



# The Keystone Research Center

The Keystone Research Center (KRC) was founded in 1996 to broaden public discussion on strategies to achieve a more prosperous and equitable Pennsylvania economy. Since its creation, KRC has become a leading source of independent analysis of Pennsylvania's economy and public policy.

The Keystone Research Center is located at 412 North Third Street, Harrisburg, Pennsylvania 17101. Most of KRC's original research is available from the KRC Web site at [www.keystoneresearch.org](http://www.keystoneresearch.org). The Keystone Research Center welcomes questions or other inquiries about its work at 717-255-7181, or toll free at 888-618-2055.

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## OVERVIEW

Following the brief 2001 recession, the United States and Pennsylvania economies have been growing now for nearly five years. U.S. productivity has grown more rapidly recently than at any point since the 1950s. Yet, over the same period, wages and income have stagnated across most income groups.

With one exception, the past five years represent a return to the economic trends of the 1980s and the first half of the 1990s—and a departure from the broadly shared prosperity of the latter part of the 1990s. The exception: The economic benefits of the past five years have accrued to an even narrower band at the top of the income scale. Wage stagnation, coupled with higher costs for health insurance and gasoline, and erosion of pension protection, help to explain polling data that indicate continuing economic insecurity, despite relatively robust economic growth.

Current policy debates center primarily around government's role in creating conditions conducive to economic growth—levels of taxation and government spending, investment in economic development projects, and other policies. Our analysis points to the need for more attention to the link between economic growth and improving incomes. Simply put, in addition to policies that sustain growth, Pennsylvania families need policies that translate economic and productivity growth into higher living standards. They need this because, as the statistics below amply demonstrate, a more prosperous Pennsylvania economy is not currently translating into greater individual and family prosperity.

### Wages Decline While Profits Rise

Adjusted for inflation, wages in Pennsylvania rose steadily from 1997 to 2001 but have stagnated since then.

- The median hourly wage—right in the middle of the earnings curve—fell to \$14.21 in 2005, down 2.3% from \$14.55 (in 2005 dollars) in 2004.

Wages have declined not only in the middle of the earnings curve but at the low end and even for relatively high-wage earners.

- At the low end, Pennsylvania earnings fell for the fourth year in a row, to \$7.33 per hour.
- Near the top end of the wage distribution—the 90<sup>th</sup> percentile—wages have now fallen for three years in a row. High-wage Pennsylvania earners made \$32.45 in 2002 but only \$30.94 in 2005.

Only at the very top of the earnings curve, at and above the 95th percentile, did wages in Pennsylvania grow last year. In the United States as a whole, pay grew especially rapidly in percentage terms for CEOs at the very pinnacle of the wage distribution. (No Pennsylvania-specific data exist on CEO pay.)

While wages for most workers fell, inflation-adjusted profits in the United States rose by 13% in 2005, to \$1.35 trillion, their highest level ever and the fourth year in a row of rapid increases.

## Wages Drop at Every Education Level

Across Pennsylvania and the United States, economists and the public have grown used to seeing wages for college-educated workers rise while those for workers with a high school education or less fall. In the past several years, however, wages in Pennsylvania and nationally have stagnated or declined at every education level.

- The median wages of college-educated Pennsylvania workers fell from \$22.76 per hour in 2002 to \$21.72 in 2005.
- The median wages of Pennsylvania workers with some college education fell from a peak of \$13.75 in 2004 to \$12.97 in 2005.
- Pennsylvania workers with a high school education actually fared slightly better in relative terms, seeing a decline of only 11 cents per hour (from \$12.70 in 2002 to \$12.59 in 2005).

## A Break From the Shared Prosperity of 1995–2000

The periods 1995–2000 and 2000–2004/05 were similar periods of robust growth measured by increases in productivity. Yet trends in Pennsylvania wages, income, benefits, poverty, and other key economic variables differ dramatically between these two periods.

- For example, median family income in Pennsylvania rose 14.5% from 1995 to 2000 but then fell 7.2% from 2000 to 2004.
- College-educated Pennsylvania workers' wages rose 9% from 1995 to 2000 before dropping 5% by 2005.
- The number of Pennsylvanians in poverty fell 29% from 1995–2000 but rose nearly 33% from 2000 to 2004.
- The number of Pennsylvanians without health insurance fell 12.5% from 1995 to 2000 but climbed 22.6% from 2000 to 2004.

## Slow Job Recovery After 2001 Recession

One factor contributing to wage stagnation is the slow job recovery evident in Pennsylvania and nationally following the short 2001 recession. While job growth has been healthier in the last three years, relative to the size of the labor force and the size of the working-age population, recent job growth has not yet made up for the slow growth from 2001 to 2003. As a result, for example, Pennsylvania labor force participation in 2005 remained 1.1 percentage points below the level of 2002.

## An Economic Plan for the Rest of Us

Many economists believe that productivity and living standards are necessarily linked and that higher productivity will translate, over time, into higher wages. The lesson that emerges from this report is

that while higher productivity growth is necessary to higher living standards for the majority, it does not guarantee them.

A corollary lesson is that government policy should seek to re-establish a link between the strength of the economy and overall living standards.

This summer, in an important step that will most benefit low-income families, the Pennsylvania legislature and governor passed an increase in the state's minimum wage. Pennsylvania policies have also moved forward in the areas of workforce development and renewable energy, as outlined at the end of this report.

Acknowledging some progress, however, should not obscure the message implicit in recent economic statistics that more change—comprehensive, deep, and sustained change—is needed if prosperity is to be more broadly shared in Pennsylvania. Given the skewed distribution of gains from growth in recent years, “old economy” economic measures that look at overall or average economic performance—such as output and productivity growth, even job growth—tell us little about the economic conditions of typical families. Pennsylvania must develop the analytical and policy tools to understand more accurately and react to the real state of working Pennsylvania.

To assist with this development over the next six months, the Keystone Research Center will seek to stimulate a broader and more informed discussion about a range of critical topics: workforce development, job creation, economic security (including health and retirement security), energy policy and environmentally sustainable development, and taxation.

Ultimately, of course, the direction that economic policy will take in Pennsylvania will depend on the actions of our elected representatives. In this election year it is appropriate that all Pennsylvanians ask candidates standing for office a simple question: What is your economic plan for the 90+ percent of Pennsylvanians not currently benefiting from economic growth?

As our analysis suggests, it may be the most important question voters can ask in 2006.

## THE STATE OF WORKING PENNSYLVANIA

Throughout this report, unless otherwise noted, dollar values are adjusted for inflation and expressed in 2005 dollars (i.e., the buying power of wages at 2005 prices). For inflation adjustments, unless otherwise stated, we use the CPI-U-RS, a consumer price index published by the Bureau of Labor Statistics (BLS). In most cases, when looking at trends over time, we compare similar points in the business cycle, i.e., the peak of past and the current economic expansions (1979, 1989, 2000, and 2005). We also examine the last several years.

