The State of Working West Virginia

From Weirton Steel to Wal-Mart

2013

American Friends Service Committee

west virginia Center on Budget & Policy

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Overview

This edition of *The State of Working West Virginia* is the sixth of its kind. Each year since 2008 this report has examined the numbers and trends that tell the story of how the people who keep our state moving are faring. While each year's report has a slightly different focus, one constant theme is the need to ask this simple question: what about the people who do the work?

It is not hard to find stories in the media about the dire effects of West Virginia's business or judicial climate but much rarer is consideration given to the climate for those who produce and provide the necessary goods and services that make modern life possible. Yet, as a song inspired by struggling West Virginia coal miners a century ago observes, "without our brain and muscle not a single wheel can turn."

We hear much today about makers, takers and job creators, but this report examines the evidence and makes the case that the basis of a strong economy and a vibrant society is a healthy middle class. It also recommends policies intended to build the middle class. In this case, however, it may be helpful to look at the past as the state prepares to move forward.

The theme of this year's report is Weirton Steel to Wal-Mart, signifying the vast economic transition that took place in recent decades as good jobs in manufacturing and mining gave way to lower wage, and lower- or no-benefit jobs in the service sector. The intent is neither to praise the one nor condemn the other. Rather, it is to examine the difficult road West Virginia workers have traveled and suggest ways of moving to a brighter future.

Key Findings

- During the late 1970s and early 1980s, West Virginia outperformed the nation in several key economic indicators, including higher median and average wages, stronger economic output, less income inequality, higher unionization, and better employment benefits like health care and pensions.
- Largely beginning in the mid-1980s, the state's economy and middle-class families were dealt a catastrophic blow when the steel industry collapsed. The result was a large drop in coal mining and manufacturing employment that provided family-supporting wages and benefits.
- Deindustrialization and changing national priorities led to sharp declines in wages and benefits in the state as West Virginia's economy shifted from good-paying goods-producing jobs at places like Weirton Steel to low-paying jobs at Wal-Mart.
- The rapidly changing economy of the state led to an exodus of workers as the state's labor force shrank by 31,000 workers between 1983 and 1987. To cope with the dire economic conditions, workers worked more hours and took on more debt to make ends meet.
- To help build a stronger middle class with strong economic growth, the state should pursue policies that build a shared prosperity, including creating a Future Fund from the state's rich natural resources, keeping education affordable, investing in infrastructure, raising the minimum wage, and by making it easier to build assets.

Section One

Paradise Lost?

For many years, West Virginia has lagged behind the nation in many positive economic indicators, with low earnings and high rates of poverty and unemployment. As the historian John Alexander Williams put it in his influential book, *West Virginia: A History*, "Whether or not mountaineers were always free, they were almost always poor."

But while it would be hard to deny that poverty has been an all-too-familiar shadow in the state's history, it has not been the whole story and need not be its fate. Strange as it may seem today, within the lifetimes of most West Virginians, many workers enjoyed a middle-class life with wages and benefits higher than the national average. In fact, from the mid-1970s to the national recession in the early 1980s, West Virginia performed much better on a host of economic indicators and was much more aligned with the nation.

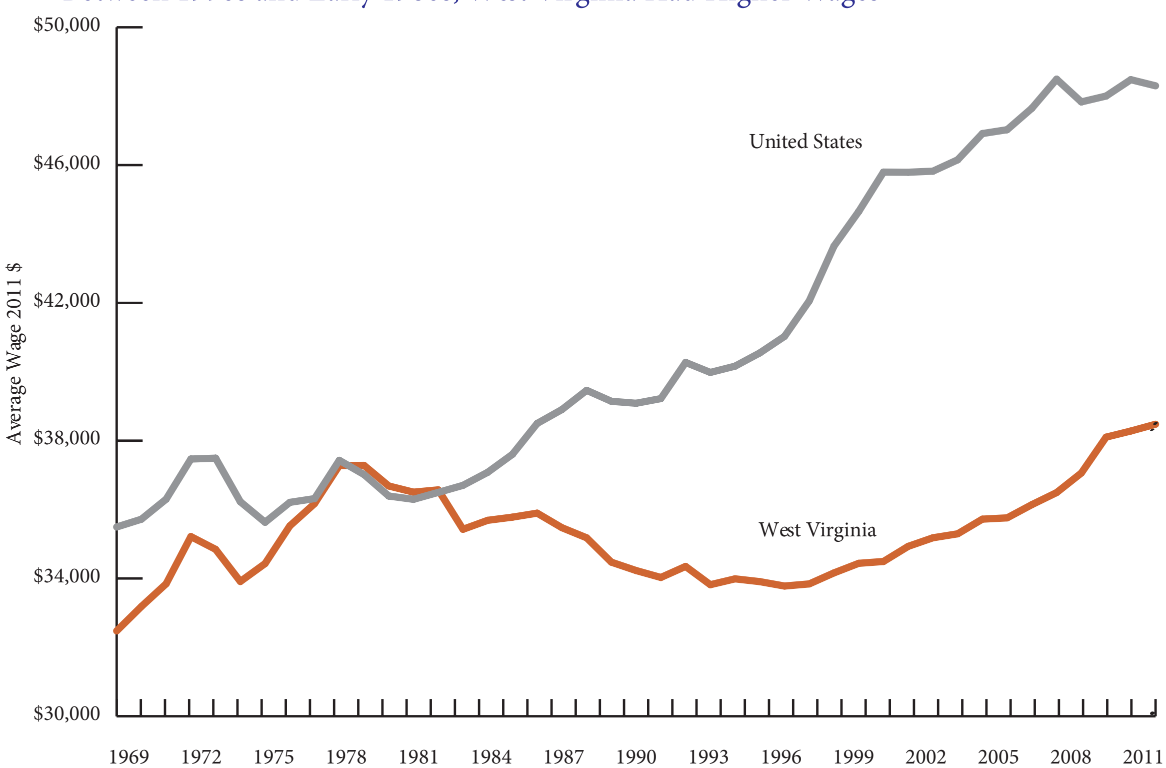
Higher Wages

In 1979, the median hourly wage – this is the worker in the middle of the wage distribution - in West Virginia was $16.47 in today's dollars (2012) compared to the U.S. average of $15.52. This means that the typical worker in West Virginia earned almost one dollar more per hour than the national average. Today, the real median hourly wage is about 80 cents less than the national average and almost $1 less than it was in 1979. Not only were median wages higher in the late `70s, but also the average wage was higher.

From 1977 to 1981 the average wage in West Virginia was about the same as the national average (**Figure 1.1**). Since that time, there has been a growing gap in average wages per job between West Virginia and the nation. Today, the average job pays about 17 percent less than the national average.

FIGURE 1.1

Between 1970s and Early 1980s, West Virginia Had Higher Wages



Source: WVCBP analysis of Bureau of Economic Analysis data.

The central reason for West Virginia's above-average wages during the late `70s and early `80s was the state's higher share of workers in industries that paid living wages, such as manufacturing, coal mining and construction. In 1979, the state's largest private-sector industry was manufacturing, with over 131,000 workers or 21 percent of the state's private sector workforce (**Table 1.1**). Today, only seven percent of private-sector employment, or about 52,000 workers, is in manufacturing, and the largest sector – health care and social assistance – with over 122,000 workers, pays $15,000 less on average compared to manufacturing.

The shift from good-paying, goods-producing jobs to lower-paying, service-providing jobs is most evident in looking at the decline in private-sector salaries. For example, because the lower-paying health care sector has replaced manufacturing as the state's largest private-sector industry, this has pushed average wages below where they were in 1979. After adjusting for inflation, private-sector wages in 2011 were nearly $3,500 less than they were in 1979. The state's inability to adapt its economy to more knowledge-based professions is also at the heart of its shrinking wages.

TABLE 1.1

Top Five Private West Virginia Industries in 1979 & 2011

	Employment	Average salary (2011$)	% Employment Total
1979 Private nonfarm employment	630,182	$34,083	
Manufacturing	131,828	$47,732	20.9%
Retail trade	121,216	$18,729	19.2%
Mining	65,853	$57,898	10.4%
Construction	50,100	$38,767	8.0%
Transportation & public utilities	47,661	$46,860	7.6%
2011 Private nonfarm employment	735,364	$30,592	
Health care and social assistance	122,662	$34,170	16.7%
Retail trade	105,733	$19,832	14.4%
Accommodation and food services	70,020	$16,383	9.5%
Other services	52,878	$16,623	7.2%
Manufacturing	51,832	$49,427	7.0%

Source: U.S. Bureau of Economic Analysis.

Stronger Economic Output

Productivity is often referred to as the "cornerstone" of economic growth and greatly impacts a state's competitive position and living standards.[1] Compared to the rest of the nation, West Virginia's workforce was also highly productive in the late `70s and early `80s when our industry mix was heavily tilted toward manufacturing and coal mining.

