FALLING BEHIND

The Economic Security of Northwest Families Since 1990

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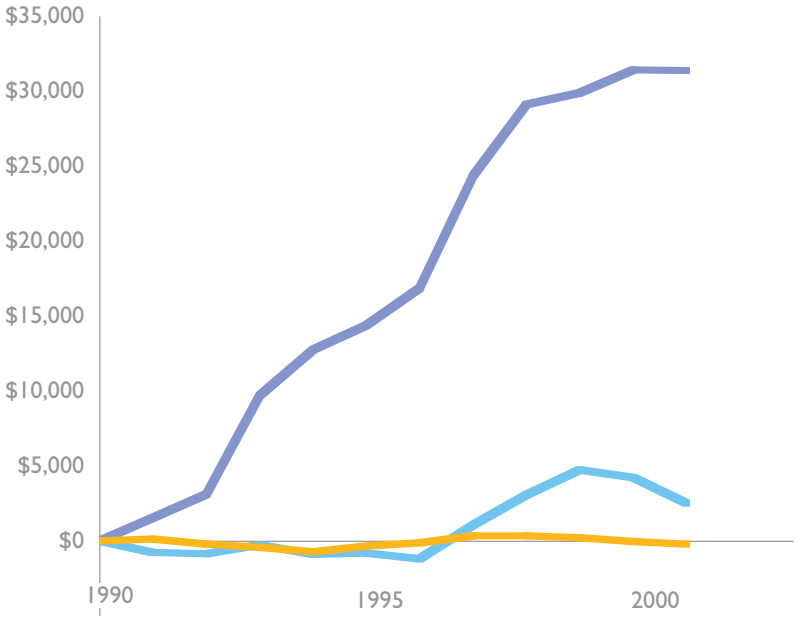

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OVERVIEW: BOOM FOR WHOM?

Few things are measured as assiduously and as frequently as finances. But for all our attention to things monetary, our most commonly cited economic barometers allow only a one-dimensional view of the economy. A case in point is the Northwest's recent economic boom: the real story of the economy of the Northwest states since 1990 is that it boomed for the wealthy, but lagged for ordinary families. In fact, typical northwesterners have lost the lead in economic security that they long held over average Americans. For decades the region was home to lower rates of poverty and a more prosperous middle class than the national average, but no longer.

According to conventional measures, the Pacific Northwest states of Idaho, Oregon, and Washington are far richer today than they were in 1990. Despite the recent recession, inflation-adjusted gross state product rose by 63 percent, adding $141 billion to annual economic output. Attracted by and contributing to this boom, population surged: hundreds of thousands of new residents flocked to the region for its highly publicized quality of life, its scorching economy, and the chance of sharing in high-tech riches. And, on average, there was more than enough new wealth to go around: inflation-adjusted personal income per capita grew by about 20 percent.[1]

But these conventional measures conceal much. Four better indicators of economic security for ordinary people—poverty, unemployment, median income, and income distribution—show stagnating or deteriorating conditions over the same period. By these measures, the Northwest has underperformed the United States as a whole since 1990, ceding the region's leadership in limiting poverty, providing opportunities for work, and maintaining an equitable distribution of income. Worse, the Northwest's leadership in economic security slipped during a period in which the region was regarded as an epicenter of opportunity.

- **Poverty:** The Northwest's poverty rate—the share of people earning less than the federal poverty threshold—rose from 9.7 percent in 1990 to 11.2 percent in 2001. Meanwhile, in 2000, the national poverty rate fell to its lowest point in decades. This rise, amplified by population growth, meant that between 1990 and 2001, the region added 300,000 to its ranks of poor people. The rest of the nation, meanwhile, subtracted roughly 1 million from its poverty count.[2]
- **Unemployment:** The unemployment rate—the share of workers unable to find work—was higher in 2002 than in 1990. Though the regional rate tracked closely with the national rate in the early 1990s, Northwest unemployment began to climb above the national rate in the mid-1990s. Today Washington and Oregon have some of the highest unemployment rates in the nation: the 2002 annual rate topped 7 percent in each state.[3]
- **Median income:** Median income—the income that half of all households exceed and half fall below—is a bellwether of the middle class; it has risen in the Northwest by about $2,000 since 1990, after adjusting for inflation. But during

the same period, national median income rose by more than $3,400. By 2001, the Northwest's middle class—historically more prosperous than the American middle class as a whole—had effectively lost its lead.[4]

- **Income distribution:** Middle-class families began to fall further behind the wealthy. In the Northwest states, income disparities widened faster than in the rest of the country: from 1990 to 2002 the wealthiest households in the region made dramatic gains, while the lowest-income households appear to have lost a little ground.[5]

These measures are critical because, unlike many mainstream economic indicators, they tell us about the fortunes of middle- and low-income people. They are credible, locally available, and frequently reported. Careful attention to such economic indicators for ordinary people may help the Northwest states craft a stronger economy.

