Anxious Anniversary: Is Recession Stalking the Five-Year-Old Recovery?

by Gregory DeFreitas

Anniversaries are at least as much about stocktaking as celebrating. Five years after the last recession officially ended in November 2001, we now have ample information available to weigh the strengths and weaknesses of the economic recovery that followed. Public opinion surveys suggest that most Americans are increasingly anxious about their job and income prospects. Fifty-six percent of adults in one national survey worried that "jobs are difficult to find in this community."[1] Half of those questioned in a similar survey predicted that today's younger generation "will be worse off than people are now." Only one in three felt youth would be better off in the future, down from 41 percent when the same question was asked in a 2002 survey.[2]

Why all the gloom, some might ask. After all, the national and local economies are still growing: overall economic activity, as measured by real gross domestic product (GDP), expanded at an annual rate of 2.6% from April through June 2006. The number of payroll jobs rose by another 1.85 million over the 12 months through June. The unemployment rate fell below five percent early in the year and kept falling to a seasonally adjusted 4.6 percent by mid-summer. Americans' median household income (adjusted for inflation) rose last year for the first time since 2000. Labor productivity growth has remained quite strong. And the stock market has pushed the Dow-Jones Industrial Average to record highs.

However, today multiple signs point to another economic slowdown that could soon begin to erode further the employment and pay prospects of many workers. GDP growth from April through June 2006 fell to less than half the first quarter's 5.6 percent rate. The housing market, a driving force of the recovery, is now in a "substantial correction" that could sharply cut economic growth in the coming year, according to Federal Reserve head Ben Bernanke.[3] Residential investment in the April-June 2006 quarter dropped over 11 percent, the fastest decline in more than a decade. In July, the inventory of unsold homes fell to a record low as sales of existing homes declined to the lowest volume in $2^{1/2}$ years. Monthly job growth slowed through the summer to almost one-half the rate earlier in the year.

For most working people, the 2001-2005 expansion is ending before they regained their losses from the last recession. Judged by a number of measures, the past five years have brought too little too late. Though the 2001 recession was just eight months long (by the official gauge of real GDP), employment fell for 30 months in a row. Job totals only crept back to pre-recession levels in early 2005 – the slowest job rebound of any U.S. recovery in the past half-century -- and would have taken even longer without the stimulus of heavy government spending. The average workweek was not restored to the pre-recession norm until January 2006.[4] While the nation's unemployment rate has dipped under 5%, it is still above the 3.9% rate in late 2000. Long-term unemployment (of 6 months or more) still accounts for an unusually high 16.2% of all the unemployed in June. In past years with similar unemployment rates, the long-term jobless share has averaged below 11 percent.

The slight increase in median income last year is also misleading. According to the latest Census Bureau income report, only the highest-income fifth of households ($91,700 and up) enjoyed higher average real income.[5] In fact, elder-headed (age 65 and up) households accounted for most of the small overall income blip. Average inflation-adjusted income fell for most of the other 80 percent of households, to a level $2000 below that of 2001. Real median income for working-age households under age 65 are down for the fifth straight year; since 2000, their real income has dropped 5.4 percent. Black households experienced a –0.8 percent income decline between 2004 and 2005 – and a five-year income drop of over $1,600, from $32,499 (in $2005) to $30,858 by 2005. Among the employed, average wages dropped by two percent, after inflation adjustment, between 2003 and 2006 – only the third span of prolonged real wage decline since World War II. Even those with year-round, full-time work were affected. Their average real earnings over the year dropped by –1.8 percent for men and by –1.3 percent for women. In the five years since the 2001 recession ended, average male earnings have fallen by -$1,177 (to $41,386 last year) and female earnings are down $360 to $31,858.

The poverty rate remains stuck at 12.6 percent, well above the 11.7 percent rate five years ago. And the fraction of the poor in "deep poverty" – 43 percent somehow survive on half the poverty-level income – is now the highest in the 30 years that these records have been published. These include 5.6 million children and 2.6 million ages 18 to 24. Two-thirds of these are white and family households.

