THE STATE OF WORKING PENNSYLVANIA 2002

David H. Bradley
Stephen A. Herzenberg
Andrew D. Pierce

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KEYSTONE RESEARCH CENTER

412 N. Third Street * Harrisburg, PA 17101
Phone: 717/255-7181 * Fax: 717/255-7193 * keystonerc@aol.com
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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.

About the Authors

David H. Bradley is a KRC Policy Analyst. He holds a Ph.D. in Political Science from the University of North Carolina-Chapel Hill. His dissertation, "The Political Economy of Employment Performance: Testing the Deregulation Thesis," won the American Political Science Association's 2002 national award (the Harold D. Lasswell Award) for best doctoral dissertation in the field of policy studies. Prior to joining the Keystone Research Center, he was an instructor at UNC-Chapel Hill.

Stephen A. Herzenberg is the Executive Director of KRC and holds a Ph.D. in economics from MIT. He writes widely on the economy and public policy for Pennsylvania, U.S., and international audiences. His recent publications include "Reinventing the U.S. Labor Movement, Inventing Postindustrial Prosperity: A Progress Report," which appeared in a 2002 International Labor Organization book; "Jobs and Careers in Post-Industrial Society," which appeared in *New Directions in Career Planning and the Workplace*, an award-winning reference volume for career counselors; and the year 2000 research volume of the Industrial Relations Research Association (which he co-edited).

Andrew D. Pierce is a June 2002 graduate of Dartmouth College with a degree in Mathematics and a minor in Sociology. He plans to continue studying sociology beginning in the Fall of 2003.

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EXECUTIVE SUMMARY

A comprehensive review of the state of working Pennsylvania reveals three important developments.

Wages Rise, Recession Hits Pennsylvania Less Hard than U.S.

Pennsylvania has been hit less hard than the nation by the recession that began in March 2001.

- Hourly earnings of middle-wage Pennsylvania earners rose by 48 cents per hour in 2001, compared to 28 cents per hour nationally. Sustained over a full year for a full-time worker, 48 cents per hour adds up to $1,000.
- Hourly earnings for low-wage workers rose 36 cents per hour from 2000 to 2001, 15 cents more than nationally.
- Pennsylvania unemployment has climbed from 4 percent to 5.4 percent since March 2000, a less sharp increase than the 3.9 percent to 5.9 percent nationally (since October 2000).

Recession did not leave Pennsylvania untouched. Some 91,900 more Pennsylvanians are now unemployed than in March 2000. While its job growth improved relative to other states in 2001 and 2002 , Pennsylvania had 48,000 *fewer* jobs in June of 2002 than 12 months earlier. In manufacturing, Pennsylvania has lost 80,000 jobs since June 2000. National data also show a slowing of wage growth in the first half of 2002. (We do not yet have 2002 wage data for Pennsylvania).

Pennsylvania Cities in Distress

Data from the 2000 U.S. Census show that Pennsylvania's cities experienced a traumatic 1990s, in many cases despite energetic efforts by local policymakers and civic leaders to promote community renewal. We examine 22 Pennsylvania cities, ranging in population from Philadelphia at 1.52 million to Pottsville at 15,549.

- Of these 22 cities, only two gained population at a faster rate than the state as a whole in the 1990s and 18 cities lost population. Pittsburgh, Wilkes-Barre, Chester, and Johnstown each lost 10-15 percent of their population.
- Only Pittsburgh and Pottsville enjoyed faster increases in median family income in the 1990s than Pennsylvania as a whole. Median family income in Pennsylvania *rose* by 8.7 percent; median family income *fell* in 10 of Pennsylvania's 22 cities, including seven of the largest 12 cities. In Reading, Allentown, Harrisburg, York, Chester, Easton, and Philadelphia, median family income dropped by more than 5 percent.
- While median earnings for male full-time workers climbed in Pennsylvania in the 1990s, it declined in 12 of 22 Pennsylvania cities. Median male full-time earnings plummeted 7 percent in Erie and Sharon, and about 5 percent in Allentown and York. Gains in female earnings also trailed the state substantially (although female earnings did increase in every city).
- Using a Middle-Class Prosperity index that ranges from zero (lowest possible) to 100 (highest possible), York, Chester, Harrisburg, Erie, Allentown, and Reading had the most difficult 1990s (with MCP indices of 20, 30, 33, 33, 33, and 36, respectively).
- According to a nationwide analysis based on the 2000 Census, nine of the nation's 64 most troubled cities – one out of every seven – are in Pennsylvania.

We have not yet analyzed Census data for older, inner-ring suburbs and smaller towns. Anecdotal evidence suggests that many of these established communities also experienced population loss and economic difficulties in the 1990s.

Economic Opportunity and Work-Family Time Squeeze

Pennsylvania still has not achieved broad-based economic opportunity; in addition, the long-term trend of increased hours of paid work by families with children continued through the late 1990s.

Despite some progress since 1995, economic opportunity and security in the Commonwealth are elusive for many Pennsylvanians.

- *Wages still lagging for many groups*. National productivity has risen by 46 percent since 1979, but the wages of many groups remain lower than 22 years ago. In Pennsylvania, these groups include black men, white men, men and women without high-school diplomas, and men with a high-school degree and with some college education. Black men, disproportionately employed in manufacturing, saw their hourly wages fall $0.81 cents in 2001 and $3.05 since 1979. While gaining in relative terms, Pennsylvania women still earn $3.76 per hour less than men.
- *Eroding benefits*. The share of Pennsylvanians who obtain health care through a job has dropped by 13 percentage points — from over three-quarters to less than two-thirds. The share of Pennsylvanians who obtain pension benefits through a job has fallen from 59 to 56 percent. More dramatic, there has been a pronounced shift away from guaranteed pensions (offering a defined benefit) and toward 401(k) plans — only 19 percent of private-sector U.S. workers now have access to a guaranteed pensions.
- *The absence of institutional breaks on wage and benefit erosion*. With unions shrinking as a share of the workforce and the minimum wage now $2.00 below most low-wage earnings, the only thing holding up wages and inducing companies to provide benefits has been a tight labor market. Sustained unemployment at today's levels – or higher – is likely to halt the economic progress made by middle- and low-income workers.

The time squeeze faced by Pennsylvanians juggling work and family grew more severe in the 1990s.

- Pennsylvania married families with children worked an additional 14 40-hour weeks per year at the end of the 1990s than they did at the end of the 1970s.
- Pennsylvania married families with children worked an extra nine-plus weeks in the 1990s alone.
- Hours worked in Pennsylvania single-parent families rose to 2,168 from 1,487 from the end of the 1970s to the end of the 1990s, an increase of 17 weeks compared to nine nationally.

A Better Way for Pennsylvania

Data summarized in this report document three long-term economic trends that continue to undercut quality of life for Pennsylvania families:

- the uncertain state of economic opportunity and security;
- work-family stress brought on by the enormous increase in hours worked by families with children; and
- the downward spiral of cities losing their middle class (a shrinking middle-class is also a problem in many inner suburbs and rural towns).

To address these problems, the conclusion to this report proposes a Pennsylvania Postindustrial Opportunity Initiative (PPOI). Our PPOI embodies four general principles.

Pennsylvania's economic development policy must move into the 21st century. Too much of Pennsylvania economic development policy remains captive of approaches and ways of thinking adopted in the industrial era. It focuses too heavily on individual firms, underplays the strategic role of government in building a learning and technological infrastructure that cuts across many firms, and fails to recognize the pivotal importance of government in shaping *how* companies compete.

Policy must strengthen industry clusters and networks, not individual firms. Economists from Harvard's Michael Porter to Carnegie Mellon's Richard Florida, have recognized that regional economic advantage today builds on concentrations of workers and firms whose knowledge feeds off one another. Even in non-tradable, non-mobile service industries, regional workforce and modernization partnerships are a key means to improving performance. Scarce public funds should be used to leverage private workforce, best-practice, and technology investments that bolster industry-specific regional networks.

Pennsylvania must pave the high road and block the low road. Since the early 1980s, wide gaps have opened up between best practice "high-road" companies and "low-road" companies that survive by paying badly and despoiling the environment. Examples of each exist in auto parts supply and nursing homes, distribution and trucking, telecommunications and airlines -- in virtually every industry. Policy should give high road firms the skill and technology infrastructure they need to create more family-sustaining jobs. Policy should discourage low-road practices, including by establishing and enforcing high labor and environmental standards.

Pennsylvania must establish a more enlightened government relationship with business. In recent years, Pennsylvania policy has offered business freedom without responsibility. The next Governor should bring the business community into a two-way dialogue. He must listen to how government can be responsive to business, but he should also ask Pennsylvania business leaders to "own" the need to reinvigorate in our Commonwealth the American Dream of widespread opportunity. We think Pennsylvania's many community-minded business leaders would warm quickly to this challenge.

Our proposed Pennsylvania Postindustrial Opportunity Initiative (PPOI) includes 12 specific proposals that would expand economic opportunity. (Readers can find sources on many of these ideas in the Conclusion to this report.)

1. *Provide state grants so that state regions can plan high-road regional economic development strategies* that benefit all segments of society – business, workers and families, the community as a whole.

2. *Build training partnerships and career ladders linked with groups of firms*. These can ensure adequate investment in skills to meet the needs of cutting-edge firms, while enabling more workers to share in the prosperity of our postindustrial economy.

3. *Reduce business subsidies for individual companies and improve accountability from companies that receive any remaining subsidies*. Accountability provisions should include improved disclosure requirements, wage standards, clawbacks, and mandated sprawl-impact assessments. Funds should shift to industry initiatives that help many firms improve performance.

4. *Fund the development of industry "high road" indices*. Such indices would allow industries to benchmark their Pennsylvania performance and identify opportunities for public-private cooperation to improve performance.

5. *Allow employees at private employers to participate in the state-managed deferred compensation plan*, bolstering the tattered pension security of Pennsylvanians.

6. *Raise the minimum wage* to make up for erosion of the buying power of the minimum wage by inflation, and to discourage companies from competing using low-road strategies. Research indicates that this will not cost Pennsylvania jobs or disadvantage the state in attracting investment.

7. *Establish quality care-quality job initiatives in child care, long-term care and mental health-mental retardation services*. The choice between the high road and the low road in these industries is crystal clear. Pennsylvania also gets a double benefit – better quality service for care recipients and better jobs for caregivers – from a strategic shift to the high road.

8. *Establish paid family leave* that would allow parents of newborns and adopted children at least a few weeks of compensated time at home, a benefit many managers and professionals already enjoy.

9. *Develop a Pennsylvania pro-jobs, pro-environment, sustainable development plan* that maps how Pennsylvania can achieve a cleaner, healthier environment *and* create more family sustaining jobs.

10. *Encourage the flow of capital to companies that create family-sustaining Pennsylvania jobs*, which is critical to stemming the hemorrhaging of high-paying manufacturing.

11. *Revitalize cities, inner suburbs, and town by shifting from today's dumb growth policies to tomorrow's smart-growth policies* — strengthening regional planning, implementing regional tax-based sharing, using state infrastructure and transportation dollars to combat urban and inner suburban decay. (Increasing state educational funding is another pivotal step in stemming middle-class flight from overtaxed communities with underfunded schools.)

12. *Develop a Pennsylvania new economy higher education plan*. This plan should identify ways to reduce the share of Pennsylvanians who have only a high school education, while expanding the supply of technical and occupational skills critical to employers offering good careers.

The Gubernatorial race in Pennsylvania provides an opportunity to debate the changes the state needs to flourish in the years and decades ahead. When economic trends fray communities, leave too many workers uneasy, and stretch families to the breaking point, they undercut our values. Such trends call for a change in direction.

Until very recently, a serious discussion about direction was not in the cards. The most powerful parts of our society enjoyed great prosperity in the 1990s. After mid-decade, the middle class began to gain as well.

Corporate accounting scandals, the volatile stock market, and recent job losses have brought a new sobriety – and realism – to discussions about the New Economy. There is much to celebrate: productivity growth, for example, may be on a higher-growth trajectory. There could be much more. It is time for state policies that translate a strong economic foundation into tangible improvements in people's lives.

Box 1. The Public Mood on the Economy

This year's *State of Working Pennsylvania* is released as the U.S. economy has reached a crossroads. The recession that began in March of 2000 seems to be over, but whether recovery or a second dip into recession will follow remains uncertain. Whatever the outcome, few informed observers expect that equities markets —the engine of the supercharged economic mood of the late 1990s —will charge-ahead again any time soon. Sobriety and skepticism have broken out, induced by scalding corporate accounting scandals and a much clearer morning-after view of certain structural features of the U.S. economy.

In this new environment, more balanced assessments of the strengths and weakness of our new economy are gaining visibility. One example concerns the attention being given to Kevin Phillips' recent book *Wealth and* Democracy. Phillips is bringing to wider audiences the story of the staggering redistribution of wealth from the middle class to the rich between the late 1970s and mid-1990s– a redistribution documented for Pennsylvania in previous years' *States of Working Pennsylvania*.

Phillips shows that, between 1977 and 1994, Americans in the top 1 percent income bracket experienced a gain in after tax income of 72 percent. In the same period, Americans in the three bottom income quintiles all experienced declines in after-tax income ranging from 1 percent (for the middle quintile) to 16 percent (for the bottom quintile). This trend contrasts strikingly with the period 1947-79 during which Americans in every income quintile had gains in after-tax income of at least 94 percent.[1]

Even at the peak of the 1990s boom, with many opinion leaders intoxicated by the new economy boom, ordinary Americans remained sober in their assessment of how much the benefits had trickled down to them. In December 1999, for example, Business *Week* reported on a Louis Harris Poll that found:

- 75 percent of Americans believed that the benefits of the New Economy had been distributed unevenly;
- 69 percent believed that business was doing a poor or fair job of raising living standards;
- 79 percent agreed that a productivity boom was occurring in the American economy, but only 34 percent agreed that was increasing their incomes, and only 30 percent said that it had increased their job security;
- Only 53 percent thought the boom was making their lives better.[2]

An August 2002 study by the Conference Board, a leading business-linked research organization echoes this ambivalence. The Board found that only about half of 5,000 workers surveyed were happy with their jobs, down from 59 percent in 1995. The least happy were those workers bearing the brunt of pressure to balance work and family. Workers aged 35 to 44 were among the least happy with their work: only 47.4 percent said they were happy with their job, down from 60.9 percent in 1995.[3]

The public's mood suggests an unmet demand for the "Next Deal" — public policies that will translate economic strength into opportunity people can count on, more time with family not less, stronger communities not more fragile. This public sentiment and the economic data summarized in this report provide the twin motivation for our proposed Postindustrial Opportunity Act.

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[1] Kevin Phillips, *Wealth and Democracy: A Political History of the American Rich* (New York: Broadway Books. 2002), pp. 127-38.

[2] The *Business Week* reporting on the Harris Poll is summarized in Paul Osterman et al., *Working in America: A Blueprint for the New Labor Market* (Cambridge: MIT Press. 2001).

[3] *Special Consumer Survey Report: Job Satisfaction on the Decline* (New York: The Conference Board. July 2002.)

INTRODUCTION

The State of Working Pennsylvania 2002 provides a statistical portrait of the economic status of Pennsylvania's workers, families, and communities. It maps Pennsylvania's performance on indicators of well-being such as wages, income, inequality, poverty, unemployment, job growth, health and pension benefit coverage, and the hours worked by families with children. This year's report includes our first use of 2000 Census data, which enable a close look at economic trends in the 1990s in Pennsylvania cities.

Most data are displayed over time, permitting current performance to be compared to the past. To put Pennsylvania in perspective, the report also compares the state's economy to the nation's and sometimes to those of neighboring states. Throughout the report, dollar values are adjusted for inflation and expressed in 2001 dollars (i.e., the buying power of wages at 2001 prices). For inflation adjustments, we use the CPI-U-RS, a new consumer price index published by the Bureau of Labor Statistics (see Box 2).

In analyzing trends, we ordinarily report figures for 2000 and 2001, but pay more attention to changes that occurred over longer periods of time. We compare 2001 primarily to 1995, 1989, and 1979. For Pennsylvania, 1995 was the end of an extended period of wage decline and stagnation. Changes from 1995 allow us to see how much wages have recovered since they started trending up again. The years 1989 and 1979 were each high points in a business cycle. The year 1979 was also about the time that wages began to decline from their post-World War II peak.

Box 2. Adjusting for Inflation

To make meaningful wage comparisons over time it is necessary to adjust for changes (usually decreases) in the buying power of a dollar over time – for inflation. In this report, we adjust for changes in the overall price level by inflating actual (or "nominal") wages in previous years to the equivalent dollar figure in the most current year for which we have data (usually 2001). For example, median wages for 1979, 1989, 1995, and 2000 are reported in 2001 dollars.

In previous versions of *The State of Working Pennsylvania* we adjusted for inflation using the CPI-U-X1, a consumer price index published by the Bureau of Labor Statistics. This year we switch to the CPI-U-RS (Consumer Price Index Research Series Using Current Methods). CPI-U refers to Consumer Price Index for All Urban Consumers.

According to BLS, "The CPI-U-RS is, in some ways, an extension of the CPI-U-X1, an experimental CPI series developed in the past by the BLS to show what the rate of inflation in the CPI-U might have been, had the current rental-equivalence method of measuring homeownership cost been used prior to its 1983 introduction."[1]

The CPI-U-RS will be updated annually based on methodology improvements or new information. The U.S. Census Bureau has also adopted the CPI-U-RS as its primary price series for making inflation adjustments.

How much difference does adopting the CPI-U-RS make for the time span we consider, 1979 to 2001? According to the CPI-U-RS, a dollar in 1979 is equivalent to $2.26 in 2001; according to the CPI-U-X1, a dollar in 1979 is equivalent to $2.39 in 2001. The impact of our switch to the CPI-U-RS thus makes wages in 1979 appear about 5.6 percent lower in 2001 dollars than with the CPI-U-X1.

The adoption of the CPI-U-RS makes wages in 1989 appear about 3.5 percent lower than they would be using the CPI-U-X1. It makes wages in 1995 appear nearly 1 percent lower than if one uses the CPI-U-X1.

WAGES

On average, wages and salaries account for approximately three quarters of family income. They account for an even higher share of middle- and low-income family income. Wages are thus a major determinant of living standards for most families and a key influence on income inequality. This section examines wage growth and wage inequality in Pennsylvania from 1979 through 2001.

As in previous *States of Working Pennsylvania*, we focus much of our analysis on the "median" earned by the person who falls exactly in the middle of all wage earners. Median wage earners make more than half of all workers and less than the other half of workers.

Wages Rise from 2000 to 2001

The inflation-adjusted median hourly wage in Pennsylvania fell between 1979 and 1989 but rose slightly from 1989 to 1995 and by $1.17 from 1995 to 2001 (Table 1 and Figure 1). Despite the onset of recession, the Pennsylvania median wage rose from 2000 to 2001 by 48 cents per hour – about $1,000 annually for a full-time, full-year worker.

In part because of our switch to a new inflation index, we now estimate the median wage in Pennsylvania to exceed its 1979 level by 69 cents per hour and its 1989 level by $1.20 per hour.

Comparing Pennsylvania with the United States,

- while Pennsylvania wages lost considerable ground in the 1980s, U.S. wages (based on our new deflator) did not;
- while Pennsylvania wages were flat in the first half of the 1990s, U.S. wages declined;
- from 1995 to 2000, U.S. wages caught up with Pennsylvania's again; while
- from 2000 to 2001 Pennsylvania wages moved back in front of U.S. wages.

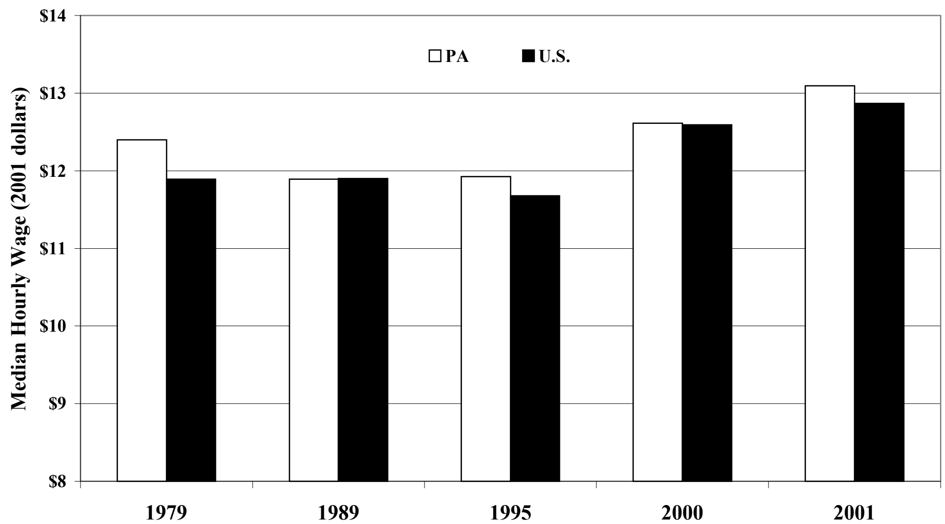
In 1979, five of Pennsylvania's six neighbors had a higher median wage than Pennsylvania, but the biggest wage gap was 72 cents (Maryland) (Figure 2). By 2001, four of Pennsylvania's neighbors states had substantially higher median wages, starting with New York at 80 cents higher and ending with New Jersey at $2.12 per hour more. Our two other neighbors, West Virginia and Ohio, saw median wages fall by $1.60 per hour and 16 cents per hour, respectively, from 1979 to 2001.

