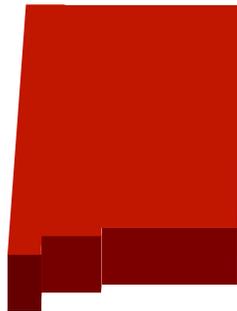




**THE STATE OF
WORKING NEW MEXICO
IN 2004**



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This report describes changes to New Mexico's labor market since the official end of the national recession in November, 2001. It explores how recent shifts in the number, type, and quality of jobs available to New Mexicans have impacted family incomes and the quality of life in our state. This report uses recent labor market trends to assess the effectiveness of current state economic development policies and proposes ways New Mexico can improve the economic well-being of its working families.

JOBS NUMBERS TELL ONLY HALF THE STORY

On the surface, New Mexico's employment picture appears relatively bright. As of June 2004, New Mexico's unemployment rate was 5.5%; slightly below the national unemployment rate of 5.6%, and significantly lower than the 6.7% unemployment rate of June, 2003. Since the official end of the national recession in November 2001, New Mexico has added slightly over 30,000 non-agricultural jobs. June 2004 non-agricultural wage and salary employment totaled 792,000 jobs. New Mexico's 4.2% job growth since the recession's end has been the nation's fourth highest.

However, unemployment rates and job growth numbers provide an incomplete picture of New Mexico's labor market. These statistics tell us little about the *quality* of jobs available to New Mexicans or the standard of living those jobs afford. In fact, closer inspection our state's more detailed employment statistics reveals a sobering reality about the state of working New Mexico in 2004:

- ✓ The *quality* of New Mexico jobs has diminished markedly:
 - Wages, particularly for moderate and low wage workers, are stagnant
 - *Underemployment*, especially involuntary part-time work, is on the rise
 - Rates of pension coverage are falling
 - Rates of union coverage remain low
 - New Mexico remains last among states in employer health insurance coverage

- ✓ Most of the growth in private sector employment has been fueled by Medicaid-funded personal healthcare. Medicaid is a public insurance program that was cut back this year and is threatened with more and deeper cuts next year.

- ✓ Poverty has not diminished in New Mexico. With one-in-five adults and one-in-four children still living in poverty, New Mexico continues to have one of the nation's highest poverty rates.

BACKGROUND: NEW MEXICO'S UNIQUE ECONOMY

Like everything else about New Mexico, our state's economy is unique. Several factors, including a large federal presence in the form of military bases, depots, and national labs, a relatively small manufacturing sector, and strong extractive industries buffer New Mexico's economy from the peaks and valleys of the national business cycle.

New Mexico's relative isolation from national economic trends is both an advantage and a disadvantage. New Mexico was not as damaged by the 2001 recession as were more densely populated, manufacturing-reliant states. But this is, in part, because New Mexico benefited far less than other states from the prosperity and job growth of the 1990's. New Mexico has maintained the nation's first or second highest poverty rate for over a decade. When the bottom fell out of the national economy in 2001, New Mexico simply didn't have as far to fall as did those states that had been riding the crest of the economic wave.

Government is the largest employer in New Mexico. Roughly 29,000 New Mexicans, or about 4.1% of the state's workforce, are employed directly by the federal government.

However, much of the federal government's work in New Mexico is carried out by private contractors. These federal contractors employ tens of thousands of additional New Mexicans. State government employs approximately 48,000 New Mexicans, or 6.5% of the workforce. Local and tribal governments, including public school districts and tribal casinos, employ over 95,000 New Mexicans, or about 13% of the state's workforce. Government employment is not as volatile as private sector employment in the face of economic swings. Thus, New Mexico's high proportion of government jobs blunted the impact of the national recession on our state's labor market.

New Mexico is a state rich in mineral resources. We are a major producer of coal and oil, and is the nation's 4th largest producer of natural gas. Prior to recent steep declines, copper and uranium mining each employed thousands of New Mexicans. The health of New Mexico's economy can be gauged, in part, by the health of its extractive industries. The state's extractive industries are impacted by numerous factors independent of national economic trends. Demand for oil is determined on international markets. Demand for natural gas and coal is impacted by weather and supply factors throughout North America.

