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Left Behind in Today's Economy

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ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY

Left Behind in Today's Economy

Identification of Sub-Population Groups Left Behind by Structural Changes to Economy

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Executive Summary

The 2016 Illinois Economic Report defined three distinct economies (the Chicago 9-county; Small Metro; and Non-Metro regions) within Illinois. The analysis associated with those sub-state economies showed they were progressing at different rates and the rates differed for various groups within each region. The report also discussed structural changes (globalization of trade, and technological improvements leading to the automation of processes) that have taken place in the national economy over the last few decades. This report identifies those groups that have suffered as a result of those changes.

The affected population segments have a few things in common, including lower educational attainment, and living in situations where economic opportunity is hard to locate. Some Illinois residents fit into each of these groups.

Research produced by the White House Council of Economic Advisors (CEA) concluded that shifts in economic demand caused by a combination of a technological change and the globalization of trade is consistent with a decline in labor force participation rates and an increase in income inequality. The CEA study shows that the most likely cause of people dropping out of the labor force is declining wages for low-skilled workers. From 1975 to 2014, wages for high-school graduates fell from about 80 percent of wages for college graduates to 60 percent.

The labor economics term "reservation wage" is defined as the lowest wage where a worker would be willing to accept a particular type of job. Some workers are removing themselves from the labor force because jobs available to them are below their reservation wage. Although the primary focus has been on prime-age males, a similar issue has developed for prime-age females in the United States.

National labor force participation rates for prime-age males peaked in 1954, but have been trending downward in the United States since the mid-1960s. Meanwhile, the labor force participation rate for prime-age females rose rapidly during the 1970s and 1980s before peaking in 1999 at 77 percent. The rate of decline for both has increased around recessionary periods since marginal jobs are more likely to be shed when employers are motivated to cut costs.

Extensive research has been done to answer the question of why the labor force participation rate for prime-age adults is in decline. One part of the explanation is the amount the federal government expects to spend on disability payments will exceed the combined total for food stamps, welfare, housing subsidies and unemployment assistance. Although the majority of people on disability live in cities and suburbs, the rates of increase over the past decade are highest for people living in rural America.

Labor force participation rates for prime-age males, by educational attainment were similar across attainment levels in 1965. However, the rates have decreased for all levels of educational attainment since then, with the decline being much steeper for the lower levels of educational attainment. This is primarily a result of the falling demand and wages for lower-skilled workers relative to higher-skilled workers.

Females are much less likely than males to become incarcerated or to be disabled via workplace injuries. Many traditionally female-dominated occupations are growing but still have low wages and few benefits. At the same time, the number of jobs in traditionally male-dominated occupations has shrunk. Females do move out of the labor force more often because they take on the responsibility of caregivers (children, parents, other relatives).

Both males and females complain they are unable to find full-time, secure jobs that pay a middle-class wage. In recent years, the work patterns of men have become more like the traditional patterns for women because they are now more likely to cycle in and out of the labor force.

Part-time work most often impacts low- and middle-income earners, especially females, blacks and Hispanics. The industries that utilize part-time staff the most include retail stores, car dealerships, hotels and restaurants. Part-time jobs often pay low hourly wages and have unpredictable hours, lack benefits such as health care or retirement savings and don't qualify for government benefits such as unemployment insurance.

As the economy has undergone structural changes, the Gig Economy is today's buzz word. Gigs are short-term assignments in which pay is generally determined by task or output, rather than hours worked. This is also referred to as alternative work, which includes people who are employed as independent contractors, on-call workers, temporary help agency workers and workers provided by contract firms.

Independent research estimates that all of the net employment growth in the U.S. economy from 2005 to 2015 occurred via the Gig Economy. Data show that those between the ages of 55 and 74 are the primary drivers of growth in the Gig Economy. In fact, those working under alternative arrangements are more likely to be older and more highly educated. The number of workers also grew for the 25-54 age group in this sector and the share of females doubled.

These temporary work arrangements are expanding to more types of jobs and the total number of jobs is increasing. However, current labor laws are based on the notion that most people work traditional jobs. Many independent workers lack access to protections such as unemployment insurance, workers compensation and disability insurance.

The "hollowing out" of the American middle class has proceeded steadily for more than four decades. Starting in 1971, each decade has ended with a smaller share of adults living in middle-income households than at the beginning of the decade. Meanwhile, the lowest income and highest income tiers are expanding.

A research project tracking the pre-tax household incomes of children at age 30 relative to their parents was conducted starting with children born in 1940. As the decades have passed, a smaller proportion of children have had higher incomes than their parents. As technological change, globalization, and government policies started having a bigger impact on the economy in the 1980s, people toward the top of the income distribution performed better while the middle class and poorer class surpassed their parent's income at lower rates. The project demonstrated that fewer people are able to realize the American Dream now that financial rewards are not available to workers at all levels of the distribution.

Median wealth increased for both middle-income and upper-income households prior to the Great Recession. The housing market crisis and the Great Recession then had a large impact on family wealth (assets minus debts). The amount invested in a home tends to be larger portion of a family's wealth for a middle-income compared to an upper-income household.

During the housing market crash, the typical investment in a home fell more than the typical investment in the market. Portfolios of upper-income households then tended to do better than for middle-income households. As a result, the average wealth of an upper income household relative to a lower-income household has risen from a little over three times as much in 1983 to a little less than seven times as much in 2013.

The sub-population groups identified as struggling to find success in the labor market include:

1. Working class who are underemployed, earn low wages, or out of the labor force;
2. Households led by single females with children;
3. Minorities in the inner-city (living in neighborhoods lacking economic opportunity);
4. Older workers (not enough saved for retirement or lacking health insurance);
5. Ex-offenders;
6. Young adults (living at home to older ages);
7. Youth (living in low-income households).

The working class has been characterized as white, male, with no more than a high school education, working in blue-collar occupations and from non-urban areas. This representation may cover a large portion of the working class, but the most common characteristics are that the overwhelming majority would have educational attainment of a high school diploma or less with work experience in blue-collar occupations. Many people in this group previously worked in the industries of manufacturing, mining, or construction. Those jobs paid wages good enough to co-anchor (along with a spouse) a household and live a middle-class lifestyle.

Single females with children at home who require care tend to be another group at risk. These women can live in both rural and urban areas. Although many may have attained an education of a high school diploma or less, other females may have some college and even a few may have a Bachelor's degree, but still earn wages that make it difficult to support a family. This group could be living near poverty with a need to access government benefits to support their families.

An example of minorities in the city that are struggling economically is the black population residing in Chicago. This group is much more likely to be unemployed or not in the labor force than the rest of the city's population. They also fare worse than blacks in the portion of Cook County that does not include the City of Chicago. The long-term decline in labor force participation rates of prime-age males has been especially steep for black males (especially for those who did not attend college).

The neighborhoods where inner-city blacks tend to be concentrated have schools of lower quality, less access to transportation, and fewer neighborhood resources. Children in these areas can face an increased risk of prolonged poverty, child abuse, educational failure and youth delinquency and violence, especially among boys, whose main reason for joining gangs is to find a family and male role models.

Older workers are working longer for a variety of reasons. People with more education tend to have higher incomes and usually have work that is more satisfying. Other older people continue working because of the increase in age for which workers can claim full benefits from Social Security. The top one-third of baby boomers likely have enough assets to have a traditional retirement, but others in the middle-class are less financially secure and need to work longer to make ends meet.

People with more education tend to have higher incomes and usually have work that is more satisfying.

Many people lost good jobs in the Great Recession from which their finances have never recovered. Older males have tended to find work in low-wage, non-union jobs. Females make up the majority of workers in seven of the top ten low-wage jobs for older workers. Older women also tend to have a lower accumulation of earnings saved for retirement and thus more likely to have to work later in life. Previous work experience for older workers is unlikely to carry much weight, especially if they do not have a college education.

The nation's high incarceration rate is a big reason why a significant number of prime-age males are not in the labor force. Black and Hispanic males account for a majority of the nation's prison population. This is part of the explanation for lower labor force participation rates for prime-age males in the U.S.

About 40 percent of young adults lived with relatives in 2015. That is the highest proportion for the U.S. since 1940 as the U.S. economy was recovering from the Great Depression and just before the country entered World War II. In fact, research shows that a higher proportion of those in the 18 to 34 age group lived at home with their parents than were married or living with a partner in a separate household.

It is worth noting that poor men with few job opportunities are also likely to lack marriage prospects. As good-paying jobs in blue-collar industries have disappeared in the last few decades, males who have traditionally fit into these jobs have suffered. If they have a job, then it comes with lower wages. This group now has an increased likelihood of heavy drinking, drug use, and other risky behaviors. This group has a higher mortality rate and a higher incarceration rate. They may be homeless or perhaps they left the area to find opportunities elsewhere.

Millennials without a college education are earning less than other individuals at the same age from previous generations. However, the proportion of this group having children before marriage is increasing. Young people are more likely to have their first child outside of marriage in areas of high income inequality with few middle class jobs available that don't require a college degree. Conversely, in areas with more middle-skill jobs available, young people are more likely to get married before having children.

The likelihood of an individual in the 16-24 age group to be neither employed nor in school falls as the household income rises. It is also true that someone in the age group living in a rural county is more likely to neither be employed nor in school than a young person in an urban area. The number of Illinois school districts having a majority of their students coming from low-income families increased by more than 200 percent over the past decade. As poverty levels increase, low-income Illinois students remain academically behind their wealthier peers are less likely to complete a postsecondary degree.

The impact of globalization of trade and automation has resulted in both short- and long-term consequences for the national economy. Some of the short-term consequences include:

1. fewer economic opportunities for those who have attained a lower level of educational attainment;

2. a higher crime rate;

3. slower economic growth.

The main long-term consequence is the creation of an economic cycle in which the lower-income group has more children. This can lead to more people living near the poverty threshold and a larger number of people who will have trouble obtaining the education and training necessary to succeed in a work environment that puts a premium on education. This should lead more people to seek out public assistance.

Government policymakers should consider modernization of its policies to address changes in workforce and employer behavior in response to these economic structural shifts. More people are facing uncertain career paths. As technological innovation increases at a faster pace, the burden will grow for government to react to changes in the workplace.

Introduction

The 2016 Illinois Economic Report (found at **http://www.ides.illinois.gov/lmi/Annual%20Report/EconomicReport_2016.pdf**) was released in the fall of 2016. A thorough analysis of three distinct economies (the Chicago 9-county; Small Metro; and Non-Metro regions) within Illinois showed that these sub-state economies were progressing at different rates and the rates differed for various groups within each region. What caused the large economic discrepancies? This follow-up report provides additional detail on those segments of the population that were struggling to adapt to recent changes in the economy.

The previous report discussed structural changes that have taken place in the national economy over the last few decades. One of those changes is the globalization of trade. Trade agreements and transportation efficiencies have lowered barriers to trade across countries. The economic concept "comparative advantage," which is defined as "the ability to produce goods and services at a lower cost than anyone else" has become more prominent as a result. A second structural change is continuous technological improvement that has led to the automation of processes, and the subsequent reduction of well-paid lower-skilled jobs.

