



A Depressive State: Assessing California's Labor Market Four Years after the Onset of the Great Recession

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Introduction

Recent news on the economy seems erratic and confusing. Is the economy improving, or is it still stuck in the “Great Recession” rut? Well, as any good economist would say, “it depends”—in this case on one’s vantage point. The good news is that the economy that officially came out of recession in June 2009 is growing again; the bad news is that only a few are benefiting from this growth. Our colleague Emmanuel Saez recently analyzed how the expanding economic pie in 2009 and 2010 was divvied up. He found that 93% of the economic gains went to the top 1% of Americans—which is not indicative of a broad-based recovery.¹ It also affirms the continuation of long-term trends of increasing inequality.² Today, far too many of California’s workers and their families are stuck in the harshest job market since the Great Depression. The economic scarring on families and communities is incalculable given the length and depth of the downturn. And, as the Dow flirts with 13,000, the Wall Street-Main Street divide looms as large as ever.³

Last December marked four years since the start of the Great Recession. While recent monthly data show a welcome improvement in the jobs picture, the United States and California have only just begun the long road to recovery. In this brief we evaluate how California’s economy is faring on jobs, wages, and income growth since the start of the recession in December 2007 using newly revised state jobs data from the Bureau of Labor Statistics.

In a 2010 brief, we called for a significant jobs bill and additional measures to boost demand, aid ailing states and spur economic growth.⁴ We also sounded the alarm on the dangers of pursuing austerity policies. At that time the debate was between the need for more stimulus and federal spending to get the economy going or switching gears to reign in the federal deficit. Unfortunately, severe austerity measures were enacted and they have lessened the strength of the recovery. Today, widespread budget cuts have

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become the norm, putting immense strain on California's already fragile economy and having an anti-stimulus effect. The Golden State remains in crisis; cuts in government spending and the subsequent loss of 132,800 state and local jobs have not helped the larger economy. After four years, we still need help from the federal government to implement policies that help job seekers, protect workers, and lay the foundation for future growth and prosperity.

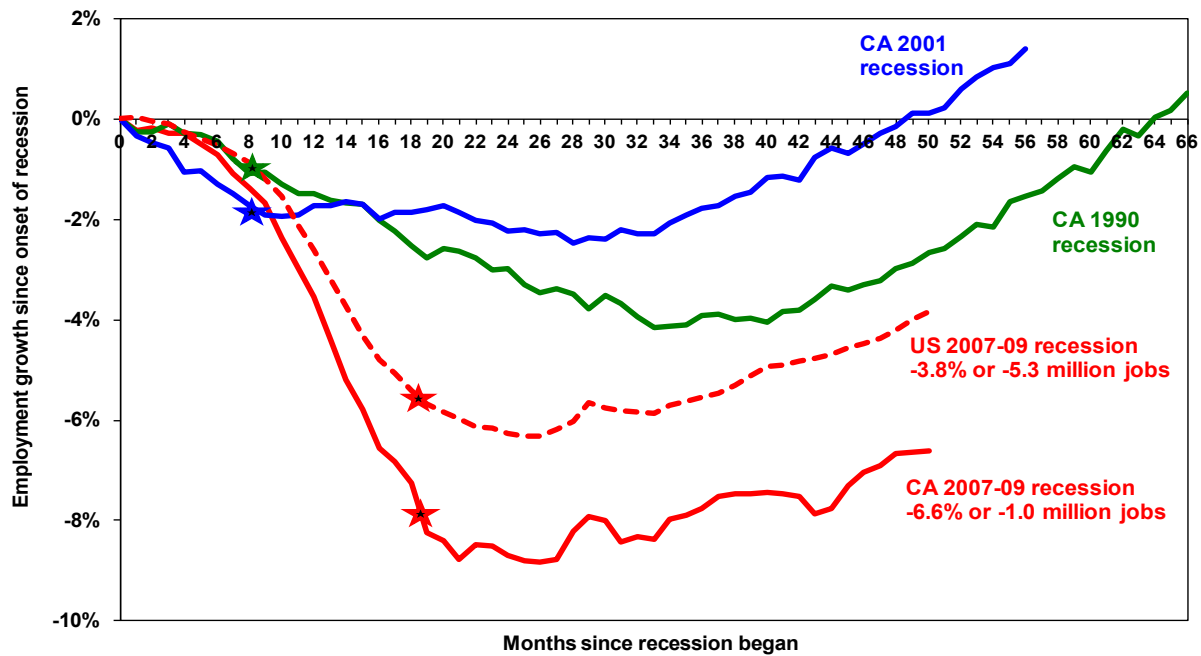
The Highlights of this Brief

- A huge deficit in jobs still exists compared to pre-recession levels. Overall the U.S. is down 5.3 million (-3.8%) and California is down one million—a very large decline of 6.6%—leaving the number of jobs in the state the same today as it had back in 1999.
- Indicators of labor demand are at critical levels and have shown little improvement:
 - The unemployment rate in California has been in double digits for more than three years and is expected to stay there through 2013.⁵
 - The underemployment rate (which includes discouraged workers and part-timers who want full-time work) was 21.1% in 2011 and has not shown any significant improvement over the last three years.
 - In 2011, 45.6% of the unemployed had been so for at least a half of a year, which was little changed from the 46.1% rate in 2010.
 - The employment rate continued to fall from 62.2% in 2007 to a record low of 56.0% in 2011. If the rate had not fallen, an additional 1.8 million workers would be employed in California.
- The result of such a slack labor market is evident in the loss of wages. Wages for most workers were the same in 2011 as they were in 2000—the only gains were for those in the top third (+9.5% on average) with even larger gains for those in the 90th percentile (+16.3% on average).
- Household income has fallen dramatically as well. The decline in household income since 2007—the peak of the last economic expansion—averaged -\$3,378 (-6.4%) for U.S. households and \$5,362 (-9.0%) for California households. In California, typical household incomes in 2010 were the same, adjusting for inflation, as they were in 1998.
- It has been four years since the onset of the Great Recession. If job losses are combined with the growth in the labor force, California's labor market may be back to its pre-recession level sometime between 2018 and 2023, depending on the rate of job growth.

The Only Deficit that Matters: Jobs

The jobs picture, even with recent gains, continues to be one of our biggest challenges. As shown in Chart 1, the decline in jobs in California was particularly swift and deep while the climb out has been moderate at best—as indicated by the solid red line. The picture is striking given the deficit of jobs that remains as we approach June 2012, which will mark three years of recovery. Cumulative job losses in California today are much worse than those experienced at any point of any downturn since the Great Depression.

