

**THE STATE OF
WORKING MASSACHUSETTS 2004**

Down But Not Out

JEFF MCLYNCH

SEPTEMBER 2004



MASSACHUSETTS

BUDGET AND POLICY CENTER

The Massachusetts Budget and Policy Center (MBPC) provides independent research and analysis of state budget and tax policies, as well as economic issues, that affect low- and moderate-income people in Massachusetts. Work on this project was supported by grants from the Ford and Charles Stewart Mott Foundations, as well as by individual donors.

THE STATE OF WORKING MASSACHUSETTS 2004

Down But Not Out

Executive Summary

On July 17, 2003, the National Bureau of Economic Research – the official arbiter of business cycles in the United States – declared that the national recession that had begun in March 2001 officially ended in November 2001. Now, more than a year since that announcement was made, Massachusetts' workers are still feeling the pain of that recession. Indeed, the aftermath of the 2001 recession has been felt more severely in the Commonwealth than nearly anywhere else – Massachusetts has witnessed one of the sharpest drops in employment in the country over the past several years and long-term unemployment is now more prevalent here than nationally. Numerous other, longer-term problems, such as stagnant wages for a significant fraction of the labor force and enduring poverty, remain to be addressed.

At the same time, though, Massachusetts continues to hold a somewhat enviable position relative to most states. The Commonwealth has the most highly educated workforce in America – no other state has a larger share of its workforce with a bachelor's degree or higher – and, not coincidentally, it also has, in the aggregate, one of the more affluent citizenries in the country – with median incomes and average hourly wages significantly above the comparable U.S. levels.

This report describes the current condition of the Massachusetts workforce. It examines trends in employment, labor force demographics, wages and incomes, and poverty, both in the wake of the 2001 recession and over the longer run. It also explores how Massachusetts fares relative to other states in these four areas. To do so, the report uses Census Bureau and other data compiled by the nonpartisan Economic Policy Institute (EPI) for its expansive *State of Working America*.

Among the report's central findings are the following:

Employment

- In 2003, non-farm employment in Massachusetts totaled 3.2 million jobs, over two-thirds of which were concentrated in five sectors: education and health services (18.0 percent of total non-farm employment), wholesale and retail trade (15.3 percent), professional and business services (13.7 percent), government (13.1 percent), and manufacturing (10.2 percent). Of note, only in Rhode Island did the health and education services sector account for a larger share of employment in 2003 than in Massachusetts; at the opposite end of the spectrum, only Nevada, where 12.4 percent of non-farm jobs were in government, had a smaller share of employment attributable to that sector in 2003 than Massachusetts did.



- Since the start of the national recession, Massachusetts has witnessed a sharper decline in employment than any other state in the country, as total non-farm employment fell 6.1 percent – or by 202,800 jobs – in the three year stretch between March 2001 and March 2004. Over the same span, only Colorado, Illinois, and Michigan, each of which saw a decrease of between four and five percent, even came close to matching Massachusetts’ experience. Total U.S. non-farm employment dropped 1.4 percent over this period – or by less than a quarter of the Massachusetts decline.
- Three sectors have been particularly hard hit by the recession. Between March 2001 and March 2004, employment in the information sector plummeted 24.1 percent; in manufacturing, it dropped 20.3 percent; and, in the business and professional services sector, it declined 14.8 percent. These losses were among the most extreme in the nation, respectively ranking third, fourth, and second worst out of the fifty states during that timeframe. For the information and business and professional services sectors, as sizable as such losses may be, they do not appear to be the continuation of a trend, as both sectors experienced employment gains over the course of the 1990s. For manufacturing, however, such losses represent just the latest phase in the prolonged contraction of the sector.
- Government employment has also fallen significantly in Massachusetts since the start of the 2001 recession; in the three years since the recession began, government in Massachusetts shed some 17,500 jobs, a drop of 4.0 percent. In fact, no other state in the nation saw government employment fall as much as Massachusetts during that period, a reflection of the billions of dollars in cuts to vital public services that the Commonwealth has used to try to address its structural budget deficit in recent years.
- Perhaps even more troubling, the loss of jobs in Massachusetts in the wake of the national recession has resulted in a degradation of job quality. According to the Economic Policy Institute, the average wage among those sectors of the Massachusetts economy that contracted between November 2001 and November 2003 (that is, those sectors whose share of the Massachusetts economy shrank) was \$58,759 (in constant 2002 dollars). In stark contrast, the average wage among expanding sectors of the Massachusetts economy was \$34,640, a difference of 41 percent.

Labor Force Demographics

- Simply put, Massachusetts has the best educated workforce in the nation. Almost two-thirds of the Commonwealth’s labor force has received some level of college education, with close to forty percent holding a bachelor’s degree or higher. By comparison, slightly less than thirty percent of the U.S. labor force has earned a bachelor’s; in fact, in 2003, Massachusetts had the highest share of any state labor force with a bachelor’s degree or higher.

- The Massachusetts workforce has also become more educated over time – in 1990, only slightly more than half of Massachusetts’ workers had engaged in collegiate study at some point in their careers. Since 1990, the Massachusetts workforce has also grown older and more racially diverse. At the start of the 1990s, roughly 82 percent of the workforce was between the ages of 24 and 55; in 2003, more than 86 percent was. At the start of the 1990s, African-Americans, Hispanics, Asians, and Pacific Islanders made up about 8 percent of the Massachusetts workforce; in 2003, they comprised nearly 15 percent.
- Different demographic groups have fared somewhat differently in the Massachusetts workforce. For instance, young workers (those aged 16 to 24), workers with a high school education or less, and workers who are African-American or Hispanic all experienced higher rates of unemployment – and underemployment – in 2003, while women and young workers were more likely to work part-time.
- Compared to their counterparts nationally, unemployed workers in Massachusetts witnessed higher rates of long-term unemployment in 2003. Almost 27 percent of unemployed workers in Massachusetts had been unemployed for more than 26 weeks in 2003; for the U.S. as a whole the figure was about 22 percent.

Incomes and Wages

- The median income for four-person families in Massachusetts was \$82,281 (in constant 2003 dollars) for the 2000-2002 period. For all households (not just four-person families) the median household income in Massachusetts was \$50,955 in 2001-2003. By both measures, Massachusetts continues to be substantially above the overall national level, ranking among the top fifth of states.
- The hourly wages earned by low-, middle-, and high-wage workers are also higher in Massachusetts than in the United States as whole. In 2003, the hourly wage for workers at the 20th percentile of the wage distribution in Massachusetts – \$9.89 – was roughly 17 percent higher than the hourly wage for workers at the same point in the distribution across the country, while the hourly wages for workers at the 50th and 80th percentiles in Massachusetts – \$16.20 and \$28.01 – were respectively 19 percent and 21 percent higher than the national marks.
- Wage growth has been extremely uneven over the past several decades, however. Hourly wages for workers at or above the 80th percentile rose quite steadily in Massachusetts between 1979 and 2003, while hourly wages for workers at or below the 20th percentile held all but constant. Between 1979 and 2003, the 80th percentile hourly wage rose from \$18.83 to \$28.01, an increase of about 1.67 percent per year. The gains for workers at the 20th percentile were less than half this amount, as their wages rose from \$8.14 to \$9.89 per hour, an increase of just 0.81 percent annually. As a result, workers at the 80th percentile in Massachusetts are now paid 2.8 times more each hour than what workers at the 20th percentile are paid, one of the largest disparities nationwide.

- Considerable inequities exist between genders as well. In 2003, the median hourly wage – that is, the 50th percentile wage – for women in Massachusetts was \$14.64 or 20 percent less than the median wage for men. This gender gap holds across the whole of the wage distribution, but has become smaller over time.

Poverty

- For the 2001-2003 period, the poverty rate in Massachusetts was 9.7 percent. As was the case across the nation, poverty was much more prevalent among children in the Commonwealth in the 2001-2003 period; for those three years, an average of 12.3 percent of Massachusetts' children lived in families with incomes below the federal poverty level.
- While poverty rates in Massachusetts are now lower than those in two-thirds of the states, the Commonwealth's performance over the last two decades has been very uneven. For example, child poverty in Massachusetts actually rose near the tail end of the 1990s economic boom, reaching 17.9 percent in 1997-1999. Moreover, while the nation experienced steady declines in poverty during the 1990s economic expansion, Massachusetts did not. Overall poverty rates in Massachusetts are higher now than they were in the late 1980s.

Introduction

On July 17, 2003, the Business Cycle Dating Committee of the National Bureau of Economic Research – the official arbiter of business cycles in the United States – issued the following statement:

The Business Cycle Dating Committee ... met yesterday. At its meeting, the committee determined that a trough in business activity occurred in the U.S. economy in November 2001. The trough marks the end of the recession that began in March 2001 and the beginning of an expansion ... In determining that a trough occurred in November 2001, the committee did not conclude that economic conditions since that month have been favorable or that the economy has returned to operating at normal capacity. Rather, the committee determined only that the recession ended and a recovery began in that month...

It has been more than a year since that announcement was made and more than thirty months since the recession itself drew to a close. Yet, Massachusetts' workers are still feeling the pain of that recession. Indeed, the Commonwealth has experienced one of the sharpest drops in employment in the nation in the two years since the recession's formal end. On net, Massachusetts has lost approximately 100,000 jobs since November 2001; as a result, after almost a decade of comparatively low unemployment, the unemployment rate in Massachusetts now rivals that for the United States as a whole, while long-term unemployment is more prevalent here than nationally.

As bleak as this outlook may seem, Massachusetts is not without its strengths, strengths that may leave the Commonwealth well positioned once a recovery does begin in earnest. For instance, the education and health services sector, one of the cornerstones of the modern U.S. economy, plays a particularly prominent role in Massachusetts. In addition, Massachusetts has the most highly educated workforce in America – no other state has a larger share of its workforce with a bachelor's degree or higher than the Commonwealth. Not surprisingly then, Massachusetts also remains one of the most affluent states in the nation, with median incomes and average hourly wages significantly above the comparable U.S. levels.

This report describes the current condition of the Massachusetts workforce. It examines trends in employment, labor force demographics, wages and incomes, and poverty, both in the wake of the 2001 recession and over the longer run. It also explores how Massachusetts fares relative to other states in these four areas. To do so, the report uses Census Bureau and other data compiled by the nonpartisan Economic Policy Institute (EPI) for its expansive *State of Working America*.



