

UNDER ATTACK: PENNSYLVANIA'S MIDDLE CLASS AND THE JOBS CRISIS

THE AMERICAN DREAM used to mean that if you put in a hard day's work, you could expect good wages, benefits, and a better life for your kids. But the kinds of jobs that can provide a solid middle-class life in return for hard work are in short supply—unemployment is up, earnings are stagnant or falling, and hard-won benefits are being lost. The future of Pennsylvania's middle class, the backbone of Pennsylvania's economy for more than half a century, is at risk.

Pennsylvania's strong and vibrant middle class didn't just happen. It was built brick by brick in the decades after World War II by the hard work of our parents and grandparents and the strength in numbers that came from the unions that represented them. Unions made sure that as our nation's wealth and productivity grew, so too did the economic prosperity, security, and resiliency of the people who worked hard to create that wealth.

For decades, our nation's prosperity was widely shared—wages increased and more employers provided their workers with health insurance, pensions, and paid time off. The middle class was also built by government policies that supported homeownership and made a college education accessible to a new generation. Parents without higher education themselves proudly scrimped and saved to send their kids to college, made possible by affordable tuition at state universities and financial aid. But all of this is changing and

THE STATE OF PENNSYLVANIA'S MIDDLE CLASS

- Declining access to benefits
- Declining wages over the last decade
- Rising inequality
- Higher costs to raise a family
- Higher college costs
- Greater debt for students who need to earn degrees to garner decent wages
- Diminished economic prospects for young people

CONNECT WITH DÉMOS AT: WWW.DEMOS.ORG

FOLLOW US AT: [@DEMOS_ORG](https://twitter.com/DEMOS_ORG)

[FACEBOOK.COM/DEMOSIDEASACTION](https://www.facebook.com/demosideasaction)

KEEP ON TOP OF THE LATEST TRENDS AND ANALYSIS
FROM DÉMOS AT OUR NEW BLOG, POLICYSHOP.NET

FUTURE
MIDDLE
CLASS

*This is a briefing paper in
Demos' "Future Middle Class"
series and is co-published with
KEYSTONE RESEARCH CENTER*

Pennsylvania's middle class is in jeopardy. Once the home of a thriving manufacturing sector, robust union participation, and an example of smart policy choices and a stable middle class, the state has been caught in a downward spiral that mirrors unfortunate national trends. And though Pennsylvania has weathered it better than most, the Great Recession has intensified this spiral in the Keystone State as well. Not only did the state lose over 350,000¹ jobs because of the Great Recession, but the economic effects of those lost jobs reverberated to all corners of the state, particularly the already-strained finances of the state government. We estimate that the jobs lost due to the recession have cost the state nearly \$726 million annually in lost sales and income tax revenues, on top of other revenue losses from the recession, resulting in further lay-offs of thousands of middle-class public sector workers. If the state's unemployment rate were at pre-recession levels, those lost hundreds of millions would return to the state government's coffers, and could be used to help thousands of young people attend college, maintain dozens of state parks or hire, for example, as many as 8,500 teachers or 7,700 nurses. While Washington spins its wheels debating the budget deficit, middle-class workers know that it is another kind of deficit—one of jobs and wages—that most affects their future.

Stable middle-class jobs with benefits are increasingly hard to find, meaning two earners in a family can work hard throughout their lives and nevertheless be left in the lurch when something goes wrong or when it comes time for retirement. Earnings are down over roughly the last decade, and unemployment and slow job growth limit the likelihood of change in this pattern. A college degree has grown increasingly necessary to earn higher wages. Yet these degrees are increasingly expensive, leaving graduates mired in record debt.

Despite the obstacles, there is good reason to hold out hope for Pennsylvania's long-term prospects. Pennsylvania is a state of homeowners and hard workers. Pennsylvanians stand firmly committed to their roots. As evidenced by the positive impact of the American Recovery and Reinvestment Act, the state's economy is also receptive and responds well to effective policy ideas. And with higher union membership rates than the national average, there is also a basis for increasing worker rights and employer responsibilities for both unionized and non-unionized workers alike.

Focusing on the unique qualities of Pennsylvania as assets, workers in the state can regain a permanent place in the middle class.

EARNINGS*

Widespread high earnings are paramount to the existence of the middle class. Over the last 30 years, inflation-adjusted median annual earnings for Pennsylvania workers (aged 18-64) have fluctuated with changes in the economy and the clout of workers, and track closely those of the country as a whole. Pennsylvania median earnings peaked at \$36,750 in 2003,² before falling and then recovering in the last few years to \$36,050 (see Figure 1). Though wages are below their 2003 level, they have grown since 1980 in step with the rest of the nation. On the surface this seems to paint a rosy picture. However, this increase for Pennsylvanians translates to a little over \$2 more per hour, a small amount when considering the greater costs of living faced by families today. Neither does the immediate future look much brighter. The combination of unemployment and sluggish job growth suggests that earnings will not be increasing any time soon.

