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EXECUTIVE SUMMARY

September 4, 1999

When Prosperity Passes By:
Middle-Income Oregonians, Tax Cuts, and the Economic Prosperity of the Late 1990s

By Jeff Thompson and Charles Sheketoff

The strong economy of the late 1990s lifted the fortunes of most, but not all, Oregon workers. Low-wage workers in Oregon have benefited from the highest minimum wage in the nation and relatively tight labor markets throughout much of the state. Affluent Oregonians experienced substantial gains in the stock market and had steady income growth. Middle income working Oregonians, however, largely have been left out of the prosperity the economy has generated.

Middle-income families experienced solid income growth in the last couple of years, but median incomes have only recently returned to levels from the late 1980s. The real median household income, the income of the typical Oregon household, reached $37,287 in 1995-97, just three percent above 1989-91 levels.

Middle-income workers have experienced a number of trends demonstrating that they have not received a fair share of the economic boom:

- Despite some recent growth, the hourly wages of the middle class generally have been stagnant during the expansion of the 1990s. Real median hourly wages in Oregon went from $12.01 in 1989 to $11.16 in 1998, a drop of more than seven percent.
- The percent of Oregonians receiving employer-based health insurance coverage declined over the course of the 1990s.
- Oregon’s income distribution has become increasingly more unequal. The share of Oregon’s income captured by the most affluent fifth of households expanded between 1989 to 1997, while the share of income earned by each of the bottom four fifths declined.

Oregon income tax cuts will have little or no impact on pre-tax earnings and wage losses, declining insurance coverage, and the growing income inequality. Oregon's "kicker" refund and a tax cut proposal referred to the November, 2000, ballot will result in large windfalls for the affluent, leave little for workers in the middle, and damage the capacity of the state to carry out needed education, workforce programs, and economic development that can lift the incomes, wages, and benefits of middle income Oregonians.

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The recent, strong national economy has lifted the economic fortunes of most, but not all, workers. Many middle income workers have not reaped the benefits of this "new" economy; they have seen the spending power of their wages slip and the availability of employer benefits erode. Politicians and economists alike are concerned that this group has been left behind. In Washington D.C. and in Salem, Oregon, policymakers have proposed large tax cuts, ostensibly to put money back in middle-class pockets. This report examines why and how middle income workers have not benefited from the strong economy, and will discuss whether tax cuts are the answer to middle-income economic stagnation.

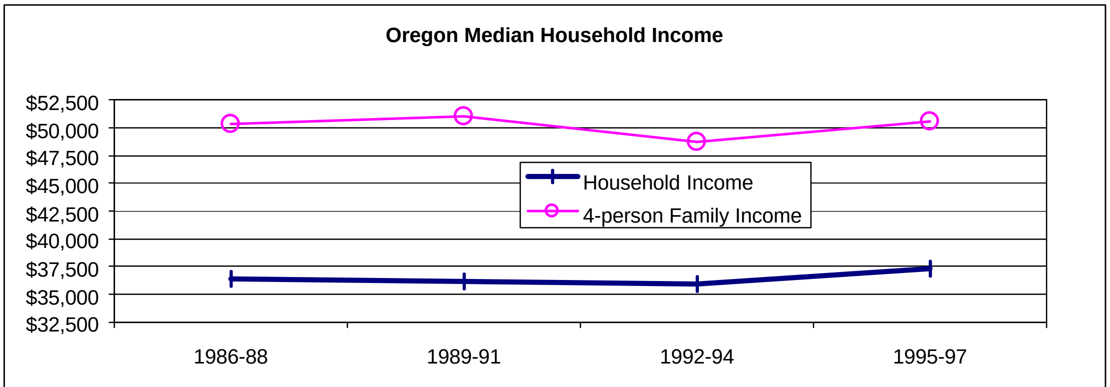
In response to the federal tax cut proposal passed by Congress and under negotiation with the Clinton Administration, the Washington, D.C.-based Economic Policy Institute (EPI) has issued a paper analyzing the economic status of the nation’s middle class. *Tax Cut No Cure for Middle Class Economic Woes* notes that the nation’s middle class workers have not seen improvements in wages and benefits nor enjoyed the income gains realized by low wage workers and the wealthiest American households during the economic expansion of the 1990s. Many working families have been left out of the last several years of economic prosperity. Unfortunately, EPI’s national findings hold true for Oregon, as well.

