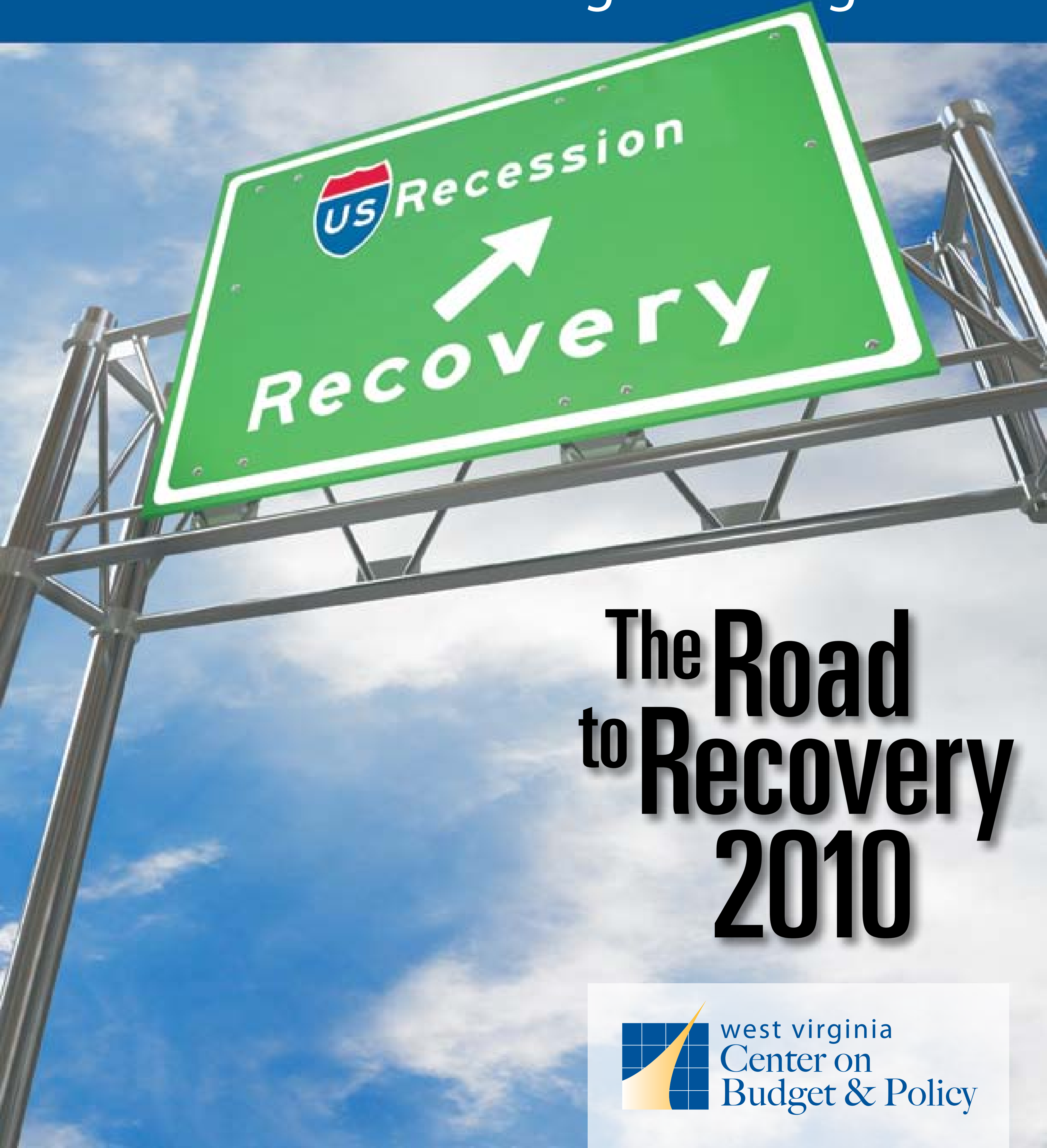
The State of Working West Virginia



The Road to Recovery 2010

west virginia
Center on
Budget & Policy

The State of Working West Virginia: The Road to Recovery 2010

About the authors

Ted Boettner is the executive director of the West Virginia Center on Budget and Policy. His fields of expertise include economic policy, state budget and revenue issues, retirement security, and taxation. Questions about this report may be directed to Ted at (304) 720-8682 or tboettner@wvpolicy.org.

Paul Miller is a policy analyst at the West Virginia Center on Budget and Policy. His fields of expertise include economic policy, state budget and revenue issues, unemployment insurance, retirement security, and poverty issues.

Rick Wilson is the area director of the American Friends Service Committee, West Virginia Economic Justice Project. He has taught sociology at Marshall University and WVU-Tech and written about labor and economic issues for more than 20 years.

Jill Kriesky is an economist with the West Virginina Center on Budget and Policy. Her fields of expertise include employment, training and economic development issues. She is currently researching the use of state severance tax permanent funds to support economic diversification strategies.

The report was edited by ***Linda Frame***, communications and outreach director for the West Virginia Center on Budget and Policy, and designed by ***David Love*** of the Phillips Group. Additional technical support was provided by ***Sean O'Leary***, policy analyst with the West Virginia Center on Budget and Policy.

Acknowledgments

We would like to acknowledge the Economic Policy Institute for providing much of the data included in this report, and particularly to analysts Kathryn Edwards and Kai Filion. In addition, we thank the following organizations for their valuable assistance: Center on Budget and Policy Priorities, Center for Economic and Policy Research, National Employment Law Project, and Workforce West Virginia. We are especially grateful to the many community, labor and religious groups that use and disseminate this report.

The West Virginia Center on Budget and Policy is supported by generous grants from the W.K. Kellogg Foundation, Claude Worthington Benedum Foundation, Service Employees Union International 1199, the West Virginia Affiliated Construction Trades Foundation, and Mary Reynolds Babcock Foundation.

west virginia Center on Budget & Policy

West Virginia Center on Budget and Policy
723 Kanawha Blvd., Suite 300
Charleston, WV 25301
Tel 304-720-8682 • Fax 304-720-9696
www.wvpolicy.org

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.

Table of Contents

CHAPTER ONE

Overview

From a distance, West Virginia's economic history might resemble the ridges and valleys of its landscape. For a typical worker, the ups and downs of recessions and recoveries are as hard to traverse as the difficult ascents and sudden drops would be to a hiker. Undeniably, the terrain traveled since 2008 has been some of the most challenging in recent decades.

In its first edition in 2008, the *State of Working West Virginia* analyzed the economic landscape from 1979 to 2008. By the following year, the country was experiencing the most severe shift in its economic geography since the Great Depression as the national housing bubble burst and a massive credit crisis ensued. *The State of Working West Virginia 2009* examined the impacts of this Great Recession on employment, wages, and family economic security in the Mountain State.

In the fall of 2008, with bipartisan support, Congress passed the Troubled Asset Relief Program (TARP), popularly known as the "Wall Street bailout," to stabilize the banking system. In the spring of 2009, Congress enacted the American Recovery and Reinvestment Act (Recovery Act) in an effort to stimulate the economy and end the recession. This third edition of the *State of Working West Virginia* assesses the impacts of these and other federal stimulus measures on West Virginia employment and wages.

In short, the massive infusion of federal dollars into the floundering economy kept the nation's poverty level from worsening. In a landmark study, economists Mark Zandi and Alan Blinder found that this series of federal policy initiatives succeeded in bringing the economy back from the brink and setting it on a course of recovery.

> We find that its [the stimulus's] effects on real GDP, jobs, and inflation are huge, and probably averted what could have been called Great Depression 2.0. For example, we estimate that, without the government's response, ***GDP in 2010 would be about 11.5% lower, payroll employment would be less by some 8 ½ million jobs, and the nation would now be experiencing deflation.***[1] (emphasis added).

Applying these calculations to West Virginia, we find that absent this federal action the state's unemployment rate would have been over 14 percent in 2010 and close to 20,000 additional West Virginians would have slipped into poverty. The Recovery Act not only provided short-term stimulus but also made investments in public infrastructure and energy efficiency that will improve the quality of life for residents far into the future.

West Virginia's economic recovery from the Great Recession is far from complete. Despite a rise in employment in the early months of 2010, significant job losses occurred in the later months. The unemployment rate is at its highest level in 16 years. With the prospects of finding gainful employment and participation in the West Virginia labor force already among the lowest in the nation, underemployment and exit from the workforce continue to darken the state's employment picture. Additionally, the long-term stagnation in median household income and wage growth for all but the wealthiest residents persists even as the recovery proceeds.

The consequences of these bleak employment and earnings statistics are many and long-lasting for the families that experience them. As Economic Policy Institute analyst John Irons argues:

> Simply put, poverty is not good for the economy. When children grow up in poverty, they are more likely, later in life, to have low earnings, commit crimes, and have poor health. Holtzer et al. (2007) estimate the cumulative costs to the economy of childhood poverty to be about $500 billion per year, or about 4% of GDP.[2]

This report examines the important role of the Recovery Act and other stimulus measures in West Virginia and how workers have weathered the Great Recession:

- Chapter 2 provides the details of how the Recovery Act and other spending programs benefited West Virginians.

In particular, the Recovery Act's provisions to expand the Unemployment Insurance (UI) program, spending on education and Medicaid, and tax credits made significant contributions to West Virginia families.

- Chapter 3 focuses on jobs and joblessness in the Mountain State. The recession brought major job losses in manufacturing and construction jobs, both important because of their above average wages for working families. The recovery has not brought the expected sustained decline in the unemployment rate, and the related vexing problem of how to stop the flow of discouraged workers from the labor force persists.

- Chapter 4 examines the persistent problem of low income growth for West Virginia's middle class, how the Great Recession exacerbated it, and how the gap between the income growth of rich and both middle-income and poor families is continuing to hurt all but the wealthiest. It also explains how the "stickiness" of wages during the recession actually meant that the rate at which average hourly workers were paid increased slightly even though incomes fell.

- Chapter 5 makes several short- and long-term policy recommendations that state and federal legislators can adopt to reduce the impact of the Great Recession on employment and earnings and to prepare workers for the potentially devastating impacts of future economic downturns.

