

WHO'S GETTING AHEAD?

OPPORTUNITY
IN A GROWING
ECONOMY

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OPPORTUNITY IN A GROWING ECONOMY

by Michael Leachman, Janet Bauer, and Joy Margheim

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Because facts matter.

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WHO'S GETTING AHEAD? OPPORTUNITY IN A GROWING ECONOMY

Executive Summary

Oregon's economy is growing at a relatively rapid clip, but many Oregonians are not enjoying the benefits of this growth. Who's getting ahead? Not enough of us.

New jobs are more likely to be in low-wage industries and to lack health insurance and guaranteed retirement benefits

- Because low-wage jobs held up relatively well during the downturn and expanded considerably during the recovery, they are responsible for most of the net job growth since the peak of the last economic boom. Since November 2000 – the pre-recession high point for job numbers in Oregon – low-wage industries (those with jobs paying less than \$30,000 per year on average) accounted for 63 percent of all net job growth in Oregon, although these industries as a group accounted for only 35 percent of all Oregon jobs.
- The growth of Oregon's working-age population is outstripping the rate of job growth. As a result, despite the strong job growth in the past three years, there are still fewer jobs available per working-age Oregonian than there were before the recession.
- Because of continuing declines in employer-provided health coverage since the economic downturn, as well as budget cuts to the Oregon Health Plan, the share of working-age Oregonians without health insurance has risen sharply in this decade.

Income and earnings gains are primarily going to high-income Oregonians, furthering a trend that has developed over the past 25 years

- Since Oregon's economy started to improve in the last half of 2003, the highest-paid fifth of workers have reaped *all* of the real earnings gains. Low- and middle-pay workers have seen their earnings fall relative to inflation.
- From 2002 to 2004, the typical CEO of an Oregon public company got a cash compensation raise, after adjusting for inflation, of nearly \$83,000, or 29 percent. During this same period, Oregon workers generally saw their real average earnings grow by less than one percent. The typical CEO's cash compensation lost ground slightly in 2005 yet still is up 20 percent from 2002, even after adjusting for inflation.

- From 1980 to 2004, the top one-tenth of one percent of Oregon households saw their average adjusted gross income nearly quadruple, rising from \$733,000 in inflation-adjusted dollars to \$2.6 million.
- In 2004, in more than 80 percent of Oregon counties the gap between the top one percent of households and the middle fifth was wider than the gap had been in the most unequal Oregon county in 1980.

Poverty and hunger remain troubling problems

- In 2004-05, 6.5 percent of Oregon families with children in which the parents worked full-time, year-round were poor, despite their work effort. This rate is double the rate of the late 1970s.
- While Oregon's overall food insecurity rate has improved, the share of Oregon children living in food insecure homes has not.

Key investments for families trying to get ahead are less affordable

- The average monthly cost for full-time care for a toddler in a child care center in Oregon increased from \$730 in 1994 to \$865 in 2006, adjusted for inflation. That is, a full year of toddler care in 2006 would have cost \$10,380 – over \$4,000 more than tuition and fees for an undergraduate at the University of Oregon in 2005-06. All of the increases happened between 2000 and 2004.
- College is less affordable for all types of higher education in Oregon. In 2003-05, the net average costs of attendance – total college expenses minus federal grants and state and institutional aid – at a public, four-year institution in Oregon consumed 36 percent of the average family's annual family income, up from 25 percent in 1991-93.
- In the second quarter of 2006, the monthly mortgage payment required for the median Portland area home was 63 percent higher than it was in 2003. That means that over the course of a year, a family would need an additional \$7,539 to cover their mortgage compared to 2003.
- Oregon is one of the leading states in the use of riskier mortgage products. In 2005, about a third (32.3 percent) of Oregon mortgage loans were interest-only, the seventh highest percentage among the states. This year, through May, Oregon also ranks seventh for negatively amortizing mortgages.

Oregonians are struggling with debt

- Oregon payday lenders made nearly 746,000 loans in 2004; that's one payday loan for every four Oregon adults. Today in Oregon there are more payday lenders than Starbucks and more payday lenders than McDonald's and 7-Elevens combined.
- The value of bad debt reported by Oregon hospitals more than doubled during this decade. Even as the economy improved in 2004 and 2005, bad medical debt continued to soar in Oregon, rising by 22 percent in 2004 and 12 percent in 2005.
- In the last few years, Oregon has produced more bankruptcy filings than college degrees. In 2004, there were over 23,600 bankruptcy filings in Oregon and 16,664 bachelor's degrees awarded.

WHO'S GETTING AHEAD? OPPORTUNITY IN A GROWING ECONOMY

Introduction

Working Oregonians are making the state economy hum. We are outpacing much of the nation on a number of key economic measures. Oregon's workers are producing goods and services much more efficiently than we were a few years ago.

With the economy on an upswing, Oregon's workers should be seeing increased economic opportunities, but the numbers show they're not. Who's getting ahead? Not enough of us.

This report, a resource guide for policy makers, advocates, the media, and the general public, explains why.

- The jobs Oregon has produced since the 1990s economic boom ended have been concentrated in low-wage industries. In addition, Oregon jobs are less likely to offer health insurance today, and the costs to workers who accept their employers' health coverage have increased.
- The income Oregonians are producing is going disproportionately to higher-income households. The only workers who have seen real wage gains since the economy started recovering are high-wage workers. Oregon CEOs have seen significant pay gains since the economic downturn, while wages for middle- and low-wage workers have lost ground.
- Investments that are crucial for middle- and low-income families trying to get ahead – buying a home, going to college, and paying for child care – have become less affordable.
- Protections for those in debt have diminished. While credit is more widely available than it used to be, Oregonians are losing substantial income to usurious and irresponsible lenders.

The economy is growing but too few Oregonians are getting ahead.

Some Oregonians believe that markets function through a natural process, like evolution, and that economic winners and losers are produced by blind market forces. This is not true. Markets are human institutions, shaped by changing cultural values, shifts in who has power, and policy decisions in the public sector and in private businesses.

Introduction: Who's Getting Ahead? Opportunity in a Growing Economy

As such, public policies affect who benefits from economic activity. For instance, if Oregon were to cut the income tax on capital gains, people with high incomes would disproportionately benefit. When Oregon raised the minimum wage, low-income workers were the direct beneficiaries. If Oregon makes college education more affordable, upward mobility becomes possible for a larger share of its citizens.

Public policies can also ameliorate the impact of private market decisions that threaten the common good. When businesses start rewarding their CEOs with lavish pay and retirement packages while scaling back on health insurance for the majority of workers, the CEOs win and the workers lose. That fuels the call for public policies to address the rise in uninsurance and the affordability of health care for workers outside the executive suite.

Some political actors today in Oregon are misinforming the public that Oregon's economy is weak. They then use this claim to push public policies that would make it harder for middle- and low-income Oregonians to get ahead or that further enrich the wealthy few who are already reaping the lion's share of the economy's gains. The truth is that the economy is strong, but too many Oregonians are still not getting ahead. Oregon needs public policies that will channel more of the economy's benefits to middle- and low-income families who are struggling, not policies that will exacerbate the current imbalance.

Oregonians can choose a different path than the one we are on now. We can, and should, choose to support public policies that assure opportunities for all in a growing economy.

MORE JOBS, MORE INSECURITY

Chapter 1

Oregon's economy is growing. Our share of U.S. economic production is high by historical standards. We are adding jobs at a strong clip compared to most states. Unemployment is down. Exports are surging.

Yet Oregon's economic growth is not helping enough Oregonians get ahead. In an election year, this helps explain why voters are in a sour mood.¹

What gives? Why aren't Oregonians more enthusiastic about the economy during this time of economic growth?

The story starts with Oregon's changing job base. We are adding jobs, but most new jobs are in industries that pay low wages. The growth in low-wage industries is related to the transformation of Oregon's job base from manufacturing to services, which has been in process for decades. Temporary jobs, which provide particularly unstable incomes, have been growing rapidly, though they still make up only a small portion of all jobs in Oregon. In addition, Oregon's job base includes a large share of part-time jobs and a large share of part-time workers who want full-time work.

Health care matters, too. Despite the job growth, Oregon workers are less secure because they are less likely to have health benefits than they were only a few years ago. Those who do have health coverage through an employer pay more for premiums, and – assuming they are like their counterparts nationally – they pay more in deductibles and in co-payments for physician office visits.

In addition, Oregon workers are getting less support for retirement from their employers than in the past, and they are less likely to have the benefits of union membership.

Oregon workers have reason to feel uneasy. Their jobs are providing less security than they used to.

Oregon's economy is growing

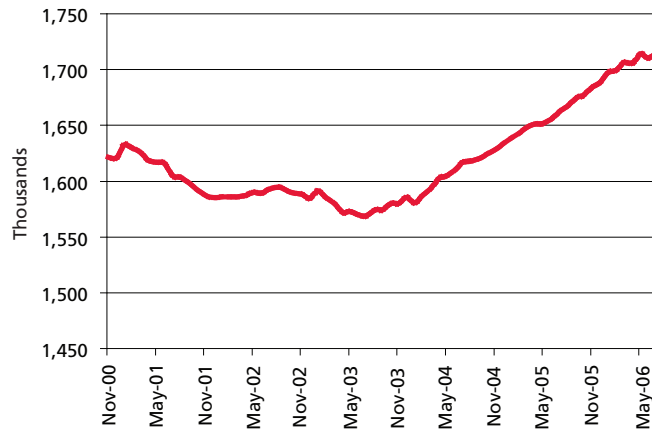
As a consequence of the recession, the number of jobs in Oregon hit a low point in July 2003. That month, there were 52,600 fewer non-farm payroll jobs in Oregon than there

Oregon workers have reason to feel uneasy. Their jobs are providing less security than they used to.

had been in November 2000, at the peak of the boom years. After bottoming out in July 2003, Oregon job numbers have trended steadily upward (Figure 1-1). Job growth in Oregon since that time ranks sixth fastest in the country.

After bottoming out in July 2003, Oregon job numbers have trended steadily upward. Job growth in Oregon since that time ranks sixth fastest in the country.

Figure 1-1: Since July 2003, jobs in Oregon have trended steadily upward



Source: OCPP presentation of seasonally adjusted Oregon Employment Dept. data through July 2006.

Other indicators also show an improved economy. Oregon’s unemployment rate fell from a high of 8.5 percent in July 2003 to its lowest recent point, 5.3 percent, in January 2006. As of August 2006, unemployment stood at 5.5 percent. The national unemployment rate for August 2006 was 4.7 percent. Oregon’s average annual unemployment rate usually is higher than the national rate (see text box below).

Understanding Oregon’s unemployment rate

Oregon’s unemployment rate in August 2006 – 5.5 percent – remained above the national rate of 4.7 percent. This is not unusual. Oregon’s average monthly unemployment rate has been above the national rate in all but five of the past 33 years. It has been more than 10 years since Oregon’s unemployment rate was lower than the national rate.²

Oregon’s unemployment rate is driven largely by factors that have little to do with how well the state’s economy is doing.³

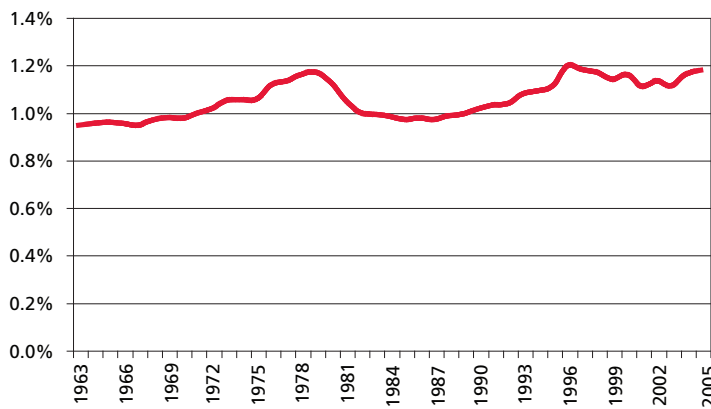
- *Oregon’s employment base includes more seasonal jobs than the nation in general. Jobs in natural resources, agriculture, tourism, and construction all tend to be seasonal, leaving workers unemployed and searching for other types of work during the off-season.*
- *Oregon tends to attract a large number of newcomers. Those newcomers who want a job in Oregon add to the state’s labor supply, increasing the relative unemployment rate.*
- *Many of Oregon’s small, rural communities are more distant from major population centers than rural communities in many other states. As such, workers in these communities are less likely to find a job within a reasonable commuting distance.*

Voters and policymakers should work to lower Oregon’s unemployment rate. For policies to be most effective, however, it is important to understand why Oregon’s unemployment rate is – and has been for most of the last three decades – high compared to the nation. The state unemployment rate should not be used as the barometer of Oregon’s economic success in isolation from other factors.

Mass layoffs – those involving unemployment claims by 50 or more workers from a single employer over five straight weeks – continue to decline from their height during the recession. In 2005, mass layoffs in Oregon occurred at less than half the level they occurred in 2001, and they continued to trend downward in the first six months of 2006.⁴

Oregon's economy is also doing well in terms of production. Growth in Oregon's gross state product (GSP) outpaced total national GSP growth in 2004 and 2005. Oregon ranked seventh among states for GSP growth between 2003 and 2005, after ranking 49th between 2000 and 2003. Oregon's share of nationwide GSP is now high by historical standards, having returned to levels achieved in the late 1970s and again in the late 1990s (Figure 1-2).⁵

Figure 1-2: Oregon's share of total U.S. Gross State Product in 2005 is high relative to earlier years



Source: OCPP analysis of Bureau of Economic Analysis data.

Oregon's share of nationwide GSP is now high by historical standards, having returned to levels achieved in the late 1970s and again in the late 1990s.

Data on GSP for 2006 are not yet available, but state exports to other countries, a predictor of GSP, have been increasing rapidly this year. The total value of products exported from Oregon to consumers outside of the United States is up 30 percent through June 2006, compared to last year.⁶ This strong growth is more than double the rate of export growth nationally, which stands at 14 percent through June.

Oregon's fast pace of growth may be slowing, however. Job growth slowed in the second quarter of 2006, after posting strong gains in the first quarter. Oregon added just 4,100 jobs in the second quarter, after adding 17,400 in the first quarter. The housing construction boom that drove a large share of Oregon's economic growth during the recovery appears to be winding down. Single-family housing permits were down six percent in the first quarter of 2006 compared to a year earlier, after posting double-digit growth over the previous year and a half.⁷

The Oregonian is advertising slightly fewer jobs than a year ago, too, which may indicate that job growth will remain relatively slow in the months ahead. The number of help-wanted ads in the paper surged by 20 percent in 2004 and by another 15 percent in 2005 but declined by four percent over the first six months of 2006, relative to the same period in 2005. At no point during the current period of economic growth has the number of ads been anywhere close to the levels reached during the 1990s boom. The number of ads in June 2006 was only a little more than half the number in June 1999.⁸

Despite signs that job growth in Oregon may be slowing, the state’s economy continues to expand overall and is expected to continue to grow at a rate above the national rate of growth over the next several years.⁹ Unfortunately, the economy can do well even while many of the people in the economy do not.

Most of the job growth since the last boom has been in low-wage industries

While Oregon is adding jobs at a rapid pace, a disproportionate share of new jobs are in low-wage industries.

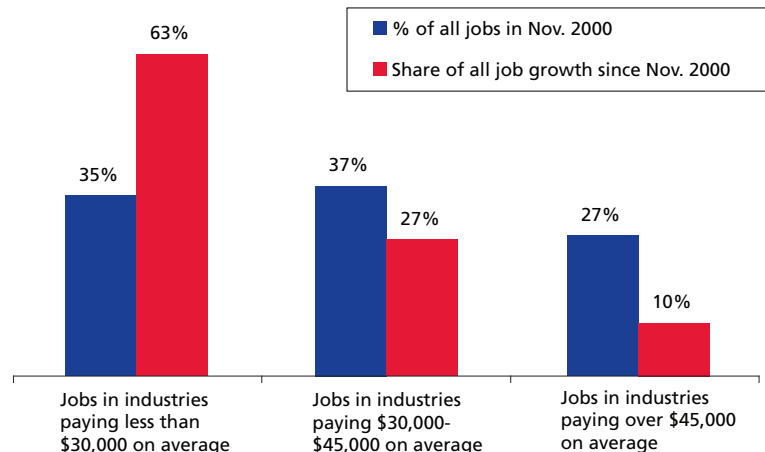
The recent recession hit particularly hard in industries that pay relatively high wages, especially the high-tech industry. Computer and electronic products manufacturing, for instance, accounted for just three percent of all jobs in Oregon at the beginning of the downturn but absorbed 22 percent of all net job losses over the first two years of the decline.

Jobs in lower-paying industries, by contrast, held up relatively well during the downturn. Jobs paying less than \$30,000 accounted for just 17 percent of all net job losses during the downturn, even though they made up 35 percent of all jobs when the downturn first struck.¹⁰

When Oregon’s economy shifted into recovery, low-wage industries grew faster than mid-range or high-paying industries. Jobs paying under \$30,000 accounted for 36 percent of all jobs in July 2003 but have accounted for 43 percent of all net job growth since that time.¹¹

Because low-wage jobs held up relatively well during the downturn and expanded considerably during the recovery, they are responsible for most of the net job growth since the peak of the last economic boom. Since November 2000 – the pre-recession high point for job numbers in Oregon – low-wage industries (those with jobs paying less than \$30,000 per year on average) accounted for 63 percent of all net job growth in Oregon, although these industries as a group accounted for only 35 percent of all Oregon jobs (Figure 1-3).

Figure 1-3: Low-wage industries account for two-thirds of job growth since November 2000, even though they made up only one-third of all jobs at that time



Nearly two out of three new jobs are in low-wage industries.

Source: OCPP analysis of Oregon Employment Dept. data through March 2006.

Growth in restaurant jobs – one of the lowest paying of the low-pay industries – has been particularly strong. Restaurant jobs, which average \$14,230 in annual pay, account for 21 percent of all net job growth since November 2000.¹² Among low-wage industries, restaurant jobs account for fully one-third of net job growth over the same period. The industry's rapid growth has occurred despite restaurant industry lobbyists' dire predictions that thousands of restaurant workers would lose their jobs if Oregon raised its minimum wage.¹³

Minimum wage increase has not hurt job growth

Nearly four years ago, Oregon voters approved Measure 25, which increased the state minimum wage to \$6.90 beginning January 1, 2003, and required annual cost-of-living adjustments. In 2006, Oregon's minimum wage is \$7.50 per hour. Working full-time, a worker in a minimum-wage job now earns \$15,600 per year, or \$1,300 per month.

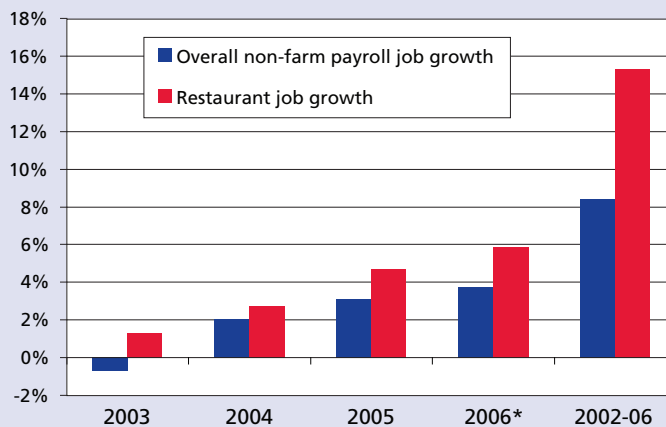
The minimum wage still does not lift out of poverty a family of three that is dependent on a full-time minimum-wage worker. The annual cost-of-living adjustment, however, helps families hold their ground against the rising costs of basic necessities.

When Oregon voters were considering Measure 25, the restaurant industry claimed it could cost Oregon 30,000 jobs.¹⁴

In fact, since Measure 25 was implemented, Oregon jobs have grown more quickly than jobs nationally. Since December 2002, just before Measure 25 was implemented, Oregon job growth has been the eighth fastest in the nation.¹⁵

Oregon's restaurant industry has added jobs at a particularly rapid pace since Measure 25 was implemented. In each year under Measure 25, the number of jobs in Oregon's restaurant industry has grown more quickly than the number of non-farm payroll jobs generally. Including an estimate for 2006 based on growth through the first half of this year, restaurant jobs are on track to increase 15.3 percent since 2002, compared to 8.3 percent growth for jobs generally (Figure 1-4).

Figure 1-4: Since Measure 25 was implemented, restaurant jobs have increased more quickly than jobs generally



* 2006 is OCPP estimate based on growth through June.
Source: OCPP analysis of Oregon Employment Dept. data.

Including an estimate for 2006 based on growth through the first half of this year, restaurant jobs are on track to increase 15.3 percent since 2002, compared to 8.3 percent growth for jobs generally.

Construction was the fastest growing industry, but is now cooling off

Even though job growth over the past three years of economic expansion has been tilted toward low-wage industries, the construction industry, which pays higher than average wages, was the fastest growing industry in Oregon during this period. Construction jobs pay about \$40,000 per year on average. The industry has produced about 18 percent of all net job growth during the past three years of economic growth, even though construction accounted for less than five percent of all jobs when the growth period began.¹⁶

A boom in housing construction helped produce the sharp rise in construction jobs. Jobs in home construction surged 59 percent over the past three years.¹⁷ Growth also has been strong in non-residential construction, heavy and civil engineering construction, and the specialty construction trades.

The construction boom is now cooling off. State economic analysts expect this industry to play a much smaller role in Oregon's economic growth in the next couple of years. Construction jobs are projected to grow by 9.3 percent in 2006, thanks primarily to job growth in the first quarter. Then, construction job growth is expected to drop off sharply, to just 0.5 percent in 2007 and 1.5 percent in 2008. The state economist projects annual growth of no more than 1.5 percent for the industry through 2013.¹⁸

The long-term trend favors lower-paying service industries

The growth in low-wage industries evident in the current period of economic growth is part of the larger transformation of Oregon's economy over the past 30 years. Service jobs are now a bigger part of Oregon's job base, while manufacturing jobs are decreasing as a share of all jobs. Because service jobs currently pay less and offer fewer benefits than manufacturing jobs on average, this transformation has resulted in lower wages and fewer benefits for Oregon workers overall.

Manufacturing maintains its importance as an economic engine but not as a job producer

The manufacturing sector is about as important to Oregon's economy as it was 30 years ago, but the sector is much less important to Oregon's job base. This transformation has largely resulted from the decline of the timber industry and the rise of high-tech manufacturing.

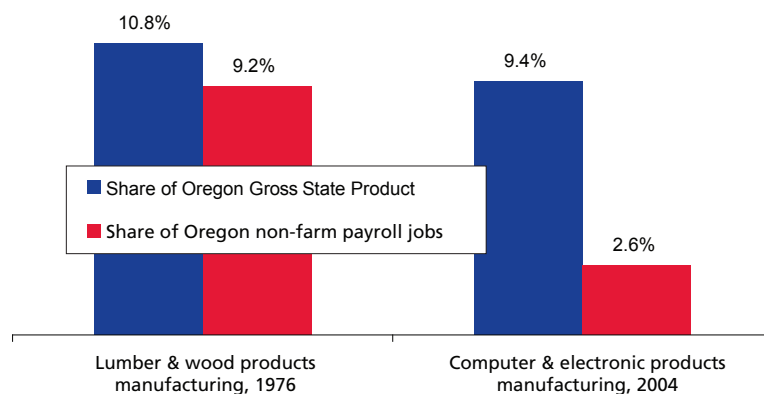
Timber-related manufacturing was vital to Oregon's economy and job base thirty years ago. In 1976, lumber and wood products manufacturing accounted for 9.2 percent of all non-farm payroll jobs in Oregon and 10.8 percent of Gross State Product. By 2000, however, the industry's share of all jobs had fallen to just 3.1 percent, and its share of GSP had seen a similar decline.¹⁹

As a result of the decline in the wood products industry during the 1980s and early 1990s, manufacturing as a whole played a smaller role in Oregon's overall economy. Between 1979 and 1992, manufacturing's share of Oregon's GSP dropped from 25 percent to 18 percent. The collapse in the wood products industry accounts for almost the entire reduction in manufacturing's share of GSP over this period.²⁰

By the mid-1990s, other forces emerged to strengthen the state's manufacturing base. High-tech industries, led primarily by manufacturers of microprocessors, drove the economic boom in Oregon during this period. Manufacturing's share of GSP increased accordingly, rising sharply from 18 percent in 1992 to 25 percent in 1997. This increase restored manufacturing to the level of significance it held in 1979, before the decline of wood products manufacturing. The increase in manufacturing's share of GSP from 1992 to 1997 is fully accounted for by sharp growth in the electronic equipment manufacturing industry, which includes the manufacture of microprocessors.²¹

In 2004, the computer and electronic products manufacturing industry accounted for 9.4 percent of Oregon GSP, making it nearly as important to Oregon's economy in 2004 as lumber and wood products manufacturing had been in 1976. But computer and electronic products jobs made up just 2.6 percent of all nonfarm payroll jobs in Oregon in 2004, much less than lumber and wood products during its heyday (Figure 1-5).

Figure 1-5: Computer and electronic products are about as important to Oregon's economy as lumber and wood products used to be, but much less important to Oregon's job base



Source: OCPP analysis of Oregon Employment Dept. data.

In 2004, the computer and electronic products manufacturing industry accounted for 9.4 percent of Oregon GSP, making it nearly as important to Oregon's economy in 2004 as lumber and wood products manufacturing had been in 1976. But computer and electronic products jobs made up just 2.6 percent of all non-farm payroll jobs in Oregon in 2004, much less than lumber and wood products during its heyday.