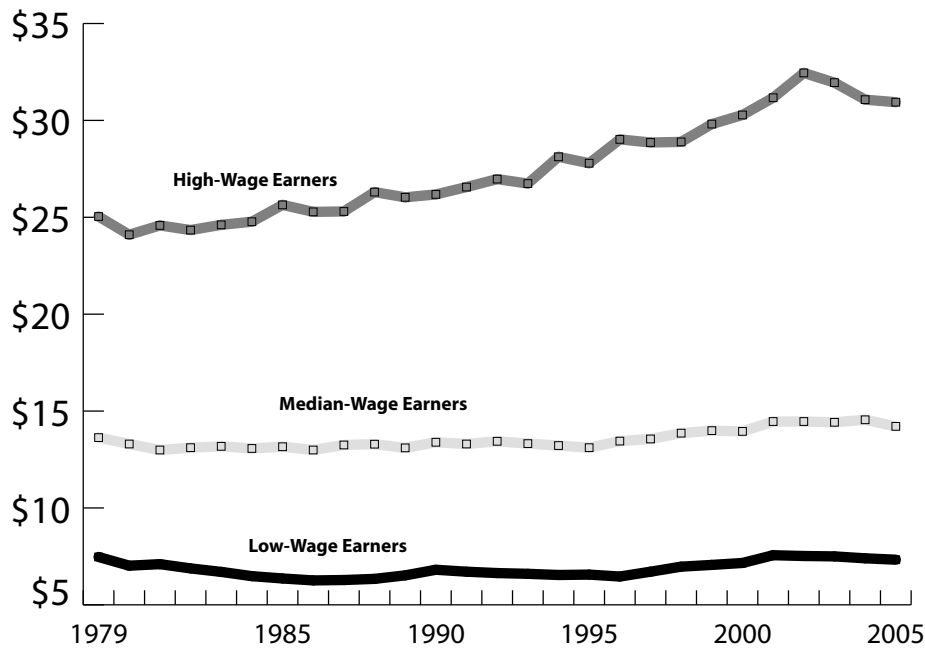
### Wages Fall Except at the Very Top

Figure 1 and Table 1 (page 5) show the hourly earnings each year from 1979 to 2005 for three categories of Pennsylvania workers: low-wage, median-wage, and high-wage. Low-wage earners have hourly wages above 10% of all Pennsylvania workers and below 90%; median-wage earners earn more than half of all workers and less than the other half; high-wage earners earn more than 90% of all earners and less than 10% of all other earners.

In 2005, the hourly wages of low-wage earners declined for the fourth year in a row (from \$7.56 per hour in 2001, which is not in Table 1). Pennsylvania median-wage earners experienced a decline in hourly wages from 2004 to 2005 of 34 cents per hour, or 2.3%. High-wage earners also experienced a small decline in wages in 2005, for the third year in a row.

<b>Table 1. Hourly Wages of High-, Median- and Low-Wage Earners in Pennsylvania, 1979–2005 (2005 dollars)</b>			
Year	Low-Wage Earners	Median-Wage Earners	High-Wage Earners
1979	\$7.47	\$13.63	\$25.04
1989	\$6.52	\$13.10	\$26.03
1995	\$6.56	\$13.11	\$27.79
2000	\$7.16	\$13.95	\$30.28
2002	\$7.52	\$14.46	\$32.45
2003	\$7.50	\$14.42	\$31.95
2004	\$7.40	\$14.55	\$31.07
2005	\$7.33	\$14.21	\$30.94
Percent Change			
1979-2005	-1.9	4.3	23.6
2000-2005	2.4	1.9	2.2
2004-05	-0.9	-2.3	-0.4
<p><i>Note.</i> <b>High-wage earners</b> are defined here as those who earn more than 90% of all workers and less than 10%, and <b>low-wage earners</b> are defined as those who earn more than 10% of all workers and less than 90%.</p> <p><i>Source.</i> Economic Policy Institute (EPI) analysis of Current Population Survey (CPS) data.</p>			

**Figure 1. Wages for High-, Low-, and Median-Wage Pennsylvania Workers, 1979–2005 (2005 dollars)**



Note. High-wage earners are defined here as those who make more than 90% of all workers and less than the other 10%. Low-wage workers are defined as those who earn more than 10% and less than the other 90%.

Source. Economic Policy Institute (EPI) analysis of Current Population Survey (CPS) data.

**Table 2. Inflation-Adjusted Change in Hourly Wages from 2004 to 2005 for Each Wage Decile—Pennsylvania and the United States**

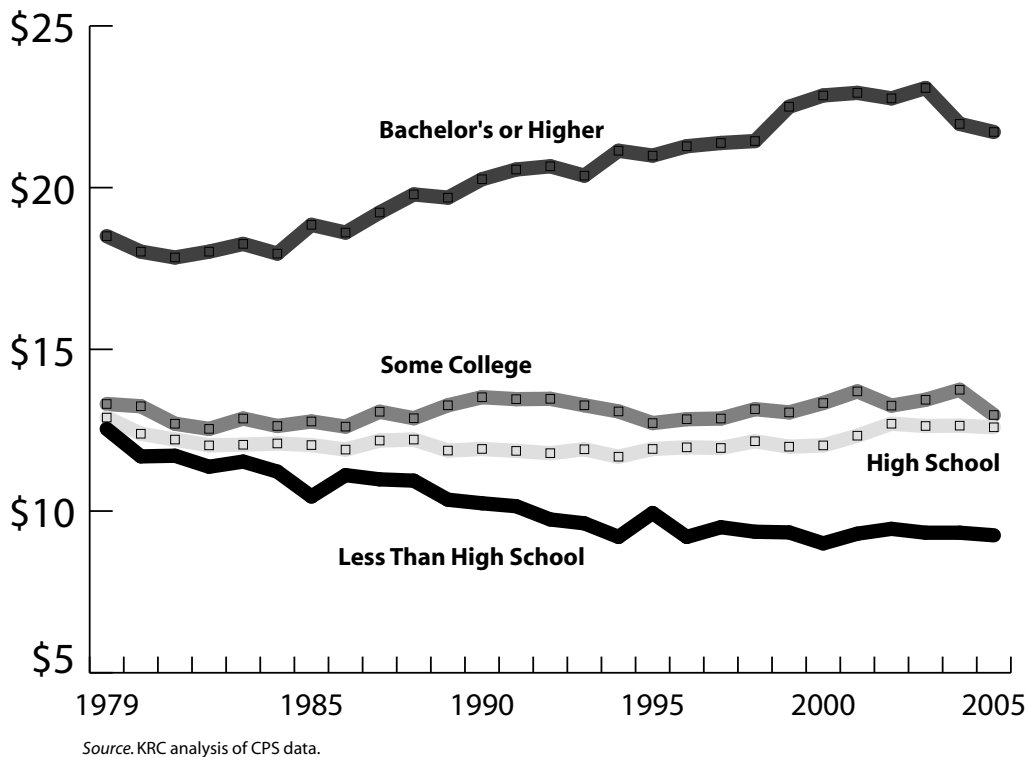
Percentiles	Inflation-Adjusted Wage (2005 dollars)					
	United States		% Change	Pennsylvania		% Change
	2004	2005		2004	2005	
10th Percentile	\$7.32	\$7.19	-1.8%	\$7.40	\$7.33	-0.9%
20th Percentile	\$8.93	\$8.83	-1.1%	\$9.09	\$8.99	-1.1%
30th Percentile	\$10.42	\$10.20	-2.1%	\$10.60	\$10.43	-1.6%
40th Percentile	\$12.35	\$12.11	-1.9%	\$12.56	\$12.27	-2.3%
<b>50th Percentile (Median)</b>	<b>\$14.46</b>	<b>\$14.28</b>	<b>-1.2%</b>	<b>\$14.55</b>	<b>\$14.21</b>	<b>-2.4%</b>
60th Percentile	\$16.79	\$16.81	0.1%	\$16.69	\$16.51	-1.1%
70th Percentile	\$19.85	\$19.85	0.0%	\$19.63	\$19.22	-2.1%
80th Percentile	\$24.64	\$24.37	-1.1%	\$23.79	\$23.58	-0.9%
90th Percentile	\$32.31	\$32.41	0.3%	\$31.07	\$30.94	-0.4%
95th Percentile	\$41.45	\$41.71	0.6%	\$39.73	\$39.86	0.3%

Source. EPI analysis of CPS data.

