The First in a Series of White Papers on the American Economy in a New Era of Globalization

A Lost Decade for Everyday Americans

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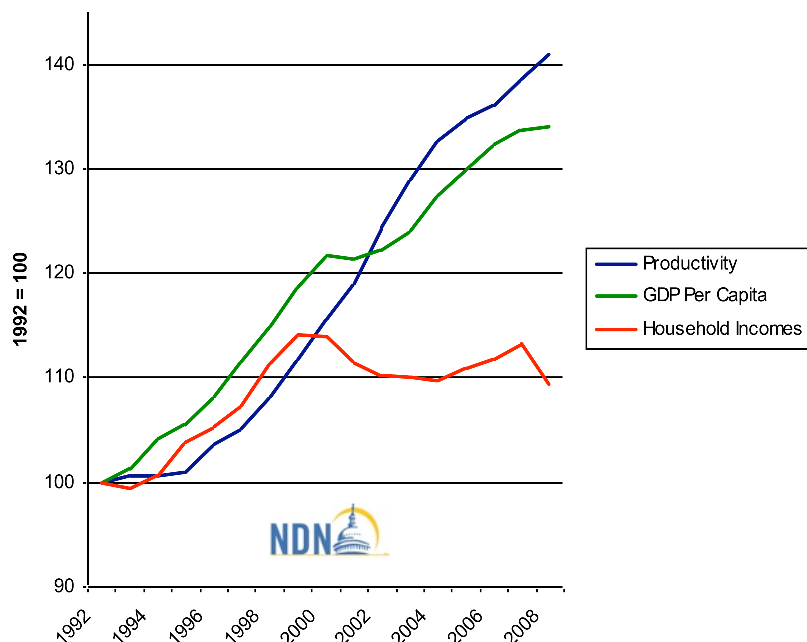
By Jake Berliner

To ensure the success of the economic strategy the government adopts next year, it is imperative that the plan accounts for and explains the underlying economic weakness that affected everyday Americans in the years prior to the Great Recession. As this paper illustrates, this past decade in America has been a lost decade for ordinary Americans.

Marked by stagnating wages, declining median household income, rising living costs, abnormally slow job creation, and then capped by the destruction of many trillions of dollars in personal wealth held in housing and stocks, the decade has left most everyday Americans worse off than they were ten years ago. Too little of our national dialogue has focused on the intense struggle of everyday people prior to the recession, yet understanding that struggle is critical to formulating an adequate response to this great economic challenge.

Wages Stagnate and Household Incomes Decline

At the center of this lost decade lies the fact that average wages stagnated and median household incomes declined by over $2000 during the Bush presidency. As the graph to the right illustrates, both the Clinton and Bush presidencies saw strong gains in per capita GDP and productivity. Yet while the Clinton presidency also saw strong income growth, households during the Bush presidency saw their incomes go down.



Both per capita GDP and productivity historically have been reliable indicators of prosperity. In the kind of free labor markets we enjoy, productivity increases – the ability of a given worker to produce more, per hour – are supposed to lead to higher wages; and GDP growth is supposed to yield more job creation and prosperity that translates into higher living standards. In the Bush era, however, this did not happen, and the stagnation of wages in a time of surging productivity meant that workers were failing to get ahead, even as they produced more.

Year	1999	2000	2001	2002	2003
Median Household Income (2008$)	52,587	52,500	51,356	50,756	50,711
Year	2004	2005	2006	2007	2008
Median Household Income (2008$)	50,535	51,093	51,473	52,163	50,303

Rising Costs Pinch Households

As household incomes fell, rising costs further pinched many Americans' ability to improve – or even maintain – their standards of living, contributing to the lost decade. Health care premiums and out-of-pocket costs both more than doubled, college tuition costs increased rapidly, and energy costs shot up, with retail gasoline prices doubling.

Housing Collapse Fueled Financial Meltdown Eliminates Gains

Amid these difficult economic pressures, millions of Americans found themselves able to meet these rising costs and maintain their standards of living only by drawing on the value of their largest and fastest-appreciating asset, their homes, through home equity lines and mortgage refinancings. These tactics turned against many when home values began to fall, mortgage payments rose with interest rates, and hours worked were cut back. The foreclosure crisis – and the financial meltdown it helped fuel – further reduced home values, while also driving down the value of the other assets, investments and pensions, upon which many American households also rely.