Employment

Composition of Employment by Sector

In 2003, non-farm employment in Massachusetts totaled 3,186,300 jobs, over two-thirds of which were concentrated in five sectors, as Figure 1 illustrates. The education and health services sector, which consists of private establishments that provide instruction and training, including colleges and universities, as well as private institutions that offer health care and social assistance, accounted for the largest share of employment in the Commonwealth, employing 574,800 people or 18.0 percent of the employed population.¹ The next largest share – 15.3 percent – was attributable to wholesale and retail trade, which employed 487,600 workers. Employment in the professional and business services sector, which encompasses positions ranging from lawyers, accountants, architects, engineers, and consultants to clerical, cleaning, and security personnel, amounted to 437,100 jobs or 13.7 percent of the employed population; government employed another 416,100 people or 13.1 percent. Finally, 10.2 percent of non-farm employment in Massachusetts was attributable to work in the manufacturing sector, where 326,200 people found employment in 2003.

As Figure 1 further demonstrates, the composition of employment in Massachusetts broadly resembles that for the United States as a whole. For instance, the five sectors so central to the Massachusetts economy in 2003 were equally vital nationally; they comprised 70.4 percent of all non-farm employment in the Commonwealth, while, across the country, they accounted for 68.6 percent. Similarly, the financial activities, information, and leisure and hospitality sectors together accounted for about one-fifth of employment in both Massachusetts and the United States in 2003.

Important differences do exist, however. Most notably, 18.0 percent of non-farm jobs in Massachusetts in 2003 were found in the health and education services sector; by comparison, 12.8 percent were situated in that sector nationally. More to the point, only in Rhode Island did the health and education services sector account for a larger share of employment in 2003 than in Massachusetts. In addition, while they play a comparatively smaller role within Massachusetts, the Commonwealth also has larger concentrations of employment in the financial services, professional and business services, and information sectors than the vast majority of states. The shares of employment for which these sectors accounted in Massachusetts respectively ranked sixth, eighth, and eighth out of the fifty states in 2003. At the opposite end of the spectrum, despite their prominence within the Commonwealth's economy, the concentration of employment in wholesale and retail trade in Massachusetts ranked 40th in the country, while Massachusetts had the next to smallest share of employment attributable to government out of the fifty states. Only Nevada, where 12.4 percent of non-farm jobs were in government, had a smaller share of employment attributable to that sector in 2003.

¹ Of the total number of people employed in the education and health services sector, 425,500 (or 74 percent) work in jobs classified as health care and social assistance, while the remaining 149,300 people (26 percent) work in jobs categorized as educational services.

Figure 1.

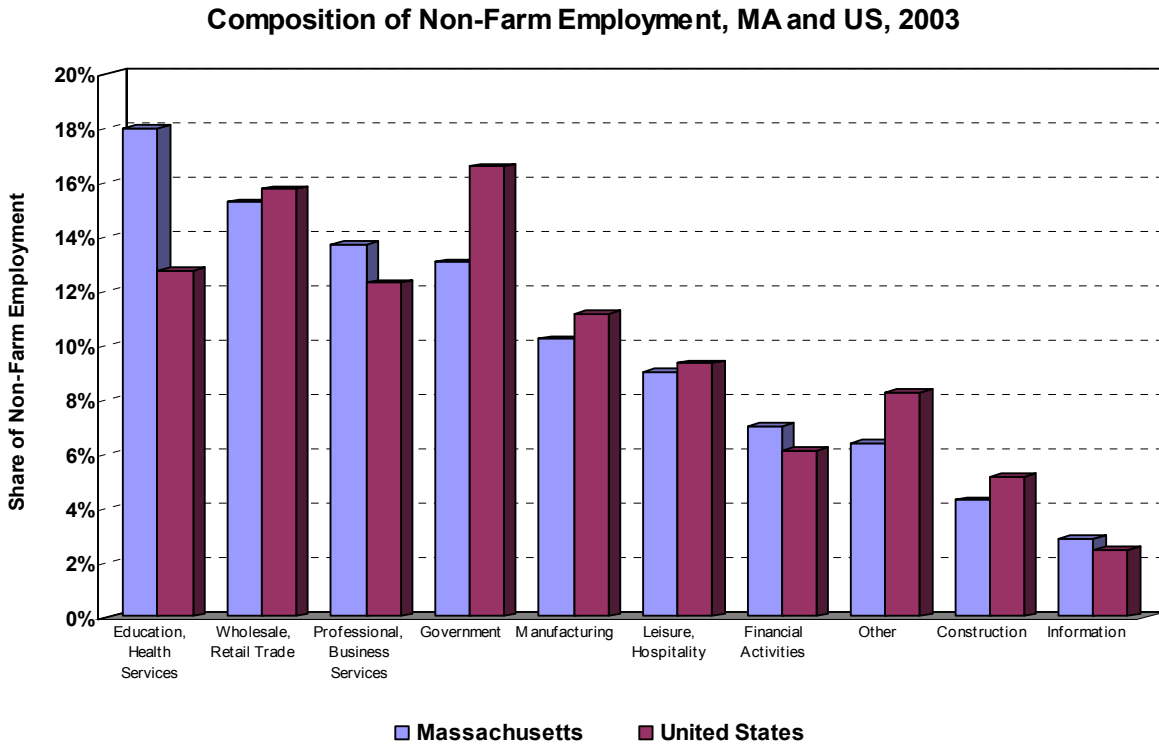
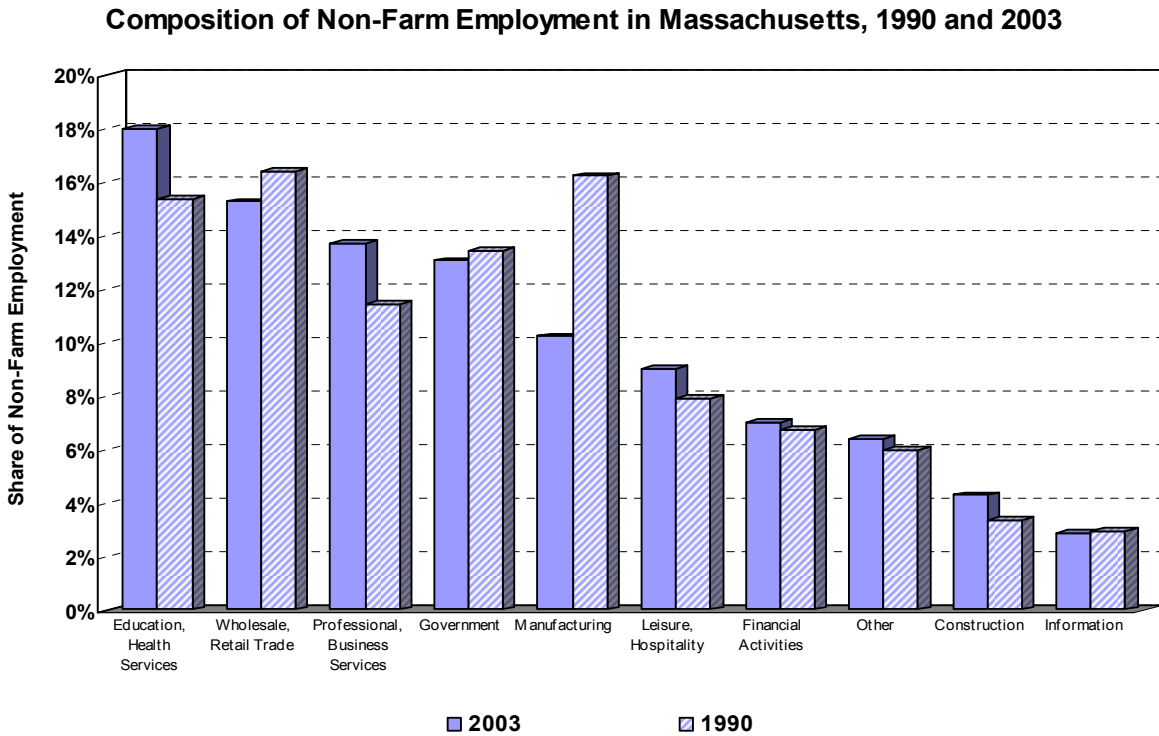


Figure 2.



Just as the Massachusetts of today is different from the other forty-nine states, it is also different from the Massachusetts of some 14 years ago, as Figure 2 suggests. In particular, in 1990, manufacturing employment comprised 16.3 percent of total non-farm employment in the Commonwealth, but, in 2003, it amounted to just 10.2 percent. Moreover, manufacturing's decline as a share of employment is not strictly a function of growth in other sectors. Rather, despite repeated attempts to use tax policy to boost manufacturing employment during the 1990s, total manufacturing employment fell over the 1990 through 2003 period, from 485,700 jobs to 326,200 jobs. In contrast, employment in both the education and health services and the professional and business services sectors grew substantially during that time frame – by 115,700 jobs and 94,700 jobs respectively – which, in turn, helped to increase their respective shares of total non-farm employment in the Commonwealth. Education and health services employment grew from 11.5 percent of total non-farm employment in Massachusetts in 1990 to 18.0 percent in 2003, while professional and business services rose from 11.5 percent to 13.7 percent.

Employment Trends Since 2001

The Massachusetts economy may bear some resemblance to the larger, national economy in kind, but their experiences since 2001 have been markedly different in degree. Simply put, since the start of the national recession, Massachusetts has witnessed a sharper decline in employment than any other state in the country, as total non-farm employment fell 6.1 percent – or by 202,800 jobs – in the three year stretch between March 2001 and March 2004. Over the same span, only Colorado, Illinois, and Michigan, each of which saw a decrease of between four and five percent, even came close to matching Massachusetts' experience. Total U.S. non-farm employment dropped 1.4 percent over this period – or by less than a quarter of the Massachusetts decline.

Similarly, Massachusetts' difficulties in struggling to recover from the 2001 recession have been surpassed by just one other state. Even once the recession ended, Massachusetts continued to lose jobs at a brisk pace, as non-farm employment fell from 3.31 million in November 2001 to 3.20 million in November 2003, a decline of 3.3 percent. Only in Oklahoma was the fall-off steeper – 3.9 percent. By comparison, total non-farm employment for the United States as a whole declined just 0.6 percent in the two years after the recession's end, while 23 states enjoyed some measure of job growth.

Within Massachusetts, three sectors have been particularly hard hit, both since the start of the recession and in its aftermath. Specifically, between March 2001 and March 2004, employment in the information sector plummeted 24.1 percent (or by 27,900 jobs); in manufacturing, it dropped 20.3 percent (81,800 jobs); and, in the business and professional services sector, it declined 14.8 percent (72,800 jobs). These losses were among the most extreme in the nation, respectively ranking third, fourth, and second worst out of the fifty states during that timeframe. Likewise, over the November 2001 to November 2003 period, these three sectors experienced employment drops of 14.9 percent (15,700 jobs), 12.7 percent (47,100 jobs), and 7.0 percent (32,800 jobs), again placing Massachusetts near the bottom in terms of each sector's recovery from the recession. The Commonwealth had the fifth, fifth, and second worst changes in

employment in these areas since the recession's end. For the information and business and professional services sectors, as sizable as such losses may be, they do not appear to be the continuation of a trend, as both sectors experienced employment gains over the course of the 1990s. For manufacturing, however, such losses represent just the latest phase in the prolonged contraction of the sector. Lost information and professional service jobs may return once the national economy begins to grow in a sustained fashion, but lost manufacturing jobs appear to be gone for good, if history is any guide.

