

Executive Summary

The first decade of this century coincided with a technological revolution that sparked the birth of a promising new economic age. But the opportunity was elusive, and the 2000s proved to be an exceptionally challenging time for Massachusetts. After two difficult recessions took their toll, the Commonwealth ended the decade with 150,000 fewer payroll jobs, and with one-quarter of the state's workers not contributing to the economy at their full potential. Accounting for inflation, income remained flat for the average family and fell for many. Perhaps most disconcerting, Bay Staters lost confidence in the future, a defining feature of the American spirit and a key ingredient for growth.

The nation faced the same challenges as Massachusetts, and many states have endured far more serious consequences. While addressing the economic forces we confront will require a strong federal response, citizens of Massachusetts must reflect thoughtfully on the implications of this Lost Decade. Charting a pathway toward renewed prosperity begins with an accurate understanding of where we, as a commonwealth, stand.

To provide this context, *Recapturing the American Dream* offers an exceptionally detailed portrait of the state's labor markets and how they compare to our own recent past as well as labor markets nationally. This research compares economic data stretching back over several decades with the most up-to-date information available. Data from the Census Bureau, the Bureau of Labor Statistics, and other government agencies are reinforced with findings from survey data collected by MassINC and others.

While we offer some policy proposals for consideration, the primary purpose of this research

is to comprehensively synthesize the facts in a manner that provokes and supports informed public dialogue.

The full report provides an objective and methodical presentation of the data. In this executive summary, we organize the findings thematically according to the challenges that strike us as most imperative after a careful review.

In our assessment, the Lost Decade's legacy has left four key hurdles the Commonwealth must now overcome:

1. *The Education/Economic Development Paradox.*

Massachusetts has led the way in preparing its workforce for a knowledge economy, but this remarkable progress has not produced the expected economic gains. If our current pathway of expanding educational attainment does not, on its own, guarantee improved economic outcomes, this raises questions for both how we invest in education going forward and what other conditions are necessary to leverage the state's skilled workforce fully as an economic asset.

2. *The Workforce Challenge.*

A talented workforce is the state's most valuable economic asset, but job creation woes have taken a toll on this resource. Workers need training and steady work experience to reach their full potentials. With many residents waiting on the sidelines and not receiving adequate preparation, Massachusetts companies may find it challenging to replace aging workers with experienced employees in the coming years.

3. *The Big Divides.*

A half-century ago, Massachusetts had one of the most balanced family and

household income distributions in the nation. Today, the distribution of income in Massachusetts is one of the most unequal. While there are no easy answers to the problem of increasing income inequality, it must be taken seriously. Rising income inequality threatens the fabric of our Commonwealth and places a drag on long-term growth and on the ability of residents to achieve the American Dream. While the discussion of

MASSACHUSETTS DID A REMARKABLE JOB UPGRADING THE SKILLS OF ITS WORKERS.

inequality frequently focuses on the difference between those at the top and the bottom of the pay scale, increasingly, labor market disparities by educational attainment, generation, gender, and region of the state underlie inequality in our state.

4. Restoring Confidence in the American Dream. The American Dream is based on a conviction that the future holds opportunities worthy of hard work and sacrifice and that such effort will be rewarded. In the past, unbending optimism has helped Americans emerge from difficult times stronger and more resilient. Because the challenges of the past decade have directly undermined this pillar of the American Dream, the task of restoring confidence and growth has been made more difficult.

The retelling of this bulleted summary below expands upon these key points, providing data and analysis from the report and drawing inferences about what these trends mean for economic policy at both the state and federal level.

1. THE EDUCATION/ECONOMIC DEVELOPMENT PARADOX

Massachusetts made impressive gains increasing the skills of its workforce between 2000 and 2010, yet the data in this report clearly show that the state did not reap the expected returns. Output growth was anemic relative to past decades, and well below the growth rate for the US overall. Compared to their national counterparts, the state's workers increased their productivity at a slower rate. Massachusetts failed to create jobs during the decade, even more so than other states. Slow output growth and job creation had real consequences for Massachusetts workers, who despite their additional skills did not find rewards in the form of higher pay.

Impressive Educational Attainment Gains

Massachusetts began the 2000s with the most skilled workforce in the nation. Nearly 37 percent of the state's resident workers held at least a bachelor's degree. This was well ahead of the US average (28 percent) and highest among the 50 states. Moreover, Massachusetts pressed ahead over the course of the decade. By 2010, nearly half (46 percent) of all workers had a bachelor's or higher degree. The state expanded its lead over the nation to 13 percentage points and held on to its first place position among the states.

While some of the gain in percentage terms was driven by less educated workers disproportionately dropping out of the labor force, there is no question that Massachusetts did a remarkable job upgrading the skills of its workers. The biggest gains actually came from workers with advanced education. Between 2000 and 2010, the number of employed residents with a master's degree or higher increased by 171,000, 39 percent in a single decade. The state also added nearly 99,000 workers with bachelor's degrees, a 13 percent increase.

Anemic Output and Productivity Growth

Despite adding 270,000 workers with at least a four-year college degree to the state's economy, Massachusetts struggled to increase its output during the last decade. Gross State Product (GSP) rose by just 11 percent between 2000 and 2010. This growth rate was extremely weak compared with the two prior decades. In the 1980s, the Massachusetts economy grew by 58 percent; the 1990s produced a 40 percent gain.

Not only was the state's output growth slow compared to the past, Massachusetts's growth rate was below average for the nation; US output (GDP) increased by 17.7 percent between 2000 and 2010. Failure to keep pace reduced the competitiveness of the Commonwealth's economy. Ranked among the 50 states and the District of Columbia, Massachusetts's per capita output fell three places, from 4th highest in 2000 to 7th highest in 2010.