In the United States as a whole, as well as in Pennsylvania, wages declined in most of the wage distribution in 2005 (Table 2). Wages fell less in Pennsylvania than in the United States in the bottom 30% of the wage distribution but somewhat more in most of the rest of the wage distribution (the exception being the 80<sup>th</sup> percentile).

As detailed in the Economic Policy Institute's *The State of Working America 2006-2007*, the ratio of CEO pay to average worker pay rose in 2005 to 262:1, compared to 24:1 in 1965. This represents the third straight year of increases in this ratio following a sharp dip in 2002. As they did in 2002, CEOs now once again earn more in one work day than the average full-time worker earns in a full year.

**Figure 2. Median Wages by Educational Attainment, 1979–2005 (2005 dollars)**



### Wages Decline at All Education Levels

Across Pennsylvania and the United States, economists have grown used to seeing wages for college-educated workers rise while those for workers with a high school education or less fall. In the past several years, however, wages in Pennsylvania and nationally have stagnated or declined at every education level.

- The median wages of college-educated Pennsylvania workers fell from \$22.76 per hour in 2002 to \$21.72 in 2005 (Table 3, page 7, and Figure 2).
- The median wages of workers with some college education fell from a peak of \$13.75 in 2004 to \$12.97 in 2005.
- Workers with a high school education actually fared slightly better, seeing a decline of

only 11 cents per hour (from \$12.70 to \$12.59 from 2002 to 2005).

- Workers with less than a high school education saw a small decline from \$9.45 to \$9.25 per hour from 2002 to 2005

Year	Less Than High School	High School	Some College	Bachelor's or Higher
1979	\$12.54	\$12.89	\$13.31	\$18.50
1989	\$10.35	\$11.87	\$13.27	\$19.69
1995	\$9.94	\$11.92	\$12.72	\$20.99
2000	\$9.00	\$12.03	\$13.34	\$22.85
2002	\$9.45	\$12.70	\$13.26	\$22.76
2003	\$9.33	\$12.63	\$13.44	\$23.08
2004	\$9.33	\$12.64	\$13.75	\$21.97
2005	\$9.25	\$12.59	\$12.97	\$21.72
Percent Change				
1979-2005	-26.2	-2.3	-2.6	17.4
2000-05	2.8	4.7	-2.8	-4.9
2004-05	-0.9	-0.4	-5.7	-1.1

Source: EPI analysis of CPS data

## Productivity and Profits Rise

While wages have lagged, productivity, profits, and CEO pay have not. Productivity rose 2.7% from 2004 to 2005 and 17.7% from 2000 to 2005. One recent analysis presented at a Brookings Panel on Economic Activity found that, from the first quarter of 2001 to the first quarter of 2005, economy-wide output per hour rose faster than in *any* previous comparison period back to 1954–1963.<sup>1</sup> Figure 3 (page 8) shows the rise in productivity since 1979 compared to the stagnation of Pennsylvania wages and the decline in the real value of the minimum wage.

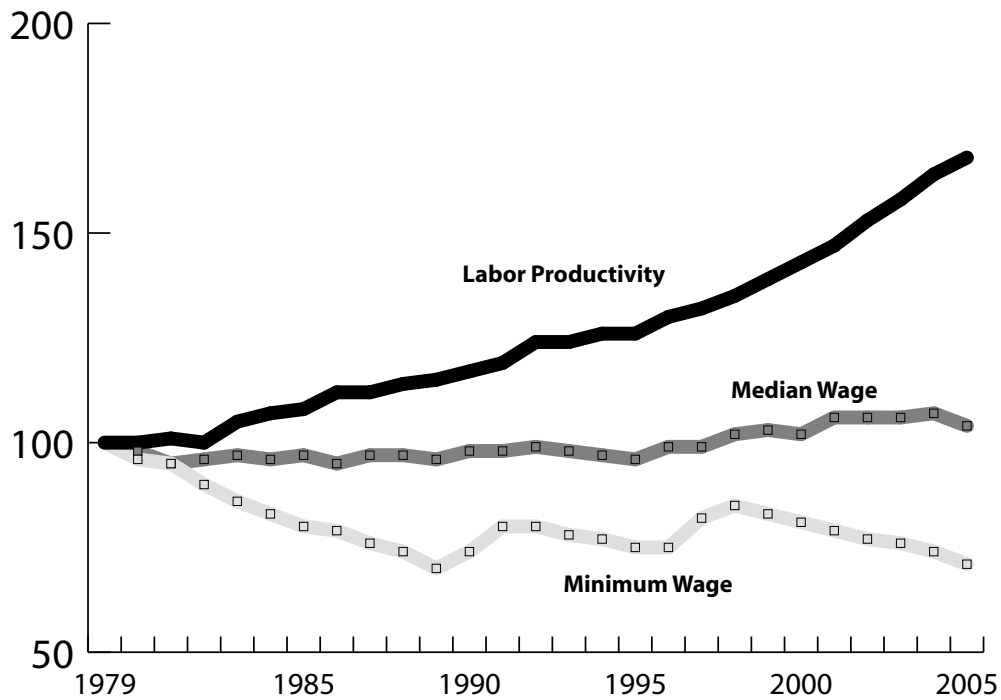
With wages falling and productivity rising, profits rose 16% in 2005 to \$1.37 trillion (Figure 4, page 8). This is their highest level ever as well as the fourth year in a row of increases.

## Income Stagnates

Buoyed by rising hourly wages between 1995 and 2000, median family income in Pennsylvania grew by 14.5%. Between 2000 and 2005, however, median family income reversed course and fell 7.2%—from \$55,281 to \$51,300 (median family income for each year estimated by KRC based on following year's March CPS).