Table 1. Median Hourly Wages in Pennsylvania and the United States, 1979-2001 (2001 dollars)

	All Workers		Men		Women	
	PA	US	PA	US	PA	US
1979	$12.40	$11.89	$15.38	$14.96	$9.42	$9.38
1989	11.89	11.90	13.90	13.91	9.83	10.17
1995	11.92	11.68	13.87	13.41	10.26	10.29
2000	12.61	12.59	14.86	14.37	10.81	11.17
2001	13.09	12.87	15.06	14.60	11.30	11.40
Percent Change						
1979-2001	5.6	8.2	-2.1	-2.4	20.0	21.5
1989-2001	10.1	8.2	8.4	5.0	15.0	12.1
1995-2001	9.8	10.2	8.6	8.9	10.1	10.8
2000-2001	3.8	2.2	1.4	1.6	4.5	2.1

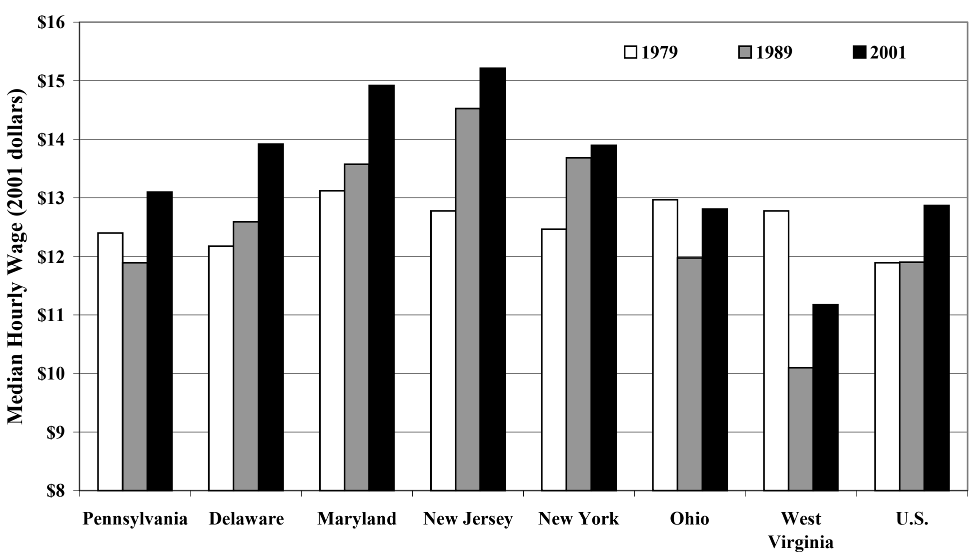
Source: Keystone Research Center (KRC), based on U.S. Census Bureau Current Population Survey (CPS) data.

Figure 1. Median Hourly Wage in Pennsylvania Rises from 2000 to 2001



Source: Keystone Research Center (KRC), based on U.S. Census Bureau Current Population Survey (CPS) data.

Figure 2. Median Hourly Wages in Pennsylvania and Neighboring States, 1979-2001



Source: KRC, based on Economic Policy Institute (EPI) tabulations of CPS data.

Women's Wages Rise Faster than Men's

Table 1 shows that women's wages have risen faster than men's in each period. Particularly striking is the 20 percent increase in Pennsylvania women's median wage from 1979 to 2001 compared to the 2.1 percent *decrease* in Pennsylvania men's median wage. This contrast closely follows the U.S. pattern.

While the median wage for Pennsylvania men is now 32 cents per hour less than what it was in 1979, the median wage for Pennsylvania women is $1.88 per hour more. The male median wage remains $3.76 per hour more than the female.

Men and women in the United States and Pennsylvania experienced similar percent increases in median wages from 1995 to 2001. Pennsylvania women saw larger increases from 2000 to 2001 then U.S. women.

Wage Growth Stagnates for All but White Women in Past Year

Despite a rising median wage for workers overall, examining wages by race and sex shows that only white women saw substantial wage increases in the past year (60 cents per hour). White men and black women experienced small gains, while black men took a large pay decrease.

The black male median wage in Pennsylvania is $10.50 per hour now, a decline of 81 cents per hour from 2000 and an extraordinary decline of $3.05 per hour, or nearly 23 percent, since 1979 (Table 2).

Black women have fared better, experiencing an 8.1 percent increase in their median wage since 1995 (Figure 3). The median wage for black women in Pennsylvania is now 20 cents per hour less than that for black men, compared to a gap of $4.29 per hour in 1979.

Table 2. Median Hourly Wages in Pennsylvania by Race and Sex, 1979-2001 (2001 dollars)

						Percent Change			
	1979	1989	1995	2000	2001	1979-2001	1989-2001	1995-2001	2000-2001
WHITE	$12.56	$12.06	$12.11	$12.95	$13.60	8.3	12.8	12.3	5.0
White Men	15.81	13.92	13.86	15.42	15.50	-2.0	11.3	11.9	0.5
White Women	9.49	9.79	10.38	10.90	11.50	21.2	17.5	10.7	5.5
BLACK	11.30	10.68	10.73	10.62	10.50	-7.0	-1.7	-2.1	-1.1
Black Men	13.55	11.81	11.54	11.31	10.50	-22.5	-11.1	-9.0	-7.2
Black Women	9.26	9.70	9.53	10.28	10.30	11.2	6.1	8.1	0.2

Source: KRC, based on CPS data.

The median wage for white women in Pennsylvania has increased by over 21 percent since 1979, to its current level of $11.50 per hour. White Pennsylvania men have seen a decline in their median wage from 1979 to 2001 by 2 percent. Unlike African-American men, white men have enjoyed a big recovery in their wages ($1.64 per hour) since 1995.

Non-College Earnings Up in Past Year

Table 3 shows that median wages in Pennsylvania for all educational attainment-gender combinations except college-educated women rose from 2000 to 2001. Pennsylvania women with a postgraduate degree saw the largest increase, 10.5 percent in the past year.

Even men with less than a high school education experienced small wage increases from 2000 to 2001. Since 1979, however, this (shrinking) group of Pennsylvania workers has seen a fall of nearly one-third in its real median hourly wage (Figure 4).

All three groups of Pennsylvania men with 1-3 years post-HS education or less, and Pennsylvania women with less than a high school education, earn less than they did in 1979. Pennsylvania men and women with less than a high school degree also earn less now than in 1989.

Pennsylvania men and women with college degrees or above have experienced median hourly wage increases since 1979 ranging from 16.6 percent (college educated men) to 51.6 percent (postgraduate women). From 1995 to 2001, all Pennsylvania gender-educational attainment combinations except men without high school degrees saw increases in median hourly wages (ranging from 4 percent to 13.3 percent).

Wage Inequality Declines

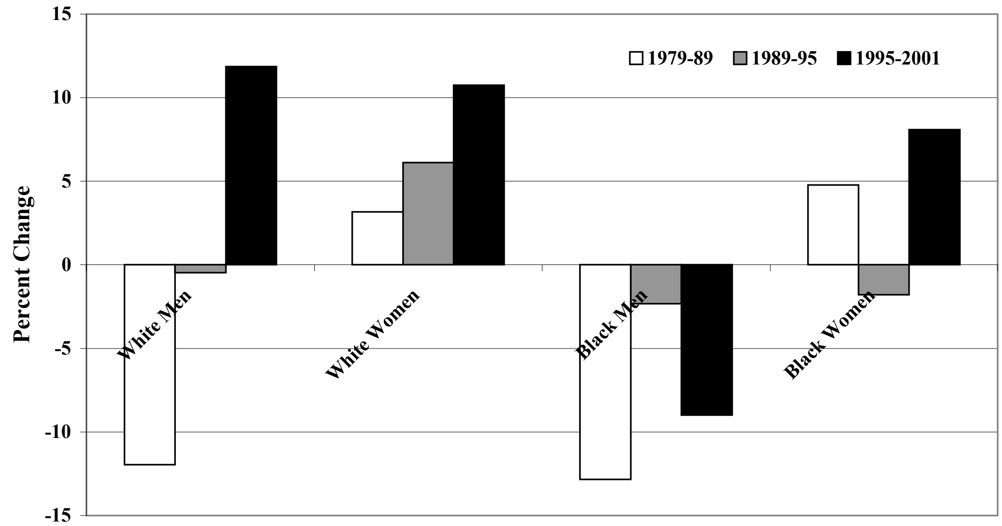
Just as wage trends can be examined by tracking the wages of middle-wage earners, they can also be examined by tracking high-wage and low-wage earners. Table 4 shows wages of "high-wage

Table 3. Median Hourly Wages in Pennsylvania by Education Level, 1979-2001 (2001 dollars)

						Percent Change			
	1979	1989	1995	2000	2001	1979-2001	1989-2001	1995-2001	2000-2001
MEN									
No HS	$14.01	$11.72	$10.27	$9.25	$9.44	-32.6	-19.4	-8.1	2.0
HS	14.98	12.85	12.69	12.85	13.35	-10.9	3.9	5.2	3.9
1-3 Yrs. Post-HS	15.81	13.78	13.85	13.88	14.62	-7.5	6.1	5.6	5.3
College	18.86	18.95	19.42	21.73	22.00	16.6	16.1	13.3	1.2
Postgraduate	20.81	23.34	25.84	27.42	27.88	34.0	19.5	7.9	1.7
WOMEN									
No HS	$8.02	$7.58	$7.21	$7.20	$7.50	-6.5	-1.1	4.0	4.2
HS	9.04	8.96	9.17	9.67	10.00	10.7	11.6	9.0	3.4
1-3 Yrs. Post-HS	9.83	10.55	9.96	10.59	10.65	8.4	1.0	7.0	0.6
College	12.72	13.78	15.18	16.79	16.32	28.3	18.4	7.5	-2.8
Postgraduate	15.29	17.92	21.21	20.97	23.18	51.6	29.4	9.3	10.5

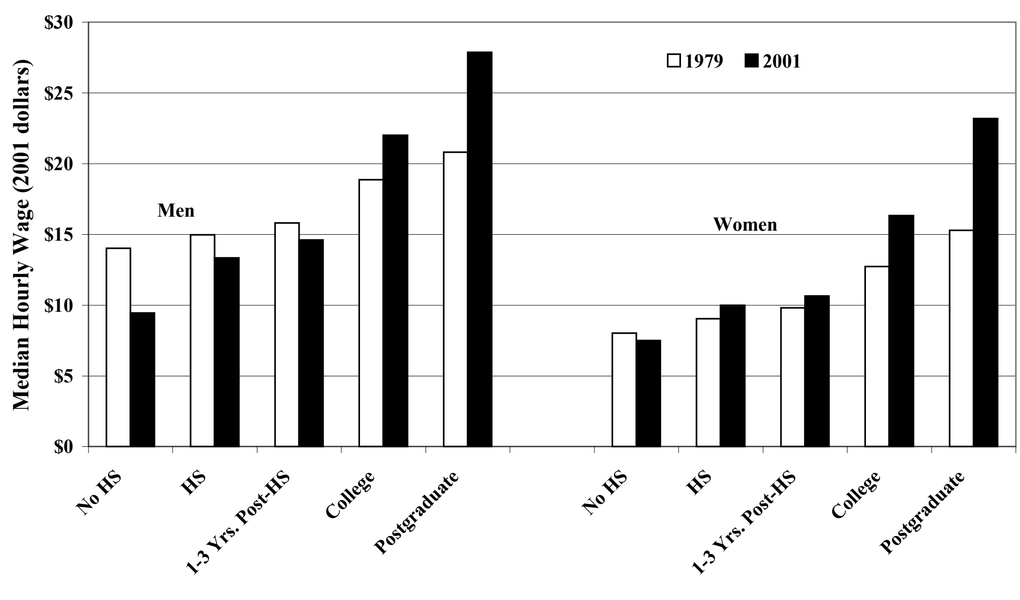
Source: KRC, based on CPS data.

Figure 3. Change in Inflation-Adjusted Median Wage by Race and Sex in Pennsylvania in Three Periods



Source: KRC, based on CPS data.

Figure 4. Pennsylvania Median Wages by Education and Gender, 1979-2001



Source: KRC, based on CPS data.

earners" (those earning more than 90 percent of all workers and less than the other 10 percent) and "low-wage earners" (those earning more than 10 percent of all workers and less than 90 percent).

Wage inequality — measured by the ratio of the wages of high-wage and low-wage earners — increased in the United States and in Pennsylvania from 1979 to 1995 (Table 4). Since 1995, wage inequality has fallen slightly in both the United States and Pennsylvania. The drop in Pennsylvania took place only in the 2000 to 2001 period.

Low-wage earners in Pennsylvania have seen a rise of 4 cents in their inflation-adjusted hourly wage since 1979. By contrast, high-wage earners in Pennsylvania experienced hourly earnings increases of $5.58 per hour since 1979, nearly $12,000 annually for a full-time worker.

The recent drop in wage inequality in Pennsylvania is due to more rapid wage growth for low-wage earners than high-wage earners. Even though high-wage earners gained more in absolute terms from 2000 to 2001, low-wage earners enjoyed a larger percent increase (5.5 percent vs. 3.1 percent for high-wage earners). With no increase in the minimum wage, the gain experienced by low-wage earners is due to the continuing tight labor market in parts of Pennsylvania.

Table 4. Hourly Wages of High-and Low-Wage Earners in Pennsylvania and the United States, 1979-2001 (2001 dollars)

	High-Wage Earners		Low-Wage Earners		High-Wage Earners' Wage as a Percent of Low-Wage Earners' Wage	
	PA	US	PA	US	PA	US
1979	$22.78	$23.24	$6.80	$6.68	335	348
1989	23.64	24.96	5.92	5.74	399	435
1995	25.32	25.79	5.97	5.84	424	442
2000	27.51	28.06	6.48	6.48	424	433
2001	28.36	28.97	6.84	6.69	414	433
Percent Change						
1979-2001	24.5	24.7	0.7	0.2		
1989-2001	19.9	16.1	15.6	16.6		
1995-2001	12.0	12.3	14.7	14.6		
2000-2001	3.1	3.2	5.5	3.3		

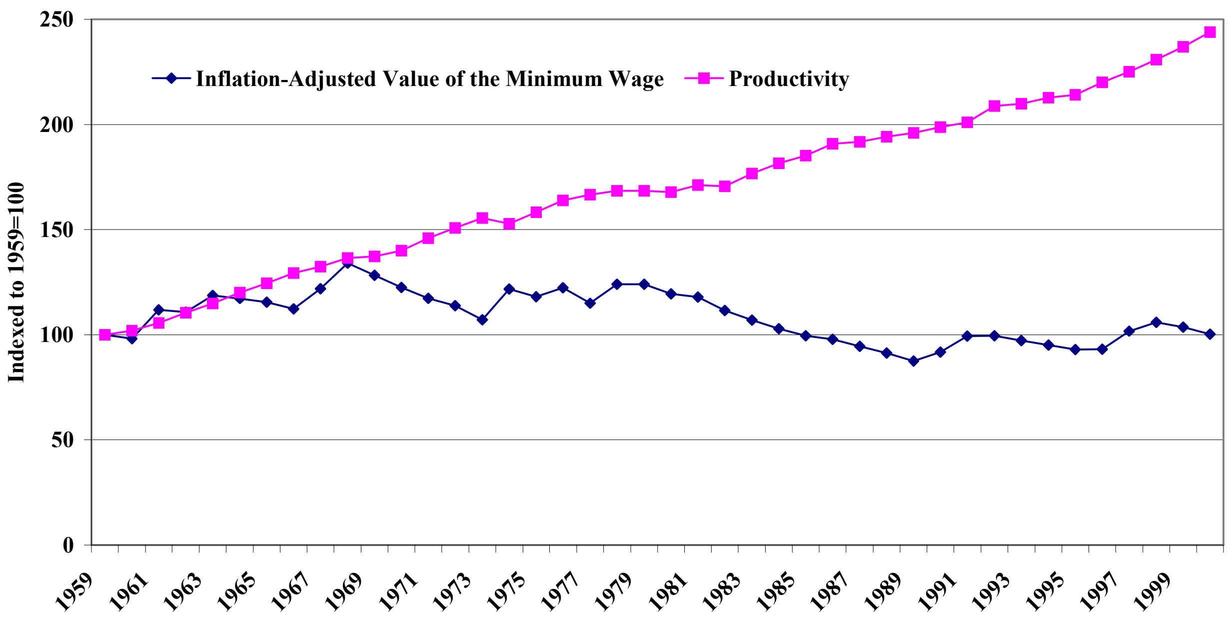
Note: In this table, "high-wage earners" are defined as those who earn more than 90 percent of all workers and less than 10 percent of all workers. "Low-wage earners" are those who earn more than 10 percent of all workers and less than 90 percent.
Source: KRC, based on CPS data.

Minimum Wage Loses Value, Trails Productivity Growth

Since its last increase in September 1997 to $5.15 per hour, the federal minimum wage has lost value in real terms and has continued to decline relative to productivity (output per hour). Up until 1970 the value of the minimum wage kept pace with rising productivity (Figure 5). Since then, and especially after 1982, the minimum wage has lost value (with the exception of minor bumps in the late 1980s and in 1996-1998), while productivity has risen steadily.

The gap between the minimum wage and productivity in the United States is now at its highest level in at least five decades. The lagging minimum wage makes the gains of the past year for low-wage earners that much more exceptional and points to the dependence of these gains on maintaining low unemployment.

Figure 5. The Inflation-Adjusted Minimum Wage Falls While Productivity Rises



Note: Productivity is output per hour in the business sector.
Source: EPI data and KRC analysis of BLS data.

Low- and High-Wage Earners in Middle of Those in Neighboring States

Tables 5 and 6 and Figure 6 compare the wages of "moderately" high-wage earners (those who earn more than 80 percent of all workers and less than the other 20 percent) and "moderately" low-wage earners (those who earn more than 20 percent of all workers and less than the other 80 percent) in Pennsylvania, neighboring states, and the United States. (We compare states based on moderately low-wage and moderately high-wage earners because the Economic Policy Institute (EPI) made such data available to us.)

In 2001, moderately low-wage workers in Pennsylvania earned almost the same as their counterparts in New York, Ohio, and West Virginia, and less than their counterparts in the other three neighboring states (Delaware, Maryland, and New Jersey).

Moderately low-wage workers in Pennsylvania had the largest gains from 2000 to 2001 of all neighboring states and the United States as a whole. The 31 cents per hour gain that moderately low-wage earners saw from 2000 to 2001 represented more than half of the entire gain for this group from 1995 to 2000.

Moderately high-wage Pennsylvania workers experienced wage stagnation from 2000 to 2001. Only in West Virginia, where moderately high-wage workers lost ground, did moderately high-wage workers do worse than Pennsylvania workers at the 80th percentile.

In absolute terms, moderately high-wage workers in Pennsylvania earn more than such workers in Ohio and West Virginia, but less than such workers in Delaware, Maryland, New Jersey, New York, and the United States as a whole.

Table 5. Moderately Low-Wage Workers' Wages in Pennsylvania and Neighboring States, 1979-2001 (2001 dollars)

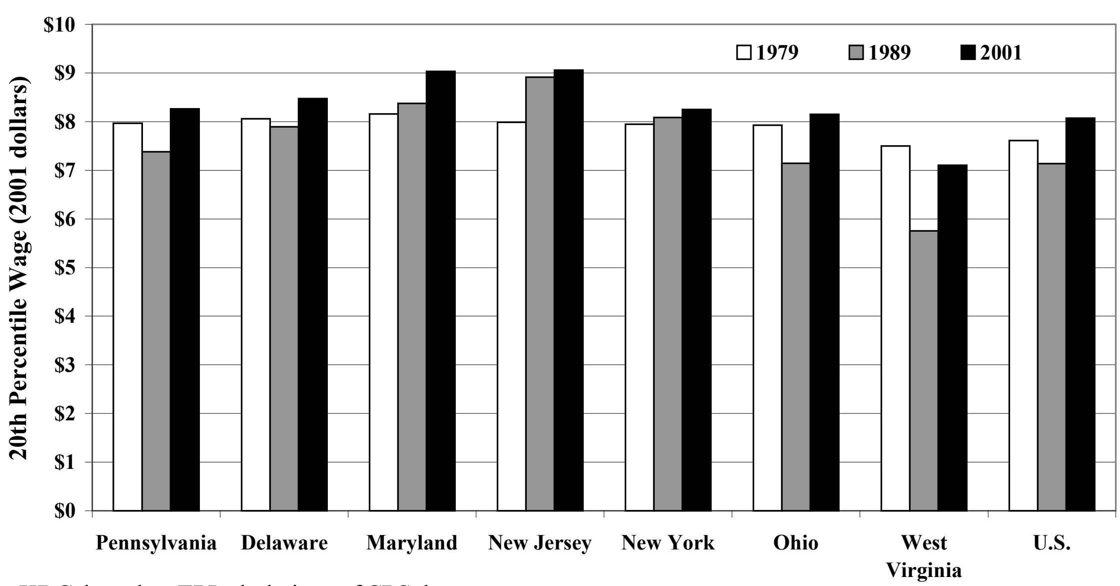
						Percent Change			
	1979	1989	1995	2000	2001	1979-89	1989-95	1995-2000	2000-2001
Pennsylvania	$7.97	$7.38	$7.39	$7.95	$8.26	-7.3	0.0	7.7	3.9
Delaware	8.06	7.90	7.69	8.32	8.47	-2.0	-2.7	8.3	1.8
Maryland	8.16	8.38	8.21	8.92	9.03	2.7	-2.0	8.7	1.3
New Jersey	7.98	8.91	8.57	8.88	9.06	11.6	-3.8	3.6	2.0
New York	7.94	8.08	7.85	8.05	8.25	1.8	-2.9	2.5	2.5
Ohio	7.93	7.15	7.10	8.16	8.15	-9.8	-0.7	15.0	0.0
West Virginia	7.50	5.75	6.38	6.86	7.11	-23.3	11.0	7.4	3.6
U.S.	7.61	7.14	7.14	7.99	8.07	-6.2	0.0	11.9	1.0

Note: "Moderately low-wage" workers earn more than 20 percent of all workers and less than 80 percent of all workers.
Source: KRC, based on EPI tabulations of CPS data.