Chart 1. Steep loss of jobs are slow to recover
(Stars denote official end of recessions)



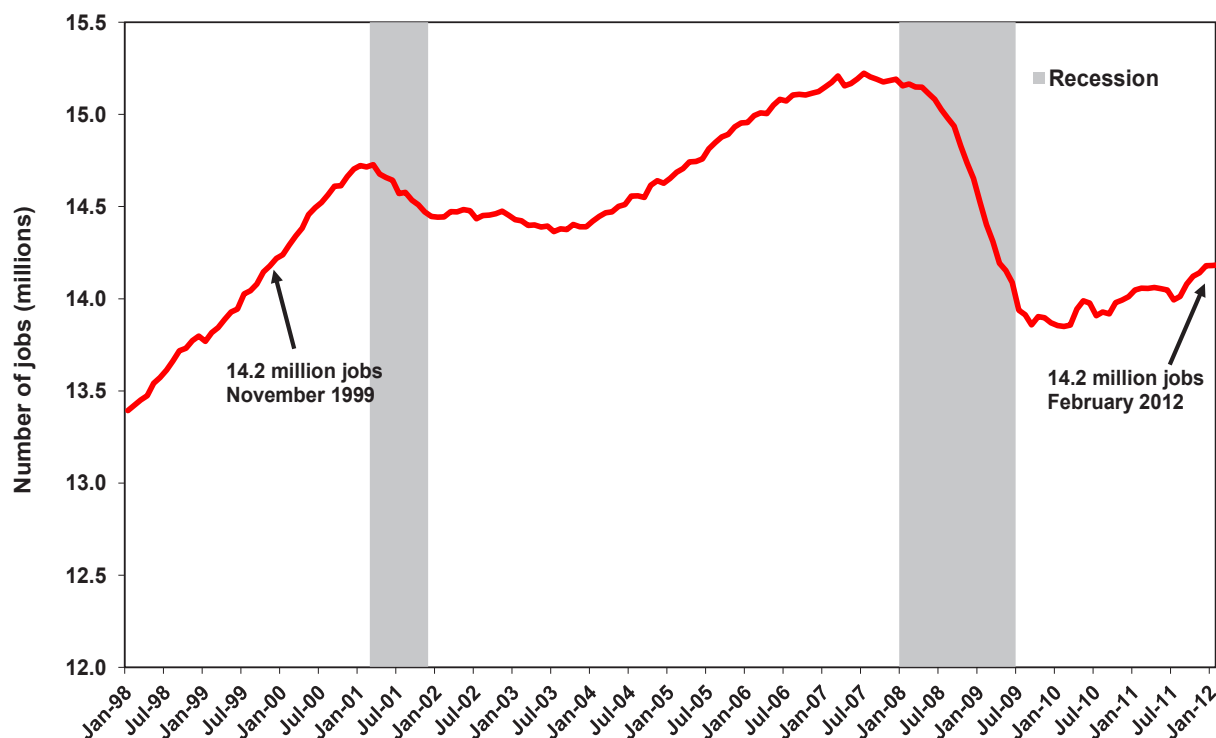
Note: The horizontal axis represents months since the onset of recession and the vertical axis depicts job growth.
Source: Authors' analysis of Current Employment Statistics updated to February 2012.

To put the current jobs situation into context we compare the recent recession in California to the overall U.S. and also make comparisons to past recessionary jobs losses in the state (Chart 1). The relatively mild 2001 recession (blue line) had associated job losses of just 2.5% at the trough in California. The recession in the early 1990s (green line) coincided with a mini housing bust and a large decline in defense spending in the state, so job growth bottomed out at -4.0% and took an unprecedented 64 months to recoup (denoted by where the green trend line crosses the zero percent horizontal axis).

It is striking that California had lost more than 1.3 million jobs—a rather dramatic 8.8% decline—at its worst point associated with the Great Recession. Job growth has been on an upward trend since early in 2010. But it is hard to imagine when the level of jobs in California, currently down 6.6% or one million jobs, will be back to pre-recession levels. Here we are simply talking about regaining the level of jobs we had prior to the recession, without taking into account the growth in the labor force over the last four years (we discuss that aspect towards the end of this brief). It is clear that filling in the huge jobs gap should be priority number one, but it has faded in the policy discourse.

As of February 2012, job losses in the U.S. were 3.8% (-5.3 million) below peak, which is worse than the 3.1% decline associated with the severe early 1980s recessions. The current number of jobs in the U.S. is the same today as it was in February 2005. As Chart 2 shows (next page), the number of jobs in California is far below not just the 2007 peak but also the peak reached prior to the 2001 recession—thus equaling the number of jobs the state had in November 1999. The state is short a million jobs—down 6.6%. The situation looks even worse when job losses are coupled with the growth of 2.7 million in the state’s working-age population since 1999.⁶ Yet, there is little talk of or political will for a much-needed jobs program.

