

IN PURSUIT OF PROSPERITY

Eight Strategies to Rebuild Washington State's Economy

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Now is the Time

This is an historic moment for Washington state. As we recover from economic, social, and fiscal challenges like none seen in most of our lifetimes, there is tremendous opportunity to become a state where prosperity is widely shared, and children, families, and communities can thrive.

As our newly elected leaders reconvene for next legislative session and beyond, it is important they recognize that widely shared prosperity doesn't happen by accident. History, supported by persuasive research, proves that prosperity happens when we deliberately invest in the foundations of a strong economy – broad and equal opportunity to build knowledge and skills, adequate compensation and support for workers, and adequate investments in conditions that foster economic growth.

But access to the opportunities that built a strong middle class – attending quality public schools, access to health care and transportation, affording a home and growing up in safe, healthy neighborhoods – are not as abundant as they need to be. Nor are they equally available to everyone. And even if everyone had access to such opportunities, there simply aren't enough jobs in Washington state that pay what's needed

for workers and their families to meet basic needs, let alone prosper. Over the last four years, an all-cuts budget approach to dealing with unprecedented declines in state revenue has made matters worse by eliminating jobs and limiting the opportunities Washingtonians need to get ahead.

When more people have a chance to reach their full potential and enough economic security to make investments in their future, our economy will grow. The good news is we know how to do this – we've done it before. If policymakers pursue a coordinated set of strategies to accomplish the following long-term goals, shared prosperity will follow.

- **Opportunity for all:** Opportunities that most Washingtonians need to prosper – access to high quality public schools, health care, transportation, clean environment, and work supports – are cost-effective and improve long-term outcomes for families, communities, and the economy.
- **Better jobs:** A thriving middle class is dependent on having enough jobs that allow Washingtonians to get ahead, and policies that reward workers for their productivity. In addition, public works jobs that maintain our physical infrastructure (construction and maintenance on schools,



roads, bridges, transportation) and build people’s knowledge and skills (teachers, job trainers, social workers) strengthen the foundation of a strong economy.

- **A productive, equitable revenue system:** Ensuring abundant and equal opportunity and creating good jobs requires a revenue system that is adequate to sustain public investments. A more equitable revenue system would ensure Washingtonians from all income levels benefit from the economic activity they help generate.

