The Great Recession: Impacts on Indiana and Beyond

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ABSTRACT

This speech was given by Dr. James Dworkin at the Annual Meeting of the Indiana Academy of Social Scientists held in Indianapolis, Indiana, on October 15, 2010.

Based on a recent study conducted by the Pew Research Center and on statistics gathered from the Bureau of Labor Statistics, the speech focuses on how the current recession has affected all aspects of society. It highlights such things as unemployment, spending habits, family dynamics, home ownership, education, and labor unions. The recession continues to affect all of these with many consequences. It may take several years before the economy and joblessness return to more normal levels.

KEY WORDS Economy; Economists; Recession; Unemployment

Thank you. I appreciate your warm welcome. It is my honor to be here today as the guest of the Indiana Academy of Social Sciences. This is a tremendous community of scholars. You can tell from my introduction that I, too, am a social scientist. My specialty is labor economics and labor management relations.

If you know me, you're aware that my areas of expertise are collective bargaining, negotiations, and dispute resolution. I've researched, analyzed, and discussed many of the same issues that you have. My interests parallel yours.

And that's why I've looked forward to being here with you today. The subject I am going to speak about today is "The Great Recession–Impacts on Indiana and Beyond." That's a provocative title, isn't it?

How many times have you heard a speaker say something like "We are living in unparalleled times?" Or maybe "Never before has our country faced challenges like those it confronts today?" Personally, I've heard phrases like that thrown around a lot. We all know they're overused. *But* if I repeat those statements to you today . . . it's because this time *they are true*.

To give you an idea, this summer The Pew Research Center released a report that opened with the statement "Fifty-five percent (55%) of all adults in the labor force say that since the current recession began in December 2007, roughly 33 months ago, that they have suffered a *spell of unemployment*, a cut in pay, a reduction in hours or have become involuntary part-time workers" [emphasis added]. Fifty-five percent. That doesn't count those people who may have had their salaries frozen like we have at Purdue University, or those who've been asked to bear more of the costs of their health insurance or other benefits.

Now consider this—while the current national unemployment rate stands at 9.6 percent, 32 percent—one third—of the adults in the labor force have been unemployed for an extended period of time during this recession. This is what economists refer to as spells of unemployment. Thirty-two percent. And about 42 percent of all unemployed Americans had been unemployed six months or more as of August, according to Bureau of Labor Statistics figures. These are very long spells of unemployment. That is sobering information. I'm confident in saying that 100 percent of us have either been directly affected by the recession or have friends or relatives who have been impacted by this recession. Who in this room does not know several unemployed persons?

The unemployment rate in Indiana hit 10.2 percent in August of 2010 with about 311,000 people looking for work. This was the fifth straight month that our state posted a double-digit jobless rate. But we do see that some states are doing better. It seems that no one is immune from the effects of this recession.

Harry Truman said, "It's a recession when your neighbor loses his job; it's a depression when you lose yours." In all deference to President Truman, let's try to differentiate between a depression and a recession. That's not as easy as it seems, because there isn't a universally accepted definition of the terms "depression" and "recession" to allow us to easily tell the difference. Some define an economic recession as a decline in the gross domestic product for two or more consecutive quarters. I can argue as a labor economist that there's more to a recession than that, but this is fine for a starting point of reference today.

However, it is more difficult to find consensus on a definition of a depression. Since the time of the Great Depression from 1929 to 1933, analysts have been reluctant to declare a depression, preferring to term our economic downturns to be *recessions*. But in general, a decline in gross domestic product of more than 10 percent is an indicator that an economy is going through depression.

But a new twist has been added by the National Bureau of Economic Research. On September 20, the bureau announced that its economists determined that what they termed as "a "trough" occurred in business activity in the U.S. economy in June 2009, causing them to believe that the recession actually ended then.

Using their methodology, the recession lasted 18 months, which still makes it the longest of any recession since World War II. Previously, the longest postwar recessions were those of 1973 to 1975 and 1981 to 1982, both of which lasted 16 months.

Even though the bureau's economists believe the actual recession ended in June 2009, the bureau noted that its study did *not* conclude that economic conditions have been favorable *or* that the economy has returned to operating at normal capacity or even that the economy is healthy. We all realize this and can see this and feel this every day.