While sheltered, New Mexico is by no means exempt from national economic trends. Our economy is highly reliant on tourism. Lodging, retail, and dining establishments were all hit hard by the national recession. Although not as damaged as those in other states, New Mexico's small manufacturing sector also suffered. New Mexico's manufacturing industry has lost 5,100 jobs in the last three years. In addition, New Mexico has lost over 1,200 information and communications jobs since November 2001.

Like other states, New Mexico's recovery from the recession has been slow and characterized by a shift in the types of jobs being created. Jobs are coming back, but they are not the same jobs that were lost. On average, the jobs created in New Mexico since the recession's end pay less and offer fewer benefits and fewer hours than the jobs lost over the last three years.

LOSING GROUND ON MEDIAN WAGE

A state's median wage represents the midpoint of its wage distribution. Fifty percent of state wage earners earn less and fifty percent earn more. New Mexico's \$11.40 median wage is the nation's third lowest and the lowest among the eight states of the mountain west (Montana, Idaho, Wyoming, Colorado, NM, Arizona, Utah, and Nevada).

New Mexico's median wage is 16% lower than the US median (\$13.62) and 13% lower than the mountain states' median (\$13.12).

New Mexico's wages have historically lagged those of neighboring states and the US overall, but in recent years New Mexico has fallen further behind the rest of the country.