The recent booming economy has been good news for most Oregonians. The highest minimum wage in the nation and relatively tight labor markets in much of the state have brought long-awaited wage gains to those at the bottom of the income ladder.[1] For those at the top, steady income gains and a record-breaking stock market have brought considerable economic good fortune.

What about Oregon’s middle class households? Neither the rising minimum wage nor the stock market boom has had much impact on middle-income families.[2] While low unemployment rates have certainly aided middle-income workers, has it done so to the same degree as those at the bottom? Have middle-income Oregonians also benefited from our current expansion?

Middle Class Income Trends in Oregon

Middle-class incomes have grown in the past several years. According to the Census Bureau's annual March Current Population Survey, Oregon real median household income -- the income of the typical Oregon household -- reached $37,287 in 1995-97, nearly four percent greater than the 1992-94 level.[3]



Source: Oregon Center for Public Policy analysis of Census March Current Population Survey data. (1997$)

In the 1995-97 period, median household income finally—but narrowly—surpassed levels from the late 1980s and early 1990s. The median income for four-person families has also risen in recent years, up nearly 4 percent since 1992-94, but it has yet to reach 1989-91 levels.

Other sources of data on family income confirm the trend identified by the Census. Oregon personal income tax returns contain information on tax filers' federal adjusted gross income.[4] Using individual tax returns as a proxy for households, the data shows that median household income fell six percent between 1989 and 1994, when it hit a low point.[5] After 1994, however, this measure of income rose four percent, reaching $23,930 by 1997.

The Oregon Progress Board also collects household income information through its Oregon Population Survey (OPS). The OPS shows that while inflation-adjusted median household income fell more than six percent between 1989 and 1995, it grew rapidly between 1995 and 1997.[6] As of 1997, household income was three percent above its pre-recession, 1989 level.[7]

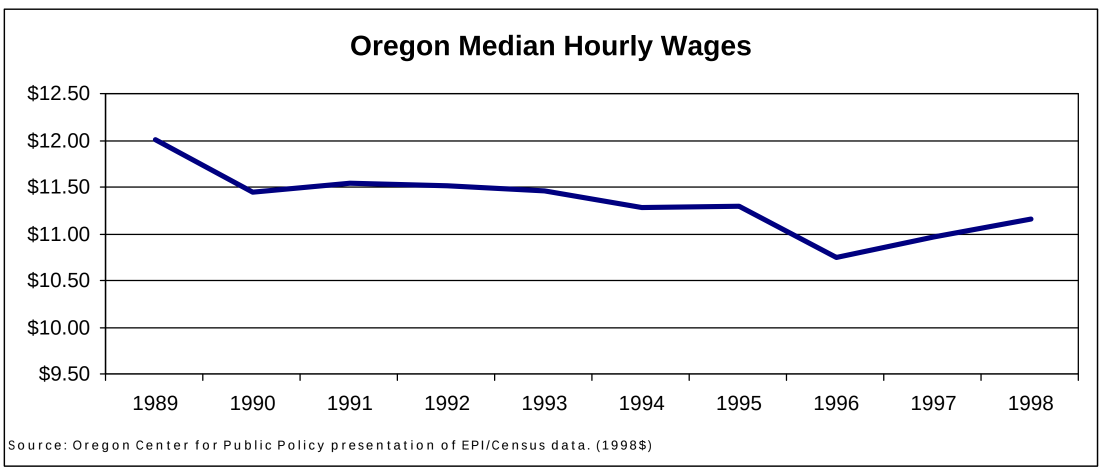
Differences in income definition and sampling techniques aside, each of these data sources clearly shows that household income has grown in the last several years. Continued strong economic performance through 1998 and

1999 is likely to add to the income growth of the typical Oregon household. These gains, however, are modest, taking seven years to return median household income to its pre-recession level.

