OREGON CENTER for PUBLIC POLICY

Because facts matter.

Fact Sheet

June 9, 2016

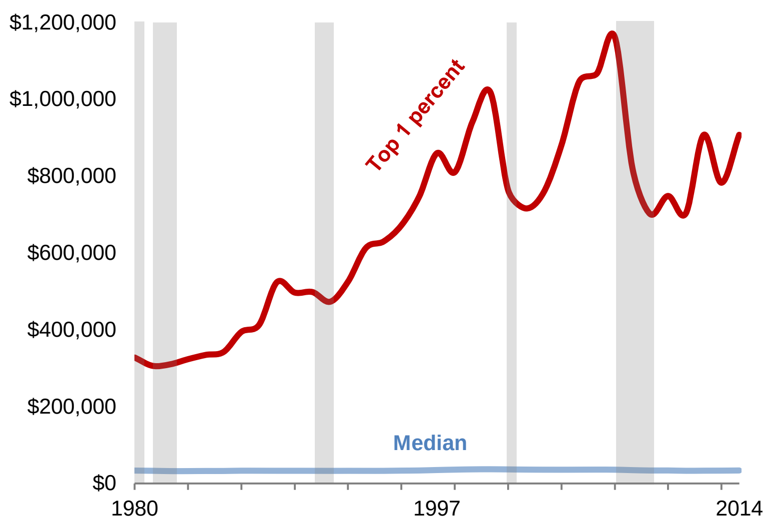
Outsized Gains at the Top Worsen Oregon Income Inequality

A View of the State of Working Oregon

Since 1980 and since the end of the Great Recession, income inequality has worsened, with the top 1 percent reaping a disproportionate share of Oregon's economic growth. By one key measure — the income accruing to the top one-tenth of 1 percent of Oregon earners,[1] roughly 1,700 households in all of Oregon — income inequality in Oregon stands just a hair below its all-time high.

Confronting income inequality is perhaps the greatest challenge facing Oregon today. A growing body of research indicates that income inequality not only limits the ability of working families to get ahead, but also undermines economic growth.[2] Lawmakers must enact policies that reduce income inequality to ensure all Oregonians share in economic opportunity.

Top 1 percent's income soars while typical Oregonian's remains stagnant



Average income of Oregon's top 1 percent compared to Oregon's median income. All figures adjusted for inflation using CPI-U-RS. Gray bars indicate offical periods of recession.
Source: OCPP analysis of Oregon Department of Revenue data.

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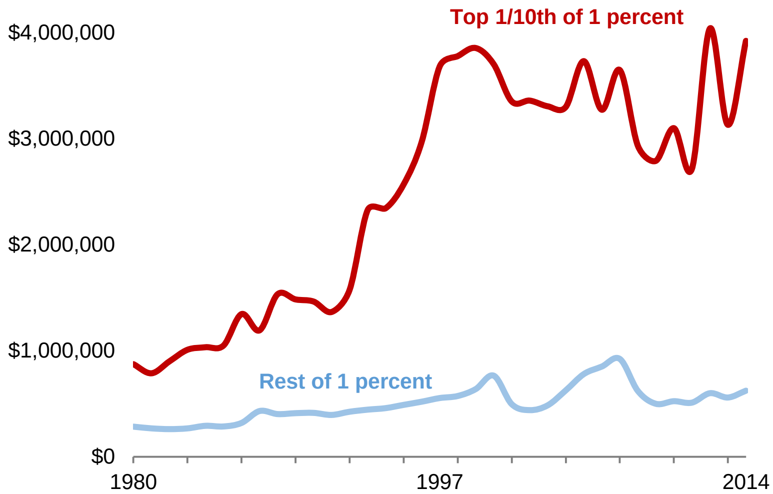
To be among the top 1 percent of earners in Oregon in 2014 (the year with the most recent data), a taxpayer had to earn at least $368,109.[3] Their average income was $907,000 that year, nearly triple its inflation-adjusted average income in 1980 of $327,000.

Meanwhile, the income of the typical (median) Oregonian stagnated. The median Oregon income was $33,484 in 2014, just $270 higher than in 1980 after adjusting for inflation.[4]

A View of the State of Working Oregon is a series of occasional OCPP fact sheets examining Oregon's economy from the perspective of working families.

