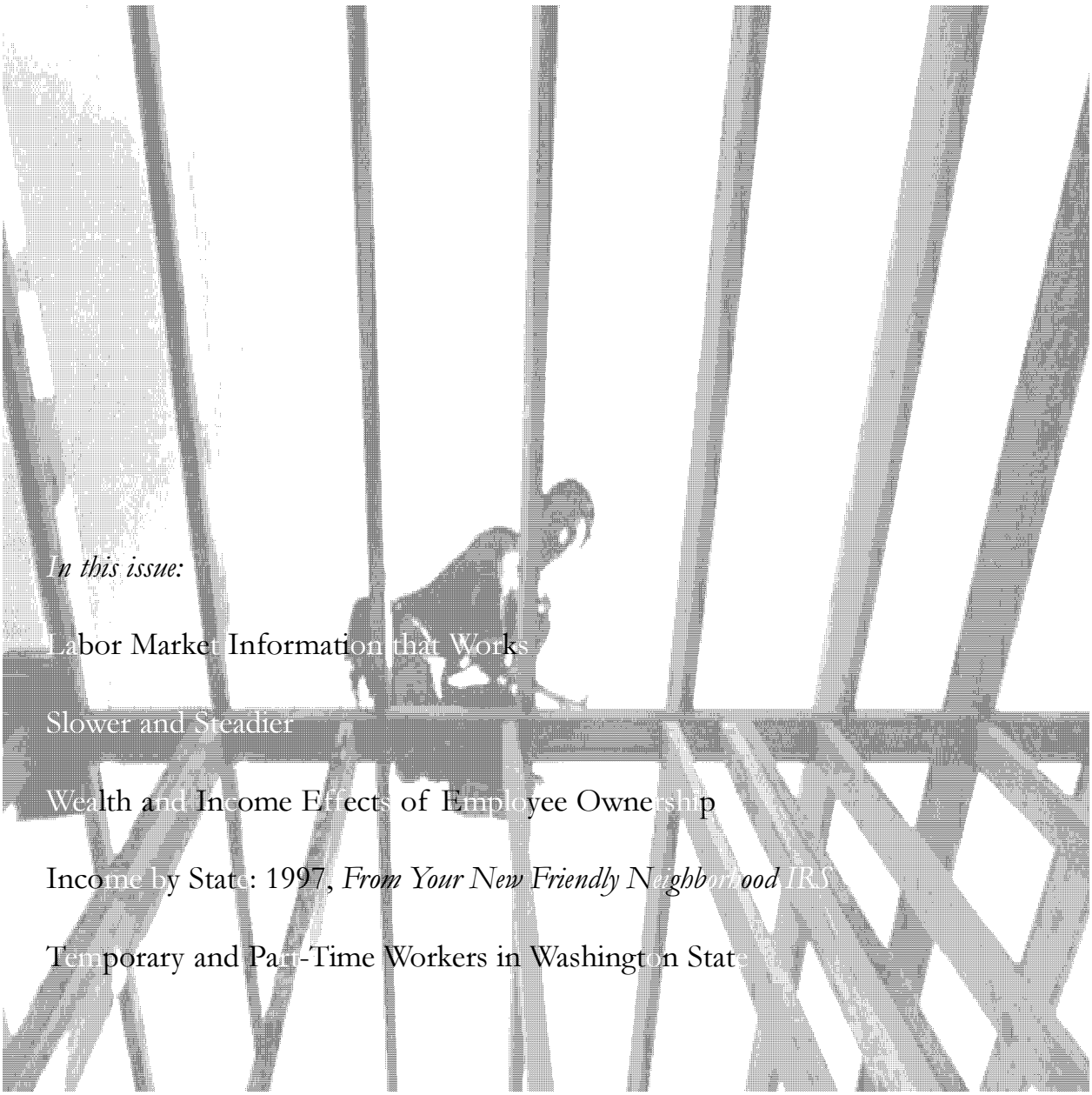
Washington State Employment Security Department

LABOR MARKET INFORMATION

REVIEW

A Quarterly Review of Washington State Labor Market and Economic Trends



In this issue:

November 1999

The *LMI Review* is published by the Labor Market and Economic Analysis Branch of the Washington State Employment Security Department.

The purpose of the *LMI Review* is to provide timely information and analysis of the state labor market conditions in support of public and private activities that expand employment opportunities and reduce unemployment.

Questions and comments concerning any aspect of the publication may be directed to Gary Bodeutsch, *Director*, Labor Market and Economic Analysis Branch, Employment Security Department, P.O. Box 9046, Mail Stop: 46000, Olympia, WA 98507-9046, telephone (360) 438-4800.

Subscriptions and single copies may be obtained by writing to the *LMI Review Editor,* Robert Wm. Baker, at the address above, or ***rbaker@esd.wa.gov*.**

For additional labor market information, contact our

- *homepage at* ***www.wa.gov/esd/lmea***
- *On-line database (WILMA) at* ***www.wilma.org***
- *Labor Market Information Center (LMIC) at* ***1-800-215-1617***

LMI That Works

Commissioner
Carver Gayton

COMMENTARY

"Labor market information that works" was the theme Employment Security carried through the presentations of an array of products during the 1999 Economic Symposium November 19 at the Department of Labor and Industries auditorium in Tumwater.

Among the more than 120 people attending were economists, business executives, news reporters, college professors, representatives of state agencies, employment and training counselors and legislative staff. The broad based demand demonstrates that labor market information does, in fact work. It is working better today than ever before, thanks to advances in technology. We get more use out of the data we collect and fashion it into products that are easier to use and understand.

Labor Market and Economic Analysis Branch Director, Gary Bodeutsch, and his staff prepared a compelling day filled with information about our economy and demonstrations of new products. Our department's Chief Economist Dennis Fusco presented an overview of the state's economic performance, and Senior Economic Analyst Robert Baker discussed the state and national outlook. Other labor market professionals presented a multi-media program on labor market and economic issues that are shaping events in Washington State.

I appreciated the opportunity to speak to the group about how Employment Security has made labor market information a key part of our infrastructure.

Participants had a chance to see some of the innovations in labor market information and learn how to access and use them efficiently. The wide range of information examines occupational wage rates, industry employment and payroll data, occupational employment outlook, labor supply data and much more. Most of it is available 24 hours a day on the Internet and can also be ordered from our Labor Market and Economic Analysis Branch. (See ordering instructions on the inside front cover of the *LMI Review.*)

We have new and innovative electronic delivery systems such as WILMA, ORCA, STOP and of course the Internet homepage.

ORCA stands for Occupational Researcher's Computer Assistant. We are proud that ORCA recently received the Interstate Conference of Employment Security Agencies' first place award in the category of Automation/Electronic—Innovative Electronic Delivery. With ORCA, job seekers can explore their occupational employment options based on their current skills and interests as well as look at other choices that may require additional education or training.

Our labor market information pages are an integral part of *Access Washington* that was recently recognized at the Government Technology Conference as the nation's best state government web site on the Internet.

Technology has also opened new opportunities to look at large quantities of data and extract information that was not practical to do using old methods. For example, once we published large volumes of wage information. Now with electronic drill-downs, specific wage information can easily be found for local areas.

The *Short-Term Occupational Projections (STOP)* system is our newest development that looks at how the demand for specific occupations is likely to change from month to month as industry employment totals change. We also produce long-term occupational employment projections and occupational wage information, for people planning education and training programs.

Although the basic objective of the Labor Market Information is to reduce the time people are unemployed and help employers find skilled workers, it is also a key indicator of economic issues in Washington State and positions us to meet the challenges of the next century. ■

Slower and Steadier

Second Quarter 1999 *QUARTERLY ANALYSIS*

Washington's labor markets turned in a performance in the second quarter that, while not stellar, was probably as good as could be expected. Nonfarm wage and salary employment growth accelerated sharply in the first quarter and then moderated in the second. Manufacturing lost ground as cutbacks in aircraft and parts picked up speed. However, the overall pace remained solid thanks to ongoing strength in construction and much of the service sectors of the economy, especially business services. Over-the-year job growth eased from 4.1 percent in 1997 to 3.3 percent in 1998 and roughly 2.1 percent in the second quarter of 1999, but this still looks very respectable and positions the state in line with the national average.

In the last go-around of aircraft and parts layoffs in the early-1990s, total statewide employment growth skidded abruptly in the first four quarters. Seasonally adjusted job growth dove from a seasonally adjusted annual rate of 6.2 percent in the first quarter of 1990 to 0.3 percent in the fourth quarter as aircraft and parts payrolls in the state fell initially by 2,600 workers. Compounding the situation at that time was a national economy that slipped into recession starting in July. This time around, the cumulative 10-month job loss in aircraft and parts touches 11,000, yet much of the rest of the economy is booming. The Asian Crisis is looking up, the national economy continues strong, and consumer confidence is running at all-time highs.

Holding Its Own

It is well known that manufacturing—and more precisely aircraft and parts—has taken the edge off the state's employment count. But the rest of the economy, by and large, is holding its own. In fact, if aircraft and parts is removed from the equation, the difference in growth rates over the past three years is only about half of one percent: 3.4 percent in 1997, 3.1 percent in 1998, and 2.7 percent through the second quarter in 1999. Both construction and business services—two major legs of the economy—actually accelerated job growth in 1999 following blockbuster performances in 1997-98. Statewide housing starts jumped 20 percent over the past three years and the totals for 1999 were running higher than a year ago through the second quarter.

Employment Shows Significant Offsets

Ongoing strength of the economy in the face of a 15 percent worker cutback by the state's largest industrial employer—the Boeing Company—is truly remarkable. At no time in history has there been such a seeming disconnect between the gyrations of aircraft and parts and the rest of the economy. This time around, however, the national economy is on a roll, Washington's industrial base has broadened, unemployment is hovering near postwar lows, and a much more stable services sector is assuming an ever-greater share of total business activity. In addition, many of the principal drivers of the services economy export services which, in turn, generates big employment multipliers in the region. It appears that the principal constraint on the growth of new jobs is the endemic shortage of workers to fill them. All this is having an impact.