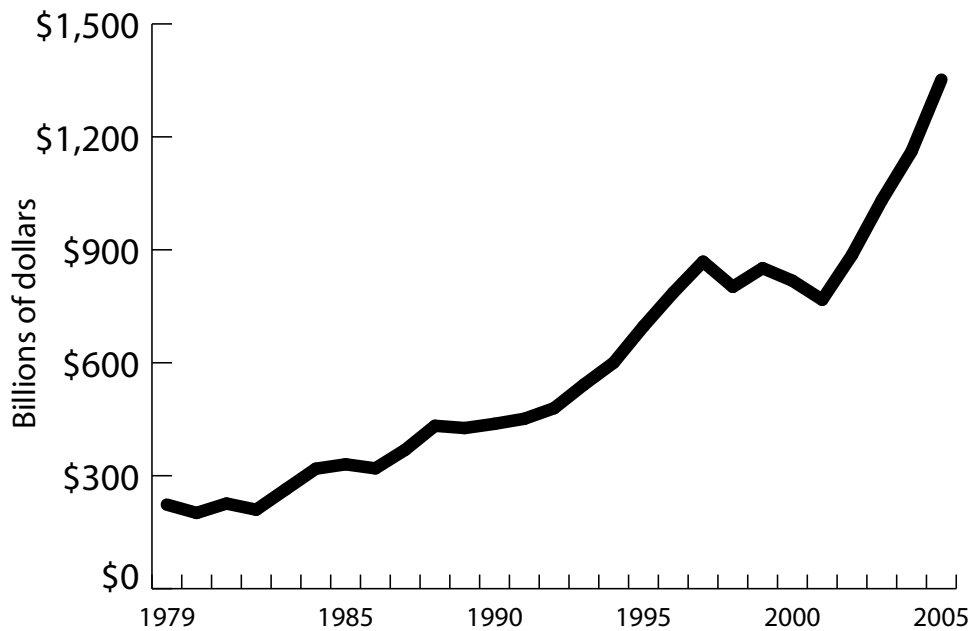
Table 4 and Figure 5 (page 9) show previously unpublished data on trends in taxable income derived

**Figure 3. Inflation-Adjusted Minimum Wage, Median Wage, and Labor Productivity, 1979–2005 (indexed to 1979 = 100)**



Source: KRC analysis of CPS and Major Sector Productivity and Costs program of the Bureau of Labor Statistics.

**Figure 4. United States Corporate Profits, 1978-2005 (2005 dollars)**



Note: Corporate profits with inventory valuation and capital consumption adjustments. Inflation-adjustment based on the Commerce Departments net national product price index. Figures in 2005 dollars.

Source: KRC analysis of Bureau of Economic Analysis data online at <http://www.bea.gov/bea/dn/home/corporateprof.htm>

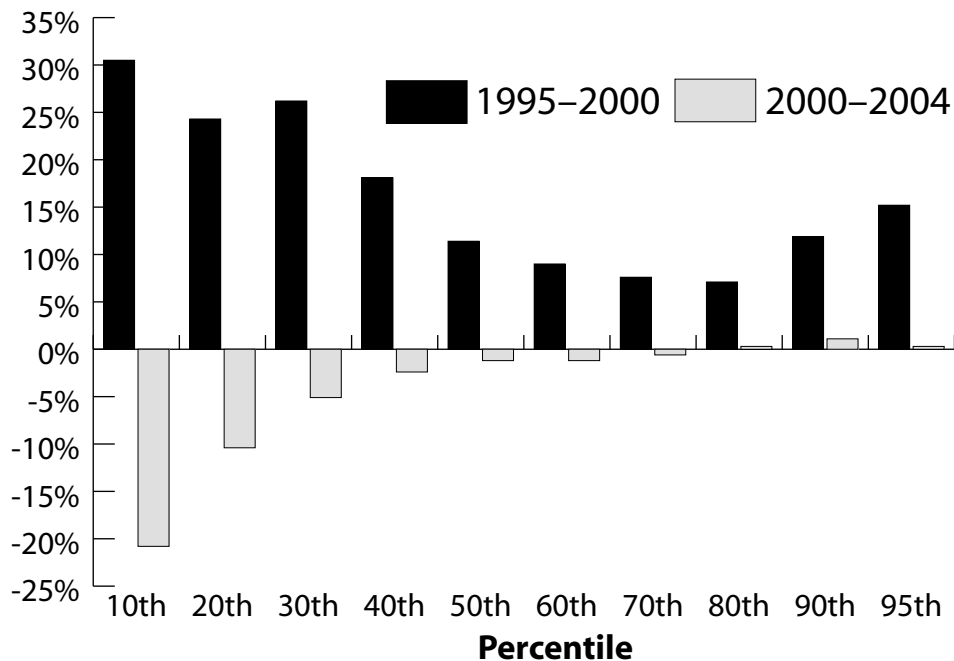
<b>Table 4. Pennsylvania Taxable Income for Each Decile, 1995–2004 (2004 dollars)</b>					
Percentiles	1995	2000	2004	Percent Change	
				1995-2000	2000-2004
10th percentile	\$1,707	\$2,228	\$1,765	30.5%	-20.8%
20th percentile	\$4,486	\$5,577	\$4,997	24.3%	-10.4%
30th percentile	\$8,480	\$10,703	\$10,158	26.2%	-5.1%
40th percentile	\$14,914	\$17,616	\$17,202	18.1%	-2.4%
<b>50th percentile (median)</b>	<b>\$22,964</b>	<b>\$25,744</b>	<b>\$25,380</b>	<b>12.1%</b>	<b>-1.4%</b>
60th percentile	\$32,312	\$35,212	\$34,793	9.0%	-1.2%
70th percentile	\$44,185	\$47,530	\$47,230	7.6%	-0.6%
80th percentile	\$59,358	\$63,562	\$63,733	7.1%	0.3%
90th percentile	\$83,715	\$93,672	\$94,721	11.9%	1.1%
95th percentile	\$113,206	\$130,429	\$130,767	15.2%	0.3%

*Note.* The Pennsylvania Department of Revenue (DOR) reports taxable income in various income ranges. It also directly reports median taxable income in each year. From data on income within different ranges, income at each decile can be interpolated. Below the median, income deciles were calculated using linear interpolation. Above the median, so-called Pareto interpolation was used to take account of the exponential nature of the income distribution. Returns with zero taxable income were excluded.

To gauge the accuracy of these interpolation methods, we can compare the median taxable income published by DOR (and reported in this table) with an imputed median. After adjusting for inflation, the imputed median taxable income was \$22,934 in 1995, \$25,542 in 2000 and \$25,243 in 2004. This means that the imputed median was within 1% of the actual median in every year and also that the change in the imputed median from 1995–2000 and 2000–2004 was within 1 percentage point of the change in the actual median.

*Source.* KRC analysis of Pennsylvania Department of Revenue data.

