Economy in Crisis

The State of Working New Jersey

BY NORMAN J. GLICKMAN
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**Author’s Note**

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The U.S. economy is badly broken: Americans have lost 4.4 million jobs since the recession began in December 2007 (Figure 1). Unemployment reached 8.1 percent in February 2009, the highest in a quarter century—and many economists expect it to keep rising at least into 2010. Welcome to The Great Recession.

New Jersey’s once-prosperous economy is also in trouble. Good jobs are disappearing, often replaced by low-paying positions without much prospect for advancement. In 2008 and early 2009, New Jersey lost an astounding 99,400 jobs (Figure 2), and the unemployment rate vaulted to 7.3 percent from 4.7. Twenty-four of the state’s cities had double-digit unemployment rates, led by Trenton’s 17.5 percent. The state’s weakness did not begin with the current recession: job growth has flat-lined during this decade and, since 2003, wages adjusted for inflation have fallen. This means that workers’ living standards have declined (Figure 3).

Even these dreadful numbers do not fully portray the personal experiences of New Jerseyans and others across the country. Ken Stelma of South Plainfield was a customer representative. However, he was laid off more than a year ago and his unemployment benefits have run out. He has applied for dozens of jobs, to no avail. Mr. Stelma has lost half of his income and can no longer afford health insurance.

“Ken the Rep” is not a political prop, like “Joe the Plumber” in the 2008 presidential campaign. He is a real, middle-class guy, and he has suffered greatly in the very deep recession that has engulfed the world.
Ken is not alone. Dana Stevens of West Deptford, a human resources expert, also lost her job. She has sent her resume to hundreds of firms. With her savings gone, she struggles to pay her $2,400 monthly mortgage. Although she made $60,000 a year at her last job, she has been told by other firms that she cannot expect more than $40,000 in the current job market, even if she were lucky enough to find a new position.

The Great Recession has also brought hard times to older workers. The Wall Street Journal reports on a “new class” of workers: people in their 70s and 80s competing for jobs with those in their grandchildren’s generation, so that they can pay their rent and doctors’ bills. Many are in job training programs and looking for minimum wage positions. Lois Humphrey, age 80, who suffers from cancer, diabetes, and arthritis, says, “I still need to work because of medications,” and to pay her rent.

Worse, unemployment also often means loss of the family home, as foreclosures loom for people like Dana Stevens. Layoffs usually also mean the end of health insurance and the rise of family stress.

More than 12.5 million Americans are now unemployed and, like Ken and Dana, have little support from the social safety net that once protected Americans during recessions. The unemployed represent the entire economic landscape, from Big Mac flippers to investment bankers, to checkout clerks, to car salesmen. They are our neighbors and relatives.

This report analyzes the main issues facing both the U.S. and New Jersey economies. It focuses mostly on the problems facing working people, but also addresses other elements of the economy as the state and the nation limp through 2009. It will start with an explanation of why the national economy has tanked and see where New Jersey stands because of these problems. It will give readers an understanding of the conditions facing workers and will set the stage for a second report that outlines solutions to the state’s economic struggles.

The downturn is widespread. Besides job cuts, trillions of dollars have been lost from retirement accounts, putting Baby Boomers and others planning retirement in deep trouble. Blue-chip companies, like Lehman Brothers, have gone under or were effectively nationalized by the federal government. Others, including the Big Three automakers, teeter on the brink of disaster. Even once high-flying technology firms are laying off staff. Banks are unwilling to make loans, even to people and companies with good credit; the breakdown of credit markets means that more workers will lose their jobs.

The Great Recession has taken a greater toll on men than women. People in manufacturing and construction—male-dominated industries—have been hit harder and have done worse than those in education and healthcare, which hire many women; Latinos have suffered disproportionately because of their concentration in the same industries.

In response to unprecedented financial problems, the Bush Administration brought forth a massive $700 billion bailout plan called the Troubled Assets Recovery Plan, or TARP, for financial institutions in the fall of 2008. The goal of TARP was to clean up “toxic assets” (highly leveraged, usually worthless paper assets, such as mortgage-backed securities) on the books of the nation’s banks. When the Bush administration ended, it was clear that TARP was not working: credit markets remained frozen and unemployment continued to climb. The “troubled assets” that were to be helped by TARP remained troubled.

President Barack Obama enacted a stronger, more targeted version in February 2009 to provide what he called a “jolt” to the sagging economy. The American Recovery and Reinvestment Act (ARRA) is a $787 billion stimulus package, consisting of tax cuts, spending on infrastructure, health care technology, education, Medicaid, children’s health and other items. It is too soon to know if ARRA will work. Some economists believe it is too small to stem the economy’s
decline; others hold that it is a mistake for the government to make these investments at all. Beyond the loss of jobs and economic security lurks an insidious set of problems facing the country: the shared prosperity—a more equal income distribution and expanded social services—that we had as a nation through the mid-1970s is gone. In the past thirty years, nearly all of the gains from the economy have gone to a very small proportion of the workforce. For instance, between 1989 and 2006, fully 90 percent of income gains went to the top 10 percent of families. In this decade, the best-paid one percent of earners took in 23 percent of all income. The result: too many people are falling too far behind in trying to pay their bills and maintain a decent lifestyle.

