

RESEARCH PROPOSAL

What are the economic factors that are limiting recovery from the Great Recession and how have they impacted the middle class?

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Competencies:

L-8: Can pose questions and use methods of formal inquiry to answer questions and solve problems.

L-9: Can analyze economic circumstances and assess their impact.

I. THE PROBLEM AND ITS SETTING

A. Statement of the topic to be researched

I propose a study that will assess economic factors in the United States that may have slowed or prevented satisfactory recovery from the recession of 2008-2009. Further, I plan on analyzing whether these factors disproportionately affected the American middle class before, during and after the recession. Given the importance of a healthy middle class in a resilient, prosperous economy, these are factors worth consideration. It will, for comparison, use data from previous recession / recovery periods from 1946 to 2008.

The world-wide recession of 2008-2009 is often cited as the worst international economic conditions since the Great Depression. Numerous and varied circumstances coalesced to bring about a nearly two-year period of negative economic growth and high levels of unemployment. At its worst, in October of 2009, U.S. unemployment reached 10%, the highest rate since the end of the Great Depression (U.S. BLS).

More than five years after the end of the Great Recession, despite the rise in GDP, a booming stock market and decreasing unemployment, many Americans feel their economic situation is not improving (Desilver, 2014). Though the recession, as defined by economic terms, ended in June, 2009, the subsequent recovery has been sluggish at best. There are numerous factors that may be limiting economic improvement for large numbers of Americans. The implications of an anemic economic recovery and a shrinking middle class are of great importance in creating a stable economic future. The purpose of this research is to find out whether past and current economic circumstances led to the deteriorating economic standing of middle-income American households, and the impact this had on the recovery from the recession of 2008-2009.

B. Statement of the problem and subproblems

What are the economic factors that are limiting recovery from the Great Recession and how have they impacted the middle class?

The first subproblem is related to the changing relationship between Gross Domestic Product, or GDP and overall economic conditions. GDP, as compiled by the United States Bureau of Labor Statistics (BLS), is widely considered to be the principal indicator of economic growth. Though GDP has increased fairly consistently since 2010, the rate of growth is less than in years immediately preceding the recession. In fact, annualized GDP growth in 2014 was at its lowest level since 2002 (U.S. BEA, 2014, *National Income and Product Accounts Tables*). More significantly, the growth that has taken place has had little impact on the income and wealth of the majority of American households.

The second subproblem is that of unemployment. As reported by the BLS, unemployment is at its lowest point since mid-2008, but as of the end of 2014, it has not reached pre-recession levels, and many Americans struggle to find adequate employment (U.S. BLS, *Alternative Measures, Archived Tables*). The BLS has six measures of unemployment: U-1 through U-6. The official unemployment reports use the U-3 standard, however, the U-6 standard accounts for underemployed and discouraged workers. U-6 unemployment is increasing as a ratio to U-3 unemployment. These data provide support for the idea that increasing numbers of Americans are “underemployed” which implies that they are working part-time jobs when they would prefer full-time, or they are “discouraged workers” which implies they have given up looking for work but would still like to be part of the work force.

The third subproblem is that of wage stagnation, wage disparity and wealth disparity. These are widely considered to be contributing factors in the slow economic recovery, and

perhaps even the Great Recession itself (Holt, 2012, 364). Wages, adjusted for inflation, for the vast majority of Americans have remained relatively flat over the past 50 years. Working men with high school diplomas or college degrees have seen little increase or even some decrease in real wages between 1969 and 2008 (Madrack & Papanikolaou, 2010, 310). While some argue that improved benefits and working conditions make up for the shortfall in wages, many of these benefits are not available to the increasing percentage of part-time workers, and wages still account for 70% of overall compensation.

Though economic growth is evident since the end of the recession, 95% of the benefit from the post-recession recovery has gone to the richest 1% of Americans (Inequality, 2013). The gap between the wealth held by the richest ten percent of Americans and that held by the other 90% is greater than at any time since the end of the 19th Century.