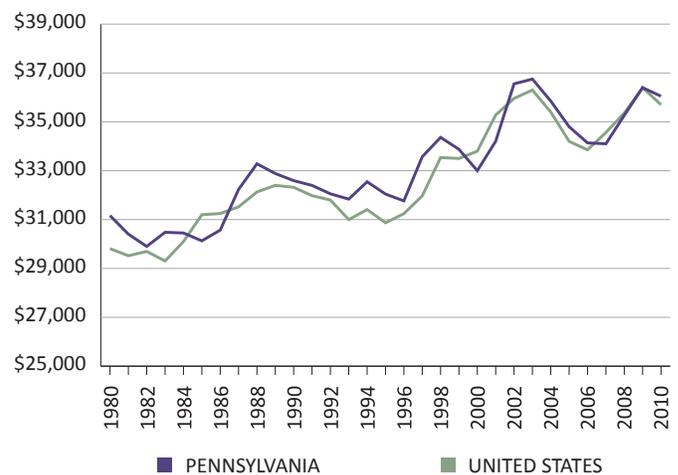
When combined with the other factors detailed in this brief, the wage situation of Pennsylvanians leaves many in a precarious position. These factors include higher living and education expenses, higher out-of-pocket healthcare costs due to lack of employer-sponsored insurance, and decreased access to retirement savings at work.

EDUCATION

In Pennsylvania as elsewhere, a college degree is one of the surest paths to a middle-class income. Pennsylvania workers with at least a bachelor's degree earn 83 percent more than those with only a high school diploma (\$56,100 versus \$30,600 in

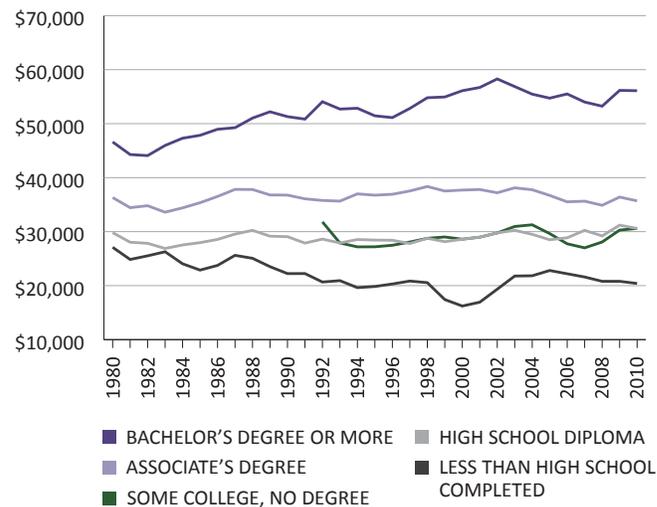
*All dollar amounts used in this report are adjusted for inflation and expressed in 2011 dollars.

FIGURE 1. MEDIAN ANNUAL EARNINGS OF WORKERS IN PENNSYLVANIA AND THE U.S., 1980-2010 (2011 DOLLARS)



SOURCE: Dēmos analysis of Current Population Survey data

FIGURE 2. MEDIAN ANNUAL EARNINGS OF PENNSYLVANIA WORKERS BY EDUCATION, 1980-2010 (2011 DOLLARS)



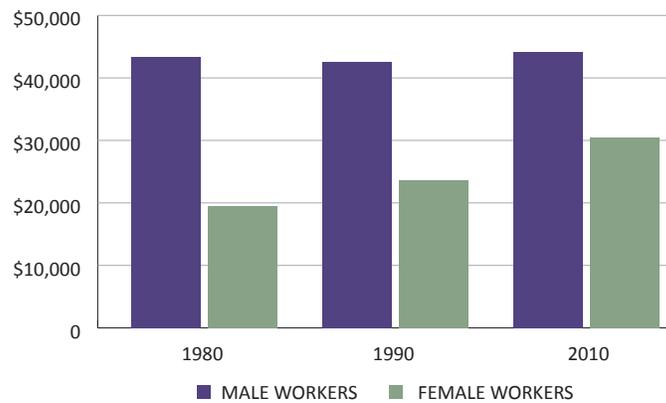
SOURCE: Dēmos analysis of Current Population Survey data using 3-year averages. Data not available for "Some College, No Degree" prior to 1992.

