The State of Working Massachusetts 2002

As Good As It Gets?

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THE STATE OF WORKING MASSACHUSETTS 2002

As Good As It Gets?

Executive Summary

During the latter half of the 1990s, Massachusetts, like much of the United States, enjoyed robust economic growth and exceptionally low unemployment. Today, again like the rest of the country, Massachusetts is mired in what is, at best, a jobless recovery from the recession that began in early 2001. As a result, the state of working Massachusetts may now be as good as it gets.

If this is true, then there is cause for great concern, for many in the Commonwealth continue to face serious economic challenges. This report, based in large part on data provided by the nonpartisan Economic Policy Institute (EPI) and released in conjunction with EPI's expansive *State of Working America 2002-2003*, describes the economic insecurity that plagues Massachusetts working families. In particular, the report finds that:

- ***During the 1990s, incomes and wages grew more slowly in Massachusetts than in most states and, in some cases, actually declined in real terms.***

  - The median income for four-person families in Massachusetts grew 10.4 percent between 1988-1989 and 1999-2000, from \$67,328 to \$76,061 after adjusting for inflation. Only 11 states grew more slowly over that time.

  - Median household income in Massachusetts was lower, after adjusting for inflation, at the end of the 1990s than it was at the start of the decade. While median household income for the United States rose 9.1 percent, here in Massachusetts it dropped 2.9 percent.

  - The hourly wage for low-wage workers in Massachusetts declined too. Between 1989 and 2001, wages at the 20th percentile went down 2.0 percent, falling from \$9.31 to \$9.12 per hour.

- ***Those who did benefit from the economic growth of the 1990s were usually those who were already better off.***

  - While the average income for families at the bottom of the income distribution in Massachusetts was falling, the average income for families at the top was rising rapidly. The real average income of families in the bottom 20 percent of the income distribution in Massachusetts dropped from $16,930 in the late 1980s to $15,740 in the late 1990s, a decline of 7.0 percent. In stark contrast, the real average income of families in the top 20 percent of the income distribution in Massachusetts rose 13.5 percent, from $146,016 to $165,729.

  - As a result, Massachusetts was one of only two states in which the poor truly got poorer and the rich truly got richer during the 1990s.

  - In addition, while the increase in the median hourly wage over the course of the 1990s could be measured in nickels and dimes, the hourly wage for high-paid workers jumped nearly three dollars. Between 1989 and 2001, wages at the 50th percentile grew just 5.7 percent, from $13.97 to $14.77 per hour. On the other hand, wages at the 80th percentile jumped 13.3 percent – from $22.08 to $25.02 per hour – over that span.

- ***Massachusetts families are working harder today than at any other time in recent memory – and often earning less.***

  - The average number of hours worked each year by Massachusetts families for the 1998-2000 period was 3,009, roughly equivalent to one and half full-time jobs. This is 1.0 percent higher than the comparable figure for 1988-1990 (2,977 hours) and 6.6 percent higher than the mark for 1979-1981 (2,824 hours). In other words, Massachusetts families today are working 32 hours more per year than a decade ago and 185 hours more – the equivalent of an extra month of full-time employment – than at the end of the 1970s.

  - In fact, many in Massachusetts are now working longer hours and getting less in return. Between the late 1980s and the late 1990s, the average number of hours worked each year by families in the bottom 20 percent of the Massachusetts income distribution rose 20.7 percent, from 854 hours per year to 1,031 hours, but their average incomes fell 7.0 percent.

- ***The types of employment available in Massachusetts have changed dramatically over the past two decades.***

  - In 1982, service sector jobs comprised roughly a quarter – 25.9 percent – of all non-farm employment in Massachusetts. That figure rose to 29.7 percent in 1989, and, by 2001, it exceeded one-third, 36.8 percent.

  - Conversely, the share of jobs associated with the manufacturing sector has declined precipitously since the 1980s. In 1982, manufacturing jobs constituted 24.1 percent of all non-farm employment in Massachusetts, about the same fraction as service-sector jobs. By 1989, they made up 18.0 percent of all such employment and, by 2001, manufacturing jobs represented 12.7 percent, just over half their previous level. Yet, manufacturing jobs in Massachusetts pay more on average than all but two other types of employment – wholesale trade and finance, insurance, and real estate.

  - Jobs in the retail and service sectors, which are now the most common types of employment in the Commonwealth, pay less on average than any other type of employment, with the one exception – jobs in the government.

- ***Income inequality in Massachusetts is among the worst in the nation.***

  - In the late 1990s, the ratio of the average income of the top 20 percent of families in Massachusetts to the average income of the bottom 20 percent of families was 10.5 to 1. Just four states – New York, Louisiana, Texas, and California – had higher top-to-bottom income ratios than Massachusetts in 1998-2000.

  - Of course, the divide between the bottom and top 20 percent of families in Massachusetts pales in comparison to the rift between the bottom 20 percent and the top 5 percent of families. In the late 1980s, the ratio of the average income for the top 5 percent of families to the average income for the bottom 20 percent of families was 13 to 1 and, by the late 1990s, it had reached a staggering 16.5 to 1.

  - By both measures, the gap between the rich and the poor in Massachusetts was narrower than the national average in not only the late 1970s but also late 1980s. Only in the 1990s did income inequality in Massachusetts begin to exceed the national level.

- ***Massachusetts made no appreciable progress in combating poverty during the 1990s.***

  - Massachusetts' poverty rate was less than 10 percent throughout the 1980s. However, during the recession of the early 1990s, the state's poverty rate climbed above the 10 percent mark and has not dropped below it since.

  - At the end of the 1980s, the poverty rate was 8.6 percent in Massachusetts and 12.9 percent for the United States overall, a difference of 4.3 percentage points. By the close of the 1990s, the poverty rates for Massachusetts and the United States were less than a percentage point apart, standing at 10.9 percent and 11.5 percent respectively.

  - The poverty rate grew more in Massachusetts between the late 1980s and the late 1990s than in almost any other state. While the poverty rate fell by as many as ten percentage points in Mississippi and by more than four in states like Kentucky and South Carolina, it grew by more than two percentage points in Massachusetts, the third largest increase in the country.

Introduction

Ask a visitor from out of town his impression of Massachusetts and the image he might provide in response is likely to be a positive one – a leading innovator in medicine and technology, the preeminent educator to the nation and to the world, a major center of global finance. These images of prosperity are not without substance, since Massachusetts has long been, and by many measures still is, a relatively affluent state. Nor should responses of this kind be unexpected, since, like the rest of the United States, Massachusetts experienced one of the longest economic expansions in its history in the latter half of the 1990s.

Yet, these positive images obscure the harsh reality that many in Massachusetts still face. Today in the Commonwealth, for every software designer, there are scores of households whose incomes have stagnated or declined over the course of the past decade. For every genetic engineer, there are hundreds of families working longer hours than at any time in recent memory. For every surgeon, there are fewer jobs that offer health care coverage or a pension plan. For every mutual fund manager, there is another couple who cannot afford to purchase a home.

In fact, over the past decade, Massachusetts has distinguished itself from virtually every other state, not by its achievements, but by its failures. Between the late 1980s and the late 1990s, Massachusetts was one of only two states in the country in which the poor truly got poorer and the rich truly got richer. Massachusetts was also one of the roughly one-third of states in which the percentage of people living in poverty increased during the 1990s. Worse still, those families at the very bottom of the income distribution, who saw their average incomes fall significantly in the 1990s, were actually working more, on average, than in the 1980s.

Incredibly, this may be as good as it gets in Massachusetts. If the state's working people continue to struggle and, in many cases, fall further behind, even after the robust economic growth and low unemployment that marked much of the 1990s, it seems unlikely that their situation will improve dramatically in the immediate future, as the state and the nation now appear to be mired in what is at best a jobless recovery. This report, based in large part on data provided by the nonpartisan Economic Policy Institute (EPI) and released in conjunction with EPI's expansive *State of Working America 2002-2003*, describes the economic insecurity that many in Commonwealth still face. In addition, it examines some of the possible sources of that insecurity and discusses the heightened income inequality and persistent poverty associated with such insecurity in Massachusetts.

Incomes and Wages

The most direct way to assess the state of working Massachusetts is to examine the incomes that people earn and the compensation they receive for the work they do. This report uses several different measures – median income for four-person families, median household income, hourly wage data, the distribution of family incomes, and health- and pension-plan coverage – to make that assessment. Three key trends stand out:

- ***As a whole, Massachusetts appears to be better off than most states.*** At present, median income for four-person families, median household income, and the median hourly wage in Massachusetts all stand above the national level and are among the highest of any individual state.

- ***During the 1990s, incomes and wages grew more slowly in Massachusetts than in most states and, in some cases, actually declined in real terms.*** The median income for four-person families in Massachusetts grew more slowly over the past decade than in all but a handful of states. The median household income was lower, after adjusting for inflation, at the end of the 1990s than it was at the start of the decade. So too was the hourly wage for low-wage workers.

- ***Those who did benefit from the economic growth of the 1990s were usually those who were already better off.*** While the average income for families at the bottom of the income distribution in Massachusetts was falling, the average income for families at the top was rising rapidly. Similarly, while the increase in the median hourly wage over the course of the 1990s could be measured in nickels and dimes, the hourly wage for high-paid workers jumped nearly three dollars.

In short, Massachusetts as a whole may be ahead of many states, but it is beginning to falter, as the Commonwealth lagged well behind most of the country in reaping the benefits of a period often portrayed as one of unparalleled prosperity. Moreover, such prominence among its peers means little if that prosperity is not broadly shared. Indeed, as will be discussed below, when Massachusetts did make gains during the 1990s, they were not broadly distributed.

Median Family Income

As Figure 1 shows, compared to most states, Massachusetts, on the whole, is fairly well off. At $76,061, the median income for four-person families in Massachusetts was the fourth highest in the nation for the 1999-2000 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 22 percent above the overall U.S. level of $62,112 for 1999-2000 and 64 percent higher than the median income for four-person families in Arkansas, which, by this measure, was the poorest state in 1999-2000.[1]

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, but it does suffer from some limitations. 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.[2]

Despite these limitations, one trend that emerges from the data for median four-person family income in Massachusetts should arouse some concern. During the 1980's, median four-person family income in Massachusetts climbed 34.8 percent, the fastest rate of growth in the country. Due largely to a noticeable drop during the early part of the decade, it grew just 10.4 percent overall in the 1990s, a slower rate than all but 11 states.

