Left Behind in Today's Economy

Identification of Sub-Population Groups Left Behind by Structural Changes to Economy

Executive Summary

The 2016 Illinois Economic Report defined three distinct economies (the Chicago 9-county; Small Metro; and Non-Metro regions) within Illinois. The analysis associated with those sub-state economies showed they were progressing at different rates and the rates differed for various groups within each region. The report also discussed structural changes (globalization of trade, and technological improvements leading to the automation of processes) that have taken place in the national economy over the last few decades. This report identifies those groups that have suffered as a result of those changes.

The affected population segments have a few things in common, including lower educational attainment, and living in situations where economic opportunity is hard to locate. Some Illinois residents fit into each of these groups.

Research produced by the White House Council of Economic Advisors (CEA) concluded that shifts in economic demand caused by a combination of a technological change and the globalization of trade is consistent with a decline in labor force participation rates and an increase in income inequality. The CEA study shows that the most likely cause of people dropping out of the labor force is declining wages for low-skilled workers. From 1975 to 2014, wages for high-school graduates fell from about 80 percent of wages for college graduates to 60 percent.

The labor economics term "reservation wage" is defined as the lowest wage where a worker would be willing to accept a particular type of job. Some workers are removing themselves from the labor force because jobs available to them are below their reservation wage. Although the primary focus has been on prime-age males, a similar issue has developed for prime-age females in the United States.

National labor force participation rates for prime-age males peaked in 1954, but have been trending downward in the United States since the mid-1960s. Meanwhile, the labor force participation rate for prime-age females rose rapidly during the 1970s and 1980s before peaking in 1999 at 77 percent. The rate of decline for both has increased around recessionary periods since marginal jobs are more likely to be shed when employers are motivated to cut costs.

Extensive research has been done to answer the question of why the labor force participation rate for prime-age adults is in decline. One part of the explanation is the amount the federal government expects to spend on disability payments will exceed the combined total for food stamps, welfare, housing subsidies and unemployment assistance. Although the majority of people on disability live in cities and suburbs, the rates of increase over the past decade are highest for people living in rural America.

Labor force participation rates for prime-age males, by educational attainment were similar across attainment levels in 1965. However, the rates have decreased for all levels of educational attainment since then, with the decline being much steeper for the lower levels of educational attainment. This is primarily a result of the falling demand and wages for lower-skilled workers relative to higher-skilled workers.

Females are much less likely than males to become incarcerated or to be disabled via workplace injuries. Many traditionally female-dominated occupations are growing but still have low wages and few benefits. At the same time, the number of jobs in traditionally male-dominated occupations has shrunk. Females do move out of the labor force more often because they take on the responsibility of caregivers (children, parents, other relatives).

Both males and females complain they are unable to find full-time, secure jobs that pay a middle-class wage. In recent years, the work patterns of men have become more like the traditional patterns for women because they are now more likely to cycle in and out of the labor force.

Part-time work most often impacts low- and middle-income earners, especially females, blacks and Hispanics. The industries that utilize part-time staff the most include retail stores, car dealerships, hotels and restaurants. Part-time jobs often pay low hourly wages and have unpredictable hours, lack benefits such as health care or retirement savings and don't qualify for government benefits such as unemployment insurance.

As the economy has undergone structural changes, the Gig Economy is today's buzz word. Gigs are short-term assignments in which pay is generally determined by task or output, rather than hours worked. This is also referred to as alternative work, which includes people who are employed as independent contractors, on-call workers, temporary help agency workers and workers provided by contract firms.

Independent research estimates that all of the net employment growth in the U.S. economy from 2005 to 2015 occurred via the Gig Economy. Data show that those between the ages of 55 and 74 are the primary drivers of growth in the Gig Economy. In fact, those working under alternative arrangements are more likely to be older and more highly educated. The number of workers also grew for the 25-54 age group in this sector and the share of females doubled.

These temporary work arrangements are expanding to more types of jobs and the total number of jobs is increasing. However, current labor laws are based on the notion that most people work traditional jobs. Many

independent workers lack access to protections such as unemployment insurance, workers compensation and disability insurance.

The "hollowing out" of the American middle class has proceeded steadily for more than four decades. Starting in 1971, each decade has ended with a smaller share of adults living in middle-income households than at the beginning of the decade. Meanwhile, the lowest income and highest income tiers are expanding.

A research project tracking the pre-tax household incomes of children at age 30 relative to their parents was conducted starting with children born in 1940. As the decades have passed, a smaller proportion of children have had higher incomes than their parents. As technological change, globalization, and government policies started having a bigger impact on the economy in the 1980s, people toward the top of the income distribution performed better while the middle class and poorer class surpassed their parent's income at lower rates. The project demonstrated that fewer people are able to realize the American Dream now that financial rewards are not available to workers at all levels of the distribution.

Median wealth increased for both middle-income and upper-income households prior to the Great Recession. The housing market crisis and the Great Recession then had a large impact on family wealth (assets minus debts). The amount invested in a home tends to be larger portion of a family's wealth for a middle-income compared to an upper-income household.