Both of these changes have negatively impacted labor force participation rates, especially for workers of lower educational attainment. During the Great Recession, a large number of the workforce shifted involuntarily from full-time to part-time employment. A wage premium attached to educational attainment moved many households out of the middle class and into either the lower-income or higher-income classes. In addition to increased income inequality, data show that events leading up to, during, and after the Great Recession played a role in the increase of wealth inequality.

The structural shifts in the economy have negatively impacted some segments of the population, and positively affected other segments. Wealth has increased in many poor countries along with an overall increase across developed countries. This has balanced total wealth around the world. Although some population segments in developed countries have been negatively impacted, many population segments within the U.S. appear to have suffered the most. These segments include many people who live in Illinois.

It is difficult to put all of those adversely affected by these structural changes into distinct groups. Some groups overlap and others are hard to categorize. Nevertheless, it is clear that the people who have not fared well have a few things in common. They tend to have lower educational attainment, and a tendency to be in situations where economic opportunity is hard to locate. Consequently, they are likely to now find themselves in the lower portion of the income and wealth distributions.

This report identifies those groups that have suffered as a result of economic structural change. Relevant topics are discussed as a foundation for identification of the groups. The groups are then characterized using statistical data when available along with other background material. Much of the material used in this report is based on national data because it is the best information available. However, people from all of these groups identified as suffering due to structural economic shifts reside within the state of Illinois.

Labor Force Participation Rates

A report produced by the White House Council of Economic Advisors (CEA) produced a thorough analysis on the long-term decline in the labor force participation rates of prime-age males (ages 25-54). Their primary conclusion was that a demand shock caused by a combination of a technological change and the globalization of trade is consistent with a decline in both labor force participation rates and income inequality. The CEA report stated that this "is particularly troubling since workers at this age are at their most productive." It also states that greater joblessness is linked to "lower overall well-being and happiness, and higher mortality." [1, 2]

The CEA study concludes that the most likely cause of people dropping out of the labor force is declining wages for low-skilled workers. The demand for low-skilled workers is falling faster than the supply, causing wages to drop. From 1975 to 2014, wages for high-school graduates fell from about 80 percent of wages for college graduates to 60 percent. More prime-age males have decided not to participate in the labor force as a result of this decline. The CEA blames technology, automation and globalization for the reduction in wages for this group. [3]

One of the basic building blocks of labor economics is the concept of a reservation wage. This is the lowest wage rate at which a worker would be willing to accept a particular type of job. A job offer involving the same type of work and the same working conditions, but at a lower wage rate, would be rejected by the worker. Essentially, some workers are removing themselves from the labor force because the jobs that are currently available to them are below their reservation wage.

Although the primary focus has been on prime-age males, a similar issue has developed for prime-age females in the United States. Females in the U.S. have encountered more barriers than females in other industrialized countries. [4]

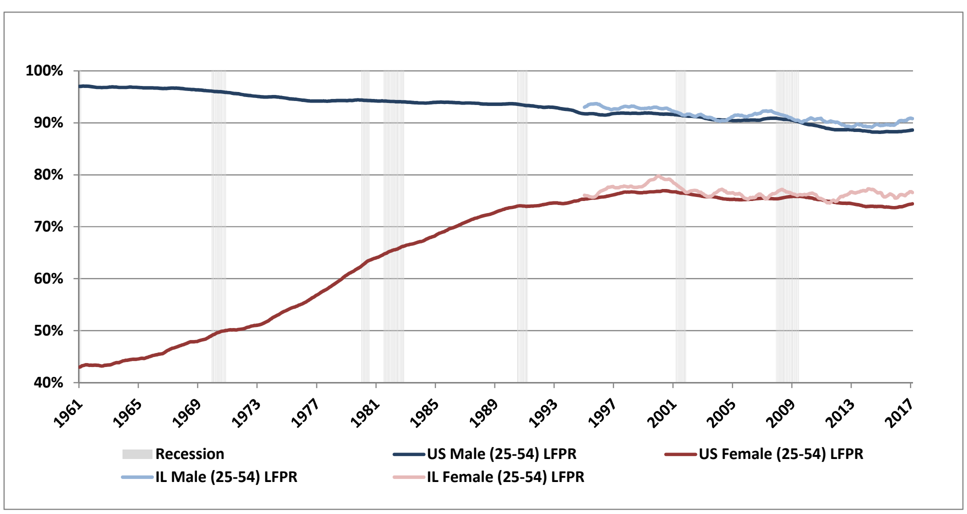
Males – Females

Exhibit 1 shows 12-month moving average data for prime-age (25-54) males and females, by gender. The 12-month moving average data was used throughout this report in order to smooth out not-seasonally adjusted data that provided the best coverage.

National labor force participation rates for prime-age males peaked in 1954, but have been trending downward in the United States since the mid-1960s. Illinois data is plotted on the chart starting in 1995 (due to available data). It follows the path of the national data closely for both males and females.

According to CEA calculations, the rate of decline has increased around recessionary periods. In particular, it accelerated around the Great Recession [December 2007 to June 2009] with about 40 percent of the decline

Exhibit 1 – Labor Force Participation Rates, by Gender, for Age Group 25-54 (U.S. & IL)



Data Source: U.S. - Current Population Survey (CPS), Bureau of Labor Statistics (BLS), (NSA, 12-Month Average); Haver Analytics. IL – Illinois Department of Employment Security (IDES), (NSA, 12-Month Average)

36 percent in 2014. The CEA does not believe the increase in disability among prime-age males is enough to explain the entire decline in the associated participation rate. [7]

According to analysis of Social Security Administration statistics by the *Washington Post*, the number of working-age adults receiving disability climbed from 7.7 million to 13 million between 1996 and 2015. This year, the amount that the federal government will spend on disability payments will exceed the combined total for food stamps, welfare, housing subsidies and unemployment assistance. [8]

between 1965 and 2016 having occurred from January 2007 to October 2013. That decline corresponded to a time period when many jobs in the male-dominated industries of manufacturing, mining, and construction were lost. [5]

Meanwhile, the labor force participation rate for prime-age females rose rapidly during the 1970s and 1980s before peaking in 1999 at 77 percent. The rate then started moving slowly downward at first, but the decline also accelerated around the Great Recession. [6] Marginal jobs are more likely to be shed around recessionary periods when employers are motivated to cut costs.

Some economists believe the explanation for the continuing decline of labor force participation rates for prime-age males is due to reasons such as 1) increased involvement in family responsibilities; 2) more men receiving some kind of public assistance; and 3) increases in disability.

However, the CEA report notes for those males not in the labor force, the proportion with a working spouse has actually decreased over the last 50 years. The Temporary Assistance for Needy Families (TANF) program has become hard to access for males out of work for long periods of time, especially those without children. The poverty rate for prime-age males not in the labor force rose from 28 percent in 1968 to

Although the majority of people on disability live in cities and suburbs, the rates of increase over the past decade are highest for people living in rural America. All but three of the 136 counties with the highest rates were in rural areas, including northern Michigan, the boot heel of Missouri, Appalachia and the Deep South. Eighteen of the counties had a population with a black majority, while the remaining counties were, on average, 87 percent white. [9]

Data from the American Time Use Survey (ATUS) show that the amount of time spent caring for household members and non-household members [i.e. family duties] is approximately the same for both prime-age males in the labor force and those outside of the labor force. The data also shows little difference in the amount of time spent on household duties. [10]

These data show that the largest difference in time usage for males in and out of the labor force is the time spent on leisure activities (including socializing, relaxing and leisure). In fact, men not in the labor force spend almost twice as much time on these activities as prime-age men overall. More than twice as much time is spent watching television. [11]

According to American Community Survey (ACS) data, a higher proportion of females than males obtain college degrees. This has positively affected participation rates for women. Females are much less likely than males to become incarcerated or to be disabled via workplace injuries and they are much less likely to play video games during the times they are not looking for work. Many traditionally female-dominated occupations are growing but still have low wages and few benefits. At the same time, the number of jobs in traditionally male-dominated occupations has shrunk. [12]

Females move out of the labor force more often because they take on the responsibility of caregivers (children, parents, other relatives). The big difference between females in the U.S. and females in other advanced industrialized countries is that women in other countries have access to more comprehensive policies for child and family care. As wages for lower-skilled jobs have stagnated, available wages may more often lie below an individual's reservation wage. So women, just like men, with educational attainment of a high school diploma or less have been less likely to participate in the labor force. [13]

Both women and men complain they are unable to find full-time, secure jobs that pay a middle-class wage. One noticeable change in recent years is that the work patterns of men have become more like the traditional patterns for women because they are now more likely to cycle in and out of the labor force. The share of prime-age females who are in the labor force only part of the time has remained around 18 percent over the years. This has been influenced by female's tendency to carry the burden of family responsibilities. In the case of men, it has increased by about twice the rate since the mid-1970s to 11.8 percent in 2015. [14]

Educational Attainment

Labor force participation rates for prime-age males, by educational attainment were similar across attainment levels in 1965 but are very different now. According to the CEA report, the participation rate for prime-age males with a college degree in 1965 was 98 percent while it was 97 percent for those with a high school degree or less. The rates have decreased for all levels of educational attainment since then, but the decline has been much steeper for the lower levels of educational attainment.

