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UNEVEN GROWTH IN THE NEW ECONOMY:

The Rise of Inequality in Texas in the 1990s

While the 1990s brought a period of sustained growth for the Texas economy, not all Texans enjoyed equally in the benefits of this growth. Texas saw a growing gap in the incomes of its residents during the 1990s. Generally, while upper-middle and upper-income Texans experienced an increase in the real value of their incomes, middle and low-income Texans saw their real incomes stagnate.

A closer look unveils additional aspects of the phenomenon. Research conducted at the Center for Public Policy Priorities examined changes in wage inequality as one major trend underlying the rise in income inequality statewide. Wages provided most of the income for those in the labor force and over half of all personal income for Texans throughout the '90s.

MAJOR FINDINGS

The Center's research found a significant increase in wage inequality during the 1990s. Understandably, this growth in wage inequality was closely linked with state economic growth over the decade. As Texas has moved away from its traditional dependence on oil and gas extraction, the major source of new growth has been the information economy—makers of computers and computer chips, software developers, telecommunications service providers and equipment manufacturers, and developers of editorial and entertainment content. Despite the major contribution of these new industries to the Gross State Product (GSP), they represent only a small share of job growth. The greatest number of new jobs has in fact been created by the service sectors, which accounted for 42% of the state's total non-farm employment growth in the 1990s. High-wage jobs can be found in the service sectors, such as those in administrative and financial services, but the majority of new service jobs are at the low end of the wage scale.

The rapid growth of the information economy has thus produced benefits in the form of higher wages, but these benefits are largely limited to a small part of the state's workforce. Growth in other sectors has been much slower and has generated few real wage gains for those workers. The inevitable result of this pattern of uneven growth in the '90s has been increased wage inequality.

METHODOLOGY

To calculate wage inequality in Texas in the 1990s, a measure called Theil's *T*-statistic was used. The Theil measure takes into account the increase in wage inequality *within* each county in the state, as well as the increase in wage inequality *between* each county. County-level employment and wage data from the Texas Workforce Commission were used to calculate inequality for every calendar quarter from 1990 to 1999.

Inequality within a county in a given quarter was measured by comparing the percentage of total wages in the county generated by an industry to the percentage of total employment in the county for that industry. The degree to which the share of wages differed from the share of employment is a measure of inequality among industrial sectors within the county. The level of inequality between counties was calculated by comparing the percentage of statewide wages attributed to a county with the percentage of statewide employment located in the county.

Thus, two different components of wage inequality were calculated for Texas: a within-county component and a between-county component. The two components were measured separately, then combined to produce a measure of wage inequality within the state *as a whole*.

Population obviously played a role in these measurements; a county with a large population (and usually, a large number of workers) and high inequality contributed more to the within-county component of state inequality than a county with equally high inequality but a smaller population. Similarly, a county with a large population and low average wages contributed more to the between-county component than a county with low wages and a small population.

The research found that the measure of **wage inequality increased by 33% during the 1990s**. This change represented an increase in both the between-county and the within-county measures. Interestingly, these components increased at similar rates in the 1990s, and both are important to consider in analyzing the overall state trend. (For more information on the Theil measure, visit the University of Texas Inequality Project at <http://utip.gov.utexas.edu/>).

INEQUALITY BETWEEN COUNTIES IS INCREASING

The gap between Texas counties with the lowest average wages and those with the highest wages increased during the past decade, and the location of major contributors to inequality shifted from one region to another. From 1990 to 1999, Williamson and Travis counties in Central Texas emerged as important contributors to state inequality at the high-wage end of the spectrum, while the contribution of West Texas counties such as Martin, Midland, Upton, and Crane counties saw a relative decline. These shifts illustrate the emergence of the information economy and the continued decline of oil extraction. Certain Gulf Coast counties also saw a decline in their contribution to inequality, including Brazoria, Chambers, and Jefferson Counties—some of the major petrochemical manufacturing counties. The low-wage end of the spectrum did not see as dramatic a shift, with El Paso, Bexar, Hidalgo, and Cameron counties remaining there throughout the 1990s, and Lubbock County falling into this category by the end of the decade.

Along with the increase in inequality between counties in the 1990s came a greater concentration of higher wage jobs in fewer counties. In 1990, 18 counties were major contributors to between-county inequality at the high-wage end of the spectrum. In 1999, only eight counties were in this category. These eight counties in 1999 accounted not only for the same overall contribution to inequality made by the 18 counties in 1990, but also for the *increase* in inequality that developed over the decade. This reflects the highly concentrated growth of the information economy in very few counties in the state.

