Executive Summary

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Labor Day, September 3, 2001

What's so Scary about a Recession?
A Long-term View of the State of Working Oregon

By Jeff Thompson

Oregon's current economic downturn is generating a lot of discussion. Layoffs and rising unemployment are frequent headlines and there is constant speculation as to when the current slowdown will dip into recession. Much of the commentary, however, ignores important long-term changes in conditions for working Oregonians. Recession is cause for concern: short-term job losses and layoffs have significant costs for families and communities. Far more damaging, though, are the long-term consequences that working people face. Over the long-term, workers in Oregon are falling behind and are less protected when recession hits. The cyclical upturns that our economy produces have not been enough to bring economic prosperity and stability to working people.

The report shows:

- After climbing steadily in the late 1990s, Oregon's inflation-adjusted median hourly wage peaked in 1999 at $12.38 and then fell back to $12.21 in 2000. The 1999 high-point remained below levels reached in the economic expansions of the late 1970s and 1980s.
- After growing rapidly across the 1960s and 1970s, median incomes in Oregon stagnated in the 1980s and 1990s. Median family income was $45,506 in 1999, only slightly higher than in 1989 and no different from 1979. The median household income grew in the late 1990s, but by 1998-99 remained below the previous peak in 1988-89.
- Oregon workers maintained their incomes despite declining wages by working more hours. Working age married couple families boosted their annual work effort by 449 hours over the last twenty years, the equivalent of 11 additional weeks of work. Middle-income married couple families boosted their work effort most, putting in 810 additional work hours since the late 1970s.
- Oregon's economy has grown considerably over the last twenty years, but the rewards have not been shared equally. The highest-income twenty percent of families increased their average annual incomes by $39,000 between the late 1970s and the late 1990s, while middle and low-income families saw no gains.

The safety net that protects workers in periods of unemployment is often inadequate and fails to reach many that need it. Both Unemployment Insurance and the public assistance programs for poor single mothers need to be strengthened. Oregon workers need better protection from the worst of recessions, but they also need better ways to capture some of the benefits from expansions. Greater investment in education, improving the minimum wage, and successful union organizing will improve the economic well being of workers for years to come.

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Oregon's current economic downturn is generating a lot of discussion. Much of the commentary, however, ignores important long-term changes in conditions for working Oregonians. Recession is cause for concern: short-term job losses and layoffs have significant costs for families and communities. More damaging for workers, though, has been their inability to increase wages and incomes during periods of economic expansion. The cyclical upturns that our economy produces have not been enough to bring economic prosperity and stability to working people. It is not merely this recession about which we raise concerns, but recessions in general. Why are workers falling behind over the long haul? Why are they not adequately protected from the economic devastation of job loss?

The current slowdown and the long-term view

A lot can change in a year. Just last Labor Day the economic news story was the "best-in-a-generation" boom that was benefiting almost everybody. At the time the Federal Reserve Board was trying to douse a roaring economy with interest rate hikes. Steady employment growth alongside slowing labor force growth brought tight labor markets and rising wages to Oregon in the late 1990s. Between 1995 and 1999 Oregon's Gross State Product saw the second fastest growth among states.[1] While much of the "new economy" rhetoric was overblown, as OCPP documented in a previous report, *Prosperity in Perspective: The State of Working Oregon 2000*, the economy of the late 1990s did produce real gains for working people in Oregon.

This Labor Day the buzzword is "recession." Layoffs and rising unemployment are frequent headlines, and there is constant speculation as to when the current slowdown will dip into recession. In July, Oregon's employment was 27,500 below the level from a year earlier. One common yardstick for identifying recessions at the state level — two consecutive quarters of employment losses — was crossed in June. Not viewing these declines as deep enough (the two quarterly employment losses were each just 0.5 percent), state economists have so far refrained from declaring the current slowdown a recession.

While most economists increasingly recognize that Oregon is headed toward, or already in, recession, they have been less clear about the reasons why people should care.

There are obvious reasons to be concerned about recession, including job losses and business closures that have clear economic consequences and human costs. If, however, a recession is merely a temporary setback in the long-term improvement of the economic well being of working people, and its negative aspects are offset by an adequate social safety net, then a recession would warrant attention, but would not qualify as a crisis.

