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1 The Economic Environment of Housing: Income Inequality and Insecurity

HOUSING AFFORDABILITY depends crucially on household income, not just on the price and availability of housing. Given that almost all housing is purchased in a private market, the distribution of income is the most important determinant of the quantity and quality of housing obtained by the rich, the poor and those in between. The average level of income; degree of income inequality between high- and low-income families; and income differences by race, gender and age all translate directly into how well different groups are housed. Understanding trends and disparities in income is essential for understanding the same with regard to housing.

The reverse is also true. Housing is the largest single expenditure for most U.S. families. This means that for housing, income is both chicken and egg: Income determines housing affordability, but the evolution of housing prices is the largest factor determining inflation—thus determining the purchasing power of income.

Basic income patterns reported in this chapter are straightforward:

- After controlling for inflation, average wages have fallen over the last 20 years.
- Household income has stagnated, and households have had to put more members to work for more hours.
- Income instability has grown: Job displacement and other sources of earnings losses have become more common.

- Income inequality has grown: The rich have become richer and the poor, poorer.
- Income gaps between white households and those of color have persisted.
- Single-mother families suffer a particularly severe income disadvantage, and recent cut-backs in welfare have sharpened this disadvantage.

All of these changes mark the reversal of post-World War II trends toward broader prosperity, reductions in poverty and inequality and construction of a stronger, more inclusive welfare state. This is the downside of the much-touted “new economy.” While the new patterns are straightforward, the reasons behind them have been hotly debated. Many analysts hold that relatively impersonal, nonpolitical and inexorable forces of globalization; technological change; and evolving family structure have driven these income changes. I will argue instead that conscious business strategy and, to a lesser extent, public policy have greatly shaped globalization and technical change, and have had additional direct effects on wages and income. Employment strategies used by businesses have squeezed housing affordability by way of wages. Chapters 2 and 4 explore how business strategies in terms of finance and housing development have reduced housing affordability and security by other routes. To the extent that we can push business and government to adopt other strategies and policies, the results in terms of housing affordability and security could be quite different.

THE GROWING DIVERGENCE BETWEEN BUSINESS AND WORKER FORTUNES

The U.S. economy has changed markedly over the last 30 years. Two large-scale shifts have radically altered the ways that prosperity is shared in the United States. The first concerns the relative fortunes of business and workers; the second concerns the relative fortunes of the rich and poor.

Business and Workers Part Ways

The first big shift: A business boom no longer means prosperity for working people. From the early 1900s to the 1970s, business and worker fortunes rose and fell more or less in tandem. The Great Depression was difficult for capitalists and workers; the boom during World War II and the early postwar years buoyed profits and wages alike. When President John Kennedy declared that “a rising tide lifts all boats,” he summarized the experience of the times. Of course, not all persons benefited equally from the rising tide: People of color and women of all racial and ethnic groups lagged behind in wages, and families with limited ability to take part in the labor market (notably, elders and single mothers of young children) depended on social welfare generosity rather than on labor market dynamism. In general, however, business cycle booms brought with them significant upsurges in wages and employment.

No more. The divergence between business and worker prosperity, which began to appear in the 1970s, was particularly apparent during the most recent completed economic expansion, which ran from 1991 to early 2001. This upturn saw business activity and profits lift despite, and to some extent because of, stagnant wages and initially slow employment growth. In fact, in the first two years of this “boom,” virtually all job growth was accounted for by involuntary part-time employment, leading some to call it the “jobless recovery”—a label that applies equally to the first few years of the expansion that began in late 2001. Even after actual job growth began in 1994, wages remained flat until 1997 after controlling for inflation. Business analysts

attributed the “health” of the expansion to low labor costs. “From the perspective of business,” pointed out economist John Miller (1995:9), “it is lagging wage growth that sustains the boom. Modest wage increases guarantee that rising labor costs will not cut into profit margins even as the economy expands.”

Low labor costs resulted not just from stationary wages but also from corporate America’s new habit of continuing to downsize even as sales rose. Over 8 million U.S. workers were displaced from their jobs during the economic expansion years from 1993 to 1995—not far different from the 9 million who were laid off during the recession years from 1991 to 1993 (Uchitelle 1996). Although white-collar lay-offs captured headlines—and have indeed become more common—the bulk of those displaced remain rank-and-file workers, not managers (Farber 1997).

The profit rate is the ratio of annual profits to accumulated business investment in plant and equipment—much as an interest rate is the ratio of annual interest to principal. The bottom line for business: In the mid to late 1990s, U.S. profit rates reached their highest level in decades. U.S. corporations received a dazzling \$876 billion in profits in 2000, or about one dollar in nine of total national income, although the recession that followed took some of the shine off profit figures (U.S. Bureau of Economic Analysis 2002). The 1990s profit rate surge did not mean that businesses were claiming a larger share of the economic pie but rather that businesses took home about the same share despite investing less to generate these profits. Businesses have continued to reap profits even though there have been fewer additions to productive investment, which has pushed the ratio upward. As well, corporations have won decreased corporate income tax rates (Baker 1995). But U.S. workers and their households are paying the price in terms of wages, income and employment.

Wages and Household Income

The failure of businesses to make productive investments, along with their underinvestment in worker training (Marshall and Tucker 1992),

help to explain why wage levels have remained flat—and have even fallen somewhat over the long run. Productivity has grown slowly, especially in comparison with other industrialized countries. U.S. real output per worker (a measure of productivity) grew only about two-thirds as fast as output in Western Europe and one-third as fast as in Japan between 1979 and 1990 (Freeman 1994:26). Productivity growth did perk up at the end of the 20th century, driving overall growth in output per hour for all businesses from 1990 to 2001 up 2.2 percent per year, well above the 1.4 percent per year crawl of 1979 to 1990 (U.S. Bureau of Labor Statistics 2002a). Growth in U.S. manufacturing output per hour still lagged behind that of France, Sweden, Korea and Taiwan, among others, during the 1990s (U.S. Bureau of Labor Statistics

2002b). Thus, the per worker “slice of pie” available to be shared between labor and management has expanded relatively little.

