Progress in WA 2018

# BUILDING AN INCLUSIVE ECONOMY

December 2017

Shared economic prosperity is essential for all Washingtonians, our economy, and the future progress of our state.

Washington state is poised for great economic progress. Our economy is growing. New residents are flocking to the state. Unemployment is near an all-time low. Adding to that, our geography is rich in farmland and other natural resources. Our workforce is skilled and dedicated. We have businesses and entrepreneurs at the leading edge of innovative solutions to tomorrow's challenges.

By many measures, a better future for all people in our state is within our grasp. And yet if we are to make progress as a society and state, we must acknowledge economic growth is not reaching all Washingtonians. Because of decades of harmful housing, economic development, and financial policies,[1] there are persistent and deep disparities based on race, ethnicity, nativity, income, and geography across every measure of economic progress.

**Progress is meaningful only if it's felt by everyone and prosperity is shared by all Washingtonians. To create real progress, our state must have an inclusive economy in which everyone, especially people with low incomes and people of color, can participate in growth and benefit from it.** By 2050, people of color will represent a majority of the population in Washington. The foundations we put in place today will impact our collective well-being for years to come. An economy built on equity – just and fair inclusion in which everyone has the opportunity to participate, prosper, and reach their full potential – is not only good for people and communities, it will also ensure sustainable and productive economic growth for generations to come.

## Why does shared economic prosperity matter?

Shared economic prosperity is one of the best measures of how our state and country are progressing. Yet over the past four decades, the U.S. economy has become increasingly off-balance.[2] Even though our country has recovered from the depths of the Great Recession, the economic recovery hasn't benefited all Washingtonians. Gains in income growth have been concentrated among the very wealthiest, while low- and middle-income families and many communities of color continue to struggle with stagnant incomes and barriers to opportunity and economic mobility. In Washington state, the top 1 percent has an average income 22 times higher than the average income of the entire bottom 99 percent.[3] Over the past 15 years, incomes for low- and middle-wage workers have stagnated or declined while wages have risen for higher-wage workers.[4]

This uneven economic growth is a threat to all Washingtonians, our economy, and to the future progress of our state. There is a growing body of research concluding that inequality is bad for

## About *Progress in Washington 2018*

*Progress in Washington 2018* builds on the Washington State Budget & Policy Center's *Progress Index*, a project started in 2008 to create a framework for measuring the impact of public investments in Washington state. That project was originally launched to reshape the conversation on what represents progress. It sought to answer the question: *Are we investing enough – and in the right ways – to give all Washingtonians opportunities to prosper?*

*Progress in Washington 2018* marks our continued effort to track our state's progress and to shift the narrative on what it really means for Washington state and its residents to thrive. True progress and prosperity are not fully realized until a Washingtonian's race, ethnicity, gender, religion, sexual orientation, ability, immigration status, language ability, or neighborhood are not determining factors in their life outcomes and access to opportunity.

"Building an Inclusive Economy" is the first in our *Progress in Washington 2018* series. The purpose of this report is to provide a framework for understanding the challenges before us. **To reach the goal of an inclusive Washington state economy with shared prosperity for everyone, we need to know where we are, where we need to be, and how we can get there.** The next *Progress in Washington* publications will be a series of briefs to explore policy solutions that address the barriers to opportunities described in this report.

