Coyote Economist

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Inequality and the Great Recession

The Great Recession was declared officially over in June of 2009, but its impact is still being felt across the nation. But not everyone is feeling the *same* impact: the impact different groups feel depend on the distribution of power typical of capitalist societies.

For instance, corporate profits have rebounded but worker's wages remain stagnant, and unemployment, while inching downwards, is still above pre-recession levels. The number of workers experiencing long-term unemployment is at historic highs, homeownership rates continue to fall, and the gap between the very wealthy and the poor continues to widen.

In this edition of the *Coyote Economist* we will review the different impact of the Great Recession on the income and wealth of two groups, upper- and lower-income households. Our aim is to understand how the Great Recession affected capitalist and working class households. But, since publicly available data are not organized by economic class, we're forced to work with income and wealth quintiles as a way of approximating the class divisions we're ultimately interested in.

The Great Recession started in December of 2007 and lasted for 18 month, making it the longest recession since the end of World War II. It was the deepest and most devastating recession since the Great Depression of the 1930s. Real GDP declined by 4.2%, from the fourth quarter of 2007 to the second quarter of 2009, representing a loss in output of $636 billion. In the meantime, total private employment declined by 7.6% between January 2008 and February 2010, representing a loss of 8.8 million jobs. In contrast, the next worse recession, which occurred in 1981-82, lasted 16 months, saw real GDP decline by 2.6%, and employment decline by 1.6% (Bureau of Economic Analysis, Table 1.1.6; Bureau of Labor Statistics, Series CES0500000001).

The expansion that has been taking place since the summer of 2009 has been so anemic that many economists are wondering if we've entered into a new era of stagnation. Compared to previous recessions, this one took much longer for output and employment to reach their pre-recession levels. For example, it wasn't until the second quarter of 2011 that real GDP attained levels previously reached in the fourth quarter of 2007. At the same time, it wasn't until this last February that employment reached levels attained in January of 2008 (a period of 74 months). And while the unemployment rate fell to 5.8% this last month, it's still higher than the 4.5% to 4.8% rates common in 2006 and 2007(Bureau of Labor Statistics, series LNS 14000000).

In addition, the number of long-term unemployed (those currently unemployed 27 weeks or more) is still at historic levels. It reached a peak of 6.8 million workers in April of 2010 and has been gradually declining since then. Yet, the current (October 2014) number of long-term unemployed, 2.9 million, is still 120% higher than the pre-recession level of 1.3 million in December of 2007 (Bureau of Labor Statistics, Series

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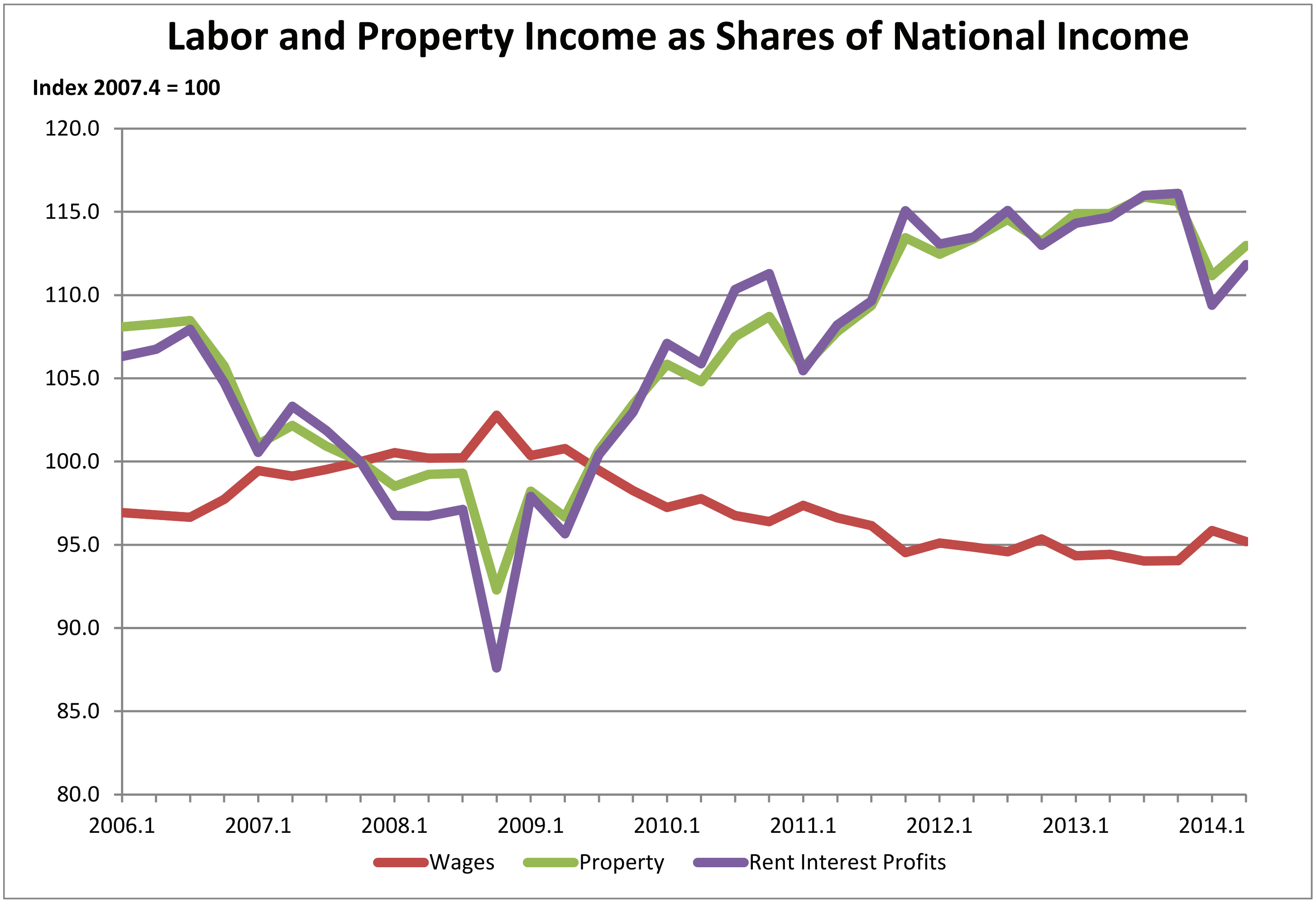