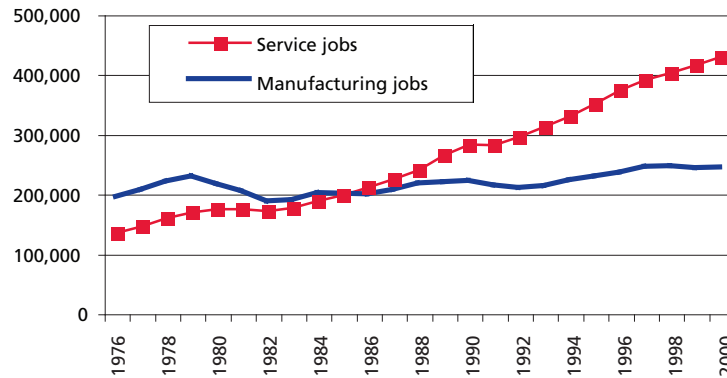
Manufacturing accounts for about the same share of Oregon's GSP as it did 30 years ago, but it provides a substantially smaller share of Oregon jobs. Manufacturing jobs fell from 23 percent of all jobs in 1976 to 15 percent in 2000. Since then, the share of manufacturing jobs has continued to decline, slipping by another percentage point or two between 2000 and 2006.²² The precise decline is not known because of a change in the way data was gathered after 2000.

Manufacturing jobs are projected to continue to decline over the next several years. The state economist projects that Oregon's manufacturing sector will lose 4,000 jobs between 2006 and 2013. While this is bad news for manufacturing employees, the projected decline in Oregon is not as steep as projections for the nation as a whole. Manufacturing jobs are projected to decline by 1.9 percent in Oregon between 2006 and 2013, but they are expected to drop by 3.5 percent nationally.²³

A larger share of jobs is in lower-paying service industries

Service industry jobs are growing as a share of all jobs, continuing a trend in this sector evident for the past three decades. In 1976, Oregon had about 59,000 more manufacturing jobs than service jobs. By 2000, in contrast, Oregon had about 187,000 more service jobs than manufacturing jobs (Figure 1-6). As a share of all jobs, the two sectors switched places between 1976 and 2000. Manufacturing fell from 23 percent of all jobs to 15 percent, while services rose from 16 percent to 27 percent.

Figure 1-6: Growth in service jobs easily outpaced growth in manufacturing jobs from 1976 to 2000



Source: OCPP analysis of Oregon Employment Dept. data.

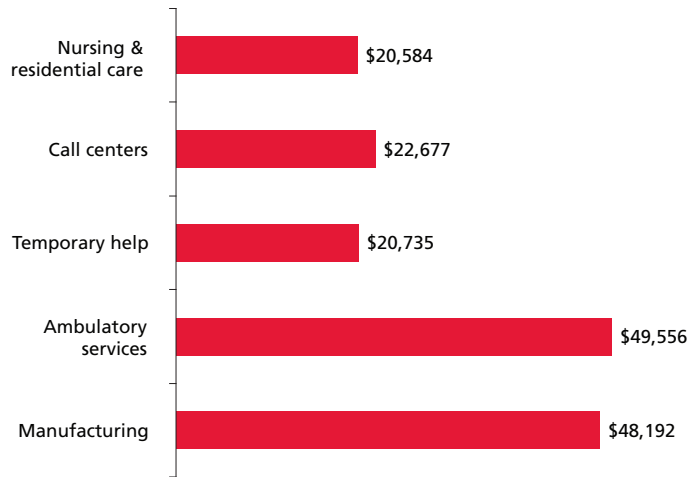
In 1976, Oregon had about 59,000 more manufacturing jobs than service jobs. By 2000, in contrast, Oregon had about 187,000 more service jobs than manufacturing jobs.

Since 2000, as noted in the previous section, manufacturing has continued to decline as a share of all jobs and is projected to slip further over the next several years. By contrast, service sector jobs have continued to expand, increasing their share of all payroll jobs in Oregon by another percentage point or two.²⁴

Some of the fastest-growing service sector positions include temporary jobs, call center jobs, and jobs in health care (see Text Box, “The number of temporary jobs is growing”).²⁵ The professional and business services industry – which includes temporary jobs and call center jobs as well as lawyers, accountants, and other high-paying jobs – accounted for 8.2 percent of all jobs in the state in 1990. By 2013, it is projected to account for 12.5 percent of all jobs, more than in the entire manufacturing sector. Jobs in health care grew from 9.2 percent of all non-farm payroll jobs in 2000 to 10.4 percent in 2006 and are projected to reach 10.8 percent of all jobs in 2013.²⁶

While some service sector jobs pay well, overall they pay substantially less and offer fewer benefits than manufacturing jobs. In 1997, the last year that compensation data for the entire service sector was compiled, Oregon service sector jobs averaged pay and benefits worth \$30,307, while manufacturing jobs averaged pay and benefits worth \$45,488, 50 percent more than services. In 2005, manufacturing jobs in Oregon paid \$48,192 on average, not including benefits, much higher than the average pay in most of the fastest-growing service industries. Temporary jobs averaged \$20,735 in annual pay in 2005. Call center jobs averaged \$22,677. Health care jobs ranged widely in pay, from \$49,556 in ambulatory services to \$20,584 in nursing and residential care facilities (Figure 1-7).²⁷

Figure 1-7: Average pay in Oregon manufacturing jobs in 2005 was higher than average pay in most fast-growing service sector jobs



Source: Oregon Employment Dept., Covered Employment & Wages.

In 2005, manufacturing jobs in Oregon paid \$48,192 on average, not including benefits, much higher than the average pay in most of the fastest-growing service industries.

The number of temporary jobs is growing

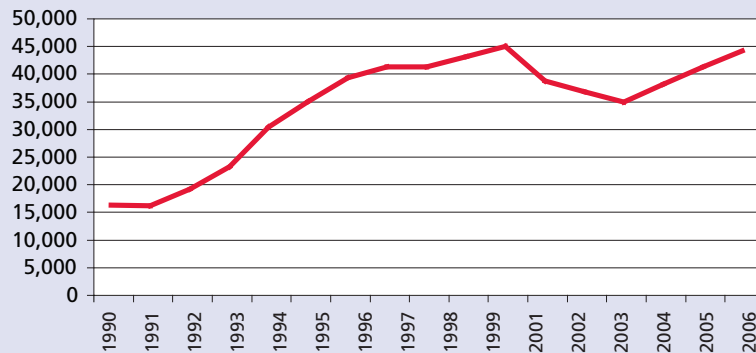
One of the service industries that is projected to grow particularly rapidly over the next several years is employment services, also known as “temporary” jobs. By design, these jobs offer little employment security. Temporary workers are typically the employees of a staffing agency, not the employees of the firm where they work, and they typically are hired only for a specified period of time. In 2001, only 12 percent of temporary agency workers nationally had health coverage from their employers. Although some temporary workers obtained insurance from other sources, including spouses, half went uninsured.²⁸

During the 1990s, the number of temporary jobs in Oregon increased rapidly. Between 1990 and 1997, the number of temporary jobs rose from 15,800 to 40,900 (Figure 1-8). The pace of growth slowed through 2000, then dropped off when the downturn hit and companies scaled back their hiring.

As the economy recovered, the number of temporary jobs in Oregon rose again. Over the past three years, the temporary job industry produced six percent of all net job growth, even though it accounted for just two percent of jobs three years ago.²⁹

The Oregon Employment Department projects growth in temporary jobs easily outpacing job growth generally in the state over the next several years. Between 2004 and 2014, the number of temporary jobs is expected to grow by 40 percent, while the number of jobs generally will grow by just 15 percent.³⁰

Figure 1-8: Temporary jobs grew rapidly in the 1990s and are expanding again in the current period of growth



Note: 2006 is OCPP estimate based on job growth through June.
Source: Oregon Employment Dept.

Over the past three years, the temporary job industry produced six percent of all net job growth, even though it accounted for just two percent of jobs three years ago.

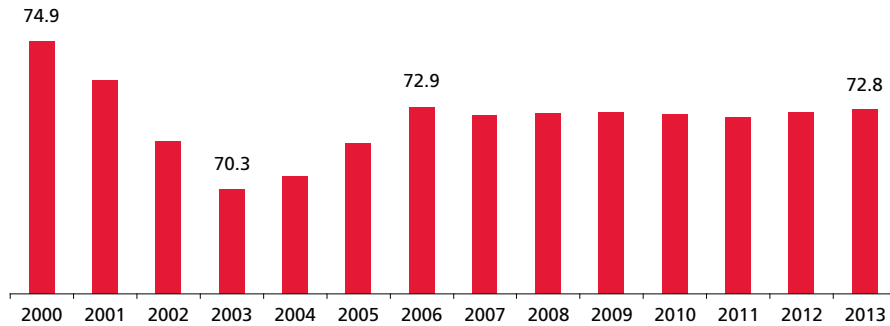
Job growth has not kept pace with growth in the working-age population

Economic growth also is not helping as many Oregonians to get ahead as it might because the growth of Oregon’s working-age population is outstripping the rate of growth in jobs. As a result, despite the strong job growth in the past three years, there are still fewer jobs available per working-age Oregonian than there were before the recession.

In 2000, there were 74.9 non-farm payroll jobs for every 100 working-age Oregonians.

When the economic downturn hit in 2001, Oregon businesses shed jobs even as Oregon's working-age population continued to grow. As a result, by 2003, there were just 70.3 jobs for every 100 Oregonians of working age (Figure 1-9).

Figure 1-9: Oregon will not recover the pre-recession number of jobs per 100 working-age Oregonians in the foreseeable future



Note: Working age is ages 18-64. Jobs are non-farm payroll jobs.
 Source: OCPP analysis of Office of Economic Analysis, September 2006 Economic and Revenue Forecast, and Oregon Employment Department data.

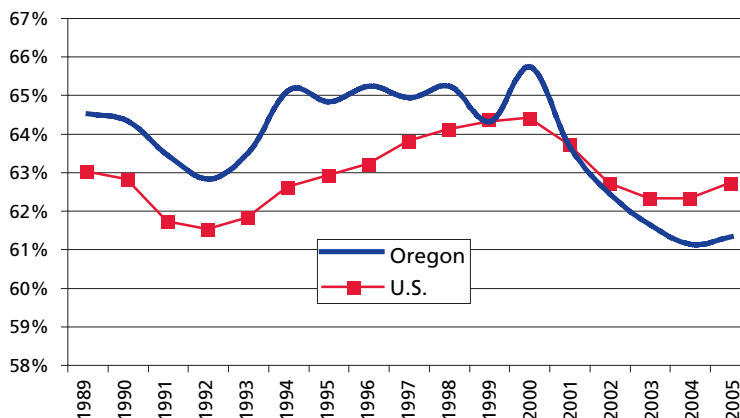
As of 2006, there were about 72.9 jobs for every 100 working-age Oregonians, still two jobs less than prior to the downturn.

The economic recovery and expansion have improved the situation, but not enough to restore the state to pre-recession conditions. As of 2006, there were about 72.9 jobs for every 100 working-age Oregonians, still two jobs less than prior to the downturn.

The ratio of jobs to the working-age population will not return to its pre-recession level in the foreseeable future, if the state economist's latest projections hold true. The OCPP's analysis of the latest projections finds that Oregon will have just 72.8 jobs per 100 working-age Oregonians in 2013 (Figure 1-9).

During most of the 1990s, Oregonians over age 16 encountered a more welcoming job market, generally speaking, than their counterparts nationally. Over that decade, the ratio of jobs per population over age 16 in Oregon typically ran one to two jobs per 100 higher than the ratio nationally. That is, there were typically one or two more jobs for every 100 Oregonians over age 16 than there were for their counterparts nationally (Figure 1-10).

Figure 1-10: Oregon's ratio of jobs per population over age 16 remains below the national ratio



Source: Economic Policy Institute.

In 2005, Oregon had 61.3 jobs per Oregonian over the age of 16, 1.4 jobs fewer than the ratio nationally, despite Oregon's relatively strong job growth coming out of the downturn.

Since the downturn hit, Oregon’s ratio has reversed position relative to the national ratio. In 2005, Oregon had 61.3 jobs per Oregonian over the age of 16, 1.4 jobs fewer than the ratio nationally, despite Oregon’s relatively strong job growth coming out of the downturn.

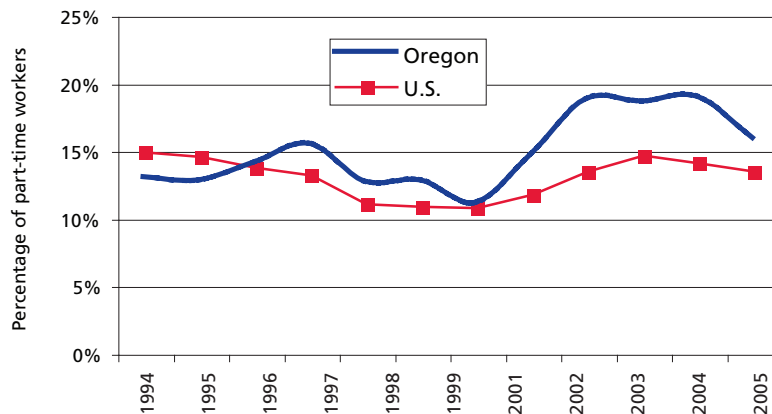
Oregon workers are more likely to be part-time and “frustrated”

A relatively large share of part-time jobs means that the benefits of strong job growth over the past three years have been limited for many Oregonians. For workers seeking full-time employment, part-time jobs may provide a stopgap, but likely not enough income to meet their needs. Moreover, because part-time jobs are less likely than full-time jobs to offer benefits such as health insurance, paid vacation, and paid sick leave, workers in part-time positions are particularly disadvantaged.³¹ In 2005, for example, 81 percent of full-time workers in Oregon were offered health insurance by their employers. By contrast, just 20 percent of part-time workers were offered health insurance coverage.³²

The Oregon job market is particularly skewed toward part-time employment. In 2005, 26 percent of Oregon workers were working part-time, compared to 23 percent of workers across the nation. Since 1994, the first year with comparable data, Oregon workers have been consistently more likely to work in part-time jobs than their counterparts nationally. Moreover, while the share of workers in part-time jobs has trended downward nationally since 1994, in Oregon the share has held steady.

Among Oregon’s part-time workforce are employees who would rather work full-time but are unable to find a job that offers full-time hours. The percentage of part-timers who would rather work full-time – called frustrated part-time workers – is consistently higher in Oregon than in the nation as a whole. The number of frustrated part-time Oregon workers rose sharply during the economic downturn, from 12 percent in 2000 to 20 percent in 2002, and it stayed at that level even as Oregon’s economy began to recover. In 2005, the share of part-time workers who would prefer full-time employment declined, but Oregon’s rate remained above the national rate (Figure 1-11).³³

Figure 1-11: Even in 2005, the proportion of part-time workers who would prefer full-time employment was larger in Oregon than in the U.S.



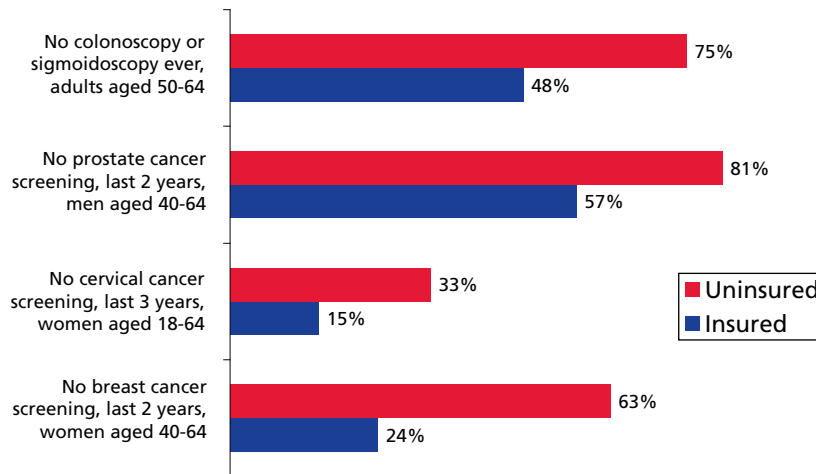
Source: Economic Policy Institute.

The percentage of part-timers who would rather work full-time is consistently higher in Oregon than in the nation as a whole.

More jobs lack health benefits

Health insurance coverage is a crucial part of employee compensation. Health coverage helps protect workers against potentially devastating health and economic impacts due to illness or injury. Nationally, for example, people without insurance are less likely to receive preventive care and therapeutic care for their medical conditions.³⁴ In Oregon, 63 percent of uninsured women age 40 to 64 have not had a breast cancer screening in the past two years, compared to just 24 percent of women that age who have insurance. In fact, uninsured working-age adults in Oregon are less likely to get a variety of preventive care screenings (Figure 1-12).

Figure 1-12: Uninsured Oregon adults get less preventive screening than insured adults



Note: Data are for 2004.
Source: State Health Access Data Assistance Center, University of Minnesota, *The Coverage Gap*, April 2006.

In Oregon, 63 percent of uninsured women age 40 to 64 have not had a breast cancer screening in the past two years, compared to just 24 percent of women that age with insurance.

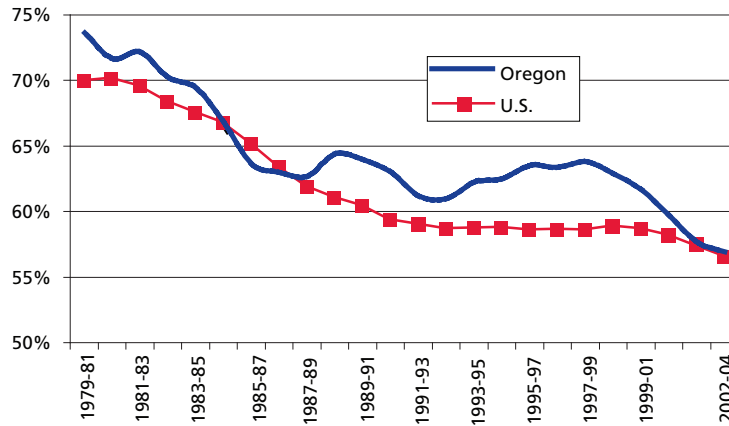
Oregon's uninsured are also more likely to feel unhealthy than their insured counterparts. In 2004, 21 percent of uninsured working-age adults in Oregon reported being in "poor" or "fair" health, compared to 11.8 percent of working-age adults with insurance.³⁵ Nationally, the uninsured are more likely to die prematurely and more likely to die in the hospital if they experience severe trauma.³⁶ An extensive review of the research literature by the Kaiser Commission on Medicaid and the Uninsured found that, depending on the medical condition and measurements used, better health would improve sick workers' annual earnings by 10 to 30 percent, a significant gain for workers and their families as well as for the economy as a whole.³⁷

Unfortunately, it is more difficult now than it was 25 years ago, or even five years ago, to find a job in Oregon that offers health insurance. Because of continuing declines in employer coverage through the economic downturn and budget cuts to the Oregon Health Plan, the share of working-age Oregonians without insurance has risen sharply in this decade.

In the 1980s and early 1990s, the share of Oregon workers receiving at least some health insurance coverage from their employers declined significantly, falling from 73.5 percent in 1979-81 to 60.9 percent in 1992-94 (Figure 1-13). Then, after a respite during the mid- and late 1990s, when the state's labor force tightened and health care inflation cooled temporarily, the share of Oregon workers receiving at least some health coverage from their employers declined again when the economic downturn hit in 2001. By the 2002-04 period, the figure was just 56.8 percent.

The share of Oregon workers receiving at least some health coverage from their employers declined again when the economic downturn hit in 2001. By the 2002-04 period, the figure was just 56.8 percent.

Figure 1-13: The share of workers whose employers paid at least part of their health insurance dropped again during the downturn, extending declines from the 1980s



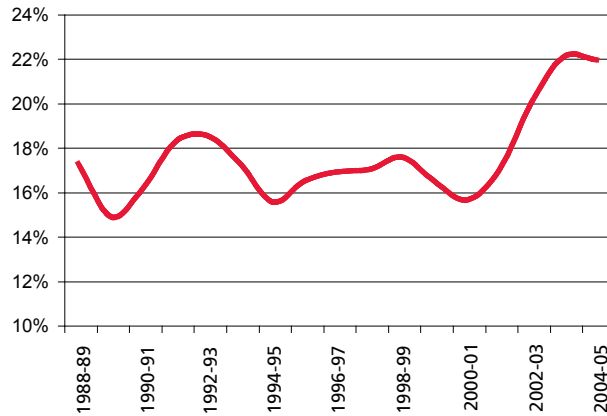
Source: Economic Policy Institute.
 Note: "Workers" here are private-sector wage and salary workers age 18-64 who worked at least 20 hours per week and 26 weeks per year.

Data are not yet available to determine whether the share of Oregon workers receiving health care from their employers is higher now that the economy is growing again. National data indicate that, despite the national economy's growth, the share of firms offering health benefits in 2005 remained at 60 percent, well below the 69 percent of firms offering insurance in 2000.³⁸ The decline is primarily the result of a drop in the portion of small firms (made up of 3-199 employees) offering coverage, which fell from 68 percent to 59 percent between 2000 and 2005.

Oregon employers reduced health insurance benefits after the downturn hit and health care inflation surged, at the same time that the state sharply reduced access to the Oregon Health Plan. As a result, the share of Oregonians going without insurance for a full year has increased sharply. In 2004-05, 592,000 Oregonians of all ages lacked health coverage for a full year.

About 84 percent (495,000) of the long-term uninsured in 2004-05 were working aged. That is, they were between the ages of 18 and 64. More than one in five (22 percent) of all Oregonians of working age had no health insurance for a full year during 2004-05, up from 15.6 percent in 2000-01 (Figure 1-14).

Figure 1-14: More than one in five working-age Oregonians was uninsured for a year or more in 2004-05



Note: "Working-age" is ages 18-64.
Source: OCPP analysis of Current Population Survey data.

In 2004-05, 22 percent of all Oregonians of working age had no health insurance for a year or more. In 2001, the figure was 15.6 percent.

Cuts to the Oregon Health Plan have combined with cutbacks by employers to drive the rise in uninsurance among Oregon's working-age population. From June 2002 to June 2005, the number of recipients of the Oregon Health Plan's "standard" program – the portion of the state's Medicaid program that was designed to provide insurance to poor individuals not receiving public assistance – was cut by 71 percent, from nearly 98,000 to 28,000. Since then, the program has continued to be cut; as of June of this year, the "standard" program was down to just 21,400 recipients.

Workers continue to face rising costs of health coverage

Health insurance provides security to workers and their families only if they have affordable medical care. Workers with health coverage may bear substantial, even overwhelming, costs for co-payments, deductibles, and other out-of-pocket costs. One study of households filing for bankruptcy found that about half ended up in bankruptcy court because of medical debt. Tellingly, three in four of these households had health insurance when their bankrupting illness struck.³⁹

Unfortunately, the costs to workers of employer-provided health benefits have increased since the early 1990s. For instance, the share of employees required to pay a monthly premium for employee-only coverage increased from 36 percent in 1993 to 56 percent in 2004. For family coverage, 85 percent of employees now pay a premium (Table 1-1). For those who paid premiums, the payment amounts increased during this period from a real average of \$255 per year in 1993 for single coverage to \$427 per year in 2004 – a 67 percent increase above inflation. For those in family plans, premium payments averaged \$2,370 per year in 2004, a 74 percent real increase in average payments from a decade earlier.

The share of employees required to pay a monthly premium for employee-only coverage increased from 36 percent in 1993 to 56 percent in 2004. For family coverage, 85 percent of employees now pay a premium.

Table 1-1: Health coverage costs for Oregon employees continue to rise

	1993	2004
Single coverage		
% with employee contribution	36%	56%
Average annual employee contribution*	\$255	\$427
Employee share of premium	10.8%	11.5%
Family coverage		
% with employee contribution	67%	85%
Average annual employee contribution*	\$1,364	\$2,370
Employee share of premium	24.5%	23.9%

* Adjusted for inflation to 2004 dollars with US CPI-U.
 Source: Medical Expenditure Panel Survey and 1993 National Employer Health Insurance Survey.

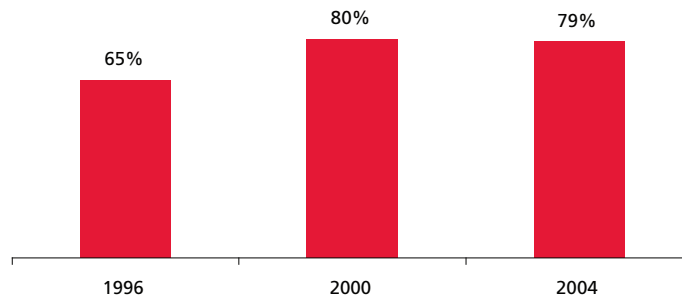
More recent data on the costs of health insurance for Oregon workers are not yet available, but national figures show that health care premiums increased by 11.2 percent in 2004 and 9.2 percent in 2005.⁴⁰ While the share of premiums paid by employees did not change by any statistically significant amount, the rising cost of premiums meant that workers paid more.

Nationally, workers are paying more for deductibles. The average deductible amount varies by plan type, but for employees in Preferred Provider Organizations (PPOs) – the plan type with the highest enrollment – the average annual deductible for employee-only coverage increased from \$204 in 2001 to \$323 in 2005. This average includes workers whose plans do not require them to pay a deductible. The average annual deductible among employees in PPOs requiring a deductible was \$455 in 2005.⁴¹

Co-payments for physician office visits are also rising. In 2005, compared to a year earlier, the share of all insurance plans requiring a \$10 or \$15 co-payment for office visits declined, while the share of plans requiring co-pays of \$20, \$25, or \$30 increased.⁴²

Oregon workers are also facing more costs, and more financial risk, because Oregon employers are more likely to offer insurance plans that require a waiting period, during which time employees have no health care coverage as part of their employment package. In 2004, 79 percent of Oregon employers offered plans that included a waiting period, up from 65 percent in 1996 (Figure 1-15).