West Virginia's output (Gross Domestic Product) per worker or productivity was above the national average in the mid-70s and early-80s (**Figure 1.2**). After West Virginia's economy collapsed during the 1983 national recession, productivity declined for almost two decades and has only begun to increase in the last decade. Similar to our state's wage deterioration over the last 30 years, the decline in productivity is strongly linked to the state's inability to move to jobs that require higher amounts of post-secondary education.[2]

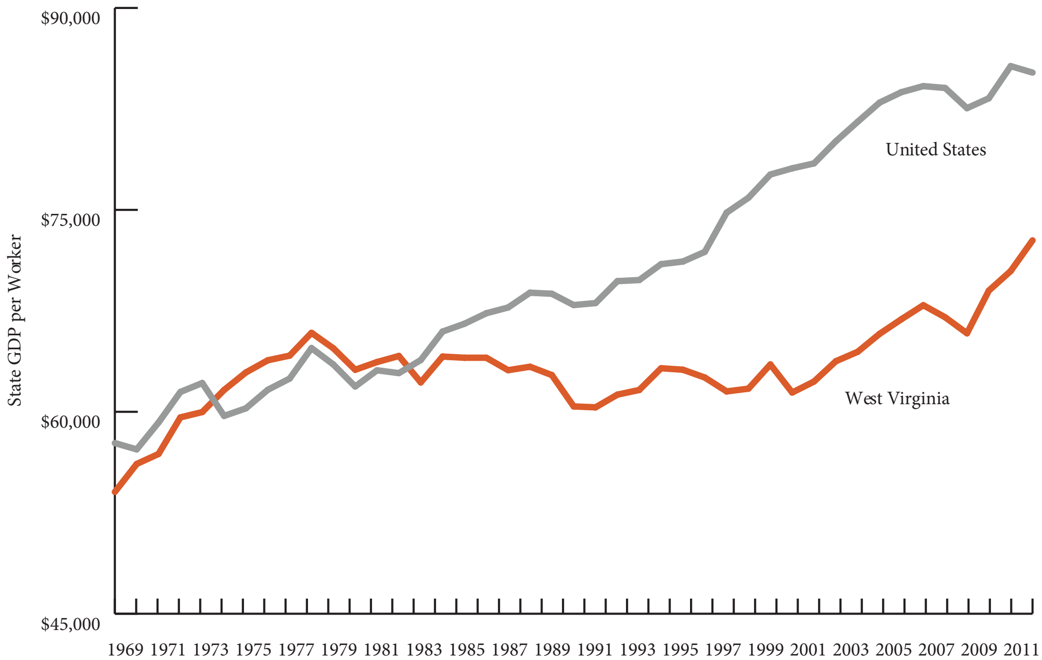
Lower Income Inequality

One of the most significant and disturbing economic changes over the last several decades has been the growth of income inequality in the United States. Today, the top one percent of income earners control about one out of every five dollars in West Virginia and the United States. This was not always the case. The share of income held by the top one percent of West

Virginia income earners was at its lowest point in the late `70s and early `80s (**Figure 1.3**). In 1980, the top one percent took home 6.7 percent of total income compared to 18.7 percent in 2005.

FIGURE 1.2

Worker Output Was Higher in 1970s and Early 1980s



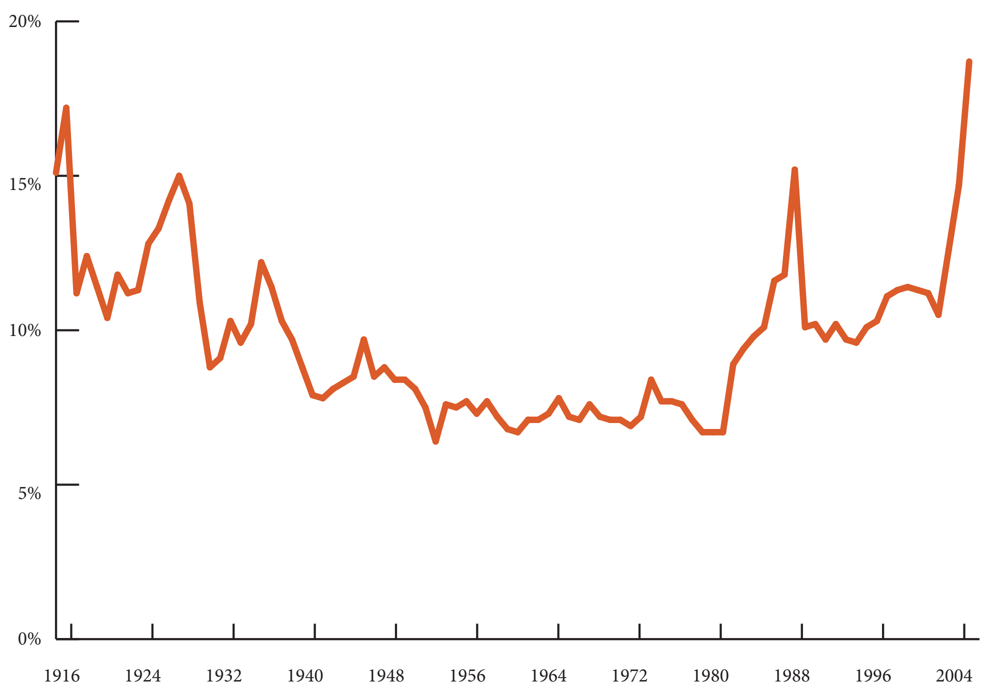
Source: WVCBP analysis of Bureau of Economic Analysis data.

Productivity is often referred to as the "cornerstone" of economic growth and greatly impacts the state's competitive position and living standards.

One reason for the rise in income inequality is the massive increase in CEO pay. According to the Economic Policy Institute, CEOs in 1978 were paid 29 times greater than the average worker. In 2012, the average CEO made 273 times what the average worker brought home.[3]

FIGURE 1.3

Share of Income Going to the Top One Percent in West Virginia (1916-2004)



Source: Mark Frank, Sam Houston State University.

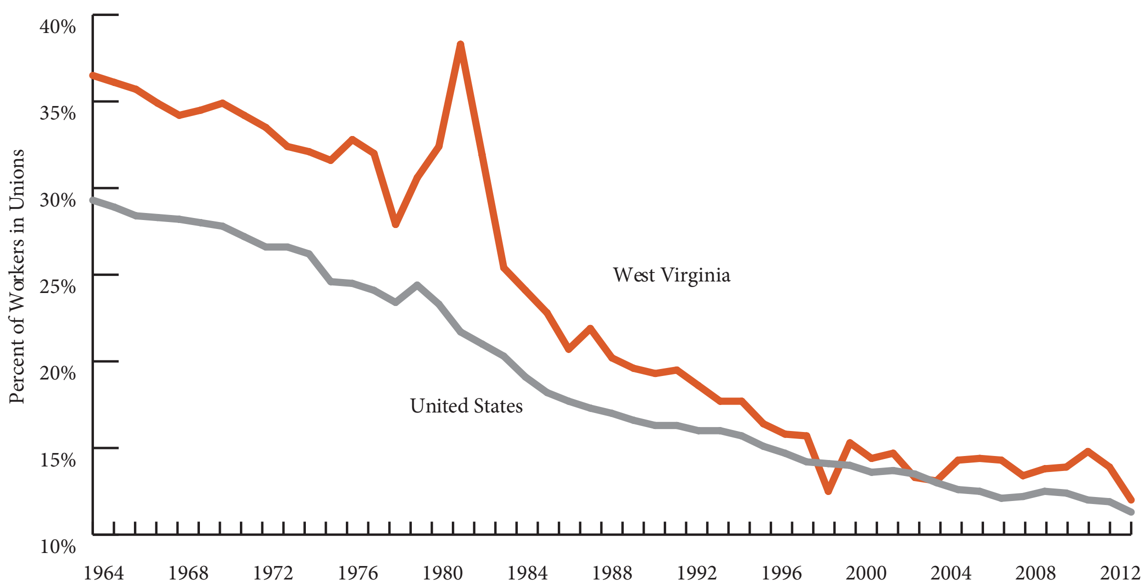
Not only has the growth in income inequality squeezed middle-class incomes over the last several decades, but it could be leading to slower economic growth. A recent study by economist Mark Frank and Donald Freeman with Sam Houston State University that looked at U.S. states during the post-war period found a strong, negative relationship between inequality and growth.[4] One central reason for the rise in income inequality in the United States and West Virginia over this time period has been the sharp drop in union membership.[5]

Higher Union Density and Better Benefits

Unions play a significant role in bargaining for higher wages and better benefits for workers.[6] It is no coincidence that the growth in income inequality and the decline in wages have coincided with declining union membership. For much of the past 60 years, West Virginia had much higher rates of union membership than other states. During the 1970s, about one out of every three workers was a union member compared to about one in four workers nationally. In 1981, 38.3 percent of West Virginia workers were in a union compared to only 21.7 percent nationally.[7] The drop in unionization put downward pressure on wages, not only by reducing the number of workers receiving higher union wages but also because there is less pressure on nonunion employers to raise wages.

FIGURE 1.4

Union Membership Has Declined in West Virginia and the United States



Source: Hirch, MacPherson and Vroman (2001) and Unionstats.org.

The higher share of West Virginia union members also meant that more workers had employee-provided health insurance coverage.[8] In 1979-1981, 72.7 percent of West Virginia private-sector workers had employer-provided health insurance compared to 69.9 percent nationally. Today, only 52 percent of private-sector workers have employer-provided health insurance coverage in West Virginia.

More workers also had pensions in the late 70s and early 80s. While nationally only 48.8 percent of workers had private-sector employer-provided pensions in 1979-1981, 57 percent of West Virginia private-sector workers had pensions through their employer.

There was a time in West Virginia when many working people earned a living wage, working hard at good jobs that provided excellent benefits. This economic basis enabled many, if not all, families and communities to thrive. Unfortunately, those relatively good times for many West Virginia working families were not to last.