**Figure 5. Percent Change in PA Inflation-Adjusted Taxable Income by Decile, 1995–2000 and 2000–2005**



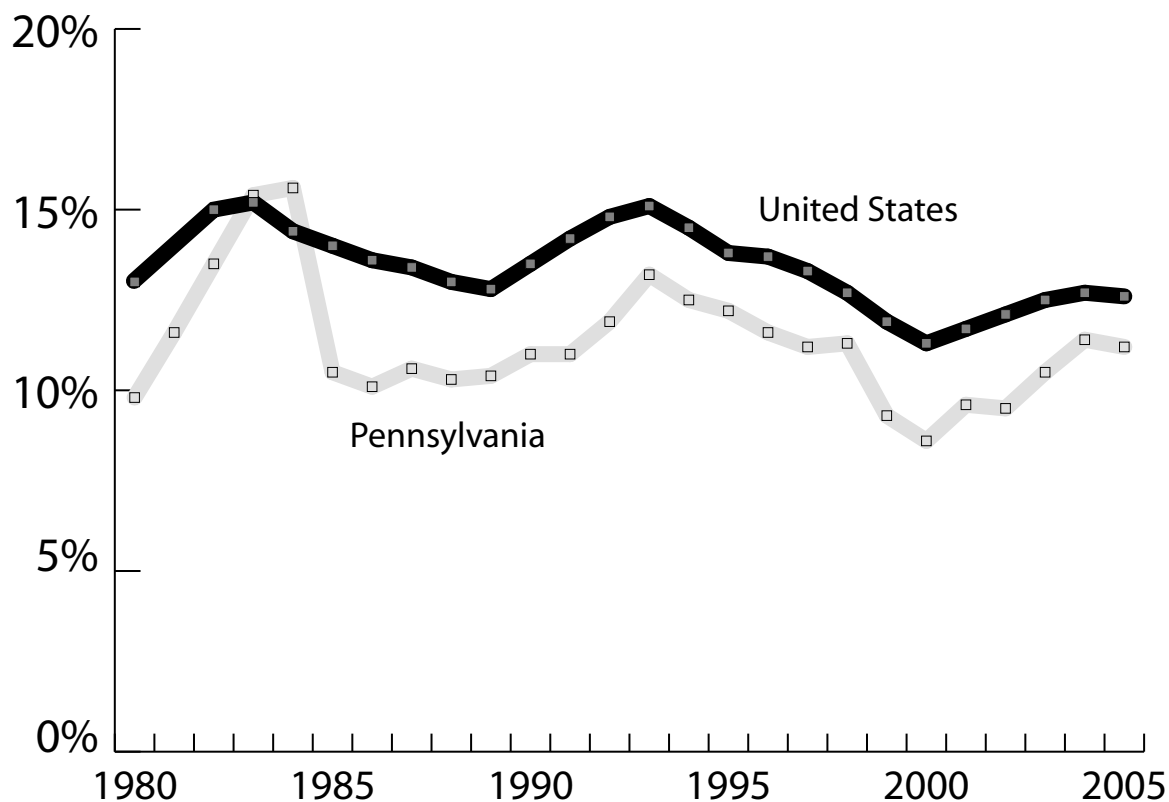
*Source.* KRC analysis of Pennsylvania Department of Revenue, Personal Income Tax Statistics, 1995–2004.

by KRC (based on Pennsylvania Personal Income Tax Statistics published by the Pennsylvania Department of Revenue.)<sup>2</sup> The period 1995 to 2000 was one of broadly shared prosperity, with inflation-adjusted incomes rising at every decile. The biggest percentage gains accrued to taxpayers below the median. Since 2000 these trends have completely reversed. Inflation-adjusted incomes declined the most below the median and increased only (and very slightly) for taxpayers at the 80<sup>th</sup>, 90<sup>th</sup>, and 95<sup>th</sup> percentiles.

## Poverty Increases

With incomes declining, especially at the low end of the distribution, the number of Pennsylvanians living below the poverty line is increasing (Figure 6). (The poverty line varies based on family size. In 2004, the poverty line for a family of four was \$19,157.) The number of Pennsylvanians in poverty rose by a third from 2000 to 2005, from 1.03 million to 1.37 million. This number rose by 7.0% since 2003.

**Figure 6. Percentage of Pennsylvanians Living Below the Poverty Line, 1980–2005**



Source: U.S. Census Bureau poverty data at <http://www.census.gov/hhes/www/poverty/histpov/hstpov21.html>

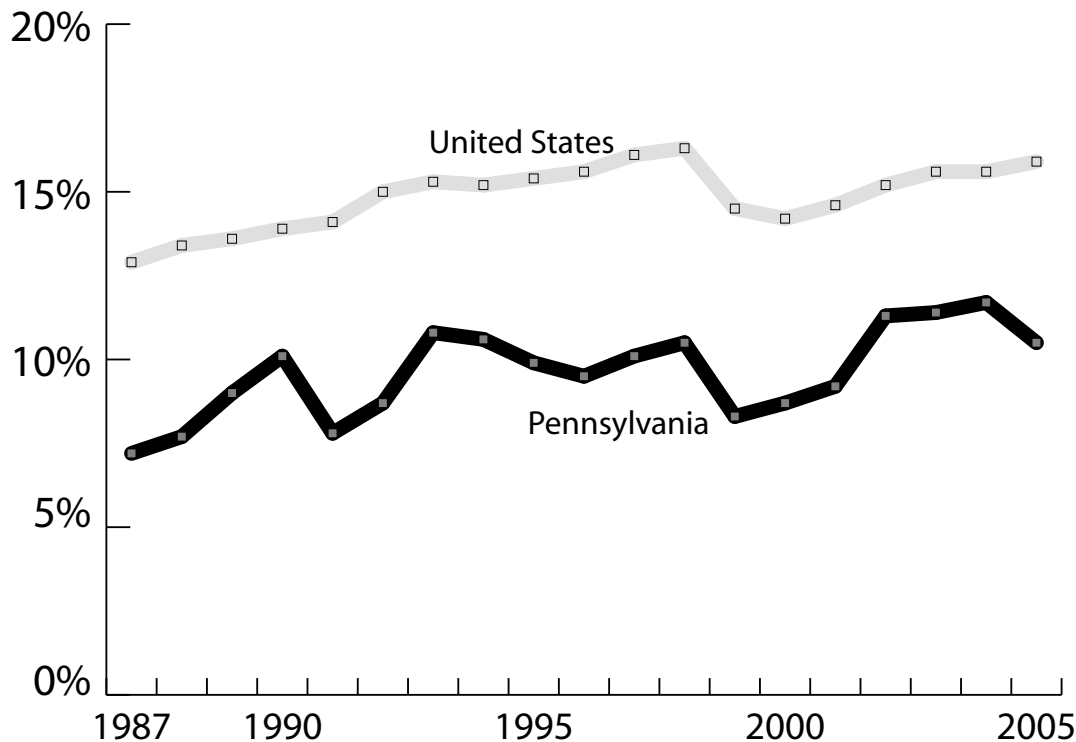
## Health Coverage Declines

The share of Pennsylvanians covered by employer-based health insurance fell sharply between 2000 and 2004, from 70% to 65.2% (Table 5, page 12). The share of Pennsylvanians with employer-based health insurance remained well above the U.S. level of 59.5% in 2005. (The most recent data

available on health insurance coverage as of this writing were collected in March of 2006 and cover the year 2005.)

The number and share of Pennsylvanians without any health coverage at all rose substantially in recent years. Between 2000 and 2005 the number of Pennsylvanians without health insurance jumped by 22.6%, from just over a million to 1.29 million. The share of Pennsylvanians without health insurance increased to 10.5% in 2005 from 8.7% in 2000 (Table 5 , page 12, and Figure 7).

**Figure 7. Percent of Population Without Health Insurance in the United States and Pennsylvania, 1987–2005**



*Note.* The data in this table refer to all people regardless of age or employment status. The number of people with employer-based health insurance reported includes family members who are covered by the employer-based plan of a spouse, parent, guardian, or partner.

*Source.* U.S. Census Bureau health insurance data online at <http://www.census.gov/hhes/hlthins/historic/hihist4.html>

## Pension Coverage Decreases

Figure 8 (page 13) shows the share of private-sector workers with employer-provided pensions in Pennsylvania and the United States in 1995, 2000, and 2005.

In both the nation and the state, the share of private-sector workers with employer-provided pensions increased between 1995 and 2000. Since 2000, the share of workers with an employer-provided pension has declined by 6.4 percentage points in Pennsylvania and 4.2 percentage points in the United States.