MEASURING GROWTH

During the 1990s, the promise of prosperity and a fresh start on life lured hundreds of thousands of people to the Northwest. From 1990 to 2002, the population of the Northwest states swelled by nearly 2.2 million, an increase that far outpaced the national population growth rate. In fact, the Northwest states added, on average, 20 people every hour. Many northwesterners grumbled about increased congestion and eroding quality of life but accepted the region's magnetism as a sign of a robust economy. [6]

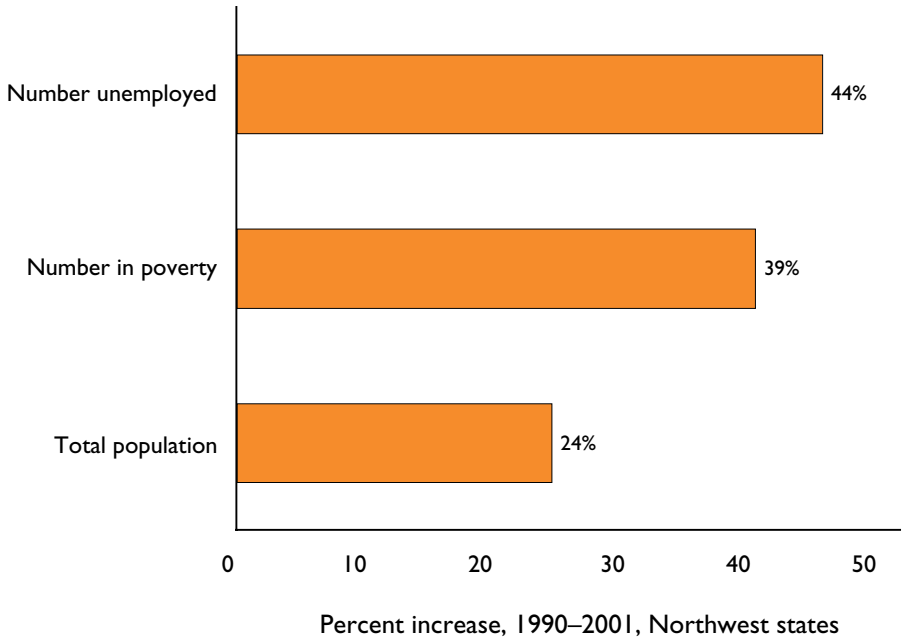
The perception of the Northwest as a locus of economic prosperity during the 1990s pervaded the media. As late as 2000, the *Seattle Times* sported headlines like "Economy in the Fast Lane" and stories of Northwest CEOs expressing high confidence in the region's economic future. One article written at the close of 1999 reported that top economic forecasters were bullish: "Growth in the Pacific Northwest will slow, but no recession is forecast, meaning a 17-year string of prosperity will continue into the new millennium."[7]

Poor measurement contributed to the Northwest's collective sense of prosperity in the 1990s

The forecasters were wrong on two counts. First, a big bust was just around the corner: the national economy went into recession, dot-coms floundered, and Asian economies weakened. But second, while the Northwest's economic output grew dramatically in the last decade, at least by measures like gross state product, the region made far less progress than the rest of the country in providing economic security for low-income families and the middle class (see Figure 1).[8]

Poor measurement contributed to the Northwest's collective sense of prosperity in the 1990s. For instance, gross domestic product (GDP) and its local corollary, gross state product, are usually taken as prime indicators of economic growth. Yet GDP simply adds spending, regardless of the purpose, and never subtracts. So it can rise if the wealthy spend while the middle class cannot. And it can rise at the same time poverty and unemployment are rising, as long as the sum of all spending is increasing too.

Figure 1. The paradox of the "boom": population grew, but poverty and unemployment grew faster



Source: Unemployment, Bureau of Labor Statistics; population and poverty, US Census Bureau

Another oft-cited measurement is also misleading. Per capita personal income—the total amount of income divided by the number of residents—rose steadily and quickly throughout the 1990s. After adjusting for inflation, it grew by about 20 percent from 1990 to 2001—a boom-time rate of growth. But boom for whom? The wealthiest Northwest households (the highest-earning fifth) enjoyed nearly 30 percent more income in 2001 than their counterparts of 1990, while the income of the middle class (the middle fifth) grew by just 6 percent. The poorest households (the lowest-earning fifth), meanwhile, likely had a little less income than the poorest households of 1990.[9]

Regionally, the Northwest's economic security has frayed since 1990. But the regional story masks some important differences in the fortunes of the three states, particularly for Idaho. Washington, for instance, continues to lead the Northwest and the national average by most measures, though its leadership has slipped somewhat. On the other hand, Idaho made some key improvements, likely as a result of diversification away from resource extraction. (See Appendix B: Economic Security State By State for more discussion of state trends.)[10]

