The Lost Decade

America's missing jobs

They're calling it "The Lost Decade." The period from 2000 to 2009 was the first decade since the Great Depression in which the number of jobs in America didn't grow.

The nation started the year 2000 with about 129 million people employed, but there was little job growth over the next few years following the terrorist attacks of Sept. 11, 2001. Hiring jumped a bit in 2005, and it looked like the economy was improving.

Then the financial crisis of 2008-2009—which ballooned into the worst since the Depression—wiped out the modest job growth the middle of the decade had seen. At the close of 2009, the number of jobs in the country was roughly the same as 10 years earlier. But in 2009, more people were chasing the same number of jobs, pushing the unemployment rate above 10 percent.

It would be easy to blame President George W. Bush for the poor job performance. Of all the presidents since the end of the Depression, Bush has the worst record of job creation. But the Lost Decade is part of a trend that began decades before Bush took office. It sprung from policies and changes dating from the 1970s that had long-term, sweeping consequences. Bush embraced many of those policies, but he didn't invent them.

Stagnant job market, stagnant wages

While Americans are finding it harder to get a job these days, those who *are* working are working harder and longer hours—but their income isn't growing in tandem. This trend isn't new. It began in the late 1970s. Since then, American workers have steadily produced more on the job, in part because they have better training and education or new technology, but also because they work more hours. Neverthless, household incomes haven't grown faster than inflation since 1979.

So where have the fruits of their labor gone? Who is reaping the benefits of increased productivity?

Economist and *New York Times* columnist Paul Krugman has labeled the period between 1979 and today as "the Great Divergence." In that period, the economy has grown, but relatively few Americans have shared in that growth. Average income has risen by $10,401, adjusted for inflation (2008 dollars), between 1979 and 2008—but the gains have gone to the richest 10 percent of Americans. The other 90 percent have seen a slight *decline* in real income.

That marks a stark shift. Between 1939 and 1978, three-quarters of the growth in income went to 90 percent of Americans; the top 10 percent got the rest.

The difference is even more striking when you look at the top one percent. Since 1979, that group has raked in more than a third of the growth in income. In the last 20 years, that trend has accelerated, with the top one percent gaining more than half of the income growth.

The Great Divergence is often summed up as "the rich got richer and the poor got poorer," but that's not entirely accurate, according to NALC research analyst Stephen DeMatteo.

"It's more accurate to say the rich got richer while the poor worked harder and didn't get any richer," DeMatteo said. "The economy has grown and middle-class workers have produced more, but their wages haven't increased. There's nothing wrong with people getting rich, as long as the incomes of working people are growing, too. That has largely stopped happening in the past few decades."

The recovery from the recession of 2008-2009 reflects that fundamental divide.

Did you know that the Great Recession has ended? It's officially been over since the summer of 2009, because recessions are defined as a decline in gross domestic product (GDP) in two consecutive quarters. Though businesses are producing more goods and services again, the unemployment rate has remained stubbornly high—8.9 percent as of February. As businesses grow again and factories take new orders, they're doing it largely without rehiring many workers, at least so far.

The Bureau of Labor Statistics (BLS) reported that the economy created 192,000 jobs in February—encouraging news, but the economy needs to add about 150,000 new jobs each month just to keep up with the growth in the labor force. To lower the nation's unemployment rate to 6 percent by 2013 and make up for the more than 7 million jobs lost in the Great Recession, the economy needs to add 350,000 jobs a month.

The BLS reports that 13.7 million people remain unemployed. If you add in those who have given up looking for jobs and part-time workers who want full-time jobs, 24.8 million, or 15.9 percent of the workforce, are unemployed or underemployed. Unemployment has remained high even though the GDP has been rising since the second half of 2009.

Like the long-term inequality trend, the recovery from the latest recession isn't shared equally. While unemployment remains high, companies are reaping record profits. The Dow Jones index has climbed nearly 4,000 points since the recession officially ended. In previous recoveries, nearly two-thirds of the increase in productivity in the months following each crash went to workers in the form of wage increases. This time around, productivity has gone up 5.2 percent, but wages are stuck at 0.3 percent growth. That translates to a 6 percent share of the growth in income for workers.