Table 6. Moderately High-Wage Workers' Wages in Pennsylvania and Neighboring States, 1979-2001 (2001 dollars)									
						Percent Change			
	1979	1989	1995	2000	2001	1979-89	1989-95	1995-2000	2000-2001
Pennsylvania	$18.64	$18.73	$19.84	$21.41	$21.42	0.5	5.9	7.9	0.1
Delaware	20.44	20.21	20.63	21.52	23.01	-1.1	2.1	4.3	6.9
Maryland	22.07	21.43	23.10	23.79	25.88	-2.9	7.8	3.0	8.8
New Jersey	20.26	23.62	24.56	25.80	26.60	16.6	4.0	5.0	3.1
New York	19.49	22.04	22.18	23.52	23.98	13.1	0.7	6.0	2.0
Ohio	19.01	18.97	19.49	20.76	20.88	-0.2	2.7	6.6	0.6
West Virginia	19.62	17.26	18.06	18.50	18.44	-12.0	4.6	2.4	-0.3
U.S.	19.00	19.76	19.96	21.47	21.71	4.0	1.0	7.6	1.1

Note: "Moderately high-wage" workers earn more than 80 percent of all workers and less than 20 percent of all workers.
Source: KRC, based on EPI tabulations of CPS data.

Figure 6. Hourly Wage of Moderately Low-Wage Earners in Pennsylvania and Neighboring States, 1979-2001



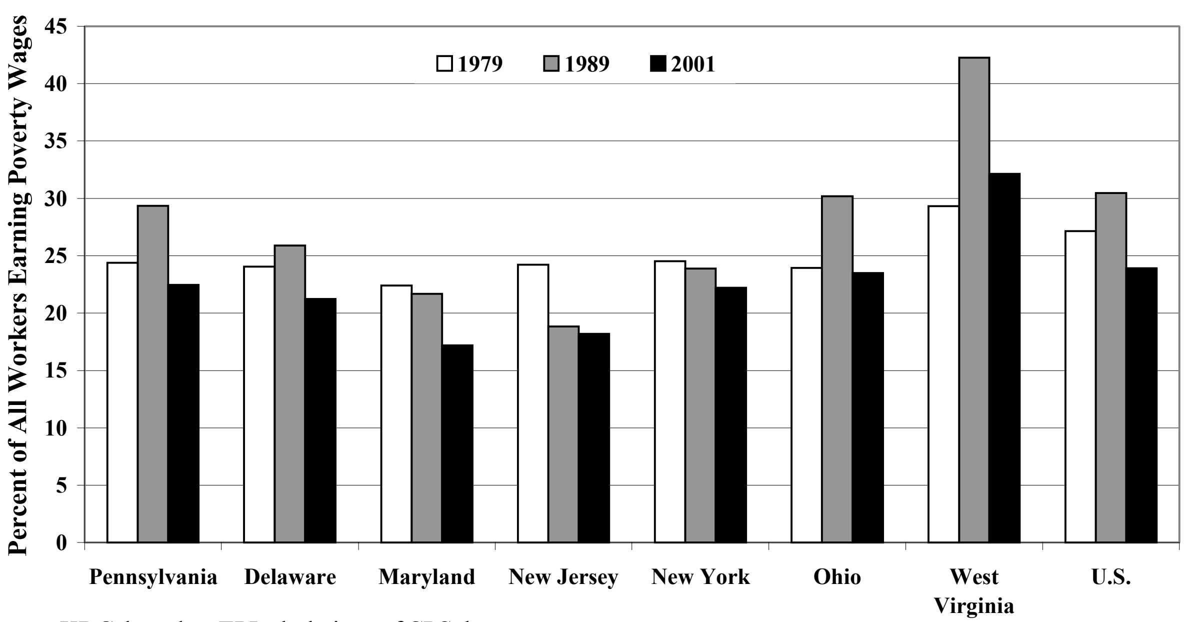
Source: KRC, based on EPI tabulations of CPS data.

Despite Drop, Poverty Wages Still Prevalent

One measure of the adequacy of hourly earnings is whether, if workers are employed full-time, full-year, their hourly wage will lift them above the official poverty threshold for a family of four. In the year 2001, this "poverty wage" in the United States was $8.70 per hour.

Since 1995, the share of Pennsylvania workers earning less than a poverty wage declined from 29.5 percent to 22.4 percent (Figure 7). In the past year, this share dropped from 24.8 percent to 22.4 percent. Pennsylvania has a higher share of workers earning a poverty wage than Delaware, Maryland, and New Jersey. The share of Pennsylvania workers earning a poverty wage is at its lowest point since 1979.

Figure 7. The Share of Workers Earning Poverty Wages in Pennsylvania and Neighboring States, 1979-2001



Source: KRC, based on EPI tabulations of CPS data.

BENEFITS

Health and pension benefits provide another indicator of economic well-being. In previous decades, many workers received benefits as part of a long-term employment relationship with a single employer. With the apparent weakening of ties between workers and individual employers, concerns have arisen about an erosion in health and benefit security.

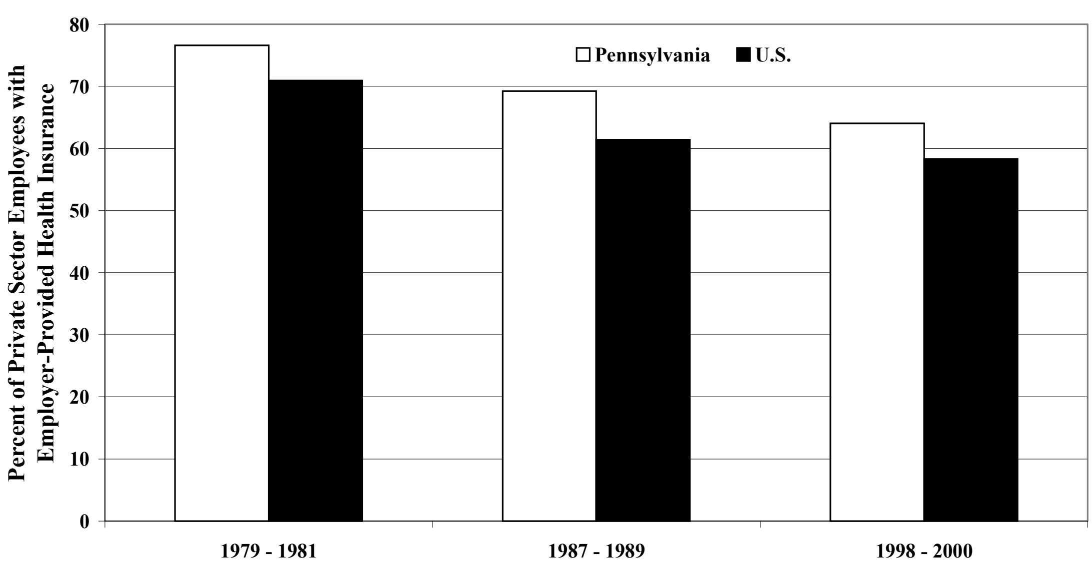
Local and national events have reinforced the questions that exist about benefit protection. At Hershey, a recent strike stemmed from company and union disagreement about how to divide up the burden of mushrooming health-care costs. At Enron, WorldCom, and other major U.S. corporations, plummeting shares have resulted in dramatic erosion of pensions. Since they participate in 401(k) plans or their equivalent, rather than in pension plans that deliver fixed benefits per year of service, tens of millions of workers now depend on stock market fluctuations for their pensions.

Employment-Based Health Insurance Coverage Drops

In the 1979 to1981 period (pooling several years of data makes estimates more reliable), almost 77 percent of private-sector Pennsylvania workers obtained health insurance through their own job or the job of a family member (Figure 8). This share was almost six percentage points more than the share of workers with employment-based health insurance in the United States as a whole and made Pennsylvania third highest of all states in the share of workers with employment-based health coverage.

By the 1998 to 2000 period, Pennsylvania's share of workers with employment-based health coverage had slipped to 64 percent. In the 1990s (1987-89 through 1998-2000), Pennsylvania had the seventh largest percentage point decline in the share of people with employment-based health insurance.

Figure 8. Employer-Provided Health Insurance Coverage Declining for PA Workers



Source: KRC, based on EPI anaylsis of March CPS data.

Employer-Provided Pension Coverage Below its Peak in Pennsylvania

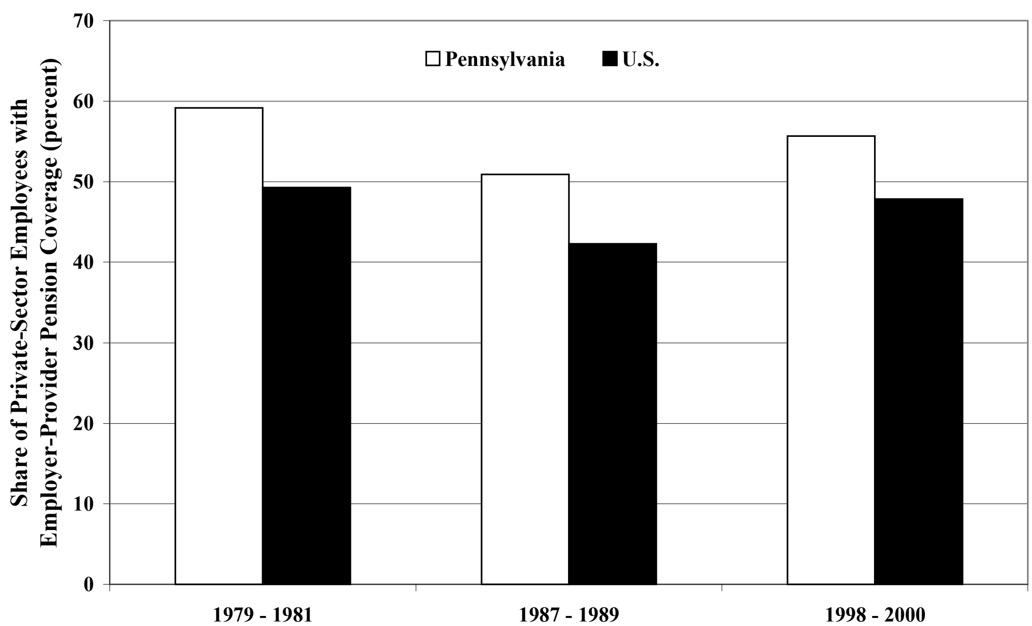
Figure 9 shows the share of private-sector workers with employer-provided pensions in the United States and Pennsylvania from the late 1970s (1979-81) to the late 1990s (1998-2000).

In both the nation and the state, the share of workers with employer-provided pensions fell from the 1979-81 period to the late 1980s, but then rebounded by the end of the 1990s. This rebound was less complete in Pennsylvania than nationally.

Pennsylvania in 1979-81 had a higher share of private sector workers with employer-provided pensions (59.2 percent) than any other state. Pennsylvania still led the nation at the end of the 1980s (1987-89) with 50.9 percent coverage, but also experienced the 9th largest percentage point fall in coverage during the 1980s.

From 1987-89 to 1998-2000, Pennsylvania's 4.8 percentage point increase in pension coverage, to 55.7 percent, was the 39th largest of all states, dropping Pennsylvania to fourth based on the share of workers with a pension. In the overall period, 1979-81 to 1998-2000, Pennsylvania experienced the 5th largest percentage point drop in employer-provided pension coverage.

Figure 9. Employer-Provided Pension Coverage Down from Its Peak in PA in the Late 1970s



Source: KRC, based on EPI tabulations of March CPS data.

Massive Shift to Defined-Contribution Pensions

Much more dramatic than the modest fluctuations in overall pension benefit coverage has been the shift away from defined-benefit pensions (offering fixed benefits per year of service) to defined-contribution plans such as 401(k)s and Individual Retirement Accounts (IRAs).[2]

- In 2000, only 19 percent of all workers in private industry in the United States participated in defined-benefit plans. (We do not have Pennsylvania figures for this share or the remaining statistics in this section.)
- Private sector defined-pension benefit coverage has been pulled down in part by the combination of falling unionization rates and a striking union/non-union gap in defined pension benefit coverage. While 69 percent of union workers in private industry participated in defined-benefit pension plans in 2000, only 14 percent of non-union workers did (U.S. BLS National Compensation Survey, online at http://www.bls.gov/ncs/ebs/home.htm).

Older Workers Face Retirement Insecurity

The U.S. workers now approaching retirement (defined as 47-64 year olds) are the first group to feel a major impact from the shift to defined-contribution plans.

- In 1998, 59.7 percent of U.S. households approaching retirement had investments in defined-contribution accounts, compared to 11.9 percent in 1983.
- The share of U.S. households in the 47 to 64 age group covered by a defined-benefit pension plan fell by 27 percentage points between 1983 and 1998, from 69 to 42.
- Defined-benefit pension wealth for households between the ages of 47 and 64 declined by 39.4 percent, from $87,000 in 1983 to $52,700 in 1998.

Due to eroding defined-benefit pension wealth, more Americans face sharp drops in income when they retire.

- In 1989, three out of 10 households in the 47 to 64 age group had projected retirement income of less than half their current income. By 1998, 42.5 percent of this age group had projected retirement income of less than half its current income.

INCOME, POVERTY, AND WORKING HOURS

We now turn our attention to two measures of family well-being, the income of four-person families and family income inequality.

Four-Person Pennsylvania Family Income Rises, But Lags Leading Neighbors

Looking at incomes of families of a fixed size controls for the general decline, over time, in family size. In Pennsylvania, the median income of a four-person family rose by 34 percent from 1979 to 2000, most of that increase coming in the last decade (Table 7).

Over these two decades, Pennsylvania lost ground relative to four neighboring states (Delaware, Maryland, New Jersey, and New York), while gaining ground relative to Ohio, West Virginia, and the United States. Pennsylvania's middling performance since 1979 results from a below-average 1980s but a better-than-average 1990s. Pennsylvania's relatively high four-person family income gains since 1989 may be a result of sharp increases in work hours.

Family Income Inequality Continues to Grow in Pennsylvania

Table 8, Figures 10a and 10b present data on family income by quintiles. Table 8 shows that the rate of increase in family income inequality has slowed in the 1990s compared to the 1980s. Even so, the gap between Pennsylvania's richest families and its middle and poor families continues to grow. The richest fifth of families had an average income 6.4 times the average income of the poorest fifth of families in 1978-80, 7.9 times by 1988-90, and 8.8 times in 1998-2000.

The average income of the poorest fifth of Pennsylvania families grew by 9.9 percent from 1978-80 to 1998-2000 compared to 52 percent for the richest fifth of families (Figure 10a). Families in the middle fifth saw an increase of 21 percent.

What do differing rates of income growth mean in terms of the share of the growth in the economic

Table 7. Median Income for Four-Person Families in Pennsylvania, Nearby States, and the U.S., 1979-2000 (2000 dollars)

						Percent Change			
	1979	1989	1995	1999	2000	1979-89	1989-95	1995-99	1999-00
Pennsylvania	$49,030	$54,173	$57,104	$61,533	$65,411	10.5	5.4	7.8	6.3
Delaware	46,547	57,372	61,183	67,773	69,360	23.3	6.6	10.8	2.3
Maryland	54,242	67,234	67,603	77,303	77,562	24.0	0.5	14.3	0.3
New Jersey	54,141	71,369	68,916	77,942	78,560	31.8	-3.4	13.1	0.8
New York	46,323	58,583	56,866	61,749	64,520	26.5	-2.9	8.6	4.5
Ohio	49,500	55,601	57,114	58,114	62,251	12.3	2.7	1.8	7.1
West Virginia	41,476	42,652	44,588	46,711	46,270	2.8	4.5	4.8	-0.9
United States	49,208	54,655	55,761	61,983	62,228	11.1	2.0	11.2	0.4

Source: KRC, based on U.S. Census Bureau income data. Data are available online at http://www.census.gov/hhes/income/4person.html.

Table 8. Income of Pennsylvania Families in the Late 1970s, 1980s, and 1990s (1999 dollars)					
	Median Family Income for Each Group of Families				
	Poorest Fifth	Second Fifth	Middle Fifth	Fourth Fifth	Richest Fifth
1978-80	$15,054	$31,262	$44,238	$59,149	$96,455
1988-90	$14,796	$31,390	$46,441	$64,632	$116,670
1998-2000	$16,547	$35,357	$53,588	$76,237	$146,317
Dollar Change in Income					
1978-80 to 1988-90	-$259	$129	$2,203	$5,483	$20,215
1988-90 to 1998-2000	$1,752	$3,966	$7,147	$11,605	$29,647
1978-80 to 1998-2000	$1,493	$4,095	$9,350	$17,088	$49,862
Ratios of Income of Richest Fifth of Families to Incomes of Other Groups					
1978-80	6.4	3.1	2.2	1.6	1.0
1988-90	7.9	3.7	2.5	1.8	1.0
1998-2000	8.8	4.1	2.7	1.9	1.0

Source: KRC, based on Jared Bernstein, Heather Bousney, Elizabeth McNichol, and Robert Zahradnik, *Pulling Apart: A State-by-State Analysis of Income Trends* (Washington D.C.: Economic Policy Institute and Center on Budget and Policy Priorities, 2002).

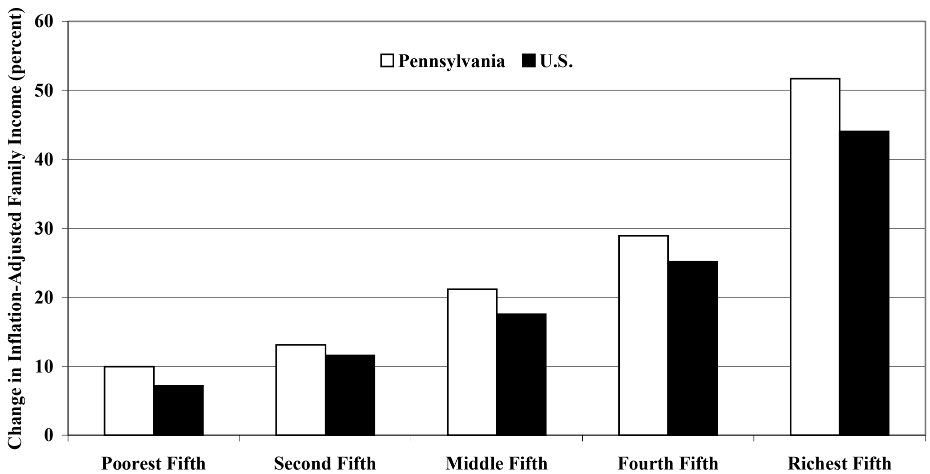
pie received by affluent and non-affluent families in the past two decades? The richest fifth of families in Pennsylvania captured 61 percent of total family income gains from 1978-80 to 1998-2000, more than three times as much as the bottom three-fifths of families combined (Figure 10b).

Poverty Rate Declines in Pennsylvania Since Late 1980s

Another measure of economic well-being is the poverty rate. People are considered poor if their income before taxes and government transfers leaves them below the official poverty line for a family of their size. In 2001, for example, a family with two parents, two children, and income below $17,960 was considered poor.[3]

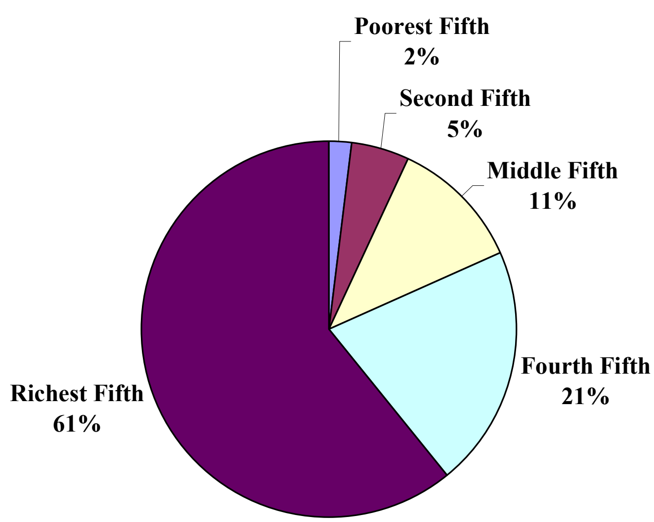
Figure 11 shows poverty rates for Pennsylvania and neighboring states from the late 1980s (1988-89) to the late 1990s (1999-2000). The poverty rate in Pennsylvania fell by 1.2 percentage points during this time from 10.3 percent to 9.1 percent. Pennsylvania's poverty rate is the 14th lowest of the 50 states and below all neighboring states except Maryland and New Jersey.