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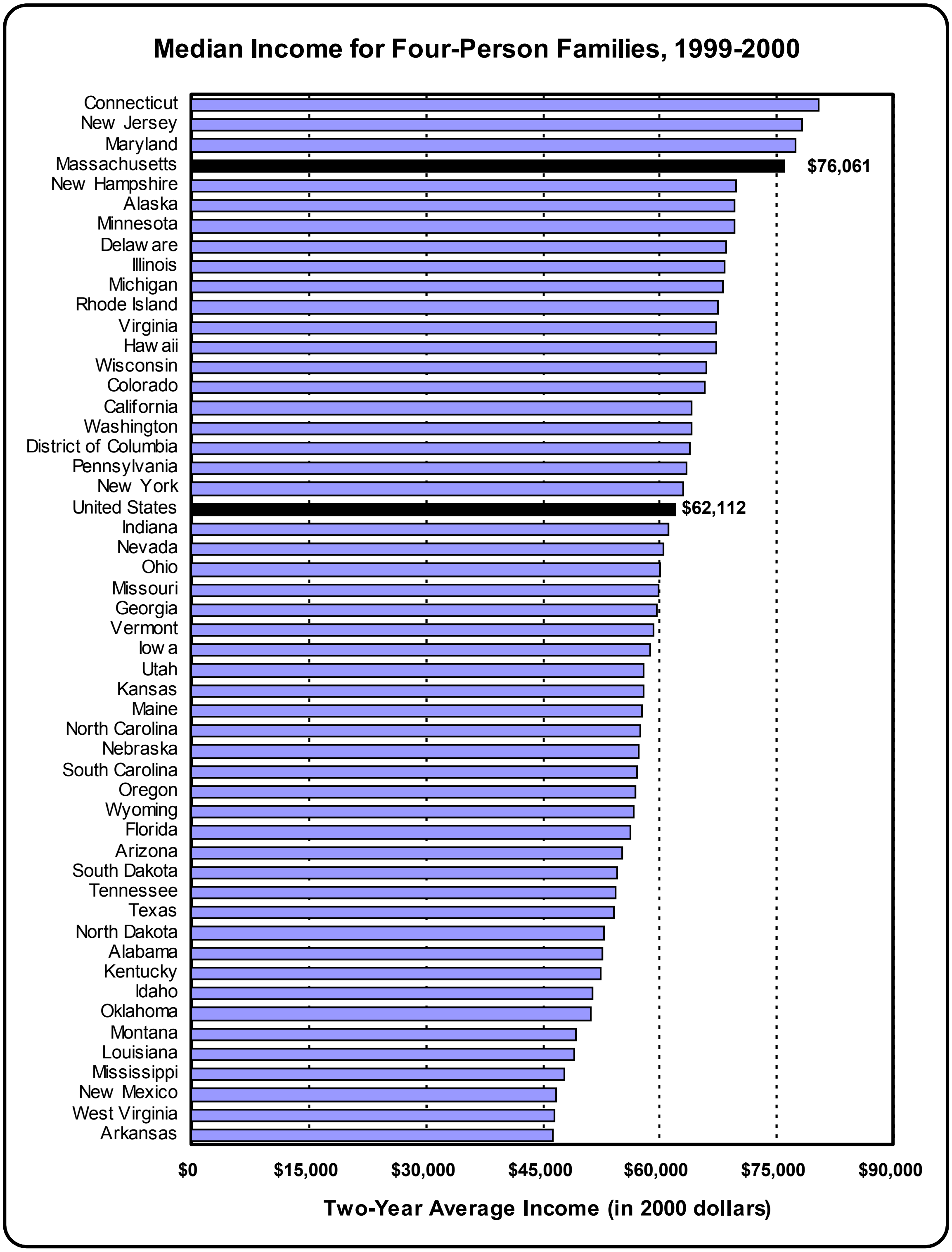
[1] Unless otherwise noted, all dollar figures in this report are expressed in constant 2000 dollars. In addition, the dollar figures in this report are also generally expressed as two- or three-year averages. This practice is employed in order to pool sufficient amounts of data from the Census Bureau's annual Current Population Survey to permit meaningful state-level analysis. 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.

[2] 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 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.

Figure 1.



Median Income for Four-Person Families, 1999-2000
Connecticut
New Jersey
Maryland
Massachusetts
$76,061
New Hampshire
Alaska
Minnesota
Delaware
Illinois
Michigan
Rhode Island
Virginia
Hawaii
Wisconsin
Colorado
California
Washington
District of Columbia
Pennsylvania
New York
United States
$62,112
Indiana
Nevada
Ohio
Missouri
Georgia
Vermont
Iowa
Utah
Kansas
Maine
North Carolina
Nebraska
South Carolina
Oregon
Wyoming
Florida
Arizona
South Dakota
Tennessee
Texas
North Dakota
Alabama
Kentucky
Idaho
Oklahoma
Montana
Louisiana
Mississippi
New Mexico
West Virginia
Arkansas
$0
$15,000
$30,000
$45,000
$60,000
$75,000
$90,000
Two-Year Average Income (in 2000 dollars)

Median Household Income

Data for median household income in Massachusetts provide a more accurate reflection of the economic status of the entire state, but still echo some of the same patterns as median income for four-person families.

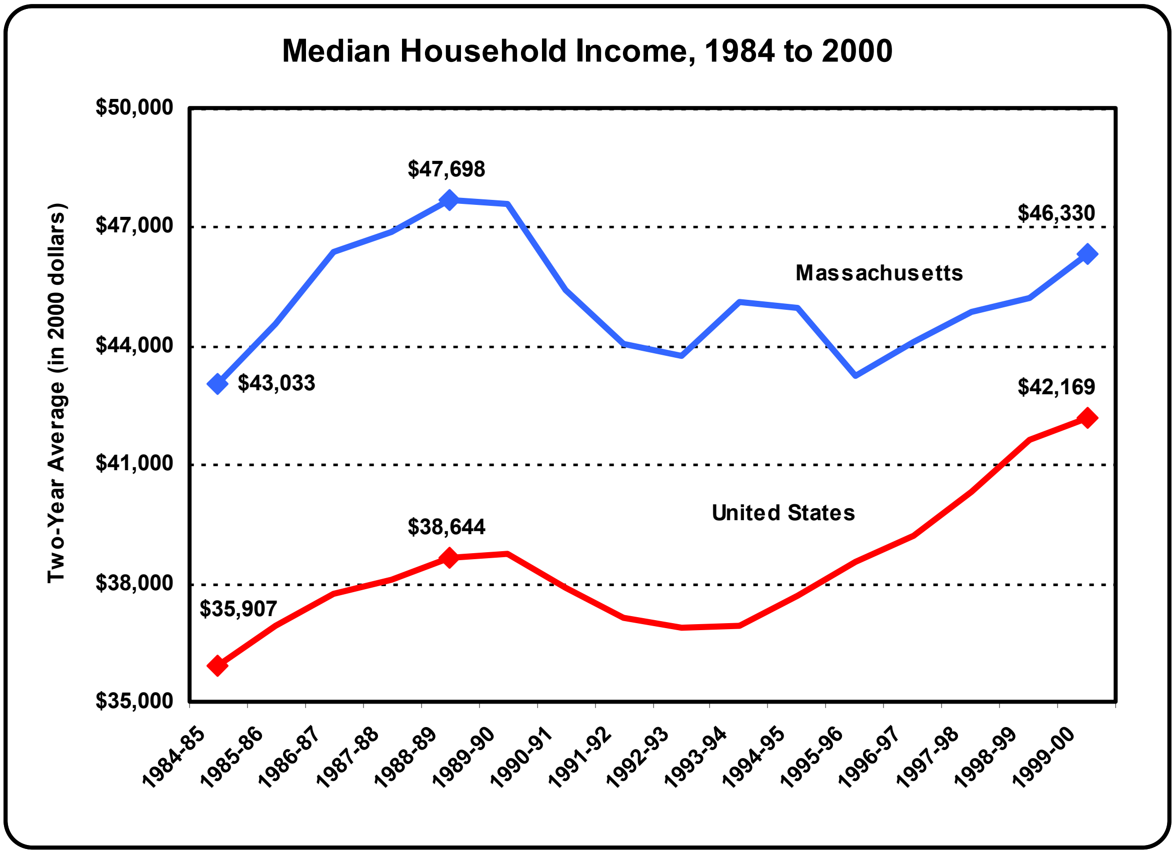
- First, as Figure 2 indicates, median household income in Massachusetts is somewhat higher than in the rest of the United States.
    - In 1999-2000, median household income in Massachusetts was $46,330.
    - This was 15th in the nation and 9.9 percent above the overall U.S. mark of $42,169.
- Second, as is equally clear in Figure 2, median household income grew quite rapidly in Massachusetts during the latter half of the 1980s, only to deteriorate during the recession of the early 1990s.
    - Between 1984-1985 and 1988-1989, median household income in Massachusetts grew from $43,033 to $47,698, an increase of 10.8 percent.[3]
    - Between 1988-1989 and 1992-1993, median household income in Massachusetts dropped from $47,698 to $43,734, a decline of 8.3 percent.

The similarities between median family income and median household income end there. Whereas median income for four-person families grew sufficiently during the late 1990s to compensate for losses incurred early in the decade, the same cannot be said for Massachusetts households. Rather, median household income at the close of the 1990s was still below its peak from the late 1980s.

- Median household income in Massachusetts grew 5.9 percent, to $46,330, between 1992-1993 and 1999-2000. Median household income for the 1988-1989 period was $47,698, however.
- Thus, the typical Massachusetts household was worse off at the end of the decade than it was at the start. Notwithstanding the significant economic expansion of the late 1990s, the real purchasing power for Massachusetts households fell by more than $1,300 between 1988-1989 and 1999-2000.

[3] Median household income data by state is not available for years prior to 1984.

Figure 2.



This is truly remarkable, particularly when Massachusetts is compared to the country as a whole. While the typical Massachusetts household had yet to regain the income levels experienced at the end of the 1980s by the close of the 1990s, median household income across the United States stood substantially above its pre-recession level by 1999-2000. In fact, median household income for the United States overall was 9.1 percent higher in 1999-2000 than it was in 1988-1989, while in Massachusetts median household income was 2.9 percent lower.

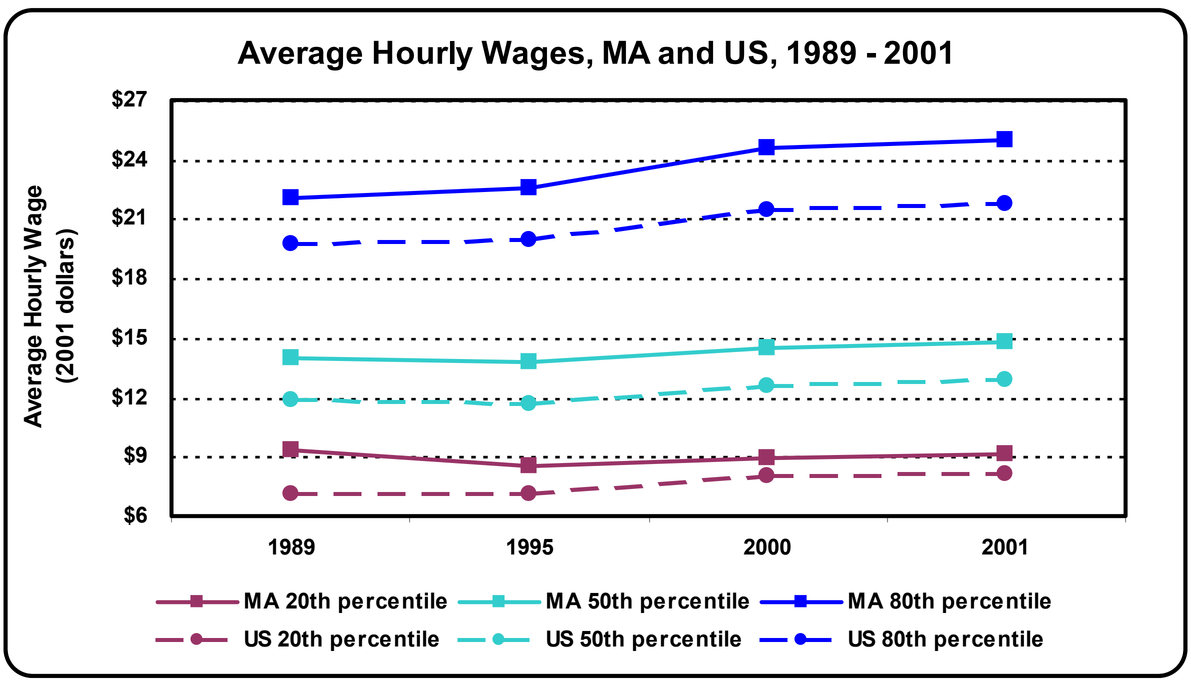
Moreover, even though median household income was higher in Massachusetts than in the United States as a whole throughout the 1990s, far slower growth in Massachusetts appreciably reduced the difference between the two. At the end of the 1980s, median household income was $47,698 in Massachusetts and $38,644 for the United States overall, a difference of $9,054. By the close of the 1990s, median household incomes for Massachusetts and the United States were $46,330 and $42,169 respectively, a much-reduced gap of $4,161. In total, the difference in median household incomes between Massachusetts and the country as a whole shrunk by 54 percent over the course of the 1990s.