Similarly, the state fell below average on labor productivity growth, measured by output per hour of work. Labor productivity grew by 17.7 percent in Massachusetts versus a growth rate of 19.4 percent for the US. Among states, the labor productivity growth rate achieved by Massachusetts workers ranked 34th highest.

Poor Job Creation Performance

In part, slow growth was attributable to a failure to create employment opportunities. For the first time since World War II, Massachusetts ended a decade with fewer jobs. Between 2000 and 2010, Massachusetts lost 143,000 jobs — a 4.3 percent decline in payroll employment. In percentage terms, only six states posted worse job generating performances over the decade.

Job losses meant the number of employed residents fell. In 2010, there were 38,000 fewer workers (-1.4 percent) in Massachusetts than in 2000.

Massachusetts was not the only state to experience a disconnect between educational attain-

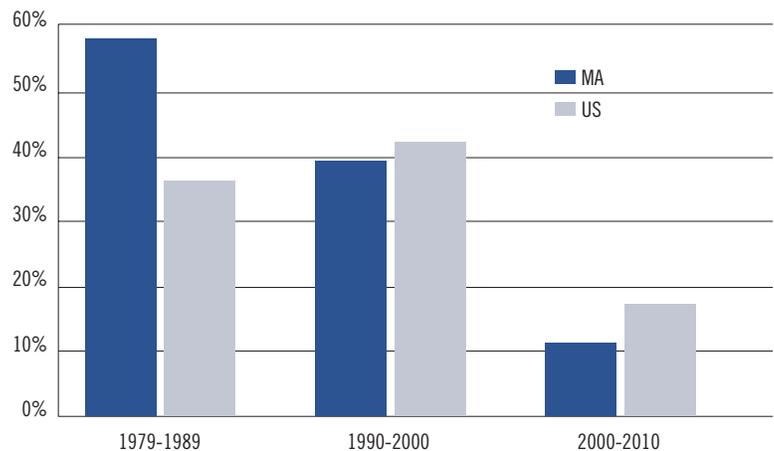
ES Table 1:

Trends in the Number of Employed Civilians (16+) in Massachusetts by Educational Attainment, 2000-2010 (annual averages, numbers in 1000s)

EDUCATIONAL GROUP	2000	2010	ABSOLUTE CHANGE	PERCENT CHANGE
<12 or 12 years, no high school degree/GED	338	200	-138	-41%
High school degree/GED	908	776	-132	-15%
Some college, no degree	503	472	-31	-6%
Associate's degree	297	293	-4	-1%
Bachelor's degree	758	857	99	13%
Master's or higher degree	437	608	171	39%
Total	3,238	3,200	-38	-1%

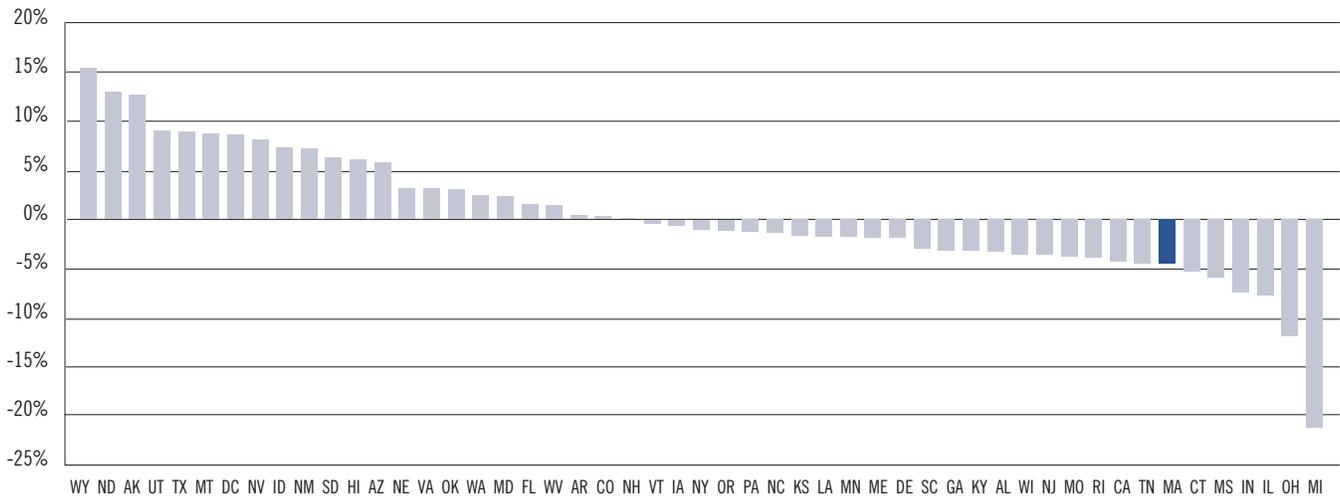
ES Chart 1:

Growth Rates of Real Gross State Product in Massachusetts and the US



ES Chart 2:

Trends in the Payroll Employment Levels of the Nation's 50 States and the District of Columbia, 2000-2010



Source: US Bureau of Labor Statistics, Current Employment Statistics

ment and employment growth. The correlation between the share of employed workers with at least an associate's degree in 2000 and payroll job growth between 2000 and 2010 was slightly negative across the 50 states. A more highly educated workforce did not lead to above average job growth.

Falling Short of Our Potential

Many would be inclined to dismiss the state's job creation woes during the Lost Decade as unavoidable given the great economic difficulties the nation experienced over the period. But it is important to recognize that the Massachusetts economy entered the decade with a favorable industry composition that could have offset job losses associated with decline in the US economy. If the state's mix of industries had grown at the same rates as they grew throughout the nation, Massachusetts would have added more than 75,000 jobs between 2000 and 2010.