Figure 1.1 shows one set of consequences for U.S. workers and households. The average real (inflation-corrected) hourly wage, periodically beaten down over the 1970s, 1980s and 1990s, stood in 2002 at only 95 percent of its 1973 value (a drop from \$15.94 to \$15.17 in 2002 dollars). This ended an unbroken string of real wage advances from the 1950s through 1973. Median real annual household income (the level of income in which exactly one-half of U.S. households stand above, the other one-half below) also sputtered until the early 1990s yet grew significantly during the 1990s expansion, only to stall again when recession hit in 2001. Overall, household income gained only 14 percent

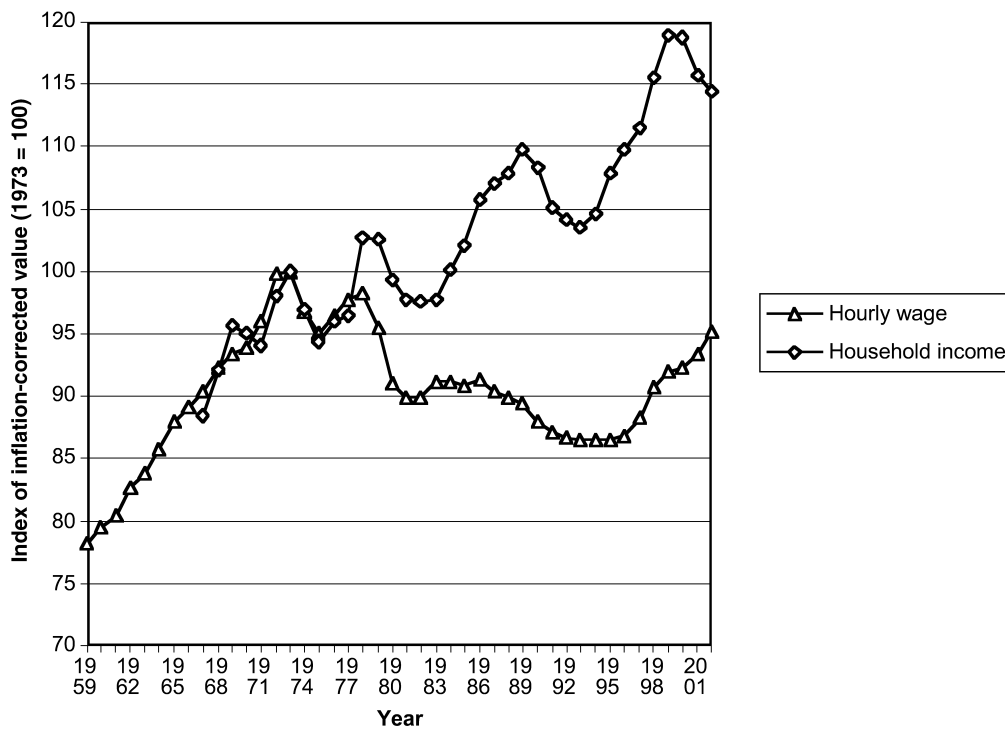


FIGURE 1.1. Losing ground: Average hourly wage and median household income, adjusted for inflation, 1959–2002 (Index: 1973 value = 100).

Note: To put wages and income on the same scale, the figure uses an index of 1973 = 100, so an average wage of 200 would mean two times the 1973 wage, whereas a wage of 50 would mean one-half of the 1973 wage.

Source: Average hourly wage is for production or nonsupervisory workers in private industry (U.S. Council of Economic Advisors 2003, Table B-47). Median household income is from U.S. Census Bureau (2003, Table A-1).

between 1973 and 2002 (rising from \$37,092 to \$42,409 in 2001 dollars, growing an average of 1 percent per year)—again, ending a “golden age” of far more rapid income growth.

Several aspects of Figure 1.1 deserve comment. For instance, why should there be so much attention to wages? After all, households receive income from a variety of other sources: property income, such as dividends, interest, rent and pensions; government transfers, such as Social Security, unemployment insurance and welfare; and transfers from other households, such as alimony, child support or gifts. Nonetheless, the labor market is by far the preponderant source of household income, accounting for 78 percent of the total (Albelda and Tilly 1997, Table 3.2). Except for small groups of households that depend primarily on other income sources, wages are decisive in setting income.

If wages are so decisive, why has household income advanced (if modestly) over the past 30 years while wages have regressed? The key is that households have put more members—especially mothers—to work, partly in an attempt to overcome wage declines (though growing numbers of women have also entered the workforce because of changing roles and attitudes). The percentage of women working for pay (or actively looking for work) rocketed from 38 percent in 1960 to 60 percent in 2002 (U.S. Council of Economic Advisors 2003, Table B-39). As of 1999, 45 percent of all U.S. households deployed two or more earners (U.S. Census Bureau 2000a, Table 2). In short, U.S. households have managed to win small increases in real income only by what some observers have called a “family speed-up” (Currie, Dunn and Fogarty 1980).

Unemployment and Underemployment

In addition to growing slowly, income has become more unstable in a variety of ways. The unemployment rate, which averaged 4.8 percent in the 1960s, climbed to an average of 6.2 percent in the 1970s and to 7.3 percent in the 1980s (Figure 1.2). These are documented as averages because the unemployment rate swings up and down over the business cycle. The 1990s were considerably kinder, averaging 5.7 percent

unemployment. In fact, as the economic expansion continued, businesses complained of a labor shortage, as they did in the late 1980s. The *Wall Street Journal* even lamented “Dilbert’s revenge,” using the well-known comic strip character’s disgruntled worker persona to label a growing feeling among workers that bargaining power was beginning to shift back their way (Lublin and White 1997). Another recession struck in 2001, however, driving unemployment above 6 percent by 2003 and casting an uncertain shadow over the future. In any case, the 1999 rate of 4 percent, which many economists at the time termed “full employment,” still exceeded the low point of 3.5 percent in the late 1960s.

The official unemployment rate, moreover, understates the true level of joblessness, leaving out several groups of the “hidden unemployed”:

1. “discouraged workers,” who still want a job but have recently given up looking because of a poor job market for their particular skills or in their particular location
2. involuntary part-time workers, who would prefer full-time hours (over 4 million workers in 2002, according to the U.S. Bureau of Labor Statistics [*Employment and Earnings*, January 2003]!)
3. those who are available for work but are not looking due to family, school or health issues
4. those who want a job but have not looked for one in the last year
5. the enormous U.S. prison population, currently around 2 million—we incarcerate people at ten times the rate of European countries, temporarily keeping them off the unemployment lines (Baxandall 1996).

In October 2003, for example, the official unemployment rate was 6 percent. However, by adding in only those profiled in numbers 1 and 3 above, unemployment would have jumped to over 12 percent, more than doubling the official rate (National Jobs for All Coalition 2003).

Of course, even the official unemployment rate is much higher for some than for others. Additional data from October 2003 revealed that Latinos were more than one-fifth more likely to be unemployed than the average worker, blacks were nearly twice as likely to be jobless and teens were almost three times as likely. (The

