Kansas Action for Children

After the Great Recession

The State of Working Kansas





FISCAL FOCUS
Budget and Tax Policy in Perspective

PLAINTIFFS'
EX. 171

INTRODUCTION

Kansas families are worried about the future. Their concerns are grounded in the experience of two recessions in the past decade – including the deepest economic downturn since the Great Depression – and the weak recoveries that have followed.

How do we restore the American promise of a strong middle-class? One of the lessons of the 2007-2009 recession is that wrong priorities have had bad consequences, and when businesses, governments or individuals do not consider the long-term effects of their actions there is great potential to end up in crisis. More than ever, it is critical to make decisions based on carefully planned priorities that will best position Kansas communities for a prosperous future.

Good planning begins by examining the data. The following report reviews what we know about how the past two recessions affected working families across Kansas, focusing on job, employment and wage trends in the last decade. Among its findings:

- The economic recovery that followed the 2001 recession was the weakest since World War II. Employment dropped for two years after the recession had officially ended, not returning to pre-recession levels until 2006. The unemployment rate never dropped to the pre-recession level.
- The Great Recession began in December 2007 and officially ended in June 2009. Measured by its length and the drop in economic activity, it was the deepest recession since WW II. During the recession,
    - 46,000 jobs were lost in one year, the largest year-to-year loss in over 60 years.
    - The annual unemployment rate in 2009 reached 6.7 percent, the highest rate in over 30 years. At one point, 122,000 Kansans were unemployed.
    - Median hourly wages declined, extending a 30-year pattern of relatively flat or stagnant wages for most workers in spite of continued productivity increases. Adjusted for inflation, median wage workers were only earning 5.8 percent more an hour in 2009 than in 1979. In contrast, very high wage workers earned 27 percent more an hour in 2009 compared to 1979.
- Higher levels of education continue to be one of the best protections from unemployment. The unemployment rate in 2009 among persons with only a high school education was more than twice that of persons with a college degree.

Faced with the prospects of another slow recovery, we need to ask what are proven long-term strategies for increasing economic opportunity for families? The evidence underscores the value of policies that help maximize the talent and productivity of Kansas workers.



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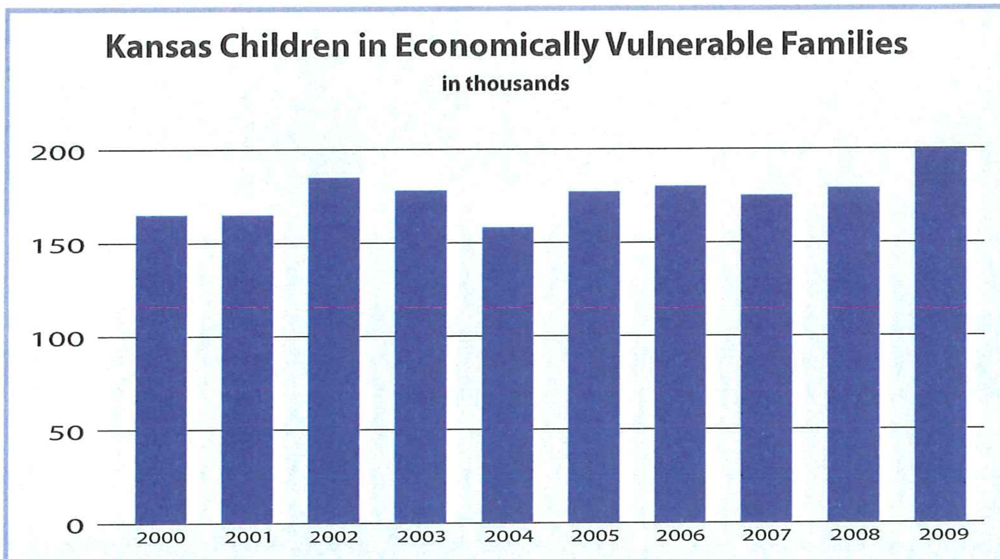
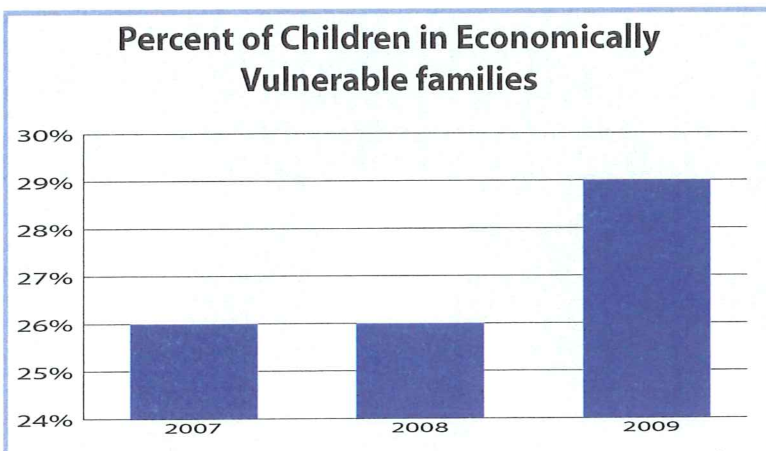
FAMILIES ON THE EDGE

Over the course of the first decade of the 21st century the number of Kansas children living in families that struggle to make ends meet has been climbing. In 2000, 165,000 children were part of economically vulnerable families.[1] And, by 2009 that number had grown to 200,000 a 21 percent increase.



Data Source: KIDS COUNT Data Center, Population Reference Bureau analysis of data from the U.S. Census Bureau.

Put in context of all Kansas children these numbers are startling, because what they tell us is that in the last year of the 2007-2009 recession almost three out of ten children lived in economically vulnerable families.



Data Source: KIDS COUNT Data Center, Population Reference Bureau analysis of data from the U.S. Census Bureau.

What explains the growth in the number of economically vulnerable families since 2000, and what can we do about it? Put simply, the decade has not been good financially for most families. To develop strategies to increase economic opportunities for all families we need to begin by understanding the impact of the recent recession, and the decade that preceded it.