Key Massachusetts industries grew at slower

rates in the Commonwealth than they did nationally. For example, the professional, scientific, and technical sector grew by just 4 percent in Massachusetts versus 11 percent nationally. If this sector had held its market share by matching the national growth rate, Massachusetts would have created an additional 15,400 jobs. Similarly, if the finance and insurance sector in Massachusetts, which shed 9 percent of its jobs, had grown slightly as it did nationally, the state would have gained 400 finance jobs instead of losing 16,000.

This same shift-share analysis provides a lens to look at how the state's industries compared to the nation's in output terms. While our industry mix was not positioned to increase production, it should have had a neutral effect. In other words, GSP should have increased at the same rate as GDP. But key industries like insurance and real estate, and computer systems design did not keep pace over the decade with increased production; the Massachusetts economy's growth rate was about one-third lower than the nation's (11 percent vs. 17.6 percent).

The state's failure to derive more growth from its skilled workforce asset is another striking symbol of the Lost Decade's education/economic development paradox.

Wage and Income Stagnation

With negative job growth and weak output growth, workers did not enjoy wage gains and the state's families and households saw their income growth stall or decline. While workers nationally experienced a 4 percent increase in mean weekly wages over the last decade, the Commonwealth's workers saw their wages rise by just 0.1 percent between 2000 and 2010.

It is some comfort that Massachusetts workers enjoy the nation's highest weekly wages, but the region's outsized and rising cost of living absorbs a significant share of this pay premium. For workers that have invested heavily in education, it is imperative that earnings keep pace with these growing costs.

Despite the remarkable educational upgrading of the state's workforce, Massachusetts, like the nation, couldn't stop the last decade from becoming the first since the Great Depression where households experienced no income growth. Between 1999 and 2009, median household income in Massachusetts fell by 6.1 percent. Nationally, household income fell by 9 percent.

Like households, Massachusetts families also fared better than the nation. Their income rose by 0.2 percent during the decade versus a 5.1 percent decline for the US overall. However, this disparity is explained by demographic advantages, including the state's more educated, dual-earner families. Again, the education/economic development paradox is unmistakable. Income growth stagnated during a decade in which Massachusetts increased the share of families headed by a member with a four-year degree by more than 6 percentage points (36.9 percent in 2000 to 43.3 in 2009).

2. THE WORKFORCE CHALLENGE

The greatest near-term legacy of the Lost Decade is unwinding the twists it created in the state's workforce. Older workers have delayed retirement. As a result, younger residents have not found entry points to begin their careers and accumulate the skills they will need when called upon to replace the state's aging workers. In addition, nearly half of residents dislocated from the labor force by the Great Recession have become long-term unemployed, a condition with real consequences for both individual well-being as well as the state's social safety net. As leaders build recovery strategies, they will need to develop policies that proactively and effectively address these workforce challenges.

A Surplus of Underutilized Labor

The Lost Decade left nearly 1 million Massachusetts working-age residents underutilized. In 2010, 1 in 4 Massachusetts workers (905,600) were either unemployed, underemployed, mal-employed, or in the labor force reserve (i.e., workers wanting a job, but not actively looking).

Over the decade, both the number of un- and underemployed workers increased by a factor of three. In 2010, there were nearly 300,000 unemployed workers and almost 171,000 underemployed residents. Another 87,000 residents stood on the sidelines in the labor force reserve.

Perhaps the most remarkable (and least visible) challenge is the underutilization of the state's skilled workers. More than a third of Massachusetts residents with associate's degrees (91,700) and over one-quarter of residents with bachelor's degrees (227,800) were mal-employed in 2010 (i.e., working in jobs that do not typically require a college degree). While the most educated residents have fared slightly better, estimates still suggest that 1 in 10 workers with master's degrees (55,400) were mal-employed in 2010.

Accounting for unemployment, under-

employment, and mal-employment, just half of Massachusetts residents with an associate's degree and less than 60 percent of those with a bachelor's degree were fully utilized and working in a college labor market job in 2010.

Heavy Reliance on Older Workers

A decade ago, Massachusetts faced a serious labor shortage. In 2000, the state's 2.7 percent unemployment rate was the 4th lowest in the nation. With an older workforce, there were real questions about how the state would replace retiring Baby Boomers. The Great Recession's heavy toll on the financial assets of middle-class families, particularly among those nearing retirement, has kept many working longer, exacerbating the

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problem younger workers face finding opportunities to enter the state's workforce.

Between 2000 and 2010, the number of employed residents under age 55 in Massachusetts dropped by 12 percent (261,000). This loss was nearly offset by a dramatic 44 percent increase (223,000) in workers ages 55 and older. This age twist is particularly visible in the number of residents past retirement age continuing to work full-time. The share of employed workers ages 65 to 74 holding full-time jobs increased from 40 percent in 2000 to nearly 60 percent in 2010.

Relative to other states, the Massachusetts economy is now particularly reliant on older workers. While the Commonwealth falls in the middle of the distribution ranked by employment rates of workers under age 55, our 68 percent employment-to-population ratio for residents ages 55 to 64 ranks 9th highest among states.

The Long-Term Unemployed

More than tripling the number of unemployed, the Lost Decade changed the nature of unemployment dramatically. In 2000, many unemployed workers had left their jobs to search for something better or they were new entrants or reentrants to the workforce; only 39 percent had permanently lost their jobs. In 2010, permanent job losers made up more than 58 percent of the Commonwealth's unemployed workers (a ratio that ranks 4th highest among the states).

With so many residents looking for work in an economy with few jobs vacancies, mean durations of unemployment rose dramatically over the past decade. In 2000, the typical unemployed resident was back to work in 11 weeks. In contrast, through the first five months of 2011, the average unemployed residents had been without work for 33 weeks, a record high for the state.