**Table 5. Health Insurance Coverage\* in Pennsylvania  
and the United States, 1987–2004**

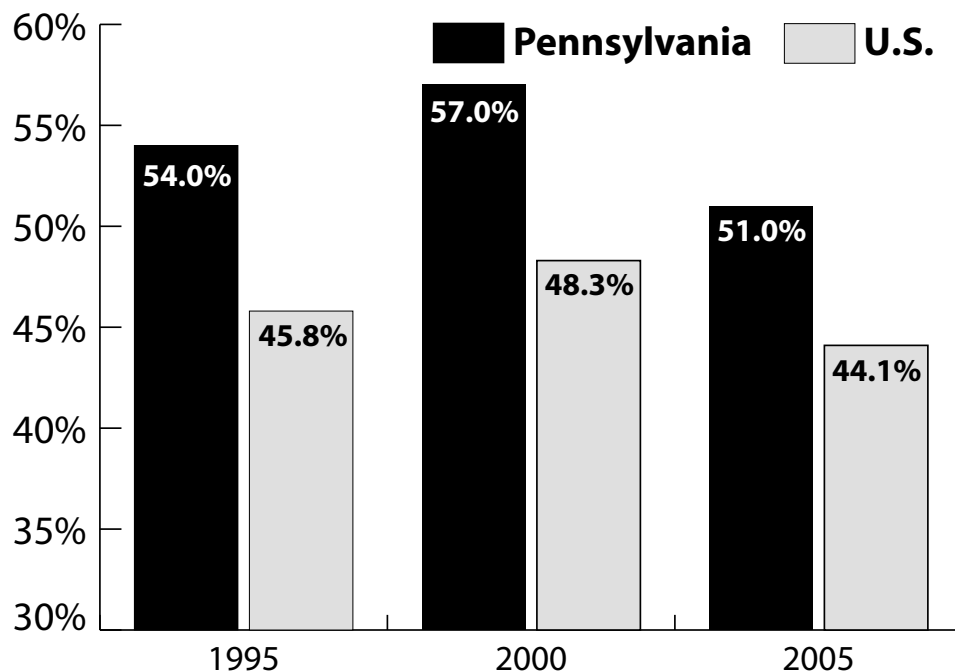
Year	Percent With Employer-Based Coverage		Number of People Without Health Insurance		Percent Not Covered by Health Insurance	
	Pennsylvania	United States	Pennsylvania (thousands)	United States (Thousands)	Pennsylvania	United States
1987	68.8	62.1	844	31,026	7.2	12.9
1988	68.9	61.9	936	32,680	7.7	13.4
1989	67.9	61.6	1,088	33,385	9.0	13.6
1990	65.0	60.4	1,218	34,719	10.1	13.9
1991	67.7	59.7	954	35,445	7.8	14.1
1992	66.1	57.9	1,042	38,641	8.7	15.0
1993	62.0	57.1	1,303	39,713	10.8	15.3
1994	66.4	60.9	1,268	39,718	10.6	15.2
1995	66.7	61.1	1,196	40,582	9.9	15.4
1996	67.7	61.2	1,133	41,716	9.5	15.6
1997	67.8	61.4	1,209	43,448	10.1	16.1
1998	67.0	62.0	1,248	44,281	10.5	16.3
1999 <sup>†</sup>	67.6	63.3	989	40,228	8.3	14.5
2000	70.0	63.6	1,047	39,804	8.7	14.2
2001	68.7	62.6	1,119	41,207	9.2	14.6
2002	66.5	61.3	1,380	43,574	11.3	15.2
2003	64.9	60.4	1,384	44,961	11.4	15.6
2004	64.8	59.8	1,430	45,306	11.7	15.6
2005	65.2	59.5	1,287	46,577	10.5	15.9

\*The data in this table refer to all people regardless of age or employment status. The number of people with employer-based health insurance reported includes family members who are covered by the employer-based plan of a spouse, parent, guardian, or partner.

†The Census source reports three different numbers for 1999. The table reports the number that the Economic Policy Institute judges most similar to other years in the series.

Source. U.S. Census Bureau health insurance data online at <http://www.census.gov/hhes/hlthins/historic/hihist4.html>

**Figure 8. Employer-Provided Pension Coverage, Pennsylvania and the United States, 1995–2005**



Note. Universe is private sector wage and salary workers age 18-64, who worked at least 20 hours per week and 26 weeks per year.

Source: KRC analysis of March CPS data.

## Reversal of Fortune

Recent labor market trends represent an overall shift in the economy since 2001 compared to the economy of 1995 to 2000. Both of these periods were characterized by rapid productivity growth. The first period was characterized by rapid wage and income growth as well as improvements in benefit coverage and reductions in poverty. The period since 2000, however, has combined rapid productivity growth with a sharp deterioration not only in wages but also in a range of other indicators that matter to working families. The Economic Policy Institute documents this shift using national data.<sup>3</sup> Table 6 (page 14) documents it for Pennsylvania, pulling together economic indicators discussed earlier in this report and adding a few new indicators.

Two of the important new indicators are annual hours worked and job growth.

- For single-parent families, annual hours worked increased by over 25% in 1995–2000. In the context of the implementation of welfare reform, both increased hours of work and higher wages help explain reductions in poverty.
- From 2000–2005, annual hours worked for single parent families *dipped* over 14.8%. Again, it is changes in hours worked coupled with flat and declining wages that explain income and poverty trends—in this period, a fall in incomes and a rise in poverty.
- The same shift in hours of work between the two periods can be seen in attenuated form for two-parent families.

**Table 6. Productivity Growth and Living Standards  
in Pennsylvania, 1995–2005**

	Percent Changes		Difference
	1995–2000	2000–04/05	
U.S. Productivity (output per hour)*	13.4%	16.6%	3.2%
Pennsylvania			
Profits <sup>†</sup>	NA	16.0%	
Median Family Income	14.5%	-6.5%	-21.1%
Median Taxable Income <sup>‡</sup>	12%	-1.4%	-13.5%
Poverty	-29.4%	32.8%	62.2%
Median Wage	6.4%	1.9%	-4.5%
High School Wage	0.9%	4.7%	3.7%
College Wage (Bachelor's Degree)	9%	-5%	-13.8%
Annual Hours Worked, Single-Parent Families	23.8%	-14.8%	-38.6%
Annual Hours Worked, Two-Parent Families	7.6%	-2.0%	-9.5%
Health Insurance <sup>§</sup>	3.1%	-4.3%	-7.4%
Pension Coverage <sup>§</sup>	4.2%	-6.4%	-7.3%
The Number of People Without Health Coverage	-12.5%	22.6%	35.1%
Job growth	8.3%	0.2%	-8.1%

\* Productivity data is not available at the state level. Gross state product per worker, a crude approximation of productivity, increased 5.8% from 2001 to 2004 in Pennsylvania. Data for 1995-2000 are not available because of the switch from the Standard Industrial Code (SIC) industry definitions to the North American Industry Codes (NAICS) code system.

† Gross operating surplus 2001 to 2004. Also due to the switch from SIC to NAICS industry definitions, the BEA discourages comparisons of data collected after 2000 to earlier periods.

‡ Data through 2004. All others are 2005.

§ Percentage-point changes.

*Note.* Health insurance change reported here is the change in private health insurance coverage.