Moreover, unlike the 1970s and '80s' wage slumps, most workers now have added concerns about the rising costs and eroding coverage of their health insurance and pension plans. Health insurance costs have taken larger bites out of the take-home pay of insured workers, while the ranks of those without any insurance have continued to swell. Another 1.3 million became uninsured in 2005, raising the total number of Americans without health coverage to 46.6 million (15.9 percent of the entire population) – nearly seven million more uninsured since 2000. Large, highly vulnerable groups have uninsurance rates almost double the national average: 30.6 percent of all youth 18 to 24, 19.6 percent of blacks and 32.7 percent of Hispanics. While the portion with public coverage held steady in 2005, the fraction receiving private health insurance dropped from 68.2 to 67.7 percent. Employment-based coverage fell from 59.8 to 59.5 percent of the population as employers cut coverage and more new hires failed to find jobs with health benefits. Still more worrisome: the proportion of uninsured children (11.2 percent) grew for the first time since 1998. Among poor children, 19 percent lack health coverage.

Inequality is one of the few economic indicators that has continued to enjoy robust growth. The main beneficiaries of the past five years of rising productivity have been not workers' wages, but rather profits and executive compensation. Corporate profits doubled between 2001 and 2005. As a share of GDP, profits soared to 8.6 percent in the year's second quarter – the highest profit share in 60 years of government record keeping. Much of that has been flowing into stockholders' and chief executives' pockets. According to the IPS/UFE annual survey of the 500 largest corporations, the compensation of the average CEO in 2005 was 411 times higher than that of the average nonsupervisory worker! This ratio has shot up from just 42-to-1 in 1980 and 107-to-1 in 1990. Among senior management, military contractor CEOs appear to have captured above-average pay raises as the Iraq conflict has continued. The study compares CEO pay at the 34 publicly traded top defense contractors with the median pay of military generals with 20 years of experience ($168,509). Since September 2001, the average pay of private sector military contractor CEOs relative to that of experienced generals jumped from a ratio of 12-to-1 to a 2005 ratio of 44-to-1. For example, at Halliburton, Vice-President Cheney's former employer, his successor as CEO, David Lesar, was paid $26.6 million last year – more than double his 2004 pay – despite a string of charges of overbilling taxpayers for its Iraq contracts.[6]

Oil industry executives have reaped outsized personal gains, as gas prices jumped from $1.75 per gallon in 2004 to $3.00 and more in 2006. The average 2005 compensation of the top 15 American oil company CEOs was $32.7 million, up over 50 percent in just one year. Exxon/Mobil's Lee Raymond took home $69.7 million. In their defense, at Congressional hearings and elsewhere, oil executives have said that they are simply doing their job in response to global market forces, rather than price gouging for higher profit. The IPS/UFE study's findings raise questions about this rationale. First, since their employees (many working skilled and/or physically risky jobs) were an indispensable part of oil industry operations, why did their average pay rise a mere four percent last year? Oil company CEO's were paid was 518 times higher than the average oil company worker. Second, why are American CEOs paid five times or more what their counterparts get at foreign oil companies? For example, CEO compensation was just $5.6 million at British Petroleum and $4.1 million at Shell Oil.

Regional Job Trends

After almost three years of job growth by mid-2006, New York State reached a five-year low of 4.5 percent unemployment (Table 2). New York City's jobless rate, at 4.9 percent, dropped to its lowest June level since 1988. Over the 12 months ending in June, the city gained 58,200 net new payroll jobs. This welcome increase (1.6 percent) still left New York's total job count (3.67 million jobs) some 68,500 jobs shy of the 2000 peak. The job count is also well below local job totals of the late 1960s and late eighties.

Which sectors of the city's economy have expanded, and which have kept contracting over the past year? As Figure 1 reveals, nearly all the net job growth can be attributed to the 2.7 percent growth in the services supersector, led by hiring in health and educational services. Two major sectors kept bleeding thousands of jobs: manufacturing (-3,400) and government (-1,900). These losses were outweighed in the job totals by gains in finance, insurance and real estate (+9,700); retail trade (+5,200); and Information (+1,200).

With hotels enjoying 85 percent occupancy rates, they added 2,600 positions to their payrolls. The performing arts, led by record box-office business on Broadway, hired another 1,600. And the combination of tourist dollars and Wall Street bonuses appears to have kept restaurants and bars so busy that they needed another 3,500 employees.

