Center for American Progress Action Fund

The Decline of Colorado's Middle Class

By David Madland and Keith Miller   December 12, 2013

Colorado's middle class is struggling. In the wake of the Great Recession, middle-class Coloradans have seen their incomes fall to levels not reached in nearly three decades, and their share of the state's total economic pie has remained stuck near record lows. These trends are particularly troubling because a strong middle class drives economic growth and boosts economic mobility,[1] but they are reversible if better policy choices are made.

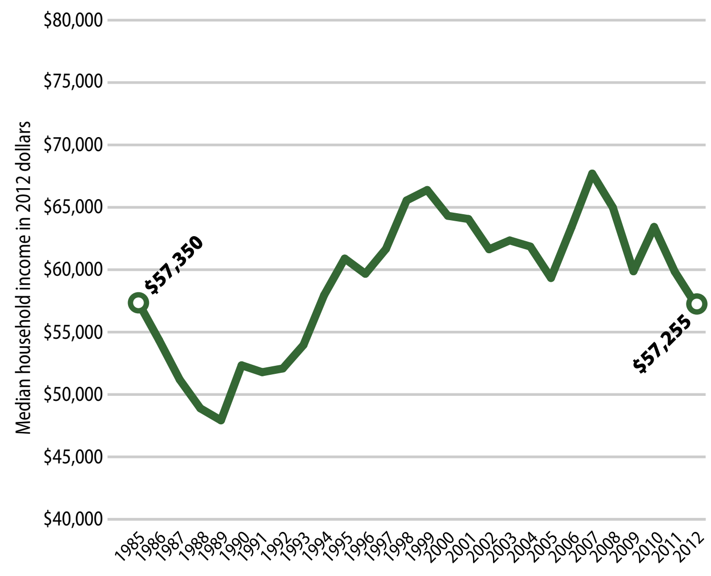
Among the clearest indicators of the struggles of Colorado's middle class is the decline in the state's median income. In 2012, a typical Coloradan household earned $57,255, which, while still above the national median, was 15.4 percent below what a typical household in the state had earned only five years earlier, before the start of the Great Recession.[2]

While the Great Recession was quite harmful on its own, it was particularly devastating because it came after a period in the early 2000s in which middle-class incomes stagnated. In fact, the 2012 median income in Colorado fell below its 1985 level, after accounting for inflation.[3] That means middle-class Coloradan households are now earning less than they did nearly 30 years ago—even though the state's economy has grown significantly over this period.

Colorado's middle class, however, has seen very little of this economic growth because an ever-increasing share of the state's economy has gone to those at the very top.

FIGURE 1

Colorado's median household income now stands below its 1985 level



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements, Table H-8.

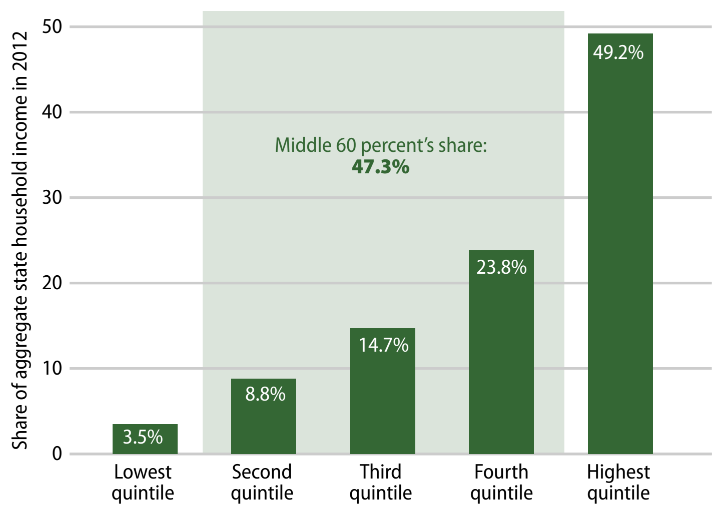
In 1980, the middle 60 percent of Coloradan households brought home roughly 52.5 percent of all income earned in the state; last year, it brought home only 47.3 percent.[4] In contrast, the share of income going to the top 20 percent of Coloradans has increased sharply, rising from 42.7 percent of total state income in 1980 to more than 49.2 percent today.[5]

And even in this top group, most of the gains have gone to the very highest income earners. Economist Emmanuel Saez estimates that when looking at the United States as a whole, the share of the nation's total income going to the top 1 percent has more than doubled over the past four decades.[6] Meanwhile, middle-class households across the country have experienced losses similar to those seen among Colorado's middle-class families.[7]