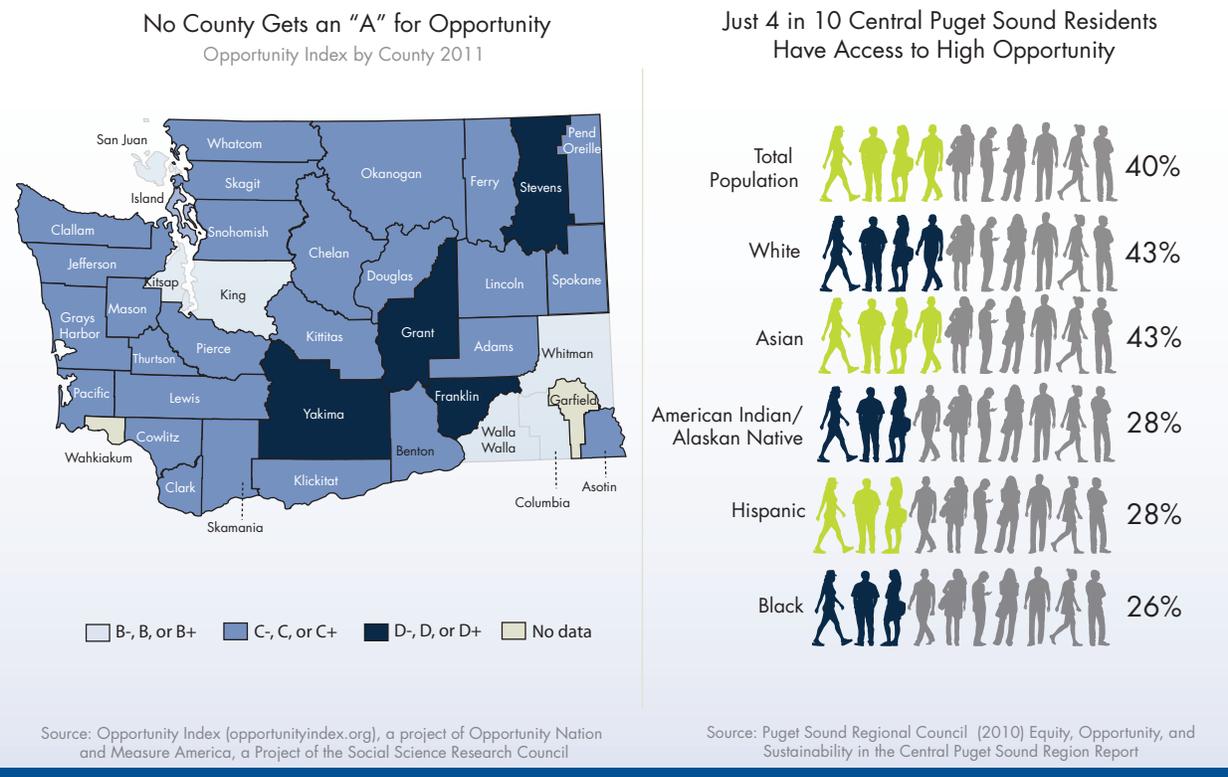
Paving a Path to Prosperity for All

In the period following World War II, the United States experienced an economic boom like no other country. Intentional public policy investments helped to grow a strong middle class and resulted in increased home ownership and educational attainment, a competitive workforce, personal income gains, and a growing number of families achieving economic security.¹

History teaches a valuable lesson – public investments reap returns by providing the foundations for a strong economy. Every state, as well as every one of the United States peer nations, requires public investment for a thriving business sector, educating citizens, preparing their workforce, and remaining competitive in a global economy. We have much to learn from this history of prosperity, but we must also acknowledge it was not shared by everyone, nor did we maintain the foundation to make it last. People of color, historically denied access to opportunities, were excluded from most of the economic gains, increasing racial and social inequality. And beginning in the 1980s, public investments that provided opportunity and supported workers and their families were slowly dismantled, hurting the middle class and increasing the number of low income families.²

Washington state’s economy will grow and thrive only if all Washingtonians have the opportunities and jobs they need to grow and thrive. We’ve got work to do. In Washington state today:

FIGURE 1 Washington's Weak and Unequal Opportunity Infrastructure



Opportunity is neither abundant nor equal

According to the Opportunity Index³, a measurement of the economic, education, health, and civic opportunities for all U.S. counties, no county in Washington state gets a grade of "A" for comprehensive access to high quality education, adequate health care, affordable housing, and safe communities. Just six counties receive a grade of "B" or higher, and the remaining 31 counties receive a grade ranging between "B-" and "D+" (data was not available for two counties). A different study specific to the Central Puget Sound found that access to opportunity is weak for the region, with people of color having the least access. Just four of every 10 residents in the Central Puget Sound region have access to high opportunity, and Black, Hispanic, and American Indian residents had less access than White and Asian⁴ residents (**Figure 1**).

The job market is comprised of mostly low-paying work

Unemployment in Washington state remains high (8.5 percent),⁵ largely because not enough jobs are available to meet the demand for them. While there has been a steady gain in jobs since the recession officially ended in June 2009, fewer than half (48 percent) of the 154,000 jobs lost during the recession have been recovered.⁶ Jobs in the private sector are increasing, but these gains have been partially offset by losses in the public sector, hurting our overall economic recovery.⁷

Equally important, most of the jobs available in Washington state do not pay what's needed for workers and their families to get ahead. Fifteen of the 20 occupations with the most job openings pay below what a family of four needs just to meet basic needs, like having enough food, adequate housing, and