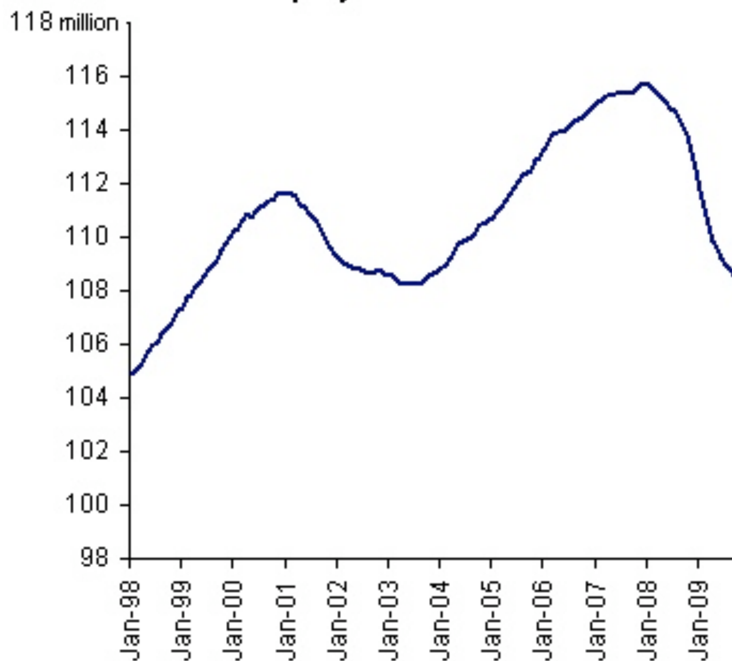
In the end, virtually all of the gains that most Americans had seen in the preceding decade were wiped out, leaving debt in the form of second and third mortgages and credit card bills. The IMF estimates that $3.4 trillion in wealth disappeared in the financial meltdown alone, Bloomberg reports that homeowners lost $5.9 trillion in value since the housing market peaked in 2006, and economic columnist Michael Mandel has pointed out that the initial dip in the S&P 500 (now partially recovered) during the financial crisis was comparable to the stock market decline during the Great Depression.

Diminished Wage Growth and Job Creation Ability

One of the critical roots of these economic problems is the fact that the once-vaunted American job-creation machine has slowed dramatically. While employment is generally seen as a lagging

economic indicator, the job creation problems of the last decade are not the result of a standard lag. Rather, Okun's Law – which tracks the correlation between GDP growth and employment – doesn't work as it used to: While job creation relative to economic growth occurred in a consistent manner in every expansion from the 1960s through the 1990s, the job-creation rate fell by more than half in the 2002-2007 expansion.

On top of the stagnant wages and incomes of the past decade, the American economy has also seen a net loss in private sector jobs. According to a *Wall Street Journal* analysis of Labor Department statistics, in October of 2009, "private sector companies employed 108.401 million U.S. workers, a million fewer than in October 1999, when they employed 109.487 million. Not since the Labor Department began tracking payroll employment in 1939 has there been such a stretch with no net job gains." (See *Wall Street Journal* graph below.)



Furthermore, after the 2001 recession (the mildest downturn since WWII) it took twice as long to begin to generate net new jobs as in previous recoveries. And while productivity surged at that time, more productive workers cannot explain this longer than usual lag, since their wages did not increase either.

Where Economic and Employment Policy Goes from Here

Because the challenges of job creation and wage growth in our economy are structural, economic policy must focus directly on creating higher employment that carries high wages. Fortunately, many of the measures that can lead to higher wages and incomes will also tend to increase employment. But relying simply on GDP growth to produce these outcomes is no longer a tenable economic policy for America.

Policymakers should focus on containing the rising costs (outside of wages) facing American businesses, costs coming out of the wage increases that normally would follow from higher productivity, and raising the value of workers to business. Lowering the cost of employment can take the form of reducing payroll taxes and decreasing the cost of benefits by reigning in health

care and pension costs. Containing energy costs, due to their impact on both households and business, must also be a priority. Raising the value of workers requires increasing skills through education and training. Such reforms will make workers more competitive compared to their substitutes, including technology, and alleviate some of the structural forces creating downward pressure on jobs and wages.

Understanding the Virulence of the Recession: A Lost Decade, Not Just a Burst Bubble

While many economists and policymakers have been surprised by the virulence of this recession, understanding the weakened economic position of American workers long before the recession began helps explain why this downturn has been so damaging.

The declining incomes, stagnating wages, weak job creation, and rising prices resulted in an increase of more than 8 million Americans living below the poverty line in 2008, compared to when President Bush took office. By contrast, 8 million people were lifted out of poverty over the eight years of the Clinton presidency. Similarly, over 7 million more Americans were forced to go without health insurance in 2008 than in 1999.

Explaining our current economic problems as simply a financial meltdown caused by a burst housing bubble dangerously oversimplifies our true economic challenges. Not only did the recession begin in December 2007, before the financial crisis, but, more importantly, everyday Americans already were stuck in a lost decade before the downturn started. When the financial crisis struck and credit tightened, houses lost further value and jobs began to disappear quickly. American consumers – the drivers of global demand – were left paralyzed. The bursting housing bubble was a capstone – and not the defining feature – of that lost decade.

About the Author

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In his capacity of the Deputy Policy Director of NDN's Globalization Initiative, Jake Berliner manages NDN's work on economic and energy policy. Jake worked for Governor Bill Richardson for two election cycles, including his presidential campaign, and co-founded and directed the Energy Security Initiative, a program of the Tufts University Institute for Global Leadership.

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