How long will job growth lag behind the recovery? Nobody can say for sure, but unfortunately for some jobless people, it's outlasting their unemployment benefits. Many "99ers"—people who have been unemployed longer than the federal 99-week ceiling on collecting unemployment aid—are struggling to avoid financial collapse after they fall through the safety net. Congressional efforts to extend benefits past 99 weeks have failed several times to date, though some states provide benefits longer.

Some job seekers also find that their skills don't fit the newly created jobs. The bulk of the new jobs are in manufacturing, construction and service industries such as health care. On the other hand, hiring managers know that they have the pick of the litter in a tough economy—there is an average of five unemployed people for each open job—so they are taking much longer to choose. They also are taking advantage of the chance to hire younger workers at lower pay, leaving experienced job-seekers in the middle or near the end of their careers out in the cold.

Failure by design

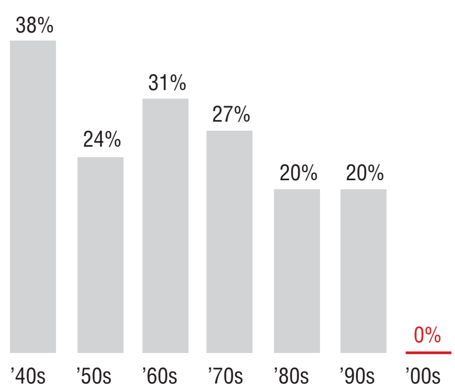
Put 100 economists in a room and you would probably get 100 opinions, or maybe more, about what caused this growing gap between the wealthy and the working class, the stagnant job growth of the last decade and the latest economic disaster.

One thing is clear, though—several changes in federal economic policies line up neatly with the sharp decline in the economy's performance, and together, these changes likely have contributed to driving the economy in a new and disturbing direction. These changes took place at about the same time that pay and benefits stopped growing for most workers.

"It wasn't always that way," said Josh Bevins, an economist at the Economic Policy Institute in Washington. For the first three decades after World War II, economic growth was rapid, and it was widely shared.

There was **zero net job creation** in the first decade of the new millennium, compared to healthy job growth in each of the previous six decades.

Job growth: Percent change in payroll employment



Source: *The Washington Post*

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But this changed because of specific choices made by politicians, financiers and business interests. In his book, *Failure by Design: The Story behind America's Broken Economy,* Bevins argues that the federal government's change of focus in five key areas, largely toward corporate interests and away from average workers, led us here:

1. The government failed to keep the minimum wage ahead of inflation. In real terms, the value of the minimum wage peaked in 1968. The "tipped minimum wage," paid to wait staff and similar workers, is at its lowest in history when inflation is factored in.

2. While global free trade was meant to create economic growth, Bevins said, "globalization was not managed well." Trade agreements included few safety or labor protections for workers, providing an advantage to countries that provide lower wages and worse working conditions—and an incentive for American employers to do the same in order to compete.

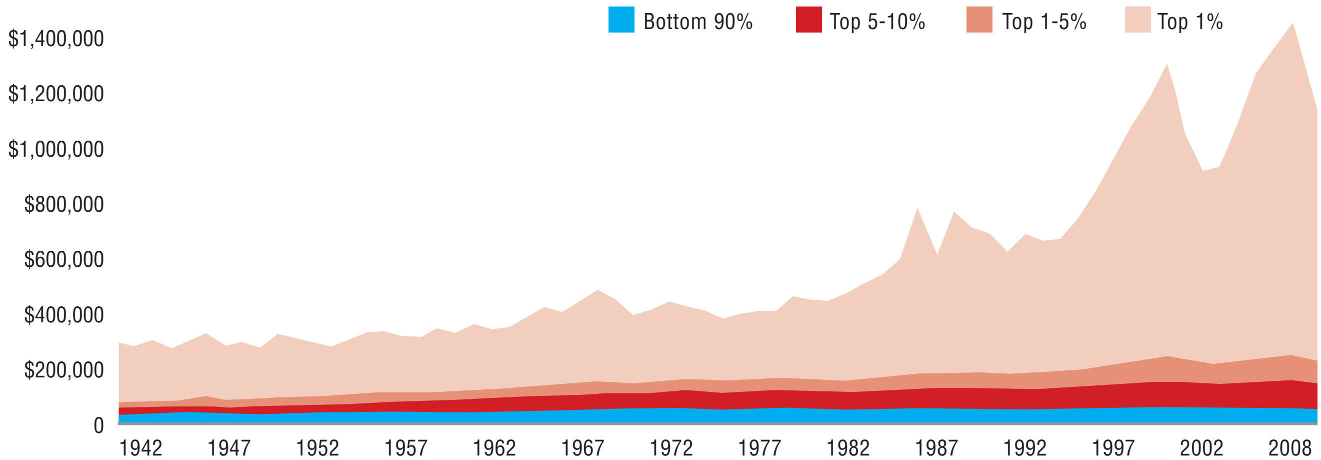
3. The Federal Reserve, which regulates how much money flows through the economy, switched its emphasis from promoting full employment to controlling inflation, and in the process, tolerated more joblessness to keep prices low.