Top one-tenth of 1 percent's income nears record level



Average income of Oregon's top 1/10th of 1 percent compared to the average income of the rest of Oregon's top 1 percent. Full-year resident income tax filers. Adjusted for inflation using CPI-U-RS.
Source: OCPP analysis of Oregon Department of Revenue data.

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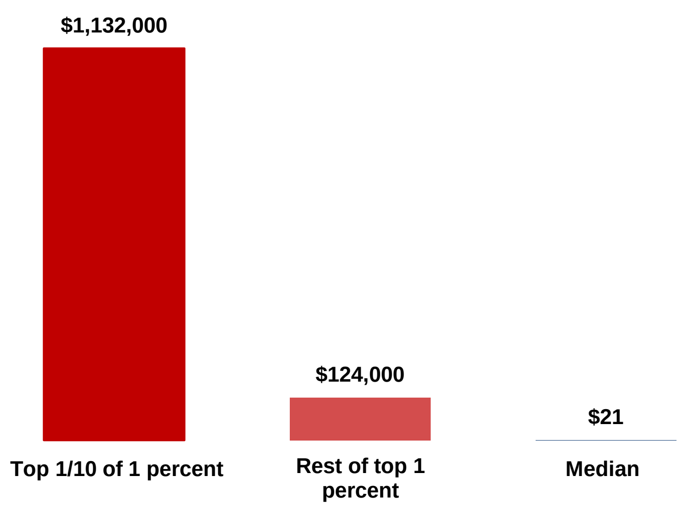
The income of those at the very top of the income ladder — the top one-tenth of 1 percent — has returned to near record levels.

To be among the 1,680 households in the top one-tenth of 1 percent in 2014, a taxpayer needed to earn at least $1,457,000.[5] The average income of this top group was $3.9 million, just below its record high of $4.0 million in 2012.

While this tiny group has largely fueled the rise of the top 1 percent as a whole, the rest of the top 1 percent saw their average inflation-adjusted income more than double between 1980 and 2014.[6]

Over a million dollars in gain vs. $21 bump



2009-2014 inflation-adjusted income gain. Adjusted for inflation using CPI-U-RS.
Source: OCPP analysis of Oregon Department of Revenue data.

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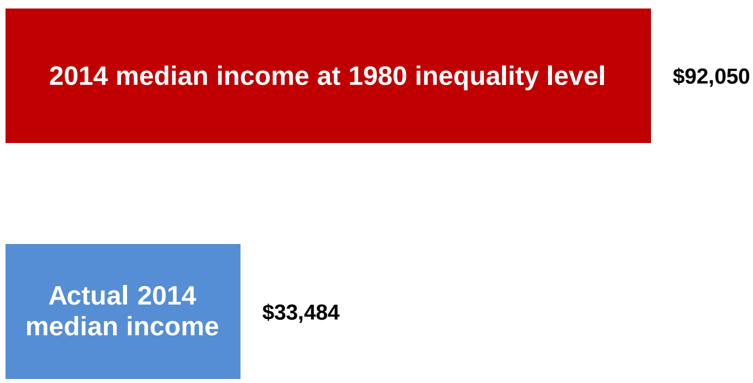
The Great Recession officially ended in 2009. Since then, the average income of the top one-tenth of 1 percent in Oregon increased by about $1,132,000 after adjusting for inflation. The rest of the top 1 percent saw their income increase by about $124,000.

Over that same time period, the typical Oregonian saw just a $21 increase in income.

Typical Oregonian would earn nearly 3 times as much had inequality remained at 1980 level



2014 Oregon median income at actual and 1980 inequality level. Adjusted for inflation using CPI-U-RS.
Source: OCPP analysis of Oregon Department of Revenue data.

