Do the Poor Get Poorer? Women, Children and America's Jobless Recovery

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ABSTRACT
The purpose of this paper is to examine the effect of the 2003 - 2004 "jobless recovery" on income and poverty. Under current conditions where productivity is rising at unprecedented rates and output growth suggests an otherwise booming economy, readings of standard labor market variables such as the unemployment rate and number of jobs created may not reveal the problems facing the unemployed in this "recovery". Therefore, special characteristics of the current (2003- 2004) recovery are examined relative to the past recoveries. In addition, because a disproportionate number of single mothers and children make up the ranks of the poor, the paper studies the implications of declining income and a rise in the overall poverty rate on the most vulnerable groups in the society (minorities, women and children). Policy implications are drawn from the findings of the paper.

INTRODUCTION

The most recent recession hit many Americans hard. Accustomed to a roaring stock market and steady wage growth, many Americans were shocked when friends, neighbors and coworkers suddenly lost their retirement savings, their jobs or both. Once the recovery was comfortably underway, a collective sigh of relief could be heard across the nation. However, this recovery has proven atypical in the area of job creation.

According to the official determination of business cycles, the most recent recession in the US economy began in March 2001 and ended in November of 2001. Recovery is normally a period over which, at the least, more jobs are created than eliminated. The latest recovery, however, has been dubbed a "jobless recovery." This jobless recovery, a particularly ironic oxymoron, has been unfolding on the heels of a business climate where cost-cutting and down-sizing have been the name of the game. Cost cutting measures pursued by various companies have chiefly translated into eliminating jobs and reducing labor costs. Under current conditions, readings of standard labor market variables such as the unemployment rate and number of jobs created may not reveal the problems in this recovery for workers. For example, in July and August of 2003 the nation's unemployment rate were 6.2 and 6.1 percent, respectively. The unemployment rate in September stayed at 6.1 percent but it subsequently declined to 6, 5.9, and 5.7 percent, respectively, for the months of October, November, and December of 2003. Thus, the downward trend for the unemployment rate may suggest a collective improvement in the work-life conditions of millions of wage earners. Other developments in the economy and the labor market, however, may indicate a different picture, one that is less bright than a 5.7% unemployment rate suggests. These developments include an unusually low labor force participation rate an increasing trend in the number of part-time jobs with relatively low pay, no benefits and little chance for advancement.

The purpose of this paper is to examine the effect of the "jobless recovery" on income and poverty. Because a disproportionate number of single mothers and children make up the ranks of the poor, this paper studies the implications of declining income and a rise in the overall poverty rate on the most vulnerable groups in the society (minorities, women and children). The implications of an economy that continues to expand at a seemingly healthy rate, and yet is one that is characterized by a sluggish job market must be understood before policy makers' attention can be effectively brought to bear on this matter.

SPECIAL CHARACTERISTICS OF CURRENT JOBLESS RECOVERY

1. *The economy experienced job losses instead of job gains during this "recovery".*

Since 1939 which was the first year that monthly statistics about the labor market were collected and reported, in every recovery, two years after the end of a recession, there has been a positive growth in the number of jobs created. This was true even for the jobless recovery of the early 1990s. According to the Economic Policy Institute, however, during the 24 months following the end of recession in November 2001, the number of jobs lost was 726,000 (Bernstein, 2003).

Table 1 indicates that 24 months after the end of recession of the early 1990s, the economy enjoyed a 1.3 percent increase in the job growth. The previous eight recoveries had boasted job growth rates of at least five percent. During the eight quarters following the official trough of the recession of 2001, however, the number of jobs *declined* by 0.6 percent. Therefore, this is one unique feature of the current jobless recovery that sets it apart from the previous recoveries. Moreover, the manufacturing sector which makes about 15% of U.S. business sector employment has suffered job losses that are unprecedented relative to any historical standards. According to the Bureau of Labor Statistics, by the end of third quarter of 2003, hours of all persons in manufacturing had fallen for the thirteen consecutive quarters. In other words, September 2003 was the 52^{nd} month over which the manufacturing sector experienced job losses. Moreover, in the second and third quarters of 2003, hours of all persons in the manufacturing sector declined by 5.9 and 5 percent (seasonally adjusted annual rate), respectively (BLS, Quarterly Productivity and Cost Reports, 2003).

Manufacturing jobs, however, are those which, on average, are better compensated both in terms of wages and benefits. Jobs in the manufacturing sector (quality jobs) provide employees with a standard of living which is the envy of those working in the service sector. Policy makers and economists alike must be concerned with the loss of these jobs because the income effect of this loss could be quite significant.