Annual income is a useful factor for assessing a family's economic well being but it can cover up other important trends facing working families. The sections that follow discuss trends in hourly wages, health care benefits, income inequality, and the changing quality of jobs.

Hourly Wages for Oregon's Middle-Income Workers

Hourly wages of middle income workers are a crucial measure of their economic well-being. While median household incomes have shown improvement, reaching or surpassing pre-recession levels, hourly wages are still lagging behind. Despite some recent growth, hourly wages generally have been stagnant during the expansion of the 1990s. Real median hourly wages for Oregon workers were lower in 1998 than they had been in 1989. Across this period, the real median wage fell more than seven percent, going from $12.01 in 1989 to $11.16 (1998 dollars).[8]



Middle income families working in most of Oregon's major industry groups have experienced a declining wage trend. A review of average hourly earnings by industry shows that workers in trade and manufacturing suffered serious real wage declines between 1989 and 1998.

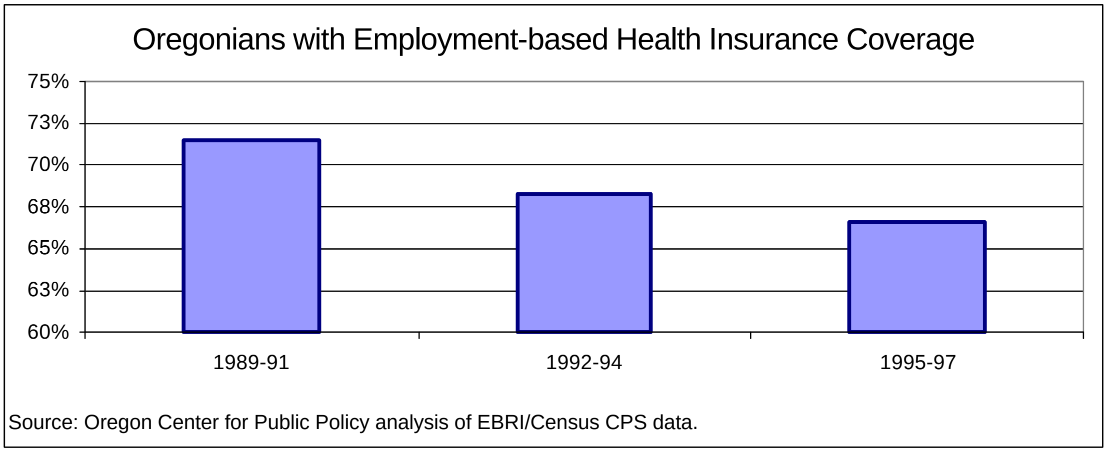
Oregon Average Hourly Earnings by Industry				% change	% change
	1989	1996	1998	1996-98	1989-98
Durable Manufacturing	$15.18	$13.77	$14.35	4.2%	-5.5%
Non-durable Manufacturing	$14.45	$13.53	$13.30	-1.7%	-7.9%
Construction	$20.92	$20.43	$20.28	-0.7%	-3.0%
Communications and Utilities	$18.50	$19.08	$19.63	2.9%	6.1%
Wholesale Trade	$15.43	$13.49	$14.75	9.4%	-4.4%
Retail Trade	$11.16	$9.09	$9.55	5.0%	-14.4%
Source: Oregon Center for Public Policy analysis of Oregon Employment Department data, 1998$					

Most industry groups registered real hourly wage growth between 1996 and 1998. Wholesale trade average wages, for example, grew by more than nine percent in these two years. On the whole, however, average wage growth has lagged, with five of the six industry groups tracked by the Employment Department remaining below 1989 levels.

