

## Maryland Incomes: Spread the Gain

A Maryland Budget and Tax Policy Institute Issue Brief  
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### Introduction

In his State of the State speech on January 26th, Governor Robert Ehrlich noted that Maryland is one of the wealthiest states in the nation. According to the U.S. Census Bureau, Maryland remains near the top of the nation in median income—about \$57,000 from 2002-2004—ranking third among all states.<sup>1</sup> This ranking does not account for Maryland's high cost of living, but still, good for us.

However, that is not the whole story. It also is important to consider the range of incomes in our state. A report released the same day as the Governor's speech shows that the lower one's income, the slower it has grown over the last twenty years—much slower, in fact, than individuals with the highest incomes. The report, published by the Center on Budget and Policy Priorities and the Economic Policy Institute, shows this trend to have been true in Maryland and nationwide. In addition, during the past two years, many low- and middle-income workers actually have seen the value of their wages decline.<sup>2</sup>

Maryland has taken some steps to spread the benefits of economic growth more widely among families with different incomes. However, the state can do more.

***What has happened to Marylanders' incomes the past two decades?*** Between the early 1980s and the early 2000s, Maryland families at all levels of income saw their incomes grow. However, Maryland families in the *top one fifth* of incomes saw them grow *twice as fast* as the incomes of the poorest fifth. Families in the *top fifth* experienced income growth of *65 percent over twenty years*, to an average \$155,000, while families with the lowest fifth of incomes saw them increase by just 33 percent, to \$21,500. The middle 20 percent of families saw their

### **About this Brief**

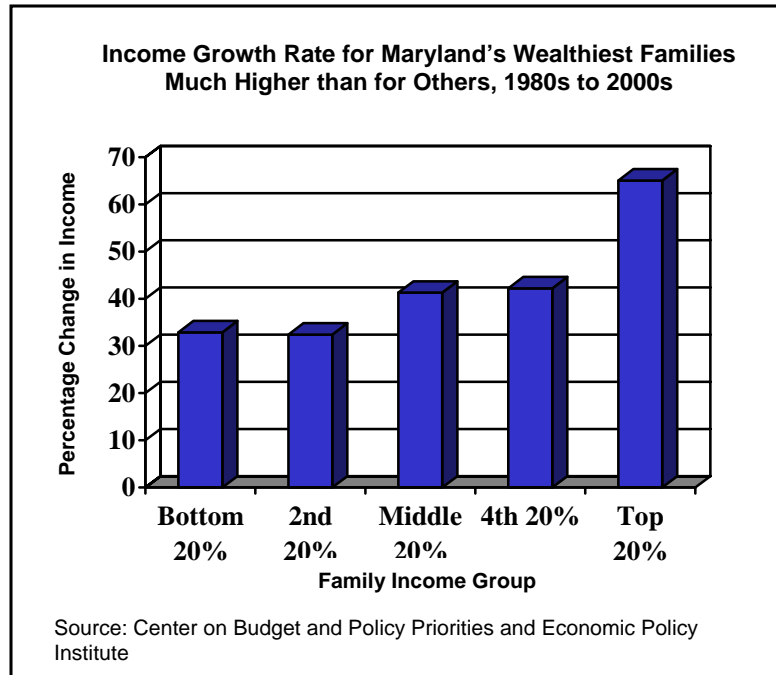
This Issue Brief discusses growth in Maryland incomes between the early 1980s and the early 2000s. The information comes from a new joint report by the Center on Budget and Policy Priorities and the Economic Policy Institute, two national policy and research organizations. Click [here](#) to access the report and a [summary](#) of findings for Maryland.

The Issue Brief summarizes differences in growth rates among Maryland families' incomes and steps that Maryland has taken and could take to help low- and moderate-income people benefit more from the state's economic growth.

incomes grow by 41 percent. The result is an increasing gap between the incomes of those families at the top and those at other levels.

***What about the effects of taxes and government assistance?***

These stark differences are after federal taxes and government assistance. The study began with the Census Bureau's data on pre-tax income but also included federal and state Earned Income Tax Credits, food stamps, subsidized school lunches, and housing vouchers. It also includes income from capital gains. If you exclude these things and look at pre-tax income, the gaps in income and income growth are even larger.



***What explains this stark difference in income growth?*** The report finds that the biggest cause is erosion in real wages for the 70 percent of workers who have less than a college education.<sup>3</sup> Wages make up about three quarters of income. (Real wages reflect the face value of what you earn adjusted to reflect the increases over time in the cost of living.)

From the late 1990s through 2002, wages for low- and moderate-income families rose at rates faster than inflation. In 2003, they began to decline. As our economy has shifted away from manufacturing to service industries, the number of lower-paying jobs has increased while the number of higher-paying jobs available for people without a college education has decreased. In the past few years, overall, even people with college educations have seen their real wages decline. At the same time, since the 1980s, wages of the highest-paid employees have grown.<sup>4</sup> In addition, investment and capital income have grown significantly despite a few periods of decline such as in 2001, when the high-tech bubble in the stock market burst.