CHAPTER TWO

Recovery from the Great Recession

The Recovery Act and other federal stimulus programs were designed to operate counter-cyclically to help those deeply affected by the Great Recession. The Recovery Act's three immediate goals were:

1. To create new jobs and save existing ones.
2. To foster economic activity and invest in long-term growth.
3. To improve transparency and accountability of government spending.[3]

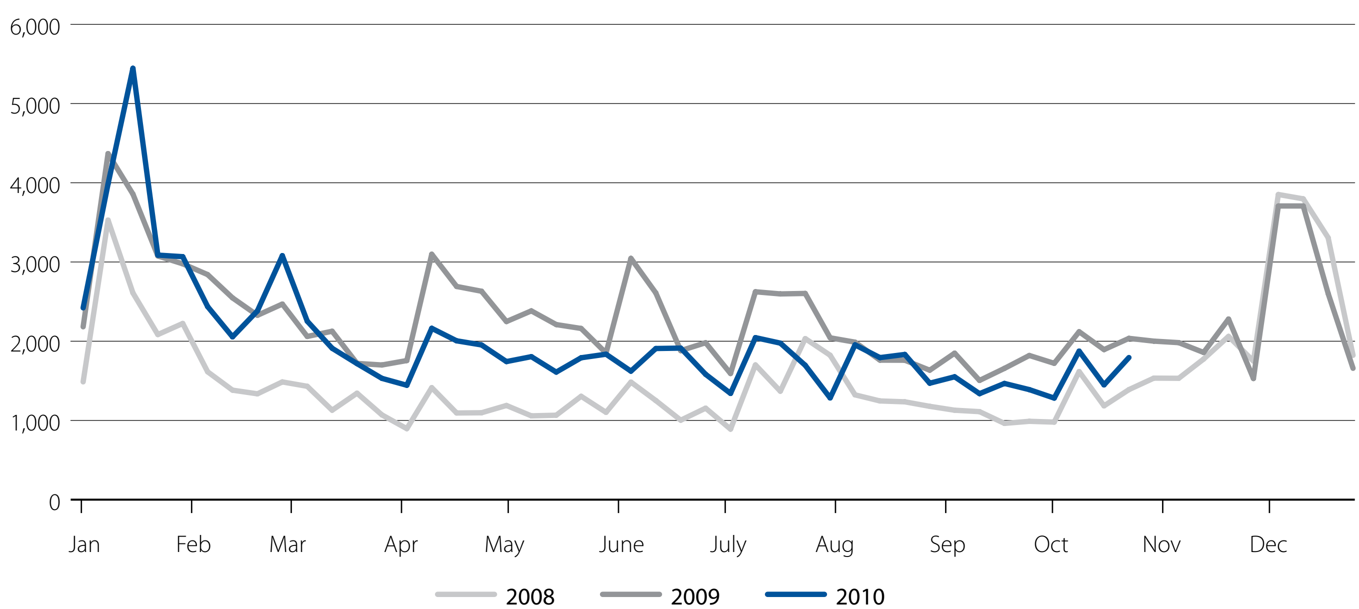
In West Virginia, the Recovery Act was largely responsible for the state's relatively strong fiscal position and for preventing major cuts to state programs, employment and public services. Its most significant contributions to the state came through unemployment insurance, fiscal relief, and tax credits, though direct assistance and infrastructure spending provided support as well. Federal interventions, such as TARP, and a series of other policy initiatives, also played a large role in averting another Great Depression. Based on the Zandi-Blinder study, absent these federal interventions, West Virginia's unemployment rate would have reached 14 percent and the state would have lost 80,000 jobs. In short, the combined federal interventions saved the state around 56,000 jobs.[4]

Unemployment Insurance (Assisted by The Recovery Act) Lifts Jobless Families Out of Poverty

Since the Great Depression, unemployment insurance (UI) has functioned as the "first line of defense" against poverty by providing financial assistance to laid-off workers and their families. Tracking the number of new or initial UI claims can help assess the changing economic conditions and is a good barometer of turning points. Figure 2.1 tracks such claims in West Virginia. In 2009, during the height of the Great Recession in West Virginia, the state's monthly average of

FIGURE 2.1

Initial Claims for Unemployment Insurance in West Virginia, 2008 - 2010



Source: *WVCBP analysis of U.S. Department of Labor Employment and Training Administration data* initial UI claims was 2,295. In 2010, the monthly average dropped to 2,030. Despite this improvement, this is 29.6 percent above the 2008 average of 1,566 claims.

Tracking continued UI claims gauges how long it takes out-of-work residents to find new employment. Average weekly continued claims for unemployment insurance in 2010 was 22,605, a 17.3 percent decline from 2009, but still 54.7 percent ahead of 2008 (see Figure 2.2).

Without UI benefits, West Virginia would have witnessed significant increases in poverty during this recession. The Center on Budget and Policy Priorities estimates that direct UI payments to West Virginians through August 27, 2010 included $54 million in increased weekly unemployment benefits and $116 million in extended unemployment compensation benefits. It estimates that unemployment compensation prevented an additional 20,000 people from entering into poverty.[5]

Two factors help explain why UI was so effective during this particular downturn. First, Congress approved an extra $25 per week benefit in the Recovery Act. Second, additional tiers of federal unemployment extensions were included providing some residents with up to 99 weeks of unemployment benefits.

As a final note, West Virginia received $11 million in Recovery Act funds when it adopted a UI modernization program in 2009. The Legislature agreed to change its Alternative Base Period (ABP) which helps low-wage workers who frequently lack sufficient earnings and wages to qualify for UI benefits. The ABP now allows for earnings in the most recent quarter to be considered for qualification. Should the legislature enact two of four remaining UI modernization reforms, those relating to compelling family reasons for job separation, part-time worker and worker-in-training inclusions, and dependent allowances, the federal government will provide the state with an additional $22 million.[6]

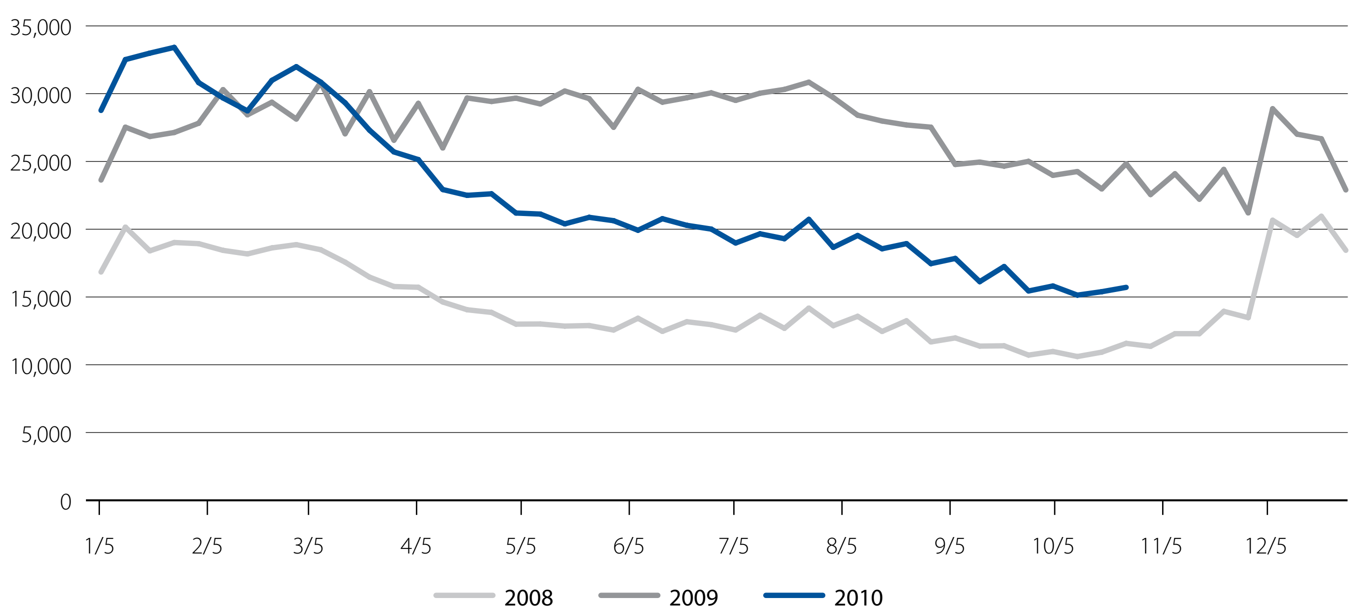
SNAP and TANF Offer Direct Help to Ease Hardships

The ability to provide daily meals to one's family is another measure of how the population is weathering the recession. In 2009, 51 percent of all households living below 100 percent of the federal poverty level were classified as insecure in providing basic food for their families.[7] In West Virginia, this means that approximately 67,000 households can be described as food insecure.[8]

Use of the Supplemental Nutrition Assistance Program (SNAP), formerly known as the food stamp program, has increased both in the U.S. and in West Virginia since the

FIGURE 2.2

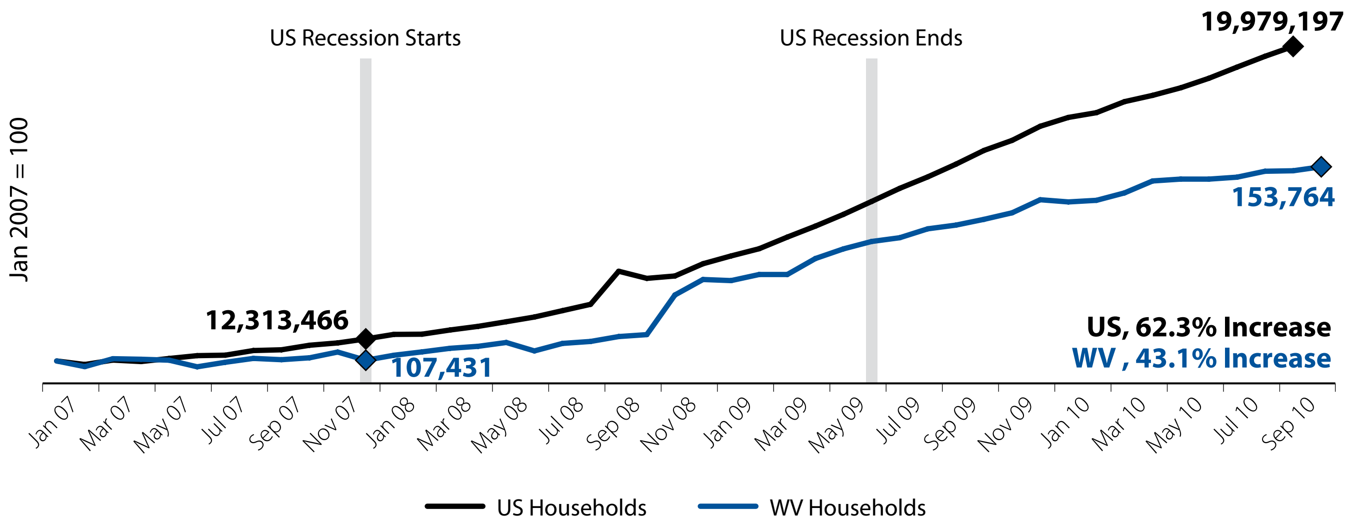
Continued Claims for Unemployment Benefits in West Virginia, 2008-2010



Source: *WVCBP analysis of U.S. Department of Labor Employment and Training Administration data*

FIGURE 2.3

Households Receiving SNAP Benefits, the U.S. and West Virginia



Source: *WVCBP analysis of Department of Health and Human Resources (DHHR), Division of Family Assistance data and U.S. Department of Agriculture, Food and Nutrition Service data*

Great Recession officially started in December 2007. The number of U.S. households receiving SNAP benefits increased 62.3 percent from December 2007 to September 2010, as an additional 7.6 million households became eligible. In West Virginia, the increase was 43.1 percent (see Figure 2.3).