Construction employment rose over the year by another 2,100 jobs (+1.8 percent). Unlike the previous year, most of the hiring was by specialty trade contractors. Building construction hiring was flat and building equipment contractors actually cut 1,000 jobs. While most signs point to a cresting of the recent building boom, total construction spending in New York City hit a record $18.8 billion in 2005. With 11 more major buildings going up in 2006 (including the Bank of America tower and Goldman Sachs headquarters), the year's total spending is expected to grow to $20.8 billion. In 2007-08, however, the number of major new projects currently planned is one-third lower. Whether construction spending and jobs can be sustained depends crucially on the waning strength of the city's residential housing market and the ability of government budgets to cover public capital projects.[7]

In the rest of the region, Long Island too has continued to experience job growth, led by services but spread across a variety of industries. An extra 8,700 jobs were created between June 2005 and June 2006. Unlike New York City, these included a slight uptick in government positions, and a similarly small decline in finance, insurance and real estate payrolls (Figure 2). Construction jobs increased by 1,000. The island's unemployment rate, at 3.9 percent, remains below both the city and the national average.

Despite the relative strength of the Long Island labor market, its 0.7 percent job growth in the past 12 months was less than half the rate in New York City and nationwide (Table 1). According to a Newsday survey of the largest 50 publicly traded Long Island companies, nearly three out of four cut the Long Island portion of their total employment since 2001. On average, their local share of payroll fell from 21.2 percent to 17.5 percent in the past five years. Only one in five still have at least half their workforce on the island today.[8]

For example, the big filtration company Pall Corporation, based in East Hills, has posted healthy growth both nationally and worldwide. Since 2001, its total payroll expanded by 22 percent to 11,000 employees. But, in the same period, its Long Island work force was cut 25 percent to just 750 today. Like many other companies questioned on their hiring decisions, the corporations executives point to high housing costs and property taxes, as well as the shrinking pool of young job candidates who can afford to live in the area. While Pall, like the other 49 companies surveyed, account for a small minority of the island's 1.3 million jobs, the broader implications of high-growth corporations disinvesting in the local economy are of increasing concern to economists and policymakers, as well as skilled job seekers.

Pay and Poverty

Like their counterparts in most of the country, New York workers have been registering solid increases in labor productivity: output per hour rose 9.3 percent from 2000 to 2005. But employers have not generally been inclined to reward them with comparable pay raises. Statewide in these years, the average, inflation-adjusted wage rate increased a mere 1.6 percent.[9] This follows a national pattern in which profits have exploded and price increases have eroded the purchasing power of the average worker's stagnant take-home pay.

In New York City, the hourly inflation-adjusted wage of the average worker aged 18 to 64 dropped by 3.4 percent between 2002 and 2005. As Figure 3 shows, the wage cut for male workers was over three times as steep as for working women. White non-Hispanic wages fell an average of 4 percent, while the wage level was little changed among African Americans and rose slightly among Latinos. In the case of both male and white workers, their relatively large 2002-05 wage declines followed unusually large wage hikes in the late 1990s boom that lingered through 2001-02. As a result, despite their pay cuts after 2002, white non-Hispanic men still had about a one percent higher real wage in 2005 than in 1999. The same cannot be said for women, blacks and Hispanics: in 2005, each group had still not recovered their 1999 wage levels. Comparing workers by educational attainment reveals a surprising pattern: real pay declined less for those with no more than a high school education than for college-educated workers in this period. This follows a national trend evident since the 2001 recession, in which most earnings inequality has increased <u>within</u> broad educational groups rather than <u>between</u> these groups.[10] In New York it may be exacerbated by a sizable increase in the supply of young college-educated jobseekers moving to Manhattan and Brooklyn in this same period.

The latest poverty estimates for the city reveal that 1.7 million New Yorkers – 21.6 percent of the 8.1 million current residents – live below the federal poverty line. The fact that a rising share of these are working poor is a likely reflection of the weak wage growth and rising price inflation confronting event full-time working people. The fraction of families counted as "earnings poor" rose from 11.1 percent in 1999-2000 to 14.4 percent in the latest 2004-2005 estimates.[11]

One piece of good news did emerge from the August Census report on income and health insurance: among the states, New York was one of only three in the nation that managed some improvement in health coverage. In New York, the fraction lacking coverage fell since 2003, from 14.2 down to 13.3 percent. The state's expansion of funding and outreach for Medicaid, Child Health Plus, and Family Health Plus are clearly the main reasons for this improvement. Still, about 2.6 million New Yorkers remain without any health insurance protection.