The Very Fragile American Economy

America’s woes began on Main Street with a consumer-led boom in the second half of the 1990s, when people snatched up homes, cars, flat-screen TVs, and other goodies. Unfortunately, too many people bought more than they could afford using the cheap credit that was lavishly available. Consumers borrowed prodigiously, and the national savings rate fell to near zero.

Next, and related, came an unsustainable, speculative housing binge. Home purchases were greased by tempting mortgages that encouraged buyers to believe they were paying relatively little for their homes because early monthly mortgage payments were set artificially low. However, much higher payments followed when mortgages reset at higher rates. Working families paying, say, $600 a month at the beginning of their mortgages, suddenly found themselves scrambling 18 months later to come up with $2,000 payments or face foreclosure. These contracts included various high-risk sub-prime and exotic mortgages that did not require income or job or asset documentation (known as “NINJA” loans). Many were predatory loans made by unscrupulous mortgage brokers who sold loans that paid them high fees, but were structured in ways that made them almost certain to fail.

In the early 2000s, housing prices rose rapidly to unsustainable levels. Between 2000 and mid-2006 these more than doubled. Then the bubble burst and prices plummeted. The housing “bubble” was furthered by lax regulation and unwise, cheap-money monetary policy. When the housing market collapsed, millions of Americans found their houses were “under water” (worth less than their mortgages) and lost their homes. Some engaged in “jingle mail”—they put their house keys in envelopes, mailed them to their mortgage service firms, and moved away. Sheriffs then foreclosed and pad-locked their front doors. Unfortunately, their neighbors suffered property value declines because empty houses cause problems around them—unkept lawns, stolen copper and wire, and fires. Working people saw their primary assets lose value. In all, foreclosures rose by 81 percent in 2008 and by more than 200 percent between 2006 and the beginning of 2009.

Mortgage lenders thrived on these loans because they could make a quick buck on them. Brokers quickly sold the mortgages to Wall Street firms that created an array of mortgage-backed securities in which good and bad mortgages were commingled. Through these mechanisms, mortgage brokers and financial giants passed the risk of bad mortgages on to unwitting investors worldwide. Bank regulators were asleep at the wheel, paying little attention to the growing financial storm: to them, “the market” would solve whatever problems were present. They were wrong. When more and more mortgages went into default, trillions of dollars of these mortgage-backed securities lost value, and the financial markets swooned.

These financial problems bled throughout the U.S. and the international economy, in large part due to the mortgage instruments bought by investors who were entranced by the prospect of high yields and ignorant of the high risk they were taking. In September 2008, the international financial system came unhinged: caught in a swirl of mortgage foreclosures, investment house and bank failures, and stock market collapses, the world financial system froze up. Trust died, as lenders throughout the world refused to lend to long-term customers, even those with pristine credit records. Unable to secure short-term credit, firms accelerated layoffs and the recession deepened.

The U.S. quickly became Bailout Nation. The federal government issued a bewildering set of bailouts (the various iterations of TARP) aimed mostly at stopping the collapse of financial firms like Goldman Sachs and Morgan Stanley. The Treasury pumped $700 billion into the financial system. The Federal Reserve began printing money in an effort to recapitalize the banks. However, little attention was paid to helping families in trouble with their mortgages.
The effects on working families across the country have been enormous. To understand what has gone on in New Jersey, it is useful to look first at the national collapse.

Jobs are disappearing and unemployment is rising rapidly
America’s employment problems did not begin with the current recession. The recovery from the 2001-2003 recession was largely one without new jobs. Productivity—the amount that workers produce each hour—has been relatively strong. But the growth of productivity was not accompanied, as in past business cycles, by commensurate increases in jobs and wages. Since the 2001-2003 recession, there was remarkably little job growth—a minuscule 0.6 percent a year, only one-third of the growth rate during the 1990s. It took until 2005 to return to pre-recession job levels, a very long time compared with previous economic cycles. Moreover, real wages (wages adjusted for inflation) fell after 2002, so most workers were worse off. Unfortunately, this bad situation occurred before the current recession, when things got very ugly and America shed more than four million jobs.

Part-time work increased dramatically and many left the labor force
In addition to increasing unemployment, there has been a sharp increase in the amount of part-time work and of “hidden unemployment”—people who want full-time work but cannot get it and are forced to work less than 35 hours a week. This has occurred because employers face slack demand for their products or because they do not want to pay the benefits required by a 40-hour week. In the past year, more than four million workers were forced into part-time status, bringing the total to 8.6 million. The rate of hidden unemployment was 14.8 percent in February 2009, up from 7.8 percent at the beginning of the recession. This is the largest number of part-time workers on the rolls since 1995. In addition, the duration of unemployment skyrocketed by 31 percent.

However, that tells only part of the labor market story. In addition to the number of unemployed and the hidden unemployed comes another group that has dropped out of the labor force entirely. These people have looked for work in the last year, but gave up. In December 2008, there were 1.9 million of them. The federal Bureau of Labor Statistics does not count them as unemployed, even though they certainly would like to work if jobs were available. These details mean that the officially reported unemployment rate, which does not include part-time workers, severely understates the true unemployment problem.

Assets and corporations disappeared
The collapse on Wall Street cost millions of hard-working people at least $2.9 trillion of their savings and retirement funds. An additional $6.1 trillion disappeared in lost housing values. Hard-pressed families thinking of sending their children to college or mellowing into retirement have had to revise their plans.