Figure 1

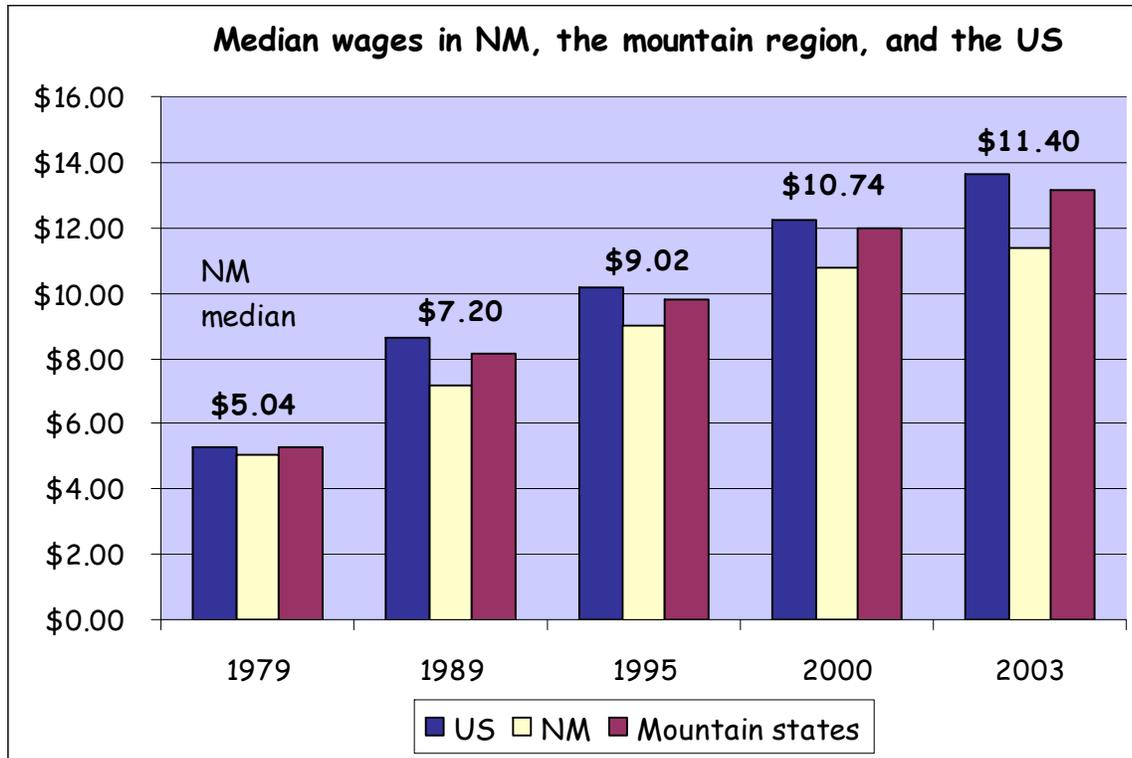


Figure 1 illustrates the widening of the gap between New Mexico's median wage and the median wage for the mountain region and the nation overall during the last 25 years. In 1979, New Mexico's median wage was roughly 4% below the US and mountain states' median. In 2003, a New Mexico worker receiving the state median wage made 16% less than the US median wage and 13% less than the mountain states' median wage. Declines in New Mexico wages relative to those of other states have, in large part, tracked declines in our state's copper and uranium mining industries. New Mexico's median wage ranking is also impacted by oil and gas production, which employs more people when prices are high. However, despite recent strength in both oil and gas, the disparity between New Mexico's median wage and the median wages of other mountain states has never been greater.

LOW WAGE WORK

The median wage is the wage received by workers at the very center of the income spectrum, half of all workers in New Mexico earn a lower wage, and half earn a higher wage. Figure 2 shows 2003 hourly wages in New Mexico by percentiles of workers. In 2003, the wage for the 20th percentile was \$7.49, meaning the lowest-paid 20% of New Mexico workers made less than \$7.49 per hour. The hourly wage for the 80th percentile was \$20.02, meaning that 80% of New Mexico workers earned less than \$20.02 per hour in 2003.

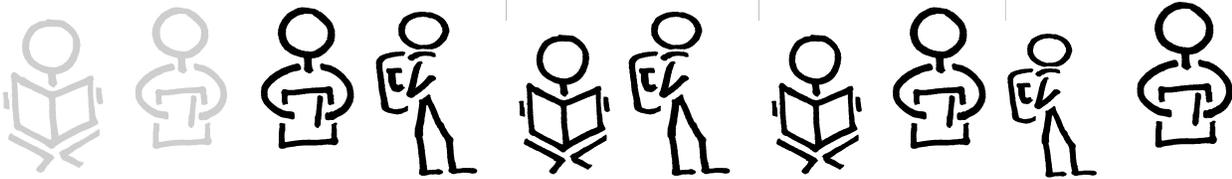
Figure 2



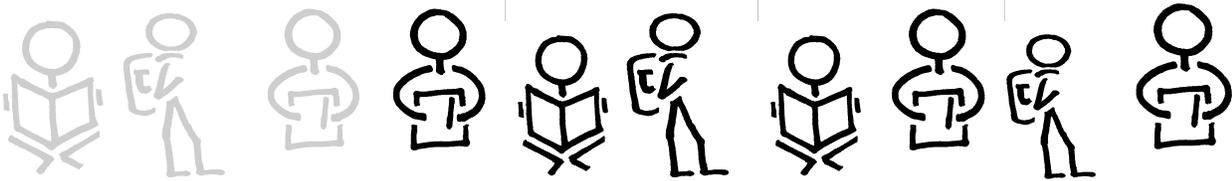
Low wage workers and their families are particularly vulnerable because their earnings are so low that they are often unable to afford basic necessities such as adequate clothing, housing, healthcare, or nutrition, not to mention quality childcare or eldercare for their dependents while they work. Low wage workers rarely have paid sick leave or vacation time, so a child's illness can mean lost wages or even lost employment. Low wage work rarely provides access to health insurance or pension benefits, and, even when it does, those benefits often remain unaffordable for the low wage worker.

"Low wage workers" are often defined as the lowest paid 20% of employees. In the US, the 20th percentile wage for 2003 was roughly \$8.50 an hour, meaning the lowest paid 20% of workers in the United States received an hourly wage of less than \$8.50. In New Mexico, 30% of workers earned less than \$8.50 per hour in 2003. Thus, almost one third of New Mexico workers would be defined as "low wage" using a national definition.

Twenty percent of US workers are "low wage"



Thirty percent of New Mexico workers are "low wage"



STAGNANT WAGES

In New Mexico, the period between November 2001 and December 2003 was one of wage stagnation for median and low wage workers. Wage stagnation occurs when wage increases just keep pace with increases in the cost of living, meaning that the buying power of a worker's wage remains unchanged over time. This means that although they were working, the living standards of low and moderate wage New Mexicans did not improve.