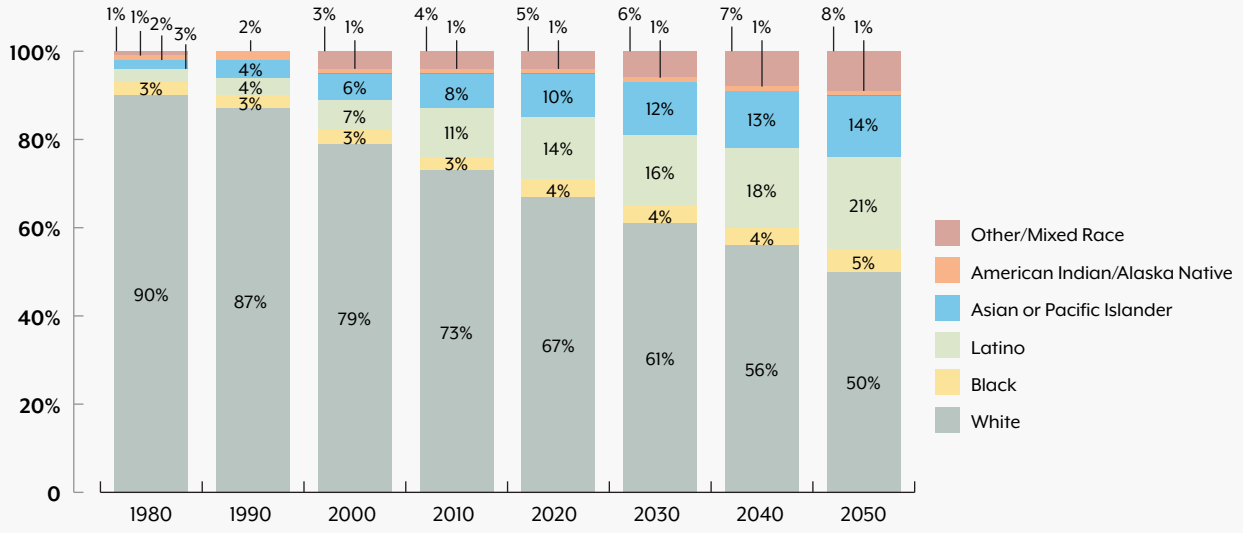
growth and weakens our economy.[5] For example, an International Monetary Fund study found that countries with lower levels of inequality had higher levels of long-term growth. Research from the Organisation for Economic Co-operation and Development concluded that "countries that promote equal opportunity for all from an early age are those that will grow and prosper."[6] And Standard & Poor's found "income imbalances tend to dampen social mobility and produce a less-educated workforce that can't compete in a changing global economy."[7] In short, when a large segment of the population is unable to participate in the economy and access opportunities, there are widespread negative implications for all. But when more people are able to contribute to society, we are better off as a whole.

Increased economic inequality is not random, but rather it is the result of many state and federal policy and budget decisions that have negatively impacted certain Washington state residents. Decades of regressive taxation, deregulation, privatization, cuts to the safety net, as well as the decline of collective bargaining have all played a role in rising inequality. Along with automation and global trade deals that have displaced U.S. manufacturing jobs and suppressed wage growth,[8] these economic shifts and the failure to enact policies that would remedy their impacts have made it challenging for many people – especially those with lower levels of education and other barriers to opportunity – to secure good jobs that provide upward economic mobility.

Figure 1

## Washington state is growing more racially and ethnically diverse

Race and ethnicity, Washington state, 1980 to 2050 (projected)




Sources: Decennial U.S. Census, Washington State Office of Financial Management, and National Equity Atlas.

### NOTE ABOUT THE INTERSECTION OF RACE AND INCOME:

It's important to note that while not all low-income communities are communities of color, and not all people of color have low incomes, there is an overlap that cannot be ignored. Communities of color do represent a disproportionate share of those living in households with low incomes. But this is in large part because of intentional and unintentional policies and practices such as redlining, employment discrimination, and limited access to credit that have advanced structural and institutionalized racism. In Washington state, 43 percent of people of color are low income compared to the state average of 30 percent. And regardless of income, racial inequities exist across all indicators of success.

At the state level, policymakers' failure to address Washington's inequitable tax code has further stacked the cards against low- and middle-income households. Washington's tax code is the most upside down in the nation, with hardworking families paying a far greater share of their incomes in state and local taxes – as much as seven times more – than the wealthiest pay.[9] That's because our state relies too heavily on taxes that impact low- and middle-income families the most – like the sales tax – while at the same time giving unnecessary tax breaks to corporations and the ultra-wealthy. This further contributes to rising inequality and makes it hard for our state to have the revenue it needs to invest in the foundations that serve us all, such as great schools, quality health care, and other public priorities that make Washington a great place to live.

## There's still work to be done to advance equity

Making sure that all Washingtonians have access to opportunity and resources is essential to ensuring prosperity is within reach of all residents. Across measures of education, poverty, employment, wages, food security, and more, the data show that low-income people and people of color are starting off on unequal footing and are facing greater barriers.