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BEFORE THE GREAT RECESSION

The recession that officially began in December 2007 and ended in June 2009 has been called the Great Recession in recognition of its wrenching economic effects.

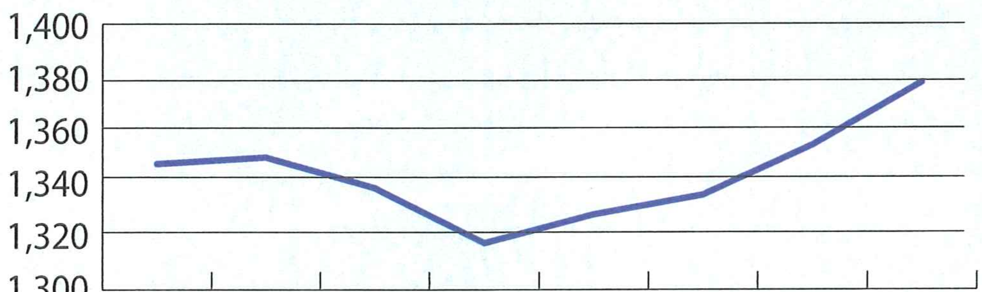
To fully grasp the impact of the Great Recession on communities and families, it is important to comprehend that the worst economic downturn since WW II was preceded by the weakest economic recovery in the postwar period.

Since World War II and prior to the Great Recession, the United States experienced 10 recessions. The shortest of those recessions lasted six months, the longest 16; overall they averaged 10 1/2 months. The Great Recession lasted 18 months.[2] Measured by its length and the drop in economic activity, it was the deepest recession since WWII.[3]

The first recession of the 21st century occurred in 2001, beginning in March and ending in November of that year. The business cycle that followed the 2001 recession and ended with the start of the Great Recession was the nation's weakest economic expansion since World War II, with Gross Domestic Product growing 40 percent slower than the average for the 10 expansions since 1949.[4]

Data on Kansas employment and unemployment over the business cycle illustrates how anemic the 2001-2007 recovery was. In the two years following the end of the recession, non-farm employment continued to drop. The job picture began improving in 2004, but it was not until 2006 that employment reached pre-recession levels.

Kansas Non-farm Employment 2001-2007 Business Cycle
(in thousands, not seasonally adjusted)



	2000	2001	2002	2003	2004	2005	2006	2007
Total Non-farm	1,346.1	1,348.8	1,336.1	1,313.2	1,325	1,333.1	1,353.8	1,380

Source: Economic Policy Institute analysis of Current Employment Statistics survey data.

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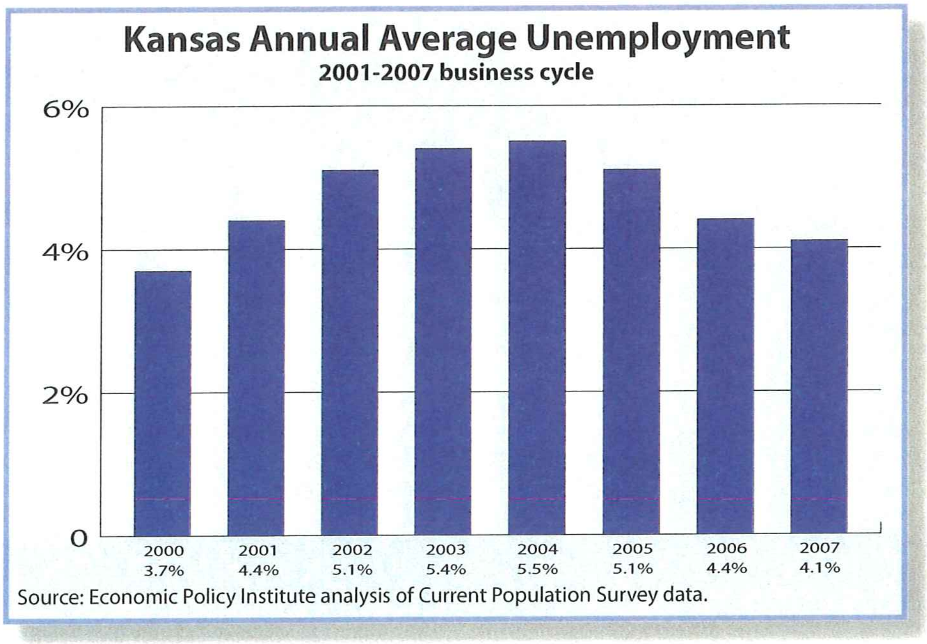
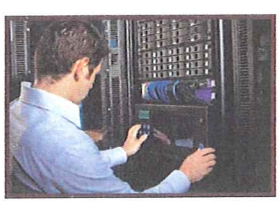


Unemployment likewise increased in 2002, 2003 and 2004. And, while it declined in the years leading up to the Great Recession it never dropped to the 2000 level of 3.7 percent. The lowest annual unemployment since the 2001 recession was in 2007, when it averaged 4.1 percent.

The weakness of the 2001-2007 economic expansion meant that Kansas communities and tens of thousands of workers who had been unemployed or underemployed during much of the business cycle had barely two or three years before the Great Recession to regain their economic footing – an experience similar to being hit by a blizzard before having a chance to fully dig out of the last severe winter storm.