Chart 2. Recent growth still leaves jobs in California at 1999 level



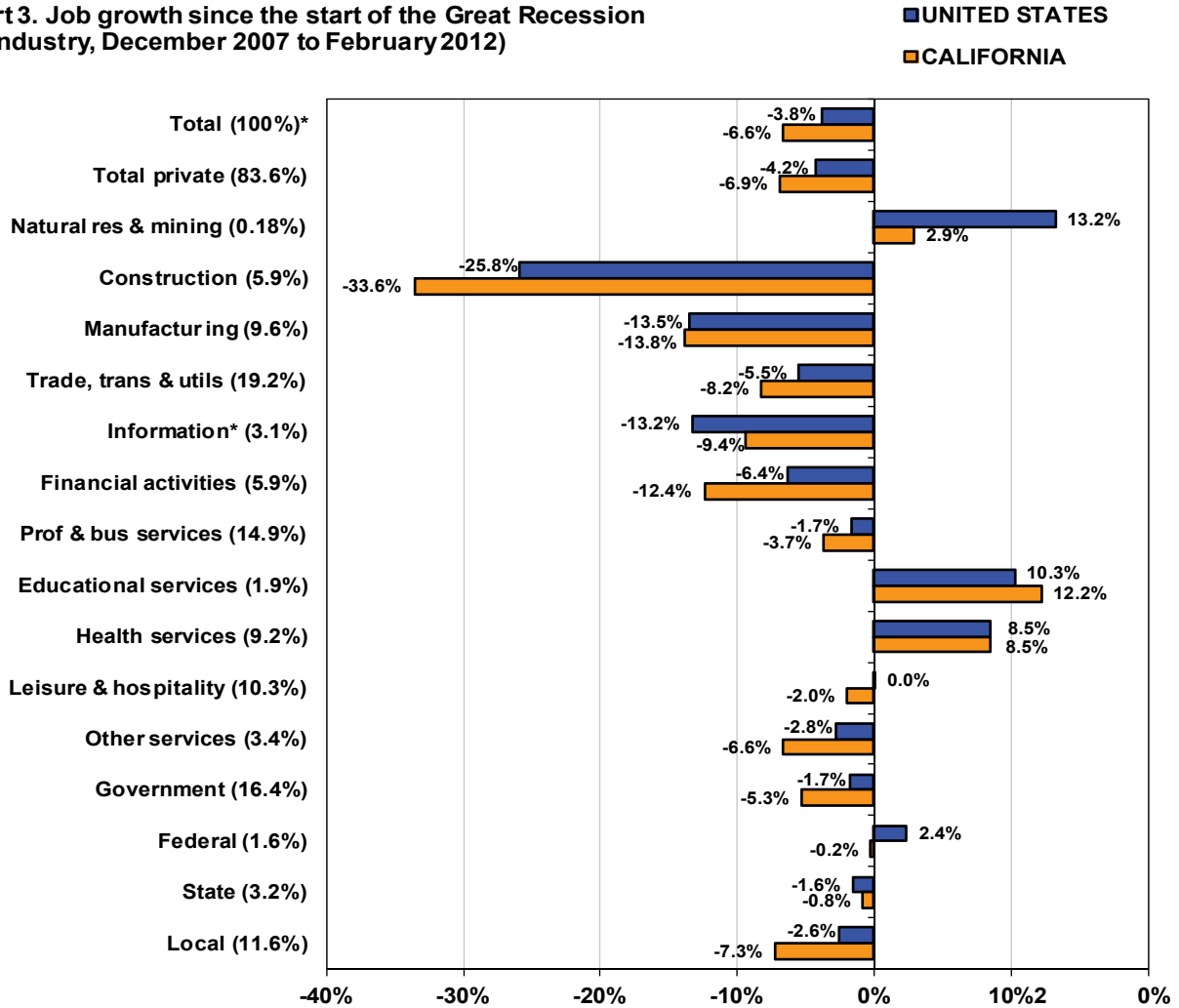
Source: Authors' analysis of Current Employment Statistics for California.

A Closer Look at Industries

An industry sector analysis offers insights into which sectors were hit hardest during the downturn. We also discuss which sectors have been growing recently. Chart 3 (next page) breaks down job growth by major industrial sectors for the U.S. and California since the onset of recession in December 2007. In percentage terms, California has experienced harsher job losses and weaker sector recoveries than the overall U.S. in all but a select few industries. The important story here is that the private sector has not been strong enough to provide a robust recovery in the labor market. At the same time, austerity measures have resulted in large cuts in the government sector, especially at the local level.

Given that the recession was predicated on a housing bust, it's not surprising that the construction sector, which accounted for almost 6% of all jobs in the state in 2007, was the hardest hit. California has lost one of every three construction jobs (-33.6%), while the overall sector in the U.S. is down one in four jobs (-25.8%). Again, these figures have factored in recent positive job growth. Since the housing crisis continues, and another million or so foreclosures are expected to occur this year nationwide, it may take many years before the construction sector fully recovers, especially in California.⁷ Of course, the contagion from the housing bust spread far and wide as the economy collapsed. The housing debacle was the cause of the down turn but is now a hindrance to the recovery, especially in the hardest hit states like California, Nevada, and Arizona.

Chart 3. Job growth since the start of the Great Recession (by industry, December 2007 to February 2012)



*Industry sector share of total employment for California in 2007 in parentheses.
Source: Authors' analysis of CES data.

Manufacturing, long in decline, ratcheted up losses over the course of the recession. In 2007, approximately one in ten jobs in California was in manufacturing. The sector is down by 13.5% and 13.8% in the U.S. and California, respectively. The sector remains weak, but it grew by 316,000 (+2.7%) in the U.S. since January 2011 and by a more modest 8,500 (+0.68%) in the Golden State.

However, there are some bright spots. In particular, health services (9.2% of California's economy in 2007) and educational services (a small sector of non-governmental education) have bucked the trend, both expanding throughout the recession and the recovery. Nationwide health services employment increased by 1.3 million (+8.5%) since the start of the recession, and in California the sector grew by 119,400 (+8.5%) in the same period. Educational services also fared well and grew by 10.3% and 12.2% in the U.S. and California, respectively. Both sectors have continued to expand in California throughout the recovery, with health services increasing by 5.1% and education by 9.0% since June 2009.

One of the largest disparities between the overall U.S. and the California economies has been the jobs situation in the public sector. Local government, the lion's share of public employment (11.6% of jobs in California in 2007) has been cut deeply. Since the recession began, budget cuts resulted in the loss of 7.3% (-128,900) of local jobs which were mostly in public education (e.g. K-12 and higher education).

Austerity Takes its Toll on Workers and the Economy

At a time of prolonged high unemployment it seems counterintuitive to implement policies that add to those ranks. But austerity policies implemented in many states due to balanced budget requirements effectively had an anti-stimulus effect. Furthermore, relief from Washington—like the American Recovery and Reinvestment Act of 2009—that did help soften the blow was never scaled up to the size of the problem. The stimulus was too small and not targeted at the most effective and efficient ways to create jobs, such as much more direct hiring or government as employer of last resort.⁸ As we pointed out above, there have been significant cuts in government jobs since December 2007. But what has transpired since the recovery officially began?