The report notes that the economists *only* determined that the recession ended and a recovery began in June 2009. The economists also shared their opinion that any future downturn of the economy would be considered to be a *new* or "double-dip" recession and *not* a continuation of the recession that began in December 2007. A double-dip recession refers to a recession followed by a short-lived recovery and then another recession. The release of this statement generated a lot of conversation in the media, in classrooms, and in boardrooms.

An unscientific MSNBC poll found that more than 86 percent of its 140,000 or so respondents said that they are still pessimistic about the current state of the economy, regardless of the National Bureau of Economic Research declaration that the recession has in fact ended.

That being said, let's take a look at our current economic condition—whether we want to call it a recession or otherwise. Today, we are recovering from what has been considered to be the13th recession to hit the U.S. economy since the Great Depression, which ran for 43 months from 1929 to 1933.

The Pew report—which still terms our current economy to be a recession—notes that this recession stands out for two features that, taken together, validate its designation as the worst recession since the Great Depression.

One reason is the *surge in long-term unemployment***.** The typical unemployed worker today has been out of work for nearly six months, about 23.2 weeks. This is *almost double* the previous post-World War II peak of 12.3 weeks in 1982 to 1983. Long-term unemployment of this magnitude and duration raises a vexing question: Might the U.S. economy be going through long-term structural changes that will lead to relatively high rates of unemployment for years to come?

The second reason is *the meltdown in household wealth.* This recession has eroded more household wealth than any other time in the post-World War II era. This is because this recession was triggered by the bursting of bubbles in both the housing and stock markets, the two principal sources of household wealth. You'll remember for years we were advised to invest in real estate and were told that property will only appreciate in value. Real estate had been considered to be a "safe" investment. And so the Pew report found that about half—48 percent—of the public surveyed said they are in worse financial shape now than before the recession hit.

Government data backs that up. It shows that average household wealth fell by about 20 percent from 2007 to 2009, principally because of declining house values and retirement accounts. To make matters worse, of those who say their family finances have lost ground during the recession, 63 percent say it will take at least three years to recover. About 39 percent expect it will take six years or longer. In spite of this, 80 percent of Americans say that owning a house is the best long-term investment a person can make. I do think this number is important.

The responses to the Pew report do, however, indicate a sad reality that Americans have downsized their expectations about their retirements and their children's future and they've taken on a new frugality in their spending and borrowing habits. People now seem to look at themselves differently.

When asked to place themselves into one of five socioeconomic classes—upper, upper-middle, middle, lower-middle, and lower—a slightly higher share of Americans put themselves in the lower-middle and lower groups now—29 percent now versus 25 percent in March 2008. Half say they are middle class, which is down from 53 percent in 2008. Twenty percent place themselves in the upper or upper-middle, which is virtually unchanged from 2008. This may indicate that these individuals are more cushioned from the recession's negative fallout or more realistic about where they rank.

So, what are some of the long-term and short-term effects of the recession? From what we read in the papers, hear on radio and television, and pick up in conversation, most of us have changed our lifestyles during the past few years. In the Pew report:

- 62 percent of us say we've cut back on household spending.
- 71 percent are buying less-expensive brands.
- We've read that business at discount stores is booming and folks are buying more generic brands. We're learning to live without the luxury items that we used to think were necessities.
- About 57 percent of us have cut back or canceled vacation plans. Remember when we first heard the term "staycation"? That was coined when people decided to stay home for their vacations and enjoy nearby activities rather than travel out of town.
- Here is a number that I thought would be higher—9 percent of those surveyed say they have moved back in with their parents. Among adults ages 18 to 29, this figure rises to 24 percent.
- You might say that a positive outcome of this is that half of the respondents say they've reduced the amount they owe on mortgages, credit cards, car loans, and other borrowing.
- And about 42 percent of those with savings or retirement accounts have taken a more conservative approach to saving and investing. Just 8 percent are taking a more aggressive approach.

It will be interesting to find out if these new habits of thrift and caution will outlive this recession. When asked to predict their financial behaviors once the economy recovers, 48 percent say they *plan* to save *more*, 31 percent say they *plan* to *spend less,* and 30 percent say they *plan* to *borrow less*. Interestingly, only small percentages say the reverse—that they plan to save less and borrow and spend more.