Importantly, the narrowing of the difference between median household income in Massachusetts and the United States is as much a function of the slow growth that Massachusetts experienced during boom times as the rapid deterioration it suffered during the recession of the late 1980s and early 1990s. From its peak in the late 1980s to its nadir in the early 1990s, median household income in Massachusetts fell 8.3 percent. Only seven states saw a sharper decline during that time. Then, from the depths of the early 1990s recession to the top of the late 1990s expansion, median household income in Massachusetts rose 5.9 percent. Surprisingly, just six states had slower income growth than Massachusetts during this period of economic expansion.

Hourly Wages

Data on hourly wages in Massachusetts exhibit each of the three main features described earlier. 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. The hourly wage for workers at the 20th percentile of the wage distribution in Massachusetts – $9.12 – was the fifth highest in the country in 2001.[4] The hourly wages for workers at the 50th percentile and the 80th percentile of the distribution – $14.77 and $25.02 respectively – ranked fairly high as well, sixth and fifth in the nation in 2001.

Figure 3.



[4] Hourly wage data are expressed in constant 2001 dollars. 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.

Notwithstanding Massachusetts' seemingly enviable position relative to other states, wages at the 20th percentile actually declined in the Commonwealth between 1989 and 2001, falling 2.0 percent from $9.31 to $9.12 per hour, as seen in Figure 3. Workers earning the median hourly wage have been only slightly better off, as wages at the 50th percentile have grown just 5.7 percent – from $13.97 to $14.77 per hour – since 1989. Lastly, better-off workers were the ones who truly benefited from economic growth in 1990s, as wages at the 80th percentile jumped 13.3 percent – from $22.08 to $25.02 per hour – between 1989 and 2001.

Distribution of Family Income

The impact of economic forces that boosted the already well off while leaving many families further behind is especially evident when one looks at the distribution of family income. In fact, as Figures 4 and 5 reveal, families at the bottom of the income distribution in Massachusetts fell even further behind the rest of the state during the 1990s. The average income of families in the bottom 20 percent of the income distribution in Massachusetts dropped from $16,930 in the late 1980s to $15,740 in the late 1990s, a decline of 7.0 percent.[5] Families in the next-to-bottom fifth lost ground in the 1990s as well, as their average income declined 7.3 percent from $40,184 to $37,261.

The comparison with the rest of the country is bleak. While average real incomes for the poorest families in Massachusetts were dropping, they were climbing across the United States. The average income of families in the bottom 20 percent of the national income distribution rose by $1,601 – that is, by 12.3 percent – during the 1990s. Similarly, the average income of second 20 percent of families nationally grew $2,698, or 9.0 percent.

At the same time, the wealthiest families in Massachusetts watched their already considerable incomes grow still higher. The average income of families in the top 20 percent of the income distribution in Massachusetts rose from $146,016 at the end of the 1980s to $165,729 at the end of the 1990s, while the average income of families in the top 5 percent of the income distribution grew from $220,905 to over one-quarter of a million dollars – $259,668.[6] The rate of growth for both the top 20 percent and the top 5 percent of families was in double digits – 13.5 percent and 17.5 percent, respectively.

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[5] Dollar figures for this section of the report are expressed as constant 1999 dollars. For reasons discussed earlier, they are also expressed as three-year averages. Accordingly, the 'late 1990s' refers to the three-year period from 1998 through 2000, the 'late 1980s' to 1988 through 1990, and the 'late 1970s' to 1978 through 1980.

[6] This portion of the income distribution also benefited the most from state tax cuts during the 1990s. The wealthiest five percent of taxpayers in Massachusetts received roughly 42 percent of the tax cuts enacted and implemented in the state since 1991. See *Aiming for the Top: The Distribution of Massachusetts Tax Cuts,* TEAM Education Fund (April 8, 2002) for more information.

Figure 4.

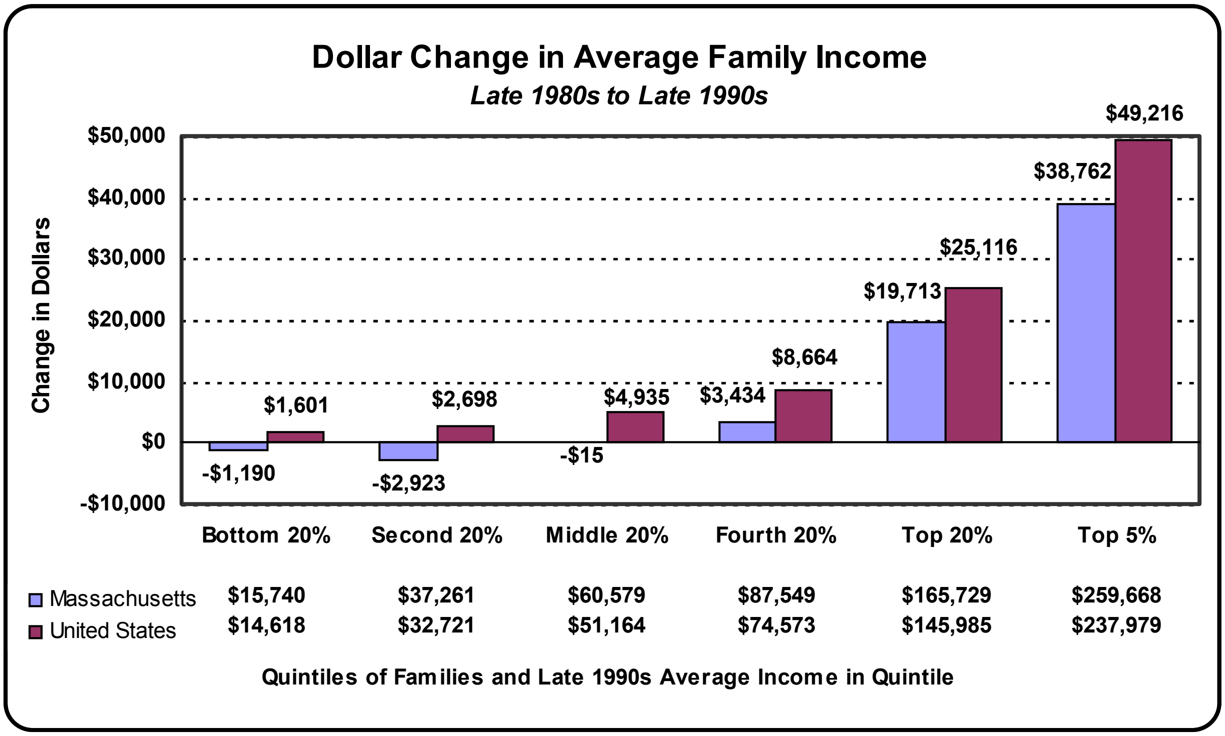
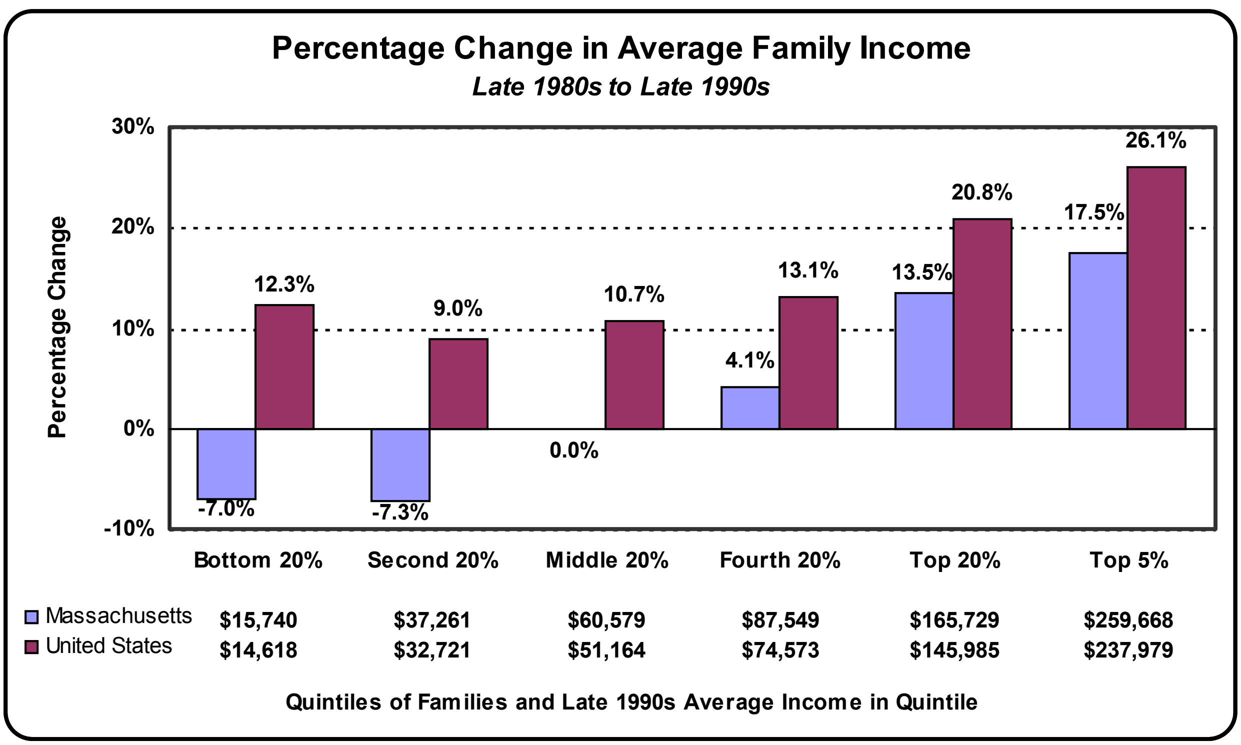


Figure 5.



Thus, during the 1990s, the poor in Massachusetts got poorer, while the rich kept getting richer. This pattern, while consistent with folklore, was nearly unique to Massachusetts during the economic boom of the 1990s. Connecticut was the only other state in the nation to follow it. In every other state over the course of the 1990s, the average income of families in the bottom 20 percent of the income distribution either grew in real terms or, at the very least, remained constant (again, in real terms).[7] The distribution of income may have become more skewed in other states, but did so because the average incomes of families at the top of the income distribution grew more quickly than the average incomes of families at the bottom. Only in Massachusetts and Connecticut was the distribution of income pulled further apart because groups at opposite ends of the income distribution moved in opposite directions.