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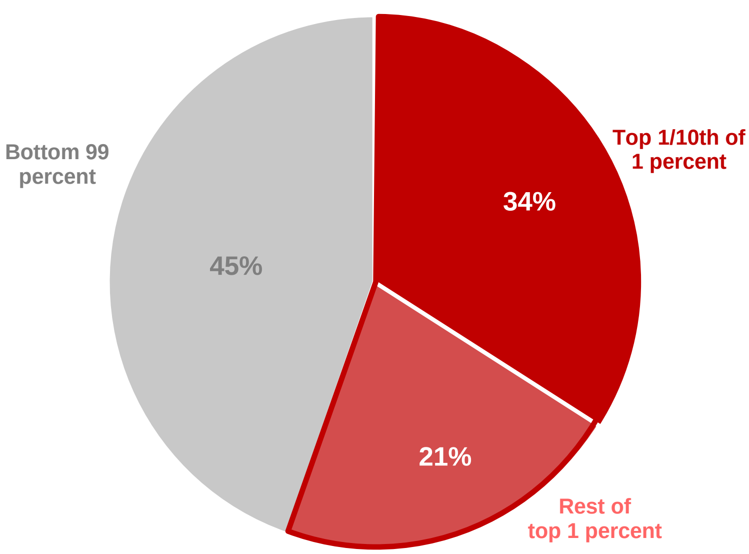
The typical Oregonian earns far less today than if income inequality had not worsened since 1980.

In 1980, the median household income was 10.1 percent of the average income of the top 1 percent in Oregon. By 2014, due to income gains by those at the top, median income shrunk to 3.7 percent of the average income of the top 1 percent.

Had median household income remained at 10.1 percent of the average income of the top 1 percent, the typical Oregonian would have earned $92,050 in 2014.

Capital gains income flows mainly to the top



2014 share of Oregon capital gains income. Full-year resident income tax filers.
Source: OCPP analysis of Oregon Department of Revenue data.

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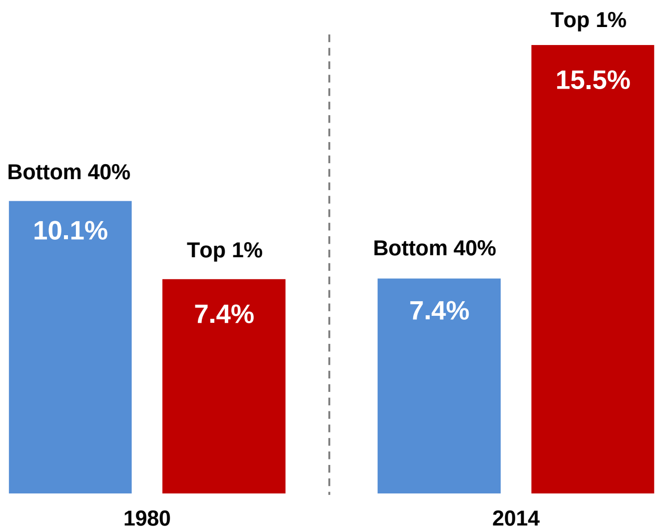
Much of the income of the top one tenth of 1 percent comes from capital gains income — the income from the profitable sale of assets such as stocks, bonds and real estate.

This tiny sliver of Oregonians at the very top together captured 34 percent of all capital gains income in 2014. They and the rest of the top 1 percent together received more than half (55 percent) of all capital gains income that year.

Oregon's top 1 percent now earns more than twice that of the bottom 40 percent



Share of total Oregon income in 1980 and 2014.
Source: OCPP analysis of Oregon Department of Revenue data.

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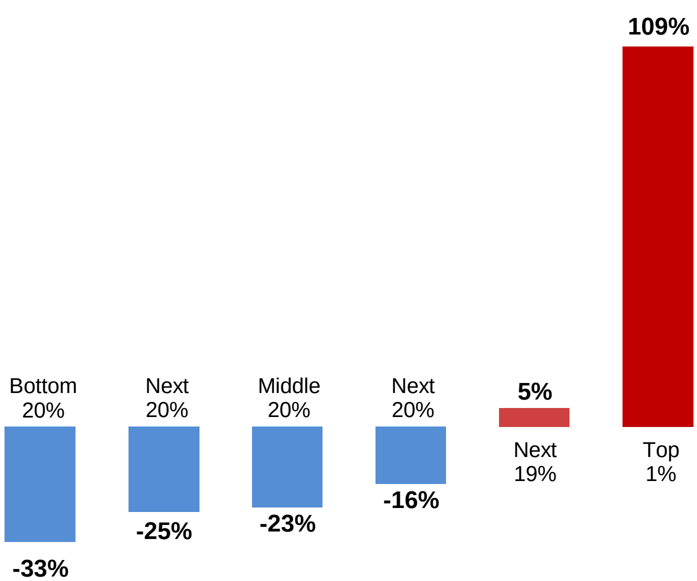
In 1980, the bottom 40 percent of taxpayers collected 10.1 percent of all income earned in Oregon while the top 1 percent took home 7.4 percent of all income.