Why have middle class incomes grown while their wages have continued to sag? The most likely explanation is that more family members have been working and they are working longer hours. Other economic trends support this hypothesis. Labor force participation rates and employment to population ratios have risen to very high levels, and national figures show that annual hours worked have risen considerably, as well.[9]

Employment-based Health Insurance

The percent of Oregonians receiving health insurance coverage through their employer has declined over the course of the economic expansion of the 1990s. This is despite the fact that in recent years the percent of Oregonians without any form of health insurance has declined thanks largely to the Oregon Health Plan, the implementation of the new federal Child Health Insurance Program, and the creation of the state Family Health Insurance Assistance Program. [10]

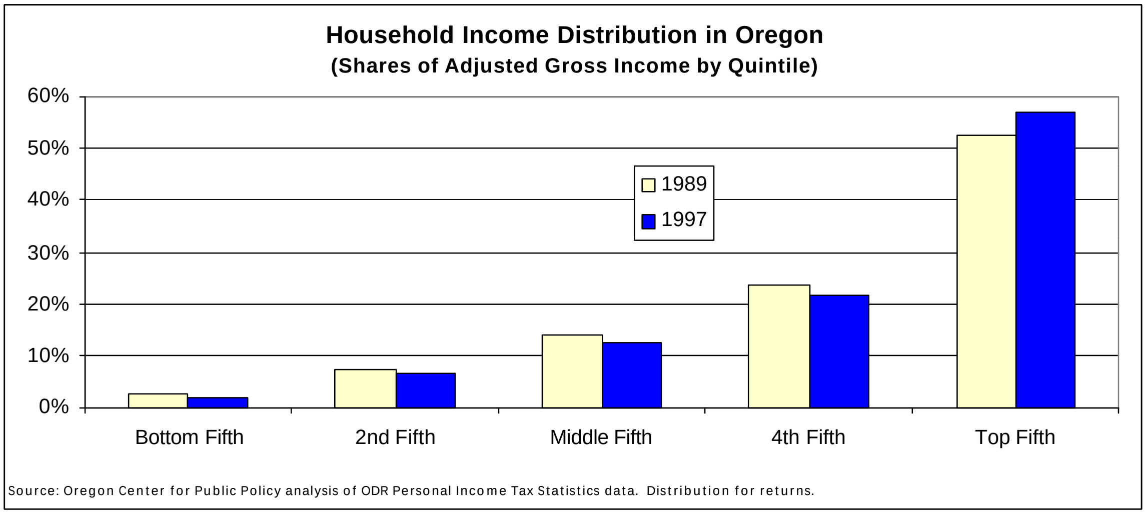


More than 71 percent of Oregonians received health insurance through their employer in 1989-91, but only 67 percent did by 1995-97, a drop of more than four percentage points over the period.[11]

The changing nature of health coverage exacerbates the problems caused by the decline in the number of Oregonians receiving coverage through employment. National data show that those employees who have employer-based coverage are being asked to pay higher premiums and co-payments. Employees receiving single coverage now pay 22%, up from 10% in 1988, while those with family coverage pick up 30% of the premium, up from 26%.[12]

Income Inequality

Oregon's income distribution has become increasingly more unequal over the course of the 1990s. It is clear that the Oregon economy has expanded rapidly, but it is also undeniable that the most affluent Oregonians have captured the majority of that growth. While the middle 60 percent of households earned 45 percent of Oregon's income in 1989, this share had fallen to less than 41 percent by 1997. The growing share of income held by the most affluent Oregon households accounts for the entire decline; no other income group saw an increase.