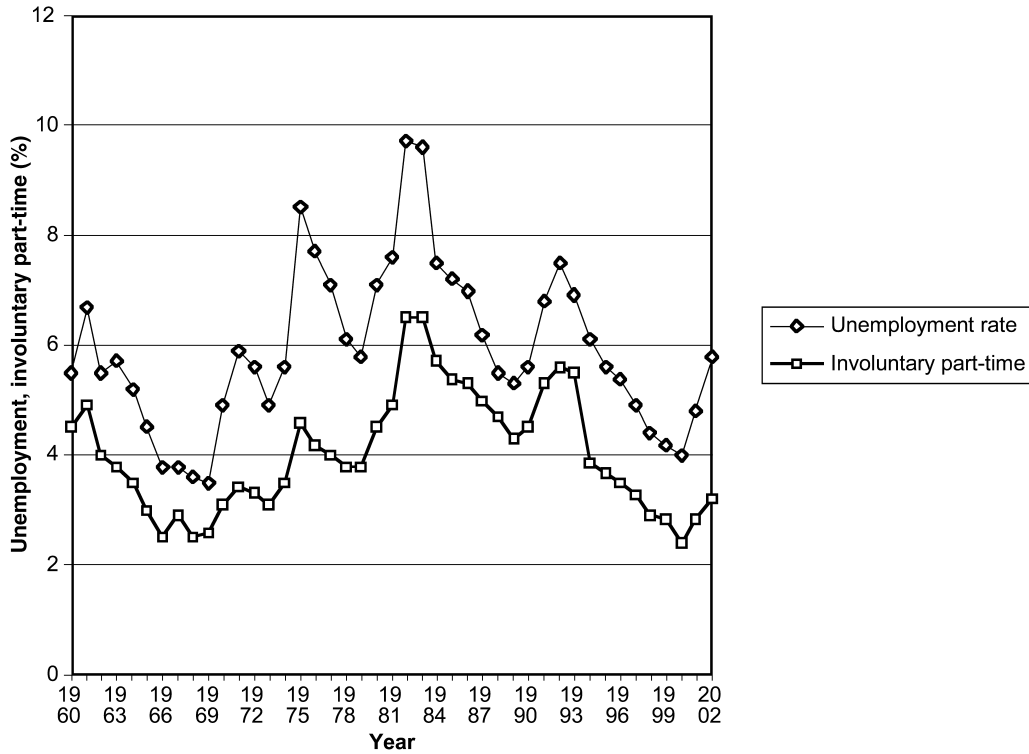


FIGURE 1.2. Not enough jobs: Unemployment and involuntary part-time employment rates, 1960–2002.

Note: The Bureau of Labor Statistics changed the definition of involuntary part-time employment in 1994, resulting in a one-time drop. (For a discussion of this changed definition, see Tilly 1996.)

Source: Unemployment from U.S. Council of Economic Advisors 2003, Table B-42. Involuntary part-time employment from 1960 to 1993 from data provided by Thomas Nardone, U.S. Bureau of Labor Statistics, updated from the U.S. Bureau of Labor Statistics, *Employment and Earnings*, various years.

unemployment rate of women was close to the national rate.) Joblessness followed a patchwork pattern across the country. In September 2003, unemployment rates ranged from a low of under 3 percent in the Dakotas to a high of 7.3 percent in Oregon and 12.2 percent in struggling Puerto Rico, with depression levels of 10 percent and higher in agricultural communities of California, Texas and Arizona—reaching an astounding 30 percent in Yuma, Arizona (U.S. Bureau of Labor Statistics 2003a).

Downward Mobility

While unemployment offers one window on income instability, we can also look at income instability by examining how many people lost

jobs or experienced dramatic earnings declines. Economy-wide, downward mobility has become markedly more common. Tracing the trajectories of individual prime-age adults, Stephen Rose (1994) found that about one-fifth experienced declines of 5 percent or more in real earnings over the decade of the 1970s; that proportion rose to one-third during the 1980s. Men and women crisscrossed: Men's likelihood of losing annual earnings increased, whereas women became less likely to lose earnings. However, in terms of hourly wages (factoring out the effect of changes in weeks and hours worked, which enter into annual earnings), both groups became more likely to experience declines in the 1980s. Annette Bernhardt and co-authors (2001) found similar results when they followed two cohorts

of teenage white males—one group from 1966 to 1981 and another group from 1979 to 1994. Permanent wage growth was 21 percent lower for the later group.

What reduced average wage growth and heightened the probability of downward mobility? Rose (1995) accounts for one-half of men's greater probability of an earnings drop by the increased frequency of job changes. Bernhardt and co-authors (2001) also found that even after taking into account the changing characteristics of young white men, their odds of changing jobs in a two-year period jumped by 43 percent between the earlier and later periods. Particular symptoms of heightened job insecurity are starkly visible. Temporary employment has exploded: Employment in temporary help agencies has grown twenty-fold since the 1960s (though it still amounts to only 1 percent of the workforce; other forms of "contingent" work bring the total up to 9 percent—U.S. Bureau of Labor Statistics 2001, Table 5). The Census Bureau's Displaced Worker Survey shows that permanent layoffs have become more common (Farber 1996). Displacement rates from 1991 to 1993, nominally years of recovery from a mild recession, were higher than those during the deep recession years from 1981 to 1983. Middle-age men took the biggest hit. In turn, displacement rates from 1980 to 1992 exceeded job loss rates from 1968 to 1979, according to research based on the Panel Study of Income Dynamics (Boisjoly, Duncan and Smeeding 1998). Between those two periods, the percentage of workers who were laid off increased by one-third, and the percentage of workers who were fired doubled.

While the frequency of job changes increased, the benefits of job stability decreased at the same time. The payoff to accumulating seniority with a single employer, long a standard feature of compensation (Abraham and Medoff 1980), diminished sharply during the 1980s (Chauvin 1994; Marcotte 1998). Both the opportunity for

long-term job attachment, and the rewards for that attachment, have declined.

In short, workers' wages—on average—continued to stagnate, and household income recovered only modestly, even though the 1990s were bountiful years for business. Rising prices combined with flat incomes made housing purchase or rental less affordable to the average family. Growth in unemployment, contingent employment and downward mobility fed insecurity in housing tenure.

GROWING INCOME INEQUALITY

All of the evidence so far spells out the results of the divergence between business and worker fortunes. However, there has been a second large economic shift as well—the growth of inequality among the rich, those with middle income and the poor. Figure 1.3 shows the shares of total income obtained by the richest 5 percent, the next-richest 15 percent, the middle 60 percent and the lowest 20 percent of U.S. households.* In the mid-1970s, the richest households began to gain, at the expense of middle-income households and to a lesser extent of the poorest. This upward shift of income accelerated during the 1980s, with the richest cashing in and everybody else—including the next-richest 15 percent—losing out. As with the U-turn in wage levels, this marked a significant reversal: During the 1950s and 1960s, income shares remained relatively stable, with a slight trend toward greater equality.

Figure 1.4 translates income shares into (inflation-adjusted) dollar figures to illuminate the scope of the new wave of income inequality. In 1970, on average, a household in the top 5 percent garnered \$129,086 in income, 14 times as much as the average household in the bottom 20 percent, who received \$8,930 (figures are expressed in 2002 dollars). By 2002, households

*Income distribution numbers used here and throughout the chapter are based on the Current Population Survey (CPS), in which the U.S. Census Bureau annually surveys income. Because the CPS undercounts property income, it understates income inequality. An alternative source, the Survey of Consumer Finances (SCF), indicates that income is actually more unequally

distributed. For example, according to the CPS, the richest one-fifth of households received 45 percent of total income in 1983 and 47 percent in 1989; according to the SCF, the figures were 52 percent and 56 percent. However, the CPS offers more detail and is available on an annual basis (and is the data source conventionally used for income analyses).