Figure 1-15: About four in five Oregon businesses offering health insurance require a waiting period before new employees are eligible



Source: OCPP analysis of Medical Expenditure Panel Survey data.

By 2004, 79 percent of Oregon employers offered plans that required a waiting period, up from 65 percent in 1996.

Retirement risks shift to workers

Pensions are an important component of retirement income for many American families.⁴³ Unfortunately, employer-sponsored pensions nationally cover less than half of the private workforce at any given time, and about a third of all households will never gain access to a pension.⁴⁴

The share of workers with some kind of pension plan in Oregon is about the same as it was in the early 1980s. At that time, half of Oregon's private-sector workers were covered by employer-provided pensions. The share of workers with pensions declined through the 1980s to a low of 40 percent in the middle of that decade, then increased gradually through the 1990s, reaching 49 percent just before the economic downturn in 2000. Over the same time period, the nation as a whole saw similar stagnation. Among U.S. private-sector workers, the share covered by pensions decreased from 50 percent in 1979-81 to 46 percent in 2002-04.⁴⁵

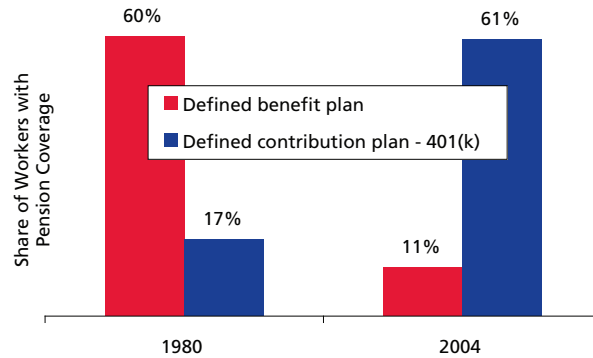
While the share of workers with pensions has changed little over the past 25 years, dramatic shifts have occurred in the terms under which pensions are offered. The gradual resurgence in the share of private-sector workers covered by pensions – in Oregon and in the nation – beginning the mid-1980s coincides with the beginning of a period of rapid growth in the number of 401(k) plans.

The growth of 401(k) plans is part of a shift in the type of pension coverage workers enjoy. Traditionally, pensions were *defined benefit* plans, where the worker receives guaranteed retirement income and benefits increase with years of work and changes in wage level. *Defined contribution* plans, on the other hand, the most common of which are 401(k) plans, operate like individual savings accounts. Employees contribute from pre-tax income, and employers often match contributions up to a certain limit. Retirement benefits from defined contribution plans are entirely dependent on account contributions and returns on investment.⁴⁶

In 1980, 60 percent of U.S. workers with private pension plans were covered by a defined benefit plan and 17 percent had a defined contribution plan. By 2004, only 11 percent had a defined benefit plan while 61 percent had a defined contribution plan (Figure 1-16).⁴⁷

In 1980, 60 percent of U.S. workers with private pension plans were covered by a defined benefit plan and 17 percent had a defined contribution plan. By 2004, only 11 percent had a defined benefit plan while 61 percent had a defined contribution plan.

Figure 1-16: The share of private-sector workers in the U.S. with defined benefit plans has collapsed with the rise of 401(k)s



Source: Munnell, Alicia H., and Pamela Perun, "An Update on Private Pensions," Issue Brief, Center for Retirement Research, Boston College, August 2006, Figure 9.

Comparable data on pension plans offered to Oregon workers over time is not available, but a statewide survey of employers indicates that Oregon firms are likely to offer defined contribution plans, if they offer any retirement plan at all. In 2005, 31 percent of private-sector employers in Oregon reported that they offered defined contribution plans to their employees, either alone or in combination with other types of plans, while just 10 percent offered defined benefit plans, either alone or in combination. A full 57 percent of these employers reported that they did not offer any type of retirement plan to full-time employees.⁴⁸

The shift from defined benefit to defined contribution plans represents both cost savings for employers and a shift in investment risk from employers to individual workers.⁴⁹ In the modern economy, where workers are more likely to change jobs and careers several times over the course of their lifetimes, the flexibility and portability of defined contribution plans such as a 401(k) can be beneficial. Yet these defined contribution plans also place a larger share of financial risk on the shoulders of individual workers.

Under traditional, defined benefit pension plans, employers are responsible for managing an investment fund to provide the agreed-upon level of benefits. Financial professionals pursue an adequate return on investment, and financial risks are pooled among a relatively large group of workers who reach retirement at different points in time. Defined contribution plans, on the other hand, leave it to the individual to manage her or his retirement investment and require the individual to assume fully the risks of investment decisions. Some workers will need to access retirement savings at a time when the stock market is depressed. Others will outlive their savings.⁵⁰

Unions improve the situation for all workers

Historically, unions have helped workers improve their wages, benefits, and working conditions. Union jobs pay relatively well and offer good benefits, as a result of the power of collective bargaining. In a recent review of national-level research on union benefits, analysts at the Economic Policy Institute found that unionized workers earn around 20 percent more in wages than comparable nonunion workers. When both wages and benefits are considered, the difference is about 28 percent.⁵¹

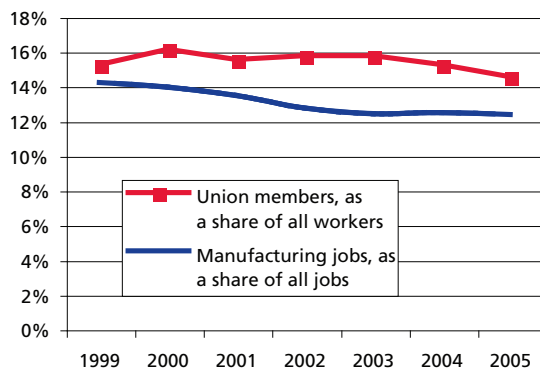
As important as wage gains are, unions have had a greater impact in terms of benefits. Unions have helped set the standard for a good job as one that offers a strong benefits package as well as a living wage. Nationally, unionized workers are more likely than nonunionized workers to have paid leave, employer-provided health insurance, and pension plans. Even after accounting for differences in occupation, industry, establishment size, and other factors, unionized workers pay 18 percent lower health care deductibles and a smaller share of costs for family health insurance coverage than nonunionized workers, and union members are 24 percent more likely to be covered by employer-paid health insurance in retirement. In addition, union workers are 54 percent more likely to have pension coverage.⁵²

Because union achievements spill over into the larger economy, declines in union membership tend to weaken the position of all workers. Unions set a standard for wage and benefit packages. Moreover, unions have the effect of reducing overall income inequality because they have the greatest impact on wages among low- and middle-wage workers, blue-collar workers, and workers without a college degree. Finally, in addition to earning rights for unionized workers, unions have played a significant role in securing and enforcing rights for all workers to worker safety, overtime benefits, and family and medical leave.⁵³

Prior to the past few years, union membership had been clearly declining in Oregon as the state economy shifted away from more heavily unionized industries. In 1983, 22 percent of Oregon workers belonged to a union, while in 2005 14.5 percent of Oregon workers were unionized. The general pattern of declining union membership in Oregon follows the national pattern, although Oregon's level of union membership has consistently been higher than the national level, currently at 12.5 percent.

Union members in Oregon suffered significant job losses in manufacturing during the economic downturn.⁵⁴ However, organizing efforts in retail trade, home health care, and social services resulted in substantial numbers of new union members early in the current decade.⁵⁵ As a result, union members held close to their share of the workforce from 2000 to 2003 despite the manufacturing declines (Figure 1-17).

Figure 1-17: Union successes earlier this decade kept union membership up despite the manufacturing decline. In 2004 and 2005, though, unions slipped some.



Source: OCPP analysis of Oregon Employment Dept. data and analysis by Barry T. Hirsch and David A. Macpherson available at www.unionstats.com.

Union members held their share of the workforce despite the manufacturing declines early in this decade. Unions slipped slightly, though, in 2004 and 2005. Last year, 14.5 percent of Oregon workers belonged to a union.

Union members slipped slightly as a share of all workers in 2004 and 2005, but organizing successes in 2006 may lead to gains this year and in the future. In January, nurses at Mercy Medical Center in Roseburg voted to join the Oregon Nurses Association (ONA).⁵⁶ In February, the Service Employees International Union (SEIU) secured an agreement with the State of Oregon to advocate on behalf of in-home child care workers, following a similar victory by the American Federation of State, County, and Municipal Employees (AFSCME) last fall.⁵⁷

Conclusion

The Oregon economy is creating jobs, but these jobs are not producing as much security for Oregon workers and their families as they might. Many of the jobs are low-paying, a relatively large share is part-time, and fewer offer affordable health insurance.

Oregon's economy is getting ahead, but too many Oregonians are not.

Endnotes

- 1 Mapes, Jeff, "New Voting Bloc: The Frustrated," *The Oregonian*, May 7, 2006, Sunrise edition, p. C1.
- 2 The last time Oregon's unemployment rate was lower than the national rate was in January 1996, when Oregon's rate was 5.2 percent and the U.S. rate was 5.6 percent.
- 3 For a more thorough discussion of the factors mentioned here, see Ayre, Art, "Why Does Oregon Have a High Unemployment Rate?" Oregon Employment Department, Labor Market Information System, April 27, 2005. Available at: <http://www.qualityinfo.org/olmisj/ArticleReader?itemid=00002350>.
- 4 OCPP analysis of Bureau of Labor Statistics data.
- 5 OCPP analysis of Bureau of Economic Analysis data.
- 6 WISERTrade, latest data available at <http://www.wisertrade.org/home/index.jsp>.
- 7 Federal Deposit Insurance Corporation, Regional Economic Conditions data. Available at <http://www2.fdic.gov/recon/>.
- 8 OCPP analysis of data provided to authors by *The Oregonian*.
- 9 The Oregon Office of Economic Analysis, June 2006 Economic and Revenue Forecast, projects that Oregon's rate of personal income growth will outpace the national rate of growth in each year from 2006 to 2013. Available at: <http://www.oregon.gov/DAS/OEA/economic.shtml>. Projections of Gross State Product (GSP) are not available.
- 10 In this analysis, the "downturn" ran from November 2000, when jobs peaked prior to the recession, to July 2003, when jobs reached their low point. The OCPP analyzed data from the Oregon Employment Department, whose analysts broke jobs into three categories (those paying under \$30,000, those paying \$30,000-\$45,000, and those paying over \$45,000) based on average annual pay in each industry in 2004.
- 11 Through March 2006. OCPP analysis of Oregon Employment Department data.
- 12 Average pay is for all payroll employees in the "food services and drinking places" industry in 2005, as reported in Oregon Employment Department, Labor Market Information System, Covered Employment and Wages tool, Summary Report. Available at <http://www.qualityinfo.org/olmisj/CEP?x=1&y=1>. Categorization of jobs into those paying under \$30,000 was based on 2004 average wage data. In 2004, the average restaurant industry wage was \$13,083.
- 13 In 2002, as Oregonians considered whether to enact Measure 25 (which raised the state minimum wage and established an annual cost-of-living adjustment), a representative of Oregon's restaurant industry association warned, "Economists estimate that nearly 30,000 more Oregonians could lose their jobs as a result of the new higher minimum wage." See arguments in opposition to Measure 25 in the Oregon Secretary of State's 2002 General Election Online Voters' Guide, available at <http://www.sos.state.or.us/elections/nov52002/guide/measures/m25opp.htm>. In fact, since the passage of Measure 25, job growth has been strong in Oregon relative to other states, and the restaurant industry has done particularly well.
- 14 Oregon Secretary of State, 2002 General Election Online Voters' Guide. Arguments in opposition to Measure 25 are available at <http://www.sos.state.or.us/elections/nov52002/guide/measures/m25opp.htm>.
- 15 Through May 2006.
- 16 In 2005, average annual pay in the construction industry in Oregon was \$39,891, according to data from the Oregon Employment Department. The growth period examined is May 2003 through May 2006.
- 17 May 2003 to May 2006.
- 18 Oregon Office of Economic Analysis, June 2006 Economic and Revenue Forecast.
- 19 In 1997, the lumber and wood products manufacturing industry accounted for less than three percent of GSP. Data for later years are not available.
- 20 OCPP analysis of Bureau of Economic Analysis data. Wood products manufacturing would have produced an additional

- \$3.8 billion in GSP in 1992 if it had produced the same share of Oregon's GSP as it did in 1979. Manufacturing in general would have produced an additional \$4.0 billion in GSP in 1992 if it had produced the same share of Oregon's GSP as it did in 1979. Hence, the decline in wood products manufacturing accounts for 95 percent of the decline in manufacturing as a share of total Oregon GSP.
- 21 OCPP analysis of Bureau of Economic Analysis data. Electronic equipment manufacturing would have produced \$8.9 billion less in GSP in 1997 if it had produced the same share of Oregon's GSP as it did in 1992. Manufacturing generally would have produced \$6.1 billion less in GSP in 1997 if it had produced the same share of Oregon's GSP as it did in 1992. Hence, the increase in electronic equipment manufacturing accounts for more than 100 percent of the increase in manufacturing as a share of total Oregon GSP.
 - 22 Based on rough approximations developed at OCPP's request by Emily Stuart of the Oregon Employment Department. An exact comparison to data prior to 2001 is not possible because the Bureau of Labor Statistics and the Oregon Employment Department restructured the way they categorize jobs.
 - 23 OCPP analysis of Oregon Office of Economic Analysis, June 2006 Economic and Revenue Forecast. Manufacturing already is more important to Oregon's economy than it is to the national economy. In 2004, the sector accounted for 19 percent of Oregon GSP but just 12 percent of national GSP.
 - 24 Based on rough approximations developed at OCPP's request by Emily Stuart of the Oregon Employment Department. An exact comparison to data prior to 2001 is not possible because the Bureau of Labor Statistics and the Oregon Employment Department restructured the way they categorize jobs.
 - 25 All of these industries have had periods of strong job growth over the past few years, and the Oregon Employment Department projects that they will add jobs at particularly rapid rates over the 2004-14 period. Employment service jobs, which include temporary jobs, are projected to grow 40 percent over the 2004-14 period. Business support services jobs, which include call center jobs, are projected to grow 45 percent over the period. Health care and social assistance jobs are projected to grow by 25 percent. Total nonfarm payroll employment is projected to grow by just 15 percent, by contrast.
 - 26 Projection is OCPP analysis of Oregon Office of Economic Analysis, June 2006 Economic and Revenue Forecast.
 - 27 Oregon Employment Department, Covered Employment and Payroll data, 2005.
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INCOME INEQUALITY WIDENING AGAIN

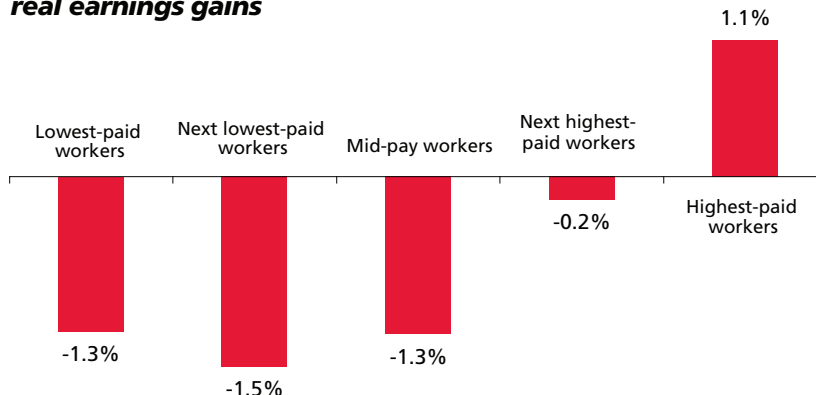
Chapter 2

Another reason why many Oregonians are falling behind in a surging economy is that most of the wage and income gains are going to those at the high end of the wage and income spectrum. Ultra-rich Oregonians are doing particularly well. This continues a pattern evident over the past 25 years.

Higher-paid workers have gotten all the real earnings gains

Since Oregon's economy started to improve in the last half of 2003, the highest-paid fifth of workers have seen *all* of the real earnings gains. Low- and middle-pay workers have seen their earnings fall relative to inflation. The highest-paid group of workers – those earning an average of \$103,000 per year – saw their earnings jump more than one percent from the last half of 2003 to the last half of 2005 (Figure 2-1).¹ In real dollar terms, these workers were on track to earn nearly \$1,900 more on average in 2005 than they did in 2003. The next-highest-paid quintile saw their earnings slide back very slightly as the economy improved, while workers in all three of the lowest-paid groups lost more than one percent of their real average earnings.

Figure 2-1: As the economy grew from the last half of 2003 to the last half of 2005, the highest-paid workers got all of the real earnings gains



Note: Includes all workers whose employers filed an Unemployment Insurance wage file report. Includes only workers working at least 350 hours a quarter (26.9 hours per week for those employed throughout the quarter).

Source: OCPP analysis of Oregon Employment Dept. data. Adjusted for inflation using fourth quarter 2005 dollars with US CPI-U.

The highest-paid group of workers – those earning an average of \$103,000 per year – saw their earnings jump more than one percent from the last half of 2003 to the last half of 2005.

Economic growth was stronger when all income groups shared in the prosperity

It is not inevitable that the benefits of growth must flow disproportionately to the most well-off. It is also possible – and preferable – that economic growth lifts all boats together. From the end of World War II until the early 1970s, the benefits of economic growth were well distributed across the income spectrum.

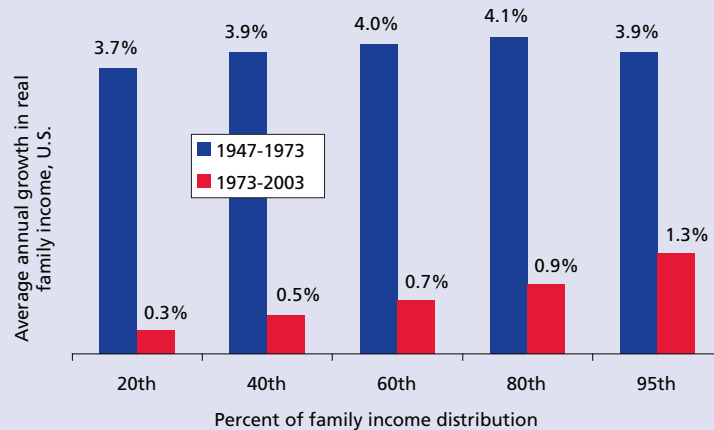
During the period from 1947 to 1973, low-income families – those in the lowest 20th percentile of the family income distribution – saw their real annual family income grow nearly on par with families in higher income groups (Figure 2-2). Middle-income families did as well as or better than those at the 95th percentile.

Not only was income growth widely shared during this period, but family income growth across the board was much stronger than it has been since. With annual family income growth outpacing inflation by nearly four percent for most families regardless of income, this was a very good time for the pocketbooks of a broad range of Americans.

Public policies and practices that protected opportunities for ordinary American families – such as a more progressive federal income tax, strategic public investments including the GI Bill and Social Security, and more widespread unionization – helped to ensure that the benefits of economic growth were broadly distributed. These progressive policies helped fuel strong income growth for many American families.

Since the end of this period of broadly shared economic expansion in the early 1970s, family income growth has both declined across the income spectrum and been more unequally distributed. Families at the 20th percentile have seen annual real income gains of just 0.3 percent, a quarter of the gains enjoyed by families at the 95th percentile (Figure 2-2). Middle-income families have seen annual real income gains that are only about half of the annual gains enjoyed by families at the 95th percentile and much less than middle-income families in the 1947-1973 period.

Figure 2-2: Before 1973, all U.S. families benefited from growth. Since then, the benefits have been skewed toward the top

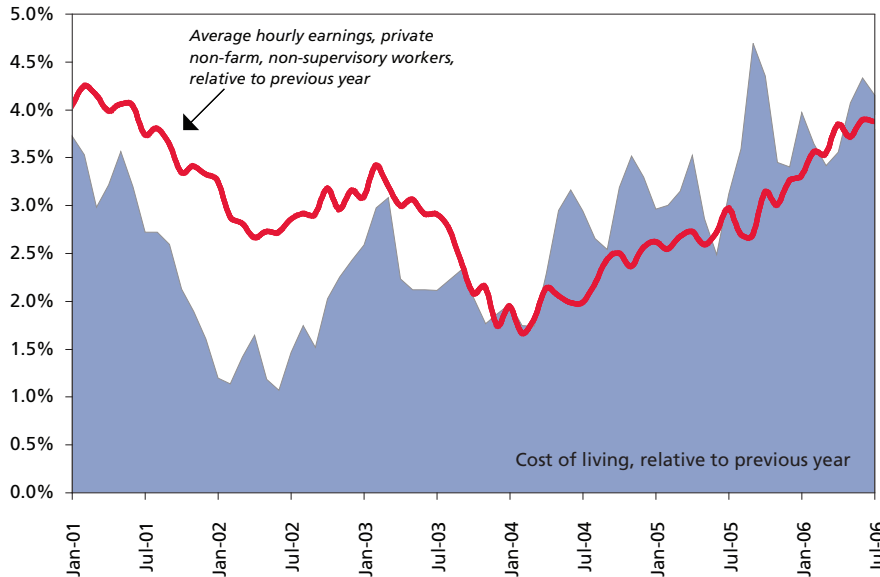


Source: Schmitt, John, "Three Important Distributions and the Politics That Shape Them," Center for Economic and Policy Research, PowerPoint presentation, September 29, 2005.

During the period from 1947 to 1973, low-income families – those in the lowest 20th percentile of the family income distribution – saw their real annual family income grow nearly on par with families in higher income groups.

Data on earnings for Oregon workers in 2006 are not yet available, but national data indicate that hourly earnings have trended upward for more than two years. In July 2006, the average hourly earnings of non-supervisory and production workers in private, non-farm payroll jobs nationally came in 3.8 percent higher than they had been a year earlier, in July 2006 (Figure 2-3).

Figure 2-3: Hourly earnings in the U.S. have been trending up for the last two years, but so has the cost of living



Note: Cost of living evaluated with US CPI-U.
Source: OCPP analysis of Bureau of Labor Statistics data.

Nationally, hourly earnings have trended upward for more than two years. Despite this gain, hourly earnings remain stagnant in real terms because the cost of living has been rising at a similar pace.

Nationally, despite this gain, hourly earnings remain stagnant in real terms because the cost of living has been rising at a similar pace (Figure 2-3). Real average hourly earnings for non-supervisory workers in private, non-farm payroll jobs across the nation still stand slightly under where they were two years ago. In July 2006, real average hourly earnings were \$8.16. Two years ago, in July 2004, they were \$8.22.

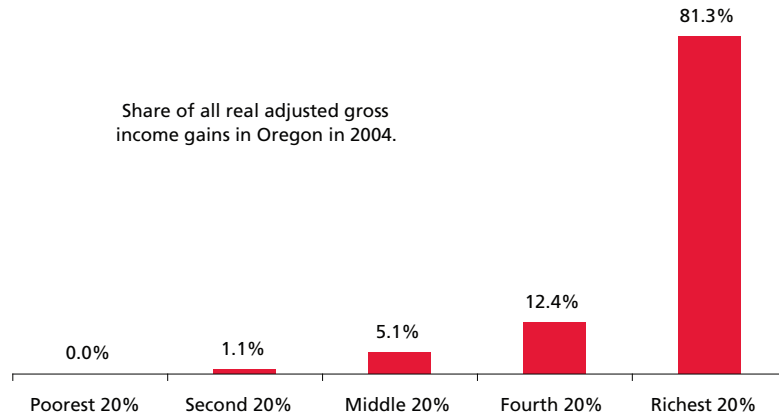
Because job growth slowed nationally over the second quarter of 2006, wage growth – which typically lags behind job growth by six months or more – may slow later this year or next year.² Through July 2006, the Bureau of National Affairs’ Wage Trend Indicator, which is designed to predict changes in private-sector wage trends six to nine months in the future, continues to predict an upward trend in wages.³

The top fifth are getting most of the income gains

Income gains are disproportionately going to the highest-income Oregonians as Oregon’s economy improves. Eighty-one percent of all the real adjusted gross income growth produced in Oregon in 2004 went to the highest-income fifth of Oregon households (Figure 2-4).⁴ In dollar terms, the highest-income fifth of Oregon households took home \$3.5 billion of the \$4.3 billion in real adjusted gross income growth generated in 2004.

Eighty-one percent of all the real adjusted gross income growth produced in Oregon in 2004 went to the highest-income fifth of Oregon households.

Figure 2-4: The highest-income Oregonians saw most of the real income gains in 2004 as the economy began to grow



Source: OCPP analysis of Oregon Dept. of Revenue data.

The pattern of disproportionate income gains among the top fifth of Oregonians during periods of economic growth has become familiar over the past generation. During the 1980s, when real average adjusted gross income fell for Oregonians in the bottom 80 percent, it increased by \$6,550 for those in the top fifth (Table 2-1). Then, in the 1990s, when real incomes picked up across the board, the top fifth saw disproportionate gains. From 1989 to 2000, real incomes grew by \$187 for the poorest fifth, \$2,379 for the middle fifth, and \$38,365 for the top fifth (Table 2-1).

When the downturn hit at the beginning of this decade, incomes for the top fifth slid back. Even with their gains in 2004, the incomes of the top fifth were down 6.3 percent since 2000. But that loss does not come close to reversing the income gains of the top fifth relative to other Oregon households over the past generation. In 2004, the real adjusted gross incomes of the top fifth were still up 37.1 percent over 1979. All other income groups saw their real average incomes either stagnate or slip behind between 1979 and 2004. The bottom fifth lost 15.1 percent, the middle fifth lost 4.4 percent, and even the fourth fifth gained just 0.3 percent over that 25-year period (Table 2-1 and Figure 2-5). As a result, the share of all adjusted gross income collected by the top fifth grew from 49.7 percent in 1979 to 58.9 percent in 2004.

