

The State of the American Dream in New England

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What has happened to families in New England economically over the past 15 years?

MassINC's first policy report asked the region's best labor market economists one simple question: what has happened to families in New England economically over the past 15 years? Their answers provide reams of useful information for any candidate for office.

- Want to know the median family income in Massachusetts in 1979, 1989 and 1996?
- Want to know the odds that a single-parent family headed by someone without a high school degree will live in poverty?
- Want to know what kinds of families have gotten ahead in the new economy? What kinds of families have fallen behind?
- Want to know the hours the average family in the top 20% of incomes works in a year?

Answers to these questions and many more are provided in this comprehensive report on family incomes in Massachusetts and New England.

Executive Summary

The National Story

In 1992, presidential candidate Bill Clinton garnered knowing nods of approval from audiences around the country when he uttered one of the signature phrases of his campaign: "People are working harder and harder for less and less."

Unfortunately, for many families that phrase continues to ring true. And for families across America, the central strategy they have used for 15 years to counter the effects of shrinking career prospects and sinking real wages for their primary breadwinner is about to reach its breaking point.

Real median family incomes (adjusted for inflation) began stagnating in 1973, and have been virtually flat for over 20 years. Since 1989, real family incomes have actually declined, despite renewed employment and output growth.

For most men, the news is even worse. Their real annual earnings and weekly wages have been falling for over 15 years. Industries which used to employ men in large numbers, like manufacturing, are transforming themselves. Fewer of those that remain rely on blue-collar workers. More rely on automation and white collar workers with higher educational levels. Thus, while total output and worker productivity have continued to rise, the number of people needed to produce that growing amount of goods has been shrinking.

Married couples have responded to the decreased earnings and purchasing power of most husbands in a predictable fashion: more and more wives have entered the workforce, and those who are working, are working longer and longer hours.

The change has been profound. Two-income families are now the rule, not the exception, and most married women without children living at home are now working the equivalent of a full-time, year-round job. Even married women with children living at home now work the equivalent of 25 hours per week -- a dramatic rise of almost 150 percent since 1979.

Shifting from one-income to two-income families has helped hold real family incomes constant --otherwise they would have declined. But the ability of this strategy to offset another decade of flat or declining real incomes and wages for husbands does not look promising. With 3 out of 4 married women working, and most working full-time or close to full-time, most married couples don't have many additional hours to work in order to offset further declines in incomes and wages.

As millions more women have entered the labor force, the national economy has generated a staggering number of net new wage and salary jobs: 24 million since 1979. But, in that same time period the number of people working or actively seeking work has increased by roughly 26 million. In part because the number of new job seekers has grown as fast as the number of new jobs being created, real wage and income growth have been sluggish. Even more importantly, labor productivity has grown quite slowly

and few of the gains in productivity have been passed on to workers, producing minimal wage and earnings growth for the average worker.

The dramatic changes sweeping through the American economy are producing clear winners and losers.

The winners have been:

1. the highly educated -- because most of the job growth has been generated in occupational areas requiring higher educational attainment levels;
2. married couples -- because they have the resources of a second income-earner to utilize; and
3. those at the top of the income distribution -- because this group is primarily composed of two-income, married couple families with high educational attainment levels.

The principal losers have been:

1. people with lower levels of educational attainment -- because blue-collar jobs, requiring lower educational attainment levels and providing more on-the-job training, are disappearing;
2. single-parent families -- because they do not have a second income earner to send into the labor market to offset declining wages and incomes; and
3. those at the bottom of the income distribution -- because this group is disproportionately composed of single-parent families with lower educational attainment levels and limited work experience.

Poorly educated female-headed families have been especially hard hit. In fact, being born to a young, poorly educated single mother is a virtual guarantee of a child living in poverty. A staggering 92 percent of children nationwide living in female-headed households whose head has no high school degree and is under 30 live in poverty -- 98 percent in New England! Almost half of all families in the bottom fifth of the income distribution -- 42.4 percent in 1994 -- are female-headed families.

Because of these changing economic patterns, income inequality has risen dramatically. The gap between those at the top and bottom of the income distribution scale is much greater today than it was 20 years ago.

However, contrary to the "conventional wisdom," these gaps are not being generated by tremendous real income gains for those in the top 20 percent of the income distribution. In fact, the real income gains for families in the top 20 percent over the past 15 years have been quite modest, compared to the tremendous strides made at every income level in the 1950s and 1960s. Instead, "the rich are getting richer" primarily because while their real incomes are growing at a moderate rate, real incomes for those in the middle and bottom of the income distribution are actually declining.

