

# UC Berkeley

## The State of California Labor, 2002

### Title

Recession and Reaction: The Impact of the Economic Downturn on California Labor

### Permalink

<https://escholarship.org/uc/item/79j2w7q0>

### Authors

Pastor, Manuel

Zabin, Carol

### Publication Date

2002-11-01

# Recession and Reaction

THE IMPACT OF THE ECONOMIC  
DOWNTURN ON CALIFORNIA LABOR

MANUEL PASTOR  
and CAROL ZABIN

THE TRAGIC EVENTS OF SEPTEMBER 11, 2001 DEALT THE CALIFORNIA economy a sharp blow. While the most pressing concern was, of course, the deaths in New York, Virginia, and Pennsylvania, the nation as a whole would soon feel the economic aftermath. With travelers' nerves on edge, air travel and tourism plummeted, hospitality workers were laid off, and an already slipping economy started to slide. California, with its important tourism and entertainment sectors, was hard-hit. But while September 11 and its effects dominated economic commentary at the time, the state had been edging into a recession well before the attacks, largely because of the collapse of the Silicon Valley "dot.com" bubble and its ripple effects on the rest of the California economy.<sup>1</sup>

Although the recession has affected business and labor alike, workers and their communities have had special reason to be concerned. The downturn followed a decade-long drift toward rising economic inequality, a disturbing trend that had been challenged only recently by the combination of a buoyant economy, a bolder labor movement, and new public policies of the late 1990s. Unfortunately, the slip-page in employment through 2001 removed one of the upward pressures on wages and the rapidity of the layoffs after 9/11 made clear the extent of restructuring in the California economy. An emerging bifurcated system of core and temporary employees had provided valued "economic flexibility" to employers in the upswing, but it also tended to shunt the burden of market volatility onto a vulnerable group of workers. Even as the economy has started to pull out of the depths of joblessness in summer 2002, the outlines of the current recession offer lessons about how the California labor market has changed—and what Californians will need to do if they are to restore the promise of equality and opportunity that have marked the state's unique version of the American Dream.

In this chapter we review the effects of the current recession and discuss prospects for the future. We begin with a brief description of long-run trends in the California economy that set the stage for the recession, with particular attention to changes in

1. We would like to thank Steven Pitts, Harold Toro, and Scott Littlehale for their important contributions to this chapter.

patterns of income distribution. We then explore the downturn itself, finding that the triggering factor was the dot.com crash and the slowdown in high-technology spending, not the aftershocks of September 11. We go on to analyze the impact of 9/11 on employment in the state, underscoring the profound effects on travel and tourism and the disproportionate effect on unionized jobs, as the hardest hit sectors have relatively high union density. We also briefly consider the likely impacts of the recession on income distribution, partly through the effects of revenue shortfalls in the state budget. Finally, we compare the current recession with the recession of the early 1990s, assessing the implications for the short- and long-term future of economic opportunity in California.

In considering the future, we suggest that the recession has affected not only the state budget but also the state's political calculus: In times of recession voters tighten their belts, and politicians lose interest in such social "luxuries" as a living wage, unionization of homecare workers, and expanded health insurance for low-wage workers. Efforts to secure such social goods, many of which took root at the peak of the 1990s boom, have become endangered—just when they had begun to reach significant numbers of workers. Improving the future for California's working families will require maintaining the momentum of labor and community-based movements to reduce inequality even as policymakers and others work to restore the long-term growth of the state's economy.

## **BUILDING ON THE BOOM: ECONOMIC TRENDS IN THE NINETIES**

After a sharp recession in the early 1990s, the California economy rebounded in the second half of the decade. The state's unemployment rate, which had risen dramatically above that in the rest of the nation, tapered back down toward the national level (see Figure 2.1). Employment growth was impressive, with nearly 2.7 million jobs added over the 1993–2001 period.<sup>2</sup> The strength of the boom convinced even long-time skeptics. In March 1998, after years of bemused condescension toward the "Left Coast," *The New Yorker* magazine published a two-part article, "The Comeback" (Cassidy 1998), teasing readers with the blurb "A few years ago, California's economy was a study in decline. Now it's the model of the future."

As Figure 2.2 shows, there were reasons for both the earlier pessimism and the later optimism. The national recession sparked the 1991–93 dip in California employment, but employment stagnation lingered in the state, partly because of sharp cuts in federal spending on defense and the aerospace industry. Still, the second half of the decade was surely a boom. It was California's high-tech firms that launched the

2. The data on unemployment and employment composition used in Figures 2.1, 2.2, and 2.3 are from the State of California Employment Development Department (EDD), Labor Market Information Division; see [www.edd.ca.gov](http://www.edd.ca.gov).

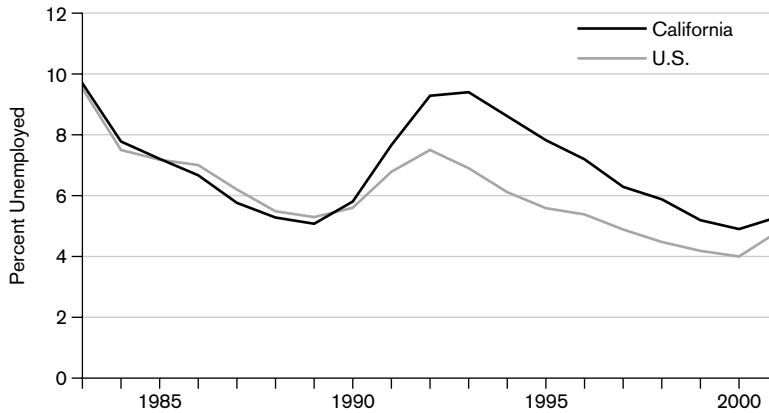


FIGURE 2.1 U.S. and California Unemployment Rates, 1983–2001

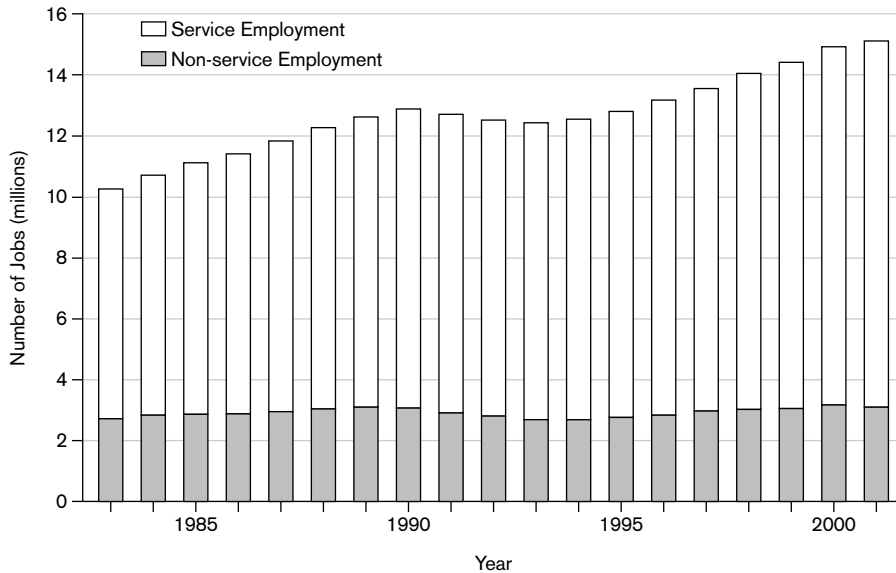


FIGURE 2.2 Overall Employment in California, Service Sector and All Other Sectors, 1983–2001

new Internet economy; labor shortages became the rule in many parts of the state; and housing prices surged to new highs, particularly in the rip-roaring Silicon Valley. As Figure 2.2 suggests, the real growth came in service industries—transportation, trade, finance, business services (which includes software and other computing services as well as personnel supply or temporary agencies), and government—as California moved into a new postindustrial economy.