Inequality

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LNS 13008636).

Similarly, while the average duration of unemployment peaked at 40.7 weeks in December of 2011, and has been gradually falling since then, the October 2014 estimate of 32.7 weeks is still 97% higher than the average 16.6 weeks of December 2007.

And, as if this were not enough, real average hourly earnings have remained stagnant throughout this entire time period. It was $10.03 in December of 2007, increased to $10.31 in June of 2009, and is now (September 2014) at $10.32 (Bureau of Labor Statistics, Series CES0500000013).

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As usual for business contractions, the impact of the Great Recession has been harder on the working class than on the business class, although the latter have not been immune to its effects. One way of capturing this is to explore the behavior of labor and property income.

The graph above shows the share of national income accounted for by labor and property income. The values are indexed to the fourth quarter of 2007 to show how labor and property shares have behaved since the beginning of the recession (data from Bureau of Economic Analysis, Table 1.12 National Income by Type of Income). Labor's share consists of employees' compensation divided by national income, while property's share consists of all forms of property income as a share of national income. Property's share includes proprietor's income as well as rent, interest and corporate profits. But since proprietor's income includes both labor and

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property income, we've displayed another measure of property income that focuses only on rent, interest, and profits, and excludes proprietor's income. Both measures of property's share follow a similar path.

Note that, as a share of national income, labor income gradually rises until the fourth quarter of 2008 and then begins its downward trajectory to the current period. In contrast, property income falls precipitously until the fourth quarter of 2008 and then experiences a dramatic rebound.

From the fourth quarter of 2008 until the second quarter of 2014, labor's share of national income declined by 7.4% while property's share of national income (excluding proprietor's income) grew by 27.65%. In absolute terms, and over the same time period, labor income grew by 23.4% but property income grew by 57.5%.

Since the bulk of property income goes to the capitalist class, while the bulk of labor income goes to the working class, one would expect a widening gap between high-income and low-income families. And, indeed, this is what has been happening. For example, the Recession Trends website (http://goo.gl/OqOLye) notes that the ratio of average family income of the top 5% to the average family income of the bottom quintile grew from 19.7% in 2007 to 22.7% in 2012 (the last year for which we have data).

Similarly, LaVaugh M. Henry, in a recent commentary from the Federal Reserve Bank of Cleveland (http://goo.gl/NHTV4G), notes that from 2008 to 2012 the top 20% of all income earners accounted for more than 80% of the rise in household income, while the bottom 20% saw their income falling.

Similar patterns are repeated when it comes to household wealth. In a June 2014 article, published through the Russell Sage Foundation (http://goo.gl/hZlWMA), it's noted that median household wealth declined by 43% from 2007 to 2013. And while all income categories experienced a decline in wealth, the impact was far greater on families with modest wealth holdings than on families with considerable wealth.