POVERTY: EDGING UP

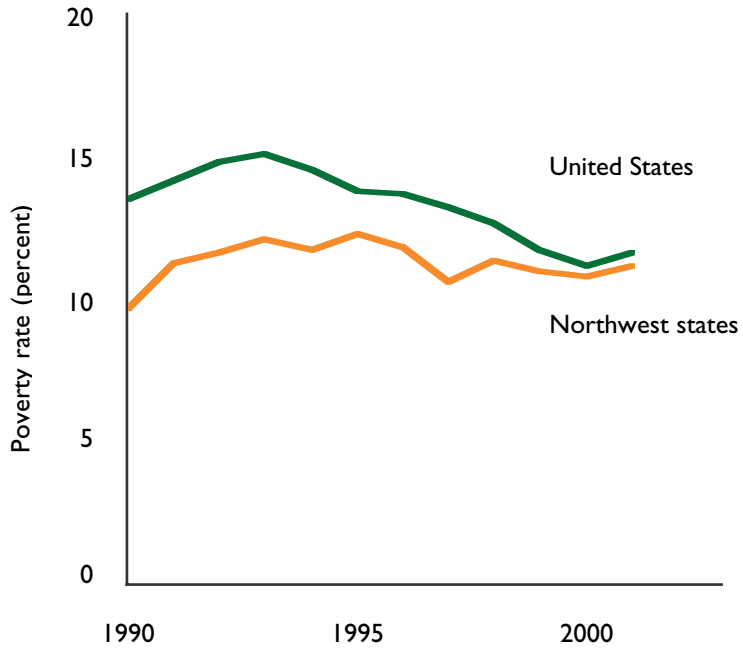
In 2002 a single person who fell below the federal poverty line made less than $9,359 a year; a single parent with one child made less than $12,400. By these definitions, one in nine northwesterners—and one in seven children—lives in poverty.[11]

And these definitions of poverty are exceptionally constrained: families well above the poverty line may still find it impossible to make ends meet. The "poverty line" is also an inflexible standard, providing a single definition of poverty even though living costs, taxes, government assistance, and private charity vary substantially from place to place and from year to year. But despite its flaws, the poverty line is the most consistent measure of low income across the three Northwest states, and changes in the poverty rate signal changing levels of economic hardship for many families.

Full-time employment is no guarantee that a family can escape poverty. In Idaho, a single parent who supports one child and who earns the minimum wage ($5.15 per hour) can work 40 hours a week, every week of the year, and still fall substantially below the poverty line. In Oregon and Washington, with higher minimum wages ($6.90 and $7.01, respectively), a single minimum-wage parent who supports two children also falls below the poverty line. In fact, without subsidies, paying for even basic needs such as housing, food, child care, and transportation would simply not be possible for many families near the poverty line.[12]

While the Northwest has provided prosperity for some since 1990, the region has also added roughly 300,000 people to the ranks of the poor during that time, as the poverty rate crept from 9.7 percent to 11.2 percent. The steepest increase in poverty occurred in the early 1990s, but the boom years of the mid- and late-1990s did not undo the damage. Even figures for 2000, before the national recession and dot-com bust, show a Northwest economy where poverty remained undiminished. Poverty data aren't yet available for the most recent years, but rising unemployment and increased enrollment in the food stamp program suggest that poverty has increased.[13]

Figure 2. The US Northwest has lost most of its lead in limiting poverty



Source: US Census Bureau

Nationally, poverty followed a different trajectory: while the Northwest's poverty rate edged up, the US poverty rate dipped to its lowest level in decades. Excluding the Northwest states, roughly a million fewer Americans lived below the poverty line in 2001 than in 1990. By 2001 the Northwest's longstanding leadership in maintaining low poverty rates had all but vanished (see Figure 2).[14]