2010). Overall, workers with bachelor's degrees are the only Pennsylvanians to see a significant rise in earnings in the past generation as their wages have increased by nearly 26 percent since the early 1980s, or 0.9 percent per year. However, even this increase has not kept pace with the nation's growth as per capita: GDP grew 61 percent over those same three decades.³ As it does in the rest of the country, not completing an education has borne an increasingly high price, as workers who failed to complete high school have seen their wages drop by 25 percent over the past generation.

GENDER

Men still typically earn more than women in Pennsylvania, although the gender gap has narrowed considerably over the last 30 years. In 1980, men's earnings were nearly \$24,000 higher than women's. In 2010, that gap had closed to less than \$14,000 (see Figure 3). Still in 2010 median earnings for men were 45 percent higher than those for women (\$44,840 versus \$30,390). Examining the trends in earnings by gender over the past generation makes clear that the rise in overall median earnings since 1980 and even since 2001 is actually attributable to growth in women's earnings. Between 1980 and 2010, the median earnings of female workers increased by 52 percent, while the earnings of male workers increased by barely 10 percent over this same time period.

FIGURE 3. MEDIAN EARNINGS OF MALE AND FEMALE WORKERS IN PENNSYLVANIA, 1980 AND 2010 (2011 DOLLARS)



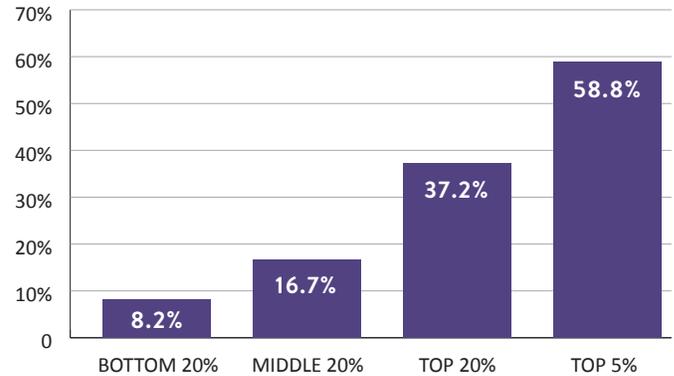
SOURCE: Demos analysis of Current Population Survey data using 2-year averages

RISING INCOME INEQUALITY

In Pennsylvania, the gap between the rich and poor is nearly exactly in line with the rest of the nation as the state has the 25th most equal distribution of income. On the eve of the Great Recession, the richest 20 percent of Pennsylvanians had average incomes 2.5 times as large as the middle 20 percent of families and 7 times as large as the poorest 20 percent of families. The very richest families—the top 5 percent—had average incomes that were 11 times as large as the poorest 20 percent.⁴ The gap between the rich and everybody else has grown over time (see Figure 4).

This growing gap between the highest earners and essentially everyone else is not merely an abstract number. It translates to real dollars that impact a family's ability to pay for essential expenses and to save for a rainy day—in short to both get by and get ahead. Keystone Research Center has calculated what would have happened if workers at all wage levels had seen equal increases in their earnings since 1979 as opposed to the unequal gains that delivered wage increases mostly to high earners. Under the scenario of equal gains for all earners, middle-class families with two full-time earners would be making between \$5,600 and \$7,500 more per year.⁵

FIGURE 4. INCOME GROWTH OF PENNSYLVANIA FAMILIES BY INCOME QUINTILE, LATE 1980s TO MID-2000s



SOURCE: Center on Budget and Policy Priorities and Economic Policy Institute, "Pulling Apart: A State By State Analysis of Income Trends, 2004-2006"

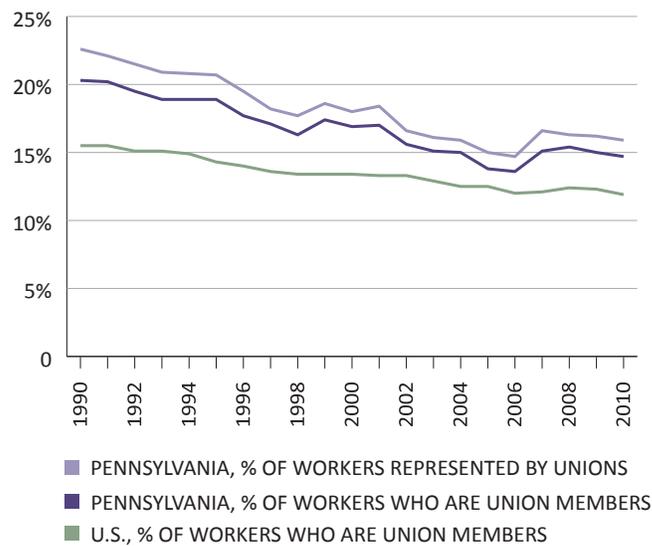
JOBS AND BENEFITS

Widespread access to well-paying jobs with good health and retirement benefits is a second cornerstone of the middle class. Unions have consistently taken a leadership role in securing better pay and benefits and generating enduring prosperity for the state of Pennsylvania. As union strength has weakened, workers' benefits have been replaced by a shifting of shared costs, burdens, and risks onto workers' shoulders alone.