This is primarily a result of the falling demand and wages for lower-skilled workers relative to higher-skilled workers. Men have had falling educational attainment levels relative to women, so they are more likely to have lost their competitiveness and left the labor force for this reason. Much of the decline in prime-age male participation rate has been concentrated among the less-skilled, which has been associated with an increase in poverty for the group. [15]

Detailed analysis by the CEA, demonstrate that participation rates have declined for low-skill, low-wage jobs much more than high-skill, high-wage jobs. It shows a $1,000 increase in annual wages results in a bigger increase in the labor force participation rate at the bottom end of the distribution relative to the higher end. This supports the premise that low-skill, low-wage jobs are more sensitive to the reservation wage of workers. [16]

Involuntary Part-Time Workers

The economic recovery following the Great Recession has allowed some people to find work which underutilizes their skill-level. Other employees are working part-time and find it difficult to work enough hours to pay their bills. Some of these workers expected full-time hours once they started working, but rarely do they work full-time. Some people work multiple part-time jobs just to make ends meet. The number of people doing "involuntary" part-time work rose 41.0 percent from 2002 to 2016. [17]

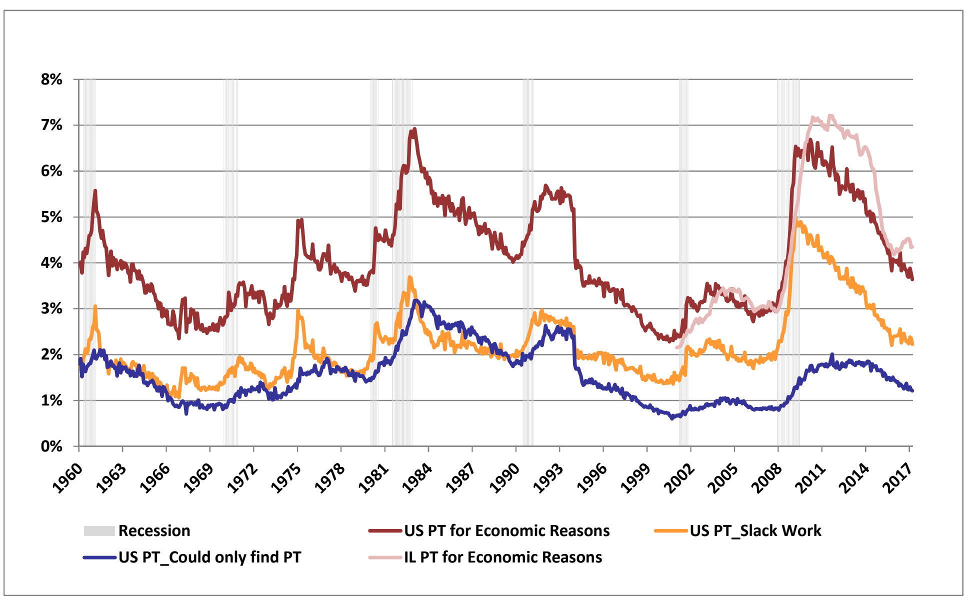
Exhibit 2 shows that involuntary, part-time work increases consistently near the start of recessionary periods, and then slowly declines before leveling off in the following recovery. The "slack work" component increases faster than the "could only find part-time" component once the recession occurs. Illinois data is available starting in 2001 for the proportion of people working part-time for economic reasons. The Illinois data follows the approximate path of the national data.

Research data show that part-time work most often impacts low- and middle-income earners, especially females. It also has a large impact on blacks and Hispanics, who make up 27.9 percent of all workers, but 41.1 percent of involuntary part-time workers. The industries that utilize part-time staff the most include retail stores, car dealerships, hotels and restaurants. [18]

Part-time jobs often pay low hourly wages and have unpredictable hours, lack benefits such as health care or retirement savings, and don't qualify for government benefits such as unemployment insurance. These workers may need to sacrifice sleep, family time and entertainment to work multiple part-time jobs, in order to pay the bills. Businesses able to employ part-time workers have more flexibility and can cut their payrolls. Some of the labor cost is shifted to the employee and increases the uncertainty of their work. [19]

The situation with involuntary part-time employment has improved as the economy continues its recovery after the Great Recession. The pool of available labor has shrunk making it more difficult for employers to find workers. Some of the part-time jobs have shifted to full-time work as a result. In March of 2017, the U-6 rate, a broad measure of unemployment that includes part-time workers who would like to be working full-time, fell to 8.9 percent (SA) (Illinois' 12-month moving average for March 2017 was 10.3%). That was

Exhibit 2 – Proportion of People in U.S. Working Part-time, Involuntarily for Ages 16 and over (U.S. & IL)



Data Source: U.S. - Current Population Survey (CPS), Bureau of Labor Statistics (BLS), (SA); Haver Analytics. IL – Illinois Department of Employment Security (IDES), (NSA, 12-Month Average) the lowest reading since April 2008, indicating that the recovery is likely helping people find full-time work. [20]

Gig Economy

For decades, most workers had one full-time job and worked for one employer. As the economy has undergone structural changes, the Gig Economy is today's buzz word. Gigs are short-term assignments in which pay is generally determined by task or output, rather than hours worked. Employers who replace full-time workers with contract workers, or have simpler tasks being done by temporary workers are utilizing the Gig Economy. Gig employees tend not to have predictable work, regular wages, or the same boss. [21]

The Bureau of Labor Statistics (BLS) provided estimates on contingent and alternative workers from 1995 through 2005 based on supplements to the Current Population Survey (CPS). The data has not been collected since 2005 due to funding issues, but the BLS is scheduled to gather this data again in May 2017. Contingent workers are defined as people who do not expect their jobs to last or who reported that their jobs are temporary. No implicit or explicit contract exists for ongoing employment. Alternative work includes people who are employed as independent contractors, on-call workers, temporary help agency workers, and workers provided by contract firms.

BLS estimates reported in 2005 that these alternative employment arrangements accounted for 10.1 percent of U.S. employment. This was similar to the estimates for 1995. Independent research done more recently estimates the share of the workforce included in alternative employment arrangements had grown to 15.8 percent by 2015. This corresponds to an estimated increase of 9.4 million workers who are employed via alternative arrangements.

This is more than the entire growth of jobs in the economy as a whole (9.1 million new jobs). So, all of the net employment growth in the U.S. economy from 2005 to 2015 occurred via the Gig Economy. [22]

Some confusion exists from the popular association of the Gig Economy with jobs found on Internet platforms such as Uber. In truth, these platforms account for only 0.5 percent of total employment in the U.S., so they are a very small component of the entire Gig Economy. [23] It is true this segment is growing at a very high rate as technological innovation allows for efficiently matching the skills and desires of workers with people who are interested in their services. [24, 25]

The benefits of jobs in the Gig Economy include: 1) flexibility of work time schedule; 2) ability to decide what type of projects to work on and the type of people to work with; and 3) low barrier to entry; [26, 27] The drawbacks of jobs in the Gig Economy include: 1) uncertainty of not having consistent work and stable income; 2) lack of typical employee benefits such as health insurance, leave time, and retirement plans; 3) not having a set work schedule along with the possible need to work weekends and holidays; and 4) not being covered by typical labor laws such as unemployment insurance and the minimum wage. [28, 29]

Employers likely receive the greatest benefits of the Gig Economy. A business that has up and down cycles can hire temporary and contract workers instead of hiring full-time employees. Employers can then remove workers from the payrolls in those periods when business is slow. This allows employers to minimize costs. [30] Employers are expected to continue to move noncore jobs out of their businesses as they can then focus their resources on the primary tasks in which they excel. [31]

The demographics of workers in the Gig Economy show that those between the ages of 55 and 74 are the primary drivers of growth. In fact, those working under alternative arrangements are more likely to be older and more highly educated. The number of workers in the 25-54 age group in this sector has also grown. The share of females working under alternative arrangements has risen from 8.3 percent in 2005 to 17.0 percent in 2015. The data supports the notion that temporary work is expanding to more types of jobs and for the total number of jobs. [32]

Current labor laws are based on the belief that most people work traditional jobs. Many independent workers lack access to protections such as unemployment insurance, workers compensation and disability insurance. [33] As the share of this segment continues to grow, policy modifications need to be addressed that would provide portable benefits for workers in the Gig Economy such as access to retirement plans, unemployment insurance and paid sick leave. [34]

Income Inequality

"Middle-income" households are defined as those with an income that is two-thirds to double that of the U.S. median household income (after adjustment of incomes for household size). For a three-person household, the middle-income range was about $42,000 to $126,000 annually in 2014 (in 2014 dollars). The share of U.S. aggregate income going to upper-income households rose from 29 percent in 1970 to 49 percent in 2014. The share going to middle-income households declined from 62 percent in 1970 to 43 percent in 2014. [35]

Median income for the middle-class, adjusted for household size, rose 34 percent since 1970. This is not as much as the 47 percent increase in income for upper-income households, but it is greater than the 28 percent increase among lower-income households. Median income of middle-income households fell 4 percent for the period from 2000 to 2014. [36]

Lower-income households can be separated into lowest-income households (income less than half of the overall median) and lower-middle income households (incomes from half to less than two-thirds of the overall median). Likewise, the upper-income households can be separated into upper-middle income households (more than twice the overall median income up to three times the overall median income) and the highest-income households (more than three times the overall median income). [37]

The far edges of the income spectrum have shown the most growth. As seen in Exhibit 3, the proportion of

Exhibit 3 - Distribution of Income by Income Class

	Distribution	
	1971	2015
Lowest Income Households (Less than Half of MHHI)	16%	20%
Lower Middle Income Households (Half to Less than 2/3 of MHHI)	9%	9%
Middle Income Households (2/3 to Twice of MHHI)	61%	50%
Upper Middle Income Households (More than Twice to Three times of MHHI)	10%	12%
Highest Income Households (More than Three times of MHHI)	4%	9%

Data Source: Pew Research Center analysis of Current Population Survey (CPS) data; Annual Social and Economic Supplements 1971 and 2015

American adults in the lowest income tier rose from 16 percent in 1971 to 20 percent in 2015. During this time the share of American adults in lower-middle income households did not change, holding at 9 percent. The proportion of American adults in the highest income tier rose from 4 percent in 1971 to 9 percent in 2015. The share in upper-middle income households rose only from 10 percent to 12 percent. [38]

This "hollowing out" of the American middle class has proceeded steadily for more than four decades. Starting in 1971, each decade has ended with a smaller share of adults living in middle-income households than at the beginning of the decade. The share of American households living in middle-income households fell from 61 percent in 1971 to 50 percent in 2015. The share living in the upper-income tier rose from 14 percent to 21 percent over the same period. Meanwhile, the share in the lower-income tier increased from 25 percent to 29 percent.

A research project tracking the pre-tax household incomes of children at age 30 relative to their parents was conducted starting with children born in 1940. The first cohort (in 1970) showed that 92 percent of children had higher incomes than their parents. The children in this group that did not earn more than their parents tended to come from families with higher incomes. It is notable that this group came of age in an era of healthy economic growth at all levels of education and income distribution. [39]

As the economy slowed in the 1970's (due in part to the energy crises), fewer children born 30 years prior were better off financially than their parents, but still more than three-quarters were better off. The results continued to change even more in the 1980s (children born in the 1950s) as technological change, globalization, and government policies started having a bigger impact on the economy. Changes favored those toward the top of the income distribution while the middle class and poorer class were not progressing at the same rate. The technology boom of the 1990s temporarily slowed this shift. [40]

A more recent cohort (in 2010) shows that children born in 1980 only exceeded their parent's income half of the time. Furthermore, the proportion of children surpassing their parents for the industrial Midwest states used to be slightly higher than the national average, but is now slightly lower. The point of this research was to show that fewer people are able to realize the American Dream now that financial rewards are not available to workers at all levels of the distribution. The impact is not as large for college graduates as they still tend to earn more than their parents. [41]

National accounts data shows that the bottom 50 percent of income earners in the U.S. had a 20.0 percent share of pre-tax income in 1980. This share fell to 12.5 percent in 2014. In contrast, the top 1 percent of earners saw their share rise from 10.7 percent in 1980 to 20.2 percent in 2014. The bottom 50 percent of earners have seen their pre-tax incomes rise 1 percent (in constant 2014 dollars) on average from 1980 to 2014. Over that same time period, the top 10 percent of earners have seen their pre-tax income rise 121 percent, the top 1 percent of earners have had a 205 percent increase, and the top .001 percent have had a 636 percent increase. [42]

The only group in the bottom 50 percent with rising incomes were those over age 65, which led researchers to conclude that income stagnation was not due to population aging. People left behind in the lower income group become more dependent on public assistance for healthcare, education for their children, and income/food subsidies. The children of this group must climb larger barriers to get the education they will need to obtain jobs that will allow them to succeed in the future. [43]

Other data has been produced to show changes in the income distribution of Metropolitan Statistical Areas (MSAs) of states. Eight MSAs that include areas in Illinois are shown in Exhibit 4. Seven of the eight show that the middle-income share of the distribution has shrunk between 2000 and 2014 (all except for Kankakee MSA). The increase in the lower-income distribution is greater than the increase in the upper-income distribution for five of the MSAs. Both Decatur and Kankakee MSAs had decreases in the lower-income distribution over this time paired with increases in their upper-income distributions. The Springfield MSA had a larger increase in its upper-income distribution than its lower-income distribution, but also had the largest decrease in its middle-income distribution.

