



The Keystone Research Center
412 North Third Street
Harrisburg PA 17101
www.keystoneresearch.org

For Immediate Release

Contact: Christopher Lilienthal, Communications Director

Phone: 717-255-7156 (office) or 717-829-4823 (cell) | Email: lilienthal@pennbpc.org

National Recession Sets Wages Back for Middle-Class Pennsylvanians

Think tank releases State of Working PA 2009

Key findings: federal stimulus efforts working, but structural reforms needed to rebuild middle class

HARRISBURG, PA (September 5, 2009) – Federal policies to stimulate the economy have halted the economic freefall that just six months ago was consuming Pennsylvania and the United States, according to the Keystone Research Center’s annual report on the state’s economy and working families.

Still, the “Great Recession” has wrought damage on the state and national economies, adding to the urgency for policymakers to take decisive action to strengthen the middle class, center economists Stephen Herzenberg, Ph.D., and Mark Price, Ph.D., concluded in *The State of Working Pennsylvania 2009*.

“Income inequality is at its highest levels since 1917,” said Dr. Price. “The reforms of the New Deal established labor market conditions that produced three decades of broadly shared prosperity. Now, we need new structural reforms to reinvigorate middle-class families who have been left behind.”

The State of Working Pennsylvania is an annual checkup on the state economy with a focus on working families. The 2009 edition documents how the middle class has been particularly hard hit by the worst recession since the Great Depression. (See **Fact Sheet** below for detailed findings. A copy of the full report is available at <http://keystoneresearch.org>.)

Inflation-adjusted wages for middle-class workers have declined over the past year, the report notes, which comes on the heels of a seven-year stretch of wage stagnation for most Pennsylvania workers. Between 2001-2002 and 2008-2009, all but the top 5% of earners experienced a decline in inflation-adjusted wages.

Meanwhile, the incomes of the wealthiest Pennsylvanians have surged to new highs. Between 2001 and 2006 (the latest year these data are available), the top 1% of earners captured 68% of all growth in personal income.

Federal Policies Avoid Depression, But Pennsylvanians Still Struggling

One piece of good news in the report is the finding that the economic recovery plan and other federal efforts to stabilize the economy are working.

“The federal government’s response has not been perfect, but it has pulled the state and nation away from the brink of a second Great Depression,” said Dr. Herzenberg, Executive Director of the Keystone Research Center. “Both federal and state governments need to keep their feet on the economic accelerator this year and next because it will take at least that long for private-sector demand to rebound.”

Job losses in Pennsylvania have slowed from an average of more than 31,000 per month between February and April 2009 to an average of 9,200 in the last three months. National data show that the relative improvement in the economy is thanks in large part to the American Recovery and Reinvestment Act passed by Congress.

Still, the “Great Recession” has hit Pennsylvania hard, the report notes. Since the recession began in December 2007, the state has lost 192,300 jobs and more than a half million Pennsylvania workers remain unemployed. Additionally, one in seven workers are underemployed.

“While Pennsylvania workers are hurting, we have fared better than the nation as a whole,” Dr. Price said. “Still, more work must be done to rebuild the middle class and lay the groundwork for a prosperous future.”

Lessons from the New Deal

The report recommends that policymakers charting a course out of the “Great Recession” borrow two principles of the New Deal: continue stimulating the economy and enact structural reforms to rebuild the middle class.

“With unemployment on the rise and wages falling, government must remain the primary source of increasing economic demand,” Dr. Herzenberg said. “The federal government should extend unemployment benefits and continue investments in the green economy – from energy efficiency to renewable energy to more environmentally sustainable manufacturing and agricultural production and transportation systems.”

Policymakers in the 1930s also enacted four structural reforms to strengthen the middle class over the long-term: laws to establish unemployment insurance and Social Security, create a minimum wage and give factory workers the right to unionize. So far, structural reforms to rebuild and strengthen the middle class have not been on the policy radar screen in the “Great Recession.”

“This should be a high priority for our policymakers,” Dr. Herzenberg said. “Without a strong middle class, the risk of a prolonged economic slump remains high.”

About Keystone Research Center

The Keystone Research Center is a nonprofit, nonpartisan research organization that promotes a more prosperous and equitable Pennsylvania economy. You can access a copy of the State of Working Pennsylvania 2009 and find more information about the Keystone Research Center online: www.keystoneresearch.org. For ongoing analysis of the Pennsylvania economy: www.papolicyblog.com.

State of Working Pennsylvania 2009: Fact Sheet

Government Action Pulled the Economy Back From the Brink

- Job loss in Pennsylvania averaged 31,067 per month from February 2009 to April 2009, but it has averaged “only” 9,200 per month in the last three months.
- Independent analyses show that the relative improvement in job losses was driven in large part by increased public sector spending due to the American Recovery and Reinvestment Act (ARRA).
- Gross Domestic Product after falling at an annual rate of 6.4% in the first quarter of this year declined at an annual rate of 1% in the second quarter. Goldman Sachs and Mark Zandi of Economy.com suggest that without ARRA, GDP would have fallen by 3.2% to 4% in the second quarter.

The Great Recession Still Hit Pennsylvania Hard

- Since the start of this recession in December 2007, the state economy has lost 192,300 jobs, a decline of 3.3%. In the same period, the U.S. economy has shed 6.6 million jobs, a decline of 4.8%.
- As of July 2009, there were more than half a million unemployed people in the Commonwealth.
- One out of every seven workers in Pennsylvania is underemployed (meaning they cannot find the amount of work they want). The U.S. underemployment rate is 16%—nearly one out of every six workers.
- To bring the share of the working-age population who are employed back to the pre-recession level in Pennsylvania, 230,000 jobs would have to be added to the state’s economy.

Middle Class Wages Decline

- Between July 2008 and June 2009, inflation-adjusted hourly earnings for the typical Pennsylvania worker dropped by 2%.
- During the same period, wages also fell for most Pennsylvania workers above the median.
- Pennsylvania workers at the 80th percentile—earning a little over \$50,000 per year if they work full-time, full-year—experienced wage declines of \$1.18 per hour, or over \$2,000 per year.
- Lower-wage earners saw slight gains in inflation-adjusted hourly earnings.

Middle Class Loses Ground, as Wealthiest Pennsylvanians See Their Incomes Surge

- The top 1% of Pennsylvania earners captured 68% of all growth in personal income between 2001 and 2006 (the latest year for which the most detailed Pennsylvania data are available).
- The average income of the top 1% of taxpayers rose by just over \$300,000 between 2001 and 2006, an increase of 37%. The very wealthiest—one out of every 10,000 taxpayers—saw their income rise by 50%, from \$15 million to \$22.4 million.
- The average income of the bottom 90% of Pennsylvania taxpayers declined by 4.5% between 2001 and 2006.
- Income inequality in Pennsylvania and the United States now exceed the level at any other time for which data exist (data exist from 1986 to 2006 for Pennsylvania, and 1917 to 2007 for the U.S.).