The decline in income for families at the bottom of the income distribution in Massachusetts during the 1990s essentially wiped out the gains that these families had made, on average, during the 1980s. The average income of families in the bottom 20 percent of the income distribution in Massachusetts grew by $1,486 between the late 1970s and the late 1980s. As noted above, the average income for these families then dropped $1,190 between the late 1980s and the late 1990s, leaving those families almost exactly where they were at the end of the 1970s.

Other Signs of Economic Insecurity

The preceding sections on incomes and wages suggest that, for many in Massachusetts, economic security is unraveling more and more each day. Sadly though, information on incomes and wages only tells part of the story. To appreciate the challenges many working families face, one must consider other factors as well, such as health care, pension coverage, and home ownership rates.

Health Care Coverage

The share of private-sector workers with employer-provided health care coverage has declined noticeably over the past several decades. At the end of the 1970s (1979-1981, to be exact), 71.2 percent of private-sector employees in Massachusetts enjoyed some form of health care coverage through their employer. That proportion fell to 65.1 percent by 1987-1989 and to 60.7 percent by 1998-2000. Given rising health care costs in Massachusetts, it is not entirely surprising that a smaller share of jobs offer such coverage. By the same token, though, the lack of health care coverage creates significant hardships for families and individuals alike.

[7] In several states, an apparent decline in the average income of families in the bottom 20 percent of the income distribution was within the margin of error for the sample used by the Economic Policy Institute. Therefore, such declines could not be regarded as statistically significant. Only in Massachusetts and Connecticut was the drop in average income for families in the bottom 20 percent of the income distribution statistically significant.

Recent research shows that the implications of being without health care coverage are serious, far more serious than simply the added expenses of seeking medical care without insurance. Earlier this year, the Institute of Medicine, part of the National Academy of Sciences, released a comprehensive analysis of the impact of the lack of health care coverage on the roughly 30 million working-age Americans who are uninsured.[8] Its findings are stark: those without health insurance are more likely to have poorer health and to die prematurely than those with insurance. The Institute of Medicine estimated that each year 18,000 Americans die prematurely because they lack health insurance.

The report found that going without health insurance for even a single year diminishes a person's general health, as delayed diagnosis of severe health problems is a major factor in the reduced health status of those without insurance. The uninsured are less likely to receive timely screening services such as mammograms or colon exams. Thus, by the time cancer is diagnosed in uninsured patients, it is more likely to be at an advanced, often fatal, stage. Even within a hospital setting – after a traumatic accident, for instance, or a heart attack – the research shows that those without health insurance receive inferior care and are more likely to die. Such findings are deeply disturbing, particularly in the context of declining private sector coverage and reduced Medicaid eligibility in Massachusetts.

Pension Coverage

Private-sector pension coverage in Massachusetts has not declined in the same way that health care coverage has. Rather, it has remained stagnant at about one-half of the private sector workforce. At the end of the 1970s, 51.7 percent of all private-sector employees in Massachusetts had some form of pension coverage through their employer; at the end of the 1990s, the comparable figure was 49.9 percent. It is important to note, however, that the data on pension coverage provided by EPI are based on a fairly broad definition of coverage, so that it likely overstates the percentage of workers covered by an employer-sponsored plan.[9]

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[8] *Care Without Coverage: Too Little, Too Late*, Committee on the Consequences of Uninsurance, Institute of Medicine, May 2002.

[9] EPI's data are based on two self-reported measures from the Census Bureau's March Current Population Survey. Consequently, the figures on pension plan coverage derived from this survey tend to be higher and to suffer from greater variation than those found in establishment or employer surveys.

Moreover, because of the definition used, one of the major trends in pension coverage – the rise of the defined-contribution plan – is not evident.[10] According to the Employee Benefit Research Institute (EBRI), "defined contribution plans have grown since 1975 as a percentage of all pension plans, participants, and active participants." More specifically, defined contribution plans comprised 67 percent of all private sector pension plans in 1975 and 88 percent in 1993. Despite the preponderance of defined contribution plans, participants in defined contribution plans made up a relatively small share of all private sector participants in 1975 – 26 percent. Yet, by 1993, they comprised 52 percent of all private sector participants. Similarly, active participants in defined contribution plans represented 13 percent of all active participants in 1975, but 42 percent in 1993. Where defined benefit pension plans provide payments that are fixed in amount during retirement, the payments made by defined contribution plans depend largely on the investments that workers have made during their working years, a feature that is especially salient today. As has been demonstrated all too frequently lately, much of the savings in a defined contribution plan can evaporate quickly, if not seemingly overnight. Therefore, while the share of jobs that offer pension coverage has not changed much in recent years, the security those pensions provide has eroded considerably.

Home Ownership Rates

Record economic growth has done little to make it easier to own a home in Massachusetts, as home ownership rates in the Commonwealth have improved only slightly since the end of the 1980s – and have actually deteriorated somewhat since the mid-1980s. As Figure 6 demonstrates, in 1989, 58.9 percent of households in Massachusetts owned their own home; by 2001, that rate had increased marginally, to 60.6 percent. At the same time, however, the homeownership rate nationwide grew from 63.9 percent to 67.8 percent. Thus, the difference in home ownership rates between Massachusetts and the United States as a whole has grown substantially. In 1989, the gap in home ownership rates was 5.0 percentage points, but it was 7.2 percentage points in 2001. Undoubtedly, Massachusetts' high housing costs have played a role here – housing costs in the Boston metropolitan area (which includes all of Suffolk County and parts of Bristol, Essex, Middlesex, Norfolk, and Worcester Counties) are 71 percent above the national average and are exceeded only by costs in Los Angeles, San Francisco, New York City, and part of Long Island.[11] The combination of high and rapidly escalating housing costs, on the one hand, and stagnant or falling incomes on the other has put home ownership beyond the reach of growing numbers of people in Massachusetts.

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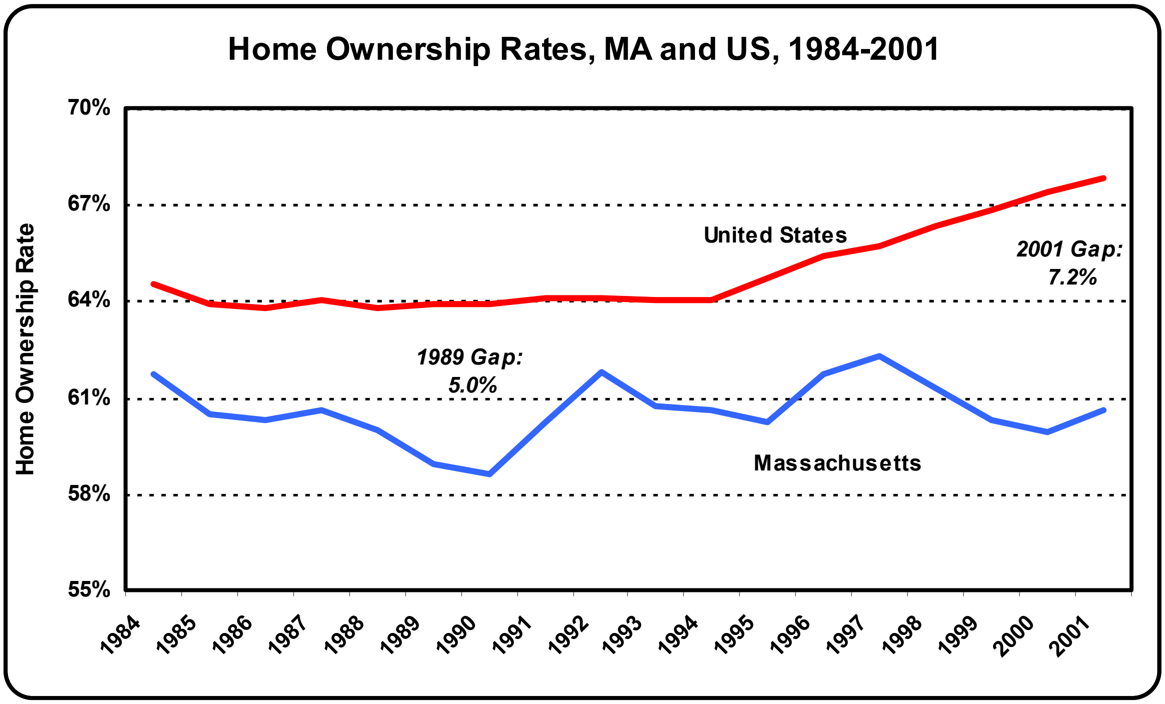
[10] *EBRI Databook on Employee Benefits, 4th Edition,* Washington, DC, 1997, p. 81-84.

[11] *Statistical Abstract of the United States*, U.S. Census Bureau (2001), pp. 456-458.

Figure 6.



Potential Sources of Economic Insecurity

The erosion of economic security in Massachusetts necessarily raises questions about the forces behind it. A complete response to such questions is beyond the scope of this report, but the data available allow some observations to be made about the changing nature of work and the changing Massachusetts economy.

Hours Worked

One possible source of greater economic anxiety that can be set aside almost from the outset is a decline in work effort among families in the Commonwealth. As Figure 7 shows, families in the Commonwealth, on average, were working longer hours at the end of the 1990s than at either the end of the 1980s or the end of the 1970s. Specifically, the average number of hours worked by Massachusetts families in 1998-2000 was 3,009, roughly equivalent to one and half full-time jobs. This is 1.0 percent higher than the comparable figure for 1988-1990 (2,977 hours) and 6.6 percent higher than the mark for 1979-1981 (2,824 hours). In other words, Massachusetts families today are working 32 hours more each year than a decade ago and 185 hours more – the equivalent of an extra month of full-time employment – than at the end of the 1970s.

Figure 7.