C. Importance of the Study

The Great Recession took a toll that is still being calculated on the American economy and on vast numbers of citizens. Understanding the factors that led to and have prolonged the damage of this event is essential in taking measures to reduce the frequency and impact of future recessions.

D. Hypothesis

Wage stagnation, income and wealth disparity and underemployment have become chronic conditions that have impacted the resilience of the American economy and slowed recovery from the recession of 2008-2009.

E. Delimitations

This study will limit its scope to the economy of the United States.

The statistics used in this study will be limited to those gathered after 1945.

Despite any limitations in the collection or use of data recognized in this study, it will not recommend changes to the collection, evaluation or reporting of current or future statistical data.

This study will not employ economic models to demonstrate causal relationships between statistical findings and the frequency or severity of future recessions and will not imply such. It will simply provide statistical evidence and correlation in past events.

F. Definition of Terms

Great Recession:

A period of negative economic growth beginning in December 2007 and ending in June of 2009.

Gross Domestic Product (GDP):

The market value of all final goods and services produced within the United States in a specific time period as reported by the U.S. Bureau of Economic Analysis.

Mean Income:

As reported by the U.S. Census Bureau, the mean (average) income of all households in the United States.

Median Income:

As reported by the U.S. Census Bureau, the level at which the income of half of all American households is higher and half is lower.

Recession:

Economic downturn, defined as two or more consecutive quarters of negative growth in GDP as reported by the U.S. Bureau of Economic Analysis.

Unemployment Rate:

Official U.S. unemployment rate (U-3 measure) as reported by the U.S. Bureau of Economic Analysis; includes all jobless persons who are available to take a job and have actively sought work in the past four weeks.

G. Assumptions

GDP is an accepted leading indicator of economic growth, but a poor measure of how evenly distributed the proceeds of economic prosperity is among sectors of the population.

II. REVIEW OF RELATED LITERATURE

A. Major Issues Explored by Scholars Who Have Researched This Topic

Much has been written on the topic of wealth and wage disparity in the United States. Theories suggest that the recovery from the Great Recession has been slowed as a direct result of a weakened middle class and a concentration of wealth among the wealthiest individuals. The ratio of median to mean income is frequently cited as an indicator of growing wage disparity. When the rate of increase of the mean income is greater than that of the median income, the indication is increased wage disparity. In general, low-paying jobs with wages that are stagnant or decreasing are becoming more plentiful while wages for the highest-paying jobs are increasing. Meanwhile, those jobs in the middle of the spectrum are disappearing and the wages for those that remain are flat. There are several factors in the job market that are responsible for this result (Abel & Deitz, 2011).

First, an increasing number of available jobs are in technology industries. During the post-World War II manufacturing booms, manufacturing jobs – many supported by trade unions – were a staple of the economy, providing good wages to low or moderately skilled workers. Partly as a result of trade agreements like NAFTA and CAFTA, and spurred by increased international trade, these manufacturing jobs have steadily moved to countries with considerably

lower standards of living than the U.S. to take advantage of their lower labor costs. Many of the manufacturing jobs that remained were automated to minimize labor costs and increase efficiency. The well-paying jobs that remain require a higher level of skills and education, and generally, a college degree. Programs must be implemented that will assist displaced workers in bolstering their skills so they can find a place in this growing knowledge economy. Investment in science, technology, engineering and mathematics (STEM) education programs and technology-focused trade school type programs for young people will give motivated students a practical education experience and better prepare them to enter the job market. Second, in the same way that outsourcing and factory automation replaced many high-paying manufacturing jobs, many types of rule-based, middle class jobs are now being outsourced or replaced by computers or online systems. Customer support agents, bank tellers, retail workers and even stock brokers are becoming increasingly scarce as these roles are replaced by automated or online systems. Rapid progress in these technologies is enabling employers to achieve the same or greater productivity while employing fewer people. This jobless recovery creates structural instability in the economy. While short-term gains may be realized by these productivity increases, employment destabilization will result in more frequent and sever recessions (Abel & Deitz, 2011; Holt & Greenwood, 2012, 368; Dorfman 2014; Howell & Diallo, 2008, 42; U.S. Conference of Mayors, 2014).