Increasingly, the broad middle class is dividing into two distinct groups with very different profiles and prospects for long-term economic success -- and education lies at the fault line between these two groups. One group, primarily those with college degrees or postgraduate educations, are moving ahead in the new economy. While higher education levels have not guaranteed economic progress, many of these families have actually moved from the middle class to the top income group.

The second group, primarily those with a high school degree or less, are falling behind in today's economic world. Their wages and incomes are falling, their career job prospects are decreasing, and the unions that used to help protect their wages and working conditions are vanishing. A growing number of these families are sliding out of the middle class -- and face an uphill climb to return to their former economic level.

At the bottom of our income distribution, a distinct underclass has emerged which appears to have minimal prospects for moving up into the middle class in the absence of radical changes in their employability, work effort and real wages. Almost half of all families in the bottom 20 percent of incomes have no wage-earner in their family. Over 40 percent of families in the bottom fifth are headed by a high school dropout. Families in this bottom group also receive more of their family income from government transfer payments than from earnings, regardless of the business cycle. None of these factors bodes well for families in this bottom income group.

The New England Story

NEW ENGLAND'S STORY has varied from the national one in a number of key respects over the past 15 years -- especially in the booming 1980s. Compared to the dismal family income growth generated nationally, the 1980s in New England produced dramatic gains across the board -- at every educational level, at every income level, and for both married and single parent families.

As New England family incomes soared in the 1980s, so too did the productivity of New England's workers. New England's gross regional product per worker went from being 10 percent below the national average in 1977 to 4 percent above that national standard in 1992. And the 28 percent gain in real output per worker in New England over that period was the highest for any region in the country, almost tripling the national rate.

The broader trends observed on the national level -- that economic changes are favoring the more highly educated, married couples, and those with higher incomes -- still held true in New England, because each of those groups did better than their counterparts. But because of the strong economic conditions throughout the region, every demographic group made real economic progress.

The 1990s unfortunately have produced a brutal reversal of the progress made in the 1980s. New England families' real incomes have fallen twice as fast as the national rate from 1989 - 1994. Across the board, in every educational, income, and family composition subgroup, real incomes have fallen. Every group, including those with post-

college educational experience, has obtained a level of real income below that they achieved in 1989.

Throughout the 1980s boom and the 1990s recession and slow recovery, the New England economy has been transforming itself. Where once manufacturing was the dominant employer, by 1994, service and retail trade jobs were producing the overwhelming lion's share of job growth throughout the region.

New Englanders have made remarkable strides in trying to adapt to these new conditions, but these efforts are being swamped by the rapid changes taking place in the economy. By 1992, the majority of New England workers had some schooling beyond high school. The proportion of the region's work force without a high school diploma has been cut in half since 1979. But for those left behind, with only a high school degree or less, the economic future is a bleak one. And even for New Englanders with a college degree, real wages and incomes have fallen since 1989.

For much of New England's working class -- those families in the bottom part of the middle class, typically headed by someone with less formal education -- economic disaster is only one layoff or illness away. Annual earnings for many of these workers are declining. Corporate downsizings and layoffs continue to throw thousands out of work each month. And health insurance and pension coverage rates for these workers are much lower than for workers with higher educational attainment levels.

New England is still feeling the effects of the devastating recession of the early 1990s. There are fewer people working or actively seeking work today than there were in 1989. And while in the 1980s, New England actually attracted many of the best and the brightest from around the country because of our then-booming economy, today more people are moving out of New England than are moving here from other states.

In a little noticed development, New England has become increasingly reliant on foreign immigration to offset the shrinking size of our labor force -- especially in the southern tier states of Connecticut, Massachusetts, and Rhode Island. Many of these foreign immigrants come to New England highly educated (with at least a college degree) -- but the largest proportion, 49 percent, come to New England with only a high school degree or less.

The twin challenges facing New England in the coming years are to continue to raise worker productivity -- and to have workers share in the rewards of those productivity gains, so that real wages can rise. Meeting these twin challenges will be a daunting task -- one that will require the efforts of policy makers, business leaders, workers and other concerned citizens from across the region. But failing to meet these challenges will leave the American Dream only a distant memory for working people across New England.