Good News Pretty Ho-Hum

This time a year ago, it was proclaimed that Washington's economy was "as good as it gets." In other words, the impressive pace of job growth in Washington was finally slackening. The good news is it is turning out to be a significantly drawn out landing. For that reason, economy watchers in Washington can anticipate, at least for the balance of the year, essentially the same trend: low unemployment rates coupled with progressively lower rates of nonfarm employment growth. It doesn't make for an exciting read, but economy watchers most assuredly appreciate the beauty in such blandness. The

pace of nonfarm employment growth has clearly eased, though less quickly than expected. Indeed, the consensus is that the national economy will keep growing into the new millennium

LABOR FORCE AND UNEMPLOYMENT

Statewide labor markets, for the most part, actually tightened coming into 1999 despite some slowing in the rate of job growth further evidence that the tight labor supply has been reigning in job growth. The second quarter unemployment remained at 4.7 percent—identical to that of a year ago. Washington's performance at present stands in sharp contrast to the state's long-run historical average. For one, the traditional margin between the state and the national unemployment rates—which averaged about one-and-a-half percentage points—has narrowed significantly. The difference was four-tenths of a percentage point in the spring quarter.

Secondly, this is the third year in a row in which unemployment has averaged below 5 percent—nearly unprecedented in terms of duration. Only one other time in history has the state enjoyed such a long stretch of tight labor markets—1951 through 1953 during the Korean War. This time around, it is a combination of a strong economy coupled with much slower labor force growth that is calling the tune.

Every other subsequent boom period saw dips below 5 percent only for single years—1956, 1966, 1968, and 1990. At this point, it looks as though Washington will surely match the early-1950s record this year but in a peacetime economy that has been rising without interruption for 17 years. Unemployment peaked at 12 percent in 1982 at the trough of the last business cycle, fell off gradually to 4.9 percent in 1990, blipped up to 7.6 percent in 1992-93, and then scaled back to 4.8 percent in 1997-98 as the economy picked up speed.

INDUSTRY DEVELOPMENTS

Slower in the Second Quarter

Total nonfarm wage and salary employment jumped by 8,900 workers in the second quarter. Construction rose by 700 with a strong pickup in special trades (+1,000). General building was off by 500, but this was more an indication of the stronger than usual employment in the first quarter borrowing from the second.

Wholesale and retail trade advanced by 1,700 workers with a significant seasonal buildup in eating and drinking places (+1,500). Services employment rose by 7,400—much higher than average—led by sharp upticks in business services (+2,900), social services (+1,000), and educational services (+700).

Manufacturing payrolls, in contrast, fell by 5,100. Unusual tightening took place in lumber and wood products (-200) as building supply constraints borne of the hot housing markets nationwide appeared to take a toll. Machinery and electronics was little changed; paper and allied products pulled back by 200. The principal drag on the goods-producing sector centered in aircraft and parts, which took a 5,300-worker hit—the biggest quarterly cutback since Boeing began downsizing. The cumulative fallout from the quarterly high in the third quarter of 1998 totaled 12,300 through the second quarter of 1999 or roughly 10 percent. Cutbacks will persist as Boeing continues in their attempt to cut costs.

Over-the-Year Change Narrowing

Compared to a year ago, manufacturing payrolls in the state were off 15,300 in the spring months led by losses in computer and office equipment (-1,400), and aircraft and parts (-12,200), paper and allied products, primary metals, textiles, stone-clay-glass, lumber and wood, and printing and publishing. Gains have come in electronics (+200), fabricated metals (+500), food, and petroleum.

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Quarterly Analysis *continued*

Construction was up 9,100 and wholesale and retail trade expanded by 13,800 with significant gains in eating and drinking places (+6,500). Services employment jumped by 28,900 led by sizable growth in business services (+12,300), engineering services (+3,500) and health care (+2,500).

Total nonfarm wage and salary employment adjusted in collaboration with the Office of the Forecast Council was up 54,600 or 2.1 percent in the second quarter. This year-over-year margin has been narrowing for the past eight quarters; year-over-year growth measured 4.8 percent in the second quarter of 1997 to the 2.1 percent as of the second quarter of 1999. This was not unexpected considering the significant slowing in manufacturing. The national economy, in contrast, posted a 2.2 percent year-to-year change in the second quarter—down from 2.4 percent in the fourth quarter.

Statewide Average Wage Soars

Washington's average annual wage for workers covered by the Unemployment Insurance (representing about 90 percent of total employment) rose sharply last year by 7.8 percent to $32,862. The rate of increase was the largest of any year in almost two decades and comes on the heels of 5.3 percent in 1996 and 6.6 percent in 1997—both very strong growth years. The largest concentration of industries clustered around the 4-to-6 percent range. However, the distribution was not bell-shaped but included a significant spike in both the 10-to-12 and 20 percent and over groupings. The former included banks and savings institutions, real estate brokers, investment houses, and eating and drinking places. The latter was predominately centered in business services—specifically prepackaged computer software.

Imports Play a Big Role

Washington ranks as the second most trade-dependent state in the nation—next only to Alaska—with a combined value of imports and exports last year totaling $104 billion. Traditionally, the state posts a significant trade balance with exports exceeding imports. However, the Asian crisis put a crimp in exports, and imports jumped ahead of exports in 1998. In an effort to emphasize the importance of trade, an economic impact study of in-shipments was undertaken by Bob Chase and Glenn Pascall for the Department of Community, Trade, and Economic Development. The results peg 43,000 jobs in Washington tied to imports in transit to destinations outside the state and 117,900 to imports remaining within the state—about 7 percent of the work force.

NATIONAL INDICATORS

GDP Settles Down…

…for a short while anyway. The nation's Gross Domestic Product grew at a 1.9 percent annual pace in the second quarter of 1999. This was a marked slowing compared to the previous fall and winter quarters when the pace was a torrid 6.0 percent and 4.3 percent respectively. Not to worry, this was not a sign of an impending recession; rather it was more an indication that this economy cannot sustain such rapid expansion quarter after quarter. The pattern of growth in the GDP over the past business cycle seems to have been three or four consecutive quarters of fast increases followed by a quarter of considerably slower growth—taking a breather, as it were.

PCE Hot… Damned Hot

Personal Consumption Expenditures (PCE), on the other hand, continued on a fast pace in the second quarter. While GDP growth eased to a 1.9 percent annual pace, PCE maintained a pace nearly three times that at 4.8 percent. From the second quarter of 1997 through the second quarter of 1999, growth in personal consumer expenditures has been consistently high. Only the second quarter of 1997 was at a rate (1.6 percent) that could be considered "taking a breather." No doubt a lot of the wealth effect from the bull market in equities has pushed consumer expenditures.

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Figure 1

Nonagricultural Wage and Salary Workers

Washington State, Seasonally Adjusted, In Thousands, Benchmarked: March 1998

Source: *Employment Security, Revenue Forecast Council, & Office of Financial Management*

				Numeric Change	
	2nd Qtr 1999	1st Qtr 1998	2nd Qtr 1998	1st Qtr 1999 to 2nd Qtr 1999	2nd Qtr 1998 to 2nd Qtr 1999
TOTAL NONAGRICULTURAL EMPLOYMENT	2,642.2	2,633.3	2,619.0	8.9	23.2
MANUFACTURING	365.8	371.0	374.0	-5.1	-8.1
Durable Goods	258.7	263.4	267.4	-4.7	-8.7
Lumber & Wood Products	34.1	34.3	34.2	-0.2	-0.1
Logging	7.3	7.3	7.8	0.0	-0.4
Sawmills & Plywood	22.9	23.0	22.7	-0.1	0.2
Furniture & Fixtures	4.7	4.8	4.7	0.0	0.1
Stone, Clay, & Glass	9.1	9.1	9.7	0.0	-0.6
Primary Metals	10.9	10.7	10.9	0.3	0.0
Aluminum	7.3	7.0	6.3	0.3	1.0
Fabricated Metals	15.4	15.5	14.4	-0.1	1.0
Industrial Machinery & Equipment	25.2	25.1	25.5	0.0	-0.3
Computer & Office Equipment	6.6	6.6	6.8	0.0	-0.2
Electronic & Other Electrical Equipment	18.6	18.5	18.3	0.1	0.3
Transportation Equipment	116.8	122.2	126.0	-5.4	-9.2
Aircraft & Parts	101.1	106.4	110.1	-5.3	-9.0
Instruments & Related	14.9	14.8	14.7	0.1	0.2
Miscellaneous Manufacturing	8.9	8.5	9.1	0.5	-0.1
Nondurable Goods	107.2	107.6	106.6	-0.4	0.6
Food & Kindred Products	41.0	40.7	40.4	0.3	0.6
Preserved Fruits & Vegetables	14.2	13.9	13.2	0.2	0.9
Textiles, Apparel, & Leather	8.6	8.8	8.9	-0.2	-0.3
Paper & Allied Products	15.6	15.8	16.1	-0.2	-0.5
Printing & Publishing	24.1	24.1	23.8	0.0	0.3
Chemicals & Allied Products	5.8	6.0	5.9	-0.2	-0.1
Petroleum, Coal, Plastics	12.1	12.2	11.4	-0.2	0.6
MINING & QUARRYING	3.5	3.4	3.3	0.0	0.2
CONSTRUCTION	150.6	149.9	147.4	0.7	3.2
General Building Contractors	41.2	41.7	42.1	-0.5	-0.8
Heavy Construction, ex. Buildings	19.3	19.1	19.4	0.2	-0.1
Special Trade Contractors	90.1	89.1	86.0	1.0	4.1
TRANSPORTATION, COMMUNICATION & UTILITIES	140.0	139.1	138.4	0.9	1.6
Transportation	92.1	91.6	91.9	0.6	0.2
Trucking & Warehousing	32.8	32.8	32.2	0.1	0.6
Water Transportation	9.6	9.3	9.2	0.2	0.3
Transportation by Air	25.6	25.6	26.3	0.1	-0.7
Communications	32.4	32.3	30.8	0.1	1.6
Electric, Gas & Sanitary Services	15.5	15.3	15.6	0.2	-0.2
WHOLESALE & RETAIL TRADE	635.8	634.1	630.6	1.7	5.2
Wholesale Trade	153.7	154.8	154.6	-1.0	-0.9
Retail Trade	482.1	479.3	476.0	2.7	6.0
General Merchandise	48.9	48.1	48.7	0.8	0.2
Food Stores	69.6	69.8	70.6	-0.3	-1.0
Eating & Drinking	181.1	179.6	175.9	1.5	5.2
FINANCE, INSURANCE, & REAL ESTATE	139.8	138.3	138.3	1.5	1.4
Finance	62.6	61.4	60.4	1.1	2.2
Insurance & real estate	77.2	76.8	78.0	0.4	-0.8
SERVICES	735.1	727.7	718.5	7.4	16.6
Hotels & Lodging	29.0	28.9	27.8	0.1	1.2
Personal Services	23.1	23.0	23.4	0.1	-0.2
Business Services	165.5	162.7	157.2	2.9	8.4
Health Services	186.7	186.8	185.2	-0.2	1.5
Educational Services	35.9	35.1	34.2	0.7	1.7
Social Services	60.0	59.0	61.6	1.0	-1.6
Engineering & Management Services	65.6	65.2	65.2	0.3	0.4
GOVERNMENT	471.6	469.9	468.5	1.8	3.1
Federal	66.6	67.1	67.9	-0.5	-1.3
State	137.5	136.7	135.2	0.8	2.3
State Education	73.2	72.6	71.4	0.6	1.8
Local	267.5	266.1	265.4	1.4	2.1
Local Education	141.9	140.9	139.6	1.1	2.4
Workers in Labor-Management Disputes	2.2	2.2	0.0	0.0	2.2