Section Two

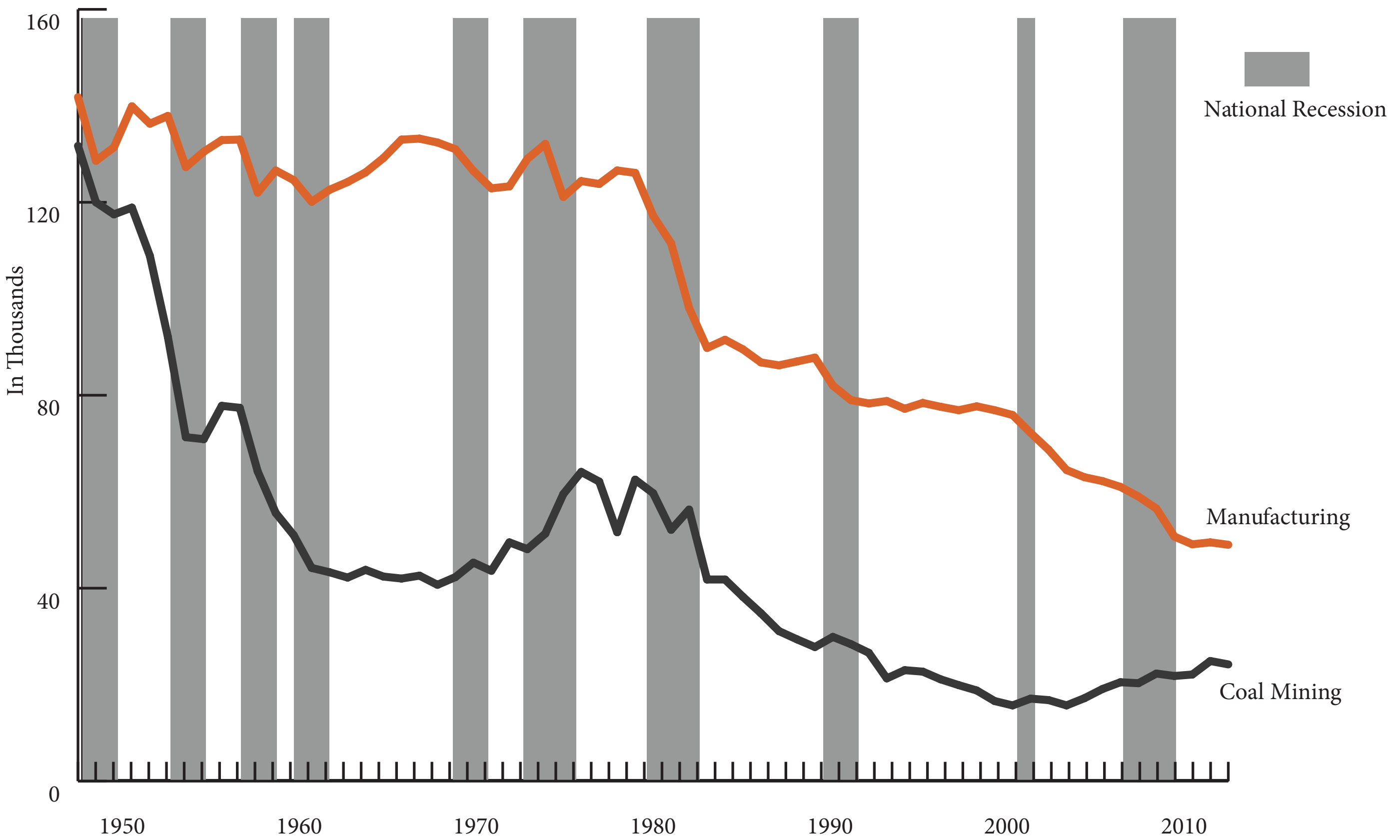
The Collapse of Coal Mining and Manufacturing

The 1980s would prove to be a catastrophic decade for West Virginia's workers, with unemployment reaching 17 percent by 1983 and remaining in the double digits for most of the decade. Several factors combined to produce this perfect storm.

Chief among these was a dramatic drop in coal-mining employment. According to Workforce West Virginia, state coal-mining jobs reached a post-WWII peak in 1948, with a total of 131,700 (**Figure 2.1**). These began to decline immediately from that point. By the end of the 1950s, the number had dropped to 55,600. During the 1960s, coal jobs remained below 50,000, with a low of 40,700 in 1968.

FIGURE 2.1

Sharp Drop in Coal and Manufacturing Jobs Since Early 1980s



Source: Workforce West Virginia data.
Note: Beginning in 2001, data is based on NAICS instead of SIC.

The energy crisis of the 1970s led to a revival in employment, reaching a decade high in 1976 with 64,100 coal mining jobs. However, by the end of the 1980s, more than half of these had disappeared. In 1989, there were only 27,800 mining jobs. This represents a loss of over 36,000 in a little over a decade, or 1.5 times the number of working miners in West Virginia today.

Several factors contributed to this decline. One of these was automation, which allowed production to increase even as employment fell. In a October 15, 1989 *Charleston Gazette* article titled "Collapse of coal employment: Why are the jobs vanishing?" reporter Paul Nyden noted, "The new long-wall mining machines eat through underground coal."[9] Mining methods that became prominent in the 1990s and 2000s, such as mountaintop removal, took automation to even higher levels.

Ironically, misguided tax-incentive policies enacted in the 1980s contributed to the problem as some coal companies took advantage of "super tax credits" to add machinery and eliminate jobs. Market forces played a role as well. The spike in coal prices of the 1970s dropped as supplies increased, in what came to be known as the "oil glut" of the 1980s.

If ever there was a war on coal, or more specifically on coal miners, it took place in the 1980s. And the miners lost.

Making What?

Nor was the drop in coal jobs balanced by an increase of well-paying jobs in manufacturing. These same years also brought about an increasingly global economy with mobile capital shifting investments to areas with lower labor costs offshore, often reinforced by repressive regimes. The result was massive deindustrialization of much of the country's heartland, as words like "Rust Belt" entered the lexicon.

Between 1950 and 1979, manufacturing accounted for over 120,000 jobs in the state. It was not until recessions of the early 1980s that the bottom fell out and manufacturing employment dropped below 90,000 (**Figure 2.1**).

The steep drop in coal mining and manufacturing employment during the 1980s was also directly tied to the collapse of the region's steel industry. This was because West Virginia was the country's largest producer of metallurgical coal, a raw material needed to produce steel. The rise of cheaper subsidized foreign steel imports, which increased from 9.3 percent in the 1960s to 21.8 percent by 1982, led not only to significant employment declines at places like Wheeling-Pittsburgh Steel and Weirton Steel in the northern panhandle, but it left places like Gary, West Virginia in McDowell County with unemployment above 90 percent. As former Governor John D. Rockefeller said during this time, "those foreign governments are exporting unemployment into the coal fields and steel mills of West Virginia."[10]

While the state's overall decline in manufacturing employment was also the result of productivity gains and re-classification of manufacturing employment, nationally manufacturing employment was relatively stable up until 2000.[11]

In 1979, goods-producing jobs accounted for 35.4 percent of employment or 233,100 jobs; by 2012, there were only 118,500. Of those, only 49,200 jobs were in manufacturing. The share of jobs provided by the service sector increased from 64.6 in 1979 to 84.5 percent in 2012. The shift from goods service producing jobs in many cases means a decline in job quality, wages and benefits that has taken years to attempt to reverse. The economic inequality that resulted only continues to increase.

Section Three

The Deindustrialization of West Virginia: From Weirton Steel to Wal-Mart

The deindustrialization of West Virginia and the northeast region brought significant changes in the 1980s. As manufacturing employment declined and Americans moved away from these manufacturing centers, they formed suburbs and many of the industrial towns like Wheeling, West Virginia lost population and continues to struggle today.

Changing National Priorities

During the Great Depression, collapsing job markets and employment rates were partially offset by New Deal era employment and relief programs. Government programs aimed at increasing economic opportunities for the disadvantaged also expanded in the relatively more prosperous decades of the 1960s and 1970s.

By contrast, in the Reagan era, public policies shifted dramatically in the direction of increased military spending, cuts to social programs, hostility to organized labor, and a combination of corporate welfare and reduced regulation. In the words of economist Dean Baker,

"The years following 1980 saw changes in a whole set of economic policies, all of which had the effect of redistributing before-tax income upward. The policy areas include trade policy, immigration policy, rules governing labor-management relations, macroeconomic policy, deregulation of major industries, and the minimum wage. In each of these areas, the government adopted policies during this period that had the effect of weakening the bargaining power of workers in the middle and at the bottom of the wage distribution, thereby improving the relative situation of those at the top. The cumulative effect of the new policies was a massive upward redistribution of income."[12]

In addition, "free trade" agreements and policies pursued by leaders of both major political parties had the effect, intended or otherwise, of shifting much of the U.S. economy away from manufacturing and towards lower-paying jobs in the service sector.

Weirton Steel to Wal-Mart

Perhaps nothing sums up the vast changes in the climate for working people over these years than one stark fact: in 1979 Weirton Steel was West Virginia's largest private employer. At its height, it employed 14,000 workers. Union members earned an hourly wage of around $16 dollars in 1979 dollars. Workers received family health insurance coverage, a defined benefits pension, and paid vacation and sick days.

According to Mark Glyptis, President of United Steelworkers Local 2911, "In the early `70s when I started in the mill, jobs were plentiful. It was very easy to obtain a job in the steel mill. Many people in the `60s and `70s went straight to work in the steel mill when they graduated from high school. You could often earn better wages in the steel mill than you could with a college education. The jobs were among the best in West Virginia. You could start in the mill at 18 and have excellent health care. Our pensions were very good. Our union negotiated excellent benefits."

For Glyptis, changing technology played a role. New processes made it possible to produce steel at a much higher volume with many fewer workers. But trade policies had a much bigger impact. "It became very difficult to compete. Our government embarked on the global economy and wanted to be able to trade on a global basis. But that trade wasn't fair. In many cases, we were competing with child labor, with countries where people were paid poor wages with very little benefits, where environmental conditions were deplorable, and where countries were subsidizing their steel industries. Things are still that way in many countries. What was important to us wasn't important to other countries. They had a 99-yard head start when we were running a 100-yard dash."

Glyptis and many others impacted by these policies have described them as a race to the bottom. "Government policies were responsible for weakening our economy, our industry and our power. I hold great resentment toward our government for pursuing a plan to take our economy from an industrial economy to a service economy. Now we're making hamburgers and tacos instead."

The former industrial giant went through several changes of ownership since the 1980s, including an employee buyout. It is currently owned by ArcelorMittal. As of early 2013, it employed around 1,000 workers, a decline of around 93 percent from its peak. Since 1980, the town's population has declined from 24,736 in 1980 to an estimated 19,651 in 2011.