The state received $107 million in expanded food stamp benefits from the Recovery Act as of August 27, 2010.[9] According to Current Population Survey (CPS) data, these benefits have kept approximately 19,000 West Virginians, about 7.3 percent of the population that is in poverty, from entering poverty.

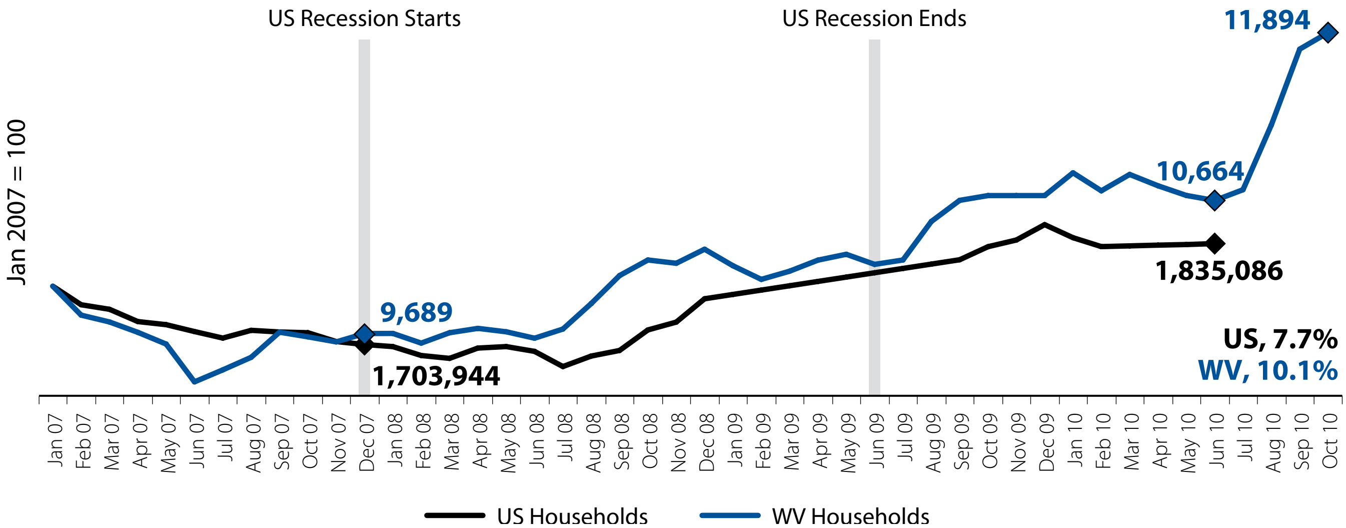
Similarly, since the start of the Great Recession, Temporary Assistance to Needy Families (TANF) participation has increased, though more modestly than SNAP. In West Virginia, TANF has increased 10.1 percent since December 2007 while the U.S. increase was a more modest 7.7 percent (see Figure 2.4). The state's TANF caseload has grown dramatically even after the official end of the Great Recession. From June 2010 to October 2010 there has been an 11.5 percent increase in participation or an additional 1,230 families.

The $42 million in Recovery Act funding designated for TANF in West Virginia was combined with $10 million in state money and spent on a one-time TANF cash assistance payment increase ($7 million), a summer food program ($4 million), school clothing and supplies payments ($19 million), child support debt arrearage payments ($19 million), the Department of Labor's Summer Youth Employment Program ($3.4 million), and a subsidized employment pilot program ($0.2 million).[10]

There are two central reasons TANF provided fewer benefits during the recession than SNAP. First, TANF is a block grant program, meaning that funding is fixed at a certain dollar amount, regardless of the number of eligible people. During recessions, the funding remains the same as during good economic times, which diminishes TANF's ability to be a counter-cyclical force. SNAP, on the other hand, is an entitlement program. Funding increases as eligibility increases. Second, differences in income and asset eligibility also made SNAP more responsive to the recession than TANF. TANF recipients are only parents with income below 65 percent of the poverty line and assets below $2,000. Many families that are eligible for other programs with higher eligibility levels, such as child care subsidies, are also automatically eligible for SNAP. Since the recession impacted a broad spectrum of people, SNAP provided more support to those with incomes above TANF eligibility.

FIGURE 2.4

Participation in TANF, U.S. and West Virginia



Source: *WVCBP analysis of WV DHHR, Bureau of Children and Families, Division of Family Assistance data and U.S. Department of Health and Human Services (DHHS), Administration of Children and Families data*

Recovery Act Bolsters Direct Aid to Individuals

In order to meet its goal to minimize or avoid reductions in essential services at the state level, the Recovery Act provided West Virginia with $113 million in payments for individuals receiving Social Security and other direct assistance programs.[11]

Additional direct aid came from new or expanded tax credits for working families. According to the state's economic recovery website, the "Making Work Pay" tax credit reached 700,000 working families and reduced tax payments by $300 million. For 2009 and 2010, this program provided a refundable tax credit of 6.2 percent of earned income up to $400 for individuals and $800 for married couples. As a result, families received an estimated $65 dollar per month increase in their take home pay.[12]

The act also expanded existing federal tax credits to individuals, including the Child Tax Credit and Earned Income Tax Credit. Due largely to these various Recovery Act benefits, personal incomes in West Virginia actually grew in 2009 by 0.7 percent in spite of the worst economic downturn since the Great Depression.[13]

Major Budget Cuts Averted by Recovery Act Fiscal Relief

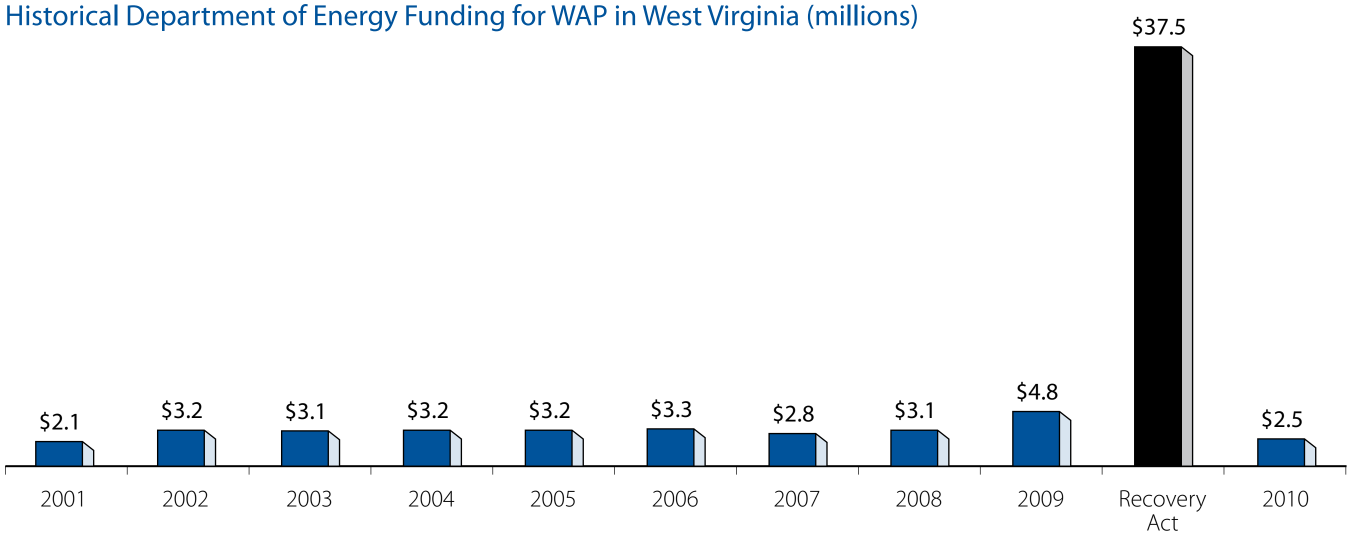
The Recovery Act provided $135 billion for states to maintain current programs and avoid serious budget cuts, especially in education and Medicaid. In total, West Virginia's allotment was $728 million.[14] This included $218 million for K-12 and higher education, $48 million for general government services, and $462 million in enhanced Medicaid funding. As of June 30, 2010, the state has spent $508 million or about 70 percent of its total allocation.[15] Without Recovery Act funds, the state would have cut important services and programs that directly impact people and communities still reeling from the Great Recession. In addition, the state fiscal relief helped avoid reductions in state spending on goods and services that would have led to further jobs losses.

Weatherization Assistance Program Growth Improves Housing Quality and Job Opportunities for Low-Income Families

The Department of Energy's Weatherization Assistance Program (WAP) plays an important role in helping to promote energy conservation, reduce utility bills for low-income families, and reduce our growing dependence on foreign energy producers. WAP also creates economic

FIGURE 2.5

Historical Department of Energy Funding for WAP in West Virginia (millions)



Source: *WVCBP analysis of WV Governor Office of Economic Opportunity, Weatherization Assistance Program data and US Department of Energy (DOE), Office of Energy Efficiency and Renewable Energy data*

opportunities for low-income workers to compete in the growing alternative and renewable energy sector.

Nationally, the $5 billion in stimulus WAP funding was designed to increase the number of homes receiving assistance by 525,000 while creating an additional 87,000 jobs. Based on the program's distribution formula, West Virginia received $37.5 million from the Recovery Act.[16] Between April 2009 and November 2010, the total number of West Virginia homes weatherized was 3,329, nearly 2,000 more than would have received treatment without Recovery Act funds. To support this expanded program, approximately 150 new jobs were created in the state during the same time period.[17] As shown in Figure 2.5, WAP dollars flowing to West Virginia in 2009 were greater than the state's total WAP funding over the previous 10 years.