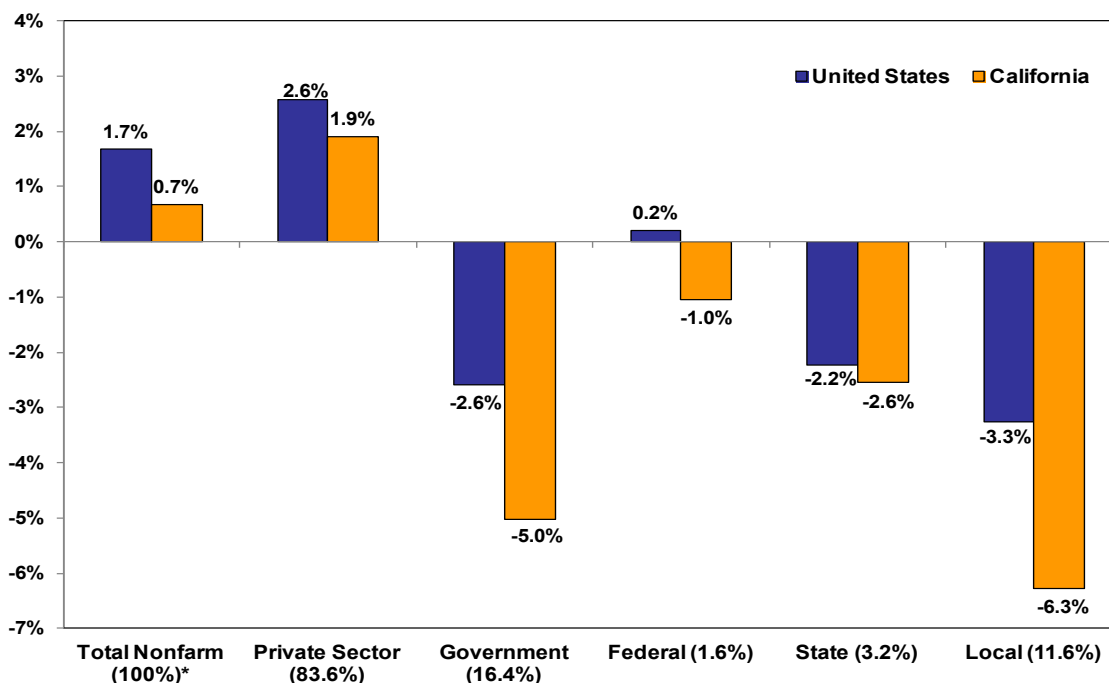
In June 2009 the recovery got underway, since then the private sector has grown by 2.6% and 1.9% in the U.S. and California, respectively (Chart 4, next page). These growth rates reflect an increase of 2.8 million jobs in the U.S and 221,500 in California. However, private sector growth has been significantly offset by continued cuts in the public sector. Since the recovery began, government jobs in the U.S. have been cut by 2.6% (-584,000) jobs. California is down 5.0% (-125,600), most of that from the -6.3% (-110,300) decline at the local level. In the post-recovery period, one of every five government jobs that were cut was in California. The large loss of public sector jobs in the state has seriously hampered net job growth. Just holding on to those government jobs—without any net new government hiring or effect on the private sector— would have meant that job growth (since recovery) in the state would be 221,500 instead of 95,900 today.

As mentioned, public education has been hit hard. In 2010 and 2011, 41.5% of all local government jobs that were cut were education-related. These include teachers, school staff, and administrators. As noted by the California Budget Project, California's school districts rely heavily on the state's General Fund for school financing, but austerity measures shrank this fund by 15.3% between the 2008 and 2010 fiscal years.⁹ This has taken a toll on California's schools. On March 16, 2012, it was announced that 20,000 teachers in California received pink slips, which is an indicator of the financial strain school districts are experiencing.¹⁰ While it's true that most who receive pink slips will not lose their jobs, pink-slipping is nonetheless disruptive and it fosters insecurity—and some, perhaps many, will be let go.

Furthermore, state and local government austerity measures don't just hurt workers; they also have real consequences on the pace of the economic recovery. As pointed out by Jared Bernstein, state and local government austerity has put a drag on economic growth by lowering GDP by 0.28% in 2011. Without this contraction, overall GDP would have grown by nearly 2.0% last year instead of 1.7%.¹¹

Paul Krugman noted that had government employment actually increased at the Reagan-era rates (instead of all the cuts to government spending and employment) there would be approximately 1.3 million more government workers (e.g. teachers, police officers, librarians) in the U.S. The additional increase in employment and spending along with the spillover effect on private sector hiring would have

Chart 4: Job growth since the start of the recovery, June 2009 to February 2012



*Share of total employment for California in 2007.
 Source: Authors' analysis of Current Employment Statistics for California.

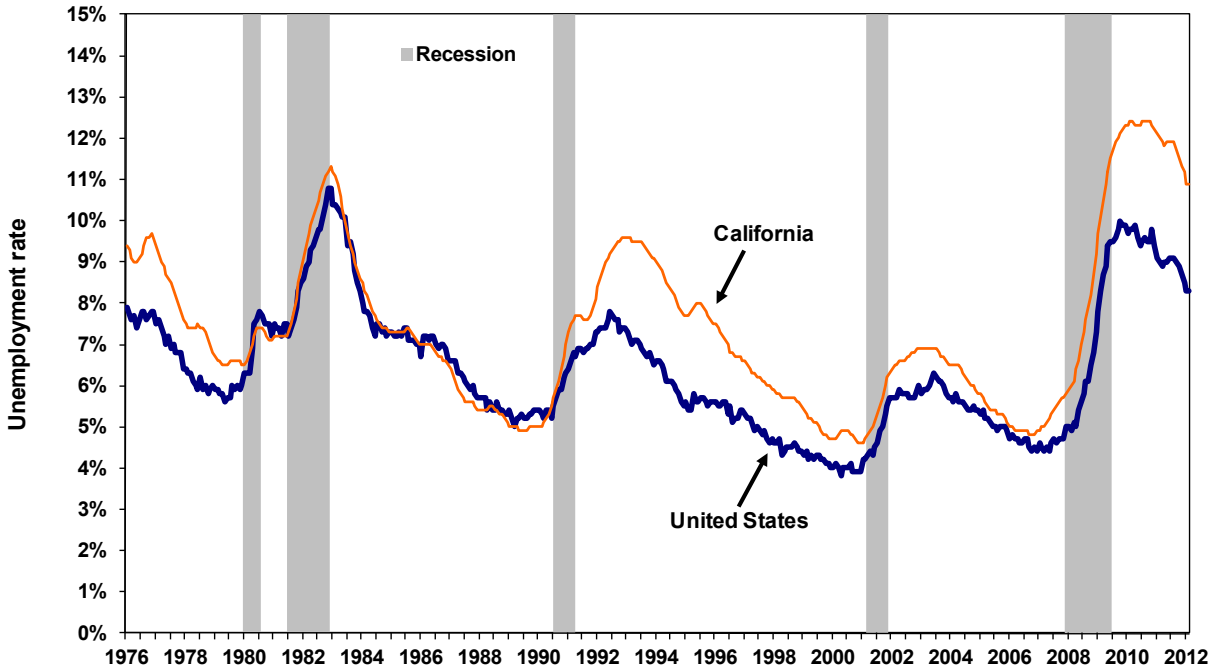
shaved about 1.5 percentage-points off the unemployment rate.¹² This would have been a rather significant improvement in our underlying statistic and, more importantly, a boost for many workers and their families.