2. *Uneven distribution of income growth between corporate profits and wages.*

Bivens (2003) examined the distribution of corporate-sector income between profits and labor compensation at an identical point in every economic recovery that has lasted for seven quarters since World War II. Figure 1 presents a graphical representation of his findings.

Figure 1 shows that the labor compensation share of income growth has declined while the share that goes to profits has increased in the recent recovery. According to the Economic Policy Institute:

Labor compensation's share of total income growth averaged 61% in previous recoveries, and has never been lower than 55% until the most recent one, in which labor compensation has accounted for only 29% of total income growth. Conversely, profits' share of total income growth averaged 26% in all previous recoveries, and have never been higher than 32% until the most recent recovery, in which profits accounted for 46% of income growth (Bivens, 2003 p. 2).

Moreover, Table 2 presents data that show that while unit labor costs have systematically declined quarter after quarter since first quarter of 2001, unit profits have increased for the most part. Bureau of Labor Statistics defines *unit labor costs* as those which reflect changes in both hourly compensation and productivity. Hourly compensation includes wages and salaries, supplements, employer contributions to employee benefit plan and taxes.

Table 2 indicates that in 9 out of 11 quarters listed, and in seven out of eight quarters since the beginning of the current jobless recovery, the unit labor costs have dropped. The most recent data show that in the third quarter of 2003, unit labor costs dropped by 5.6 percent while unit profits rose at a 60.9 percent annual rate. This rise follows an unprecedented rise in the unit profit rate of 61.6% in the second quarter of 2003. This evidence suggests that the ill-effects of the anemic recovery have been basically shouldered by the working people. In other words, if unit profits are any gauge of how well companies are doing, one can conclude that the recent economic and political conditions, both domestically and internationally, have created conditions that have drifted the fortunes from the working class to the capital owners.

3. Rise in the Number of Discouraged Workers.

Another characteristic of the current "recovery" is the rise in the number of "discouraged workers." Because of limited openings, duration of unemployment has increased and the number of people who have stopped looking for jobs has increased as well.

Table 3 indicates that there has been an increase in the number of discouraged workers since the onset of the current recovery in November of 2001. This is true for both male and female workers. However, Table 3 suggests that the number of women who joined the ranks of "discouraged workers" is larger. Because discouraged workers are not counted as unemployed, the rising number of discouraged workers is mostly responsible for the fact that the official unemployment rate is declining while there is not much improvement in the labor market in terms of number of jobs created.

4. Increase in the Number of Multiple Jobholders.

The loss of quality jobs that provide a decent standard of living, and their replacement with jobs that can be characterized as secondary jobs with a lower pay, has resulted in an increasing number of people who have to work at multiple jobs to make ends meet. In addition, as Tilly (1991) showed since 1970 a growing portion of jobs in the United States is in the form of part-time employment. Part-time jobs, however, command lower compensation. This forces part-time workers, especially those who *involuntarily* are part-timers, to work at multiple jobs. Table 4 shows the number of multiple jobholders by sex.

Table 4 reveals that the total number of individuals who hold multiple jobs has been on the rise since the beginning of the current recovery. This is a clear indication that not only has this recovery failed to produce a sufficient number of jobs, but those precious few jobs created lack much "quality". Moreover, Table 4 shows that proportionally higher number of women have had to suffer this situation of working at multiple jobs.

POVERTY AND INCOME

In spite of the recent economic recovery, the weak labor market is making it harder for low income individuals like female heads of households and minorities to find and keep gainful employment. In this section, the consequences and ramifications of the jobless recovery are examined in relation to the income levels and poverty status of the target low income group[a].

It is possible, but unlikely given the employment data of the previous section, that there may be some improvement in the income and poverty data for the first quarter of 2003. Census data released at the end of September 2003 (results from 2002), some of which is cited below, are supported by recent research that reveals that this jobless recovery is similar to that of the 1991 recovery (Schreft and Singh, 2003). Both of these recoveries have been more jobless than predicted by Okun's Law. The implication of this is that, while economic activity is picking up, the benefits are not trickling down to the unemployed and those who historically suffer in a difficult labor market (Schweitzer, 2003). Therefore, one might expect the income and poverty figures for 2003 to be as bad or worse as those of the year before.

This is not the first recovery during which household and family income fell. Figure 2 shows the change in median family income for the first year of each recovery since 1950. The 1991 recovery was also weak in terms of labor market recovery and, therefore, income growth. According to the Economic Policy Institute, declines in real median household incomes for minority groups are even more dramatic. Therefore, one may expect households falling below the median to be strongly affected in terms of income growth.