The period since 2000 stands in stark contrast to the 10 years prior. The 1990's were characterized by measurable increases in the buying power of low and moderate wage workers. Figure 3 also shows increases in the inflation-adjusted wage of workers in the 80th percentile. The increase in the buying power of these relatively high wage workers compared to the stagnation in the buying power of low wage workers indicates increasing wage disparity, in other words, a growing gap between the "haves" and the "have nots".

Wage stagnation means that buying power does not improve over time and thus that a steady record of hard work does not necessarily yield a better quality of life. This

expectation is central to the "American dream," but recent wage data suggest that it is not realistic for the bottom 50% of New Mexico wage earners. Flat wages may also be a precursor to declining real wages, which mean decreased buying power and living standards, despite a steady record of hard work.

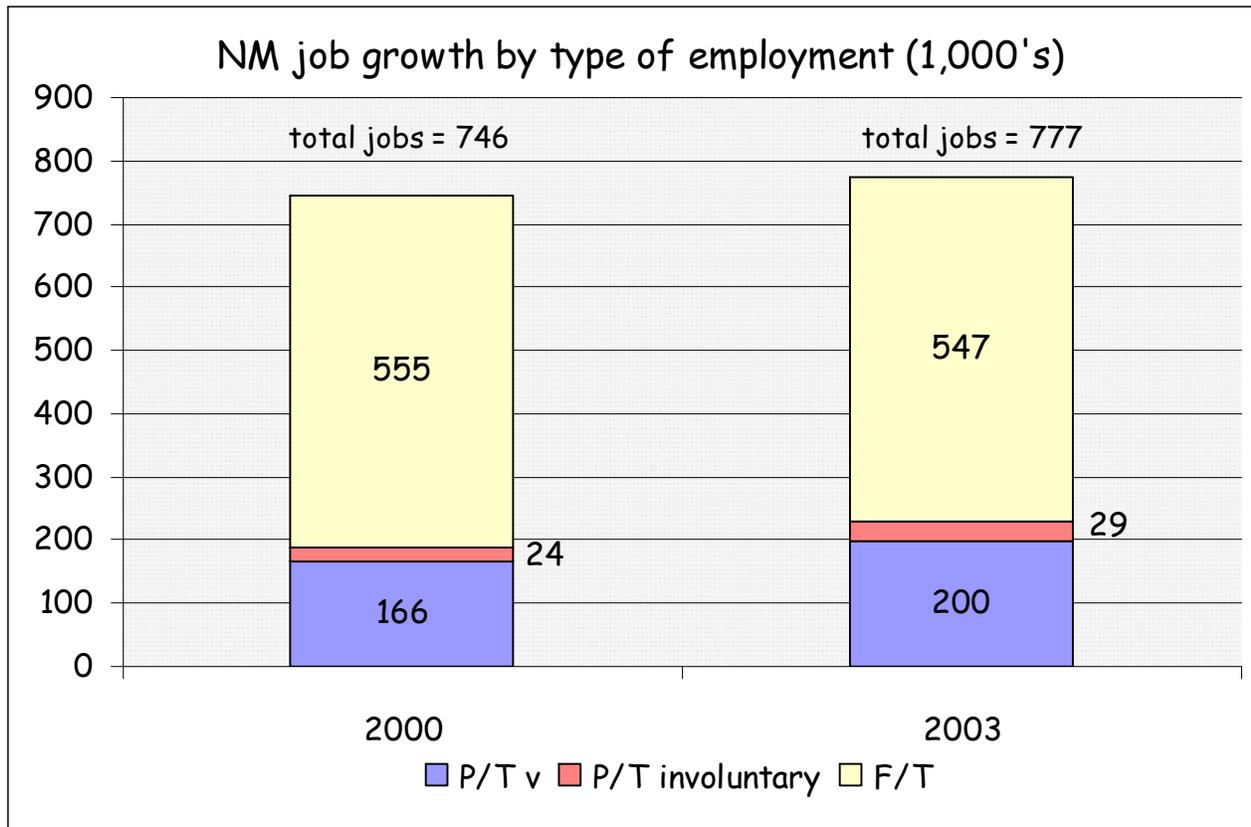
UNDEREMPLOYMENT

Workers are considered "underemployed" if they are not employed full time and are working less than they want to. The underemployed include members of the labor force who are unemployed but capable of working and actively seeking work; "discouraged workers" -- unemployed people who want to work, but haven't actively sought work in the past month because they believe there are no jobs for which they qualify available; and "involuntary part-time workers" -- people who are employed part-time, but want and are available for full-time work. Between November 2001 and December 2003 New Mexico's *underemployment* rate increased from 8.8% to 10.9%.

