

Falling Behind:

CALIFORNIA WORKERS AND THE NEW ECONOMY



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FALLING BEHIND: CALIFORNIA WORKERS AND THE NEW ECONOMY

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

Federal Reserve Bank of San Francisco economists
Mary C. Daly and Heather N. Royer

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 20th percentile fell by 7.5 percent, while those at the 80th 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 20th 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 80th percentile rose in the Bay Area and the state overall, but dropped by 7.4 percent in Los Angeles.

INTRODUCTION

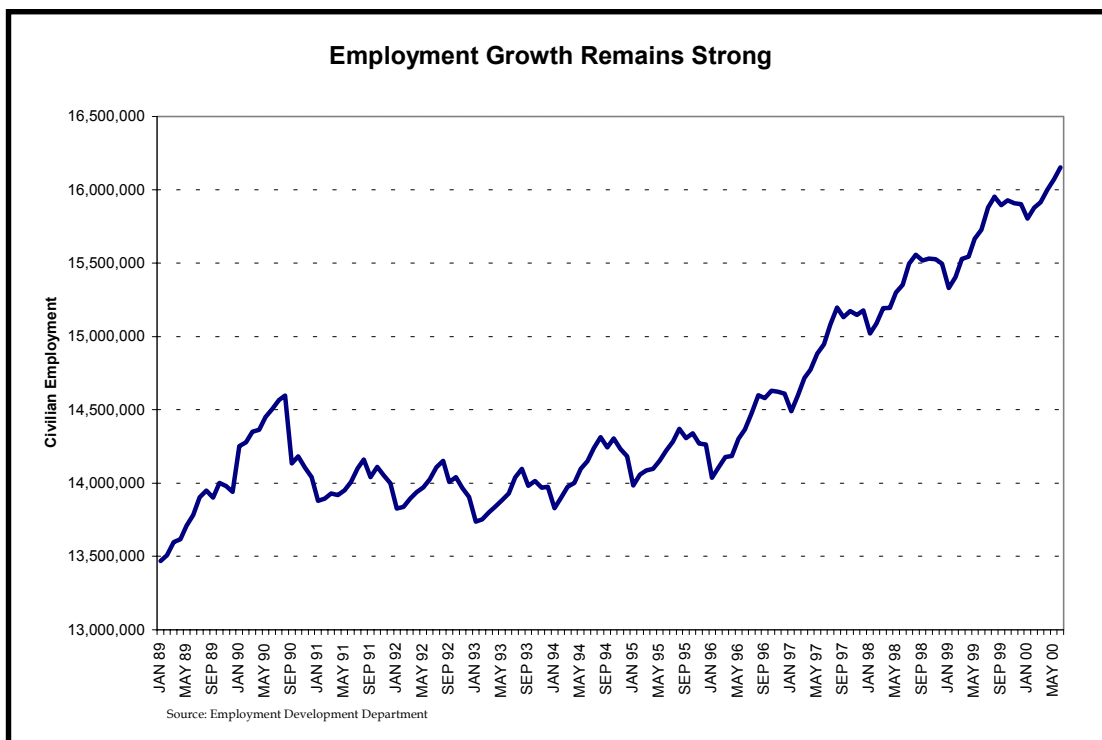
For decades, the economic well-being of Californians surpassed that of the nation as a whole across a range of indicators. Californians enjoyed higher incomes, faster job growth, and a standard of living that was the envy of the nation. During the 1990s, Californians fell behind. Between the late 1980s 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

EMPLOYMENT GROWTH REMAINS STRONG

Since the end of the recession, job growth has exceeded expectations. While employment gains have moderated since 1997, job gains averaged in excess of 40,000 per month during the first four months of 2000.⁶ However, the state's rate of job growth for the decade of the 1990s lagged that of the nation as a whole and California's unemployment rate remains more than a percentage point above that of the U.S.