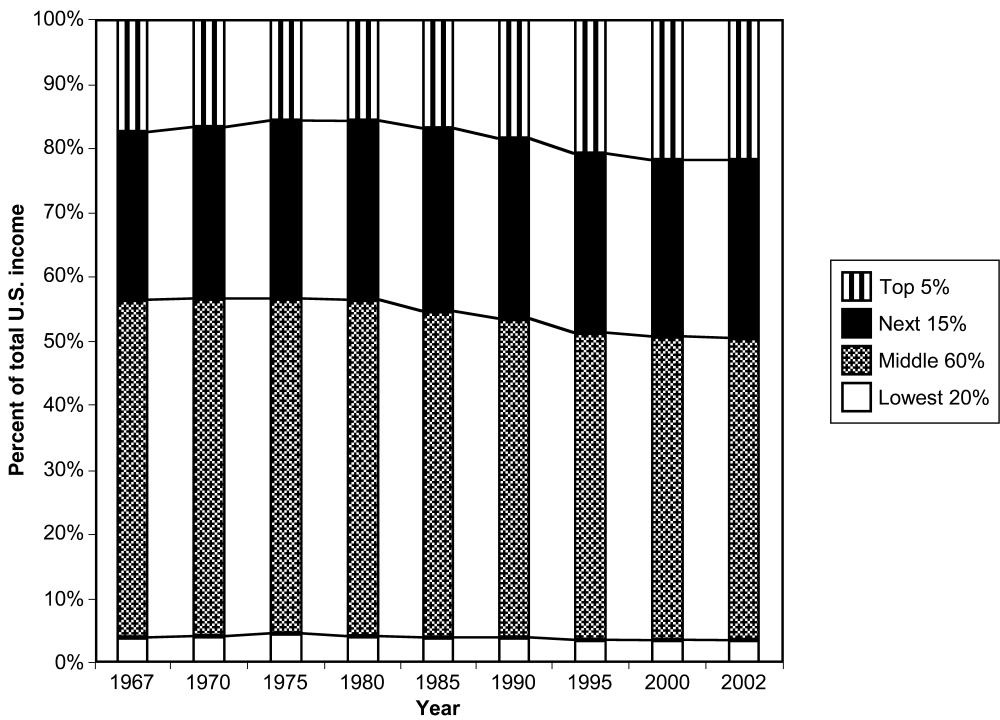


FIGURE 1.3. Trickle up: Shares of total U.S. income received by families at different income levels, selected years 1967–2002.
 Source: U.S. Census Bureau 2003, Table A-3.

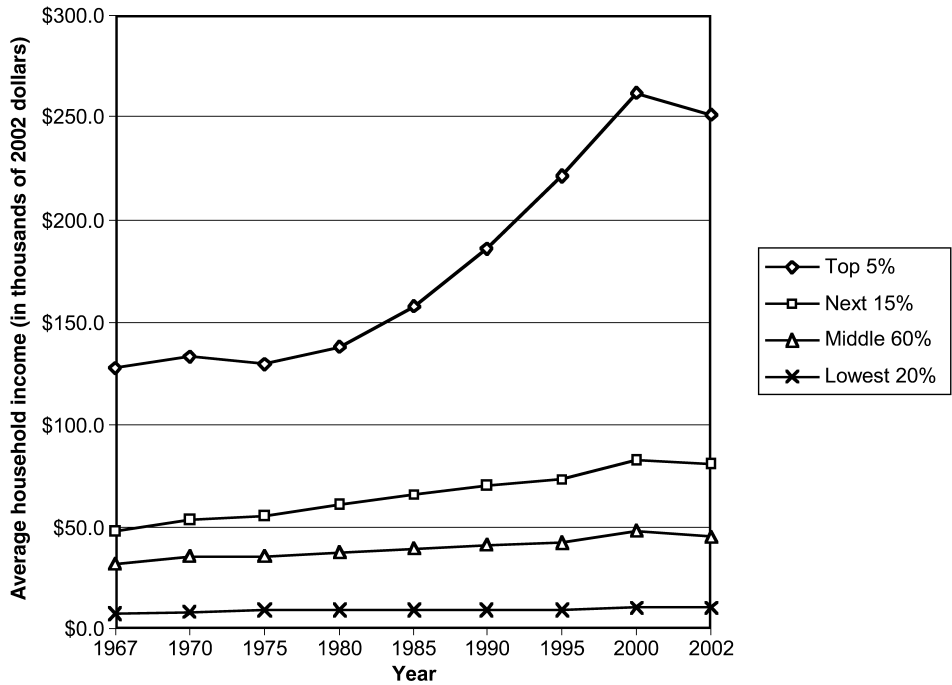


FIGURE 1.4. Unequal gains: Average income levels (in thousands of 2000 dollars) for high-, middle-, and low-income households, selected years 1967–2002.
 Source: Calculated by author from U.S. Census Bureau 2003, Table A-1.

in the richest 5 percent had moved ahead to a handsome \$251,078—putting them 25 times as high as the poorest one-fifth of households, who inched forward to \$10,124. The middle 60 percent achieved a modest advance over this 20-year period, with income starting at \$31,774 and ending up at \$45,221. We see that although, on average, real household income advanced slightly, much of the population shared little in this step forward.

Figures 1.3 and 1.4 tell the story of income, the amount of money received in a given year, not wealth, which is the total value of assets possessed by a household. Wealth is even more unequally distributed: In 1998, the top 5 percent of U.S. households controlled 68 percent of net financial assets and 59 percent of total wealth, including homes and other assets (Wolff 2000).[†] Furthermore, inequality in wealth has been widening apace (although it did moderate slightly in the late 1990s). The richest 1 percent, who held 20 percent of the nation's net worth in 1976, had nearly doubled their share to 38 percent—almost the same share as the bottom 95 percent of households—by 1998 (Wolff 1996, 2000). In the early 1980s, 200 years after the United States threw out the British aristocracy, the U.S. distribution became more unequal than that in Britain (Wolff 1996). Moreover, racial differences in wealth loom large. Whites have an enormous wealth advantage over blacks, mostly because of unequal inheritances. In 1994 (the most recent year that researchers have examined), the median net worth of white households was more than 50 times as great as that of blacks (\$52,000 vs. \$1,000), and the ratio has not changed since the early 1990s (Gittleman and Wolff 2004).[‡]

For most U.S. families, a home is their only significant asset. Of course, this leaves most of the one-third of U.S. households who are tenants without *any* significant assets. While housing is

the main form of wealth for the typical family, total wealth figures are dominated by the super-rich, whose financial holdings dwarf their home values. As a result, homes only account for 29 percent of total wealth, and lower-income homeowners have considerably less home equity, on average, than do high-income homeowners (Wolff 2000).

Differences in homeownership rates underlie racial differences in wealth. White households are more than one-half as likely to own a home as are blacks, and on the average, white-owned homes are worth almost one-half more than those that are black-owned (Oliver and Shapiro 1995, Table 5.3). Even more startling is the difference in holdings of financial assets such as stocks and bonds. Whereas the median white household possesses \$7,000 in net financial assets, the median black household has precisely zero—in other words, for one-half of black households, debts equal or exceed financial assets (Oliver and Shapiro 1995, Table 4.4; Shapiro 2004).