UNION MEMBERSHIP

Historically, Pennsylvania has had much higher union membership rates than the rest of the nation, but has fallen close to national levels in recent years. In 2010, about 15 percent of all private and public sector workers in Pennsylvania were union members, down from over 20 percent in 1990. Union membership in the Keystone State is still above the national figure of 12 percent (see Figure 5). However, it also shows that the benefits and rights of more than four out of five workers in the state are not protected by a union.

FIGURE 5. UNION MEMBERS AS A PERCENT OF ALL WORKERS IN PENNSYLVANIA AND THE U.S., 1990-2010



SOURCE: Demos analysis of Bureau of Labor Statistics data

HEALTH INSURANCE

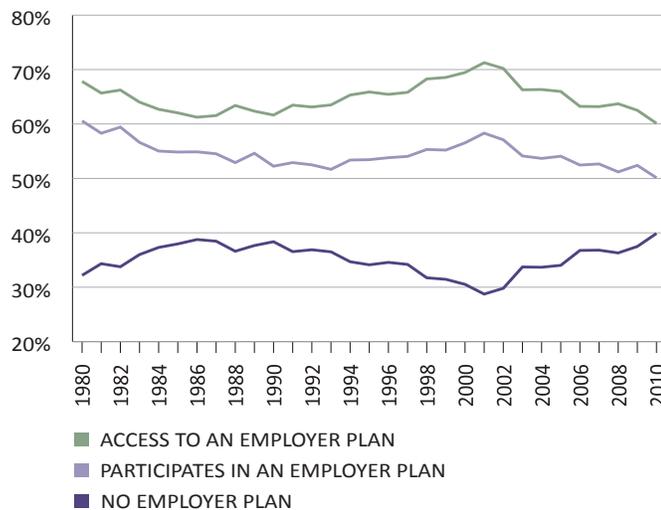
High out-of-pocket medical expenses are one of the primary causes of bankruptcy among the middle class, underscoring the importance of health insurance coverage.⁶

Pennsylvania workers have had relatively high rates of access to employer-sponsored health insurance, contributing to high levels of coverage overall. In 2010, 11 percent of working-age individuals in Pennsylvania lacked health insurance compared to nearly 17 percent nationally. The relatively high percentage of working-age individuals with access to health insurance is partially due to coverage through a spouse or through public insurance (Medicaid and Medicare), and belies a larger pending crisis regarding employee benefits and good jobs. In fact, employer-sponsored health coverage in the state has declined substantially over the last decade. The proportion of Pennsylvania workers who lack access to health insurance through an employer has risen from less than 13 percent in 2000 to nearly 20 percent in 2010.

RETIREMENT BENEFITS

Pennsylvania workers have much to fear when it comes to having a secure retirement. Only 60.1 percent of workers in the Keystone State currently have access to a retirement plan at work, a figure that has declined substantially since 1980, and precipitously since 2001, when access to employer-sponsored retirement plans peaked at 71.2 percent (see Figure 6). Even more worrisome than this decline in coverage, employer-sponsored retirement plans have gradually shifted from pensions—whose costs and financial risks are borne almost exclusively by employers—to 401(k)-type plans that rely on worker contributions and expose individuals to

FIGURE 6. PENNSYLVANIA WORKERS' ACCESS TO AND PARTICIPATION IN EMPLOYER-SPONSORED RETIREMENT PLANS, 1980-2010



SOURCE: *Dēmos analysis of Current Population Survey data using 3-year averages*

the vagaries of the stock market and high fees, which eat away at returns. Nationally, roughly 63 percent of employer-sponsored retirement plans are now 401(k)s or similar individual retirement plans.⁷ Growing, too, is the problem of lack of participation—in Pennsylvania, 12 percent of workers don't participate in their employer-sponsored plan either because they can't afford to contribute or fail to opt in.