INEQUALITY WITHIN COUNTIES IS INCREASING

The other component of the inequality phenomenon in Texas is the growth of inequality *within counties*. Half of all Texas counties saw an increase in inequality, but here we are primarily interested in counties with the largest populations, as they have the greatest impact on state levels of inequality. The most populous counties with the strongest economic growth in the '90s—Williamson, Travis, Harris, and Dallas counties—saw significant increases in inequality among workers. This means that even in the high-growth counties themselves, areas that have benefited the most from the growth of the information economy, the benefits of prosperity are limited to the few. Conversely, large counties with lower growth rates and less involvement in the

information economy, such as Bexar and Hidalgo counties, have actually seen inequality within their borders *decrease*, indicating that the type of growth in a county can affect the region's level of inequality.

IS INEQUALITY REALLY A PROBLEM?

Increased income inequality creates some serious problems for Texans primarily because sustained economic growth in the 1990s (as measured by real increases in per capita personal income) has not resulted in significant reductions in poverty rates. This is a direct consequence of the way the benefits of growth are being concentrated; uneven growth is not providing for the economic and social progress that more balanced growth would make possible. Many large communities are being left behind, endangering the goals of social and economic development for the state as a whole.

Inequality has already presented a problem for housing markets in some areas. Housing availability and cost trends in rapid-growth cities such as Austin have shown that the housing market does not function well in areas with high inequality. The rising incomes of workers employed in the highly paid sectors help push the price of housing out of the reach of other local residents who don't earn as much.

Moreover, the demand for public services remains high with a large population of low-wage workers. But if higher-income residents do not need or support these services, it can be politically difficult to raise enough revenues to support the needed level of public services.

Statewide, increases in per-capita income give Texas a less favorable match for federal programs that take this factor into account (such as Medicaid and CHIP, subsidized child care, and foster care), even though the need for these programs remains very high. The Legislative Budget Board recently reported that a 1.09% decrease in the Medicaid match rate in fiscal 2000 required an additional \$151 million in state funding for the Department of Health and the Department of Human Services. In effect, greater income inequality allows persistent poverty to remain untouched by rising per-capita income. This is particularly problematic for budget writers in states such as Texas lacking an income tax to produce revenue growth that will offset lost federal matching funds.

CONCLUSIONS AND POLICY RECOMMENDATIONS

The Texas economy of the 1990s saw an uneven pattern of economic growth, which in turn has led to a highly unequal distribution of the benefits of that growth. Those who have succeeded have done so at unprecedented levels, while those stuck in low-wage jobs are working full-time but still struggle to overcome poverty. In many ways, the economy currently offers less hope to those seeking middle-class incomes for their families than it did a decade ago.

Given the structure of the Texas economy, inequality will persist or even worsen until efforts are made to put the benefits of economic growth within the reach of all workers. Policy changes have succeeded in other places that suggest specific options for Texas officials to consider. Raising the state and federal minimum wages are essential steps. Combined with a period of sustained full employment, minimum wage hikes are among the best ways to address inequality and the “working but poor” phenomenon in the state.

Tax and budget policies also play an important role in addressing inequality. The current revenue systems of the state and local governments rely heavily on the sales tax. Regressive methods of taxation such as a sales tax further burden low-wage workers and leave high-wage workers with a small tax burden. A regressive tax system thus exacerbates the inequality problem. An income-based tax, on the other hand, could raise the same amount of revenue currently generated by sales taxes, yet provide some relief for low-wage workers already struggling to cover basic expenses such as housing, food, child care, and health care. If an income-based tax was put in place that generated additional revenue, the state could invest more in physical infrastructure, upgrade workers’ skills, and maintain or improve the amenities that make communities good places to live. Additional state revenue could also make possible increased wages for public sector jobs such as school teachers, protective services and public safety personnel, and health care workers, helping to close the gap that separates private and public sector jobs and reducing turnover, dangerous understaffing, and other problems plaguing government agencies.

Finally, recent history has shown that dependence on one sector has taken the Texas economy through periods of booms and bust. Such was the case with the oil industry in the '80s, and such could be the case if the information industries falter. Spreading the prosperity beyond the high tech sectors would help create more stability in the economy as a whole and avoid over-reliance on one sector. This, along with continued full employment, can help set the stage for more stable and broad growth in the Texas economy.

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