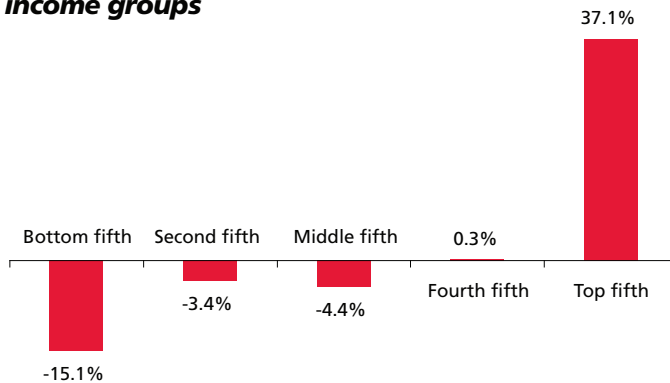
Table 2-1: The top fifth of Oregon households have seen a disproportionate share of adjusted gross income gains

Average Income by Quintile					
	Bottom fifth	Second fifth	Middle fifth	Fourth fifth	Top fifth
1979	\$5,136	\$15,199	\$29,860	\$49,693	\$96,871
1989	\$4,487	\$14,222	\$27,148	\$45,917	\$103,421
2000	\$4,674	\$15,489	\$29,527	\$51,018	\$141,786
2004	\$4,361	\$14,677	\$28,538	\$49,844	\$132,850
\$ Change – Average Income by Quintile					
1979 to 1989	-\$649	-\$976	-\$2,711	-\$3,777	\$6,550
1989 to 2000	\$187	\$1,267	\$2,379	\$5,101	\$38,365
2000 to 2004	-\$313	-\$812	-\$989	-\$1,174	-\$8,936
1979 to 2004	-\$775	-\$521	-\$1,322	\$151	\$35,979
% Change – Average Income by Quintile					
1979 to 1989	-12.6%	-6.4%	-9.1%	-7.6%	6.8%
1989 to 2000	4.2%	8.9%	8.8%	11.1%	37.1%
2000 to 2004	-6.7%	-5.2%	-3.4%	-2.3%	-6.3%
1979 to 2004	-15.1%	-3.4%	-4.4%	0.3%	37.1%

Even with their gains in 2004, the top fifth were down 6.3 percent since 2000. But that loss does not come close to reversing the income gains of the top fifth relative to other Oregon households over the past generation.

Note: "Households" here refers to tax filers with positive adjusted gross incomes. Excludes negative returns from bottom fifth. Adjusted for inflation using 2004 dollars with CPI-U.
Source: OCPP analysis of Oregon Dept. of Revenue tax tables for all returns.

Figure 2-5: From 1979 to 2004, the average real adjusted gross income of the top fifth of Oregon households grew 37.1 percent, but it stagnated or dropped for all other income groups



Note: "Households" here refers to tax filers with positive adjusted gross incomes. Excludes negative returns from bottom fifth. Adjusted for inflation using 2004 dollars with CPI-U.
Source: OCPP analysis of Oregon Dept. of Revenue data.

Looked at another way, it's still the same story

The story of rising inequality in Oregon can be told in a variety of ways. Depending on the data used and the time period examined, the precise amount of increase in income inequality varies. No matter how you look at it, though, income inequality in Oregon has widened over the past 25 years.

The time period examined is particularly important. Much of the decline in real income for middle- and low-income Oregonians occurred at the beginning of the 1980s, when back-to-back recessions pummeled Oregon workers. If the time period examined begins after this drop in income, the growth in income inequality appears smaller.

The time period chosen can also make the gains by the wealthy look different. The incomes of those at the top fell off when the stock market took a tumble during the economic downturn that struck earlier in this decade. If the time period examined ends after the recent downturn struck, income inequality will be smaller.

Not all studies use the same definition of income. It makes a difference whether researchers include as "income" certain forms of public assistance for low-income households, such as food stamps, subsidized housing, and the Earned Income Credit.

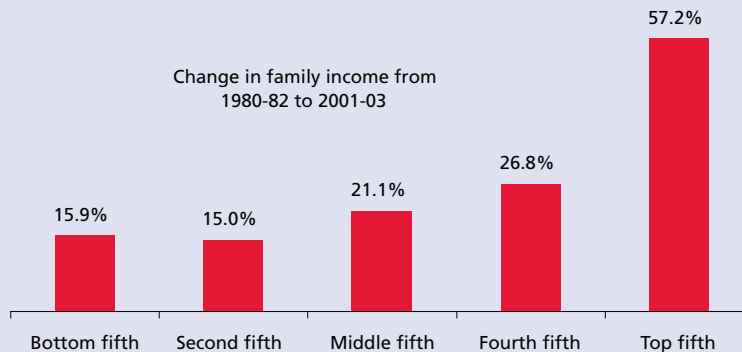
It also matters whose income researchers choose to compare. For example, examining the income of "families," defined as two or more related persons living together, produces different outcomes from examining the income of "households," which include single individuals. Across the income spectrum, family incomes are higher on average than household incomes.

An analysis of income inequality in Oregon and nationally by the Center on Budget and Policy Priorities and the Economic Policy Institute considered these factors and still found rapidly widening inequality in Oregon and in the nation as a whole.⁵ The study examined the time period from 1980-82 to 2001-03. This time period begins after real incomes for low- and middle-income households fell sharply in 1980 and ends after the stock market tumble cut incomes for those at the top in 2001. The study also included the value of food stamps, housing assistance, the Earned Income Credit, and other forms of public assistance in the incomes of low-income households. And, it examined only the income of families, not households.

The study found that over the time period examined the average family income of the top fifth of Oregon families increased by 57.2 percent, more than double the percentage gain enjoyed by the middle fifth and more than triple the income gains of the lowest fifth (Figure 2-6).

No matter how you look at it, those at the top have pulled well ahead of the rest over the past generation.

Figure 2-6: Family income gains in Oregon are skewed toward the top since the 1980s downturn



Source: Center on Budget & Policy Priorities and the Economic Policy Institute, *Pulling Apart*, January 2006.

Depending on the data used and the time period examined, the precise amount of increase in income inequality varies.

Top one percent outpaces the rest

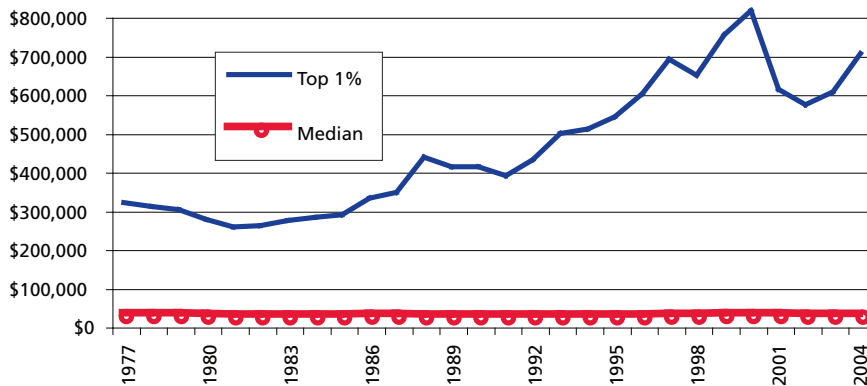
The top fifth did quite well over the past generation. Within that top fifth, though, the very highest-income Oregon households surged ahead most rapidly. From 1979 to 2004, the top one percent of Oregon households saw their real adjusted gross incomes beat inflation by 135 percent. The rest of the top fifth saw their real incomes beat inflation by 19 percent. That's still much better than groups lower on the income scale, but a far cry from the exploding incomes of those at the very top.

Looking only at available data for the current period of economic growth tells a similar story. As the economy picked up in 2004, the top one percent saw their real adjusted gross incomes jump by 16 percent, while the rest of the top fifth saw a real gain of just three percent. In fact, the top one percent alone took home nearly 44 percent of *all* the real adjusted gross income gains in 2004. These most well-off of Oregon households added \$1.9 billion to their adjusted gross incomes, after accounting for inflation, in that one year alone. This is more than double the increase garnered by the entire bottom 80 percent in 2004.

On average, the top one percent of households added another \$98,000 to their real adjusted gross incomes in 2004, bringing their average total up to \$702,000. By contrast, the median Oregon household lost \$73 in real terms in 2004, slipping back to \$28,332.

The very highest-income Oregon households also saw disproportionate gains during the previous two periods of economic growth, in the 1980s and 1990s. From 1983 to 1990, the top one percent of Oregon households added over \$138,000 to their real adjusted gross incomes, a gain of over 50 percent, while nearly everyone else slipped backward. The median Oregon household gained just 0.5 percent, or \$146, during this period of economic expansion (Figure 2-7).

Figure 2-7: The gap between the median household and the top one percent is widening again



Note: Based on adjusted gross income for all Oregon returns. Adjusted for inflation using 2004 dollars with US CPI-U. Source: OCPP analysis of Oregon Dept. of Revenue data.

Following the modest downturn of the early 1990s, the incomes of the top one percent exploded as the stock market boomed and Oregon's economy soared. Between 1992 and 2000, the top one percent nearly doubled their real incomes on average, adding an average of \$385,000 in additional real income. Median households saw their incomes increase by just \$2,800 during this growth period (Figure 2-7).

On average, the top one percent of households added another \$98,000 to their real adjusted gross incomes in 2004, bringing their average total up to \$702,000. By contrast, the median Oregon household lost \$73 in real terms in 2004, slipping back to \$28,332.

When the stock market bubble burst, capital gains income fell off and the incomes of the richest Oregonians took a hit. This capital gains bust temporarily tightened the gap between the richest Oregonians and the typical household, but it has since increased again. In 2004, the top one percent collected 15.6 percent of all the adjusted gross income in Oregon, nearly as much as in 2000 and double the percentage they collected in 1979. The bottom 80 percent of Oregon households, by contrast, have seen their share of the income pie decline over the past generation.

In half of all Oregon counties, the richest one percent of households have fully overcome the recession

The incomes of the top one percent peaked in 2000, then slipped back when the recession hit. Sharp gains in 2004 did not fully reverse the impact of the downturn on the incomes of the top one percent statewide. However, in more than half of all Oregon counties the top one percent saw their rising incomes overcome the impact of the recession.

In 17 of the 33 counties with data (52 percent), the top one percent of Oregon households had higher average adjusted gross incomes in 2004 than they did in 2000, before the downturn.⁶ By contrast, middle-income households had higher average real incomes in just 16 percent of the counties with the necessary data.

Over the past generation, the strong gains of the richest Oregonians are evident across most of the state. In two-thirds of Oregon's counties, the top one percent saw their real adjusted gross incomes more than double between 1980 and 2004. Only in Morrow and Lake counties did the incomes of the top one percent stagnate or decline relative to inflation.

Because middle-class incomes did not keep pace with income growth among the most well-off households, income inequality widened across Oregon. Only Morrow and Lake Counties saw the gap between the top one percent and the middle fifth shrink between 1980 and 2004.

In 1980, incomes in Multnomah County were the state's most unequal, with average adjusted gross income among the top one percent equaling 12.9 times the average income of the middle fifth of households. By 2004, more than 80 percent of Oregon counties met or exceeded the 12.9 ratio. In one-third of counties the ratio exceeded 20, meaning the income of the top one percent was more than 20 times the income of the middle fifth (Table 2-2). Crook County held the distinction in 2004 as the state's most unequal county, a position it also held in 2002 before losing the top spot to Curry County in 2003. In sparsely populated counties like Crook and Curry, sudden increases in income among a small number of well-off taxpayers can temporarily increase inequality.

In 2004, in more than 80 percent of Oregon counties the gap between the top one percent of households and the middle fifth was wider than the gap had been in the most unequal Oregon county in 1980.

Table 2-2: The gap between the average adjusted gross income of the middle fifth and the top one percent has widened in nearly all Oregon counties since 1980

	Average income of the top one percent, in 2004 dollars				Income ratio: top one percent to middle fifth				Rank 2004 (1=most unequal)
	1980	1990	2000	2004	1980	1990	2000	2004	
BAKER	\$174,874	\$214,504	\$329,596	\$305,188	9.0	10.5	13.8	13.5	28
BENTON	\$247,925	\$355,523	\$743,863	\$617,257	11.4	14.2	23.7	21.2	12
CLACKAMAS	\$306,799	\$518,698	\$1,002,576	\$983,269	9.5	16.3	26.9	26.3	3
CLATSOP	\$210,102	\$273,271	\$441,701	\$502,097	9.8	12.3	16.4	19.3	14
COLUMBIA	\$178,055	\$253,392	\$373,967	\$382,542	5.6	8.3	9.9	10.3	32
COOS	\$207,730	\$355,205	\$539,749	\$403,395	9.2	16.4	21.4	17.0	20
CROOK	\$234,598	\$293,504	\$511,215	\$962,924	10.4	11.6	18.3	34.2	1
CURRY	\$192,390	\$322,925	\$560,957	\$528,875	9.3	15.2	23.5	22.8	9
DESCHUTES	\$258,909	\$438,253	\$770,052	\$711,164	11.4	17.1	26.0	24.5	6
DOUGLAS	\$215,616	\$281,218	\$541,628	\$537,801	8.4	11.4	20.2	20.6	13
GILLIAM	n/a	n/a	n/a	\$258,000	n/a	n/a	n/a	8.9	34
GRANT	\$198,974	\$256,997	\$306,541	\$399,241	9.4	10.5	12.4	16.6	23
HARNEY	\$186,875	\$177,513	\$222,145	\$262,607	8.6	8.1	9.8	11.7	30
HOOD RIVER	\$228,173	\$329,903	\$401,113	\$474,483	9.3	15.6	15.1	18.3	15
JACKSON	\$254,912	\$387,180	\$581,790	\$628,004	11.8	16.8	21.7	23.7	7
JEFFERSON	\$208,253	\$309,806	\$504,746	\$344,850	9.8	13.2	18.8	13.5	29
JOSEPHINE	\$222,605	\$299,498	\$507,093	\$553,906	12.2	15.1	21.2	23.5	8
KLAMATH	\$243,600	\$297,140	\$356,849	\$438,702	10.1	13.5	14.2	17.7	18
LAKE	\$235,711	\$203,303	\$214,462	\$221,750	10.7	9.2	9.4	10.3	33
LANE	\$270,049	\$411,446	\$617,646	\$674,146	11.7	17.1	21.9	24.6	4
LINCOLN	\$204,004	\$267,499	\$414,243	\$446,263	10.9	12.8	16.2	18.2	16
LINN	\$190,838	\$280,386	\$433,820	\$422,530	7.7	11.5	14.1	14.1	27
MALHEUR	\$202,454	\$265,208	\$331,791	\$407,208	10.3	14.5	14.4	18.1	17
MARION	\$224,432	\$343,432	\$663,262	\$507,328	9.7	14.0	22.4	17.7	19
MORROW	\$228,435	\$244,485	\$205,550	\$232,949	8.7	9.8	7.2	8.2	35
MULTNOMAH	\$317,784	\$456,390	\$973,646	\$803,029	12.9	17.3	30.3	26.8	2
POLK	\$215,213	\$311,437	\$415,590	\$459,581	9.3	12.9	12.9	14.4	25
SHERMAN	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
TILLAMOOK	\$192,838	\$251,330	\$473,262	\$430,981	8.9	11.8	18.2	16.7	22
UMATILLA	\$218,093	\$283,932	\$316,222	\$298,771	9.2	12.8	11.7	10.9	31
UNION	\$176,343	\$242,969	\$385,286	\$398,559	7.5	10.1	14.5	15.2	24
WALLOWA	\$176,975	\$206,570	\$447,928	\$497,667	9.0	9.4	18.6	21.6	11
WASCO	\$218,519	\$374,864	\$368,367	\$353,720	8.4	16.1	13.5	14.1	26
WASHINGTON	\$303,026	\$457,063	\$1,356,903	\$834,884	9.0	13.6	33.2	21.8	10
WHEELER	n/a	n/a	n/a	\$380,400	n/a	n/a	n/a	17.0	21
YAMHILL	\$230,896	\$336,250	\$875,355	\$760,183	9.1	13.3	27.3	24.5	5

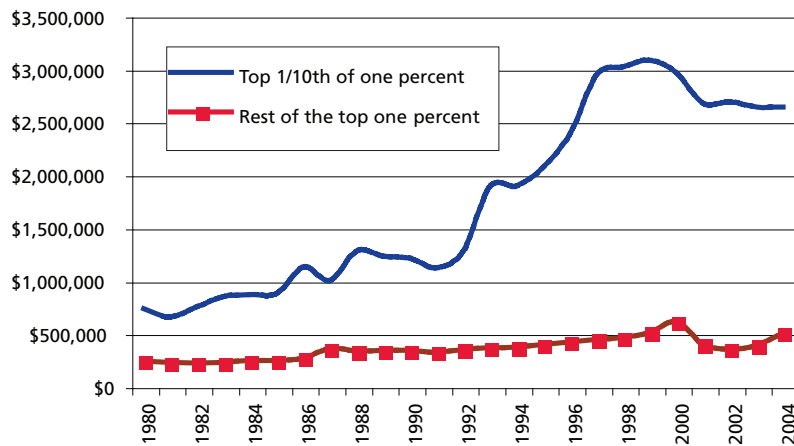
Note: n/a means data is not available because the number of taxpayers composing the top one percent in that county was not large enough to allow the Oregon Department of Revenue to release aggregate adjusted gross income data about the group without potentially compromising the confidentiality of individual taxpayer returns. Adjusted for inflation to 2004 dollars with US CPI-U.

Source: OCPP analysis of Oregon Dept. of Revenue data.

The ultra-rich have done even better than the simply rich

While the top fifth did well over the past 25 years and the top one percent did even better, the top one-tenth of one percent have seen the most extraordinary gains. From 1980 to 2004, the top one-tenth of one percent of Oregon households saw their average adjusted gross income nearly quadruple, rising from \$733,000 in inflation-adjusted dollars to \$2.6 million (Figure 2-8). In contrast, the next highest-income nine-tenths of one percent saw their real adjusted gross incomes merely double over the same period, rising from \$238,000 to \$500,000, on average. "Households" here means full-year resident income tax filers.

Figure 2-8: The incomes of the top 1/10th of one percent of Oregon filers have grown much more quickly than the income of the rest of the top one percent



Note: "Households" here means full-year resident income tax filers. Adjusted for inflation using 2004 dollars with US CPI-U.

Source: OCPP analysis of Oregon Office of Economic Analysis data.

From 1980 to 2004, the top one-tenth of one percent of Oregon households saw their average adjusted gross income nearly quadruple, rising from \$733,000 in inflation-adjusted dollars to \$2.6 million. In contrast, the rest of the top one percent saw their real adjusted gross incomes merely double.

The 1,460 households who comprised the top one-tenth of one percent in 2004 made their income differently from most households. For the ultra-rich in the top one-tenth of one percent of households, 21 percent of their income came from wages or retirement sources such as Social Security and 35 percent of their income came from capital gains. In contrast, households making \$100,000 or less in adjusted gross income in 2004 (nine out of 10 households) made 89 percent of their income from wages or retirement sources such as Social Security, on average. These households made just one percent of their income from capital gains.

Although wage income is substantially less important to the top one-tenth of one percent than to lower-income households, wage income for the ultra-rich rose much more sharply than wage income for the typical household over the past generation. From 1980 to 2000, the average real wage income of the top one-tenth of one percent more than tripled, while it rose just six percent for all other Oregon households.

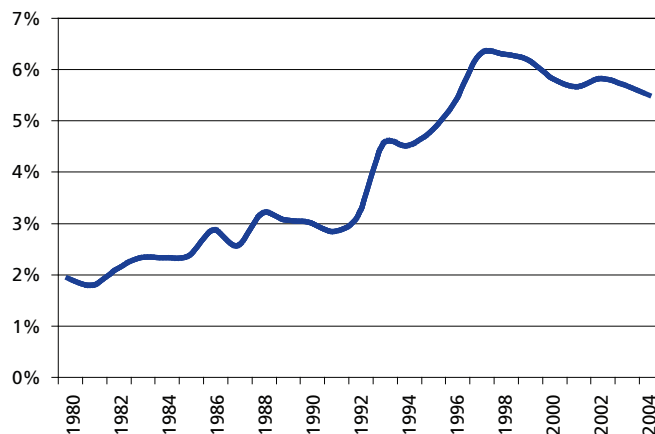
While these ultra-rich households saw strong wage gains in the 1980s even as wages for most Oregonians slipped back, it was during the 1990s boom that they saw the most rapid gains. In 2000 alone, at the peak of the boom years, the highest-income Oregonians saw their wages shoot up by 36 percent, from \$651,000 to \$888,000 in 2004 dollars.

After 2000, wage income for the highest-income Oregonians slipped back, falling 40 percent by 2004. This decline is primarily due to their wage spike in 2000; looking back a year earlier, the decline in real dollars between 1999 and 2004 was just 12 percent.

The top one-tenth of one percent also saw their capital gains income decline after a sharp increase during the 1990s stock market boom. Even though their wages and capital income have slipped back somewhat since the peak of the 1990s boom, *total* incomes for this ultra-rich group did not slip back much during the downturn because income from sources such as S-corporations, rental properties, royalties, trusts, and estates rose sharply. From 2000 to 2004, income from these sources nearly doubled for ultra-rich Oregonians, rising 88 percent. Corporate profits sharply increased during this period despite the downturn, which explains in part why these sources of income produced more revenue during this time for the ultra-rich.

Over the past generation, the top one-tenth of one percent of households doubled their share of all wages reported in Oregon. They also doubled their share of all capital gains income and tripled their share of income from sources such as S-corporations, rental properties, royalties, trusts, and estates. As of 2004, these very high-income Oregonians pocketed 5.5 percent of all adjusted gross income reported in Oregon, up from 1.9 percent in 1980 (Figure 2-9).

Figure 2-9: The top 1/10th of one percent have nearly tripled their share of all adjusted gross income reported in Oregon



Source: OCPP analysis of Oregon Office of Economic Analysis data.

In 2004, the top one-tenth of one percent of households pocketed 5.5 percent of all adjusted gross income reported in Oregon, up from 1.9 percent in 1980.

Average top CEO pay in Oregon is 75 times the level of median annual worker pay

Who are the Oregonians who collect the state's highest incomes? Some of them are executives, including chief executive officers, working for public companies based in Oregon. In 2005, two CEOs of Oregon-based public companies – William Perez, formerly of Nike, and Earl Lewis of Flir Systems – each made over \$12 million in direct compensation, including the value of stock options awarded as part of their pay packages. Another seven CEOs of Oregon-based public companies made over \$2 million in 2005 (Table 2-3).

On average, the 25 highest-paid CEOs of Oregon-based public companies were paid over \$2 million in 2004; the median was \$1.9 million. That's 75 times the median annual earnings of Oregon workers generally.

On average, the 25 highest-paid CEOs of Oregon-based public companies were paid over \$2 million in 2005; the median was \$1.9 million.

Table 2-3: The highest-paid CEOs of Oregon-based companies collected an average of over \$2 million in compensation in 2005

	CEO	Company	Total Compensation
1	William Perez	Nike	\$16,504,446
2	Earl Lewis	Flir Systems	\$12,511,449
3	Mark Donegan	Precision Castparts	\$7,541,499
4	Richard Wills	Tektronix	\$3,302,787
5	Eric Parsons	StanCorp Financial Group	\$3,225,926
6	Gerald Perkel	Planar Systems	\$2,649,943
7	James Declusin	Oregon Steel Mills	\$2,500,999
8	Raymond Davis	Umpqua Holdings	\$2,220,485
9	Scott Grout	Radisys	\$2,020,795
10	Robert Warren Jr.	Cascade	\$1,986,074
11	Stephen Skaggs	Lattice Semiconductor	\$1,954,928
12	Chester Paulson	Paulson Capital	\$1,953,480
13	William Furman	Greenbrier Companies	\$1,782,500
14	John Carter	Schnitzer Steel Industries	\$1,729,822
15	Sidney DeBoer	Lithia Motors	\$1,671,100
16	Nicholas Konidaris	Electro Scientific Industries	\$1,599,849
17	Walden Rhines	Mentor Graphics	\$1,592,697
18	Bruce Davis	Digimarc	\$1,515,708
19	Mark Dodson	Northwest Natural Gas	\$1,481,486
20	Patricia Moss	Cascade Bancorp	\$1,407,555
21	Vahe Sarkissian	FEI	\$1,238,642
22	James Osterman	Blount International	\$1,228,630
23	Jerry Dukes	PW Eagle	\$1,123,148
24	Robert Szniewajs	West Coast Bancorp	\$1,061,730
25	Kay Toolson	Monaco Coach	\$988,558
Total			\$47,778,341
Average			\$2,077,319

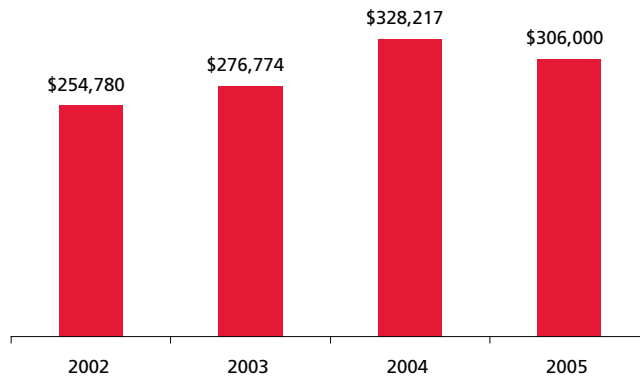
Note: Total compensation includes salary, bonus, other cash compensation, restricted stock awards, dollar value of long-term incentive plan target, and Black-Scholes values of option grants.