Corporate bankruptcies tripled over the past two years. Financial giants like Fannie Mae, Freddie Mac, Lehman Brothers, and Bear Stearns disappeared, were merged, or got bailed out by the federal government. Insurance giant AIG, whose slogan was “The Strength To Be There,” suddenly was barely there at all; the federal government bailed out AIG to the tune of $180 billion.

The carnage was not limited to the financial sector: the sputtering engines of the Big Three automakers threatened millions of workers’ jobs. Cookie maker Mrs. Fields crumbled, Linen ‘n Things folded, and Pepsi canned at least 3,600 workers. Technology giants Microsoft and Intel each announced layoffs of 5,000 workers; during 2008, job cuts in technology were up 74 percent from 2007. Given emptying bank accounts, Spam and Jell-O, at the bottom of the food chain, reported robust sales. The Conference Board’s well-regarded consumer confidence survey fell to its lowest level in history. As a result, retail spending fell of the cliff and retailers suffered: Macy’s fired 7,000 employees and Circuit City spun into bankruptcy.

At the beginning of 2009, the jobs situation deteriorated further: On January 26, in what became known as “Bloody Monday,” several large corporations fired more than 50,000 people. This took place along a wide spectrum of American industry: Caterpillar (20,000 jobs cut), Sprint Nextel (8,000), and Home Depot (7,000) led the way, but the January list read from Alcoa to the World Wrestling Federation. First-time claims for unemployment benefits reached historic levels later in that week.

Income and wealth gaps grew
The differences in income and wealth between the rich and poor—and, indeed, between the richest and everyone else—have widened, and incomes have become more unstable. Over the past 25 years, income
Most of the rewards of the nation’s economic growth have gone to the top one percent of households, reflecting a “pulling apart” of the income distribution. The incomes of the country’s richest families have climbed substantially over the past two decades, while middle- and lower-income families—the heart of the working class—have seen modest or no increases.

In 1973, families in the top five percent of the nation had income 11 times greater on average than those in the bottom 20 percent. By 2006, the richer group’s income was 22 times higher. Since 2000, those in the lower 60 percent of all families (those making less than $47,000) lost real income. Only the top 40 percent had more real income in 2006 than in 2000. Everyone else lost ground. The United States has reached a level of inequality not seen since the Gilded Age when John Rockefeller and Andrew Carnegie ruled. This picture differs greatly from the broadly shared prosperity the nation enjoyed between the end of World War II and the late 1970s.

Not only have incomes grown more unequal, but they also have become more volatile and unstable. The share of working-age people experiencing the loss of half or more of their household income in a year rose to nearly 10 percent in the 2000s from less than four percent in the early 1970s. This makes economic life insecure, especially since for so many people the loss of income means losing health coverage too.

Differences in wealth are even more unequal. The top one percent of the U.S. population holds 38 percent of all wealth; the top five percent of the wealth holders have 59 percent of the wealth— in other words, they have more than the rest of the population combined. Most Americans have no meaningful assets besides their homes—which, of course, are losing value rapidly.

**Public services declined and state and local taxes increased**

Because of the financial implosion, tax revenue to states and localities from income and sales taxes has declined, making it difficult for public service providers to maintain needed services and float bonds. As a result, taxpayers are getting fewer public services and facing the possibility of higher taxes as governments contract. According to the Center on Budget and Policy Priorities (CBPP), 46 states and the District of Columbia face budget shortfalls this year and next, amounting to a combined budget deficit of more than $48 billion.

**Health care costs exploded**

Health insurance premiums have shot up more than $370 billion since 2000. Higher prices drain family incomes, forcing consumers to cut spending on food and other necessities or—as many do—jeopardize their well-being by forgoing medical care. Problems related to health-care costs are made worse by the fact that fewer people have health insurance: out of a population of 305 million, 46 million Americans are without health insurance—eight million of them children. This is due largely to the continued decline in employer-sponsored insurance and higher unemployment.

**In hock to the rest of the world**

American families have spent more than they earn and are deep in debt. According to the Federal Reserve Bank, consumer debt alone (in addition to real estate debt) comes to $2.5 trillion, about $8,200 for every man, woman, and child. With financial institutions in trouble, families have been forced to cut spending. At the same time, because of two expensive foreign wars and tax cuts for the wealthy under President George W. Bush, the federal budget deficit has grown dramatically to $9.7 trillion, with much of this debt owned by foreign institutions. TARP and ARRA will increase that figure enormously in the near future. This public debt will have to be paid by the next two generations.

**Globalization hurt many American workers**

Millions of manufacturing jobs have migrated overseas in part because of lower wages there. They are unlikely to return to our shores in substantial numbers. Imports of goods from abroad cost working families in these industries their livelihoods. Gains to the U.S. from trade were mostly in the financial and high-tech sectors. Wage pressure from other countries reduced many workers’ wages in the U.S., especially those with less education.

**The social safety net has frayed**

Since the early 1980s, funds for programs that support the nation’s neediest people—for affordable housing, income support, health care, and other areas—have been drastically cut. Private firms, which traditionally provided health insurance and retirement benefits, cut back substantially, leaving people less able to cope in difficult times. The proportion of employer-provided health care—long the main source of such insurance—has fallen dramatically over the last two decades.
Working men and women in New Jersey are hurting because of the very weak American economy. When industries lay off workers or cut their wages and benefits, employees everywhere feel the consequences.