THE COMPOSITION OF THE STATE'S ECONOMY IS CHANGING

The changing composition of the California economy helps explain the wage and income trends of the past decade. The service sector accounted for over two-thirds of the state's job growth over the past decade, followed by state and local government and retail trade.⁷ Manufacturing employed 184,200 fewer persons in 1999 than it did in 1989. Higher waged durable goods manufacturing accounted for the entire decline, losing 203,000 jobs over the past decade. While computer-related services are often held out as a source of high wage job growth, these jobs accounted for just 6.4 percent of all service sector jobs and 2.0 percent of the state's total employment in 1999. Personnel supply - temporary help

Table 1: The Service Sector Accounts for Two-Thirds of the Job Growth of the Last Decade

	1989	1994	1999	Absolute Change 1989-99	Absolute Change 1994-99	Percent of 1989-99 Growth	Percent of 1994-99 Growth	Average 1998 Earnings
Total Nonfarm Employment	12,238,500	12,159,500	13,972,200	1,733,700	1,812,700	100.0%	100.0%	\$36,781
Mining	37,300	31,900	23,700	-13,600	-8,200	-0.8%	-0.5%	\$58,228
Construction	560,000	464,300	679,200	119,200	214,900	6.9%	11.9%	\$38,957
Manufacturing	2,107,000	1,777,300	1,922,800	-184,200	145,500	-10.6%	8.0%	\$49,665
Transportation & Public Utilities	598,200	619,000	718,900	120,700	99,900	7.0%	5.5%	\$50,137
Wholesale Trade	758,200	701,600	813,700	55,500	112,100	3.2%	6.2%	\$46,379
Retail Trade	2,193,900	2,143,500	2,380,000	186,100	236,500	10.7%	13.0%	\$20,508
Finance, Insurance & Real Estate	789,000	770,600	821,500	32,500	50,900	1.9%	2.8%	\$40,699
Services	3,196,200	3,558,200	4,377,900	1,181,700	819,700	68.2%	45.2%	\$34,055
Federal Government	358,200	324,900	267,600	-90,600	-57,300	-5.2%	-3.2%	\$36,769
State & Local Government	1,640,500	1,768,300	1,967,000	326,500	198,700	18.8%	11.0%	\$42,594

Source: Employment Development Department, U.S. Department of Commerce, Bureau of Economic Analysis

agencies – accounted for nearly twice as many jobs in 1999 and posted even stronger gains than computer-related services between 1997 and 1999 (80,900 for personnel supply as compared to 65,400 for computer-related services).

While the headlines focus on growth in technology-related jobs, most of California’s job growth is expected to occur in traditional, “old economy” occupations.⁸ The state’s most recent forecast projects that the largest number of job openings will occur in retail sales, followed by cashiers and general office clerks. Only three of the fifteen occupations with the largest number of projected openings require a four-year degree.⁹ Ten out of the fifteen occupations with the largest number of openings pay the median worker – the worker at the midpoint of the wage distribution for that occupation – less than \$10 per hour, equivalent to \$20,800 per year for a full-time, full-year worker.

