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Lessons from the 2008–2009 Recession: Response to Plotnick

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We greatly appreciate Robert Plotnick's comments to our paper. They are fair, thoughtful, and informative, and we plead guilty to not laying out a specific agenda for building the job skills of the labor force and strengthening contemporary families. As we say in our paper, we are certain they are the best solutions to raising income, but highly unsure how to achieve either. We hope that others will contribute to the necessary learning process, as has Plotnick in his many fine works.

Rather than address the other relatively modest disagreements between us, we decided to take this opportunity to amplify our central argument that income transfers will not eradicate poverty. To do so, we explicate what has happened to family incomes in the current recession, which Plotnick also mentions in his comments.

In the midst of what is being called the worst economy since the Great Depression, the U.S. Census Bureau reported that, between 2007 and 2008, the official poverty rate increased by only 0.7 percentage points, going from 12.5 percent to 13.2 percent. That represented an increase in the number of people living in poverty of about 2.5 million, rising from about 37.3 million to about 39.8 million (U.S. Census Bureau, 2009).

No increase in poverty should be sloughed off, and the amount of suffering implied by these figures should be a matter of grave national concern. But given the terrible economy, many experts expected a much larger rise in reported poverty.

One reason why the increase is not larger is a technical characteristic of the official measure: It measures year-to-year changes, in this case, ending on December 31, 2008, and the first half of 2009 was much worse, with unemployment rising from 7.2 percent to 9.7 percent (U.S. Department of Labor, 2009b). (Those six-month job losses were greater than the losses for the entire previous year.) Thus, an equal and probably even larger rise in poverty is expected for calendar year 2009.

Another reason is that a higher poverty rate is usually a "lagging indicator" to economic distress, that is, poverty increases sometime after unemployment rises. According to economists Craig Gunderson and James Ziliak, "Poverty tends to

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persist at the household level. . . and thus more aggregated measures are likely to respond sluggishly to changing economic conditions" (Gunderson & Ziliak, 2004, p. 68).

Nevertheless, the large differences in unemployment and poverty we see today point to other forces at work. In 2008, job losses were about three times the increase in poverty. Total job losses were about 3.1 million, but the number of additional families and unrelated individuals in poverty rose by only about one million (U.S. Department of Labor, 2009e; and U.S. Census Bureau, 2009). The same was true for the first half of 2009. Another 3.4 million jobs were lost, but, based on the increase in food stamp recipients, only about 840,000 more families and unrelated individuals fell into poverty (U.S. Department of Labor, 2009e; and U.S. Department of Agriculture, 2009).

One explanation is the Stimulus Bill's extension of unemployment benefits, which is acting as an important social safety net. The usual rule is that laid-off workers receive twenty-six weeks of benefits, after which they could go on food stamps and perhaps welfare. Congress usually extends the benefit period during prolonged downturns, and in the Stimulus Bill did just that, extending them an additional thirty-three weeks. Between the beginning of the recession and mid-2009, the average number of monthly recipients increased by 4.1 million (U.S. Department of Labor, 2009h and U.S. Department of Labor, 2009i.) (Compared to the first quarter of 2008, spending doubled by the first quarter of 2009, rising to about $20.8 billion; U.S. Department of Labor, 2008c; and U.S. Department of Labor, 2009g.)

Although unemployment benefits fall far short of replacing lost wages, they provide at least a temporary floor on income losses, and are counted as income by the Census Bureau. In the first quarter of 2009, the average weekly benefit in the United States was about $307, with average weekly state-determined benefits ranging from about $197 in Mississippi to about $411 in Massachusetts (and $423 in Hawaii; Department of Labor, 2009g). That's enough to bring many families with a part-time worker above the poverty line. (Since the recession began, the number of involuntary part-time workers, either because of slack business conditions or because they could only find part-time work, has increased by about 4.3 million; Department of Labor, 2009c.)

But another, and little appreciated, safety net also kicked in: working wives. Compared to 1960, when only about 25 percent of all married mothers worked, now, about 70 percent work (about 48 percent full time). The change for married mothers with children under six was equally dramatic: Compared to 1960, when only about 17 percent of married women with children under six worked, about 62 percent now work (about 42 percent full time) (U.S. Department of Labor, 2008a; and Department of Labor, 2008b).

This is a seismic shift, socially but also economically. Husbands are no longer the sole source of family income. Far from it. In fact, about 33 percent of working wives earn more than their husbands (U.S. Department of Labor, 2009f).

And that brings us to the nature of recent job losses. As some commentators have noted, this is a "men's recession" or a "man-cession." Since the beginning of the recession in late 2007, about 75 percent of all job losses have been among men. The reason, of course, is that the recession has hit some predominantly male sectors of the economy particularly hard: About half of all lost jobs were in the manufacturing, construction, and transportation sectors. (These sectors are about 76 percent male.) The other big losses, about 18 percent of the total, were in "administrative and waste services" (about 60 percent male).[1] In fact, the only sector seeing an increase in jobs was the predominantly female "education and health services," up 510,000 in 2008 and up again 168,000 in the first half of 2009. (The sector is about 77 percent female.) (U.S. Department of Labor, 2009e.)

Hence, among married couples, wives were much more likely to have held on to their jobs—or gone back to work. The evidence suggests that they are both more willing and more able to change occupations, and to take a temporary or permanent cut in salary while doing so. From the start of the recession through mid-2009, among married male and female workers, men accounted for about 70 percent of all job losses (U.S. Department of Labor, 2009d). So there is much deep social truth in the comedian's line that the "economy is so bad that my wife had to get a second job."

This is not to say that people are not hurting. The economic suffering in this recession is already wide and deep. And the 2009 poverty figures will surely be worse. They could easily reach as high as 14.5 percent—something we have not seen since the early 1990s. Furthermore, the official poverty measure does not count the family assets embedded—and now lost—in home equity and stocks. According to the Federal Reserve, between late 2007 and mid-2009, the net worth of U.S. households fell by more than $12 trillion (U.S. Federal Reserve, 2009). Housing values dropped by about 13 percent, and stocks by about 25 percent. (Retirement accounts were similarly down; U.S. Federal Reserve, 2009.) The small guy was not alone, of course. Between mid-2008 and mid-2009, Harvard University lost 27.3 percent of its endowment, and Yale 30 percent (Fabrikant, 2009).

But we should not lose sight of the bigger picture, either. Working wives have softened the blow of the current recession. Small solace, perhaps, but for hundreds of thousands of families, they have made the difference between staying afloat or not.

To return to the argument of our paper, just as the key contribution of working wives to family finances in the current recession demonstrates the importance of strong families, so too do the dim long-term job prospects of their unemployed husbands highlight the need to upgrade the job skills of the American labor force, especially of males. Many of those 3.5 million jobs in manufacturing, construction, and transportation may never return. Without the relevant skills, what kinds of jobs will the men who held them obtain?

We wish we had the knowledge and wisdom to describe the path from here to there, but there seems little question about the direction we must take.

Note

1. The sector includes, among others, janitors, landscapers, security officers, and administrative assistants.

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