Figure 2.3 provides a more detailed sectoral breakdown of employment growth. As it shows, while employment was rising in the other major sectors, manufactur-

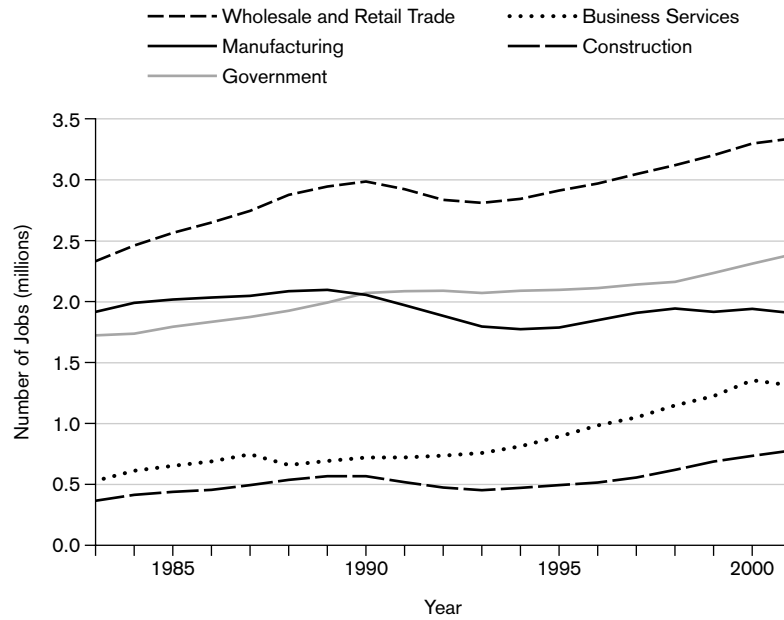


FIGURE 2.3 Sectoral Employment in California, 1983–2001

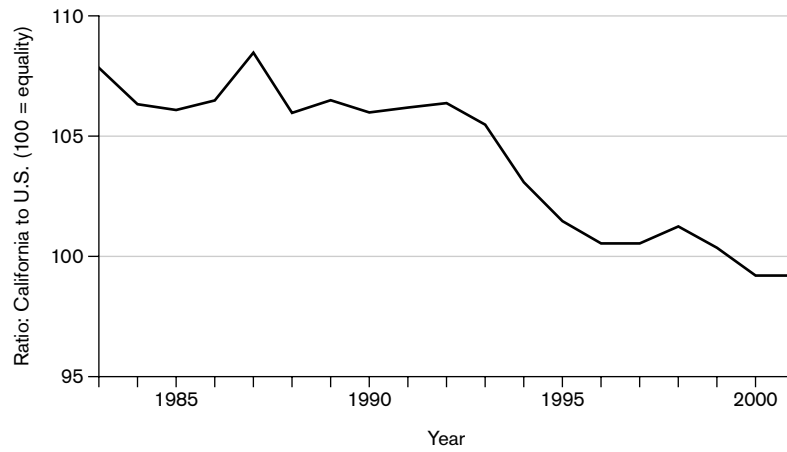


FIGURE 2.4 Ratio of the California Manufacturing Wage to the U.S. Manufacturing Wage, 1983–2001

ing employment fell during the early 1990s. Indeed, even after some recovery in the latter part of the decade, by 2000 employment in manufacturing was still below the 1991 level, and the recession that began in 2001 brought yet another absolute decline. Moreover, California was trading off higher wage manufacturing work for low-wage manufacturing. As shown in Figure 2.4, the ratio of the average hourly manufacturing wage in California to the average for the United States overall fell

sharply over the 1990s, and by 2000 the average in California had dropped below the U.S. average.<sup>3</sup>

Meanwhile, the service sector was growing dramatically, accounting for nearly 85 percent of job growth in the state over the 1993–2001 period and over 90 percent of net job growth from 1983 to 2001 (see Figure 2.2). But as Figure 2.3 shows, not all subsectors in services grew at the same rate. Government and wholesale and retail trade essentially followed the trend in total employment. The fastest increases came in business services (which, again, includes both software services and personnel supply), with employment growth of over 80 percent during the 1993–2000 period—far above the total employment increase of about 20 percent during that period. Nonetheless, even as total employment continued to rise in 2000–2001—albeit by an anemic 1.3 percent—business services led the way into the recession with a 3.2 percent decline in jobs.<sup>4</sup>

Low-wage jobs in the service sector have often accompanied high-tech growth, most notably in the case of personal services for the new technological elite: Software engineers working 16-hour days generate high demand for restaurants, dry cleaners, and childcare. But many other low-wage service jobs are also an integral part of producing high-tech goods and services. The proliferation of low-wage workers at call centers servicing Internet service providers, for example, is a direct outgrowth of the high-tech revolution. Moreover, low-wage work linked to high-tech sectors is not limited to service jobs. Although much of the manufacturing necessary to make high-tech equipment now takes place overseas, Silicon Valley and other parts of California are still home to numerous low-wage manufacturing and assembly facilities that need to be near the heart of the computer industry. Thus, despite the “new economy” mantra touting the rise of Internet pioneers and network engineers, part of the reality of the changing labor market has been an accompanying increase in low-end jobs.

Furthermore, the volatile markets of the new economy have led firms to rely more and more on temporary workers. Employment growth in California’s personnel supply industry—which for the most part comprises temporary agencies—rose 37 percent between 1997 and 2000, far outpacing the 10 percent rise in total employment over those years. As noted earlier, this sector proved itself a source of flexibility for employers during the subsequent downturn, posting a 7.2 percent decline in jobs in 2000–01.<sup>5</sup>

3. The data on California and U.S. wages are from the State of California (2001).

4. These data are from the California EDD; see [www.edd.ca.gov](http://www.edd.ca.gov).

5. These data are from EDD; see [www.edd.ca.gov](http://www.edd.ca.gov). In her analysis of the state’s temp sector Baru (2001) expressed surprise that temporary employment grew so dramatically during the recent boom, arguing that one would instead have expected it to rise in recessionary conditions, when workers lose the power to demand permanent jobs. Other observers have tried to explain the upward trend long into the boom portion of the business cycle by suggesting that companies were seeking to avoid wage pressure in the light of low unemployment (see Houseman, Kalleberg, and Erickcek 2001). In any case, the recession of 2001–02 has brought a rapid contraction in temporary employment. For more on the changing pattern of temporary employment at the national level—from countercyclical growth during the recessions of the 1980s and 1990s to a sharp cyclical downturn during the most recent recession—see Theodore and Peck (in press).

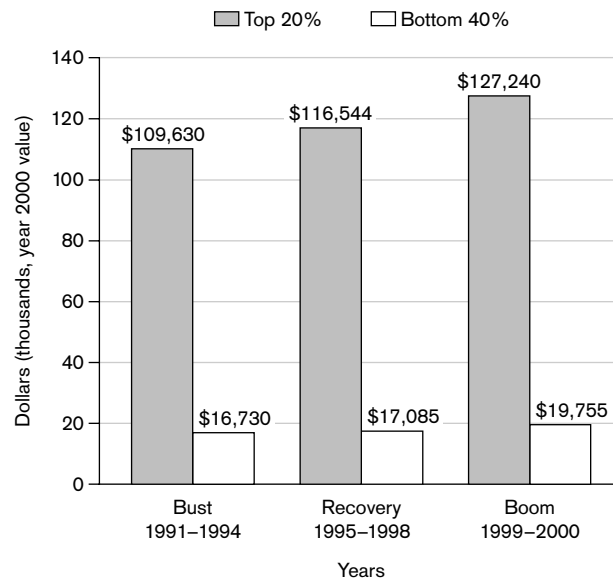


FIGURE 2.5 Changes in Median Household Income in California among the Top 20 Percent and Bottom 40 Percent; Bust, Recovery, and Boom Periods, 1991-2000

This new economic structure—with traditional manufacturing employment stagnant, higher technology sectors cycling high then low, and low-wage service sectors on a steady rise—has fundamentally reshaped patterns of economic inequality in the state.<sup>6</sup> Figures 2.5 and 2.6 show the changes in median income for the top 20 percent and the bottom 40 percent of California households during three recent periods: the 1991-94 recession, the 1995-98 recovery, and the 1999-2000 boom.<sup>7</sup> The upper 20 percent experienced steady and substantial gains over the entire decade. In contrast, the bottom 40 percent, after enjoying a meager \$355 increase in inflation-adjusted income (in 2000 dollars) over the first two periods, saw significant gains only at the end of the period, as the recovery turned to boom, labor markets tightened, and wages and employment rose.