According to statistics from the US Department of Labor, between 2000 and 2003, the percentage of New Mexico workers who worked part-time increased from 22.3% to 25.7%, a statistically significant increase of 3.4 percentage points. During the same period, the percent of all part-time workers who were involuntarily part-time stayed relatively constant at 14.7%. Also during that period, overall employment in New Mexico grew from 746,000 to 777,000, an increase of 31,000 jobs.

Combining the statistics on part-time employment with the statistics on overall job growth¹ produces an estimate of 33,000 new part-time jobs in the period 2000-2003, 5,000 of which were filled by workers who were involuntarily part-time. These estimates suggest that part-time jobs fueled most of the observed growth in employment between 2000 and 2003 and that during that period some full-time jobs were displaced by part-time jobs. These results are graphed in Figure 3.

Figure 3



The conclusion that most of New Mexico's new jobs are part-time is supported by establishment-level employment data and data from the 2000 Census. Most of New Mexico's job growth since 2000 has arisen in home healthcare, education, and tribal gaming. In fact, expanded Medicaid coverage of community-based personal healthcare (see below) alone accounted for roughly 5,000 of New Mexico's new jobs and 55% of all private sector job growth between 2001 and 2003. Data from the 2000 census² indicates that home health aides are more than twice as likely as other New Mexico workers to work part-time. According to the census, roughly 21% of all employed New Mexicans work fewer than 30 hours per week. In contrast, 47% of New Mexicans employed in personal healthcare work fewer than 30 hours per week. Employment in tribal gaming and private education has also increased significantly since 2001. Twenty nine percent of respondents to the 2000 census who listed their occupation as "gaming service worker" reported working part-time as did 30% of individuals who identified themselves as a private school teacher or educational worker.