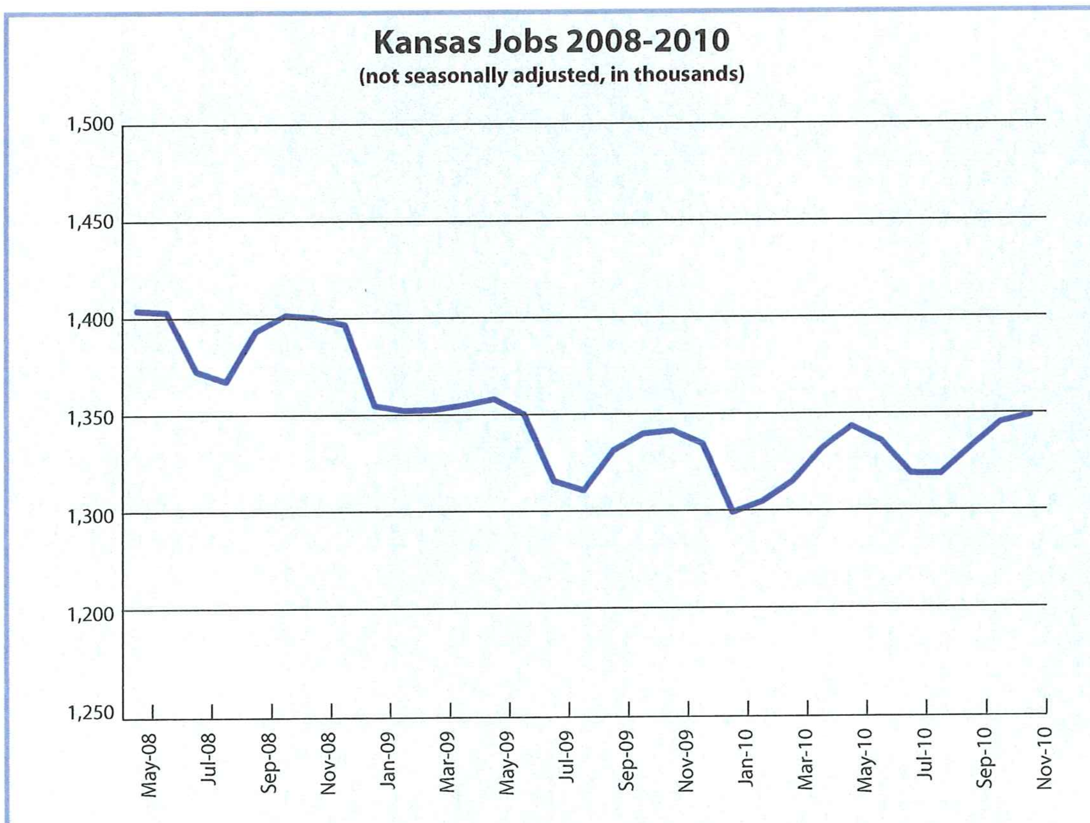


THE GREAT RECESSION

The Great Recession significantly impacted the Kansas economy. In fact, in just one year, 46,000 jobs were lost. Additionally, during this time, the unemployment rate reached a 30-year high and median wages dropped.

Job Losses

While the Great Recession officially began in December 2007, Kansas did not experience major job losses until 2009. There were 46,000 fewer jobs in 2009 than in 2008 - a 3.3 percent decline and the largest year-to-year job loss since 1946.[5] While the number of jobs continued to decline in 2010, dropping by 13,400 compared to 2009, there was modest job growth in the fourth quarter, an indication that the Kansas economic free-fall may have touched bottom.



Source: Economic Policy Institute analysis of Current Employment Statistics survey data; Kansas Department of Labor.

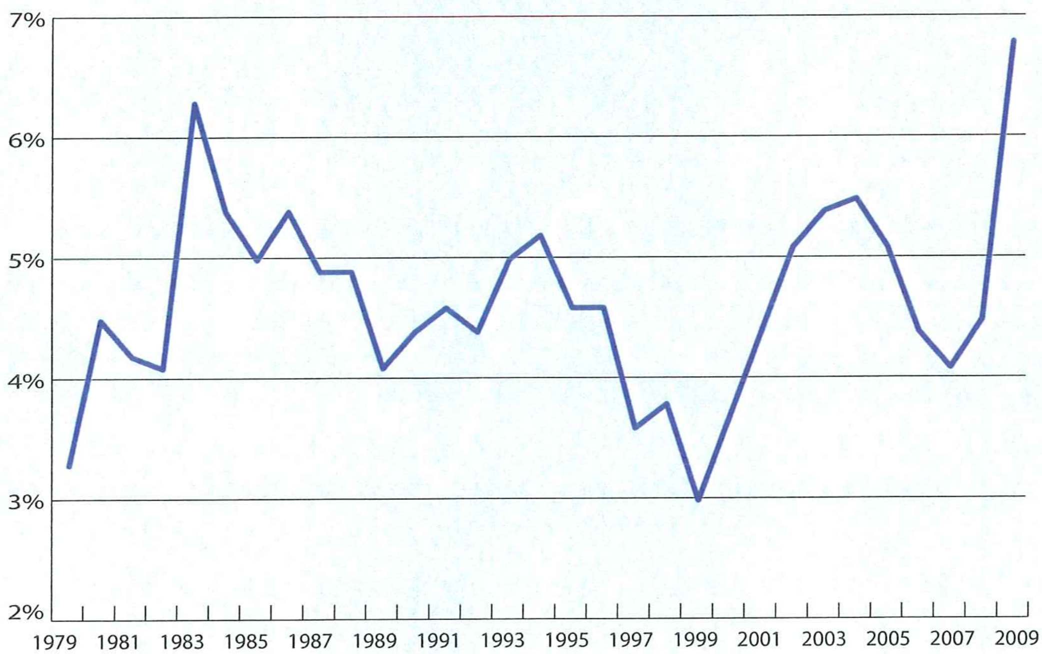
Around 75 percent of total job loss between 2008 and 2009 came from three sectors: manufacturing lost 19,600 jobs (10.5 percent drop); professional and business services lost 8,900 jobs (6 percent drop); and construction lost 6,400 jobs (10 percent drop).[6]

High Unemployment

Over the span of the Great Recession the annual Kansas unemployment rate climbed from 4.1 percent in 2007 to 6.7 percent in 2009, when almost 102,000 Kansans who wanted to work were not able to do so. The highest monthly unemployment occurred in July 2009, when over 122,000 Kansans were unemployed and the rate reached 7.9 percent.