Source: *Oregon Business*, September 2006, p. 32.

Of course, not all CEOs of Oregon companies collect as much compensation as the highest-paid 25. In 2005, the median cash-only compensation of the CEOs of Oregon public companies was \$306,000. This figure includes only salaries and bonuses, not other forms of compensation, including restricted stock grants, long-term incentive plans, stock options, retirement packages, or other perks such as use of the company car or jet.

From 2002 to 2004, the typical CEO of an Oregon public company got a cash compensation raise of nearly \$83,000, or 29 percent (Figure 2-10). During this same period, Oregon workers generally saw their real average earnings grow by less than one percent. The typical CEO's cash compensation lost ground slightly in 2005 but still is up 20 percent from 2002, even after adjusting for inflation.

Figure 2-10: The median cash compensation for CEOs of Oregon-based public companies rose from 2002 to 2004 before declining slightly in 2005



Note: Not all companies have filed executive compensation data for 2005. Adjusted for inflation using 2005 dollars with US CPI-U.
Source: www.freeERISA.com.

The typical CEO's cash compensation lost ground slightly in 2005 but still is up 20 percent from 2002, even after adjusting for inflation.

Some of Oregon's largest employers are not based in Oregon and so are not included in the data above. Yet the CEOs of some of these large Oregon employers are even more highly compensated than the highest-paid CEOs of Oregon-based public companies. For example, in 2005 Mark Hurd, the CEO of Hewlett-Packard, received \$29.5 million in direct compensation, including the value of stock options granted to him by the company (Table 2-4). Because this compensation total was calculated somewhat differently than the calculation of total compensation for the CEOs of Oregon-based companies, the figures are not directly comparable. It is clear, though, that the CEOs of some of Oregon's largest employers receive pay that dwarfs the pay of the typical Oregon worker. Mark Hurd's 2005 compensation equals about 805 times the average annual pay of all Oregon workers.

Mark Hurd's 2005 compensation equals about 805 times the average annual pay of all Oregon workers.

Table 2-4: Mark Hurd of Hewlett-Packard is the highest paid among CEOs at 10 prominent Oregon employers

Company	CEO in 2005	2005 total compensation*	Stock options cashed out in 2005	Value of remaining unexercised stock options
Hewlett-Packard	Mark Hurd	\$29,462,847	\$0	\$7,256,500
Wells Fargo	Richard M. Kovacevich	\$21,910,976	\$6,592,621	\$51,600,320
U.S. Bancorp	Jerry A. Grundhofer	\$17,977,540	\$0	\$56,421,337
Nike	William Perez	\$16,992,626	\$0	\$0
Wal-Mart	H. Lee Scott	\$15,681,507	\$0	\$2,555,146
Intel	Paul S. Otellini	\$15,277,000	\$4,426,400	\$18,793,400
Qwest	Richard C. Notebaert	\$14,832,811	\$0	\$12,518,750
Safeway	Steven Burd	\$9,994,657	\$285,353	\$51,364,751
Kroger (owns Fred Meyer)	David B. Dillon	\$4,850,297	\$1,669,930	\$2,521,827
McDonald's	James A. Skinner	\$3,429,800	\$729,144	\$8,231,200

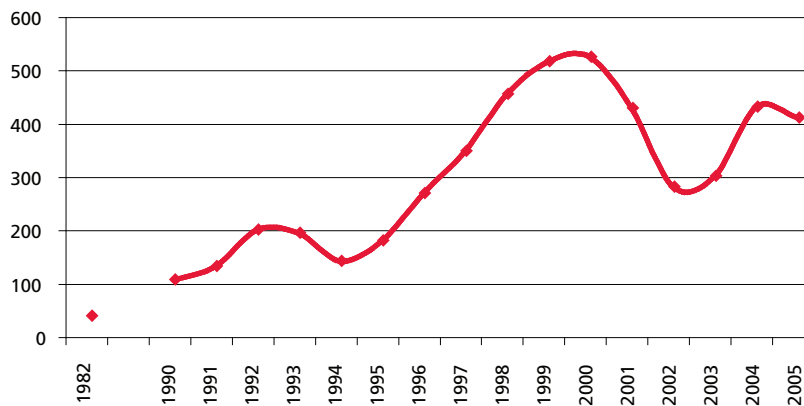
* Total compensation includes salary, bonus, other annual compensation and perks, restricted stock awards, long-term incentive plan payouts, and the value of stock option grants. Does not include the value of stock options cashed out in 2005. Source: AFL-CIO Executive PayWatch database.

Most of these CEOs also can look forward to large payouts in the future. Three of the 10 CEOs of prominent Oregon employers are holding on to unexercised stock options valued at over \$50 million (Table 2-4).

The OCPP has not compiled Oregon data on CEO compensation in the 1990s or earlier. Nationally, though, it is clear that CEO pay has soared over the past generation. In 2005, the average CEO compensation at 350 leading U.S. corporations was \$11.6 million.⁷ The ratio of this average CEO pay to the average pay earned by U.S. production workers in 2005 was 411-to-1, nearly a tenfold increase from 1982, when the ratio was 42-to-1 (Figure 2-11).

CEO pay took off most sharply relative to average worker pay between 1994 and 2000, then slipped back after the stock market collapsed and the economic downturn hit. In 2004, though, CEO pay in leading U.S. firms shot up again, rising about 46 percent in one year.⁸ The ratio of CEO pay to average worker pay rose sharply again as a result.

Figure 2-11: Average CEO compensation at leading U.S. firms in 2005 was 411 times the average pay of U.S. production workers, up nearly tenfold since 1982



Source: "Executive Excess 2006," United for a Fair Economy and Institute for Policy Studies.

In 2004, CEO pay in leading U.S. firms shot up again, rising about 46 percent in one year. The ratio of CEO pay to average worker pay rose sharply again as a result.

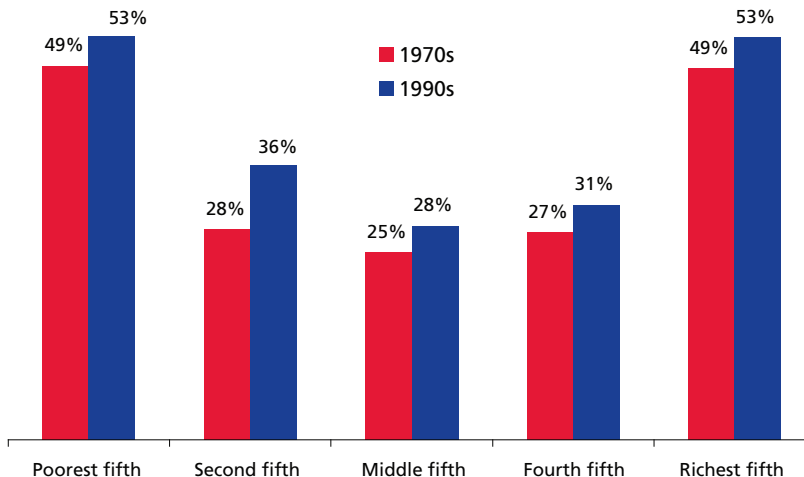
Americans are increasingly getting stuck in their income classes

Rising income inequality might not be as serious a problem if Oregonians in lower income groups today are likely to find themselves in higher income groups tomorrow. That is, if income mobility is rising along with inequality, then over the course of lifetimes, incomes will tend to even out.

Unfortunately, data to reliably measure historical patterns in income mobility in Oregon are not available. Nationally, though, income mobility has worsened over the past generation as income inequality has increased. As a result, the cumulative effects of widening income inequality are exacerbated. Over an extended period of time, the gains of well-off families are more likely to accumulate than in the past, because these families are more likely to continue accumulating high incomes. Americans are more likely to get stuck in their income class at the same time that income is concentrating at the high end. America is less the land of opportunity for all than it used to be.

A study by economists at the Federal Reserve Bank of Boston found that fewer families moved out of their income quintile during the 1990s than during the 1970s.⁹ Across the economic spectrum, families are more likely to stay in the same quintile. During the 1970s, for example, 49 percent of the families who started the decade in the poorest fifth ended the decade in the same group (Figure 2-12). By the 1990s, the figure was up to 53 percent. The same thing happened for all other income groups. The chances of staying rich also increased, as did the chances of staying in one of the middle quintiles. Income classes calcified between the 1970s and 1990s. It became harder to go from rags to riches, or from riches to rags.

Figure 2-12: The share of families who ended the decade in the same income quintile where they had begun the decade rose from the 1970s to the 1990s for families in all income quintiles



Note: One-person families (persons living alone or with non-relatives) are included. Families with no adults below retirement age are excluded. Decades cover the periods 1969-79 and 1988-98.
Source: Bradbury, Katharine and Jane Katz, "Women's Labor Market Involvement and Family Income Mobility When Marriages End," New England Economic Review, Fourth Quarter 2002, p. 66.

During the 1970s, 49 percent of families who started the decade in the poorest fifth ended the decade in the same group. By the 1990s, the figure was up to 53 percent. The chances of staying rich also increased, as did the chances of staying in one of the middle quintiles.

Conclusion

Economic growth in Oregon does not necessarily mean that most people are getting ahead. In the 1980s and 1990s, when Oregon's economy grew, the benefits of the expansion were skewed toward those at the high end of the income spectrum, especially the ultra-rich. Unfortunately for many in Oregon, the pattern is recurring in the current period of economic growth.

Endnotes

- 1 Includes all workers whose employers filed an Unemployment Insurance wage file report. Includes only workers working at least 350 hours a quarter (26.9 hours per week for those employed throughout the quarter).
- 2 For more discussion, see Bernstein, Jared, "Slow Job Growth in Second Quarter Reflects Pace of Overall Economy," *Jobs Picture*, Economic Policy Institute, July 7, 2006.
- 3 For the latest Wage Trend Indicator report, see <http://www.bna.com/index.html>.
- 4 "Households" in this section refers to tax filers with positive adjusted gross incomes.
- 5 Bernstein, Jared, Elizabeth McNichol, and Karen Lyons. "Pulling Apart: A State-by-State Analysis of Income Trends." Center on Budget and Policy Priorities and Economic Policy Institute, January 2006. Available at <http://www.cbpp.org/1-26-06sfp.pdf>.
- 6 In three of Oregon's 36 counties – Gilliam, Sherman, and Wheeler – the number of taxpayers in the top one percent group was not large enough in 1980, 1990, or 2000 to allow the Oregon Department of Revenue to release aggregate adjusted gross income data about them without potentially compromising the confidentiality of individual taxpayer returns. By 2004, only the top one percent in Sherman County remained too small a group to allow the department to release data on their aggregate adjusted gross incomes. The 17 counties in which the top one percent had higher real average adjusted gross incomes in 2000 than in 2004 represent 28 percent of Oregon's population.
- 7 Anderson, Sarah, et al., "Executive Excess 2006," United for a Fair Economy and Institute for Policy Studies, August 30, 2006, p. 30. CEO compensation includes salary, bonuses, restricted stock awarded, payouts on other long-term incentives, and the value of options exercised in a given year. It does not include the estimated value of stock options awarded.
- 8 Ibid. Average total compensation for the CEOs studied rose from \$8.1 million in 2003 to \$11.8 million in 2004.
- 9 Bradbury, Katharine, and Jane Katz, "Women's Labor Market Involvement and Family Income Mobility When Marriages End," *New England Economic Review*, Fourth Quarter 2002, p. 66. See also Bradbury and Katz, "Are Lifetime Incomes Growing More Unequal," *Regional Review*, Fourth Quarter 2002.

THE PATH TO OPPORTUNITY IS GETTING STEEPER

Chapter 3

Rising income inequality does not just mean that the rich are getting richer. It also means that middle- and low-income families have less income than they would if the benefits of the economy's growth were more equally shared.

Today, some Oregonians do not have even the basic necessities, for lack of sufficient income. The same share of Oregonians are poor today as were poor 35 years ago, and the share of Oregon working families with children who are poor despite their work effort has doubled since 1979-81. Over the last generation it has become increasingly likely that families with children will not earn enough income to meet their most basic needs, even though the adults are working. Thousands of Oregonians – disproportionately young working parents – go hungry at times each year because they do not have enough money for food.

Because high-income Oregonians are collecting more of Oregon's total income, middle- and low-income families have less to invest in their futures than they would if the benefits of economic growth were more equitably distributed. That is, rising income inequality has deprived families not just of income today but of future wealth, as well.

The situation is exacerbated when the costs of making key investments that boost economic opportunity are increasing faster than the incomes of middle- and low-income families. A college degree is a primary determining factor in the earning potential of working adults. Yet a college education in Oregon is less affordable than it was a decade ago. Buying a home is also a crucial investment, but homes in Oregon have become less affordable than they used to be, particularly over the last year and a half. Quality child care, important for children's development in working families and necessary for parents' success in the work world, is also less affordable.

The path to opportunity in Oregon has become steeper. Over the long term, the health of the Oregon economy rests on key investments that Oregonians are able to make in their families and in their communities. If more Oregonians continue to find that strategic investments, including education and homeownership, are unaffordable, the future of Oregon's economy and quality of life will be harmed.

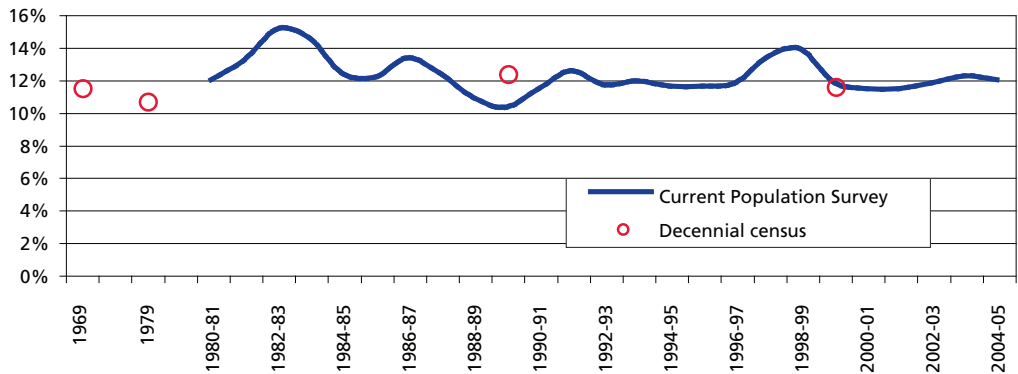
Over the long term, the health of the Oregon economy rests on key investments that Oregonians are able to make in their families and in their communities.

Work is not necessarily a ticket out of poverty

Oregon’s economy is much more efficient and productive than it was 10 or 15 years ago. Per capita income is up 19 percent, after adjusting for inflation, compared to 1990. Oregonians are producing 69 percent more Gross State Product per capita in real terms than they were in 1990. Yet, despite all this new income and economic output, Oregon’s poverty rate has not budged. Collectively, we have not spent enough of our new income and increased efficiency on investments that would raise the incomes of our lowest-income residents. The state poverty rate was 11.4 percent in 1990-91 and 11.9 percent in 2004-05, the latest data currently available.¹

The poverty rate in Oregon has hovered between 10 and 14 percent for most of the past 35 years (Figure 3-1). Real per capita income is up 65 percent since 1969, but roughly the same share of our residents live on less income than they need to meet their most basic needs.

Figure 3-1: Oregon’s poverty rate is still where it was 35 years ago



Source: OCPP presentation of Current Population Survey and Decennial Census data.

The poverty rate in Oregon has hovered between 10 and 14 percent for most of the past 35 years.

Over the last generation it has become increasingly likely that families with children will not earn enough income to meet their most basic needs, even though the adults are working.

In 2004-05, there were 66,100 families with children in Oregon living in poverty. This does not include families where all adults were disabled, ill, or retired. In 66 percent of these families (43,800 families), the parents worked more than one-quarter of the year.² At the peak of the 1990s economic boom, 82 percent of families with children in poverty worked more than one-quarter of the year.

In some cases, families were poor because they lost jobs and were unable to find enough work that provided adequate wages. In other cases, they were poor even though they worked full-time and year-round.³ More than one-third (35 percent) of Oregon’s poor families with children worked full-time and year-round in 2004-05.

Poverty rose in the 1980s and mid-1990s among families with children that worked more than one-quarter of the year. In 1979-81, the share of working families with children who were poor was 4.8 percent. By 1997-98, that figure had increased to 13.5 percent.

Families need more than a poverty-level income to meet basic needs

The poverty line is an outdated measure for determining the share of Oregon families who lack the income necessary to cover the basic needs of a modest life. The poverty formula was established in the 1960s based on survey data from the 1950s that showed the typical American family of three or more spending a third of its after-tax income on food. The poverty line was, and continues to be, calculated by assessing the cost of a meager basket of food items and multiplying it by three, which is supposed to represent the income necessary for a family to afford their basic needs.⁴

Today, other costs, including child care, housing, and transportation, make up a larger portion of the American family's budget than they used to. The official poverty measure underestimates what it costs for a family to meet its basic needs. Careful studies have shown that the poverty rate would be higher if the government used a more accurate measure for poverty.⁵

A study by the Economic Policy Institute (EPI), for example, found that 30 percent of Oregon's working families with children under age 12 do not earn enough income to maintain a modest standard of living.⁶ The report found that in 2004, a family of four with two adults and two children living modestly in the Portland metro area needed \$43,435 to meet their costs, including housing, food, child care, transportation, health care, taxes, and other necessities. A family of four in rural Oregon needed \$37,582. In contrast, using the official poverty calculation, a two-adult, two-child family earning more than \$19,157 would not be considered poor (Table 3-1).

The EPI report is consistent with findings from other studies of basic family budget needs. For instance, the most recent Northwest Job Gap Study estimated Oregon's "living wage" in 2004 at \$44,041 for a four-person family with two children and one adult working.⁷

Table 3-1: The amount of income necessary for families with children to cover the basic cost of a modest life in Oregon is more than twice the poverty line

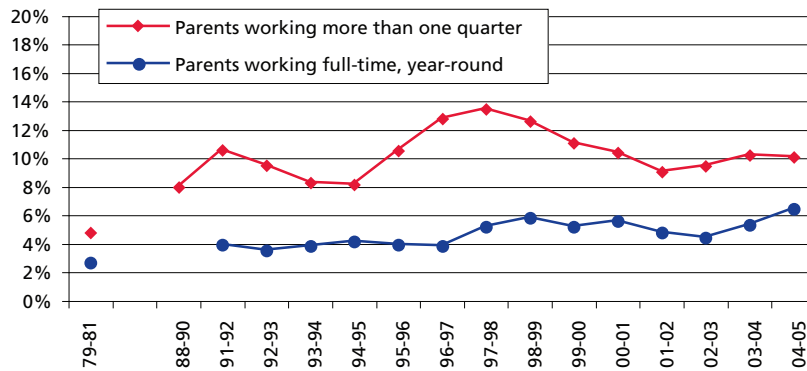
	Monthly Amount Needed, 2004	Annual Amount Needed, 2004	Poverty Threshold, 2004	Annual Amount Needed as a Percent of Poverty
2 parents, 2 children				
Eugene-Springfield	\$3,479	\$41,748	\$19,157	218%
Medford-Ashland	\$3,498	\$41,976	\$19,157	219%
Portland-Vancouver (Oregon portion)	\$3,618	\$43,416	\$19,157	227%
Salem	\$3,339	\$40,068	\$19,157	209%
Rural Oregon	\$3,132	\$37,584	\$19,157	196%
1 parent, 1 child				
Eugene-Springfield	\$2,599	\$31,188	\$13,020	240%
Medford-Ashland	\$2,596	\$31,152	\$13,020	239%
Portland-Vancouver (Oregon portion)	\$2,708	\$32,496	\$13,020	250%
Salem	\$2,452	\$29,424	\$13,020	226%
Rural Oregon	\$2,253	\$27,036	\$13,020	208%

Source: Economic Policy Institute.

In the late 1990s, with the economy finally delivering significant wage gains to low-income families, the percentage of working families with children in poverty declined. These declines continued into the first part of the economic downturn, as the late 1990s wage gains were maintained and poor families sustained a substantial work effort. In 2004-05, 10.1 percent of families who had children and worked more than one-quarter of the year were poor. This rate was still more than double the rate of the late 1970s (Figure 3-2).

Families working full-time, year-round show a similar trend. In 1979-81, 2.7 percent of these families were poor, despite their work effort. In 2004-05, the figure was double, at 6.5 percent (Figure 3-2). That is, about one in 15 Oregon families working full-time, year-round in 2004-05 did not earn enough to escape poverty.

Figure 3-2: The share of Oregon working families with children who were poor despite their work effort has doubled since 1979-81



Source: OCPP analysis of Current Population Survey data.

About one in 15 Oregon families working full-time, year-round in 2004-05 did not earn enough to escape poverty.

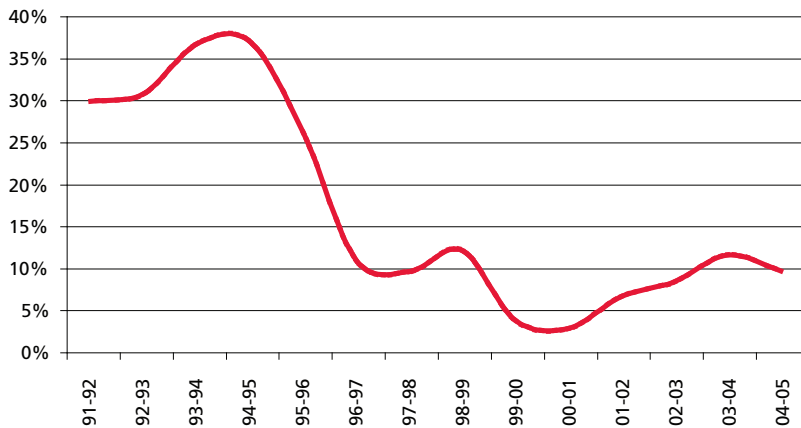
Contrary to stereotypes, few poor Oregon families with children are receiving most of their income from public assistance.

Contrary to stereotypes, few poor Oregon families with children are receiving most of their income from public assistance. In 2003-04, just 11 percent of poor Oregon families with children relied on cash assistance programs, including Temporary Assistance for Needy Families (TANF), General Assistance (GA), and Supplementary Security Income (SSI), for more than half their income.

The welfare system was overhauled in the mid-1990s, which sharply reduced the number of Oregonians receiving cash assistance. The caseload of the state's primary welfare program, Temporary Assistance for Needy Families (TANF), was down 58 percent in May 2006 compared to May 1993, prior to welfare reform. There are nearly 25,267 fewer Oregon families receiving TANF benefits today than there were 13 years ago, in 1993.⁸

Even before welfare reform, only 36.7 percent of poor families with children in Oregon received the majority of their income from cash assistance. After welfare reform, however, that percentage plummeted to 3.6 percent in 1999-00, before rising somewhat after the economic downturn hit (Figure 3-3).

Figure 3-3: The share of poor families with kids in Oregon getting the majority of their income from cash assistance (TANF, SSI, GA) is only about a third its pre-welfare reform level



Source: OCPP analysis of Current Population Survey data.

Even before welfare reform, only 36.7 percent of poor families with children in Oregon received the majority of their income from cash assistance. After welfare reform, however, that percentage plummeted to 3.6 percent in 1999-00, before rising somewhat after the economic downturn hit.

Hunger down, but children just as likely to be in food insecure homes

Because they lack enough money to buy food, thousands of Oregonians go hungry at times each year. Most of those who go hungry are adults. Young adults with children are more likely to go hungry than older adults and childless adults.

In 2002-04, about 504,000 Oregonians lived in homes considered “food insecure,” meaning they could not be sure where their next meal would come from because money was so tight. About one in every seven Oregonians lived in a household whose members struggled at times to get food on the table because they did not have enough money.

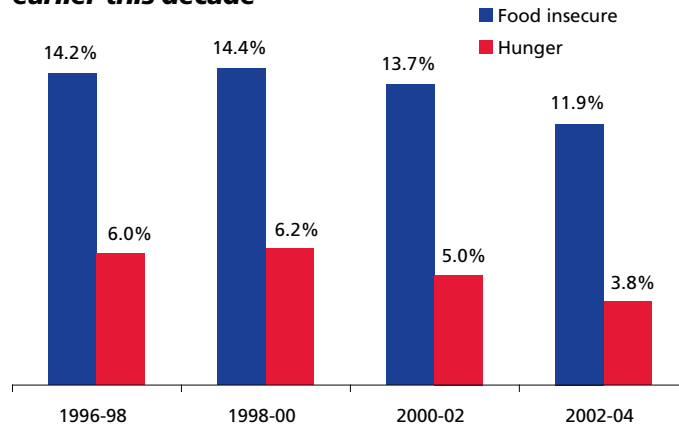
Of the more than half a million Oregonians living in food insecure homes, about 159,000 lived in homes where someone actually went hungry at times because they did not have enough money to eat. Not all of these 159,000 Oregonians went hungry themselves, but each of them lived in a home where someone went hungry.

Unlike Oregon’s poverty rate, Oregon’s hunger rate has declined in recent years. The share of households in Oregon in which at least one person went hungry at times declined from 6.2 percent in the 1998-2000 period to 3.8 percent in 2002-04 (Figure 3-4). This significant decline occurred despite the economic downturn and the ensuing decline in income for lower-income households. Oregon’s aggressive expansion of the Food Stamp Program beginning in late 2000, just before the recession hit, is primarily responsible for reducing Oregon’s hunger and food insecurity rates.

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The share of households in Oregon in which at least one person went hungry at times declined from 6.2 percent in the 1998-2000 period to 3.8 percent in 2002-04.