It is tempting to suppose that growing income and wealth inequality simply represent another facet of the divergence between business and workers. To some extent, this is true: Given the ebullient stock market from the 1990s to 2001, dividends and capital gains have enriched the richest. Yet, income polarization involves more than labor-capital polarization for two reasons. First, a key determinant of household income is the composition of that household. More adults in a household can contribute additional income (particularly earnings). A higher rate of Americans are living alone or as single parents whose earning potential is curtailed by the time demands of child care (Albelda and Tilly 1997), therefore swelling the number of low-income households. At the same time, rising rates of paid employment by wives and mothers create more two-earner households, frequently (though by no means always) at the upper end of the income

[†]These figures are based on the U.S. Federal Reserve System's Survey of Consumer Finances. Another source of wealth data, the Survey of Income and Program Participation, shows somewhat more equal—though still very lopsided—distributions of wealth (Oliver and Shapiro 1995, Table 4.1).

[‡]I have adopted the shorthand of calling households headed by black people “black” households, and so on. Given the limited degree of intermarriage among racial groups in the United States, this shorthand is relatively accurate though is becoming less so.

distribution. Family structure itself shapes the contours of income.

A second reason why income polarization goes beyond the labor-capital divide is that even among the rich, most are working people. In 89 percent of married-couple households with incomes of \$100,000 or more, either the husband or wife works full-time year-round. Nearly one-half the time, both work full-time year-round (calculated by author from U.S. Census Bureau 2000a, Table 6). Therefore, most of the worsening of income inequality represents an increase in earnings inequality. Between 1979 and 1999, the hourly earnings of a worker at the 90th percentile (earning more than 90 percent of other workers) relative to a worker at the 10th percentile increased by 21 percent for men and by 45 percent for women (Mishel, Bernstein and Schmitt, 2001, Tables 2.7, 2.8). Indeed, earnings inequality has increased in multiple areas, such as among occupations, industries, racial and ethnic groups, and levels of educational attainment (Freeman 1986).

As with household income, widening disparities in earnings mean that the average hourly wage loss of 6 percent conceals enormous variation. Among men, for example, earners at the 90th percentile saw wages increase from \$27 to \$29 per hour (in 1999 dollars) between 1979 and 1999; wages at the 10th percentile tumbled by one-tenth, from \$7.34 to \$6.59 (Mishel, Bernstein and Schmitt 2001, Table 2.7). Men with a high school education or less suffered even sharper wage setbacks. Not all wage earners lost, but those at the bottom lost a lot. Low-wage workers did regain some lost ground as the economy heated up and Congress boosted the minimum wage in the late 1990s, but not enough to offset earlier wage declines (Tilly 1998).

Wage earners who were at the 10th or 90th percentile in 1999 are not necessarily those who were at those levels in 1979. Comparing one-year data over time overlooks the fact that workers' wages fluctuate. In fact, if everybody's earnings varied from year to year but each worker averaged the same income as every other over the long haul, there would be far less cause for concern about earnings inequality. However, most earnings mobility is quite limited: Even averaging wages of young adults (whose wages are

expected to be most volatile) over ten years only reduces overall inequality by about one-fourth. Also, wage mobility over time decreased between the 1970s and 1980s, meaning that high and low earners became more likely to be frozen at a given wage level—and that the increase in wage inequality captured in a series of snapshots understates the rise in inequality among workers (Buchinsky and Hunt 1999).

In summary, income and wealth disparities have widened. Those at the top have flourished, those in the middle have struggled to stay even, and those at the bottom have suffered major setbacks. Worsening income inequality translates directly into growing inequality in housing affordability. More concentrated wealth-holding has serious implications for housing as well. Housing itself is one major form of wealth, and financial assets or inherited housing are the prerequisites for homeownership. Wealth constitutes the cushion preventing a household's short-term income losses from undermining housing security. As a small number of super-rich claim a growing share of income and wealth, housing affordability and security diminish for the rest of the nation.

REASONS FOR BUSINESS-WORKER DIVERGENCE AND GROWING INEQUALITY

Why have the rules of the economic game changed so dramatically? Many analysts point to the importance of globalization and technological advancement. These two factors are indeed important contributors to the growing economic divergences. But they are neither neutral nor unalterable; rather, they are shaped to a large extent by business strategy. Nor do these factors offer a complete explanation of the current economic distress. Instead, shifts in business strategy have broader effects extending beyond these two drivers. U.S. businesses have predominantly pursued a "low road" strategy designed to keep wages and other costs low, rather than investing in higher productivity.

The context for all of these changes is the breakdown of the post-World War II "golden age" for U.S. capital and labor. That rosy era

was based on U.S. domination of global financial and goods markets. It also incorporated a “capital-labor accord,” in which unions in the central mass production industries exchanged labor peace for growing wages, and a “capital-citizen accord,” bartering social peace for an array of social programs such as Social Security and unemployment insurance (Gordon, Edwards and Reich 1982). By the 1970s, all three elements of the golden age were crumbling. At a global level, the U.S. industrial rivals, Europe and Japan, had rebuilt from wartime destruction. The Third World, from Vietnam to the Organization of the Petroleum Exporting Countries (OPEC), began to assert itself as well. The two domestic accords came under attack both from those who had been excluded—such as African Americans, other people of color and women of all races—and from businesses displeased that the concessions had been made at all. As the postwar economic order sputtered, then, three specific mechanisms reshaped the U.S. wage structure: globalization, technological change and shifting business strategy.

Globalization has two overlapping dimensions that are crucial for U.S. employment and earnings. First, U.S. (and other) corporations have found ways to produce goods—but even more importantly, to subcontract or outsource parts of the production process—in low-wage countries such as Mexico, Guatemala, Haiti, Thailand, Malaysia and dozens of others. As Bluestone and Harrison (1982) pointed out, new technologies of transportation and communication facilitated the international coordination needed for this shift. The move to offshore production has particularly revolutionized light industries such as apparel but has also had its effects in electronics, motor vehicles and numerous types of heavier manufacturing industries. Service industries are not immune to the effects of globalization, as many U.S. companies rely on data entry performed in the English-speaking Caribbean countries or software programming in India (Harrison 1994). All of these processes shift growing numbers of jobs abroad.

The second, even more important, dimension of globalization is that producers based in the industrialized countries of North America,

Europe and Asia are far more aggressively contesting each other’s markets for a variety of items. In addition to Western Europe and Japan, the newly industrialized countries of Asia, such as Taiwan and Korea, increase the number of those involved in the renewed struggle over markets. In everyday life in the United States, import growth is most visible in the automotive and home appliance markets, but it extends to a variety of markets (as does export growth).