Unemployment Remains High

The economy is expanding and job growth is trending upward but the sheer magnitude of the state's unemployment crisis serves as a reminder that California has a long way to go to get back to a healthy economy. As Chart 5 (next page) shows, the state has been struggling with unemployment rates that have been in double digits for thirty-six consecutive months. We are just now approaching the unemployment rates experienced in the tough recession of the early-1980s. Three years, and counting, of extremely high unemployment is devastating to workers and their families. As of February 2012, more than four years after the recession began, there were 12.8 million unemployed workers in the U.S. and nearly one of every six was in California.

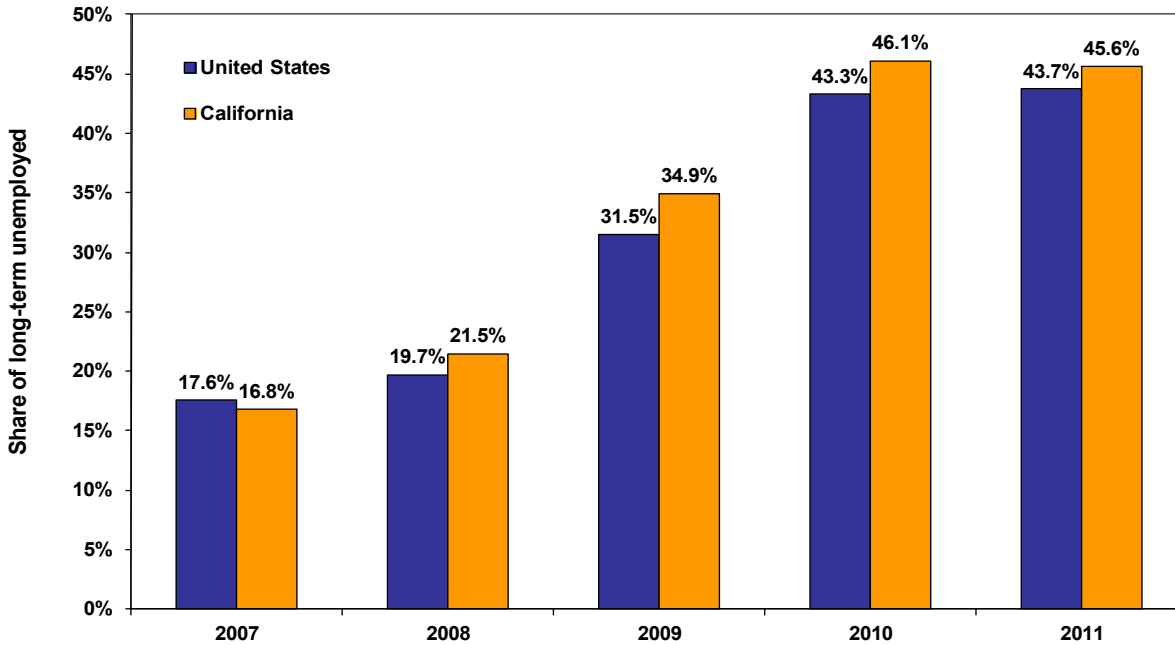
One group in particular faces considerable economic hardship—the long-term unemployed. Their skills erode, they are out of touch with the latest technology, and/or they become stigmatized by employers who assume there must be something wrong with a worker who has been out of work for so long. Chart 6 (next page) shows the trend in the share of the unemployed who have been out of work for at least a half of a year. The share increased to record highs during the Great Recession. There has been no improvement in this annual measure over the last two years of recovery.

Chart 5. Unemployment rates for the United States and California (January 1976 to February 2012)



Source: Authors' analysis of Current Population Survey data, seasonally adjusted monthly data.

Chart 6. Record breaking long-term unemployment (As a share of total unemployed)



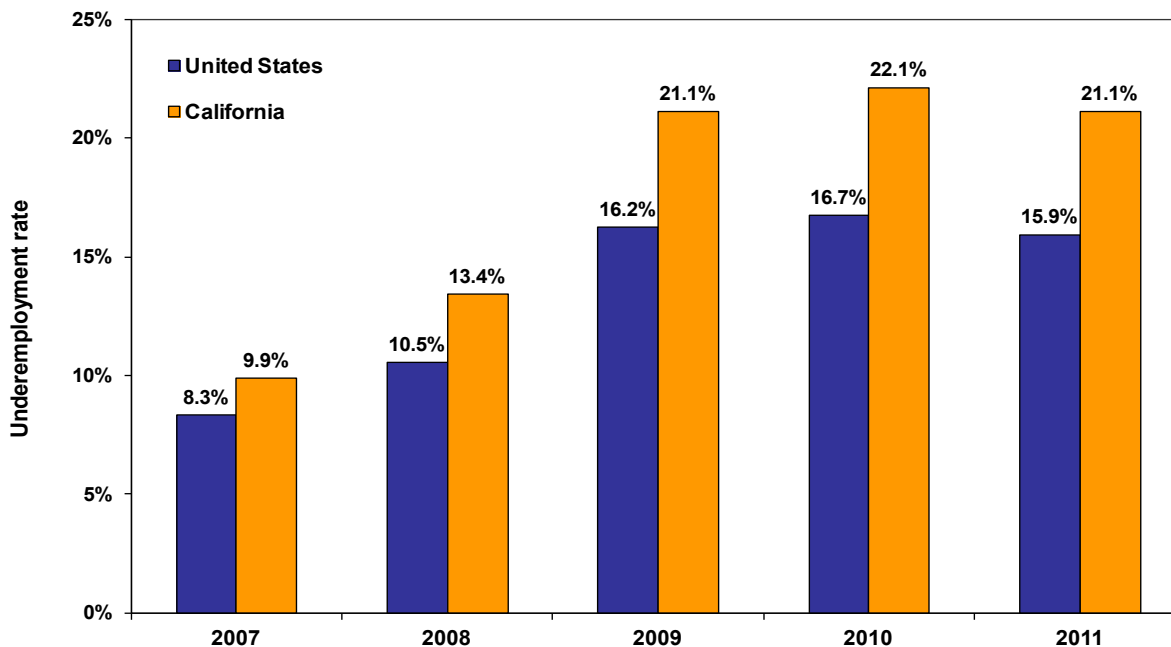
Note: The long-term unemployed are those who have been unemployed for at least 27 weeks.
Source: Author's analysis of Current Population Survey data.