Today, West Virginia's—and the nation's--largest employer is a ubiquitous big-box retail chain. As the West Virginia Encyclopedia entry for Weirton Steel puts it:

"Parts of the former steel giant, including the open hearth, blooming mill, quality control lab, and research and development structures, have been razed. A site on Weirton Heights was cleared to make way for a new Wal-Mart, a company which now holds the distinction of being West Virginia's largest private employer."[13]

Every Day Low

According to the company website, as of April 30, 2013, Wal-Mart paid its "regular, full-time hourly associates in West Virginia $12.60 per hour, i.e. significantly less than union steelworkers earned in Weirton 35 years ago.[14] However, according to a congressional report, the market research group IBIS World recently placed the retail giant's average wage at the even-lower level of $8.81.[15]

Defenders of this economic shift symbolized by Weirton Steel to Wal-Mart maintain that workers and families are ultimately better off by paying low prices. In 2006, Jared Bernstein and Josh Bivins of the Economic Policy Institute analyzed the tradeoffs between wages and prices. They acknowledged that "Wal-Mart essentially gives people the ability to buy food, apparel, household goods, and furniture at reduced prices."[16]

However, the share of expenditures for these items has declined over time, while other expenses, such as health care, housing, higher education and transportation, have gone up. "These cannot be bought at Wal-Mart, yet they constitute an ever-growing share of American household expenditures. In short, the benefits from the same price effect in Wal-Mart's product areas are shrinking over time. The real pressures on family income are coming from items that can't be bought at Wal-Mart. These products and services can, however, be bought with higher wages."[17]

The shift from Weirton Steel's high wages and benefits to the low wages of Wal-Mart is symbolic of a larger trend for West Virginia workers. Wages for all but the richest West Virginians have declined in recent decades (**Table 3.1**). Median wages, or the wage earned by the worker in the middle of the wage distribution (50th percentile), declined six percent, as a typical West Virginia middle-class worker earns nearly $1.00/hour less than in 1979. Wages for the poorest workers at the 10th percentile fared the worst, declining eight percent since 1979. The only West Virginia workers to see a wage increase were at the top of the wage distribution, with wages for the top 10 percent of workers increasing by 11 percent.

TABLE 3.1

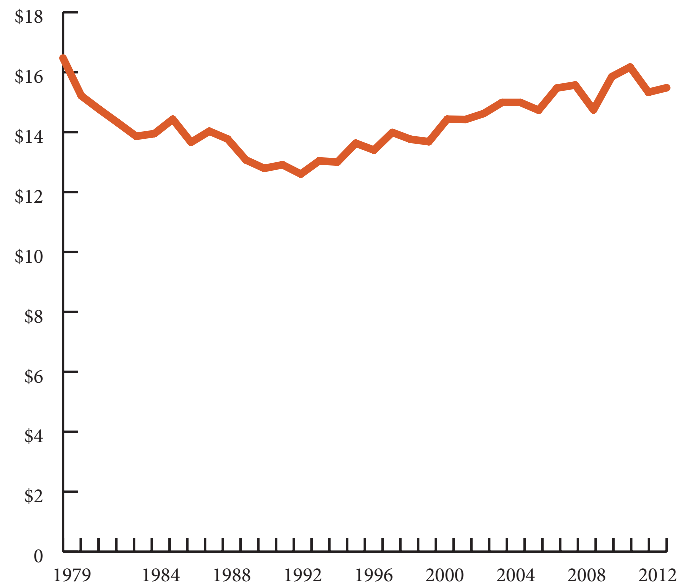
West Virginia Hourly Wages by Decile, 1979 & 2012 (2012 $)

	1979	2012	Percent Change
10th percentile	$8.64	$7.97	-8%
20th percentile	$9.70	$9.60	-1%
30th percentile	$11.30	$11.01	-3%
40th percentile	$13.58	$13.14	-3%
50th percentile (Median)	$16.47	$15.48	-6%
60th percentile	$19.01	$18.43	-3%
70th percentile	$22.39	$21.29	-5%
80th percentile	$25.42	$25.71	1%
90th percentile	$29.56	$32.90	11%

Source: Economic Policy Institute analysis of Current Population Survey data.

FIGURE 3.1

West Virginia Median Hourly Wage, 1979-2012 (2012 $)

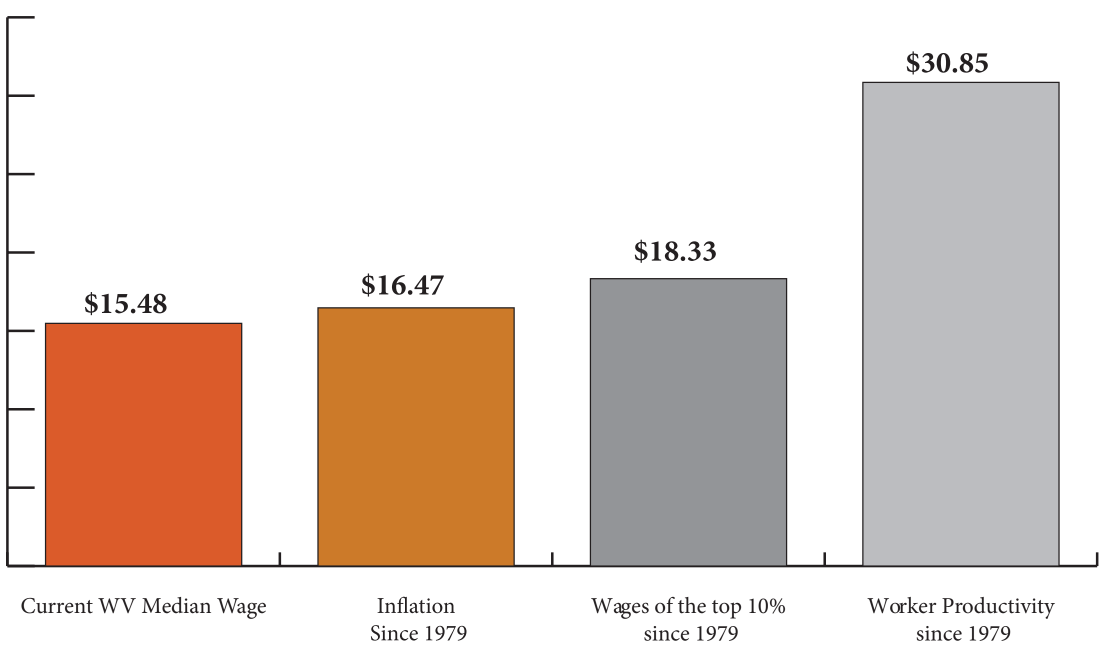


Source: Economic Policy Institute analysis of Current Population Survey data.

Wages for middle-class West Virginians were hardest hit during the 1980s, as the state lost thousands of good-paying coal and manufacturing jobs (**see Section 2**). The real median wage fell throughout the entire decade, from $16.47/hour in 1979 to $12.79/hour in 1990. In the twenty-plus years since, middle-class wages have yet to fully recover, and remain below their pre-1980s levels (**Figure 3.1**).

FIGURE 3.2

The Median Hourly Wage for West Virginia in 2012 Had It Grown the Same Rate As:



Source: Economic Policy Institute analysis of Current Population Survey and BLS data.

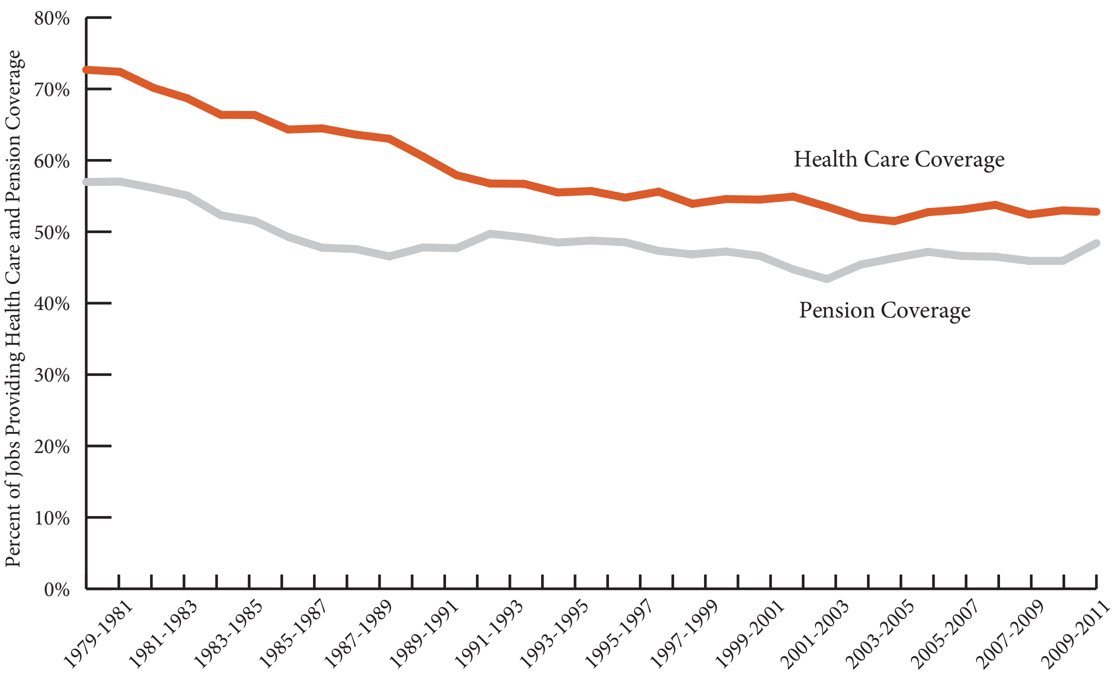
While wages for most working West Virginians have stagnated or declined in the past three decades, other measures of economic growth have not. If middle-class wages had kept pace with inflation, they would be nearly $1.00/hour higher.

And if wages for the middle class had grown along with wages for the top 10 percent, they would be worth $18.33/hour, while if wages had corresponded with increases with workers' productivity, they would be worth $30.85/hour (**Figure 3.2**).

Falling wages were not the only symptom of the decline in job quality for working West Virginians. As West Virginia's economy changed, and low-wage jobs became more prevalent, fewer jobs offered health insurance as well. In 1979, nearly 73 percent of West Virginians working in the private sector were covered by an employer-sponsored health care plan. The number of jobs providing health coverage has declined steadily since then, and by 2011, private sector employee health coverage had fallen below 53 percent (**Figure 3.3**).

Health coverage was not the only benefit West Virginia workers lost. Along with falling wages and declining health coverage, fewer West Virginia jobs come with employer-provided pensions than in the past. Between 1979 and 1989, the percentage of private-sector working West Virginians with employer-provided pension coverage fell from 57 percent to 48 percent, where it has stayed ever since (**Figure 3.3**).