Excludes proprietors, self-employed, members of the armed forces, and private household employees. Includes all full- and part-time wage and salary workers receiving pay during the period that includes the 12th of the month.

Labor Market And Economic Indicators

Figure 2
Total Nonagricultural Employment Change
Washington State & Nation, Seasonally Adjusted
Source: *Employment Security Department*

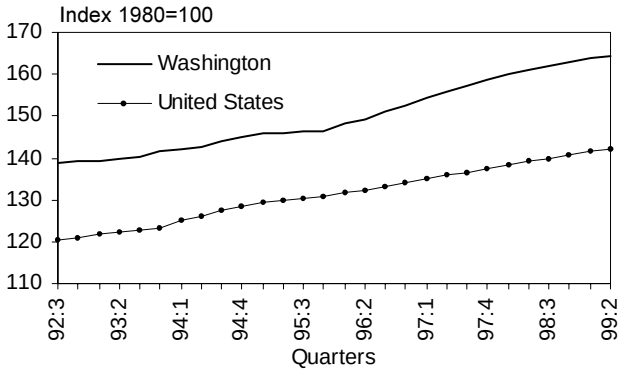


Figure 3
Manufacturing & Nonmanufacturing Employment Change
Washington State, Seasonally Adjusted
Source: *Employment Security Department*

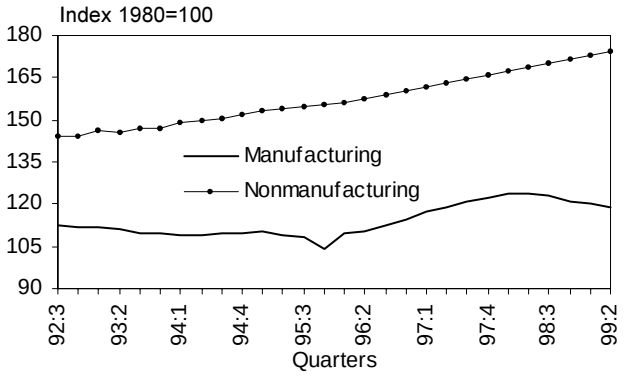


Figure 4
Unemployment Rates
Washington State & Nation, Seasonally Adjusted
Source: *Employment Security Dept., U.S. Dept. of Labor*

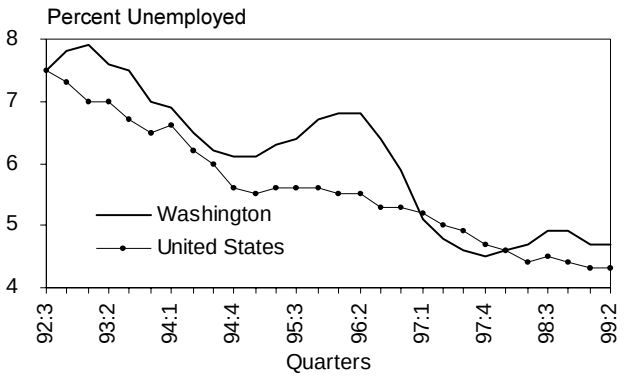


Figure 5
New Housing Units Authorized
Washington State, Seasonally Adjusted
Source: *U.S. Department of Commerce*

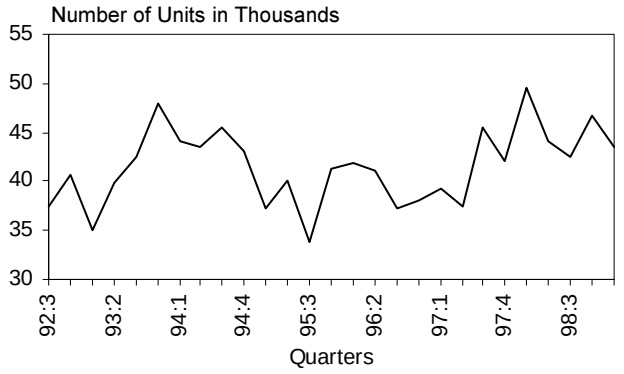


Figure 6
Consumer Price Index
All Urban Customers
Source: *Bureau of Labor Statistics*

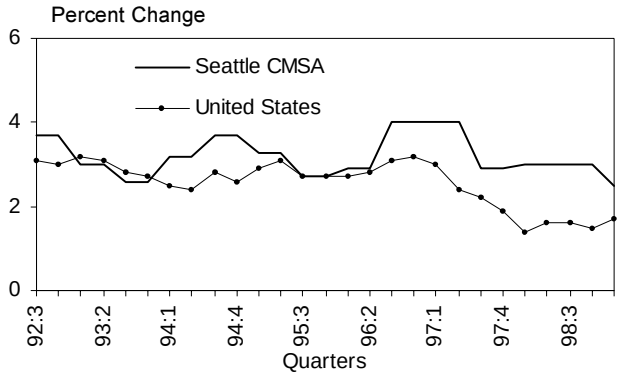
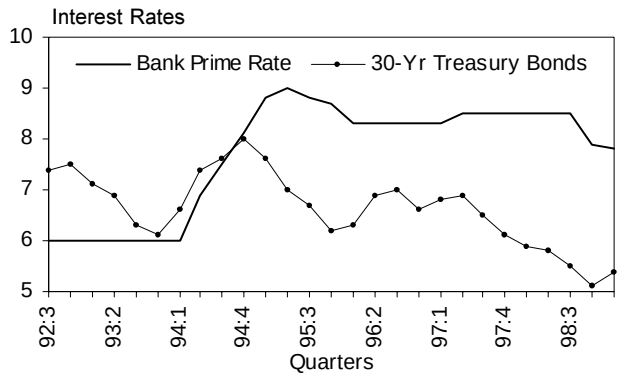


Figure 7
Selected Interest Rates
Percent Annual Rate
Source: *Federal Reserve Board*



Advance reports for the third quarter show renewed strength in economic growth. Bureau of Economic Analysis early figures show annualized growth of 4.8 percent for the third quarter. These data will be revised twice, but in this business cycle revisions have been quite modest and on the up-side.

A Spike in Oil Prices Hits the CPI

The Consumer Price Index rose 2.1 percent in the second quarter following a more modest 1.6 percent gain in the first. A huge 6.1 percent spike in energy prices in the first month of the quarter triggered the gain as gas prices swelled 15 percent in April—the biggest monthly increase on record. Interestingly, consumer prices were very stable in May and June, with the CPI showing no change in those months. No doubt the big jump in gas prices resulted in a short-term diminished demand effect as consumers adjusted their purchases accordingly. Today's consumers seem pretty knowledgeable about the seasonal and structural price volatility of particular items like gasoline. While nobody likes the typical gas price increases that come in the late spring and summer as a prelude to the "driving season," they know that those prices tend to moderate come fall. This price boost was a bit early because of manufacturing difficulties at some West Coast refiners that resulted in regional gas prices that were the highest in the nation.

The Seattle-Tacoma-Bremerton Consumer Price Index was a decided contrast with the national index. Consumer prices in this region had been rising at almost twice the national rate for the entirety of 1998. Come 1999, the trend has continued but at a narrower gap. In the second quarter of 1999, the local index was 3.3 percent above the same period of a year earlier—well above the national rate. It was also above the local first quarter increase. While fuel prices played a significant part of this acceleration, so too did the continued hot housing market in the Puget Sound region.

Producer Prices Remain Calm

Inflation at the producer level barely budged in the second quarter giving market-watchers added evidence that the economy is not overheating. The Labor Department reported that the producer price index rose a modest 0.4 percent over the quarter following no change in the first quarter. Excluding the volatile food and energy sectors, producer prices were basically flat and up only 1.3 percent over the year.

Costs Confined Somewhat

Annual increases in employment costs for wages and benefits have been hovering around 3.0 percent for several years now. Measured from June 1998 to June of 1999, total compensation increased 3.2 percent. The increase in wages and salaries outpaced the increase in benefits—3.6 percent compared to 2.5 percent. In light of the difficulty in finding and hiring qualified workers, and considering the quick pace of economic growth recently, these relatively modest wage increases have flummoxed labor market observers. Worker shortages and solid economic growth would normally portend more aggressive wage patterns. But with the advent of slower economic growth among U.S. trading partners, and the resultant strong dollar, foreign competition seems to be playing a major role in moderating national wage trends.