***How can Maryland spread the gain and increase real wages for families with low and moderate incomes?*** The report suggests several measures that would help, and Maryland policymakers haven't taken initiative on some of them. For example:

- **Increase the minimum wage.** Since 1997, the federal minimum wage has been \$5.15 an hour. Its value is 28 percent *lower* than it was at the end of the 1970s.<sup>5</sup> Many people think that the majority of minimum-wage workers are teenagers, but in fact, they are adults, and they provide the majority of income for their families.

- Maryland has acted to increase the state minimum wage to \$6.15 an hour, with the increase to take effect this month. This increase will go to more than 50,000 workers, according to the Department of Legislative Services.<sup>6</sup>
- **Expand the state’s earned income credit.** An earned income credit is a tax credit for low-income, working taxpayers—mostly workers with children—that supplements their wages and offsets the impact of other taxes. The federal government has had a credit since 1975, and Maryland has had a state credit since 1987. Montgomery County also has a local credit.
  - Maryland House Bill 346, introduced January 26, 2006, by Delegate Sheila Hixson and co-sponsored by several other delegates, would allow individuals to claim more of the federal credit as a refundable tax credit in Maryland.

Some other steps that could help low- and moderate-income Marylanders are:

- **Expand the Renter’s Tax Credit.** Among other people, this credit of up to \$600 is available to low-income individuals with dependent children. It is intended to offset rent increases passed on by landlords due to increases in property taxes. However, the income limits for renters under age 60 are quite low—for example, \$15,071 for a family of three, which averages to a monthly gross income of \$1,256.
  - Expanding eligibility for this credit by raising the income limits would assist more low-income families with their housing costs.
- **Increase our educational attainment.** The report does not focus on it, but increasing educational attainment also would help. As previously mentioned, workers with less than a college education make up about 70 percent of the lowest earners. Census data show that earnings are higher the greater one’s educational attainment.<sup>7</sup>
  - Maryland has one of the highest proportions of college-educated citizens in the nation, ranking third among states in the portion of adults who have completed a bachelor’s degree (about 35 percent). However, 40 percent of Maryland adults have not attended college at all.<sup>8</sup> There is much room for improvement.

## The Bottom Line

Over the past twenty years, Marylanders’ incomes have grown considerably, but families with the highest incomes have seen growth that is double the rate of growth for families at the opposite end of the spectrum. Real wages for lower-income families have stagnated and even declined, while wages and other forms of income have grown significantly for people at the top. In response, Maryland is increasing the state minimum wage, and policymakers are proposing to expand the earned income credit. These steps and others, such as expanding

the renters' credit and a commitment to ensuring that all people have access to higher education, would help us better spread the gains from economic growth. Good for *all* of us.

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<sup>1</sup> Source: U.S. Census Bureau's table of Three-Year-Average Median Household Income by State: 2002-2004, based on data from the Current Population Survey, 2003, 2004, and 2005 Annual Social and Economic Supplements. This information is available at [Hwww.census.gov](http://www.census.gov)H.

<sup>2</sup> The January 2006 report is "Pulling Apart: A State-by-State Analysis of Income Trends." It is available at [Hwww.cbpp.org](http://www.cbpp.org)H and [Hwww.epinet.org](http://www.epinet.org)H.

<sup>3</sup> "Pulling Apart," p. 4.

<sup>4</sup> "Pulling Apart," pp. 39-40.

<sup>5</sup> "Pulling Apart," p. 41.

<sup>6</sup> Source: Fiscal and Policy Note, Revised, for House Bill 391, Department of Legislative Services, Maryland General Assembly, 2005 Session, March 30, 2005.

<sup>7</sup> Sources: U.S. Census Bureau data from the Current Population Survey, 2004, Annual Social and Economic Supplement, on Educational Attainment for People 25 Years Old and Over, by Total Money Earnings in 2004; and Earnings by Occupation and Education for Maryland, 2000 Census. This information is available at [Hwww.census.gov](http://www.census.gov)H.

<sup>8</sup> Sources: U.S. Census Bureau, 2004 American Community Survey, Ranking Tables and Maryland Educational Attainment Subject Table. This information is available at [Hwww.factfinder.census.gov](http://www.factfinder.census.gov)H.

### **About the Maryland Budget and Tax Policy Institute**

The Maryland Budget and Tax Policy Institute is a nonpartisan research organization that provides timely, accurate and accessible analysis of state budget and tax issues. In addition to general budget and tax research and analysis, the Institute examines issues affecting vulnerable populations and the important community programs that serve them. For additional information on the Institute or to be added to our e-mail or publications mailing lists, contact us at 301-565-0505 ext. 14 or visit our website at [www.marylandpolicy.org](http://www.marylandpolicy.org). Stephen Elmore wrote this issue brief.

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