Washington Research Council

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A Decade of Growth and Prosperity

BRIEFLY

Ten years after the legislature adopted the Growth Management Act, Washingtonians continue to grapple with the effects of growth and economic development. Without question, the state's economic prosperity, concentrated in the Puget Sound region, has spurred population growth. And that increased population has, in turn, generated increased economic activity.

In a series of reports, the Washington Research Council will address some of the issues attending economic and population growth. This first report examines the relationship between growth and prosperity.

GROWTH IN PERSPECTIVE 1

Introduction

With a decade gone since passage of the state's Growth Management Act and with the volume of information written on various aspects of its success or failure reaching towering proportions, the debate over growth continues unabated. While at the edges the debate can be summarized as "pro-growth" versus "no-growth," for most Washingtonians the issue is more complicated. Now, the debate focuses on "smart growth," which many favor – although the definition of what's "smart" is far from uniform.

However defined, Washington has experienced – and, for the most part, enjoyed – spectacular growth in the last decade. Statewide the 1990s netted Washington 600,000 new workers. It was "the greatest job-generating decade in history," according to Chief Employment Security Economist, Dennis Fusco.[1] "Labor force growth shot up strongly early in the decade as net migration into the state ballooned, attracted by a rising area economy sitting in the midst of a national recession…as the national economy picked up…" he explains, "labor markets progressively tightened, and statewide unemployment dropped to 30-year lows in late-1999."

Personal income is up; unemployment is down. In the Puget Sound area, where most of the activity has been centered, housing prices have skyrocketed in response to unprecedented demand and new regulatory restrictions. Population growth also challenges the transportation system. Thousands of new vehicles have been added to a highway system that has seen minimal increases in capacity in decades. As a result, Seattle-area congestion now ranks second in the nation.

But the effects of growth have not been distributed uniformly. In eastern Washington and in many parts of rural western Washington, unemployment remains high and per capita personal income in some areas has actually fallen, relative to national averages. And even in the midst of prosperous metropolitan communities, poverty, street crime and homelessness continue to challenge urban policymakers.

In a series of papers the Research Council will address some of these issues and others that attend growth and prosperity and discuss their implications for public policy.

In this first paper we will discuss the nature of growth — its benefits and the challenges it presents business, civic and political leaders.

No Prosperity Without Growth

Communities throughout the state, as well as both the state and federal governments, support numerous organizations that promote economic growth. Some coordinate the planning to determine the array of assets present on which an area may build its economy. Others develop programs to identify and attract specific business locations. Still others work to fashion financial packages that

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help to ease the upfront location costs of a new facility. What's the purpose? What is the perceived reward that attracts such intense effort and investment?

The simple answer is the anticipation of wealth creation and greater prosperity.

Creating Wealth

Businesses create jobs that support workers and their families. Together, workers, their families, and the businesses that employ them create taxable wealth. Tax revenues allow people to work together to accomplish objectives too big for a few to do by themselves. Working often through government, we are able to build and maintain schools, parks, utilities, roads, and many other services that benefit everyone.

So, wealth is really the primary element for us to understand and appreciate as we discuss the benefits of growth. The main statistical indicator of an area's wealth is total personal income. Based on figures produced by the Bureau of Economic Analysis, Washington State's total personal income grew from $96.1 billion in 1990 to more than $176.2 billion in 1999 (preliminary), representing a 50 percent inflation-adjusted increase. In King County, which claims about 41 percent of the state's economy and which has been the epicenter of the state's economic growth, total personal income grew from $39 billion in 1990 to about $68 billion in 1998 (most recent data available), an inflation-adjusted increase of nearly 44 percent.[2]

Per capita personal income (PCPI) – income per person, on average – in Washington has grown from $23,878 in 1995 to $30,295 in 1999. Compared with the rest of the country this has resulted in Washington moving from 18th nationally in PCPI to 12th in just five years.[3]

Wealth Supports Increased Consumption

Increased income results in increased spending – for residential and commercial real estate and other property; for consumer goods; and for inputs to business production or service. Retail sales illustrate the upward trend of our wealth in Washington. Statewide, taxable retail sales grew from $48.5 billion to $80.2 billion from 1990 to 1999, according to the state's Department of Revenue. This represents inflation-adjusted growth of about 35 percent. This magnitude of retail spending generated retail sales and use revenues for the state's general fund that grew from about $3.3 billion in Fiscal Year (FY) 1990 to nearly $5.3 billion in FY 1999.[4]

In King County growth in retail sales tax revenues was similar. From about $218 million in 1990, County tax revenues from retail sales grew to $364 million in 1999, a growth of 36 percent adjusted for inflation.

Wealth Supports Community Development and Shared Resources

Income and taxes, together with a large enough population, make it possible for communities to support a variety of recreational and social activities and facilities. Consider Seattle. With a population upward of 520,000, in a metropolitan area of 2.3 million, residents and visitors support art museums, an aquarium, a zoo, several professional team sports and two new stadiums, the opera, numerous theaters, several universities, world-class hospitals and health care resources, to say nothing of a wide variety of shopping, restaurant, and nightlife venues.

Wealth Demands More People

Population increase and business growth feed each other. As businesses locate and expand within an area, they need people to fill the jobs they create. Headlines throughout the state have captured well the plentiful job environment in Washington in recent years: "The Work Goes Wanting" (*The News Tribune*, 6/18/97), "Business Feeling Labor Pains" (*Wenatchee World*, 6/15/97), "Employment Agent Battles a Labor Shortage" (*Seattle Post-Intelligencer*, 8/7/97), "Labor Rate Remains Tight in County, State" (*The Columbian*, 8/20/97).

