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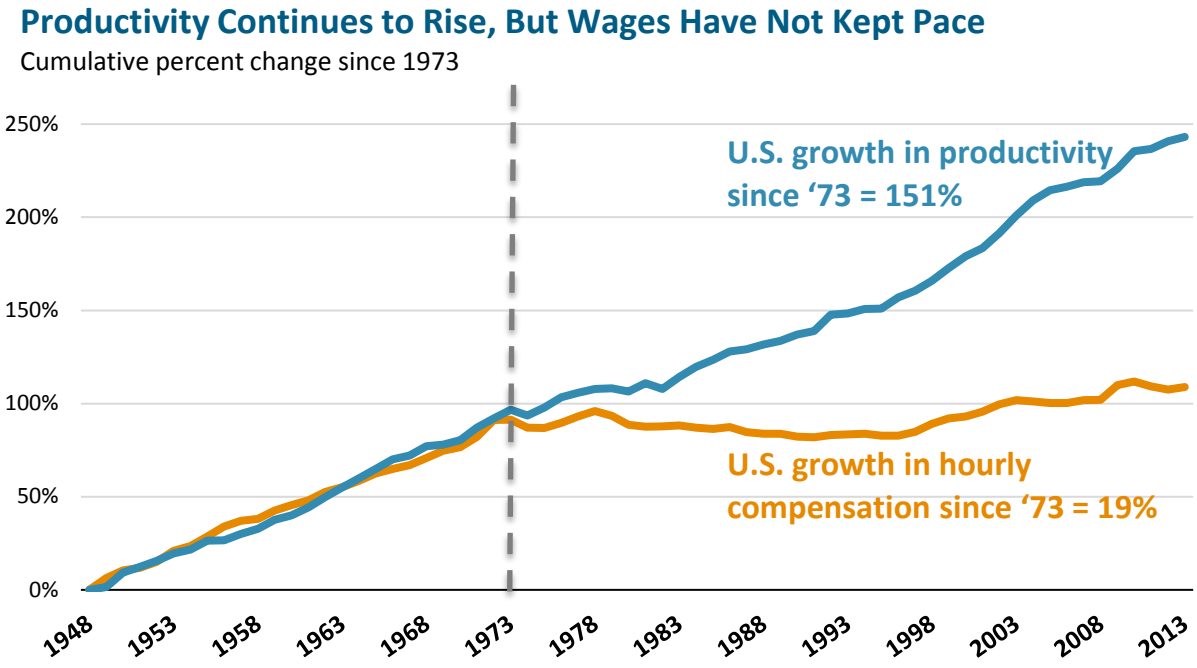
Income Growth and Gateway Cities: What Happened, and Is There a Path Back to Broadly Shared Prosperity?

By Noah Berger and Luc Schuster

It's possible for an economy to grow in ways that expand opportunity and promote broadly shared prosperity. We know that's possible because it's exactly what happened in the United States in the three decades after World War II. Each year, the economy grew at a strong clip and incomes grew for low, middle, and high-income people at roughly the same rates. Wages for most workers grew in line with productivity growth (see left-hand side of graph below). In those decades, we built the American middle class and created a nation where more and more working people could make ends meet and provide for their families.

But in the mid-1970s the pattern changed – across America, in Massachusetts, and particularly in our Gateway cities. Productivity growth continued, but wages stopped growing with productivity (right-hand side of graph). While new wealth and income was still being created each year, income growth slowed to less than half a percent a year for most of the population and grew rapidly only for the highest-income one percent of the population (where incomes have grown ten times as fast as for the bottom 90% since 1979). Families across the Commonwealth continue working as hard as ever but they are not seeing progress like they did in prior generations.



Source: Economic Policy Institute analysis of data from the Bureau of Economic Analysis and the Bureau of Labor Statistics. "Data are for average hourly compensation of production/nonsupervisory workers in the private sector and net productivity of the total economy. 'Net productivity' is the growth of output of goods and services minus depreciation per hour worked."

