Cascade Policy Institute OREGON

Cascade Commentary

December 2021

Summary:

For years, Oregon incomes have fallen behind the rest of the country and our West Coast neighboring states. It is no mystery. State and local policies are standing in the way of fostering economic growth.

Word count: 1,279

"Oregon personal income in 2020 was about 5% lower than the nation as a whole. In comparison, Washington's was 13% higher and California's was 18% higher."

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Economic Growth: The Only Game in Town

By Eric Fruits, Ph.D.

Last month, the *Oregonian* excitedly reported some great news: From 2010 to 2019, our great state had the fastest income growth in the entire country. For any doubters out there, the paper tells us, "the numbers are clear as day." However, there are doubters. Economists working for the state are "flummoxed," according to the article. I'm flummoxed, too.

The *Oregonian* notes that the median household income grew by 44% from 2010 to 2019—from the end of the Great Recession to the year before the pandemic. But something is amiss.

The article presents median household incomes for each of Oregon's counties. It should be no surprise that Multnomah County had the highest growth rate, clocking in at 39%, followed by Washington at 31%. This raises a question: How can the state grow at a stratospheric 44%, while the even the best performing county grew only 39%?

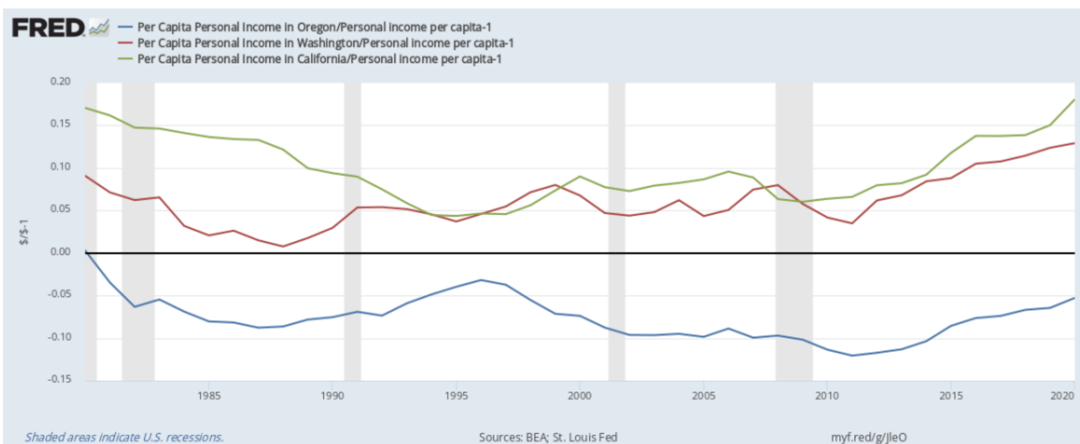
As someone who does statistics almost every day, I know this is statistically possible. I also know a lot of stars would have to line up to make it happen. So, the most likely answer is also the simplest. Bad data.

The *Oregonian* uses median household income, a notoriously noisy piece of data. So noisy, in fact, that the agency that estimates it warns, "use caution when comparing median incomes … for families and households for different years." Folks would be less flummoxed if they read that caution.

As I said, something is amiss, and it's more than measurement error. Let's look a different set of data: Per capita personal income.

Despite relatively rapid income growth over the past few years, Oregon personal income in 2020 was about 5% lower than the nation as a whole. In comparison, Washington's was 13% higher and California's was 18% higher.

The 1980s recessions took a heavy toll on the West Coast, but the 1990s seem to be where that action was. The dot-com boom helped lift Oregon out of the doldrums. Then, a turning point came in 1996, with incomes steadily declining relative to the rest of the U.S. for the next 15 years. The spotted owl controversy gutted the timber industry the dot-com bust wiped out many tech startups (remember when Halfway, Oregon renamed itself "Half.com?"). In 1996, nine Fortune 500 firms had their headquarters in Portland. Today, the state is home to only two, Nike and Lithia Motors.



"The difference between 1% growth per year and 1.5% a year will leave us a generation behind in living standards."