New Jersey has never been a backwater when it comes to people’s ability to make a living. The state has a strong economic history going back to the nineteenth century. It has usually had high-wage industries and reasonably stable employment. However, as we will see, the Garden State faces problems as it tries to move ahead. A few basic numbers tell New Jersey’s economic story. Table 1 presents a snapshot of the state in comparison with the rest of the country. It shows the mixture of good things and no so good things going on in the economy. Let’s start with the good.

**New Jersey’s good news**

The first thing that pops out of Table 1 is that New Jersey is relatively well off: it ranks second in the nation in median family income ($67,035) and first in the percentage of millionaire households (seven percent). Figure 4 shows that New Jerseyans earn higher wages than the average American does, and that gap has widened during this decade. New Jersey is sixth in the nation in people with college degrees, so there is a lot of well-educated local talent.

The state is high in the concentration of doctors and correspondingly low in infant mortality. New Jersey is sixth in the nation in union membership, which helps keep wages strong and growing. It has the nation’s fifth lowest percentage of people in poverty. The unemployment rate was 7.1 percent in December 2008, slightly below the national average; child poverty was 11.3 percent, less than the average for the United States as a whole.

These numbers would seem to reflect healthy economic conditions, at least for some of the state’s population.

**New Jersey’s not so good news**

But, there are less flattering numbers that show the contradictions of economic life in 2009.

For instance, New Jersey is a very expensive place in which to live, so those high wages don’t go as far as in most other states. Distressingly, employment growth is relatively slow, both over the last year (New Jersey was 34th nationally) and from 1998 to 2008 (29th). That last number is particularly worrisome: during the 1990s, New Jersey added more than a half million jobs; by comparison, employment has grown by a measly 5,600 jobs since 2001 and New Jersey has lagged the nation in employment growth since 1990 (Figure 5). The state seems to have lost out to other parts of the nation and to high-growth areas elsewhere in the world. If the current recession continues, there will likely be fewer jobs at the end of the decade than in 2000. This has not happened since the 1930s.

Housing is the fourth most expensive in the country—median housing costs are $2,503 per month, 52 percent higher than the national average. Taxpayers also pay the highest property taxes per capita in the country.
The American Society of Civil Engineers gave New Jersey a C-grade (what the ASCE deemed “mediocre”) in evaluating the state’s infrastructure. New Jersey’s bridges are rated ninth worst in the country and roads are fourth worst, a serious problem for truckers and private car owners alike. Of most concern for the economy is the ASCE’s grades of D for aviation. Newark Liberty International Airport accommodates 96 percent of the state’s airport traffic but is a victim of its own success. According to the ACSE, it ranks third in the nation for the most delayed airport departures and, with the anticipated projections for air travel growth, the lack of available land to expand the current facility presents a problem. Yet modern, easy-to-use airports are vital in today’s global economy.

Much of the state’s economic history explains the current situation. New Jersey made a transition from an old manufacturing base, built during the first half of the twentieth century, to one focusing on information, technology, and finance—industries that require intellectual capital and innovation. Pharmaceuticals and telecommunications replaced autos and ceramics. The high incomes earned by some residents come from industries at the forefront of science and engineering, as companies such as AT&T, Johnson & Johnson, and Merck have become dominant in the state and global economies.

However, globalization, mergers, new technologies, and decaying infrastructure have taken a toll in recent years. Rising housing costs, persistent race and class disparities, and uneven urban development patterns threaten the state’s economic future. Employment growth has slowed considerably, in large part because massive shifts of technology investment made locations outside the Northeast more attractive to firms—shifts occurred to California and to technology centers in North Carolina, Maryland, Texas, and Florida.

Significantly, some of New Jersey’s former employment strength is being redeployed globally, to places where costs are much lower and where there is an increasing supply of engineers and scientists. As Bruce Katz and Robert Puentes of the Brookings Institution say, “New Jersey is beginning to lose its competitive edge.”
Some elements of the New Jersey economy require special attention in understanding the state of worklife: industrial change, housing and housing costs, income distribution, poverty, and others. The gap between high incomes and poverty-level wages is substantial.

**Industrial change and jobs**
The state is bleeding jobs. As noted, New Jersey lost 85,700 jobs and the unemployment rate jumped in 2008; joblessness is at its highest since 1996 and is expected to grow further (Table 2). The main recent job losses have been in manufacturing (30,100 jobs), construction (20,700), business and professional services (22,700), and trade, transportation and utilities (41,600). Many of these jobs were cut in relatively high-wage industries, while gains were registered in some lower-wage sectors (e.g., education and health services), meaning that many people who are still working are being paid less than before. Job decline is spreading to professional occupations like law, engineering, and pharmaceutical research.

Looking at the long term, manufacturing’s decline is strikingly evident in Figure 6. Between 1990 and 2007, the proportion of workers in manufacturing fell by nearly half: from 14.6 percent of all workers to 7.5 percent.

Finance is important to the state, in large part because of ties to Wall Street, where firms are failing and employment is plummeting. The effects of the meltdown in this sector, where more than 70,000 high-paid New Jerseyans are employed, are only beginning to be felt. New York City’s Independent Budget Office projects that 82,300 people (nearly one in five in the industry) will lose their jobs in the financial services industry between 2008 and 2011. Other estimates of employment loss are considerably higher, ranging up to 240,000.