A Quarter Point Here
A Quarter Point There

After having not boosted short-term interest rates for more than two years (since March 1997), the Federal Reserve, under the auspices of Chairman Alan Greenspan and the Board of Governors, raised the Federal Funds rate by a quarter point at the end of the second quarter. The move was driven by a variety of economic indicators that indicate that the American economy is growing at a rate that cannot be sustained without spurring inflation. This was followed by another rate increase one month later for essentially the same reasons. The Fed placed the financial markets on notice with not just these

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actions but also with the announcement that in the near term Fed actions would be biased towards increasing interest rates. The Fed has telegraphed many of its interest rate moves in recent years by announcing, beforehand, its policy bias. That bias can be toward raising interest rates, it can be neutral (no action at this time), or it can be toward lowering rates.

Turnabout

An intriguing side effect of the current labor market tightness is the apparent reversal of positions twixt employers and employees—at least for potential employees. As a prelude, it is first noteworthy that the ranks of discouraged workers have fallen markedly since the trough of the last business cycle—even after accounting for the dramatic break in the BLS series in 1993-1994. Discouraged workers are those who have stopped looking for work, even though they would like a job, because they believe there are no jobs available for them. Nowadays there are articles in business periodicals extolling the emergence of the "discouraged employer." In the August 16th edition of Business Week, Charles E. Mott, president of Innovative Vacuum Services Inc., a company in Edmonds, explains his scaling back of hiring plans by saying, "Anyone who is any good is already working, and I am convinced we would be getting the dregs." This attitude is used to explain the decline in share of businesses that plan to hire workers.

If I Can't Hire One I'll Build One

If surly, innumerate, fast food workers make your lunch time a less-than-enjoyable experience, there may be relief in site… maybe. In an attempt to counter the shortage of entry-level workers, and address the costly labor turnover characteristic of high volume eating places, McDonald's is experimenting with an electronic clerk. Costing a mere $7,500, this "clerk" will accurately take a customer's order and cash (currency only please). The behind-the-counter staff will then bring the order, and any change. Considering that personnel experts estimate the cost of finding semi-skilled workers is $5,000 to $10,000, the cost savings would be immediate. The comparison to the banking industry's ATMs is inevitable. But this food service "clerk" is unlikely to evolve into an oversubscribed transaction clerk, such as the current ATMs, and unlikely to ever include a fee.

A Job Seeker's Paradise

In June the American Electronics Association said that Washington's computer industry had the highest average compensation of any state during 1998 at $81,400. Dick's Drive-Ins now pay an $8.00 per hour starting wage. And in a remarkable jump, average wages in Washington State rose 7.8 percent between 1997 and 1998. Columnist Bruce Ramsey of the *Seattle Post-Intelligencer* summed it up nicely when he wrote, "Employers may complain, but an occasional tight labor market is a good thing—for computer programmers, to be sure, but also for Russian house cleaners and order-takers at McDonald's. It means premium pay for the well-trained—and new chances for the untrained to move up."

■ *Dennis Fusco, Robert Wm. Baker, and Gary Kamimura*

Wealth and Income Effects of Employee Ownership

FEATURE ARTICLE

Consultants working for the *National Center for Employee Ownership* prepared the following article.

Do employee owners really benefit from being "the owners"? Do they just end up trading some of their current pay and benefits for the hope of future stock gains? Are companies with Employee Stock Ownership Plans (ESOPs) successful in getting an increased share of the nation's wealth and income into the hands of employees?

Using three sources—1995 wage and employment data from the Washington State Employment Security Department, survey data, and data from federal income tax form 5500—we researched these questions for Washington State companies. The 5500 data as well as records kept by the Washington State Employee Ownership Program enabled us to identify 102 ESOPs in the state, which we then randomly matched to 499 comparison companies. This resulted in an average of five comparison firms per ESOP company.

The surveys, sent to both ESOP and comparison companies, asked for detailed information about:

- The value of assets held by retirement plans
- The number of employees in different wage categories covered by each benefit plan
- Whether the company was unionized
- Company age
- Types of participatory management techniques used
- Degree of employee influence in various decision-making areas
- And (in the case of ESOPs) percentage of company stock held in the ESOP trust and percentage of payroll contributed to the plan in 1995.

Survey responses by ESOP and comparison companies enabled us to match 37 ESOPs with 68 control companies. We were able to supplement the survey data with data from the 5500 forms, from which we were able to match 66 ESOPs with 136 comparison companies.

RETIREMENT ASSETS—a case of ESOPs vs. 401-k plans vs. Nothing at All

In comparing ESOPs to the matched comparison companies on benefits and income, we first examined the value of retirement assets, including company stock. Because both ESOP and comparison companies often have more than one retirement plan (e.g., 401(k) and profit sharing plans), we needed to measure benefits in a way that pulled together the value per participant of each company plan. We also needed to take into account the fact that between 60 percent and 70 percent of comparison firms have no retirement plan at all, at least according to survey results and data from the 5500 forms.

Figure 8 on the next page presents average assets per covered employee for ESOP companies and matched controls that returned surveys. The top row gives the sum of the average assets per participant for all plans listed in rows two through six (401(k) plan, ESOP, etc.). This measure assumes that a participant in one plan is also a participant in every other plan, so the sum equals the total value of an individual's assets from all the different plans. These numbers indicate that the sum of the average value of assets per participant is significantly higher in the ESOP companies ($32,213) than in the controls ($12,735).

The composition of the numbers differs significantly as well. For the typical ESOP participant, the ESOP represents 75 percent of the combined asset value of his or her retirement accounts. Of the 75 percent that the ESOP holds, about 80 percent is probably in company stock (typically 20 percent of ESOP stock is diversified, according to the National Center for Employee

Continued page 10

Figure 8
Assets per Participant for Several Plans, Using Survey Data
Washington State
Source: *Department of Community, Trade, and Economic Development*

Assets Per Participant	ESOP Companies	Control Companies
Sum of Average Assets per Participant, All Plans	$32,213	$12,735
401(k) Assets per Participant	$3,796	$8,890
ESOP Assets per Participant	$24,260	NA
Defined Benefit Assets per Participant	$1,254	$410
Profit Sharing Assets per Participant	$607	$1,464
Other Assets per Participant	$2,295	$1,971

Results for the control companies are weighted so that the sum of control companies for each ESOP company equals one, thus eliminating the bias that results from there being more controls for some ESOP companies than for others. Numbers in the table represent average assets per participant for all plans for matched companies that returned a survey, even if the companies did not use one of the plans together with numbers from other companies.

Ownership), meaning that 60 percent (.75 × .80 = .60) of the asset value represented by the ESOP is in company stock. Of the remaining value in the typical ESOP participant's retirement accounts, 12 percent is from 401(k) assets, 4 percent from defined benefit assets, and 2 percent from profit sharing plans.

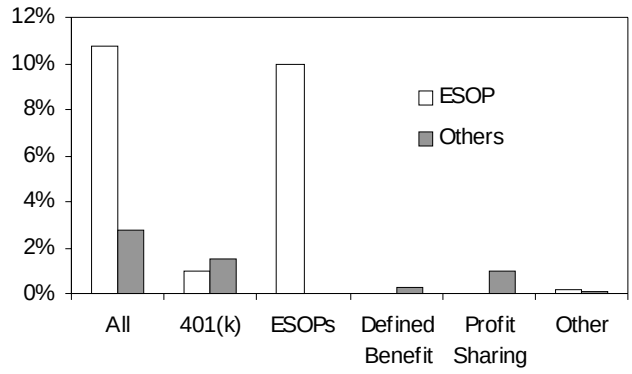
In the control companies, 70 percent of the value of the assets is from 401(k) plans, while 3 percent is from defined benefit plans and 11 percent from profit sharing plans. So while the typical value of the ESOP company retirement assets is approximately $20,000 higher per participant than found in the control companies, the ESOP investment is heavily concentrated in the stock of the employing company and thus carries more risk. On the other hand, the diversified portion of the ESOP participant's retirement assets (40 percent of $32,000 = $12,800) is almost identical to the total assets of non-ESOP participants ($12,735).

It is worth noting for this comparison that, in a typical 401(k) plan, at least 50 percent of monies invested come from the employees' own deferred income. In almost all firms with an ESOP the company has provided all of the investment capital for the ESOP plan.

What do these per-participant assets mean to employees at different wage levels? For those companies that allocate stock to employee accounts either on the basis of payroll or payroll to a cap (and 83 percent of the companies use one or the other of these methods), we can calculate numbers representing assets per participant in different wage categories. The average asset value of $32,213 translates into $18,200 for employees in the $10 to $14 an hour range, and into $62,744 for employees in the $20 to $40 an hour range. At 5.5 percent interest with the principle declining to zero after 20 years, the employee in the $10 to $14 an hour bracket would receive approximately $125 a month, while the employee in the $20 to $40 an hour bracket would receive approximately $432 a month. By contrast, 70 percent of the monthly income for a full-time worker in the $10 to $14 per hour bracket would be approximately $1,456 (before taxes). For employer funded defined benefit pension plans, the rule has traditionally been that a covered employee could count on 70 percent of the last three years' salary as a retirement benefit.

The average value of $32,213 is based on the current value of the assets. If the company continues to make contributions to company stock or to other retirement plans, and/or the value of the stock increases, the value of the assets will increase. It is therefore of interest to know how much of payroll the company is putting into retirement assets on an ongoing annual basis. The percentages in *Figure 9* are derived by dividing a company's total compensation for 1995 (data from the Employment Security Department's

Figure 9
Percent of Pay Contributed to Plans
Washington State
Source: *Dept. of Community, Trade, & Economic Develop.*



database) into the amount the company reported contributing to the different plans for that year (data from the survey of companies). ESOP companies in 1995 contributed 10.8 percent of payroll to all plans, while the control companies contributed 2.8 percent. If these relative levels of contribution are continued into the future, the end result would be that ESOP company employees will see the value of their retirement assets increase at three to four times the rate of comparison companies due to the increased rate of company investment alone (all other things, e.g. relative stock values, being equal).