Since 2010, even though we are still below average, Oregon incomes have been rising faster relative to the U.S. average. Much of this seems to be driven by an influx of higher income people from California. Before the Great Recession, incoming Californians accounted for about one-third of Oregon's population growth. Since then, it's been close to half. On the one hand, so long as high-income people from the Golden State flee north to Oregon, we can expect to see statewide personal incomes rise. On the other hand, betting on refugees from the California Republic doesn't seem like much of an economic development strategy. What if California's refugees decide Arizona, Texas, Washington, or Idaho provide a better bang for the buck than Oregon?

Why does income growth matter?

Economist John Cochrane argues policies affecting economic growth are the most important of economic policies because these policies determine our standard of living. When we talk about standard of living, we usually think of more stuff. Not just more stuff, but better stuff. Better health, better schools, a better environment, better roads, better retirements. A higher standard of living allows for widespread wealth accumulation. Wealth that can be saved, invested, and passed on to our children.

For example, if inflation adjusted income grows by 1.5% a year, our standard of living will double in less than 50 years. If, on the other hand, growth is only 1% a year, it will take about 70 years to double our standard of living. Most people think shaving only one-half of one percent off of economic growth won't hurt much. Over time, however, this difference compounds. The difference between 1% growth per year and 1.5% a year will leave us a generation behind in living standards.

Some people say that wealth accumulation is bad. They point to Jeff Bezos, Elon Musk, and Warren Buffett—they don't deserve the wealth they have. Look further and you see the importance of wealth accumulation for those lower down the income distribution. The homeowner with $500,000 in home equity. The store manager squirreling away 10% of his income in a 401(k). The small business owner who builds a successful company that employs dozens of people. They don't care that Bezos, Buffett, and Musk are rolling in billions so long as they see their own lives improving.

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But, when they don't feel like their lives are improving, they start looking for someone to blame. They blame the ultra-rich, the "privileged," and immigrants, arguing that these people are somehow taking something away from the rest of society. What they're missing is the simple fact that when the pie gets bigger, people care less about how big their own slice is. In other words, economic growth is much more important than economic equality.

In the 1990s, Oregonians were sold a snake oil called the "second paycheck." We were told it's okay that our paychecks were smaller because we collected a second paycheck in the form of Oregon's natural beauty and way of life. Of course, it turns out there are many places in the country that collect a second paycheck. Oregon is not unique.

But like your real paycheck, the second paycheck is now burdened with a "second payroll tax." In my block, every single household has either had their car stolen or broken into. Half of my neighbors have had their bicycles stolen. This week, my dentist's office was destroyed by a tent fire. The folks who say, "Oh, insurance will fix all that," seem to ignore the fact that most insurance has deductibles. They also ignore the sticker shock that pops up when you try to renew your insurance after a claim. That's the second payroll tax—the costs imposed on all of us when state and local governments cannot or will not provide the basic services our taxes pay for.
In the long run, income growth comes from one thing—just one thing—increasing productivity. Productivity is shorthand for saying new and better ways of making stuff and doing things. Productivity is driven by innovation. Innovation can be as complicated as a new cancer drug, as radical as ride hailing, or as simple as replacing employees with contractors.

In each of these three examples, you can find regulations standing in the way of the innovation. The federal Food and Drug Administration imposes a lengthy approval process for new drugs. Portland and other cities went through enormous efforts to stop Uber and Lyft from competing against taxis. Oregon's Bureau of Labor and Industries is notorious for its opposition to contract labor. It's a classic case of bootleggers and Baptists. Politicians claim they are merely looking out for the welfare of patients, commuters, or workers. At the same time, by blocking innovation, they are protecting existing drug manufacturers, taxi companies, and labor unions.

Cochrane is right. From an economic policy standpoint, income growth is the only game in town, and Oregon is falling behind. If politicians want more tax revenues to support higher academic achievement, better roads, and more services, they should be pushing policies that encourage economic growth. If politicians are worried about income inequality, they should focus on growing incomes first, then deal with any remaining inequality. They should eliminate the second payroll tax so that we can actually collect on that so-called second paycheck.

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