Figure 10a. Income Change for Pennsylvania and U.S. Families, 1978-80 to 1998-2000, by Fifth of Families



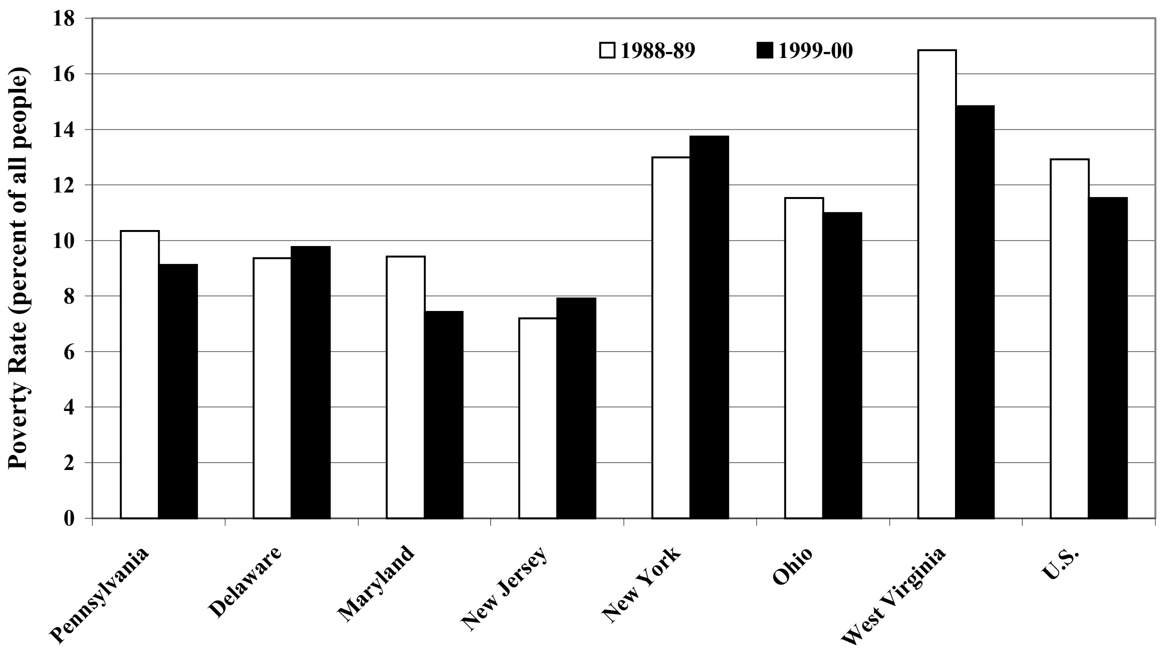
Source: See Table 8.

Figure 10b. Share of Income Gain by Fifth of Families, 1978-80 to 1998-00



Source: See Table 8.

Figure 11. Poverty Rates in Pennsylvania and Neighboring States, Late 1980s to Late 1990s



Source: KRC, based on EPI tabulations of CPS data.

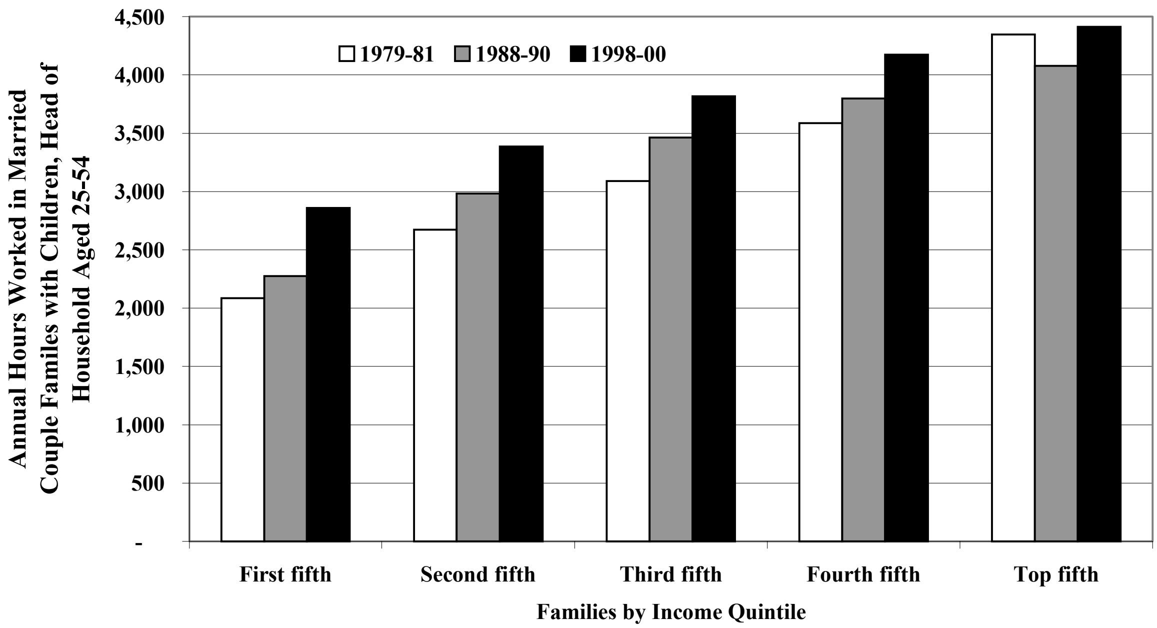
Lower- and Middle-Income Families in Pennsylvania Face Growing Time Squeeze

The long-term trend of increased hours of paid work by America's families continued through the late 1990s.

- Over the past two decades, Pennsylvania married families with children worked an additional 571 hours per year - more than 14 40-hour weeks - compared with an increase of 432 hours nationally (Figure 12).
- Hours worked in Pennsylvania single-parent families rose to 2,168 from 1,487 from the end of the 1970s to the end of the 1990s, an increase of 681 hours compared to 367 nationally.

Pennsylvania married families with children worked an extra nine-plus weeks in the 1990s alone. Families in the lower fifths of the income distribution saw the largest increase in working hours in the 1990s, both in absolute hours and percentage terms. Families in the poorest fifth increased their annual working hours from 2,277 in 1988-90 to 2,859 in 1998-2000, an increase of 582 hours, or about 14 weeks per year.

Figure 12. Middle- and Lower-Income Families with Children See Large Increases in Working Hours from Late 1970s to Late 1990s



Source: KRC, based on EPI tabulations of March CPS data.

EDUCATION

A well-educated workforce provides a foundation for a productive economy. Education also gives people the knowledge they need to participate in civic life and the democratic process. Table 3 (above) showed the growing importance of education in making a decent wage. In this section we look at the educational attainment of the workforce in Pennsylvania and the United States.

Share of Adults with College or Graduate Degrees Rising in Pennsylvania

Table 9 shows the highest level of educational attainment for all persons aged 18 to 64. In 1979 and 1989, Pennsylvania trailed the United States in the share of this age group with both graduate and college degrees.

By 2001, however, 10 percent of Pennsylvania's 18-64 year olds had a graduate degree, compared to 8.9 percent in the United States as a whole. In 2001, Pennsylvania and the United States each had the same share of adults with at least a college degree – 27.9 percent.

Pennsylvania has Few Workers Without a HS Degree but Lags in "Some College" Category

In the United States and in Pennsylvania, 72 percent of the population aged 18 to 64 has less than a four-year college degree. The educational attainment of this 72.1 percent differs substantially in Pennsylvania compared to the United States.

- In Pennsylvania, the 72.1 percent without a four-year college degree includes 7 percent with less than high school, 41 percent with a high school degree, and 25 percent with some college.
- In the United States, 11 percent have less than a high school degree, 31 percent have a high school degree, and 30 percent have some college.

These numbers show that a strength of Pennsylvania is the relatively small fraction of people aged 18 to 64 without a high school degree. On the downside is Pennsylvania's high share of people with only a high school diploma.

Table 9. Highest Level of Educational Attainment in Pennsylvania and the United States, 1979, 1989, 2001 (all persons 18 to 64)

		1979	1989	2001
Pennsylvania	Less Than High School	18.9%	11.6%	7.0%
	High School	49.2	47.6	40.5
	Some College	15.8	19.3	24.6
	College	9.7	12.5	17.9
	Advanced Degree	6.4	8.9	10.0
United States	Less Than High School	20.1	13.7	10.5
	High School	38.5	36.9	31.4
	Some College	22.8	26.0	30.2
	College	11.0	14.0	19.0
	Advanced Degree	7.6	9.4	8.9

Source: KRC, based on CPS data.

JOBS AND JOBLESSNESS

This section reports trends in job growth, unemployment, and manufacturing and government employment. Pennsylvania's job growth performance has been in the bottom dozen states for most periods in the past two decades. The state's job growth performance has been somewhat better in the past 18 months, despite heavy manufacturing job losses. Pennsylvania unemployment has been below the national level for the past year.

This section also looks behind the political back-and-forth regarding Pennsylvania's job growth. To no great surprise, we find that by choosing different time periods, it is possible to make Pennsylvania job growth performance look worse or somewhat less poor relative to other states.

Pennsylvania Job Growth Trails U.S.

Job growth partly reflects the age composition of the population, which is independent of the health of the economy. For that reason, slow job growth may not be cause for alarm. Nonetheless, job growth is also an indicator of economic strength. With a strong economy, fewer workers leave the state in search of opportunity, more workers move into the state, and more workers who are already in Pennsylvania enter (or stay in) the labor force.

Pennsylvania job growth over the 1979 to 2001 period was about 40 percent of the U.S. level and ranked 48th in the country (Table 10). In three sub-periods – 1979 to 1989, 1989 to 1995, and 1995-2001 – job growth in Pennsylvania never reached more than 67 percent of the U.S. level (Figure 13).

The Job Growth Debate in Pennsylvania

In a politicized debate about the success or failure of Ridge/Schweiker economic policies, widely-divergent claims have been made recently about Pennsylvanias job-growth rankings:

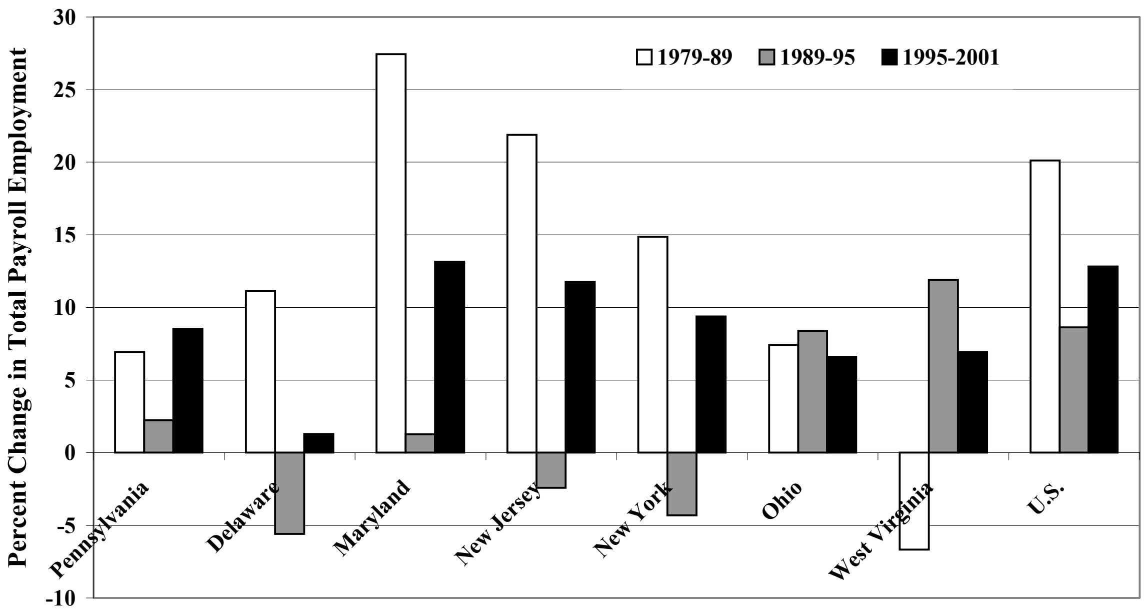
- "Under Democrat and Republican administrations in the 1990's, job growth in Pennsylvania was 46th in the nation." – Green Party Gubernatorial candidate Michael Morrill[4]
- "When Ridge took office, Pennsylvania ranked 45th among states in job growth; by 1998 Pennsylvania ranked 16." – *Salon.com*[5]
- "The *Salon* article repeated the fiction that Pennsylvania had climbed from 45th under the previous administration to 16th in 1998. If we are talking about net creation of new jobs, that is simply untrue. From U.S. Bureau of Labor Statistics data, here is Pennsylvania's annual standing in job creation, comparing year-end numbers from one December to the next, since the first year of the current administration:
  1995 – 43rd
  1996 – 35th
  1997 – 43rd
  1998 – 42nd
  1999 – 47th" – State Senator Vincent J. Fumo[6]

Table 10. Employment Performance in Pennsylvania, 1979-2001

	1979-89	1979-95	1979-2001	1989-95	1989-2001	1995-2000	1995-2001	2000-2001	2001-2002*
Percent Change in Non-farm Payroll Employment	6.9	9.3	18.6	2.2	10.9	8.3	8.5	0.2	-1.1
PA's Job-Growth Rank out of 50 States	43	48	48	40	43	40	36	26	27

* Figure is for seasonally adjusted change in non-farm payroll employment from January 2001 to July 2002.
Source: KRC, based BLS data.

Figure 13. Change in Nonfarm Employment in Pennsylvania and Neighboring States in Three Periods (percent)



Source: KRC analysis of EPI analysis of BLS data.

With the exception of the *Salon.com* claim, most estimates place Pennsylvania's job-creation rank somewhere in the 40s. As pointed out by Senator Fumo, conflicting rankings for Pennsylvania's job growth rate are usually due to different choices of time period: "Much has been discussed lately on conflicting job creation rankings. Because the statistic analyzes growth (or decline) over a period of time, the beginning and ending points selected for analysis help determine the ranking."[7]

Table 10 presents data on change in non-farm payroll employment in Pennsylvania in different time periods from 1979 to 2001. The table also contains Pennsylvania's ranking among all states.

As the data show, Pennsylvania's job creation record looks worst over the 1979-2001 and 1979-95 periods; the Pennsylvania job record looks best in the past 18 months. Of the periods shown, only in those periods that include 2001 and/or 2002 does Pennsylvania's job-growth rank climb above 40th place.

While Pennsylvania's job-growth rank climbed to 26th or 27th in the last 18 months, Pennsylvania had 48,000 fewer jobs in June of 2002 than 12 months earlier. Only 13 states had positive job growth in the past 18 months.

Job Growth Varies Across State

Figure 14 shows employment growth in the two halves of the 1990s, and from 2000 to 2001 in each of Pennsylvania's 14 metropolitan areas and in Philadelphia and Allegheny counties. (Figure 13 and 14 are based on different data sets. While over the entire 1979 to 2001 period both data sets show a similar change in Pennsylvania employment, the changes in sub-periods differ somewhat. Since our primary interest is in how job growth rates differ by region, the discrepancies between the two data sets are not a major concern).

From 1989 to 1995, job growth was negative in the metropolitan areas of Allentown and Williamsport, Philadelphia County, and in Pennsylvania as a whole. Other than the metropolitan areas of Harrisburg, Erie, State College, and Scranton, the remaining metropolitan areas had job growth of less than 5 percent in this period.

The 1995 to 2000 period saw more evenly distributed employment growth in Pennsylvania's regions. Only metropolitan Johnstown and Philadelphia county experienced a decline in employment. In other areas, employment growth ranged from 1.5 percent (metropolitan Scranton) to 7.7 percent (metropolitan Allentown).

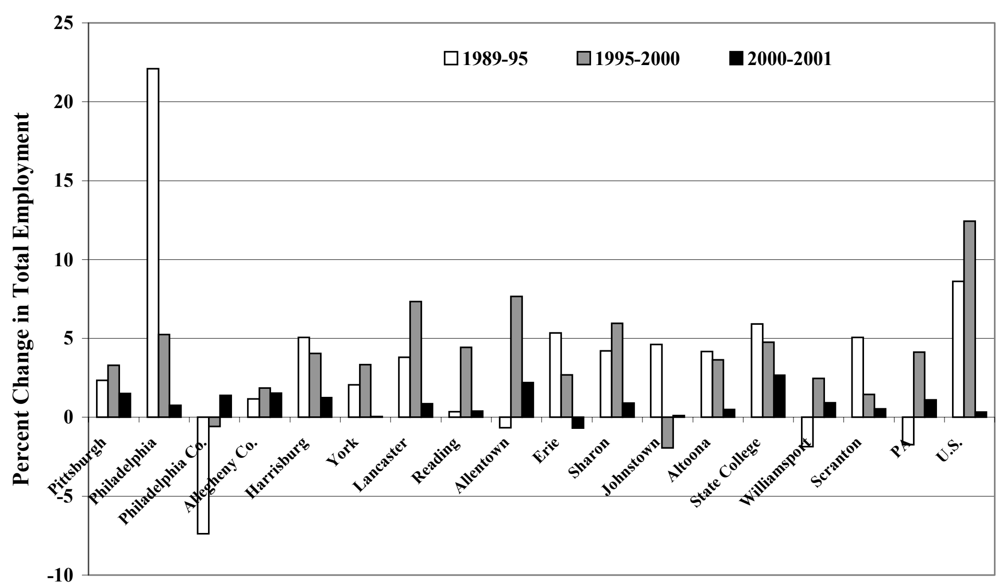
From 2000 to 2001, all metropolitan areas except Erie experienced job growth. Metropolitan Allentown and State College each saw employment growth of more than 2 percent from 2000 to 2001.

Unemployment Rising in Pennsylvania

When the Pennsylvania unemployment rate reached 4 percent in March 2000, it was the lowest rate since January 1973. Since March of 2000, the unemployment rate in Pennsylvania has risen to 5.4 percent (Figure 15). U.S. unemployment was at its lowest point, 3.9 percent, in October 2000, and climbed to 5.9 percent by July 2002.

Figure 15 makes clear that the Pennsylvania unemployment rate has been below the U.S. rate for most of the past 12 months. Pennsylvania's unemployment advantage compared to the United States opened up in August of 2001 and has been maintained in the wake of the terrorist attack of September 11 last year.

Figure 14. Change in Total Employment in 16 Pennsylvania Areas in Three Periods (percent)



Source: KRC, based on Pennsylvania Department of Labor and Industry data.

PA Unemployment Rate Low Compared to 1970s and 1980s

The recent rise in the unemployment rate in Pennsylvania is put into historical context in Figure 16. By the year 2000, the steady fall in the Pennsylvania unemployment rate from 7.6 percent in 1992 brought unemployment below the levels of the 1970s and 1980s. The recent recession has brought unemployment back above the rates common in the 1950s and 1960s.

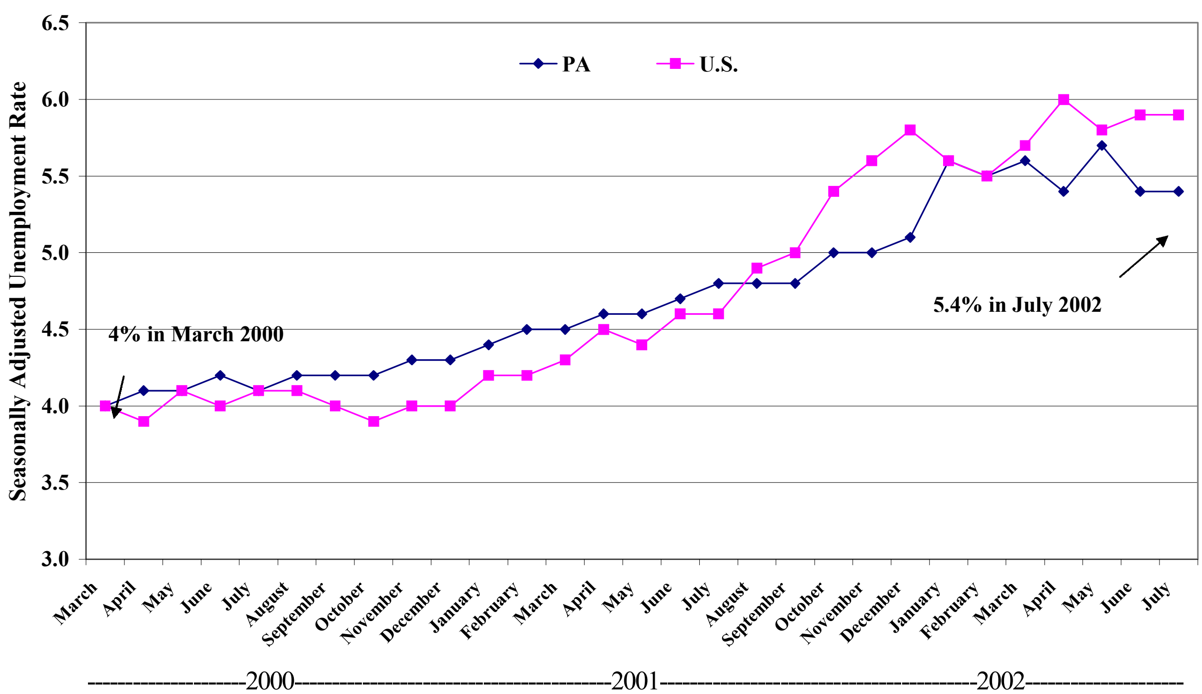
Manufacturing Employment Continues to Fall

In 1979, manufacturing employment accounted for nearly 29 percent of total employment in Pennsylvania (Table 11), placing the state 12th highest in the United States. By 1989, manufacturing employment as a share of total employment had declined to just over 20 percent, placing Pennsylvania 14th overall. In 2001, with manufacturing employment at 15.7 percent of total employment, Pennsylvania slipped to 16th in the country.