The Center for American Progress highlighted just how damaging such long-lasting unemployment can be for these workers in its analysis of a recent NPR and Kaiser Family Foundation poll. It found that only 22% of the long-term unemployed nationwide receive unemployment benefits, and that 74% of them had a negative outlook on their financial situation.¹³

Unemployed workers, especially long-term unemployed workers, are still struggling to find employment even as jobs are coming back. Following a downturn like the Great Recession it may be expected that employers would be more forgiving of lengthy unemployment spells. However, plenty of anecdotal evidence seems at least in part to reject such a notion. There is ample evidence of help wanted ads that stipulate that the unemployed need not apply.¹⁴ Simply put, many workers may never regain their footing in the work force.

As bad as the unemployment rate is, it actually understates the extent of distress in the labor market. The traditional unemployment measure only considers those who are still actively searching for work in the four weeks prior to being surveyed.¹⁵ The measure of underemployment, on the other hand, includes those who have been forced into part-time work or who gave up searching for work altogether. Chart 7 provides annual underemployment rates for the last five years. California's underemployment rate has been well above the national average for the last several years. Of workers and potential workers, one in five was either unemployed or underemployed in California in 2011.

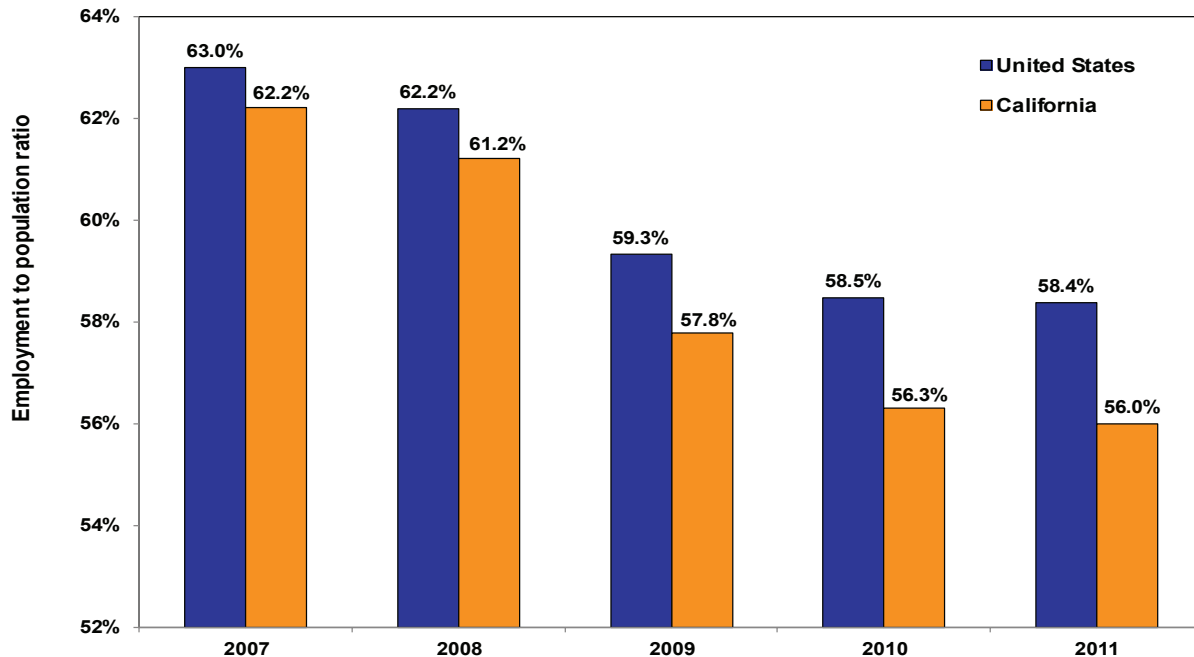
Chart 7. Underemployment rates: A better measure of labor market stress



Note: U6 includes discouraged and marginally attached workers, and part-time workers who want full-time employment.
Source: Authors' analysis of Current Population Survey U6 rates.

A third measure of labor demand is the employment rate or EPOPs—the share of the working age population (16+) that is employed (Chart 8). Along with California’s deteriorating job market and persistently high unemployment, the employment rate has consistently fallen since the recession. Between 2007 and 2011, California’s employment rate dropped by 6.2 percentage-points which is an enormous decline. In 2011, only 56.0% of Californians were employed, compared to 62.2% before the start of the recession. If the employment rate was the same in 2011 as it was in 2007, 11.1 million more people would be working in the U.S., including an additional 1.8 million in California.

Chart 8. Where are all the workers? Employment rates are way down



Note: The employment rate is the share of the total population that is employed.
Source: Author’s analysis of BLS Current Population Survey data.

The combination of all these measures—unemployment, long-term unemployment, underemployment, and the employment rate—confirms that the U.S. economy and, in particular, California’s labor market remain in crisis. There is a clear need for action. Of course, this is the argument for stimulus in the form of a much need jobs program that has received little attention in Washington, D.C. The labor market will not even begin to tighten or approach full-employment for years to come. The continuation of this weak recovery and crippled labor market has already done much harm to workers.