*Sources.* Bureau of Economic Analysis for productivity and profit data; KRC based on the CPS for median family income; Pennsylvania Department of Revenue for median taxable income; Census Bureau for poverty, health and pension coverage and annual hours worked data; EPI based on the CPS for all wage data; Bureau of Labor Statistics for the job growth figures.

- The other new indicator, job growth, shifts from over 8% growth from 1995–2000 to essentially no growth in the 2000 to 2005 period.

## Slower Job Growth Than in Prior Recoveries

As suggested by the job growth statistics with which we closed the prior section, one factor contributing to recent wage and income stagnation is the slow employment recovery nationally and in Pennsylvania following the short 2001 recession.

The total reduction in employment in the 2001 recession from the peak of the previous business cycle was actually *smaller* than in any other recession since World War II (for details, see *The State of Working Pennsylvania 2004*, online at [www.keystoneresearch.org](http://www.keystoneresearch.org) and [www.stateofworkingpa.org](http://www.stateofworkingpa.org)).

However, it took an unusually long period of time for job growth to make up for the loss of jobs during the recession. For Pennsylvania, this can be seen by comparing the recent period to the recovery from the early 1990s recession (Figure 9, page 17). Keep in mind, moreover, that this previous recovery was itself considered “jobless” compared to other post-World War II recoveries. Figure 9 shows that job growth took 51 months from the beginning of the 2001 recession to reach its pre-recession peak, compared with 46 months in the early 1990s.

In sum, although Pennsylvania has now enjoyed job growth for nearly three years, this job growth has not fully made up for the decline in jobs from 2001 to 2003 (Table 7, page 16).

- The Pennsylvania labor force participation rate in 2005 remained 1.1 percentage points below the level of 2002.
- The employment to population ratio remained 0.7 percentage points below the peak level reached in 2001.
- Since the beginning of the March 2001 recession, Pennsylvania’s job growth as of July 2006 trailed the growth of the working-age population by 3.5%. Over this period, the gap in Pennsylvania between job growth and the growth of the working-age population ranked in the middle of the pack—22<sup>rd</sup> out of 50 states. In other words, 21 states had stronger job growth relative to the working-age population, and 28 had weaker job growth.
- The unemployment rate dipped sharply in 2005, from 5.6% to 4.9%, closing half the gap with the pre-recession low of 4.1%.
- The share of all workers working part-time for economic reasons, however, climbed in 2005 to 13.4%, from 12% in 2004 and 10.2% in 2000.

**Table 7. Labor Force Statistics, Pennsylvania, 2000–05**

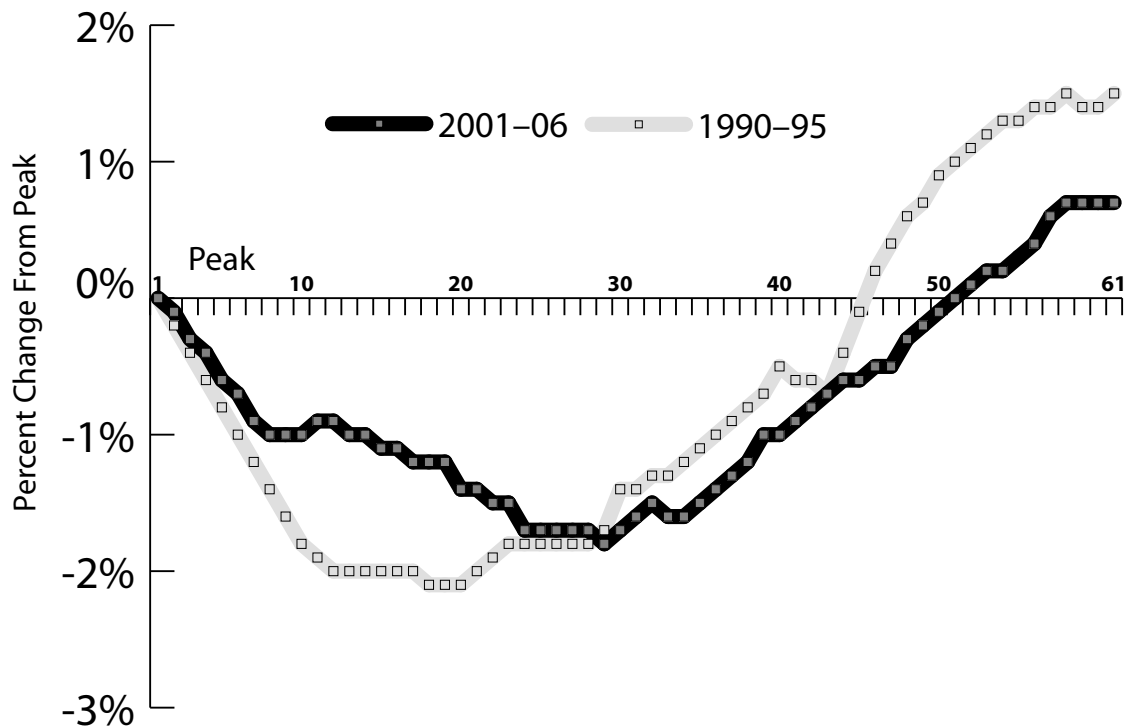
	2000	2001	2002	2003	2004	2005	2005 Minus 2004	2005 Minus Best Year
Labor Force Participation Rate	64.0%	65.0%	65.5%	63.9%	64.5%	64.4%	-0.1%	-1.1%
Employment to Working-age Population Ratio	61.4%	62.0%	61.8%	60.3%	60.9%	61.3%	0.4%	-0.7%
Employment to Working-age Population Ratio	80.1%	79.3%	78.0%	77.1%	77.0%	77.3%	0.3%	-2.8%
Unemployment Rate	4.1%	4.7%	5.7%	5.6%	5.6%	4.9%	-0.7%	0.8%
Long-Term Unemployment Share	11.8%	11.2%	19.3%	22.4%	19.7%	19.8%	0.1%	8.6%
Underemployment Rate	7.3%	8.1%	9.3%	9.2%	9.1%	9.1%	0%	1.8%
Part-Time Workers Share of all workers	24.0%	25.2%	25.4%	24.1%	24.7%	24.0%	-0.7%	0.0%
Share of Part-Time Workers That Work Part-Time for Economic Reasons	10.2%	10.4%	11.4%	11.9%	12.0%	13.4%	1.4%	3.2%

**Definitions**

1. The **labor force participation rate** equals the employed plus the unemployed as a share of the total civilian non-institutional population aged 16 and over.
2. **Long-term unemployment share** equals persons who have been unemployed for more than 26 weeks as a share of all unemployed.
3. **Underemployment rate** = (the unemployed + part-time for economic reasons + marginally attached workers) all divided by employment + unemployment + marginally attached workers. Marginally attached workers are individuals not in the labor force who want, and are available for, work and who have looked for a job sometime in the prior 12 months (or since the end of their last job if they held one within the past 12 months), but were not counted as unemployed because they had not searched for work in the four weeks preceding the survey.
4. **Part-time workers for economic reasons**: Sometimes referred to as involuntary part-time, this category refers to individuals who gave an economic reason for working 1 to 34 hours during a week. Economic reasons include slack work or unfavorable business conditions, inability to find full-time work, and seasonal declines in demand. Those who usually work part time must also indicate that they want and are available for full-time work to be classified as part-time for economic reasons.
5. **Part-time workers** are persons who were employed fewer than 35 hours during a week.