In the 1980s (1979 to 1989), Pennsylvania's decline of 8.5 percentage points in the manufacturing employment share was the 5th largest in the United States. In the entire 1979 to 2001 period, Pennsylvania's drop of 13.2 percentage points in the manufacturing employment share was the 8th largest in the United States.

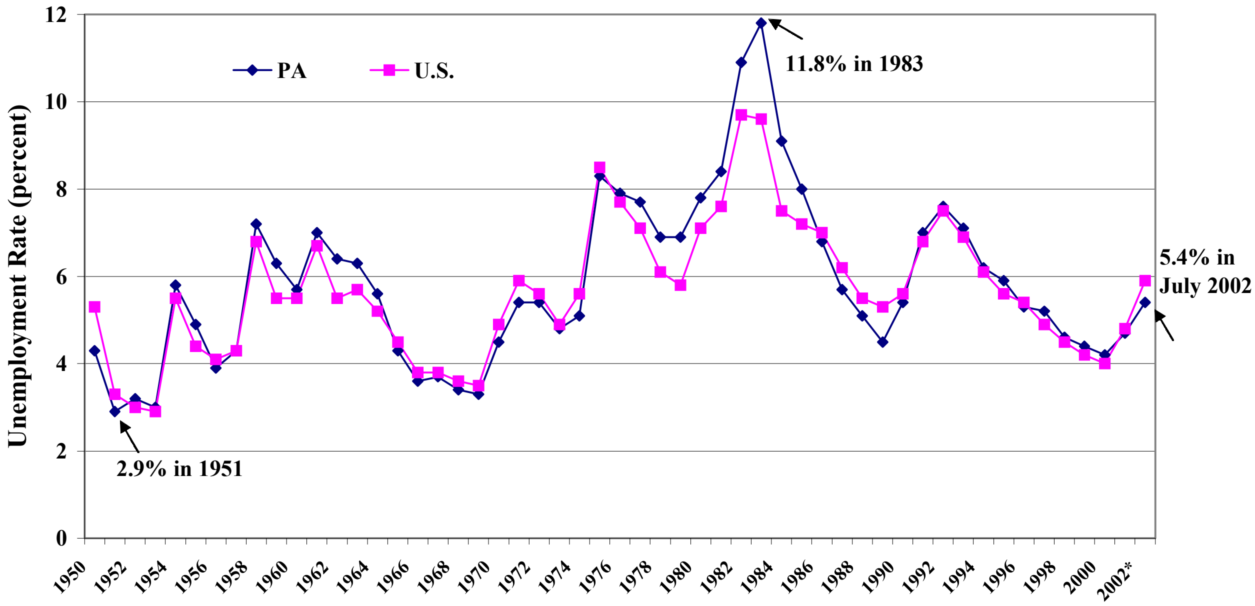
In absolute numbers, Pennsylvania's loss of nearly half a million manufacturing jobs from 1979 to 2001 made it second only to New York in total manufacturing job losses.

Figure 15. From a Low of 4 Percent in March 2000, PA Unemployment Rate Has Risen



Source: KRC analysis of Pennsylvania Department of Labor and Industry and BLS data.

Figure 16. PA Unemployment Rate Low Compared to Past Three Decades but Above Levels in 1950s and 1960s



* Seasonally adjusted unemployment rate for July 2002.
Source: KRC, based on Pennsylvania Department of Labor and Industry data.

Manufacturing Employment Takes Sharp Drop in Pennsylvania Since Start of Recession

Measured by numbers of jobs (not share of employment), manufacturing employment in Pennsylvania declined by nearly 40 percent since 1979 (Figure 17). After falling by 21 percent from 1979 to 1983, Pennsylvania manufacturing employment rebounded in 1984 before falling again in the next two years by 6.5 percent from its 1984 level.

Following job loss from 1989 to 1991, the 1990s were a period of relative stability for manufacturing in Pennsylvania. Employment between 1991 and 2000 hovered between 67 to 70 percent of the 1979 level. From June 2000 through June 2002, Pennsylvania manufacturing employment fell by 80,000 jobs.

For the United States as a whole, manufacturing employment loss has been steady but not as sharp as in Pennsylvania except in the last 18 months. In June 2002, U.S. manufacturing employment stood at 16,758,000, or 80 percent of its 1979 level.

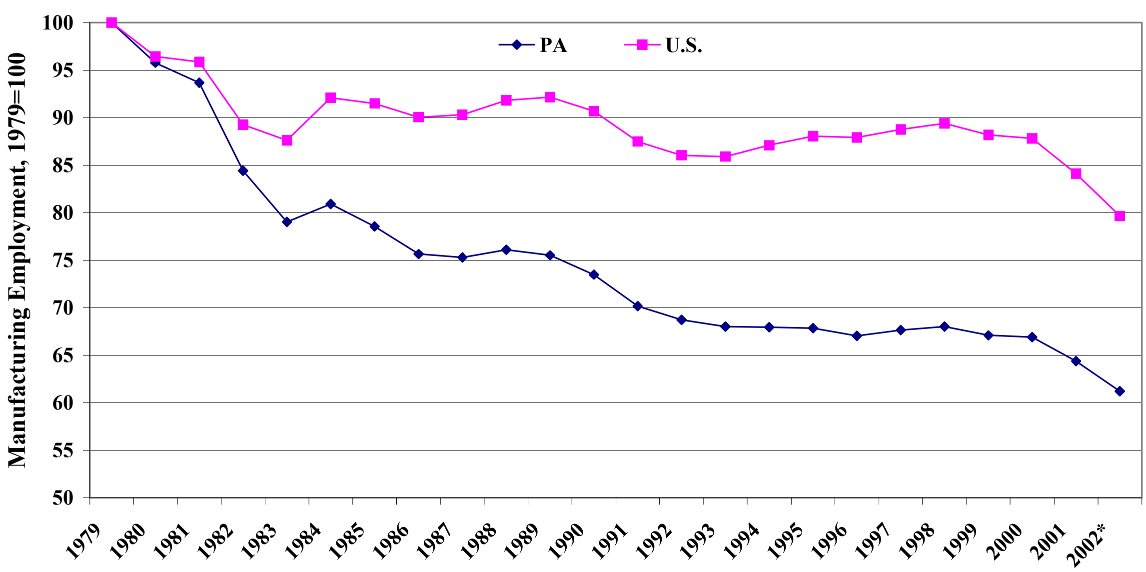
Metropolitan Areas Experience Varying Degrees of Manufacturing Job Loss

Pennsylvania metropolitan areas have experienced manufacturing job declines of varying magnitudes (Figure 18). The metropolitan areas of Allentown, Johnstown, Pittsburgh, and Scranton had manufac-

Table 11. Manufacturing Employment as a Share of Total Employment in Pennsylvania, Nearby States, and the U.S., 1979-2001						
				Percentage Point Change		
	1979	1989	2001	1979-89	1989-2001	1979-2001
Pennsylvania	28.9%	20.4%	15.7%	-8.5	-4.7	-13.2
Delaware	11.5	10.7	8.6	-0.7	-2.2	-2.9
Maryland	14.6	9.7	7.2	-4.9	-2.5	-7.4
New Jersey	26.4	17.3	11.2	-9.1	-6.1	-15.2
New York	20.8	14.4	9.8	-6.4	-4.7	-11.0
Ohio	30.8	23.3	18.5	-7.5	-4.8	-12.4
West Virginia	19.1	14.3	10.5	-4.9	-3.8	-8.6
U.S.	23.4	18.0	13.4	-5.4	-4.6	-10.0

Source: KRC, based on EPI tabulations of BLS data.

Figure 17. After Stabilizing in Early 1990s, Manufacturing Employment in Pennsylvania Declines Sharply Starting in 2001



*Seasonally adjusted manufacturing employment for June 2002.
Source: KRC, based on BLS data

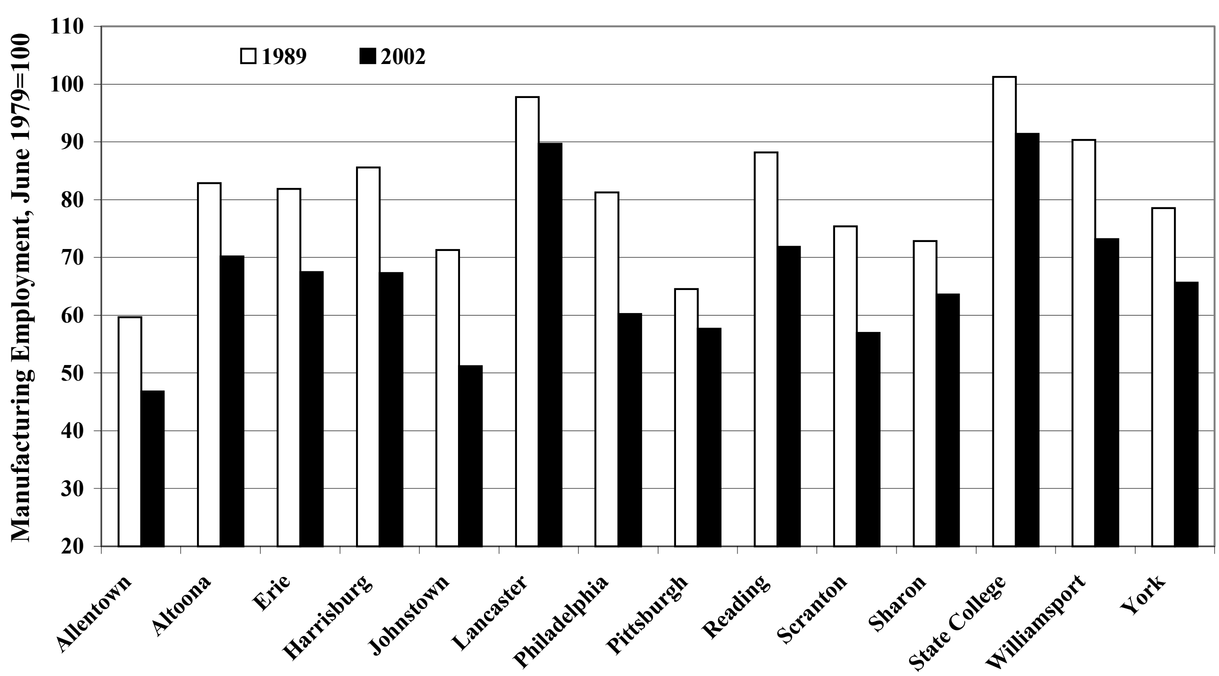
turing employment in June 2002 less than 60 percent of 1979 levels. Only the metropolitan areas of Lancaster and State College, with manufacturing employment in June 2002 at around 90 percent of 1979 levels, cut against the trend of massive manufacturing job losses in the past two decades.

Pennsylvania Now Has Smallest Government

Conservatives in Pennsylvania, as elsewhere, strongly favor shrinking government. Data in Figure 19 show that Pennsylvania already has a small government. Pennsylvania has the lowest government employment share in the United States.[8] With 12 percent of employment in government, Pennsylvania falls far below neighboring states New York (16.7 percent), New Jersey (14.4 percent), Maryland (15.9 percent), as well as the United States (15.8 percent).

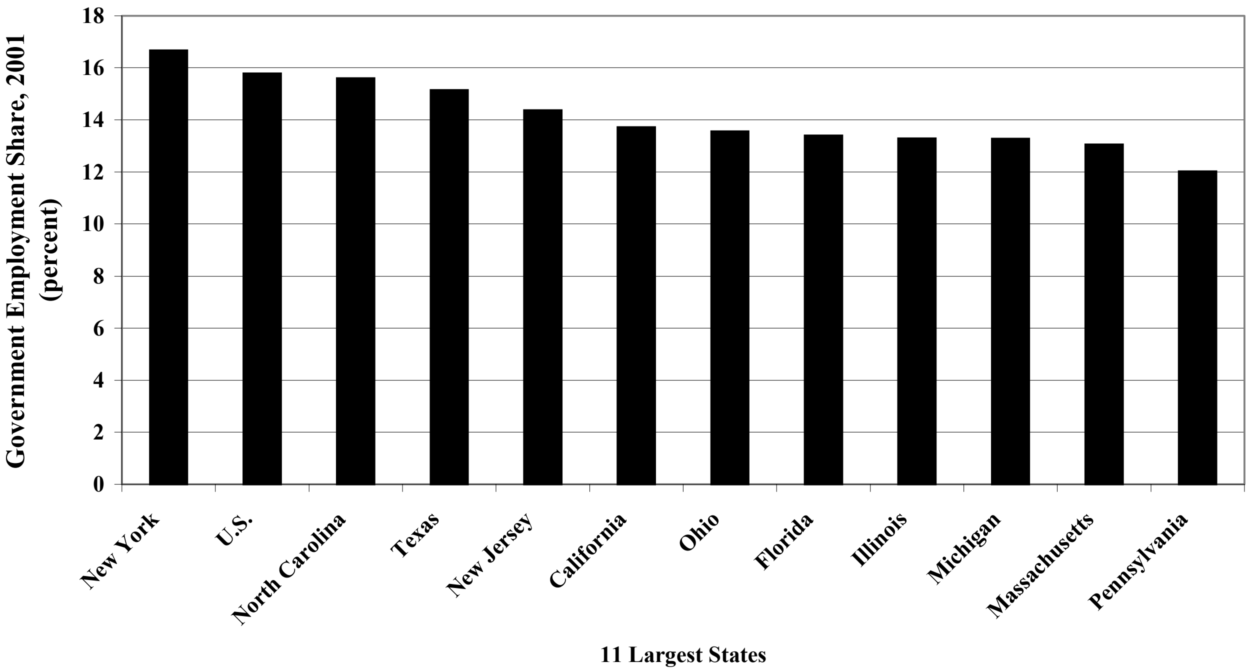
The government share of total employment has declined over time in Pennsylvania. In 1979, government employment in Pennsylvania as a share of total employment was 15 percent. This figure declined to 13.6 percent in 1989 and then to the current 12 percent.

Figure 18. Manufacturing Employment in Pennsylvania Metropolitan Areas, 1979-2002



Source: KRC, based on BLS data.

Figure 19. Pennsylvania Has the Lowest Share of Government Employment in the U.S.



Source: KRC, based on EPI tabulations of BLS data.

THE STATE OF PENNSYLVANIA'S CITIES

Data from the 2000 Census provide the first opportunity to look closely at the economic experience of Pennsylvania cities in the 1990s. The 22 largest communities labeled cities in new Census data account for 22 percent of the state's population, down from 24 percent a decade ago (Figures C1 and C2). These cities range from Philadelphia, with a population of 1.52 million, to Pottsville with 15,549 people. A dozen Pennsylvania cities have 40,000 or more people according to the 2000 Census, the smallest of them York.

Tables C1 and C2 compare each city's performance with that of the state as a whole. Figures C3 to C21 tell the story of Pennsylvania cities in charts -- each city is on 10 of these 19 charts.

The story told by our data is not a pretty one. Pennsylvania's cities are struggling.

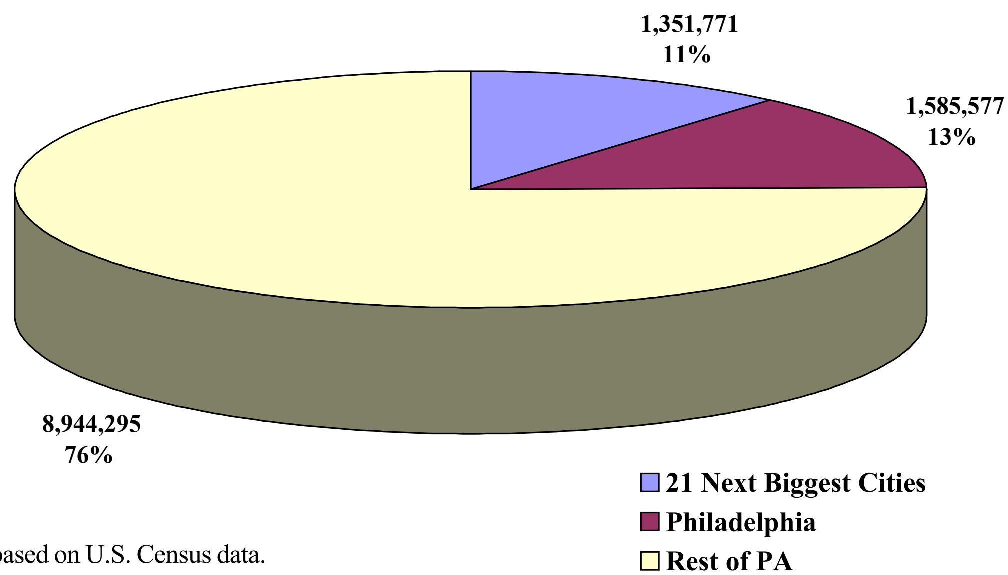
- In every single one of the 22 cities we profile, three economic variables — median household income, median family income, and median earnings for male full-time workers – are

Table C1: Index of Key Indicators, Pennsylvania Cities

Area Name	Population, 2000	Median Household Income	Median Family Income	Median earnings of male full-time, year-round workers	Median earnings of female full-time, year-round workers
		Economic Indicators Indexed to PA = 100, 1999 data.			
Pennsylvania (PA)	**12,281,054**	**100**	**100**	**100**	**100**
Allentown (ALL)	106,632	80	76	82	89
Altoona (ALT)	49,523	70	75	78	80
Bethlehem (BTH)	71,329	89	92	95	97
Chester (CHS)	36,854	64	62	80	89
Easton (EST)	26,263	83	79	87	88
Erie	103,717	71	74	83	82
Harrisburg (HB)	48,950	67	60	75	91
Hazleton (HAZ)	23,329	70	75	84	78
Johnstown (JTN)	23,906	51	57	71	74
Lancaster (LAN)	56,348	74	70	75	82
Lebanon (LEB)	24,461	68	69	73	76
McKeesport (McK)	24,040	59	64	74	82
New Castle (NC)	26,309	64	66	81	78
Philadelphia (PHI)	1,517,550	77	75	92	107
Pittsburgh (PIT)	334,563	71	79	87	96
Pottsville (PTS)	15,549	75	84	85	80
Reading (RD)	81,207	67	63	76	82
Scranton (SCR)	76,415	72	80	83	82
Sharon (SHR)	16,328	67	70	81	79
Wilkes-Barre (W-B)	43,123	67	74	78	84
Williamsport (WPT)	31,933	65	69	72	76
York	40,862	66	63	72	77

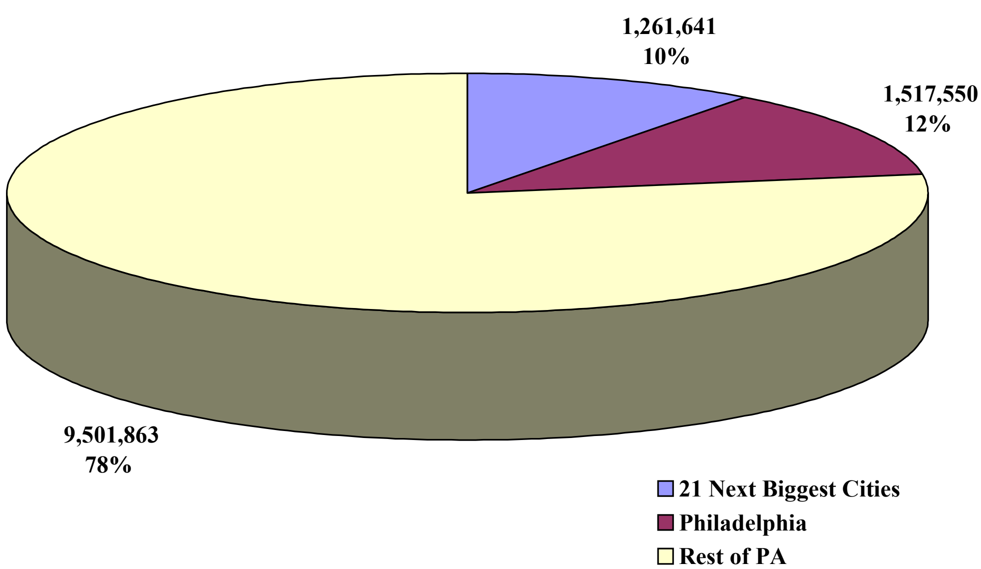
Source: KRC, based on U.S. Census data.

Figure C1: Cities' Share of Population in Pennsylvania, 1990



Source: KRC, based on U.S. Census data.

Figure C2: Cities' Share of Population in Pennsylvania, 2000



Source: KRC, based on U.S. Census data.