This, however, is not the case. Recent recessions, even when they have been brief, have brought economic losses that were not recovered by workers in subsequent expansions, and the accompanying hardships have not been adequately offset by the social safety net. Instead of reaping the gains of economic progress, working people in Oregon have faced falling real wages, more hours of work, stagnant incomes, and rising income inequality.

The economic expansion of the late 1990s and the current slowdown are a perfect example. After declining over the first half of the 1990s, the inflation-adjusted wages of typical Oregon workers experienced rapid growth in the late 1990s. These gains, however, failed to bring wages up to the levels of the previous business cycle peak in the late 1980s, and are now being extinguished by the new century's economic slowdown. Median incomes saw little or no growth over the 1990s despite considerable increases in the hours worked by families. Meanwhile, inequality soared, with families at the top capturing nearly all of the income gains of the 1990s.

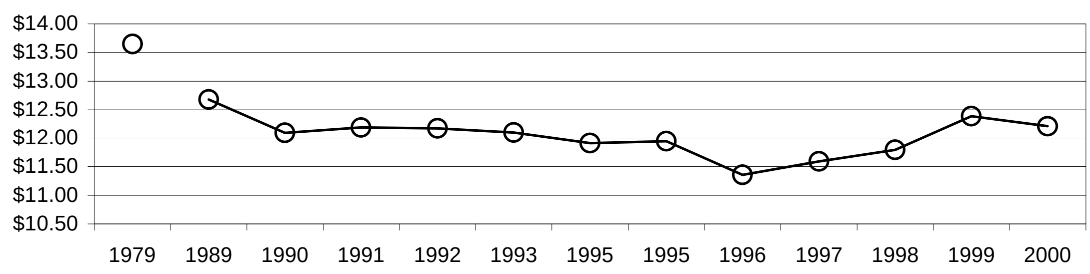
Not only have the economic losses due to recession not been recouped, but the short-term suffering from unemployment and falling wages is not adequately addressed by the social safety net. The basic protection for most workers — temporary wage replacement from Unemployment Insurance — is often inadequate and fails to reach many that need it. Public assistance programs serving primarily single mothers with children have been seriously scaled back, eliminating their function as an economic stabilizer when unemployment rises.

It is not merely this recession about which we raise concerns, but recessions in general. Why are workers falling behind over the long haul? Why are they not adequately protected from the economic devastation of job loss? The cyclical upturns that our economy produces are not enough to bring prosperity and stability to working people. What is needed are approaches that will spread more of the benefits of economic growth to working people and strengthen the safety net that is supposed to protect them in hard times.

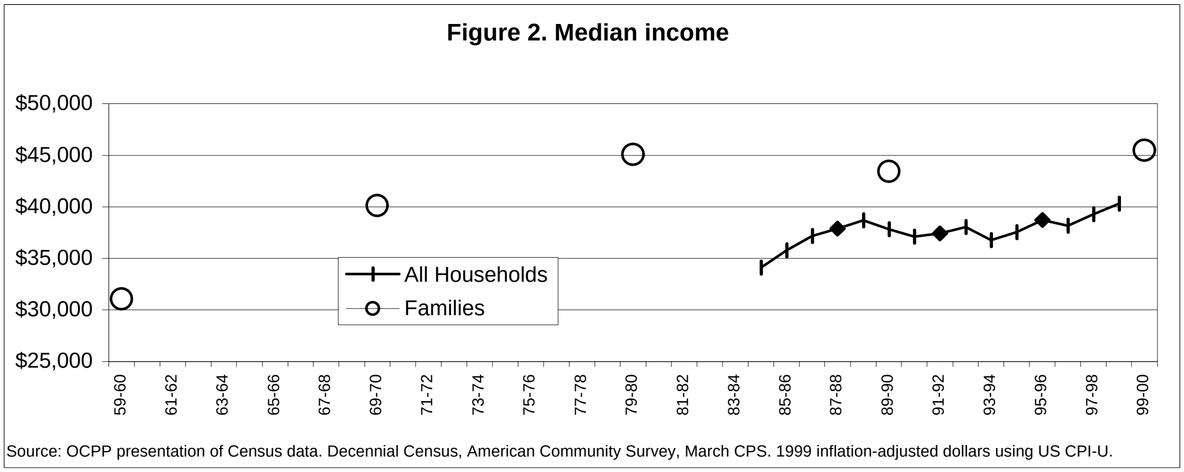
How Oregon's workers are doing: the long-term view

One year into the new century, just how much should Oregon workers be celebrating this Labor Day? A review of wages, income, hours worked, and income inequality shows that the new century has not given Oregon workers much to be excited about.