Wealth Inequality

The housing market crisis and the Great Recession had a large impact on family wealth (assets minus debts). Before the start of the Great Recession, median wealth of middle-income families had increased from $95,879 in 1983 to $161,050 in 2007, a gain of 68 percent. By 2010, the median wealth of middle-income families had fallen to about $98,000, about where it still was in 2013. Upper income families more than doubled their wealth from 1983 to 2007 as it climbed from $323,402 to $729,980. Despite losses during the recession, these families recovered somewhat since 2010 and had a median wealth of $650,074 in 2013, about double their wealth in 1983. [44]

The difference in the wealth trends between families with middle-income and upper-income during the last decade is because the home investment tends to be a larger part of a family's portfolio for middle-income families than it does for upper-income families. The housing market crash that occurred around the Great Recession caused the typical investment in a home to fall more than the typical investment in the market from 2007 to 2013, so the portfolios of upper-income families tended to do better than the portfolios of middle-income families. As a result, the average wealth of an upper income family has risen from a little over three times as much wealth as a middle-income family in 1983 to a little less than seven times as much wealth in 2013 (ratio has increased by a factor of two). [45]

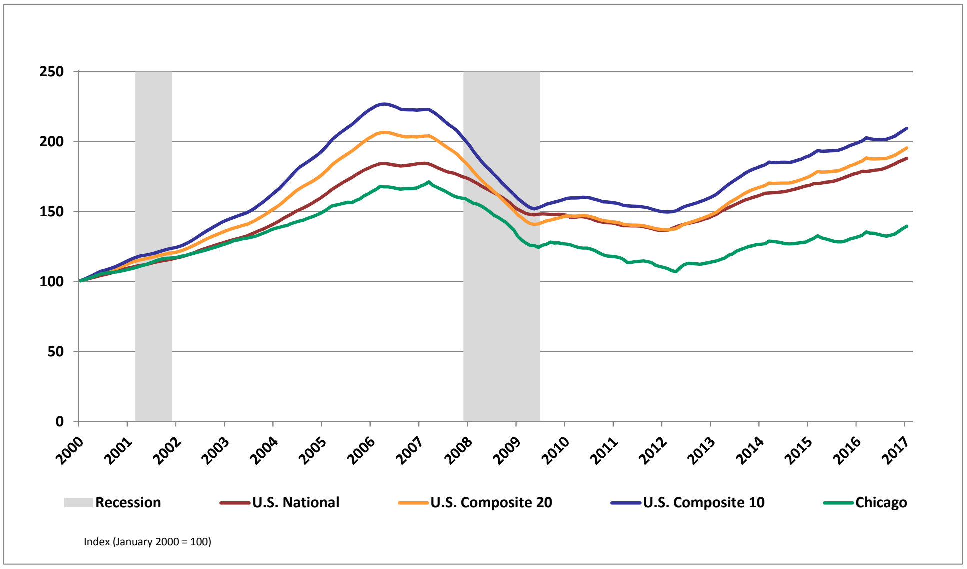
Furthermore, the implementation of monetary policy since the Great Recession has been tilted toward households with stronger financial positions. Borrowing costs have remained low since the financial crisis as the Federal Reserve set interest rates low. However, regulators and lenders have clamped down on risk-taking by lending institutions, making it more difficult for households of lesser means to obtain loans. This has created even more separation between households at the top and those further down the ladder. [46]

Exhibit 4 - Distribution of Income by Income Class, Selected Illinois MSAs (2000 and 2014)

	2000			2014			Change from 2000 to 2014		
Illinois MSA	Lower	Middle	Upper	Lower	Middle	Upper	Lower	Middle	Upper
Bloomington	19.6%	58.1%	22.3%	24.5%	50.2%	25.3%	4.9%	-7.9%	3.0%
Champaign-Urbana	28.6%	53.5%	17.9%	35.9%	44.4%	19.7%	7.3%	-9.1%	1.8%
Chicago-Naperville-Elgin, IL-IN-WI	23.6%	56.3%	20.2%	27.4%	51.1%	21.5%	3.8%	-5.2%	1.3%
Decatur	26.0%	57.2%	16.9%	25.8%	53.6%	20.6%	-0.2%	-3.6%	3.7%
Kankakee	27.3%	60.0%	12.7%	23.3%	62.1%	14.6%	-4.0%	2.1%	1.9%
Rockford	19.9%	60.5%	19.6%	28.2%	53.7%	18.2%	8.3%	-6.8%	-1.4%
St. Louis, MO-IL	19.1%	57.7%	23.2%	22.5%	52.8%	24.7%	3.4%	-4.9%	1.5%
Springfield	20.6%	60.9%	18.5%	24.8%	49.3%	25.9%	4.2%	-11.6%	7.4%

Data Source: Pew Research Center analysis of 2000 Decennial Census and 2014 American Community Survey (ACS) (PUMS data); America's Shrinking Middle Class: A Close Look at Changes within Metropolitan Areas: Appendix B

Exhibit 5A – Housing Price Index Data since 2000 (U.S. National; U.S. Composite 20; U.S. Composite 10; Chicago metropolitan region)



Data Source: S&P CoreLogic Case-Shiller Housing Price Indices; Haver Analytics

New home sales are about 30 percent below the average of 1983 through 2007. They are lower than every one of those years except for the recession period of 1990-91. New home construction has also returned to levels normally seen in recessions.

U.S. Composite 10:
Boston; Chicago; Denver; Las Vegas; Los Angeles; Miami; New York; San Diego; San Francisco; Washington DC

U.S. Composite 20:
U.S. Composite 10 plus Atlanta; Charlotte; Cleveland; Dallas; Detroit; Minneapolis; Phoenix; Portland; Seattle; Tampa

Data Source: S&P CoreLogic Case-Shiller Housing Price Indices; Haver Analytics

Housing sales started to rise in 2011. However, new home sales are about 30 percent below the average of 1983 through 2007. They are lower than every one of those years except for the recession period of 1990-91. New home construction has also returned to levels normally seen in recessions. Homes are generally the biggest purchase households make, and home sales also trigger spending on appliances, furniture and landscaping. Single-family home construction accounted for 2 percent of gross domestic product, on average, during the 1990s. Since the end of the recession in 2009, it has averaged just 1 percent of GDP. [47]

The S&P Case-Shiller Housing Price Index data shown in Exhibit 5A is charted for four different geographical representations: 1) U.S. National (the index for housing at the national level); 2) U.S. Composite 20 (the index representing 20 metropolitan regions in the U.S.); 3) U.S. Composite 10 (the index representing a more narrow 10 metropolitan regions in the U.S.); and 4) the Chicago metropolitan region. Each of the four data series starts increasing from the year 2000. This increasing trend halts about March of 2006 (the start of the collapse of the housing bubble), when it first levels off and then goes into a steep decline. It then stops the steep decline about May of 2009, when it flattens out or slows its decline (although the Chicago series clearly continues to decline) until January of 2012 when all of the data series start to trend upward.

Exhibit 5B – Comparison of Changes in Housing Price Data since 2000 (U.S. National; U.S. Composite 20; U.S. Composite 10; Chicago metropolitan region)

	Percentage Change in Value of Housing Price Index			
REGION	January 2000 to March 2006	March 2006 to May 2009	May 2009 to January 2012	January 2012 to January 2017
U.S. National	84.4%	-19.9%	-7.5%	37.7%
U.S. Composite 20	106.3%	-31.7%	-2.6%	42.6%
U.S. Composite 10	126.5%	-32.9%	-1.4%	39.7%
Chicago	68.0%	-25.1%	-12.4%	26.8%

Data Source: S&P CoreLogic Case-Shiller Housing Price Indices; Haver Analytics

Single-family home construction accounted for 2 percent of gross domestic product, on average, during the 1990s. Since the end of the recession in 2009, it has averaged just 1 percent of GDP.

Exhibit 5B, on the previous page shows the rate of change for the different steps from January 2000 to January of 2017. It also shows the cumulative change from the start of the collapse of the housing bubble (March 2006) through January of 2017, with the U.S. National series increased 2.0 percent. In comparison, the U.S. Composite 20 has fallen 5.2 percent and the U.S. Composite 10 has fallen 7.5 percent for the same time frame. Chicago fell 16.9 percent during this period.

Only four other metropolitan regions (out of 20) used in the composite indices had lower rates of change during this time. All four of these regions (Tampa, Miami, Phoenix, and Las Vegas) had much higher peak prices at the start of the collapse of the housing bubble and all currently have higher price indices than does Chicago.

The Chicago region serves as a proxy for Illinois housing as it has about two-thirds of the state's population. It is among the regions in the nation with the lowest increases in housing prices for this century. The value of housing prices in the region (and state) has likely moved the average household downward on the national wealth distribution since the year 2000.

Identification of Groups Struggling to Adapt to Economic Changes

The national unemployment rate reached its post-recession low at the end of 2016. However, a number of sub-population groups exist in the country in which people are struggling to find success in the labor market. The households in these groups are now more likely to be found in the bottom half of the income distribution.

List of Sub-Groups:

1. Working class who are underemployed, earn low wages, or out of the labor force;
2. Households led by single females with children;
3. Minorities in the inner-city (living in neighborhoods lacking economic opportunity);
4. Older workers (not enough saved for retirement or lacking health insurance);
5. Ex-offenders;
6. Young adults (living at home to older ages); and
7. Youth (living in low-income households).

Working Class

The working class has recently been characterized as white, male, with no more than a high school education, working in blue-collar occupations and from non-urban areas. This representation may cover a large portion of the working class, but the most common characteristics are that the overwhelming majority would have educational attainment of a high school diploma or less with work experience in blue-collar occupations. This group likely includes a number of females and possibly more racial diversity when expanded to include the Chicago 9-county areas along with the Non-Metro and Small Metro regions of Illinois.

Prior to changes in the structural economy many adults were able to find jobs that paid wages good enough to co-anchor (along with a spouse) a household and live a middle-class lifestyle. This situation has changed for many of these individuals as many of those middle-skill level jobs have been eliminated. The jobs that are available to this sub-group are unlikely to have the same pay and work benefits needed to maintain their previous lifestyle.