Figure 3-4: The share of Oregon households with hunger, and the share that are food insecure, declined earlier this decade

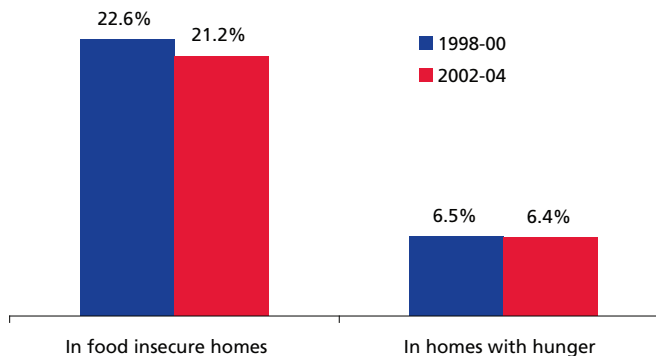


Source: OCPP analysis of Food Security Supplement to the Current Population Survey and U.S. Dept. of Agriculture data.

While the expansion of the Food Stamp Program succeeded in reducing Oregon’s overall hunger and food insecurity rates, it was not successful in reducing the share of Oregon children living in homes with hunger. That is, the Food Stamp Program expansion worked to lower food insecurity and hunger rates for adults but not for children.⁹

In the 1998-2000 period, about one in five Oregon children lived in food insecure homes. That share had not changed by any measurable amount by 2002-04. The small difference between the 1998-00 rate and the 2002-04 rate (22.6 percent and 21.2 percent, respectively) may be due only to sampling error in the survey used to measure food insecurity (Figure 3-5). Similarly, in 1998-00, 6.5 percent of Oregon children lived in homes where at least one member went hungry at times because they did not have enough money to eat. The rate in 2002-04 was 6.4 percent, no different in statistical terms from the 1998-00 rate.

Figure 3-5: About one in five Oregon children lives in a food insecure home, about the same as before the downturn



Source: OCPP analysis of Food Security Supplement to the Current Population Survey.

In the 1998-2000 period, about one in five Oregon children lived in food insecure homes. That share had not changed by any measurable amount by 2002-04.

Typically, when parents lack the necessary money to purchase enough food for the whole family, they will feed the children first and go hungry themselves. Generally, only in the most severe circumstances will parents be forced to let their children go hungry, too.

In most homes with hunger, the financial situation is serious but not so extreme that they are forced to let the children go hungry. Thus, most of the Oregonians going hungry at times are adults, not children.

Parents in food insecure homes, however, are often forced to feed their children an inadequate diet. In 2002-04, parents in 73 percent of Oregon's food insecure households only fed their children a few kinds of low-cost food because the money was tight. In half of Oregon's food insecure households, children did not always get a balanced meal because of their households' financial straits.¹⁰

Too few Oregon children have the opportunity of high-quality development programs in their preschool years

When the benefits of economic growth are as unequally shared as they have been over the past 25 years in Oregon, the result is not just more hungry and poor people than would otherwise be the case but also a decline in the relative capacity of middle- and low-income families to make investments in their futures.

Early childhood development is increasingly recognized as a crucial period for a child's future prospects. Critical cognitive development occurs during the first five years of a child's life. Research shows that investment in early childhood education pays off by helping produce high-achieving adults. Children who participate in high-quality early child development programs perform better in school, are less likely to be involved in crime, and are more likely to complete high school and find well-paying jobs.¹¹ Preschool is no longer a luxury – it is a requirement for families wishing to give their children a strong start in life.

The general public also reaps significant benefits from investments in high-quality early child development programs. High-quality programs are those that have a low child-staff ratio and small group sizes, require caregiver training, and maintain basic safety procedures. Investments in these programs produce high returns through reduced costs for remedial and special education, criminal justice services, and public assistance, as well as higher rates of economic growth, improved economic competitiveness, and reduced economic and social disparities.¹²

No reliable data are available on trends in preschool attendance in Oregon. Nationally, beginning in the 1960s, substantial numbers of parents began to send their children to pre-kindergarten school. Since then, the share of three- and four-year-olds attending preschool has increased for all income groups. Yet, from the beginning, higher-income parents were more likely to send their children to preschool than low-income parents. This gap has persisted since then and, for three-year-olds, the gap has widened. In 1968-70, three-year-olds from U.S. households with the highest 20 percent of annual income were 6 percent more likely to be enrolled in preschool than children from households with the lowest 20 percent of annual income. By 1998-2000, the difference was 18 percent. For four-year-olds, it initially widened, then improved in the 1990s to the level it was in the late 1960s.¹³

Children in high-income families are also more likely to receive high-quality preschool child care.¹⁴ This is important for these children's future prospects. Children who attend high-quality programs develop better math, language, and social skills than do children who attend lower-quality programs.¹⁵

In 1968-70, three-year-olds from U.S. households with the highest 20 percent of annual income were 6 percent more likely to be enrolled in preschool than children from households with the lowest 20 percent of annual income. By 1998-2000, the difference was 18 percent.

In Oregon, nine-month annual tuition for half-day preschool in a high-quality program can cost between \$3,600 and \$9,900 or more.¹⁶ For a family of three subsisting on \$16,600 annually – the federal poverty guideline for 2006 and \$1,000 more than a minimum-wage worker’s gross income – tuition charges would consume 22 to 60 percent or more of their annual income.

Given the high cost of high-quality private preschools, many low-income families need a lower cost option if their children are to have equal opportunities to succeed.

Head Start does not reach enough Oregon children

The primary public preschool program currently serving low-income children in Oregon is the Head Start program. Unfortunately, the program does not reach enough Oregon children.

Head Start, a federal program established in 1965, serves only the very neediest three- to five-year-olds – those from families at or below the federal poverty level, or \$20,000 for a family of four in 2006. The program’s funding, however, limits the reach to only three out of five poor children in Oregon.

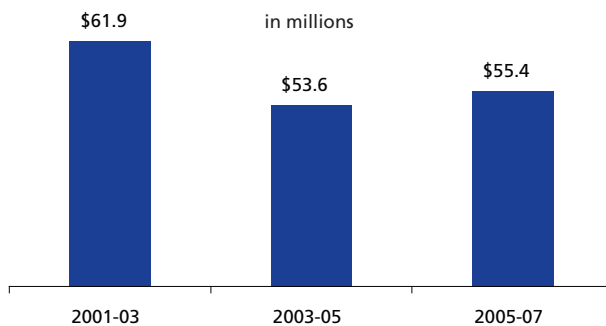
By providing a comprehensive set of services, Head Start gives young children from poor families a chance for a solid start in school and life. In addition to preschool education, Head Start programs offer access to medical and dental care and nutrition services. They also promote parental involvement.¹⁷ A related federal program, Early Head Start, serves families with pregnant mothers and children from birth to age three.

As in the rest of the nation, most Oregon children enter Head Start with lower levels of physical well-being, language skills, and social skills than other children their age. Head Start programs measurably narrow the gap. Children who participate in Head Start enter kindergarten better prepared to learn and tend to close the gap with their peers in terms of reading, writing, and math skills over the course of the year.¹⁸

In Oregon, Head Start is jointly funded with federal and state dollars through the Oregon Head Start Prekindergarten program, established in 1987. Community-based nonprofits and school systems administer the local programs.¹⁹

In 1991, the Oregon Legislative Assembly required that the State provide funding for Head Start to reach all eligible children by 2004.²⁰ This goal was not met. According to the Oregon Department of Education, in the 2004-05 school year the program reached only about 60 percent of eligible three- to five-year-olds in Oregon.²¹ In 2002 and 2003, state budget shortfalls led the legislature to reduce funding for Head Start. The program was budgeted \$61.9 million in the 2001-03 biennium, but this funding was reduced by \$4.4 million in 2002 as part of budget cuts resulting from the economic downturn.²² In 2003-04, funding for Head Start was only \$53.6 million. In the 2005-07 biennium, the legislature increased funding slightly, to \$55.4 million, with a goal to maintain the 60 percent participation rate (Figure 3-6).²³

Figure 3-6: State funding for Oregon Prekindergarten Head Start is down from earlier this decade



Note: 2001-03 funding was reduced by \$4.4 million in 2002.
Source: Legislative Fiscal Office, Legislatively Adopted Budget analyses.

Head Start was budgeted \$61.9 million in the 2001-03 biennium. In the 2005-07 biennium it was budgeted \$55.4 million.

State spending reductions are compounded by federal funding cuts to Head Start. In 2006, after several years of modest budget increases that failed to keep pace with rising program costs, Congress cut the federal Head Start budget by about 2.8 percent below the 2005 level, adjusted for inflation. For Oregon, this means a loss of approximately \$3 million in 2006.²⁴

Child care is less affordable and less available

Nationally, the percentage of women in the civilian labor force who have children under age six increased from 39 percent in 1975 to 62 percent in 2004.²⁵ In Oregon, that number grew from 43 percent in 1980 to 62 percent in 2000.²⁶

A large share of families with children today must pay for child care primarily because more mothers are working outside of the home. More than half of Oregon families with children younger than age six had all parents in the workforce in 2004. That is, 56 percent of families with young children needed child care while the parents worked.

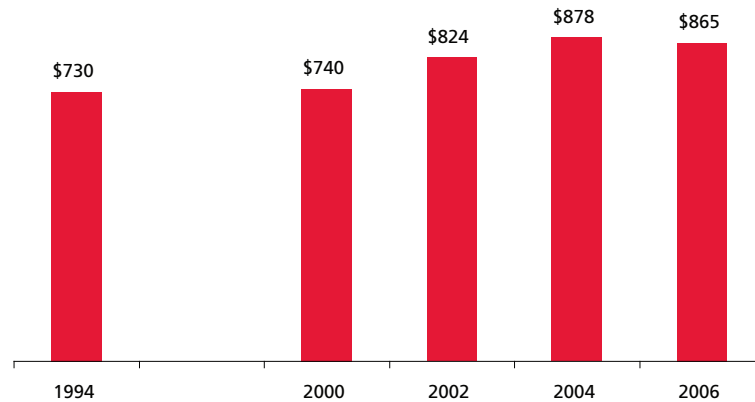
Nearly a third of families in Oregon with children under age 13 use some form of paid child care.²⁷ Unfortunately, such care is less affordable and less available in Oregon than it was just a few years ago.

Average monthly child care costs rose earlier this decade

The average monthly cost for full-time care for a toddler in a child care center in Oregon increased from \$730 in 1994 to \$865 in 2006, adjusted for inflation (Figure 3-7).²⁸ That is, a full year of toddler care in 2006 would have cost \$10,380 – over \$4,000 more than tuition and fees for an undergraduate at the University of Oregon in 2005-06.²⁹ The increase in child care costs happened earlier this decade. Between 2004 and 2006, the costs for a toddler in full-time care declined slightly in real terms (Figure 3-7).

The average monthly cost for full-time care for a toddler in a child care center in Oregon increased from \$730 in 1994 to \$865 in 2006, adjusted for inflation.

Figure 3-7: The monthly cost of having a toddler full-time in a child care center in Oregon increased earlier this decade



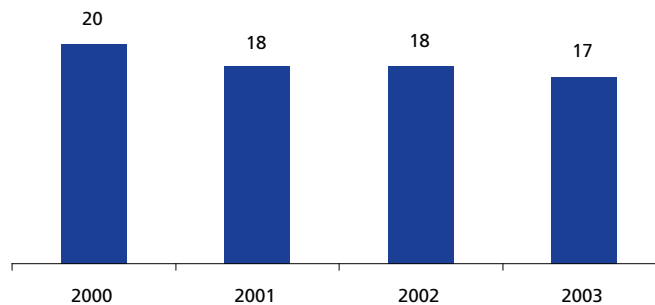
Note: Shows trend in 75th percentile of slots by cost, adjusted for inflation to January 2006 dollars. Source: OCPP analysis of data in 2006 Oregon Child Care Market Rate Study.

The State of Oregon considers child care “affordable” if a household spends less than 10 percent of household income on the care.³⁰ Using this standard, 57 percent of Oregon households with children under 13 in the bottom half of the income distribution were unable to find affordable child care in 2004.³¹

Supply of regulated child care in Oregon declines

In addition to child care becoming less affordable in Oregon, it has also become harder to access regulated child care. In 2000, Oregon had 20 regulated child care slots for every 100 children under age 13. By 2003, Oregon had only 17 slots per 100 children (Figure 3-8).³² This measure offers only a broad approximation of access to child care. It does not account for the availability of quality child care or of care to meet specific needs, such as infant care or care early in the morning, at night, or on the weekends.

Figure 3-8: The number of regulated child care slots per 100 children under age 13 in Oregon has declined



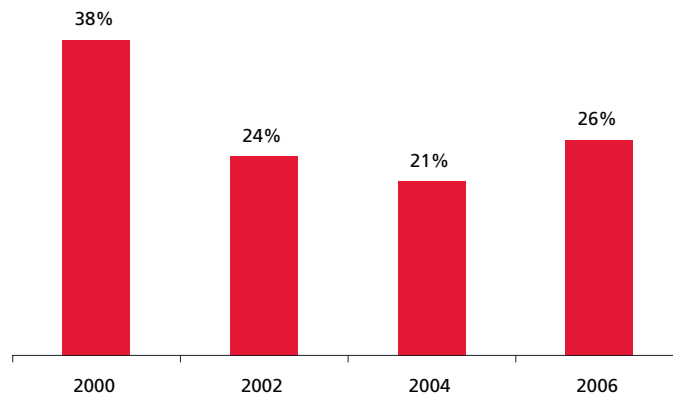
Source: Oregon Progress Board, “Achieving the Oregon Shines Vision: The 2005 Benchmark Performance Report,” April 2005.

In 2000, Oregon had 20 regulated child care slots for every 100 children under age 13. By 2003, Oregon had only 17 slots per 100 children.

For low-income families, finding affordable care is even more difficult because public subsidies are too low to pay for many of the child care slots that are available. Oregon subsidizes the cost of child care for working families through the Employment Related Day Care (ERDC) program.³³ The program subsidizes the cost of child care for families with incomes under 150 percent of the poverty level, or \$24,900 for a family of three in 2006.

Unfortunately, the subsidy rate that ERDC offers to providers who are licensed by the state Child Care Division was enough to purchase only 26 percent of slots for full-time toddler care statewide in 2006. This was even worse than the situation in 2000, when the subsidy rate could purchase 38 percent of slots statewide (Figure 3-9). It was a slight improvement, though, from 2004, when the subsidy could purchase 21 percent of slots statewide. The improvement is likely because the State increased subsidy rates by 2.4 percent on April 1, 2006. These were the first increases since 1999. When a provider charges more than the state subsidy rate, families either have to look elsewhere or have to pay the difference, in addition to the co-payment required under the ERDC program.

Figure 3-9: The subsidy offered to child care providers by the ERDC program is enough to pay for just 26 percent of full-time slots for toddlers statewide



Source: Grobe, Deana, Roberta B. Weber, and Clara C. Pratt, 2006 Oregon Child Care Market Rate Study, August 2006.

The subsidy rate that ERDC offers to providers who are licensed by the state Child Care Division was enough to purchase only 26 percent of slots for full-time toddler care statewide in 2006.

In 2006, the maximum state child care subsidy plus the required co-pay was not enough to purchase care in any child care center in 65 percent of Oregon zip codes.³⁴

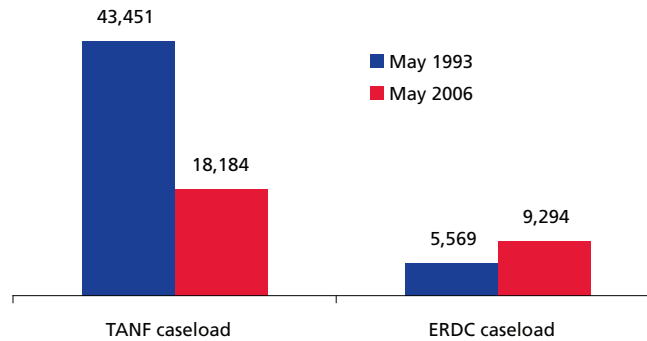
Not only do low funding levels keep the program's subsidy too far below market rates, but cuts in funding for ERDC have kept the program from serving a large percentage of families in need. During the fifth special legislative session of 2002, faced with an ongoing revenue shortfall, Oregon lawmakers decided that if voters rejected Measure 28 – a temporary income tax increase – a number of budget cuts would automatically occur.

After Measure 28 failed in January 2003, the ERDC income limit was reduced from 185 percent of the federal poverty line to 150 percent and co-payments required from low-income families were increased. The 2003 Legislative Assembly partially rolled back the co-payment increase. The income eligibility limit for ERDC, however, remains at 150 percent of poverty.

Unfortunately, ERDC has not fully supported the primary group it was intended to serve—families leaving welfare. As thousands of Oregon families with children left the welfare caseload rolls over the last decade, only a small portion received the child care support they needed. In May 2006, there were 25,267 fewer families with children receiving welfare in Oregon than in May 1993 and just 3,725 more families receiving ERDC (Figure 3-10).

Figure 3-10: The decline in the welfare caseload has not been met with a similar increase in families getting a child care subsidy

In May 2006, there were 25,267 fewer families with children receiving welfare in Oregon than in May 1993 and just 3,725 more families receiving ERDC.



Source: Oregon Department of Human Services.

The Working Family Child Care Credit increases opportunities for low-income families

The Working Family Child Care tax credit provides a refund to low-income working families of up to 40 percent of the cost of child care. Households with incomes up to 200 percent of the poverty line (\$33,200 for a family of three in 2006) are eligible for the full amount of the credit. Families with incomes between 200 and 250 percent of poverty (\$41,500 for a family of three in 2006) are eligible for a partial credit. In 2004, 26,624 low-income Oregon taxpayers benefited from the credit.

In 2003, the Working Family Child Care credit became “refundable,” meaning that eligible taxpayers can receive the full value of the credit, even when the value of the credit exceeds the taxpayer’s income tax liability. Prior to this change, families whose low incomes produced tax liabilities that were less than the value of the credit could not receive the full credit. In 2000, only 62 percent of the value of the credit, on average, could be used because of this limitation.³⁵

The Working Family Child Care tax credit is an important mechanism for helping low-income families cover the high costs of child care. Because it provides assistance only once a year – at tax time – many low-income working families also need a direct subsidy program such as the Employment Related Day Care (ERDC) program to meet monthly child care expenses. The two programs work in tandem. When a family receives the ERDC subsidy, the Working Family Child Care credit is reduced.

The opportunity for a higher education grows less affordable, too

The path to opportunity today generally requires a college degree. In 2004, Oregonians with a bachelor's degree averaged annual earnings of \$37,923, while those with a high school degree averaged only \$23,477.³⁶ Over the course of a lifetime, a worker in the United States with a bachelor's degree can expect to earn almost twice as much as someone with only a high school diploma.³⁷

The importance of education is another way in which the changing economy has raised the bar for getting ahead. Since the mid-1970s, growth in earnings for workers with higher education degrees – whose skills are more in demand in a more technologically advanced economy – have increased faster than earnings for workers with high school diplomas.³⁸

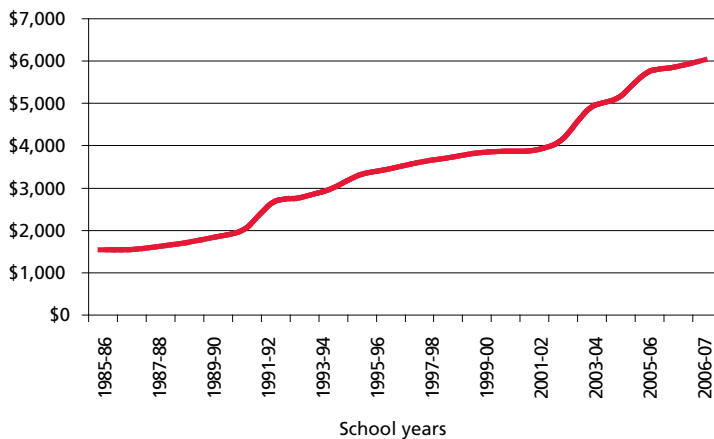
Increasing the share of Oregonians with a college degree would not only improve opportunities for individuals in the state, it would also contribute to a strong economy and tax base by attracting businesses seeking skilled workers.

Getting a college degree in Oregon is less affordable than it was a few years ago. Some Oregonians are missing out on college as a result.

Tuition soars at Oregon schools

Charges for tuition and fees at Oregon's public universities have climbed substantially since the late 1980s. In 1985-86, a full-time, resident undergraduate student at the University of Oregon paid \$1,487 per year in tuition and fees. Since then, tuition and fees have quadrupled, to \$5,970 per year (Figure 3-11). Cost increases have been particularly steep in the last few years. Between 2000-01 and 2006-07, tuition and fees at the University of Oregon rose by more than \$2,000.

Figure 3-11: Resident tuition and fees at the University of Oregon have quadrupled in the last 20 years



Source: Oregon University System.

Cost increases have been particularly steep in the last few years. Between 2000-01 and 2006-07, tuition and fees at the University of Oregon rose by more than \$2,000.

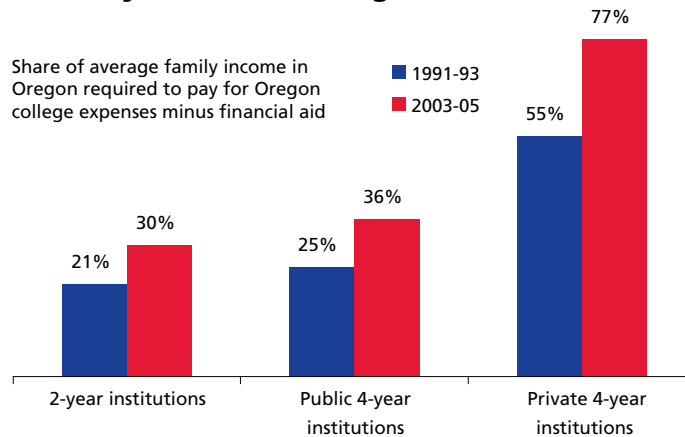
Community colleges, which are traditionally a more affordable higher education option, also saw cost increases during the past decade. By 2005-06, community college tuition and fees in Oregon were \$2,996 on average. Although these charges seem affordable relative to those at public and private four-year institutions, they rose by more than \$700, or 35 percent, between 2000-01 and 2005-06, when adjusted for inflation.³⁹

Tuition and fees are only part of the costs of school attendance. Students and their families must also cover the costs of books and supplies, room and board, transportation, and other living expenses. In 2004-05, total annual expenses for an undergraduate at a two-year public institution in Oregon averaged \$11,127, while they were \$14,995 at a four-year school. At a four-year private institution, total annual costs averaged \$27,692.⁴⁰

All forms of higher education are less affordable

Cost increases mean that college became less affordable for all types of higher education institutions in Oregon. In 2003-05, the net average costs of attendance – total college expenses minus federal grants and state and institutional aid – at a public, four-year institution in Oregon consumed 36 percent of the average family’s annual income, up from 25 percent in 1991-93. At two-year institutions, which many students select for their relative affordability, net costs constituted 30 percent of average family income in 2003-05. Net costs at private institutions represented 55 percent of average family income in 1991-93 and a full 77 percent in 2003-05 (Figure 3-12).⁴¹ For each year of full-time college attendance, a student and his or her family have to cover these costs through resources such as savings, loans, or earnings.

Figure 3-12: All forms of higher education are less affordable than they used to be in Oregon



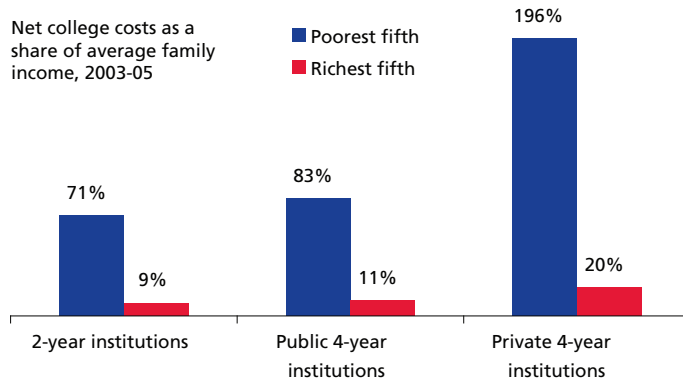
Note: “2003-05” finding uses data on tuition, room & board for 2005-06 school year. Pell grant aid data for this finding is for 2004-05 school year. Institutional aid is 2003 data. Median family income data is for 2003-05. “1991-93” finding uses tuition, room & board, Pell grants, and institutional aid for 1992-93, and median family income for 1991-93. Source: OCPP presentation of data in National Center for Public Policy and Higher Education, *Measuring Up*, 2006.

In 2003-05, the net average costs of attendance – total college expenses minus federal grants and state and institutional aid – at a public, four-year institution in Oregon consumed 36 percent of the average family’s annual income, up from 25 percent in 1991-93.

College costs are formidable, if not out of reach, for the average low-income family. For the poorest fifth of Oregon families, with average incomes of \$11,720, the average net costs of attendance at a two- or four-year public institution respectively take up 71 percent and 83 percent of their average annual incomes. The net annual cost of a private-school education represents almost twice as much as these families’ average annual income. Parents in the wealthiest fifth of households in Oregon – those with average incomes of \$112,600 – by

contrast, would pay only 20 percent of their average annual income to support their child at a private school for a year and only 11 percent for attendance at a public four-year school (Figure 3-13).⁴²

Figure 3-13: Even with financial aid, college costs in Oregon are a much larger portion of the income of low-income families than well-off families



Note: "Net college costs" includes tuition, room, & board minus financial aid. For poorest fifth, median family income was \$11,720 in 2003-05; for richest fifth it was \$112,600. Tuition, room & board data is for 2005-06 school year. Pell grant aid data is for 2004-05 school year. Institutional aid is 2003 data. Source: OCPP presentation of data in National Center for Public Policy and Higher Education, *Measuring Up*, 2006.