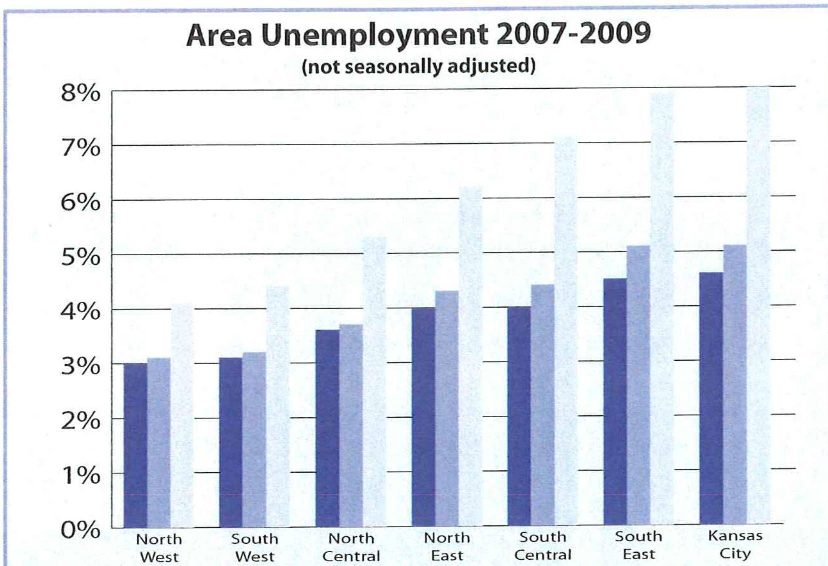
The annual unemployment rate of 6.7 percent persisted through 2010. The unemployment rate in 2009 and 2010 was the highest in the 33 years of data available through the Kansas Department of Labor. During that period, 1982 was the only year when the unemployment rate of 6.5 percent came close to the level of the Great Recession.

Annual Unemployment 1979-2009



Source: Economic Policy Institute analysis of Current Population Survey data.

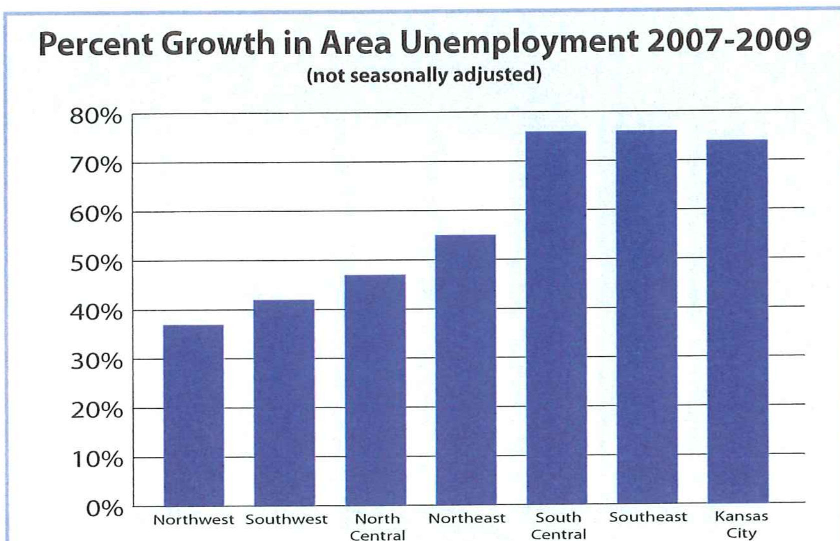
Unemployment was a much bigger problem in some areas of the state than others, with unemployment during the Great Recession generally reaching higher levels as you move across the state from west to east. Western Kansas entered the recession with a lower unemployment rate than eastern and southeastern Kansas, and over the course of the recession unemployment increased much less in western Kansas than in eastern and southeastern Kansas.



	North West	South West	North Central	North East	South Central	South East	Kansas City
2007	3%	3.10%	3.60%	4%	4%	4.50%	4.60%
2008	3.10%	3.20%	3.70%	4.30%	4.40%	5.10%	5.10%
2009	4.10%	4.40%	5.30%	6.20%	7.10%	7.90%	8%

Source: Kansas Department of Labor.

Northwest and southeast Kansas illustrate the difference. The northwest area entered the recession in 2007 with the lowest unemployment rate in the state, 3 percent. By 2009 the northwest unemployment rate reached 4.1 percent, a 37 percent increase over 2007. In contrast, the southeast area's unemployment rate in 2007 was 4.5 percent and climbed to 7.9 percent in 2009, a 76 percent increase.

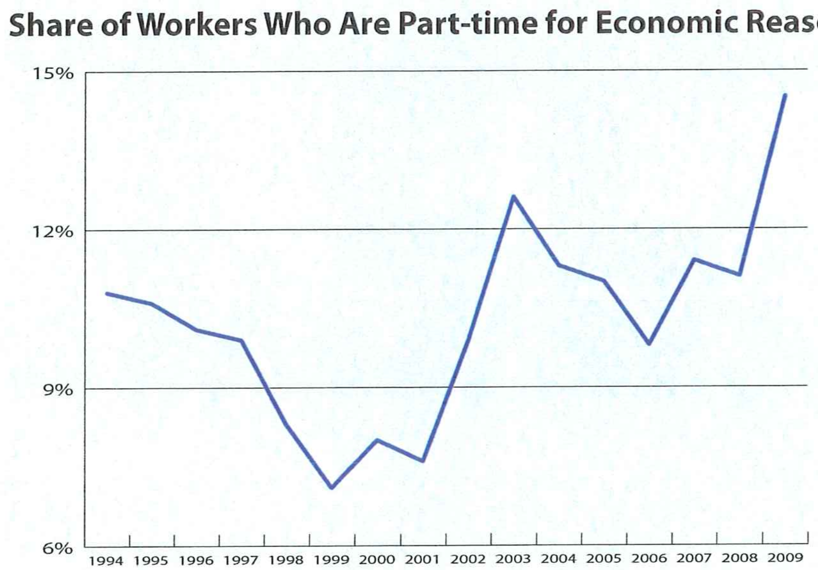


Source: Author's analysis of Kansas Department of Labor data.

Underemployment

The official unemployment rate paints only a partial picture of the employment needs of Kansas workers. Economists also focus on a broader measure of the slack in the labor market that includes workers that are working part-time but want to work full-time, and workers who are "marginally attached." A marginally attached worker is somebody that is able to work, but has become discouraged by their lack of success in finding full-time employment.