Source. EPI based on CPS data.

**Figure 9. Pennsylvania Job Growth in the Current Business Cycle Compared With the Previous Cycle**



Source. Author's analysis of BLS data. Figures are three-month moving averages.

## PENNSYLVANIA NEEDS AN ECONOMIC PLAN FOR THE REST OF US

To a remarkable—even stunning—degree, this report has shown, the benefits of recent economic growth in Pennsylvania accrue to a very small fraction of the population. Following the sustained low unemployment of the second half of the 1990s, the U.S. and Pennsylvania economy have reverted to the wage and income stagnation of the 1979 to 1995 period. The major difference is that this stagnation has now crept further up the wage and educational attainment spectrums. The slice of the population still profiting from growth has correspondingly shrunk.

Nearly five years into an economic expansion, it is difficult to dismiss these trends as temporary. We can, of course, hope that unemployment will continue to fall, and that the retirement of the baby boom will bring back the sustained labor market tightness and broad distribution of economic gains seen after 1995.

A less risky approach, for the 90+ percent of the working population bypassed by recent growth, would be to change policy to re-forge the links between a strong economy and overall living standards and quality of life. Policy must also seek to sustain high productivity growth because this remains necessary, even if not sufficient, to higher living standards.

## Box 1. Pennsylvania's Cutting-Edge Workforce Development Policy

Just before the last gubernatorial transition in Pennsylvania, with support from then-Governor Schweiker, the Keystone Research Center completed an assessment of Pennsylvania's workforce development system and developed recommendations for "Pennsylvania's Next Governor."<sup>1</sup> Governor Schweiker passed these recommendations on to Governor Rendell with a transmittal letter that said, "KRC's solidly grounded policy recommendations deserve close attention as you develop workforce strategies in partnership with the State Workforce Investment Board."

Since that time, in cooperation with the Pennsylvania General Assembly and with technical assistance from KRC, the Rendell Administration has developed a comprehensive workforce development reform grounded in—also going beyond—KRC's early 2003 recommendations. A highlight in this reform effort was the approval of Job Ready PA in the 2005–06 budget. Through comprehensive initiatives in the four areas below, Job Ready PA aims to give Pennsylvania's businesses a skilled labor force and Pennsylvania residents the education and training needed for family-sustaining careers.

**1. Strengthening Pennsylvania industries and creating industry-led training strategies** by building industry partnerships—employer/employee consortia that involve businesses and workers in the design and delivery of training in Pennsylvania's key industries. The need for and potential of industry partnerships has been a recurring theme of KRC recommendations since the first KRC publication, *The State of Working Pennsylvania 1996*. These partnerships create an often-missing link between private industry and educators and trainers. Too often in the

past workforce programs trained workers for jobs that did not exist and failed to plug skill gaps in high-paid occupations. Industry partnerships also provide a vehicle for achieving economies of scale in the delivery of training, for developing industry-wide certifications and career paths, and for negotiating college credit for work-based learning and articulation agreements. The activities of partnerships can thus increase the portability of workers' skills and enable companies to better evaluate what workers know. Perhaps most critical of all, partnerships provide a vehicle for peer learning across companies, including among managers and occupational specialists whose skills are critical to competitiveness. It is this learning that will spread best organizational practices and promote innovation that sustain long-term increases in productivity and the potential for higher living standards.

**2. Increasing opportunities for PA residents** through expanded access to training and postsecondary education. This expanded access includes increases in community college funding, \$15 million annually in incumbent worker training dollars accessible to Industry Partnerships, alignment of community college occupational training with well-paying (or "High Priority") jobs in which shortages exist, and making loan assistance more accessible to part-time working adults.

**3. Preparing our youth for the careers of tomorrow** through investment in innovative high schools and connecting career and technical education with higher-wage, higher-skill jobs

**4. Implementing a new workforce program accountability system** to ensure that workforce dollars are invested wisely.

<sup>1</sup> See Chris Benner, Stephen Herzenberg, and Kelly Prince, *A Workforce Development Agenda for Pennsylvania's Next Governor: Building the Infrastructure of a Learning Economy* (Harrisburg: Keystone Research Center, 2003), Discussion Draft, January. Online at [www.keystoneresearch.org](http://www.keystoneresearch.org)

In an important recent step, through an increase in the state minimum wage, the Pennsylvania legislature and governor recognized the need for policy to ensure improvement in living standards at the low end of the income spectrum. Pennsylvania has also become a model for other states in two other economic policy areas: workforce development and renewable energy.

- In workforce development, Job Ready PA, launched in 2005, seeks to deliver to businesses the skills they need to create good jobs, while expanding opportunity for workers (see Box 1, page 18).
- In the area of renewable energy, Pennsylvania's Advanced Energy Portfolio Standard (AEPS), established in December 2004, requires that utilities expand to 18% over a period of 15 years their use of clean, efficient energy sources to generate electricity. As well as benefiting the environment, this should promote job creation in alternative energy industries.

Since Job Ready PA, the AEPS, and a higher minimum wage have been enacted only recently, they could not be expected to impact aggregate labor market indicators for 2004 and 2005. Acknowledging some progress, however, should not obscure the reality that Pennsylvania needs a comprehensive approach to achieving prosperity that benefits the broad middle of the job market. A higher minimum wage and new initiatives in workforce development and renewable energy are the beginning, not the end, of the work that needs to be done.

Over the next six months, Keystone Research Center (KRC) will engage with a range of partners to stimulate discussion about policy changes needed in a range of areas:

- *Preparing the workforce*, including education as well as workforce development
- *Generating good jobs*, including economic development, infrastructure investment, regional policies, and industry strategies
- *Promoting the economic security of families and workers* through wage policies, health care and pension reform, and reinventing social insurance programs
- *Further promoting renewable energy and environmental sustainability*, which can generate good jobs and innovative businesses as well as a cleaner, healthier Pennsylvania
- *Ensuring fair and progressive taxation*

Policymakers, the media, and interested members of the public may go online to [www.stateofworkingpa.com](http://www.stateofworkingpa.com) and to [www.keystoneresearch.org](http://www.keystoneresearch.org) to find information about KRC's events and resources.

If at the end of the gubernatorial debate and the transition to the next administration Pennsylvania has "an economic plan for the rest of us"—and the will to implement it—it can become a model not just for other states but for the nation.

## ENDNOTES

<sup>1</sup> Ian Dew-Becker and Robert J. Gordon, “Where Did the Productivity Growth Go? Inflation Dynamics and the Distribution of Income,” Table 1. Paper prepared for the 81<sup>st</sup> meeting of the Brookings Panel on Economic Activity, Washington, DC, September 8–9, 2005.

<sup>2</sup> With a threshold for filing a tax return of \$33, the vast majority of Pennsylvania taxpayers with wage income are required to file a tax return, thus making taxable income statistics a good measure of income trends in the labor market. Tax returns in Pennsylvania do not include income derived from pensions, social security, the sale of exempt securities, and exempt interest and dividends. Income percentiles are identified using linear interpolation below the median and Pareto interpolation above that amount.

<sup>3</sup> Larry Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006-07* (Washington, DC: Economic Policy Institute, 2006), Introduction, Table 1.