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OPINION

Suffocation of Oregon's Middle Class

The surge of income inequality

BY JASON GETTEL

An Oregon Center for Public Policy analysis of recent income data shows the continuing suffocation of Oregon's middle class. That, in turn, spells bad news for our state's long-term economic well-being.

The data, courtesy of the Oregon Department of Revenue, is for 2010, the first full year of the economic "recovery" following the end of the Great Recession. OCPP's analysis shows the resumption of growing income inequality and continued stagnation of the typical Oregon worker.

Well-off Oregonians certainly benefited from the return of economic growth (albeit slow growth) in 2010. After adjusting for inflation, the average income of Oregon's wealthiest 1 percent jumped from about $645,000 to about $689,000 -- a gain of $44,000 in a single year.

The typical Oregonian, however, had little cause for celebration. This worker earned about $30,839 in 2010, a gain of just $15 compared to the prior year. So while the wealthiest 1 percent piled on top of their already towering incomes what many would consider a full year's worth of earnings, the typical worker's measly gains would barely buy half a bag of groceries.

Thus, the decades-long trend of increasing income inequality continues. In 1980, the average income of Oregon's richest 1 percent was about 10 times the median income. By 2007, the eve of the Great Recession, the average income of Oregon's top 1 percent was more than 32 times that of the typical Oregonian.

In the economic crisis that began in late 2007, all income groups took a hit. But with the official end of the recession in 2009 and the start of a period of sluggish growth, the income of the wealthy took off again, while that of the typical Oregonian barely budged.

Over the last generation -- recessions, recoveries and expansions included -- the rich have gotten richer while the Oregonian in the middle has gotten poorer.

The trajectory toward increased income inequality is the road that leads to the end of the American Dream. If there's something that practically all Americans can agree on, it is that anyone who works hard and plays by the rules should be able to make it. An increasing body of research, however, shows that social mobility -- the ability of a child growing up in poverty to move into the middle class or higher as an adult, for example -- is lower in countries with greater income inequality.

Income inequality has a debilitating effect on the economy. A recent study by the Center for American Progress posited four ways in which rising income inequality and a shrinking middle class undermine economic growth in the U.S.:

First, a strong middle class promotes the development of human capital and a well-educated population. These are essential for a technologically advanced economy such as ours.

Second, a strong middle class creates a stable source of demand for goods and services. There are only so many cars, houses and services the rich buy with all their money.

Third, a strong middle class incubates the next generation of entrepreneurs. In other words, an economic aristocracy does not produce the next generation of innovators.

Fourth, a strong middle class supports inclusive political and economic institutions, which underpin economic growth. Or, as former U.S. Supreme Court Justice Louis Brandeis once put it, "You can have wealth concentrated in the hands of a few, or you can have democracy. But you cannot have both."

Few public policy issues are more important than reversing the surge of income inequality. Although national policies have a huge impact on the direction of income inequality, state policies also have an influence.

At the very least, Oregon lawmakers should not make the problem worse by giving additional tax breaks to the rich.

To the contrary, lawmakers should raise revenue progressively -- that is, on the basis of ability to pay. Those resources will make our tax system fairer and enable Oregon to invest in education, health care, infrastructure and the many other public structures that create economic opportunity for all.

Everyone -- the middle class, the poor and the rich -- will ultimately be better off for it.

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