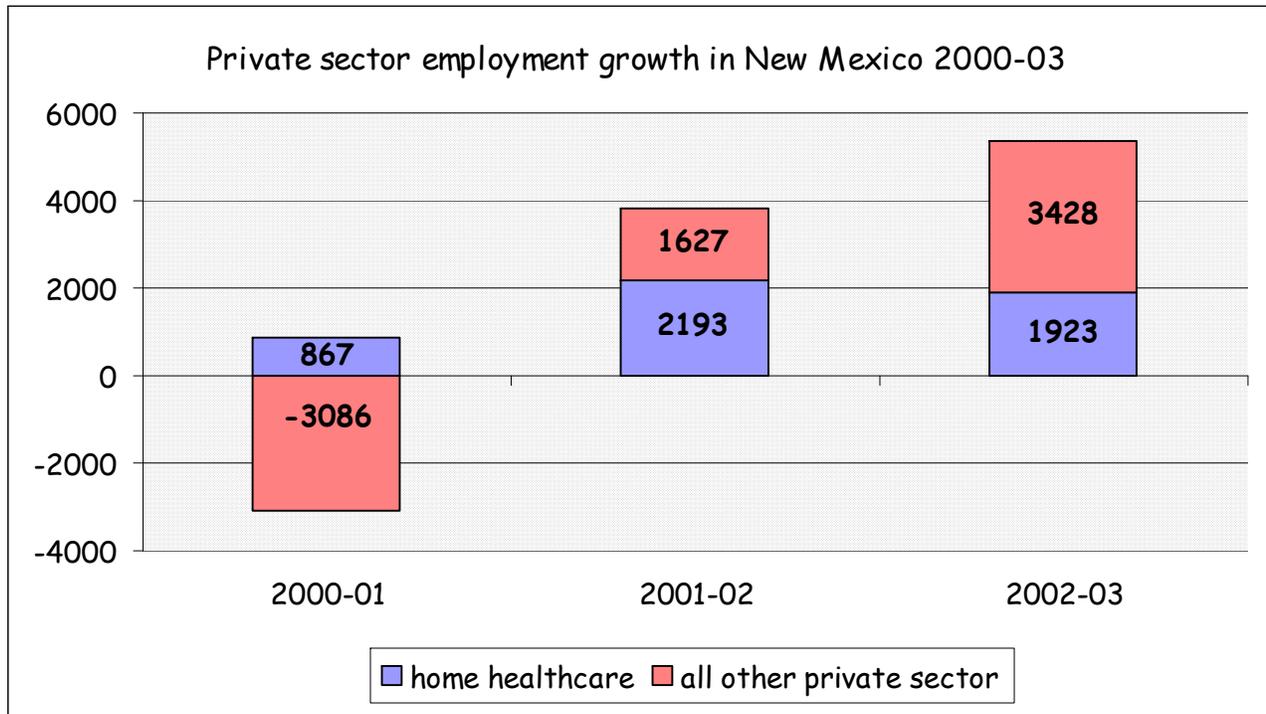
HOME HEALTH CARE EMPLOYMENT AND THE MEDICAID PERSONAL CARE OPTION

Since 1999, New Mexico's Medicaid program has paid for personal-care attendants in the homes of low-income elderly and disabled adults who would otherwise qualify for nursing home care through a program known as the personal care option (PCO). The attendants, who can be family members or friends of the program participant, but are typically employees of a private firm, perform household duties such as feeding and bathing. The PCO is intended enable people to remain in their homes and communities while saving the state money by forestalling or preventing costly nursing home care. However, with annual growth of roughly 33%, the PCO has become the fastest growing part of New Mexico's Medicaid budget and is expected to cost between \$150 and \$200 million in state and federal money this year. One hundred thirty three providers statewide provide PCO services. They are paid \$15 per hour by Medicaid and are required by the state to pay the attendants they employ at least \$8.50 per hour. Over 9,000 New Mexicans receive services through the Medicaid PCO.

A recent study by the New Mexico Human Services Department¹ noted that implementation of the PCO had saved the state money by reducing Medicaid-paid nursing home admissions and waiting lists for Medicaid-paid nursing home beds, but urged administrative reform of the personal care option and reductions in provider reimbursement to slow the growth of the program. Given that roughly half of all private sector job growth in New Mexico since the recession's end is directly attributable to increased spending on the personal care option; implementation of significant reforms is likely to stifle future job growth.

Numerous aspects of New Mexico's Medicaid program have recently been pared back or eliminated in an effort to reduce costs to the state. The personal care option has become a lightning rod in the debate over Medicaid funding because of its rapid growth and because, in some instances, the personal care attendants hired are relatives or friends of the Medicaid client. Thus, it is not unreasonable to expect the personal care option to be targeted in future rounds of Medicaid budget cuts.

1. Personal Care Option Committee. New Mexico Personal Care Option Program Review and Recommendations, June 23, 2003



“The home health care services component has tripled in size since 2000 due to an influx of Medicaid money. Social assistance jobs have increased by 800.”

New Mexico Department of Labor, Monthly News Release. July 22, 2004

LOW RATES OF HEALTH INSURANCE AND HIGHER HEALTH INSURANCE COSTS

Over one-in-five New Mexicans lacks health insurance. New Mexico has the nation's second lowest rate of healthcare coverage. Only in Texas is a larger percentage of the state's population uninsured.

Lack of health insurance is a symptom of low quality jobs. In the US overall, employment is the most common source of health insurance coverage. New Mexico ranks 36th among states and the District of Columbia in the percent of private sector employers that offer access to health insurance. In 2000, the most recent year for which data are available, 53% of New Mexico's private sector employers offered health insurance, compared to 59% of private sector employers in the US overall (Agency for Healthcare Research and Quality, 2003).

Despite lower-than-average premiums³, New Mexico is last among states in the percent of its population that is insured through employment. Forty five percent of New Mexicans obtain their health insurance through an employer, compared to 57% of Americans overall. New Mexico is also last among states in the percent of households in which at least one person works full-time that have employer-sponsored health insurance (ibid). Thus, it is clear that New Mexico's low rate of employer health insurance does not result entirely from lack of jobs. Low rates of employer sponsored health insurance result, in part, from low employer contribution rates, low wages, and wage stagnation.