The share of workers employed part-time for economic reasons[7] – sometimes referred to as involuntary part-time workers – increased markedly during the Great Recession, climbing from 9.8 percent in 2006 to 14.5 percent in 2009, the highest rate since 1994.



Source: Economic Policy Institute analysis of Current Population Survey data.
Data was not collected prior to 1994.

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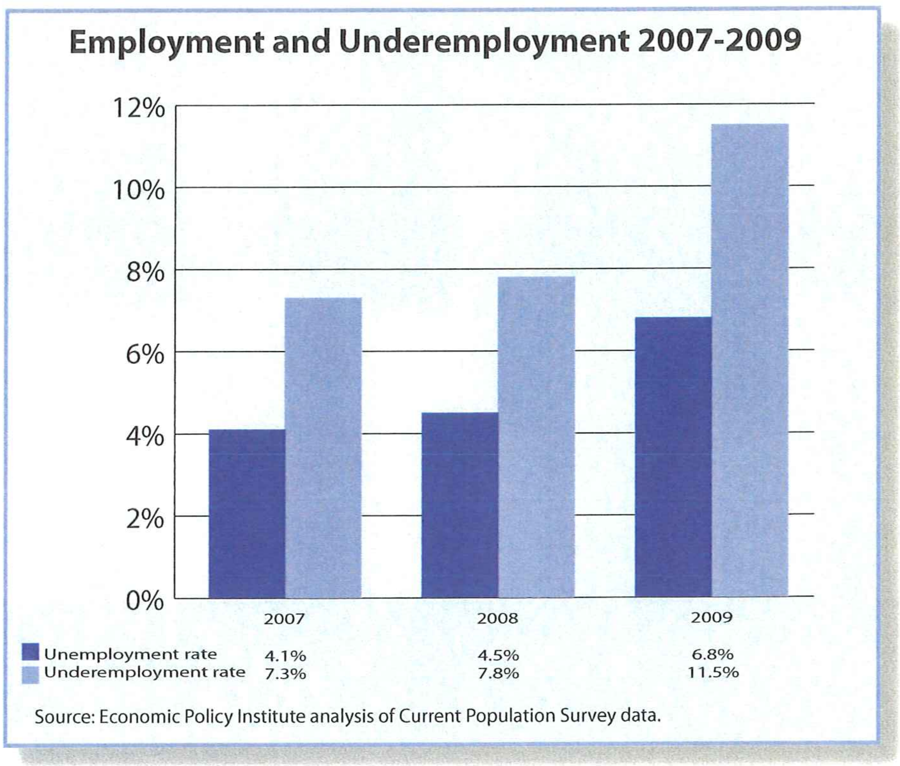
If we add marginally attached workers to those who are unemployed and those who are involuntary part-time workers, we begin to get a better picture of the extent of underemployment in Kansas. Not surprisingly, the broader measure of the underemployment rate increased in parallel to the unemployment rate during the recession, growing from 7.3 percent in 2007 to 11.5 percent in 2009.



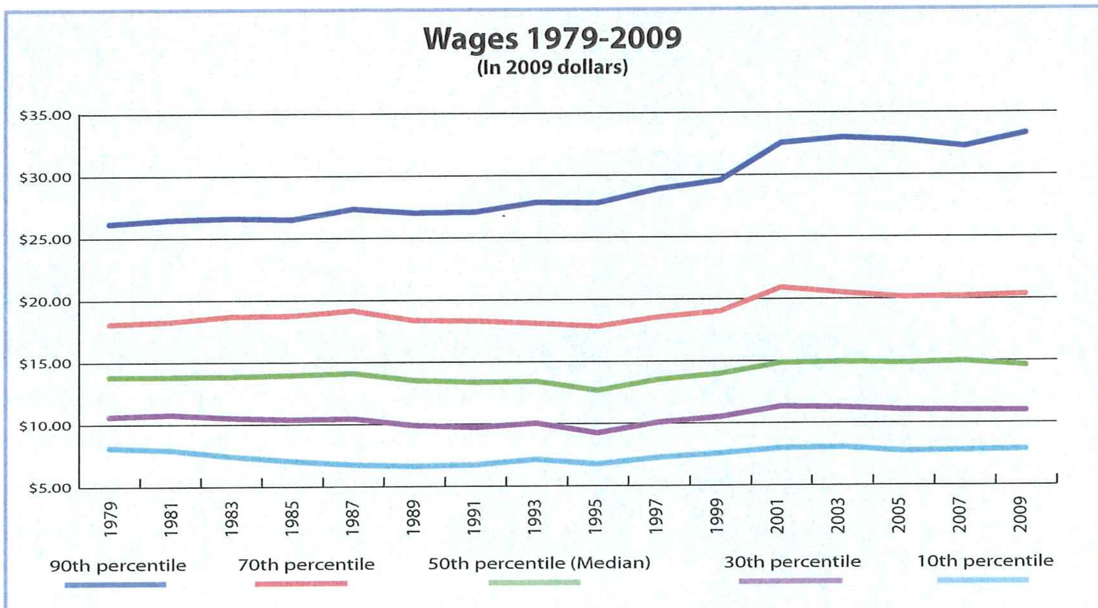


Wages

Over the past 30 years hourly wages for most Kansas workers have remained relatively flat, even though productivity has increased steadily.

For 70 percent of the workforce, wages adjusted for inflation actually declined between 1979 and 1995. The only period when median wages showed a significant increase was from 1995 to 2000.

The 2001 recession put a brake on wages for most workers, who experienced meager increases during the business cycle that followed the recession. Median wages declined again during the Great Recession, so that by 2009 median wage workers were earning only 15 cents more an hour than they were in 2000. These negligible wage increases stand in contrast to the consistent improvements in the state's productivity: between 2001 and 2009, the Kansas Gross Domestic Product grew 15.5 percent.[8]



Percentile: 70 percent of the workforce earned less than the 70th percentile wage, 30 percent earned less than the 30th percentile, etc

Source: Economic Policy Institute analysis of Current Population Survey data.