While data for 2003 are not yet available, it is clear from the results of the Current Population Survey (CPS), 2003 Annual Social and Economic Supplement (ASEC), that both the poverty rate and the number of individuals living in poverty is on the upswing. In 2002, the official poverty rate was 12.1 percent, up from 11.7 percent in 2001. The number of people living below the official poverty threshold was 34.6 million in 2002. This is 1.7 million more than the 32.9 million people in poverty in 2001.

For the groups relevant to this analysis, low income single mothers and children, the poverty rate from 2001 to 2002 remained unchanged. However, the number of female householder families (no husband present) living in poverty rose from 3.5 million in 2001 to 3.6 million in 2002. The number of children (under 18 years of age) in poverty increased from 11.7 million in 2001 to 12.1 million in 2002. The rate of increase in the poverty rate for children under the age of 5 jumped a full percentage point to 19.8 percent.

The documented continuation of the lack of job creation in spite of economic recovery has a direct impact on the incomes of the target low income group. Since jobs are scarcer and wage growth has slowed, we may expect incomes to continue to fall as well. Three sources of income that appear to rise when the economy is growing and potentially fall when the economy is in a slump are earnings from work, the Earned Income Tax Credit (EITC) and child support payments. While these values rose from 1996 to 2000, all three sources of income fell from 2000 to 2002. EITC and earnings from work can be expected to fall if the current recovery remains relatively jobless. Continued unemployment may also affect non-custodial fathers causing child

[a] For the purposes of this analysis, the term target low income group refers to families with female heads of household who fall below the income threshold or poverty line as defined by the US Census Bureau for the particular year cited. In 2001, a family of two adults and two children would have to have made less than $17,960 a year to be ranked as living below the poverty level. For a single person under the age of 65 the poverty line in 2001 was roughly $9,200 a year.

support payments to fall as well (Chapman and Bernstein, 2003).

Table 5 shows the real income levels of the target low income group by income source for 2000 and 2001. Congruent with discussions in the previous sections, Table 5 clearly shows that for the target income group, real income from work has fallen while real earnings from unemployment compensation have risen from 2000 to 2001. In other words, as more jobs were lost, more people have qualified for and received unemployment benefits.

The figure below shows just how many families are affected by these employment and income trends. As previously discussed, families coming off public assistance programs fared well in the mid to late 90's. The data show that the poverty level of the target group dropped from 32.4% in 1995 to a low of 25.4% in 2000. This percentage, as well as the overall number of these families, has increased in the last two years from 25.4% to 26.5%. The data show that, in the last two years, 335 female head of household families have joined the ranks of America's poor. The above analysis gives little hope that this number will decline in 2003. In fact, should the weak labor market continue, and particularly continue to affect the sectors where these women are most typically employed, we may expect to see an even greater number of families fall below the poverty line.

DO THE RICH GET RICHER?

In stark contrast to the income data of section III, recent news reports reflect that Americans are spending more on luxury goods than ever before. An analysis of the Consumer Expenditure Survey, 2000, shows that households in the bottom fifth in terms of income spend 49.5% of their income on necessities: food, housing and apparel. In contrast to this number, Americans in the highest income quintile (top fifth) spend only 38.9% on necessities. Even more troubling is the fact that households with one parent and at least one child under the age of 18 spend 51.3% of their income on necessities. Survey respondents in the highest income group also reported spending increasingly higher amounts on food due to eating food away from home i.e. at a restaurant (Duly, 2003).

Affluent Americans showed significant changes in their attitude toward the economy in July, 2003. 32% of those polled by the McDonald Financial Group reported that their economic situations have improved. This number was twice that of the previous quarter (PR Newswire, July, 28, 2003). While those polled indicated they would avoid spending much on luxury goods until they felt more confident in the recovery, this has not been the case. As the economy grew during the first half of 2003, companies who sell what are classified as luxury products (goods for which consumers will pay premiums between 20% and 200%) have shown, on average, an 18% increases in sales (PR Newswire, September 3, 2003). During this same period, total personal consumption expenditures increased less than 5% (U.S. Department of Commerce).