Many people in this group previously worked in the industries of manufacturing, mining, or construction. As was seen in the 2016 Illinois Economic Report, a number of jobs in these industries have been lost across geographical areas within Illinois.

Even though the labor force and employment are growing faster now, the labor force participation rate for prime-age adults remains low. Many men believe that some of the jobs traditionally dominated by women require a sensitivity that does not come natural to most men. Men typically prefer jobs that are more masculine in nature and shy away from jobs in female-dominated fields. Women are more likely to enter male-dominated fields that pay well and typically require post-secondary education than men are to enter female-dominated fields. [48]

New research is showing that certain males are more willing to move into predominantly female jobs. However, it is the males who are already disadvantaged in the labor market that are more likely to do so. This includes blacks, Hispanics, anyone of lower educational attainment, and immigrants. The same research shows that the females most likely to enter male-dominated fields are white, of higher educational attainment, native-born and married. [49]

As mentioned earlier, the work patterns of men have become more like the traditional patterns for women in that they have become more likely to cycle in and out of the labor force. Some men are looking for the job they used to have but it doesn't exist anymore. The term "retrospective wait unemployment," was coined by economist, Lawrence Katz. It means available jobs are not necessarily a skill mismatch, but better defined as an identity mismatch. [50]

Researchers have attempted to identify why the labor force participation rate for prime-age males is worse in the U.S. than in most other developed economies. Survey data has shown that almost half (47 percent) of the prime-age males in the U.S. that are not participating in the labor force, took pain medication for physical ailments the day before the survey. The research pointed out that some of these men had

"Retrospective wait unemployment" - Some men are looking for the job they used to have but it doesn't exist anymore. The available jobs are not necessarily a skill mismatch, but better defined as an identity mismatch.

Lawrence Katz - Economist

severe disabilities, which caused them to leave the labor force while others may have left the labor force prior to becoming disabled. [51]

Other research has shown that there have been spikes in suicide and fatalities related to alcohol and drug abuse for whites of various age groups between 1998 and 2013. In fact, the spikes have been so large that it changed the trend for life expectancy for whites in the age group of 45 to 54. [52] Some economists believe it's tied to fewer economic opportunities for white, blue-collar Americans. One clue is that white, middle-age Americans with high-school degrees or less have seen a large increase in this type of death, while college-educated workers saw lower death rates. [53]

Related research shows that men in the 21-30 age group who are not participating in the labor force spent an average of 6.7 hours a week playing video games from 2012 to 2015, compared with 3.6 hours from 2000 to 2007. In addition, the average time spent playing video games in 2014 was two hours per day for those in that age group with less than a college education. Ten percent played for six hours per day. About seven in 10 males in the age group with lower skill-levels and without a job lived with a family member. [54]

Females tend to be in and out of the labor force much more often because they are acting as caregivers (for children, parents, other relatives). Females in other advanced industrialized countries have access to more comprehensive policies for child and family care and thus have higher labor force participation rates.

Investing in programs such as apprenticeships, could help women enter traditionally male-dominated and higher-paying fields.

Households led by Single Females with Children

Single females with children at home who require care tend to be another group at risk. These women can live in both rural and urban areas. Although many may have attained an education of a high school diploma or less, other females may have some college and even a few may have a Bachelor's degree, but still earn wages that make it difficult to support a family.

A report released by the Institute for Women's Policy Research (IWPR) shows that one-fourth of all employed working women are employed in one of 22 occupations. All of these jobs pay less than $15 per hour and are female-dominated. By 2024, it is expected that one of every six jobs will fit into this "women's work" category. The occupations include preschool teachers and health care support, require some education beyond high school, but the wages are relatively low. [55]

Those employed in these jobs are likely living near the poverty threshold with a need to access government benefits to support their families. According to the report, one-fourth of the mothers working these jobs are using food stamps. An increase in the minimum wage and improving access to child care and elder care are issues that are important to improving the lives of these women. Investing in programs such as apprenticeships, could help women enter traditionally male-dominated and higher-paying fields. [56]

Minorities in the Inner-City [primarily Blacks & Hispanics]

A recent study shows that blacks residing in Chicago are much more likely to be unemployed or not in the labor force than the rest of the city's population. They also fare worse than blacks in the portion of Cook County not including the City of Chicago. Blacks make up 29 percent of the city's population, but account for 52 percent of the city's unemployed and 40 percent of those not in the labor force. Nationally, blacks make up 14 percent of the population, but account for 21 percent of the unemployed and 14 percent of those not in the labor force. [57]

The long-term decline in labor force participation rates of prime-age males has been especially steep for black males (especially for those who did not attend college). The Chicago Cook Workforce Partnership suggests that this distinction is due in part to the segregation of neighborhoods in the city. [58]

The neighborhoods where blacks tend to be concentrated have schools of lower quality, less access to transportation, and fewer neighborhood resources. Children in these areas can face an increased risk of prolonged poverty, child abuse, educational failure and youth delinquency and violence, especially among boys, whose main reason for joining gangs is to find a family and male role models. [59]

The numbers change in the portion of Cook County that excludes the City of Chicago. The Cook County suburbs have a higher proportion of low- to middle-income whites than the city and fewer poor blacks than the city. The proportion of blacks not in the labor force is 25 percent in the suburbs compared with 20 percent of whites. [60]

A study by the Corporation for Enterprise Development showed that the gap for incomes between white and minority households is wider in the City of Chicago than for the nation overall. In fact, both the average income and average wealth held by white households is vastly different than it is for black, Hispanic and Asian households. Part of the explanation is that white households in Chicago are wealthier than white households in the nation and black households in Chicago are less wealthy than black households nationally. [61]

Data from the American Community Survey from 2005, 2010, and 2015 for the U.S., Illinois, Cook County, the City of Chicago, and the portion of Cook County excluding Chicago (labeled "Cook – City") is shown in Exhibit 6.

This data confirms the discrepancy in labor force participation rates between whites, blacks, and Hispanics for the City of Chicago and the portion of Cook County excluding Chicago. Whites living in the City of Chicago have higher labor force participation rates than whites living in the remaining portion of Cook County. Conversely, blacks living in the city have much lower labor force participation rates than blacks living in the remaining portion of Cook County. Although the differences are not as great, Hispanics in the city also have lower participation rates than Hispanics in the remainder of Cook County. Unemployment rates are also worse for blacks and Hispanics in the city when compared to the remaining portion of Cook County while it is the opposite for whites.

Older Workers

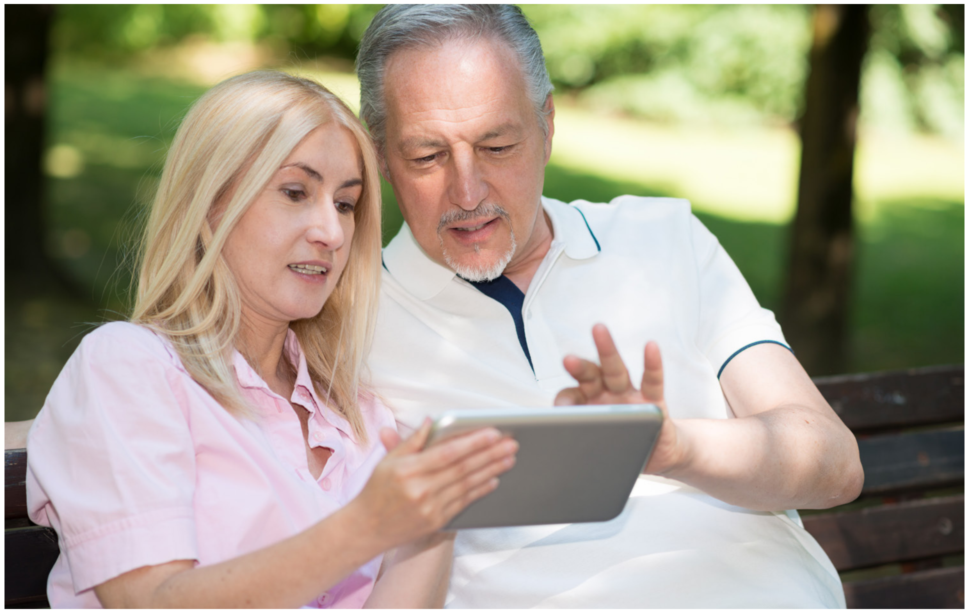
Labor force participation rates among workers over 60 have been trending upward for both males and females since the early 1990s. The rate for older

Exhibit 6 – Labor Force Participation Rate and Unemployment Rate, by Race and Ethnicity - Comparison of City of Chicago and Portion of Cook County Excluding Chicago

	2005					2010					2015				
	United States	Illinois	Cook County	City of Chicago	Cook - City	United States	Illinois	Cook County	City of Chicago	Cook - City	United States	Illinois	Cook County	City of Chicago	Cook - City
16 years and over															
Population	223,524,814	9,569,706	3,984,940	2,063,395	1,921,545	243,832,923	10,084,990	4,114,076	2,138,303	1,975,773	256,167,758	10,240,058	4,192,206	2,200,593	1,991,613
Labor Force Participation Rate	65.9%	67.6%	66.3%	65.3%	67.4%	64.4%	66.3%	66.3%	65.7%	66.9%	63.1%	65.2%	65.6%	66.0%	65.2%
Unemployment rate	6.9%	7.9%	9.4%	11.0%	7.7%	10.8%	11.4%	13.1%	14.8%	11.3%	6.3%	6.9%	8.3%	9.5%	7.0%
One Race - White															
Population	171,054,939	7,123,330	2,246,432	874,449	1,371,983	184,856,301	7,508,870	2,422,560	1,051,176	1,371,384	191,002,444	7,511,561	2,426,671	1,104,028	1,322,643
Labor Force Participation Rate	65.7%	67.9%	67.2%	69.4%	65.8%	64.3%	67.0%	68.3%	71.3%	66.0%	62.8%	65.7%	67.6%	71.2%	64.6%
Unemployment rate	5.7%	6.0%	5.9%	5.9%	5.9%	9.5%	9.6%	10.2%	10.1%	10.3%	5.3%	5.2%	5.1%	5.1%	5.1%
One Race - Black															
Population	25,361,007	1,288,446	968,678	682,071	286,607	29,474,816	1,404,363	985,075	692,995	292,080	31,505,360	1,432,462	976,787	665,859	310,928
Labor Force Participation Rate	65.7%	63.5%	61.6%	57.8%	70.6%	62.2%	59.3%	58.5%	55.1%	66.6%	62.0%	58.9%	58.2%	55.8%	63.3%
Unemployment rate	13.2%	18.1%	18.1%	20.2%	14.0%	17.9%	22.1%	23.0%	25.0%	19.1%	11.3%	16.4%	17.5%	18.7%	15.2%
One Race - Hispanic															
Population	28,857,939	1,227,859	802,345	537,201	265,144	35,347,040	1,386,978	871,484	542,715	328,769	40,266,825	1,523,265	946,581	574,838	371,743
Labor Force Participation Rate	68.3%	71.5%	69.4%	67.7%	72.8%	67.8%	71.0%	69.9%	67.8%	73.4%	67.0%	70.5%	68.9%	67.6%	70.9%
Unemployment rate	8.7%	9.5%	10.0%	10.1%	9.8%	12.9%	13.2%	13.5%	15.0%	11.2%	7.4%	7.8%	8.6%	9.4%	7.4%

Data Source: 2005, 2010, 2015 ACS 1-year estimates; Table S2301

Data Source: 2005, 2010, 2015 American Community Survey (ACS) 1-year estimates; Table S2301 men has increased from 26 percent in 1995 to 35 percent 2014. The rate for older women has increased from 15 percent in 1995 to 25 percent in 2014. Older Americans are working longer for a variety of reasons. [62]



People with more education tend to have higher incomes and usually have work that is more satisfying. Educational attainment for adults has continued to rise with 42 percent of those in the 60-74 age range having less than a high school diploma in 1985 compared to only 12 percent in 2013. [63]

Another reason for people to continue working is the increase in age for which workers can claim full benefits from Social Security. Other people are working longer for other reasons. Data show that more than 9 million people over the age of 65 are working today compared to about 5 million people a decade earlier. [64] The top one-third of baby boomers likely have enough assets to have a traditional retirement, but others in the middle-class are less financially secure and need to work longer to make ends meet.