Independent Variable Analysis

None of the independent variables in the analysis eliminated or significantly diminished the ESOP as an explanation for higher asset values. ESOP companies had higher valued assets in all industrial sectors (at least when utilizing Form 5500 data), and neither large company size nor older plan start dates were associated with higher asset values. Unionized ESOP companies had lower asset values than non-union ESOP companies, though unionized comparison companies had higher asset values than non-union comparisons. The data were ambiguous on the effect of majority ownership within ESOPs and on the effect of workplace participation programs in both ESOP and comparison companies.

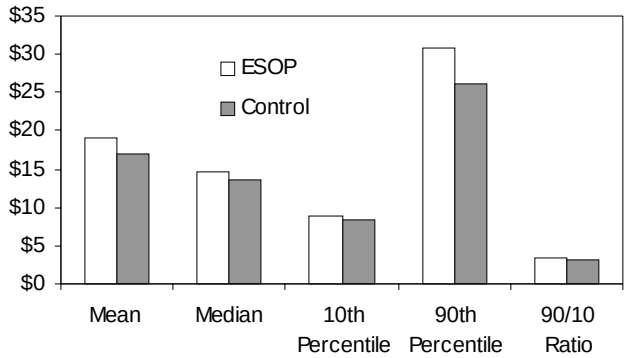
WAGES—Is There a Trade-Off?

Given that the value of retirement benefits is significantly higher in ESOP than in comparison companies, do employees at ESOP firms typically take lower wages to make purchase of company stock possible? The simple comparison of means summarized in *Figure 10* suggests otherwise. The results show that ESOP companies pay both higher average as well as higher median wages than do comparison firms. The average ESOP company wage of $19.09 is 12 percent higher than the average control company wage of $17, and the median ESOP company wage of $14.72 is 8 percent higher than the median control company wage of $13.58. At the 10th percentile, wages in the ESOP companies are 4 percent higher than in the controls. At the 90th percentile, ESOP wages are 18 percent higher than comparison wages, causing the ratio of 90th to 10th percentile wages to be 11 percent higher in ESOP companies.

From these numbers it would appear that Washington State ESOP companies typically pay higher wages, so employees at the middle of the pay scale are better off in terms of take-home pay working in an ESOP company than in a comparable conventional company. On the other hand, workers at the bottom of the pay scale in ESOP companies do not make much more than comparable workers in competing companies, and there

Continued page 12

Figure 10
Hourly Wages for ESOP & Control Companies & Dispersion
Washington State
Source: *Dept. of Community, Trade, & Economic Develop.*

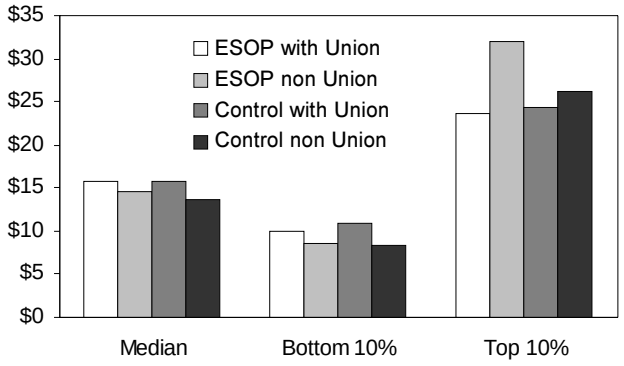


is a greater distance between those at the bottom of the wage scale and those at the top than in conventional companies.

What happens to these results when we control for other factors, such as unionization, industrial sector, workplace participation, majority ownership, and company size? *Figure 11* shows the impact of unionization on both ESOP and comparison companies. Unions have the effect of raising the median wage as well as the wage at the 10th percentile, while wages at the 90th percentile are lower in unionized ESOP and comparison firms.

In terms of worker participation, we expected to see an association between greater use of participatory practices and either higher wages or higher stock values. This is because previous research projects had found a link between greater commitment to worker participation and higher company growth rates. However, in this study we found no discernable differences in wage levels between the more participatory and the less participatory firms. Likewise, the median wage for majority owned ESOPs is lower than the median wage for minority owned ESOPs, though both majority owned and minority owned ESOP firms have higher wages than the comparison firms in their own industrial sector. There is a slightly negative correlation between employment size and median pay, meaning that there is a tendency for smaller firms to have better pay than larger firms. Finally, in every industry classification (but one) the median wage for ESOP firms is higher than the wage for comparison firms.

Figure 11
Hourly Wages by Ownership and Unionization
Washington State
Source: *Dept. of Community, Trade, & Economic Develop.*



Other Compensation and Benefits

As for other non-wage compensation and benefits, the ESOP companies for which we have data, paid out more in 1995 for stock options, cash bonuses, etc., than did the comparison companies. The overall average for ESOP companies was $1,688, and for comparison companies $323. In terms of paid leave, insurance, and health benefits, ESOP companies were more likely to provide all of those benefits to all employees, with both ESOP firms and comparison companies financing approximately 95 percent of the cost of health benefits for those employees covered by health plans.

In terms of size and industrial sector, the Washington State ESOPs are fairly representative of other ESOPs in the country, except that there is a smaller percentage of companies in Washington with over 500 employees. Data from the 47 ESOPs that returned surveys indicate majority ownership of the stock by the ESOP in 15 companies (39 percent), with four of the ESOPs owning 100 percent of the company. Average percentage of stock ownership by the ESOPs was 42 percent and the median was 35 percent. Eighty-three percent of the ESOP companies were privately held.

Conclusion

The sum of all these findings is that, on average, the ESOP firms in this study provide a significantly higher total compensation to their employees than do their competitors. However, the increased inequality within non-union ESOP firms (represented by the ratio of 90th to 10th percentile wages) suggests that ESOP companies are not establishing new standards for compensation equality within the firm. Rather, they are operating well within the framework of rewards already established in the economy. Within that

framework, it is important to note that ESOP firms do provide a majority of their employees a retirement benefit in the form of company stock, whereas a majority of the comparison companies provide no retirement benefit at all.

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Copies of the complete research report are available from the National Center for Employee Ownership, 1201 Martin Luther King Jr. Way, Oakland, CA 94612. Phone: (510) 272-9461. Email: nceo@nceo.org.

Income by State: 1997 *From Your New Friendly Neighborhood IRS*

INCOME DEVELOPMENTS

According to the Internal Revenue Service, in 1997 the average income in the United States was $40,227. In Washington State, the average income was $43,099, or 7.1 percent higher. One's initial reaction to these averages might be, "Well, if anybody knows, they would know." Another might be, "The Microsoft crowd pushed us over the top again."

Income data come in all shapes and sizes from a multitude of different sources. There are personal income and per capita personal income data from the Bureau of Economic Analysis. Also very popular are the median household and median family income data from the Bureau of the Census. These data are based on direct survey or from administrative sources. For instance, did you know that the BEA's personal and per capita income series were based partially upon the tallies of wages paid collected from employers by state Employment Security Agencies (ESA's)?

The particular income source used for this report is the individual income tax data from the United States Treasury Department, Internal Revenue Service. These data are released yearly, and the most recent data cover 1997. These particular data are arrayed in fixed income groupings rather than in the more common quartile, quintile, or decile arrangements of other income analyses. Nonetheless, this still allows an easy basis for comparisons between states and to the national averages.

Continued page 14

It Better Be, Or Else

For analytical use, there is a certain misanthropic comfort in using IRS data. All survey-based information is voluntary, which can be problematic. Survey based data are commonly subject to response error where, for any variety of reasons, answers can be overstated or understated. There is also the problem of non-response bias; with income questions in particular there can be an increasing unwillingness among respondents to divulge higher incomes thus understating the averages. Since the IRS reports are based on mandatory filings, one can reasonably assume that these data are quite accurate in light of the potential punitive actions for inexact reporting.

The principal difficulty in interpreting these data is the fact that it is based on IRS returns rather than some standard of *household* or *family*. There is a line item that provides a count of joint returns, but in these reports there is no income data specific to those joint returns. As a result, this analysis will use quantities and shares *per return* (joint or otherwise); this seems to most closely emulate the Census concept of household or family and thus household income or family income. For instance, the 1997 Office of Financial Management's estimate of median household income in Washington State was $41,999 compared to the $43,099 adjusted gross income per return from the IRS.

Adjusted Gross Income

In the parlance of the IRS, *adjusted gross income* (AGI) is the most comprehensive income measure. This figure is the sum of salaries and wages, taxed and non-taxed interest, dividends, business or profession net income, net capital gains, taxable IRA distributions, pensions and annuities, Social Security benefits, and other statutory adjustments.

WASHINGTON VS. THE U.S.

Comparisons between Washington and national averages are always quite revealing. These data series are no exception. As mentioned at the beginning of this article, the average AGI per return in Washington State was almost $2,900 or 7.1 percent above the national average. This is consistent with the current per capita personal income data.

Higher and Lower

But lo' and behold, the differences between Washington and U.S. adjusted gross income per return are not simply a case of across the board proportionality. It appears that Washington's higher average is entirely the result of strength in the highest income cohort—those with an income of $200,000 or more (*see Figures 12 and 13*). Other comparative cohorts are within $100 to $200 of each other up until the second highest bracket where the U.S. average widens to almost $800; but in the top bracket, the average adjusted gross income in Washington State is almost $15,600 higher than the national average. One could easily chalk this up to the emergence of options-driven compensation in the software industry. This phenomenon has been driven by the bullish stock market of this particular business cycle.