FIGURE 3.3
Fewer Jobs Providing Health Care, Pension Coverage



Source: Economic Policy Institute analysis of Current Population Survey.

It is no coincidence that the decline in wages and benefits for West Virginia workers corresponded with the loss of coal and manufacturing jobs the state experienced during the 1980s. But the new jobs that have replaced the losses are of a far lesser quality, resulting in a weaker middle class for West Virginia, one that faces more economic insecurity.

Who Pays for Low Wages?

When wages and benefits from private employers sink below the level of subsistence, public programs and, ultimately, taxpayers make up part of the difference. A recent compilation by Good Jobs First about employers whose workers and dependents rely on public health care programs such as Medicaid and the Children's Health Insurance Programs (CHIP) finds that Wal-Mart frequently tops the list.

They also cite a 2004 West Virginia report that found Wal-Mart leading the pack, with 452 workers with children enrolled in CHIP, a number that is likely to have increased with time. This raises the issue of whether states are being put in a position of subsidizing the cost-cutting measures of private-sector employers.[18]

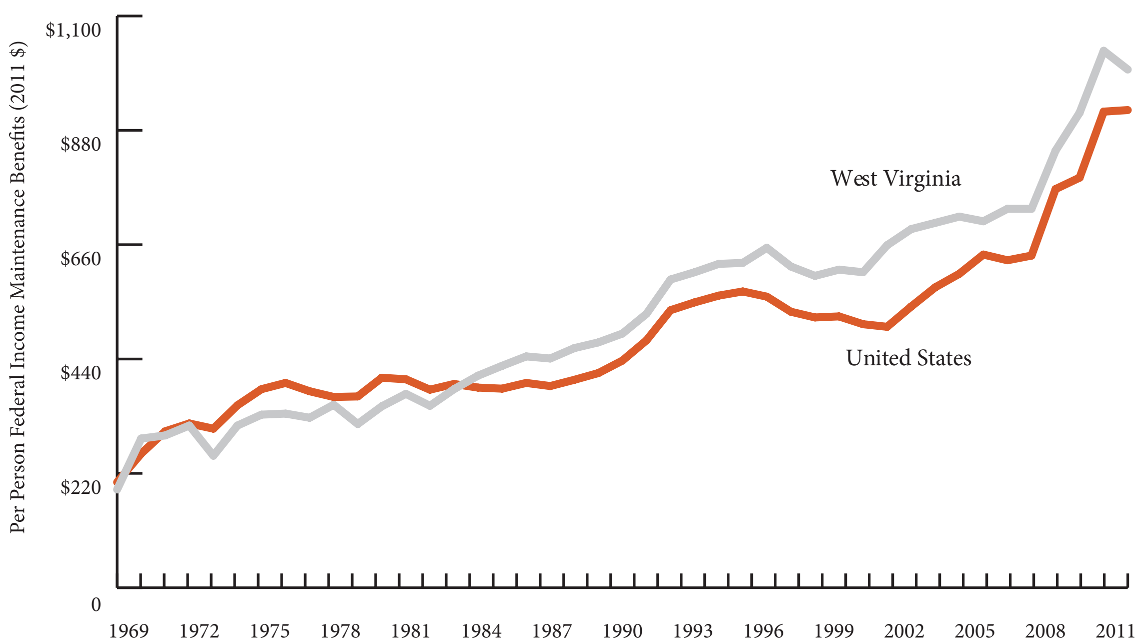
When the cumulative impact of subsidies for low-wage workers is calculated, the magnitude can be shocking. When the staff of the U.S. House Committee on Education and the Workforce estimated the total subsidies of a single 300-employee Wal-Mart Supercenter in Wisconsin, they predicted they "likely cost taxpayers at least $904,542 per year and could cost taxpayers up to $1,744,590 per year—about $5,815 per employee."[19]

While such claims may be suspected of partisan bias, it is undeniable that low-wage workers in such job sites are likely to qualify for a number of public programs. Aside from public health care programs, these include free or reduced school meals, subsidized housing assistance under Section 8, the Earned Income Tax Credit, the Low Income Energy Assistance Program, the Supplemental Nutrition Assistance Program or SNAP (food stamps), and child-care subsidies.

Largely because of the decline in good-paying jobs, more workers and families in West Virginia and the nation have become eligible for federal income maintenance benefits like the programs mentioned above. As the chart below shows, per person federal income support is higher in West Virginia than nationally, however, in the late 1970s and early 1980s when wages were higher, this was not the case.

FIGURE 3.4

As Wages Declined, Federal Income Supports Rose



Source: Economic Policy Institute analysis of Current Population Survey.

As noted in Section 1, this was roughly the same time the state had above-average wages. As the coal and manufacturing employment bust surfaced in the early 1980s, and the state faltered to transition economically (mostly because of its less formally educated workforce), more families in the state needed federal income supports to make up this difference.

Without these subsidies, many of these families would not be able to meet their most basic needs. The scandal is not that so many people rely on these programs; rather that hard-working people need them to start with. Contemporary critics of dependence on government programs would do well to remember that these are at best partial compensation for poor job quality. As is often the case, the costs of low-wage jobs are socialized while the profits remain private.

Viewed from this lens, low prices can seem very expensive.

No Alternative? Wal-Mart vs. Costco

In at least one case, the link between big-box retail and low-wage jobs has been severed. Costco is the second-largest retailer in the country, yet the contrast between that company and its leading competitor is striking indeed.

According to a June 6 article in Bloomberg Business Week, the average wage at Costco is $20.89 per hour, compared with Wal-Mart's average wage for a full-time worker of $12.67.[20] Nearly 90 percent of Costco workers have health insurance from their employer compared with "more than half" with Wal-Mart. While Wal-Mart is notoriously anti-union, around 15 percent of Costco employees are represented by the International Brotherhood of Teamsters.

The contrast is also marked when it comes to CEO pay. In 2012, Costco CEO Craig Jelinek earned a total of $4,850,000 in salary bonuses and stock options, compared with $19,300,000 for Wal-Mart CEO Mike Duke.

Despite complaints from Wall Street types, all of whom no doubt "earn" more than $20 per hour, the company has refused to slash wages and benefits. Despite its relative generosity and egalitarianism, Costco's sales have grown 39 percent since 2009 and its stock price has doubled in the same period.

CNN Money reports that Wal-Mart's sales grew an average of 4.5 percent in the same period, while stock prices increased by 70 percent. Profits increased by 15 percent for Costco from 2009 to 2012, compared with seven percent for Wal-Mart.[21]

While fast-food restaurants and some Wal-Mart stores have begun to experience employee unrest, labor relations have been peaceful at Costco. This is additional evidence to support the case that paying living wages boosts productivity and employee motivation while also reducing turnover.

One final note: according to the Economic Policy Institute, the wealth of the heirs of Wal-Mart founder Sam Walton "is now as large as the bottom 48.8 million families in the wealth distribution (constituting 41.5 percent of all American families) combined."[22]

Section Four

The Shrinking Middle Class

Over the last several decades the middle class has shriveled while the wealthy have enjoyed unprecedented growth. This "30-year war" on the middle class has not only increased income inequality, but has also led families to take on unprecedented debt and work more hours just to make ends meet.

Exodus

Working West Virginians—or West Virginians who wanted to work—like their counterparts in other areas affected by deindustrialization have devised many strategies to cope with a changing work environment.

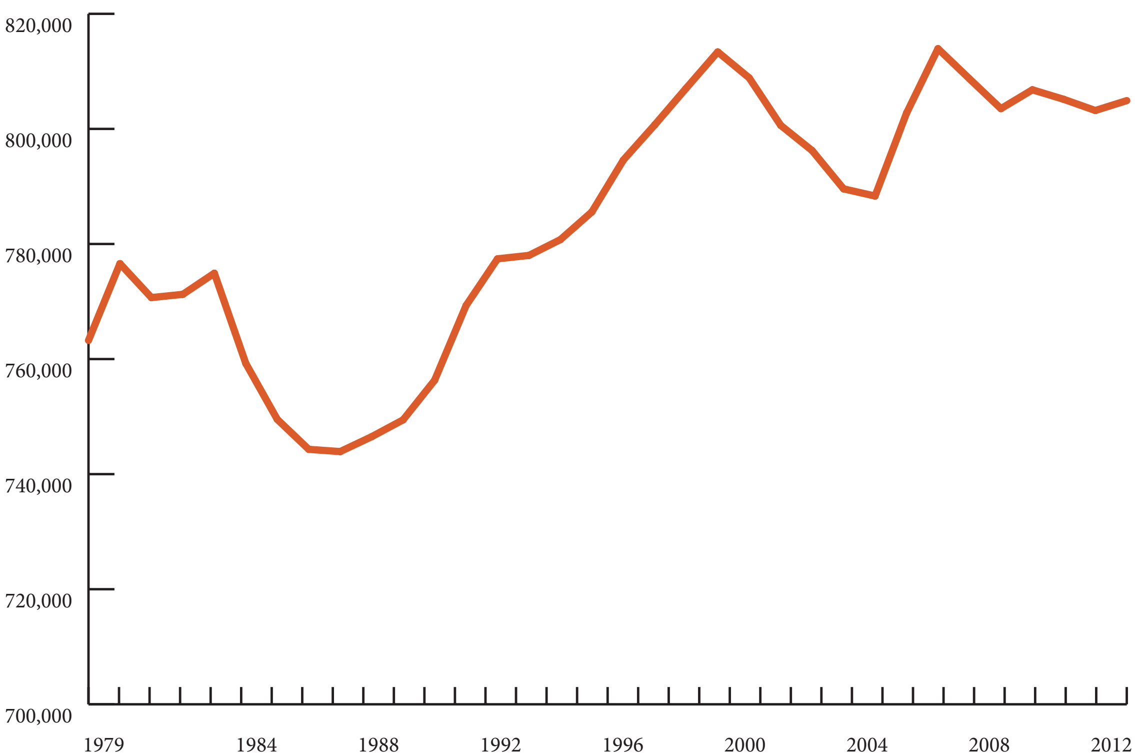
Perhaps the simplest of these strategies involved voting with their feet and moving to other states in search of better opportunities. In 1980, West Virginia's population was 1,949,644. Ten years later, it had dropped to 1,793,477. Modest growth returned over the two next decades, yet, by 2010, the state's population of 1,852,994 was nearly 100,000 below the 1980 level.