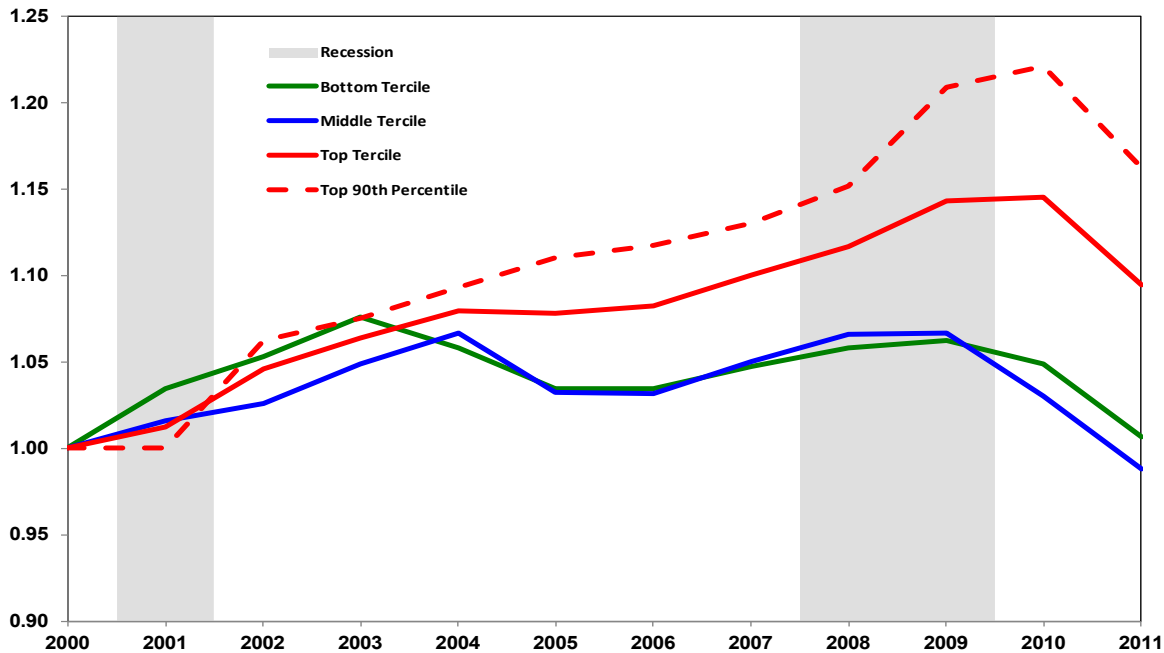
The Legacy: Stagnating or Declining Wages and Incomes for most Workers

Job losses and high unemployment are only the first few chapters of the story of the crisis facing workers today. While the economy is growing again, wages and incomes are in decline for the majority of workers. Chart 9 (next page) shows the growth of wages for low, middle, and high wage workers indexed to the year 2000. The average wage (inflation adjusted) for workers in the bottom and middle terciles is now at or below their 2000 levels. While average wages decreased across all income groups due to the recession,

those who are in the top tercile and the 90th percentile remain well above their 2000 level. On average, workers in the top one-third had their wages increase by 9.5% since 2000. For those in the 90th percentile the increase was 16.3%.

This in part reflects the slow wage growth that occurred during the recent economic expansion—when wage growth was significant and sustained only for workers in the top tercile and more so for those at the 90th percentile. This is the continuation of a trend beginning three decades ago of stagnant wages for most workers with gains only accruing to those at the top of the wage distribution.¹⁶

Chart 9. Wages have been stagnant for most workers in California



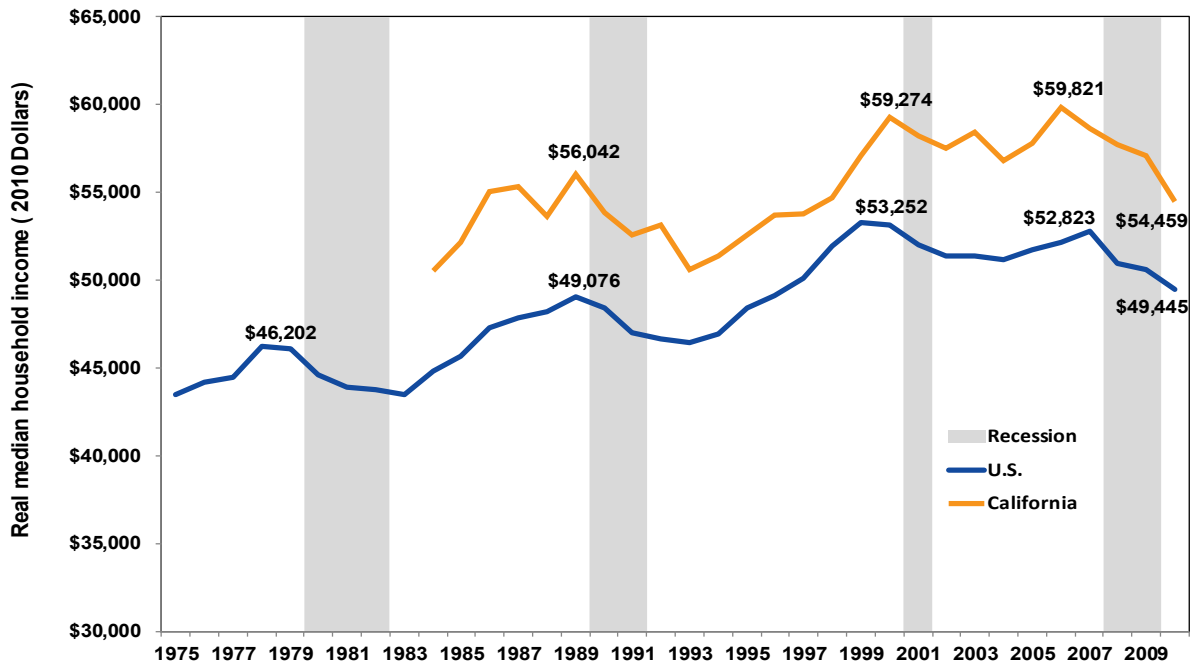
Note: Each line represents the average real wage per income group over time.
Source: Authors' analysis of Current Population Survey data. Includes wage and salary workers ages 18 to 64.

Not surprisingly, household income has fallen dramatically as well. The decline in household income since 2007—the peak of the last economic expansion—averages -\$3,378 (-6.4%) for U.S. households and -\$5,362 (-9.0%) for California households (Chart 10, next page). In California, typical household incomes in 2010 were the same, adjusting for inflation, as they were in 1998.

It isn't just that the income for typical households has declined in tough times; what happened during the good times is more disturbing. Household income has always been susceptible to economic fluctuations and this is evident in Chart 10 (next page). Incomes peak near the end of economic expansions—in other words, just prior to recessions (gray bars)—and they fall during recessions. When economic expansion is strong enough incomes start to rise once again.

