WASHINGTON'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, hard-won benefits are being lost, and opportunity and hope are diminishing for ourselves and our children. The future of the middle class, which has been the backbone of Washington's economy for more than half a century, is at risk.

Washington'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 income and benefits 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 invested in infrastructure and basic science, built up and expanded social insurance and safety net programs, and supported homeownership and made a college education accessible to a new generation. Parents...
without higher education themselves 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 Washington's middle class is in jeopardy. Washington workers have seen their benefits diminish and their earnings stagnate over the past decade. There's also been an out-of-proportion shift in costs for health coverage from employers to employees, and a total abdication of retirement costs and risks by businesses as they switch to defined compensation retirement savings plans. Middle-class workers can no longer count on comprehensive health coverage for their families while they are employed, nor expect a secure pension when they retire.

Several factors threaten the future of Washington's middle class. Manufacturing jobs, which tend to be unionized and offer better pay and benefits, diminished by one-eighth in just three years—from 2007 to 2010.¹ Job growth has predominated in the service sector, where unions are less prevalent, pay is lower, and employers are less likely to offer health and retirement benefits. Further, the job gap continues to grow, with growth in the working age population outstripping jobs by 1.8 million in 2010.²

At the same time, it has become more costly to raise a family. Several decades ago, most middle-class mothers were not in the paid labor force. But now that a majority of mothers are employed, families must pay for child care. High-quality care for preschoolers is expensive, yet parents face these costs early in their working years when their earnings are low. Housing is also more expensive relative to household income than it was decades ago. The need for most working parents to have their own vehicle and the high price of gas further strain middle-class family budgets.

The threat to the future of Washington's middle class can be seen most clearly in the economic prospects for the state's young people. Today, the majority of young workers are earning less than their mothers and fathers did a generation ago, with substantial declines among men. Skyrocketing college costs are making it hard for middle-class students to stay in school and graduate. The average student debt for college graduates in Washington is almost $20,000. Over a fifth of young workers do not have employer-based health insurance. Young people predominately pay for their own future retirement benefits through defined-contribution accounts, while their employers avoid all risk and most of the expense of financing retirement.

The unraveling of the social contract predated the Great Recession, but the economic crisis hastened its demise. Not only did the state lose over 185,000 jobs because of the Wall Street-caused 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 over $215 million annually in lost sales 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 1,650 teachers or 1,300 nurses.

Now is the time for citizens, workers, employers, and policymakers to come together once again to rebuild pathways to the middle class, create good jobs with fair pay and decent benefits, and ensure that prosperity is broadly shared for the next generation.
EARNINGS

In the state of Washington, workers have organized together into unions to preserve and enhance their middle-class quality of life. This organizing work has paid off. Workers in Washington have bargained for and achieved higher wages than workers nationally thanks in large part to higher than average union representation. Since 1980, median annual earnings (after inflation) grew 22 percent in Washington to $39,915, which is 12 percent higher than the national median. Notably, despite the Great Recession, earnings in Washington have rebounded (see Figure 1).

EDUCATION

In Washington as elsewhere, a four-year college degree is the surest path to a middle-class income. Washington workers with at least a bachelor’s degree earn nearly twice as much as those with only a high school diploma ($58,140 versus $29,580 in 2010). Over the last 30 years, only workers with an associate’s degree or bachelor’s degree experienced earnings gains. Earnings for workers with less education were stagnant (see Figure 2).

Washington’s high-tech and aerospace-based economy is dependent on hundreds of thousands of college-educated workers. But the state ranks 37th in awarding bachelor’s degrees as a percentage of the young adult population and 39th in graduate degrees. As a result, the state imports workers from other countries and other states when we should be preparing sufficient numbers of native Washingtonians for these higher-skill, well-compensated jobs.
**Gender**

Men typically earn more than women: in 2010, median earnings for men were roughly $13,000 higher than those for women in Washington ($45,900 versus $32,640 when both part- and full-time workers are included). But the gender gap has steadily narrowed over the last 30 years, in part because men’s wages have stagnated. In contrast, median earnings for women have risen by 54 percent in Washington since 1980 (see Figure 3). Washington women now earn 71 percent of what men do.

**Rising Income Inequality**

On the eve of the Great Recession, the top 20 percent of Washington families 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.⁵ The gap between the affluent and everybody else has grown over time, with the top 20 percent of Washington families experiencing a 41 percent gain in income between the late 1980s and mid-2000s compared to a 12 percent increase for the middle quintile of families (see Figure 4).