UNEMPLOYMENT

During the past three decades, Pennsylvania's unemployment rate has swung up and down in time with the national unemployment rate. According to the Bureau of Labor Statistics, Pennsylvania's unemployment rate for 2010 was 8.7 percent, below the national figure of 9.6 percent. Even though Pennsylvania's 2010 unemployment rate is better than that of the nation as a whole, it still reflects one of the highest levels of unemployment in the state in the last 30 years. The 2010 figure is on par with previously high levels of unemployment seen in 1982-1984 when unemployment ranged between 9 and 12 percent (9 percent in 1984, 12 percent in 1983, and 11 percent in 1982, respectively).

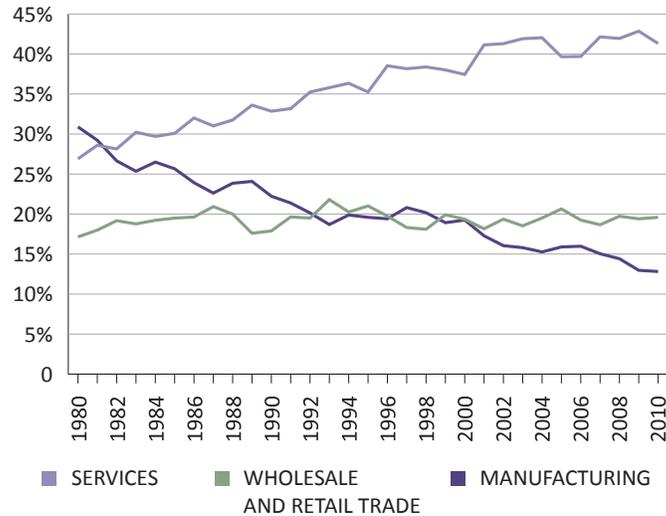
In the first quarter of 2009, Pennsylvania lost an average of 27,000 jobs per month. After the American Recovery and Reinvestment Act (ARRA) took effect, job losses in the state stabilized and then declined. In the first six months of 2010, Pennsylvania added jobs, at the rate of 7,000 per month. However the state's job market remains sluggish at best. The state's economy still needs to add more than 230,000 jobs to return to normal economic activity: 130,000 jobs to replace jobs lost since December 2007 and another 100,000-plus to match the growth in the State's working age population since the recession began.⁸

WHERE THE JOBS ARE

Manufacturing has long been a core sector for Pennsylvania, one that has provided generations of families a consistent route to middle class jobs with benefits and economic stability. However, over the last thirty years, the employment landscape in Pennsylvania has seen the decline of manufacturing jobs and the rise of lower wage service sector and wholesale and retail trade positions (see Figure 7). Employment in other industries (public administration; finance, insurance, and real estate; transportation, communication, and utilities; and construction) has by and large stayed consistent since 1980.

In 1980, 31 percent of jobs in Pennsylvania were in manufacturing, 27 percent were in the service sector, and 17 percent were in the wholesale and retail trade sector. By 2010 only about 13 percent of Pennsylvania jobs were in manufacturing. Meanwhile, the percentage of service jobs climbed to 41 percent and the percentage of trade sector jobs edged up to 20 percent (see Figure 5). This change is a fundamental threat to the stability of the middle class. In stark contrast to manufacturing, the new dominant sectors, services and wholesale/retail trade, do not reward special skills, offer few if any benefits, and provide very little job stability.

FIGURE 7. SELECT INDUSTRIES AS A PERCENTAGE OF TOTAL EMPLOYMENT IN PENNSYLVANIA, 1980-2010



SOURCE: Dēmos analysis of Current Population Survey data

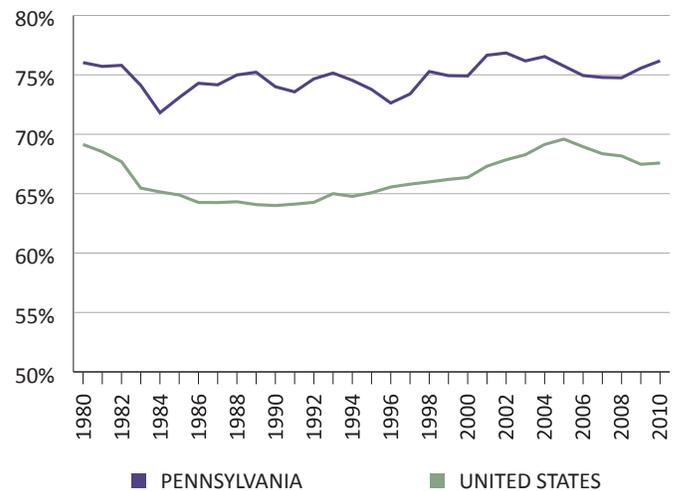
RAISING A FAMILY

Healthy, happy, and rooted families are currently one of our economy's most undervalued resources and a key element of the middle class. Pennsylvanians pride themselves on being able to pass on a better life to their children, but over the last generation, this dream has become increasingly out of reach. Even with two parents in the labor force, families struggle to meet the high costs of housing and child care, let alone save for a rainy day or invest in the future.