The Recovery Act made three changes in the WAP that will result in better housing for low-income families in West Virginia. First, it lowered eligibility requirements which increased the potential income-qualified population by 191,000, or 30 percent.[18] Second, the dollars allotted for materials for each low-income family's home were increased from $2,500 per low-income family to $6,500, increasing the likelihood that significant portions of heating/cooling systems are covered. Lastly, the Recovery Act reduced the waiting period for repeat applications to WAP by 15 years, allowing families receiving weatherization assistance prior to 1994, rather than 1979, to be eligible for upgrades.[19]

Broadband Access and Associated Opportunities Expand

The Internet originated in the U.S., but America ranks only 15th among the 31 Organization for Economic Cooperation and Development (OECD) countries in broadband accessibility. Since Internet access increases opportunities for education, communication and employment, its continued growth is key to economic expansion.[20] President Obama included $7 billion in Recovery Act funds to extend broadband to an additional 100 million Americans. This amount included $4.7 billion administered by the National Telecommunications and Information Administration (NTIA) and $2.5 billion distributed by the Rural Utility Service to promote broadband usage in public spaces.[21]

Thanks to the Recovery Act, the state is poised to implement a $126.3 million grant from the NTIA. This is the largest grant awarded by NTIA, and the only one funding a statewide network. Its purpose is to extend access to 1,500 institutions around the state including K-12 schools, public libraries, health care facilities, government offices, public safety agencies and other critical community institutions.[22]

CHAPTER THREE

Jobs and the Jobless

Despite the significant infusion of federal stimulus dollars into the West Virginia economy through the Recovery Act and other programs, West Virginia's employment figures have not recovered to pre-recession levels. Loss of construction and manufacturing jobs, which strongly support many middle-class families, has been particularly severe. In addition, the unemployment rate remains at a 16-year high while the number of West Virginians in the labor force is falling. The number of involuntarily part-time workers, and workers so discouraged from looking for work because their job searches have failed, shows that underemployment in West Virginia has also continued to grow throughout the Great Recession and beyond its conclusion.

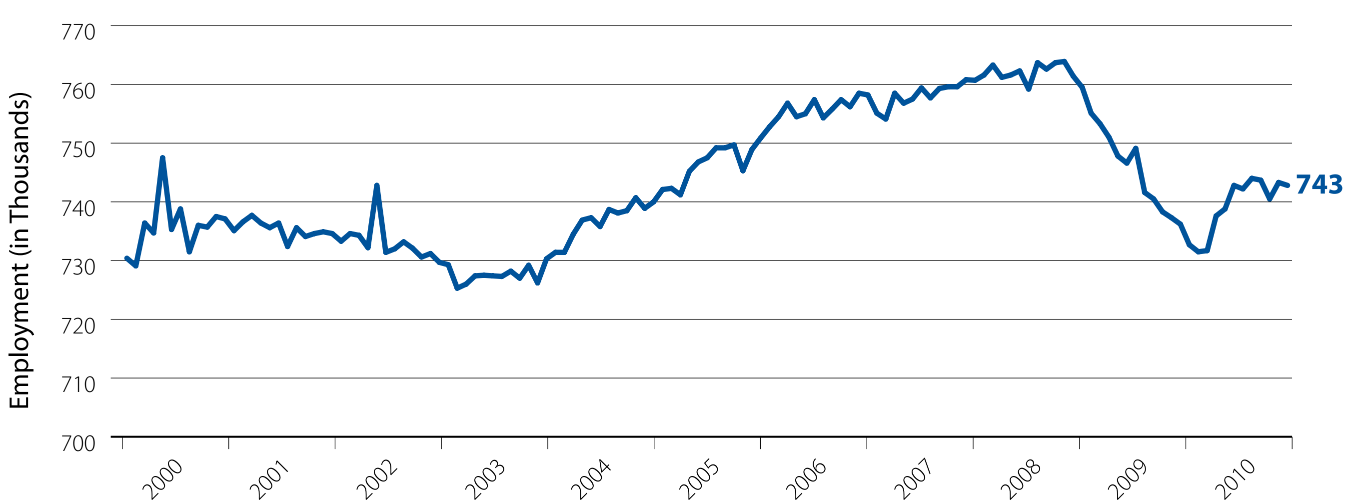
Recent Job Growth is Waning

While the recession began in December 2007, West Virginia did not begin to see job losses until a year later. For the first eleven months of the recession, West Virginia actually gained about 3,000 jobs. But as the U.S. economy experienced unprecedented turmoil with the collapse of Lehman Brothers and the global financial market meltdown in fall 2008, West Virginia's economy began to slide as well. Between November 2008 and January 2010, the state lost over 32,000 jobs — an average of 2,200 jobs per month.

The economy finally turned a corner in 2010. In the first half of the year, West Virginia added 12,500 jobs. Unfortunately, as Figure 3.1 indicates, the turn-around did not endure. The state has lost 1,200 jobs since July 2010, and 17,900 jobs since the start of the recession. The latter number represents a 2.4 percent decline over the three-year period. Factoring in the number of jobs needed to keep up with working-age population growth (1.2% per year), the state would need to add 27,000 more jobs than it has to return to pre-recession employment levels.

FIGURE 3.1

West Virginia Non-Farm Employment, 2000-2010
(seasonally adjusted)



Source: *US Bureau of Labor Statistics, Current Employment Statistics (CES).*

TABLE 3.1

Change In Non-Farm Employment, West Virginia and Peer States, December 2007 to November 2010

	Percent Change	National Rank (1= highest job loss)
United States	**5.4%**	
West Virginia	**2.4%**	**41st**
Ohio	7.5%	10th
Kentucky	4.9%	29th
Virginia	3.1%	39th
Maryland	3.1%	38th
Pennsylvania	3.3%	16th

Source: *Economic Policy Institute (EPI) analysis of CES survey data*

While West Virginia has seen a dramatic decline in jobs, its loss is less severe than those suffered by neighboring states and the nation. Ohio shed 7.5 percent of its job base, while both Virginia and Maryland saw a decline of 3.1 percent. Nationally, the country has lost 5.4 percent of its job base since the recession began (see Table 3.1).

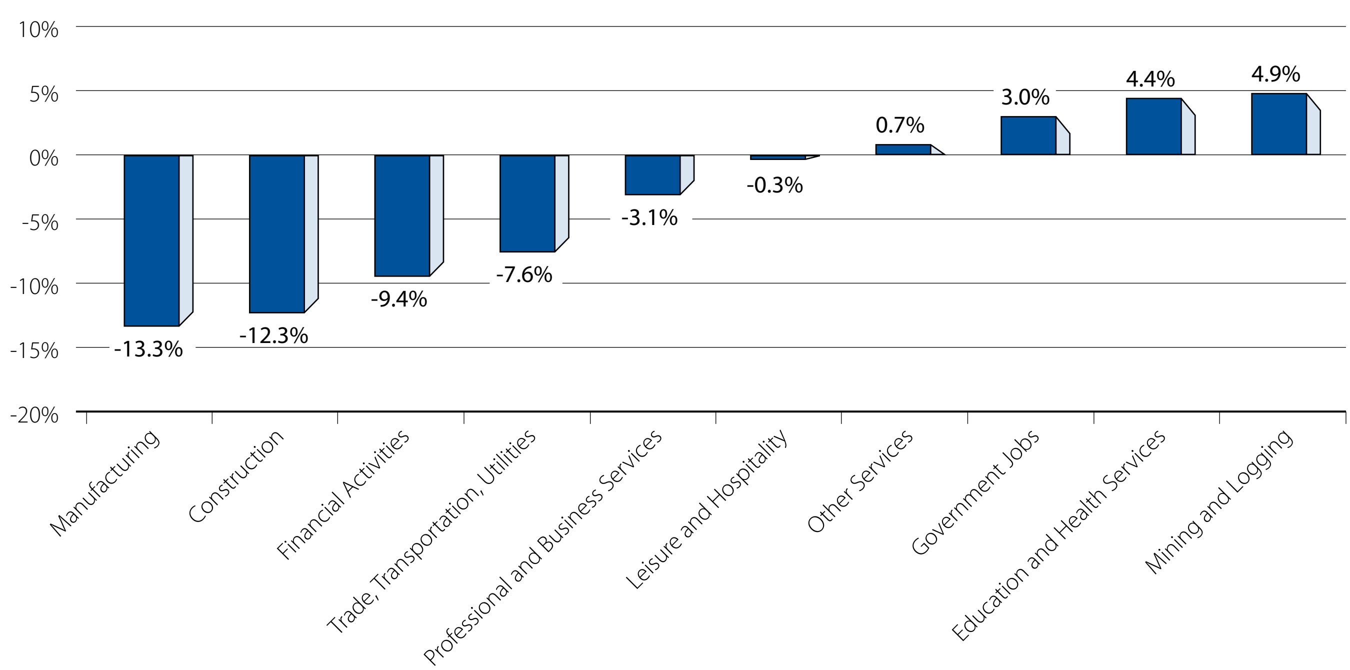
Manufacturing and Construction Hit Hardest by Recession

Manufacturing and construction jobs make up 11 percent of the state's workforce, providing above average wages. The average annual wage in the construction industry ($44,660) was 17 percent higher in 2009 than the average annual wage in all West Virginia industries. For the manufacturing industry, the average annual wage ($47,937) was 23 percent higher.[23]

Despite its rapid decline since the mid-1970s, manufacturing continues to play a vital role in West Virginia's economy. It accounts for 6.8 percent of the workforce and employs over 50,000 workers. The recent recession has undermined West Virginia manufacturing, draining away nearly 13.3 percent of its remaining jobs (see Figure 3.3). Since the recession started, West Virginia has lost 7,700 manufacturing jobs. After this serious decline, manufacturing employment began to rebound in October 2009, gaining 800 jobs by the end of October 2010. West Virginia's manufacturing base has declined less rapidly than the national average of 15 percent.[24]

FIGURE 3.2

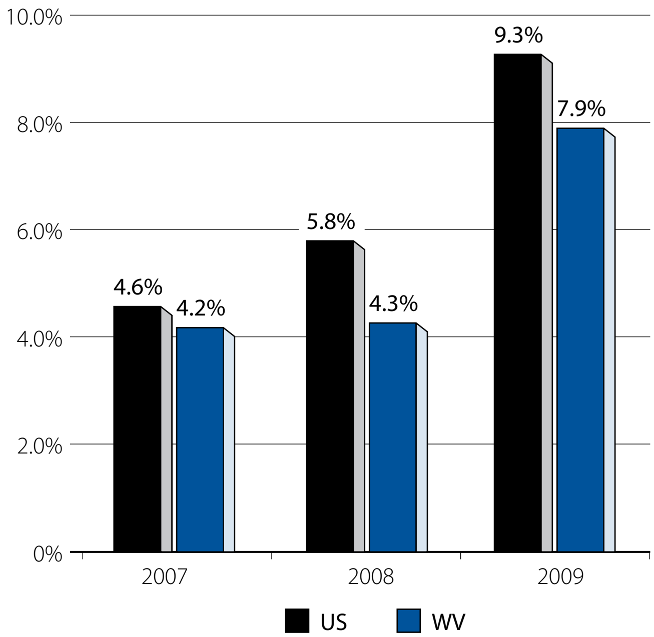
West Virginia Job Loss by Sector, December 2007 to November 2010
(seasonally adjusted)



Source: *US Bureau of Labor Statistics, CES.*

FIGURE 3.3

Unemployment Rates, U.S. and West Virginia, 2007 - 2009
(seasonally adjusted)



Source: *US Bureau of Labor Statistics, Current Population Survey (CPS)*

Construction has also been hit hard by the recession, losing 12.3 percent of its workforce since December 2007. Today, the state employs 33,600 construction workers, down from 38,000 when the recession began[25] (see Figure 3.3). However, West Virginia's construction industry has not been hit as hard as in other states. Because West Virginia's population growth was small relative to national figures, only the state's fast-growing Eastern Panhandle region experienced the housing construction boom and subsequent bust. Nationally, approximately one-quarter of the country's construction jobs have disappeared.