In recent expansions that have been accompanied by jobless recoveries—an expanding economy with continued job losses—post-recession income gains have taken longer to materialize. The salient point

Chart 10. Incomes of typical households in California plunge back to 1998 levels



Source: Authors' analysis of U.S. Census data.

here is that in the past the long term trend has always been up. Average income at the peak of each successive expansion has always been higher than the previous one—that is, until the last economic cycle.

As the figure shows, typical incomes over the last two economic peaks that occurred in 2000 and 2007 showed no gain in the U.S. and little in California. It will be very difficult to regain the losses sustained in this recession anytime soon, let alone significantly surpass previous peaks in income. It may well be that a new trend is forming, one in which incomes of typical households do not trend upwards over time but fluctuate around economic cycles without real gains.

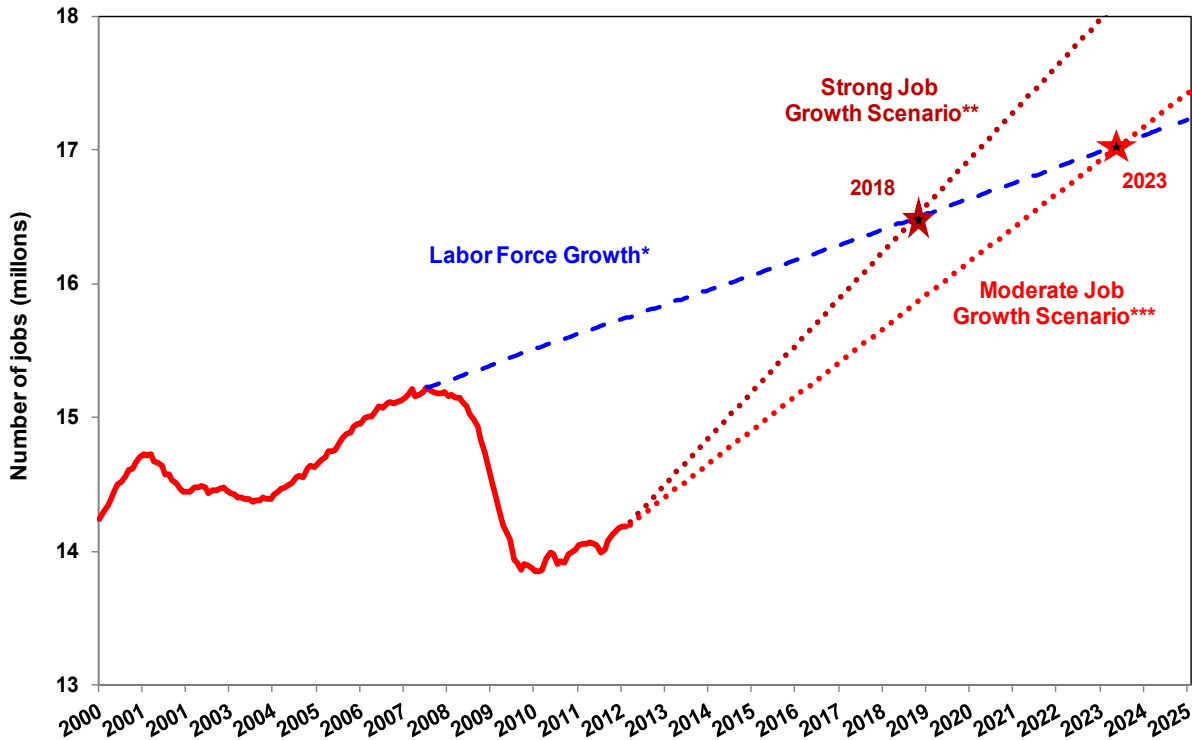
The Census Bureau will release 2011 income figures in the fall of this year but there is little expectation that the report will show any major improvement and it may well show more declines, given high unemployment and little power to bargain wage increases in this economic climate.

Looking Forward

Absent aggressive action from policymakers, California will continue to face significant challenges in the coming years. Fallout from a weak job market and declining wages is not the only challenge the state faces. The bursting of the housing bubble was acutely felt and is still being played out. The intensity of the burst was directly proportional to the size of the bubble—and it was way over-inflated in the state. California continues to struggle with a huge budget deficit—much of it due to the recession—as it implements yet another round of cuts that act as further anti-stimulus and advance another round of the vicious downward cycle.

Furthermore, California's population has continued to grow during this economic crisis, which means that simply returning to the number of jobs the state had before the recession will not be nearly enough. From Chart 11, the solid red line tracks actual job growth while the two dotted reddish lines represent strong and moderate job growth scenarios. The blue dashed line projects the growth in the labor force. This analysis predicts that California's labor market may not return to its pre-recession strength until somewhere between 2018 and 2023—depending on the rate of job growth.

Chart 11. California's labor market will not return to 2007 strength anytime soon
 (Stars denote when the ratio of jobs to workforce size reaches 2007 level)



* The blue line indicates the number of jobs needed to keep up with the growth in California's labor force. This assumes Bureau of Labor Statistics' estimate of 0.8% annual growth in national labor force between 2007 and 2010 and 0.7% 2010 forward.

** Applies average monthly job growth in 1992-2001 recovery.

*** Applies average monthly job growth during strongest period of 2003-2007 recovery.

Source: Authors' analysis of Current Employment Statistics with projections.

Despite good economic news in recent months, policymakers at both the state and federal level should continue to enact policies that help job seekers and protects workers, as well as lay the foundation for future growth. We cannot simply assume that the recovery taking hold now will be enough to put the economy back on track. While GDP grew at 3.0% in the last quarter of 2011, Macroeconomic Advisers recently downgraded expectations for the first quarter of this year to 1.8%. This rate of growth would not be enough to sustain the recent pace of hiring let alone mend the labor market. It doesn't look as if truly robust (north of 300,000 jobs, on average, per month) will be achieved anytime soon.

How long can we keep saying job growth is good but it just isn't fast enough? Can we afford a decade of a weakened economy? Investing in our country and in our state by updating our infrastructure, modernizing the electrical grid, and researching and developing green technologies is a must. It is crucial that we

fund our schools along with early care and education which will pay off in countless ways far into the future—just as it did in the past. California’s current path is not sustainable and it will keep the majority of Californians in this rut for a long, long time.

Endnotes

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- ¹⁶ Wage data from the Economic Policy Institute: <http://stateofworkingamerica.org/subjects/wages/>

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