Figure 1. Real median hourly wage



Source: OCPP presentation of EPI analysis of Montly CPS. Inflation-adjusted 2000 dollars with US CPI-U.



Falling real wages

The euphoria from the economic boom of the late 1990s is reflected in the real hourly wage gains of the typical Oregon worker, which rose from $11.36 in 1996 to $12.38 by 1999. The onset of harder times is similarly captured by the return to the long-term decline in the median real hourly wage, which fell back to $12.21 in 2000.

As good as the last few years of the 1990s were for Oregon workers, 1999 wages were still below the high-points of the two previous economic expansions. In 1989, the real hourly median wage hit $12.68, and in 1979 it reached $13.65. Just as Oregon's workers were on the verge of making up ground lost since 1989, their wages are being knocked back down.

Stagnant long-term income growth

After rising rapidly over the 1960s and 1970s, median family income growth slowed to a crawl in the 1980s and 1990s. In 1999 the median family income in Oregon was $45,506, only slightly higher than 1989 and not statistically different from 1979.

While it rose in the late 1990s, Oregon's median household income was just $40,322 in 1998-99, statistically no different from the 1988-89 level.[2] During the last twenty years Oregon's economy has grown considerably, creating hundreds of thousands of new jobs and thousands of new businesses. Productivity is higher than ever, with Oregon's per-worker gross state product hitting $66,044 in 1999.[3] Despite this growth, the incomes of typical households and families remain at levels achieved ten and twenty years earlier.

More hours worked

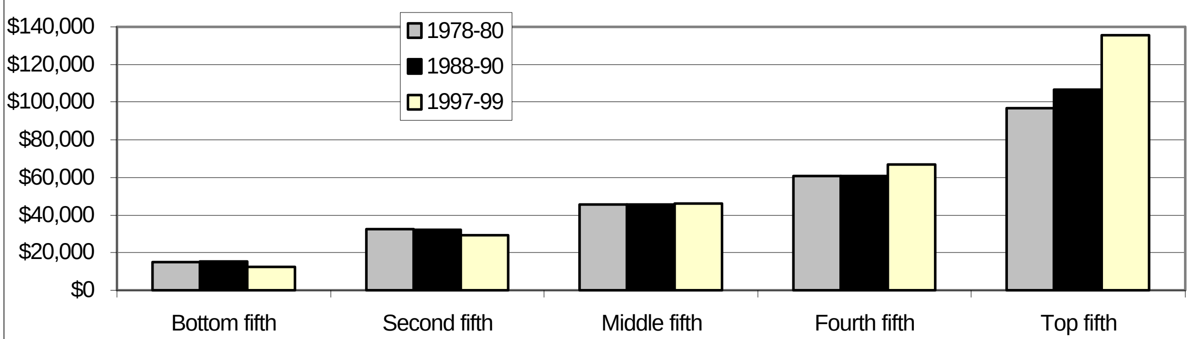
Families were able to maintain their incomes in the face of falling hourly wages only by working more hours. As shown in Table 1, prime working-age married couple

Table 1. Average annual hours worked per year

	Married Couple Families by Income				
	All married couple families	**Bottom fifth**	**Middle fifth**	**Top fifth**	**Single-parent families**
1979-81	3,094	2,513	2,993	3,871	1,435
1987-89	3,440	2,693	3,431	3,992	1,585
1997-99	3,543	2,718	3,803	3,915	1,743
Change					
79-81 to 87-89	347	180	438	122	150
87-89 to 97-99	103	26	372	-77	158
79-81 to 97-99	449	205	810	45	308

Source: OCPP presentation of EPI analysis of March CPS. Families with Children, household head age 25-54.

Figure 3. Income inequality: average family income by fifth



Source: OCPP presenation of EPI analysis of March CPS data. Inflation adjusted 1999 dollars using US CPI-U.

families with children logged 3,094 hours on average in the late 1970s. Almost twenty years later, these same couples worked 3,543 hours per year, an increase of 449 hours, the equivalent of eleven additional weeks of work per year.

The greatest increase in hours took place among middle-income married couple families. The middle fifth of families increased their average annual work effort by 810 hours, or 20 work weeks, between the late 1970s and the late 1990s. Single-parent families managed to increase their average hours of work by 308 hours, almost eight additional weeks, between the late 1970s and the late 1990s.