FAMILY INCOMES LOWER AT THE END OF THE 1990s THAN A DECADE BEFORE

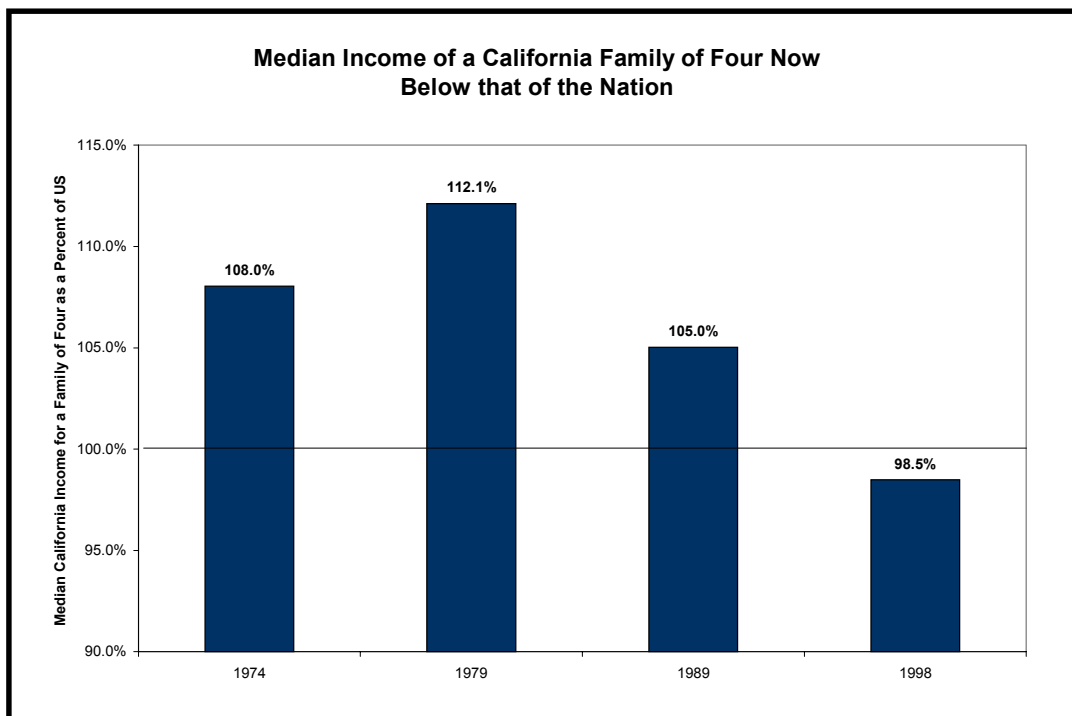
Prior to 1989, the California economy had consistently produced incomes and earnings that surpassed those of the rest of the nation. The state’s economy diverged from this historical trend during the 1990s. Not only did the purchasing power of the median four person California family decline between 1989 and 1998, it fell below that for the nation as a whole.

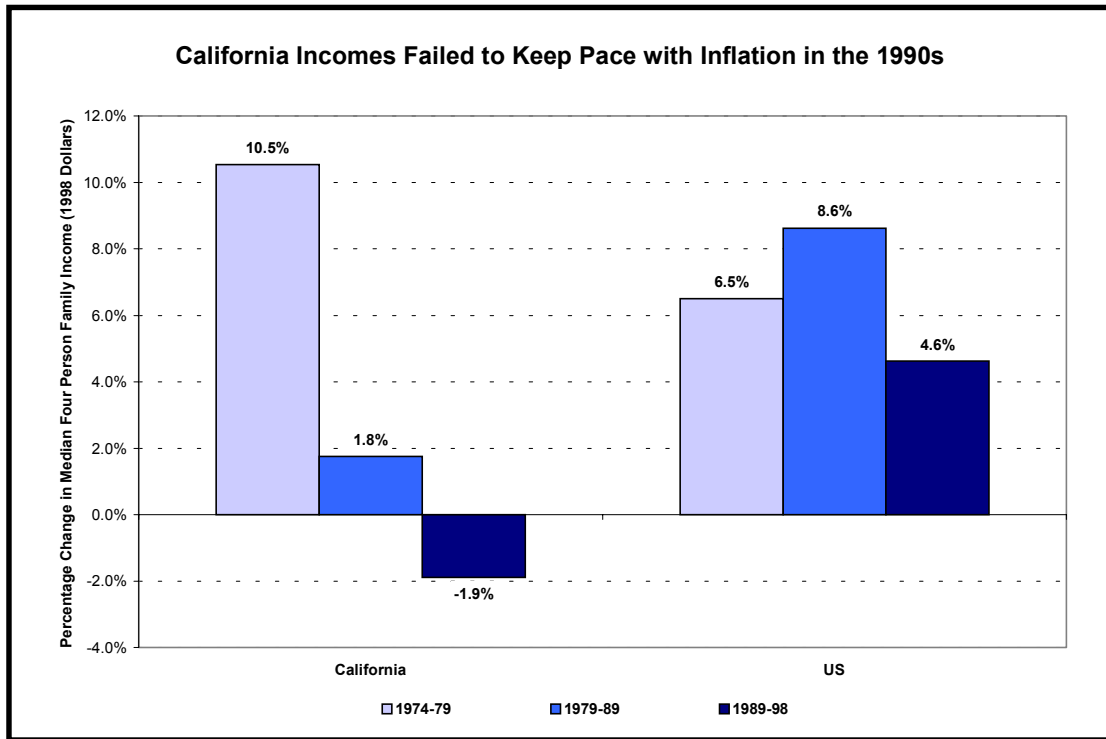
Not only have incomes declined for the “average” California family, they have become more unequal. The state’s low and middle income families have lost ground over the past two decades while high income families have made substantial gains. Here, too, California departs from the national trend. Nationally, researchers attribute widening inequality to growth at the high end of the income distribution. In California, growing inequality is largely attributable to an increase in the number of low income households and the erosion in the purchasing power of low to middle income families.¹⁰ By the late 1990s, the gap between the richest and poorest fifth of California’s families was the 5th widest in the nation, while the gap between the wealthiest and middle fifths was the 6th widest in the nation.¹¹