In addition, two other key sectors of the Massachusetts economy – financial activities and education and health services – have also lagged behind their counterparts in other states during the nation's fitful recovery from the 2001 recession. Employment in the latter sector did grow between November 2001 and November 2003 – by 3.3 percent – but that expansion was the sixth smallest nationwide, while employment in the former sector fell 3.7 percent, making Massachusetts the worst performing state in terms of financial activities employment during the recovery.

Of note, government employment has also fallen significantly in Massachusetts since the start of the 2001 recession. Between March 2001 and March 2004, government in Massachusetts shed some 17,500 jobs, a drop of 4.0 percent. In fact, no other state in the nation saw government employment fall as much as Massachusetts during that period, a reflection of the billions of dollars in cuts to vital public services that the Commonwealth has used to try to address its structural budget deficit in recent years.

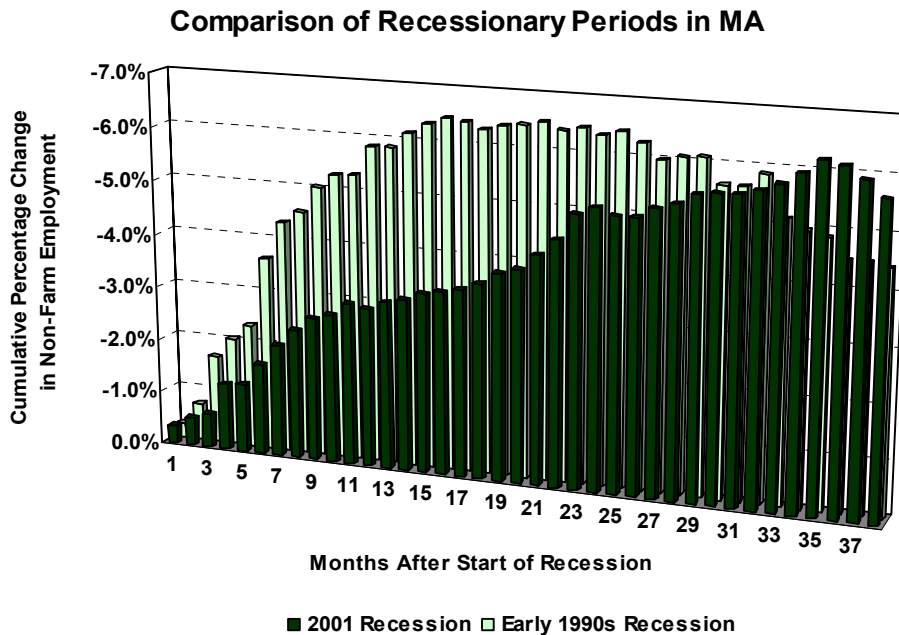
Perhaps even more troubling, the loss of jobs in Massachusetts in the wake of the national recession has resulted in a degradation of job quality. According to the Economic Policy Institute, the average wage among those sectors of the Massachusetts economy that contracted between November 2001 and November 2003 (that is, those sectors whose share of the Massachusetts economy shrank) was \$58,759 (in constant 2002 dollars). For instance, the average annual pay in the information and professional and business services sectors – both of which were especially affected by the recession – was \$66,463 and \$57,109 respectively. In stark contrast, the average wage among expanding sectors of the Massachusetts economy was \$34,640, a difference of 41 percent. Among those sectors with particularly low pay that gained in employment share during that two year stretch were the leisure and hospitality and the retail trade sectors, which respectively paid \$18,142 and \$25,189 per year on average. In other words, to the extent that lost jobs are being replaced in Massachusetts, they are being replaced by much lower-paying positions.²

² Economic Policy Institute, *Economic Snapshots: Jobs shift from higher-paying to lower-paying industries*, January 21, 2004, available at http://www.epinet.org/content.cfm/webfeatures_snapshots_archive_01212004.

Employment Trends for Recessions Past and Present

The 2001 recession has had a distinctly different effect on employment in Massachusetts than the recession of the early 1990s, as Figure 3 below makes clear. During the early 1990s recession – which, according to the National Bureau of Economic Research, lasted from July 1990 to March 1991 – employment losses in Massachusetts peaked less than one year from the end of the recession – at 6.5 percent in April 1992.³ Employment losses – that is, the percentage reduction in total non-farm employment in Massachusetts – also remained near that level for a fairly significant stretch; from September 1991 to December 1992, employment losses hovered at or above 6.0 percent. In marked contrast, employment losses associated with the most recent recession did not reach their peak of 6.3 percent until February 2004 – close to three years after the start of the recession in March 2001 and a full 27 months after the recession’s official close in November 2001.

Figure 3.



³ All data in this subsection and in Figure 3 are seasonally adjusted; all other employment figures cited in this section are non-seasonally adjusted.

Labor Force

Labor Force Demographics

Of course, the state of working Massachusetts is not defined simply by the type and number of jobs available in the Commonwealth. It is defined much more by the people who hold those jobs and by those who are struggling to find gainful employment once again. Figure 4 below illustrates the demographic make-up of the Massachusetts labor force through four measures – gender, age, race and ethnicity, and educational background. It also compares the demographic characteristics for the Massachusetts labor force to those for the United States of a whole.

Several features stand out. Most notable is the proportion of Massachusetts' workers who have attended college at some point in their lives. Almost two-thirds of the Commonwealth's labor force has received some level of college education, with close to forty percent holding a bachelor's degree or higher. By comparison, slightly less than thirty percent of the U.S. labor force has earned a bachelor's; in fact, in 2003, Massachusetts had the highest share of any state labor force with a bachelor's degree or higher. A likely related feature is the age profile of the Massachusetts labor force. Specifically, the percentage of workers in Massachusetts between the ages of 16 and 24 was somewhat smaller than the national level in 2003 and was among roughly the lower fifth of all states. This may, in turn, be a side effect of the relatively high educational attainment of the Massachusetts workforce as a whole. If workers find that they need a college degree to compete successfully in the Massachusetts labor force, then it would make sense that the age range during which most people earn a degree is underrepresented.

Figure 4.

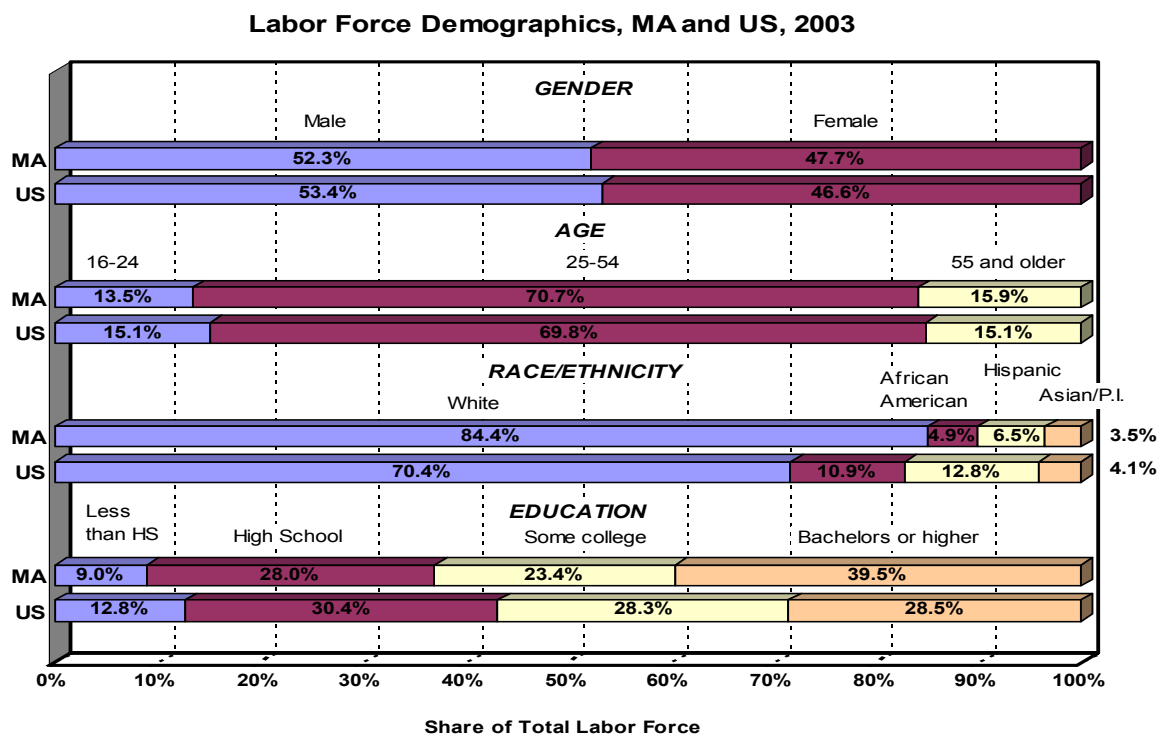
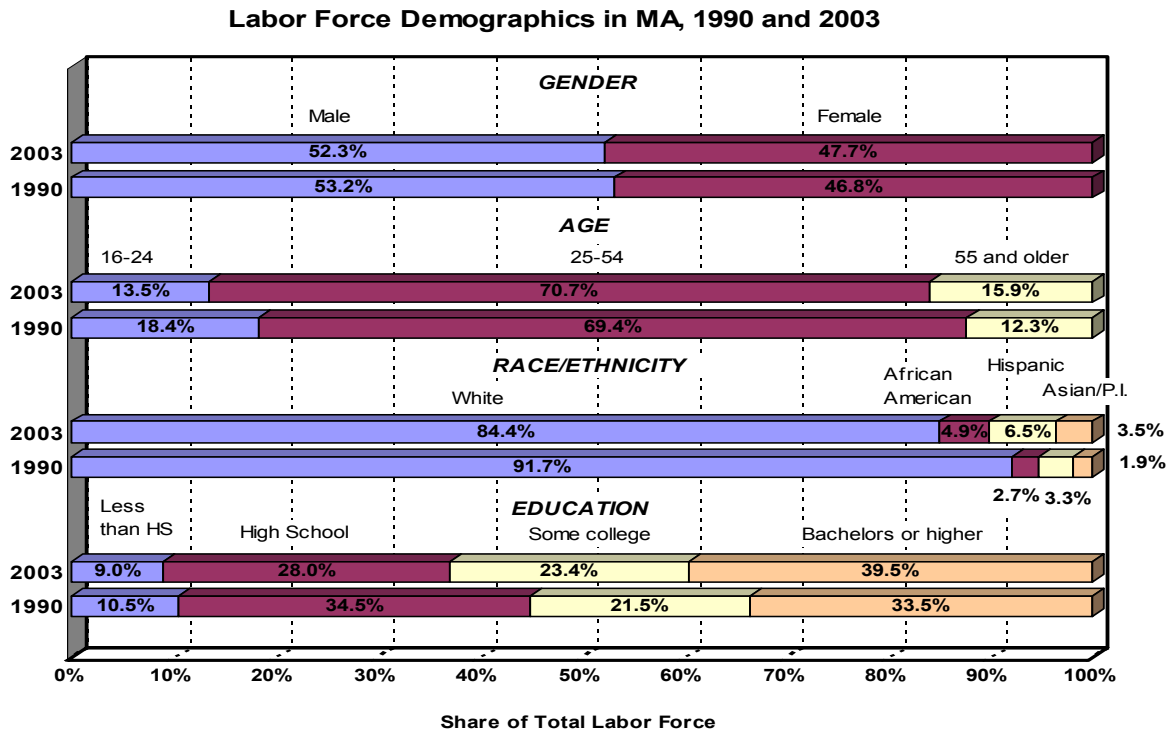


Figure 5.