The first shift, to offshore production, offers companies more geographic choices. The second offers consumers more product choices. However, both remove the former protected status of many companies and workers: Workers are subject to more competition from both low-wage and high-wage countries, and this competition exerts downward pressure on wages. The first shift represents a strategic change for U.S. companies—one that businesses take for granted but is by no means the only option. The second represents a large and long-term strategic change by corporations the world over—something far less within the control of U.S. businesses themselves. Both shifts have been facilitated by international trade treaties, such as the North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT), that diminish trade restrictions, as well as laws that strictly constrain international labor migration but leave capital migration unfettered.

Overall, both changes in the global economy are relatively small contributors to the changing structure of U.S. earnings. Despite the uproar over perceived effects of globalization, the sum of U.S. imports and exports still amounts to less than one-third of the nation’s total domestic output; exports and imports each make up about one-half of this fraction (U.S. Council of Economic Advisors 2003). Though some analysts claim that globalization has had large effects on the wages of workers in industrialized countries, the general consensus among economists is that these effects have so far been relatively small (Freeman 1995).

Technological change has also rocked the boat. Businesses have worked hard to replace labor with machines, whether by mechanizing tasks completely (as with robots) or by using

machines to make workers more productive (as with personal computers or supermarket scanners). Over the last 30 years, many businesses have been disproportionately successful in eliminating lower-skill jobs while creating more high-skill jobs, many of which involve interacting with new tools, such as computers, that require new know-how. The result is that over this time period, both the mix of jobs in the workforce and the task composition of particular jobs have shifted in the direction of greater education and skill requirements (Howell and Wolff 1991; Osterman 1995; Moss and Tilly 2001). This displaces workers at the low-skill end of the labor market and shrinks the pool of jobs for which they compete while heightening demand for high-skill workers, stretching wages further apart. The technological twist can then help to explain rising earnings inequality; it has no obvious connection with the general lag in wages and incomes.

Although technological change significantly affects income trends, as does globalization, its importance should not be overstated. As Howell (1994) pointed out, the shift toward higher-skill jobs essentially halted after 1982, while inequality between low- and high-education workers continued steadily. A much-noted economic study (Krueger 1993) found a substantial wage premium associated with working with computers. A more recent study (DiNardo and Pischke 1997, using German data), however, discovered that approximately the same premium accrues to workers who use hand-held calculators, pens or pencils, or who work while sitting down. Economist Steven Allen (2001) found that technological change accounted for less than one-third of the growth in the wage gap between college and high school graduates during the 1980s—the piece of wage inequality that one would expect to be most related to changes in technique. In short, the mixed evidence on the link between technological and wage changes suggests that we must look elsewhere for the main forces behind the new income trends (Mishel, Bernstein and Schmitt 1997).

Indeed, the rest of the industrialized world has experienced increased global competitiveness and speedier technological change. Yet despite significant stress on their industrial relations systems, no other rich country has ex-

perienced the extent of collapse in job quality and surge in wage and income inequality experienced by the United States (Freeman 1994). Explaining this difference is a third factor: U.S. businesses have largely responded to new competitive pressures by cutting costs rather than by enhancing quality. This translates into a concerted effort to keep wages low and minimize long-term commitments to the workforce. Another corollary of this “low road” strategy is the slow productivity growth already noted, resulting from sluggish investment in both physical and human capital. Furthermore, for many U.S. businesses that have attempted to raise productivity, this attempt has been based on fear and speed-up rather than on loyalty and training.

The new cost-cutting strategy incorporates keeping wages low, relentless downsizing and expanding part-time and contingent labor. In fact, although the number of workers in explicitly contingent statuses, such as temporary workers, still only amounts to about one-tenth of the workforce, employers are increasingly classifying all workers as contingent. As AT&T prepared to lay off an estimated 40,000 workers in early 1996, Vice President for Human Resources James Meadows told the *New York Times*, “People need to look at themselves as self-employed, as vendors who come to this company to sell their skills.” He added, “In AT&T, we have to promote the whole concept of the workforce being contingent, though most of the contingent workers are inside of our walls.” Instead of “jobs,” people increasingly have “projects” or “fields of work,” he remarked, leading to a society that is increasingly “jobless but not workless” (Andrews 1996:D10).

Cost-cutting strategy also targets government-imposed expenditures, such as taxes and regulation. Corporate taxes as a percentage of profits, 40 percent in 1971, were only 31 percent in 2002 (U.S. Council of Economic Advisors 2003). Deregulation has loosened government controls on industries such as telecommunications, airlines and trucking, and has weakened the implementation of other regulations, ranging from environmental protection to occupational safety and health.

This newly dominant strategy accelerates the erosion of institutions such as unions, the minimum wage (which remained far below its

1970s level of buying power even after the 1996 increase and erodes every year with inflation), and job ladders within companies. Yet these are precisely the institutions that historically have defended worker wage levels, particularly those of workers with less individual bargaining power, and have provided avenues for upward mobility.

The “low road” is, at least to some extent, self-perpetuating. Cutting wages and taxes restrains consumer and government spending (although both consumers and government have done their best to borrow in order to continue spending). However, since exports still absorb only a small fraction of output, businesses count on domestic demand from consumers and government. Weak demand spurs firms to seek more ways to cut costs, and the cycle continues. To U.S. business as a whole, the strategy is irrational. Although to individual businesses calculating their individual advantage, it makes perfect sense. Even more important, it is bolstered by the triumph of “free market” ideology in U.S. politics, which has helped to sweep away the policies and institutions that might discourage the low road.

TWO KEY DIMENSIONS OF INCOME CHANGES: RACE AND GENDER

As globalization, technological change and the low-road strategy transform the economy, not all groups in the population are equally affected by crumbling wages, sluggish income growth and heightened economic polarization. Indeed, in the United States, high and low wages and high and low household incomes have never been sprinkled randomly among the populace. Historically, people of color and women of all racial groups have earned lower wages (when they have received wages at all). Single-mother households as well as those headed by people of color also have received lower incomes. As such, these groups have most often been poorly housed. The new changes in income reflect this legacy, preserving the divisions of race and gender.

In income terms, race and ethnicity continue to divide America. Stagnant incomes and rising income inequality have struck particularly hard

at blacks and Latinos. Figure 1.5 shows median household income by the racial or ethnic group of the household head, and Table 1.1 lists family poverty rates by race, ethnicity and family structure.

Some elements of the racial-ethnic hierarchy are immediately clear from Figure 1.5 and Table 1.1; others require further elaboration. The incomes of black and Latino households lag far behind those of white households, and the last 25 years have not brought them appreciably closer. Asians have a higher median income than whites. The Census Bureau does not publish equally detailed information on Native Americans, but other Census data reveal that the group had a median income only \$1000 above that of black households, and lower than any other racial group, in 1999 (U.S. Department of Commerce 2005).

Table 1.1 confirms that black and Latino poverty rates are highest. Despite having a higher median income, Asians are more likely to be poor than whites. Analysis of unpublished Census data from earlier years shows that Native American poverty rates fall between those of whites and blacks (Albelda and Tilly 1997, Table 2.1).