Tax Cuts, Minimum Wages and Union Rights

Whether the economy can be spared no more than a "soft landing" in coming months is widely expected to depend on how much weaknesses in housing and other sectors can be counteracted by business investment and government monetary and fiscal policies. But, at a time of huge budget deficits and massive war spending, the scope for serious fiscal stimulus anytime soon may be quite limited.

In addition to the enormous human costs of the Iraq conflict, a new Government Accountability Office report on military costs in Iraq found that neither the Defense Department nor Congress "can reliably determine the costs of war, nor do they have the details on how appropriated funds are being spent or historical data useful in considering future funding needs."[12] The best estimates of the Republican-led Congressional Budget Office are that – even in the least-cost case of a rapid withdrawal – an additional $166 billion would be needed, on top of the $290 billion already allocated.[13]

Even as it continued expanding military spending, while cutting college financial aid, employment, environmental and other program funding, the White House in May pushed through another extension of its sizable tax cuts. At an initial cost said to be $70 billion, the new law extends to 2010 the 2003 cuts in taxation of stock dividends and capital gains. It also allows blocks for an extra two years a jump in the number of people subject to much higher rates under the Alternative Minimum Tax. In signing the measure, President Bush stated: "The American people have used their money better than the government ever could have. They've used the tax relief to provide for their families and create jobs and help the American economy become the envy of the industrialized world."[14]

Independent economic analyses of the full effects of the tax cuts raise questions about exactly which families have, in fact, gained anything and which ones have lost. According to the Tax Policy Center, two-thirds of Americans will get no tax cut from the law. Of the minority who do, the average middle-income fifth of households will receive just $20! Who does benefit? The richest one-tenth of households capture about 80 percent of the tax cuts benefits – averaging $43,000 for the typical millionaire. The authors concluded: "More than 85 percent of all households have incomes below $100,000 and the vast majority of these households will be net losers when the financing costs of the tax reconciliation bill are considered."[15]

The full impacts of all the 2001-06 tax cuts also appear to have disproportionately benefited the highest income households. A new study by Robert McIntyre estimates that 51 percent of these tax cuts' benefits have flowed to the top one percent of U.S. taxpayers. In New York State, the average middle-income family has had its federal income taxes reduced by $1,904 per person since 2001. In the same period, however, the average tax reduction per person for the richest one percent ($2 million income and up) of the state's families has been over 73 times that: $140, 244. But, once one takes into account the additions to the national debt required to cover these tax cuts, the average family actually loses: its share of the added public debt ($9,192 per person) far exceeds its tax cut. Result: it actually incurs a net debt of $7,288. Overall, 99 percent of taxpayers are net losers from the tax policy. In contrast, the richest one percent of New Yorkers come out ahead by an average tax windfall of $57,356 (=$140,244 tax cuts, less $82,888 added debt burden).[16]

If low- and middle-income Americans have lost out on tax relief, they will find little compensation from recent federal decisions on the minimum wage and union rights. The federal minimum wage has not been raised from $5.15/hr. since 1997. Given price inflation, this means its purchasing power, by 2006, has shrunk by 20% -- hitting its lowest level in a half century.[17] As recently as 1980, the real value of the minimum wage was, in 2006 dollars, $7.13. Today, even a full-time/year-round minimum wage worker makes $7,000 less than the official poverty level for a three-person family. Public opinion polls show that a sizable increase in the minimum is overwhelmingly popular. In a 2006 nationwide survey by the Pew Research Center, 85 percent of the public favored raising the minimum wage to $7.15.[18] Support for higher minimum wages appears to be similarly lofty among young and old alike. In response to federal paralysis, twenty states and the District of Columbia raised their state minimum wage floors above the federal level by 2006. Of these, ten states had set their hourly minimum at least $2 above the federal level.