Finally, as Figure 4 suggests, the Massachusetts labor force is somewhat less racially and ethnically diverse than the U.S. labor force in its entirety. Whites comprised 84.4 percent of the Commonwealth’s labor force in 2003, with African Americans (4.9 percent) and Hispanics (6.5 percent) composing much of the remainder. At the national level, African Americans and Hispanics made up twice as much of the work force as they did in Massachusetts – 10.9 percent and 12.8 percent respectively.

Since 1990, the Massachusetts workforce has become better educated and more diverse, but has also grown noticeably older, as Figure 5 shows. Indeed, in just over a dozen years, the share of the Massachusetts labor force with some exposure to college rose from 55.0 percent to 62.9 percent, with the proportion of workers holding at least a bachelor’s degree jumping from 33.5 percent to 39.5 percent. (This trend is even more dramatic over a longer span of time – in 1979, just 21.8 percent of the Massachusetts labor force had completed the requirements for a bachelor’s.) Over the same span, African-Americans, Hispanics, Asians, and Pacific Islanders have come to make up a significantly larger share of the workforce. In 1990, they collectively comprised only eight percent of the labor force; today, they constitute nearly 15 percent. Finally, while the Massachusetts economy undoubtedly benefits from the skills and experiences of older workers and while the U.S. population as a whole is inexorably growing older, the changing age profile of the Commonwealth’s labor force will likely pose significant challenges in the years ahead, both economically and fiscally.

Demographic Differences and Experiences in the Workforce

Demographic differences among the members of the Massachusetts workforce translate, in turn, into significantly different experiences in the workforce, as some demographic groups enjoy particular advantages, while others, all too often, must overcome an array of social, economic, and institutional barriers to secure employment. As can be seen in Figure 6, those differences include not only the extent to which each group participates in the labor force or the success with which each group is able to secure employment and to remain employed, but include as well the number of hours each group works and whether decisions about part-time employment are voluntary or forced by circumstance. So too do they include the extent to which certain demographic groups experience periods of unemployment and the length of time for which those spells of unemployment may last.

Figure 6.

Massachusetts Labor Force Statistics by Demographic Group, 2003							
	Labor Force Participation Rate	Employment to Population Ratio	Unemployment Rate	Long-Term Unemployment Share	Under- Employment Rate	Part-Time Workers Share	Part-Time for Economic Reasons Share
All	67.9%	64.0%	5.8%	26.6%	9.0%	26.2%	9.4%
Gender							
Male	74.8% *	70.0% *	6.4%	28.1%	9.6%	17.1% *	13.9% *
Female	61.7% *	58.5% *	5.2% *	24.7%	8.3%	36.1% *	7.0% *
Age							
16-24 years	61.7% *	54.6% *	11.4% *	21.1%	16.8% *	49.5% *	8.2%
25-54 years	85.4% *	81.2% *	4.9% *	26.4%	7.7% *	20.8% *	10.6%
55 years and older	37.2% *	35.3% *	5.1%	38.3% *	8.0%	31.7% *	7.2% *
Race / Ethnicity							
White	68.3%	64.8%	5.1% *	25.3%	7.9% *	26.3%	8.6%
African-American	62.4% *	55.1% *	11.7% *	(a)	17.7% *	27.3%	(a)
Hispanic	69.9%	62.5%	10.6% *	(a)	15.9% *	25.0%	(a)
Education							
Less than high school	39.9% *	35.1% *	12.1% *	(a)	18.4% *	43.5% *	9.4%
High school	64.7% *	60.3% *	6.8% *	18.9% *	10.5% *	25.7%	11.9% *
Some college	71.8% *	67.9% *	5.4%	29.6%	8.3%	30.7% *	7.3% *
Bachelor's or higher	81.2% *	78.1% *	3.9% *	35.6% *	6.1% *	20.3% *	8.9%

(a) indicates insufficient sample size

* indicates a statistically significant difference from the population as a whole

Turning first to education, workers with less than a high school education, as well as workers with strictly a high school diploma, have lower labor force participation rates and smaller employment to population ratios than the population as a whole in Massachusetts. These two groups also face higher unemployment and underemployment rates than the population at large. In contrast, those workers who either have some exposure to college or have earned at least a bachelor's degree have higher labor force participation rates and larger employment to population ratios than the Commonwealth's workforce in the aggregate; they also enjoy reduced unemployment and underemployment rates. Nevertheless, workers who have completed their

college educations experienced spells of long-term unemployment at greater rates than the rest of Massachusetts' working population in 2003, a phenomenon that is, in part, attributable to employment declines in the so-called "white collar" portions of the Massachusetts economy, such as the financial activities and business and professional services sectors, in the wake of the 2001 recession.

Between the two genders, women had substantially lower labor force participation rates and employment to population ratios than men in Massachusetts in 2003. Women were also much more likely to be engaged in part-time work, although, among part-time workers, a much smaller percentage of women than men held such positions for economic reasons. Massachusetts women did, however, experience lower unemployment and underemployment rates than Massachusetts men last year.

Of the racial and ethnic groups discussed earlier, African-Americans in the Massachusetts workforce faced markedly higher unemployment and underemployment rates than the workforce in its entirety; Hispanics did as well, though the differences were not as stark as for African-Americans. (Of note, whereas African-Americans in Massachusetts experienced effectively the same unemployment rate as African-Americans across the country, Hispanics in Massachusetts had a higher unemployment rate in 2003 than Hispanics nationally). In addition, African-Americans saw lower labor force participation rates and employment to population ratios than the broader workforce in 2003, while the differences between Hispanics and the workforce as a whole were not statistically significant for these two measures.

Figure 6 further reveals that older workers – that is, workers aged 55 and over – had much lower labor force participation rates and employment to population ratios than the other two age groups; in fact, the differences ranged between 15 and 45 percentage points. On the other hand, younger workers – those between the ages of 16 and 24 – were roughly twice as likely to be unemployed or underemployed as workers in the other age categories.

Labor Force Statistics – A Brief Glossary

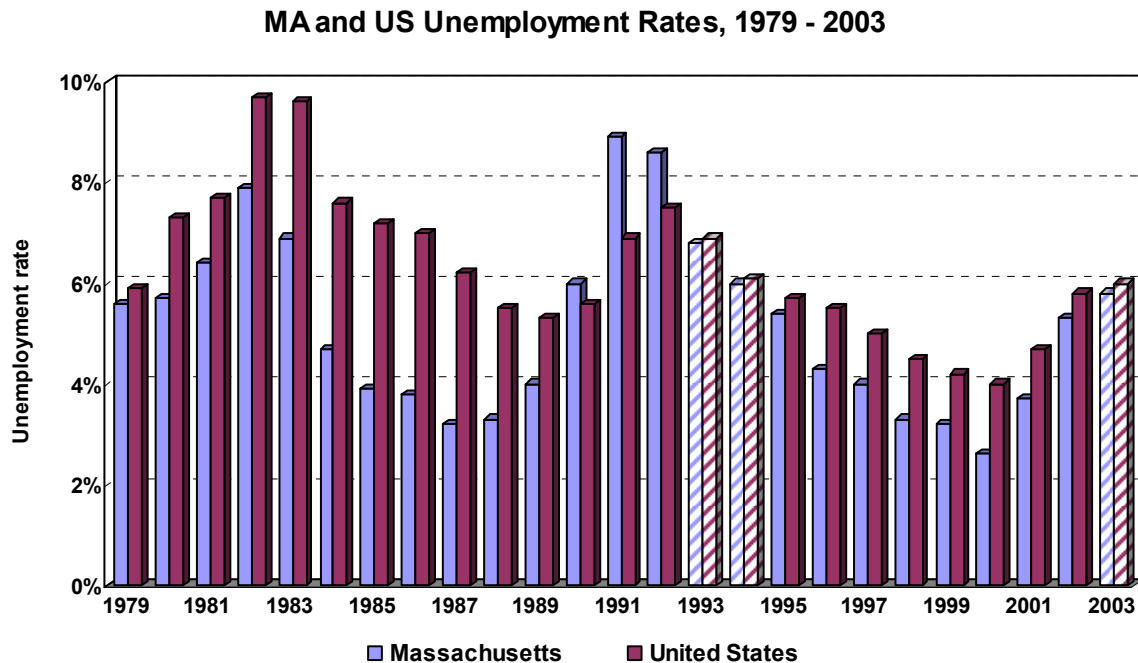
The statistics presented in Figure 6 – and discussed throughout this section of the paper – are defined by the Bureau of Labor Statistics (BLS) as follows:

- **Labor force participation rate** – The labor force participation rate is the number of people aged 16 or older who are either employed or considered to be unemployed divided by the entire population aged 16 or older. Individuals in institutions (for instance, prisoners or nursing home residents) are excluded from this calculation, as are members of the military. Thus, a labor force participation rate of 74.8 percent for men means that approximately 75 out of every 100 men aged 16 or older either have a job or are looking for one, while 25 out of every 100 men are not in the labor force – that is, they are not actively seeking employment, either because they do not believe jobs are available or for any other reason.
- **Employment to population ratio** – The employment to population ratio is the number of employed people aged 16 or older divided by the entire population aged 16 or older. (Again, institutionalized individuals and members of the military are not counted in this measure.) It is similar to the labor force participation rate, except that it excludes unemployed workers from its numerator.
- **Unemployment rate** – The unemployment rate is found by dividing the number of unemployed people (aged 16 or older) by the entire labor force (aged 16 or older). It does not include individuals who may be out of work but who have become discouraged and stopped looking for a job. (To be considered “unemployed” by the BLS, an individual must have made specific efforts to secure employment within the past four weeks; otherwise, he or she is deemed to be out of the labor force.) Consequently, the unemployment rate tends to understate the true depth of unemployment.
- **Long-term unemployment share** – The long-term unemployment share is the percentage of people who are considered unemployed who have been out of work for more than 26 weeks.
- **Underemployment rate** – A more comprehensive measure than the basic unemployment rate, the underemployment rate takes into account individuals who are out of work but who have not looked for a job in the past four weeks (and who, therefore are not regarded as “unemployed” by the BLS) as well as individuals who work part-time but who are seeking full-time employment.
- **Part-time workers share** – The part-time workers share is the percentage of all employed persons who work fewer than 35 hours per week.
- **Part-time for economic reasons share** – This is the percentage of all part-time workers who want to work full-time (and are available to do so) but who are unable to do so, either because they can not find full-time employment or because such employment is simply unavailable (for instance, due to unfavorable business conditions).