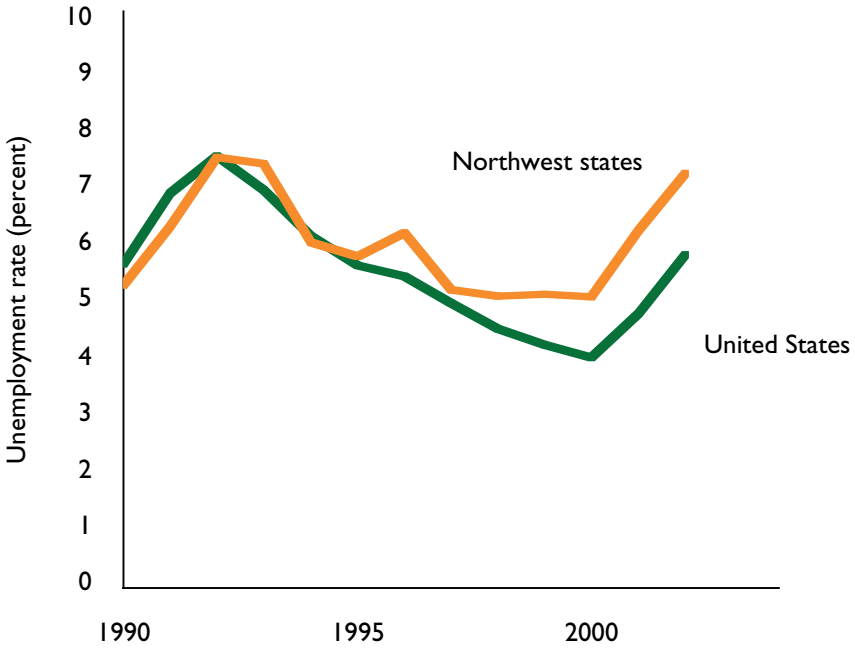
UNEMPLOYMENT: INCHING HIGHER

In the early 1990s, jobs abounded in the Northwest: a smaller share of Northwest workers were jobless than of American workers overall. But beginning in 1995—just as the high-tech "boom" was taking off—the Northwest's jobless rate surpassed the national rate, and has stayed above it ever since.[15]

Though the Northwest's unemployment rate eased during most of the 1990s, unemployment has spiked since 2000. The annual rate for 2002 topped 7 percent in both Oregon and Washington, giving them the dubious distinction of having some of the highest unemployment rates in the country. And monthly 2003 figures show continuing high rates of unemployment in both states.[16]

During the 1970s and 1980s, the Northwest has been bedeviled by higher-than-average unemployment, a phenomenon likely exacerbated by rapid population growth. But while in 2002 the national unemployment rate returned to roughly its 1990 level, the regional rate climbed significantly beyond that of 1990 (see Figure 3).[17]

Figure 3. Since the mid-1990s, the Northwest unemployment rate has been higher than the national rate



Source: Bureau of Labor Statistics

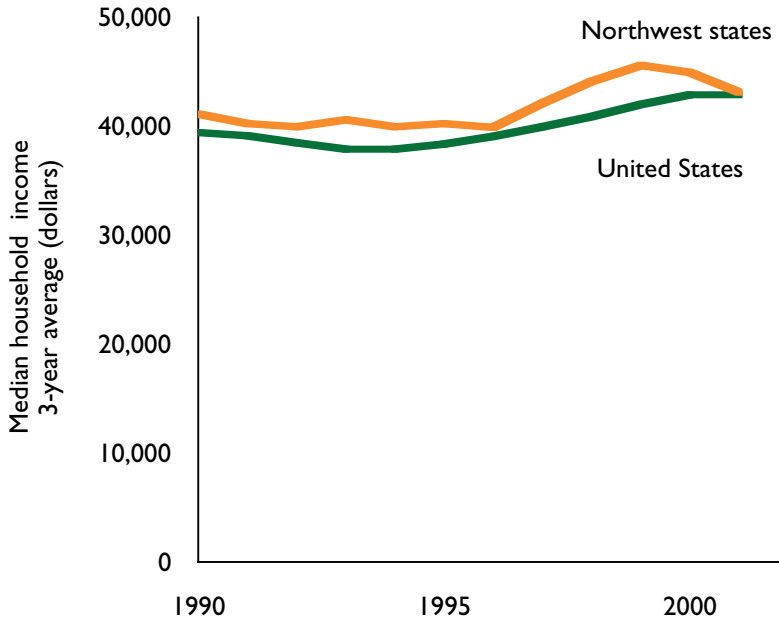
Official unemployment statistics count people who are looking for work but can't find a job. But in hard times the official rate may understate joblessness: when employment opportunities are scarce, some discouraged workers stop looking for jobs and are no longer tallied as unemployed.[18]

MEDIAN INCOME: UP AND DOWN

The Northwest's median annual income is the midpoint on the region's income ladder: half of all households earn more than the median, and half earn less. This bellwether of middle-class economic security has risen since 1990 but not as much as the national median. A Northwest median-income household in 2001 pocketed $2,000 more, adjusted for inflation, than its counterpart in 1990. But the national median-income household's earnings rose by $3,400 over the same period. By 2001, the most recent year for which data are available, a household at the Northwest's median, historically more prosperous than its American counterpart, had effectively ceded its lead.[19]

At the beginning of the last decade, the Northwest's median income was a little higher than the nation's (roughly $41,000 compared with $39,500). Between 1989 and 1996, it sagged, then in the mid-1990s began rising faster than the national median. Median annual income in the Northwest topped $45,000 by the late 1990s, a 12 percent increase and a figure substantially higher than the US median. But by 2001, the typical Northwest household gave back much of the ground it had gained, ending the period at around $43,000, on par with the national figure. (See Figure 4).