The immense bonuses of past years will disappear as the collapse continues. In 2008, for instance, bonuses fell by 44 percent from the previous year. The impacts on New Jersey will surely be severe, if these forecasts prove correct. New Jersey workers represent about 20 percent of Wall Street employees, so between 20,000 and 60,000 relatively high-paid finance industry employees in New Jersey will likely lose their jobs. Although New Jersey residents who work in New York pay their income taxes to New York State (not New Jersey), history shows the state’s fortunes are linked to New York. After the Wall Street bust in 2001, New Jersey’s state income tax revenues fell by 16 percent over two years—or about $1.25 billion. This spells trouble for the state’s finances in fiscal years 2010 and 2011.

New Jersey’s recent employment problems go beyond the unemployment numbers. As noted above, many workers are underemployed—they are unable to work 40 hours a week although they want to. The true picture of the New Jersey labor market is clear from Figure 7, which shows that in 2007, before the recession began, 4.2 percent of the
state’s workers were unemployed. However, another 3.2 percent were underemployed, bringing the total amount of slack in the labor market to 7.4 percent. The numbers differ markedly among groups within the labor force: 6 percent of white workers were either unable to find work or were underemployed; for African-Americans (12.8 percent) and Hispanics (10.6 percent) the problems were greater.

Unemployment varied throughout the state. In December 2008, the state average was 6.8 percent. However, Cape May (12.4 percent), Cumberland (11.1 percent), and Passaic (8.4 percent) had higher unemployment rates; at the same time, Hunterdon (4.7 percent), Morris (5.0 percent) and Somerset (5.1 percent) fared better.

The nature of job cuts has changed drastically in recent months: many more layoff notices result from “mass layoffs,” where employers fire 50 or more people at one time.

Between September and November of 2008, monthly mass layoffs tripled in the Garden State. Many blue-chip firms have announced job cuts: nearly all of Lehman Brothers’ 1,700 workers in the state have been let go. Merck, with 7,000 workers in the state, announced cuts of some 7,200 worldwide in October; the firm has not confirmed the number of New Jersey jobs lost, but it is expected to be substantial. The January 2009 buyout of Wyeth, headquartered in Madison, by Pfizer will surely result in substantial layoffs. Business analysts believe that many administrative jobs will be cut at Wyeth’s main office. Merck’s acquisition of Schering-Plough in February 2009 means more losses of headquarters and administrative jobs. Throughout the state, thousands of jobs, from boat building to building supplies to retail, have been lost.

**Increasing inequality**

Not only is there a major economic slowdown in the state, but there is also growing
inequality. New Jersey has among the most unequal distributions of income in the nation. The Center on Budget and Policy Priorities (CBPP) and the Economic Policy Institute (EPI) report that New Jersey has the ninth biggest gap between the richest and poorest quintiles of the population of all the states.

Moreover, income differences in New Jersey increased at the fifth fastest rate among all states during the past 20 years. While there is concentrated poverty in cities like Newark and Camden, the state also has the largest percentage of millionaires (Table 1), as noted earlier. Changes in the fortunes of different income groups are shown in Figure 8. Between the late 1980s and the early 2000s, the incomes of the lowest 20 percent of the families grew by 10.4 percent; the next three-fifths of the income distribution increased by percentages ranging from 6 percent to nearly 20 percent. The big gains came for the top quintile (which grew by 44.8 percent) and the highest 5 percent (90.8 percent). For every one percent of income growth going to the state’s poorest people, the richest got nine percent more income.

Why did inequality grow so dramatically in recent decades? Several factors stand out. First, the manufacturing base that propelled the state and nation throughout the twentieth century declined markedly. Heavy industry—autos, airplanes, steel, and the like—was the source of many high-wage, secure jobs in the first 30 years after World War II. Technological change and globalization helped shrink this base, as manufacturers reduced employment and shifted much of it overseas to low-cost locations. In New Jersey, this affected many economic leaders, in fields such as pharmaceuticals, chemicals, telecommunications, printing and publishing, and electrical equipment.

Many of these good manufacturing jobs were replaced by service employment at lower wages. People who could earn a middle-class living working at a plant in the 1960s and 1970s found themselves facing lower living standards as America and New Jersey de-industrialized.

Other forces were at play: public policies frayed the social safety net—there were fewer protections during periods of unemployment, and labor laws protecting workers were discarded or undermined. The minimum wage, long a protector of the working poor, declined dramatically when adjusted for inflation. At present, the federal minimum wage in real terms is less than what it was during the Eisenhower administration—true even in New Jersey, which has a higher-than-average minimum wage.

Wage inequality
Differences in wages are the major determinants of income inequality. There are several ways to look at this. First, there are differences between genders, with males making more than females on average. New Jersey males made $20.62 an hour in 2007 compared to $16.56 for women, a nearly 25 percent premium. However, that is far less than the 32 percent premium held by men in 1991 and 60 percent premium in 1981. Thus, women made relative progress over time.

Wages also differ based on race and ethnicity. Whites are the best paid, averaging $21.24 an hour in 2007 compared with $14.36 for African-Americans, and $12.24 for Hispanics. Unlike gender differences, racial and ethnic inequality has not been reduced over time. Whites’ median wages have grown faster than the others. In fact, between 1990 and 2007, Hispanics suffered wage reductions of 43 cents an hour after accounting for inflation. African-Americans gained only 24 cents an hour over those 17 years.