Analyzing wealth, as opposed to income, is equally important when assessing disparity in the U.S. economy. Wealth is described as the difference in value between assets and debt for individuals or households. Household wealth is an important indicator of overall economic well-being because it gauges a household's ability to withstand economic downturn, whether on a micro level, such as in the event of illness or job loss, or a macro level, such as during

widespread recession. Increasingly, the vast majority of the wealth in the United States is held by a shrinking percentage of the population. The median wealth of the top 21% of households was 3.73 times that of the middle 46% in 1983. While that wealth gap narrowed slightly in the years immediately before the 2009 recession, those gains were quickly wiped out by the economic downturn and disparity has continued to grow during the recovery. By 2013, the wealth held by the top 21% was 6.26 times that held by the middle class, meaning the wealth gap had nearly doubled. In 2013, the wealthiest 5% of Americans held 63% of the nations' wealth. This gap not only leads to a middle class more prone to the effects of recession, it also limits the spending power of a vast middle class, thereby limiting overall demand for goods in the economy (Fry & Kochhar, 2014; Yellen, 2013; Zakrevskaya & Mastracci, 2013).

The effects of wealth disparity are compounded by fiscal policy that favors those who hold and invest vast wealth. Capital gains, estate and inheritance taxes heavily favor the rich, and income tax structures that have become steadily more regressive since the 1980s have shifted more of the tax burden to middle-income wage earners. These policies encourage wealthy individuals to retain their wealth and create a climate where they are more able to grow that wealth. That, combined with a shortage of demand for products and services due to a middle class lacking disposable income, results in a self-perpetuating economic climate where there is little incentive to invest in innovation or industry.

This wealth disparity has far-reaching implications for the economy. Studies show that as disparity increases, the duration of periods of economic growth become shorter, and recessionary events become more severe. Broadly speaking, affluent individuals are more able to shield a larger percentage of their wealth from taxes, and they typically spend less of their income. With a staggering percentage of wealth and income going to the wealthiest Americans, and middle and

lower wages stagnating, tax revenue flowing to government at all levels is decreasing. The result is a decrease in available funds on the state and local level for higher education, infrastructure improvements and health care programs for low-income individuals. In economies with vast disparity and minimal effective attempts at redistributive policies, political upheaval is more likely. Some argue that redistribution undermines the mitigation of disparity that it is intended to remedy, but recent research indicates that this is not the case, and that carefully implemented redistributive fiscal policy can improve economic conditions. During the Clinton era, more progressive tax structures and increased capital gains taxes coincided with the longest period of economic growth in recent history, though this may also have been fueled by unbridled growth in technology during the same period (Fry & Kochhar, 2014; Ostry, Berg & Tsangarides, 2014).

Wage stagnation is another contributor to slowed economic recovery. Research shows that wages for highly skilled workers are increasing while those for low or middle skill-level workers are stagnant or decreasing. Wage stagnation is often cited as a contributing factor to decreased economic stability for the middle class in general and more specifically to the depth and breadth of the Great Recession in the U.S. That this condition exists is easily verifiable; the effect on the larger economy is more difficult to convey. Its causes and impact, though, are far-reaching. Weaker middle-class earnings lead to reduced demand in the consumer market. Changing attitudes toward unions and tax policy are contributing factors in wage stagnation. Political influence also plays a significant and self-perpetuating role; those at higher income levels are more able to “buy” political influence, furthering policies that protect their economic interests, potentially increasing wage disparity and further increasing their level of influence (Abel & Deitz, 2011; Greenstone & Looney, 2012; Fry & Kochhar, 2014; Halter et al., 2013, 102; Holt & Greenwood, 2012, 364; Spitz, 2011). Completion of a college degree no longer

provides the assurance of high wages that it once did. Among men with a four-year degree,