A more nuanced picture of how wage changes have impacted different groups of workers can be obtained by examining percent changes in wages over this period.

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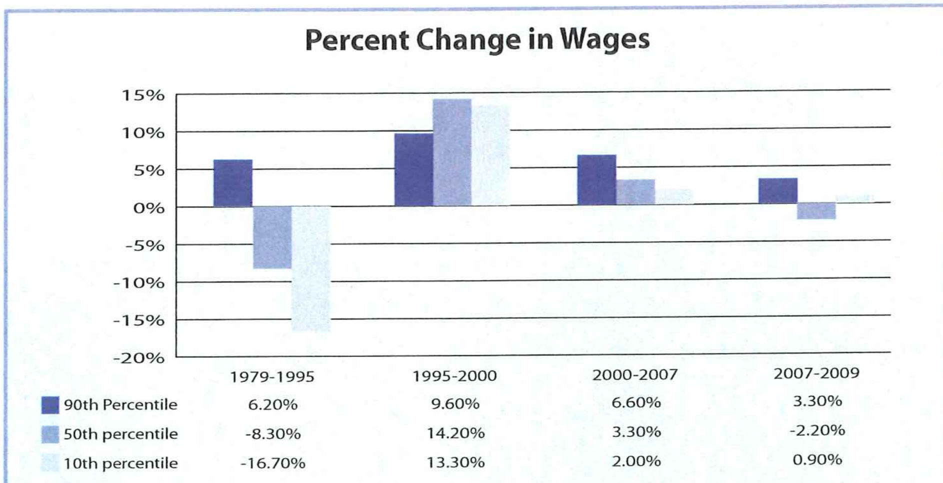
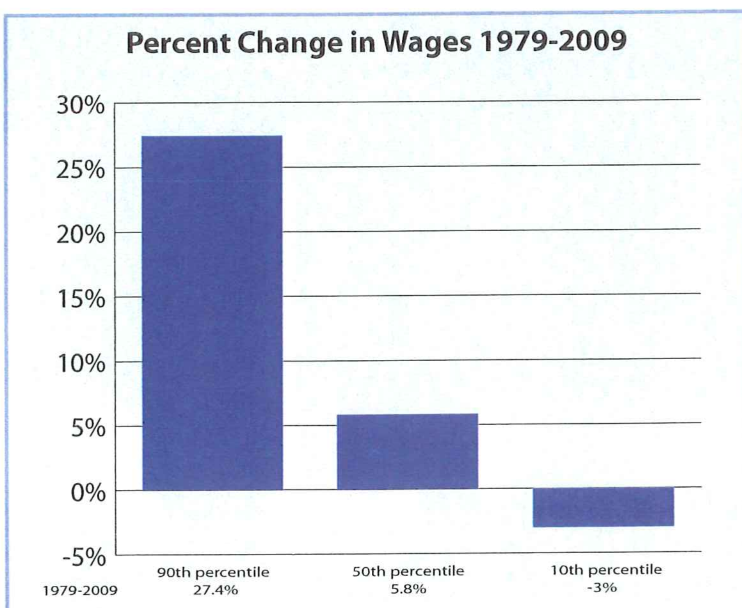


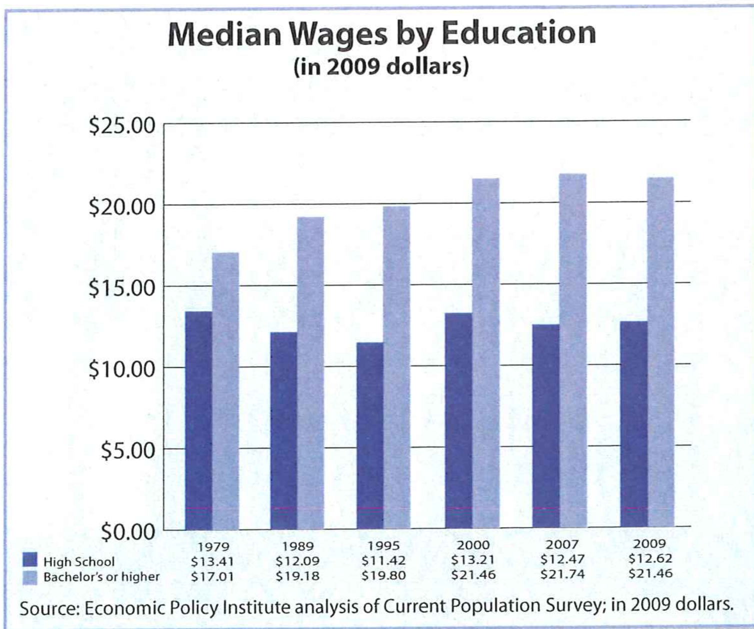
Source: Author's calculation based on Economic Policy Institute analysis of Current Population Survey data.

The only consistent winners over the past three decades were very high wage earners, whose wages increased 27 percent. In contrast, median earners experienced wage increases of 5.8 percent and wages of very low earners actually dropped.



Source: Author's calculation based on Economic Policy Institute analysis of Current Population Survey data.

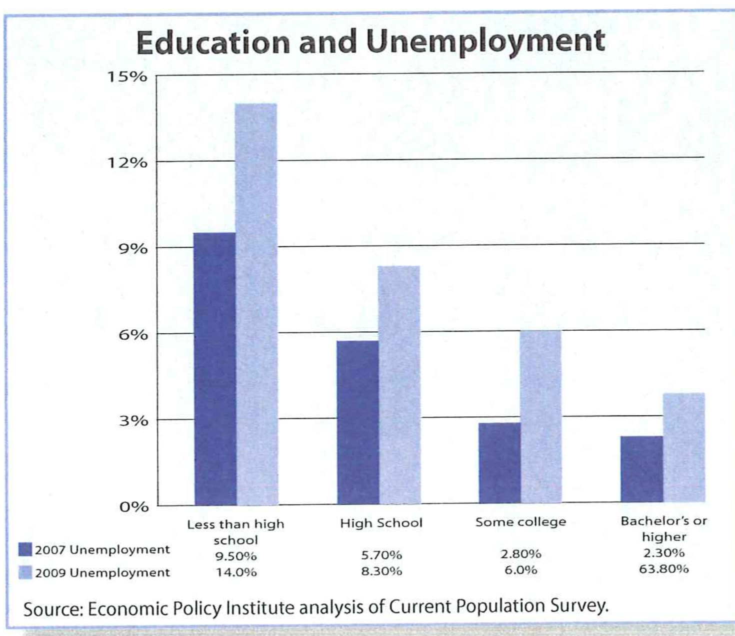
Role of Education



Source: Economic Policy Institute analysis of Current Population Survey; in 2009 dollars.

