Issue Brief
AFL-CIO • 815 16th St., N.W. • Washington, D.C. 20006

A Summary of Economic Markers

Mid-Year 2002

NOTHING IS MORE FUNDAMENTAL to working families' economics—and ultimately to the nation's economy—than good jobs that pay well, provide decent benefits and offer real promises of present and future economic security. Working families were the biggest losers during the recent economic downturn and today are eagerly awaiting a recovery. But the news on that score is decidedly mixed, with a review of key indicators—jobs, retirement and health security and wages—suggesting that many families continue to suffer and face uncertain futures.

Unemployment still high

Working families are reeling from the economic downturn that began in 2001. The so-called recovery appears to be faltering. And many fear the economy is teetering on the brink of further recession.

The economy grew at an anemic 1.1 percent rate in the April–June quarter, much slower than expected. So far this year, the rate of growth has been 3 percent, and the Office of Management and Budget (OMB) has predicted that overall growth for 2002 will be only 2.6 percent. In comparison, economic growth in 2000 was 3.8 percent.

Unemployment today stands at 5.9 percent compared with 4.6 percent in July of 2001. In addition to the 8.3 million workers officially counted as unemployed last month, another 1.5 million individuals (300,000 more than this time last year) wanted jobs and were available for work but were not counted as unemployed because they had not actively looked for jobs recently. Altogether, 9.8 million individuals want to work but cannot find jobs.

Unemployment has risen steadily throughout the Bush Administration, beginning well before the Sept. 11 disasters. The total jobless rate was only 4.2 percent when the president took office in January 2001. It had risen to 4.9 percent just before Sept. 11 and was 5.9 percent in July of 2002. (See chart, page 6.)

More long-term unemployment

Not only are more individuals unemployed, they are enduring longer periods of joblessness. Today, more than 1.5 million have been unemployed for at least six months—more than two times as many as a year ago. More than 1.3 million workers now have been unemployed for between three and one-half and six months, half again as many as a year ago.

Among the jobless who are receiving temporary federal extended unemployment compensation, more than 800,000 are expected to exhaust those benefits this year, including 102,000 in New York, 93,000 in California, 55,000 in Florida, 50,000 in Illinois and 70,000 in Texas.

Wage growth lagging behind worker productivity

Real hourly wages are rising, but they have not kept pace with the 8.3 percent rate of growth in labor productivity in the first quarter of the year. Over the past year, average hourly earnings rose by 2.7 percent in real dollars, a level that is still about 5 percent below that of the early 1970s. Average weekly work hours—and hence, average weekly earnings—fell in July.

Income inequality has increased steadily since the 1970s. In the late 1970s, the richest 20 percent of families had average incomes 7.4 times greater than the poorest 20 percent of families, according to the Economic Policy Institute. By the late 1980s, that ratio had increased to 9.3. Although strong wage growth in the 1990s for low-paid workers had helped narrow the gap, the ratio increased further to 10.0 by the end of the decade.

Retirement "insecurity" a major threat for working families

In May, the Economic Policy Institute issued a disturbing report about future retirement security prospects for working families. Among other things, the report found that more than 40 percent of families with mid-life workers would be unable to replace half of their pre-retirement income when they retire, and that 20 percent would be in poverty. This bad news pre-dated the recent stock market plunge, which is having a profound effect on retirement security for workers and for those already retired: At the end of June 2002, nearly two-thirds of all 401(k) assets were invested in stocks.

Between 1999 and 2001, the average 401(k) account balance fell 20 percent, from $45,681 to $36,390. During the first seven months of this year, the broad-market S&P 500 index fell 20.6 percent, a worrisome trend for Americans who are counting on 401(k) savings for retirement: Since its peak, the value of stock in collectively bargained retirement funds has declined by about $1.5 trillion. The potential under-funding for defined-benefit plans could be as much as $100 billion to $150 billion.

The combination of the severe downturn in the stock market and low interest rates is creating tremendous retirement insecurity for older workers. Assuming the stock market values and interest rates from mid-July hold through the end of the year, a 62-year-old worker expecting to retire at the beginning of 2003 would get nearly 46 percent less in lifetime retirement income from a private retirement account (invested half in stocks, half in bonds) than someone who retired in 2000. Someone fully invested in stocks would see a 56 percent cut. Many workers facing this prospect will have to delay retirement or do with much less than they expected.

Health care woes for many

Despite the nation's vast riches and our medical system's capacity to deliver the best health care money can buy, access to good and affordable health care continues to elude shameful numbers of Americans.