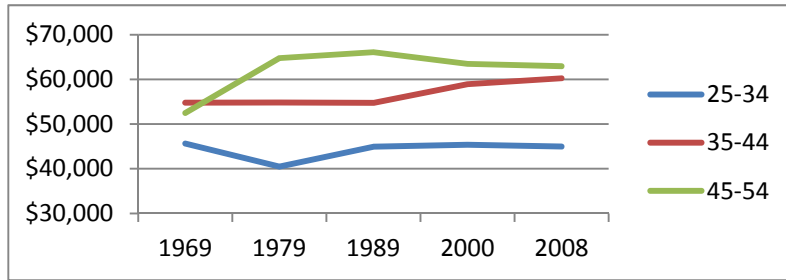


Chart 1. Male median wage and salary income full time-year round workers with a college degree by age, 1969–2008 (2005 dollars).

median wages have remained flat or shown very modest average annual increases between 1969 and 2008, from

0% for those in the 25-34 year-old age bracket to a 0.5% increase for those in the 45-54 year-old age bracket. This rather bleak wage outlook, combined with the ever-increasing cost of college tuition, result in many students graduating with high levels of debt and entering a market with fewer jobs that pay less money.

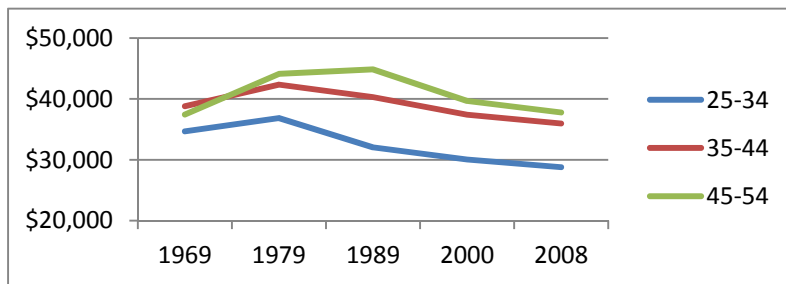


Chart 2. Male median wage and salary income full time-year round workers with a no college by age, 1969–2008 (2005 dollars).

Those who enter the job market having completed high school but with no college fare even worse. They face stagnant or annually decreasing wages during the same period, ranging from an

average annual decrease of 0.5% for those who are 25-34 to a 0% change for those who are 45-54 years old. These factors result in an economy that is less resilient. In this climate, an economy is more prone to deeper recession and less able to recover quickly after a recession (Madrack & Papanikolaou, 2010, 317).

Unemployment, as reported by the BLS, has dropped more or less steadily since 2009. While the U-3 unemployment level is near its pre-recession levels, that may not be the whole story. There are several factors impacting the employment landscape in the United States. While large numbers of jobs have been created since the end of the most recent recession, these jobs

don't pay as much as those before the recession. "Jobs gained during the economic recovery from the Great Recession pay an average 23% less than the jobs lost during the recession... during the 2001-2002 recession, the wage gap was only 12%... meaning the wage gap has nearly doubled from one recession to the next." (U.S. Conference of Mayors, 2014) Unemployment figures were deceptively positive after the recession, as large numbers of people either retired, went back to school, or simply gave up looking for work. This calls into question the veracity of the traditional BLS U-3 unemployment reporting standard (Desilver, 2014).