Of course, part of the improvement in household income was simply due to rising employment and longer working hours. There is some evidence, though, that the wage distribution actually tightened as well. Figure 2.7 shows the increase in hourly wages at the 25th, 50th, and 75th percentiles of the wage distribution between 1998 and 2001.<sup>8</sup>

6. For other analyses of the growing inequality in California during this period, see Reed (1999), Galpern (1998), and Milkman and Dwyer (this volume).

7. This analysis is based on data from the March Supplement of the U.S. Current Population Survey (CPS).

8. The 2001 wage distribution for total employment shown in Figure 2.7 is slightly different from the official state figures in the Occupational Employment Statistics Survey (available at

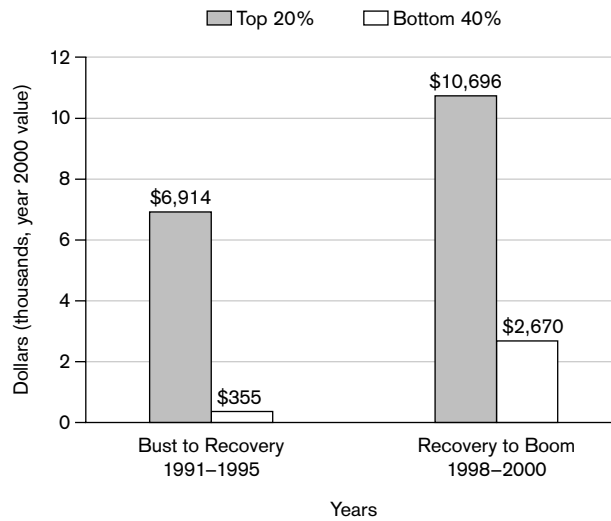


FIGURE 2.6 Changes in Median Household Income in California among the Top 20 Percent and Bottom 40 Percent, Bust to Recovery and Recovery to Boom, 1991-2000

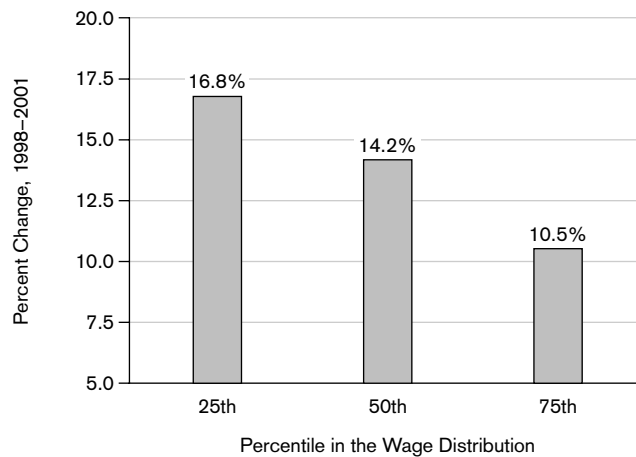


FIGURE 2.7 The Flattening of the California Wage Distribution during the Boom, 1998-2001

[http://www.calmis.ca.gov/htmlfile/subject/occup\\$.htm](http://www.calmis.ca.gov/htmlfile/subject/occup$.htm)). We calculated the estimates in the figure using employment weights—that is, by taking the quartile estimates for each occupation and weighting each one by that occupation’s percentage share of total employment (dropping any occupation for which either employment estimates or confirmed wage markers for the deciles were not available). As a result, our estimates exclude 6 percent of total employment. We followed these procedures to maintain consistency with the 1998 estimates, since no aggregate data were available for that year, and we had to follow a similar strategy using employment weights.



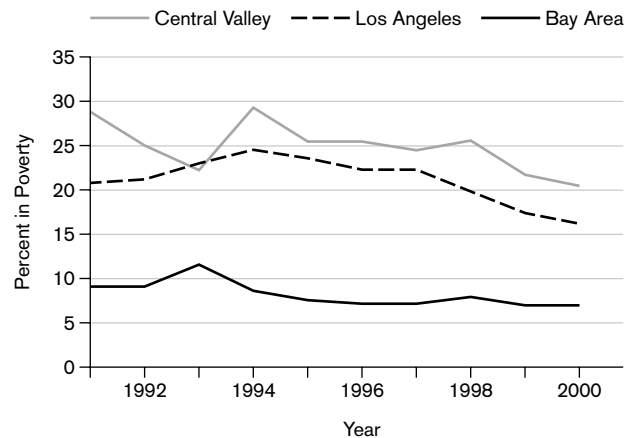


FIGURE 2.8 Poverty Rates in California, Selected Regions, 1991–2000

In these final years of the long recovery and boom, workers at the bottom end of the wage distribution fared better (in percentage terms) than those at the top did.

Figure 2.8 provides evidence that there was also a narrowing of the wage distribution by region as well by the end of the recovery. At the start of the 1990s poverty rates sharply diverged among the three regions shown. But by the end of the decade prosperity was beginning to spread more evenly in the state, as indicated by the more rapid declines in poverty rates in Los Angeles County and the Central Valley, which had lagged far behind San Francisco earlier in the 1990s.<sup>9</sup>

The recovery seems to have had less impact on inequality among racial and ethnic groups in California, except at the very end of the decade. Figure 2.9 shows household income from 1991 to 2000 for the four major ethnic groups in the state.<sup>10</sup> On average, the annual income of Anglo households was flat during the early 1990s but began to rise by mid-decade and continued on a generally upward trajectory. Latino households, however, had declining incomes, on average, through the middle of the 1990s; and although they finally began to fare better starting in 1996, the Anglo-Latino gap remained large.<sup>11</sup>

9. The estimates of regional differences in poverty are from the March Supplement of the CPS. The “Bay Area” refers to the San Francisco, Oakland, San Jose, Santa Rosa, and Vallejo PMSAs (Primary Metropolitan Statistical Areas); “Los Angeles” refers to the Los Angeles–Long Beach PMSA; and the “Central Valley” refers to the Bakersfield, Fresno, Merced, Modesto, Stockton, and Visalia MSAs (Metropolitan Statistical Areas).

10. We use the term “Latinos” for people the CPS calls “Hispanics” and the term “Anglos” for those the CPS calls “non-Hispanic whites,” as Latinos may be of any race. Our use of “African Americans” and “Asians” refers to what the CPS calls “blacks,” and “Asians and Pacific Islanders,” respectively.

11. Many analysts attribute the Anglo-Latino earnings gap to immigration. Although immigrant Latino households do earn only about 56 percent of households headed by U.S.-born Anglos,

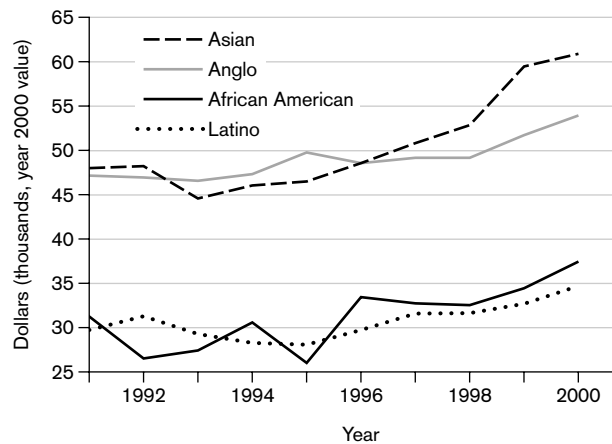


FIGURE 2.9 Median Household Income in California, by Race and Ethnicity, 1991–2000

The trend for African-American households mirrors that for Latinos, with somewhat greater volatility during the recession of the early 1990s.<sup>12</sup> Asian households did well on average over the 1990s, with their increases outpacing those of Anglos. It is important to remember that this is a very diverse group, with some Asian subgroups experiencing poverty rates that rival those of inner-city African Americans and Latinos, while others have earnings comparable to or higher than those of Anglos. Still, the higher figures for Asian household income shown here are consistent with national data and reflect both larger average household size (with more employed members per family) as well as the good fortune of Asian immigrants who came as high-tech workers in the late 1990s.