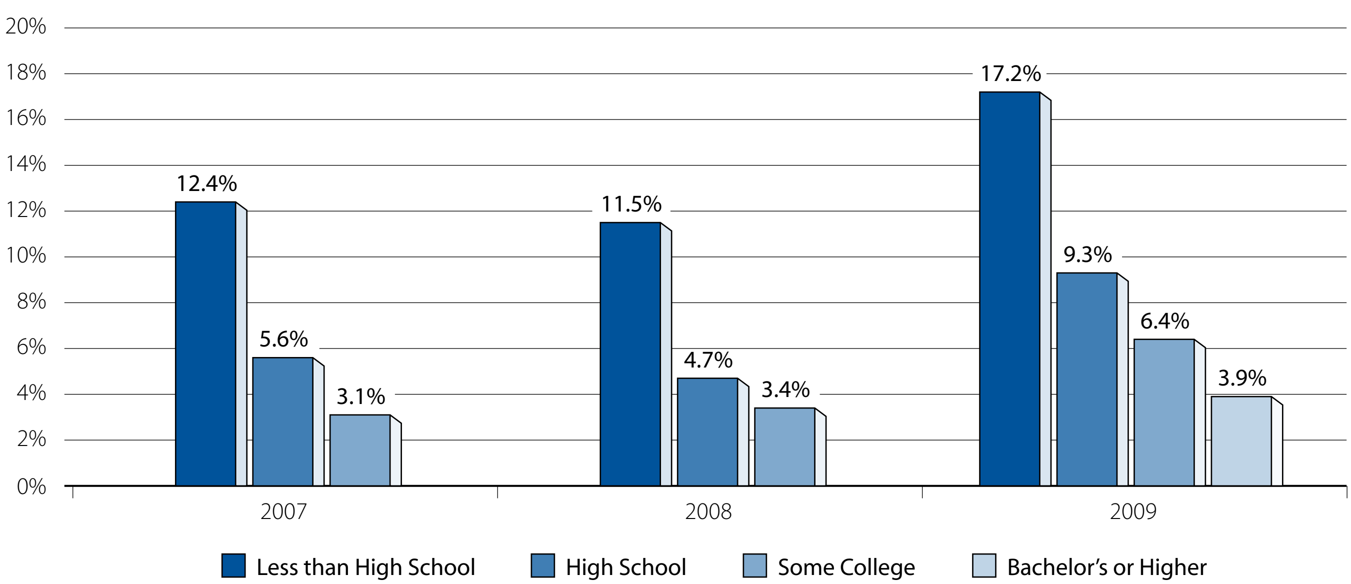
Unemployment Numbers Confirm Labor Market's Deep Decline

The state's number of unemployed workers has more than doubled over the last three years from 33,000 to 73,000. The state's unemployment rate has grown from 4.0 percent to 9.3 percent over the course of the recession. This is slightly below the national rate of 9.8 percent[26] (see Figure 3.4).

The percent of the workforce unemployed also varies by education as Figure 3.5 shows. In 2009, the unemployment rate for workers without a high school diploma was 17.2 percent, compared to 9.3 percent for those who graduated high school. Only about 6.4 percent of workers with some college experience were unemployed. Workers with a college degree had an unemployment rate of 3.9 percent.

FIGURE 3.4

West Virginia Unemployment by Education, 2007 to 2009
(seasonally adjusted)

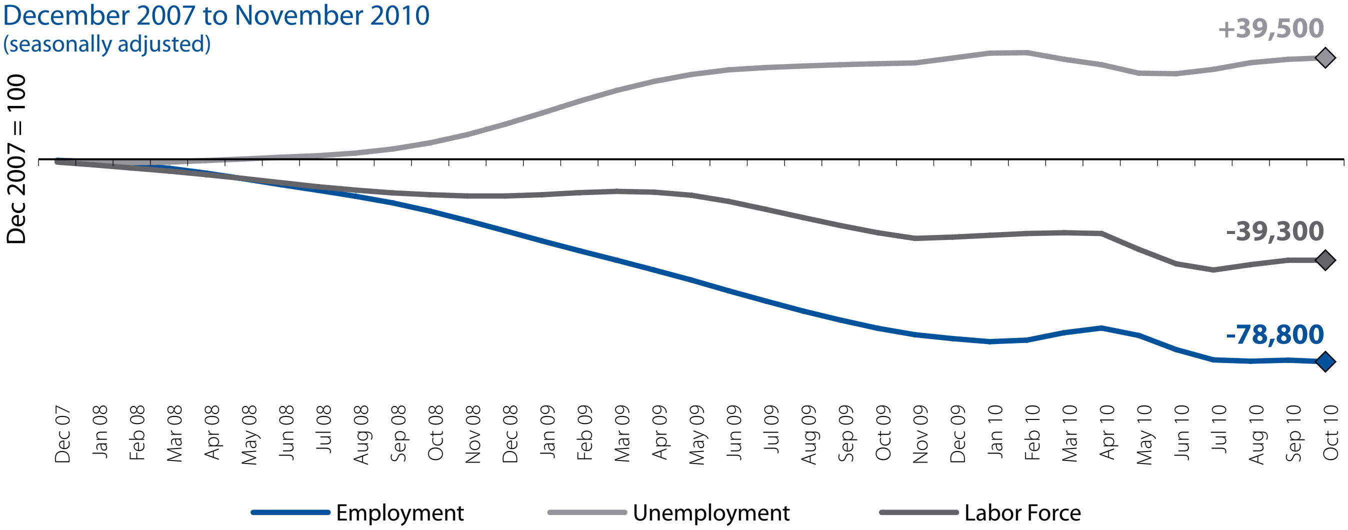


Source: *EPI analysis of CPS data.*

Note: *CPS data for the unemployment rates of those with a bachelor's degree or higher in 2007 and 2008 did not meet the sample size required.*

FIGURE 3.5

Change in West Virginia Labor Force, December 2007 to November 2010
(seasonally adjusted)



Source: *US Bureau of Labor Statistics, Local Area Unemployment Statistics (LAUS)*

Although West Virginia shows signs of rebounding from the recession, the number of workers in the state with a job is at a 16-year low. Currently, there are about 705,000 state residents holding jobs. At the beginning of the recession, about 79,000 more West Virginians were employed. Viewed with historic perspective, the number of workers employed in West Virginia today is nearly the same as it was in 1979.[27]

Over the last three years, the state's labor force – defined as the sum of those who are employed and those unemployed residents regularly looking for work – has shrunk dramatically, losing almost 40,000 workers. This is the smallest number of workers in the labor force since 1993. While many workers may have dropped out of the labor force to acquire more education or training or seek work in another state, some may have simply given up looking for work. As Figure 3.6 shows, both the labor force and employment numbers dropped even after the state's economy appeared to join the national recovery in spring 2010.

Underemployment on the Rise

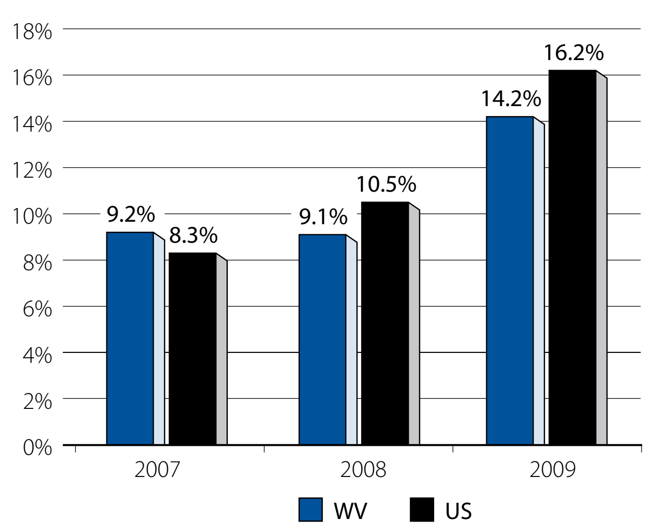
In addition to overlooking workers who have left the labor market, the unemployment rate also fails to include those who are working part-time, but want to work full-time, and "marginally attached" workers who are available for a job, but have given up looking for work. The "underemployment rate" captures these workers and includes the unemployed.

Figure 3.7 shows that the state's underemployment rate has grown drastically in just one year. West Virginia's underemployment rate in 2009 was 14.2 percent, up from 9.1 percent in 2008. The national underemployment rate in 2009 stood at 16.2 percent.

To get a clearer picture of how unemployment, underemployment, and the workforce exodus experienced in this recession and recovery have affected the well-being of West Virginia families, we next turn our attention to wages and income.

FIGURE 3.6

Underemployment, West Virginia and U.S., 2007 to 2009
(seasonally adjusted)



Source: *EPI analysis of CPS data*

CHAPTER FOUR

Wages, Income, and Hours Worked

Although wages improved over the last year, the recession has reduced incomes for middle-class families in West Virginia. Compounding this problem is the growing wage deficit which has reduced the buying power of most West Virginian workers. At the same time, poverty-wage jobs make up almost one-third of the jobs in the Mountain State.