Education continues to be the single biggest predictor of economic success and stability for Kansans. In fact, from 1979 to 1995, median wages for Kansans with a college or higher degree increased by 26 percent (in 2009 dollars). During the same time, workers with only a high school diploma saw their wages drop by 6 percent. However, for both groups, wages grew during the economic expansion of the late 1990s, when, as we have seen, almost all workers benefited from wage increases. In the weak expansion that followed the 2001 recession, wages dropped 6 percent for those with high school degrees and increased 1.3 percent for those with college (or advanced) degrees.

As the data shows, wages for high school and college graduates did not diverge as much in the past 10 years as they did between 1979 and 1995. However, it continues to be the case that more education offers greater protection from unemployment.



Source: Economic Policy Institute analysis of Current Population Survey.

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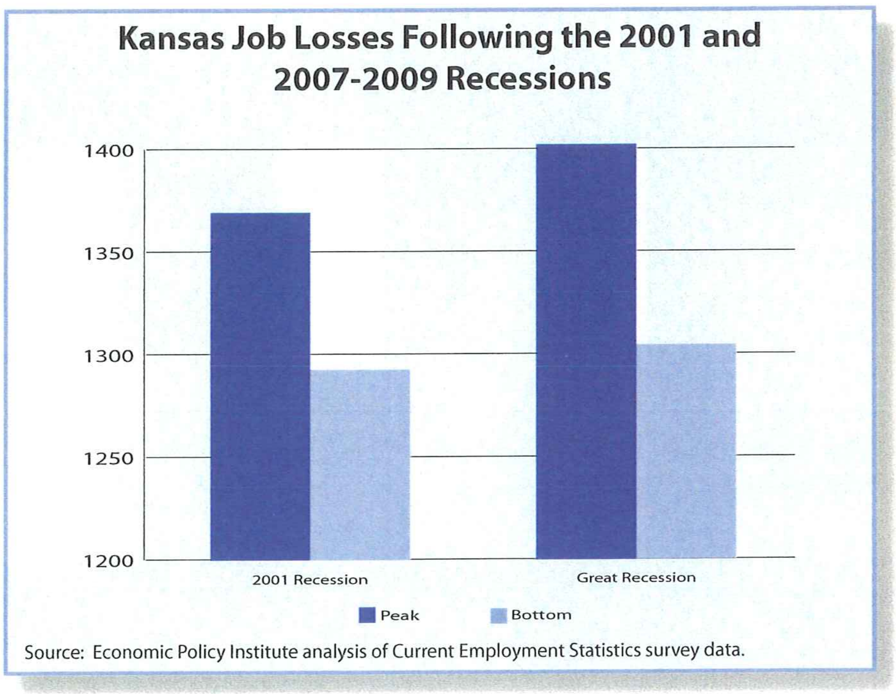
LOOKING FORWARD

In the 2001 recession, the number of jobs in Kansas began to decline steadily after June of that year and continued to drop over the next 31 months, falling from 1,366,000 in June 2001 to 1,290,000 in January 2004, a loss of 5.5 percent of jobs.[9] As we saw earlier, it would not be until 2006 that employment reached pre-recession levels.

In the Great Recession, the loss of jobs was both faster and deeper. In May 2008, there were 1,406,000 jobs. Twenty months later, in January 2010, Kansas hit the post-recession employment low point with 1,303,000 jobs, a 7.3 percent drop.



Following the 2001 recession, 76,000 jobs had to be created to recover from the low point in the number of jobs and reach pre-recession levels. To go from the low point of the Great Recession and regain the number of pre-recession jobs, 103,000 have to be created in Kansas just to reach 2008 levels.

How long will it take to reach pre-recession employment in the aftermath of the deepest recession since the Great Depression? Few questions are as urgent to communities and families who have felt the brunt of the recession.

It is quite possible that the recovery will be long and slow, with high unemployment for several years. The Congressional Budget Office (CBO) projects high levels of unemployment for 2011 and 2012, with the economy not returning close to the "natural rate of unemployment" of 5.2 percent until 2016.[10]

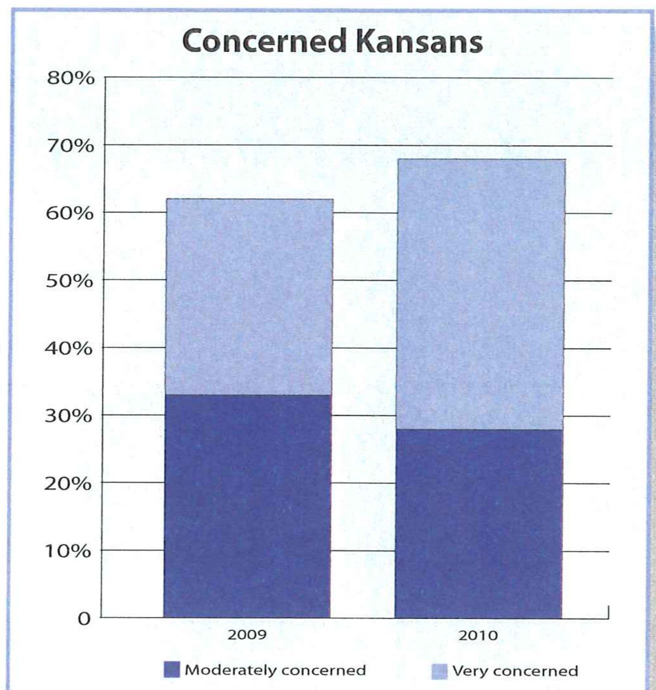
The CBO's perspective is shared by many. Summarizing the opinions of mainstream economists, a respected business reporter writes:

> "Unfortunately, fixing the job market will take years. Even if job growth accelerated to the rapid pace of the late 1990s and remained there, the unemployment rate would not fall below 6 percent (which some economists consider full employment) until 2016. We could now be in only the first half of the longest stretch of high unemployment since World War II.[11]"

These are projections for the country as a whole. While unemployment in Kansas is historically lower, the state's economy is inextricably linked to the national economy. If these projections are correct, it is realistic to expect that Kansas also faces a long road ahead before regaining full economic health.