As Washington is becoming more racially and ethnically diverse, the share of residents who are being left behind is growing. Since 2010, three-quarters of the state's net population growth has come from people of color. What's more, in ten rural counties throughout the state – including Adams, Cowlitz, and Okanogan – all of the population growth since 2010 came from communities of color.[10] Today, one in three Washingtonians is a person of color. This growth trend will continue into the foreseeable future (See Figure 1 on page 3). Washington state's young people are already at the forefront of this demographic transformation. Forty-three percent of children are kids of color.[11]

The investments policymakers make today to level the playing field for everyone will have deep and lasting implications for Washington's progress and prosperity as a whole. The future well-being of all of us hinges upon erasing the deep and pervasive racial imbalances that exist across measures of health, income, education, and opportunity.

In the sections that follow, we provide a high-level snapshot of how Washington state is faring when it comes to economic progress. Specifically, we look at data and trends related to economic security, education and job readiness, and healthy people and environment.

**NOTE ABOUT DATA:**

Disaggregated data is presented to provide a preliminary understanding of disparities by race, ethnicity, and nativity. On its own, the data throughout this report tells a limited story about the population it represents. We encourage users of this data to engage with communities of color to develop a more accurate and meaningful understanding than the data allows.

*"Making sure that all Washingtonians have access to opportunity and resources is essential to ensuring prosperity is within reach of all residents."*

# ECONOMIC SECURITY

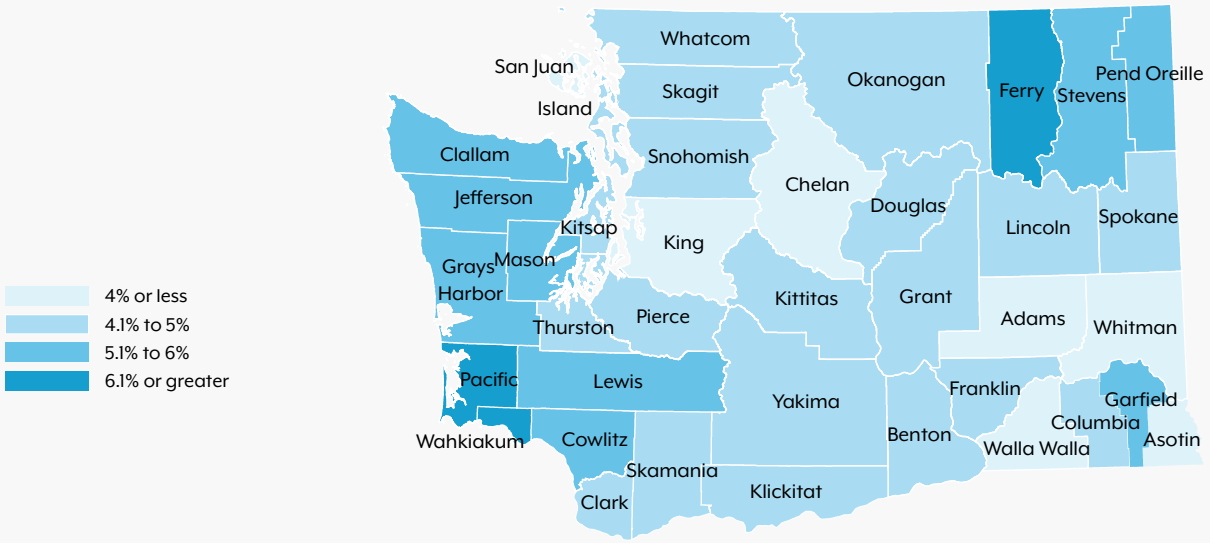
*In an inclusive economy, Washingtonians would have access to employment opportunities, living-wage jobs, and financial security and stability; and they would be economically secure in the face of a financial emergency. To ensure shared prosperity, policymakers will need to address raising the floor on wages, improving the quality of jobs, and providing supports to help Washingtonians get ahead.*

**Rising employment has not reached all communities.** Economic growth holds the promise of prosperity for working people across Washington state. While unemployment has dipped to some of the lowest rates in recorded history in Washington at 4.5 percent,[12] for many communities of color – such as Pacific Islanders, American Indians, and Blacks – unemployment rates remain at or near 10 percent,[13] which was the peak unemployment rate for all of Washington state at the height of the Great Recession.[14] The differences are geographic as well: Unemployment has remained high in many rural counties. In Ferry County, the unemployment rate is the highest in the state at 9.1 percent, and in Pacific and Wahkiakum counties, unemployment remains at just above 6 percent (Figure 2).[15]

Figure 2

**Parts of the state continue to lag behind on employment opportunities**

Unemployment rate by county, Washington state, October 2017




Source: Washington State Employment Security Department.