Median Income Falling

Median household income represents the income of the typical household – or the household in the middle of the income distribution – and serves as a good gauge for how the middle class is faring economically. From 2000 to 2008, West Virginia's median household income increased by 11 percent. However, the most recent recession has reduced the income of middle-class households in the state.

In 2009, West Virginia's median household income stood at $47,659, dropping $1,200 from the previous year (after adjusting for inflation). This was the second lowest median household income in the nation, behind Mississippi. As shown in Figure 4.1, the national median household income exceeded West Virginia's by roughly $13,500 or 22 percent in 2009.

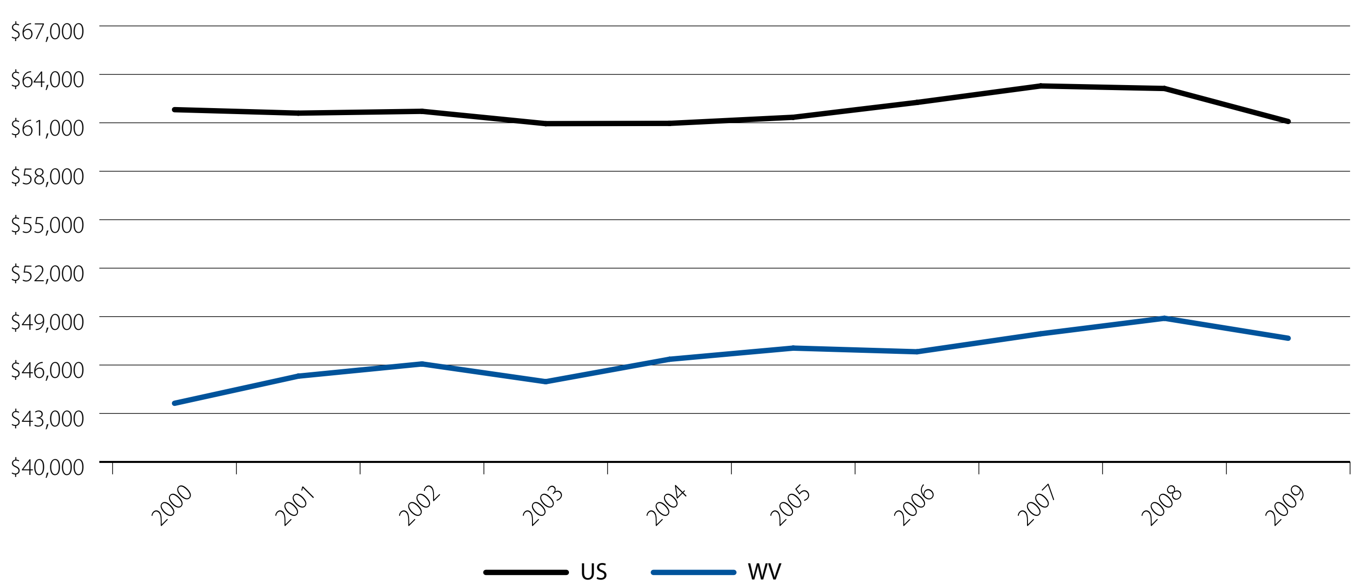
West Virginia's median household income has not fallen as much as the national average. This is largely due to West Virginia's heavy reliance on natural resource production and federal government transfers for its income and employment. Thus, between 2007 and 2009, the median household income in the Mountain State fell less than 1 percent while nationally it fell by 3.6 percent.

Middle Class Growing Apart

While it did not fare as poorly as its national counterparts during the recession, the economic well-being of West Virginia's middle class is in decline. In spite of increases in educational attainment and productivity advancements over the last 30 years, middle-class families are experiencing sluggish income growth. In the past several decades much of the state's growth has gone to those at the top of the income distribution.

FIGURE 4.1

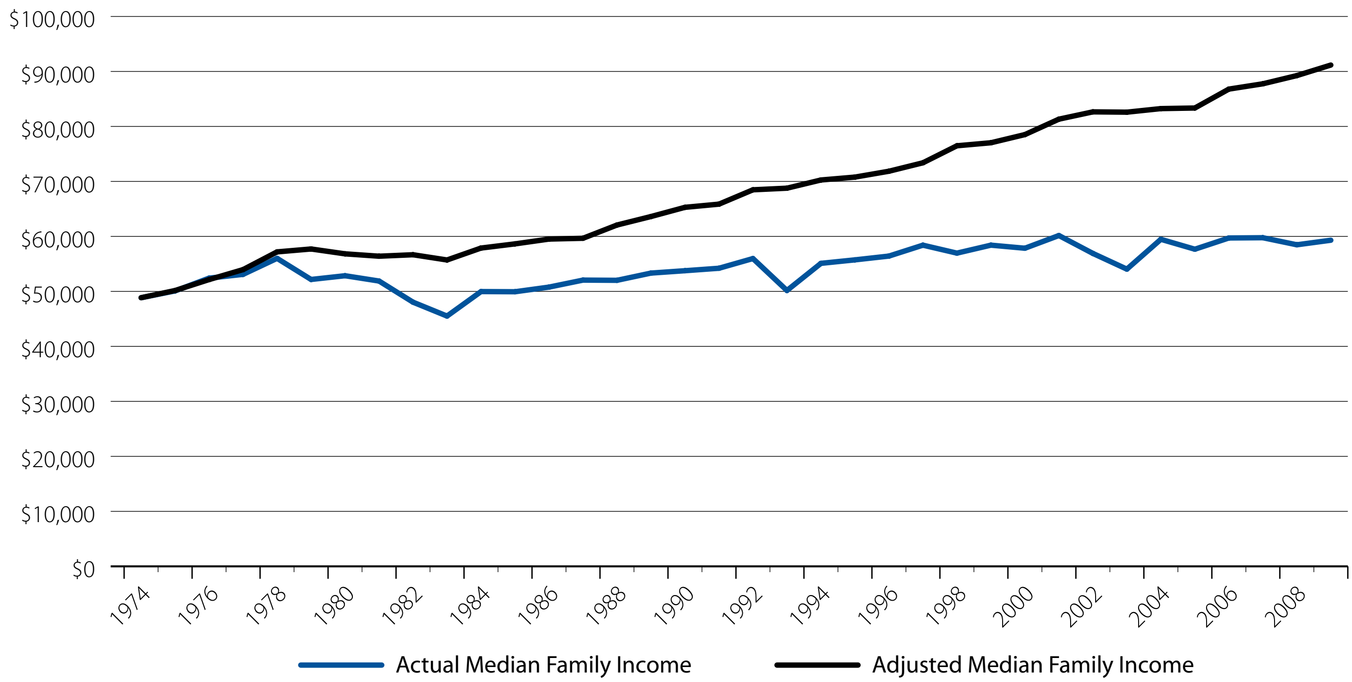
Median Household Income, West Virginia and U.S., 2000-2009
(2009 dollars)



Source: *US Census Bureau, American Community Survey (ACS)*

FIGURE 4.2

West Virginia Per Capita Income Growth Rate Since 1974 Applied to Median Family Income, 1974-2009



Source: *WVCBP analysis of US Bureau of Economic Analysis and US Census data.*
Note: *The data is indexed to 1974.*

Figure 4.2 tells the story. Between 1974 and 1978, per capita (average income per person) and median (middle of the distribution) incomes grew at roughly the same rate. However, between 1979 and 2009 — West Virginia's per capita income grew by 57 percent compared to just 14 percent for the typical four-person family. Overall, per capita incomes have grown by 86 percent since 1974, while median family incomes have only grown by 21 percent. This wide divergence in the per capita figure and median family income figure occurs because incomes at the upper end of the distribution have grown much more quickly than those in the middle and lower reaches. If median family income rose at the same pace as per capita income over this time period (1974-2009), the median family income in West Virginia would have been $91,000 instead of $59,000.

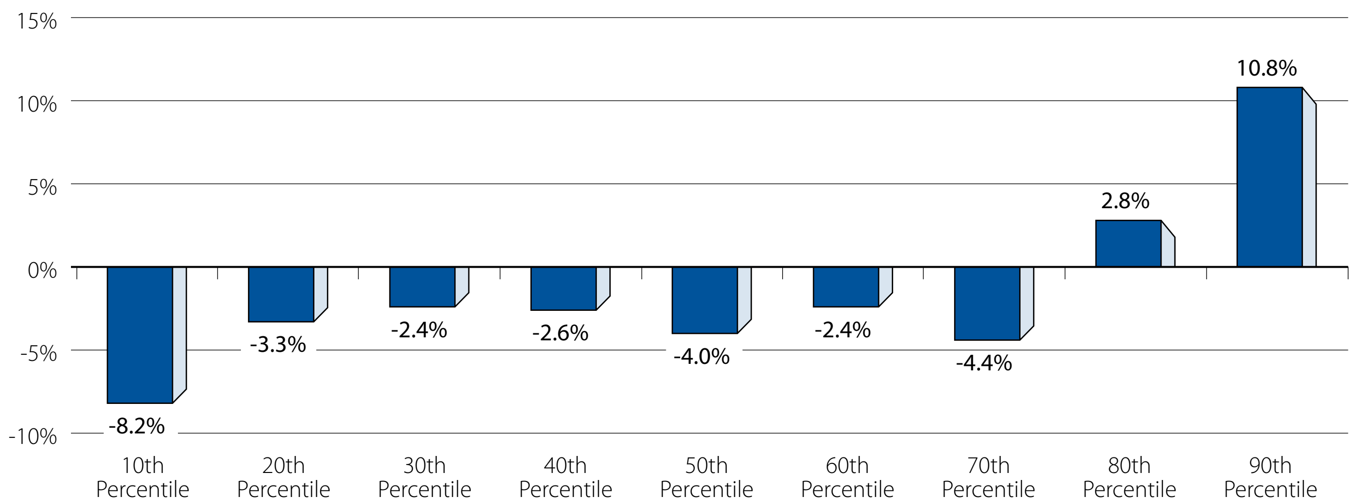
The Wage Deficit Grows

It is not just West Virginia's middle-tier workers who have experienced weak wage growth over the last 30 years. As shown in Figure 4.3, this trend holds for virtually every group of the wage distribution. The lowest wage earners — those earning $7.46 per hour — have seen a decline of 8.2 percent in their hourly wages since 1979. In fact, only the top wage earners — those in the 80th and 90th percentile — have seen any gain in real wages over the last 30 years.