Fortunately, these trends can be reversed. The levels of inequality currently seen in both Colorado and the United States as a whole are not the inevitable byproducts of economic growth. Rather, they have in no small part been created by conscious political choices that have often put the interests of those at the very top ahead of working families and their needs. Over the past few decades, effective federal tax rates have been reduced significantly for the affluent but relatively little for the middle class.[8] In addition, middle-class Coloradans actually pay a greater share of their income in state and local taxes than do the wealthy.[9]

FIGURE 2

The top 20 percent of Coloradans take home nearly half of the state's total household income



Source: Author's calculations based on data from U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

Similarly, policymakers have allowed the value of the minimum wage to erode over time. While Colorado's indexing of its state minimum wage to inflation in 2006 was a significant step forward, the current value of the state minimum wage is still only $7.78 per hour.[10] This is slightly more than the federal minimum wage of $7.25 per hour but much less than the inflation-adjusted value of the minimum hourly wage guaranteed to workers by federal law in 1968—approximately $10.72 per hour.[11]

This means that minimum-wage workers in Colorado now earn about 27 percent less in real terms than they would have in 1968, and even if they work full time all year, they will only earn approximately $16,180, or $3,350 below the federal poverty line for a family of three.[12] A higher minimum wage would help not only those at the bottom but also those in the middle because it sets a floor for all workers and has spillover effects that cause employers to raise wages for many workers who earn well above the minimum wage.[13]

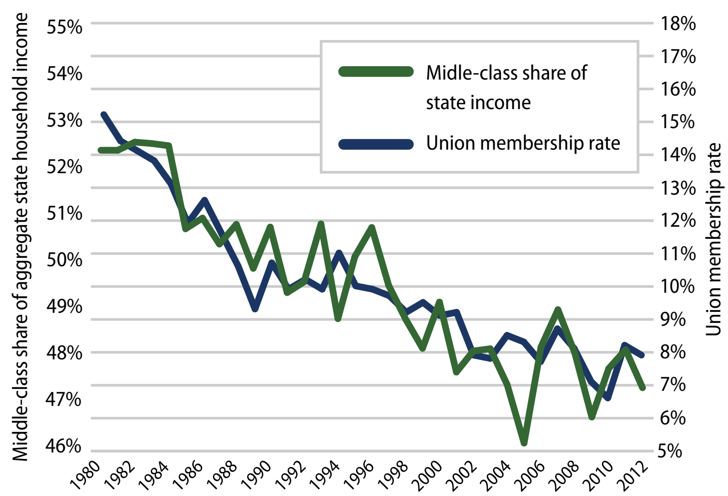
But among the most important—though often overlooked—policy choices that have harmed the middle class are those that have weakened unions by making it harder for workers to join them.[14] Unions are critically important to the health of the middle class because when unions are strong, they fight for key middle-class interests in both the workplace and the political arena.[15] They work to ensure their members are paid fairly, have access to essential benefits, and are provided basic workplace protections, and in doing so, they raise standards that can benefit nonmembers as well. Unions help strengthen the middle class via the political process by encouraging greater worker participation in politics and championing programs essential to the middle class, such as Social Security, Medicare, and the minimum wage.

It is no coincidence, then, that the decline in national union membership over the past several decades has strongly correlated with the decline in the share of income going to the middle class.[16] Research by Bruce Western of Harvard University and Jake Rosenfeld of the University of Washington has even estimated that the decline of organized labor has contributed approximately as much to the growth of inequality as have the increasing monetary returns to education that tend to disproportionately benefit those at the very top.[17]

As seen in Figure 3, this has been true in Colorado as well. As unions have weakened, so has the middle class, while more and more of the state's economic growth has been rerouted to the wealthy.

FIGURE 3

As Colorado's union membership rate has declined, so has the share of income going to the middle class



Source: : Middle-class income share derived from author's calculations based on data from U.S.Census Bureau, Current Population Survey, Annual Social and Economic Supplements. Unionization rate from updated figures from Barry T. Hirsch, David A. MacPherson, and Wayne G. Vroman, "Estimates of Union Density by State," Monthly Labor Review 124 (7) (2001).

Conclusion

Addressing these issues and rebuilding the middle class in states such as Colorado will not be easy, but it must be done if the middle class is to return to its essential role as a driver of broad-based economic growth. Increasing the education levels of Colorado's residents is, of course, important to supporting the middle class, but there are a host of other policies that play just as important a role. For a start, elected officials should work to actively strengthen workers' bargaining rights and should seek further increases in the minimum wage. A number of other state-level policies, such as guaranteeing paid sick leave, boosting retirement savings, and more fairly allocating money for education, would all also work to bolster the health of the middle class in both the short and long runs.[18]

Colorado needs a thriving and prosperous middle class to spur economic growth. While it may take time to reverse the trends of the past several decades, it can and must be done if Colorado's economy is to truly work for all of its citizens, not just those at the very top.