While the tight labor market of the late 1990s was probably a key factor in helping low-skilled workers bid up wages, some California policymakers, labor unions, and others were successful in efforts to improve employment conditions during this period. One of the most important policy changes was a long overdue series of increases in the state minimum wage, which rose from \$4.25 to its present rate of \$6.75 per hour, a 59 percent increase, between 1996 and 2001. Although still not enough to provide a decent standard of living in California's high-cost cities, the increase did raise wages for a large number of workers at the bottom. Reich and Hall (2001) estimate that the 1996–98 increase from \$4.25 to \$5.75 per hour benefited roughly 1.33

U.S.-born Latino households still earn less than 80 percent of their Anglo counterparts' annual wages—and the gap has not narrowed much over the 1990s. We discuss immigration later, when we consider the effects of the recession.

12. Because the sample sizes for African Americans and Asians are much smaller than those for Anglos and Latinos (the latter are the state's two largest subpopulations), the annual differences for those groups may not be as statistically reliable. We are therefore cautious about placing too much emphasis on the volatility of African Americans' household income during the early 1990s.

million workers; and although no precise figures are available for the later increases, hundreds of thousands of workers likely gained.

California has also been a leader in the national living-wage movement. Eleven living-wage ordinances have been passed by local government entities around the state, and nine other living-wage campaigns are now under way. Living-wage laws affect fewer workers than a minimum wage does, as they usually apply only to employers that do business with or receive assistance from the local government. But for workers who are covered, living-wage laws set much higher standards than do minimum wage laws—ranging in California from about \$8 to close to \$12 an hour, not including provisions for health care benefits (ACORN 2002). Living-wage initiatives cover an estimated 20,000 workers in San Francisco and another estimated 18,000 workers in Los Angeles.<sup>13</sup> Living-wage laws also signal the power of community and labor groups to monitor and regulate business behavior, with potentially important side effects for both union bargaining and community-level bargaining to secure employer commitments to living-wage policies when public subsidies for real estate development are involved.

Several important union victories also benefited low-wage workers in specific sectors and regions during the 1999–2001 boom. The 2000 janitors' strike in Los Angeles reaped a harvest of significant improvements in wages and benefits for some 8,000 janitors, 10 years after their initial bargaining agreement of 1990.<sup>14</sup> The unionization of about 145,000 homecare workers over the past decade brought significant wage gains in that industry as well. Although homecare workers in southern California have yet to realize those gains, over 40,000 homecare workers in northern California have won higher wages, ranging from \$8.50 hourly in Sacramento and San Mateo counties to \$10.00 hourly in San Francisco, in addition to health insurance benefits.<sup>15</sup>

These numbers are relatively insignificant in the context of California's labor force as a whole, but the living-wage and unionization campaigns have helped build awareness of the widening income inequality in the state and the need for structural change. As a result, and together with the pressure of a tight labor market, earnings finally began to improve for workers at the bottom of the labor market in the late 1990s. The events of 2001, however, put those advances in both public consciousness and worker income at risk.

13. Ken Jacobs, organizer with the Bay Area Organizing Committee, provided the San Francisco estimate; Carolina Briones, of the Los Angeles Alliance for a New Economy, provided the Los Angeles estimate. The Los Angeles figure includes the roughly 13,000 workers covered under city contracts with employers that have low-wage workers, as well as another 5,000 workers covered under negotiated agreements with developers.

14. Stephanie Arellano, of the UCLA Center for Labor Research and Education, provided the number of covered workers.

15. The California Homecare Council provided these estimates.

## THE CURRENT RECESSION AND ITS DISCONTENTS

The current national recession officially began in March 2001,<sup>16</sup> sparked by a sharp decline in business investment, particularly in the computer equipment, software, and Internet industries. The slowdown, along with the earlier slippage in the stock market, led to growing nervousness on the part of consumers—many of whom began to worry about their job security and to struggle to make payments on the debt they had accumulated over the boom years. Developments in international trade also played a role, with export sales declining in response to the world economic slump. Thus, what started as a drop in business investment became a more generalized recession, with the economy in the doldrums well before the attacks of September 11.

Evidence of the economic downturn showed up some months earlier in California than elsewhere in the nation, not surprisingly given the state's large share of high-tech employment and its globally integrated economy. In Silicon Valley unemployment had begun to rise in January 2001, at first reflecting the normal post-holiday trough, but then just continuing to climb. With the region's Santa Clara County leading the plunge, California as a whole began to experience the downturn by March 2001, along with the rest of the nation. Figure 2.10 shows the number of California workers filing for unemployment insurance benefits from January 1999 through June 2002. The first jump in claims was in March 2001, followed by a second jump right after the September 11 attacks. (There was a sharp decline in December 2001, but its immediate reversal in January suggests that the the blip was largely due to a change in unemployment insurance legislation that increased benefits for those who applied starting in January 2002, which led some claimants to delay their filing.)

Two other indicators—changes in unemployment and employment—tell a similar story about the timing of the recession. The state's unemployment rate, which had hit a low of 4.7 percent in February 2001, began to rise in March and continued on that path through January 2002; at this writing (summer 2002) it seems to be holding steady at about 6.4 percent. A substantial net drop in the employment level occurred during the second quarter of 2001, followed by an even bigger net decline in the quarter after September 11. Figure 2.11 breaks down these net changes in employment into gross job loss and job creation. It shows that many jobs were lost in both the second and fourth quarter of 2001, but that fewer jobs were created in the fourth quarter, accounting for the larger net job loss in the latter period. Job loss began to abate and job creation rose in the first quarter of 2002, signaling the possible end of the downturn. But in the second quarter of the year job creation fell again,

16. The Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) defines the beginning of a U.S. recessions using a series of indicators measuring a significant decline in activity spread across the economy that has lasted longer than a few months and that is evident in industrial production, employment, real income, and wholesale and retail sales. See <http://www.nber.org/cycles.html>.

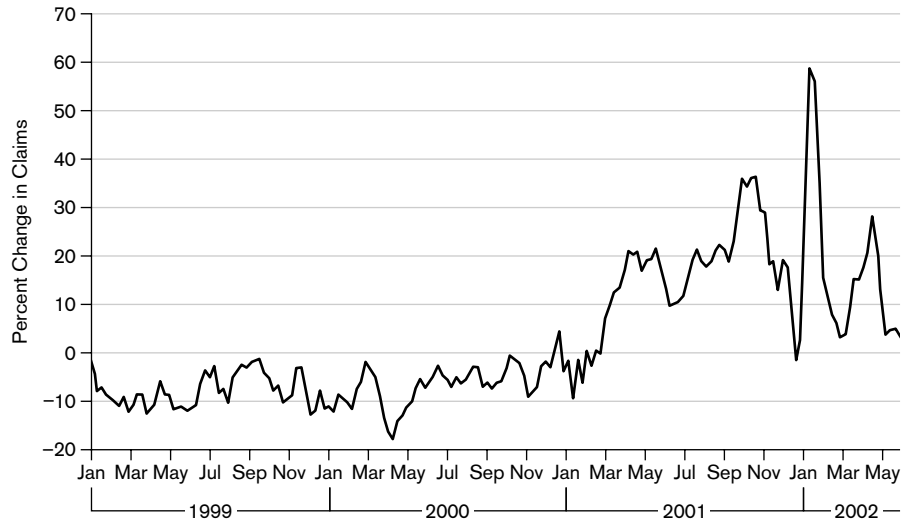


FIGURE 2.10 Initial Unemployment Claims, January 1999 to June 2002: Percentage Change from the Prior 52 Weeks

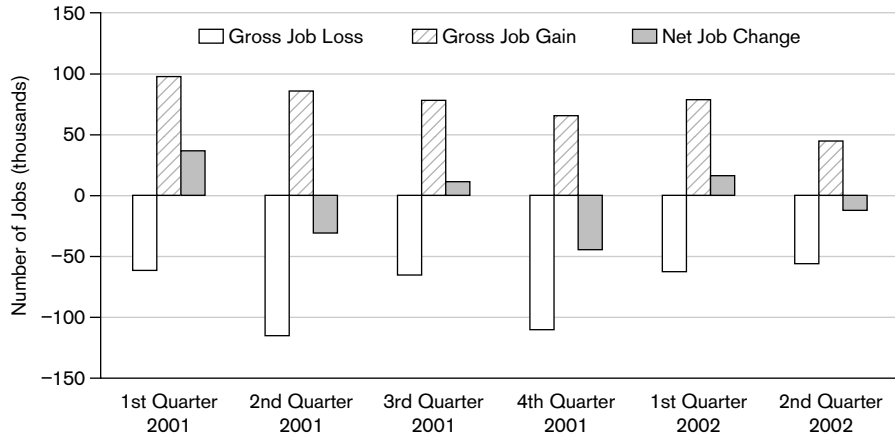


FIGURE 2.11 Gross Job Loss, Gross Job Creation, and Net Job Change in California, First Quarter of 2001 to Second Quarter of 2002

leading once more to a net loss in jobs. Over the entire period from January 2001 to June 2002, California had a net loss of 69,600 jobs.