In 2000, only 1 in 8 unemployed persons in Massachusetts was categorized as long-term unemployed (jobless for 26+ weeks). In 2010, long-term unemployed workers made up 42 percent of the unemployed, a historical high. Moreover, the Lost Decade drove up the number of very long-term (jobless for 52+ weeks) unemployed residents exponentially, from 3,000 to 90,000. Experiencing unemployment for this length of time has serious consequences for the mental health of workers as well as their re-employment and long-term earnings potential.¹

3. THE BIG DIVIDES

The Commonwealth's post-World War II social fabric was stitched in an era during which Massachusetts had one of the most even income distributions among the states (in a much more egalitarian nation). Today, the distribution of income in Massachusetts is one of the most unequal (in a country with a growing economic divide). Uneven opportunity in the state's labor markets has sown additional division by education, gen-

der, generation, and region. Left unaddressed, these divisions will aggravate the inequalities in our commonwealth.

By Income

Income inequality has been on the rise in Massachusetts since the 1970s. While inequality grew at a slower pace over the last decade, with middle-class households seeing their incomes fall, the continued pulling apart has finally captured the public's attention.

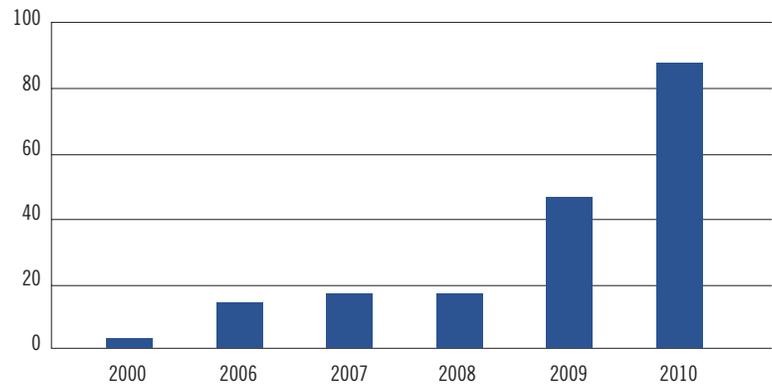
The ratio between the income earned by the top 1 percent of families (i.e., the 99th percentile) and families at the bottom of distribution (i.e., the 10th percentile) rose slightly over the decade. In 1979, the top 1 percent earned 10.9 times more income than families at the 10th percentile. In the 1980s, this ratio rose nearly 50 percent to 15.8 times more. In the 1990s, it climbed nearly 50 percent again to 23.1 times more. Between 1999 and 2009, the ratio climbed just 3 percent to 23.7 times more.

These large disparities in the economic well-being of Massachusetts families are the result of uneven income growth. Between 1979 and 2009, families at the 10th percentile saw their incomes rise by just 6 percent. For families in the middle of the distribution, income grew by 25 percent. In contrast, families in the 90th percentile enjoyed large gains of nearly 50 percent, and families at the very top of the distribution (99th percentile) obtained a 129 percent gain.

Looking back all the way to 1959, when Massachusetts had one of the nation's most even income distributions, the share of all money income obtained by Massachusetts households in each of the bottom 4 quintiles of the distribution has declined, while the share obtained by households in the top quintile has increased. The bulk of the gain in income went to households in the top decile of the distribution. In 1959 the top 10 percent of households earned 40.9 percent of all the income; in 2010, they took home 51.4 percent.

ES Chart 3:

Trends in the Number of Very Long-Term Unemployed in Massachusetts, Selected Years, 2000-2010 (numbers in 1000s)



These income growth disparities are largely the product of industrial and occupational change over the past several decades. During the Lost Decade, workers in different occupations continued to experience dramatically divergent economic fates. Between 2000 and 2010, workers in the lowest wage industries (e.g., retail trade, accommodation and food services) typically fared worst, either obtaining no wage improvement or declines approaching 20 percent. In contrast, higher wage industries (real estate, educational and health services, and management of companies) experienced earnings increases well above 10 percent.

The mean weekly earnings of wage and salary workers across the state's industries now vary to an amazingly wide degree. At the bottom of the distribution are workers in the accommodation and food services industries, with an average weekly wage of only \$372, and those in other services (repair, personal care) and retail trade, with wages in the \$530 range. At the top of the distribution are workers involved in the management of companies, who earn an average of \$2,000 weekly, security brokers with an average wage of \$3,860 weekly, and investment bankers, who earn an average of more than \$5,000 each week.

ES Table 2:

Changes in Key Relative Family Income Ratios in Massachusetts, 1979-2009

RELATIVE INCOME MEASURE	1979	1989	1999	2009	CHANGE IN RATIO 1979-2009
Y99/Y10	10.9	15.8	21.3	23.7	12.8

Another major driver of inequality both nationally and particularly within Massachusetts is the growing pattern of what demographers term assortative mating (i.e., the tendency among individuals to marry partners with a similar educational attainment or socioeconomic background). The substantial increase in women with bachelor’s degrees in recent decades has resulted in a growing number of families in which both spouses possess a college degree. In these couples, husbands and wives are more likely to both work full-time and they have significantly lower separation and divorce rates.

Among less educated workers, the disproportionate loss of jobs in occupations typically filled by males has created a dearth of “marriageable men” and women without degrees have had a difficult time finding partners.²

The negative impact of this economic reality multiplies generationally because a growing number of children belong to single-parent families with dramatically lower resources, which translates into reduced prospects in this increasingly competitive global economy.³ The median incomes of families in Massachusetts range from a low of \$19,790 for female-headed families without a high school diploma, to almost \$50,000 for male-headed families with a high school diploma, to highs of nearly \$118,000 for married-couple families headed by a bachelor’s degree holder, and \$140,000 for married-couple families led by a head possessing a graduate degree.