Even in the boom years of the late 1990s, when tight labor markets encouraged employers to maintain or expand health coverage for their employees, nearly 40 million Americans were uninsured. The overwhelming majority, roughly 80 percent, were in families with at least one worker. And whether insured or not, a surprising share of Americans had medical needs they could not meet, even as the economy soared between 1997 and 2001. In 1997, 3.9 percent of insured Americans and 13.5 percent without insurance reported that they had unmet health care needs or had to delay seeking care; by 2001, these shares had actually increased—to 4.4 percent for the insured and 15 percent for the uninsured. Nearly two-thirds (62.4 percent in 1997 and 62.6 percent in 2001) cited cost as the main reason they had to postpone care, or were unable to get it at all.

Fast forward to 2002, and rising unemployment, skyrocketing health care costs and more limited resources for public health care programs are only making matters worse. According to a nationwide survey reported in June, more than one in five Americans have had to delay seeking care and had difficulty paying medical bills; more than one in 10 have been unable to get needed treatments or medications; and almost 10 percent have been unable to get health insurance.

Health care costs have increased an average of 13 percent to 16 percent this year and are expected to grow by a comparable amount next year. A Hewitt Associates survey found that many employers are likely to pass along at least 25 percent to 30 percent of these price hikes to their employees. Such cost-shifting inevitably will add to the ranks of the uninsured: An earlier AFL-CIO study found that between 1989 and 1996, premium cost-shifting accounted for 75 percent of the decline in employment-based coverage.

Prescription drugs represent the fastest growing share of overall health cost hikes. Since 1995, national spending on drugs has grown by more than 10 percent annually, a rate more than double that of other aspects of health care spending (hospital care or physician and clinical services). Around 11 million seniors and 26 million non-elderly adults have no prescription drug coverage. For many of them, needed medications—especially newer, more costly treatments—are completely out of reach or force them to make wrenching choices between basic life necessities. Rising drug costs are also likely to lead to deep cuts in, or elimination of, retiree health coverage. Drug costs constitute 40 percent to 60 percent of employers' retiree health care costs, and steep price hikes are prompting employers to eliminate drug benefits, cap their contributions or drop retiree coverage altogether.

Reductions in funding for public programs also are threatening health care coverage, especially for low-income children. According to the OMB, enrollment in SCHIP (the children's health care program) is likely to fall by 900,000 over the next three years, as previously planned funding cuts take effect. This enrollment decline is more than twice as great as OMB predicted just last year.

The depression in manufacturing

The manufacturing crisis has continued, with the loss of an additional 7,000 jobs in July. Although the number of monthly manufacturing job losses has slowed from previous months, employment in this sector (16.8 million) is down by 2 million since April 1998, the pre-recession manufacturing peak, and down by almost 1 million in the past 12 months alone.

In just over four years, the United States has lost nearly one in nine manufacturing jobs. That includes one in five jobs in primary metal industries and in motor vehicles and equipment, one in three in apparels and other textile products and more than one in four jobs in textile mill products.

With manufacturing job losses linked strongly to trade imbalances, it is little wonder that the number of workers certified for Trade Adjustment Assistance during the first six months of 2002 alone—153,000—exceeds the 143,000 workers certified during all of 2001.

Though manufacturing activity overall improved somewhat in the past six months, two late July reports underscore the sector's ongoing vulnerability. According to the U.S. Commerce Department, orders for factory-manufactured goods fell 2.4 percent in June (a significantly greater decline than the anticipated 1.7 percent fall). And in another indicator, the Institute for Supply Management's index of business activity—reflecting manufacturers' orders for raw materials—fell to 50.5 percent in July, down from 56.2 percent in June and nearly 5 points below the predicted index of 55 percent. An index of 50 percent signifies that manufacturing is contracting.

The loss of manufacturing jobs is a major blow for working families and their communities. Traditionally, manufacturing jobs pay better and provide benefits superior to jobs in other sectors; many industrial workers, often long-term employees of a single manufacturer, cannot find comparable replacement jobs. In addition, every manufacturing job supports creation of roughly three additional jobs. The nation's manufacturing crisis thus not only reduces the standard of living for workers in that sector but also has a spillover effect on workers in the jobs supported by manufacturing. Not surprisingly, whole communities suffer when their local manufacturers are in decline.

Trade deficit up, while U.S. foreign debt threatens economic stability

The trade deficit in goods and services—the difference between what we buy from vendors in other nations and what we sell to them—totaled $37.6 billion for May and $169 billion for the first five months of 2002. Both figures ran well ahead of comparable figures for 2000 and 2001, years of record trade deficits. If the full-year trade deficit exceeds 2000's by the same percentage it has in the first five months, we will end the year with a mammoth $430 billion trade deficit.