**A Sectoral and Regional Look at the Downturn**

The recession has not affected all sectors and regions in California evenly. Figure 2.12 shows the five sectors (at the two-digit SIC level) that experienced the greatest

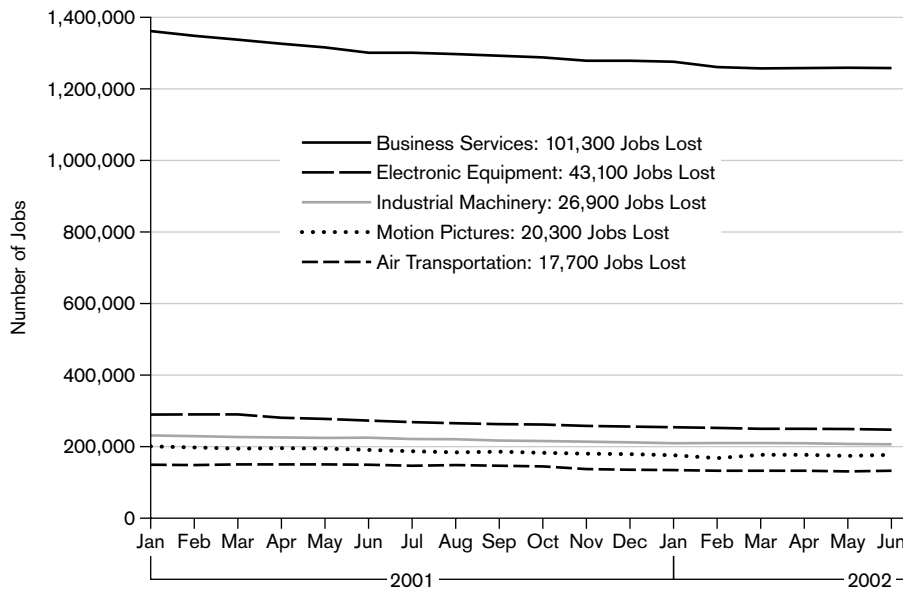


FIGURE 2.12 The Five California Industries with the Largest Net Job Loss, January 2001 to June 2002

absolute job loss during the year 2001 and the first half of 2002.<sup>17</sup> The business services sector suffered by far the largest losses, partly because it includes the computer services industry, which alone lost 35,000 jobs.<sup>18</sup> Two of the other sectors shown—electronic equipment and industrial machinery manufacturing, which lost 43,100 and 26,900 jobs, respectively—also include large numbers of high-tech firms. In contrast, the three sectors most directly affected by 9/11—air transportation and (not shown in the figure) the amusement and hotel sectors—accounted for a relatively small portion of the overall recessionary job loss. Of those three, air travel experienced the largest loss, at 17,700 jobs.

Of course, even during a recession there is considerable job creation. Key growth sectors in California between January 2001 and June 2002 included health services, which added 45,100 jobs, eating and drinking establishments, which added 51,200 jobs, and local government, which added 113,000 jobs (mostly public school teachers).<sup>19</sup>

Not surprisingly given the disproportionate importance of the high-tech sector in the state’s overall job loss, this recession has had a much more pronounced impact

17. The data in Figure 2.12 are from EDD; see [www.edd.ca.gov](http://www.edd.ca.gov).

18. The estimate of 35,000 jobs lost in the three-digit SIC computer services industry is not seasonally adjusted, because such job-loss data are available only at the two-digit level. The estimate is thus not strictly comparable to the job-loss estimates for the two-digit sectors shown in Figure 2.12.

19. EDD data; see [www.edd.ca.gov](http://www.edd.ca.gov).

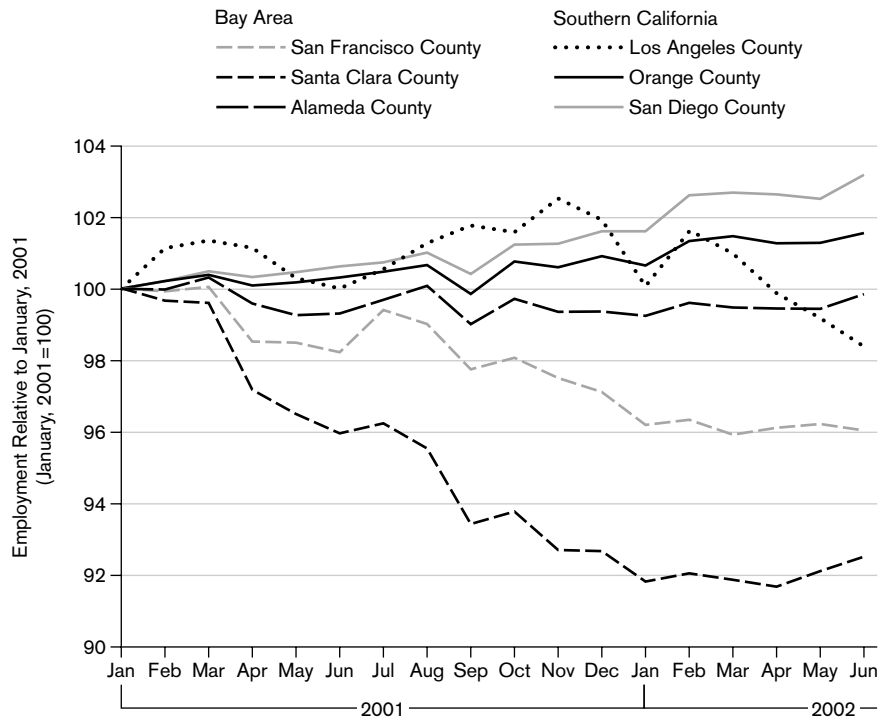


FIGURE 2.13 Employment Change in Key Bay Area and Southern California Counties, January 2001 to June 2002

on the San Francisco Bay Area than on the rest of the state, as Figure 2.13 shows.<sup>20</sup> In the north employment fell precipitously in Santa Clara County, home to the Silicon Valley, while San Francisco County was only somewhat better off (although Alameda County was more stable).<sup>21</sup> In contrast, San Diego and Orange Counties, in the south, actually saw healthy job growth throughout 2001 and the first half of 2002. Los Angeles County was also nearly immune to the recession until the beginning of 2002, although it has experienced major job losses since then.

**From High-Tech to Shipwreck?**

During the recession Californians have focused most of their concern on the collapse of Internet-based businesses in the Silicon Valley. But in fact the downturn there has affected many industries in the information technology sector, as shown in Figure 2.14.<sup>22</sup> Several factors converged to produce the general collapse.

20. *Ibid.*

21. In Santa Clara County, unemployment grew almost sixfold, from an all-time low of 1.3 percent in December 2000 to 7.6 percent in June 2002.