FIGURE 2
Available Jobs Pay Too Little for Families to Meet Basic Needs

Top 20 job openings by average pay, Washington 2012

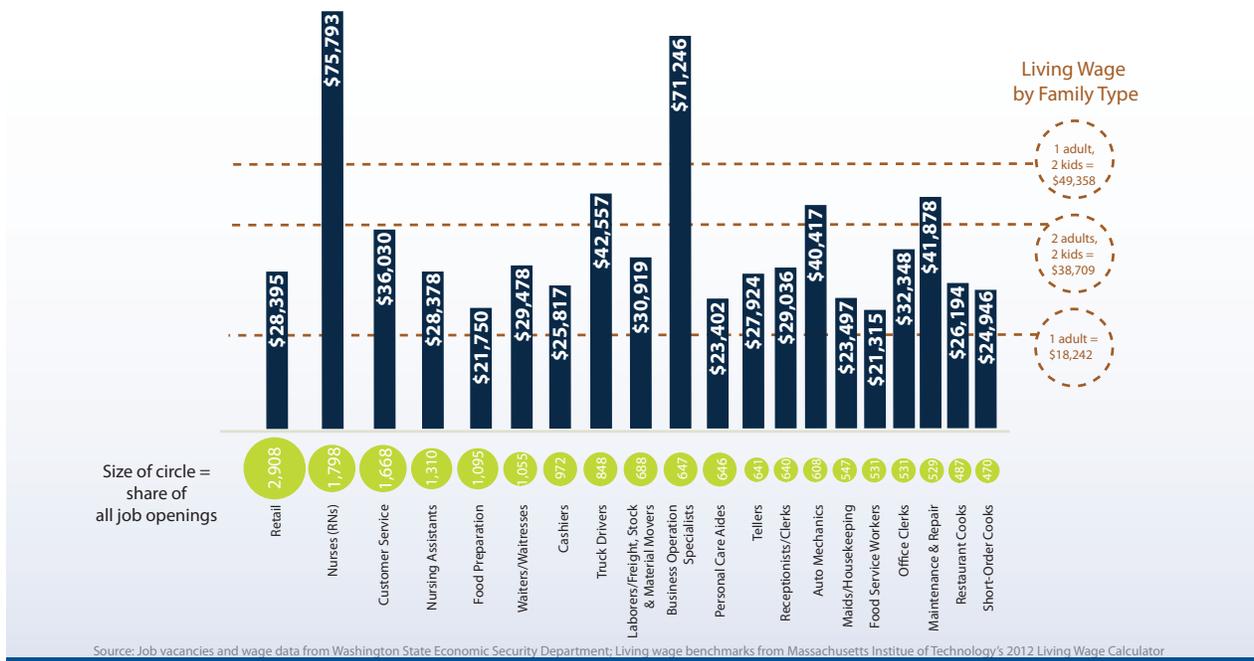
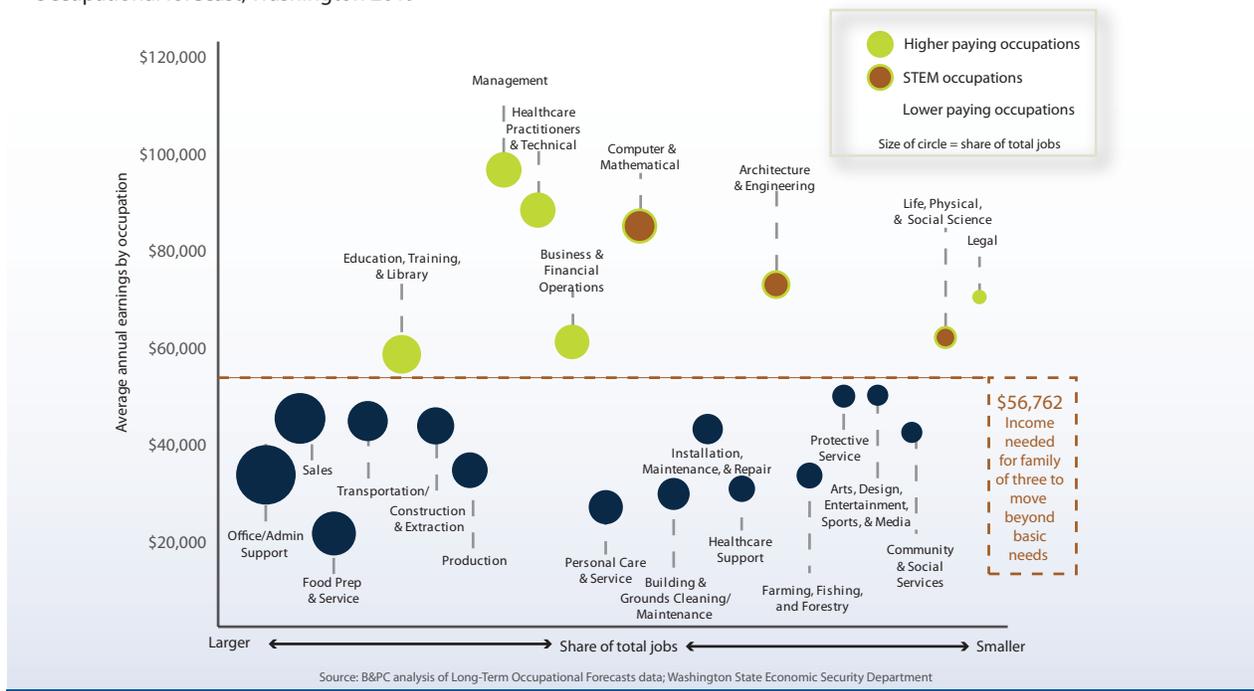