Clearly, economic growth is not delivering on that promise of prosperity for many in our state.

**Too many Washingtonians continue to face economic hardship.** Out of 7.3 million Washingtonians, more than 2 million are low income – meaning below 200 percent of the federal poverty level (FPL), or $40,180 for a family of three. More than one-fifth of those Washingtonians live in deep poverty – which is below 50 percent of the FPL, or less than $10,045 a year for a family of three.[16] In addition:

- More than half of Latinos and close to half of American Indians, Blacks, and Pacific Islanders live below 200 percent of the FPL.[17]
- Approximately 6 percent of all Washingtonians live in deep poverty, but the rate is twice as high for American Indians and Blacks (13 and 12 percent, respectively).[18] The rate is also above 10 percent in some of the state's rural counties, including Whitman, Pend Oreille, Kittitas, and Ferry.

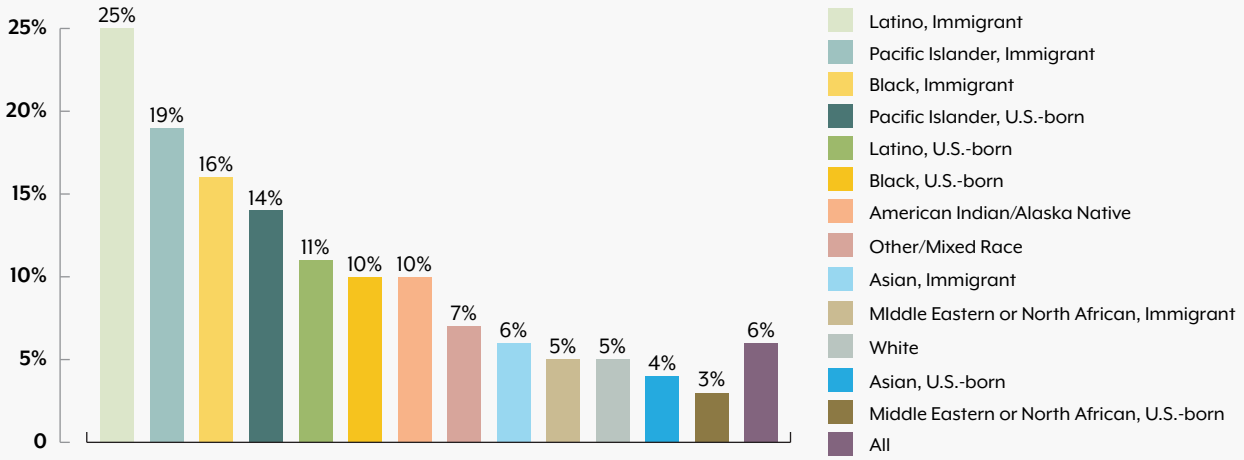
**Having a job has not translated into stability for all people.** Economic progress has not reached all workers. For example:

- Working poverty – the share of people working full time but living below 200 percent of the FPL – has increased over the last several decades and is highest for communities of color. A quarter of Latino immigrants are working but poor (Figure 3).
- In Washington state, women who worked full time earned only 77 percent of what men earned in 2016.[19] And even among workers with a bachelor's degree or higher, women made approximately $9 less per hour than their male counterparts.[20, 21]
- Growth in wages has been most prominent in King County – the most populous county in the state with the highest levels of business representation and employment. Wages in King County have grown by 3.4 percent annually since 2009, while wages across the remainder of the state have increased by 2.4 percent annually.[22]

Figure 3

**Working poverty rates are the highest for Latino, Pacific Islander, and Black Washingtonians**

Rates of people experiencing working poverty by race, ethnicity, and nativity, Washington state, 2015




Source: Budget & Policy Center analysis of 2015 5-year American Community Survey (ACS) Integrated Public Microdata Series (IPUMS) USA data.
Note: Working poverty is the share of workers ages 25 to 64 working full time living below 200 percent of federal poverty.