Is it best to save your money during a recession? Economists talk about the *Paradox of Thrift*. This is an economic concept that while savings may be good for one person, if everyone tries to save a larger portion of their income, then total revenues for companies will decline and this savings will be bad for the economy as a whole. Why? Because when people are spending less, it means consumption falls and the dominoes begin to fall; manufacturers make fewer items and need fewer raw materials, fewer items are shipped, and retailers sell fewer items.

What happens next? Jobs are lost, wages fall . . . . Sound familiar? I've already noted that 55 percent of the Americans surveyed said that they have personally experienced unemployment or a cut in hours, been asked to take an unpaid leave or a salary reduction. This has brought about a *surging poverty rate*. As defined by the Office of Management and Budget, the weighted average poverty threshold for a family of four in 2009 was $21,954.

With that number in mind, the 2009 poverty rate of 14.3 percent was the highest since the 14.5 percent rate in 1994. It is a significant increase from the 13.2 percent of 2008. In numbers, this translates to 43.6 million people, or 1 in 7, in poverty last year. The 43.6 million people living in poverty in 2009 is well above the 39.8 million in 2008. Federal assistance kept some people above the poverty line. Expanded unemployment benefits helped to keep about 3 million families above the "official" poverty level. Food stamps and tax credit also helped millions.

About 35 percent of the jobs lost in 2007 and 2008 were at the bottom two-fifths of the wage spectrum—paying $8.92 to $15 an hour. For a full-time worker those jobs pay $18,553 to $31,200 a year. However, jobs in this wage scale accounted for 76 percent of the net growth in jobs this year. Industries that paid $17.43 and $31 an hour—the top two-fifths of the spectrum—$36,254 to $64,448 a year, accounted for 48 percent of the job losses but only 5 percent of the new job growth in 2010.

To put this in perspective, the U.S. Census Bureau notes that real median household income in the United States in 2009 was $49,777, not statistically different from the 2008 median. We need these higher wage jobs to return if we are going to have a healthy economy to sustain us.

Another interesting trend is that women seem to fare slightly better in the unemployment trends. The unemployment rate for men aged 20 and older is 9.8 percent. For women, it is 8 percent. Bear in mind that women make up 47 percent of the total labor force. At one time, women in the workforce were secondary earners in their households; in many instances now they are the sole breadwinners—either [they are] single women supporting themselves [or themselves and] their children or they have an unemployed spouse. Today, women's median weekly earnings are 83 percent of that earned by men. But this is up from 76 percent a decade ago.

Now bear in mind that women earn 60 percent of all bachelor's and master's degrees. But the analysts believe their lower pay is caused in part because women are drawn to professions that traditionally pay less—such as social work and elementary school teaching—a phenomenon referred to as self-selection.

An interesting thing also happened to the number of self-employed Americans. Generally, self-employment jumps during and immediately following economic downturns—usually because workers who've lost jobs want to venture out on their own. But about 8.68 million people were self-employed in August, which is the lowest number since January 2002. This probably reflects the tight credit market—people can't get the money needed to start a business, and potential customers cannot put their hands on money to buy additional goods and services. For many years we've seen entrepreneurs and small businesses as the backbone of our economy, and these numbers do not paint a picture of a stable economy.

Looking at the state of Indiana, our census data indicates we have 6,423,113 people in the state. Indiana's labor force—which includes anyone working or unemployed and looking for a job in the state—numbers about 3,140,548 workers. Bear in mind that our pool of workers shrank at a faster rate than did those of other states during the recession. Our work force peaked in January 2009 and since has dropped 140,000 workers—even briefly falling below levels from the 1990s.

But everything we read today states that job seekers generally can't be choosy—they have to jump on the opportunities that present themselves. When someone has been unemployed for weeks and months, they usually need that job, its income, and its benefits . . . . and we're finding fewer jobs are offering the benefits that we've grown accustomed to.

Which leads to the next point that was included in the Pew report—of the reemployed workers interviewed, 54 percent say they are overqualified for their current jobs. Many of them admitted that they felt they could not afford to be choosy when pursuing jobs and are making due with what's out there. Just 45 percent of the reemployed workers feel their qualifications and education fit their new jobs. Only 38 percent of those reemployed workers say they are being paid more than what they earned at their former jobs. Remember when people changed jobs because they got an offer with a *higher salary*?