New Mexico is 51st among the states and the District of Columbia in the percent of family health insurance premiums paid by employers. In New Mexico, the average employer contribution to family health insurance coverage is 66% of the premium. In the US overall, the employer contribution averages 77% of the total premium (Kaiser Family Foundation, 2004).

In 2003, employer-sponsored family health insurance coverage in New Mexico cost approximately \$9,400. The employer's share averaged \$6,200 and the employee paid, on average, \$3,200 (ibid). New Mexico also had the nation's third lowest median wage in 2003. As noted earlier, 50% of New Mexico workers made less than \$7.49 per hour. Thus, for a full-time worker at the midpoint of the wage distribution, the employee share of family coverage would consume over 22% of after-tax income.

Between 2001 and 2003 health insurance costs in New Mexico increased by 45%, an average of 15% annually. In addition to higher premiums, many employers reduced benefits and asked employees to pick up a larger share of the cost (Albuquerque Journal, 2003). Dramatic increases in the cost of employer health insurance exacerbate the impact of wage stagnation. Many New Mexico workers took home smaller paychecks in 2003 than they did in 2001.

PENSION COVERAGE RATES REMAIN LOW

The percent of New Mexico private sector employees that are covered by a pension plan to which their employer contributes remains well below the national average.

DIMINISHING BARGAINING POWER

In 2003, 7.7% of New Mexico workers were union members, compared to 12.9% of workers in the US overall. New Mexico's 2003 union membership rate is higher than the 6.8% rate estimated for 2002, but still consistent with the overall decline in union membership observed in New Mexico and the US overall over the past several years.

MINIMUM WAGE: STILL TOO LOW

In June of 2003, New Mexico's state minimum wage was increased from \$4.25 per hour to the federal minimum of \$5.15 per hour. State minimum wages that are lower than the federal minimum wage only apply to a small subset of businesses not covered under the federal Fair Labor Standards Act (FLSA). Thus, the pool of workers receiving New Mexico's lower minimum wage was relatively small. The New Mexico Department of Labor estimated that fewer than 6,000 workers (less than 1%) were affected by the wage increase.⁴

On the other hand, it is estimated that over 102,000 (12%) of New Mexico workers receive the federal minimum wage of \$5.15 per hour. In the US overall, 8.7% of workers work for the minimum wage.

The minimum wage is barely enough to keep a single person working full-time and year-round above the poverty threshold. If the minimum wage worker has children and other dependents and no other source of income, the family will live in poverty. The last increase in the federal minimum wage occurred in 1997, when Congress raised the minimum wage from \$4.75 to \$5.15.

THE BOTTOM LINE: POVERTY REMAINS HIGH

Poverty is an income-based measure of deprivation. Poor people do not have sufficient resources to meet the basic requirements of healthy living such as food, clothing, healthcare, and shelter⁵. Children, particularly very young children, are more likely than any other segment of the population to live in poverty.

Since 1994, New Mexico has had one of the nation's highest poverty rates. In 2001 and 2002, 18% of New Mexico adults and 24% of New Mexico children lived in poverty.

Many New Mexicans who work full-time and year-round remain poor because of New Mexico's low wages. According to the 2000 census, approximately 62% of New Mexico's 68,200 poor families include at least one person who works. Roughly 14,000 New Mexico families live in poverty despite the fact that at least one member works full-time and year round.

Part-time workers are even more likely to be poor. In New Mexico, 26% of working families in which no one has full-time employment live in poverty.

A significant reduction in poverty-despite-work will be evidence of real improvement in New Mexico's labor market. However, stagnant wages and increasing underemployment suggest the trend is in the other direction.