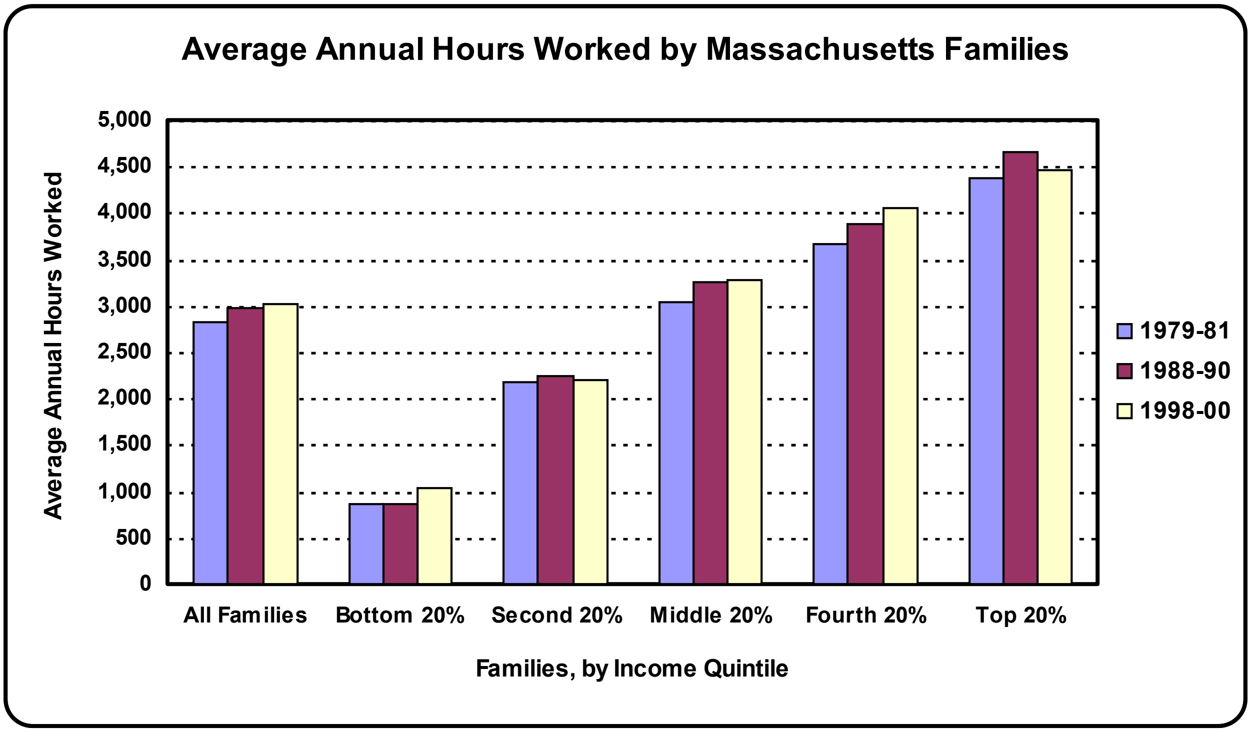
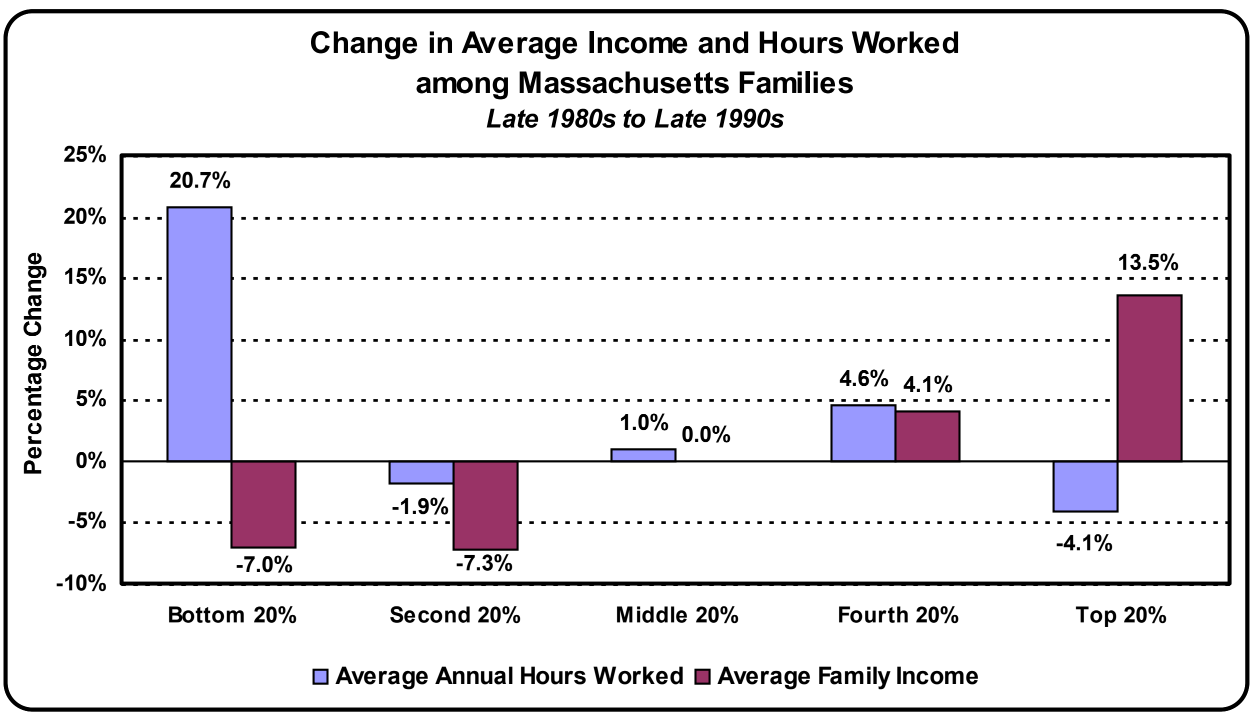


Figure 8.



More importantly, as Figure 8 demonstrates, families at the bottom of the income distribution in Massachusetts were working considerably harder at the end of the 1990s than at the end of the 1980s with significantly less to show for it. Between the late 1980s and the late 1990s, the average number of hours worked each year by families in the bottom 20 percent of the Massachusetts income distribution rose 20.7 percent, from 854 hours per year to 1,031 hours, but their average incomes fell 7.0 percent.

As unbelievable as this may seem, it becomes even more so when contrasted with the experience of families at the top of the income distribution. During the 1990s, families in the top 20 percent of the income distribution were able to reduce the number of hours they worked on average and yet enjoy substantial growth in their average incomes. The average annual hours worked by such families fell 4.1 percent between the close of the 1980s and the close of the 1990s – from 4,648 hours to 4,458 – but their average incomes climbed 13.5 percent – from $146,016 to $165,729.

Composition of Employment and Variation in Wages by Industry

While the change in *how much* people work does not seem to explain the erosion of economic security in Massachusetts, the dramatic change in the *type* of work available to them has arguably played a major role. As Figure 9 illustrates, over the past two decades, service sector jobs have accounted for a growing proportion of all non-farm employment in Massachusetts. In 1982, service sector jobs comprised roughly a quarter – 25.9 percent – of all non-farm employment in Massachusetts. That figure rose to 29.7 percent in 1989, and by 2001 it exceeded one-third, 36.8 percent.[12]

Conversely, the share of jobs associated with the manufacturing sector has declined precipitously since the 1980s, notwithstanding large state tax breaks given to manufacturers in 1995 when they promised to increase the number of manufacturing jobs in the Commonwealth. In 1982, manufacturing jobs constituted 24.1 percent of all non-farm employment in Massachusetts, about the same fraction as service-sector jobs. By 1989, they made up 18.0 percent of all such employment and, by 2001, they represented 12.7 percent, just over half their previous level. Figure 10, which presents data on the change in the number of service sector and manufacturing jobs in Massachusetts between 1982 and 2001, illustrates the shift away from manufacturing even more clearly.

[12] Data for all categories of employment in Massachusetts are not available prior to 1982.

Figure 9.

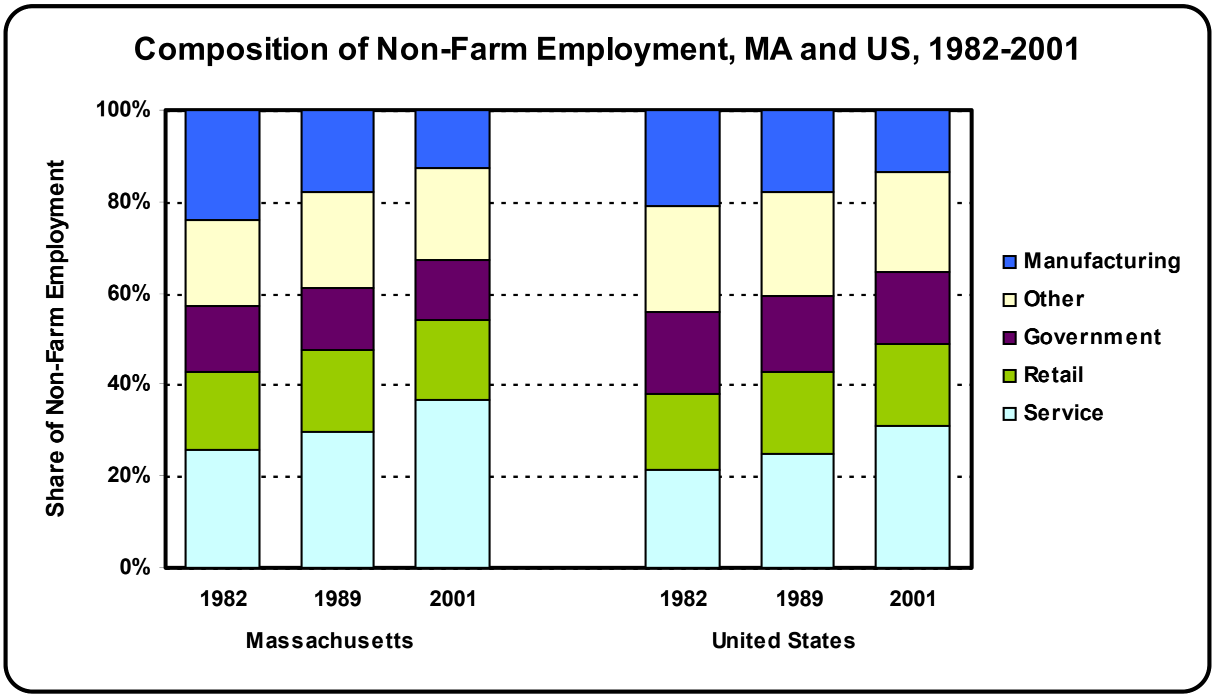
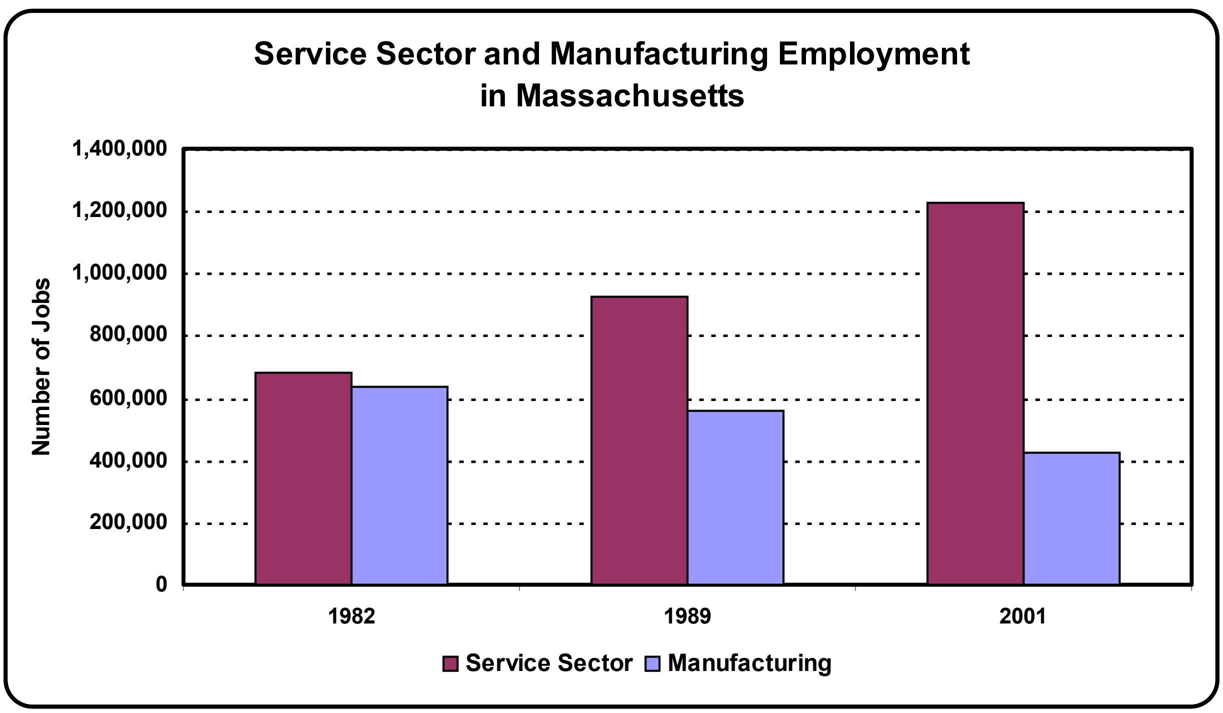