Table 2: Where are California's Expanding Job Opportunities?: The 15 Occupations Forecast to Post the Largest Job Growth, 1998-2008

	Projected New Jobs 1998-2008	1998 Median Hourly Wage	Full-time Annual Equivalent
Salespersons, Retail	234,400	\$7.88	\$16,390
Cashiers	217,500	\$7.20	\$14,976
General Office Clerks	191,300	\$10.36	\$21,549
Waiters and Waitresses	165,100	\$6.04	\$12,563
General Managers, Top Executives	157,300	\$35.05	\$72,904
Combined Food Prep and Service	137,800	\$6.13	\$12,750
Food Preparation Workers	99,700	\$6.59	\$13,707
Teachers - Secondary School	97,200		\$48,140
Teachers - Elementary School	90,600		\$44,420
Guards and Watch Guards	89,600	\$7.78	\$16,182
Receptionists, Information Clerks	87,100	\$9.83	\$20,446
Laborers, Landscaping/Groundskeeping	85,800	\$8.47	\$17,618
Registered Nurses	81,600	\$23.95	\$49,816
Janitors, Cleaners - Except Maids	78,200	\$7.56	\$15,725
Truck Drivers - Light	67,600	\$9.95	\$20,696
Openings in the Top 15 Growth Occupations	1,880,800		
Total Openings	6,824,100		
Top 15 as a Percent of Total Openings	27.6%		

Source: Employment Development Department





HOURLY WAGES DOWN AFTER ADJUSTING FOR INFLATION

Hourly earnings for California’s low wage workers, those at the 20th percentile, and the median fell after adjusting for inflation between 1989 and 1999. The earnings of high wage workers, those at the 80th percentile, outpaced inflation by 2.0 percent.

Table 3: Hourly Wages Still Lagging for Most Workers
(Percentage Change in Hourly Wages by Percentile, 1999 Dollars)

	10th	20th	30th	40th	Median	60th	70th	80th	90th
1979-89	-10.4%	-8.3%	-5.0%	-3.4%	0.2%	-0.9%	0.9%	2.8%	4.2%
1989-96	-13.8%	-12.1%	-11.0%	-8.1%	-9.4%	-5.9%	-4.8%	-3.4%	-1.2%
1996-99	11.5%	4.5%	-1.7%	-1.2%	-0.3%	2.2%	3.4%	4.3%	7.7%
1979-99	-13.9%	-15.8%	-16.9%	-12.3%	-9.5%	-4.7%	-0.7%	3.6%	10.8%