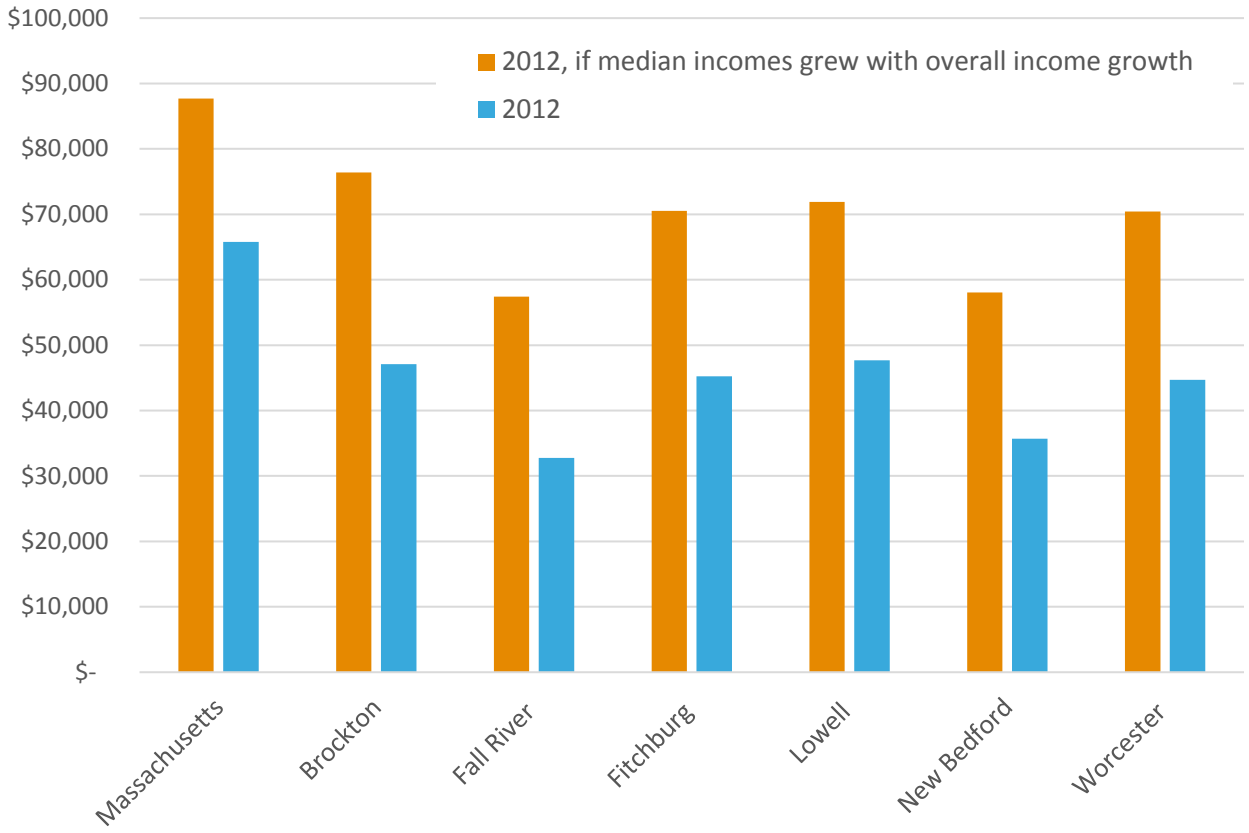
Why did the economy stop working well for working people? There are a lot of explanations: the decline of unions and changes in world trade laws and patterns that led to the loss of good paying jobs, particularly in manufacturing; the growth of the financial sector; the decline of the value of the minimum wage.[i] While many of these issues are national (and global) in nature, there are things that we can do at the state level to help more of our people prosper in the modern economy.

We can provide all of our children, in all of our communities, with a great education – starting when they are three or four years old and continuing through college. We can also take steps to make sure that all jobs provide decent wages and working conditions, so that everyone who works hard can make ends meet. (For more on federal policy options, see the Economic Policy Institute's *How to Raise Wages*) What might our state look like today if over the past few decades wages for most workers had continued increasing with growth in the overall economy, as they did from the late-1940s to the late 1970s? Median income in Massachusetts (the income of the household at the midpoint of the income distribution) has grown less than one percent a year since 1979, and it hasn't grown at all over the past decade. If median income had grown with the overall economy – as it did in the post-war years – it would have grown 69 percent since 1979. Rather than being $66,000 a year, the median income would be $88,000.[ii]