FIGURE 3
Average Pay of Job Market Not Enough to Sustain Middle Class

Occupational forecast, Washington 2019



affordable child care and health care. Eighteen out of 20 pay less than what a single parent with two children needs (**Figure 2**).

While meeting basic needs is an important benchmark, true progress would mean that more people have enough disposable income to invest in assets – a home, saving for retirement, or a child’s education – that build long-term wealth and economic security.

Unfortunately, that is unlikely to happen given the present composition of Washington state’s future labor market. Conservatively assuming families need 15 percent more than just a basic needs wage to actually step onto a path of prosperity, 71 percent of jobs in 2019 will not pay enough on average (\$56,762) for a family of three to get ahead on one income (**Figure 3**). Washington’s job market has a bright spot in that we are a leader in the nation for higher skill, higher paying STEM (Science, Technology, Engineering, and Mathematics) jobs,⁸ but STEM occupations make up just 8 percent of the total labor market.

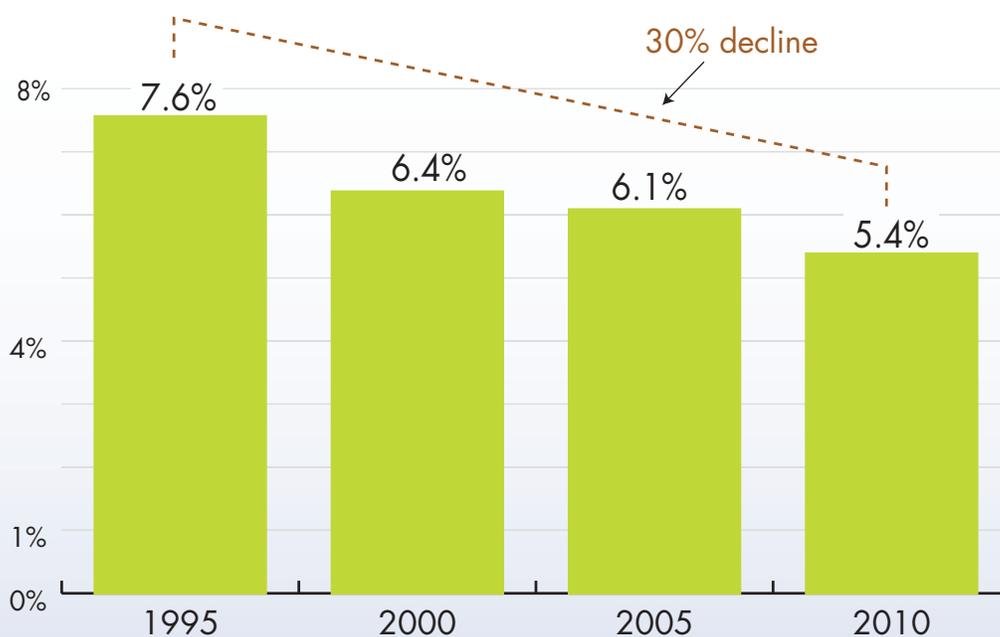
Our flawed revenue system cannot support investments that create opportunity and better jobs

Over the last 20 years, revenues as a share of Washington state’s economy have declined by 30 percent (**Figure 4**),⁹ crippling policymakers ability to make investments that would build opportunity, create jobs, and strengthen our economy.