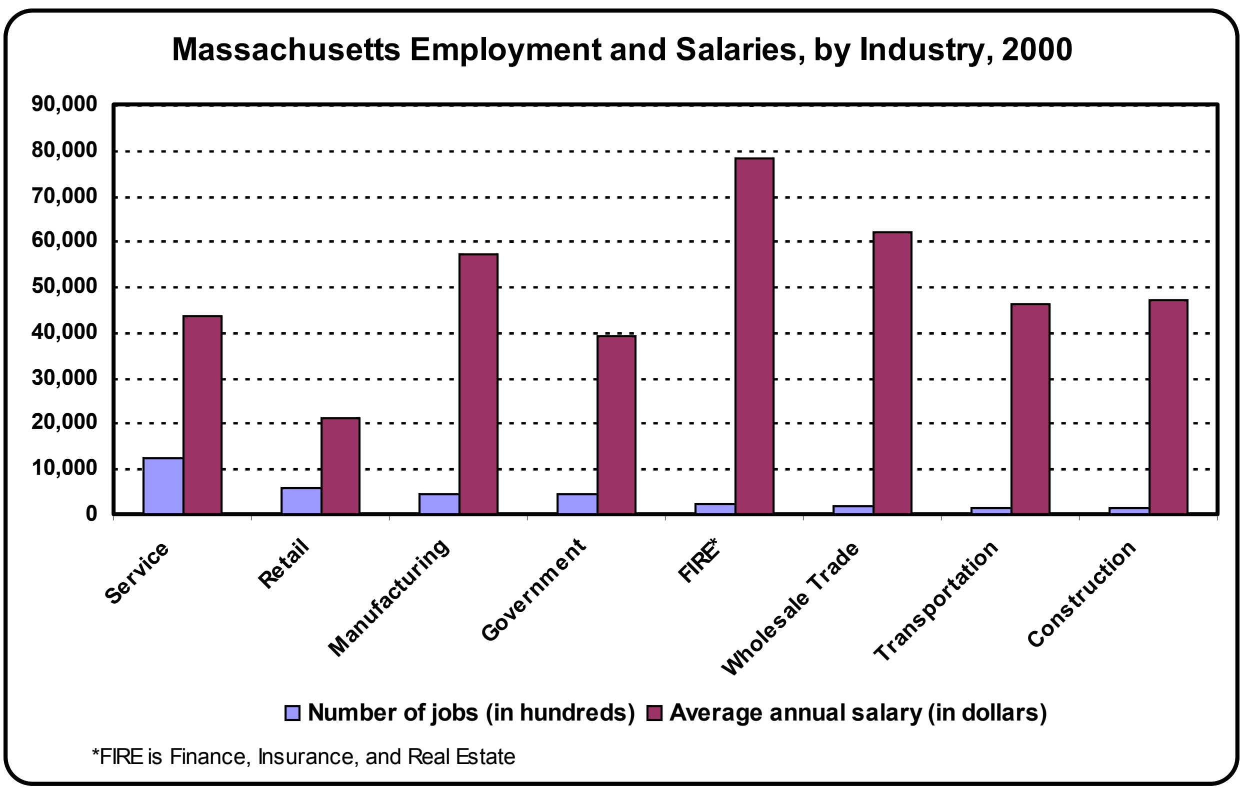
Figure 10.



Notably, the drop in the concentration of manufacturing employment in Massachusetts was more severe than the one experienced by the United States as a whole over the same period. Manufacturing employment comprised 21.0 percent of total U.S. non-farm employment in 1982 and 13.4 percent in 2001. Thus, while manufacturing played a larger role in Massachusetts than in the United States overall at the start of the 1980s, by the start of the new millennium, it made a smaller contribution to total employment in Massachusetts than at the national level. What's more, only 10 states saw a larger percentage point drop in their share of manufacturing employment than Massachusetts did during the 1990s.

The remaining categories of employment shown in Figure 9 – government, retail, and other (which covers a wide range of industries, including construction, transportation, and finance, insurance, and real estate) – have remained fairly constant by comparison. In 1982, the retail sector's share of non-farm employment in Massachusetts was 16.9 percent; in 2001, it was 17.2 percent. Government's share of employment declined by a slightly more than a single percentage point – from 14.2 percent in 1982 to 13.1 percent in 2001 – while the share that all other non-farm jobs comprised rose by a comparable amount – from 19.0 percent in 1982 to 20.5 percent in 2001.

Figure 11.



Given the wide disparities in the amount that workers in various industries are paid, the shift from manufacturing to the service sector should not be overlooked in attempting to understand the change in Massachusetts' economic fortunes. Preliminary data from the Bureau of Labor Statistics for 2000 – presented in Figure 11 – show that manufacturing workers in Massachusetts earn an average of $57,254 per year.[13] In contrast, service sector workers earn an average of $43,297 annually, or three-quarters of what manufacturing employees do. Worse still, jobs in the retail trades, which now comprise a larger share of all jobs in the state than manufacturing, pay just $21,000 per year on average, a little more than third of the average manufacturing salary. Indeed, as Figure 11 demonstrates, jobs in the retail and service sectors, which taken together are now the most common types of employment in the Commonwealth, pay less on average than any other type of employment, with the sole exception of government employment.

Income Inequality

Due to the trends described earlier, by the end of the 1990s, income was distributed more unequally in Massachusetts than almost anywhere else. In the late 1990s, the ratio of the average income of the top 20 percent of families in Massachusetts to the average income of the bottom 20 percent of families was 10.5 to 1, as seen in Figure 12. In other words, if ten families in the bottom fifth of the income distribution each earned the average income for that group, they still would not have as much to live on as one family in the top fifth. Just four states – New York, Louisiana, Texas, and California – had higher top-to-bottom income ratios than Massachusetts in 1998-2000.[14]

This has not always been the case in Massachusetts. At the end of the 1970s and again at the end of the 1980s, income was distributed more equally in Massachusetts than across the United States as a whole. *Only during the 1990s did income inequality in Massachusetts reach and then exceed the levels in the rest of the nation.* As Figure 12 shows, at the end of the 1970s, the ratio of the average income for the top 20 percent of families in Massachusetts to the average income for the bottom 20 percent of families was 7.0. The state's national ranking based on this ratio was 24th. At the end of the 1980s, this ratio was 8.6 and the state's corresponding ranking was 23rd. These ratios are cited, not to suggest acceptable degrees of the distribution of income, but to illustrate how much the income divide grew in Massachusetts during the 1990s.

[13] State and industry average annual pay data are available from U.S. Department of Labor, Bureau of Labor Statistics at www.bls.gov/news.release/annpay.t04.htm.

[14] For more on income inequality in Massachusetts, see *The Growing Divide*, TEAM Education Fund (April 2002).

Figure 12.

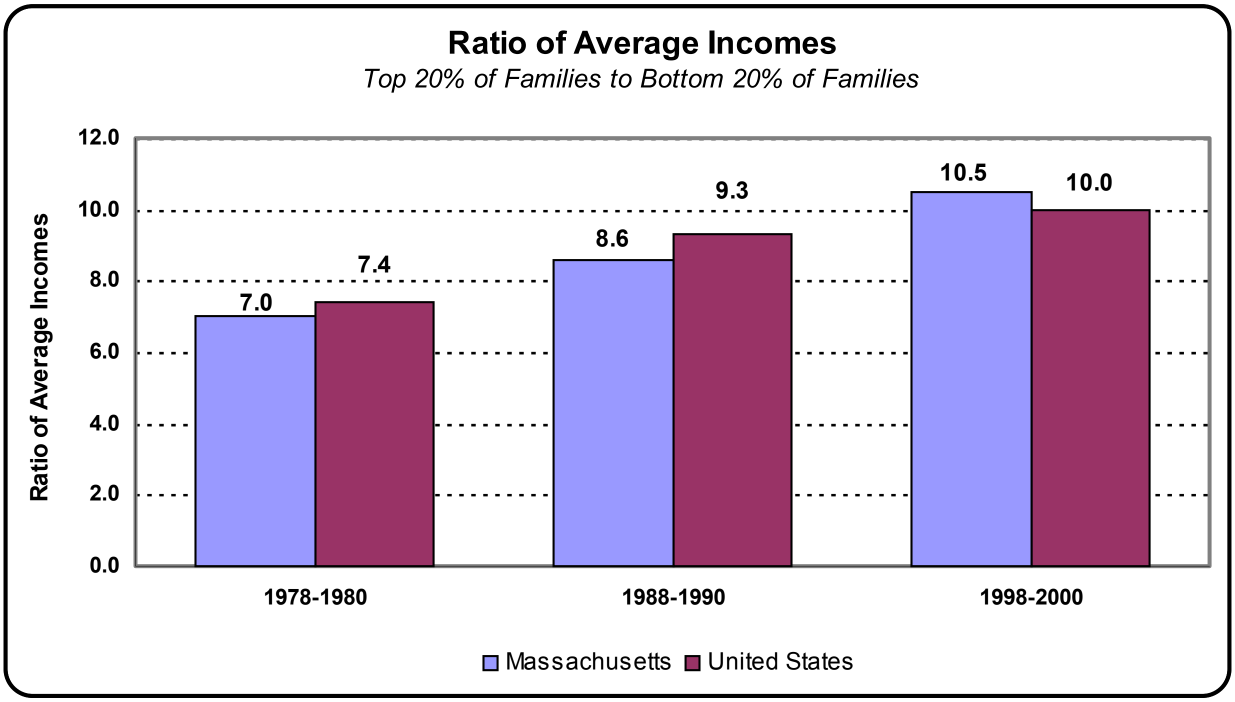
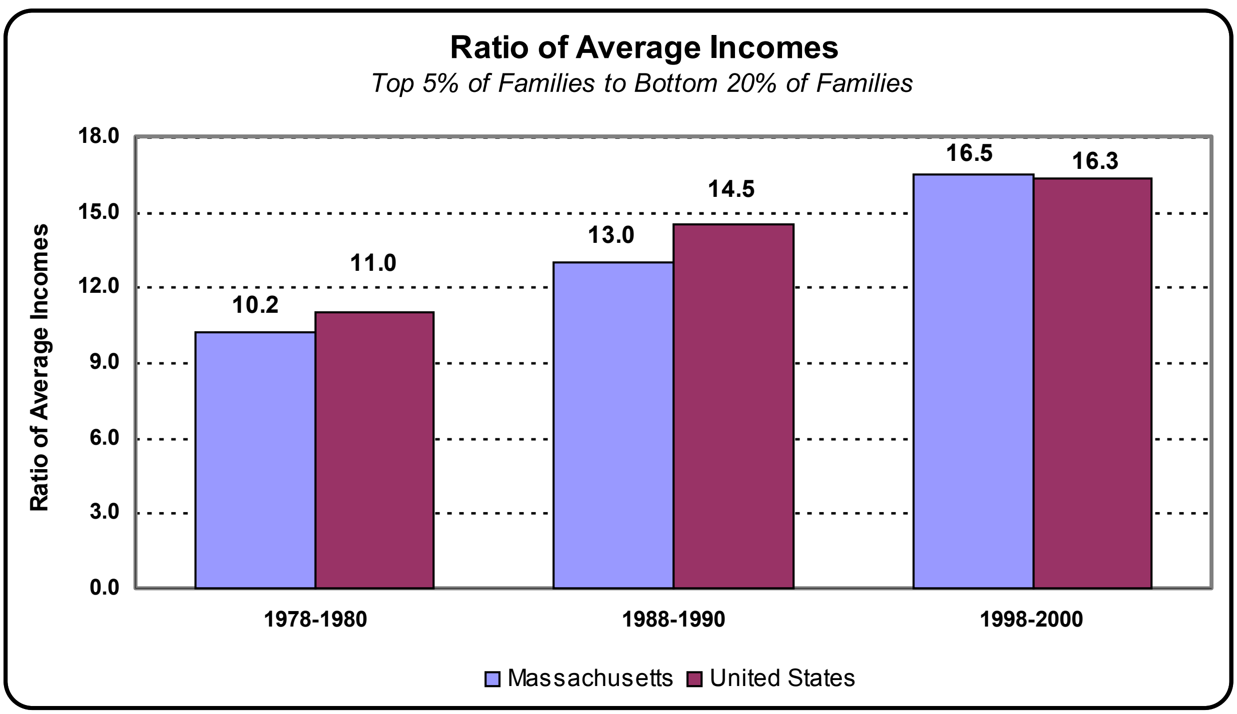


Figure 13.