Opponents of raising minimum wages, led by large fast-food chains, retail discounters and other low-wage employers, argue that higher wage floors will raise unit labor costs so much that they will be forced to dismiss marginal young workers. A sympathetic Republican White House and Congress agreed and continue to reject Democratic proposals to raise the federal minimum to at least $7.25 per hour, even if it was phased in over two years – unless it was coupled with another tax cut for the very richest Americans with multimillion dollar estates. It even delayed reauthorization of the 1996 welfare reforms in order to avoid inclusion of an amendment to raise the minimum wage. Instead, the Bush White House offered a radical change, making it optional for individual states whether to continue following federal minimum wage guidelines. Critics argued that this would open the likelihood of a "race to the bottom" among the states, driving down not only the wage of the lowest-paid, but of many other workers as well. Proponents of higher federal minimums counter the critics on several grounds. And a sizable body of empirical economic research finds little if any significant job loss from recent federal or state increases in the legal minimum.[19]

"Labor Board Redefines Union Rights" – that is how the Wall Street Journal heralded the much-anticipated Oakwood Healthcare decision of the Bush administration's National Labor Relations Board in late September.[20] In a 3-2 party-line vote, the Republican majority broadened substantially the definition of "supervisors," thereby increasing the number of workers who can be denied the right to union representation. In so doing, it swept aside the long-standing NLRB definition of supervisors as only those with authority to hire, fire, discipline, evaluate, or promote other employees. According to the board's new ruling, employers are now given discretion to reclassify any employee as a supervisor if they spend as little as 10-15% of their time overseeing the work of others. The two dissenting NLRB members, Wilma Liebman and Dennis Walsh, condemned the decision because it "threatens to create a new class of workers under federal labor law—workers who have neither the genuine prerogatives of management, nor the statutory rights of ordinary employees." Most professionals could, they wrote, fall under the new definition of supervisor, "who by 2012 could number almost 34 million, accounting for 23.3 percent of the workforce." How unions and their allies respond to this unprecedented threat to workers' rights could have important implications for the ability of most workers – union and non-union alike – to reverse their wage and benefit declines in coming years.

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Figure 1
NYC Job Growth by Industry: June 2005– June 2006
(in thousands of jobs, and percent change)