The decline of real wages across most of the distribution has led to a growing wage deficit that has hampered job creation and economic growth in the Mountain State. One way to estimate the wage deficit is to examine how much workers would earn if the distribution of wages were the same today as in 1979. If the change in average wages since 1979 is applied equally to all deciles rather than concentrated at the top, the median worker in West Virginia would have earned an additional $1,379 in 2009. For a middle-class family with two full-time median wage earners, this totals $2,740 per year. The resulting average wage levels in this scenario, recorded in Figure 4.4, are dramatically different from those in the previous figure.

FIGURE 4.3

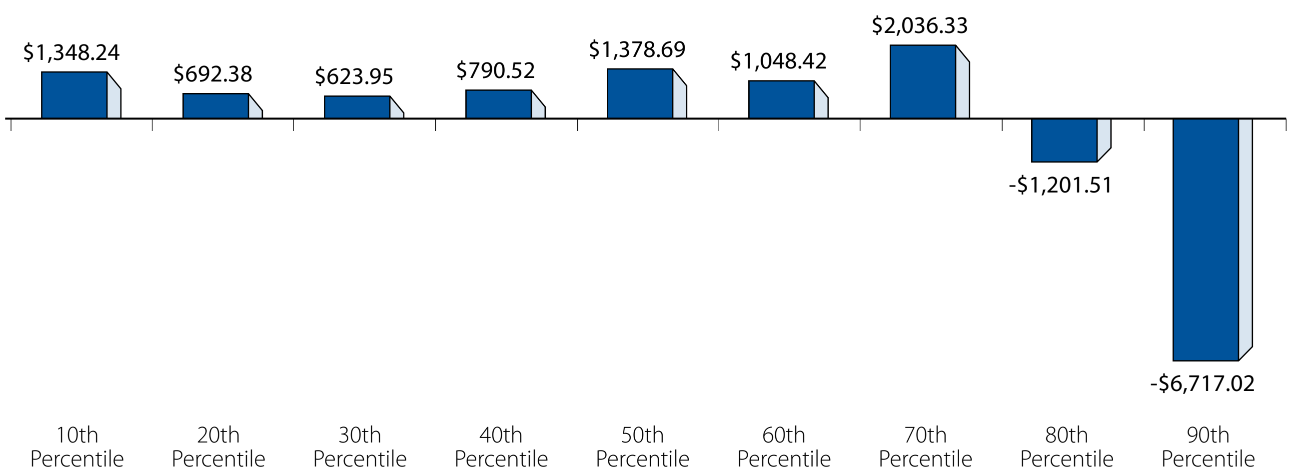
West Virginia Wage Growth by Distribution, 1979-2009



Source: *WV CBP analysis of EPI presentation of CPS data*

FIGURE 4.4

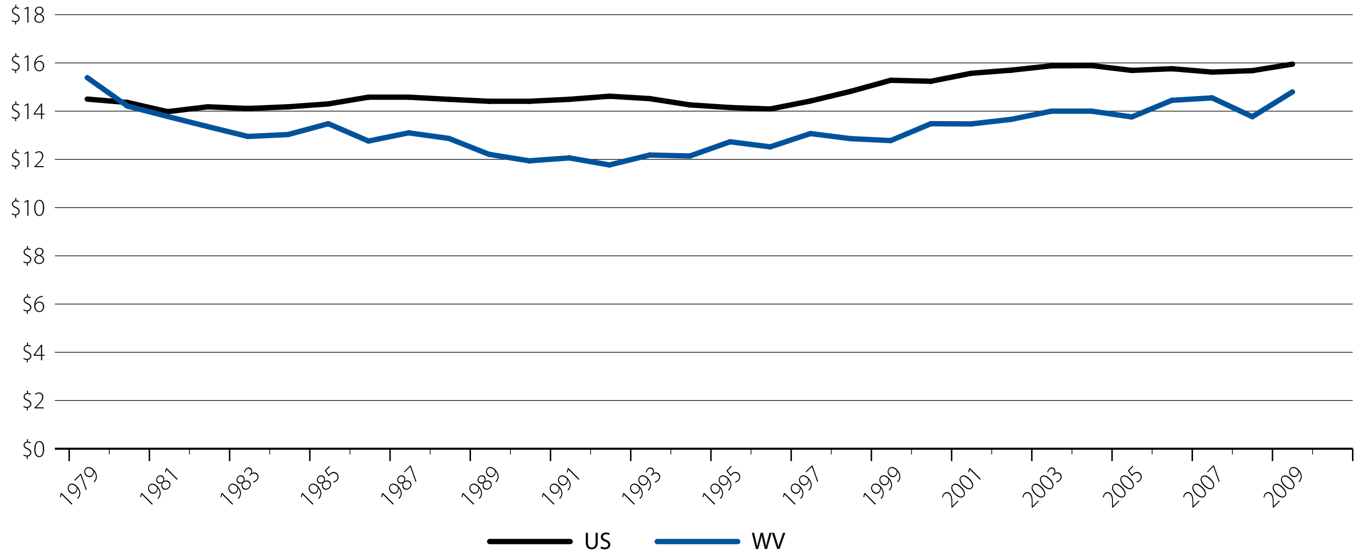
Real Wages with Average Growth Across All Percentiles, 1979-2009



Source: *EPI analysis of CPS data and WV CBP analysis of Bureau of Economic Analysis*

FIGURE 4.5

Median Hourly Wages, West Virginia and U.S., 1979-2009
(2009 dollars)



Source: *EPI analysis of CPS data*

"Sticky Wages" Persist

Unlike median household income, median hourly wages – the hourly wage earned by the worker in the 50th percentile of the wage distribution – have increased since the recession began in 2007. It may seem bewildering that wages are growing at the same time income is falling. But, in addition to wages, income takes into account salaries, rents, interest, dividends, and transfer payments, and fluctuates with the number of hours worked by non-salaried employees. Typically during recessions, transfer payments, such as unemployment insurance payments, tend to increase overall income. Worker lay-offs and the loss in wages and salaries contribute to its decline. In West Virginia, the latter has had a larger influence in the recession. However, wages are "sticky," or resistant to cuts in recessions, because employers tend to lay off employees instead of cutting wages, which can reduce worker morale and lead to less productivity.[28] Thus, the hourly workers who retained their jobs were not necessarily subject to hourly pay cuts.

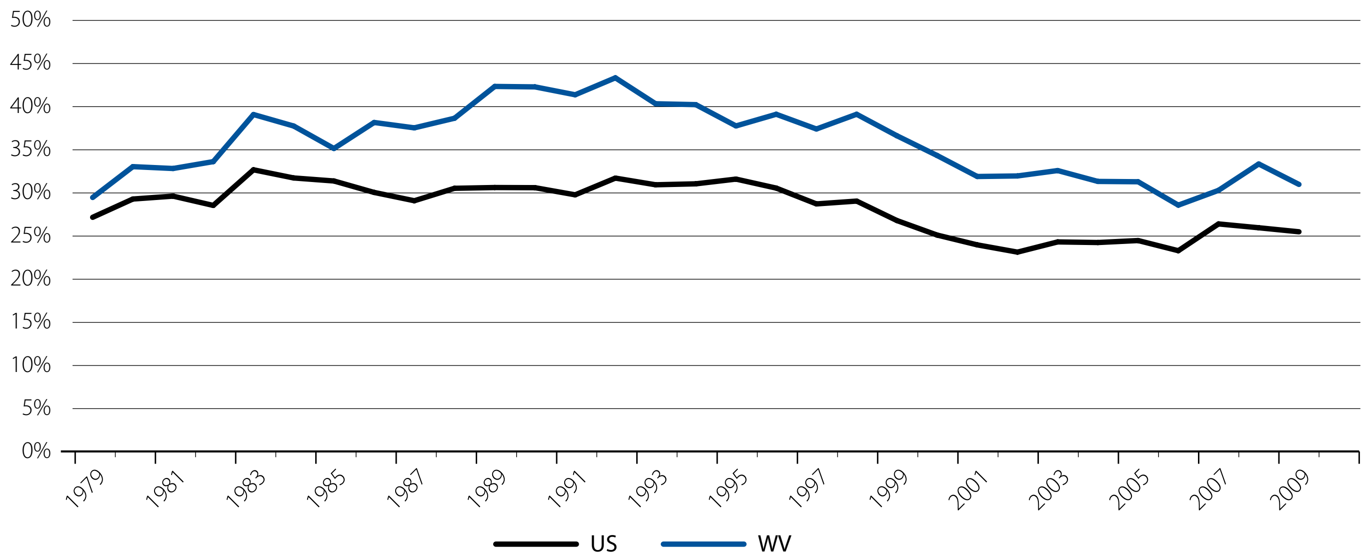
Figure 4.5 shows median hourly wages for West Virginia and the United States from 1979 through 2009 (expressed in 2009 dollars). In 1979, West Virginia's median worker made $15.39 per hour or almost a dollar more than the national median. The 1980s — an especially dismal decade for West Virginia's workers — brought substantial real and relative wage decline, leaving West Virginia workers with an hourly wage more than $2.00 under U.S. wages by the decade's end. In 2009, the typical West Virginia worker earned $14.80 per hour or $1.15 less than the national median. Interestingly, this represents relatively good news for the state over the long term. In spite of this deep decline in median wages over the last 30 years, West Virginia's median hourly wages are gradually moving closer to the national median.

Poverty-Wage Jobs Continue

One reason West Virginia workers continue to have median household income and personal income per capita far below the rest of the country is due to the state's share of jobs paying poverty level wages.[29] In 2009, almost one in three workers earned wages that were below what is required for a worker to keep a family of four out of poverty (see Figure 4.6). For full-time workers, this meant earning $10.55 or less per hour. Nationally, about one in four workers were in poverty-wage jobs.[30]

FIGURE 4.6

Share of West Virginia Workers Earning Below a Poverty Wage, 1979-2009
(2009 dollars)



Source: *EPI analysis of CPS data*

Although the number employed in poverty-wage jobs is far below its peak of 44 percent in 1994, the share of poverty-wage jobs has not dropped below 30 percent in over 30 years. Because workers were more productive in 2009 than in 1979, one might expect a declining number of poverty wage jobs over this time period. Unfortunately, the state has witnessed a stubborn persistence in the share of jobs offering such low wages.

The weak and unequal growth in wages over the last three decades has left the majority of West Virginia's workers feeling squeezed and financially insecure. It has reduced their buying power and has made it difficult for consumer spending to generate significant economic activity. Most importantly, however, it has contributed to rising income inequality that is shrinking the middle class in West Virginia. The currently bleak jobs picture will add to this insecurity, diminishing the ability of workers to move up the economic ladder or bargain for higher wages and better working conditions.