Impact of the 2001 Recession: Rising (and Longer) Unemployment in Massachusetts

As noted earlier, the national recession of 2001 has had an especially dramatic impact here at home, with total employment in Massachusetts falling more than in nearly any other state. As a result, the gap between the Massachusetts and the national unemployment rates that had persisted throughout the latter half of the 1990s has now been wiped out. Specifically, from 1996 through 2001, unemployment in Massachusetts was at least a full percentage point lower than the national mark. In contrast, in 2003, the unemployment rate in Massachusetts was 5.8 percent; it was 6.0 percent for the U.S. overall, a difference that is not statistically significant. As Figure 7 shows, the only other period in the past twenty years during which the Massachusetts unemployment rate equaled or exceeded the national mark was 1990 through 1994.

Figure 7.



Hashed bars indicate years in which the MA and US rates were not statistically different from each other.

One other consequence of the recession's disproportionate impact is that unemployed Massachusetts workers on the whole witnessed higher rates of long-term unemployment than their counterparts across the country in 2003. Specifically, 22.1 percent of unemployed workers in the US had been unemployed for more than 26 weeks in 2003; the comparable figure for Massachusetts as a whole was 26.6 percent. This problem was particularly severe among the college-educated in the Commonwealth. Over one-third – 35.6 percent – of workers with at least a bachelor's degree who were unemployed in Massachusetts last year had been so for at least 26 weeks.

When compared to the United States in the aggregate, part-time work was also somewhat more prevalent in Massachusetts in 2003. Whereas 23.1 percent of the labor force nationally spent less than 35 hours per week at work, 26.2 percent of the Massachusetts labor force did so. Interestingly, though, the share of part-time workers engaged in such work for economic reasons was smaller in Massachusetts than in the U.S.; overall, 9.4 percent of part-time workers in Massachusetts held such positions for economic reasons, compared to 14.7 percent of part-time workers across the country. This difference held for nearly every major demographic group in the Commonwealth, save those with a college education. In Massachusetts, 8.9 percent of workers with a bachelor's degree or higher worked part-time for economic reasons, a proportion that was not statistically different from the 9.7 percent who did so across the United States.

Incomes and Wages

Despite the particularly dramatic effect that the 2001 recession has had on employment in the Commonwealth, Massachusetts workers, on the whole, continue to earn higher incomes and wages than most of their counterparts in other states. Nevertheless, enormous inequities *within* Massachusetts – whether across various classes or between genders – persist and, in some respects, remain worse than in all but a handful of states.

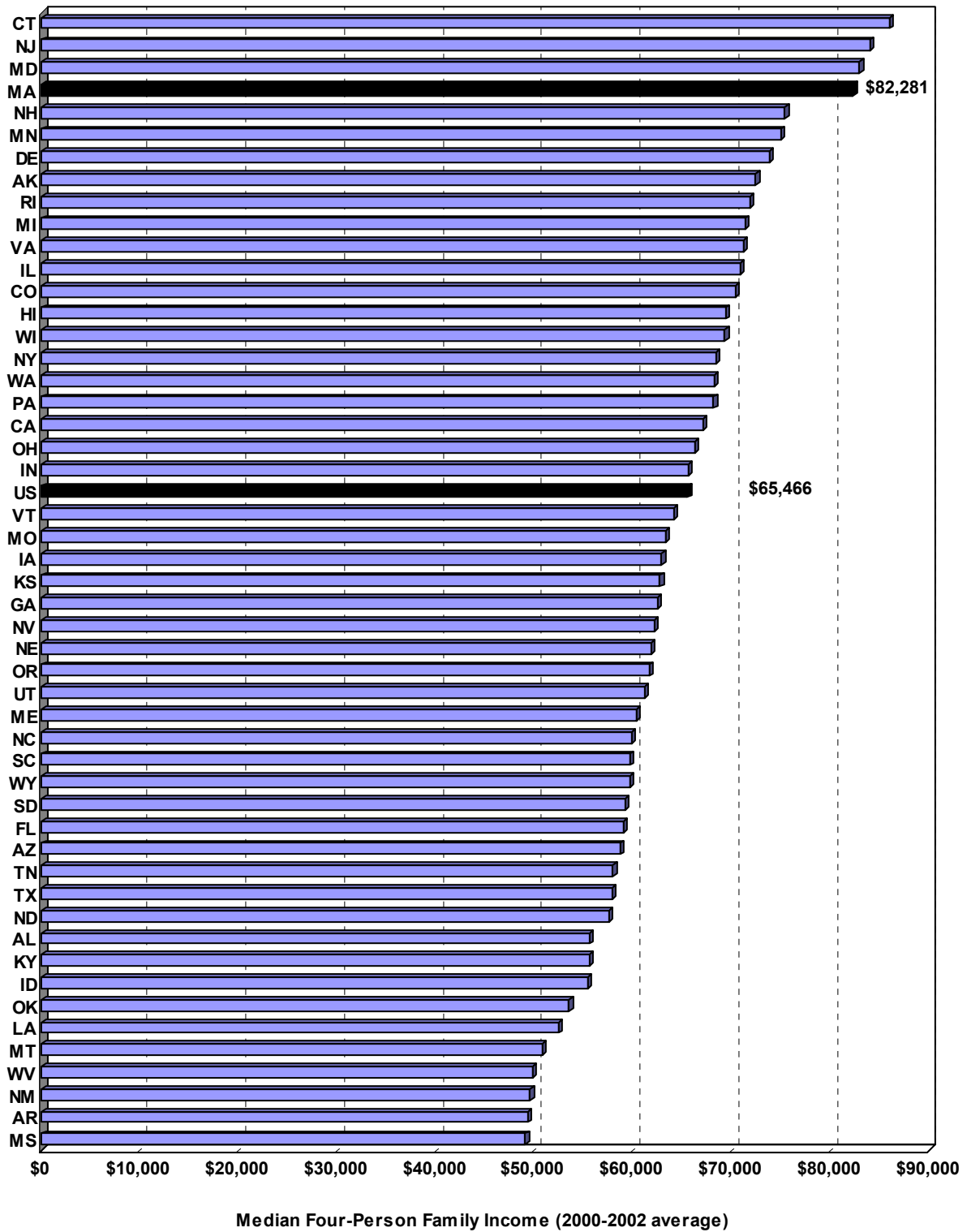
Family Income

As Figure 8 shows, compared to most states, Massachusetts, on the whole, is fairly well off. At \$82,281, the median income for four-person families in Massachusetts was the fourth highest in the nation for the 2000-2002 period. (The median income defines the point in the income distribution where half the families earn more and half earn less.) In fact, median income for four-person families in Massachusetts stood 25.7 percent above the overall U.S. level of \$65,466 for 2000-2002 and 67.8 percent higher than the median income for four-person families in Mississippi, which, by this measure, was the poorest state in 2000-2002.⁴

⁴ Unless otherwise noted, all dollar figures in this report are expressed in constant 2003 dollars. In addition, the dollar figures in this report are also generally expressed as three-year averages. This practice is employed in order to pool sufficient amounts of data from the Census Bureau's annual Current Population Survey to permit meaningful state-level analysis. The Census Bureau recommends using two-year averages for year-to-year comparisons, and three-year averages for state-to-state comparisons. Finally, the definition of income used in this report is the official Census Bureau definition, which includes all income from the following sources: earnings; unemployment compensation; workers' compensation; Social Security; Supplemental Security Income; public assistance; veterans' payments; survivor benefits; disability benefits; pension or retirement income; interest; dividends; rents, royalties, and estates and trusts; educational assistance; alimony; and child support. It does not include income from capital gains, tax refunds, or non-cash transfers, such as food stamps or health care benefits.

Figure 8.

Median Four-Person Family Income, by State, 2000 - 2002



Of course, median four-person family income is just one measure by which a state's economic well-being can be assessed. It refers to the level of income that would put a family of four in the exact middle of a range of incomes for identically composed families. Compared to average family income, which may be distorted by exceptionally high or extremely low incomes, it is a more accurate measure of the status of ordinary Massachusetts families. Moreover, it is a somewhat stable measure, in that it is not affected by broader demographic trends, such as changes in family size or composition. It does suffer from some limitations, however. It imparts no information about the condition of people who live outside four-person families, nor does it offer any insight into how families at other points in the income distribution may be faring, focusing only on families in the middle.⁵

Massachusetts Workers: Higher Pay, Higher Cost of Living

As enviable a position Massachusetts appears to hold relative to other states in terms of incomes and wages, it is important to keep in mind that the cost of living in the Commonwealth is also considerably higher than in most states. For example, the cost of living index developed by the American Federation of Teachers (AFT) for its annual teacher salary surveys suggests that the cost of living in Massachusetts is 15 percent higher than for the United States as a whole. In fact, the AFT's research indicates that only California, New York, New Jersey, Alaska and Hawaii have higher costs of living than Massachusetts. Thus, while workers in Massachusetts may earn higher wages or enjoy larger incomes than their counterparts in many states, that advantage is reduced by higher prices for housing, food, and energy.