The median incomes of Latinos and Asians are somewhat deceptive, since incomes are highly polarized within both populations. The Asian population, for example, includes high-income Japanese-American professionals but also low-income recent immigrants and refugees from Southeast Asia and China. So, although the median income of Asians exceeds that of whites, a greater proportion of Asians fall below the poverty line. Such income differences within racial groups are also highly correlated with differences in housing tenure.

Of particular interest are the changes in relative incomes over time. Over the past 20 years, as the epochal shifts in the economy took place, Latinos have lost ground relative to non-Latinos. Black household incomes have actually caught up slightly with white incomes, but the full picture is more troublesome. Over the same period of time, a 30-year trend of black hourly wages catching up with white wages was reversed. In terms of hourly wages, controlling for education and labor market experience, black men fell further behind white men, and black women lagged

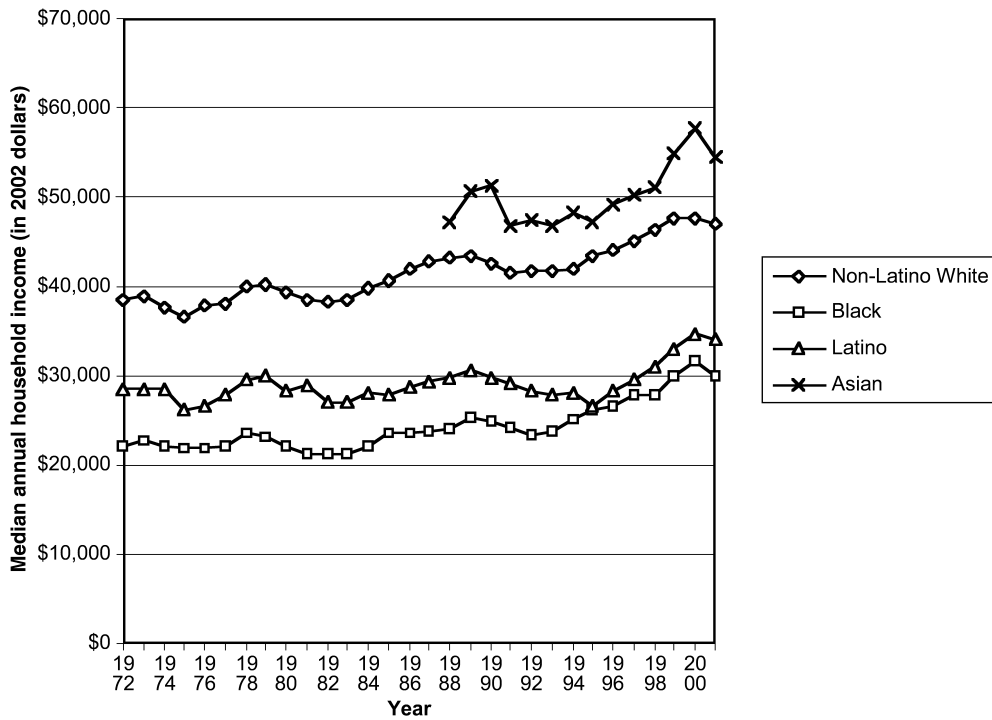


FIGURE 1.5. Persistent gaps: Median annual household income by race and ethnicity, 1972–2001. (in 2002 dollars).
 Source: U.S. Census Bureau 2003, Table A-2. Race definitions changed in 2002, so 2002 data are not included.

TABLE 1.1 Poor, Poorer, Poorest
 Percentage of Families in Poverty, by Race, Ethnicity and Family Type, 1999

	All Families	Single-Mother Families
White, non-Latino	5.5%	25.4%
Black	21.9%	46.1%
Latino	20.2%	46.6%
Asian	10.7%	—
Total	9.3%	35.7%

Source: U.S. Census Bureau 2000b, Table B-3.
 Note: Latinos can be of any race. Single-mother families refers to female householder, no husband present with children aged under 18. Families (unlike the households appearing in Figures 1.1 and 1.3 to 1.5) are limited to groups of two or more people living together and related by birth, marriage or adoption. Data with this level of detail were not reported in later years.

behind white women (Bound and Dresser 1998; Bound and Freeman 1992; Corcoran 1998; author calculations based on U.S. Bureau of Labor Statistics 2003b and U.S. Bureau of Labor Statistics *Employment and Earnings*,

January 2003). The black-white employment gap has also widened: In business cycle peak year 1973, black males were 88 percent as likely to be employed as white males, and black women were 105 percent as likely as white women (that is, more likely than white women). Two business cycle peaks later, in 1989, these percentages had slipped to 85 percent and 95 percent, respectively. Even in the 2000 business cycle peak, with unemployment at its lowest since the 1960s, the percentages rose to only 86 percent for men and 101 percent for women (U.S. Council of Economic Advisors 2003, Table B-41). Latinos also fell further behind non-Latinos in wages, though not employment (Borjas 1994; Corcoran, Heflin and Reyes 1998; Hinojosa-Ojeda, Carnoy and Daley 1991; Melendez 1993; author calculations based on U.S. Bureau of Labor Statistics 2003b and U.S. Bureau of Labor Statistics *Employment and Earnings*, January 2003).

Why? Part of the income story is one of family structure. Single-mother families have become

more common among all race and class groups but has grown most rapidly among black families. Single mothers are also particularly common among Puerto Ricans, though not among most other Latino groups. As well, since single mothers have less opportunity to earn wages, they receive, on average, lower incomes than any other type of family (Albelda and Tilly 1997). As Table 1.1 shows, single-mother families are nearly four times as likely to fall below the poverty line as the average family. The prevalence of this family structure is in part the result of limited economic opportunities available to black and Puerto Rican men and to the higher risks of imprisonment and early death in these populations (Wilson and Neckerman 1986).

The widening gaps in hourly wages and employment tell us that another important part of the problem derives from the labor market. In fact, blacks were hit particularly hard by the three drivers of economic change: globalization, technological change and revised business strategy. Globalization represents one aspect of increased capital mobility within as well as between countries. As jobs have moved to the suburbs within metropolitan areas, to Sunbelt regions within the country as a whole, and to new locations around the world, African-American communities have been likely to end up stranded (Squires 1994). Given the continuing power of racial residential segregation, African Americans have also been singularly unable to move where jobs were growing (Jencks and Mayer 1990; Massey and Denton 1993; see also Chapter 3).

As technological change increases the demand for skills, the good news is that blacks are slowly catching up with whites in educational attainment and achievement. But the bad news is that, on average, blacks (and Latinos) still have lower levels of skill and education at a time when the penalty for limited skills is growing. Employers are also placing growing emphasis on “soft” or social skills—attitude, ability to relate well with customers and so on. And employers’ assessments of the soft skills of blacks and Latinos are tainted by discrimination (Moss and Tilly 1996, 2001).

Blacks have also been hard hit by business restructuring. A *Wall Street Journal* study found that among a sample of over 35,000 corporate

employers during the 1990 to 1991 recession, black employment was reduced by 59,000 workers. Despite the recession, net employment for whites, Latinos and Asians grew; whites, for example, gained 71,000 jobs (Sharpe 1993). Although black-white gaps in wages and employment did narrow at the peak of the 1990s boom (Cherry and Rodgers 2000), they expanded once again in the subsequent recession (author calculations based on U.S. Bureau of Labor Statistics 2003b and U.S. Bureau of Labor Statistics *Employment and Earnings*, January 2003).