During the housing market crash, the typical investment in a home fell more than the typical investment in the market. Portfolios of upper-income households then tended to do better than for middle-income households. As a result, the average wealth of an upper income household relative to a lower-income household has risen from a little over three times as much in 1983 to a little less than seven times as much in 2013.

The sub-population groups identified as struggling to find success in the labor market include:

1. Working class who are underemployed, earn low wages, or out of the labor force;
2. Households led by single females with children;
3. Minorities in the inner-city (living in neighborhoods lacking economic opportunity);
4. Older workers (not enough saved for retirement or lacking health insurance);
5. Ex-offenders;
6. Young adults (living at home to older ages);
7. Youth (living in low-income households).

The working class has been characterized as white, male, with no more than a high school education, working in blue-collar occupations and from non-urban areas. This representation may cover a large portion of the working class, but the most common characteristics

are that the overwhelming majority would have educational attainment of a high school diploma or less with work experience in blue-collar occupations. Many people in this group previously worked in the industries of manufacturing, mining, or construction. Those jobs paid wages good enough to co-anchor (along with a spouse) a household and live a middle-class lifestyle.

Single females with children at home who require care tend to be another group at risk. These women can live in both rural and urban areas. Although many may have attained an education of a high school diploma or less, other females may have some college and even a few may have a Bachelor's degree, but still earn wages that make it difficult to support a family. This group could be living near poverty with a need to access government benefits to support their families.

An example of minorities in the city that are struggling economically is the black population residing in Chicago. This group is much more likely to be unemployed or not in the labor force than the rest of the city's population. They also fare worse than blacks in the portion of Cook County that does not include the City of Chicago. The long-term decline in labor force participation rates of prime-age males has been especially steep for black males (especially for those who did not attend college).

The neighborhoods where inner-city blacks tend to be concentrated have schools of lower quality, less access to transportation, and fewer neighborhood resources. Children in these areas can face an increased risk of prolonged poverty, child abuse, educational failure and youth delinquency and violence, especially among boys, whose main reason for joining gangs is to find a family and male role models.

Older workers are working longer for a variety of reasons. People with more education tend to have higher incomes and usually have work that is more satisfying. Other older people continue working because of the increase in age for which workers can claim full benefits from Social Security. The top one-third of baby boomers likely have enough assets to have a traditional retirement, but others in the middle-class are less financially secure and need to work longer to make ends meet.

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Many people lost good jobs in the Great Recession from which their finances have never recovered. Older males have tended to find work in low-wage, non-union jobs. Females make up the majority of workers in seven of the top ten low-wage jobs for older workers. Older women also tend to have a lower accumulation of earnings saved for retirement and thus more likely to have to work later in life. Previous work experience for older workers is unlikely to carry much weight, especially if they do not have a college education.

The nation's high incarceration rate is a big reason why a significant number of prime-age males are not in the labor force. Black and Hispanic males account for a majority of the nation's prison population. This is part of the explanation for lower labor force participation rates for prime-age males in the U.S.

About 40 percent of young adults lived with relatives in 2015. That is the highest proportion for the U.S. since 1940 as the U.S. economy was recovering from the Great Depression and just before the country entered World War II. In fact, research shows that a higher proportion of those in the 18 to 34 age group lived at home with their parents than were married or living with a partner in a separate household.

It is worth noting that poor men with few job opportunities are also likely to lack marriage prospects. As good-paying jobs in blue-collar industries have disappeared in the last few decades, males who have traditionally fit into these jobs have suffered. If they have a job, then it comes with lower wages. This group now has an increased likelihood of heavy drinking, drug use, and other risky behaviors. This group has a higher mortality rate and a higher incarceration rate. They may be homeless or perhaps they left the area to find opportunities elsewhere.

Millennials without a college education are earning less than other individuals at the same age from previous generations. However, the proportion of this group having children before marriage is increasing. Young people are more likely to have their first child outside of marriage in areas of high income inequality with few middle class jobs available that don't require a college degree. Conversely, in areas with more middle-skill jobs available, young people are more likely to get married before having children.

The likelihood of an individual in the 16-24 age group to be neither employed nor in school falls as the household income rises. It is also true that someone in the age group living in a rural county is more likely to neither be employed nor in school than a young person in an urban area. The number of Illinois school districts having a majority of their students coming from low-income families increased by more than 200 percent over the past decade. As poverty levels increase, low-income Illinois students remain academically behind their wealthier peers are less likely to complete a postsecondary degree.

The impact of globalization of trade and automation has resulted in both short- and long-term consequences for the national economy. Some of the short-term consequences include:

1. fewer economic opportunities for those who have attained a lower level of educational attainment;
2. a higher crime rate;
3. slower economic growth.

The main long-term consequence is the creation of an economic cycle in which the lower-income group has more children. This can lead to more people living near the poverty threshold and a larger number of people who will have trouble obtaining the education and training necessary to succeed in a work environment that puts a premium on education. This should lead more people to seek out public assistance.

Government policymakers should consider modernization of its policies to address changes in workforce and employer behavior in response to these economic structural shifts. More people are facing uncertain career paths. As technological innovation increases at a faster pace, the burden will grow for government to react to changes in the workplace.