HOMEOWNERSHIP

Fortunately, Pennsylvania does enjoy high home ownership rates, above 76 percent in 2010 and over 8 percent higher than the nation as a whole. Homeownership rates in the state have remained solidly above 70 percent since 1980 (see Figure 8). However, Pennsylvanians are devoting a larger share of their income to keeping their homes. In 2008, 33 percent of Pennsylvanians devoted 30 percent or more of their incomes to housing, up from only 24 percent in 2000.

FIGURE 8. HOMEOWNERSHIP AMONG PENNSYLVANIA AND U.S. WORKERS, 1980-2010



SOURCE: Dēmos analysis of Current Population Survey data

CHILD CARE

Child care can be one of the largest expenses families face, in some cases equaling or exceeding housing costs. On average, full-time in-home childcare in Pennsylvania costs \$8,835 a year for an infant and \$7,428 for a four-year-old; center-based care costs even more (see Figure 9). Center-based care for two children (an infant and a preschooler) costs more than \$21,092 a year or 28 percent of family income for a two-earner couple earning median wages.

FIGURE 9. AVERAGE ANNUAL PRICE OF FULL-TIME CHILD CARE IN PENNSYLVANIA

	CHILD CARE CENTER	FAMILY CHILD CARE HOME
Infant, full-time	\$12,388	\$8,835
4 year old, full-time	\$8,704	\$7,428

SOURCE: National Association of Child Care Resource and Referral Agencies, "2011 Child Care in the State of: Pennsylvania."

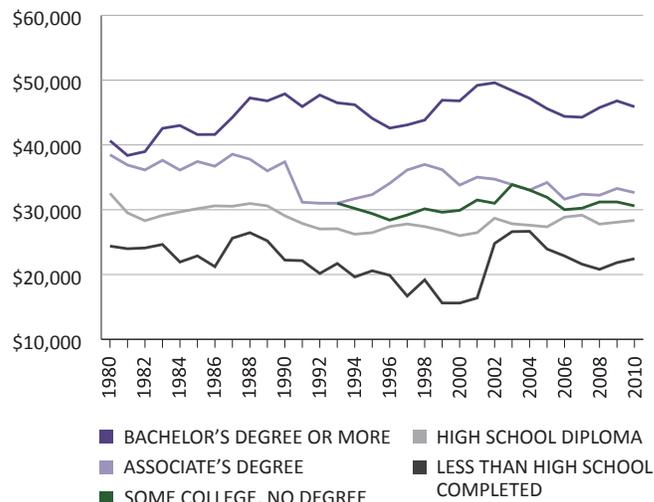
THE FUTURE MIDDLE CLASS: A LOOK AT YOUNG PEOPLE

The trends facing young Pennsylvanians seeking to build and maintain a middle-class life are worrisome. On the one hand, the returns from a four-year college degree are evident in the form of higher earnings versus those who lack such a degree. Yet college tuition costs have soared and students are accumulating greater amounts of debt.

LABOR MARKET

In 2010, median earnings for workers aged 25 to 34 with at least a bachelor’s degree were \$45,900 in Pennsylvania—more than 62 percent higher than the earnings of a typical high school graduate in the same age range (\$28,356). After peaking in 2002, median earnings for college grads have declined substantially. A typical college graduate in 2010 earns over a thousand dollars less than someone with a bachelor’s degree did in 1988 (\$45,900 in 2010 vs. \$47,250 in 1988). Other education levels have seen substantial declines as well: workers with an associate’s degree have seen their earnings decrease by about 15 percent since 1980, and those with a high school diploma have seen their earnings decrease by about 13 percent in the past generation (see Figure 10). Though declining wages have eroded young Pennsylvania workers’ buying power, the even more alarming trend is how they’re falling further behind the population as a whole. For example, young workers with a bachelor’s degree in 1983 used to earn 93 percent of the median wages of all workers with a bachelor’s degree. In 2010, that ratio has dropped to 81 percent. Young workers of other education levels have fallen further behind their peers as well. This trend bodes ill for the future of Pennsylvania’s middle class, because it predicts that a new generation of Pennsylvania workers will be unable to match the earning power of their parents.