- Three in ten of Washington's jobs are in low-wage occupation groups (office and administrative, food service, and retail sales), and these occupations are projected to continue to represent a significant share of the state's employment through 2025.[23]

**Many Washingtonians are one crisis away from an economic catastrophe.** The share of Washington's families experiencing financial insecurity and vulnerability is high. Despite the fact that more Washingtonians are working, many residents do not have stable and consistent incomes throughout the year.[24]

- One in five households reports that their incomes varied significantly from month to month over the last year, and many are one missed paycheck or crisis away from poverty.[25]
- Fifty percent of households headed by people of color and 40 percent of households headed by single women do not have enough savings to cover basic expenses for three months if they experience a sudden job loss, a medical emergency, or another financial crisis leading to a loss of stable income. For comparison, the rate for all households without this kind of savings in Washington is 30 percent.[26]

> *"The investments policymakers make today to level the playing field for everyone will have deep and lasting implications for Washington's progress and prosperity as a whole."*

# EDUCATION & JOB READINESS

*In an inclusive economy, our education system would prepare all students – from early learning through higher education – for good jobs and jobs of the future. In order to make sure our state is on track to supply the workforce businesses will need tomorrow, we need to remove barriers to education for communities of color today.*

**Low-income kids and kids of color in Washington state are starting off on unequal footing.** Making sure kids have a solid start and the opportunity to pursue their dreams is both a moral and economic imperative for Washington's progress and prosperity. Barriers to opportunity in early childhood can make it hard to catch up and may result in a lifetime of poorer health outcomes, lower earnings, and a higher likelihood of coming into contact with the criminal justice system.[27]

- In 2016, only 47 percent of kindergarteners entered school prepared with the skills they need to succeed,[28] but there are significant differences by income and race: Only 33 percent of low-income kids, 27 percent of Pacific Islander kids, 30 percent of Latino kids, and 32 percent of American Indian kids were kindergarten ready. These disparities are also evident in 3rd grade English Language Arts proficiency, 8th grade math proficiency, and high school graduation rates (See Table 1 on page 9).

## Snapshot of success

*When policymakers enact policies that advance equity, good things happen for the well-being of all Washingtonians.*

In Washington state, the Department of Early Learning's goal is to ensure that, by 2020, 90 percent of children enter kindergarten prepared to learn, with race and family income no longer a predictor of kindergarten readiness. Washington state's historic Early Start Act (ESA), passed in 2015, focused on increasing access to quality care for all children, particularly children in low-income families and children of color. The ESA bolstered the state's preschool program, the Early Childhood Education and Assistance Program (ECEAP), which served 11,700 kids from families with low incomes statewide in the 2016-17 school year. Kids that participate in ECEAP have improved rates of kindergarten readiness, and higher 3rd, 4th, and 5th grade test scores compared to those who did not have the same opportunity. If policymakers were to expand the program to serve all 23,000 eligible but currently unserved kids – who are predominantly children of color and among our lowest-income Washingtonians – it would help bridge disparities in kindergarten readiness by race and ethnicity and yield long-lasting benefits for our state.

Table 1

**Barriers to opportunity for children of color have led to disparities in school performance**

Percentage of kids meeting key measures of academic performance by race and ethnicity, Washington state, 2015-16 and 2016-17 school years

| | Kindergarten ready (2016-17) | 3rd grade English Language Arts proficient (2015-16) | 8th grade math proficient (2015-16) | High school graduation (2015-16) |
|---|---|---|---|---|
| **All** | **47%** | **54%** | **48%** | **79%** |
| American Indian/ Alaska Native | 32% | 26% | 22% | 61% |
| Asian | 56% | 73% | 74% | 89% |
| Black | 41% | 37% | 27% | 71% |
| Latino | 30% | 35% | 30% | 72% |
| Mixed Race | 52% | 59% | 49% | 78% |
| Pacific Islander | 27% | 33% | 26% | 68% |
| White | 53% | 62% | 54% | 82% |

Source: Washington State Office of Superintendent of Public Instruction, Washington State Report Card.