Washington state has a 1930’s tax system that is wholly inadequate for a 21st century economy. When our tax system was put into law during the 1930’s, the economy was largely driven by agriculture and the production and sale of manufactured goods. At the time, a sales tax on goods reflected most consumer activity. Over time, however, Washington state’s economy – like the rest of the nation – shifted away from manufacturing toward being a primarily service-based economy. Consumers have been spending more on services than manufactured goods since the 1970s, but there has been no significant corresponding shift to the tax code (**Figure 5**). Without reforms that reflect this and other changes

FIGURE 4 **Washington State Revenues are Steadily Declining**

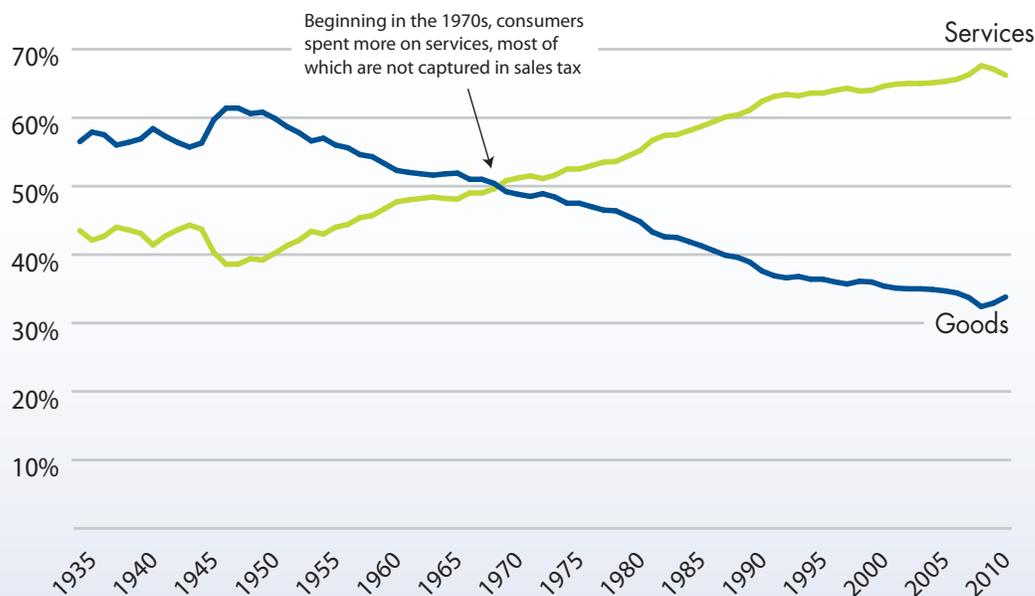
State tax revenues as a share of personal income from 1995-2010



Source: Budget & Policy Calculations; Data from ERFC

FIGURE 5 Washington's Revenue System Out-of-Date for Modern Economy

Goods and Services in the U.S. as a Share of Personal Consumption Expenditures, 1935-2011



Source: BPC calculations; data from the U.S. Bureau of Economic Analysis (NIPA 2.3.5)

in the economy, our revenue system will fall ever farther behind, starving the state of resources needed to support public investments in opportunities and jobs.

To make matters worse, our revenue system is “upside-down,” which means low- to middle-income families pay a far greater share of their income to support our state investments (17 percent and 11 percent, respectively) compared to wealthy families (5 percent) (**Figure 6**). Generating revenue through a tax system that places the responsibility on those who are least able to contribute is not only unjust, it doesn’t make economic sense: substantial economic activity among wealthy families is not included. In addition, this flawed system increases income inequality by giving a big break to the highest income earners, while low- to middle-income families reap little reward from the economic activity they help generate (also **Figure 6**).

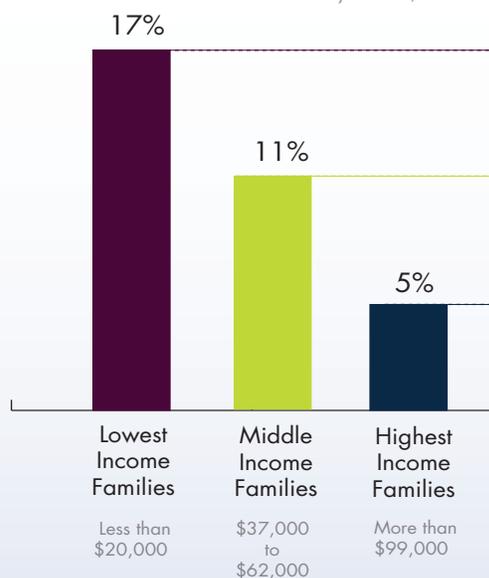
Strategies to Build Shared Prosperity

Washington state is caught in a vicious cycle. We lack opportunity and good jobs, as well as the revenue needed to make investments that help to create opportunities and good jobs. Policymakers can reverse this cycle by ensuring opportunities are abundant and equal, creating better jobs, and fixing our flawed revenue system. Eight strategies can rebuild the middle class and make our economy work for everyone.