By Educational Attainment

The Lost Decade’s particularly harsh treatment of unskilled workers has widened these divides.

Labor underutilization rates (un- or underemployed) for Massachusetts workers vary considerably by educational attainment. Nearly one-third (32 percent) of high school dropouts and almost one-quarter (22 percent) of those without a high school diploma or GED were not fully utilized in the state’s labor market in 2010. In contrast, the labor underutilization rate was slightly below 10 percent for bachelor’s degree holders and just 5.6 percent for those workers holding a master’s or higher degree at the end of the decade.

Massachusetts workers with limited education face exceptionally high unemployment. Nearly 20 percent of those lacking a high school diploma or GED and 12 percent of residents with just a high school degree were unemployed in 2010; in comparison, unemployment was just 5.5 percent for bachelor’s degree holders and 3 percent for those with a master’s or higher degree.

These labor market challenges brought income down sharply among households with limited educational attainment. Households headed by high school dropouts lost nearly 30 percent of their median income between 1999 and 2010; income fell by 16 percent for households with just a high school degree or GED. College-educated households, on the other hand, were largely protected from an income shock. Median income fell by only 4 percent for those with bachelor’s degrees and just 2 percent for graduate degree holders.

By Generation

The Lost Decade has also opened a generational shift that could have long-term consequences for the Bay State economy.

Younger workers are by far the most heavily underutilized in Massachusetts. Over one-third

of the state's teens (ages 16 to 19) and more than one-quarter of young adults (ages 20 to 24) were un- or underemployed in 2010. In contrast, underutilization rates were below 15 percent in 2010 among the state's older age groups.

Young residents that do find work take home significantly less pay than their peers in previous generations. Between 1989 and 2010, the state's youngest workers (those under 25 years old) saw their median weekly earnings fall by 8 percent; 25-34-year-old workers lost 2 percent of their weekly earnings. During this period, older age groups obtained substantial wage increases, ranging from 20 percent for those ages 45 to 54 to 52 percent for those 65 and older.

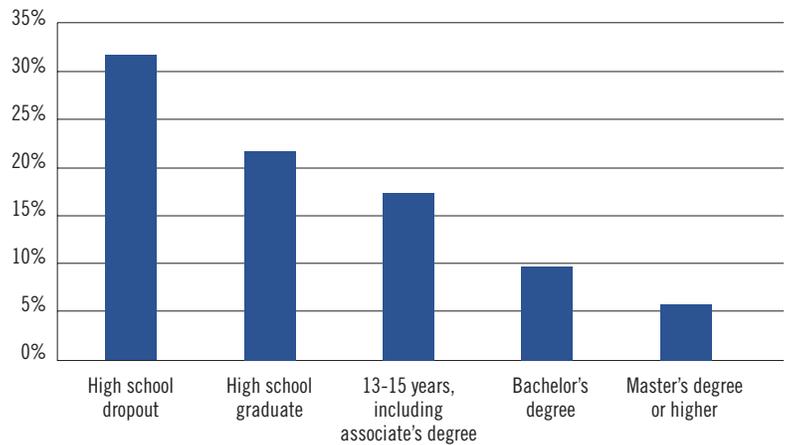
Among the state's households, those headed by younger adults (under age 30) experienced the sharpest decline (-7 percent) in income between 1999 and 2010. Similarly, families headed by young adults also saw the steepest decline in median real family income (-12 percent) over the decade. Whereas young families earned nearly 90 percent of the state median family income in 1979, young families were taking home just 58 percent of the state median income in 2009.

With young Bay Staters racking up unprecedented levels of student loan debt, it has become imperative that they find college labor market jobs. Graduates must utilize their skills to reap real returns on their investment. In 2010, the state's employed bachelor's degree holders with college labor market jobs earned wages that were 56 percent higher than mal-employed college graduates. Employed bachelor's degree holders working in a college labor market job had mean weekly earnings nearly \$600 per week higher than the mean weekly earnings of high school graduates; however, mal-employed college graduates were paid just \$110 per week more than workers with only high school degrees.

These generational challenges could curb economic growth for decades. Young residents who struggle to gain early work experience will

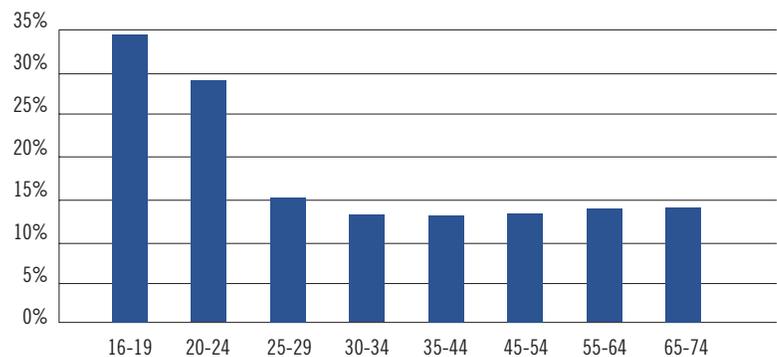
ES Chart 4:

Labor Underutilization Rates in Massachusetts in 2010 by Educational Attainment (annual averages)



ES Chart 5:

Labor Underutilization Rates in Massachusetts by Age, 2010



suffer consequences over the course of their careers. They may delay marriage and have fewer children. With limited wages and high debt levels, they will struggle to save and purchase homes. Down the road, they will also lack assets for a secure retirement. These trends would hamper the state's housing markets, population growth, and economic growth, which would in turn have a large negative fiscal impact for state and local governments.