## Our state is not preparing all our young people to enter the workforce.

- When young people are able to get well-paying jobs at the start of their careers, they are better able to climb the economic ladder. The good news for young working people is that our state's economy is projected to grow rapidly over the next few years, adding 740,000 job openings by 2021. A majority of these jobs will require postsecondary education or training.[29] As our labor force continues to grow more racially and ethnically diverse, we will need to ensure our youth and young workers are prepared for the jobs of tomorrow. Yet, the data show that Washington state is not on track: Washington ranks 41st out of the 50 states and the District of Columbia in high school graduation rates.[30] In 2016, the average state high school graduation rate in Washington was 79 percent, but there are significant differences among different groups: The graduation rate was 60 percent for American Indian students, 68 percent for Pacific Islander students, and 69 percent for low-income students.[31]

- One in seven (14 percent) young adults ages 16 to 24 in Washington are not working or enrolled in school, but this rate is much higher for American Indian (30 percent), Pacific Islander (21 percent), Black (19 percent), and Latino (17 percent) youth.[32] This has long-term implications, including lower earnings and lost human potential. At a broader level, many youth who lack education and work experience may face multiple barriers early on, which further limits the number of feasible options they may have access to later in life. When young people don't have access to education and career opportunities, they are more likely to need public supports at some point in their lifetime, and they are less likely to be able to meaningfully contribute to the economy.[33]

- By 2020, 45 percent of jobs in Washington state will require an associate degree or higher[34] – yet, only 12 percent of Latino immigrants, 22 percent of American Indians, 31 percent of U.S.-born Blacks, and 32 percent of U.S.-born Latinos have that level of education. For some Asian and Pacific Islander groups such as Laotians, Cambodians, Guamanians, and Samoans, the share of people with an associate degree or higher is below 30 percent.[35]

# HEALTHY PEOPLE & COMMUNITIES

*Healthy people and communities are the building blocks for an inclusive economy. Supporting vibrant communities that allow Washingtonians to lead healthy lives allows everyone to better connect to and participate in the economy.*

**Communities of color experience greater barriers to good health.** Everyone aspires to live a long and healthy life and to age in comfort. Yet, far too many people in communities of color are more likely to experience preventable illnesses, in part because of restricted access to affordable healthy food and exercise options like safe, walkable neighborhoods. They are also less likely to have health insurance. Economic instability and hardship – caused in large part by barriers to opportunity – also contribute to poor health outcomes. In fact, a growing body of research shows that factors in a person's neighborhood can create health problems like poor birth outcomes, obesity, and preventable illnesses.[36] For everyone to have the chance for a healthy life, it is critical to break down the following barriers:

- Health outcomes in Washington vary significantly by race, income, and gender: Blacks and American Indians have higher rates of diabetes[37] and have shorter life expectancies.[38] Latinos, Blacks, and American Indians have the highest rates of obesity compared to all other racial and ethnic groups.[39] Women and American Indians face higher rates of asthma than the overall population.[40]
- The number of Washingtonians with access to health insurance has reached historic highs,[41] but gaps remain: About 89 percent of all Washingtonians have health insurance, but only half of Latino immigrants and

## Snapshot of success

*When policymakers enact policies that advance equity, good things happen for the well-being of all Washingtonians.*

In 2007, Washington state's Cover All Kids law passed to provide health coverage options to all children without access to affordable health coverage, regardless of immigration status, under the umbrella of Apple Health for Kids (Medicaid). Combined with the success of the 2014 Affordable Care Act, the result is that 39 of every 40 kids in the state is now covered by health insurance! Further, disparities in access to health care have been reduced across nearly all racial and ethnic groups. These smart federal investments to expand Washington state's Apple Health for Kids mean more kids can see a doctor or get medication when they're sick.

three-quarters of American Indians and Blacks have health insurance.[42]

- Thirteen percent of households in Washington struggle with food insecurity – the inability to have three meals on the table every day because of a lack of resources. Food-insecure adults are more likely to have higher rates of chronic diseases, such as diabetes and high blood pressure.[43] Among 10th graders, Pacific Islander, American Indian, Latino, and Black students are more likely than White and Asian students to report that their family had to reduce meal sizes or skip meals in the past year (Figure 4).[44]