FIGURE 6 Washington's Tax System Contributes to Growing Income Inequality

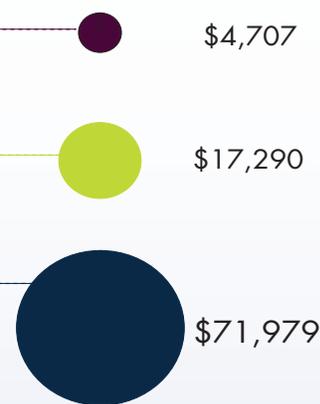
What Families Pay in Taxes by Income Level

State and local taxes as a share of family income, WA 2007*



Income Gains of Families Since 1970s

Change in average household income, WA 1977-2005



Source: Budget & Policy Center analysis; Data from CBPP, EPI, LEAP & ITEP

GOAL: Opportunity for All

People can't take advantage of opportunities that don't exist. Increasing public investment in equal opportunity lays the foundation for greater economic security for children and families, improved social well-being and health outcomes, and a well-educated, globally competitive workforce.

STRATEGY: Provide a high quality basic education to all students.

- **Provide high quality universal pre-school.**

Children who attend pre-school are more likely to be school-ready and have better academic and social outcomes than children who don't attend. Families and businesses benefit from having access to care for children so parents can work. High quality preschool is one of the most effective workforce development tools available, preparing the next generation of children to meet the demands of Washington state's

future economy.¹⁰

- **Target resources to close the K-12 racial achievement gap.** Forty-four percent of babies born in Washington state are children of color.¹¹ Due to unequal access to opportunity and lower family economic security, these children – Washington's children – fare worse than their white peers on nearly every indicator of well-being.¹² Ensuring that children of color and their families have the services they need to succeed in school is essential to their future, as well as our economy.
- **Invest in public universities and community and technical colleges.** Washingtonians who attend college – especially those who obtain an Associate's or Bachelor's degree – are more likely to work full-time and have higher incomes¹³ than those with a high school degree or less.¹⁴ In addition, public universities and community colleges provide the labor market with students who have the training, knowledge, and skills to keep Washington state globally competitive.



Strategies to Build Shared Prosperity

Goal: Opportunity for All

1 Provide a high quality basic education:

- > Provide high quality, universal pre-school.
- > Target resources to close the K-12 racial achievement gap.
- > Invest in public universities and community and technical colleges.

2 Protect public health and the natural environment:

- > Fully implement the Affordable Care Act.
- > Strengthen investments in clean air, water, and land.

3 Support economic security of children and families during tough times:

- > Increase access to food, housing, and support services.

4 Reprioritize state spending to build thriving communities:

- > Implement more stringent cost-benefit analysis of tax breaks.

Goal: Better Jobs

5 Invest in public works jobs:

- > Fix infrastructure and build human capital.

6 Make work pay:

- > Strengthen worker rights and work supports.
- > Fully fund the Working Families Tax Rebate.

Goal: A Productive, Equitable Revenue System

7 Modernize the tax system:

- > Expand the sales tax to include more services.

8 Make the tax system equitable:

- > Shift greater tax responsibility to those most able to pay.

STRATEGY: Protect public health and the natural environment

- **Fully implement the Affordable Care Act.** Access to quality, affordable health care is key to Washington state's economy because it creates a healthy workforce, reduces overall costs, and helps children do better in school. Full implementation of the federal Affordable Care Act, including the adoption of the federal basic health plan, Medicaid expansion, and the creation of the exchange, will provide coverage for 800,000 currently uninsured Washingtonians. Having more people insured will reduce the costs of uncompensated care, and save the state \$200 million in the first two years of Medicaid expansion alone.¹⁵
- **Protect investments in clean air, water, and land.** Living in communities with access to clean water, and free of air pollution and toxins are essential to maintain public health and quality of life.