Between year-end 2000 and 2001, the U.S. net foreign debt soared by 45 percent, to $2.31 trillion, or 23 percent of the nation's GDP. The trade deficit is a major factor in this huge increase, as foreigners have used dollars from the sale of goods and services in the United States to buy U.S. stocks, bonds, real estate and businesses. At a minimum, mounting foreign debt imposes a growing burden on Americans to service this debt—by paying dividends, interest and rents to foreign investors—in the years ahead. But, it also puts U.S. economic stability at the mercy of foreign investors and their willingness to remain invested in the United States. If foreigners were to lose confidence in American markets and sell these assets abruptly, the dollar—instead of declining gradually as it has in recent months—would plummet and interest rates skyrocket. A steep recession and serious economic dislocations would be almost inevitable.

States wrestling with major budget crises

The states face an immediate budget crisis, brought on in part by the recession and exacerbated by last year's federal tax cut. Some 43 states had budget shortfalls in FY 2002, totaling $37.2 billion. California led the states with a $7.2 billion shortfall for FY 2002, but Alaska's shortfall was the greatest—as a percentage of its FY 2002 state budget—at 32 percent of the state's budget.

Budget shortfalls are forcing states to make painful choices among budget cuts, tapping rainy day funds and increasing revenues through tax hikes. Vital governmental functions face cuts or freezes. Forty states have cut their budgets, with 26 putting across-the-board cuts into effect, according to an AFSCME survey. It found that 22 states have cut health services, seven states have cut social services and 25 states have cut public safety.

At the same time that job loss has reduced state revenues, it has contributed to increased demands on states to provide health care and other services to the newly unemployed. Rapid growth in Medicaid and health care costs—particularly the rise in prescription drug costs—pressure budgets. Medicaid spending, which represents 20 percent of state budgets, rose by 11 percent in FY 2001 and by 13 percent in FY 2002. Such spending in FY 2003 is expected to rise by 6 percent, four times faster than state spending overall.

Last year's trillion-dollar tax cut exacerbates the states' budget crises. Many states link their respective estate and bonus depreciation taxes to the federal estate and bonus depreciation taxes. Hence, cuts in those federal taxes automatically lead to cuts at the state level, unless states specifically elect to decouple from the federal cut. More than half of the states now have decoupled from application of the new federal bonus depreciation rules, and nine have decoupled from the estate and inheritance tax changes. The remaining states that should—but do not—decouple will experience additional revenue losses from what is essentially a federally imposed state tax cut.

Conclusion

All in all, the picture that emerges from this mid-year review is *not* one of a solid economic recovery that is working for working families. Family-sustaining jobs with good pay and benefits are slipping away. The gap between the very rich and the rest of us keeps growing. Businesses continue to shift operations offshore in search of cheaper labor while CEO pay explodes, pumped up by rich risk-free stock options. Workers stand last in line when their companies go belly-up, while the executives who oversaw the demise walk away with billions. Nearly 40 million Americans are uninsured, and millions more are at risk of losing coverage or having to pay more for health care. And retirement savings of workers and small investors have disappeared overnight—but the top 1 percent of taxpayers stand to reap nearly one-half trillion dollars in tax breaks throughout the decade as a result of last year's tax changes.

Sources: AFSCME; Brookings Institution; Bureau of Labor Statistics; *BNA Daily Labor Report; Business Week;* Center for Budget and Policy Priorities; Center for Studying Health System Changes; Citizens for Tax Justice; Economic Policy Institute; *Financial Times;* Hewitt Associates; Institute for Supply Management; NPR/Kaiser Foundation/Kennedy School; U.S. Commerce Department; U.S. Department of Labor.

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The Economy for Working Americans by the Numbers

	January 2001	Just Before Sept. 11, 2001	July 2002
Total (unemployment rate, %)	4.2	4.9	5.9
White (unemployment rate, %)	3.6	4.3	5.3
Black (unemployment rate, %)	8.4	8.7	9.9
Hispanic (unemployment rate, %)	6.0	6.4	7.6
Women (unemployment rate, %)	3.0	3.8	5.2
Men (unemployment rate, %)	3.2	3.8	5.2
Teens (unemployment rate, %)	13.8	14.9	17.7
Average duration of unemployment in weeks	12.6 wks.	13.1 wks.	16.4 wks.
% of jobless unemployed 15 weeks or more	23.0	26.9	35.0
Workers qualifying for retraining and income support under NAFTA-TAA and TAA because their jobs were lost through trade	45,257	53,064	71,247

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings,* various issues. NAFTA-TAA and TAA certification numbers are for 2001 Q1, 2001 Q3 and 2002 Q2.