As stark as the state averages are, the picture in our Gateway Cities – mid-sized cities with below-average incomes and education levels – is even more striking. How would life in our Gateway Cities be different today if median wages in those cities had grown at the same rate as the overall economy? Actual median incomes grew very little, if at all, for most Gateway Cities over the past few decades. The graph below compares median income in a few representative Gateway Cities with what it would be if the older pattern of all incomes rising at similar rates had continued. Orange bars show what incomes would be today if incomes had grown with the overall economy and light blue bars show actual median incomes today. In Brockton, for instance, had the median income grown in line with increases in the overall economy, it would have been roughly $76,000 a year instead of $47,000 a year.

Incomes Would Have Been Much Higher in Gateways Cities if Pattern of Incomes Rising Together Had Continued

Median household income in sample Gateway Cities, US Census Bureau. Adjusted for inflation, 2012



NOTE: 1979 incomes are from the 1980 decennial Census and 2012 incomes are from the American Community Survey. Census Bureau officials confirm that due to slight timing differences in data collection, these data sources are comparable, althought not perfectly identical.

In 23 of the state's 26 Gateway Cities, median income growth was lower than the statewide rate. In some communities, like Fall River and Springfield, the real value of incomes actually fell over this timeframe. There is certainly no guarantee that if median wages had grown in line with the economy overall that the same would have happened in Gateway cities. But if we had maintained a pattern where wages and incomes across the economic spectrum grew with the economy, we certainly would have seen a very different pattern of change in our Gateway Cities over the past 35 years. The table below shows what median incomes would have been in all of these communities if they had grown with overall income growth.

Median Household Income in Gateway Cities

	2012	2012, if median incomes grew with overall income growth		2012	2012, if median incomes grew with overall income growth
Attleboro	$63,177	$88,666	Lynn	$45,772	$71,687
Barnstable	$57,157	$81,386	Malden	$53,849	$79,521
Brockton	$47,105	$76,382	Methuen	$66,520	$94,529
Chelsea	$45,865	$55,886	New Bedford	$35,703	$58,047
Chicopee	$45,851	$77,096	Peabody	$60,358	$103,215
Everett	$49,517	$77,729	Pittsfield	$42,178	$79,103
Fall River	$32,745	$57,409	Quincy	$60,820	$86,696
Fitchburg	$45,222	$70,544	Revere	$49,366	$75,630
Haverhill	$59,363	$75,060	Salem	$57,264	$75,590
Holyoke	$34,478	$61,614	Springfield	$33,684	$66,404
Lawrence	$33,456	$59,774	Taunton	$50,651	$78,339
Leominster	$57,477	$82,559	Westfield	$59,011	$89,774
Lowell	$47,682	$71,923	Worcester	$44,715	$70,430
Average of Gateway Cities	*$49,192*	*$75,577*			
Massachusetts	*$65,801*	*$87,689*			

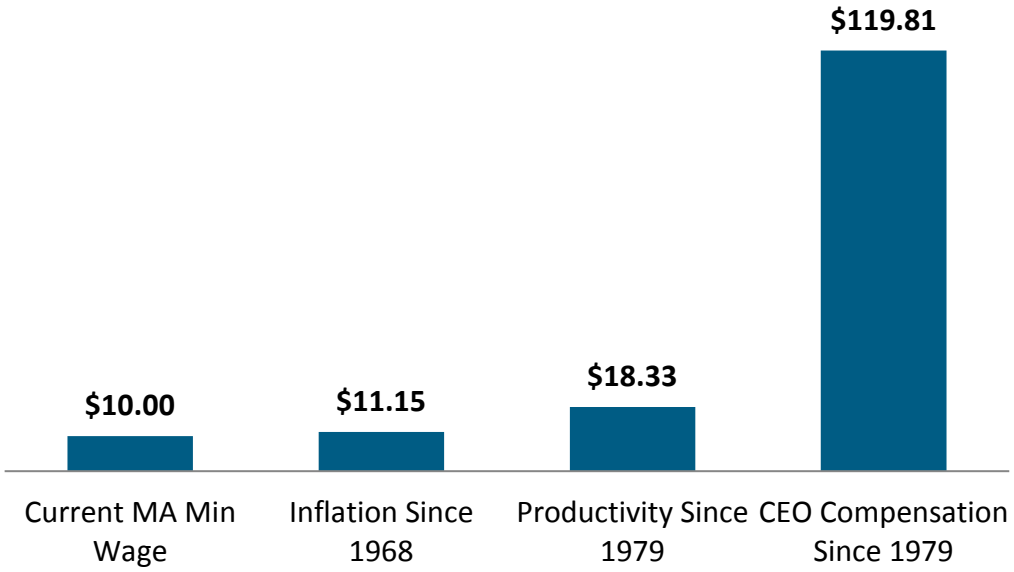
Note: 2012 median household income from 5-year ACS estimates, 2010-2014 (adjusted to 2012 $)