Indeed, the Mountain State's population peaked in 1950 at 2,005,053. A 2002 analysis by the West Virginia Health Statistics Center found that, if nobody had either moved into, nor out of, West Virginia for the 50 years between 1950 and 2000, the normal rate of population increase would have resulted in a state with 2,605,345 residents.

The same trend is evident is the state's labor force, or the number of both employed workers and unemployed workers looking for work. The state's labor force shed nearly 31,000 workers between 1983 and 1987. It took until 1992 to gain back those lost workers. The state's labor force peaked in 1999 at 813,380 workers, and has been relatively flat since, with downturns during recessions (**Figure 4.1**).

FIGURE 4.1

West Virginia Labor Force

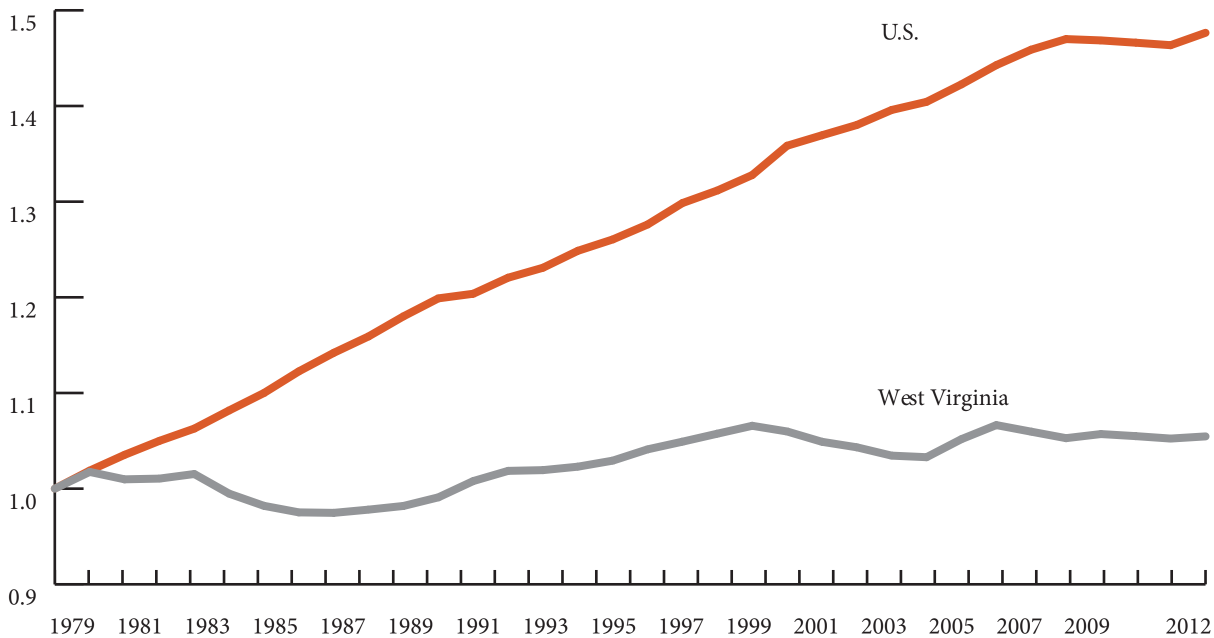


Source: U.S. Bureau of Labor Statistics data.

In 2012, West Virginia's labor force stood at 804,917 workers, a gain of only 41,679 workers since 1979. The size of West Virginia's labor force grew at a paltry 0.2 percent per year between 1979 and 2012. In comparison, the size of the national labor force grew at an average annual rate of 1.2 percent (**Figure 4.2**).

FIGURE 4.2

West Virginia Labor Force Growth Slower Than National (indexed 1979=1)



Source: U.S.Bureau of Labor Statistics data.

Other coping strategies involve changing work patterns. While some discouraged workers sought early retirement or disability coverage, others worked longer hours. In her influential 1991 book *The Overworked American: The Unexpected Decline of Leisure*, sociologist Juliet Schor estimated that the average American worked 163 more hours in 1987 than in 1969. Women were estimated to have worked an extra 305 hours per year.

Another response for many families has been the permanent entry of women into the workforce. Women made up only 37 percent of the labor force in 1979, while, in 2012, women accounted for 46 percent (**Table 4.1**). Currently, nearly half of all women in West Virginia are active in the labor force, while only 39 percent were in 1979 (**Table 4.2**). While this might seem a welcome addition to family income, it is not without risks, as Former Harvard Law professor and now Senator Elizabeth Warren and Amelia Warren Tyagi argue at length in *The Two-Income Trap: Why Middle-Class Mothers and Fathers are Going Broke.*

According to Warren and Tyagi, "By the usual logic, sending a second parent into the workforce should make a family more financially secure, not less. But this reasoning ignores an important fact of two-income life. When mothers joined the workforce, the family gave up something of considerable (although unrecognized) economic value: an extra skilled and dedicated adult, available to pitch in to help save the family during times of emergency." This "extra" adult served as a family insurance policy against hard times, both as care-giver and earner when necessary.[23]

TABLE 4.1

West Virginia Labor Force Demographics

	1979	2012
Gender		
Male	63.1%	53.8%
Female	36.9%	46.2%
Age		
16-24 yrs	24.3%	12.3%
25-54 yrs	62.6%	63.8%
55 yrs and older	13.1%	23.9%
Race / ethnicity		
White	96.9%	93.4%
African-American	2.4%	3.8%
Hispanic	*	0.9%
Asian/Pacific islander	*	0.9%
Education		
Less than high school	29.0%	8.0%
High school	43.8%	40.1%
Some college	18.6%	26.3%
Bachelor's or higher	8.7%	25.6%

Source: Economic Policy Institute analysis of Current Population Survey data.

TABLE 4.2

West Virginia Labor Force Participation Rates

	1979	2012
All	54.5%	54.3%
Gender		
Male	71.3%	60.1%
Female	38.8%	48.9%
Age		
16-24 yrs	62.2%	50.6%
25-54 yrs	68.1%	72.7%
55 yrs and older	24.8%	33.2%
Race / ethnicity		0.9%
White	54.4%	53.8%
African-American	53.3%	64.9%
Hispanic	*	74.7%
Asian/Pacific islander	*	71.2%
Education		
Less than high school	35.1%	26.8%
High school	67.1%	52.1%
Some college	73.9%	63.2%
Bachelor's or higher	81.1%	72.2%

Source: Economic Policy Institute analysis of Current Population Survey data.

Two-income families often wind up worse off economically than many single-income families of earlier times. This is because the costs of major expenses such as health care, housing and child care have risen, often leaving families with less discretionary income than before.

While more women are working, more older West Virginians are also working. As low-paying jobs and the lack of pension coverage have grown, retirement has become harder. As a result, older West Virginians are continuing to work. In 1979, only 13.1 percent of the labor force was aged 55 years or older, while by 2012 it had grown to 23.9 percent (**Table 4.1**). Only a quarter of West Virginians over 55 were active in the labor force in 1979, while a third were in 2012 (**Table 4.2**).

Another strategy for coping involved increasing debt. According to the Federal Reserve Bank of San Francisco, the ratio of debt-to-person disposable income grew from 65 percent in the mid 1980s to 133 percent in 2007, and was thus a contributing factor to the Great Recession.[24]

More positively, as good jobs for workers with a high school or lower level of education disappeared, West Virginians increased their levels of educational attainment. The share of the labor force with a bachelor's degree or higher grew from 8.7 percent in 1979 to 25.6 percent in 2012, while the share with at least some college grew from 18.6 percent to 26.3 percent. Meanwhile, the share of the labor force with less than a high school degree dropped from 29.0 percent to 8.0 percent (**Table 4.1**).

West Virginia tripled its share of the labor force with a bachelor's degree or higher between 1979 and 2012, the largest increase of any state during that time. Nationwide, the share of the labor force with at least a bachelor's degree nearly doubled, from 16.8 percent to 32.7 percent. Despite having the biggest increase, West Virginia still only ranks 45th overall in labor-force college attainment.[25]

Those with a college education are the most likely to be active in the labor force (**Table 4.2**). Unfortunately, as college costs mount, new graduates often face a soft labor market with a high degree of debt. Overall, West Virginia's labor force participation rate of 54.3 percent remains unchanged since 1979, and is far below the national average. West Virginia ranks last among the states for labor force participation.[26]

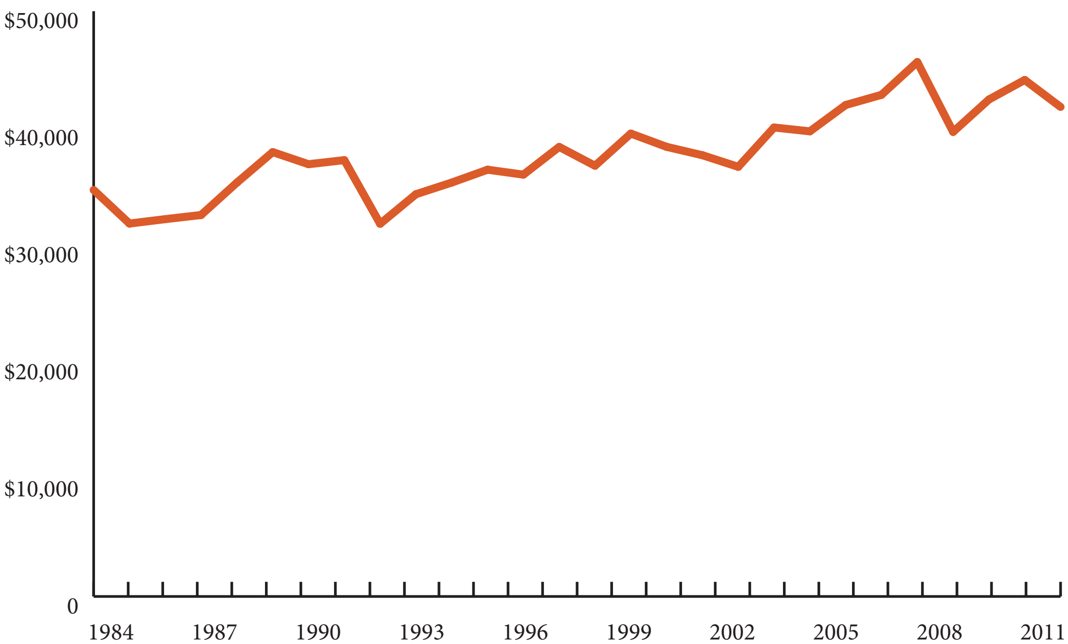
Finally, it is undeniable that some people have coped with changes by participation in the underground or informal economy, including illegal activities. It is probably no accident that some of the economically hardest hit counties also have burgeoning substance abuse problems—or that West Virginia's prison population has grown dramatically during the years in which good jobs declined.