Stock analysts report that, while demand at luxury retailers may be strong, retail sales as a whole have failed to maintain strong sales. The most recent seasonal sales predictions reveal that sales at luxury retail stores will rise an average of about 10% while discounters, such as Wal-Mart, may have gains in the range of 6% (Broward Daily Business Review, December 10, 2003). The indicators are overwhelmingly in support of the conclusion that there are profits being made by businesses and those in society's upper income levels during this recent economic recovery. However, the evidence is equally compelling that America's poor are not enjoying an increased standard of living and may, in fact, be worse off now than during any previous recovery period in our history.

CONCLUSIONS

The latest employment data of December 2003 support the disturbing findings of this study. Only 1,000 non-farm jobs were created in December and unemployment, while continuing an encouraging five month decline, declined only .2% (Bureau of Labor Statistics, 2003). Historically, the target low income group analyzed here would be prime candidates for positions created in the retail sector. However, at a time when one would have expected holiday sales to have caused healthy job creation in this sector, the results support the findings of this analysis which is that the supposed economic boom is not trickling down through businesses to benefit low income women and children.

The implications for policy makers are clear and yet the solutions are not easy. The need for increased support for poor families is a difficult sell to a voting constituency during an economic boom. The argument is even less likely to come to the forefront of policy discussions during an election year. And yet, if the trends identified here continue, the overall effect on the current economy and on long term economic growth are potentially quite serious.

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Table 1 – Percent Change in Total Employment 24 Months after a Recession Ended

October 1945 to October 1947	+15.1
October 1949 to October 1951	+11.8
May 1954 to May 1956	+7.2
April 1958 to April 1960	+7.4
February 1961 to February 1963	+5.0
November 1970 to November 1972	+6.5
March 1975 to March 1977	+6.2
November 1982 to November 1984	+8.1
March 1991 to March 1993	+1.3
November 2001 to November 2003	-0.6

Source: Economic Policy Institute for jobwatch.org

Table 2: Non-financial Corporations: Unit Labor Costs and Unit profits, Seasonally Adjusted

		Indexes 1992 =100		Percent change from previous quarter at annual rate	
Year	**Quarter**	**Unit labor costs***	**Unit profits**	**Unit labor costs**	**Unit profits**
2001	**I**	110.6	93.1	1.4	-20.2
	II	110.4	95.4	-0.4	10.0
	III	110.3	97.9	-0.6	10.8
	IV	108.2	107.6	-7.3	46.1
2002	**I**	107.9	107.6	-1.2	-0.2
	II	107.5	107.8	-1.3	0.9
	III	107.4	104.6	-0.5	-11.2
	IV	107.1	110.1	-1.0	22.8
2003	**I**	107.2	112.4	0.4	8.5
	II	106.1	126.8	-4.3	61.6
	III	104.5	142.8	-5.6	60.9

Source: Bureau of Labor Statistics; Productivity and Costs, Table 6

Table 3: Persons Not in the Labor Force, Not Seasonally Adjusted (numbers in thousands)

Category	Men			Women		
	Nov. 2001	**Nov. 2002**	**Nov. 2003**	**Nov. 2001**	**Nov. 2002**	**Nov. 2003**
Not in the Labor Force						
Persons who currently want a job	1,996	1,936	1,907	2,324	2,471	2,294
Searched for work and available to work now	685	697	704	630	704	769
Reasons not currently looking						
Discouragement over job prospects	180	234	285	141	150	173
Reasons other than discouragement	504	463	419	488	553	597
Total: not currently looking	684	697	704	629	703	770

Source: Bureau of Labor Statistics Household Data Table A-13

Table 4: Multiple Jobholders by Sex, Not Seasonally Adjusted (numbers in thousands)

Category	Men			Women		
	Nov. 2001	**Nov. 2002**	**Nov. 2003**	**Nov. 2001**	**Nov. 2002**	**Nov. 2003**
Multiple jobholders						
Total multiple jobholders	3,593	3,520	3,618	3,487	3,741	3,684
Percent of total employed	5.0	4.8	4.9	5.5	5.8	5.7