Further, Washington is a microcosm of the national trend toward extreme income concentration at the very top of the income scale. In 2007, the top 1 percent of families nationally took almost one-quarter (23 percent) of total national income, up from just over one-tenth (11 percent) two decades earlier. At the same time, the bottom 90 percent of households saw their share of national income fall from 65 percent to 52 percent.

The super-rich are getting richer right here in Washington. Among the state’s residents are Bill Gates Jr., Steve Balmer, Jeff Bezos, and Paul Allen, whose combined wealth is $92 billion.⁶ Among Washington CEOs the trend is up and up. Howard Shultz from Starbucks enjoyed a 79.5 percent increase in compensation in 2010, to $22 million. Mark Pigott, CEO of Paccar, gained 84 percent increase to $7.8 million. Blake Nordstrom, shouldering the family CEO position for Nordstrom, saw his compensation rise to $6 million, a 37 percent increase.⁷
JOBS AND BENEFITS

Access to well-paying jobs with good health and retirement benefits is the cornerstone of a middle-class life. Unions play an important role in helping workers negotiate fair pay and better benefits.

UNION MEMBERSHIP

Washington has historically had—and continues to have—high union participation rates compared with the rest of the nation. Nearly a fifth of Washington workers are union members—19.4 percent in 2010—and the state has not experienced the steady erosion in union membership over the last decade or so common in many other states (see Figure 5). Nationally, 11.9 percent of workers participated in unions last year—36 percent of public-sector workers (7.6 million) and 7 percent of private-sector workers (7.1 million). One result of workers organizing together into unions is that typical wages and benefits are higher in Washington than in states with decreased proportions of organized workers. However, the Great Recession has taken its toll even here on workers’ benefits.

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. Access to employer-sponsored health insurance among Washington workers has been comparable to national levels. After holding steady from the mid-1990s until the mid-2000s, the proportion of the state’s workers whose employers do not provide coverage edged up to 24 percent in 2010. Overall, 14 percent of Washington workers are uninsured compared to 17 percent nationally. But even for workers who are covered through their employers, cost shifting to employees has decreased disposable income. Workers’ contributions for family health insurance coverage increased almost 150 percent between 2000 and 2010 to close to $4,000. Over half of employees pay more than 25 percent of the total cost of their insurance premiums.
UNEMPLOYMENT

For several decades, Washington’s unemployment rate has followed the same general pattern as unemployment nationally. Although Washington’s official unemployment rate was somewhat higher than the national rate early in the decade, it did not quite hit the national high of 10.1 percent during the Great Recession. Washington’s unemployment rate peaked at 10 percent in January 2010, after the official end of the recession, and stood at 9.1 percent as of May 2011. Of the more than 300,000 people unemployed and looking for work in Washington, only two-thirds receive unemployment insurance. The rest have exceeded the weeks allowed for the receipt of unemployment benefits, or are disqualified for other reasons, such as not having enough hours in their work history.

RETIRED BENEFITS

As of 2009, fewer than 4 percent of firms in Washington offered traditional pensions (defined-benefit plans) to full-time employees and fewer than 2 percent offered these benefits to part-time employees; 38 percent of firms offered 401(k) and similar defined-contribution plans to full-time employees, and 15.5 percent to part-time employees. Because of the scale of employment of Washington’s largest employers (such as Boeing, Microsoft, and the State of Washington, among others), two-thirds (65 percent) of the state’s workers have access to some kind of retirement plan at work, a rate that has remained relatively steady for three decades (see Figure 6). But the shift to defined-contribution plans has shifted most costs and all financial risk to employees, exposing individuals to the vagaries of the stock market and high fees. Nearly 13 percent of Washington workers don’t participate in their employer-sponsored plan either because they can’t afford to contribute or fail to opt in.

FIGURE 6. WASHINGTON WORKERS’ ACCESS TO AND PARTICIPATION IN EMPLOYER-SPOONRED RETIREMENT PLANS, 1980-2010

SOURCE: Demos analysis of Current Population Survey data
WHERE THE JOBS ARE

The past 30 years have brought significant changes to Washington’s job market. Manufacturing and service jobs have accounted for roughly half of all employment during that time, but these two sectors have experienced diverging trends. Manufacturing employment declined from 22 percent in 1980 to just under 10 percent in 2010, while service employment increased from 30 percent to 43 percent (see Figure 7). Manufacturing jobs are far more likely than service jobs to be unionized, pay decent wages, and offer middle-class benefits.

FIGURE 7. WASHINGTON EMPLOYMENT IN MANUFACTURING AND SERVICES AS A PERCENT OF THE LABOR FORCE

SOURCE: Demos analysis of Current Population Survey data
RAISING A FAMILY

Washingtonians 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 neighborhoods.