Another way of looking at differences in wages is by education level. Not surprisingly, those with college degrees had the high-
est wages in 2007 ($29.86 per hour) compared with workers with some college ($15.08), high school ($14.03), and less than high school ($10.18). Importantly, the premium going to people with more education has widened over time. Education pays off in higher wages, as scores of studies have shown.

A final element explaining wage distribution in New Jersey is union membership. Although the number of unionized workers has declined over time, the benefits of unionization to workers are clear. Union workers earned 23 percent more on average in 2007, and the amount of additional wages accruing to organized employees increased by 1.1 percent a year since 2000 compared with 0.8 percent annually over that time for non-union workers. Some of the difference between unionized and non-unionized workers can be accounted for by the industries in which they work—for instance, wages are generally high in industries like manufacturing, where there are many union members. But union members’ ability to bargain collectively also helps non-union workers get higher wages.

Poverty
Many poor people struggle in New Jersey—despite the high overall wealth around them. One in five working families is classified as low income. The state has relatively low poverty rates, as Table 1 showed. However, nearly three-quarters of a million New Jerseyans remain poor.

The official definition of poverty has been widely and justifiably attacked as inadequate: It is based on a living standard set in the early 1960s and has been adjusted only for inflation, not changes in living standards that are dramatically different today. As a result, fewer people are categorized as poor than would be under more modern and inclusive definitions. In addition, the official federal poverty level does not reflect the different living costs across the country. Since it is more expensive to live in New Jersey than in most other states, the federal poverty line (the basis for eligibility in many public assistance programs) disqualifies many people who are truly poor. A dollar earned in this state does not go as far as a dollar earned in, say, Mississippi.

A family of three is not considered to be in poverty anywhere in the 48 contiguous states if it made more than $20,614 in 2008. Clearly, that is not nearly enough to live on in New Jersey, so the official standard undercounts those who work but earn too little to support themselves and too much to receive many forms of assistance.

Even using the suspect federal standard, however, poverty rates in New Jersey increased during the past decade, to 8.6 percent in 2007 from 7.9 in 2000. And, as might be expected given the differences in wages detailed above, minorities face higher poverty rates: In 2005-2006, 15 percent of African-American and 15.4 percent of Hispanic families were in poverty compared with 5 percent of white households. The plight of people trapped in low-wage jobs in today’s weak labor market is bleak. It is during times of rapid economic growth—such as the 1990s—that poor people make their greatest strides. Indeed, during the second half of the 1990s, national poverty fell by two and a half percentage points nationally. When labor markets are buoyant, there is far more bidding for labor; with that come higher wages and less poverty. In a state with such high living costs, the problems stemming from poverty will increase in the years to come.

It is interesting to look at the poverty status of immigrant workers, an increasing share of the state’s workforce. These men and women are a mix of many low-skilled workers in construction and other industries, with fewer numbers of high-end workers in industries like engineering and business. Overall, immigrants are more likely to be
poor than the native-born. A recent survey showed that 15.5 percent of those speaking Spanish at home were living in poverty. While the native-born population in poverty that year was 8.4 percent, the poverty rate for immigrants was 9.9 percent.

Unemployment

Some of the differences in poverty levels can be explained by rates of unemployment. Figure 9 shows that New Jerseyans with college degrees have lower unemployment rates (2.1 percent) than others in the workforce; for instance, those without a high school degree were more than four times as likely to be out of work (9.0 percent) in 2007. Young people are far more likely to be unemployed than older, more experienced members of the workforce. Figure 10 shows this dramatically: those 16-24 years old have nearly three times the unemployment rate of those who are 25-54 years old. Race and gender also help explain unemployment. African Americans and Hispanics have far higher unemployment rates than whites (Figure 11).

Housing and housing costs

For the poor, high living costs are particularly burdensome. While incomes have stagnated (or declined) for many in the state, the cost of living continues to rise. Housing is particularly burdensome for many, as are health care and commuting costs. Median monthly housing costs for New Jerseyans in 2005 were $2,503 (Table 1), 43 percent higher than the nation’s average. For many renters, New Jersey is truly out of reach. It is the fourth most expensive state for renters and the most expensive for low-income families with children. To afford a two-bedroom apartment, a family would have to earn $43,000 a year, well beyond what many are paid. Significantly, 38 percent of families pay more than 30 percent of their incomes for housing—what the federal government deems to be a reasonable limit. New Jersey is third highest in the country in this dubious category.
Homelessness is also a large problem: about 12,000 New Jersey men, women, and children were homeless in January 2009. These numbers are rising as people lose jobs and cannot afford decent housing. Increasingly, renters are forced from their homes; between 2007 and 2008, there was a 70 percent jump in evictions of renters. 38

Foreclosures
The poor economy and the bursting of the housing bubble have resulted in an increase in foreclosures. In September 2008, one in every 453 homes in the state was in some stage of foreclosure, 39 slightly higher than the national average and increasing rapidly. The state’s courts are clogged with foreclosure cases. Foreclosures were up 91 percent in the third quarter of 2008. 40 Between September 2007 and September 2008, 46,130 foreclosures were filed. February 2009 alone saw 5,000 new cases. Sussex, Union, and Passaic counties had the highest rates of foreclosure per household.