Table C2: Change in Indicators, Pennsylvania Cities, 1990 Census to 2000 Census (percent)

	Population	Median Household Income	Median Family Income	Median earnings of male full-time, year-round workers *	Median earnings of female full-time, year-round workers *
Pennsylvania	**3.4%**	**6.3%**	**8.7%**	**1.9%**	**13.5%**
Allentown	1.5	-5.1	-10.0	-4.5	7.6
Altoona	-4.5	5.2	6.4	-1.0	12.5
Bethlehem	-0.1	-2.7	-0.2%	-3.0	17.5
Chester	-12.0	-5.1	-6.1	3.8	5.8
Easton	0.0	-3.1	-5.4	0.1	12.1
Erie	-4.6	-0.7	1.3	-7.0	4.9
Harrisburg	-6.5	2.0	-6.9	-2.6	6.6
Hazleton	-5.7	3.4	6.6	11.1	8.0
Johnstown	-15.0	6.9	7.5	-3.3	9.4
Lancaster	1.4	3.3	-1.2	-1.1	1.9
Lebanon	-1.4	-2.8	-1.4	2.0	4.2
McKeesport	-7.6	11.2	4.2	-4.1	8.4
New Castle	-7.1	15.3	8.0	1.2	10.9
Philadelphia	-4.3	-3.7	-5.3	0.1	11.5
Pittsburgh	-14.2	6.2	8.8	-1.7	6.9
Pottsville	-6.3	9.9	9.6	4.3	19.0
Reading	3.6	-7.0	-12.2	0.4	5.1
Scranton	-6.6	5.4	6.3	5.5	8.1
Sharon	-6.7	0.2	3.7	-7.2	13.3
Wilkes-Barre	-12.9	5.4	2.8	3.5	15.7
Williamsport	4.0	-1.5	3.1	-2.0	8.3
York	-3.2	-6.5	-6.1	-4.8	0.8

* The 1990 census asked for 1989 income, while the 2000 census asked for 1999 earnings. Based on the CPS for 1999, median income for males was 3 percent higher than earnings; median income for females was 4 percent higher than earnings. In calculating changes in the median income of full-time workers, the 1990 data for males was divided by 1.03 and the 1990 data for females was divided by 1.04.
Source: KRC, based on U.S. Census data.

below the statewide average (Figures C3-C8). The fourth economic variable we examine – median earnings for female full-time workers – is above the state average in only one city (Philadelphia) (Figure C9 and C10).

- All but two of the 22 cities gained population at a slower rate than the state as a whole from 1990 to 2000 (Figures C11 and C12). Eighteen of the 22 cities lost population.
- Only in Pittsburgh (by the smallest of margins) and in Pottsville did the change in median family income since the 1990 Census exceed that in Pennsylvania as a whole (Figure C13 and C14). While median family income in Pennsylvania rose by 8.7 percent, median family income fell in 10 of Pennsylvania's 22 cities, including seven of the largest 12 cities. In seven cities, median family income dropped by more than 5 percent.
- Trends for median household income were similar to those for median household income, especially in the 12 largest Pennsylvania cities (Figures C15 and C16).
- While median earnings for male full-time workers climbed about 2 percent in Pennsylvania in the 1990s, it declined in 12 of 22 Pennsylvania cities, including two-thirds of the largest dozen (Figures C17 and C18).
- Median earnings for female full-time earners rose by nearly 14 percent in Pennsylvania but by less than 10 percent in 14 of 22 Pennsylvania cities (Figures C19 and C20).

While all Pennsylvania cities experienced difficulties in the 1990s, some had a more traumatic decade than others. Table C3 ranks all 22 cities from highest-performing (rank = 1) to the poorest-performing (rank = 22) based on the change in population and the change in our four economic variables between the 1990 and 2000 Census.

Table C3 also rates each city's relative performance using a "Middle-Class Prosperity" (MCP) Index that takes into account the change in the 1990s in population and in our four economic variables. We scale this index so that the best possible score, attained if a city ranked first on all five measures of 1990s performance, is 100. The worst possible MCP score, achieved if a city ranked 22nd on all five variables, is zero. Actual MCP ratings range from 85 (Pottsville) to 20 (York) (as shown in Figure C21).

- York has the lowest MCP because its rank based on the change in each of our four economic variables since the 1990 Census was in the bottom four cities.
- Chester had the second lowest MCP (30) as a result of the third biggest drop in population and a low ranking based on percent change since the 1990 Census in three of the four economic variables.
- Harrisburg, Erie, and Allentown tied for the third-lowest MCP (33). Allentown did (relatively) well based on change in population but badly based on change in the last decade on all four economic variables. Harrisburg and Erie were near the middle based on change in population but near the bottom based on changes in two or three of our four economic variables.
- Reading had the fifth lowest MCP Index (36), including last place measured by change since the 1990 Census in both median household income and median family income. Reading's index was improved by the second-fastest rate of population growth.
- After Reading, 10 cities scored in the middle of our 0-100 range. Four cities had an MCP of between 44 and 48 — Lebanon, Sharon, Lancaster, and Philadelphia. Another six cities had an MCP of 52 to 57 — Pittsburgh, McKeesport, Johnstown, Easton, and Bethlehem, and Williamsport.
- Six cities had an MCP of 59 or higher, with Pottsville's 81 followed by New Castle at 67 and Altoona, Hazleton, Scranton, and Wilkes-Barre at 64 to 59.

Table C3: Ranking of Percent Change, Pennsylvania Cities 1990 to 2000 (out of 22)

	Population	Median Household Income	Median Family Income	Median earnings of male full-time, year-round workers	Median earnings of female full-time, year-round workers	Middle-Class Prosperity (MCP) Index *
Allentown	3	19	21	19	14	33
Altoona	10	8	6	11	5	67
Bethlehem	6	15	13	16	2	56
Chester	19	20	19	4	17	30
Easton	5	17	17	9	6	54
Erie	11	13	12	21	19	33
Harrisburg	14	11	20	15	16	33
Hazleton	12	9	5	1	13	67
Johnstown	22	4	4	17	9	52
Lancaster	4	10	14	12	21	47
Lebanon	7	16	15	6	20	44
McKeesport	18	2	8	18	10	52
New Castle	17	1	3	7	8	71
Philadelphia	9	18	16	10	7	48
Pittsburgh	21	5	2	13	15	52
Pottsville	13	3	1	3	1	85
Reading	2	22	22	8	18	36
Scranton	15	7	7	2	12	64
Sharon	16	12	9	22	4	45
Wilkes-Barre	20	6	11	5	3	62
Williamsport	1	14	10	14	11	57
York	8	21	18	20	22	20

* MCP Index is computed on a 0 (worst) to 100 (best) scale. To obtain the MCP for a city, sum its ranking on all five indicators individually, divide this sum by 1.1, subtract the result from 100, and multiply by 1.054. In this manner, a city that ranked 1 in all categories would have an MCP of 100, and a city that ranked 22 in all categories would have an MCP of 0.
Source: KRC, based on U.S. Census data.

Despite some variation in rates of decay, what stands out from our review is that a common pathology afflicts all of Pennsylvania's cities. Some might say the same is true for all of America's cities. Analysis by David Rusk, however, indicates that Pennsylvania has more than its share of cities in serious trouble (Table C4).

In 1990, Rusk classified 24 U.S. cities as "beyond the point of no return" based on three variables (the city having lost at least 20 percent in population since its peak, having a per capita income of 70 percent or less of the suburban average, and having a much higher minority (black and hispanic) population than the surrounding suburbs.) As of 1990, no city had ever climbed off this list once on it. Of Pennsylvania's cities, Philadelphia was the only one on Rusk's 1990 list.

Based on 2000 Census data, Rusk has added another 17 cities to his relabeled list of cities "beyond the point of (almost) no return." (The relabeling resulted from the fact that Chicago and Holyoke, Massachusetts climbed above the 70 percent of suburban income threshold by the 2000 Census; Chicago also gained population in the 1990s.) Remarkably, Rusk's additional 17 most-troubled cities include five in Pennsylvania (counting Norristown borough as a city).

Another three Pennsylvania cities are on what Rusk calls his "watch list." In sum, nine Pennsylvania cities are now on a list of the 62 (or 64 if you still include Chicago and Holyoke as "watch" cities) U.S. cities in greatest trouble.

In our view, it is no accident that Pennsylvania's cities face severe distress – despite the creative efforts of many local policymakers and civic leaders to reverse decline. As pointed out in prior Keystone Research Center documents, state policies currently accelerate the decline of Pennsylvania cities and many older, inner suburbs and smaller towns as well.[9]

State policies that feed a downward spiral in older communities include an over-reliance of Pennsylvania's system of school funding on local property taxes. State policy is also at fault because of the weakness of state legislation encouraging or requiring regional planning and because of a failure to strategically use state infrastructure and transportation dollars to combat urban and inner suburban decay. To restore the health of Pennsylvania's most vulnerable communities – urban, suburban, and rural—state policy must change.

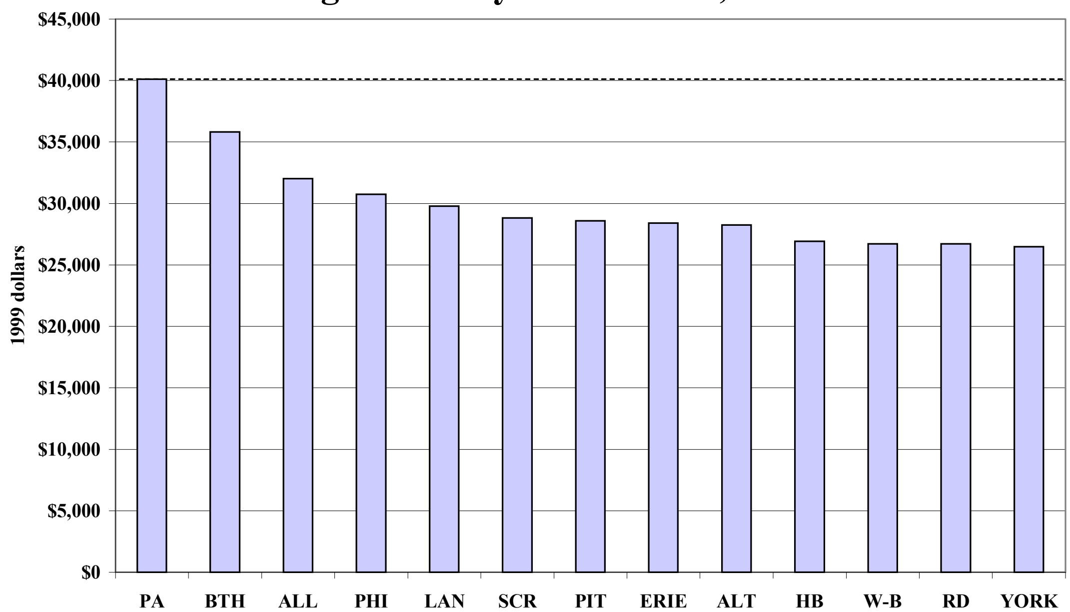
Table C4. Cities in Pennsylvania Which Have Lost Population, and Have Much Lower Per Capita Incomes and Higher Minority Population Shares than Their Suburbs

City	Population Loss Since Population Peak by 1990	Population Loss Since Population Peak by 2000	Black & Hispanic Pct of Population in 1990	Black & Hispanic Pct of Population in 2000	City-Suburb Ratio of Black & Hispanic Population in 2000	City Income as pct of Suburban Income in 1989	City Income as pct of Suburban Income in 1999
On Rusk List of Cities Past the Point of No Return in 1990 *							
Philadelphia	-23%	-27%	45%	53%	3.4	64.2%	60.0%
On Rusk List of Cities Past the Point of (Almost) No Return in 2000 *							
Harrisburg	-42%	-45%	57%	69%	11.5	72.4%	69.2%
Norristown borough	-21	-20	29	47	3.0	71.9	65.0
York	-30	-32	28	45	16.9	71.4	61.1
McKeesport	-53	-57	18	28	4.6	62.4	60.8
Reading	-29	-26	27	51	14.2	70.4	55.7
On Rusk Watch List *							
Allentown	-4%	-3%	16%	34%	8.8	80.8%	68.9%
Lebanon	-17	-19	8	20	3.4	73.5	68.3
Lancaster	-13	-12	32	47	12.3	72.4	65.6

* Rusk defines cities Past the Point of No Return in terms of three variables. The city must have lost at least 20 percent of its peak population, it must be home to a disproportionate percent of minorities compared to its surrounding suburbs, and it must have a per capita income level 70 percent or less of its surrounding suburbs. In 2000, Rusk modified the name of his list of troubled cities because two cities, Chicago and Holyoke, managed to come back off the 1990s list of cities Past the Point of No Return. Cities on the Watch List fit his definition on two of the three variables.

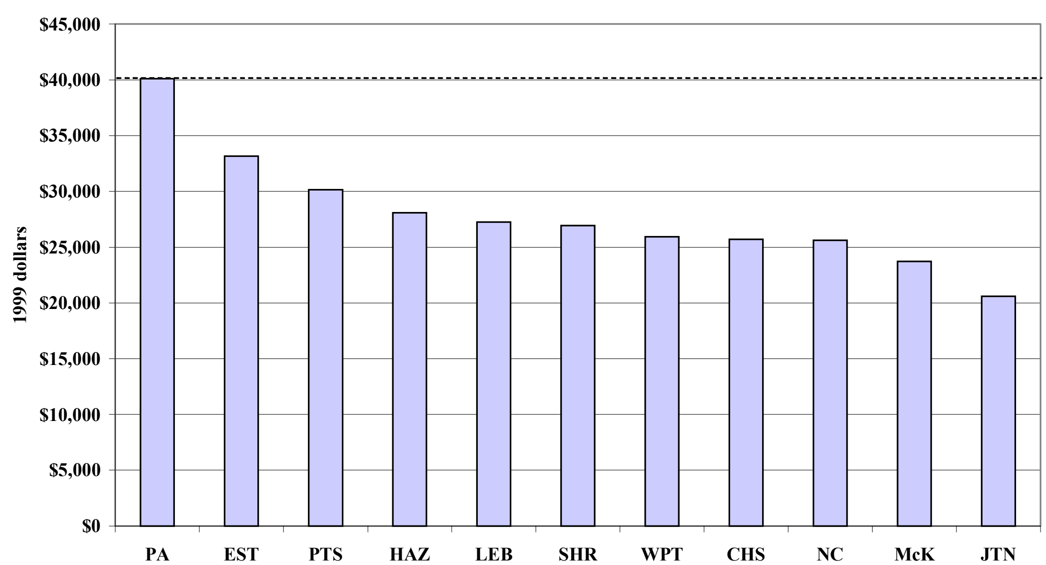
Source: Data for "Cities Past the Point of No Return in 1990," "Cities Past the Point of (Almost) No Return in 2000," and "Watch List" provided to KRC by David Rusk, personal communication (e-mail) on August 19, 2002.

Figure C3: Median Household Income in 12 Largest Pennsylvania Cities, 1999



Source: KRC, based on U.S. Census data.

Figure C4: Median Household Income in 10 Small Pennsylvania Cities, 1999

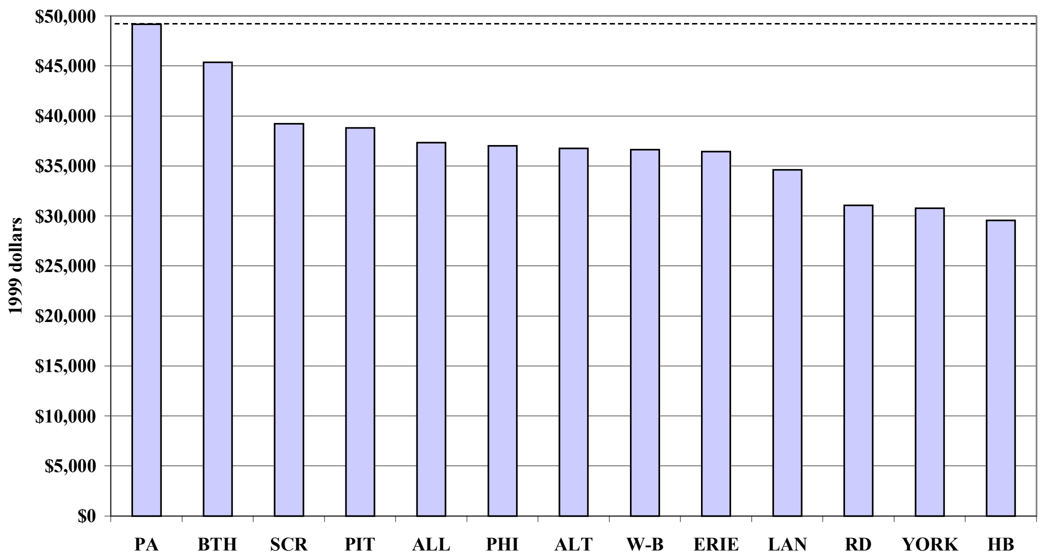


Source: KRC, based on U.S. Census data.

Abbreviation Key

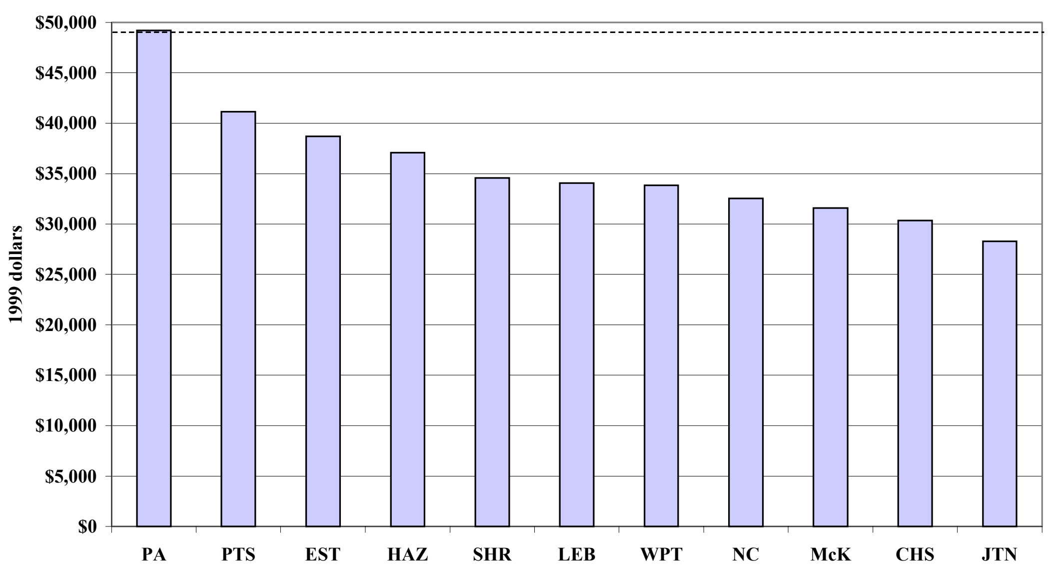
Pennsylvania (PA)
Allentown (ALL)
Altoona (ALT)
Bethlehem (BTH)
Chester (CHS)
Easton (EST)
Harrisburg (HB)
Hazleton (HAZ)
Johnstown (JTN)
Lancaster (LAN)
Lebanon (LEB)
McKeesport (McK)
New Castle (NC)
Philadelphia (PHI)
Pittsburgh (PIT)
Pottsville (PTS)
Reading (RD)
Scranton (SCR)
Sharon (SHR)
Wilkes-Barre (W-B)
Williamsport (WPT)

Figure C5: Median Family Income in 12 Largest Pennsylvania Cities, 1999



Source: KRC, based on U.S. Census data.

Figure C6: Median Family Income in 10 Small Pennsylvania Cities, 1999



Source: KRC, based on U.S. Census data.