The reasons for growing Latino disadvantage have not been studied as extensively as those for blacks. One major factor in the low wages of Latinos is the influx of immigrants (many of whom earn low wages). There is evidence as well that many of the same trends are at work for blacks (Ortiz 1991; Melendez 1993).

In addition to race and ethnicity, gender powerfully stratifies incomes and wages. The gender gap is one area in which wage inequality is falling rather than rising. In 1955, a woman working full-time and year-round earned on average 64 percent as much as her male counterpart. In the 15 years that followed, women lost ground, languishing at 60 percent in the 1970s. But from the late 1970s onward, women recouped their losses, advancing to 77 percent in 2002—still not earnings equality, but a step in the right direction (Albelda and Tilly 1997, Figure 1.3; U.S. Census Bureau 2003, Figure 3).

While a smaller gender gap in wages is a welcome development, the problem is that this change has taken place primarily not because women’s real wages were rising, but because men’s real wages were falling. With—on average—men’s wages lower and women’s wages little higher, two earners have become increasingly necessary to support a family. This family speed-up is not an improvement in the standard of living. Indeed, the fact that more women are working for pay cuts in two directions. The paycheck is empowering for women, but with it come the stresses and costs of the “double shift”—one shift at the workplace and another caring for the home (Hochschild 1990, 1997). Part-time jobs are available as one option for women (or men) carrying out this balancing act, but part-time schedules typically come as part of a package that includes low wages, few or no

fringe benefits, and reduced job security (Tilly 1996).

The group squeezed hardest by the continuing gender wage gap and the family speed-up is single mothers. Single motherhood has become more common, affecting from 11 percent of U.S. children in 1970 to 20 percent of U.S. children (and 23 percent of mothers) in 2000 (calculated from U.S. Department of Commerce 1996, Tables 76, 79; 2001, Table 60). The reasons are many: Women have more hope of economic self-sufficiency, men have less to offer economically and values have changed to make it easier for women and men to separate. However, between the time demands of child care, the low wages of working women and the minimal level of welfare benefits, single-mother families end up with extremely low incomes: In 1999, 36 percent of single-mother families were in poverty (see Table 1.1); percentages were even higher for single mothers of color. As single parents and their children grew to make up a larger share of the poor population, sociologist Diana Pearce (1978) described the process as the “feminization of poverty.” Economist Nancy Folbre (1984) later suggested that a more apt term might be the “pauperization of motherhood.”

In this context, recent waves of state and federal “reform” have slashed away at a critical lifeline for single mothers, the program popularly known as welfare (traditionally known as Aid to Families with Dependent Children [AFDC] and renamed Temporary Assistance for Needy Families [TANF] in 1996). Even before the most recent round of cuts and restrictions, welfare had already become distinctly less generous. The typical state’s average monthly AFDC benefit for a family of three tumbled from \$690 in 1970 to \$366 in 1994 (in 1994 dollars; Parrott and Greenstein 1995). AFDC covered 80 percent of poor children in 1973 but only 59 percent in 1990 (U.S. House of Representatives 1994:399).

In fact, for years the United States has stood out among industrialized countries for the stinginess of its welfare benefits. A 1990 study (Smeeding, O’Higgins and Rainwater 1990; see also McFate 1991) adopted an internationally consistent definition of the poverty line (one-half of a nation’s median income) and asked, of nonelderly families in poverty before

government aid and taxes, what percentage were lifted above poverty by government assistance. In the late 1980s, the government programs of France, the Netherlands, Sweden and West Germany pulled about 50 percent of these potentially poor families out of poverty. U.S. government action, embarrassingly, pushed a small number of added families into poverty: Taxes pushed more people below the poverty line than transfers lifted above it.

Unfortunately, the U.S. antipoverty policy record is becoming even worse. The 1996 federal welfare “reform” put into place lifetime limits, harsh work requirements and an end to the federal guarantee to provide full funding for the program (Albelda and Tilly 1997). The impact of cutting welfare extends well beyond welfare recipients themselves. It weakens the safety net under all mothers, reducing their bargaining power with bosses and spouses alike. As well, it floods the labor market with women who have limited skills and few alternatives. The predictable effects are job displacement and erosion of wage standards, particularly among vulnerable workers who are already concentrated at the low end of the labor market—although the late 1990s economic boom offset these effects for the time being. At the time of this writing (late 2005), Congress appears likely to pass an even more draconian version of welfare reform with stricter work requirements, at a time when economic boom has turned to labor market bust.

Housing patterns echo these income patterns, sometimes in intensified fashion. As other chapters in this text explore in detail, people of color and single mothers suffer particularly acute housing problems. Because on average they earn lower wages and receive less total income, people of color and single mothers disproportionately struggle with housing affordability. Because they are more likely to endure irregular income and employment, African Americans, Latinos, Native Americans and single mothers of all races face greater risks for housing insecurity—in many cases leading to homelessness. As politicians chip away at the parts of the welfare system that have most aided single mothers and low-income people of color, they also have cut back or eliminated the programs that subsidize *housing* for those with low income.

CONCLUSION: THE DOWNWARD
SPIRAL

Recent economic trends in the United States tell a story of income stagnation, growing income insecurity and widening income inequalities. These income setbacks worsen the built-in difficulties and inequalities in the nation's for-profit housing system. They also form part of a self-perpetuating economic cycle. Businesses feeling competitive pressure curb wages, thereby shrinking consumer income and tightening competition still more. Businesses underinvest in knowledge and equipment upgrading, thereby slowing productivity growth and reducing the surplus available for reinvestment.

Housing economics also feed into this cycle. When incomes do not keep up with housing costs, families must devote more work time and money to paying for housing, thus reducing any surplus of time or money that could be invested in education or training. This heightened housing insecurity increases the chance of homelessness or frequent relocations, making participation in the labor market all the more difficult for adults and disrupting education for children.

As troubling as this economic cycle may be, the political cycle is even more discouraging. The experience of sharpening income and housing inequality, abetted by ubiquitous pro-market ideology, divides low- and moderate-income people as they scramble to get closer to the haves and to distance themselves from the have-nots. Those running to keep up on the economic treadmill, unable to counteract the changed rules of the game, too often direct their resentment at those still worse off—immigrants, recipients of welfare or housing subsidies, Mexican workers—who are seen as competitors or undeserving beneficiaries of taxpayer-funded aid. However, in the national and global market, weakening one's competitors simply hastens the process of bidding down wages and job security; undermines any notions of universal rights to housing, employment or income; and divides the coalitions that could potentially resist the dangerous economic trends.

Stopping this downward spiral requires building politics and economics based on solidarity rather than division. Politically and

economically, the target must be policies protecting the weakest and bolstering living, housing and work standards for all workers. Without such policies, worsening economic inequality and insecurity is certain to continue.

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