job growth and record low unemployment. For many families, the recent gains result from the fact that families are working longer and harder simply to make ends meet.

For decades, the economic well-being of Californians surpassed that of the nation as measured by a number of indicators. Californians enjoyed higher incomes and wages, as well as a standard of living that was the envy of the nation. During the 1990s, however, Californians fell behind. Since the 1989 peak of the last expansion, California has lagged the nation with respect to a number of key indicators of economic well-being. California's relatively poor performance, coupled with lingering sluggishness in state and national labor markets, poses challenges for the state and its policymakers: what steps should be taken to build an economy that provides broad-based prosperity for California's workers and families, and how can the state build a system of work supports that complements families' earnings when the economy fails to provide that prosperity?

INCOMES GROW SLOWLY FOR MANY CALIFORNIANS IN THE 1990S

- Despite strong economic growth, the income of the household at the midpoint of the California income distribution rose by just 3.9 percent, from $45,507 to $47,262, between 1989 and 2001 after adjusting for inflation.[1] This increase trailed the national growth of 6.0 percent over the same period.
- The income of the typical four-person California family increased by 10.1 percent between 1989 and 2000, lower than the national increase of 13.8 percent.
- Many California families did not share in the economic progress of the late 1990s and have lower incomes than two decades before. Census data indicate that the incomes of the poorest fifth of the state's families fell by 5.5 percent, and the second-to-the-poorest fifth fell by 1.1 percent, between the late 1970s and the late 1990s.
- In contrast, the average income of the wealthiest 5 percent of the state's families increased by 50.4 percent between the late 1970s and late 1990s. Census data indicate widening income inequality between the richest and poorest California families; this gap is growing faster than for the nation as a whole.
- The average income of state income taxpayers in the middle of the state's income distribution increased by 8.5 percent between 1993 and 2000, from $28,873 to $31,323. In contrast, the income of the top 5 percent of taxpayers more than doubled, from $245,653 to $524,867, an increase of 113.7 percent.

WAGE GROWTH IS UNEVEN; INEQUALITY GROWS

- The hourly earnings of the typical ("median") California wage earner – the worker at the midpoint of the earnings distribution – barely kept pace with inflation over the last two decades. The median hourly wage increased by 1.4 percent between 1989 and 2001, and by 2.1 percent between 1979 and 2001. In contrast, the national median hourly wage increased much more: 4.9 percent between 1989 and 2001, and 4.0 percent between 1979 and 2001.
- The hourly earnings of low-wage workers – workers at the 20th percentile – stayed essentially flat between 1989 and 2001, increasing by just 0.4 percent. However, low-wage workers' hourly earnings were 4.4 percent lower in 2001 than they were in 1979.
- In contrast, the hourly wages of workers at the 80th percentile rose by 12.1 percent between 1989 and 2001, and by 17.0 percent between 1979 and 2001.
- The disparity in wage growth has substantially widened the gap between high- and low-wage workers. In 1989 the worker at the 80th percentile earned 2.7 times the wage of the worker at the 20th percentile. In 2001, the worker at the 80th percentile earned 2.9 times as much as the worker at the 20th percentile.

WAGE GAINS DIFFER BY GENDER, RACE, AND EDUCATION

- The gender wage gap narrowed between 1989 and 1996, and then widened through 2001. The median female worker earned 86.6 percent of the wage earned by the median male worker in 1996, but earned 80.9 percent as much as her male counterpart in 2001.
- After 1996, the gender wage gap widened substantially for workers at the low end of the wage distribution. The woman at the 20th percentile of the wage distribution earned 93.3 percent of the wage earned by the man at the 20th percentile in 1996, but earned only 84.2 percent as much as her male counterpart in 2001. These trends suggest that the entry of more women into the workforce associated with the 1996 federal welfare law may have slowed the wage gains of female workers during the late 1990s.
- Wage growth has varied substantially by race and ethnicity. Hourly earnings increased by 10.3 percent for the typical white worker, and 10.8 percent for the typical Asian worker, between 1989 and 2001. However, hourly earnings of the typical black worker remained essentially flat, rising just 0.1 percent. Hourly wages earned by the median Latino worker fell by 3.3 percent.
- The wage gap between white workers and black and Latino workers increased substantially between 1989 and 2001. The typical black worker earned 81.2 percent of the wage earned by the typical white worker in 1989, but only 73.7 percent in 2001. The typical Latino worker earned 60.0 percent of the wage earned by the typical white worker in 1989, but only 52.6 percent in 2001.
- The hourly wages of the typical worker with no more than a high school education failed to keep pace with inflation between 1989 and 2001, while the growth in earnings of workers with at least some college exceeded inflation. After adjusting for inflation, the median hourly wage of workers with less than a high school degree dropped by 10.7 percent, and the median wage of workers with a high school degree dropped by 5.5 percent. In contrast, the median earnings of workers with some college rose by 3.6 percent and the median earnings of workers with at least a bachelor's degree increased by 10.4 percent.