More Non-Wage Income

Another difference between Washington and the U.S. is in the share of the income from sources other than salaries and wages. In this measure, the differences are across the board. In each income cohort, salaries and wages constituted lesser shares in Washington that nationwide (*see Figure 14 on page 16*). Interestingly enough, however, the absolute difference in average salaries and wages within these cohorts favors the national average in all but the top category. This is all the more noteworthy as Washington has long been considered a high wage state.

Interesting

A common non-wage income component is interest income, or more specifically *taxable* interest. Both nationwide and in Washington State, taxable interest income accounted for 3.5 percent

Figure 12
U.S. Individual Income and Tax Data, by Size of Adjusted Gross Income, Tax Year 1997
(Money amounts are in thousands of dollars)
Source: *Internal Revenue Service*

Item	All returns	Less than $20,000	$20,000 to $29,999	$30,000 to $49,999	$50,000 to $74,999	$75,000 to $99,999	$100,000 to $199,999	$200,000 or more
Number of returns	123,056,853	53,658,193	18,010,279	22,379,980	15,318,711	6,519,598	5,369,096	1,800,996
Adjusted gross income (AGI)	4,950,214,359	442,092,528	444,470,023	874,650,120	933,099,717	558,430,678	705,307,266	992,164,027
Salaries and wages: Amount	3,601,125,997	394,519,146	360,985,101	718,294,387	754,546,151	440,611,265	496,374,249	435,795,700
Taxable interest: Amount	171,528,981	27,839,344	14,290,407	23,329,741	23,866,690	14,682,862	22,076,445	45,443,491
Tax-exempt interest: Amount	52,168,772	2,735,550	1,713,652	4,720,271	5,893,531	4,614,873	9,326,654	23,164,241
Dividends: Number	29,194,921	6,948,927	2,847,221	5,347,741	5,635,233	3,298,454	3,588,589	1,528,756
Dividends: Amount	119,875,566	10,544,501	5,720,687	11,506,748	14,619,326	11,157,882	21,318,414	45,008,006
Business/profession net income (less loss): Number	17,149,746	5,890,148	2,112,881	3,357,987	2,706,265	1,270,211	1,291,980	520,274
Business/profession net income (less loss): Amount	187,429,422	18,051,745	14,379,148	25,552,501	27,004,173	19,133,131	40,685,571	42,623,154
Net capital gain (less loss) in AGI: Number	24,046,285	5,585,440	2,241,550	4,251,226	4,510,189	2,732,047	3,225,651	1,500,182
Net capital gain (less loss) in AGI: Amount	344,858,996	13,351,430	5,342,025	12,612,114	19,451,686	17,780,723	43,589,794	232,731,223
Total tax liability: Number	102,311,061	33,372,834	17,676,086	22,279,788	15,300,325	6,515,524	5,366,296	1,800,208
Total tax liability: Amount	770,464,864	26,648,103	38,244,357	94,297,848	116,788,893	84,197,325	131,520,790	278,767,549
AGI per return	$40,227	$8,239	$24,679	$39,082	$60,912	$85,654	$131,364	$550,897
Salaries and wages per return	$29,264	$7,352	$20,043	$32,095	$49,257	$67,583	$92,450	$241,975
Interest per return	$1,394	$519	$793	$1,042	$1,558	$2,252	$4,112	$25,232
Dividends per return	$974	$197	$318	$514	$954	$1,711	$3,971	$24,991
Capital gains per return	$2,802	$249	$297	$564	$1,270	$2,727	$8,119	$129,224
Total tax liability per return	$6,261	$497	$2,123	$4,213	$7,624	$12,914	$24,496	$154,785

Figure 13
Washington State Individual Income and Tax Data, by Size of Adjusted Gross Income, Tax Year 1997
(Money amounts are in thousands of dollars)
Source: *Internal Revenue Service*

Item	All returns (1)	Less than $20,000 (2)	$20,000 to $29,999 (3)	$30,000 to $49,999 (4)	$50,000 to $74,999 (5)	$75,000 to $99,999 (6)	$100,000 to $199,999 (7)	$200,000 or more (8)
Number of returns	2,608,639	1,006,933	375,670	520,516	383,653	163,509	120,674	37,684
Adjusted gross income (AGI) [4]	112,429,725	8,193,029	9,302,957	20,428,838	23,408,431	13,991,334	15,758,469	21,346,666
Salaries and wages: Amount	80,223,131	7,243,311	7,344,629	16,509,652	18,719,956	10,843,461	10,332,496	9,229,624
Taxable interest: Amount	3,967,781	579,091	311,331	540,304	582,354	370,274	559,770	1,024,657
Tax-exempt interest: Amount	1,204,017	59,125	46,964	162,891	184,663	99,884	192,168	458,322
Dividends: Number	669,330	148,803	64,520	126,762	137,548	80,335	79,964	31,398
Dividends: Amount	2,669,852	222,389	128,397	266,397	344,758	258,686	461,944	987,281
Business/profession net income (less loss): Number	369,256	103,879	44,786	80,613	69,631	31,552	28,608	10,187
Business/profession net income (less loss): Amount	4,307,720	174,465	316,963	668,704	748,763	535,579	1,013,295	849,951
Net capital gain (less loss) in AGI: Number	587,916	125,255	55,051	109,280	119,364	71,235	76,036	31,695
Net capital gain (less loss) in AGI: Amount	8,896,278	338,661	145,705	364,556	603,293	568,001	1,353,720	5,522,341
Total tax liability: [12] Number	2,242,169	649,790	369,058	518,347	383,283	163,414	120,613	37,664
Total tax liability: Amount	18,184,228	530,204	822,296	2,237,993	2,962,748	2,171,010	3,055,918	6,404,057
AGI per return	$43,099	$8,137	$24,764	$39,247	$61,015	$85,569	$130,587	$566,465
Salaries and wages per return	$30,753	$7,193	$19,551	$31,718	$48,794	$66,317	$85,623	$244,922
Interest per return	$1,521	$575	$829	$1,038	$1,518	$2,265	$4,639	$27,191
Dividends per return	$1,023	$221	$342	$512	$899	$1,582	$3,828	$26,199
Capital gains per return	$3,410	$336	$388	$700	$1,572	$3,474	$11,218	$146,543
Total tax liability per return	$6,971	$527	$2,189	$4,300	$7,722	$13,278	$25,324	$169,941

of average AGI. What is noteworthy is that, as a percent of AGI, the greatest rates are found in the very highest and very lowest income groupings; this is true both in Washington State and nationwide (*see Figure 15 on the next page*). For instance, among those in the lowest income category in this state, 7.1 percent of their income was from interest. The next highest cohort was the highest in which 4.8 percent of AGI was from interest.

Dividends

Dividend income is found in all income cohorts in these data sets. And as a share of AGI, there is a bimodal pattern similar to that of interest income; the lowest and highest income cohorts showed the highest shares of dividends (*see Figure 16 on the next page*).

Washingtonians appear to be more active investors than the national average. Dividends

Continued page 16

Figure 14
Wages and Salaries as a Share of Adjusted Gross Income
by Income Cohort, U.S., and Washington, 1997
Source: *Internal Revenue Service*

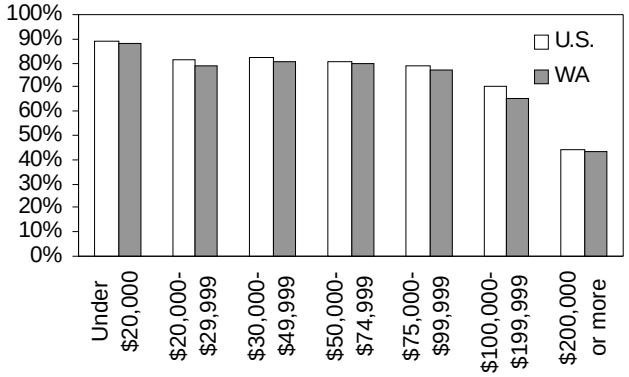


Figure 15
Interest Income as a Share of Adjusted Gross Income
by Income Cohort, U.S., and Washington, 1997
Source: *Internal Revenue Service*

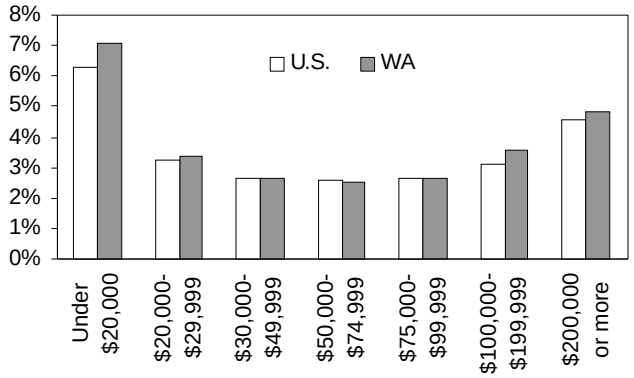
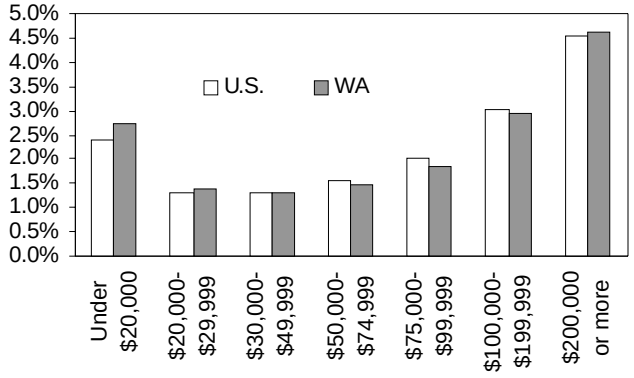


Figure 16
Dividends as a Share of Adjusted Gross Income
by Income Cohort, U.S., and Washington, 1997
Source: *Internal Revenue Service*



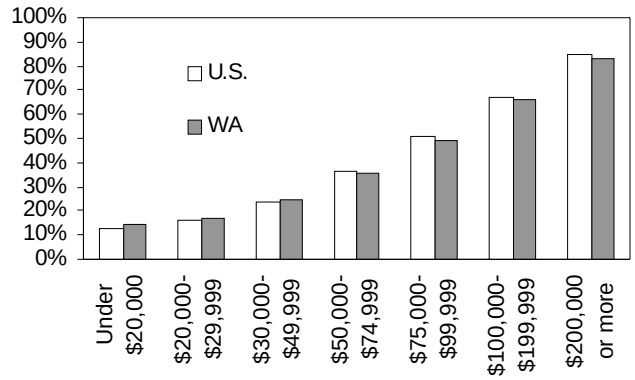
were reported in 25.7 percent of all returns from Washington compared to 23.7 percent nationwide. Washington residents also seem to be more savvy investors. In 1997 the average dividend income reported in Washington was $1,023 per return; nationwide the average was $974. For some reason that above-average investment skill applies only to those reporting income of less than $30,000 or more than $200,000 per year.