For instance, as can be seen from the following table (adopted from that study), households in the 95th percentile saw their wealth decline by 16.2% from 2007 to 2013, while households in the bottom 5% experienced an astounding 103.4% drop in wealth, and households in the 25th percentile saw their wealth decline by 54.1%.

While the Great Recession clearly hurt the income and wealth of both capitalist and working class families, the impact was far greater upon workers than it was on capitalists. The pain of the recession was not equally shared.

Table 1: Wealth of U.S. Households before and after the Great Recession (2013 dollars)

	2007	**2009**	**2013**	**Percent Change 2007-2013**
Mean	**$423,592**	**$411,178**	**$308,276**	**-27.2%**
Percentiles				
5th	($13,482)	($27,689)	($27,416)	-103.4%
25th	6,966	2,723	3,200	-54.1%
50th (median)	98,872	70,801	56,335	-43.0%
75th	367,959	302,412	260,405	-29.2%
90th	934,223	819,824	763,099	-18.3%
95th	1,629,133	1,420,304	1,364,834	-16.2%

Staying Informed about Department Events and News

If you're receiving the *Coyote Economist*, then you're on our mailing list and everything is as it should be. But, if you know of an Economics Major, or an Econ Fellow Traveler, who is not receiving the *Coyote Economist* through email, then please have him/her inform our Administrative Support Coordinator, Ms. Jacqueline Carrillo, or the Chair of the Economics Department, Professor Mayo Toruño. Our phone number is 909-537-5511.

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Our Facebook Page- http://www.facebook.com/pages/CSUSB-Department-of-Economics/109500729082841

Chair of the Economics Department – mtoruno@csusb.edu

Winter 2015 Schedule

#	TITLE	DAYS	HOURS	AM/PM	INSTRUCTOR
200	PRINCIPLES MICROECON	MW	1200-0150	PM	ASHEGHIAN
200	PRINCIPLES MICROECON	TR	0200-0350	PM	KONYAR
200	PRINCIPLES MICROECON	TR	0600-0750	PM	KONYAR
200	PRINCIPLES MICROECON		ONLINE		ALDANA
202	PRINCIPLES MACROECON	MW	0200-0350	PM	STAFF
202	PRINCIPLES MACROECON	TR	1000-1150	AM	STAFF
202	PRINCIPLES MACROECON	TR	0200-0350	PM	MACDONALD
202	PRINCIPLES MACROECON	T	0400-0750	PM	ALLEN
202	PRINCIPLES MACROECON		ONLINE		ALDANA
300	INTERMEDIATE MACROECON	MW	0600-0750	PM	PIERCE
302	INTERMEDIATE MICROECON	MW	1000-1150	AM	DULGEROFF
311	ECON K-8		ONLINE		CHARKINS
322	MANAGERIAL ECON	TR	1200-0150	PM	KONYAR
360	ENVIRONMENTAL ECON	TR	1000-1150	AM	DULGEROFF
430	INTERNATIONAL ECON	MW	0400-0550	PM	ASHEGHIAN
445	POLITICAL ECONOMY	MW	1200-0150	PM	NILSSON
460	LABOR ECONOMICS	TR	0400-0550	PM	MACDONALD
475	PUBLIC FINANCE	MW	0800-0950	AM	NILSSON
540	POLITICAL ECONOMY OF LA	TR	0600-0750	PM	TORUNO

Tentative Spring 2015 Schedule

#	TITLE	DAYS	HOURS	AM/PM	INSTRUCTOR
200	PRIN MICROECON	MW	1200-0150	PM	ASHEGHIAN
200	PRIN MICROECON	MW	0600-0750	PM	ASHEGHIAN
200	PRIN MICROECON	TR	0200-0350	PM	MACDONALD
200	PRIN MICROECON		ONLINE		ALDANA
202	PRIN MACROECON	MWF	0800-0910	AM	NILSSON
202	PRIN MACROECON	MWF	1200-0110	PM	NILSSON
202	PRIN MACROECON	TR	0400-0550	PM	KONYAR
202	PRIN MACROECON		ONLINE		ALDANA
300	INTERMEDIATE MACROECON	MW	1200-0150	PM	PIERCE
311	ECON K-8		PDC		STAFF
335	TOOLS OF ECON ANALYSIS	TR	1000-1150	AM	MACDONALD
372	BUSINESS CYCLES	TR	0200-0350	PM	DULGEROFF
410	MONEY & BANKING	MW	0600-0750	PM	PIERCE
450	GLOBAL ECONOMY	MW	0400-0550	PM	ASHEGHIAN
490	ECONOMETRICS	TR	0600-0750	PM	KONYAR
500	HIST ECON IDEAS	TR	0400-0550	PM	TORUNO
530	THE GOOD ECONOMY	MWF	1040-1150	AM	NILSSON