Source: CBP and EPI calculations from the Current Population Survey

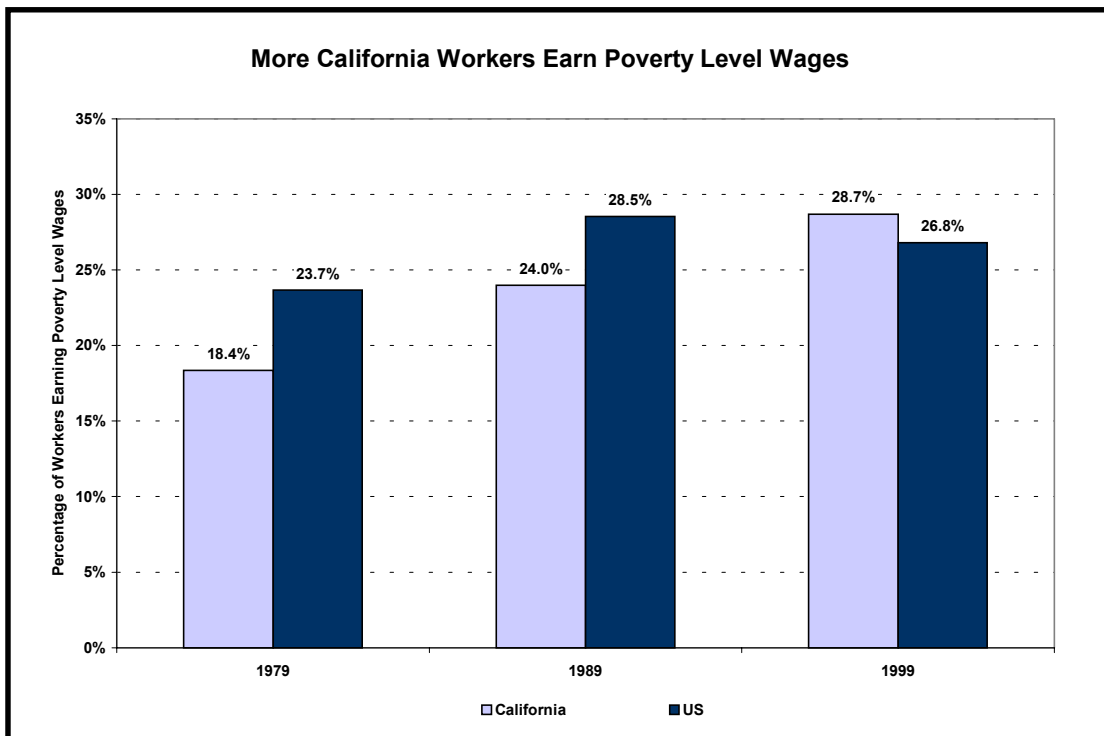
Inflation adjusted hourly wages rose for low wage workers, those at the 10th and 20th percentile between 1996-99, largely due to a succession of increases in the state and federal minimum wage. The purchasing power of hourly earnings fell for workers at the 30th and 40th percentile and at the median, despite strong economic growth. Hourly wages were lower in 1999 for workers at the 10th through 70th percentile than they were in 1979 after adjusting for inflation.

California’s wage trends differ significantly from those of the nation as a whole. Nationally, the hourly earnings of low wage workers increased significantly from 1989 to 1999 (from \$6.97 to \$7.35) in inflation adjusted dollars. The earnings of California’s low wage workers fell from \$7.62 to \$7.05, after adjusting for inflation, a shift from substantially above to below the nation as a whole. California diverged from the national trend for workers at the midpoint of the hourly wage distribution, as well. Nationally, the earnings of the median worker outpaced inflation by 2.4 percent, while the earnings of the median California worker fell by 6.6 percent between 1989 and 1999.