Underemployment, by some accounts, is the most significant factor in the unreliability of employment statistics. The U.S. Census Bureau's Current Population Survey (CPS) Labor Force questionnaire categorizes people who currently hold jobs in three ways: working full-time, working part-time by choice, or working "part-time for economic reasons." This last group is generally considered the *underemployed*. Beyond that, the CPS questionnaire isolates those who are not working but would like a job, and have looked for work within the past 12 months. It is these groups that are not tallied in U-3 unemployment calculations, and as their numbers increase, they become an ever more important factor in evaluating the employment aspects of the economy. The underemployment problem creates a misleading confidence in the economic recovery. While millions of Americans are considered to be employed, in terms of BLS statistics, they are not employed in a satisfactory or meaningful way that allows them to contribute to the economy. Further, individuals working one or more part-time jobs are often not receiving the benefits of full-time employment, such as health care and paid vacation and sick leave. These are factors that are reflected in statistics tracked by the BLS in their U-6 measure, which includes not only unemployed, but underemployed and marginally attached workers. Some feel this measure

gives a much more realistic view of the employment situation in America (Diamond, 2013; Leubsdorf, 2015; Mui, 2014; Sum & Khatiwada, 2010, 3; U.S. BLS, 2014).

Gross domestic product, or GDP, is often cited as a leading indicator of economic growth. In the years after the Great Recession, GDP growth has been appreciable. But does GDP growth necessarily indicate a strong or recovering economy? And does GDP growth translate to wealth and income growth for the majority of the American population? These are questions that must be considered. Some argue that GDP is imperfect at best, and that either the elements that comprise the GDP should be re-evaluated (beyond the changes that the U.S. Bureau of Economic Analysis make on a regular basis) or GDP should not be given the weight it receives as an indicator of economic growth. GDP "...can't differentiate between spending on good things (education) and terrible things (cigarettes). It doesn't measure the economic services that nature provides... or those that don't come with a market price, such as raising children. It fails to account for the value of social cohesion, education, health, leisure, a clean environment..." (GDP: An Imperfect Measure, 2013)

An alternative measure of economic growth came from the United Nations Development Programme's Human Development Index. The HDI was created to address the notion that economic growth was not the only or best indicator of a country's level of development. The HDI "is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions." This concept begins to shed light on the cognitive dissonance experienced when comparing the GDP growth and improving unemployment statistics in the U.S. with the realities faced by individuals struggling to make ends meet. While the U.S. currently ranks fifth in overall human development, it ranks

last for mean HDI growth during the measurement period of 1980-2013 among the 47 countries that the index lists as having “Very High Human Development” status. This indicates that despite America’s tremendous wealth, its citizens’ standard of living, education and opportunities are not improving at a pace seen in other countries. While it can’t be charted and tracked on a monthly basis like GDP, HDI should to be reported side-by-side with GDP, as it provides a much different perspective of individual well-being within an economy.

Arguably the most difficult to quantify are peoples’ perceptions of the economy and their place in it. When people perceive that the economy is not improving, they are less likely to invest, inject capital, or make anything other than necessary purchases. This lack of demand can severely limit the speed and scope of economic recovery. The percentage of Americans who identify themselves as “middle class” is just 44%, as opposed to 53% in 2008 in the early months of the recession. The percentage of Americans who identify themselves as “lower or lower-middle class” has jumped from 25% in 2008 to 40% in 2014. In a 2014 survey, 92% of respondents reported that the economy was “Not recovering at all,” or “Recovering, but not so strongly.” This startling perception of the state of the economy stands in stark contrast to the reports of rising GDP, a booming stock market and the lowest official unemployment rate since 2008. There is an obvious disconnect between the statistical state of the economy and the benefit the recovery has brought to the majority of Americans (Desilver, 2014; Kochhar & Morin, 2014).

B. Methodologies Used By Researchers to Explore This Topic

The research I gathered in the course of this proposal is a combination of statistical samples, databases, scholarly papers and speeches, and articles from periodicals, journals and newspapers.