Figure 4. By 2001, the Northwest's lead in sustaining high middle-class incomes had evaporated



Source: United States, US Census Bureau; Northwest states, estimated by Northwest Environment Watch from US Census Bureau data

The net income growth for a median household in the region was 5 percent, while the national figure was about 9 percent.[20]

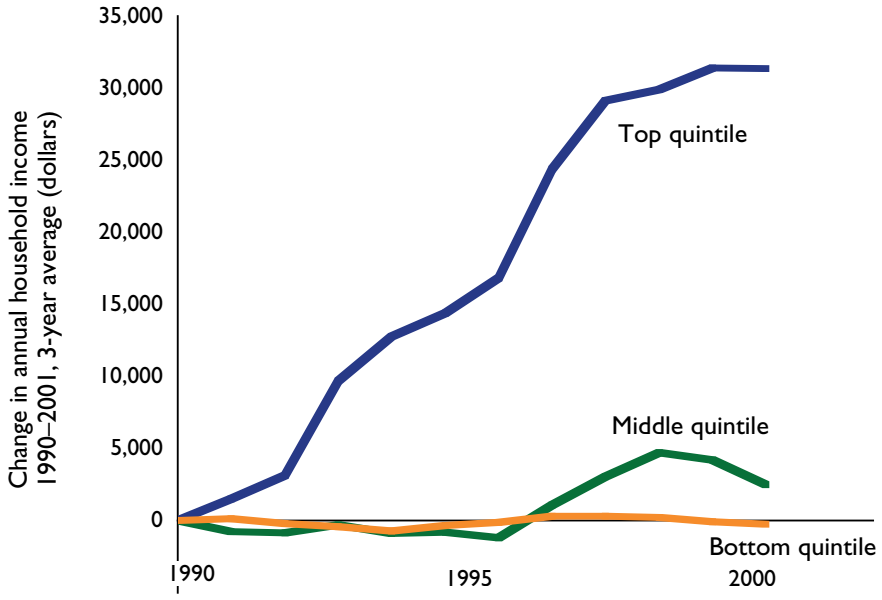
Income data are not yet available for 2002 or 2003, but given continued declines in other leading indicators, it's likely that median income—both national and regional—has fallen somewhat since data were last collected.[21]

INCOME DISTRIBUTION: WIDENING GAPS

The Northwest also did a poor job of sharing the fruits of its economic boom, showing a marked income divergence between the wealthy and everyone else. Average income among the region's middle fifth of households as ranked by income rose roughly $2,500 between 1990 and 2001, after adjusting for inflation. But the highest-earning fifth of Northwest households averaged nearly $31,000 more in 2001 than in 1990, enough to buy a new full-sized SUV every year. In contrast, low-income households, the bottom fifth, earned slightly less in 2001. In other words, for every new dollar earned by the middle class, the wealthy earned $13 more, and low-income households made a few pennies less (see Figure 5).[22]

National income growth was shared somewhat more equitably over the period. The wealthiest fifth of American families saw roughly the same increase in annual earnings between 1990 and 2001 as did their Northwest counterparts. But the American middle fifth gained more than $3,500, a 40 percent bigger gain than their Northwest counterparts. The poorest American households, meanwhile, made nearly an extra $900. The national economy certainly favored the wealthy over middle- and lower-income earners, but not as sharply as did the Northwest economy.[23]

Figure 5. Northwest incomes have skyrocketed for the wealthy but stagnated for the poor



Source: Estimated by Northwest Environment Watch from US Census Bureau data

WHY IT MATTERS

Economic security matters to individual workers, parents, and children; to their communities; and to society. Extensive study shows that economic hardship, particularly long-term poverty, often has lasting and devastating consequences for children and families. It also ratchets up pressure on public resources and even harms higher-income families. And poor economic security can be an impediment to doing things for others, such as volunteering or participating in civic life.

- **Children's health and development hinge** on economic security. Limited incomes, precarious employment, and dependence on food stamps often mean that families have only inconsistent access to nutritious food and quality health care. Idaho, Oregon, and Washington consistently rank among the worst states in the nation for hunger. Children living in poverty have trouble finding enough to eat nearly ten times more often than other children. And these children are less likely than children in higher-income families to be in very good or excellent health, as reported by their parents. Poor children less than five years old are significantly more likely to have vitamin A and iron deficiencies than children who are not poor. Malnourishment stunts physical and psychological development, creating problems that spill over into school and adult life.[24]
- **School performance and educational achievement weaken** with declining economic security. Developmental problems can lead to challenges at school, both academically and socially. Poor nutrition during early childhood has been linked to lower scores on math, reading, verbal, and general knowledge tests. Low-income kids are less likely to attend early childhood education programs that improve a child's chances of succeeding as a student and finishing school. What's more, economic insecurity can drag down the quality of education for all children in crowded classrooms and underfunded schools.[25]