Employers have shifted away from providing pension plans and toward defined contribution retirement plans (IRAs) putting more responsibility on the individual for their retirement income. Thus, the longer the individual works, the better chance they have of accumulating wealth in their retirement savings accounts. Many employers have also eliminated employer-funded retiree health insurance coverage. This increases the risk for people who leave their jobs before they are eligible for Medicare. [65]

It is also true the proportion of older Americans continuing to work full-time has increased and the relationship between full-time and part-time has reversed for older workers since 1995. [66] Many people lost good jobs in the Great Recession from which their finances have never recovered. In fact, slightly more than 27 percent of full-time workers over 55 years old held low-wage jobs compared with 19 percent of younger workers in low-wage jobs (annual earnings of $28,000 or less). [67]

Older males have tended to find work in low-wage, non-union jobs. Females make up the majority of workers in seven of the top ten low-wage jobs for older workers. Older women also tend to have a lower accumulation of earnings saved for retirement and thus more likely to have to work later in life. Females are more likely to be involved in a caretaker role, which can limit their employment opportunities. Previous work experience for older workers is unlikely to carry much weight, especially if they do not have a college education. Since the better-educated also tend to be healthier, it is likely that the least healthy workers are also the group needing to work longer. [68]

Females have less retirement income than males across all age groups according to a report from the National Institute on Retirement Security. Income is 25 percent lower on average for females older than 65 when compared to males. The gap grows to 44 percent by age 80. So females are 80 percent more likely to live in poverty after age 65, and females in the 75-79 age group are three times more likely to live in poverty relative to males. [69]

Females tend to earn less income over their careers than males so they have less saved for retirement. They

Exhibit 7A – Labor Force Participation Rates, by Gender for Age Groups 55-64 (U.S. & IL)

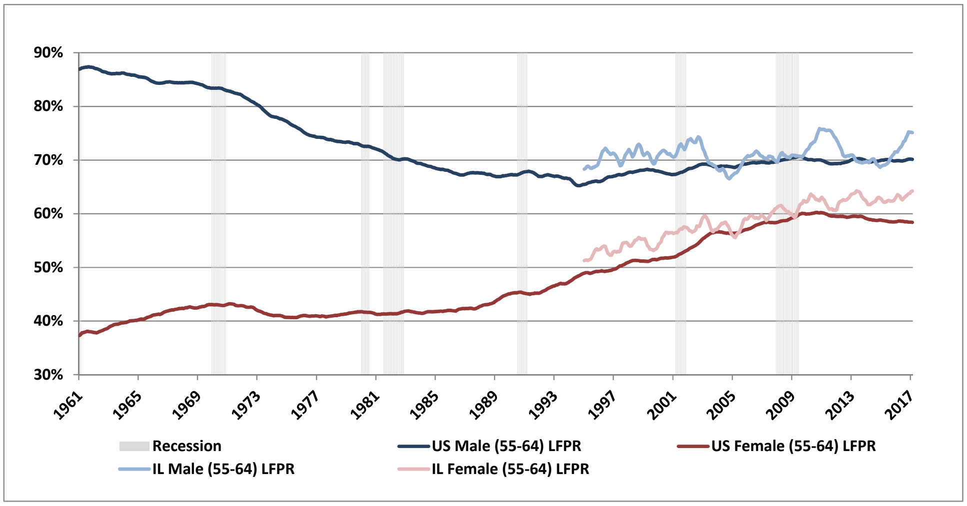
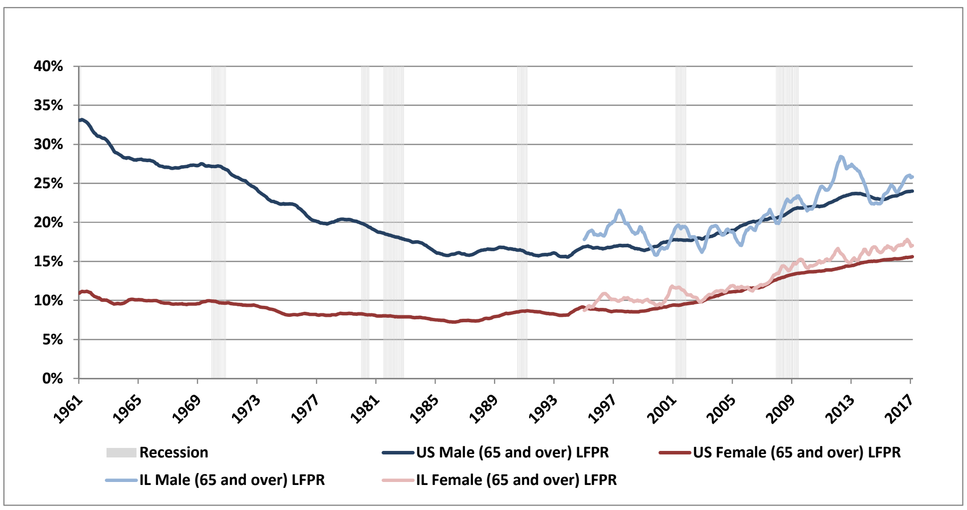


Exhibit 7B – Labor Force Participation Rates, by Gender for Age Groups 65 and over (U.S. & IL)



Data Source: U.S. - Current Population Survey (CPS), Bureau of Labor Statistics (BLS), (NSA, 12-Month Average); Haver Analytics. IL – Illinois Department of Employment Security (IDES), (NSA, 12-Month Average)

are also more likely to take time off for caregiving during their prime working years, which means they have fewer years to make contributions to a retirement plan. Females also live about five years longer than males, on average, and likely will incur more expenses related to health care. [70]

Exhibits 7A and 7B show the labor force participation rates for the age groups 55-64 and 65 and over. Illinois data is available beginning in 1995. It follows a similar path as the national data in both charts.

Labor force participation rates for males in both age groups started trending upward around 1993-94 after significant declines from the early-1960s. The rate of increase is larger for those in the 65 and over group although the participation rate for that group is less than half of the rate for the 55-64 age group.

The labor force participation rate for females in the 55-64 age group trended upwards from the early-1960s until 2011, when there was a slight drop-off. The participation rate for females in the 65 and over group started at slightly above 10 percent in the early 1960s and then reached a bottom in 1987. It has trended upward and approximately doubled in value since that time.

Ex-offenders

The nation's high incarceration rate is a big reason why a significant number of prime-age males are not in the labor force. The U.S. has the world's second-highest prison population rate -- 698 prisoners for every 100,000 people, according to the Institute for Criminal Policy Research. [71] Black and Hispanic males account for 59 percent of the U.S. prison population. [72]

The U.S. has approximately five times the average population proportion of incarcerated of other developed Organization for Economic Cooperation and Development (OECD) countries. This is part of the explanation for the larger decline in labor force participation rates for prime-age males in the U.S. relative to other developed countries as ex-offenders have a low labor force participation rate. Data from the Current Population Survey (CPS) suggests that between 6.4 and 7.2 percent of the prime-age male population in 2008 were ex-offenders. [73]

Ex-offenders typically face large barriers to employment as many have been out of the labor force for years. It is not likely they developed high-quality work skills prior to their incarceration, and their criminal record may now prevent them from positive opportunities. [74]

Survey data show that almost two thirds of ex-offenders were unemployed or underemployed five years after being released from prison. Data for 2014 from the New York State Division of Parole showed that only 36 percent of parolees who were able to work, and who had been out of prison for at least 30 days, were employed. Some success has been found by training ex-offenders in entrepreneurial skills with the hope of starting a business. [75]

Young Adults

About 40 percent of young adults (Millennials – 20s to mid-30s) lived with relatives in 2015. That is the highest proportion for the U.S. since 1940 as the U.S. economy was recovering from the Great Depression and just before the country entered World War II. This ratio has been increasing since before the Great Recession but accelerated with the start of the downturn. [76]

Research shows a higher proportion (32.1 percent) of those in the 18 to 34 age group lived at home with their parents than were married or living with a partner (31.6 percent) in a separate household. Individuals staying at home could be having trouble finding employment with good wages, while facing student loan debt and discovering apartments are simply too expensive. Average student loan debt for an undergraduate student was over $30,000 in 2016, an increase of 53 percent in the last 10 years. [77]

Consequently, fewer people in this age group are eligible for mortgages and are becoming homeowners. This has increased demand for rental properties. The proportion of homeowners under the age of 35 has declined from 43 percent in 2004 to 35 percent in 2016. The decline is largest for those in the lower-income class and those who are unmarried. The decreased demand for homes has a negative impact on the overall economy, curtailing growth in many related industries. At a similar age, only about 25 percent of baby boomers lived at home, which was about the lowest percentage since 1940. [78]

Baby boomers
Born 1946 – 1964

Generation X
Born 1965 – 1980

Millennials (a.k.a. Generation Y)
Born 1981 – 1994

Generation Z
Born 1995 – 2012

Exhibit 8A – Labor Force Participation Rates, by Gender for Age Group 20-24 (U.S. & IL)