Table 4: Hourly Earnings for Low, Middle Wage California Workers						
	Hourly Earnings in 1999 Dollars			Percentage Change		
	1979	1989	1999	1979-89	1989-99	1979-99
California						
20th Percentile	\$8.31	\$7.62	\$7.05	-8.3%	-7.5%	-15.2%
Median	\$13.26	\$13.29	\$12.41	0.2%	-6.6%	-6.4%
80th Percentile	\$21.24	\$21.83	\$22.26	2.8%	2.0%	4.8%
U.S.						
20th Percentile	\$7.61	\$6.97	\$7.35	-8.5%	5.6%	-3.3%
Median	\$11.89	\$11.60	\$11.87	-2.4%	2.4%	-0.2%
80th Percentile	\$18.99	\$19.28	\$19.93	1.5%	3.4%	4.9%

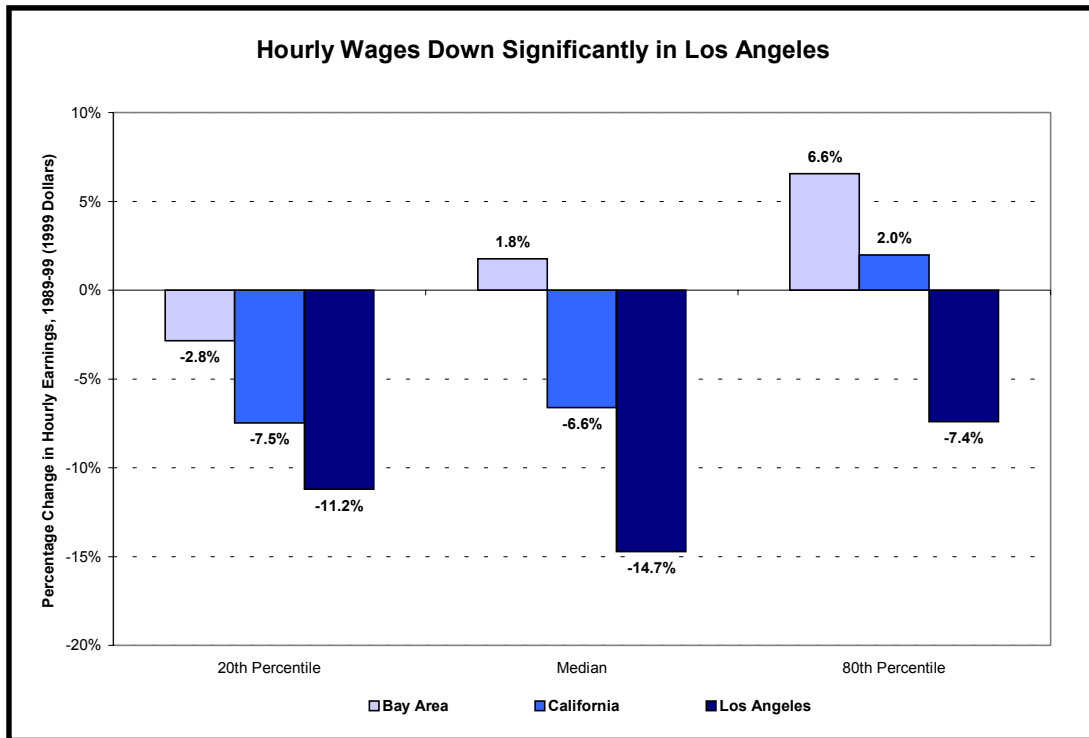
SHARE OF WORKERS EARNING POVERTY LEVEL WAGES RISES IN CALIFORNIA, FALLS IN U.S.

Stagnation in the low wage labor market over the past two decades has increased the share of California workers earning poverty level wages. One measure of the adequacy of wages is their ability to lift a full-time worker and his or her family out of poverty. A full-time worker needed to earn in excess of \$8.19 per hour in 1999 dollars to rise above the federal poverty line. Since 1979, the share of the California workforce earning poverty level wages has increased by 56 percent. Nationally, the share of poverty level earners rose between 1979 and 1989, but declined between 1989 and 1999. In contrast, California's share of poverty level workers has increased steadily over the past two decades to 28.7 percent of the state's hourly wage earners.