Extensive study shows that economic hardship often has lasting and devastating consequences for children and families

- **Crime worsens** with economic hardship. In one study of US prisons, nearly 40 percent of inmates reported that their family had received public assistance, and 36 percent reported being unemployed before arrest. Delinquent behaviors—often precriminal behaviors like vandalism and stealing—are two to three times more likely among low-income children than among others. Stresses at home, such as more frequent parental substance abuse and less parental attention—themselves a result of poor economic security—may contribute to children's behavioral problems. And, not surprisingly, childhood exposure to domestic violence, found to be more common among low-income families, can trigger violence and crime during teen and adult years.[26]
- **Unintended pregnancies are more common** among low-income women, especially teens. Poverty is a principal precursor to teen pregnancy: some 83 percent of American teen mothers come from low-income families. And poverty tends to increase the birthrate among adult women, too. Babies born to low-income mothers and families also burden a stretched Medicaid system, which pays for fully 40 percent of all births in Washington. And early pregnancies accelerate growth in an already burgeoning population.[27]

- **Health weakens** with income inequality. Domestic and cross-national studies have shown that poor health outcomes are linked to inequitable income distributions. What's more, changes in income distribution are linked to changes in health. Income inequality, rather than high rates of poverty, may explain why the United States has poorer health outcomes than other developed countries, many of which spend substantially less on health care. And when disparities persist, shared values weaken, economic anxieties increase, and social cohesion frays.[28]

CONCLUSION: TOWARD BETTER MEASURES

Why is it that, in a region considered a hotspot of the national economy, middle- and lower-income northwesterners fared worse than the US average? Recent events, such as the downturn in the technology sector and in airplane manufacturing, offer a tempting explanation. But the divergence of fortunes began in the mid-1990s, long before the recent economic downturn, so the cause must lie elsewhere.

Economists continue to debate the reasons why income inequality—which has afflicted the Northwest states with especial vengeance since 1990—is rising in most industrialized countries. They offer hypotheses such as computerization and other rapid technical change, globalization, rapid immigration, shifts in age structure and educational composition of the working population, the decline of trade unions, and changing norms of corporate pay scales. Until such debates are resolved, it may be impossible to tease apart the causes of the Northwest's particularly hollow boom.[29]

But if reasons for the trends are murky, the trends themselves are clear enough. Why then was so little attention paid to declining economic security amid rapid growth?

The simplest explanation is that, in judging the health of our region's economy, we didn't pay attention to the right measurements or respond to their early warnings. Gross economic output—the most commonly reported metric of overall economic health—may at one time have been an effective barometer of economic security at all levels of society. But where a rising tide of prosperity once lifted all crafts, it now appears to favor yachts over rowboats.

By gauging our economic success by such crude measures as gross economic output, we failed to detect the more important story: increasing numbers of poor families and meager economic gains for the majority of northwesterners. By choosing better barometers—and heeding what the measurements tell us—the Northwest can work toward securing a broadly shared prosperity.

REVIEWERS

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ABOUT NORTHWEST ENVIRONMENT WATCH

Northwest Environment Watch (NEW) is a Seattle-based independent nonprofit research and communication center that promotes an environmentally sound economy and way of life in the Pacific Northwest. The Pacific Northwest is a bioregion that includes Washington, Oregon, Idaho, British Columbia, and adjoining parts of Alaska, Montana, and California. NEW's research program focuses on two critical efforts: to monitor the Northwest's progress toward sustainability and to identify the most important reforms for the region to implement. As part of these efforts, NEW is developing an index of social and environmental well-being for the Northwest.

The index, to be launched in early 2004, monitors key trends affecting people, place, and the future of both. It will do two things: serve as an annual report on regional progress and—by highlighting communities doing the best job at solving our most pressing problems—help provide a practical vision for a better Northwest.

Authors of this report include Eric de Place, research associate; Alan Durning, executive director; Clark Williams-Derry, research director; and Jenny Frankel-Reed and Rebecca McMullen, research interns. For more information about NEW and NEW's publications, please see *www.northwestwatch.org*.