Much of the research related to this topic is based on data collected by various governmental agencies. Vast databases of data exist that evaluate various cross-sections of the population by age or income bracket, for example. In many cases this data has been sampled periodically for many years, creating the possibility for cross-sectional, longitudinal or cohort-sequential analysis. The U.S. Census Bureau's Current Population Survey has been a primary tool in collecting employment data since 1948, and the BEA has been calculating GDP data since 1929 and publishes quarterly extensive analysis of that data. As this data is comprehensive and freely available, many researchers rely on it as the basis for their work. Much of research to which I refer is positive, as it draws correlation between various sets of data, (e.g., GDP versus unemployment for a given time period) without implying subjective conclusions or causation.

This research touches on numerous emotional and political hot-button issues and objectivity is not always present. Some researchers draw normative conclusions. Based on statistics showing income versus education, Madrick & Papanikolaou conclude "Emphasis on making it possible to attend college may not be an adequate policy response. Students must be helped to get the most out of college." Howell and Diallo state that "...a strikingly low percentage of American workers have what the authors define as adequate jobs." While this statement seems qualitative in nature, the authors strictly define workers with "adequate jobs" as those "employed at wages above the low-wage threshold and not working involuntarily part-time as a share of the working-age civilian population" allowing them to create a quantitative evaluation.

Unemployment data is collected by the U.S. Census Bureau's Current Population Survey of approximately 60,000 households each month. The survey divides cities and counties into 2,000 geographic areas and selects a representative group of 800 of these areas. The sample is

selected to represent a cross-section of the population and reflects urban and rural areas, industrial and agricultural zones. These results are analyzed and published by the Bureau of Labor Statistics.

III. PROPOSED RESEARCH METHODOLOGY

A. Data or evidence to be collected

No new surveys or data collection tools will be implemented for this research. Rather, I will rely on gathering existing numerical data, as well as studies and interpretation to address my problem and subproblems. Data gathered will be limited to that collected no earlier than 1946.

This data includes:

- Past and present unemployment rates, and employment to population statistics from the Bureau of Labor Statistics
- Mean wage and wealth data from the U.S. Census Bureau's Current Population Survey
- National Income & Product Accounts tables and GPD data from the Bureau of Labor Statistics
- Human Development Index data from the United Nations Human Development Programme.
- Qualitative and quantitative data gathered from survey data collected by the Pew Research Center related to individuals' perceptions of the economy and their economic status.

B. Techniques for gathering data

Most, if not all of the data gathered for this study will be quantitative. U.S. Census Bureau, BEA, and BLS are rich data sources, and those websites will be the source of much of my data. The Pew Research Center's website will be used as a download source for survey data.

The Human Development Index data will be obtained from the United Nations Human Development Programme. Raw data for each of these is accessible on the web and downloadable in spreadsheet formats.

C. Methods of analysis

Extensive existing current and historical data is available, and I intend to take full advantage of that. In researching this topic, it is essential to analyze changes in data over time. As such, most of the data analysis in my research will be longitudinal or cohort-sequential. This will permit assessment of economic factors by age group or economic status and view changes impacting each cohort over time. I will use Microsoft Excel to filter, sort, chart and compare the data to elicit useful patterns, trends and correlation. I will present line charts showing U-3 and U-6 unemployment comparisons over time. I will use economic expansion and recession cycles as the basis for much of my analysis and compare them longitudinally to income and wealth disparity ratios and to unemployment levels.

The study will be presented as a textual analysis using tables and graphs for emphasis of key data. It will individually demonstrate the presence or lack of correlation between recessionary cycles and multiple measures of unemployment, wage disparity and wealth disparity so that economic modeling may be employed in future studies to determine actual causation.

IV. OUTLINE OF THE FINAL REPORT

The final report will be structured as follows:

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V. EXPECTED OUTCOMES

Clearly demonstrated correlation between income and wealth disparity and the depth and frequency of recessions will spur others to undertake social and political action to reduce disparity.

Statistical correlations can be built into economic modeling to determine causation and recommend optimal redistributive fiscal policies that will minimize future recessions.

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