Median Household Income

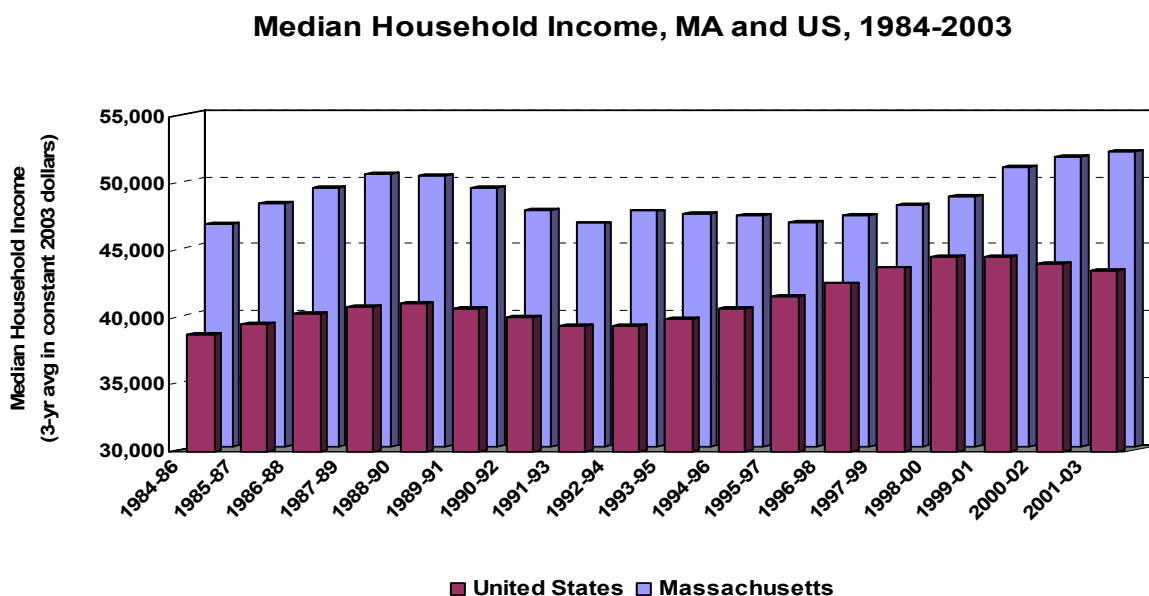
Data on median household incomes for 2001-2003 also hint at the Commonwealth's relative affluence. (The Census Bureau has recently released more current data on median household income than is available on median four-person family income.) For the 2001-2003 period, the median household income in Massachusetts was \$52,084, or 19.7 percent above the comparable national mark of \$43,527, as seen in Figure 9. Moreover, that level of income placed the Commonwealth in the top fifth of states, rivaling states such as Virginia, Delaware, and Minnesota.

Importantly, though, median household income in Massachusetts has only recently returned to levels seen during the 1980s – and may, in fact, not stay there very long. The Census Bureau has maintained median household income data at the state level since 1984. Since that time – and up until the last several years – the high point for median household income in Massachusetts was the 1987-1989 period, when it climbed to \$50,417 (in constant 2003 dollars). Median household income in Massachusetts then fell fairly significantly during the early 1990s, only to remain somewhat stagnant throughout the remainder of the decade. It was not until the 1999-2001 period – when median household income reached \$50,938 – that the Commonwealth regained

⁵ For statistical purposes, a family consists of two or more related individuals residing together, while a household includes all the persons who live in a particular residence. Thus, median household income – also examined in this report – includes all incomes earned by families, but median four-person family income excludes not only incomes earned by families with fewer than four people, but also all incomes earned by non-family households. This is particularly important, since, according to the 2000 Census, only 64.5 percent of all households in Massachusetts are considered families for statistical purposes.

that lost ground. However, after growing annually from 1998 through 2001, median household income in Massachusetts declined in 2002-2003.⁶

Figure 9.



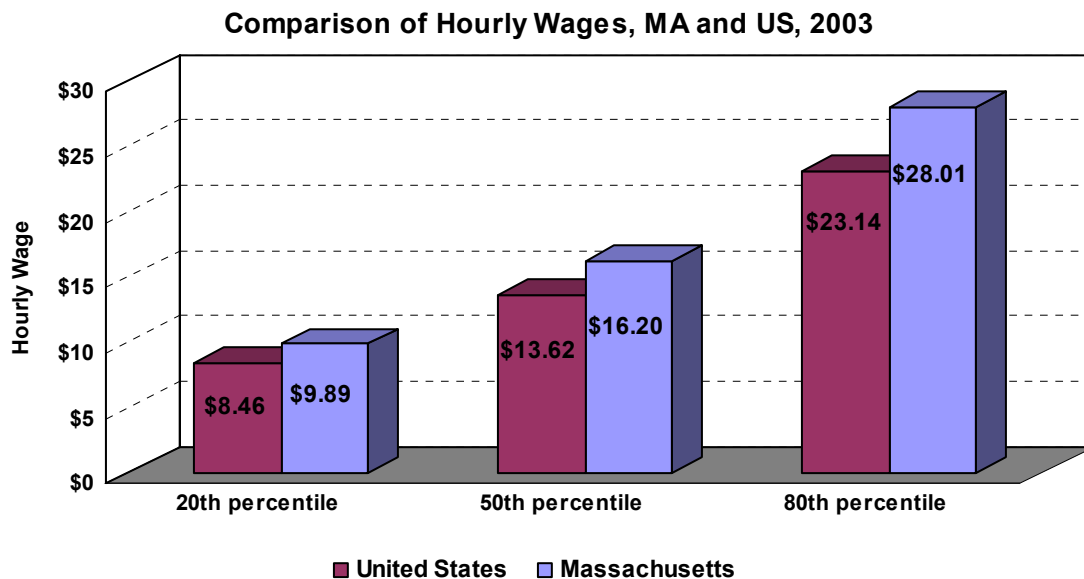
Hourly Wages

Data on hourly wages allow for an even more direct comparison between the pay of workers in Massachusetts and that of members of the labor force in other states. Just as with summary measures such as median four-person family income and median household income, not only are the hourly wages earned by low-, middle-, and high-wage workers higher in Massachusetts than in the United States as whole, but they are higher than in nearly every other state. As Figure 10 indicates, the hourly wage for workers at the 20th percentile of the wage distribution in Massachusetts – \$9.89 – was roughly 17 percent higher than the hourly wage for workers at the same point in the distribution across the country, while the hourly wages for workers at the 50th and 80th percentiles in Massachusetts – \$16.20 and \$28.01 – were 19 percent and 21 percent higher respectively.⁷ The hourly wage rate in Massachusetts for each of these levels – the 20th, 50th, and 80th percentiles – placed in the top five of the fifty states in 2003.

⁶ While Figure 9 shows rising median household incomes for Massachusetts continuing through the most recent three-year period (as explained in footnote 4, three-year averages are the appropriate way to compare Massachusetts to other states), data released by the Census Bureau on August 26, 2004 show that there was a statistically significant decrease in average household median income between 2001-2002 and 2002-2003. Between these two two-year periods, the average median household income fell from \$52,649 to \$50,976.

⁷ Wage percentiles may be interpreted as the percent of workers with hourly wages below that percentile. Thus, just 20 percent of workers have wages lower than the 20th percentile wage, while 80 percent of workers have hourly wages below the 80th percentile wage.

Figure 10.



Unfortunately, while Massachusetts workers generally earn higher wages than their counterparts in other states, there are significant disparities *within* Massachusetts. Take for instance, two of the wage rates shown in Figure 10. Again, in 2003, workers at the 80th percentile of the wage distribution in Massachusetts earned \$28.01 per hour, while workers at the 20th percentile earned \$9.89. In short, workers at the 80th percentile were paid 2.8 times more each hour than what workers at the 20th percentile were paid. The difference is even greater at the extremes of the distribution – the 10th percentile hourly wage in Massachusetts was \$7.90 in 2003, a year in which the 90th percentile hourly wage was \$36.42. That is, workers at the very bottom of the wage distribution in 2003 would have had to have worked nearly five hours simply to earn what workers at the very top garnered in just one hour. Only a handful of states – among them California, Connecticut, and Texas – seem to have comparably inequitable distributions among hourly wage rates; as Figure 11 indicates, most other states have wage ratios among their higher- and lower-paid workers that are smaller than those in Massachusetts.

Indeed, these disparities appear to be worse now than at just about any point in the last two and a half decades, the result of very uneven wage growth across the income distribution. As Figure 12 makes clear, hourly wages for workers at or above the 80th percentile rose quite steadily in Massachusetts between 1979 and 2003, while hourly wages for workers at or below the 20th percentile held all but constant. More specifically, between 1979 and 2003, the 80th percentile hourly wage rose from \$18.83 (in constant 2003 dollars) to \$28.01, a 49 percent jump overall or an increase of about 1.67 percent per year. The gains for workers at the 20th percentile were less than half this amount, as their wages rose from \$8.14 to \$9.89 per hour, an increase of just 21 percent overall and only 0.81 percent annually. To be sure, the rate at which these gaps are growing has slowed in recent years – likely due, in part, to the 1999 increase in the Massachusetts minimum wage – but it is unclear whether they will begin to decline at any time in the near future.

Figure 11.