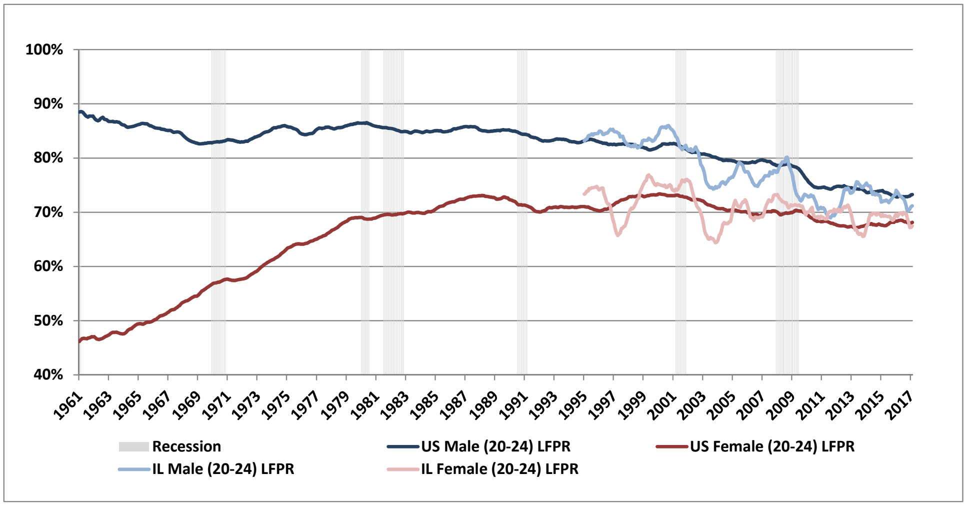
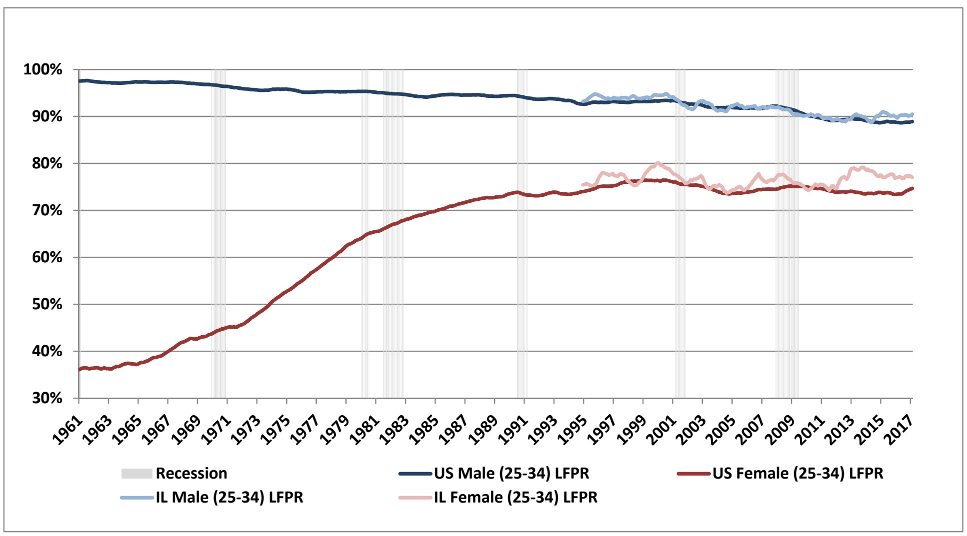


Exhibit 8B – Labor Force Participation Rates, by Gender for Age Group 25-34 (U.S. & IL)



Data Source: U.S. - Current Population Survey (CPS), Bureau of Labor Statistics (BLS), (NSA, 12-Month Average); Haver Analytics. IL – Illinois Department of Employment Security (IDES), (NSA, 12-Month Average)

The situation is improving in regard to underemployment of college graduates. Fewer graduates are in jobs that did not require them to go to college. In 2011, a report found 53.6 percent of recent college graduates were out of work or underemployed. This proportion had dropped to 33 percent in 2014. Although this is not a great percentage, the trend is encouraging. [79]

It is worth noting that poor men with few job opportunities are also likely to lack marriage prospects. As good-paying jobs in blue-collar industries have disappeared in the last few decades, males who have traditionally fit into these jobs have suffered. If they have a job, then it comes with lower wages. This group now has an increased likelihood of heavy drinking, drug use, and other risky behaviors. This group has a higher mortality rate, as well as a higher incarceration rate. They may be homeless or perhaps they left the area to find opportunities elsewhere. [80]

Individuals with a college education are more likely to be married (65 percent) now than individuals with a lower educational attainment (53 percent). Females with a college education are more likely to be in a marriage lasting 20 years or more (80 percent) compared to 40 percent for females that have a high school diploma. [81]

Millennials without a college education are earning less than other individuals at the same age from previous generations. However, the proportion of this group having children before marriage is increasing. New research shows that young people are more likely to have their first child outside of marriage in areas of high income inequality with few middle class jobs available that don't require a college degree. Conversely, in areas with more middle-skill jobs available, young people are more likely to get married before having children. [82]

Exhibits 8A and 8B, on the previous page, show labor force participation rate data for age groups 20-24 and 25-34. Illinois data is available beginning in 1995. The statewide data closely tracks the national data in the chart.

The labor force participation rate for males in the 20-24 age group started near 90 percent in the early-1960s, then trended downward slowly for about twenty-five years. The downward trend became steeper in 1987 and is now below 75 percent. The participation rate for females in the 20-24 age group started below 50 percent in the early-1960s. It climbed above 70 percent in the 1980s and peaked around 1988. It held fairly steady until 2001 when it started trending downward before stabilizing again around 68 percent.

The labor force participation rate for males in the 25-34 age group started close to 100 percent in the early-1960s, then steadily dropped down to below 90 percent. The participation rate for females in the 25-34 age group started below 40 percent in the early-1960s, then rose into the mid-70s before leveling off.

Youth

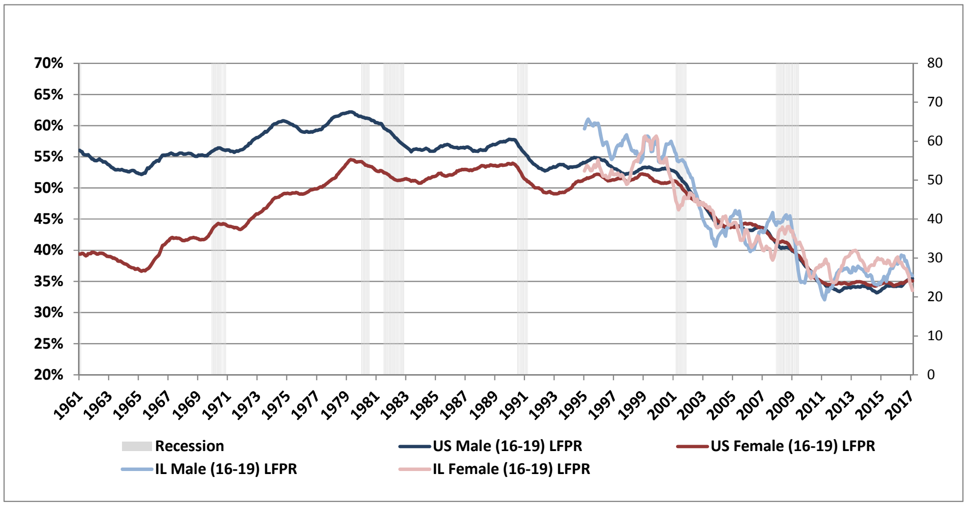
A recently released report shows that 12.3 percent of those in the age group of 16-24 were neither employed nor in school in 2015. That is a decrease from 16.0 percent just after the Great Recession and slightly lower than in 2008, when it was 12.6 percent. The figures by racial/ethnic group in 2015 are 10.1 percent of whites, 18.9 percent of blacks, 7.2 percent of Asians, and 14.3 percent of Hispanics that were neither employed nor in school. [83]

The likelihood of an individual, in this age group to be neither employed nor in school falls as the household income rises. It is also true that someone in the age group that lives in a rural county (20.3 percent) is more likely to neither be employed nor in school than a young person in an urban area (14.2 percent). Young people in suburban counties had a proportion of only 12.3 percent. [84]

Advance Illinois recently released its biennial report "**Every Student Counts: The State we're in 2016-2017.**" According to the report, the number of Illinois school districts having a majority of their students coming from low-income families jumped from 13 percent to 43 percent over the past decade. It also says as poverty levels increase, low-income Illinois students remain academically behind their wealthier peers in K-12 schooling and are less likely to complete a postsecondary degree. [85]

According to the report, 20 percent of low-income students are college-ready based on scores measured on the ACT college-entrance exam. That's 39 percentage

Exhibit 9 – Labor Force Participation Rate, by Gender for Age Group 16-19 (U.S. & IL)



Data Source: U.S. - Current Population Survey (CPS), Bureau of Labor Statistics (BLS), (NSA, 12-Month Average); Haver Analytics. IL – Illinois Department of Employment Security (IDES), (NSA, 12-Month Average)

points lower than their wealthier peers. Low-income students are 26 percentage points behind wealthier peers in postsecondary enrollment and 9 percentage points behind in postsecondary completion. [86]

Issues for youth in rural areas include limited economic opportunities for those who cannot afford to go to college. Thus many rural youth enlist in the military. According to Pentagon demographic data, the military recruits 44 percent of its enlistees from rural areas. Most likely this is due to lack of economic opportunity. Only 14 percent of recruits come from major cities. Almost half of the recruits in 2004 came from lower-middle income level or lower-income level households. [87]

Although the federal government considers 72 percent of the nation's land as rural, it is home to only 14 percent of the nation's population, and where only 18 percent of the nation's students go to school. These areas tend to have higher poverty rates and lower levels of educational attainment than areas labeled as urban, suburban or town. [88]

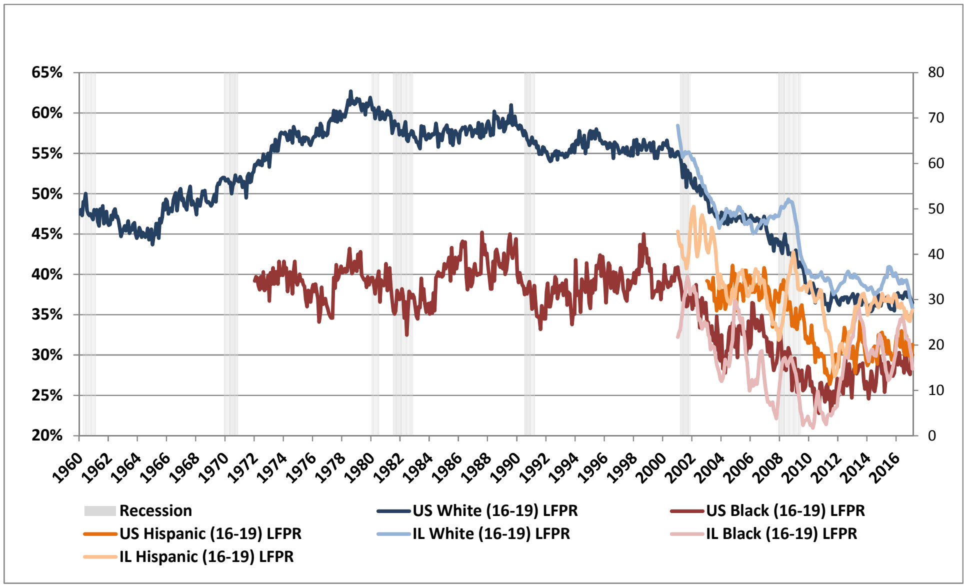
However, college administrators are showing interest in this underrepresented minority. Experts in higher education have determined that this group of students can share experiences and viewpoints rarely heard. Students in rural schools (80 percent) graduate at a rate similar to students in suburban schools (81 percent), and perform well on standardized examinations. However, their enrollment rates (29 percent) for four-year degree programs and advanced degrees are below rates for urban students (47 percent). [89]

The problem of violence in inner-city neighborhoods generally comes from a minority of the population that tends to be disconnected youth between the ages of 16 and 24. Most are not in school and tend to not be in the labor force. They have few workforce skills but usually survive through illegal means. [90] Limited economic opportunities are available for youth growing up in these areas. Some may enlist in military while others may join gangs.