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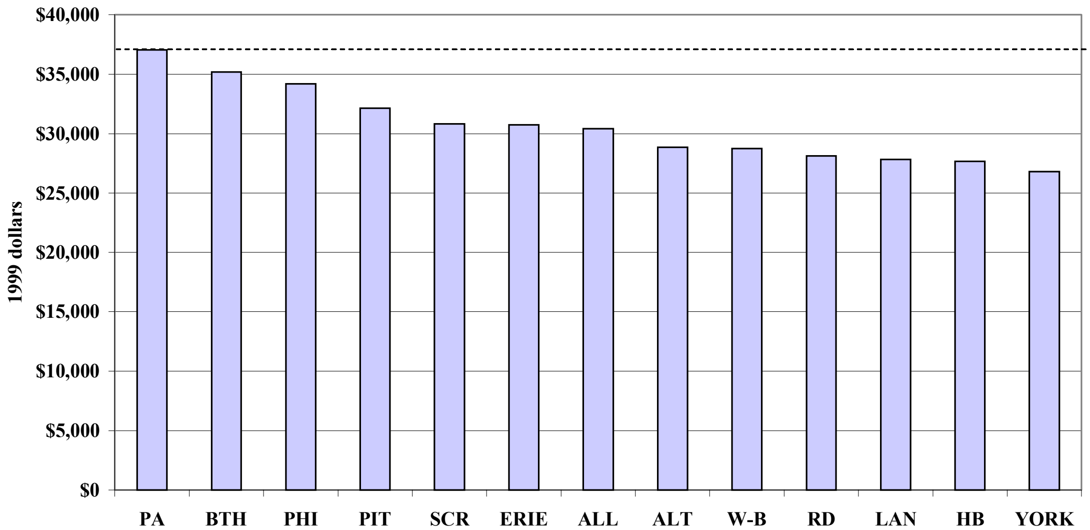
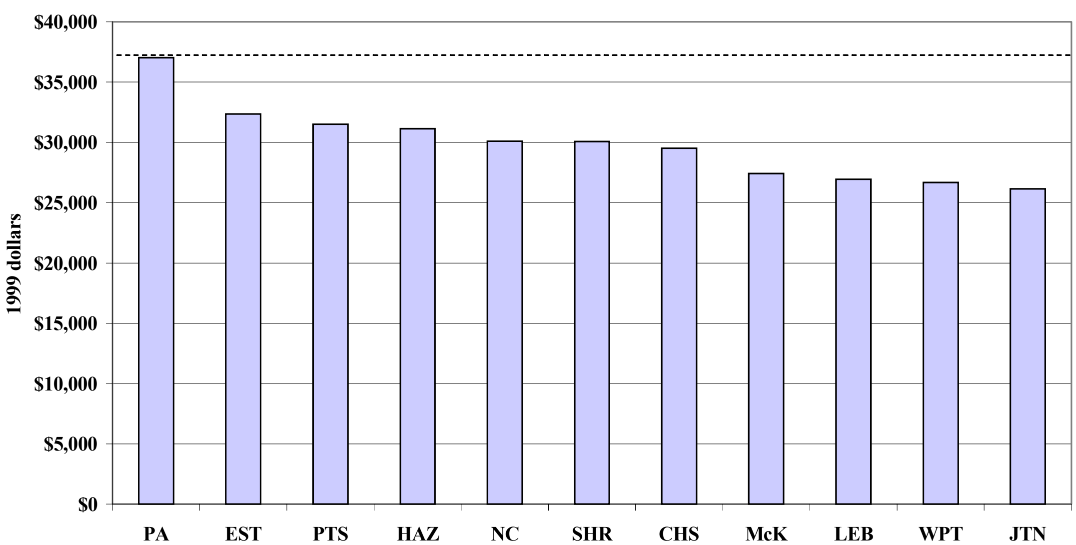
Williamsport (WPT)

Figure C7: Median Earnings of Male, Full-Time, Year Round Workers in 12 Largest Pennsylvania Cities, 1999



Source: KRC, based on U.S. Census data.

Figure C8: Median Earnings of Male Full-Time, Year Round Workers in 10 Small Pennsylvania Cities, 1999



Source: KRC, based on U.S. Census data.

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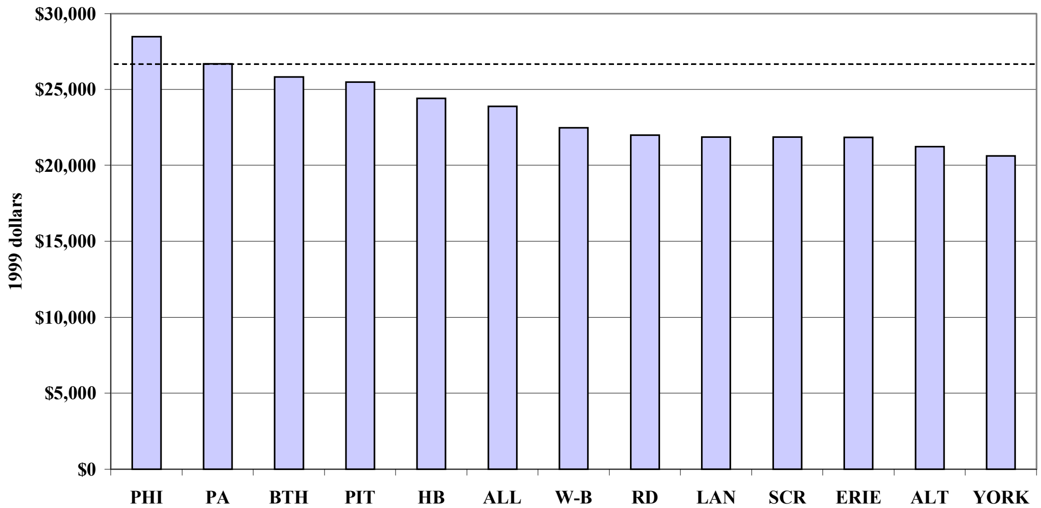
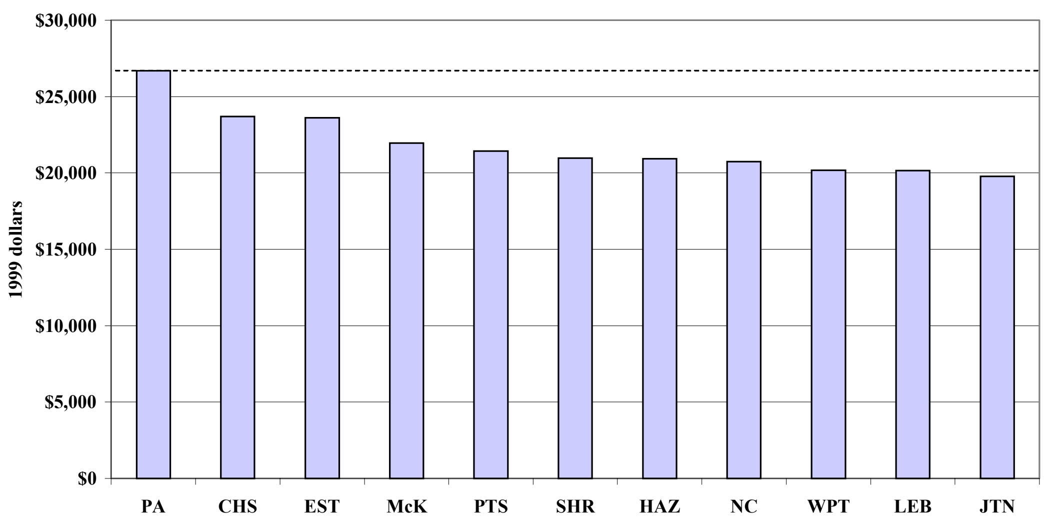
Pittsburgh (PIT)
Pottsville (PTS)
Reading (RD)
Scranton (SCR)
Sharon (SHR)
Wilkes-Barre (W-B)
Williamsport (WPT)

Figure C9: Median Earnings of Female Full-Time, Year Round Workers in 12 Largest Pennsylvania Cities, 1999



Source: KRC, based on U.S. Census data.

Figure C10: Median Earnings for Female Full-Time, Year Round Workers in 10 Small Pennsylvania Cities, 1999



Source: KRC, based on U.S. Census data.

Abbreviation Key

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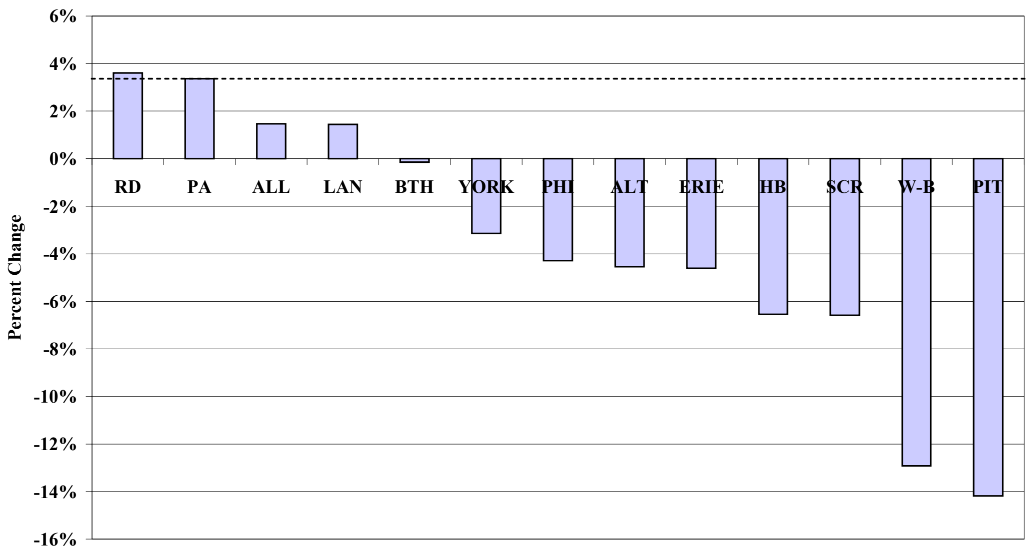
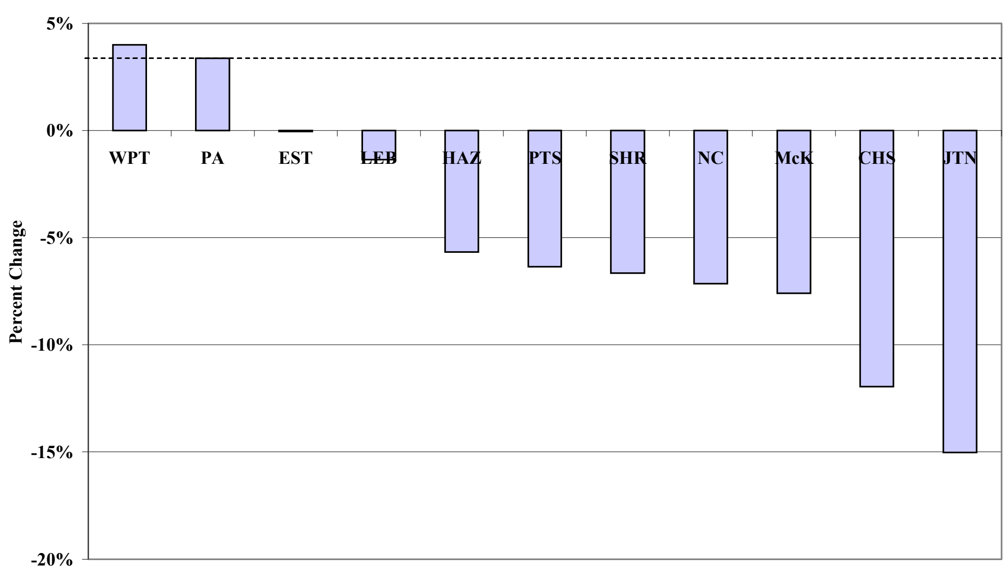
Figure C11: Population Change in 12 Largest Pennsylvania Cities, 1990 to 2000 (percent)



Source: KRC, based on U.S. Census data.

Figure C12: Population Change in 10 Small Pennsylvania Cities, 1990 to 2000 (percent)



Source: KRC, based on U.S. Census data.

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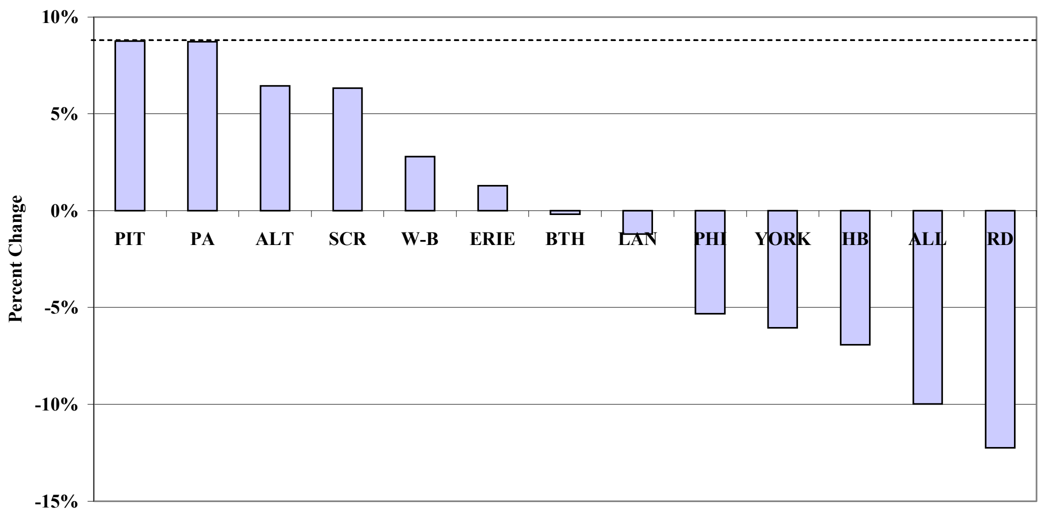
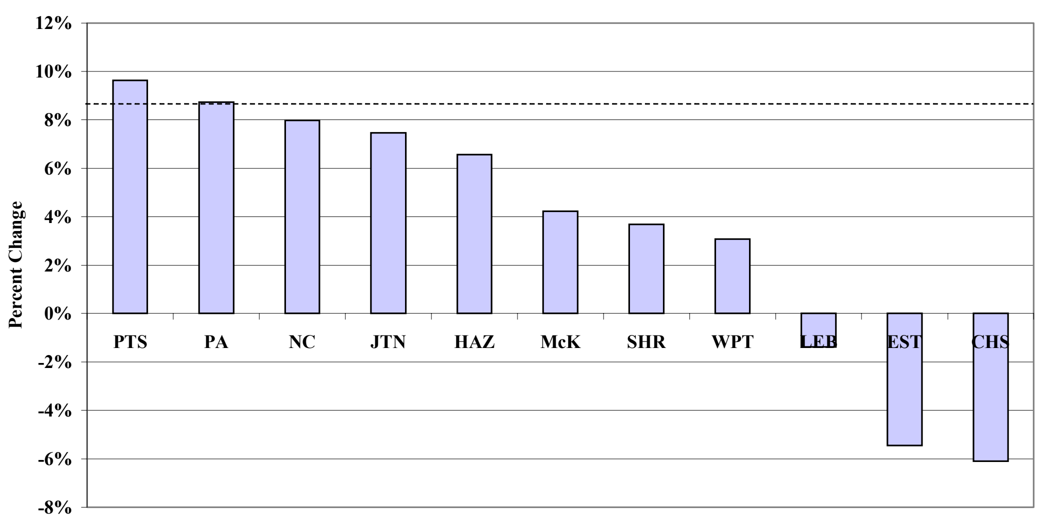
Figure C13: Change in Inflation-Adjusted Median Family Income for 12 Largest Pennsylvania Cities, 1989 to 1999



Source: KRC, based on U.S. Census data.

Figure C14: Change in Inflation-Adjusted Median Family Income in 10 Small Pennsylvania Cities, 1989 to 1999



Source: KRC, based on U.S. Census data.

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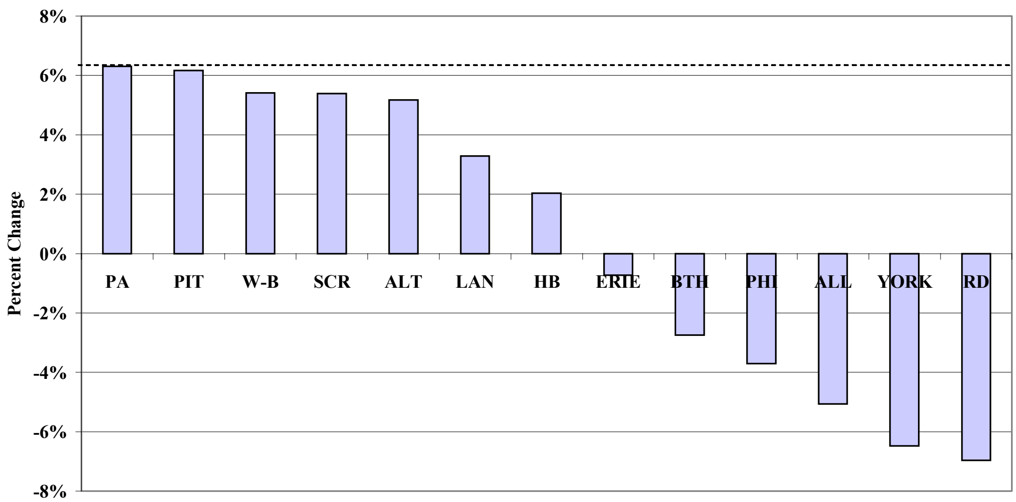
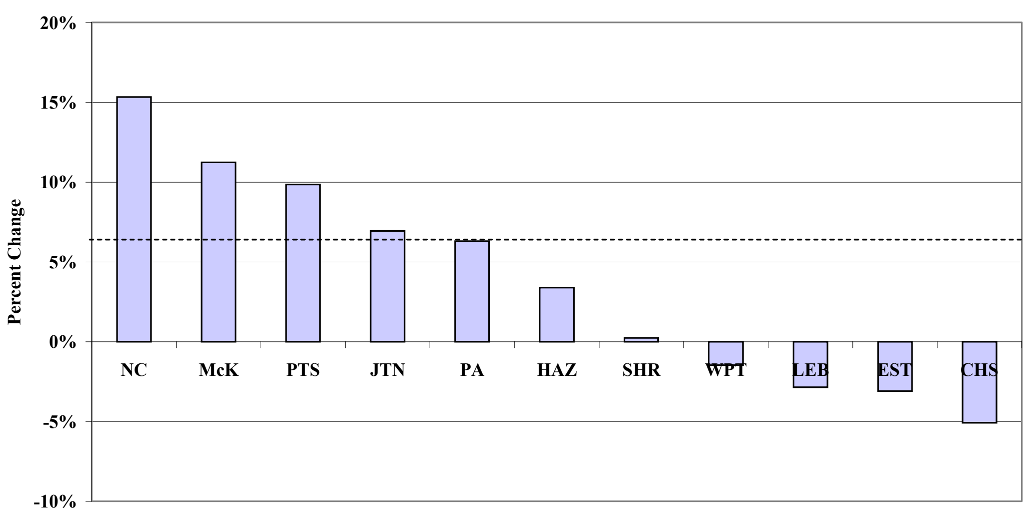
Figure C15: Change in Inflation-Adjusted Median Household Income, 12 Largest Pennsylvania Cities, 1989 to 1999



Source: KRC, based on U.S. Census data.

Figure C16: Change in Inflation-Adjusted Median Household Income in 10 Small Pennsylvania Cities, 1989 to 1999



Source: KRC, based on U.S. Census data.

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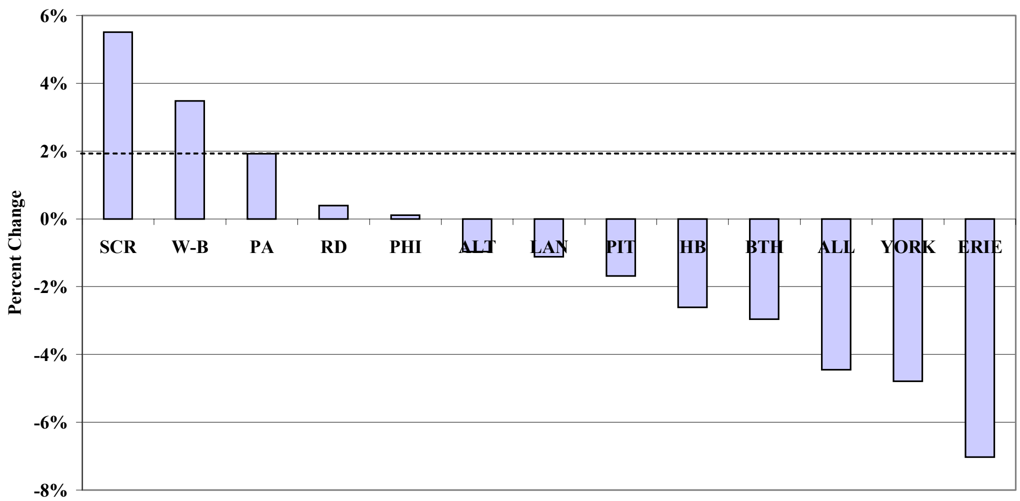
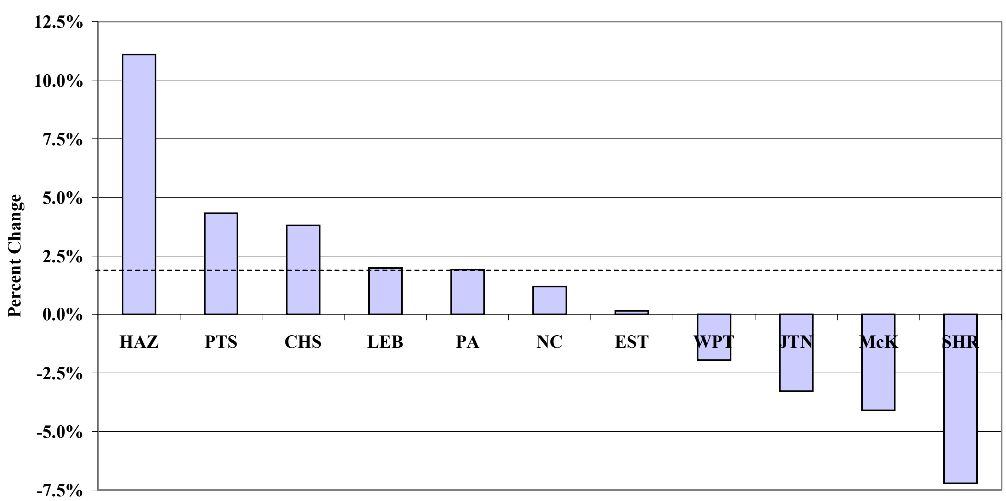
Figure C17: Change in Inflation-Adjusted Median Earnings of Male, Full-time, Year-Round Workers in 12 Largest Pennsylvania Cities, 1989 to 1999



Source: KRC, based on U.S. Census data.