By 2014, the bottom 40 percent's share of total income had shrunk to 7.4 percent while the top 1 percent's more than doubled to 15.5 percent.

The income gains by the top 1 percent meant that in 2014 they earned more than twice what all Oregonians in the bottom 40 percent earned.[7]

As top gains income share, others lose share



1980-2014 percent change in share of total Oregon income.
Source: OCPP analysis of Oregon Department of Revenue data.

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Oregon's top 1 percent has seen their share of total state income more than double over recent decades, increasing by 109 percent from 1980 to 2014.

The bottom 80 percent of Oregonians saw declines in their share of total income over that same time.[8] The further down the income ladder, the more severe the decline in income share.

In addition to the top 1 percent, the next 19 percent was the only other group to see an increase in its share of Oregon income, a modest 5 percent increase from 1980 to 2014.

Oregon Can Confront Income Inequality

Rising income inequality remains Oregon's most pressing socioeconomic problem. On the one hand, the typical Oregonian struggles to afford the rising costs of housing, child care and other essentials with their stagnant income. On the other, income inequality may also be undermining the state's economy. Researchers have found links between income inequality and lower consumer demand, limited acquisition of job skills and reduced private investment.[9]

Growth in income inequality is no accident. Decades of public policy choices have allowed or encouraged the incomes at the top to balloon while those at the bottom have stagnated. Oregon lawmakers do not need to wait for federal action to begin reducing income inequality. There are concrete steps Oregon can take to address the problem:

- **Invest in Oregon's human capital**.

  Oregon should ramp up investments in the education, job skills and health of Oregonians. One of the highest priorities ought to be investing in early childhood programs, including helping working families afford the rising cost of child care. Quality care in a child's earliest years boosts educational attainment and earnings as an adult.[10] In the process, Oregon should aim to make jobs in the care economy quality jobs that can support families. The Oregonians who do the vital work of caring for our children, elderly and disabled should earn enough to take care of their own families.

- **Invest in Oregon's infrastructure.**

  Oregon should invest in repairing and upgrading its infrastructure — roads, public transportation, school buildings and sewer systems, for example. Targeted public infrastructure spending can boost the economy and improve a state's quality of life and environment. It also helps improve our business climate and build human capital. It accomplishes that by making accessible to everyone better schools, roads and other public infrastructure, all the while creating living wage jobs building and maintaining that infrastructure.[11]

- **Pay for those investments by asking more from those at the top**.

  Changes to our tax system benefitting those at the top have helped grow income inequality.[12] Although Oregon has one of the least regressive state tax systems, it still asks more from low-income Oregonians than from well-off Oregonians.[13] It makes sense to ask those at the top to do more to support schools and other public structures that all Oregonians rely on.

- **Ask corporations to pay more**.

  The corporate share of all income taxes paid in Oregon has shrunk dramatically since the 1970's.[14] Meanwhile, as a share of the economy, corporate profits remain near historical highs.[15] Large portions of those profits have simply gone towards propping up stock prices, thereby boosting the income of those at the top.[16] Asking corporations to pay more taxes would allow Oregon lawmakers to make the targeted investments needed to afford all Oregonians with economic opportunity.

Endnotes

[1] In this fact sheet we use the terms "Oregonians" and "taxpayers" interchangeably. Unless otherwise noted, these refer to all Oregon income tax filers. In some instances, Oregon Department of Revenue data is only available for full-year resident income tax filers. In those instances, we note that the data is for full-year filers only in the chart's footer.