The share of income held by the most affluent fifth of Oregon households expanded from less than 53 percent in 1989 to more than 57 percent in 1997. In 1997 the richest 10 percent of households controlled more income (41 percent) than the bottom 75 percent (39 percent).[13]

Job Quality

Are new jobs in Oregon “quality” jobs? Low-paying industries and occupations have grown rapidly in Oregon in the last 10-15 years. Retail trade and service sector jobs, particularly the low paying variety, have consistently been among the fastest growing occupations. State economists expect this trend will continue. The Employment Department projects that business services (including temporary employment firms) and restaurants will comprise two of the three industries with the largest projected employment growth between 1998 and 2008.[14] Higher paying technical and professional jobs have also expanded rapidly, as has the percent of jobs in Oregon requiring a college degree.

> **“Simply put, by the year 2006, the average Oregonian will be more likely to be working in a low-wage job or a high-wage job than they are today, but less likely to be working in a middle-wage job.”**
>
> Oregon Employment Department,
> *Oregon Labor Trends* (12/97)

Middle income jobs, however, have been disappearing. Most job gains have been concentrated in the low wage and high wage areas described above. The long decline of manufacturing jobs—typically middle income jobs—has continued through Oregon's most recent economic expansion.

Tax Cuts

The growing economy has been a mixed blessing for middle class, working Oregonians. Low unemployment has created further opportunities for work and has driven wages up in the last few years, but this increase has not overcome the wage stagnation of the early to mid-1990s. Further, trends in income inequality, an increase in lower quality jobs, and in declining levels of employer-paid health insurance are causes for concern.

Not having reaped the benefits of our economic expansion, many middle-income families might be tempted to support the kinds of tax cuts debated in Washington, D.C. and Salem. However, the income tax cuts will not solve middle income families' economic dilemmas. First, the declining wages that many workers have experienced are pre-tax declines. The tax burden has nothing to do with declining wages, which happen to be the major source of income for middle class families. Second, because our income tax system is basically progressive, middle-income families pay a relatively small portion of total state and federal income taxes collected. The distribution of the Oregon income tax "kicker" and a proposal to increase the amount of federal taxes used as a subtraction from taxable income on Oregon tax returns demonstrate that middle income taxpayers reap little from the across the board tax breaks imposed on progressive tax structures.

The 2% Kicker

The 1999 kicker will provide Oregon taxpayers with a flat, across the board tax refund equal to 4.57 percent of their 1998 personal income tax liability.[15] Middle income taxpayers—the middle quintile, or 20 percent, of taxpayers—are slated to reap just 10 percent of the kicker refunds; their average kicker refund will total just $53. The top quintile—the wealthiest 20 percent of households—will reap 65 percent of the kicker refunds, with a $348 average kicker refund. The wealthiest 10 percent of taxpayers will garner 48 percent of the kicker refunds, with a $514 average income tax refund. Middle income taxpayers pay a small portion of state and federal income taxes and receive an equally small portion of across the board income tax cuts such as the kicker.

Federal Deductibility

In November 2000, Oregonians will have the responsibility to vote on a legislative referendum to increase the amount of federal taxes subtracted from income on Oregon tax returns from $3,000 to $5,000.[16] The average tax cut for middle income Oregonians will be $24 a year, providing less than nine (9) percent of the of the tax cut's benefits. The wealthiest 20 percent of Oregon households, with an average income of about $132,000 a year, will reap 57 percent of the tax break and have their tax bills reduced by $166 on average. The small benefit to middle income taxpayers will do little to make up for the fact that middle income families are being left behind in the economic recovery of the 1990s.

Conclusion

The middle class has not profited fully from the benefits of the "new" strong economy that has benefited most Oregonians. Data from state and federal sources shows that they have seen the spending power of their wages slip and the availability of employer benefits erode. Neither the rising minimum wage nor the stock market boom has had much impact on middle-income families. While low unemployment rates have certainly aided middle-income workers, it has not done so to the same extent that it has helped those at the bottom.