HOMEOWNERSHIP

Over the last 30 years, home ownership among Washington workers declined from a high of 72 percent in 1982 to a low of 59 percent in 1995 before trending upward again. Since then, the rate climbed back up to 69 percent at the height of the housing bubble but fell back to 66 percent, which is slightly below the national level (see Figure 8). Foreclosures increased 9 percent in April 2011, with a total of 20,519 foreclosure filings in Washington year-to-date. Washingtonians are devoting a larger share of income to housing costs: in 2008, two in five Washington homeowners (41 percent) spent 30 percent or more of their income on housing.

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 care in a family child care home in Washington costs $8,643 a year for an infant and $7,189 for a four-year-old. Center-based care costs considerably more (see Figure 9). For two children (an infant and a preschooler), center care averages $20,053 a year or 26 percent of family income for a couple earning median wages.
THE FUTURE MIDDLE CLASS: A LOOK AT YOUNG PEOPLE

The trends facing young Washingtonians seeking to build and maintain a middle-class life are worrisome. Over the last generation, wages have stagnated or declined for all young workers in Washington except those with a bachelor’s or graduate degree. While a college degree provides higher earnings and greater protection against unemployment, college tuition costs have soared and students are accumulating greater amounts of debt.

LABOR MARKET

In 2010, median earnings for workers aged 25-34 with a bachelor’s degree or higher were $51,000 in Washington—71 percent higher than earnings for a typical high school graduate in the same age range ($29,810). Real median earnings (after inflation) for young college graduates with a four-year degree rose 34 percent over the last 30 years, recovering from setbacks in the 1990s and stagnation during much of the last decade. But earnings for young workers with an associate’s degree or high school diploma were volatile over the period and are now roughly at their 1980 level. Young people with the least education—those who did not finish high school—saw their earnings fall 22 percent (see Figure 10).

Who are these young people today? About one-fifth of high school students drop out and fail to earn a high school degree—16,000 students a year.¹⁹ About one third of high school graduates will not go on to two-year or four-year college.²⁰ Fewer than half of students from low-income families who complete high school will go to college. Further, when compared to other states, Washington ranks 32nd in the percentage of low-income students participating in post-secondary education.²¹ Put these numbers together and our state is consigning almost 40,000 young people every year to lives of scraping by, rather than lives of opportunity and fulfillment.

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 abysmally high; it was 22.5 percent nationally in 2010 compared to 9.3 percent among young workers with a four-year college degree.²² In Washington, 25-34 year olds face a 9.9 percent unemployment rate, just below the national rate of 10.1 percent.
COLLEGE TUITION AND FEES

For the past 20 years or so, average in-state tuition (including fees) at Washington colleges and universities has closely mirrored in-state tuition for the nation as a whole (see Figure 11). Since 1986, tuition costs in Washington have increased by 235 percent. Next September, tuition at the University of Washington will increase 20 percent, exceeding $10,500. Tuition at community colleges will increase 25 percent in the next two years.²³ ²⁴ (Note that these figures do not include room and board.)

STUDENT DEBT

Nearly 3 out of 5 (58 percent) college graduates in Washington entered the labor force with student debt in 2009, and their average debt was $19,780.²⁵ That results in an annual payback of $2,800 for ten years.²⁶ The debt burden of Washington college graduates is high and rising numbers of students are accumulating debt without completing a degree, putting them on a shaky path to the future.

HEALTH AND RETIREMENT BENEFITS

Young workers aged 25-34 are more likely than other workers to lack health insurance coverage in Washington—20 percent are currently uninsured. About a fifth (22 percent) of young workers lack access to health insurance through their employer (see Figure 12). Two-thirds (66 percent) of young workers have access to employer-sponsored retirement plans, the vast majority of which are risky, expensive 401(k)-type plans rather than traditional pensions. A full 20 percent of workers aged 25-34 have access to a retirement plan at work but do not participate.²⁷


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

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

THE AMERICAN DREAM came to life in Washington in the form of a strong post-war 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 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 of workers coming together to reclaim the American Dream and demanding that our elected officials work for workers.

ENDNOTES
3. All earnings data cited in this brief are from Dēmos analysis of the Current Population Survey (CPS).
ABOUT DÉMOS

Démos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, Démos 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. Démos was founded in 2000.

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

ABOUT THE ECONOMIC OPPORTUNITY INSTITUTE

The Economic Opportunity Institute is an independent, nonpartisan, non-profit public policy center working to restore the promise of the middle class. Through research, education and advocacy, we shape public debate and advance new policy ideas to build an economy that works—for everyone.