[2] Berg, Andrew G. and Jonathan D. Ostry, "Equality and Efficiency," Finance & Development, Vol. 48, No. 3, September 2011, http://www.imf.org/external/pubs/ft/fandd/2011/09/pdf/berg.pdf; Ostry, Jonathan D., Andrew Berg and Charalambos G. Tsangarides, *Redistribution, Inequality, and Growth*, International Monetary Fund, February 2014, http://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf; Boushey, Heather and Carter C. Price, *How Are Economic Inequality and Growth Connected? A Review of Recent Research*, Washington Center for Equitable Growth, October 2014, available at http://equitablegrowth.org/wp-content/uploads/2014/10/100914-ineq-growth.pdf; Ryder, Guy, *Urgent Action Needed to Break Out of Slow Growth Trap*, International Monetary and Financial Committee, International Monetary Fund, Thirty-Third Meeting, April 16, 2016, available at http://www.imf.org/external/spring/2016/imfc/statement/eng/ilo.pdf; Dabla-Norris, Era, Kalpana Kochhar, Nujin Suphaphiphat, Frantisek Ricka, Evridiki Tsount, *Causes and Consequences of Income Inequality: A Global Perspective*, June 2015, available at https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf; "Trends in Income Inequality and its Impacts on Economic Growth", OECD Social, Employment and Migration Working Papers, No. 163, OECD Publishing, 2014; Orrson, James, *Income Inequality in America: A Call for Action and Effective Policy*, White Paper, May 2015.

[3] Unless otherwise noted, income figures in this publication are OCPP calculations based on Oregon Department of Revenue data and "income" is adjusted gross income for all income tax filers.

[4] Oregon's median income in 1980 was $33,214 in 2014 dollars.

[5] Calculations for top one-tenth of 1 percent and the rest of the top 1 percent are based on total income for full-year returns.

[6] The average income of the rest of the top 1 percent was $283,711 in 1980 and $622,969 in 2014.

[7] In 2014, 19,426 tax filers made up the top 1 percent in Oregon. Excluding negative tax returns, 743,777 tax filers made up the bottom 40 percent. OCPP analysis of Oregon Department of Revenue data.

[8] Tax returns with negative adjusted gross income have been excluded.

[9] See endnote 2.

[10] Isaac, Julia B., *Impacts of Early Childhood Programs*, First Focus and the Brookings Institute, September 2008, available at http://www.brookings.edu/~/media/Research/Files/Papers/2008/9/early-programs-isaacs/09_early_programs_isaacs.PDF.

[11] McNichol, Elizabeth, *It's Time for States to Invest in Infrastructure*, Center on Budget and Policy Priorities, February 23, 2016.

[12] Congressional Budget Office, *Trends in the Distribution of Household Income*, Congress of the United States, October 2011, available at http://www.cbo.gov/sites/default/files/112th-congress-2011-2012/reports/10-25-HouseholdIncome_0.pdf; Piketty, Thomas and Emmanuel Saez, *How Progressive is the U.S. Federal Tax System? A Historical and International Perspective*, National Bureau of Economic Research, July 2006, available at http://www.nber.org/papers/w12404.pdf.

[13] Institute on Taxation and Economic Policy (ITEP), *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, Fifth Edition, January 2015, pp. 103-104, available at http://www.itep.org/pdf/whopaysreport.pdf. Based on permanent law as of December 31, 2014 and 2012 income levels, households in the bottom 20 percent of the income scale in Oregon, as a group, saw 8.1 percent of their income go to state and local taxes. Households in the top 1 percent of the income scale, as a group, saw 6.5 percent of their income go to state and local taxes.

[14] In the 1973-75 budget period, C corporations contributed 18.5 percent of all income taxes paid in Oregon, with Oregonians paying the rest through their personal income taxes. In the current (2015-17) budget period, C corporations are projected to pay just 6.7 percent of all income taxes collected by the state. OCPP analysis of March 2016 Oregon Revenue Forecast and Legislative Revenue Office data.

[15] Nationally, corporate after-tax profits were about 9.0 percent of gross domestic product in the fourth quarter of 2015. This was down 16.5 percent from the historical high of 10.8 percent in the first quarter of 2012. OCPP analysis of Bureau of Economic Analysis data.

[16] Lazonick, William, *Profits Without Prosperity*, Harvard Business Review, September 2014, available at https://hbr.org/2014/09/profits-without-prosperity.

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