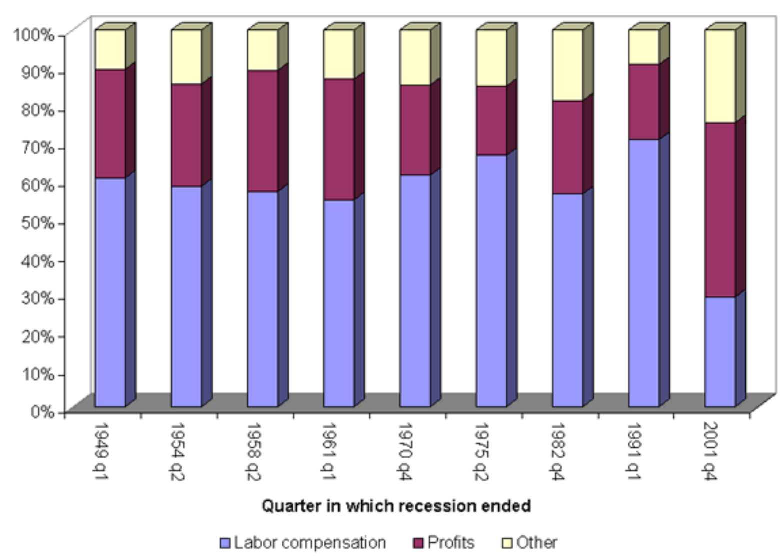
Source: Bureau of Labor Statistics Household Data Table A-13

Table 5: Real Income Levels of the Target Income Group by Income Source, 2000 to 2001 (2001 dollars)

	2000	2001
All income	**$15,082**	**$14,598**
Earnings from work	**$8,179**	**$7,836**
Pro-cyclical income support	**$2,605**	**$2,469**
EITC	$1,752	$1,676
Child support	$853	$793
Safety net	**$2,693**	**$2,619**
Unemployment compensation	$104	$170
Public assistance	$783	$647
Food stamps	$1,025	$1,021
Housing Assistance	$781	$780
Other income sources	**$1,604**	**$1,674**
Social security	$517	$557
SSI	$476	$538
Miscellaneous income	$612	$579

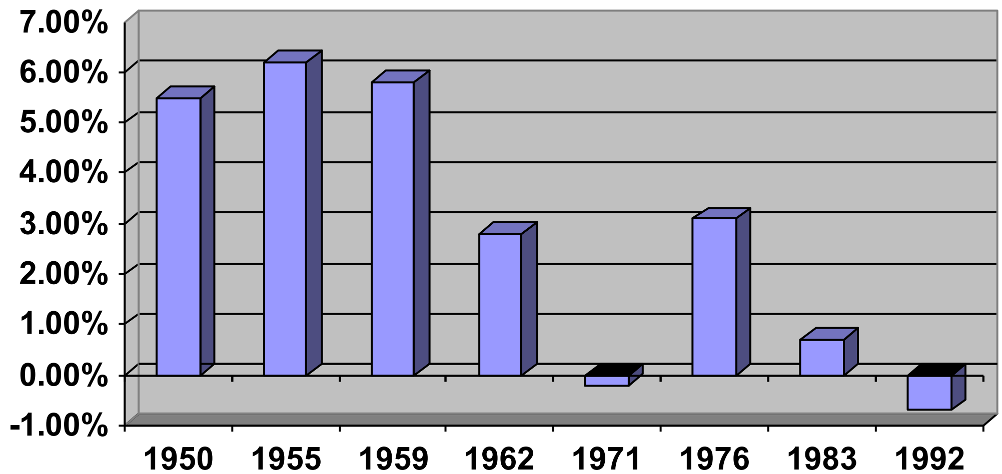
Source: Reprinted from Chapman and Bernstein, 2003

Figure 1: Shares of growth in U.S. corporate-sector income, first seven quarters into recovery



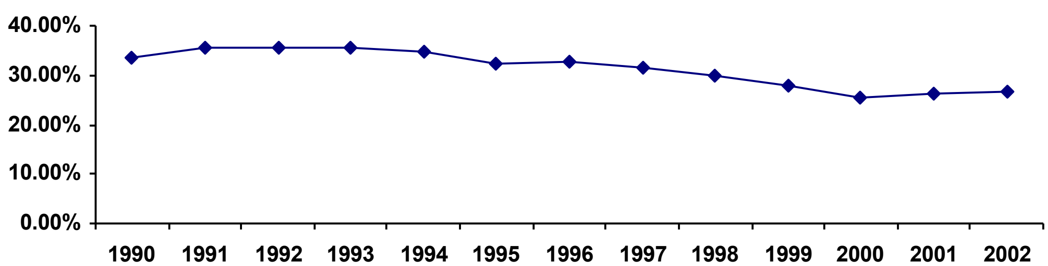
Source: Reprinted from Economic Policy Institute- Economic Snapshots- December 3, 2003.

Figure 2: Change in Median Family Income—First Year of Recovery



Source: reprinted from Bernstein and Chapman, September 26, 2003

Figure 3: Families Falling Below the Poverty Level, Female Householder/no Husband Present, from 1990 to 2002 (all races)



Source: U.S. Census Bureau, Historical Poverty Tables