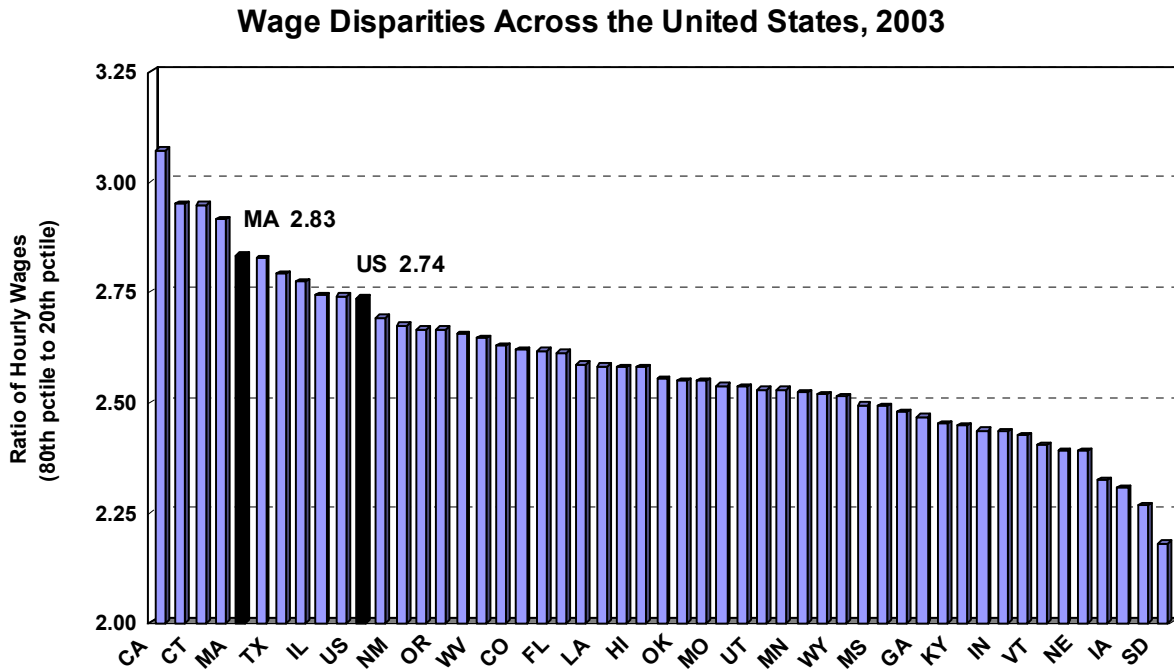
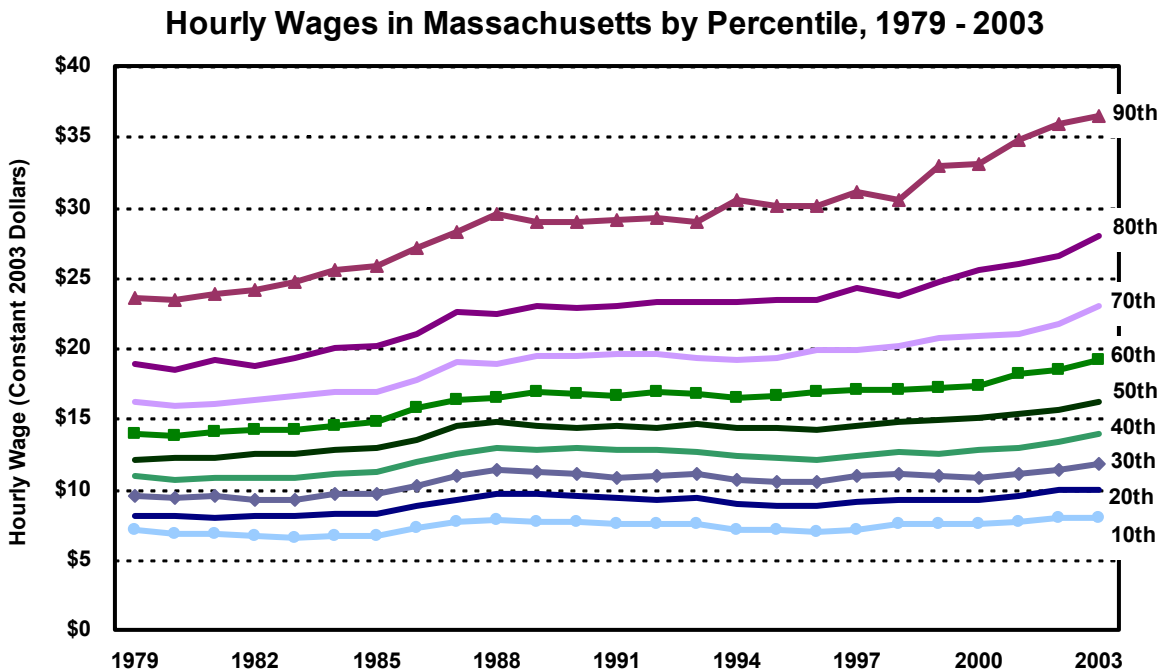


Figure 12.

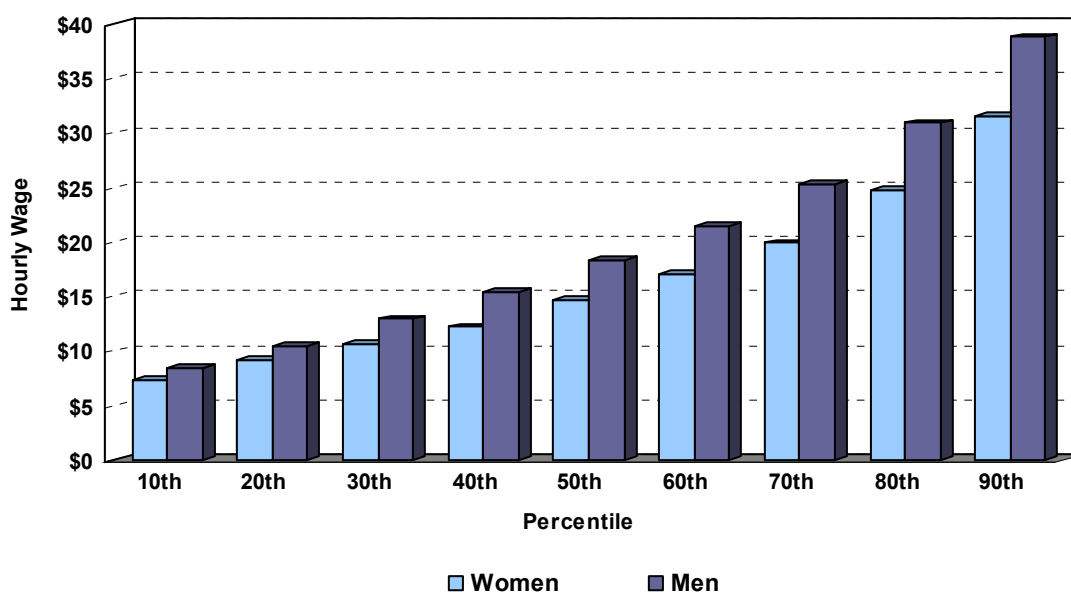


Hourly Wages by Gender

The problem of inequitable wages extends across gender lines as well. For instance, as Figure 13 reveals, in 2003, the median hourly wage – that is, the 50th percentile wage – for women in Massachusetts was \$14.64. That was 20 percent less than the median wage for men – \$18.34 per hour. Figure 13 further demonstrates that this gender gap holds across the whole of the wage distribution, although the size of the gap varies somewhat from decile to decile. For instance, the relative gap was smallest at the 10th and 20th percentiles, where women earned slightly more than 87 percent of what men did in 2003, perhaps due to the presence of an hourly wage floor in the form of the minimum wage.

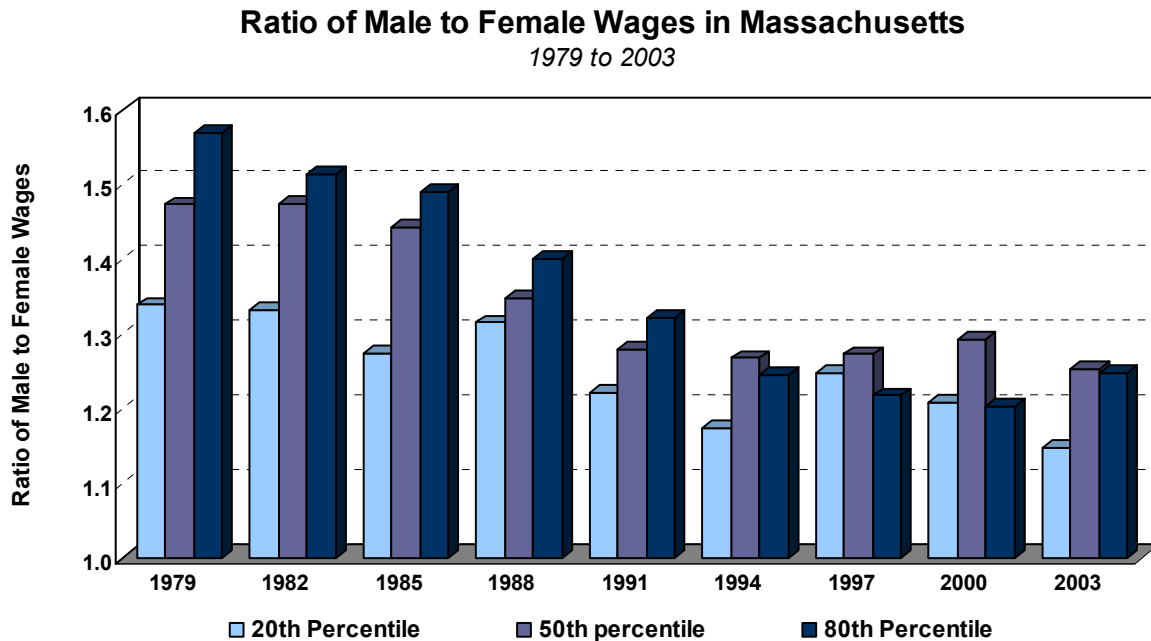
Figure 13.

Hourly Wages for Women and Men in Massachusetts, 2003



Yet, as Figure 14 shows, the gap in the hourly wages earned by men and women in Massachusetts has generally declined over last 25 years or so. In 1979, the 80th percentile wage for men was \$22.14 per hour and, for women, it was \$14.12 per hour, a ratio of 1.57. By 2003, this ratio had declined to 1.25. Similarly, the ratio at the 20th percentile dropped from 1.34 in 1979 to 1.15 in 2003; hourly wages at this level rose from \$9.85 to \$10.50 for men and from \$7.36 to \$9.15 for women during that time frame. Of some concern, however, is the fact that the Commonwealth appears to have made no real progress in shrinking the gender gap in the last decade or so. As can be seen in Figure 14, the ratio of male to female hourly wages at the 20th, 50th, and 80th deciles in 2003 is virtually identical to that for 1994.

Figure 14.