For the poorest fifth of Oregon families, with average incomes of \$11,720, the average net costs of attendance at a two- or four-year public institution respectively take up 71 percent and 83 percent of their average annual incomes.

Not surprisingly, students from low-income families are much less likely to attend college than are students from high-income families. The rate of college attendance among Oregon students from households in the highest 20 percent of incomes is 51 percent, while it is 31 percent among those from households in the lowest 20 percent of incomes.⁴³

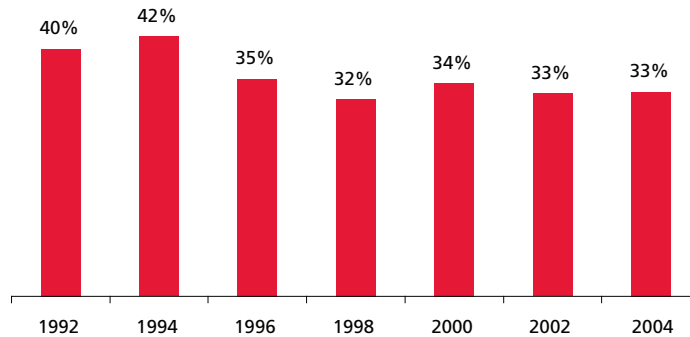
Fewer high school freshmen end up in college four years later

A young person aiming for a bachelor's degree faces a series of decisions and turning points, with many opportunities to be waylaid from the goal. During the 1990s, Oregon saw a decline in both the percentage of students graduating from high school and the percentage of students going directly from high school to college.⁴⁴ As a result, the chance that an Oregon high school freshman would be enrolled in college anywhere in the U.S. four years later declined from 40 percent in 1992 to 33 percent in 2004. In 2004, the national average was 38 percent, and it was above 50 percent in six states.⁴⁵

Most of the decline in Oregon happened in the mid-1990s. The strong economy at the time may have enticed young people into the workforce, rather than into colleges. The share of Oregon high school freshman enrolled in college four years later has not improved since the mid-1990s (Figure 3-14). The eroding affordability of Oregon colleges cannot be helping the situation.

The chance that an Oregon high school freshman would be enrolled in college anywhere in the U.S. four years later declined from 40 percent in 1992 to 33 percent in 2004. Most of the decline in Oregon happened in the mid-1990s.

Figure 3-14: The likelihood that an Oregon high school freshman will be enrolled in college four years later has declined



Source: Postsecondary Education Opportunity. Data for 1992-2002 accessed from the NCHEMS Information Center for State Higher Education Policymaking and Analysis.

Students seeking greater opportunities through a higher education degree are more likely to take on debt

As Oregon colleges grow less affordable, students and their families are also more likely to take on debt to finance a college education.

The trend toward more borrowing for college was encouraged by the 1992 reauthorization of the Higher Education Act, which instituted significant changes in federal financial aid for higher education. These changes helped students from families at or below median income levels attend college by lowering their expected family contributions, allowing them to qualify for need-based aid. It also raised loan limits and made unsubsidized loans available to students who did not qualify for need-based aid.⁴⁶

As rising college costs make it increasingly unlikely that students and their families can pay for college through a combination of savings and earnings, expanded access to loans for higher education keeps open an important avenue for opportunity. On the other hand, increasing debt may not be the best way to expand opportunity over the long term. Graduating with significant debt shapes decisions about whether a young person can afford to undertake graduate schooling, seek temporarily lower-paying but valuable employment or internship experiences, purchase a home, or start a family.

Over the last decade, loan aid per college student in the U.S. increased by 50 percent in real terms, rising from \$3,204 in 1994-95 to \$4,916 in 2004-05. The increase occurred both because a higher share of all students took out loans, increasing total loan aid per student, and because the average loan taken out by graduate students increased in real terms. Graduate students have grown particularly dependent on loans. In 2004-05, loans accounted for 76 percent of aid for graduate students, up from 67 percent in 1994-95. The average federal loan taken out by a graduate student nationally in 2003-04 was \$9,215.⁴⁷

Increasing federal emphasis on loans rather than grants as aid for higher education partly explains the decreasing portion of federal aid that is distributed according to need. In 2004-05, unsubsidized loans to students, federal loans to parents, and tax benefits constituted 47 percent of total federal aid distributed nationally. In 1994-95, those sources

constituted only 26 percent of total federal aid. While these forms of aid help many students to attend college, they are less likely to help low-income families.⁴⁸ For families that are struggling to cover basic needs, tax benefits offer little incentive for college savings and loans promise to stretch household budgets beyond the breaking point.

In Oregon, federal funds constituted 71 percent of financial aid received by students in the Oregon University System in the 2003-04 academic year. Of that aid, 56 percent came in the form of loans, while only 12 percent came as grants.⁴⁹

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State funding fails to meet needs, but it is improving

State support for Oregon college students could make college more affordable again. Unfortunately, state funding is far less than what is needed. Recent funding increases, though, will help Oregon students somewhat in coming years.

A national study released in September 2006 ranked Oregon relatively low for state aid for higher education, showing that Oregon's investment in need-based financial aid equaled just 20 percent of federal investment in such aid in the state. By comparison, the figure was 86 percent for Washington and 53 percent for California.⁵⁰

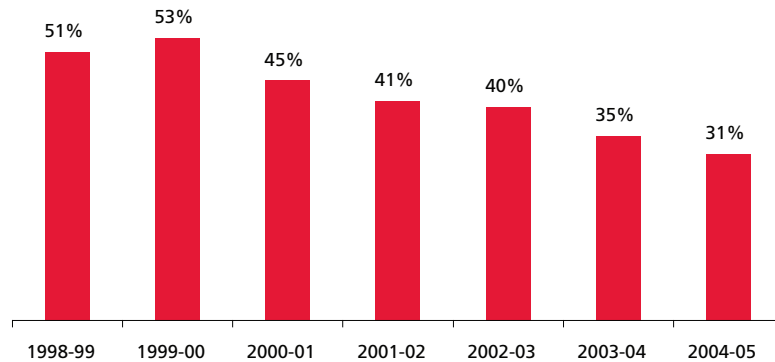
Since 1971, Oregon has focused its student-aid funds on a need-based grant program, the Oregon Opportunity Grant (formerly the Oregon Need Grant). The grants are awarded to Oregon resident undergraduate students enrolled full-time at nonprofit, in-state, two- and four-year institutions, both public and private. Awarded solely on the basis of household size and income, Opportunity Grants help low- and moderate-income families most in need of assistance cover the costs of college. Unfortunately, the level of state funding has been inadequate to the overall need. In 1973, the grant award covered approximately 20 percent of student costs, but by 1987, its value had eroded to 11 percent of costs at public institutions. It remains at 11 percent for the 2006-07 school year.⁵¹

In addition, students now have to be lower on the income scale to receive the grant, compared to a few years ago. In 2000-01, the Oregon Student Assistance Commission, which administers the grant program, toughened the eligibility threshold for independent students from 75 percent to 55 percent of state median family income. Then, in 2002-03, the commission applied the same lower eligibility limit to dependent students.

These cuts have sharply reduced the program's reach. In 1999-00, 53 percent of applicants with family incomes under 75 percent of the state median family income received awards. By 2004-05, just 31 percent of applicants who would have been eligible prior to the changes in the eligibility limits received awards (Figure 3-15).⁵²

In 1999-00, 53 percent of applicants with family incomes under 75 percent of the state median family income received awards. By 2004-05, just 31 percent received awards.

Figure 3-15: The share of applicants with incomes under 75 percent of the state median family income receiving Oregon Opportunity Grants has declined over the last few years



Note: In 2002-03 and later years, the income eligibility threshold for the OOG program was reduced from 75 percent of state median family income to 55 percent of state median family income. Source: Oregon University System, "Restoring Opportunity, Progress Report of the Access and Affordability Working Group," May 2005.

In 2005, the state legislature approved funding to expand the Opportunity Grant program during the current 2005-07 budget cycle. About 63,000 students will be funded in this budget cycle, up from 38,400 students in 2003-05. In addition, grants will be extended to part-time students for the first time.⁵³

Governor Kulongoski is pursuing an additional and substantial expansion of the Opportunity Grant program.⁵⁴ His effort would expand eligibility to cover more middle-income students and increase the maximum grant award to equal the average cost of tuition and fees for undergraduates at public four-year institutions. Full implementation of the plan would increase funding for the Oregon Opportunity Grant from the current 2005-07 level of \$78 million to approximately \$152 million for 2007-09. The increased funding would allow an increase in the number of grant recipients beyond the expansion gained from additional funding in 2005-07. It would also allow an increase in the average grant amount from \$1,209 to \$1,806 per student.⁵⁵

The opportunity to build wealth through homeownership has become less affordable recently

Owning a home, a traditional symbol of middle-class status in the United States, is the primary source of wealth for most American households.⁵⁶ About half of all non-financial wealth in the United States is in homes.⁵⁷

Homeowners can draw on home equity or profits from the sale of a home to finance investments in their future such as a college education or preschool for their children. They can also draw on their housing wealth to help an adult child with a downpayment for a first home, cover costs if a family member gets sick, help pay for retirement, or improve their quality of life. For these and other reasons, homeownership is an important source of opportunity for all Oregonians, regardless of income.

Earlier in this decade, due to historically low interest rates and relatively slow price

growth, Oregon's homeownership rate improved. In the last year and a half, though, a very sharp increase in housing prices has combined with rising interest rates to rapidly push up the typical monthly mortgage payment required of Oregon home buyers. Home buyers have increasingly dealt with this situation by purchasing riskier, alternative loan products. While high-cost, adjustable-rate, or interest-only loans opened homeownership opportunities for households with moderate incomes or damaged credit, they also may have allowed some families to overextend their budgets. Those who gambled too much or borrowed from unscrupulous lenders may face hard decisions, or even foreclosure, in the future as interest rates rise or if their financial situation deteriorates due to a job loss or illness.

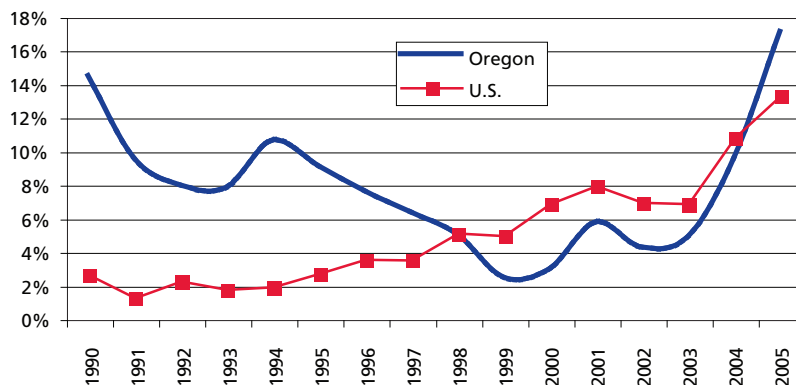
Housing prices surge in 2004 and explode in 2005

Oregon home prices grew rapidly over most of the 1990s, slowed somewhat for a few years, then surged in 2004 and exploded in 2005.

During the 1990s, a strong economy and population growth in Oregon helped drive strong growth in home prices. Over the decade, the median sale price of a home in the Portland area more than doubled, from \$79,500 in 1990 to \$170,100 in 2000, and price gains in other parts of the state were similarly large. Annual average home price growth in Oregon easily outpaced national price growth during the early and mid-1990s.

Then, in the late 1990s and into the first part of this decade, housing price growth slowed in Oregon at a time when it began to pick up nationally. In 2004, though, Oregon price growth suddenly caught up with the national pace of growth, and in 2005 Oregon's home price boom outpaced the strong national market. That year, home prices in Oregon grew by 17 percent, even faster than the national rate of 13 percent (Figure 3-16).

Figure 3-16: Oregon annual average home price growth outpaced growth in the U.S. during most of the 1990s, slowed for a few years, and then surged ahead in 2005



Note: Appreciation in prices of existing homes.
Source: OCPP analysis of Office of Federal Housing Enterprise Oversight data.

In 2004, Oregon price growth suddenly caught up with the national pace of growth, and in 2005 Oregon's home price boom outpaced the strong national market.

Price growth in all five of Oregon’s metropolitan areas hit double digits in 2005, but price growth in the Medford and Bend areas was exceptionally strong. The Medford area saw its average existing home price soar by 25 percent in 2005, after a 19 percent rise in 2004. Since 2000, the average existing home price in the Medford area has nearly doubled, rising 90 percent. Salem has seen the slowest growth of Oregon’s metro areas, but its 12 percent gain in 2005 closely matched the hot national market (Table 3-2).

Since 2000, the average existing home price in the Medford area has nearly doubled, rising 90 percent.

Table 3-2: Annual average home price growth in the Medford and Bend metro areas was particularly strong

Metro area	2001	2002	2003	2004	2005	2000-05
Bend	8%	7%	7%	9%	21%	65%
Eugene	5%	2%	4%	10%	18%	44%
Medford	9%	7%	9%	19%	25%	90%
Portland	5%	4%	4%	9%	17%	46%
Salem	5%	2%	3%	6%	12%	32%
U.S.	8%	7%	7%	11%	13%	55%

Note: Appreciation in prices of existing homes.
Source: OCPP analysis of Office of Federal Housing Enterprise Oversight data.

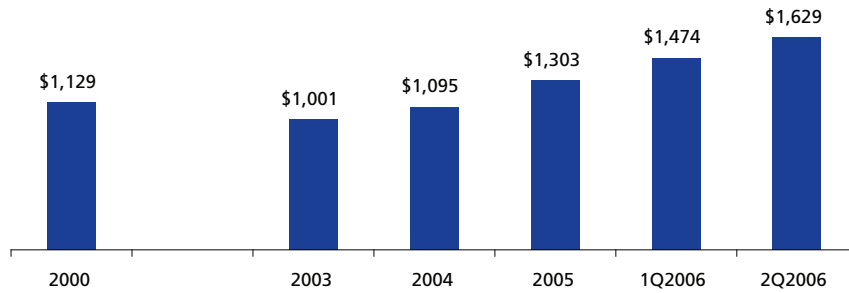
Extraordinary home price gains in the Medford and Bend areas and along the southern coast have placed the typical home out of range for the average worker. In 2005, for example, Curry County on the southern coast had a median house price of \$287,900 and an average private-sector wage of \$24,900.⁵⁸ Such disparities affect the entire community. Moderate wage earners, particularly young families and first-time buyers, are likely to be locked out of these housing markets. As these families leave a town or neighborhood or look elsewhere in search of affordable housing, employers struggle to attract skilled workers and schools face declining enrollments.⁵⁹ While tight labor markets in booming areas are good for workers’ wages, a lack of affordable housing can mean that higher wages are quickly eaten up by higher housing or commuting costs.

Homes rapidly becoming less affordable

Early in this decade, as home price growth slowed in Oregon, mortgage interest rates fell to historic lows. The average annual interest rate for 30-year fixed-rate loans nationally fell from 8.05 percent in 2000 to 5.83 percent in 2003.⁶⁰ This interest rate decline reduced the cost of homeownership for Oregonians and Americans generally.

In 2000, the median-priced existing house in the Portland area required a monthly mortgage payment of about \$1,129, assuming a 10 percent down payment and a 30-year fixed-rate loan at the average interest rate for that year. Three years later, even though the Portland area’s median home price had grown by 11 percent, the required monthly mortgage payment had declined, thanks to the historic drop in interest rates. In 2003, the median home required a monthly payment of just \$1,001 (Figure 3-17). Even in 2004, when housing prices in Portland and across Oregon picked up, the monthly mortgage payment for the median home remained less than in 2000.

Figure 3-17: Monthly mortgage payments on the median Portland area home declined with lower interest rates earlier this decade but have risen sharply recently



Note: Assumes 10 percent down payment.

Source: OCPP analysis using National Association of Realtors median existing home price, Freddie Mac average interest rates for 30-year fixed-rate mortgage, and Fannie Mae mortgage calculator.

The OCPP estimates that in the second quarter of 2006, the monthly mortgage payment required for the median Portland area home was up to \$1,629. That is over \$600 a month more than in 2003.

In 2005, though, housing prices exploded. Beginning in the final quarter of that year, mortgage interest rates rose, too. In July 2006, after several months of steady increases, the average interest rate for a 30-year fixed-rate loan nationally reached 6.76 percent, more than a point above where it had been in July of 2005.

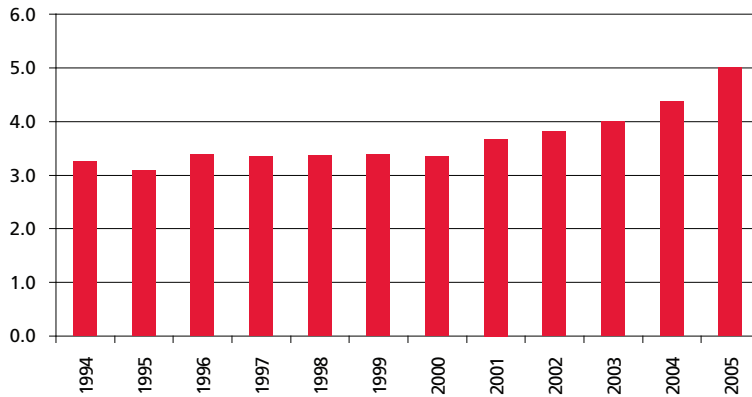
The combination of booming home prices and rising interest rates has sharply increased the monthly mortgage payment required to purchase the median home in the Portland area and across Oregon. The OCPP estimates that in the second quarter of 2006, the monthly mortgage payment required for the median Portland area home was up to \$1,629. That is over \$600 a month more than in 2003, when the economy first started to recover – a 63 percent increase in just three years. Over the course of a year, a family would need an additional \$7,539 to cover their mortgage payment in 2006, compared to 2003.

In addition, because of the rapid run-up in home prices, standard down payments rose sharply. In the second quarter of 2006, families putting 10 percent down on the median Portland area home had to come up with \$28,340, an increase of 50 percent compared to 2003. With wage growth stagnant in real terms since the economy started improving, the significant jumps in monthly mortgage costs and down payments means that buying a home in Oregon is rapidly becoming less affordable.

Earlier in this decade, low interest rates pushed down monthly mortgage payments, keeping homeownership somewhat within reach for Oregonians. However, the income of the typical Oregon household has been shrinking relative to home prices since the downturn struck in 2001. The fundamentals of housing affordability were deteriorating even before the recent explosion in home prices. The Joint Center for Housing Studies at Harvard University estimates that in 2005 the median house price in the Portland metro area was five times the median household income, up from 3.4 times the median income in 2000, before the downturn struck (Figure 3-18).⁶¹ The ratio in the Eugene area has followed a very similar path, and it has also risen in Salem, though not as sharply.⁶² Data are not currently available for Medford or Bend, the two metro areas where home prices have surged most rapidly.

In 2005, the median house price in the Portland metro area was five times the median household income, up from 3.4 times the median income in 2000, before the downturn struck.

Figure 3-18: The ratio of median house price to median household income in the Portland area grew in the last few years



Source: Joint Center for Housing Studies, Harvard University, *The State of the Nation's Housing 2006*.

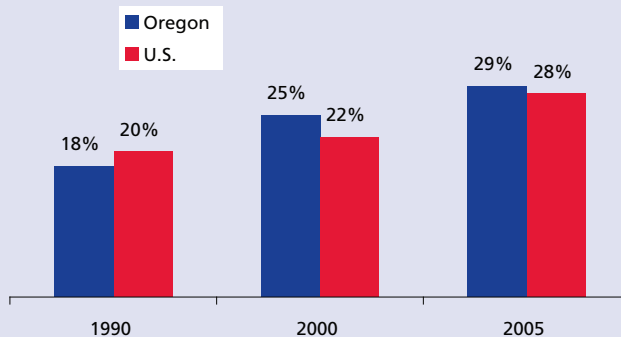
Ownership costs consuming a higher proportion of income

As housing affordability declines in Oregon, it exacerbates the trend toward Oregon homeowners paying a higher share of their income in housing costs. Despite low interest rates and a refinancing boom earlier in this decade, typical Oregon homeowners with mortgages devoted 24.7 percent of their income to basic ownership costs in 2004, up from 20.4 percent in 1990 and 23.2 percent in 2000.⁶³

Federal housing programs typically consider homes “affordable” if the monthly costs of ownership, including mortgage payments, taxes, insurance, and utilities, are less than 30 percent of an owner’s income.⁶⁴ By this measure, Oregon experienced a rapid increase over the past 14 years in the level of unaffordable housing.

In 1990, 18 percent of Oregon homeowners paid more than 30 percent of their income in basic ownership costs. By 2005, nearly three in ten Oregon homeowners – 29 percent – had mortgage payments and other basic housing costs considered unaffordable. That is a 61 percent increase between 1990 and 2005. The percentage of homeowners nationwide in housing considered unaffordable also increased over this period, but by just 40 percent (Figure 3-19).

Figure 3-19: An increasing share of homeowners in both Oregon and the U.S. pay more than 30 percent of their income in ownership costs



Note: “Ownership costs” include mortgages, taxes, insurance, utilities, and fees.
Source: OCPP analysis of 1990 and 2000 Census; 2005 American Community Survey.

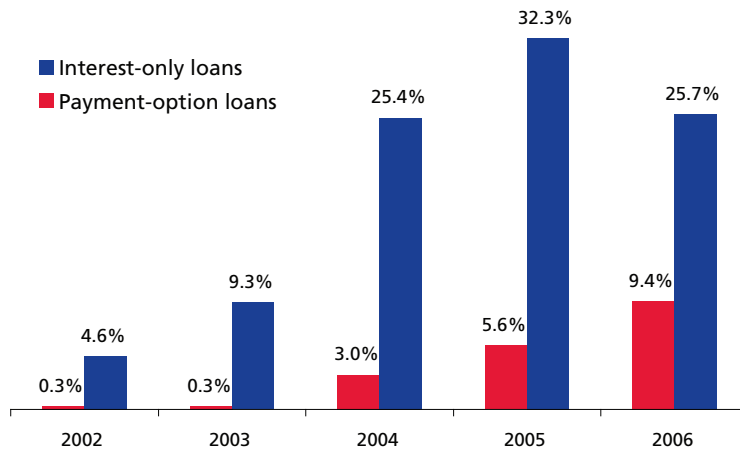
Riskier forms of mortgage financing gain in popularity

In the last couple of years, a significant share of home buyers in Oregon and nationally dealt with the declining affordability of homes by signing up for alternative mortgage loan products that lowered their initial monthly payments. These products succeed in expanding opportunities for homeownership and allow homeowners to tailor payments to their needs, but they also carry considerable risk.

Alternative mortgage products have been particularly popular in Oregon. Oregon ranks as one of the top states for both *interest-only mortgages*, in which borrowers pay only the interest for the initial period of the loan, and also *payment-option mortgages*, in which borrowers get to choose how to structure their payments – fully amortizing, interest-only, or a minimum monthly payment familiar to credit card holders. If the minimum monthly payment is less than the interest due on the loan, the unpaid interest due becomes part of the principal. Hence, these loans can negatively amortize; that is, the principal can grow over time.

First American LoanPerformance reports that in 2005 about a third (32.3 percent) of Oregon mortgage loans were interest-only, the seventh highest percentage among the states (Figure 3-20).⁶⁵ Interest-only loans in Oregon have declined somewhat as a share of all mortgage loans in 2006 but still make up a substantially larger share of mortgage loans than in 2002, when they accounted for just 4.6 percent of all mortgage loans (Figure 3-20).⁶⁶

Figure 3-20: As a share of all loans in Oregon, interest-only and payment-option loans have soared in recent years



Note: 2006 represents figures through May only.
Source: OCPP presentation of data from First American LoanPerformance.

In 2005, about a third (32.3 percent) of Oregon mortgage loans were interest-only, the seventh highest percentage among the states.

Interest-only loans were more likely to be used by Oregonians for home purchase than for refinance. In 2005, 39 percent of Oregon home purchase loans were interest-only, while 25 percent of home refinance loans were interest-only.⁶⁷

Interest-only loans, like other non-traditional loan products, can help some homebuyers purchase homes they would otherwise be unable to afford. These loan products carry substantial risk, though, particularly if a borrower is not financially savvy. Once the interest-only portion of the loan ends (typically after one, three, five or 10 years), monthly payments may sharply increase because the principal is amortized over a shorter period than the full term of the loan.⁶⁸ When interest-only loans are combined with

Oregon is also among states with high rates of negatively amortizing mortgages, nearly all of which are payment-option mortgages. In 2006, through May, Oregon had the seventh highest share for these types of loans.

adjustable-rate mortgages, jumps in monthly payments can be even larger if interest rates are up. According to the Mortgage Bankers Association, nine out of 10 interest-only loans in the first half of 2005 included adjustable rates.⁶⁹

Oregon is also among states with high rates of negatively amortizing mortgages, nearly all of which are payment-option mortgages, described above. Negatively amortizing mortgages accounted for 5.6 percent of all Oregon mortgage loans in 2005 and an estimated 9.4 percent of all loans in 2006, through May (Figure 3-20). In 2005, Oregon had the 13th highest share of negatively amortizing mortgages among the states. In 2006, through May, Oregon moved up to seventh highest for these types of loans.⁷⁰

Borrowers refinancing their home are more likely than borrowers purchasing a home to choose payment-option loans. First American LoanPerformance estimates that payment-option loans made up 12.8 percent of Oregon refinance loans through May of this year and 6.1 percent of home purchase loans.⁷¹

Borrowers refinancing their homes are more likely than new homeowners to control a significant share of their home's equity, protecting them from potential market declines. The recent run-up in home prices has also helped borrowers who purchased a year or two ago to build up significant equity as a cushion against a housing bust. Borrowers with little equity stake in their homes who have purchased an interest-only or payment-option adjustable-rate mortgage in the last few months, though, may face higher monthly payments on a home worth less than the cost of selling.