Of course, the divide between the bottom and top 20 percent of families in Massachusetts pales in comparison to the rift between the bottom 20 percent and the top 5 percent of families. As Figure 13 indicates, in the late 1970s, the ratio of the average income for the top 5 percent of families to the average income for the bottom 20 percent of families was 10.2 to 1. By the late 1980s, it had grown to 13 to 1 and, by the late 1990s, it had reached a staggering 16.5 to 1. Again, the gap between the rich and the poor in Massachusetts was narrower than the national average in both the late 1970s and the late 1980s. Once more, only in the 1990s did income inequality in Massachusetts begin to exceed the national level.

As disturbing as these numbers may be, it is likely that they understate the gap between low- and high-income families. As noted previously, the Census Bureau income data on which this analysis relies do not include income from capital gains (that is, the profits resulting from the sale of investments such as stocks or bonds). Income of this sort is generally concentrated among the wealthiest segments of the population. For instance, the Congressional Budget Office reports that more than 75 percent of all realized capital gains accrue to roughly the top five percent of families in the United States.[15] As a result, the average income for the top five percent of families in Massachusetts was probably much higher than indicated here. On the other hand, families at the bottom end of the distribution do not have any significant capital gains income; their average incomes are thus largely unaffected by its exclusion from the Census data.

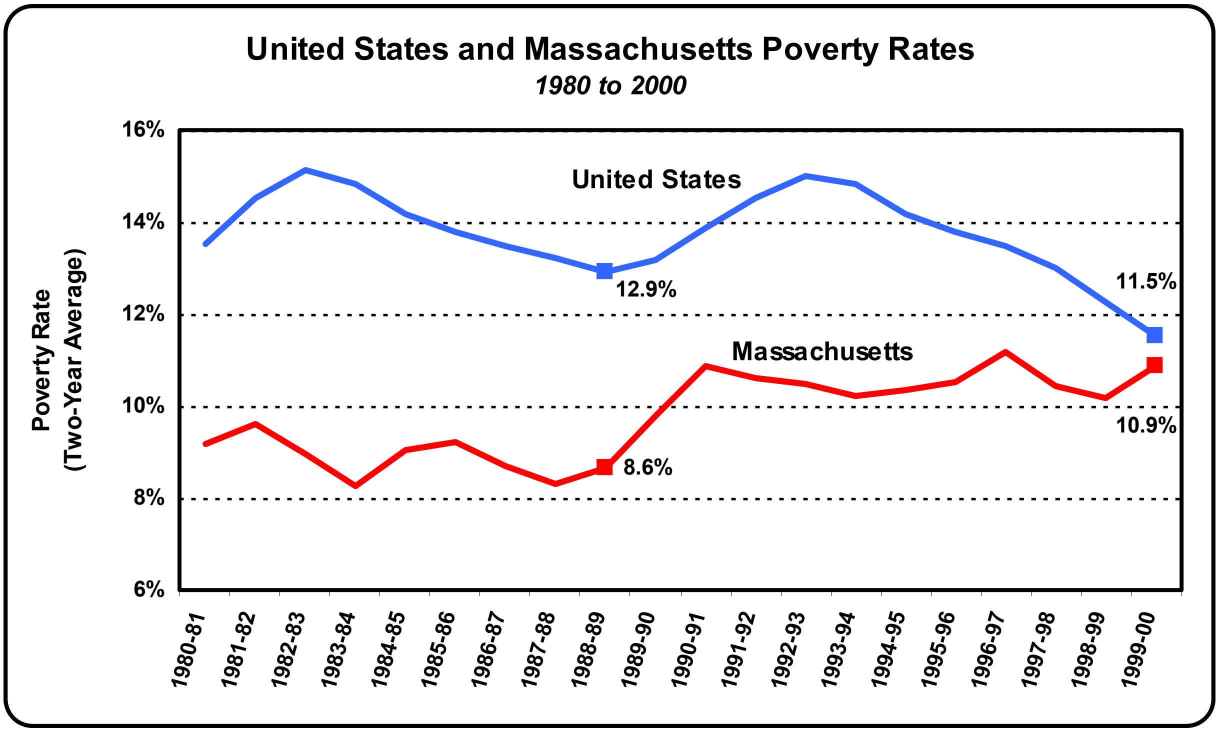
Poverty

Perhaps the most striking example of Massachusetts' inability to capitalize on the prosperity of the late 1990s is the Commonwealth's lack of progress in combating poverty. As Figure 14 demonstrates, the poverty rate in Massachusetts was less than 10 percent throughout the 1980s. In fact, the peak for the decade occurred between 1981 and 1982, when the poverty rate stood at 9.6 percent. However, during the recession of the early 1990s, the Massachusetts poverty rate climbed above the 10 percent mark and has not dropped below it since. In other words, while the poverty rate rose dramatically during the deep recession at the start of the decade – as might have been expected – it did not fall back to pre-recession levels during the long and robust economic recovery.

Consequently, just as the gap between Massachusetts and the rest of country in terms of median household income grew smaller during the 1990s, so too did the difference in poverty rates. At the end of the 1980s, the poverty rate was 8.6 percent in Massachusetts and 12.9 percent for the United States overall, a difference of 4.3 percentage points. By the close of the 1990s, the poverty rates for Massachusetts and

[15] *Perspectives on the Ownership of Capital Assets and the Realization of Capital Gains*, Congressional Budget Office (May 1997).

Figure 14.

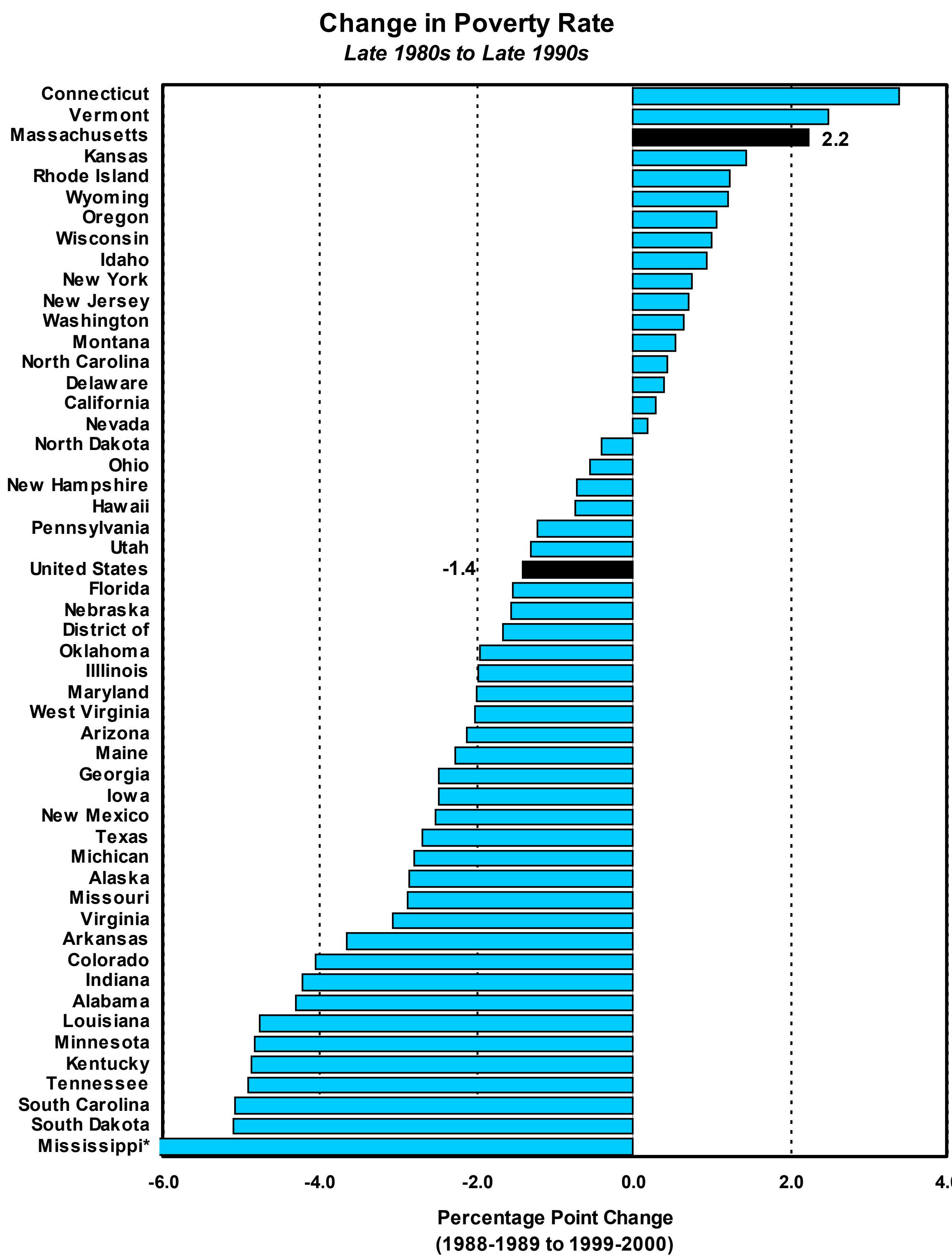


the United States were less than a percentage point apart, standing at 10.9 percent and 11.5 percent respectively. In other words, the difference in poverty rates between Massachusetts and the nation dropped by 86 percent over the course of the 1990s.

Persistently high levels of poverty in Massachusetts are troubling from a number of perspectives. One would have expected the poverty rate to have fallen substantially in a period of extended economic expansion and low unemployment. The concern over high poverty rates, however, go far beyond the disconnect between stagnant poverty and a prolonged economic boom. First, and most obvious, is the severe economic challenges facing families in poverty. The poverty data show that there are some 676,000 poor people in Massachusetts, 144,000 more than in the mid-1980s. As we will see below, a significant portion of these poor people are children, for whom poverty is a significant risk factor for a variety of health and educational problems.

Moreover, official poverty rates tell only part of the story. The national poverty level was initially established based on the relationship between the cost of groceries and family income in the 1950s. Since then, the poverty level has only been adjusted for inflation, despite widespread consensus among researchers and analysts that the poverty level is a poor measure for identifying those with inadequate resources. For instance,

Figure 15.