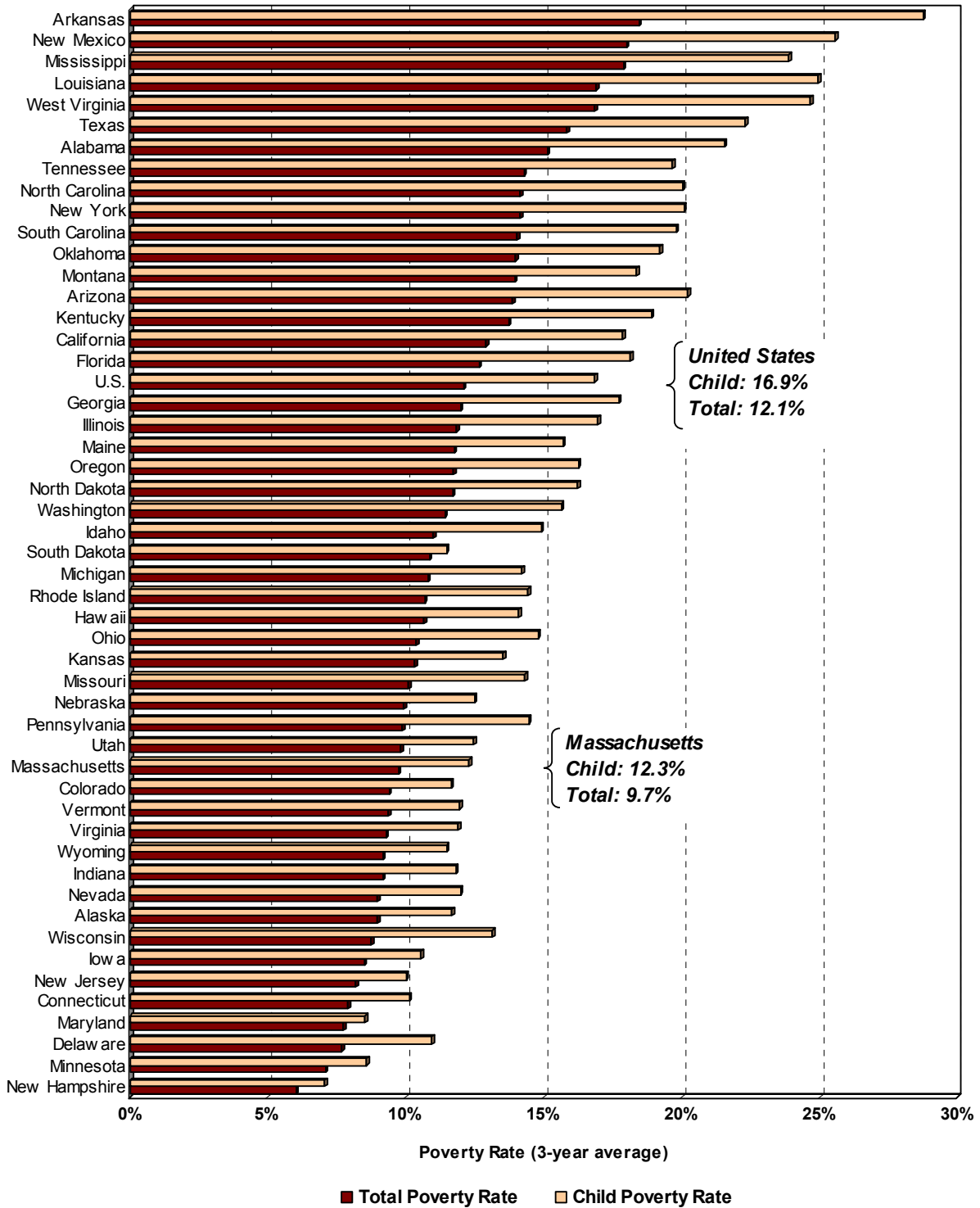
Finally, although hourly wages for women were higher in Massachusetts than in all but a few states in 2003, the gender gap was not much smaller here at home than in other parts of the country. That is, hourly wages for women at the 20th, 50th, and 80th percentiles in Massachusetts were \$9.15, \$14.64, and \$24.78 respectively in 2003; each put Massachusetts in the top five of the fifty states. (For further comparison, women earned \$8.46, \$12.18, and \$20.20 at those points in the hourly wage distribution for the U.S. as a whole.) Nevertheless, the ratio of hourly wages for men to hourly wages for women at these points in the distribution in Massachusetts were just the 16th, 26th, and 18th smallest in the nation.

Poverty

One additional measure that can be used to assess the state of the Massachusetts economy and the standard of living for all Massachusetts' citizens is the poverty rate. Both overall and among children – the most vulnerable portion of our society – poverty is lower in Massachusetts than in most states. Nevertheless, the Commonwealth has made precious little progress since the late 1980s in ensuring that its citizens can make ends meet and are able to provide the basic necessities of life for their children.

Figure 15.

Total and Child Poverty Rates by State, 2001 - 2003



For the 2001-2003 period, the poverty rate in Massachusetts was 9.7 percent. As was the case across the nation, poverty was much more prevalent among children in the Commonwealth in the 2001-2003 period, for those three years, an average of 12.3 percent of Massachusetts' children lived in families with incomes below the federal poverty level. As Figure 15 shows, these rates put Massachusetts among the third of the states with the lowest poverty rates for the 2001-2003 period, with overall and child poverty rates comparable to such states as Nebraska, Utah, and Vermont.

Figures 16 and 17 further illustrate the somewhat favorable comparison between Massachusetts and the country on the basis of poverty rates, that is, since the 1984-1986 period, both the overall poverty rate and the child poverty rate have been lower in Massachusetts than in the United States as a whole. While the overall poverty rate in Massachusetts ranged between roughly nine and eleven percent between 1984-1986 and 2001-2003, the overall national rate never fell below 11.5 percent and, for much of that time, exceeded 13 percent. Since 1984-1986, the poverty rate among children in Massachusetts has varied from its peak of 18 percent in 1990-1992 to its nadir of 12.3 percent in 2001-2003. Meanwhile, the national child poverty rate has been 20 percent or higher for most of that stretch, falling below the 20 percent mark only between 1996-1998 and 2001-2003.

While poverty rates in Massachusetts are now lower than those in two-thirds of the states, our state's performance over the last two decades has been very uneven. For example, child poverty in Massachusetts actually rose near the tail end of the 1990s economic boom, reaching 17.9 percent in 1997-1999. Moreover, as shown in Figures 16 and 17, while the nation experienced steady declines in poverty during the 1990s economic expansion, Massachusetts did not. Overall poverty rates in Massachusetts are higher now than they were in the late 1980s.

Conclusion

The trends described in this report – sizable job losses, stagnant wages for a significant fraction of the workforce, and persistent poverty, to name just a few – will pose considerable challenges for both the Legislature and the Governor once they return to Beacon Hill in January. They will need to craft a set of policies that both maintains the Commonwealth's strengths and advantages and addresses its weaknesses. Larger long-term investments in education and job training could help to accomplish both of those goals, but alone are not enough to support the state's workforce. Policies such as a higher minimum wage and improved access to affordable health care and child care would also help those who are working hard to support a family but finding it more and more difficult to make ends meet.

Figure 16.

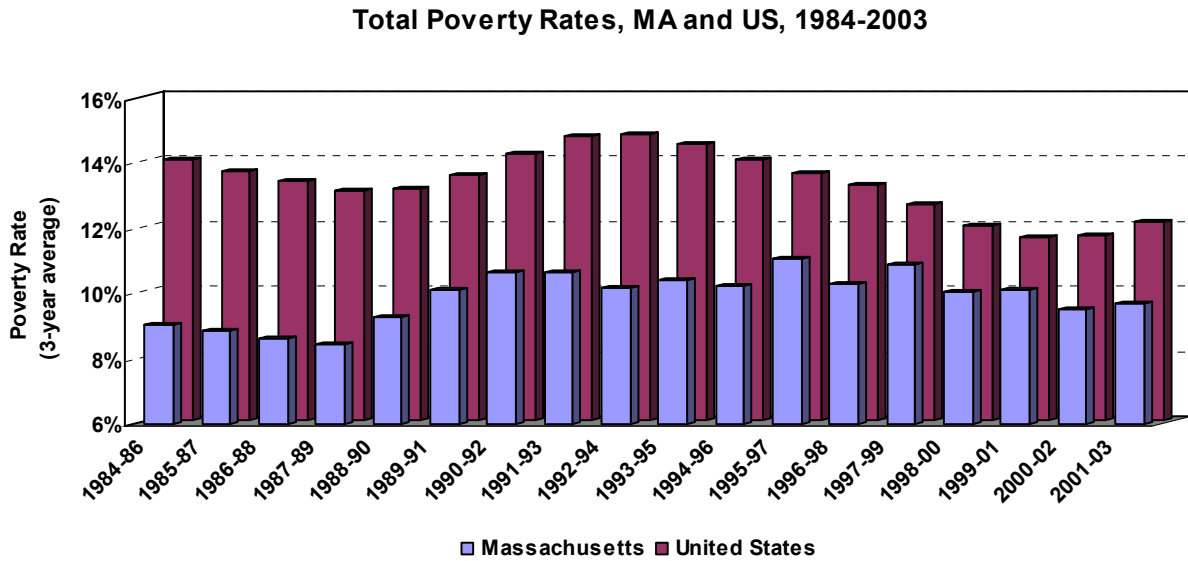
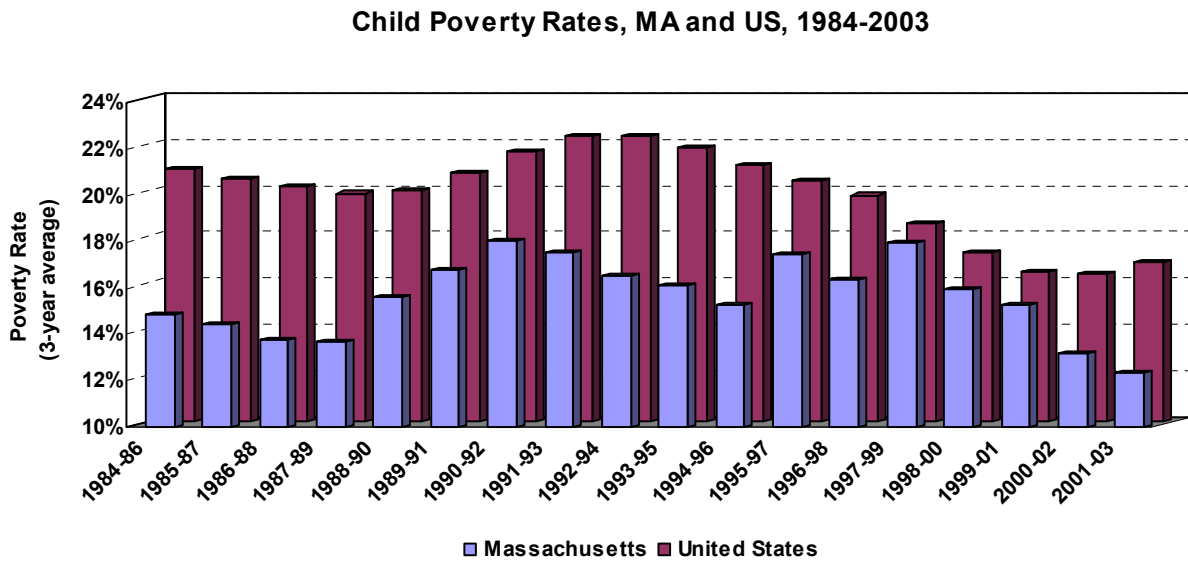


Figure 17.





MASSACHUSETTS

BUDGET AND POLICY CENTER

37 TEMPLE PLACE, 3RD FLOOR, BOSTON, MA 02111
TEL: 617.426.1228 • FAX: 617.695.1295 • www.massbudget.org