22. The industries shown in the figure follow Steven Levy’s (2002) definition of the information technology sector. The data are from EDD; see <http://www.calmis.ca.gov/htmlfile/subject/>

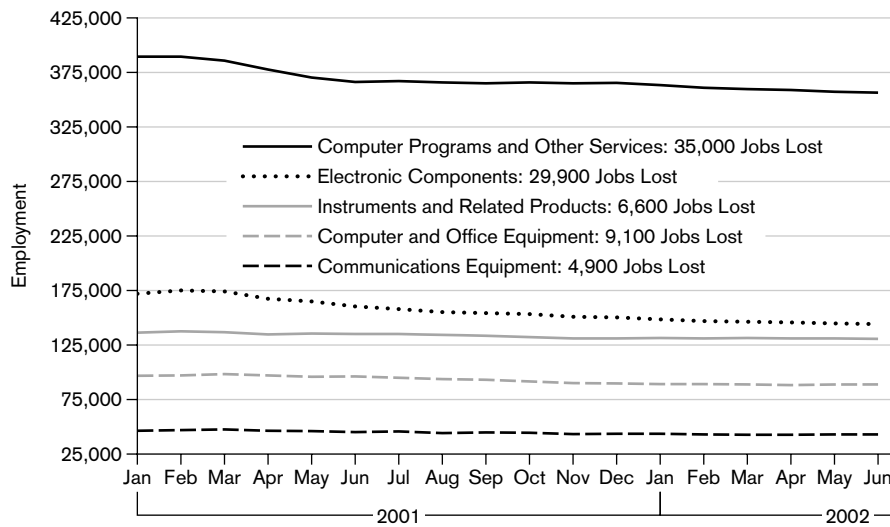


FIGURE 2.14 Employment and Net Job Losses in Information Technology Industries, California, January 2001 to June 2002

One was a sharp reduction in the supply of venture capital for Internet businesses, as their promised profits failed to materialize and some firms went belly-up. Another was the implosion of the telecommunications industry, a problem that is ongoing and recently intensified with the announcements of further accounting scandals. The telecom industry had spent billions of dollars building fiber-optic networks for Internet connections, but when the projected demand for so much bandwidth did not materialize, many Internet service providers went out of business (O’Brien 2002). Domestic and international sales of high-tech equipment have also slowed with the national recession and the world economic slump. Capital spending on technology fell 17 percent nationally in just the last quarter of 2001, and California’s exports of computers and electronic equipment—which make up about half of the state’s total exports—fell 30 percent in 2001 (Leiser 2002: 6).

At least part of the decline has been cyclical. As the national economy began to revive in the spring of 2002, employment in the Silicon Valley started to level off, and some forecasters were predicting a resurgence of strong growth in the high-tech industries (Lieser 2002; Levy 2002). But the recent news is not all good. In the words of one business reporter, the “high-tech hangover isn’t over” (O’Brien 2002). With sales of networking and other equipment lagging, unemployment is likely to persist in the Silicon Valley area, and possibly the wider San Francisco Bay Area or even the entire state. As both the main engine of economic growth in northern California and

*indtable.htm*. Note that since these are three-digit SIC industries, the only data available are seasonally *unadjusted*.



the creator of the state's highest paying jobs, the Silicon Valley, if its slump continues, is likely to be a drag on the state as a whole.

The corporate accounting scandals that broke across the nation in 2002 and the sharp reaction they have provoked from the stock market have led some analysts to raise the spectre of a double-dip recession, in which the tepid national recovery stalls because of a drop in consumer confidence. Of particular concern in California are the corporate bankruptcies now under way in the telecommunications industry, which might curtail business investment in related high-tech industries in California over the near term.

### **The Economic Ripples of 9/11**

As noted earlier, although the aftermath of September 11 affected only a small portion of California's overall job loss in this recession, it did hit a few sectors particularly hard. Air travel was the most obvious victim, as 80,000 workers in the industry nationwide were immediately laid off. The decline in air travel then affected tourism as a whole. The hotel sector experienced an immediate drop in demand as trips and conventions were cancelled. The amusement and recreation sector also suffered, though to a lesser extent, as the public avoided potential terrorist targets such as theme parks and sports stadiums. Approximately 24,600 jobs were lost in air travel, hotels and other lodging, and amusement and recreation services in the last quarter of 2001 immediately after the attacks, as Figure 2.15 shows. Together, these sectors comprised only 4 percent of all jobs in California in 2001, but they accounted for about one-third of the job loss in the three-month period immediately following the attacks. The amusement and recreation industry has almost completely recovered to pre-9/11 levels, but air travel and hotels have not yet done so. Cutbacks in each of these sectors had ripple effects throughout the economy, as well, as suppliers lost customers and workers reduced expenditures.

However, not all the problems in either the air travel or the hotel sector can be traced to the attacks. Before September 11, the commercial airlines were already in trouble, because of both unresolved, longstanding structural problems and the national and global economic slump (Belobaba 2002). Similarly, hotel occupancy rates, particularly in the large and more expensive hotels, had started falling as early as February 2001 in the Silicon Valley and other parts of the Bay Area, due to the decline in business travel there (Strasburg 2001)

A disproportionate number of the jobs that were eliminated in the wake of 9/11 were unionized jobs. Air travel, hotels, and amusements are much more heavily unionized than the economy as a whole, with an average union density, weighted by the number of jobs, of 25 percent, compared to about 10 percent for all private sector workers in California. Using a simple calculation of average union density multiplied by the number of layoffs in each of these industries, we estimate that air

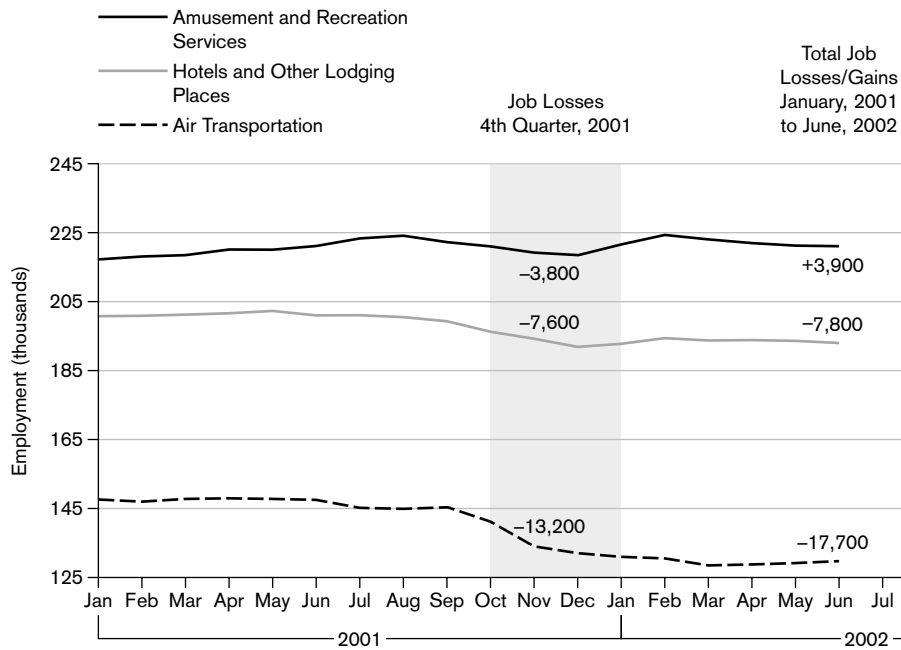


FIGURE 2.15 Employment and Net Job Losses/Gains in Key Sectors Affected by the 9/11 Attacks, California, January 2001 to June 2002

transportation lost about 6,000 union jobs, and the hotel and amusement sectors each lost about 1,700 union jobs over 2001.<sup>23</sup> For hotels this is a highly conservative estimate, since layoffs occurred mostly in the highly unionized large hotels in the major downtown tourist markets of San Francisco and Los Angeles, rather than in the less often unionized hotels and motels in other parts of the state. The Hotel Employees and Restaurant Employees International Union (HERE) reported that after September 11 about one-third of its members lost jobs in San Francisco, and about 40 percent of its members in Los Angeles County were either on layoff or working reduced hours. In both cities HERE set up food banks and other services for laid-off hotel workers (Silverstein et al. 2001; Kasler 2001).

Job loss and underemployment are not the only consequence of downturn, of course. In addition to layoffs, airlines have been asking their employee unions for wage and benefit concessions, often as part of their application for federal loan guarantees. US Airways, for example, recently negotiated \$465 million per year of cuts in wages and benefits for its pilots and \$77 million per year of cuts for its flight attendants (*San Francisco Chronicle* 2002).

23. The data on employment are from the EDD; see <http://www.calmis.ca.gov/file/lfother/fig8.htm>. The estimates of union density were calculated from the CPS.