The Middle Class Squeeze

Despite stagnating wages, declining benefits, and fewer opportunities for high-paying jobs, families in West Virginia have experienced minor growth in income. Real median household income grew from $34,727 in 1984 to $41,821 in 2011, an increase of 20.4 percent (**Figure 4.3**). But if wages for most West Virginians were flat, how did their household income grow? Their incomes rose because they were working more.

FIGURE 4.3

Real Median Household Income, West Virginia 1984-2011 (2011$)



Source: U.S. Census Bureau.

Nationally, real average annual wages for middle-income families increased from $49,260 to $55,560 between 1979 and 2007. But the average number of hours worked for those families increased by nearly as much, from 3,007 in 1979 to 3,335 in 2007, an increase of 10.3 percent. Nearly all of the gains in annual wages were due to the increase in hours worked, rather than rising wages.[27]

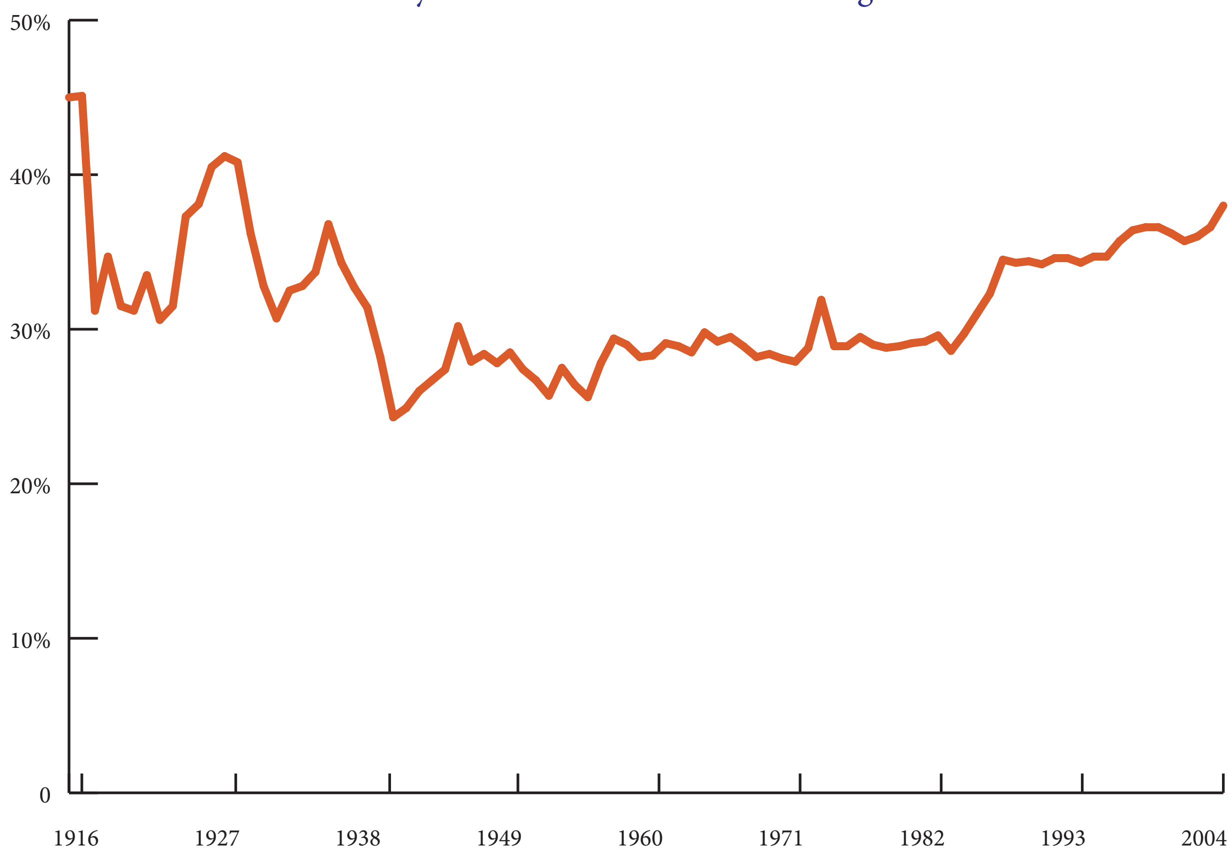
The rise in hours worked is primarily attributed to the increase of women in the labor force, which is evident in West Virginia, as the labor force participation rate of women jumped from 38.8 percent to 48.9 percent (**Table 4.2**). So while families in West Virginia have more money today than they did in the past, they are likely getting it from two incomes, rather than one. And as West Virginians increased their work hours, their work-related expenses, like child care, transportation, and clothing, also increased, eating up much of the increase in income.

While the middle class in West Virginia is squeezed by lower wages, the state's wealthiest are enjoying a greater share of the state's prosperity. The era of declining wages and loss of good-quality jobs, symbolized by the transition from Weirton Steel to Wal-Mart, can also be characterized as a time of rising income inequality, as the benefits of the state's economic growth have begun to concentrate in the hands the few.

In 1979, the wealthiest 10 percent of West Virginians held 29.8 percent of the state's income, well below the historical average of 31.6 percent (1916-2005). As West Virginia's middle class suffered during the economic turmoil of the 1980s, the share of income held by the richest 10 percent grew quickly, reaching 34.5 percent in 1985. The income share held by West Virginia's wealthiest has grown steadily since, reaching 38.0 percent in 2005, a level not seen since the 1930s (**Figure 4.4**).

FIGURE 4.4

Share of Total Income Held by Richest 10 Percent in West Virginia



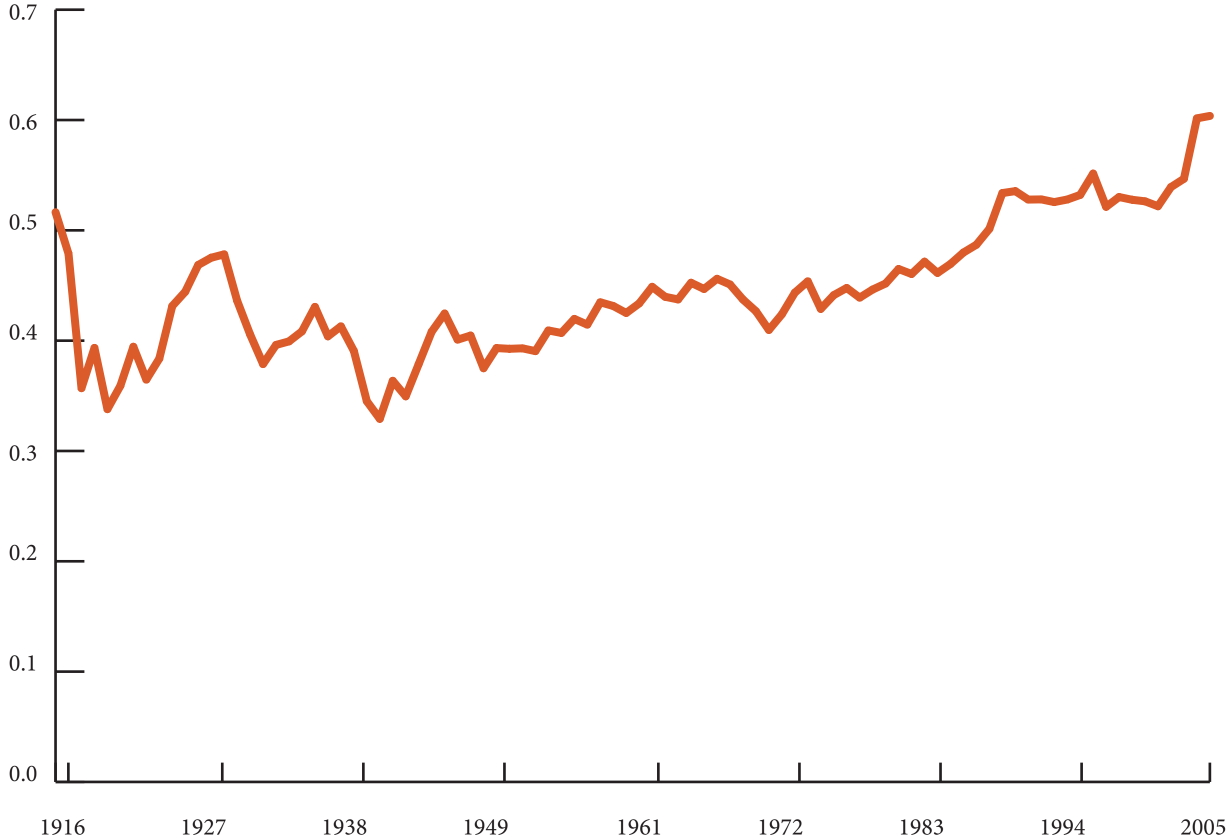
Source: Mark Frank, Sam Houston State University.