WAGE GROWTH VARIES BY SECTOR, UNION COVERAGE, AND REGION

- Wage gains also varied substantially by sector of the economy. Government workers' hourly wages increased by 12.7 percent between 1989 and 2001, while the typical construction worker's hourly wage fell 10.3 percent and the wage of the typical worker in nondurable goods manufacturing fell by 9.3 percent during the same period.
- The typical worker represented by a labor union earned $4.05 per hour more than her or his non-union counterpart in 2001. However, the gap between union and non-union workers' wages has narrowed slightly over the past decade as wages for non-union workers have experienced stronger growth than wages for workers represented by labor union contracts.
- The wages of many Los Angeles County workers lost purchasing power in the 1990s. Hourly wages declined across the earnings distribution in Los Angeles County, with low-wage male workers suffering the largest decline. Wage gains were weak even among Los Angeles County workers with a bachelor's degree or higher. However, typical white and Asian workers experienced substantial wage gains, while wages stagnated or declined for typical black and Latino workers.
- Wages in the Bay Area outperformed those of the state as a whole between 1989 and 2001. The median hourly wage for Bay Area workers increased by 10.3 percent between 1989 and 2001, and the 80th percentile wage increased by 20.6 percent.[2] However, wages for the typical Bay Area black and Latino workers declined over the same period. Workers with at least a bachelor's degree experienced especially strong wage growth.

DESPITE INCREASED WORK EFFORT, MANY FAMILIES STRUGGLE TO MAKE ENDS MEET

- California's married couple families worked, on average, ten weeks longer each year in the late 1990s than they did in the late 1970s, and almost five weeks more than they did in the late 1980s. The percentage increase in work effort over the past two decades was larger for the poorest fifth of families, which worked the equivalent of nearly ten additional weeks – 378 hours per year – more in the late 1990s than they did in the late 1970s.
- Single parent families also increased their work effort, working, on average, the equivalent of 7.6 additional weeks of full-time work in the late 1990s as compared to the late 1970s. Most of this increase, 6.1 weeks, occurred during the 1990s.
- Over 1.5 million Californians worked at or near the minimum wage in 2001 ($6.25 to $7.25 per hour), and eight out of ten (79.9 percent) were adults. Over half (55.7 percent) worked full-time, over half (55.4 percent) were women, and over half (52.7 percent) were Latino.
- Nearly two million Californians, including over a million children, live in families that are working, but have incomes below the federal poverty level (FPL). Nearly two-thirds (62 percent) of California's poor families with children have significant work effort. Nearly half (46 percent) of working poor families with children have at least one full-time worker, but still earn less than the FPL.
- About three in five Californians (58.2 percent) under the age of 65 had job-based health coverage in 2001. More than one in five (21.3 percent) lacked any health coverage in 2001, higher than any other populous state except Texas.
- Low-income families are much more likely to lack health coverage. Nearly one-third (30.0 percent) of Californians under the age of 65 with incomes below the FPL lacked health coverage in 2001. In contrast, only 5.8 percent of those with incomes above 300 percent of the FPL lacked coverage.