It has been estimated that even when we see a visible recovery in our economy, it will take us eight or nine years to regain our employment levels and drop our unemployment closer to the historic norm of 5 percent. The most recent Bureau of Labor Statistics report indicates that the government projects there will be a total of 15.3 million new jobs by 2018 and, should that forecast hold true, we will reach that historic norm of 5 percent unemployment. There are currently around 15 million unemployed workers in the United States out of a labor force of 150 million people.

Unemployment has also had a deep impact on those planning or looking forward to retirement. There are some conflicting findings here that I think you'll find interesting. The Pew report found that of those individuals ages 50 to 61 who are currently employed, 60 percent say they may have to delay their retirement because of the recession. That's understandable. Many of them lost significant amounts of their retirement accounts. Some have had children move back in with them and their family situations have changed. On the other hand, we have government data indicating that Americans are retiring and claiming their Social Security benefits in record numbers. That has been attributed to the fact that people eligible for retirement are losing their jobs and feel they have no option but to retire. In 2009, a record 2.74 million persons applied for Social Security, and 70 percent of them sought early retirement, meaning they were settling for reduced benefits.

When people alter their retirement plans, it causes some interesting situations. When people work longer, that means that job doesn't open for another worker. For example, when you or I decide to retire, it sets in motion a sequence of events—someone is hired to take that job, then someone is hired to fill the job that that person vacated, and so on. Ideally, each person who moves up the ladder gets a raise. And as long as we're speaking of the ideal, a job opens somewhere along the line that brings someone new into the work force. But if someone works past their usual retirement age, that interrupts this cycle, meaning that a worker is left to seek a position that may not yet exist.

On the other hand, if workers who lose their jobs are filing for Social Security earlier than they planned, they face living on reduced benefits from Social Security, and if they have an IRA or other account, that may not have grown to a size that will support them in retirement. The three-legged stool of Social Security, pensions, and private savings has three very wobbly legs today.

If you know me, you know that I believe in the power of an education to transform lives. Philanthropist Eli Broad, the son of immigrants and a product of the Detroit public schools, who became an entrepreneur building homes and later insurance and investments, said, "Public education is the key civil rights issue of the 21st century. Our nation's knowledge-based economy demands that we provide young people from all backgrounds and circumstances with the education and skills necessary to become knowledge workers. If we don't, we run the risk of creating an even larger gap between the middle class and the poor. This gap threatens our democracy, our society, and the economic future of America."

Let's consider this: The unemployment rate for individuals with at least a bachelor's degree is a fraction of the unemployment rate for high school graduates. The August unemployment rate for those without a high school diploma stands at 14 percent. For high school graduates, the unemployment rate falls to 10.3 percent. If one has some college experience or has earned an associate's degree, unemployment drops even further, to 8.7 percent. But perhaps the most astonishing is that unemployment for college graduates is 4.6 percent. College graduates generally earn more, too. The College Board found that the median earnings of bachelor's degree recipients working full time year round is $55,700, while the high school graduate earned $33,800, a $21,900 or 40 percent difference. Now, we used to say that a college graduate will earn about $1 million more than a high school graduate during their lifetime, but that figure has been changed somewhat. The College Board—the people who first generated that million-dollar figure—now states that the typical bachelor's degree recipient can expect to earn about 66 percent more during a 40-year working life than the typical high school graduate earns over the same period.

When you look at the top jobs that are hiring and those jobs that pay the highest salaries, you will see almost all of them require a college degree.

Here are the top 10 jobs listed in the Hoosier Top 50 jobs:

- Computer Software Engineer
  - Salary: $72,268
  - Education: bachelor's degree
- Management Analyst
  - Salary: $66,691
  - Education: bachelor's or higher degree, plus work experience
- Physician and Surgeon
  - Salary: $166,400
  - Education: professional degree
- Network Systems and Data Communications Analyst
  - Salary: $61,292
  - Education: bachelor's degree
- Registered Nurse
  - Salary: $56,393
  - Education: associate's degree; preferably a bachelor's degree
- Construction Laborer
  - Salary: $36,739
  - Education: moderate on-the-job training
- Construction Supervisor
  - Salary: $57,377
  - Education: work experience in a related occupation.

Purdue North Central has an Engineering Technology bachelor's degree program with a concentration in building construction management technology, and those graduates are in demand, so I know that having a bachelor's degree in this field really pays off too.