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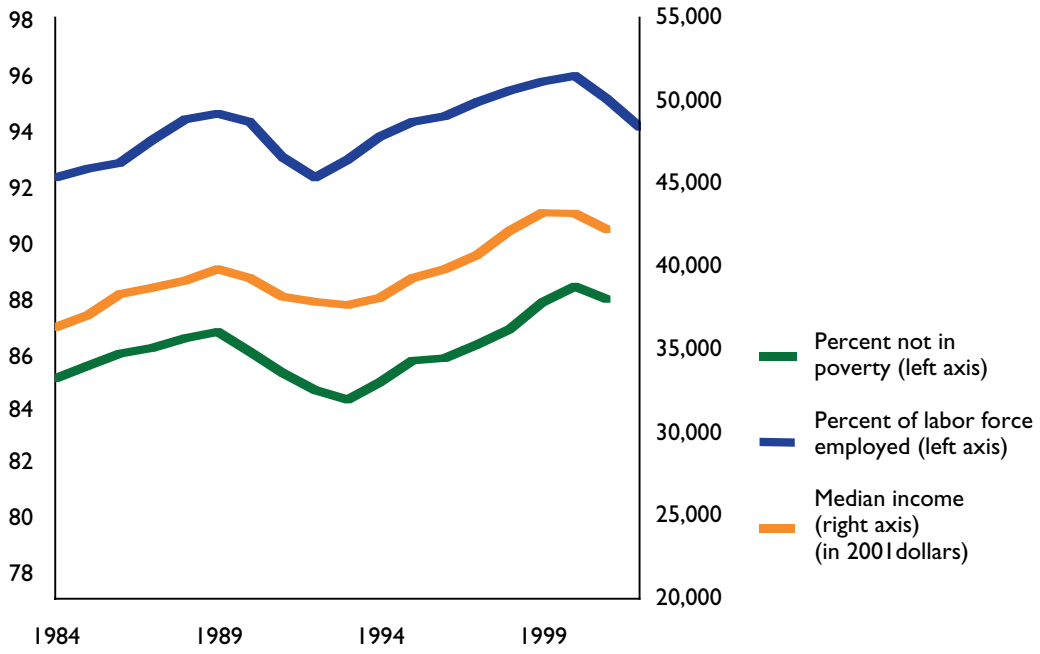
APPENDIX A: LINKED FORTUNES OF THE POOR AND MIDDLE CLASS

The economic fortunes of the poor and the middle class are closely linked. When US poverty and unemployment rates fall, middle-class incomes tend to rise (see Figure 6). Median income likewise varies in tandem with participation in the federal food stamp program, which is designed to benefit the poor and near-poor.

Since all four trends—poverty, unemployment, median income, and food stamp participation—tend to rise and fall at the same time (at least at the national level) the more frequently reported of these measures—food stamp participation and unemployment—can serve as rough proxies for median income and the poverty rate, which have longer lag times for reporting. And recent trends suggest that, even though many believe that the Northwest economy is on track for recovery, the number of poor households is still increasing, and inflation-adjusted median income has been, at best, flat since 2001.

Figure 6. In the United States, poverty, unemployment, and median income tend to rise and fall in tandem



Source: US Census Bureau and Bureau of Labor Statistics

APPENDIX B: ECONOMIC SECURITY STATE BY STATE

- **Idaho:** Among Northwest states, Idaho's population grew the fastest, with a 33 percent gain (330,000 new residents) between 1990 and 2002. The state showed improvements in economic security: median incomes grew significantly; poverty rates fell; unemployment was virtually the same in 2002 as in 1990; and incomes for the lowest-earning fifth, or quintile, of households increased by nearly 20 percent. Idaho's economic improvements were similar to the average for the United States, but median income in Idaho is still about $4,700 less than the US median ($38,300 vs. $42,900) and significantly below the Northwest average, a disadvantage that may be softened by Idaho's relatively low cost of living.
- **Oregon:** Oregon's income growth was similar to the nation's overall: a 9 percent increase, or $3,500, for the median household; a 7 percent increase, or $700, for the bottom quintile; and a 24 percent increase, or $25,500, for the top quintile. But the poverty rate also increased, climbing from 10.3 percent in 1988–90 to 11.9 percent in 1999–2001. In contrast, poverty rates fell in the United States overall. Oregon started the decade with a three-percentage-point advantage but ended the period with roughly the same poverty rate as the rest of the country. Unemployment rates also climbed in Oregon: in 1990 Oregon's jobless rate was close to the national average, but during much of 2002 the state had the highest unemployment rate in the nation. The state's population grew by about 660,000, the smallest percentage increase among the Northwest states (23 percent) but still faster than growth for the United States overall (16 percent).
- **Washington:** Washington began the 1990s with advantages in poverty rates, unemployment rates, and median incomes, in comparison with both Oregon and Idaho and with the nation as a whole. But by 2001 much of this lead had vanished. Washington posted small gains in median income, while incomes for the lowest-earning fifth of Washingtonians fell by an estimated $1,600. And while Washington's recent poverty rate (10.1 percent) was still below the national average for 2001 (11.7 percent), poverty in the state followed a different trajectory than in the nation as a whole: Washington's rate increased by about a percentage point between 1990 and 2001 while the national rate declined by nearly 2 percentage points. Perhaps in response to public perception of economic opportunity, Washington's population grew by nearly 1.2 million between 1990 and 2002, an increase of nearly 25 percent.

