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The Great Recession and Distribution of Income in California

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SUMMARY

The effects of the Great Recession have been felt far and wide. According to official measures, the recession ran from December 2007 until June 2009. During that time, California experienced record unemployment, a housing market bust, sizable budget shortfalls, and downturns across nearly all major industries in the state. These problems have continued well past the technical end of the recession.

California's families have been hit hard by the Great Recession and its aftermath. Family income has declined across the spectrum, with lower incomes seeing the steepest losses (Table 1). The gap between upper- and lower-income families is now wider than ever. And the number of families in the middle-income range is shrinking. Specifically, we find:

- Total income for the median family in California fell more than 5 percent between 2007 and 2009 (the official recession years) and an additional 6 percent between 2009 and 2010.
- At the lowest income level—the 10th percentile—family income fell more than 21 percent in total. At the 90th percentile, family income fell 5 percent.
- After adjusting for California's higher cost of living, just less than half—47.9 percent—of individuals were in families that could be considered middle income in 2010.

As these findings suggest, the Great Recession has brought us to new extremes. These include record high measures of inequality, near-record lows in the proportion of middle-

Table 1. Family income fell in every income category between 2007 and 2010

	Family income ($)				Percentage change	
	2007	2008	2009	2010	2007–2009 (official recession)	2007–2010 (actual peak to trough)
10th percentile	19,100	17,000	16,200	15,000	–15.2	–21.5
25th percentile	34,600	34,200	32,400	31,200	–6.4	–10.0
Median	68,400	66,000	64,700	61,100	–5.4	–10.7
75th percentile	122,000	122,300	115,600	112,400	–5.3	–7.9
90th percentile	188,300	187,500	183,700	179,100	–2.5	–4.9
95th percentile	246,000	232,100	235,600	226,300	–4.2	–8.0

SOURCE Authors' calculations from the Current Population Survey of the U.S. Census Bureau.

NOTES: Family income is adjusted to 2010 dollars and normalized to account for family size. See Technical Appendix A for details.

income families, and record high unemployment and unemployment duration. Through 2010, past the technical end of the recession, there has been no evidence of recovery in income across the distribution.

Unemployment and underemployment—working fewer hours or weeks per year—were hallmarks of the Great Recession, and California is still facing high unemployment numbers. We find that even for working families, income fell during the Great Recession for the middle of the distribution and below. Underemployment, rather than a decline in wages, appears to have driven this income drop. This suggests that policies that create jobs and promote full-time employment, rather than those that target wage rates, are more likely to be effective in aiding the recovery of family income.

We do not yet know the timing of the recovery from the Great Recession and how that recovery will be shared across the income distribution. If previous recovery patterns repeat themselves, it is likely that the lower half of the income distribution will recover much more slowly than the upper half, potentially allowing already record-high income inequality to persist. The erosion of low and middle incomes raises concerns about the equity of economic opportunity in the state.

The most important factor driving the gap between high- and low-income workers is education. Looking ahead, California may need to find innovative ways to promote opportunity through education, especially so that middle- and lower-income families are not left behind.

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