Oregon Economic Trends

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Trends in Per Capita Personal Income and State Revenues

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Given Oregon's current system of state finance and taxation, arguably no single economic statistic and trendline is more critical to the state's financial health than per capita personal income (PCPI).

Oregon's Dependence on Personal Income Taxes

Table 1 below, which shows actual and forecasted General Fund revenues from 2005 through 2017, provides a clear explanation of why this is the case. Oregon relies on personal income taxes for approximately 85 percent of General Fund revenues.

Table 1. General Fund Revenue Forecast

$ Thousands

Fiscal Year	Total Gen. Fund Revs.	Personal Inc. Taxes	Other Rev.[1]	Pct. Pers. Inc. Tax[2]
2005-06	6,311,800	5,443,600	868,200	86.2%
2006-07	6,430,200	5,596,700	833,500	87.0%
2007-08	5,888,500	4,972,000	916,500	84.4%
2008-09	5,835,500	5,118,600	716,900	87.7%
2009-10	6,004,600	4,943,200	1,061,400	82.3%
2010-11	6,424,900	5,514,900	910,000	85.8%
2011-12	6,689,400	5,848,000	841,400	87.4%
2012-13	7,085,000	6,184,700	900,300	87.3%
2013-14	7,797,200	6,786,000	1,011,200	87.0%
2014-15	8,334,600	7,291,500	1,043,100	87.5%
2015-16	8,682,300	7,626,000	1,056,300	87.8%
2016-17	9,083,600	7,995,600	1,088,000	88.0%

Source: Oregon Office of Economic Analysis, *Economic and Revenue Forecast*, March 2011, Appendix B: Revenue Forecast Detail, pp. 99-113. The complete forecast document is available online at http://www.oregon.gov/DAS/OEA/docs/economic/forecast0311.pdf.

Notes

1 The column labeled **Other Rev.** includes: corporate income taxes, corporate excise taxes, insurance taxes, estate taxes, tobacco products taxes, other taxes, licenses and fees, charges for services, liquor apportionment, interest earnings, and other revenues.

2 The column labeled **Pct. Pers. Inc. Tax** shows the percent of total General Fund revenues derived from personal income taxes for that fiscal year.

In 2007-2009, when the nation and the state were plunged into the worst recession in decades, many Oregonians experienced a reduction in their work hours, or lost their jobs entirely. The incomes of many entrepreneurs and business proprietors decreased sharply as well. And when personal incomes take a significant hit, so does the Oregon State Treasury, causing a corresponding revenue shortfall and budgetary crisis.

National PCPI vs. Oregon PCPI: The Widening Gap

It is nothing new for Oregon's per capita personal income to be lower than the national figure; in fact, the last time Oregon PCPI exceeded U.S. figures was in 1979. The most alarming trend in PCPI is that the gap between Oregon and other states—not to mention the nation as a whole—is widening. In 2008, Oregon was ranked number 32 in PCPI among states, its worst rank since 1929, and its PCPI was only 90.5 percent of the national PCPI, its lowest ever.[1]

Personal income is the sum of three components: net earnings; interest, dividends, and rents; and transfer payments, such as public assistance, pensions, and unemployment benefits. Since PCPI is a simple calculation of personal income divided by population, the short answer to why this PCPI gap continues to expand is straightforward: Oregon's wage growth has been smaller than the nation as a whole, while its population growth has been faster. Looking at the statistical detail, Oregon is shown to be on the negative side of many individual statistical factors that can cause variations in PCPI numbers.

Factors Causing Decreases in PCPI

Each of the following factors can cause per capita personal income to go down:

- Increases in the rate of unemployment
- Increases in the rate of population growth
- Conversion of full-time jobs to part-time jobs
- Reductions in average hours worked
- Reductions in average wages for workers in industrial or high-wage jobs

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- Decreases in interest, dividends, and rents
- Reductions in proprietorship profits (and proprietors' incomes)

It is worth noting that, particularly in recent years, Oregon has ranked statistically worse than the U.S. by every single one of the measures in the above list. Among the many specific statistical comparisons that could be cited here, these are some notable examples: Oregon's population grew 34 percent from 1990 to 2009, relative to the national percentage of 23 percent;[2] from 1996 to 2009, the incomes of proprietors nationally increased 34 percent, but only 13 percent in Oregon;[3] and the average number of hours worked by Oregonians is 2 percent less than the national average.[4]

Regional Trends: Oregon vs. Washington

As neighbors in the Pacific Northwest region, Oregon and Washington are frequently compared on a range of economic criteria. Two key elements affecting PCPI, average earnings and rate of employment, are explored in Table 2 below, which presents data from 1977, 1995, and 2008.

Table 2. Oregon vs. Washington: Selected Earnings and Employment Statistics

Year	State	Avg. Earnings[1]	Diff.	Pct.[2]	Emp. Rate[3]
1977	Oregon	$44,396	$5,851	88.4	44%
	Washington	50,247			41%
1995	Oregon	40,436	6,634	85.9	50%
	Washington	47,070			48%
2008	Oregon	47,624	9,401	83.5	48%
	Washington	57,025			50%

Source: Oregon Business Plan, *Breaking out of a Circle of Scarcity*, PowerPoint presentation, May, 2010.

Notes

1 Earnings shown are annual averages for the employed population, not the state population as a whole, and are stated in 2008 dollars.

2 The column labeled **Pct.** shows the percentage comparison of earnings between the two states; e.g., in 2008, for every $100 earned by an average Washington worker, the average worker in Oregon earned $83.50.

3 The column labeled **Emp. Rate** shows the percentage of the total population employed in each state.

For much of the past three decades, Oregon led Washington in the share of its population that was employed; however, that lead has eroded steadily, and Washington now leads Oregon. The trend in average earnings has progressed in a similar fashion; Washington workers have historically made more earned income on average than Oregonians, and the trend in percentage comparison of earnings has also worsened over time.

Solutions for Reversing the Trend

Without legislative changes to the state's financial and tax systems, reversing the current statistical trends mentioned in this report will be a difficult task. Increasing personal income and reducing population growth are the only ways out of this fiscal crisis, and population growth is a factor beyond the state's control.

Upgrading workers' skills through education and training can be very effective in raising PCPI in the long term; however, the Legislature has made education a primary target in its recent efforts to cut spending. At this point, despite the apparent popularity of "40-40-20" educational objectives, it seems unlikely that the state will commit to the kind of investments that would be required to produce significant and lasting increases in PCPI. ◻

Notes

[1] Workforce and Economic Research Division, Oregon Employment Department, *Why Oregon Trails the Nation: An Analysis of Per Capita Personal Income,* November 2010, p. 19.

[2] Ibid., p. 12.

[3] Ibid., p. 10.

[4] Ibid., p. 15.