Statewide, unemployment continues to be low. In October of 2000 it was 4.4 percent compared with a national average of 3.6 percent. This rate reflects the seasonal characteristics that still affect much of the state's economy. In the Puget Sound area King County's unemployment rate was 3.4 percent, with Snohomish County following closely at 3.5 percent. Interestingly, unemployment in Kittitas County, east of King County and across the mountains, has also experienced a tight pool of labor resources, with a jobless rate of 3.9 percent. Pierce and Thurston Counties to the south have rates of 4.8 and 4.7 percent, respectively.

Population, though, is the growth factor most noticed by the average observer. As we quoted above, Washington's population "ballooned" during the 1990's, growing from 4.9 million in 1990 to 5.8 in 1999. This change amounted to 18 percent. Not surprisingly, much of it (50 percent) ended up in the Puget Sound area.[5]

More People, More Demand, More Opportunity – For Everyone

As population grows, more opportunities are created for new and expanding businesses catering to the larger number of people, and the cycle of growth continues.

Economic growth results in greater opportunity for people at the lower of end of the economic ladder. The ranks of people in poverty in Washington dropped from about 12 percent in 1993 to about nine percent in 1999. Nationally, by comparison, the 1999 poverty rate is about 12 percent.[6] And although poverty remains an issue in Washington, economic growth has clearly afforded important opportunities to people of all skill levels who might otherwise have been un- or under-employed. Workers just starting out – like recent graduates or newcomers to our country – as well as ethnic and social minorities and people needing retraining for jobs in the new economy are all more likely to find work in a growing economy.[7]

Urban growth can benefit neighboring communities. As we have shown, in the greater Seattle area and King County, as local resources are more fully utilized, labor, housing and transportation systems reflect their short supply both in time and money. Price increases and increased commute times have caused people and businesses to look to nearby counties – Snohomish, Pierce, Thurston, Kittitas, Kitsap — for office space, employees and housing.

The prosperity that economic growth brings also provides people with the discretionary time and money to share with others. According to some environmental economists, "The need to choose between economic growth and environmental quality may seem obvious when economic activities affect the quality of our air or water…Yet data from around the world support a more optimistic view…Once people have enough income so that they are not struggling to put food on the table, they become more willing and able to take actions to reduce (or avoid) environmental damage and improve the quality of the environment…In economic terms willingness to pay for costly environmental measures is highly elastic with respect to income."[8]

The Bill and Melinda Gates Foundation is only a recent, high profile, local example of how prosperity supports both local and global communities. For decades private foundations, like theirs, as well as private individuals have regularly contributed to a wide array of causes from large-scale efforts to discover new, life-saving drugs or purchase and preserve sensitive forests or wetlands to buying computers for schools and libraries and contributing to the local United Way.

So, growth goes well beyond just more people and more congestion. Done thoughtfully, growth can result in more prosperity, more opportunity, and more inclination on the part of an increasing number of people to help others and improve our world.

The issue is not growth versus no-growth or, indeed, *whether* we should grow. When an area has been identified to be attractive, as Washington State obviously has, growth is inevitable. The issue is *how* we should grow. Our challenge here in Washington, where quality of life and environmental integrity are strongly and widely held values, will be to lift the debate to a new level. The National Governor's Association Center for Best Practices puts it this way, "Changing the way we grow requires a lot more than changing laws and redirecting state funding. Maintaining vibrant growth without adverse impacts also means developing public consensus for social and cultural changes that can protect and elevate a state's quality of life and place."[9]

This is the challenge. In future papers on growth we will address the importance of infrastructure to support growth; local governmental processes and their effect on growth; the impact of government regulation, including growth management, and fees on development costs; the effects of infill development; the balance between jobs and housing; how growth pays for itself in increased tax revenue; and the economic contribution of the real estate and development industry; as well as a discussion on the inventory of developable land and the barriers to their development.

[1] *Growth Moderates and Economy Moves Forward*, Dennis Fusco, Chief Economist, LMI Review, Fourth Quarter 1999, Washington State Department of Employment Security, http://www.wa.gov/esd/lmea.

[2] Selected Economic Data, Washington State Department of Employment Security, http://www.wa.gov/esd/lmea/labrmrkt/sed, based information from the U.S. Department of Commerce, Bureau of Economic Analysis.

[3] Selected Economic Data, Washington State Department of Employment Security, http://www.wa.gov/esd/lmea/labrmrkt/sed, based information from the U.S. Department of Commerce, Bureau of Economic Analysis.

[4] Quarterly Business Review, State of Washington Department of Revenue, 1990 and 1999, http://www.dor.wa.gov.

[5] Population and Components of Population Change by County, 1990-2000, State of Washington, Office of Financial Management, Forecasting Division, http://www.ofm.wa.gov/countypop/county.pdf.

[6] Poverty by State, 1993-99, U.S. Department of Commerce, Bureau of the Census, http://www.census.gov/hhes/poverty.

[7] Washington State Economic Climate Study, Office of the Forecast Council, September 2000, Volume V, http://www.wa.gov/ofc/pubs/clim0900.pdf.

[8] Economics, Private and Public Choice, James D. Gwartney, Florida State University, Richard L. Stroup, Montana State University, Russell S. Sobel, West Virginia University, The Dryden Press, 2000.

[9] Growth and Quality of Life, National Governor's Association, Center for Best Practices, 1998, http://www.nga.org/CBP/Activities/SmartGrowth.asp.

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