By Gender

Massachusetts males are another demographic that fared poorly in the labor market during the Lost Decade. Between 2000 and 2010, male employment declined by 81,000 residents while female employment grew by 43,000.

For more than two decades, the Massachusetts economy has shown extremely uneven performance in terms of creating jobs for men. But the differential impact of the Great Recession is

particularly striking. While the rate of decline in male employment (-6 percent) in Massachusetts between 2007 and 2010 was similar to the national average, no other state came close in the share of job loss attributable to men over this period — males accounted for 200 percent of the net decline in civilian employment between 2007 and 2010.

While the recovery has led to some growth in occupations predominately held by men, male unemployment continues to substantially outpace female unemployment in Massachusetts. During the first five months of 2011, unemployment stood at 9.2 percent for men versus 5.9 percent for women.

To get men in Massachusetts back to their 2000 full-time employment-to-population ratios, the state must add 215,000 full-time employed males.

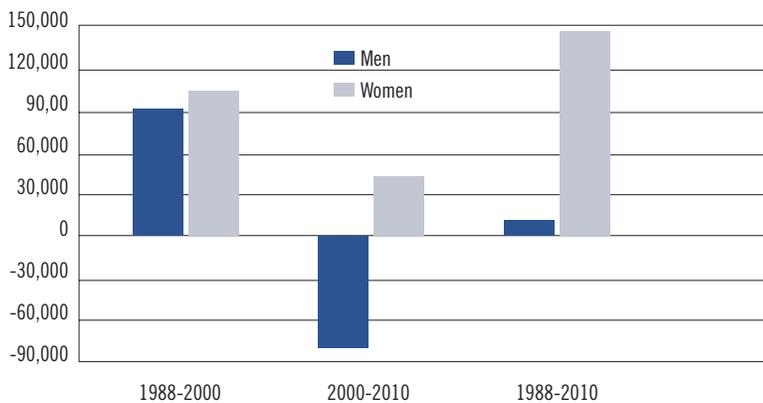
Just as the challenges facing today's youth have long-term implications, the Lost Decade's disproportionate impact on men will have enduring consequences for family formation. While the Great Recession caught many men off guard, it is also clear that the market has been signaling changes for quite some time. While women have responded by upgrading their skills, men have been slow to follow suit. For example, research by the Center for Labor Market Studies has found that among students who graduated from Boston Public Schools in 2000, women were nearly 1.5 times more likely to obtain a four-year college degree; black and Hispanic women were more than twice as likely as black and Hispanic men to complete four-year degrees.⁴

By Region

While most Massachusetts counties lost jobs during the last decade, the defining feature in the state's economic geography remains the large and growing disparities in income and wages across regions.

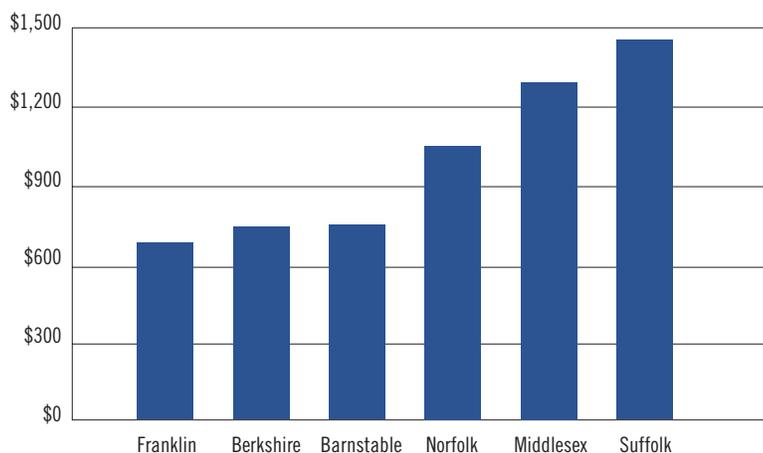
ES Chart 6:

Trends in Civilian Employment Among Men and Women in Massachusetts from 1988-2000, 2000-2010, and 1988-2010 (annual averages, numbers in 1000s)



ES Chart 7:

Average Weekly Earnings of Massachusetts Wage and Salary Workers in the Three Lowest and Three Highest Wage Counties, 2010



Over the last decade, uneven rates of household income growth were particularly stark. Between 1999 and 2009, households in the state's three western counties endured double-digit income declines. The drop was most dramatic in Berkshire County (20 percent), followed by Hampden County (11 percent), and Franklin County (10 percent). In contrast, household income grew by 5 percent in Suffolk County; in other Greater Boston counties, household income fell just slightly over the decade.

Uneven growth in household income is a reflection of uneven growth in pay. Between 2000 and 2010, the percent change in weekly earnings ranged from a 4 percent decline for jobs in Berkshire County to a 4 percent gain for jobs located in Suffolk County.

These modest changes added to already sizeable pay differentials. In 2010, weekly wages ranged from a low of \$684 for jobs located in Franklin County to a high of \$1,471 for jobs located in Suffolk County. The ratio between pay in the state's lowest and highest wage counties grew from 2.06 in 2000 to 2.15 in 2010.

Past research by MassINC, the Center for Labor Market Studies, and others has examined these extensive regional economic development imbalances in more detail.⁵ Signs suggest that a recovery driven by knowledge industries predominately located in Greater Boston may further these uneven growth patterns and conceal the deep and unmet needs of residents living in other parts of the Commonwealth.

4. RESTORING CONFIDENCE IN THE AMERICAN DREAM

There are two understandings central to the American spirit: the belief that anyone can get ahead with hard work and a little bit of luck; and faith that the next generation will enjoy a standard of living higher than the previous. The optimism inherent in these beliefs has had real economic

value. Citizens who see opportunity in the future are more likely to invest in themselves and the economy. If residents remain disheartened by the Lost Decade, their pessimism may become a self-fulfilling prophecy reducing future growth.