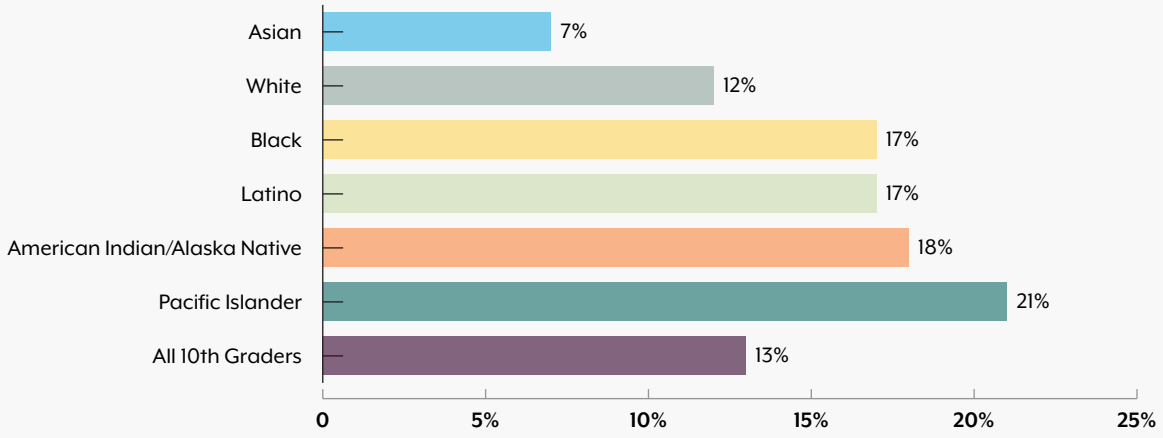
**Children, seniors, people of color, and low-income people in Washington are living in communities most negatively affected by climate change.** With the growing frequency and severity of heat waves, wild fires, and natural disasters, people with health conditions and the least financial resources are the most likely to be affected by climate change. Low-income communities and communities of color, in particular, will experience disproportionate impacts of climate change as a result of "poor health and socioeconomic barriers, unstable employment, and lower quality housing."[45] They are also more likely to suffer from heat-related deaths, suffer from water-related illnesses, and breathe dirty air. And many communities of color will have fewer job opportunities when industries such as agriculture and tourism are negatively impacted by climate change.[46] Further:

- People of color in Washington are disproportionately exposed to air pollution.[47] They are also more likely to live in communities with toxic pollution sites in need of cleanup: 46 percent of all toxic sites in Washington are located in communities that are disproportionately people of color; 56 percent are located in communities that are disproportionately low income.[48]
- The depletion of natural resources that many indigenous communities rely on for food, such as shellfish and salmon, will likely result in increased food insecurity for American Indians.[49]

Figure 4

**Pacific Islander, American Indian, Latino, and Black students are more likely to face food insecurity**

Share of 10th graders in families who had to reduce or skip meals in the last year by race, Washington state, 2014




Source: Washington State Department of Health analysis of Washington State Healthy Youth Survey, 2014.

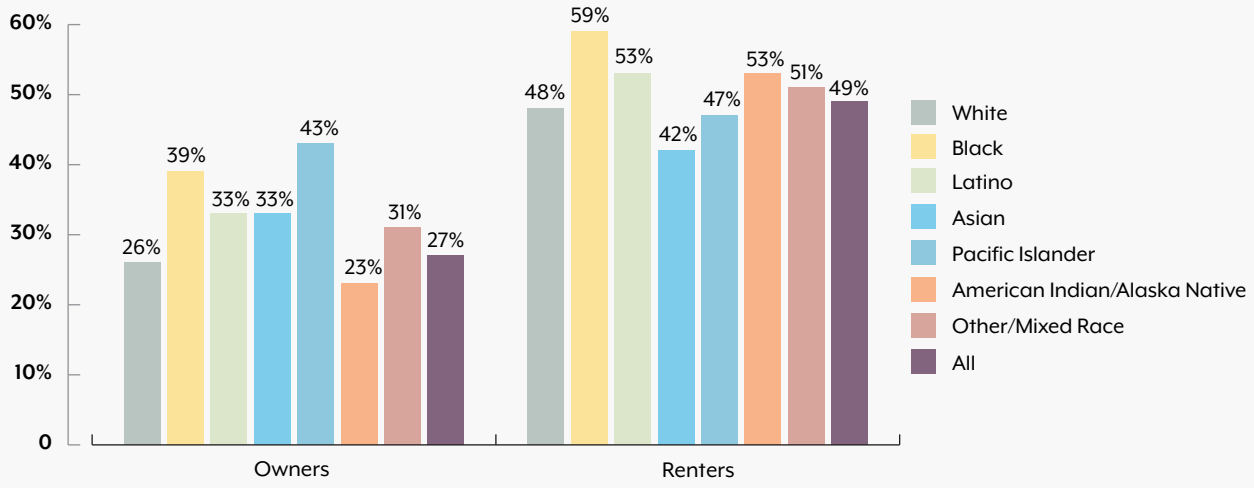
**Many Washingtonians do not have access to affordable housing.** Everyone should be able to afford a roof over their head and a safe place to make a home. However, the cost of housing in the state is rising much faster than household incomes. In the last year, home costs and rent in Washington state increased by 11 percent and 6.5 percent respectively, while wages only increased by 4.8 percent.[50] Housing is often the single largest expense in household budgets, and that expense has been rising rapidly.[51] For example:

- More than a quarter of homeowners and nearly half of renters in Washington are housing-burdened – meaning they spend 30 percent or more of their monthly income on housing. And more than half of Black, Latino, American Indian, and people who self-identify as "other" or mixed race spend over half of their income on rent (Figure 5).
- The rapid rate at which housing prices have increased has been an underlying force in the rise of homelessness in the state. After eight years of steady decline, homelessness began to increase again in 2013.[52] Nearly 40,000 (3.7 percent) of state public school students are homeless. Black, Pacific Islander, and American Indian students have homelessness rates at two to three times above the state average.[53]

Figure 5

**Many homeowners and renters in Washington state are burdened by housing costs**

Share of renters and owners paying more than 30 percent of income on housing by race and ethnicity, Washington state, 2015




Source: Budget & Policy Center analysis of 2015 5-year ACS IPUMS-USA data.

# These challenges are surmountable. Solutions are within reach.

## Our state budget and tax code are powerful tools to advance economic prosperity

Washington has the opportunity to ensure shared prosperity and progress for generations to come. Will our policymakers choose to invest in the foundations for everyone to afford the basics in life? Will they make sure our education system is preparing all students from early learning through higher education for good jobs and for the jobs of the future? That all residents are able to lead healthy lives in safe, vibrant communities with clean air and water and with access to affordable housing?

They must start with the state budget. Ultimately, the budget is more than just numbers – it's a statement of our values. It is the tool through which lawmakers can invest in the future progress of our state. It is where they can choose whether to advance shared prosperity or to perpetuate the lack of opportunity for the most marginalized in Washington's communities.

**An inclusive state economy is possible when lawmakers deliberately invest in programs that advance racial equity, increase economic security, ensure all kids have access to great schools, and build thriving communities for everyone. To create a budget that meets those goals, lawmakers must clean up the state tax code.** They must take steps to ensure that the tax code no longer over-relies on those least able to pay while offering tax giveaways to corporations and the ultra-wealthy. Fixing our broken tax code will allow our state budget to have sustainable sources of tax revenue to invest in our communities in the short and the long term.

## What's next

How do we get to a place where our state policies, budget, and tax code advance us on the path to shared prosperity and economic progress for all? There are no "one-size-fits-all" solutions. But by having a good understanding of our progress – and where we are falling behind – we can continue to identify the investments our state must make in order to create a bright future for everyone.

Imagine how the charts and graphs in this report would look if we removed barriers to opportunity for communities of color and low-income households. With intentional policy choices and budget decisions, lawmakers can begin to bridge the disparities that exist and move us toward an inclusive economy that works for all Washingtonians. We hope the *Progress in Washington* series will serve as a catalyst for conversation and a framework for advancing policy solutions in critical areas that are essential to the future we all strive and hope for: an equitable, thriving Washington state.

We will release *Progress in Washington* research and policy briefs in the coming months that dig deeper into this data and offer recommendations for policy solutions. In the meantime, the onus is on each one of us who cares about creating an inclusive economy to hold policymakers accountable to ensure that the state budget, tax code, and policies are used to advance progress and equity.

WASHINGTON STATE BUDGET & POLICY CENTER

# Endnotes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