4. Deregulation of the financial industry, which allowed the wealthiest to skim more profits off the top, contributed to the income gap and, of course, set the stage for the financial collapse of 2008.

5. Then there is the fifth reason: Barriers to union membership.

"That's pretty clearly bad for inequality," Bevins said. In the 1950s, more than one in every three workers in America was a union member. Membership has declined since then, with a sharper downward turn that began in the late 1970s and early 1980s. Thanks to this decline, the clout of unions has waned, and with it their ability to defend middle-class wages.

Average income over time



Source: The Economic Policy Institute

The decline in union membership certainly isn't due to a shift in popularity of unions among workers. Surveys show that workers who aren't represented by unions increasingly wish they were. The number of workers in non-union workplaces who would choose a union has grown significantly since 1984, when a poll found about 30 percent of non-union workers desired a union. By 2005, a majority (53 percent) said they would like to join a union—if they had the chance.

But many never get that chance due to increasingly aggressive efforts by employers to keep out unions, helped by legal barriers.

President Ronald Reagan was elected just as the Great Divergence began, and his dramatic firing of striking air traffic controllers in 1981 set the stage for harder times for unions. Reagan's action unleashed a flurry of union-busting.

Faced with strikes, some employers got around a law that forbids firing strikers by hiring "permanent replacements." Corporations used aggressive tactics to avert or influence union elections. Others used stall tactics by refusing to negotiate with certified bargaining units.

Anti-union appointees to the National Labor Relations Board and the courts weakened enforcement of laws protecting labor rights. More states passed so-called "right to work" laws, further diminishing union strength. Employers shifted jobs overseas or to states with business and legal climates more hostile to unions. Corporate tax policies and free trade agreements also encouraged U.S. employers to send jobs, especially union manufacturing jobs, to other countries.

Not surprisingly, union membership plummeted by two-thirds, and the gap between wealthy and average Americans skyrocketed.

Getting out of this mess

After 30 years of growing inequality capped by a deep economic downturn, what's next for a broken economy?

In the short run, Congress and the White House will continue to offer measures to bring the limping economy back to full strength, though their approaches may involve completely opposing ideas. Many economists say that the move by the GOP-controlled House of Representatives to cut spending drastically will make things worse.

Mark Zandi, an economist with investment analyst Moody's and a former aide to 2008 GOP presidential nominee Sen. John McCain, recently said that the Republican spending bill working its way through the House would eliminate 700,000 jobs. A Goldman Sachs economic report estimated that the bill would cut GDP growth by 2 percent. Federal Reserve Chairman Ben Bernanke said the legislation would kill at least 200,000 jobs. Public-sector jobs on the state level also are on the chopping block as state governments try to balance their budgets on the backs of teachers, firefighters, nurses and other government workers *(see story, page 8)*.

"This is absolutely the worst time to be cutting government jobs," DeMatteo said. "The government can hold firm when private employers can't, and that keeps the economy from sinking further. And in these tough times, Americans need more services and more help from the government, not less."

In the long run, an essential part of the answer to the Great Divergence is right in front of us: a stronger labor movement restored to its role of assuring that workers share in the benefits of economic growth. Instead, having succeeded in battering unions in the private sector, labor's adversaries now are turning their attacks to public-employee unions.

"Union opponents like to compare wages and benefits of public employees with those of private workers," NALC President Fredric V. Rolando said. "Their comparisons are flawed, because when training, education and similar jobs are compared, public-sector workers actually make less. In any case, all workers deserve to be paid an honest wage for an honest day's work. But anti-union forces have done their best to take that away from private-sector workers, and the spoils of the economy have gone to the wealthiest Americans instead of everyone. Now these same forces are after public employees. What this country needs are strong unions and a strong middle class, not a race to the bottom." ✉