The findings in this report suggest that residents have not fully benefited from their efforts in the state's economy. Public opinion data reveal the deep-seated frustration and concern residents feel for the economic future.

The Broken Link

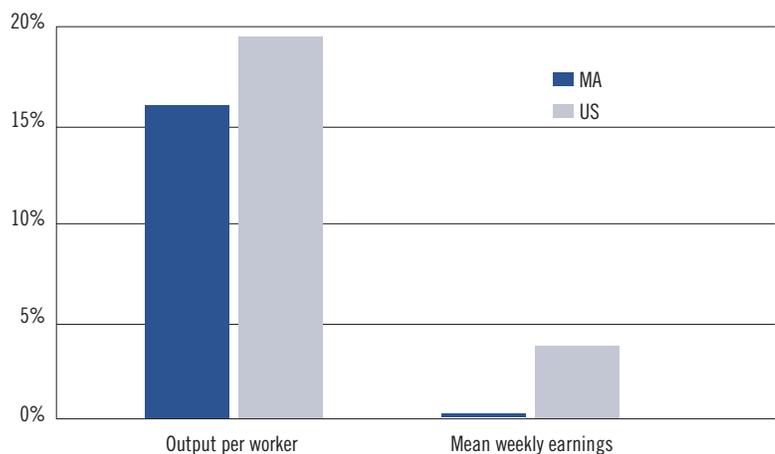
Among all of the economic data presented in this report, perhaps the most telling are those demonstrating the complete rupture of the link between productivity growth and wage growth during the Lost Decade.

Employed workers in Massachusetts produced more output per hour of work — labor productivity grew by more than 17 percent between 2000 and 2010; however, Massachusetts workers saw no discernable increase in pay — mean weekly wages grew by just 0.1 percent.

The productivity growth/wage growth link was severed in Massachusetts even more dra-

ES Chart 8:

Comparisons of Estimated Percent Changes in the Mean Weekly Earnings and Real Annual Output Per Worker in Massachusetts and the US, 2000-2010



matically than it was for the nation, where it simply fractured; US labor productivity increased 19.4 percent and mean wages rose 3.7 percent.

Few Massachusetts workers are aware of these data; however, our survey results make plain their visceral understanding that hard work is no longer fully compensated.

Satisfaction and Confidence in the Bay State Economy

While the economic data show modest declines in household and family income, MassINC's public opinion research shows that residents are extraordinarily sensitive to these changes. Half of those surveyed over the last year feel like it became more difficult to achieve their desired lifestyle in Massachusetts during the last decade; just 10 percent of respondents say it became "easier."

MassINC survey research also reflects declining confidence in the future of the Bay State economy. When asked recently how they thought the next generation of adults in Massachusetts would fare, 45 percent of respondents believed that the next generation would be "worse off" and only 19 percent felt that they would be "better off."

Consistent with the generational divides described earlier, MassINC survey research shows that younger residents are struggling to achieve the American Dream. Overall, just under half (49 percent) of Massachusetts residents feel that they had achieved the American Dream. Fewer than one-third of the youngest respondents (18 to 29) say they had achieved the Dream, versus 47 percent of those ages 30 to 44 and almost 60 percent of those 60 and older.

With slow and uneven rates of economic growth, economists have begun looking for alternative ways to measure well-being. Many believe that perhaps the most straightforward approach is simply to ask people if they are content. In 2010, slightly over 45 percent of Massachusetts

residents reported in a national survey that they were "very satisfied" with life. This share was nearly 2 percentage points above that of the nation, but only 32nd highest on this measure among the 50 states.

While popular belief suggests those with the least often find the most joy, these survey data show that this is certainly not the case in Massachusetts. Only 22 percent of residents with the lowest incomes (under \$20,000) claimed to be "very satisfied" with life, versus 35 percent of those with annual incomes between \$35,000 and \$50,000, and nearly 57 percent of those with incomes above \$75,000.

The economic conditions altered by the last decade are in many ways related to the determinants of happiness. Massachusetts adults in higher income families who were employed, married, college educated, and in good to excellent health were the most likely to report being "very satisfied" with life.

MEETING THE CHALLENGE

The challenges left by the Lost Decade urgently require attention. If they are not addressed, they will only deepen. The longer workers are underutilized by the state's labor markets, the more difficult it will be for them to contribute at their full potential. By failing to provide unskilled workers with living wages, making it harder for men and women to form families, limiting the options of young workers, and geographically isolating residents from economic opportunity, the Big Divides by education, gender, and region and may sow additional inequality.

While some level of inequality may enhance growth by encouraging residents to work hard and take risks, it is likely that we are moving beyond that threshold. Additional inequality could place a tremendous drag on future economic growth by further undermining confidence in the political system, leading to the dysfunction and instability

increasingly on display in Washington.⁶ Inequality may also increase the reliance of low-income residents on debt, making us more prone to financial crises, as the recent housing debacle exemplifies.⁷ Inequality may even breed more inequality. For instance, there is some evidence that inequality reduces marriage rates by giving low-income residents the impression that they are not “marriage material.”⁸

A recovery strategy to keep the Lost Decade’s legacies from putting downward pressure on future growth will require additional public resources. This places leaders in a difficult position. As state revenues return, they will be needed to restore critical budget line items. In the absence of an unexpectedly strong near-term recovery in state housing markets, the Commonwealth’s cities and towns will require significant state assistance to forestall additional layoffs of the teachers, police officers, and firefighters that we can ill afford to lose. At the same time, Massachusetts must also take fiscally prudent steps to build up its reserves to provide a buffer to fall back on during the next economic cycle.