Figure C18: Change in Inflation-Adjusted Median Earnings of Male, Full-time, Year-Round Workers in 10 Small Pennsylvania Cities, 1989 to 1999



Source: KRC, based on U.S. Census data.

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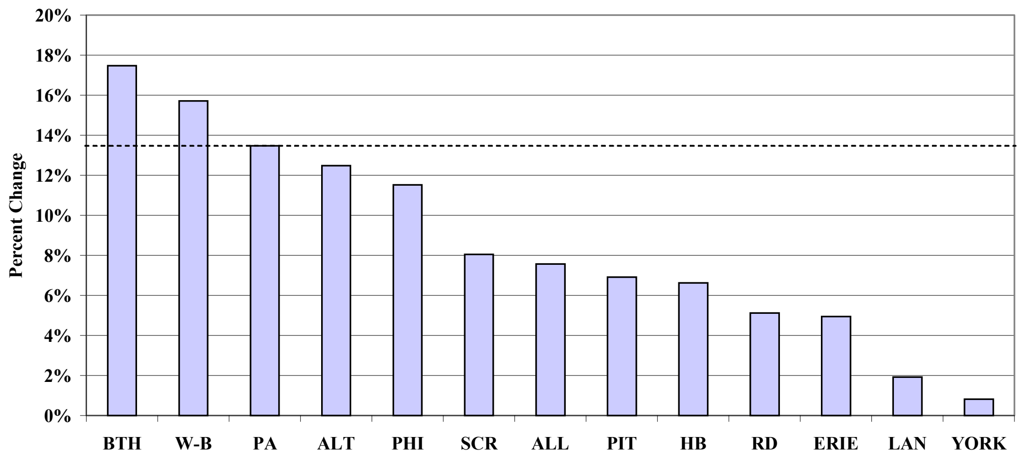
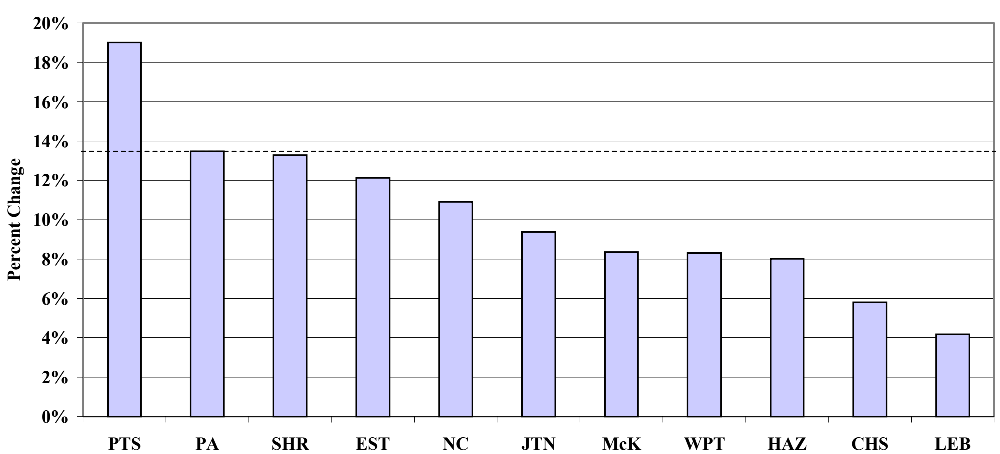
Figure C19: Change in Inflation-Adjusted Median Earnings of Female, Full-time, Year-Round Workers in 12 Largest Pennsylvania Cities, 1989 to 1999



Source: KRC, based on U.S. Census data.

Figure C20: Change in Inflation-Adjusted Median Earnings of Female, Full-time, Year-Round Workers in 10 Small Pennsylvania Cities, 1989 to 1999



Source: KRC, based on U.S. Census data.

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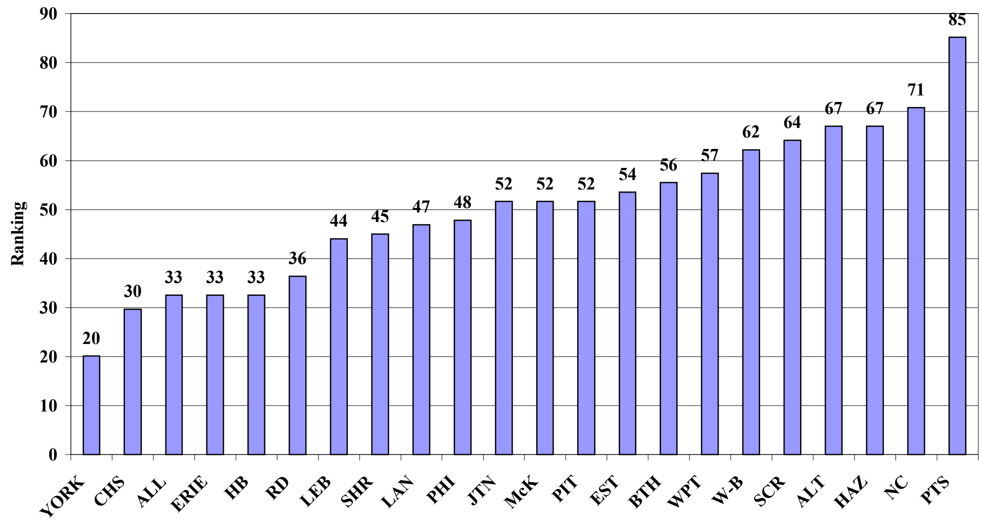
Figure C21: Middle-Class Prosperity (MCP) Index of 22 Pennsylvania Cities



Source: Table C3 (the note at the bottom of Table C3 explains how the overall score was computed.

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A BETTER WAY FOR PENNSYLVANIA

Data summarized in this report document three long-term economic trends that continue to undercut quality of life for Pennsylvania families:

- the uncertain state of economic opportunity and security;
- work-family stress brought on by the enormous increase in hours worked by families with children; and
- the downward spiral of cities losing their middle class (a declining middle-class is also a problem in many inner suburbs and rural towns).

The available evidence (summarized in Box 1 near the start of this report) indicates that Americans and Pennsylvanians would welcome leadership that addresses these problems (just as they would welcome leadership on educational funding and environmental issues). In response to public sentiment and to the economic trends in this report, Pennsylvania's next Governor should implement a Pennsylvania Postindustrial Opportunity Initiative (PPOI).

The Initiative we propose embodies four general principles.

Pennsylvania's economic development policy must move into the 21st century. Too much of Pennsylvania economic development policy remains captive of approaches and ways of thinking adopted in the industrial era. It focuses too heavily on individual firms, underplays the strategic role of government in building a learning and technological infrastructure that cuts across many firms, and fails to recognize the pivotal importance of government in shaping *how* companies compete.

Policy must strengthen industry clusters and networks, not individual firms. Economists from Carnegie Mellon's Richard Florida to Harvard's Michael Porter – the latter in recent research for Governor Schweiker — have recognized that regional economic advantage today builds on concentrations of workers and firms whose knowledge feeds off one another.[10] Even in non-tradable, non-mobile service industries, which account for a clear majority of jobs, regional workforce and modernization partnerships are a key means to improving performance and job quality. Scarce public funds should be used to leverage private workforce, best-practice, and technology investments that bolster industry-specific regional networks.

Pennsylvania must pave the high road and block the low road. Since the late 1970s, wide gaps have opened up between best-practice and "worst practice" firms. Best practice or "high road" firms use new technology and organizational practices, and well-trained and compensated workers, to raise service, productivity, and quality. Examples can be found in virtually every industry – first-tier auto suppliers, inspiring "break-the-mold" nursing homes, trucking firms that combine efficiency with reliable on-time delivery, distribution companies, "magnet" hospitals.

Low-road companies survive by paying poorly and, in some cases, by despoiling the environment. Again, sadly, examples can be found in most industries.[11] A guiding principle of public policy must be to provide high-road companies with the skills and modernization supports they need to expand and grow. At the same time, policy should discourage low-road companies, including by establishing and enforcing high environmental and labor standards.

Pennsylvania must establish a more enlightened government relationship with business. In recent years, Pennsylvania policy has catered to the business community by implementing business tax cuts and modifications to workers' compensation laws. The business community has not been asked to lift its sights to the question of how profitability and community well-being can be compatible. The next Governor should bring the business community into a two-way dialogue. He must listen to how government can be responsive to business, but he should also ask Pennsylvania business leaders to "own" the need to reinvigorate in our Commonwealth the American Dream of widespread opportunity. We think Pennsylvania's many community-minded business leaders would warm quickly to this challenge.

Our proposed PPOI includes 12 specific proposals that would expand economic opportunity in Pennsylvania.

1. *Provide state grants so that regions can plan high-road regional economic development strategies* that benefit all segments of society. Detailed strategies for promoting higher performance and expanding opportunity cannot be developed at the state level. They must be made within more tight-knit economic regions and then within meaningful product and labor markets in those regions.

To help operationalize a 21st century economic development strategy, the next Governor should provide grants for community-level planning to identify strategic opportunities for stakeholder action to promote economic development and expand opportunity. Such grants could use a by-now standard tool-kit to identify specialty industries in regional economies, to inventory training and education capacity, and to identify promising industry collaborations that would benefit employers, workers, and communities.

These planning grants would build on sectoral workforce summits launched last year by County Executive Jim Roddey in Southwestern Pennsylvania. They would also build on recent industry cluster analysis conducted for Workforce Investment Boards (WIB) across the state with assistance from the Lancaster WIB and the state Department of Labor and Industry.

2. *Build training partnerships and career ladders linked with groups of firms*. In today's labor market, many workers must frequently change employers. Other workers may have a stable low-wage job but need to change employers to advance. Firms, for their part, are reluctant to train workers who may soon leave them, leading to chronic underinvestment in skills, the life blood of a high-performing modern economy.

Nationwide, industry skill alliances and training partnerships have begun to address the needs of firms for critical skills and the need of workers for better lateral and upward mobility opportunities.

In manufacturing, hotels, construction, health care, printing, indeed virtually every sector, training partnerships have begun to create the infrastructure of a more mobile labor market. They have pioneered upgrading programs for entry-level and mid-career workers, developed curricula and credentials that serve multiple employers, achieved economies of scale in the delivery of training, negotiated to ensure that community colleges and other providers actually deliver what industry and workers need, and promoted the spread of best organizational practices.

By bringing together managers and other workers across firm boundaries, partnerships can accelerate the dissemination of good ideas and the development of new ones. Such partnerships are an essential component of a 21st century learning infrastructure.

Building on the experience of the best examples nationwide, Pennsylvania's next Governor should seed fund industry training partnerships that can show that they will expand opportunity, increase private investment in training, and help spread better organizational practice. (For additional details, and references, see *A Blueprint for a Better Pennsylvania*, on line at www.keystoneresearch.org; see also the workforce development section of the on-line KRC publications list.)

3. *Reduce business subsidies for individual companies and improve accountability from companies that receive any remaining subsidies*. Pennsylvania hands out several hundred million dollars annually in grants, low-interest loans, and

tax breaks to individual businesses. Such subsidies unavoidably distort the market. There is no compelling evidence that they create jobs beyond those that would have resulted without subsidies. Many subsidized jobs pay low wages (as documented in KRC's recent *Many PIDA Loans Create Low-Quality Jobs*, on line at www.keystoneresearch.org).

Recognizing the expendability of business subsidy programs, the 2002-03 budget cut them sharply. This trend should continue, with resources shifted to initiatives that help groups of firms become more productive – "public goods" — rather than the private goods represented by individual subsidies.

Pennsylvania should ensure that all remaining subsidies have accountability provisions, including improved disclosure requirements, wage standards, limits on public assistance per job, "clawback" provisions that allow the state to recover subsidies when companies fail to deliver on job and wage promises, and sprawl impact assessments.

4. *Fund the development of industry "high road" indices*, which benchmark their performance using industry-specific measures of productivity, quality, innovation rates, investment in human capital, etc. Such indices could be a powerful tool for planning industry initiatives that could further improve performance.

5. *Allow employees at private employers to participate in the state-managed deferred compensation plan*. As we have seen, nearly half of all Pennsylvania workers have no employer-sponsored retirement plan, not even a 401(k). One reason is the administrative barriers and overhead costs that limit coverage for small companies and lower-income workers. Modeled on a Washington state proposal, Pennsylvania Voluntary Accounts (PVA) would provide all workers and small business owners the opportunity to save for retirement.[12] (The same idea has also been proposed by the Pennsylvania House Democrats; see www.pahouse.com/blueprint/ECONDEVEL/titlepage.htm.)

PVAs could be administered by the state government, cutting overhead costs, reducing administrative obstacles to providing pensions, and giving workers access to a pre-selected list of investment options. Defined contributions could be deducted automatically, with options for employer contributions and state subsidies for low-income workers. These savings would be portable across employers, particularly important for lower-income workers in high turnover jobs. While Social Security would continue to provide a base of retirement income, PVAs could give more workers the additional savings they need for true security and comfort in old age.

6. *Raise the minimum wage*. The new economy is not just a matter of the internet and information technology, white-collars and "knowledge workers." It is also a matter of working parents and child care, an aging population and nursing homes, telemarketers and office temps. Only with unemployment very low has the private market bid up the wages of low-end service workers.

If we want people who work hard and play by the rules to make enough to live on a sustained basis we must raise the minimum wage above the federal minimum wage. By making it hard to profit simply by paying very low wages, a higher minimum wage would encourage managers to explore higher performance approaches.

We can raise the Pennsylvania minimum wage without creating joblessness. Recent studies demonstrate that modest increases in the minimum wage do not raise unemployment. Nor will a higher minimum disadvantage the state in attracting investment. Virtually all manufacturing jobs (and most other tradable industry jobs) already pay above $6.65 per hour and would not be impacted by an increase.[13]

7. *Establish quality care-quality job initiatives in child care, long-term care and mental health-mental retardation services*. Child care, long-term care, and MH/MR provide special opportunities for improving jobs and industry performance (defined to include quality) in Pennsylvania. In all three industries, the current reality consists largely of low-quality jobs, high turnover, and mediocre service – or worse. At the same time, best-practice providers make clear that there is a better way.

Pennsylvania's next Governor should work with stakeholders in these industries to make quality job-quality care models the rule instead of the exception. This requires raising compensation so that caregivers can afford to remain in a job that they love; and strengthening regional partnerships that improve training and managerial practices, while expanding career ladder opportunities.

In all three industries, but especially child care, state-subsidized health insurance is also needed. Money invested in higher compensation in these industries has a double benefit – improving job quality and elevating service quality for the vulnerable individuals who workers support. (*A Blueprint for a Better Pennsylvania*, and references therein, provide additional information on long-term care and child care; *Keeping the Promise*, on the KRC web page, provides additional information on MH-MR.)

8. *Establish paid family leave*. Hard work should not destroy family life and parents' relationships with their children. We have to give workers more time to parent, instead of the other way around. Other states have begun to create paid family leave for parents of newborns (or adopted children) through unemployment or temporary disability insurance systems. Pennsylvania should do the same.

9. *Develop a Pennsylvania pro-jobs, pro-environment, sustainable development plan* that maps how Pennsylvania can achieve a cleaner, healthier environment *and* create more family sustaining jobs.

For too long, environmentalists and workers have been played off against each other based on the false assumption that environmental progress and job creation are in tension. Pennsylvania's next Governor should launch an environment and jobs initiative in Pennsylvania that would make working families and our air, water, and land the winners.

In dialogue with environmentalists, consumer representatives, labor organizations, and energy-intensive industries, the next Governor should develop a consensus environment and jobs plan that includes elements such as a 'polluter-pays' approach, reduced taxes on working people, and promoting new clean technologies. By leading the implementation of such clean technologies, Pennsylvania could gain substantial exports as other parts of the country and globe inevitably raise their own environmental standards.

While no one can wish away all the transitional challenges to implementing a truly sustainable development path for Pennsylvania, a new consensus report by a "Blue (as in blue-collar)-Green Working Group" underscores that the way forward is constructive dialogue and creative problem-solving.[14]

10. *Encourage the flow of capital to companies that create family-sustaining Pennsylvania jobs*, which is critical to stemming the hemorrhaging of high-paying manufacturing jobs.

At present, the pension funds of the Commonwealth, its corporations and its local communities sometimes invest in speculative transactions (such as derivatives), restructuring corporations, and "low road" companies without regard to the harm these cause to Pennsylvania and Pennsylvanians – including the very beneficiaries of these retirement trusts. Like California's Public Employees Retirement System (CALPERS), the Pennsylvania retirement system should bar investments to non-democratic emerging markets and sweatshops, withdraw investments from totalitarian regimes that are anti-union and that oppose freedom of speech, assembly and press, and apply International Labor Organization standards and Sullivan principles to its overseas investments.

The Commonwealth should also explore the establishment of financial incentives for Pennsylvania workers, residents, and communities to invest in economically targeted savings vehicles that create family-sustaining jobs and healthy communities in Pennsylvania.

11. *Revitalize cities, inner suburbs, and towns by shifting from today's dumb growth policies to tomorrow's smart-growth policies*. This can be done by strengthening regional planning, implementing regional tax-base sharing, and using state infrastructure and transportation dollars to combat urban and inner suburban decay. (Increasing state educational funding is another pivotal step in stemming middle-class flight from overtaxed communities with underfunded schools.)

12. *Develop a Pennsylvania new economy higher education plan*. This plan should develop proposals that would reduce the share of Pennsylvanians who have only a high school education. It should also expand the supply of technical and occupational skills critical to employers offering good careers.

For most of the last century, American practice has been to encourage business development first and then worry about economic opportunity afterwards. Today, however, business in many industries can develop in starkly different ways – by following the high road or the low road. The high road is compatible with a new era of broadly shared prosperity. The low road is not.

In their gut, Americans and Pennsylvanians have a sense of the contrast between high and low road. Their economic unease reveals an awareness that economic growth could take place in a way that leaves them behind.

In today's Pennsylvania, expanding opportunity must be built into the way Pennsylvania does business. Accomplishing that goal is the overarching purpose of our Pennsylvania Postindustrial Opportunity Initiative.

FOOTNOTES

[1] In "Consumer Price Index Research Series Using Current Methods – Questions and Answers," online at http://www.bls.gov/cpi/cpirsqa.pdf

[2] Edward N. Wolff, *Retirement Insecurity: The Income Shortfalls Awaiting the Soon-to-Retire* (Washington D.C.: Economic Policy Institute, 2002).

[3] Poverty thresholds available at the U.S. Census Bureau's website at http://www.census.gov/hhes/poverty/threshld/thresh01.html

[4] Cited on IssuesPA, online at http://www.isssuespa.net/candidates/answers?question=1

[5] Jake Tapper, "Bland ambition," *Salon.com*, online at http://www.salon.com/politics2000/feature/2000/05/15/ridge

[6] Online at http://www.fumo.com/Press_Releases/2000-Press_Releases/06-05-00.htm

[7] Cited in "Pennsylvania Lost Jobs in 2001, Ranked 26th Nationally," State Senator Vincent J. Fumo, online at http://www.fumo.com/Press_Releases/jobrank2001-2-4-02.htm

[8] Data in this section are based on U.S. Bureau of Labor Statistics, CES data. The government employment numbers cover all federal, state, and local government employees.

[9] Stephen A. Herzenberg and Howard Wial, *Steal This Agenda: A Blueprint for a Better Pennsylvania* (Harrisburg: Keystone Research Center, 2000), especially pp. 21-22.

[10] Michael E. Porter, *Pennsylvania: Profile of the State Economy*, paper prepared for Governor Mark Schweiker and presented to the National Governors' Association winter meeting, February 24, 2002.

[11] Keystone writings that contain industry-specific examples of high road and low road firms (not always labeled as such) include *New Rules for a New Economy*, *Keeping the Promise*, *Pennsylvania's Nursing Homes*, and "Toward a Learning Economy." Full citations and in some cases PDF copies of these publications can be found on the KRC web page.

[12] For more on the Washington state model from which we adapt the idea PVAs, see www.eoionline.org/WVA-PolicyBrief2001.pdf, and www.eoionline.org/WVA-CreatingUniversalAccessToRetirementSecurity.HTM. For state legislation based on this model, see www.leg.wa.gov/pub/billinfo/2001-02/House/2625-2649/2627.pdf.

[13] Based on the 2001 Current Population Survey, only 2 percent of manufacturing jobs in Pennsylvania pay less than $6 per hour. Only 3 percent pay less than $6.65 per hour. For more on the minimum wage, see the minimum wage publications on line at www.keystoneresearch.org and at www.epinet.org.

[14] For this report, see James Barrett and J. Andrew Hoerner, *Clean Energy and Jobs: a Comprehensive Approach to Climate Change and Energy Policy* (Washington, D.C.: Economic Policy Institute and the Center for a Sustainable Economy, 2002). For a full copy of the report, go to www.SustainableEconomy.org/press/cleanenergy.htm and type in "press2" as the username and "climate" as the password.

412 North Third Street • Harrisburg, Pennsylvania 17101
Phone: (717) 255-7181 • Fax: (717) 255-7193 • Email: KeystoneRC@aol.com
www.keystoneresearch.org

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