- Nearly two-thirds (62.4 percent) of uninsured Californians between the ages of 25 and 64 are employed. Over eight in ten (85 percent) of uninsured Californians under the age of 65 are workers and their dependents.
- The share of California workers with job-based pension coverage increased from 35.8 percent in the late 1980s to 41.2 percent in 1999-2001.[3] However, pension coverage is still significantly lower than in 1979-81, when nearly half of workers (45.7 percent) had employer-provided pensions. Pension coverage fell most for Latinos and males.
- Many California workers do not make enough to support a family. Nearly one out of ten 2001 California wage earners (9.1 percent) earned less than the full-time hourly wage equivalent needed to move a family of three out of poverty, up from 7.7 percent in 1989. However, two-thirds (67.8 percent) of California workers earn less than the amount needed by a single parent to support a family of three ($20.89 per hour).[4]
- One in eight workers (12.9 percent) in Los Angeles County earned less than the full-time hourly wage equivalent needed to move a family of three out of poverty in 2001. Nearly three-quarters (73.0 percent) earned less than the amount needed by a single parent to support a family of three ($20.60 per hour).[5]
- One in 25 workers (4.1 percent) in Bay Area counties earned less than the full-time hourly wage equivalent needed to move a family of three out of poverty in 2001. However, seven in ten workers (69.3 percent) earned less than the amount needed by a single parent to support a family of three ($25.99 per hour).[6]

CALIFORNIA'S BOOM ECONOMY PEAKS IN 2001

- The state experienced unprecedented economic growth in the late 1990s; half a million jobs were added between 1999 and 2000 alone. In 2000, California's annual unemployment rate reached 5.0 percent, its lowest level since 1969. However, unemployment has risen since the beginning of 2001, and monthly unemployment rates have exceeded 6 percent since November 2001.
- The service sector grew twice as fast as the economy as a whole over the last decade; the number of computer service jobs alone doubled between 1996 and 2001. In contrast, the number of jobs in the manufacturing sector declined between 1989 and 2001.
- Between January 2001 and September 2002, the number of jobs in the state declined by 67,500. Durable goods manufacturing has suffered the brunt of the state's job loss, losing 125,900 jobs, including 45,700 in electronics manufacturing, a key component of the high technology sector. The business services industry, also associated with the high technology boom, has lost over 100,000 jobs since January 2001. Other sectors, including the retail trade and public sectors, have continued to grow during the downturn.
- Unemployed workers are taking increasing amounts of time to find a new job, indicating continued weakness in the labor market. The share of California's jobless who have been unemployed for more than six months has risen every month since September 2001. In September 2002, nearly one out of five unemployed workers (17.9 percent) had been unemployed six months or more.[7]
- The impact of the economic downturn has been harshest in the San Francisco Bay Area, the heart of the high technology sector in the state. The unemployment rate in the Bay Area has more than doubled, from 2.4 percent to 6.0 percent, between September 2000 and September 2002. In comparison, the San Joaquin Valley has been relatively unaffected by the downturn.

- Unemployment rates for blacks and teenagers have increased more than the unemployment rate for the state as a whole. The unemployment rate for black workers rose from 8.0 percent in September 2001 to 11.0 percent in September 2002. The teen unemployment rate increased to 18.2 percent in September 2002 from 15.3 percent a year earlier.
- Many of the jobs state forecasters predict will be added to the economy over the next decade pay low wages. Nearly half (48.3 percent) of the job growth projected between 2000 and 2010 is projected in occupations with median hourly wages of $15 or less.
- Nearly half of the jobs (47.2 percent) that are forecasted to be added between 2000 and 2010 require only short to moderate training.

INCOME AND JOB TRENDS VARY SUBSTANTIALLY BY REGION

- Per capita income grew in eight of California's ten regions from 1989 to 1999, including a 20.8 percent increase in the San Francisco Bay Area.[8] Per capita income fell 1.3 percent in Los Angeles County and declined by 0.4 percent in other Southern California counties (Orange, Riverside, San Bernardino, and Ventura Counties).
- The number of nonfarm jobs in the Greater Sacramento area grew by 35.8 percent between 1989 and 2001, the highest growth rate of the state's regions. The number of nonfarm jobs fell 0.4 percent in Los Angeles County, the only region where jobs declined over the period.
- Poverty rates varied across regions. The percentage of families with incomes below the FPL in 1999 was 8.7 percent in the Bay Area and more than twice as high (20.5 percent) in the San Joaquin Valley, where unemployment rates are high and the cost of living is comparatively low.
- Fewer than one in ten residents (8.9 percent) in the Bay Area lacked health coverage in 2001. In comparison, one in five Los Angeles County residents (19.8 percent) lacked health coverage.