With these competing demands, state leaders must deploy new revenues strategically. Responses aimed at addressing the Lost Decade’s challenges should be narrowly tailored to efficiently address the most pressing labor market problems. What we lack in resources, we can make up for with brawn, experimenting with new approaches and reforming systems and institutions to most effectively create economic opportunity for residents our Commonwealth.

Efforts to bring the younger generation, and young men in particular, into the workforce should be high atop the list of priorities. Without action, the limited work experience of these youth will adversely affect their employability and lifetime earnings. Massachusetts has already developed strong models, such as the Connecting Activities program.⁹

Employment efforts should be matched

with programs to support learning and break the Education/Economic Development Paradox. As the economy demands higher and higher cognitive skills, our current approach to the transition between high school and post-secondary training will need to adjust accordingly. Some students will require additional time to master basic skills, and this means flexibility. Innovations, such as the virtual learning academies advanced by the Pioneer Institute, provide new opportunities to marry employment programs like Connecting Activities with nontraditional educational support many students will need to further their careers.¹⁰

WHAT WE LACK IN DOLLARS, WE CAN MAKE UP FOR WITH BRAWN.

For those who have already left our high schools, it is imperative that the state develop a variety of approaches to integrate efforts between the adult basic education system, the community college system, and the state’s workforce development system to allow adults to receive the needed combination of services and bolster their employability and earnings. With a recent report, The Boston Foundation infused energy and ideas into this perennial problem.¹¹ Their recommendations merit heightened focus today given the difficult challenges before us.

With the economy rapidly changing the needs of employers, Massachusetts needs post-secondary institutions that can keep pace. As MassINC and others have argued, they must also do more to help students make informed choices in an increasingly complex higher education marketplace.¹²

While the state’s ability to address the problem of income inequality directly are rather limited, there are some strategies that should be considered. Tax code changes that give companies incentive to adopt compensation systems that connect employee earnings to firm performance

is one idea. Profit sharing is common for senior executives. Evidence suggests that companies that extend these same incentives to employees throughout their business are more successful.¹³

High-quality subsidized childcare is one logical way to aid families at the bottom of the income distribution without distorting the incentive to engage fully in the workforce. Childcare allows low-wage workers to hold jobs and/or continue their education and training. By supporting their children at a critical learning state, high-quality childcare helps the future generation excel, provides long-term returns to the public.¹⁴

In addition to these specific items, job creation must be strengthened more generally. The work of the current Massachusetts Jobs Commission will provide further policy guidance in this area, identifying priorities and providing tangible strategies to achieve them.

At the federal level, provisions of the pro-

posed American Jobs Act of 2011 that independent economists generally see as efficient and appropriate should be enacted. These include targeted infrastructure spending, tax credits to support the hiring of teens, young adults, and the long-term unemployed, and the extension of payroll tax cuts for workers to boost their ability to consume additional goods and services and increase the demand for output.

With the economy seemingly rebounding, some will question the need for dramatic policy change. However, survey data continue to make plain the urgency the public feels for action and change. This report provides state leaders with a detailed look at the state's needs and a few suggestions for how they can be met. In the coming months, with additional research, analysis, and civic convening, MassINC will continue to support civic dialogue around these important challenges.

Endnotes

- 1 See Debbie Borie-Holtz, Carl Van Horn, and Cliff Zukin, "No End in Sight: The Agony of Prolonged Unemployment" (New Brunswick, NJ: John J. Heldrich Center for Workforce Development, 2010).
- 2 For example, see Kathryn Edin, "What Do Low-Income Single Mothers Say about Marriage?" *Social Problems* 47(1) (2000).
- 3 See Thomas DeLeive and Leonard Lopoo, "Family Structure and the Economic Mobility of Children" (Washington, DC: Pew Charitable Trust, 2010).
- 4 Andrew Sum, "Getting to the Finish Line: College Enrollment and Graduation," (Boston, MA: Boston Private Industry Council, 2008).
- 5 See Andrew Berg, Jonathan Ostry, and Jeromin Zettelmeyer, "What Makes Growth Sustained?" forthcoming in *Journal of Development Economics*.
- 6 Tara Watson and Sara McLanahan, "Marriage Meets the Joneses: Relative Income, Identity, and Marital Status," Working Paper No. 14773 (Cambridge, MA: NBER, 2009).
- 7 Berg, Ostry, and Zettelmeyer (forthcoming).
- 8 Tara Watson and Sara McLanahan, "Marriage Meets the Joneses: Relative Income, Identity, and Marital Status," Working Paper No. 14773 (Cambridge, MA: NBER, 2009).
- 9 For more on Connecting Activities, see Keith Westrich and Jennifer Leonard, "Connecting Activities: Making the Workplace a Learning Place" (Boston, MA: MA Department of Elementary and Secondary Education, 2008).
- 10 For more on the potential of virtual schools and their status in Massachusetts, see William Donovan, "Virtual Schools, Actual Learning" (Boston, MA: Pioneer Institute, 2011).
- 11 Julian Alssid, Melissa Goldberg and John Schneider, "The Case for Community Colleges: Aligning Higher Education and Workforce Needs in Massachusetts" (Boston, MA: The Boston Foundation, 2011).
- 12 For example, see C. Anthony Broh and Dana Ansel, "Planning for College: A Consumer Approach to the Higher Education Marketplace," (Boston, MA: MassINC, 2010).
- 13 Frank Levy and Tom Kochan, "Addressing the Problem of Stagnant Wages" (Champaign, IL: Employment Policy Research Network, 2011).
- 14 For example, see Julia Isaacs, "Cost-Effective Investments in Children" (Washington, DC: Brookings Institution, 2007).