POLICY IMPLICATIONS

The statistics presented in this report make clear that simply growing jobs is not enough to ensure prosperity for the majority of New Mexicans. Stagnant wages, involuntary part-time work, and fewer benefits all indicate that job quality is falling even as job quantity is going up. These would be incongruous findings if the increase in employment was the result of a thriving economy. However, it is not. The areas of significant job growth - personal healthcare and tribal casinos in particular - are directly linked to specific state policies - the Medicaid personal care option and tribal gaming compacts. These policies are unrelated to our state's economic development strategy. The job growth they have stimulated is, in that sense, coincidental, and cannot be sustained in the long run. The Medicaid personal care option is threatened with budget cuts; but even if the program continues unabated, its rate of growth will slow as the pent-up demand for community-based, in-home care is eventually met. Tribal

gaming in New Mexico is a relatively young and growing industry. Like any industry, it cannot expand indefinitely.

Sustainable economic growth that ensures a prosperous future for our state will be evidenced by a significant decline in poverty-despite-work and will not be achieved until New Mexico invests adequately and consistently in New Mexicans. Rather than spending scarce state funds to lure out-of-state businesses with generous tax breaks, New Mexico's economic development strategy should strengthen the three building blocks of a healthy and productive labor force: healthcare, education, and child care. Investments in state-funded healthcare stimulate the economy and strengthen the healthcare infrastructure that is the foundation of economic development. Increased access to high quality public education will lead to higher levels of academic attainment and achievement, both of which yield better jobs and higher wages. Many parents are forced to take part-time employment because they cannot afford child care. Improved access to high quality child care will improve the quantity and quality of parental work effort *and* supply young learners with the tools they will need to excel when they enter elementary school.

CONCLUSION

When it comes to economic development in New Mexico, quality matters every bit as much as quantity. More jobs do not necessarily mean higher living standards, especially when the "new" jobs are offer less hours, fewer benefits, and lower pay than the ones that they replace. Close examination of New Mexico's labor market over the last three years reveals stagnating wages, fewer benefits, and a disturbing trend toward involuntary part-time work. Almost half New Mexico's private sector job growth in the last three years is directly attributable to Medicaid funding of personal healthcare, jobs that offer low pay and limited hours in a program endangered by state budget cuts. Real job growth that does not, on closer inspection, prove illusory requires that New Mexico redefine "economic development" and target those areas - healthcare, education, and childcare - crucial to a healthy and productive labor force.

SOURCES

Unless otherwise attributed, all labor force and wage statistics, including employment, part-time and full-time employment, unemployment, underemployment, and involuntary unemployment used in this report were derived from tabulations of Current Population Survey microdata by the Economic Policy Institute

(EPI). The Current Population Survey is a survey of the non-institutionalized civilian population conducted by the US Census Bureau for the Bureau of Labor Statistics.

Unless otherwise attributed, all employment statistics, including total employment and employment by industry, state, and year were derived from tabulations of the Current Employment Statistics (CES) survey data by the Economic Policy Institute.

All statistics on pension coverage were derived from analysis of the data from the Current Population Survey March Supplement by the Economic Policy Institute.

All union coverage statistics were derived from analysis of data from the Bureau of Labor Statistics by the Economic Policy Institute.

Agency for Healthcare Research and Quality, Center for Cost and Financing Studies. 2001 Medical Expenditure Panel Survey - Insurance Component. Tables II.C.1, II.C.2, and II.C.3:
<http://www.meps.ahrq.gov/MEPSDATA/ic/2001/Index201.htm>

Albuquerque Journal, September 10, 2003 "Health Insurance Costs Jump Once Again"

Kaiser Family Foundation, 2004. State Health Facts Online

The Economic Policy Institute (EPI) is a nonprofit, nonpartisan think tank that seeks to broaden the debate about strategies to achieve a fair and prosperous economy. New Mexico Voices for Children thanks them for their support with this research.

¹ Data on overall employment growth and percentage of workers employed part-time derive from two different Department of Labor surveys.

² 2000 5% Public Use Microsample (PUMS) for New Mexico. Data available for download at <http://www.census.gov/Press-Release/www/2003/PUMS5.html>

³ Employer-sponsored health insurance premiums in New Mexico are low relative to those of other states. In 2000, New Mexico ranked 48th out of 51 states and the District of Columbia.

⁴ NM DOL personnel were careful to note that a precise estimate of the number of workers affected by the increase in the state minimum wage was not possible with current data

⁵ The federal poverty threshold is artificially low. Research at both the state and national levels has shown that many families with income well in excess of the poverty threshold remain unable to afford basic necessities.