Other than wishing that we still had an economy in which productivity growth led to wage growth for most of our workers, what can we do looking forward?

There are direct strategies that can raise wages for lower-wage workers. For instance, Massachusetts is increasing our minimum wage to $11 hour by 2017. While this will bring our minimum wage to among the highest in the country, it will still be well below the $18 an hour that the minimum wage would be if it had grown at the same rate as economic productivity since 1979. Less meaningful from an economic perspective, but worth noting as an example of where incomes have grown in our economy, if the minimum wage had grown in line with top CEO compensation since 1979 it would be roughly $120 an hour today. The minimum wage affects not only very low wage households, but also a number of middle-income households – because when two parents are working to support a family one may be in a low-wage job while the other is making a little more.

Minimum Wage Today If It Had Grown As Much As . . .

2016 value of the minimum wage under different scenarios



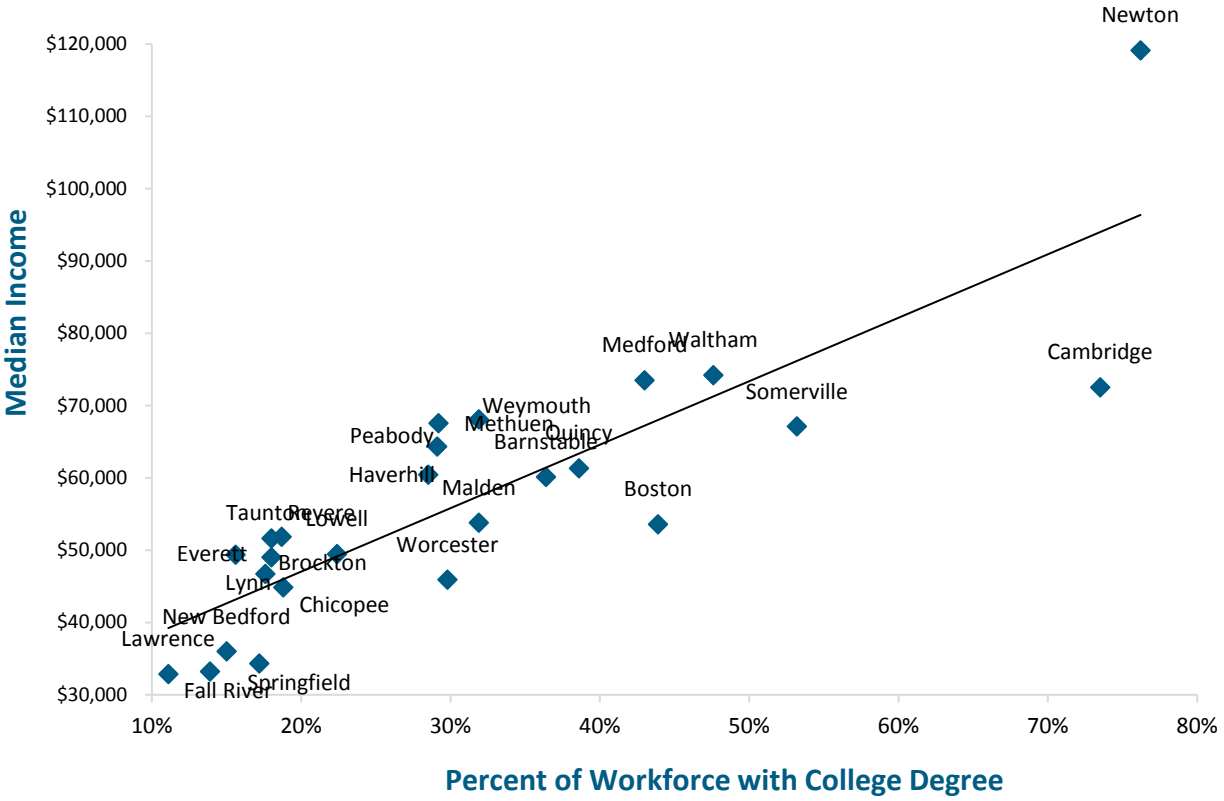
Notes: CEO compensation is for CEOs in top 350 U.S. firms ranked by sales.
"Productivity Since 1979" uses productivity net of depreciation, i.e., output going purely to prevent the "wear and tear" of capital stock, which is unlikely to transfer into wage increases or higher profits. Also, because there are no data on the ratio of gross to net output at the state level, we apply the national ratio to state output data before calculating productivity. This measure also inculdes an inflation adjustment using the CPI-U-RS (research series) from the Bureau of Labor Statistics. All other inflation adjustments use CPI-U.