With the state's wealth increasingly concentrated at the top, income inequality is at historic highs. One measure of income inequality, the Gini Index, measures income inequality on a scale of zero to one. A value of one indicates perfect inequality, where one household has all income, and a zero value indicates perfect equality where all households have equal income. West Virginia's Gini Index was at 0.446 in 1979, and quickly rose to 0.534 by 1989, corresponding with the growth in the share of income held by the top ten percent. By 2005, the state's Gini Index had grown to 0.604, its highest level since 1916

(**Figure 4.5**). Other data have shown that income inequality in West Virginia has worsened even more since the 2007 recession.[28]

FIGURE 4.5

West Virginia Gini Index



Source: Mark Frank, Sam Houston State University.

As working families see the value of their wages stay flat or even fall, they have responded by working harder to make ends meet and improve their lives. But they are seeing less and less of the benefits of their work. The lack of economic progress shared with working families in West Virginia is damaging to the state's overall economy. A strong middle class has a positive effect on economic growth and security, through the promotion of human capital and education, by creating a stable source of demand for goods and services, by nurturing entrepreneurs, and encouraging participation in political and economic institutions that support economic growth.[29]

Section Five

Back to the Future?

It is unlikely that the Weirton steel mills will ever employ as many people as they once did. The same can be said for the mines of southern West Virginia, or the glass, chemical or textile plants of the Kanawha and Ohio valleys. But it is important to remember that our state's economy once sustained a thriving middle class, and may do so again.

The importance of the middle class to social stability is hardly a new idea. As early as the 4th century BC, the philosopher Aristotle noted in his Politics that "it is manifest that the best political community is formed by citizens of the middle class, and that those states are likely to be well-administered, in which the middle class is large..."[30]

This insight has, alas, been slow to catch on among professional economists, but that is beginning to change. A 2012 report by the Center for American Progress titled *The American Middle Class, Income Inequality, and the Strength our Our Economy: New Evidence in Economics*, examines the evidence and summarizes the conclusions as follows:

- A strong middle class promotes the development of human capital and a well-educated population.

- A strong middle class creates a stable source of demand for goods and services.

- A strong middle class incubates the next generation of entrepreneurs.

- A strong middle class supports inclusive political and economic institutions, which underpin economic growth.[31]

West Virginia would do well to pursue policies that aim to broaden the middle and raise the bottom. Fortunately, it has already taken some significant steps in this direction.

Game Changer: Recent Positive Steps

Since the beginning of 2013, West Virginia's policymakers have taken some bold steps that could promote the well-being and future prosperity of working families, provided they are fully implemented and used as the basis for further gains.

Staying alive.

Chief among these was the decision by Governor Tomblin to expand Medicaid coverage for working West Virginians, which has been estimated to benefit between 90,000 and 130,000 people. At the most basic level, this step will save lives. Simply put, uninsured people have a higher mortality rate than people with health insurance. Families USA estimated that in 2010, 223 West Virginian's died prematurely, a rate of about four per week.[32] The influx of new Medicaid money will have an economic impact of $664 million by 2016 and has been estimated to support the creation of 6,200 jobs.[33] This step could encourage higher workforce participation and assist in confronting other major problems.

Rethinking mass incarceration.

In 2013, the West Virginia legislature passed a bill that begins to address prison overcrowding and promote drug courts in every county by 2016. According to the Justice Center of the Council of State Governments, substance abuse has been a major contributing factor to increased rates of incarceration and recidivism.[34]

Thanks to Medicaid expansion and other features of the Affordable Care Act, many West Virginians will soon be eligible for treatment. As the state moves toward expanded drug courts, this could provide an opportunity for low-risk non-violent offenders to be treated at the community level and thus diverted from the prison system. Expanded coverage could also ease the transition of offenders from prison to the community.[35]

These and other reforms to the adult corrections and juvenile justice system could help free up resources to meet other urgent needs. It could also help vulnerable communities and families avoid the lifelong harmful impacts of incarceration on those who do not constitute a threat to public safety. These include damage to marriages, families, and parent-child relationships as well as lower earnings and assets and higher risks of unemployment.[36]

The front end.

Over the last decade, West Virginia has made significant strides in expanding early childhood education. One significant provision of Governor Tomblin's 2013 education bill mandated full-day, five day per week pre-kindergarten education for four-year-olds in every county by 2016. In addition, the governor has created an early childhood education task force to study and recommend further improvements in the system.

A host of research, ranging from a 2005 study by Marshall University[37] to the work of Nobel economic laureate James Heckman,[38] demonstrates conclusively that investments in early childhood education yield higher returns than interventions later in life.

West Virginia would do well to reach back even earlier by offering voluntary pre-kindergarten programs for three-year-olds and expanding voluntary home-visiting programs for new parents. Ideally, these would begin in pregnancy and continue through at least the first two years of life.[39]

Feeding the "hangry" and movement for improvement.

Likewise, a great deal of research and practical experience suggest that "hangry"—i.e. hungry and angry—children have trouble learning in schools and succeeding in life.[40]

As Mingo County Schools superintendent Randy Keathley observed, "if you have hungry children in the classroom starting the day, you're more apt to have kids who are disengaged, sleepy, hungry, irritable and so forth."[41]

The West Virginia legislature recognized this in 2013 by passing the Feed to Achieve Act, which encourages county schools to improve food delivery practices and maximize use of federal resources, while also creating public-private partnerships to work towards the goal of providing at least two free meals per day to all state school children. The bill also encourages physical activity and supports other innovative food delivery methods, such as child care, after-school summer feeding, and farm-to-school programs. This bill has great potential, but achieving its goals will require the engagement, as well as the generosity, of parents, citizens, educators, churches, community organizations, philanthropists, and policymakers.

The results of a sustained focus on food, wellness and physical activity can be not just inspiring but downright revolutionary. To once again use the example of Mingo County, since embracing a wellness agenda that combines universal meals with physical activity, there have been substantial reductions in suspensions, discipline problems, and the dropout rate, even as test scores and school attendance improved.[42]

Further Steps

It is impossible to predict the future and Scottish poet Robert Burns long ago noted that the best laid schemes and plans "gang aft agley." Still, there are steps West Virginia can take to position itself and its citizens to face uncertain times with resiliency and improve the odds of prospering in the years ahead. This report will conclude with some very general recommendations aimed at rebuilding the middle classes.

Funding the future.

Economies based on mineral extraction have long been subject to cycles of boom and bust. And once resources have been removed, the results are often ghost towns and damaged communities, as anyone familiar with the history of southern West Virginia can attest. West Virginia can at least take the long-overdue step of ensuring that nonrenewable resources can become a permanent source of wealth by creating a permanent mineral trust fund or Future Fund from the severance taxes. The principle of the fund should be inviolate and prudently invested, and interest generated could serve as a lasting stream of revenue to meet future needs.

Keeping education affordable.

While the state has made advances in early childhood education, it has compensated for budget shortfalls and the costs of corporate tax cuts by increasing tuition and fees on students at state colleges and universities. Many students in turn have responded by increasing their debt and, in some cases, defaulting on it. As this report has touched upon, the days when mines and steel mills could absorb high school graduates and pay high wages are gone. At some point, state leaders must make the decision to invest in people.

Investing in infrastructure.

At the risk of stating the obvious, a thriving economy requires an adequate system of roads and transportation, including public transit, as well as communications infrastructure such as broadband and cell coverage.

Raising the bottom.

Congress last voted to raise the minimum wage in 2007, when it was increased over a two-year period to $7.25 per hour. The last increase went into effect in July 2009. In 2013, the West Virginia House of Delegates passed a resolution supporting a federal increase. If Congress continues to fail to act, West Virginia should join the growing number of states (18 including the District of Columbia as of January 2013) that have minimum wages higher than the federal level.

Building assets.

As noted above, declining job quality has meant that fewer workers have pensions, even as everyday low wages have made it more difficult for working people to save for a rainy day. State leaders should revisit the ideas of creating a system of voluntary retirement accounts administered through the state which could be retained as a worker moves from job to job. In addition, West Virginia could join the 25 states and the District of Columbia in creating a state earned income tax credit to support working families.

Quality of life.

Entrepreneurs and creative people are drawn to areas with a high quality of life, which includes natural beauty and the opportunity for outdoor activities, as well as an environment that welcomes diversity and encourages cultural activities and the arts. Sacrifice zones are not conducive to cultural creativity.

Rethinking food.

An encouraging development of recent years has been the growth of interest in farmers markets, community gardens, support for urban farming, and farm-to-table initiatives. These fresh (no pun intended) approaches have implications across a wide variety of areas, including economic development, sustainability, the fight against obesity and unhealthy lifestyles, and community renewal. Every effort should be made to encourage statewide and local partnerships to explore the possibilities of a more direct approach to this necessity of life.

Embracing economic diversity and sustainability.

It is a persistent human folly to assume that the future will be like the past and that the industries and activities that sustained us at one point in time will do so forever. As this brief survey of a few decades has demonstrated, change is inevitable. To assume that any one industry is the key to our future is to reduce our options and gamble with our future. Similarly, in a world of finite resources, it is only prudent to reduce waste and inefficiencies in our consumption of energy and materials.

Rebuilding communities.

Harvard sociologist Robert Putnam, author of the influential book *Bowling Alone: the Collapse and Revival of American Community,* has painstakingly and convincingly demonstrated the importance of social capital, (i.e. all the formal and informal relationships that connect individuals, families and groups), in solving almost any kind of problem. In today's world, it is folly to believe that solutions to our problems will arise from "the market" or from government policies, although both have a role to play. But there is no substitute for the people-power of civic engagement to affect our nation, state and communities—and to correct and improve the actions of governments and corporations. As Putnam put it in an essay in the *New York Times* blog,

"The crumbling of the American dream is a purple problem, obscured by solely red or solely blue lenses. Its economic and cultural roots are entangled, a mixture of government, private sector, community and personal failings. But the deepest root is our radically shriveled sense of 'we.'"[43]

Democracy is—or must become—a verb.

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Working Toward a Shared Prosperity

The **West Virginia Center on Budget and Policy** is a policy research organization that is nonpartisan, nonprofit, and statewide. It focuses on how policy decisions affect all West Virginians, including low- and moderate-income families, other vulnerable populations, and the important community programs that serve them.

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