Of course there is a greater likelihood of those in higher income groupings to report dividends. In Washington State, not quite 15 percent of those with an AGI of under $20,000 so reported, compared to over 80 percent of those with an AGI of $200,000 or more (*see Figure 17*).

Capital Gains

Capital gains were reported in each of the income groupings for 1997, even in the lowest. In Washington State, capital gains made up a greater portion of income than interest and dividends combined; the same was also true nationwide. Capital gains in Washington State accounted for a greater share of AGI than the national average: 7.9 percent compared to 7.0 percent. This averaged out to $3,410 of capital gains income per return in Washington compared to $2,802 per return nationwide.

Figure 17
Share of Returns Reporting Dividends
by Income Cohort, U.S., and Washington, 1997
Source: *Internal Revenue Service*



The distribution of capital gains is somewhat similar in pattern to interest and dividends, where modalities were evident at extremes of the income groupings when measured as a share of AGI. In this instance, however, capital gains accounted for 4.1 percent of AGI in the lowest income grouping and for those reporting between $75,000 and $100,000. Then at the highest income grouping, capital gains represented 25.9 percent of AGI (*see Figure 18*).

Again, as with dividends, there was a greater reporting of capital gains as income rose. While 22.5 percent of all returns included capital gains in Washington, only 12.4 percent of those reporting under $20,000 so reported. In an almost straight-line progression that ratio increased to a high of 84.1 percent of those with an AGI of $200,000 or more.

Also in contrast to the other income elements, capital gains were higher as shares of AGI and in absolute dollar amounts across all income cohorts in Washington when compared to the national averages.

WASHINGTON VS. THE STATES

So where does Washington rank among the 50 states based on average adjusted gross income per return? Number 9; number 10 if you include the District of Columbia (*see Figure 19*).

The top ranked state in average adjusted gross income per return was Connecticut with $56,898; that was over 40 percent above the

Continued page 18

Figure 18
Capital Gains as a Share of Adjusted Gross Income
by Income Cohort, U.S., and Washington, 1997
Source: *Internal Revenue Service*

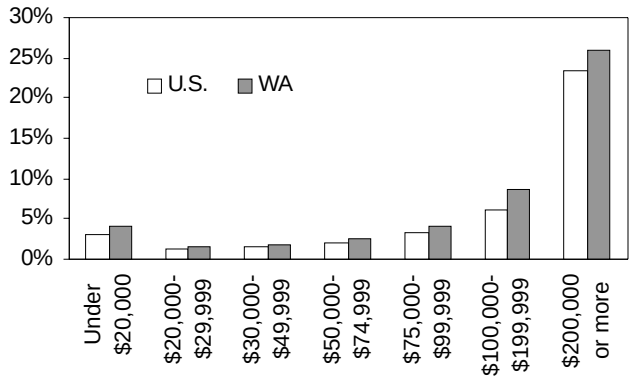


Figure 19
Adjusted Gross Income per Return
by State, 1997
Source: *Internal Revenue Service*

	AGI per Return	Rank
United States	$40,227	---
Alabama	$33,713	38
Alaska	$34,589	37
Arizona	$38,327	24
Arkansas	$30,700	49
California	$43,588	8
Colorado	$42,301	13
Connecticut	$56,898	1
Delaware	$42,397	12
District Of Columbia	$45,893	6
Florida	$39,584	17
Georgia	$38,920	19
Hawaii	$36,890	29
Idaho	$33,596	39
Illinois	$44,291	7
Indiana	$37,256	28
Iowa	$34,875	36
Kansas	$38,268	25
Kentucky	$33,537	42
Louisiana	$33,568	40
Maine	$33,556	41
Maryland	$46,277	5
Massachusetts	$47,836	3
Michigan	$40,996	16
Minnesota	$41,585	15
Mississippi	$29,415	51
Missouri	$36,482	31
Montana	$29,395	52
Nebraska	$35,393	34
Nevada	$42,659	11
New Hampshire	$43,345	9
New Jersey	$50,628	2
New Mexico	$31,232	46
New York	$46,349	4
North Carolina	$36,584	30
North Dakota	$30,577	50
Ohio	$36,318	32
Oklahoma	$32,468	44
Oregon	$38,496	22
Other Areas [15]	$30,782	48
Pennsylvania	$38,831	20
Rhode Island	$39,135	18
South Carolina	$33,497	43
South Dakota	$32,063	45
Tennessee	$35,600	33
Texas	$38,149	26
Utah	$37,266	27
Vermont	$35,259	35
Virginia	$41,792	14
Washington	$43,099	10
West Virginia	$30,865	47
Wisconsin	$38,513	21
Wyoming	$38,418	23

national average. Second on the list, more than $6,000 behind, was New Jersey with $50,628. Third in line, another $3,000 in arrears, was Massachusetts with $47,836.

The bottom ranked state was Montana with an average adjusted gross income per return of $29,395. This placed Montana 27 percent below the national average, and 48 percent below the Connecticut average.

Other states ranked on the low end were Mississippi, North Dakota, Arkansas, West Virginia, New Mexico, and South Dakota. All had average AGI per return less than 80 percent of the national average.

High Highs

For the most part, those states with the highest average AGI were also those with the highest share of returns in the top income categories. Surprise surprise. For instance, Connecticut had the highest AGI of $56,898 and had the highest share of returns reporting AGI of $200,000 or more at 2.9 percent (*see Figure 20*). That was near double the national average of 1.5 percent.

Low Lows

So of course the corollary is true as well—those states with the lowest average AGI were also those with the lowest share of returns in the highest income categories. Montana, with the lowest average at $29,395, had only 1.0 percent of its returns in the highest income group (*see Figure 21*).

High Lows and Low Highs

These data tend to be the most revealing at the upper and lower end of the income range. By arranging the information in fixed ranges, the averages within the middle ranges are destined to be quite similar. In contrast, the state to state averages within the highest and lowest income ranges can be dramatically different. For instance, while the national average for those reporting less than $20,000 was $8,239, the highest state average was $9,466 in North Carolina and the lowest was $5,752 in Alaska. That is a range from 69.8 percent to 114.9 percent of the national average.

In the highest income category, the range of differences is greater still. Considering that there is no upper limitation on this category, these developments are not too surprising. The national average of those with reported incomes $200,000 or more in 1997 was $550,897. The state with the lowest average in this income grouping was North Dakota with $392,810. The state with the highest average was Wyoming with $865,407. That range was from 71.3 percent to 157.1 percent of the national average.

Figure 20
Share of Returns with Over $200,000 in Adjusted Gross Income *by State, 1997*
Source: *Internal Revenue Service*

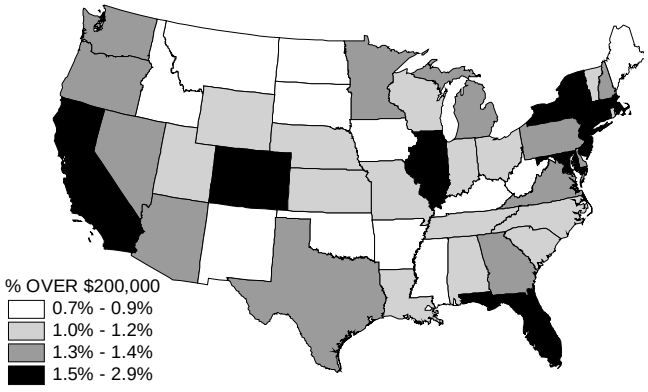
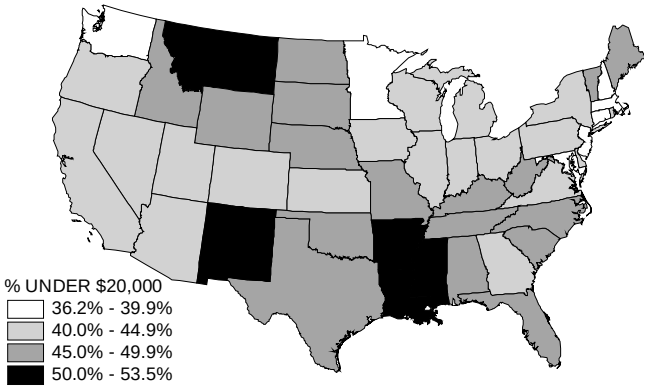


Figure 21
Share of Returns with Under $20,000 in Adjusted Gross Income *by State, 1997*
Source: *Internal Revenue Service*



Distribution: A Lot of Low

One of the ongoing economic issues currently is income distribution. These data sets are certainly useful in that analysis. Again, this is not this quartile, quintile, or decile kinds of analysis most commonly used, but these standard groupings are valuable nonetheless.

Nationwide, 43.6 percent of all returns were in the "under $20,000" category and 1.5 percent were in the "$200,000 or more" category. Recall that Washington State's average AGI per return was well above the national average, but this was because of the higher share of returns in the middle categories. Washington actually had a lower share of returns in both the highest and lowest income groupings with respective shares of 1.4 percent and 38.6 percent.