The neighborhoods where blacks tend to be concentrated are also likely to have schools of lower quality, less access to transportation, and fewer neighborhood resources. [91] Children in these areas can face an increased risk of prolonged poverty, child abuse, educational failure and youth delinquency and violence, especially among boys, whose main reason for joining gangs is to find a family and male role models. [92]

Exhibit 9 shows the labor force participation rate and unemployment rate for the age group 16-19. Illinois data is available beginning in 1995. The Illinois data rates are similar to the national data for the common time period.

Exhibit 10 – Labor Force Participation Rate, by Gender for Age Group 16-19 (White, Black & Hispanic) (U.S. & IL)



Data Source: U.S. - Current Population Survey (CPS), Bureau of Labor Statistics (BLS), (NSA, 12-Month Average); Haver Analytics. IL – Illinois Department of Employment Security (IDES), (NSA, 12-Month Average)

The labor force participation rate for males in the 16-19 age group grew to above 60 percent in the late-1970s, then started to trend downward with the decline accelerating around recessions. The rate is now similar to the rate for females in the age group. Females in the 16-19 age group had a participation rate near 40 percent in the early 1960s. It trended upward until the early-1990s, and then followed a similar downward path as males in the age group to the current point in time.

Exhibit 10 shows the labor force participation rate and unemployment rate for the white, black, and Hispanic populations in the age group 16-19. Illinois data is available beginning in 2001 and it follows the path of the national data.

The labor force participation rate for white youth (16-19 age group) started around 50 percent in the early-1960s. It eventually surpassed 60 percent in the late-1970s, then has trended downward to where it is below 40 percent currently. The rate of decline has accelerated around recessions, especially the more recent recessions. The labor force participation rate for black youth started around 40 percent in the early-1970s, then remained fairly level until the year 2000.

The rate for black youth has also declined with steeper declines around recent recessions. The participation rate has actually increased since the early-2010s.

Labor force participation rate data for Hispanic youth became available around 2000. The rate stayed below the rate for white youth and above the rate for black youth during that time. The rate also has increased starting in the early-2010s.

Related Issues

Trade

Statistical data from the Netherlands shows that the volume of global trade is no longer rising. It was flat in the first quarter of 2016, then fell by 0.8 percent in the second quarter. The total value of imports and exports for the U.S. fell by more than $200 billion last year. Trade fell by an additional $470 billion through the first nine months of 2016. This is the first time since World War II that trade has declined during a period of economic growth. [93]

distribution; 2) rising retirement ages for full Social Security; 3) the difference in life expectancy between the rich and poor; 4) the decline in employer provided defined-benefit pensions; and 5) the tendency for lower-income earners to file for Social Security before they are eligible for full benefits. [96]

People with more education have more incentive to work longer and fall into the high-income group. They are more likely to be adding to their defined-contribution pension plan toward the end of their working careers so they accumulate more for retirement the longer they work. The people in this group tend to start receiving Social Security benefits after the time they become eligible for full benefits. In some cases, they receive expanded benefits. [97]

Conversely, people in the low-income group are more likely to have health issues and thus more likely to file for Social Security before they receive full benefits. People with more education tend to live longer as do people with higher incomes. The difference in life expectancy for someone born in 1920 between top 10 percent of income distribution and bottom 10 percent of income distribution was 5 years. This gap has risen to 12 years for someone born in 1940. [98]

Another study shows that a 50-year old American male in the top one-fifth of the income distribution in 1980 could expect to collect $103,000 (in 2009 U.S. dollars) more in Social Security payments than a male in the bottom one-fifth of the distribution. That gap has expanded to $173,000 (in 2009 U.S. dollars) for the two 50-year old males in 2010. This result shows that Social Security is becoming less progressive over time in large part due to changes in life expectancy. [99]

According to an annual report produced by the United States Conference of Mayors, the number of people seeking emergency food assistance increased by an

Sluggish global economic growth is both a cause and a result of the slowdown. In better times, prosperity increased trade and trade increased prosperity. Now the wheel is turning in the opposite direction. Reduced consumption and investment are dragging on trade, which is slowing growth. But there are also signs that the slowdown is becoming structural as developed nations appear to be backing away from globalization. [94]

Global trade grew more than twice as fast as the global economy in the 1990s. However, the benefits of globalization went primarily to the wealthy while many workers were displaced from their jobs. Government policy failed to address their needs. The rise of globalization was due to trade agreements and reductions in transportation costs. China has now taken the next step in its evolution and is now making more of what it consumes, and consuming more of what it makes. [95]

Government Assistance

The Social Security system was designed to replace a larger percentage of income for those with lower earnings than those with higher earnings in a lifetime. However, low-income earners are now receiving a smaller share from Social Security than high-income earners for the following reasons: 1) workers at the bottom of the wage distribution have seen their earnings decline relative to those at the top of the average of 2 percent in 2016. Sixty-three percent of those seeking assistance were families, a decline from 67 percent the previous year. Conversely, the proportion of people who were employed and in need of food assistance increased to 51 percent from 42 percent in 2015. The report said that this increase was due to many employees receiving low wages for their work. The report also mentioned that the homelessness rate continued to decline. [100]

Policy analysts have suggested providing incentives that would include modifying the curriculum at business schools, so that business managers could focus their strategy and resource allocation toward long-term value creation. Perhaps corporate tax policy could be changed to reward businesses that create opportunities for skill development, wage growth and resistance to automation. [101]

Minimum Wage

One policy approach that is gaining popularity is raising the minimum wage. Research conducted by economists David Autor of the Massachusetts Institute of Technology, Alan Manning of the London School of Economics, and Christopher Smith of the Federal Reserve Board reviews several recent state and federal minimum wage increases to measure the effect of the raises at each point of the wage distribution. The authors found the biggest wage increases occur for workers at the bottom five percent of the wage scale. [102]

The study finds evidence of ripple effects as the minimum wage increases wages for workers who make more than the minimum—and that these effects dissipate the further one moves up the wage ladder. The evidence appears to show that, in the short run, minimum wages do not appear to have ripple effects for those workers earning middle-class wages or higher. [103]

While the minimum wage can increase earnings among low-income workers, it can also reduce the number of workers hired, or reduce their number of hours worked. Many small businesses in particular face difficult choices when cities raise minimum wages. In the long run, employers can choose to replace low-wage unskilled workers with technology such as kiosks in fast-food restaurants. Changes to the minimum wage are likely more effective when tied to the local cost of living rather than a larger geographical area.

But even local areas are not always similar. The Cook County Board approved ordinances in late 2016 requiring employers to increase the minimum wage paid to employees but many suburbs within the County are opting out. Local officials believe higher wages will adversely impact job creation in their community and hurt businesses.[104]

Although increasing the minimum wage may push some workers above the poverty threshold it is unlikely that it will resolve the issue of a shrinking middle-class.

Summary

Technological innovation and the globalization of trade have combined to negatively impact labor force participation rates and increase income inequality. This has adversely affected particular sub-groups of the population. Although this slide has been underway for the last few decades, the onset of the Great Recession accelerated declines in participation rates for prime-age adults and increased the proportion of employees who worked part-time involuntarily.

The cumulative effect of these events has been a "hollowing out" of the middle-class portion of the income distribution. The middle-class share of the income distribution has shrunk every decade since the 1970's. The housing bust, along with the Great Recession combined to enlarge the gap in wealth inequality between those with solid financial resources and those who are struggling to survive.

This has resulted in both short- and long-term consequences for the national economy. Some of the short-term consequences include: 1) fewer economic opportunities for those who have attained a lower level of educational attainment; 2) a higher crime rate; and 3) slower economic growth. The main long-term consequence is the creation of an economic cycle in which the lower-income group has an increasing share of children, which leads to more people living near the poverty threshold, which leads to a larger number of people who will have trouble obtaining the education and training necessary to succeed in a work environment that puts a premium on education. Finally, more people continue to seek access to various forms of public assistance at a time when government finances are already stressed.

Recent research discusses how automation previously hurt middle-class jobs, but will target lower-income jobs next. [105] This will only exacerbate the issues of sub-population groups being left behind.

Previously, this report identified the segments of the population struggling as a result of structural changes in the economy. These sub-groups are: 1) Working class who are underemployed, earn low wages, or out of the labor force; 2) Households led by single females with children; 3) Minorities in the inner-city (living in neighborhoods lacking economic opportunity); 4) Older workers (not enough saved for retirement or lacking health insurance); 5) Ex-offenders; 6) Young adults (living at home to older ages); and 7) Youth (living in low-income households).

All of these sub-groups can be found in Illinois. They typically have two characteristics in common: low educational attainment and a lack of economic opportunity. Some may have more concentration in the City of Chicago and some may be found in other areas of the state. The individuals in these categories are finding that jobs with good pay are outside of their grasp. If they do match up with a job, then it is likely that it pays lower wages with few, or no, benefits or they may only able to work part-time.

Many employers would prefer to maintain a core group of employees as full-time and bring on temporary employees as operations require. The temporary or part-time jobs often pay low wages, have non-standard hours, and lack benefits. Data showed that the growth in these alternative employment arrangements accounted for more than the entire growth of jobs in the economy as a whole between 2005 and 2015. Therefore, people looking to work in the future may have to consider this type of arrangement.

Older workers are already moving in this direction as those between the ages of 55 and 74 are the drivers behind growth in the Gig Economy. Some of the older group are highly educated and working because they like it. Other older workers are working because they need to supplement their retirement income and maybe help pay for health insurance.

Prime-age adults are also part of the growth in this sector and the number of female workers has more than doubled in the last decade. It is likely that the number of jobs with alternative employment arrangements will continue to grow as people will expand their search to find available opportunities.

Government policymakers will need to consider modernization of its policies to address changes in workforce and employer behavior due to these economic structural shifts. People currently in the labor force face uncertain career paths. As technological innovation increases at a faster pace, the burden will grow for government to provide an adequate response to changes in the workplace. As it stands, the growing gap between the haves and have-nots is compromising the future of the country.

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