Growing income inequality

Middle-income families boosted their work effort most, but there was no detectable increase in their average annual income.[4] The average real income of the middle fifth of Oregon families was $45,779 in 1978-80 and was just $46,148 in 1997-99. The highest income 20 percent of families boosted their work effort much less, but saw their inflation-adjusted incomes rise nearly $39,000 over the same period, reaching $135,707 by 1997-99.

High-income families captured most of the benefits of the last twenty years of economic growth, particularly the last ten (Figure 3). The average real incomes of the bottom 60 percent of families experienced no measurable gain since the late 1970s or 1980s.

Safety net for workers in need of repair

The long-term consequences of the last three recessions have been harsh for working Oregonians. Hourly wage losses have not been recovered during subsequent expansions, and incomes have only been maintained through additional work effort. At the same time, the social safety net designed to protect workers from the worst consequences of job loss and prolonged unemployment is wearing thin.

Unemployment Insurance

Unemployment Insurance (UI) is the primary protection for unemployed workers, but it fails to reach many workers and the size of the benefit is often insufficient. Typically, less than half of unemployed workers in Oregon receive UI benefits, and the average benefit is just one-third of the average weekly wage.[5] Low weekly benefits, averaging $240, leave many working families unable to cover basic needs and expenses in periods of unemployment.[6] This situation is even more severe for low-income families and those with little savings to cushion job loss.

Oregon's UI system has important strengths, and in some respects is superior to many other states' systems, but there are major shortcomings.[7] Originally designed to meet the needs of married-couple families with one worker in a long-term stable job, the Unemployment Insurance system has not adapted to meet the needs of today's workers. The ranks of working mothers, part-time, and other "contingent" workers have swelled, but current UI rules fail to accommodate their needs.[8] While Washington and California have completely brought farm workers into their UI systems, Oregon continues to exclude many farm workers.[9]

Public assistance

Poor families who must turn to public assistance are faring considerably worse. Since welfare reform, public assistance caseloads have been slashed by over sixty percent: more than 77,000 poor women and children are no longer receiving help each month. The monthly benefit is also quite low: the maximum monthly welfare cash assistance for a single parent with two children has been frozen since July, 1991 at $460, with no adjustment for inflation. Families have to be poorer than ever to receive the meager benefit. In 1985, a single mother with two children was eligible for cash assistance if she worked 40 hours per week at the minimum wage. In 2001, 23 hours of minimum wage work disqualifies these poor single mothers from receiving assistance. Worse still, the opportunities for education and training that were once available to poor single mothers with children have essentially vanished.

In addition, the design of the program has been changed so that it no longer functions as an automatic stabilizer when the economy worsens. Before reforms in the mid-1990s, the welfare system could provide assistance for however many poor women with children demonstrated need. Welfare rolls could swell and contract in response to the rhythm of economic growth, ensuring that assistance was available when jobs were not. Now that funding for public assistance is received as a "block-grant," federal funding levels remain the same regardless of the number of poor women with children needing aid.

Growing in a different way

Over the past twenty years Oregon's economy has delivered meager wage gains that vanish at the first sign of sluggish growth, stagnant incomes that are maintained only because of dramatic increases in work hours, and an increasingly unequal distribution of economic rewards. For workers to benefit from periods of economic prosperity and to be protected from long term consequences of recessions, the rules of the game need to change.

Adjusting successfully to change

Individual workers can find and keep better jobs by improving their skills and education levels. Individual companies can thrive when they find highly skilled workers. For a "win-win" strategy that enjoys near unanimous support among the general public and leaders in the public and private sector, Oregon's investment in education and skill development remains inadequate.

Economic development efforts that brought high-tech companies to Oregon were not matched by efforts to upgrade the skills of Oregon's workforce. For example, member companies in the American Electronics Association were able to fill 94 percent of newly-hired clerical and office positions with workers from Oregon, but only 54 percent of the highly paid sales jobs and 68 percent of hardware engineer positions.[10] If Oregon is going to be able to take advantage of, and continue to attract, high-paying jobs in high-tech and other industries, the state must dedicate more resources to educate and train current and future workers.

Raising wages

Education, though, is not for everybody. Three out of every four adults in Oregon have less than a college degree.[11] Employment data also show that 68 percent of jobs in Oregon require nothing more than "on-the-job" training.[12] Education is not the solution for generally declining and low wages, but there are approaches that do have an impact.

