The worsening state of working America

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In a speech to the Detroit Economic Club earlier this month US president Bill Clinton greeted news of a fall in unemployment by declaring that the economy was now a "rising tide that is lifting all boats." The phrase was a throwback to the claims made by Kennedy in the early 1960s, at the height of the post-war boom, when it did indeed appear that economic growth and increased business profits went hand in hand with improved living standards for working class and middle class families.

The decade of the 1980s, culminating in the recession at the start of the present decade, saw a different economic process unfold: increased corporate profits were accompanied by falling real wages and rising social inequality. But following the end of the recession in 1992, the defenders of the profit system maintained that with the steady decline in unemployment and the development of a "new economy", based on information technology and computerization, living standards would start to rise again.

A new report published this month gives the lie to this scenario. *The State of Working America 1998-99*, the latest in a biennial series of publications by the Economic Policy Institute, shows that not only have the tendencies which emerged in the 1980s continued but new social malignancies have developed as well.

The study found that despite a 2.6 percent increase in real wages since 1996, median wages were still below their level in 1989 and a typical family had to work more just to maintain its standards of living.

According to a press release from the EPI: "Putting recent economic gains in historical context, the study finds that the living standards of most working families still have not recovered from the recession of the early 1990s, nor have their wages kept pace with the growth in productivity. The income growth that has been generated among middle-income families has been driven largely by an increase of working hours--an additional six weeks annually since 1989--to make up for the long-term deterioration of wages. The economic realities facing the typical American family over the 1990s include, increased hours of work, stagnant or falling income, and less secure jobs offering fewer benefits.

"New groups of workers have experienced wage declines in the 1990s, including recent college graduates and many information-technology and other white-collar workers. Women workers in the middle and upper-middle part of the wage distribution, whose real wages rose significantly in the 1980s, have experienced a sharp deceleration in the 1990s."

These conclusions are reflected in a series of statistics. The inflation-adjusted earnings of the median worker in 1997 were 3.1 percent lower than in 1989. Over the 1989-97 period real wages fell faster for the median worker (-0.4 percent per year) than they did in the 1979-89 period (-0.2 percent per year). The wage of the median male worker was 6.7 percent lower in 1997 than in 1989 while median wages for women grew by only 0.8 percent in the 1990s compared to a growth of 5.7 percent in the previous decade.

One of the most significant findings concerned entry-level wages. Between 1989 and 1997, real hourly wages for these positions declined by 7.4 percent for men and by 6.1 percent for women. Contrary to the view that declining wages are the result of insufficient qualifications, male college graduates with one to five years experience saw their wages decline by 6.5 percent with a 7.4 percent decline for women.

Over the same period, the gap between wages of the average worker and those of the chief executive widened further. In 1965 the typical CEO made 20 times more than the average production worker; by 1989 that ratio had risen to 56, climbing to 116 by 1997.

One of the factors in the slow wage growth has been the increase in corporate profits in the 1990s. Had profitability grown at historically normal levels during the 1990s, then hourly compensation (wages plus benefits) could have been some 7 percent higher in 1997 than it actually was.

The study found that overall family income was characterized by slower growth and greater inequality, with the median family income $1,000 (2.3 percent) less in 1996 than in 1989, the last peak in the business cycle before the recession of the early 1990s. In no previous business cycle, the study noted, had the recovery phase proceeded for so long without typical family income exceeding the point it had reached in the previous peak.

"Young families," it reported, "have been especially hard hit by overall slow family income growth and widening inequality." An intergenerational study shows that recent groups of young families started out with lower incomes and made smaller income gains as they approached middle age.

Despite the stock market boom, the typical middle-class family had nearly 3 percent less wealth in 1997 than in 1989, with the richest 10 percent of households reaping almost 86 percent of the growth in stock market values since 1989. Overall wealth is even more concentrated at the top than income, with inequality worsening in the 1990s. According to projections carried out by the study, the share of wealth for the top 1 percent of the population increased from 37.4 percent in 1989 to 39.1 percent in 1997. At the same time, however, the share of wealth held by the middle fifth of the population dropped from 4.8 percent to 4.4 percent. In fact, after adjusting for inflation, this stratum of middle America saw its wealth fall by 3 percent, primarily because of increased indebtedness.

At the bottom end of the scale the proportion of households with zero or negative wealth (families that owed more than they owned) increased from 15.5 percent to 18.5 percent. Poverty rates also increased during the 1990s. The poverty rate of 13.7 percent for 1996 was up from the 12.8 percent rate in 1989. More than one in five children (20.5 percent) were poor in 1996, up from 19.6 percent in 1989 and 16.4 percent in 1979. Child poverty rates for black and Hispanic children were 39.9 percent and 40.3 percent respectively.

On the employment front, the study found that while the jobless rate has fallen to around 4.5 percent, structural changes within the economy have increased job insecurity and lowered the proportion of long-term jobs. The proportion of workers in long-term jobs (those lasting at least 10 years) declined from 41 percent in 1979 to 35.4 percent in 1996. Most of the deterioration took place since the end of the 1980s. Fired workers have difficulty in obtaining new jobs with one third of those interviewed still out of work one to three years after their dismissal. Those who did obtain new employment received 13 percent lower wages on average, while a quarter no longer received employer-provided health insurance. Work is increasingly of a contingent nature-- almost 30 percent of workers were employed in what could not be described as regular full-time jobs. This process is reflected in another statistic: the proportion of workers employed through temporary help agencies increased from 1.3 percent in 1989 to 2.4 percent in 1997.

In some ways the most telling statistics were those which refuted the claims that a "new economy" was being created providing access to higher-paying jobs to those with college education and information technology skills. The study found that wage trends for both white collar and college-educated workers were not favorable in the 1990s.

"This is especially true," it noted, "for men over the 1989-97 period: wages for nearly every white-collar occupation group were stagnant or fell; health insurance cover did not expand; wages among the college educated rose just 1.2 percent; and the college/high school wage premium has been flat over the 1992-97 recovery. Remarkably, the entry-level wages earned by new college graduates, male or female, were 7 percent less in 1997 than in 1989. Even so-called information technology workers have not done all that well. For example, newly hired engineers and scientists are earning 11 percent and 8 percent less in 1997 than their counterparts did in 1989, despite good wage growth over the 1996-97 period."

As the authors point out in their introduction to the report: "These trends do not fit easily with a story in which information technology is transforming the workplace, allowing those equipped to participate to enjoy prosperity while those lacking skills lag behind. Rather, it seems that white-collar workers' experiences in the 1990s--wage losses, displacement and job instability--mirror the unpleasant experiences of blue-collar workers in the 1980s.

"This phenomenon might be described as the 'blue collarization' of white-collar worklife in the 1990s. How can a new information-age economy be expected to lift all our wages when it cannot even do so for white-collar workers and young college graduates working in technical occupations, presumably the best-educated, most computer literate, and most flexible segment of the workforce?"