In Massachusetts, we also implemented an earned paid sick time law in 2015, providing workers with the ability to earn paid time off in order to care for themselves or a sick family member. And for 2016, the state's Earned Income Tax Credit was increased from 15 percent of the federal credit to 23 percent, helping boost the incomes of roughly 440,000 working people in Massachusetts.

While these policy initiatives provide meaningful support for working families – and there is much more that Massachusetts could do to improve the quality of all jobs – in the modern economy, long-term success is increasingly tied to education. There is a powerful correlation between education levels and income. An individual with a college degree earns $21,100 more per year than someone with just a high school degree (see Debt-Free Public Higher Education: What Would It Take?). The same pattern holds true at the state level. The states that have strong high-wage economies are the states that have well-educated workers (see A Well-Educated Workforce is Key to State Prosperity). When we look at cities across Massachusetts we see the same pattern: cities with a larger share of college-educated workers also have higher median incomes. Thus, economic conditions in our Gateway cities reflect not only the national trend of stagnant wages, but also the results of a state education system that – though far better than most states – has not done enough to provide all children in all of our communities with the opportunities that can allow them to reach their full potential. That, fortunately, is a problem we can address.

Strong Relationship Between Education and Wages

Largest 25 Massachusetts cities and towns, US Census Bureau, ACS 2009-2013 5-year estimates



A number of strategies have proven effective, across the state and across the country, for helping kids – particularly in lower-income communities – to succeed in school. Among these strategies are high-quality early education; smaller classes, particularly in the lower grades; wrap-around services to support the health and social emotional development of kids; and many more. We know that great teachers, and great school leaders, working with parents and the community are at the heart of making schools succeed. Providing schools in our Gateway cities with the resources and tools they need to deliver great education to every child would not only reduce obstacles and expand opportunity for young people, but in the long run it could significantly strengthen these local economies – and our entire Commonwealth.

The challenges faced by Gateway cities are deeply connected to problems in our national economy: since the late 1970s, wages for most working people have not been growing with the economy. As a result, while incomes are growing rapidly for those with the highest incomes, working people across the Commonwealth and across the country are falling further behind. Ultimately, it will require national solutions to build an economy – like we had in the post WW2 years – where wages for most people rise with productivity. But we don't have to wait to improve the economic security of families in our Commonwealth, and particularly in Gateway cities.

[i] Economic Policy Institute, "Raising America's Pay." June 2014 http://www.epi.org/files/pdf/65287.pdf p. 7

[ii] The estimate of what median household income in Massachusetts would be today differs in this paper from the estimate in another recent MassBudget paper, The Effects of Skewed Growth on Household Income, largely because this paper looks at total income growth by *household* whereas the "Effects of Skewed Growth…" paper looks at total

income growth by *taxable unit*. We use households in this paper because we are simulating household income changes at the city level. The other paper looks statewide and is based off of the Economic Policy Institute's Price/Sommeiller top income dataset, which uses taxable units.