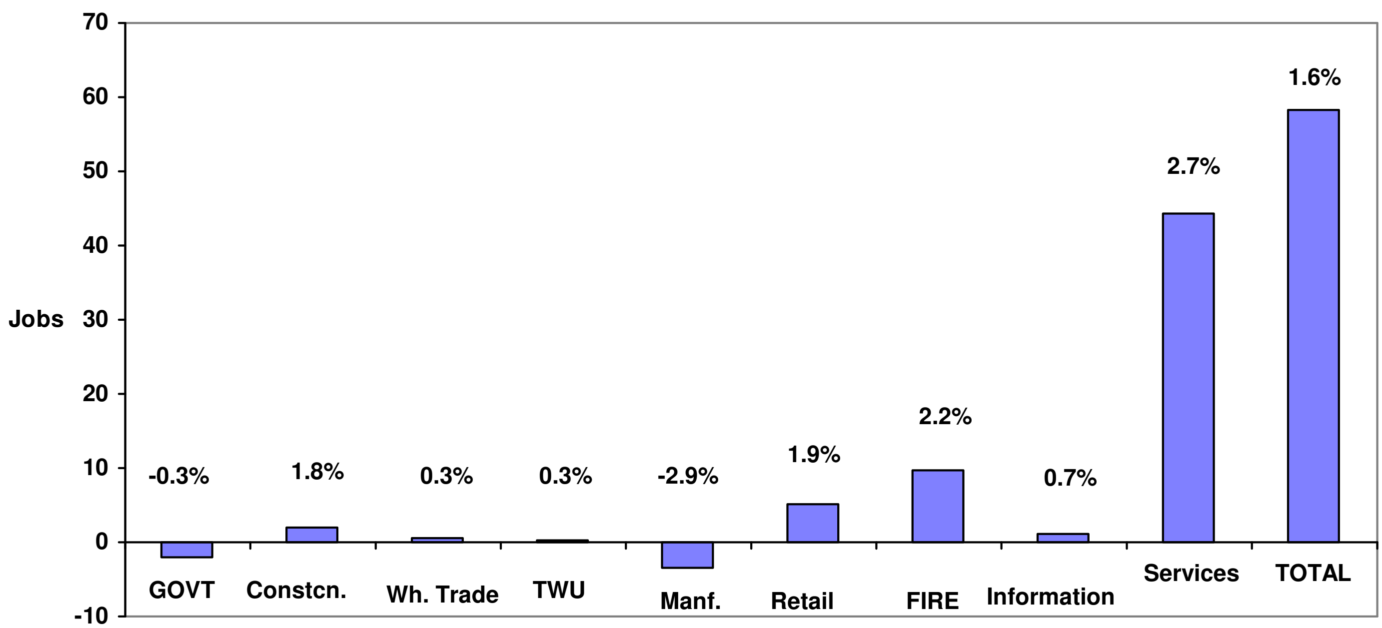
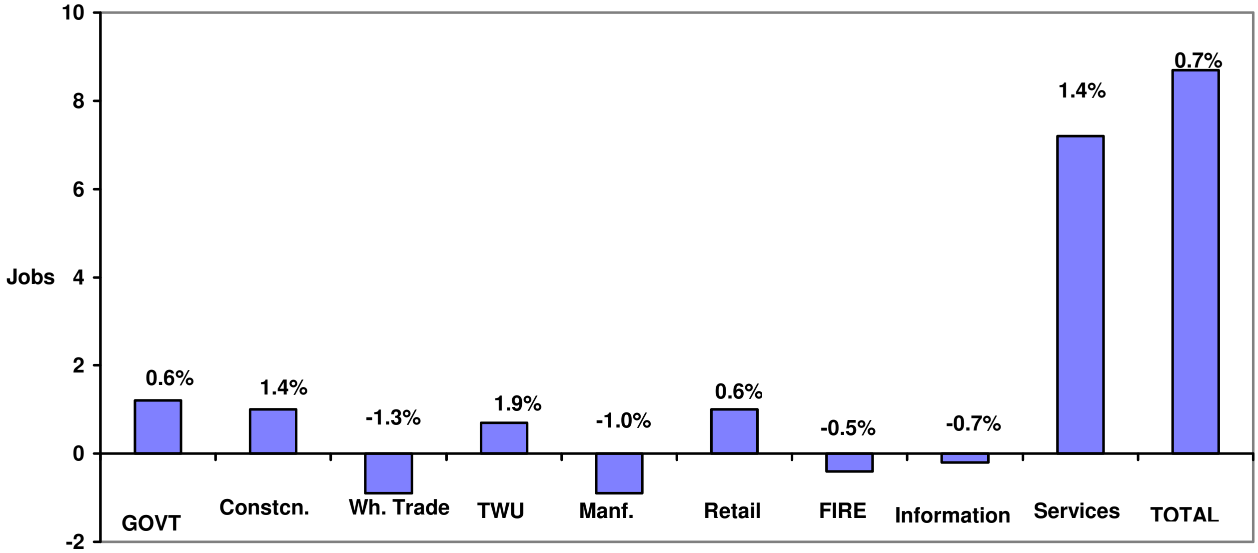


Figure 2
Long Island Job Growth by Industry: June 2005– June 2006
(in thousands of jobs, and percent change)



Source: NYS Dept. of Labor: nonfarm payroll job data from CES establishment survey in Nassau & Suffolk counties. Year-to-year changes, not seasonally adjusted. Note: FIRE = Finance, Insurance & Real Estate; TW U= Transport, Warehousing & Utilities.

Table 1
Number of Nonfarm Jobs (in thousands) by Place of Work: 2000-2006

	June 2006	June 2005	June 2000	% Change	
				2000-2006	2005-2006
U.S.	136,380.0	134,531.0	132,998.0	2.5%	1.7%
NY State	8,608.8	8,532.6	8716.6	-1.2	0.9
New York City	3,673.7	3,615.5	3742.2	-1.8	1.6
Long Island	1,271.3	1,262.6	1236.3	2.8	0.7