Preparing for a More Prosperous Future

Buffeted by economic forces they feel little control over, many Kansas families are worried about their future. When asked by the Docking Institute of Public Affairs in mid-2010 how concerned respondents were that the Kansas economy would "seriously threaten" their or their families' welfare, 40 percent said they were very concerned and 28 percent said they were moderately concerned. In 2009, 29 percent had said they were very concerned and 33 percent said they were moderately concerned.[12]



Source: Docking Institute of Public Affairs

One of the lessons to be learned from the Great Recession is that wrong priorities have consequences, and that when businesses, governments or individuals don't think about the long-term effects of their actions, there is great potential to end up in crisis – in this case, a deep economic crisis. Short-term thinking, such as a business' single-minded focus on quarter-to-quarter profits instead of investing in research and development, or a family buying the latest electronic gadget instead of saving for their children's education, or lawmakers granting tax exemptions or seeking tax cuts at the risk of infrastructure investment or increasing access to education, has proven to not be good long-term strategies for prosperity.

If the wrong priorities got us into the Great Recession, what priorities can put us on a path of sustained opportunity and prosperity?

There is a lot of evidence that maximizing the talent, productivity and human capital of Americans is a proven long-term strategy. For example, the United States' commitment to mass public education helped propel the growth that made the country the world's dominant economy for much of the 20th century.[13] This national commitment benefited the economy because the population's higher level of education compared to other countries boosted productivity. It was also good for many individual workers who had the skills a growing economy needed and who benefited financially from their participation in that growth. For many American workers, more education meant greater job security and higher wages. Likewise, at the state level, there is evidence that the most effective way to improve economic performance is to focus on improving what economists call "knowledge stocks."[14]

In the past, Kansas policymakers have recognized the importance of increasing human capital. Improving access to quality early education, promoting family saving for post-secondary education, starting a business or encouraging home ownership are just a few examples of Kansas public policy that helps increase economic opportunity. Those were the right priorities then, and the right priorities now.



FOOTNOTES

1. "Economically vulnerable families" are defined as families with incomes below 150 percent of the federal poverty level. In 2009, 150 percent of the federal poverty level for a family of four was $33,075. A 2005 Kansas State University study found that the annual income needed by a family of four for a basic and very austere budget ranged from $38,676 to $43,200, depending on the age of the children (Gibbons, Jacque, and Leonard Bloomquist, "Kansas Household Self-Sufficiency Standard, 2004," Kansas State University, 2005).

2. National Bureau of Economic Research, "US Business Cycle Expansions and Contractions." http://www.nber.org/cycles/cyclesmain.html.

3. Federal Reserve Bank of Minneapolis, "The Recession and Recovery in Perspective." http://www.minneapolisfed.org/publications_papers/studies/recession_perspective/index.cfm.

4. Josh Bivens and John Irons, "A Feeble Recovery: The fundamental economic weakness of the 2001-07 expansion," Economic Policy Institute Briefing Paper #214, May 1, 2008, updated December 9, 2008. http://www.epi.org/publications/entry/bp214/.

5. Kansas Department of Labor, 2010 Kansas Economic Report.

6. Economic Policy Institute analysis of Current Employment Statistics survey data.

7. According to the Bureau of Labor Statistics, "Persons employed part time for economic reasons … are those working less than 35 hours per week who want to work full time, are available to do so, and gave an economic reason (their hours had been cut back or they were unable to find a full-time job) for working part time." Bureau of Labor Statistics, Alternative Measures of Labor Underutilization for States http://www.bls.gov/lau/stalt.htm.

8. Author's analysis of Bureau of Economic Analysis data, at http://www.bea.gov/regional/gsp/action.cfm.

9. The 2001 recession officially began in March and ended in November of that year. Because job losses are not necessarily a leading indicator of a recession, and because Kansas tends to lag the nation in experiencing the full brunt of a recession, the number of jobs can remain steady and even increase in the early months of a recession. Likewise, job gains are not a leading indicator of a recovery, and job loss can continue far past the official end of a recession. The Great Recession officially began December 2007 and ended June 2009.

10. Congressional Budget Office, "Budget and Economic Outlook: Fiscal Years 2011 Through 2021." January 26, 2011, http://cbo.gov/ftpdocs/120xx/doc12039/01-26_FY2011Outlook.pdf. CBO defines the "natural rate of unemployment" as "the rate of unemployment arising from all sources except fluctuations in aggregate demand."

11. David Leonhardt, "In wreckage of lost jobs, lost power," New York Times, January 19, 2011. http://www.nytimes.com/2011/01/19/business/economy/19leonhardt.html.

12. Docking Institute of Public Affairs, "Kansas Speaks 2010," Fort Hays State University, October 2010, found at http://www.fhsu.edu/docking/.

13. Goldin, Claudia and Lawrence Katz, The Race between Technology and Education, Harvard University Press (2008).

14. See Bauer, Paul, Mark Schweitzer and Scott Shane, "State Growth Empirics: Long-run Determinants of State Income Growth," Working Paper 06-06, Federal Reserve Bank of Cleveland, May 2006. The authors define knowledge stocks as "the accumulation of productive information in the form of education and technology" (p. 2) and conclude the paper writing that if "state policymakers want to improve their state's economic performance, then they should concentrate on effective ways to boost their stock of knowledge" (p. 35).

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