Table 1. State-by-state data

	Washington	Oregon	Idaho	Northwest states	United States
Population					
1990	4,903,043	2,860,375	1,012,384	8,775,802	249,622,814
2002	6,068,996	3,521,515	1,341,131	10,931,642	288,368,698
Change	1,165,953	661,140	328,747	2,155,840	38,745,884
Percent change	24	23	32	25	16
Total personal income (thousands of 2001 dollars)					
1990	128,890,962	68,524,837	21,084,207	218,500,005	6,416,140,321
2002	195,212,709	99,592,325	33,079,278	327,884,312	8,782,642,779
Change	66,321,747	31,067,489	11,995,071	109,384,307	2,366,502,458
Percent change	51	45	57	50	37

	Washington	Oregon	Idaho	Northwest States	United States
Per capita personal income (2001 dollars)					
1990	26,288	23,957	20,826	24,898	25,703
2002	32,166	28,281	24,665	29,994	30,456
Change	5,878	4,325	3,839	5,096	4,753
Percent change	22	18	18	20	18
Percent of population below federal poverty line*					
**For individual states, values are averaged over three years to improve statistical reliability; for Northwest states and United States, 1990 and 2001 values are used. Therefore, figures for individual states may not add up to Northwest totals.*					
1990	9.1	10.3	13.3	9.7	13.5
2001	10.1	11.9	12.7	11.2	11.7
Change	1.0	1.6	(0.6)	1.4	(1.8)
Number of people in poverty*					
**For individual states, values are averaged over three years to improve statistical reliability; for Northwest states and United States, 1990 and 2001 values are used. Therefore, figures for individual states may not add up to Northwest totals.*					
1990	430,000	293,000	136,000	858,000	33,584,000
2001	589,000	406,000	162,000	1,193,000	32,907,000
Change	159,000	113,000	26,000	335,000	(677,000)
Unemployment rate					
1990	4.9	5.6	5.9	5.3	5.6
2002	7.3	7.5	5.8	7.2	5.8
Change	2.4	1.9	(0.1)	1.9	0.2
Median income (2001 dollars)					
1988–90	44,238	39,227	33,646	41,145	39,439
1999–2001	44,835	42,701	38,310	43,101	42,873
Change	596	3,474	4,664	1,957	3,433
Percent change	1	9	14	5	9
Average household income, top quintile (2001 dollars)					
1988–90	111,130	102,602	90,156	106,352	115,196
1999–2001	142,200	134,369	125,492	137,951	145,345
Change	31,070	31,766	35,336	31,599	30,149
Percent change	28	31	39	30	26
Average household income, bottom quintile (2001 dollars)					
1988–90	12,902	10,505	9,053	11,389	9,493
1999–2001	11,308	11,196	10,673	11,162	10,378
Change	(1,593)	691	1,620	(227)	885
Percent change	(12)	7	18	(2)	9

ENDNOTES

1. Growth in gross state products from 1990 to 2001 (in chained 1996 dollars) calculated from US Bureau of Economic Analysis (BEA), "Regional Accounts Data: Gross State Product Data," *www.bea.gov/bea/regional/gsp,* June 5, 2003. Population growth calculated from US Census Bureau, "Population Estimates: Intercensal Estimates," *eire.census.gov/popest/data/counties/tables/CO-EST2001-12.php,* June 5, 2003, and "Population Estimates: Annual Population Estimates by State," *eire.census.gov/popest/data/states/tables/ST-EST2002-01.php,* June 5, 2003. Growth in personal income per capita (1990 to 2002) calculated from BEA, "Regional Accounts Data: Annual State Personal Income," *www.bea.gov/bea/regional/spi,* June 5, 2003.

2. Poverty rates and number of people in poverty in Northwest states from US Census Bureau, "Historical Poverty Tables, Table 21," *www.census.gov/hhes/poverty/histpov/hstpov21.html,* June 5, 2003; in United States as a whole from US Census Bureau, "Historical Poverty Tables, Table 2," *www.census.gov/hhes/poverty/histpov/hstpov2.html,* June 5, 2003. Poverty figures reported in the Washington Population Survey and Oregon Population Survey may differ; for consistency, NEW's analysis relies exclusively on US Census Bureau data.

3. Northwest unemployment rates derived from US Bureau of Labor Statistics (BLS), "Local Area Unemployment Statistics," *www.bls.gov/lau/,* June 5, 2003; US rates from BLS, "Labor Forces Statistics from the Current Population Survey," *www.bls.gov/webapps/legacy/cpsatab1.htm*, June 5, 2003.

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14. Poverty trends from sources cited in note 2.

15. Unemployment rate trends from sources cited in note 3.

16. Unemployment rate trends from sources cited in note 3.

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