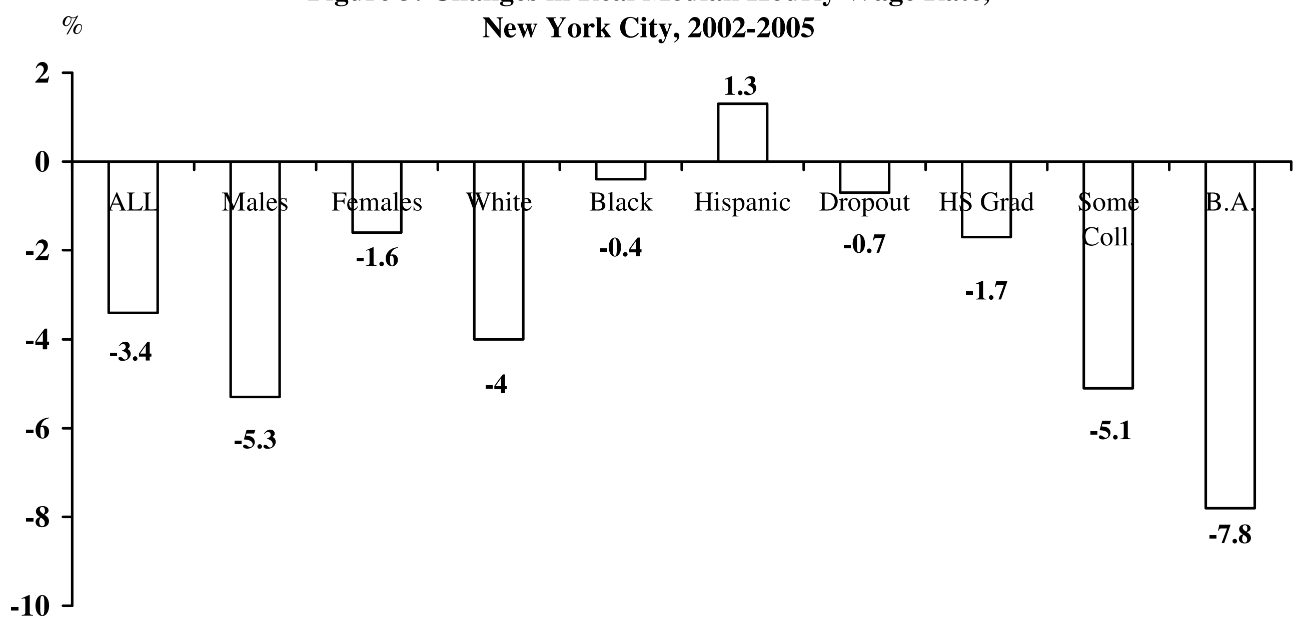
Source: Establishment data (not seasonally adjusted) from US Dept. of Labor & NY State Dept. of Labor.
Note that the data reflect regular revisions made by the Dept. of Labor.

Table 2
Civilian Labor Force, Employment & Unemployment:
New York City, Long Island & All U.S., June 2005 – June 2006
(in thousands, not seasonally adjusted)

	Labor Force		Employed		Unemployed		Unemploy. Rate	
Area	June 2006	June 2005	June 2006	June 2005	June 2006	June 2005	June 2006	June 2005
U.S.	152557.0	150326.0	145216.0	142456.0	7341.0	7870.0	4.8%	5.2%
NYC	3778.4	3708.4	3593.8	3507.1	184.6	201.3	4.9	5.4
Brooklyn	1064.5	1045.1	1008.5	984.1	56.0	61.0	5.3	5.8
Bronx	507.9	499.2	475.9	464.4	32.0	34.8	6.3	7.0
Manhattan	886.8	869.7	848.4	828.0	38.4	41.7	4.3	4.8
Queens	1088.7	1068.2	1040.3	1015.2	48.4	53.0	4.4	5.0
Staten Island	230.5	226.2	220.7	215.4	9.8	10.8	4.3	4.8
Long Island.	1526.3	1496.0	1467.2	1435.0	59.1	61.0	3.9	4.1
Nassau Co.	720.3	705.7	691.8	676.6	28.5	29.1	4.0	4.1
Suffolk Co.	805.9	790.2	775.3	758.3	30.6	31.9	3.8	4.0

Source: CPS household survey data from NY State Department of Labor, 2004 Note that the data reflect regular revisions made by the Dept. of Labor.

Figure 3: Changes in Real Median Hourly Wage Rate, New York City, 2002-2005



Source: U.S. Census Bureau CPS data, estimates by Fiscal Policy Institute, 2006. Figures adjusted for inflation with CPI-U-RS. NYC residents, ages 18-64, in work force. White and Black subsamples are non-Hispanics.

NOTES

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