Oregon's experiment with raising its minimum wage has paid off by boosting the earnings of the most poorly paid workers.[13] A proposed initiative to link the minimum wage to inflation will give voters a chance to sustain the benefit for low-wage workers over time.

Unions may cause management discomfort, but they deliver valuable wage and benefit gains to workers. Union workers' wages were 15 percent higher than non-union workers in the late 1990s, even after controlling for work experience, industry, occupation, education, region of the country, and other factors.[14] The long, slow slide in union representation has contributed to falling wages in Oregon and across the country. If successful, current efforts to organize workers in Oregon's service, high-tech, and low-wage non-profit sectors will put workers in a better position to capture more of the benefits of our next economic expansion.

Shelter from the storm

Steps need to be taken to patch the holes in the safety net that protects workers and poor single mothers with children. Oregon's UI system needs modernization, helping families bridge the gap between work and family life by providing paid family leave coverage. The system also needs to acknowledge the permanence of part-time and contingent work by allowing part-time workers to receive benefits while looking for part-time jobs, and adopting an "alternate base period" to make it easier for workers with less routine work schedules to qualify for benefits. In addition, the historic exclusion of farm workers employed at smaller farms should be ended.

Finally, as reauthorization of the federal welfare reform legislation approaches, Oregon's Congressional delegation needs to consider policies that will restore a funding mechanism which functions as an automatic economic stabilizer. State welfare officials should also make it easier for poor single mothers to pursue education while receiving public assistance.

Jeff Thompson is an economist and policy analyst at OCPP. His research focuses on Oregon's economy, state tax policy, wages, and income. *The author thanks the Economic Policy Institute for its assistance.*

This report was produced as part of OCPP's participation in the State Fiscal Analysis Initiative and the Economic Analysis Research Network, through the generous support of The Ford Foundation, the Open Society Institute, the Penney Family Fund, the Ralph L. Smith Foundation, the Oregon AFL-CIO, and contributions from individuals and organizations.

The Oregon Center for Public Policy is a research and education organization established to assist low and moderate income Oregonians by expanding the debate on a variety of fiscal and public policy issues.

Endnotes.

[1] Bureau of Economic Analysis (BEA) Gross State Product data, from Thompson, Jeff and Charles Sheketoff, *New Data Show that House Bill 2281 Single Sales Factor is No "Field of Dreams" for Economic Growth*, Oregon Center for Public Policy, 6/12/2001.

[2] Data on median household income are only available back to 1984.

[3] OCPP calculation based on BEA and Oregon Employment Department data.

[4] The family income data are for all families, while the annual hours worked data are for married-couple families with household heads between 25 and 54 with children. Trends in hours worked, however, are similar for other family types. Data in Thompson, Jeff and Michael Leachman, *Prosperity in Perspective: The State of Working Oregon 2000,* Oregon Center for Public Policy, 9/4/2000, show that average annual hours worked for households and individual workers of both sexes rose similarly.

[5] The "recipiency rate" does fluctuate with the economy. In the last few years of the 1990s, the share of unemployed workers receiving benefits hovered around 43 percent. As the economy slowed, the recipiency rate increased to 52 percent in the 12-month period between April 2000 and March 2001. Oregon Employment Department and Department of Labor *UI Data Summary* publication for June, 2001.

[6] Average weekly benefit data is from the DOL *UI Data Summary* publication for June, 2001.

[7] Compared to many other states, Oregon's UI system has relatively high recipiency rates and maximum weekly benefits, among other factors.

[8] In Oregon part-time workers that are otherwise eligible for UI benefits can become ineligible if they refuse to take a full-time job offer, even if they have a history of part-time work and family factors that necessitate part-time work.

[9] Some farm workers in Oregon are ineligible for coverage because they work at least part of the year on farms with relatively small payrolls that are not required to pay UI taxes.

[10] American Electronics Association.*1998 Oregon Technology Benchmarks*, page 28.

[11] US Census Bureau. Data available at http://www.census.gov/population/www/socdemo/education/p20-536.html

[12] Oregon Employment Department 1998-08 employment projections.

[13] See Thompson, Jeff and Charles Sheketoff, *Getting the Raise They Deserved: Oregon's Minimum Wage and the Need for Reform*, Oregon Center for Public Policy, 3/12/2001.

[14] Economic Policy Institute, *State of Working America 2000-01*, page 183.