Middle class Oregonians should question the whether state and federal tax cuts are prudent. The proposals will not seriously impact the middle class' economic well-being and will do nothing to reverse the larger economic trends that have resulted in falling wages, declining health insurance coverage, and the decline of well-paying middle class jobs. The tax cuts will largely benefit those with the greatest ability to pay taxes, while threatening the state's capacity to invest in education and workforce and economic development that can improve the standard of living of middle income Oregonians.

Endnotes:

[1] See *Oregon's Increasing Minimum Wage Brings Raises to Former Welfare Recipients and Other Low-Wage Workers Without Job Losses*, Oregon Center for Public Policy, June 2, 1999.

[2] Despite claims that the stock market has become more "democratic," the Federal Reserve Bank of New York notes, "most corporate equity is held by the wealthiest 10 percent of the population, while more than half of all households hold no corporate equity through any channel." Tracy, Schneider and Chan, "Are Stocks Overtaking Real Estate in Household Portfolios?" *Current Issues*, Federal Reserve Bank of New York, April 1999.

[3] "Real" income figures are inflation adjusted to a particular year. Here, the real median income is inflation adjusted to 1997 dollars. We use three-year averages of Census data for comparison because Census' annual sample size in Oregon is small, making annual data prone to a wide margin of error. Combining three years' data provides more reliable results that are less subject to random fluctuations.

[4] Federal adjusted gross income (AGI) is a taxpayer's total income less certain exemptions (e.g., IRA earnings and scholarships) and adjustments (e.g., moving expenses and self-employed health insurance deduction).

[5] Although some households may file multiple tax returns, tax returns are a useful proxy for household income analysis. Tax returns provide observations on more than 1.5 million Oregon taxpayers, while the Census' Current Population Survey is based on a sample of about 700 households. Median AGI does not include approximately 15,000 taxpayer returns with a negative AGI.

[6] *Summary of Oregon Population Survey*, Oregon Progress Board, 1996 and 1998 editions.

[7] Median household income was $52,746 in 1989, $49,488 in 1995, and $54,266 in 1997. (1997 dollars) *Oregon Population Survey*, Oregon Progress Board, 1996 and 1998.

[8] Bernstein, J. et. al., *Tax Cut No Cure for Middle Class Economic Woes*, Economic Policy Institute, September 1999.

[9] ibid. Also *National Economic Trends*, Federal Reserve Bank of St. Louis, July, 1999 and prior.

[10] Nearly one quarter of working parents in Oregon with incomes below 200 percent of the federal poverty level ($27,300 for a family of three in 1998) were uninsured. *Employed But Not Insured: A State-by-State Analysis of the Number of Low-Income Working Parents Who Lack Health Insurance*, Center on Budget and Policy Priorities, February 9, 1999. This high rate of uninsurance among low income working parents in Oregon reflects in part the trend in employer provided coverage.

[11] *Trends in Health Insurance Coverage*, Employee Benefit Research Institute, May 1997 and supplementary policy briefs for 1997 and 1998.

[12] *Private Health Insurance: Continued Erosion of Coverage Linked to Cost Pressure*, Government Accounting Office, July, 1997 (HEHS-97-122).

[13] To use tax return data to create income quintiles, we used a method described in *Progress of a Region: The Metropolitan Portland Economy in the 1990's*, Portland State University Institute for Metropolitan Studies, April, 1999. The method requires an assumption that income is distributed evenly within the brackets of tax return data. The quintiles of tax returns do not match up evenly with the income brackets published by the Revenue Department.

[14] *Oregon Labor Trends*, Oregon Employment Department, July 1999.

[15] The average refund for all taxpayers will be $107; the typical Oregon taxpayer will receive about $53.

[16] See *Helping The Top: End-of-Session Bill Number Change Resurrects Wealthy Tax Cut and Threatens Popular Government Services*, news release, Oregon Center for Public Policy, July 9, 1999.