FIGURE 10. MEDIAN EARNINGS OF PENNSYLVANIA WORKERS AGED 25-34 BY EDUCATION, 1980-2010 (2011 DOLLARS)



SOURCE: *Dēmos analysis of Current Population Survey data using 3-year averages. Data not available for "Some College, No Degree" prior to 1991.*

In 2010, the national unemployment rate for workers under age 25 and not enrolled in school was 18.4 percent—nearly double the overall U.S. unemployment rate of 9.6 percent. Unemployment among young high school graduates is historically high at 22.5 percent nationally in 2010 compared to 9.3 percent among young workers with a four-year college degree.^{10,11} In Pennsylvania, 25-34 year olds face an 8.8 percent unemployment rate, lower than the rates of their peers in other states, but still much higher than historical levels.¹²

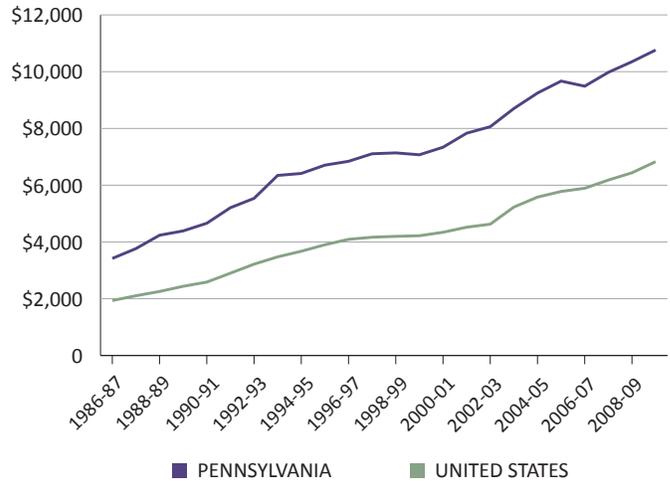
COLLEGE TUITION

At \$10,761 for 2009-10, in-state tuition at Pennsylvania's colleges and universities is well above the national average of \$6,829.¹³ Tuition costs have increased exponentially in Pennsylvania over the past generation, more than tripling over the past 25 years (see Figure 11). Note that these figures do not include room and board.

STUDENT DEBT

Nearly three out of four (72 percent) of college graduates in Pennsylvania entered the labor force with student debt in 2009, and their average debt—\$27,066—was the 7th highest in the nation.¹⁴ The percent of college graduates with debt has risen rapidly in Pennsylvania and elsewhere, as has the amount of student loan debt taken on by recent graduates. Worryingly, only five states have a higher percentage of indebted graduates and growing numbers of students are accumulating debt without completing a degree, putting them on a shaky path to the future.

FIGURE 11. ANNUAL IN-STATE COLLEGE TUITION IN PENNSYLVANIA AND THE U.S. (2011 DOLLARS)

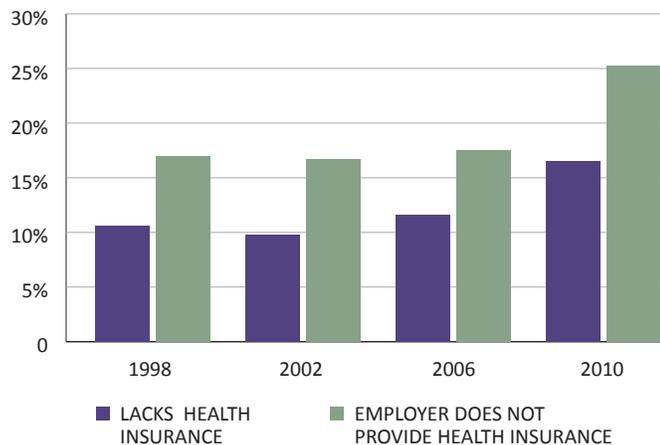


SOURCE: Digest of Education Statistics. Figures include required fees.

HEALTH AND RETIREMENT BENEFITS

Young workers aged 25-34 in Pennsylvania are increasingly likely to lack health insurance. Almost 17 percent lack any coverage whatsoever, up from 10 percent a decade ago. Even more alarming, one out of four workers (25 percent) lack access to health insurance through their employer—a figure that has grown dramatically in recent years (see Figure 12).

FIGURE 12. HEALTH INSURANCE ACCESS AMONG PENNSYLVANIA WORKERS AGED 25-34



SOURCE: Dēmos analysis of Current Population Survey data

This decline in employer-sponsored health coverage has meant that more and more young people are depending on Medicaid for insurance coverage, contributing to the strain on the program's finances. Fifty-nine percent of Pennsylvania's young workers have access to an employer-sponsored retirement plan and even fewer (47 percent) actually participate.¹⁵ And most of these plans are 401(k)-type plans rather than traditional pensions.