- Industrial Engineer
  - Salary: $69,087
  - Education: bachelor's degree
- Counselor
  - Salary: $41,249
  - Education: bachelor's degree
- Accountant
  - Salary: $55,909
  - Education: bachelor's degree

Let's be honest—there are many jobs that are never coming back. Some jobs are lost because some professions have become obsolete. Some industries have modernized and now one person can do what had taken two or three workers to do. For many people, the best path to pursue to long-term secure employment is through earning a bachelor's degree.

But studies also show that millions of American job hunters risk permanent unemployment as industries undergo radical change and some skills become irrelevant—leading to what is called *structural unemployment.* Put simply, the skills possessed by many unemployed persons do not match the skills needed for the current jobs! Again, education and training become keys to employment. Our entire concept of how we seek employment and our expectations of employment security have changed dramatically in the past few years. Gone are the days when people begin a job and stay there until the day they retire. Even baseball players very seldom remain with the same team for their entire careers anymore! Workers are required to be mobile so they are able to go where opportunity exists. And they are going to have to be flexible—to challenge themselves to take on a new career or to seek further training or education when necessary.

And before I conclude, let me say a few words about the role of labor unions in our current economy. At one time, unions were employment powerbrokers. Today, union numbers are dwindling. There are just over 15 million union members in our work force—representing about 7 percent of private-sector workers and close to 37 percent of public-sector workers. According to the Bureau of Labor Statistics, overall, about 12.3 percent of the American work force belongs to a labor union.

Today, about 7 percent of the private-sector work force belongs to a union, but more than 37 percent of the public-sector employees are unionized. Back in 1973, about 25 percent of the private-sector employees belonged to a union. Remember, today, it's down to 7 percent. Compare this to the 1950s, when about 35 percent of the work force belonged to a union. For many workers of that era, unions were the key to joining the middle class. Wages were good, there were good benefits including paid vacation time, holidays, and pension plans. The percentage of workers in unions has dropped.

In spite of the hard times unions have fallen upon, it is a fact that on average, union workers' wages are 30 percent higher than [those of] their nonunion counterparts. While only 14 percent of nonunion workers have guaranteed pensions, 68 percent of union workers do. More than 97 percent of union workers have jobs that provide health insurance benefits, but only 85 percent of nonunion workers do.

Unions are still relevant to their members and do have a place in today's workplace. But it is up to the unions and their members to decide how to make themselves relevant to restore the former power of unions, as Julius Getman says in his new book, *It Takes a Movement.*

So, how do we sum all of this up? Ben Bernanke, chairman of the United States Federal Reserve, said, "Over the years, the U.S. economy has shown a remarkable ability to absorb shocks of all kinds, to recover, and to continue to grow. Flexible and efficient markets for labor and capital, an entrepreneurial tradition, and a general willingness to tolerate and even embrace technological and economic change all contribute to this resiliency."

It is a fact that the impact of this recession will be felt not only today and tomorrow but for years to come. Do we do enough to keep people employed? I recently read an article that put forth the premise that this recession has molded a generation dubbed the Recession Generation. It explained the "new normal" for millions of Americans—fewer jobs, stagnant and even falling wages, and overall lowered expectations. This article went on to say that research has shown that people in this situation tend to withdraw from their communities. Attendance at churches [and] community organizations goes down—thus, the overall quality of life in our communities is negatively affected.

Parental unemployment has very negative consequences on children, as parents may be strapped for cash, be forced to give up their homes, or relocate for employment—all stressful family situations. We also see parents who can no longer afford extracurricular or enrichment activities for their children, and for some families, there is no money for college.

The Indiana Academy of Social Sciences Web site contains a quote from the book *The Good Society* that states the belief that "a concern for understanding our own society inevitably raises the question of where we are in relation to all other human cultures, past as well as present." And I add "the future." In today's world, it is often difficult to look at past history, patterns of behavior, and historic data and extrapolate what *should* happen next.

Remember, Alan Greenspan, once thought to be the ultimate economic guru, recently admitted that he "screwed up" in keeping interest rates too low for too long. Today, like at no other point in history, our world is smaller than ever, yet larger than ever. The world is moving closer together yet farther apart. The world really is flat!

It has been my pleasure to be here with you today. I would be pleased to hear your comments and questions.

Thank you.

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