The state with the highest average AGI per return was Connecticut. Some 2.9 percent of the returns in this state were for $200,000 and more. Connecticut also had the lowest share of returns under $20,000 with 36.2 percent.

Distribution dynamics play the most important role in determining average reported income. Wyoming had the highest average for those making $200,000 or more, yet its average AGI for all returns was well below the national average. That was because while the average was very high, only 1.0 percent of all returns was in the highest category.

Having Fun with IRS Data

In addition to the income data, which are eminently useful, these data sets also include tax data that can be quite revealing. For instance, did you know that the average personal income tax liability of those reporting less than $20,000 in adjusted gross income nationwide was $497 in 1997? That means that a 100 percent tax cut for those in this income group would net the recipients less than $10 per week. That translates into one additional espresso drink or the latest *2 for $2* special at a well-known fast-food emporium per weekday.

Now compare that to those reporting $200,000 and more in adjusted gross income. Their average personal income tax liability was $154,785. A one percent tax cut would net the average recipient $1,548 or about three times the amount the average recipient would receive from a 100 percent tax cut in the lowest income group.

Conclusion

These data sets from the IRS are yet another income series that can be employed for economic analysis and policy purposes. As this is an annual series, it can be easily used in time-series analysis in addition to the point-in-time compare and contrast analysis as was done in this article. This series is particularly useful in differentiating between wage and non-wage income. In these last several years, while real wage income has grown at healthy rates, it has been the non-wage component of income—interest, dividends, and capital gains—that has likely been even more vibrant. The bullish stock market through 1998 and the first quarter of 1999, will doubtless be in ample evidence when the annual data for 1998 become available.

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Senior Economic Analyst

These data can be downloaded from the Internal Revenue Service web-site at http://www.irs.gov.

Temporary and Part-Time Workers in Washington State

WORK FORCE DEVELOPMENTS

Job growth in Washington has been strong since 1995, coinciding with the beginning of a new hiring cycle in the aerospace industry, expansion in the state's software and other "high technology" sectors, and strong national economic growth. In 1997 and 1998, the state's unemployment rate, at 4.8 percent, was the lowest in the past 30 years.

Despite a generally bright employment picture, many economists and labor market analysts have questioned the quality of jobs created both nationally and in Washington. A great deal of attention has focused on the increase in part-time and temporary work. These work situations are generally associated with lower wages and lack of benefits, such as health care insurance. The *Washington State Population Survey*, conducted in the spring of 1998, provides an opportunity to estimate the number and characteristics of workers engaged in part-time or temporary work in Washington.

In 1998, 494,000 workers, or 17.8 percent of the state total, considered themselves to be in a temporary work[1] situation while 21.3 percent (or 592,000) worked part time—defined in the Survey as 35 hours per week or less. About 266,000 workers (9.6 percent of the total work force) were in both part-time and temporary status; 820,000 (about 30 percent of the total work force) were in either a temporary or a part-time situation in 1998—or both—as shown in the shaded area of *Figure 22*.

Figure 22
Washington Work Force
1998
Source: *Washington State Population Survey*

	Temporary Workers	Not-Temporary Workers	Total
Full Time	228,000	1,962,000	2,190,000
Part Time	266,000	326,000	592,000
Total	494,000	2,288,000	2,782,000

Involuntary Temporary and Part-Time Workers

Slightly more than half of the 820,000 temporary or part-time workers (422,000) have entered into these working arrangements by choice. Temporary and part-time work apparently satisfies personal, family, or economic needs for many people. However, the remaining 398,000 workers wanted to switch to permanent or full-time employment if given the opportunity. These workers are categorized as "involuntary" part-time or temporary workers.

As detailed in *Figure 23*, there were about 325,000 involuntary temporary workers in 1998 and 144,000 involuntary part-time workers. About 71,000 workers were both in part-time and temporary status on an involuntary basis, leaving a total 398,000 persons involuntarily employed in either a part-time or temporary situation (or both). These workers are shown in the shaded area.

Figure 23
Temporary and Part-Time Workers
1998
Source: *Washington State Population Survey*

	Temporary Voluntary	Temporary Involuntary	Not Temporary	Total
Full Time	42,000	186,000	1,962,000	2,191,000
Part Time Voluntary	120,000	68,000	260,000	448,000
Part Time Involuntary	7,000	71,000	66,000	144,000
Total	169,000	325,000	2,288,000	2,783,000

Employer Benefits

Involuntary part-time or temporary workers have less access to fringe benefits from their employers (*see Figure 24*). About 78 percent of involuntary part-time or temporary workers had health insurance coverage; and more than one-third of them obtained the insurance coverage from sources other than their own employers. In comparison, 93 percent of other workers had health insurance. Overall, fringe benefits are much lower for involuntary part-time or temporary workers.

Wages and Income

As expected, being in involuntary part-time or temporary work affects wages and income. The median hourly wage in 1998 of involuntary part-time or temporary workers in the state was $9.17, only half the median level ($19.63) for other workers.

Although the wages of involuntary temporary or part-time workers were relatively low, they were more likely to have supplementary earnings from a second job. The Survey shows 17 percent of involuntary temporary or part-time workers held a second job, while only 11 percent of other workers had a second job.

Figure 24
Percentage of Workers with Access to Employer-Provided Fringe Benefits*
Source: *Washington State Population Survey*

Benefits	Involuntary Part-Time or Temporary Workers	Other Workers
Paid Vacation/Sick Leaves	60%	78%
Retirement Benefits	44%	68%
Educational Assistance	31%	51%
On-Site Childcare	7%	9%
Childcare Subsidies	3%	6%
Health Insurance Plan	78%	93%

** For items other than health insurance, the statistics represent only the household members who answered the Survey questionnaire; they thus do not include the benefit situation of other household members/workers. The statistics show whether the benefits were provided; they do not reveal whether the benefits were needed or actually received.*

Nevertheless, the income picture for involuntary part-time or temporary workers is still weak (*see Figure 25*). About 30 percent of involuntary part-time or temporary workers were in households with incomes below 200 percent of the federal poverty thresholds.[2]

Incidence of Uninsured and Low Income Workers

Figure 26 illustrates the part-time and temporary workers who are most vulnerable—those who are involuntarily employed in a part-time or temporary situation and who lack health insurance coverage and/or reside in a low-income household (defined as below 200 percent of the federal poverty level).

Among the 398,000 involuntary part-time or temporary workers, about 119,000 are low income (at or below 200 percent of the federal poverty level), 86,000 lack health insurance coverage, and 40,000 are both in low income status and without insurance coverage. The Survey therefore indicates that there are a total of 165,000 involuntary part-time or temporary

Continued page 22

Figure 25
Poverty Thresholds
Involuntary Part-Time or Temporary Workers
Source: *Washington State Population Survey*

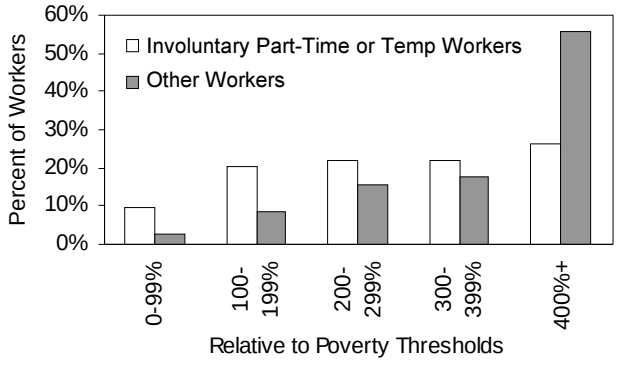

Figure 26
Poverty Thresholds
Involuntary Part-Time or Temporary Workers
Source: *Washington State Population Survey*

	Insured	Uninsured	Total
Below 200% of Poverty	79,000	40,000	119,000
Above 200% of Poverty	233,000	46,000	279,000
Total	312,000	86,000	398,000

workers who were either in a low-income household or who lacked health insurance. These workers are shown in the shaded area of the figure.

Summary and Conclusions

Based on the Washington State Population Survey, in 1998 there were about 165,00 workers employed involuntarily in either a part-time or temporary situation (or both) and who also were in a low income household (under 200 percent of poverty) or lacked health insurance coverage (or both). This represents 6 percent of the total Washington work force and about 20 percent of the 820,000 Washington workers employed in a part-time or temporary work situation in 1998.

■ *Ta-Win Lin*
Office of Financial Management

NOTES

[1] Question Q4P23 of the Survey asked: "Do you consider your job a temporary one?" The most commonly cited reasons for claiming temporary employment status were "student work" or "not a career job."

[2] Many state and federal income assistance and health care programs consider 200 percent of the federal poverty thresholds to be the maximum household income levels eligible for assistance. The poverty thresholds, estimated by the U.S. Census Bureau, vary by family size, age of the family head, and number of related children under 18 years old. For example, in 1997, the estimated poverty thresholds or income cutoff for a 4-person family with two related children under 18 years of age was $16,276. The figure for 200 percent of poverty would be $32,552.

Index

Aug. 1998 to Jun. 1999

Now Available

Worker Productivity Trends in Washington, 1977-97

Worker Productivity Trends in Washington, 1977-97 is the latest offering in LMEA's *Studies in Industry and Employment* series. This study is the first to tackle the issue of worker productivity (real dollar output per worker) trends in Washington. In addition to worker productivity data, the study provides analysis supported by graphs and tables in addressing the following topics:

- Worker productivity versus labor productivity
- Worker productivity trends in Washington versus the United States
- Worker productivity trends in Washington's major industry divisions
- Worker productivity trends in Washington's key industries
- Washington industries with the fastest growing worker productivity
- Washington industries with the fastest declining worker productivity
- Productivity, technology and the New Economy
- Mistaking efficiency for productivity
- Inefficiency masquerading as productivity
- Applications for worker productivity data

The cost for this report is $5.00 (Washington State residents add 8.0 percent for sales tax) plus a $2.50 handling charge.

The report is also available on LMEA's Internet homepage, which can be visited at: *http://www.wa.gov/esd/lmea*