CALIFORNIA'S ECONOMIC RECOVERY MARKED BY REGIONAL DISPARITIES

The statewide trends discussed thus far mask important regional differences in the performance of the California economy. By virtually every measure, the Bay Area economy outperformed that of the rest of the state during the 1990s.¹² In contrast, Los Angeles County's economy lagged behind with respect to wage and job growth. The differences between the state's two major metropolitan areas are striking. While the purchasing power of low wage worker wages fell in both regions, middle and high wage workers' wages outpaced inflation in the Bay Area. In Los Angeles, however, wages declined between 1989 and 1999 even for workers at the 80th percentile after adjusting for inflation.



The overall weakness of the Los Angeles labor market is reflected in a decline in the purchasing power of hourly wages, higher unemployment rates (5.9 percent in 1999, as compared to 5.2 percent for the state overall), slower job growth, and a significantly larger poverty-wage workforce.¹³ The share of Los Angeles County workers earning poverty level wages was twice that of the Bay Area in 1999 (34.4

	1979	1989	1994	1999
Los Angeles:				
All	18.9%	25.4%	31.7%	34.4%
Male	12.4%	22.8%	31.4%	32.5%
Female	27.1%	28.8%	32.1%	36.7%
Bay Area:				
All	N/A	16.7%	18.9%	17.6%
Male	N/A	13.1%	17.0%	15.3%
Female	N/A	20.9%	21.1%	20.2%

Poverty level workers are defined as those earning \$8.19 per hour or less in 1999 dollars, the hourly equivalent of the federal poverty line for a family of four.

Table 6: Who Works for the Minimum Wage in Los Angeles County?			
	Percentage of Workers at or Near the Minimum Wage (\$5.75 - \$6.14)	Percentage of Other Low Wage Workers (\$6.15 - \$7.14)	Percentage of All Workers
Male	49.3%	54.9%	55.3%
Female	50.7%	45.1%	44.7%
White	14.2%	19.2%	35.2%
Black	3.9%	7.3%	9.3%
Latino	73.4%	65.9%	45.0%
Teens (16 - 19)	14.0%	11.6%	4.6%
Adults (20+)	86.0%	88.4%	95.4%
Full-time (35 or more hours/week)	70.0%	76.1%	83.2%
Part-time	30.0%	23.9%	16.8%
Manufacturing	28.3%	19.2%	18.5%

percent as compared to 17.6 percent). Moreover, the share of poverty level workers in Los Angeles increased between 1994 and 1999.

CONCLUSION

In what is often described as the best of all economic times, many California families are falling behind. The new economy's failure to bring broadly shared prosperity to the majority of California's workers and families raises questions of what the future will bring. Will California regain its status as a state where the standard of living for an average family surpassed that of rest of the nation? Or will the share of the state's workforce trapped in poverty level wages continue to rise, leading to a two-tier economy of rich and poor and a hollowed out middle class?

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).

⁶ Department of Finance, *Economic Indicators May – June 2000* (no date).

⁷ 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.

⁸ Employment Development Department, *Occupational Employment Projections, 1998-2008 California* downloaded from <http://www.calmis.cahwnet.gov/htmlfile/county/califhtm.htm> on August 3, 2000.

⁹ Includes openings that become available due to turnover in existing positions, as well as job growth.

¹⁰ See, for example, Jared Bernstein, Elizabeth C. McNichol, Lawrence Mishel, and Robert Zahradnik, *Pulling Apart: A State-by-State Analysis of Income Trends*, Center on Budget and Policy Priorities and Economic Policy Institute (January 2000) and 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). The measure of income used in these analyses excludes capital gains, which have significantly increased the incomes of wealthy households.

¹¹ Jared Bernstein, Elizabeth C. McNichol, Lawrence Mishel, and Robert Zahradnik, *Pulling Apart: A State-by-State Analysis of Income Trends*, Center on Budget and Policy Priorities and Economic Policy Institute (January 2000).

¹² For purposes of this report, the Bay Area includes Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma Counties.

¹³ Employment Development Department, *Civilian Labor Force, Employment, and Unemployment for California and Los Angeles County* (Updated July 12, 2000).