Falling Behind:
California Workers and the New Economy

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In California, income inequality and the decline in rewards for those at the bottom of the distribution occurred along with an increase in the fraction of the population residing in those categories. In the rest of the U.S., the incomes of those at the bottom declined, while the incomes of those at the top increased, but a larger fraction of the population experienced the gains than experienced the losses.[1]
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Key Findings

• The income of the median four person California family - the family exactly at the midpoint of the income distribution - was lower than that of the nation in 1998. Moreover, the purchasing power of four person California families declined by $1,069 between 1989 and 1998, while that for the U.S. as a whole increased by $2,477.[2]
• The drop in inflation-adjusted California incomes reflects stagnating hourly earnings. Despite a booming economy, median hourly California wages dropped 6.6 percent between 1989 and 1999 after adjusting for inflation. Hourly wages at the 20^{th} percentile fell by 7.5 percent, while those at the 80^{th} percentile outpaced inflation by just 2.0 percent.
• More Californians earned poverty level wages in 1999 than in 1989 (28.7 percent in 1999 as compared to 24.0 percent in 1989). Moreover, the share of California workers earning poverty level wages exceeded that for the nation as a whole (26.8 percent) in 1999.
• The Bay Area's wage growth exceeded that of Los Angeles County and the state as a whole over the past decade. The purchasing power of wages at the 20^{th} percentile declined in the Bay Area, Los Angeles County, and in the state between 1989 and 1999. Median hourly wages rose in the Bay Area, but declined in Los Angeles and in the state as a whole. Wages at the 80^{th} percentile rose in the Bay Area and the state overall, but dropped by 7.4 percent in Los Angeles.

Introduction

For decades, the economic well-being of Californians surpassed that of the nation as a whole across a range of indicators. Californians enjoyed higher incomes, faster job growth, and a standard of living that was the envy of the nation. During the 1990s, Californians fell behind. Between the late 1980s and late 1990s, California dropped below the national average with respect to a number of key indicators of economic well-being.

California's relative decline occurred despite an economic expansion that by many measures has surpassed all expectations. Since 1994, the state has added over 1.5 million jobs and total personal income has risen by more than a third.[3] Yet, the rewards of the strong economy have not been broadly shared among the state's workers and families. Despite falling unemployment and tight labor markets, average incomes and hourly wages are lower than they were a decade ago, after adjusting for inflation. California's poverty rate and the share of the workforce employed at poverty level wages were higher in 1998 than a decade before. The percentage of families earning middle and above middle incomes declined from 1989 to 1998, while the share of families with below middle incomes rose.[4]

The story of California's "new economy" is also one of growing disparities between the rich and poor and north and south. Over the past two decades, a widening gap has emerged between California's rich and poor. Among the eleven largest states, only New York has a wider gap between the wealthiest five percent and lowest 20 percent of families. The gap between high- and low-wage earners has also widened over the past two decades. During the 1990's, the San Francisco Bay Area, led by high technology sectors, has outperformed the remainder of California. Conditions in Los Angeles County, on the other hand, reflect the aftermath of the defense build-down of the 1980s and a growth in light manufacturing and service jobs at much lower rates of pay. While comparable wage data is not available for California's smaller metropolitan and rural areas, available information suggests that these areas have fared less well, too. Fourteen of the state's 58 counties - all either rural or in the Central Valley - had double-digit unemployment rates in June of this year.[5]

Endnotes

[1] Mary C. Daly and Heather N. Royer, *Cyclical and Demographic Influences on the Distribution of Income in California*, Economic Review 2000, Federal Reserve Bank of San Francisco (June 2000), p. 7.
[2] Unless otherwise cited, all statistics quoted in this report are from an Economic Policy Institute analysis of Census Bureau data.
[3] Employment Development Department, *California Annual Average Labor Force and Industry Employment* downloaded from http://www.calmis.cahwnet.gov/htmlfile/county/califhtm.htm on August 1, 2000 and Department of Finance, *Personal Income* downloaded from http://www.dof.ca.gov/HTML/FS_DATA/indicatr/ei_home.htm on August 1, 2000.
[4] Mary C. Daly and Heather N. Royer, *Cyclical and Demographic Influences on the Distribution of Income in California*, Economic Review 2000, Federal Reserve Bank of San Francisco (June 2000), p. 6.
[5] Employment Development Department, *California's Unemployment Rate Increases, Record High Payroll Employment Continues* (July 14, 2000).