*The poverty rate in Mississippi fell 10.1 percentage points between 1988-1989 and 1999-2000.

research by the Women's Educational and Industrial Union suggests that, in 1997, a married couple with two young children living in Boston would have needed an income of $42,564 to be considered self-sufficient, more than twice the official poverty line for a similarly composed family at that time.[16] High and stagnant poverty levels are a sign that hundreds of thousands of people in Massachusetts are struggling to make ends meet.

Finally, it is important to recognize that Massachusetts is a high-cost state. Housing costs in particular stand out as a burden to those of even modest incomes, to say nothing of those with low incomes. Research at Harvard University's Kennedy School of Government suggests that the cost of living in Massachusetts is some 14 percent above the national average; only one state – Hawaii – has higher costs relative to the national average.[17] The poverty level, however, is set at a single level for the entire nation – $17,463 for a family of four in 2000, whether that family lives in West Virginia or Massachusetts. Simply put, $17,000 does not buy the same housing, food, and other necessities in Boston as it does in Wheeling. Thus, it is reasonable to conclude that there are more poor people in Massachusetts than those reflected in the official poverty figures. In fact, if the poverty levels were merely adjusted for the cost of living in each state, the poverty level in Massachusetts would quite likely now exceed the national average.

Thus, it is especially troubling that the official poverty rate grew more in Massachusetts between the late 1980s and the late 1990s than in almost any other state. Figure 15 shows that, while the poverty rate fell by as many as ten percentage points in Mississippi and by more than four in states like Kentucky and South Carolina, it grew by more than two percentage points in Massachusetts, the third largest increase in the country.

Finally, data from the 2000 Census reveal significant geographic variation in poverty rates across Massachusetts, as seen in Table 1 and again in Figures 16 and 17. In 1999, poverty rates ranged from a low of 4.6 percent in Norfolk County to a high of 19.0 percent in Suffolk County. Similar disparities exist among counties in terms of poverty among children, although child poverty rates are generally higher than those for the population as a whole. Child poverty rates were lowest in Nantucket County, which along with Norfolk and Hampshire Counties, had a lower child poverty rate than total poverty rate. At the opposite end of the spectrum, Hampden and Suffolk Counties both had child poverty rates that exceeded 20 percent – 22.7 and 24.9 percent respectively.

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[16] *The Self-Sufficiency Standard: Where Massachusetts Families Stand,* Women's Educational and Industrial Union and Wider Opportunities for Women (January 2000).

[17] Leonard, Herman B. and Walder, Jay H., *The Federal Budget and the States, Fiscal Year 1999,* John F. Kennedy School of Government, Harvard University (December 15, 2000). The FY 1999 Index is the most recent available.

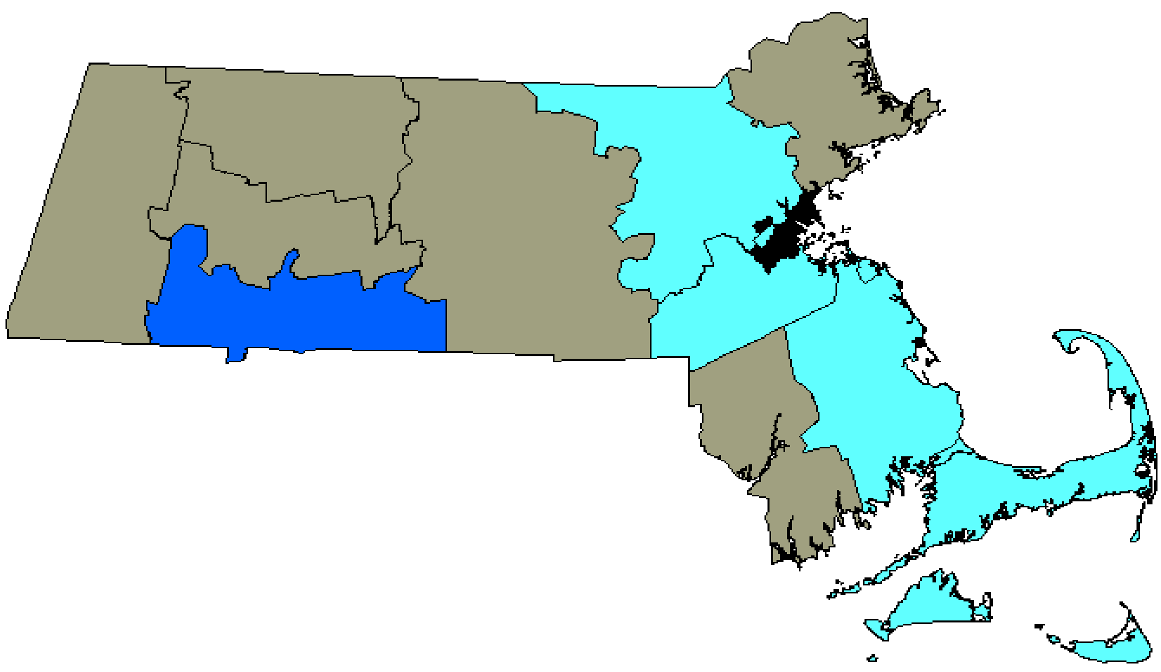
Table 1.

Poverty in Massachusetts, by County, 1999

County	*Individuals* Number Below Poverty Level	Poverty Rate	*Children Under Age 18* Number Below Poverty Level	Poverty Rate
Barnstable	15,021	6.9	3,817	8.6
Berkshire	12,204	9.5	3,580	12.3
Bristol	52,236	10.0	16,670	13.0
Dukes	1,083	7.3	348	10.4
Essex	63,137	8.9	21,143	11.9
Franklin	6,634	9.4	1,701	10.5
Hampden	65,024	14.7	26,105	22.7
Hampshire	12,585	9.4	2,370	8.2
Middlesex	92,705	6.5	23,231	7.2
Nantucket	712	7.5	42	2.3
Norfolk	29,377	4.6	6,564	4.4
Plymouth	30,649	6.6	10,364	8.3
Suffolk	124,918	19.0	33,712	24.9
Worcester	67,136	9.2	21,148	11.3

Figure 16.

Massachusetts Poverty Rates, by County, 1999

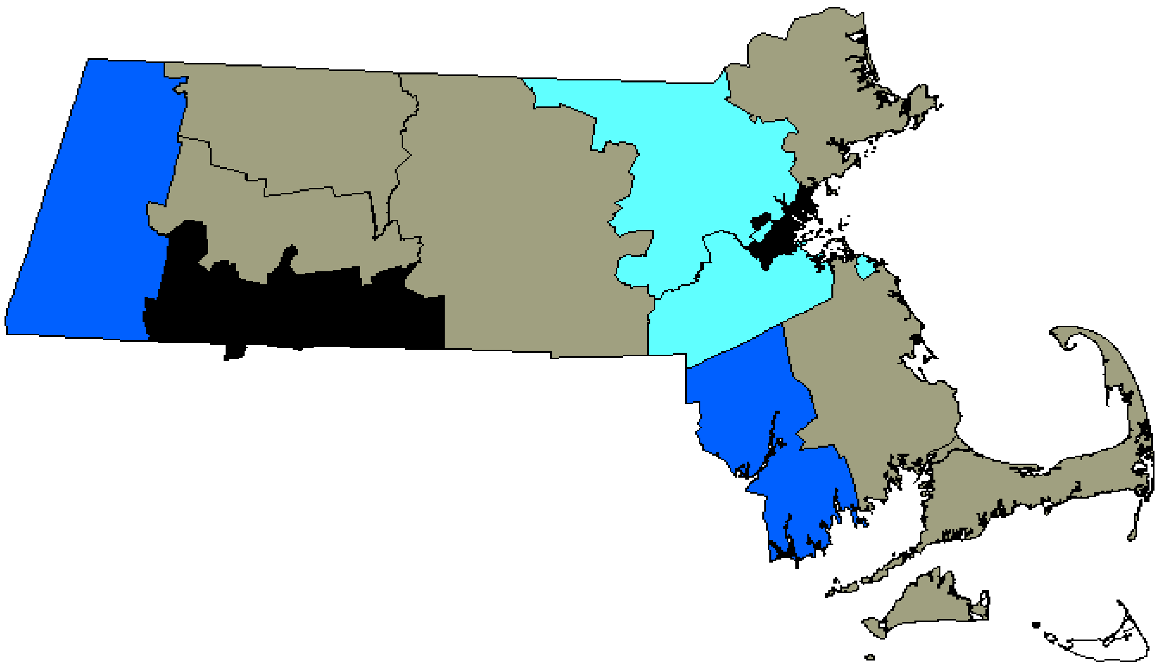


Less than 4 percent | 4 to 8 percent | 8 to 12 percent

12 to 16 percent | 16 percent or higher

Figure 17.

Massachusetts Child Poverty Rates, by County, 1999



☐	**Less than 4 percent**	☐	**4 to 8 percent**	☐	**8 to 12 percent**
☐	**12 to 16 percent**	■	**16 percent or higher**		

Conclusion

Massachusetts is – on the whole – a relatively affluent state. Yet, as this report has shown, when we scratch just slightly below the surface of higher-than-average incomes, we see large segments of the population that are not faring well. Families are working harder than ever and, despite these efforts, many see their incomes stagnating or even falling. Income growth during the 1990s was weaker than in most states, while during the course of the last decade Massachusetts changed from having greater income *equality* than most states to being one of the most *unequal* states in the nation. Promises of expanding the number of manufacturing jobs made to secure generous corporate tax breaks have not been kept. Poverty rates in Massachusetts have been remarkably high throughout the 1990s, all but erasing the gap between national and state rates that existed throughout the 1980s. Home ownership rates have fallen, while fewer and fewer workers can count on employer-provided health care benefits. Massachusetts may have boomed during the 1990s, but for too many of its families the boom was a bust.

It is truly discouraging to realize that this may be as good as it gets. Absent an aggressive strategy to reverse the trends of falling incomes, growing income inequality, high and stagnant poverty rates, reduced access to health care, and increasingly unaffordable housing prices, the situation will likely deteriorate further in the coming years. If a sustained period of full employment that gave a great boost to lower-income families across the nation failed to do the same in Massachusetts, it seems utterly unlikely that the halting, "jobless recovery" forecast for some time at least will succeed.

Despite the obvious need for programs to help struggling families, Massachusetts seems determined to pull the rug out further. Whether by eliminating Medicaid benefits for tens of thousands, making public higher education increasingly unaffordable, slashing housing programs, or reducing public health programs that can help prevent serious health problems, Massachusetts officials are moving in the wrong direction. Perhaps the worst example of the Commonwealth's penny-wise, pound-foolish approach to combating poverty, Governor Swift vetoed funds for expansion of full-day kindergarten, arguably the single most proven and effective means of giving children from poor families the start in life they need. While the legislature overrode that veto, the funds appear still to be at risk from her administrative powers to reduce spending.

Some may argue that, given the Commonwealth's current fiscal woes, such cuts are necessary to achieve a balanced budget. It is true that Massachusetts is in the midst of a fiscal crisis, one that is likely to last for several years and one that makes balancing the budget an undeniably arduous task. That argument takes too narrow a view of our responsibilities in the Commonwealth. At a time when an abundance of economic data show that the economic prosperity of the 1990s was not at all widely shared in Massachusetts, we cannot afford to balance the budget on the backs of those who did not share in the boom. The challenge for the new administration as well as for legislators returning to the statehouse in January is to construct an agenda that addresses the challenges facing all Massachusetts families, particularly those left behind during the 1990s.

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