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Endnotes

1 David Madland, "Growth and the Middle Class," *Democracy Journal* (20) (2011): 16–22; Heather Boushey and Adam Hersh, "Middle Class Series: The American Middle Class, Income Inequality, and the Strength of Our Economy" (Washington: Center for American Progress, 2012), available at http://www.americanprogress.org/issues/economy/report/2012/05/17/11628/the-american-middle-class-income-inequality-and-the-strength-of-our-economy/; Ben Olinsky and Sasha Post, "Middle-Out Mobility: Regions with Larger Middle Classes Have More Economic Mobility" (Washington: Center for American Progress, 2013), available at http://www.americanprogress.org/issues/economy/report/2013/09/04/73285/middle-out-mobility/.

2 Numbers are taken from Table H-8 in U.S. Census Bureau, "Historical Income Tables: Households," available at http://www.census.gov/hhes/www/income/data/historical/household/ (last accessed December 2013).

3 Colorado's median income in 1985 was, in 2012 dollars, $57,350. Ibid.

4 Authors' calculations are based on data from the U.S. Census Bureau's Current Population Survey—specifically, its 1980–2012 Annual Social and Economic Supplements. The U.S. Census Bureau provided the data directly to the authors; data are current as of November 22, 2013.

5 Ibid.

6 Emmanuel Saez, "Striking it Richer: The Evolution of Top Incomes in the United States (Updated with 2012 preliminary estimates)," *Pathways Magazine*, Winter 2008, pp. 6–7.

7 David Madland and Nick Bunker, "5 Charts on the State of the Middle Class," Center for American Progress, August 30, 2012, available at http://www.americanprogress.org/issues/economy/news/2012/08/30/33600/5-charts-on-the-state-of-the-middle-class/.

8 Note that the effective tax rates referred to here account for changes in income that have occurred over time and that would influence the calculation of average tax burdens in a way that would obscure the impacts of policy changes on levels of taxation at the very top. See Council of Economic Advisers, *Economic Report of the President* (Executive Office of the President, 2013); Lawrence Mishel and others, *The State of Working America, 12th Edition* (Ithaca, NY: Cornell University Press, 2012).

9 Institute on Taxation and Economic Policy, "Who Pays?: A Distributional Analysis of the Tax Systems in All 50 States" (2013).

10 Colorado Department of Labor and Employment, Division of Labor, "Colorado Minimum Wage History," available at http://www.colorado.gov/cs/Satellite/CDLE-LaborLaws/CDLE/1251566749488 (last accessed December 2013).

11 Authors' calculations. Adjusting for inflation using the Consumer Price Index for Urban Wage Earners and Clerical Workers, the $1.60 minimum wage that took effect in February 1968 would be equal to approximately $10.72 in October 2013 dollars.

12 The federal poverty line for a family of three in 2013 is $19,530. See U.S. Department of Health and Human Services, "2013 Poverty Guidelines," available at http://aspe.hhs.gov/poverty/13poverty.cfm (last accessed December 2013).

13 For more information on spillover effects, see Jeannette Wicks-Lim, "Mandated Wage Floors and the Wage Structure: New Estimates of the Ripple Effects of Minimum Wage Laws." Working Paper 116 (Political Economy Research Institute, 2006).

14 David Madland and Nick Bunker, "State-Level Policies Threaten to Further Weaken Unions," Center for American Progress Action Fund, January 23, 2013, available at http://www.americanprogressaction.org/issues/labor/news/2013/01/23/50419/state-level-policies-threaten-to-further-weaken-unions/.

15 David Madland, Karla Walter, and Nick Bunker, "Unions Make the Middle Class: Without Unions, the Middle Class Withers" (Washington: Center for American Progress Action Fund, 2011), available at http://www.americanprogressaction.org/wp-content/uploads/issues/2011/04/pdf/unionsmaketheemiddleclass.pdf.

16 David Madland and Keith Miller, "Latest Census Data Underscore How Important Unions Are for the Middle Class," Center for American Progress Action Fund, September 17, 2013, available at http://www.americanprogressaction.org/issues/labor/news/2013/09/17/74363/latest-census-data-underscore-how-important-unions-are-for-the-middle-class/.

17 Bruce Western and Jake Rosenfeld, "Unions, Norms, and the Rise in U.S. Wage Inequality," *American Sociological Review* 76 (4) (2011): 513–537.

18 For a detailed report on the policy options available to states, see Karla Walter and others, "States at Work: Progressive State Policies to Rebuild the Middle Class" (Washington: Center for American Progress Action Fund, 2013), available at http://www.americanprogressaction.org/issues/labor/report/2013/03/21/57375/states-at-work-progressive-state-policies-to-rebuild-the-middle-class/.