CHAPTER FIVE

Policy Recommendations

While the Great Recession has officially ended, its impacts have not. West Virginia workers once again find themselves facing lingering unemployment and economic hardship amidst a jobless recovery. Fortunately, policymakers in the Mountain State have a number of opportunities to implement measures that can alleviate the suffering immediately, and in the mid-to long-term.

Alleviate Hardship with Immediate Action

Immediate policy opportunities include:

- **Modernizing the state's unemployment insurance system**
  The Recovery Act provided additional funding to states that choose to modernize their workforce. West Virginia is eligible for $22 million in federal funding if it extends eligibility to part-time workers and to those who have lost work due to domestic violence or other compelling family circumstances. This federal funding is sufficient to cover the changes for three to five years. By the fall of 2010, 33 states had taken full advantage of this opportunity. West Virginia has until August 2011 to take this step.

- **Implementing health care reform**
  The passage of the federal Patient Protection and Affordable Care Act of 2010, better known as health care reform, potentially opens the way for covering nearly 250,000 uninsured West Virginians by the time the bill is fully implemented in 2014. West Virginia is developing its health insurance exchange, which will assist individuals and small businesses in finding appropriate health coverage. Successful implementation will require strong consumer representation on the exchange's governing board and a major education and outreach effort to help state residents take advantage of expanded opportunities for health coverage. With good governance and communication about reform, West Virginia's workers will experience better access to health care as the availability and cost of insurance coverage improve.

- **Building on Recovery Act initiatives**
  The Recovery Act provided West Virginia with over $126 million in grant funding to expand broadband access to underserved areas throughout the state. This technological infrastructure is vital for expanding economic development, education and personal opportunities. West Virginia should extend the activity of its Broadband Deployment Council to guarantee the expansion and affordability of high-speed Internet statewide. The council is set to expire at the end of 2011.

  In addition, community agencies which have benefited from Recovery Act funding to expand weatherization will face sharp cuts in 2012 unless state funds help ease the impact. Weatherization provides a triple benefit in terms of creating jobs and job training opportunities, reducing energy costs for low-income families and conserving energy resources.

- **Creating a state earned income tax credit**
  Twenty-three states and the District of Columbia offer a tax credit for families with low and moderate incomes that mirrors the federal Earned Income Tax Credit. In 2006, West Virginia created a State Family Tax Credit which reduced income taxes paid by families living in poverty. The state could build on this effort by providing a state earned income tax credit set at an agreed upon percentage of the federal credit. Such a step would benefit over 130,000 West Virginia households, including nearly one-in-three children.

- **Adopting creative programs to promote employment**
  Other states have developed jobs programs which provide wage subsidies for employers who hire unemployed workers referred by local workforce agencies into newly created positions. Minnesota successfully used such a program in the 1980s, and there have been recent efforts to revive it there and at the national level. Studies have shown that if disadvantaged workers with little education or obsolete job skills can be hired for entry level jobs and stay employed for six months, they gain valuable labor market experience and a better reputation with employers, which increases their long-term employability and earnings.

- **Addressing racial disparities**
  West Virginia's minority population, particularly African-Americans, continues to face higher rates of poverty, unemployment and lower incomes than white residents. In addition, they experience major health disparities in terms of such key markers as infant mortality and life expectancy. To address these and related issues, West Virginia could create an Office of Minority Affairs. By monitoring economic and health impacts on minorities, developing policies to address these conditions, and seeking federal, state, and private funding to implement them, the Office could make significant improvements in the lives of West Virginia's minority workers and their families.

Long-Run Measures Can Insure a Healthy Economy in the Future

Finally, the long-term economic well-being of West Virginia will depend in large measure on how it responds to changes in its energy-producing and extraction industries. As we face the Marcellus Shale gas boom, as well as projected declines in coal production, careful consideration should be given to severance taxes, regulation, and protections for the health and well-being of those impacted by these industries.

Particular consideration should be given to the creation of a diversification fund to promote economic alternatives when the state's traditional extractive industries decline. States including Alaska, Colorado, Montana, New Mexico, North Dakota and Wyoming have established these funds with dollars from mineral severance tax collections and/or leases and royalties paid on the use of state lands. Earnings from the funds' investments are used to convert depleting natural resources into a source of sustainable wealth and to serve their residents' current needs. Steps taken now to establish such a fund will yield an interest-earning account in the long run capable of helping to diversifying the economy in ways that promote gainful employment for all West Virginians.

A century ago, in her account of her experiences in the tenement neighborhoods of Chicago, *Twenty Years at Hull House*, social activist Jane Addams asserted: "...of all the aspects of social misery nothing is so heartbreaking as unemployment."[31] The same is true today. As economists report encouraging signs of recovering industrial production levels, corporate profits, and low inflation, the stubbornly high unemployment rates across the country remain the nation's greatest challenge. Because the long-term consequences of failing to put residents back to work impact future generations' educational attainment, health, and ability to function as productive workers, West Virginia must use these or other policy initiatives to insure economic stability in the Mountain State in this decade and beyond.

Endnotes

1 Alan S. Blinder and Mark Zandi, "How the Great Recession Was Brought to an End," p.1, July 27, 2010, http://www.economy.com/mark-zandi/documents/End-of-Great-Recession.pdf)

2 Irons, John, "Economic scarring: The long-term impacts of the recession," EPI Briefing Paper #243, September 30, 2009, http://www.epi.org/publications/entry/bp243/

3 http://www.recovery.gov/About/Pages/The_Act.aspx.

4 Sean O'Leary and Ted Boettner, How Federal Action Saved West Virginia Jobs, p. 1. http://wvpolicy.org/downloads/Fed_Action_Saves_WV_Jobs%20101510.pdf

5 Michael Leachman, Center on Budget and Policy Priorities, Combined tables for handbook Sept. 2010 update.xlsx

6 Paul Miller, "Unemployment Insurance: $22 Million at Stake for West Virginia," February 16, 2010, WV Center for Budget and Policy, http://www.wvpolicy.org/downloads/UI_Modernization_Policy_Brief022010.pdf

7 http://www.ers.usda.gov/Publications/ERR108/ERR108.pdf

8 Author's analysis of 2005 – 2009 ACS 5 year estimates, (131,000 households times .51 percent = 67,000 households), http://factfinder.census.gov/servlet/DTTable?_bm=y&-context=dt&-ds_name=ACS_2009_5YR_G00_&-CONTEXT=dt&-mt_name=ACS_2009_5YR_G2000_B17017&-tree_id=5309&-currentselections=ACS_2009_5YR_G2000_B17017&-geo_id=04000US54&-search_results=01000US&-format=&-_lang=en&-SubjectID=18552203

9 Michael Leachman, op. cit.

10 Dan Hartwell, Program Manager II, WV Department of Health and Human Resources, personal correspondence with Elizabeth Paulhus, WV Center for Budget and Policy analyst, Sept. 10, 2010.

11 Michael Leachman, op. cit.

12 700,000 West Virginia Working Families to Benefit from Making Work Pay Tax Credit, http://www.recovery.wv.gov/news/Pages/700000WestVirginiaWorkingFamiliesToBenefitFromMakingWorkPayTaxCredit.aspx.

13 U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Accounts, State Personal Income 2009. http://www.bea.gov/newsreleases/regional/spi/2010/spi0310.htm.

14 Ted Boettner and Paul Miller, "The Governor's Amended FY 2010 and FY 2011 Budgets: Implications and Priorities," WV Center on Budget and Policy, February 2011, p.5.

15 See recovery.wv.gov, http://www.recovery.wv.gov/Pages/CategoryView.aspx?category=education, and U.S. Department of Health and Human Services, http://www.hhs.gov/recovery/statefundsmap.html

16 The American Recovery and Reinvestment Act of 2009, PL 111-5, Part A of Title IV, 42 U.S.C. 6861 et seq., Energy Conservation & Production Act, enacted February 17, 2009.

17 Lyn Bartges, WV Governor's Office of Economic Opportunity, personal correspondence with Paul Miller, WV Center for Budget and Policy Analyst, January 3, 2011.

18 US Census Bureau, Current Population Survey, Annual Social and Economic Supplement, 2009

19 U.S. Department of Energy, Weatherization Assistance Program - The American Recovery and Reinvestment Act of 2009, http://www1.eere.energy.gov/wip/pdfs/wx_recovery_fact_sheet.pdf.

20 http://www.oecd.org/document/54/0,3343,en_2649_34225_38690102_1_1_1_37441,00.html

21 "Update: Recovery Broadband Funds 100 Percent Awarded, October 27, 2010, http://www.recovery.gov/News/featured/Pages/Broadband.aspx.

22 WV Commerce Department Broadband Infrastructure Application grant, page 30.

23 Analysis of Work Force West Virginia, Labor Market Information, Employment and Wages 2009, http://www.workforcewv.org/lmi/EW2009/ew09x000.htm

24 Analysis of U.S. Bureau of Labor statistics, Economy at a Glance, http://www.bls.gov/eag/eag.wv.htm.

25 Ibid.

26 Ibid.

27 Ibid.

28 James Surowiecki, "Nice Work If You Can Get It," The New Yorker, March 2, 2009. Also see Truman Bewley, "Why Wages Don't Fall During a Recession," Harvard University Press, 1999; and Carl Campbell and Kunal Kamlani, "The Reasons for Wage Rigidity: Evidence from a Survey of Firms," Quarterly Journal of Economics, Vol. 112, August 1997, pp. 759-789.

29 In 2008, West Virginia ranked 49th in median family income and personal income per capita. See the 2011 Statistical Abstract: State Rankings, http://www.census.gov/compendia/statab/rankings.html

30 [30] Economic Policy Institute, State of Working XX 2010 – Miscellaneous, http://www.earncentral.org/members/StateofWorkingXX/index.php. The poverty wage of $10.55 was calculated by using poverty threshold for family of four in 2009 ($21,947), divided by (52 weeks * 40 hours/week).

31 Addams, Jane, Twenty Years at Hull House, New York: The MacMillan Company, 1912.

west virginia
Center on
Budget & Policy

Our Mission

- Research and analyze tax and budget issues for fairness and adequacy and to examine overall budget priorities.
- Educate policymakers on the effects of budget and tax policies and economic trends.
- Inform public debate and ensure that complex tax and budget issues are accessible to a varied audience of state and local officials, journalists, nonprofits, other interested parties, as well as the general public.
- Make research available to state and community-based groups and organizations and work to assure that they are consulted in the process of setting priorities for research and analysis.

Find this and other reports online at
www.wvpolicy.org

West Virginia Center on Budget and Policy
723 Kanawha Blvd., Suite 300
Charleston, WV 25301
Tel 304-720-8682 • Fax 304-720-9696