STRATEGY: Support economic security of children and families during tough times

- **Increase access to food, housing, and support services.** Helping families meet basic needs in tough economic times is essential for child and family well-being and more cost-effective than letting people slip through the cracks of a poor economy.¹⁶ The State Nutrition Assistance Program (food stamps) and Home Security Fund and Housing Trust Fund (affordable housing) reduce hunger among children, and increase the stock of affordable housing so families have a foundation from which to rebuild. Support services for domestic violence, substance abuse, and mental health provide stability for children and families and connect people to life-saving resources.

STRATEGY: Reprioritize state spending to build thriving communities

- **Implement more stringent cost-benefit analysis of tax breaks.** Hundreds of narrow tax breaks for a variety of industries and individuals amount to billions of dollars in foregone state resources each year – resources that would be far more effectively

invested in the opportunities that benefit most Washingtonians. Many tax breaks have no proven economic benefit for the state. For example, state auditors recently reviewed a business tax credit aimed at improving employment in the high-tech industry, and found the credit raised employment in the high-tech sector by less than 1 percent, with a total price tag of \$20 million per year or about \$45,000 per job created.¹⁷

GOAL: Better jobs

Policymakers need to recognize that jobs overwhelmingly don't pay enough to let families get ahead. People that work hard should be rewarded through adequate compensation and a guarantee of meeting basic needs for their family. Public investment supports jobs that pay middle-class wages, like teaching, nursing, fire-fighting, and law enforcement, and also strengthens communities by maintaining our state infrastructure.

STRATEGY: Invest in public works jobs

- **Fix infrastructure and build human capital.**¹⁸ Increasing investment in public works – like roads, bridges, schools, parks, and transportation systems – projects creates jobs and maintains the quality of the infrastructure that is critical to an efficient workforce and flow of goods throughout the state. In addition, investing in jobs that educate our children and protect our communities strengthen our workforce. Targeting public works job creation in areas hardest hit by unemployment can get people back to work quickly and stabilize low income communities.¹⁹

STRATEGY: Make work pay

- **Strengthen worker rights and work supports.**²⁰ Policies that incentivize work and support employees in their relationships with employers are critical to rebuilding the middle class and an economy that works for everyone. Being in a union, for example, is associated with better wages and working conditions, particularly among workers in lower-paying fields. In addition, unions have reduced gaps in income inequality and improved workplace condi-

tions for women and people of color, who are more likely to face wage discrimination. In addition, policies that support low income families in finding or keeping a job, like Temporary Assistance for Needy Families/WorkFirst and Working Connections Child Care, prevent people from slipping through the cracks of a weak economy.²¹

- **Fully fund the Working Families Tax Rebate (WFTR).** The WFTR is Washington state's version of a state Earned Income Tax Credit, one of the most powerful tools for rewarding the work of low income families. Passed in 2008, but yet to be funded, the WFTR is modeled after the highly successful federal EITC and will reduce taxes for about 400,000 working Washingtonians and their children once fully funded.²²

Goal: A Productive, Equitable Revenue System

Washington state will not be able to make the investments in opportunity and jobs until we fix our flawed revenue system. We also can't rebuild the middle class if we don't ensure that people from all income levels benefit from the economic activity they generate.

STRATEGY: Modernize the tax system for a 21st century economy

- **Expand the sales tax to include more services.** A sales tax that includes services would reflect today's purchasing patterns and generate at least \$100 million per year in additional revenue, depending on the number of services added.²³

STRATEGY: Make the tax system equitable

- **Shift greater tax responsibility to those most able to pay.** Flipping our upside down revenue system so that high income families pay the greater share of their income in taxes and low- and middle-income families pay the least could generate more resources for public investments in opportunity and help to reduce income inequality. Enacting a capital gains tax, for example, would generate some \$700 million annually and only the top 2 percent of

income earners in Washington state would pay it.²⁴ If paired with tax credits for low- to middle-income families, like a refundable state-level child tax credit²⁵ and property tax circuit breakers,²⁶ tax reform could help even more to reduce income inequality and promote prosperity.

CONCLUSION

Now is the time to rebuild Washington state's economy and tap into the full potential of our residents. With an economy in recovery, a history to build upon, and a strategy to pursue we can put prosperity within everyone's reach. Investing in the foundations of a strong middle class – abundant an equal access to opportunity, better jobs, and an adequate revenue system that promotes equality – will get us there.

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