Fiscal distress
The recession has taken a toll on the state’s already shaky government finances. State tax revenues have fallen considerably below expectations, and the already immense projected budget shortfall seems to have grown weekly. Part of the deficit results from the recession: the state has had to increase spending by $800 billion on unemployment insurance and related expenses. There is also growing pressure on long-underfunded state employee pensions and on public-sector jobs themselves. Public employment, once a rare source of increased work, is not likely to grow in the future.

On March 10, Governor Jon Corzine introduced a budget he said would protect children, the elderly and the working poor. His FY 2010 $29.8 billion state budget was $7.2 billion less than what would be expected from current year spending trends. Just over 50 percent of his budget balancing would come from program cuts; another 30 percent from federal fiscal stimulus funding and the final 15 percent from tax increases.

In January 2009, Corzine announced an 18-month suspension of pay increases for state workers (something that the unions oppose) and proposed cuts of $812 million for the current fiscal year. In February, he announced a two-day furlough for state workers to try to save more money—although this too will be hotly debated with the unions. Towns and cities also face declining revenues as their ability to raise property taxes is limited by caps and their state aid appropriations are either flat or declining.

The state is hoping Washington will provide much needed assistance through the American Recovery and Reinvestment Act (ARRA), which was signed by President Obama in February. Funds from this legislation will be critical to help lift New Jersey out of one of the worst recessions since the Great Depression. New Jersey is expected to receive about $17 billion over the next two years, of which about $6 billion will flow to the state with the remainder to local governments, schools, businesses and individuals (including $7.5 billion in tax cuts).

Funding for programs will be distributed directly to individuals already receiving benefits, to various entities by formula, or by application often in competition with other states or agencies. Individuals, businesses and governments will need to apply for the many tax and other benefits. Flexibility in how the funds can be spent varies greatly, with most of the give in Medicaid and the State Fiscal Stabilization Fund. Since these funds can be used to replace state funding, how the state eventually uses them has major implications for the state budget.

Social services
The social safety net—the combination of unemployment, health and other benefits built up since the New Deal and the Great Society eras—has been shredded over the last two decades. With cuts by governments, many New Jersey families have become dependent on the support of non-profit organizations and charities. However, these groups are running out of money. The demands on food banks from hungry people have risen dramatically, up by 250,000 in 2008—an increase of some 30 percent. Donations, meanwhile, are down by 25 percent. 41 Recently unemployed professionals are increasingly making use of the health-care programs and clinics traditionally used by low-income people.
What Can We Do To Improve The Economy?

This analysis shows that New Jersey, although relatively wealthy, faces some serious problems along with the rest of the country. Employment growth was slower than the nation’s before the recession; reviving the state’s past glory will not occur without significant change in public policy.

When NJPP last published a State of Working New Jersey in 2002, the author found that a decade of boom times had in fact not produced widespread prosperity. Instead, relatively few working men and women shared most of the gains in income. Today, New Jersey confronts an economic situation as grim as any in the past 75 years. The stimulus package that emerged from Congress in February 2009 will provide nationwide nearly $800 billion in federal spending and tax cuts aimed at helping to stem the downward spiral of jobs and incomes. But even if the program works as hoped, New Jersey and other states will have to do more to fight their way back toward shared prosperity. When this now-deepening recession ends, steps must be taken to ensure that work pays enough for working people to support their families and build a future.

Some basic principles should guide future policies:

- **Help restore shared prosperity.** The Earned Income Tax Credit (EITC) is one of the most successful programs helping low-wage workers escape poverty and should be aggressively expanded and indexed. It provides a refundable credit based on the amount a low-income worker receives from the federal EITC. In 2008, New Jersey took a step forward by accepting the federal definition of income eligibility and by raising the amount a family would receive. Another anti-poverty measure, the minimum wage, remains far below a living wage despite a small recent increase. It should be increased to at least $8.50 an hour and automatically raised every year to keep up with the cost of living. At the same time, the state can raise more revenue and contribute to an equalization of incomes by increasing taxes at the upper end of the income range.

- **Target funding expected from the American Recovery and Reinvestment Act to invest in human and physical capital.** Much of the ARRA money will be for prescribed categories of spending. Within these categories, the state will have some discretion over specific projects. These expenditures must be made with great care, since the ARRA money is a rare opportunity for investments in New Jersey from the American taxpayer. Education money should go to low-income, high-need school districts that are ready to spend it on programs that will make important differences in learning. Infrastructure funding meant for the most “shovel ready” projects should be targeted to those that do the most good for the state’s economy in the long term. Rebuilding the state’s infrastructure—rebuilding schools, road repair and improving mass transit systems—will produce long-term benefits in the future. All of these end uses will improve the state’s economic efficiency.

- **More should be spent on training for workers who could use it to move into middle-class jobs.** Emphasis should be on adult basic education (using community colleges and other providers) for low-wage workers. More education and training will result in greater probability of self-sufficiency for these workers. State business subsidies should be aimed at encouraging development in fiscally struggling cities where many of the state’s most at risk residents live.

- **With jobs declining, businesses and public institutions in New Jersey must attempt to find new sources of employment and revive existing jobs.** Several options come to mind: New Jersey is well situated to develop “green industries,” with its current array of small alternative-energy companies and research strength at Rutgers, Princeton, and other universities. The federal Green Jobs Act of 2007 could provide $120 million for training a new cadre of workers for a variety of green industries. With some seed capital from the state and, perhaps, from ARRA funds, the potential for thousands of green industry jobs exists through subsidies and grants. These green jobs are important because they could pay living wages, and cannot be outsourced to other countries.