CONCLUSION

THE AMERICAN DREAM came to life in Pennsylvania in the form of a strong and vibrant middle class that sustained the state's economy for decades. But for the first time in generations, more people are falling out of the middle class than joining its ranks. The economy is still productive, but the gains are accruing primarily to the top and workers are no longer getting their fair share. Nationally, the top 1 percent of earners now takes home more than the entire middle class combined, while most workers are living from paycheck to paycheck. It doesn't have to be this way. Just as the post-war middle class was built, it is possible to rebuild it and strengthen it for the next generation. That will require the strength and leadership of workers coming together to reclaim the American Dream and demanding that our elected officials work for workers.

ENDNOTES

1. The estimate measures the gap between the peak and trough employment levels in the Pennsylvania (April 2008 and August 2010), adjusted for population growth.
2. All earnings data cited in this brief are from Dēmos analysis of the Current Population Survey (CPS). Unless otherwise specified, the population the graphs are describing are working adults aged 18-64.
3. The World Bank, World Development Indicators, "GDP per capita (constant 2000 US\$)," <http://data.worldbank.org/indicator/NY.GDP.PCAP.KD?page=5>
4. Center on Budget and Policy Priorities and Economic Policy Institute, Pulling Apart: A State By State Analysis of Income Trends, April 2008. <http://www.cbpp.org/files/4-9-08sfp-fact-pa.pdf>
5. Mark Price and Stephen Herzenberg, "The State of Working Pennsylvania 2010," <http://keystoneresearch.org/publications/research/state-working-pennsylvania-2010>.
6. David Himmelstein, Deborah Thorne, Elizabeth Warren and Steffie Woolhandler. "Medical Bankruptcy in the United States, 2007: Results of a National Study," American Journal of Medicine, 2007. http://www.washingtonpost.com/wp-srv/politics/documents/american_journal_of_medicine_09.pdf
7. Alicia H. Munnell, Francesca Golub-Sass, and Dan Muldoon, "An Update on 401(k) Plans: Insights from the 2007 SCF," Center for Retirement Research, 2009.
8. Mark Price, "May Jobs Report Weak Growth Cause for Concern; Jobs Deficit Persists," <http://keystoneresearch.org/publications/research/may-jobs-report-weak-growth-cause-concern-jobs-deficit-persists>
9. Data compiled by the U.S. Census Bureau from the 2008 American Community Survey, "Table 991. Owner-Occupied Housing Units—Value and Costs by State: 2008" and the 2000 U.S. Census, "No. 955. Specified Owner-Occupied Housing Units—Value and Costs by State: 2000."
10. Heidi Shierholz and Kathryn Anne Edwards, The Class of 2011: Young Workers Face a Dire Labor Market Without a Safety Net, Economic Policy Institute, April 2011. http://epi.3cdn.net/c7d6ec52122ea9c188_rbm6bc14a.pdf
11. Heidi Shierholz and Kathryn Anne Edwards, The Class of 2011: Young Workers Face a Dire Labor Market Without a Safety Net, Economic Policy Institute, April 2011. http://epi.3cdn.net/c7d6ec52122ea9c188_rbm6bc14a.pdf
12. According to Keystone Research Center's calculation of the Current Population survey (CPS)
13. Digest of Education Statistics, "Average undergraduate tuition and fees and room and board rates paid by full-time-equivalent students in degree-granting institutions by control of institution and by state."
14. The Project on Student Debt, "Student Debt and the Class of 2009," October 2010. <http://projectonstudentdebt.org/files/pub/classof2009.pdf>
15. Dēmos analysis of the Current Population Survey (CPS).

ABOUT DĚMOS

Dēmos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, Dēmos works with advocates and policymakers around the country in pursuit of four overarching goals: a more equitable economy; a vibrant and inclusive democracy; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world. Dēmos was founded in 2000.

In 2010, Dēmos entered into a publishing partnership with *The American Prospect*, one of the nation's premier magazines focussing on policy analysis, investigative journalism and forward-looking solutions for the nation's greatest challenges.

ABOUT KEYSTONE RESEARCH CENTER

The Keystone Research Center is a nonprofit, nonpartisan research organization that promotes a more prosperous and equitable Pennsylvania economy. Established in 1996, Keystone has become a leading source of independent analysis of Pennsylvania's economy and public policy

CONTACT



DĒMOS

220 Fifth Avenue, 5th Floor
New York, New York 10001
Phone: (212) 633-1405
Fax: (212) 633-2015
info@demos.org

DĒMOS MEDIA

Tim Rusch,
Communications Director
trusch@demos.org
(212)-389-1407



The Keystone Research Center

KEYSTONE RESEARCH CENTER

412 North 3rd Street
Harrisburg PA 17101
keystoneresearch.org