### Distributional Consequences of the Recession

The consequences of the current recession for the patterns of income distribution in California are complex, and detailed data on wages and income are not yet available. The crash in Silicon Valley affected the upper echelons of the income distribution and eliminated wealth in the form of overinflated stock holdings and options. That may temporarily narrow the gap between the rich and the middle class, but it is hardly a sign of economic health. In contrast, for those at the bottom of the labor market, the effects have been more clearly negative. Figure 2.16, for example, charts the 12-month moving average for unemployment rates by race and ethnicity.<sup>24</sup> As it shows, the gap between African Americans and Anglos narrowed at the end of the boom but widened again in the recession. Latino unemployment has been more stable, albeit several points higher than that experienced by Anglos.<sup>25</sup>

The terrorist attacks also affected workers of color by triggering a resurgence of anti-immigrant sentiment. The most dramatic illustration is the case of airport baggage screeners. Considerable media coverage highlighted baggage screening as a weak link in airport security, exposing the 400 percent turnover at Boston's Logan Airport, where two of the hijackings had taken place. This high turnover is a consequence of the airlines' practice of subcontracting security services to the lowest bidder, which routinely depressed workers' pay to the minimum wage (Reich et al. 2002). The decision to federalize these jobs will lead to wage improvements, but the new requirement that screeners be citizens will freeze out large numbers of the current workforce, many of whom are immigrants, especially in California.

In addition to the particular difficulties facing immigrants and people of color, low-wage workers in general will be hurt by the recession. The tight labor market of the late 1990s has disappeared, and long-term trends in wage inequality may soon reassert themselves. Moreover, the state's budget crisis will affect the distribution of recessionary "pain" among different groups in California. The downturn has caused a huge contraction in two major sources of state tax revenues: the personal income tax, and the even more volatile capital gains tax, which yielded enormous revenues during the boom but has collapsed in the last two years. Although the governor had not yet signed the state's 2002-03 budget at this writing, the deficit is now close to \$24 billion, and the shortfall is expected to last a number of years. A California Budget Project analysis (2002) estimates that over one-third of the proposed budget cuts will disproportionately affect low-income families.

24. Because of the averaging in the state's reported estimates (to remove excess volatility stemming from seasonality and limited sample sizes and thereby focus on medium-term trends), the effects of the first quarter 2001 increase in unemployment do not show up until summer 2001.

25. The estimates on unemployment rates by race and ethnicity are from EDD; see <http://www.calmis.ca.gov/file/fother/fig8.htm>. Unfortunately, comparable data on Asians are not available.

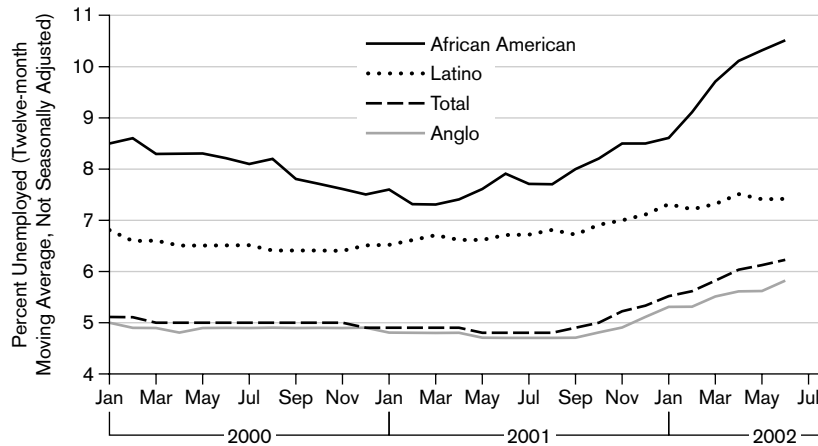


FIGURE 2.16 Unemployment Rates in California, by Race and Ethnicity, January 2000 to July 2002

### What's Different about This Recession?

This recession differs from the recession of the early 1990s in ways that may have important implications for the future. Figures 2.17a and 2.17b allow a comparison of the unemployment rates for the state and three of its key counties over the course of the two recessions.<sup>26</sup> Unlike during the worst of the earlier recession, the current statewide unemployment rate is relatively low, and the turnaround—which some observers believe is occurring now—may be more rapid. Los Angeles led the state's downturn in the earlier period, but Santa Clara County is the leader in the current recession. Unemployment there, in the Silicon Valley, soared much more rapidly than it did a decade earlier in Los Angeles. In general, there seems to be greater regional variation in the current period, regarding both the recession overall and the specifics of employment losses and gains.

The previous recession was a lengthy one: While the trough of the national recession occurred in March 1991, California and especially Los Angeles suffered lingering joblessness for several years after that. This was largely because that recession coincided with a *permanent* decline in durable goods manufacturing (particularly aerospace), as the California economy adjusted to the end of the Cold War and to the ongoing shift of traditional manufacturing overseas.

26. In each case, the estimates are for the period starting a year before the official beginning of the recession. (July 1990 and March 2001 are the official starting dates for the respective national recessions, and so we begin at July 1989 and March 2000.) For comparability, each graph has space for five and a half years of estimates, which allows us to cover the whole recession and recovery of the early 1990s. Of course, in the case of the current recession, data are not yet available for the full period.

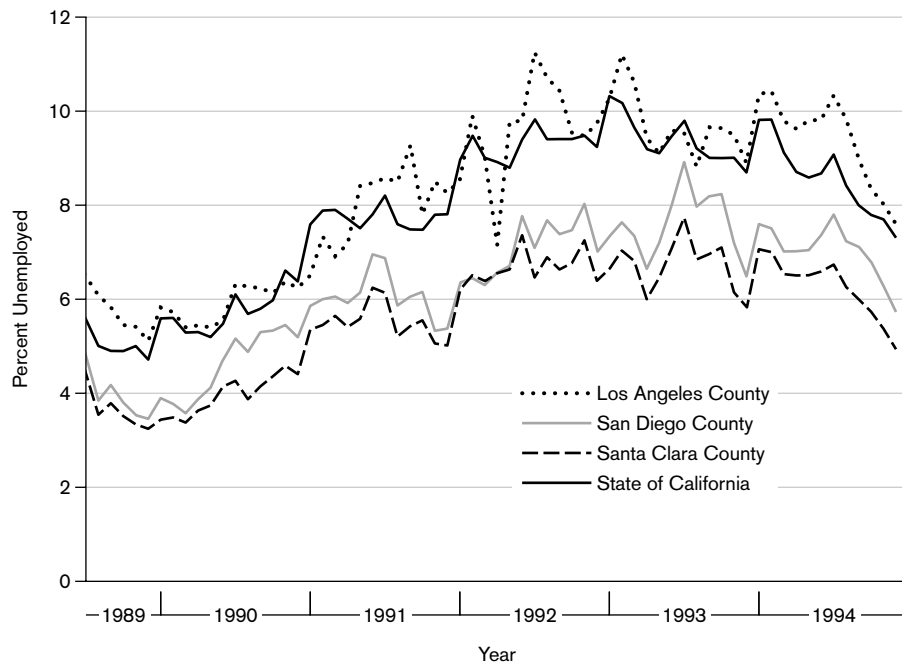


FIGURE 2.17A Unemployment Rates in California and Selected Counties, July 1989 to December 1994

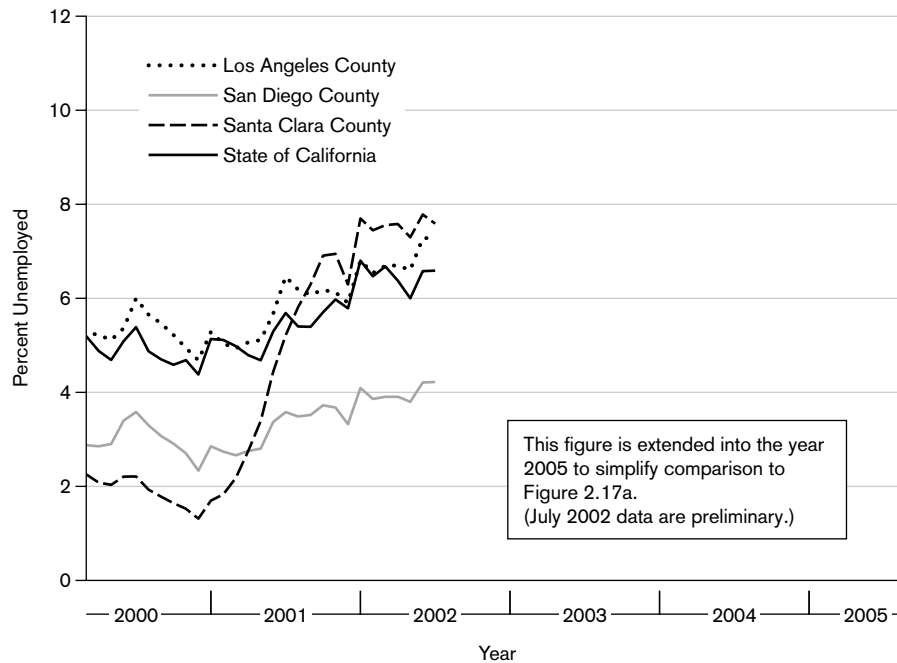


FIGURE 2.17B Unemployment Rates in California and Selected Counties, March 2000 to July 2002

What about the future? Some analysts have suggested that because the key nodes of employment loss in the current recession—high technology and the sectors affected by 9/11—are cyclical, the prospects for a long-running slowdown are slim. In this view the state's leading growth sectors, particularly high tech, are still well positioned to be the engine of growth in the coming years, and tourism is already coming back. The unemployment rate has declined somewhat in recent months. Nevertheless, the previous recession also showed signs of an early recovery, but those signs turned out to be short-lived (Figure 2.17a).