These are but a few recommendations for the state to consider in the next year. If adopted, they will lead to a fairer and more buoyant economy and increases in the welfare of working New Jerseyans.
There were a dizzying number of subprime and exotic mortgages produced by lightly regulated banks and largely unregulated mortgage companies. They bore names like “no doc” (no documents proving assets or income), “liar’s loans” (borrowers could claim nearly any amount of money for their incomes or job situation), “interest only” (the borrower could pay only interest and delay paying any of the principal, although under such loans, the principal would increase over time), and others. These sorts of loans allowed marginally appropriate borrowers to get mortgages that started with low monthly payments that increased substantially when the mortgage “reset” in two or three years. When that occurred, monthly payments skyrocketed and borrowers were less able to pay their loans and more likely to be foreclosed.

Endnotes


6. There were a dizzying number of subprime and exotic mortgages produced by lightly regulated banks and largely unregulated mortgage companies. They bore names like “no doc” (no documents proving assets or income), “liar’s loans” (borrowers could claim nearly any amount of money for their incomes or job situation), “interest only” (the borrower could pay only interest and delay paying any of the principal, although under such loans, the principal would increase over time), and others. These sorts of loans allowed marginally appropriate borrowers to get mortgages that started with low monthly payments that increased substantially when the mortgage “reset” in two or three years. When that occurred, monthly payments skyrocketed and borrowers were less able to pay their loans and more likely to be foreclosed.


Elizabeth McNichol and Iris J. Law, “State budget troubles worsen,” Center for Budget and Policy Priorities, December 10, 2008 (updated January 29, 2009; Elizabeth Hudgins and Iris J. Lay, State Budget Troubles Worsen (Center for Budget and Policy Priorities, October 24, 2008); Nicholas Johnson, Elizabeth Hudgins, and Jeremy Koulsh, Facing Deficits, Many States are Imposing Cuts that Hurt Vulnerable Residents (Center for Budget and Policy Priorities, October 20, 2008).


U. S. Bureau of the Census, American Factfinder, “Median Monthly Housing Costs for Owner-Occupied Housing Units With a Mortgage (Dollars): 2006” http://factfinder.census.gov/servlet/GCTTable?_bm=y&-geo_id=01000US&-_box_head_nbr=GCT2511&-ds_name=ACS_2006_EST_G00_&_lang=en&-mt_name=ACS_2006_EST_G00_GCT2511_US9&-format=US-9


These forecasts are from the New York City Independent Budget Office, 2009 Fiscal Outlook. Accurate figures on Wall Street employment are hard to come by. Many people who have already been laid off are not counted as unemployed since they are still receiving severance payments; these people are really unemployed and will be counted as out of work in the near future. Other estimates of job loss are considerably higher. See also, William J. Holstein, “Helping 240,000 find a future after Wall Street,” New York Times, January 16, 2009; Susan Dodd, “N.J. job losses hit professional ranks,” Star-Ledger, December 18, 2008, Patrick McGeehan, “Layoffs sweep from Wall Street across New York area,” New York Times, October 20, 2008; and Associated Press, “Wall Street layoffs could surpass 200,000,” Los Angeles Times, October 24, 2008.


No data are available after 2007. Certainly, the data shown in Figure 7 are higher in 2009.


Eileen Appelbaum, Mary E. Forsberg, et al., Climbing the Ladder: How to Invest in New Jersey’s Working Families (New Jersey Policy Perspectives and Rutgers University, Center for Women and Work, March 2008).

In 2006, the official poverty threshold for New Jersey was $20,614 for a family of three. Many alternative measures of poverty exist, including one from the National Academy of Sciences that is based on actual expenditures on food, clothing, and other necessities and reflects poverty reductions that come through tax credits. Importantly, it takes account of regional costs of living, which are much higher in New Jersey than they are in most other states. For a discussion of poverty definitions, see Chapter 6 of Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, The State of Working America 2008/2009 (Washington, DC: Economic Policy Institute, 2008, preliminary edition).


Annie E. Casey Foundation and the Association for Children in New Jersey, Kids Count, 2006; National Low-Income Housing Coalition, Out of Reach, December, 2005.


These homes had received a default notice, had been scheduled for a sheriff’s sale, or had been repossessed by the lender. Jeff May, “NJ foreclosure filings outpace national rate,” Star-Ledger, October 23, 2008.


New Jersey’s Minimum Wage Advisory Commission recommended that the minimum wage be raised to $8.50 an hour and indexed to the consumer price index in 2008.

For a good analysis of the role of training and the working poor in New Jersey, see Eileen Appelbaum, Mary E. Forsberg, et al., Climbing the Ladder: How to Invest in New Jersey’s Working Families (New Jersey Policy Perspectives and Rutgers University, Center for Women and Work, March 2008).

The state should keep nonprofit organizations in mind in this regard. One such group—Isles, Inc. in Trenton—has developed a program to remove lead paint from older residences, seal those homes to save on energy, and use trainees from its YouthBuild program to carry out the construction. This is but one of many examples of efforts that could be used to increase employment of low-income workers and protect the environment and health. It is a low-tech, low-cost solution to some important problems.
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