The current recovery, particularly in the technology sectors, is still uncertain, and, as noted above, the recent turmoil in the nation's stock markets is doing little to help with business and consumer confidence. Even the most bullish prognosticators are pointing to a jobless recovery, at least in the early phases, as firms hesitate to hire new employees while product demand remains uncertain and instead force their incumbent employees to work longer hours.

### Thinking to the Long Term

As always, California will eventually emerge from the current doldrums. While the state has been hurt in the short run by its disproportionate share of jobs in computer services and high-tech manufacturing, its strength in these sectors is likely to constitute a competitive advantage over the long term. In addition, tourism, hotels, and entertainment are likely to rebound as nerves calm and travel continues to recover; and agriculture, manufacturing, and construction will likely contribute their share to any recovery. But the fundamental asset that attracts new investment and production to the state, in these industries and elsewhere, is the diversity and skill of the California labor force.

This crucial asset may be at risk. While the boom may have convinced many of the tremendous vitality and potential of the new economy, the recession has exposed its downside for many workers. Labor market flexibility helped businesses respond quickly to competitive challenges on the way up, but the temporary workers who made that flexibility possible have found the ride down a bumpy one. Not only have they been laid off with ease, they are enjoying less access to public and private safety nets than their counterparts with permanent jobs. And while the last few years of the 1990s finally began to improve the lot of those at the bottom of the California income distribution, recession has already put those gains in jeopardy.

Improving worker outcomes during both boom times and recessions is not a luxury. Recent research suggests that high levels of inequality erode the worker productivity and social cohesion necessary for economic growth (Pastor et al. 2000). Specific worker-friendly policies—such as higher minimum wages, living-wage laws, expanded health care coverage, improved job training, and reform of unemployment insurance and other social insurance programs—can serve not only as immediate relief but also as tools for navigating the longer-term changes in the state's

new economy. Such strategies, which spread the risks of the new economy and widen the circle of its beneficiaries, can in turn help sustain long-term growth.

The immediate impact of the current recession and the state's fiscal crunch seem to point in the opposite direction: creating pressures for cuts in wages, employment, and public investment. Labor and community groups have encountered new obstacles in pressing for the social policies, such as living-wage laws, that were on the agenda only a year ago. But letting the equity issue fade would be extremely short-sighted. It is now more critical than ever to ensure that both short- and long-run policy decisions remain focused on the state's historic commitment to providing access to opportunity for all its working families and communities. California's future demands nothing less.

## REFERENCES

- ACORN (Association of Community Organizations for Reform Now). "Living Wage Resource Center." Web site. <http://www.livingwagecampaign.org/>.
- Baru, Sundari. 2001. *Working on the Margins: California's Growing Temporary Workforce* San Diego, CA: Center on Policy Initiatives, January). Available at [http://www.onlinecpi.org/temp\\_report/CPI-TempWorkers.pdf](http://www.onlinecpi.org/temp_report/CPI-TempWorkers.pdf).
- Benner, Chris, Bob Brownstein, and Amy B. Dean. 1999. *Walking the Lifelong Tightrope: Negotiating Work in the New Economy: A Status Report on Social and Economic Well-Being in the State of California*. San Jose, CA: Working Partnerships USA and Economic Policy Institute.
- Belobaba, Peter. "The Airline Industry since 9/11: Overview of Recovery and Challenges Ahead." Unpublished conference paper. Washington, DC: MIT Global Airline Industry Program, March 2002. Available at [http://web.mit.edu/afs/athena.mit.edu/org/a/airlines/DC\\_conference/peterbelobaba.pdf](http://web.mit.edu/afs/athena.mit.edu/org/a/airlines/DC_conference/peterbelobaba.pdf).
- Bhargava, Shalini, Bob Brownstein, Amy B. Dean, and Sarah Zimmerman. 2001. "Everyone's Valley: Inclusion and Affordable Housing in Silicon Valley." Policy brief, Silicon Valley Equity Series. San Jose, CA: Working Partnerships USA. Available at <http://www.wpusa.org/publications/ev.pdf>.
- California Budget Project. 2002. "May Revision Cuts Fall Heavily on Poor." *Budget Watch* (newsletter) 8, 2 (May 2002). Available at <http://www.cbp.org/2002/bwvol82.pdf>.
- Cassidy, John. 1998. "Annals of Enterprise: The Comeback," *The New Yorker*, February 23, and March 2.
- Galpern, Dan. 1998. "The Distribution of Income in California and Los Angeles." Report. Sacramento: California Assembly Select Committee on the California Middle Class, June 16.
- Susan N. Houseman, Arne L. Kalleberg, and George A. Erickcek. 2001. "The Role of Temporary Help Employment in Tight Labor Markets." Staff Working Paper No. 01-73. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, July.
- Kasler, Dale. 2001. "Party's Over: The Recession and Sept. 11 Take Wind out of S.F.'s Sails." *Sacramento Bee*, November 28.
- Levy, Steven. 2002. *California Economic Growth, 2002*. Palo Alto: Center for the Continuing Study of the California Economy.

- Lieser, Tom. 2002. "California Forecast." *UCLA Anderson Forecast* (newsletter), June 19.
- O'Brien, Chris. 2002. "High-Tech Slowdown May Be Worsening." *The Mercury News* (San Jose), June 23. Available at <http://www.siliconvalley.com/mld/siliconvalley/business/columnists/gmsv/3528746.htm>.
- Pastor, Jr., Manuel, Peter Dreier, J. Eugene Grigsby III, and Marta López-Garza. 2000. *Regions That Work: How Cities and Suburbs Can Grow Together*. Minneapolis: University of Minnesota Press.
- Reed, Deborah. 1999. "California's Rising Income Inequality: Causes and Concerns." Report. San Francisco: Public Policy Institute of California, February.
- Reich, Michael, and Peter Hall. 2001. "A Small Raise for the Bottom." Pp. 123–46 in *The State of California Labor*, edited by Paul M. Ong and James R. Lincoln. Los Angeles and Berkeley: Institute of Industrial Relations, University of California, Los Angeles, and University of California, Berkeley.
- Reich, Michael, Peter Hall, and Ken Jacobs. 2002. "The Economics of Living Wages and Airport Security." Working paper. Berkeley: Institute of Industrial Relations, University of California, Berkeley .
- San Francisco Chronicle*. 2002. "US Airways Pilots Agree to Pay Cut." July 9. Available at <http://www.sfgate.com/cgi-bin/article.cgi?file=/chronicle/archive/2002/07/09/BU213804.DTL&type=business>.
- Silverstein, Stuart, Evelyn Iritani, and Marla Dickerson. 2001. "Response to Terror; California Economy; State's Economy Seems Unlikely to Dodge Fallout." *Los Angeles Times*, October 7, p. A1.
- Strasburg, Jenny. 2001. "Hotels Feel Sting from Downturn." *San Francisco Chronicle*, April 17. Available at <http://sfgate.com/cgi-bin/article.cgi?file=/chronicle/archive/2001/04/17/BU143541.DTL>.
- State of California. 2001. "Economic Report of the Governor, 2001: Statistical Appendix." Sacramento: California Department of Finance. Available at [http://www.dof.ca.gov/HTML/FS\\_DATA/Fs\\_home.htm](http://www.dof.ca.gov/HTML/FS_DATA/Fs_home.htm).
- Theodore, Nik, and Jamie Peck. In press. "The Temporary Staffing Industry: Growth Imperatives and Limits to Contingency." *Economic Geography*.