Adjustable-rate mortgages were popular nationally in 2004 and 2005

Adjustable-rate mortgages (ARMs) have long been a feature of housing finance. Because they allow a borrower to take on a larger mortgage with a lower initial monthly payment than they would have with a fixed-rate mortgage, ARMs have been attractive recently to prospective homeowners in areas with rapidly escalating housing costs. In 2004, the national share of conventional, single-family loans with adjustable rates jumped to 35 percent, nearly double the share in 2003 and the highest share for ARMs since 1994.⁷² In 2005, adjustable-rate loans remained popular, accounting for 31 percent of all loans nationally. These share levels do not include "hybrid" loans, which typically begin with a period of fixed rates followed by a period of adjustable rates.

Subprime lending expands

In 2004 and 2005, as more home buyers turned to riskier loan products, more buyers also turned to higher cost, "subprime" financing to get into a home.

Subprime lenders charge higher interest rates or fees and primarily lend to borrowers who do not have access to conventional lending sources because they have, for example, impaired credit or little credit history.

In 2004, the subprime share of all mortgage originations nationally shot up to 19 percent from less than nine percent the year before. In 2005, subprime originations continued to play a major role in the housing boom, accounting for 20 percent of all origination volume nationally (Figure 3-21).

Figure 3-21: Subprime originations shot up as a share of total origination volume nationally in 2004 and 2005



Source: Joint Center for Housing Studies, Harvard University, *The State of the Nation's Housing 2006*.

In 2005, subprime originations continued to play a major role in the housing boom, accounting for 20 percent of all origination volume nationally.

Although the growth of subprime lending has allowed more families to achieve homeownership and draw on their home equity, it also has raised concerns about predatory lending and inequitable access to credit. Some subprime lenders deliberately target unsophisticated borrowers, particularly those holding significant equity in their homes, and design loan schemes to extract more of the homeowner's equity than is necessary. Predatory strategies include disguised and exorbitant fees, questionable mortgage insurance arrangements that are built into the loan up front, and hidden "balloon" payments that force borrowers to refinance at higher interest rates.

Prepayment penalties – fees due to the lender if the borrower pays off the loan prior to a specified period of time – are sometimes used by subprime lenders to extract more equity from the borrower's home. About 80 percent of subprime mortgages nationally include prepayment penalties, compared to just 2 percent of prime mortgages.⁷³ These penalties limit the ability of subprime borrowers to take advantage of declining interest rates by refinancing. This lack of flexibility may substantially reduce subprime borrowers' wealth holdings or trap them in loans they cannot afford, pushing the loans toward foreclosure. Although more than half of borrowers with prepayment penalties will pre-pay their mortgage despite the penalty, doing so may sharply reduce their home equity and wealth.⁷⁴

The subprime market fills an important niche, but it also weakens the capacity for millions of Americans to build wealth. There is evidence that a significant percentage of subprime borrowers accepted subprime loans even though they would have qualified for conventional rate, or "prime," mortgages.⁷⁵ These borrowers will pay dearly in the long term, as the wealth they accumulate over time will be reduced substantially by the unnecessarily poor loan terms they accepted.

In Oregon, as in the rest of the country, African Americans are substantially more likely than other racial groups to refinance and purchase homes through subprime lenders.

Minorities steered to subprime loans

For years, studies have indicated that minority borrowers are more likely than non-Hispanic whites to be steered to subprime loans, even after accounting for differences in income and credit risk.⁷⁶ Beginning in 2004, lenders were required to disclose pricing information for subprime mortgage loans, in addition to disclosing information about the income, race, ethnicity, and gender of loan applicants. The expanded data has allowed closer examination of concerns about abusive lending practices in the subprime market.⁷⁷ The new data appear to substantiate claims that African Americans and Hispanics are more likely than non-Hispanic whites to receive high-cost loans, although the extent and causes of the difference remain under debate. A study by the Federal Reserve found that, after adjusting for borrower characteristics such as income, loan amount, and location of the property, African Americans were 7.0 percent more likely and Hispanics were 4.7 percent more likely to receive higher-cost refinance loans.⁷⁸

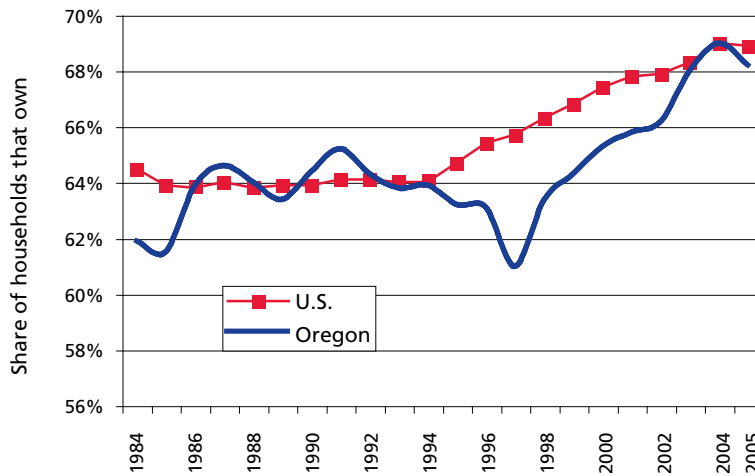
In Oregon, as in the rest of the country, African Americans are substantially more likely than other racial groups to refinance and purchase homes through subprime lenders. Over the decade from 1993 to 2002, subprime lenders originated 29.4 percent of the refinance loans taken out by African Americans in Oregon. This rate is three and a half times the rate for white refinance borrowers – 8.5 percent – and four times the rate for Asian American refinance borrowers – 7.5 percent. Hispanic borrowers were also more likely than whites to refinance with these higher-cost lenders, with 13.7 percent of their refinance loans coming from subprime lenders.⁷⁹ In producing these figures, the OCPP was not able to adjust for differences in income or credit scores by racial group.

Homeownership rate rose for several years, but growth has stalled recently

The share of Oregon households that own their home increased steadily in the late 1990s and earlier this decade, following the trend nationally. In 2003, with home prices rising more slowly in Oregon than nationally, Oregon's homeownership rate surged forward to catch up with the national rate, having slipped behind in the mid-1990s during a period when Oregon home prices had been rising rapidly.

In 2004, even though home price growth surged again in Oregon, borrowers took advantage of historically low mortgage interest rates and riskier mortgage products to get into homes, pushing up the homeownership rate in Oregon and nationally a bit more. Then, in 2005, as home prices exploded and, late in the year, as interest rates began to rise, homeownership rates stalled out. The dip in Oregon's rate, from 69.0 percent in 2004 to 68.2 percent in 2005, is not a statistically significant change, but it may signal homeownership declines in the future as the surge in home prices and rising interest rates take their toll on affordability (Figure 3-22).

Figure 3-22: Homeownership rates in Oregon and nationally have improved in recent years, but they stalled out last year



Source: Housing Vacancies and Homeownership Survey (CPS/HVS), Annual Statistics: 2005.

The share of Oregon households that own their home increased steadily in the late 1990s and earlier this decade, following the trend nationally. Then, in 2005, as home prices exploded and, late in the year, as interest rates began to rise, homeownership rates stalled out.

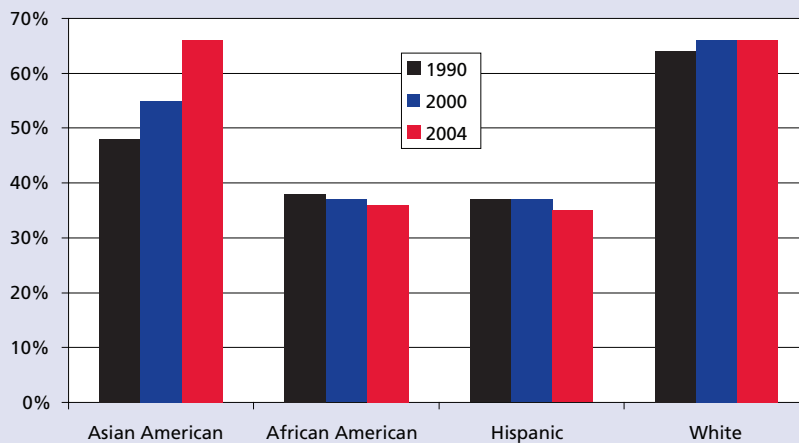
Even with the recent surge in homeownership, Oregon's homeownership rate has stagnated over the past 40 years.⁸⁰ For most of the 20th century, Oregon had a homeownership rate well above the national rate, but the state fell behind over the past two decades. In 1910, when the national homeownership rate was just 46 percent, in Oregon it was 60 percent. In 1960, 69 percent of Oregon households owned their homes, about equal to the 2005 rate.

African Americans and Hispanics in Oregon are not seeing homeownership gains

Nationally, the percentage of African Americans and Hispanics who own their homes rose rapidly over the past 15 years.⁸¹ In Oregon, however, the homeownership rate among African Americans and Hispanics remained flat. The 1990 Census found that 38 percent of African American and 37 percent of Hispanic households in Oregon owned their homes. Ten years later, the 2000 Census found little change. By 2004, homeownership rates for these groups remained at low levels, with 36 percent of African American households and 35 percent of Hispanic households owning their homes (Figure 3-23).

In contrast to the decline in homeownership among African Americans and Hispanics, ownership rates among whites and Asian Americans in Oregon improved over the last decade and a half. Between 1990 and 2004, the homeownership rate for whites increased from 64 percent to 66 percent. Among Asian Americans, the homeownership rate rose rapidly, from 48 percent in 1990 to 55 percent in 2000 and 66 percent in 2004 (Figure 3-23).⁸²

Figure 3-23: Homeownership rates in Oregon have risen for Asian Americans but stagnated for African Americans and Hispanics



Source: OCPP analysis of 1990 and 2000 Census; 2004 American Community Survey.

Given their low homeownership rates, it is not surprising that Hispanics and African Americans are underrepresented among home buyers in Oregon. In 2003, about 3.5 percent of all home purchase loans in Oregon went to Hispanic borrowers, while Hispanics made up about 8 percent of Oregon's total population. Similarly, African Americans made up about 2 percent of Oregon's population but received just 0.6 percent of home purchase loans in 2003.⁸³

While Hispanics remain underrepresented as home buyers, more home loans are going to Hispanics as their population in Oregon increases. Oregon lenders originated 472 loans for Hispanic borrowers in 1993. By 2003, the number jumped to 2,595, an increase of 450 percent.⁸⁴

In Oregon, the homeownership rate among African Americans and Hispanics remained flat.

The widening housing wealth gap

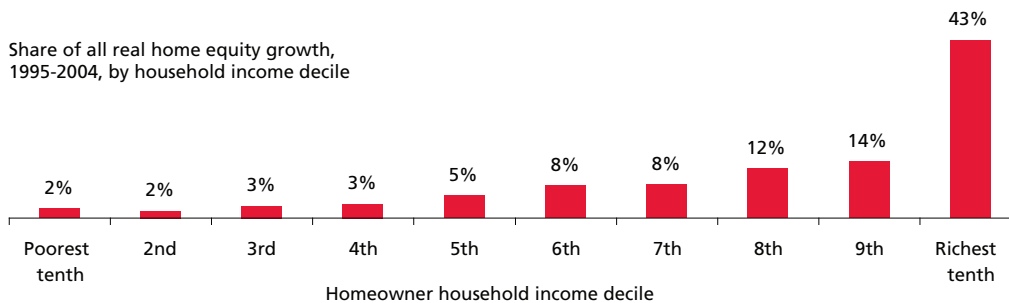
Oregonians who owned their homes prior to the home price boom of the last couple of years have realized significant equity gains. These homeowners may use their new wealth to invest in their futures, improve their standards of living, or help finance their retirement. Those who get caught in risky loans that turn out badly over the next few years will see their wealth and opportunities damaged. Those who have been shut out of housing markets, or will be in the future, because home prices are out of their reach will have no opportunity to improve their wealth through homeownership.

Rapidly rising home price growth means rapidly rising wealth for those fortunate enough to afford a home. Homeowners with incomes of \$50,000 or more nationally saw their median net worth rise from \$198,884 in 1995 to \$332,300 in 2004, after adjusting for inflation. Renters with incomes in the same range saw their median net wealth decline in real terms over the same period, from \$41,193 to \$35,490.⁸⁵

Most of the home equity gains over the last decade have gone to the highest income homeowners, further distorting the playing field of opportunity in America. Between 1995 and 2004, the highest income 10 percent of homeowners nationally pocketed 43 percent of all the home equity gains (Figure 3-24). In total, these well-off homeowners collected \$2.8 trillion of the \$6.6 trillion in real national home equity growth over this period.⁸⁶

Figure 3-24: The highest-income tenth of American homeowners collected 43 percent of all real home equity gains in the last decade

Share of all real home equity growth, 1995-2004, by household income decile



Source: OCPP analysis of Joint Center for Housing Studies, Harvard University, data.

Most of the home equity gains over the last decade have gone to the highest income homeowners, further distorting the playing field of opportunity in America.

Conclusion

The path to opportunity has become steeper in Oregon. To get ahead, families need to make investments, but three key forms of family investment – higher education, home purchases, and early child development – have become less affordable in recent years. These trends exacerbate widening income inequality. Ordinary Oregonians are losing ground on the income scale at the same time that investments that might allow them to catch up are becoming harder to afford.

Oregon is also not improving its poverty rate despite substantial economic growth and more economic efficiency. While Oregon has made gains against hunger, we have not reduced the share of our children in food insecure homes. Too many of our children also do not have access to high-quality early child development programs because their families cannot afford them.

These trends should concern Oregonians at all income levels. Oregon's future economy and quality of life depend on broadly shared opportunity today. We will move forward more successfully if all Oregonians have the opportunities necessary for moving forward together.

Endnotes

- 1 There is no statistical difference between these rates, meaning that any apparent differences may be due only to differences in the population sample used to estimate the rates.
- 2 Families were counted as working more than one quarter if parents in the family combined worked more than 13 weeks a year.
- 3 Families working full-time, year-round means those families whose workers combined worked at least 50 weeks of the year for at least 35 hours a week.
- 4 See Willis, Jessie, "How We Measure Poverty: A History and Brief Overview," Oregon Center for Public Policy, February 2000. Available at <http://www.ocpp.org/poverty/how.htm>.
- 5 Iceland, John, *Poverty in America: A Handbook*, 2nd ed., 2003, University of California Press: Berkeley, Chap. 3.
- 6 Allegretto, Sylvia A., *Working Families' Incomes Often Fail to Meet Living Expenses Around the U.S.*, Economic Policy Institute briefing paper #165, September 1, 2005. See also Economic Policy Institute's online Basic Family Budget Calculator, released in September 2005, at http://www.epi.org/content.cfm/datazone_fambud_budget.
- 7 For a four-person Oregon family with two children and both parents working, the study estimates the living wage at \$59,732 in 2004. Osorio, Dennis, Will Pittz, and Paul Sommers, *Searching for Work That Pays: 2005 Northwest Job Gap Study, Oregon*, Northwest Federation of Community Organizations, November 2005. Available at http://www.nwfc.org/job_gap.htm#oregon.
- 8 In May 1993, 43,451 Oregon families received temporary cash assistance through TANF's precursor program, Aid to Dependent Children (ADC). In May 2006, the total number of Oregon families receiving TANF benefits was 18,184, a decline of 58 percent.
- 9 Food insecurity and hunger are measured at the household level. The nation's official food insecurity measurement survey, the Food Security Supplement to the Current Population Survey, does not measure hunger or food insecurity at the individual level. To refer to hunger and food insecurity rates for adults and children, then, is to refer to the rates at which adults and children live in food insecure homes (not the rate at which individual adults or individual children are food insecure). Some people in a given household may be more assured of avoiding hunger throughout the year than others.
- 10 OCPP analysis of 2002-2004 food security supplements to the Current Population Survey (CPS). Details of the types of food eaten by children in food insecure homes are not available. OCPP analyzed how respondents from food insecure homes responded to the following two questions on the food security supplements to the CPS: "We relied on only a few kinds of low-cost food to feed our children because we were running out of money to buy food. Was that often, sometimes, or never true for you in the last 12 months?" and "We couldn't feed our children a balanced meal, because we couldn't afford that. Was that often, sometimes, or never true for you in the last 12 months?"
- 11 Lynch, Robert G., *Exceptional Returns: Economic, Fiscal, and Social Benefits of Investment in Early Childhood Development*, 2004, Economic Policy Institute: Washington D.C. Available at: <http://www.ocpp.org/2004/nr041018%20EPI.pdf>; Karoly, Lynn A., and James H. Bigelow, *The Economics of Investing in Universal Preschool Education in California*, 2005, Rand Corporation: Santa Monica, CA. Lynch examined the long-term benefits of investing in a high-quality early childhood development program for poor three- and four-year-olds. Karoly and Bigelow examined the long-term benefits of investing in a high-quality universal childhood development program for four-year-olds.
- 12 Lynch, *Exceptional Returns*; Karoly and Bigelow, *Economics of Investing*; and Rolnick, Art, and Rob Grunewald, "Early Childhood Development: Economic Development with a High Public Return," Federal Reserve Bank of Minneapolis,

- Fedgazette*, March 2003, available at: <http://minneapolisfed.org/pubs/fedgaz/03-03/earlychild.cfm>. Karoly and Bigelow estimated a return of \$2.62 for every dollar invested in a one-year, high-quality university preschool program for California. Lynch estimated net budget savings of \$61 billion (in 2004 dollars) after 45 years for investment in a nationwide, comprehensive, high-quality early childhood development program for poor three- and four-year-olds estimated to cost \$19 billion per year. Since the benefits of high-quality early childhood programs are greater for children from lower-income families, returns are higher for programs focused on poor children than for universal programs.
- 13 Bainbridge, Jay, et al., "Who Gets an Early Education? Family Income and the Enrollment of Three- to Five-Year-Olds from 1968 to 2000," *Social Science Quarterly* 86:3 (September 2005): 724-45.
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FEWER PROTECTIONS FOR THOSE IN DEBT

Chapter 4

Credit provides an important means of getting ahead for many Oregonians, but it also produces debt that can overwhelm families who hit hard times. Unfortunately, a number of state and federal policy changes have reduced protections for families struggling financially. Moreover, the high cost of certain financial products drains crucial income from low- and moderate-income families that they might otherwise use to make ends meet or to invest in their futures.

Credit is available today from a wide variety of sources. For families with a solid credit history, mainstream lenders offer an array of loan products, including home refinancing, home equity loans, and credit cards. For families with credit problems, a limited credit history, or low incomes, alternative lenders offer more expensive products than traditional lenders do. These products can include “subprime” home refinancing, payday loans, pawn loans, and high-interest credit cards.

Prior to 1978, many states, including Oregon, had usury laws that helped protect consumers from exploitation by lending institutions. A U.S. Supreme Court decision that year sharply curtailed the authority of states to impose such protections.¹ Subsequently, the Oregon Legislative Assembly entirely eliminated interest rate ceilings on most loan products sold in the state.²

Deregulation opened the door for banks and alternative lenders to offer credit to riskier, or “subprime,” borrowers. It is a good thing that higher-risk borrowers have access to credit. Access to credit can mean a chance to build wealth or escape a short-term crisis. However, the high costs of such alternative loans can make it harder for families to overcome their financial difficulties. With no limit on certain forms of usurious loans in Oregon, some lenders are gaining irresponsible profits by making Oregon’s families and communities less stable and less capable of investing for the future.

An extensive national study by the Brookings Institution found that low-income families tend to pay more for consumer products, including certain financial services, than higher-income families.³ Lower-income families are more likely to pay high costs for financial services such as short-term loans, check cashing, tax preparation, and money transmission. The usurious rates charged by many of these lenders sap a substantial amount of money from the pocketbooks of low-income families.

The high cost of certain financial products drains crucial income from low- and moderate-income families that they might otherwise use to make ends meet or to invest in their futures.

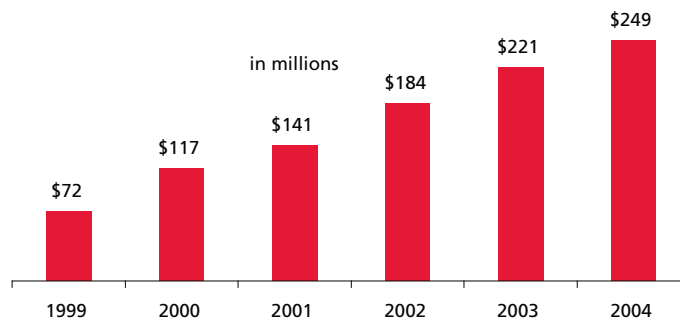
The State of Oregon can better protect families who are vulnerable to usurious lenders. It can reinstate reasonable interest-rate caps, within the parameters of the law. Oregon can also adopt policies that allow responsible lenders to increase their business with low- and moderate-income Oregonians while helping to educate consumers about financial products so they can better protect themselves and make better choices.

More payday lenders than McDonald's and 7-Elevens combined

In the past few years, Oregonians have turned to payday lenders more frequently. They have done this at a significant cost.

In the past few years, Oregonians have turned to payday lenders more frequently. They have done this at a significant cost. Payday loans became popular because many people with impaired or overextended credit found the payday lenders' services to be convenient, quick, and easy. These lenders provide cash at consumers' convenience, with evening and weekend hours. Mainstream lenders by and large are not currently offering attractive short-term products, in part because banking deregulation opened new opportunities that traditional lenders considered more profitable than short-term loans. In some circumstances, bank overdraft fees are more expensive than even the extraordinarily high interest rates charged by payday lenders.⁴ Thus, it can be cheaper to take out a payday loan than to bounce a check.

Figure 4-1: The real value of payday loans in Oregon more than tripled from 1999 to 2004

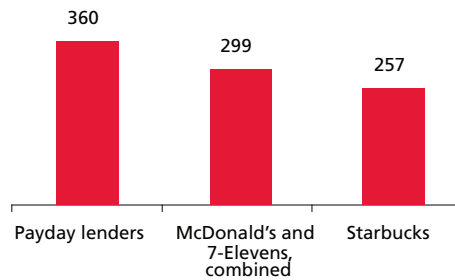


Source: OCPP analysis of Oregon Dept. of Consumer and Business Services data. Adjusted for inflation using 2004 dollars with US CPI-U.

Oregon payday lenders made nearly 746,000 loans in 2004. That amounts to one payday loan for every four Oregon adults.

Total loans made by payday lenders in Oregon more than tripled in five years, even after adjusting for inflation, rising from \$72 million in 1999 to \$249 million in 2004 (Figure 4-1). Oregon payday lenders made nearly 746,000 loans in 2004. That amounts to one payday loan for every four Oregon adults.⁵ Today, there are more payday lenders in Oregon than McDonald's and 7-Elevens combined and more payday lenders than Starbucks (Figure 4-2).⁶

Figure 4-2: There are more payday lenders in Oregon than McDonald's and 7-Elevens combined and more payday lenders than Starbucks



Note: There are 171 McDonald's and 128 7-Elevens in Oregon.
 Source: Oregon Dept. of Consumer & Business Services, Starbucks, McDonald's, and 7-Eleven.

There are 360 payday lenders in Oregon and 299 McDonald's and 7-Elevens combined.

How payday loans work

The payday loan process generally involves the customer writing a personal check for the amount of the loan plus a fee. The check is post-dated, typically for the customer's next payday. The typical fee equals 15 or 20 percent of the principal. So a customer seeking \$100 would write a check for \$115 or \$120 to the payday lender. The average loan in Oregon was \$334 in 2004.

When the check's post-date arrives, allowing the lender to cash the customer's check, many customers still do not have enough money to both pay back the loan and cover their expenses for the upcoming month. These customers may "roll over" the loan, incurring a new fee that must be paid back along with the original charges at the end of the month.

A state statute restricting payday loans to no more than three rollovers offers some protection for Oregon consumers who might otherwise be caught in a cycle of rising debt.⁷

New payday loan law is a step in the right direction

In April 2006, in special session, the Oregon Legislative Assembly enacted a law regulating payday lenders.⁸ The law, Senate Bill 1105, caps payday loan interest at an annual rate of 36 percent, sets a minimum loan term of 31 days, caps loan origination fees at \$10 for each \$100 borrowed, prevents lenders from making a new loan within seven days of the expiration of a previous loan, and limits the fee for a bad check to \$20.

Although these provisions address the most egregious problems of payday lending, three limitations in the new law weaken its impact. First, the new law is not effective until July 1, 2007, leaving time for the industry to lobby the 2007 Legislative Assembly to alter or further delay the law before its implementation.

The delay in implementation of the state law partly explains why a number of Oregon cities have regulated payday lenders within their jurisdictions, establishing ordinances that are effective almost immediately. Gresham, Portland, Silverton, Troutdale, Bend, Eugene, and Oregon City have passed payday lending ordinances. Other cities, including Beaverton, are considering such ordinances.⁹ Although cities are not allowed to regulate interest rates, they can regulate loan terms. City ordinances typically require payment of a portion of the principal prior to renewal of a payday loan, allow borrowers 24 hours to cancel a loan, and allow borrowers to convert the loan into a payment plan if they are unable to repay after reaching the maximum number of renewals.¹⁰

The payday loan law does not cover car title lenders, check cashers, and other financial services outfits charging high interest rates or fees.

Second, the law defined payday lenders narrowly, leaving them a loophole to avoid the state interest cap. Almost before the ink was dry on the new law, some lenders sought and obtained conventional consumer loan licenses, which allow them to offer installment loans with terms longer than 60 days.¹¹ The interest-rate cap in the new law applies only to payday loans, defined as loans with terms of 60 days or less.¹² With a conventional loan license, a lender can offer a 61-day loan term and charge a high interest rate, because the state still does not have an interest cap on consumer loans in general.

Finally, the law does not cover car title lenders, check cashers, and other financial services outfits charging high interest rates or fees.¹³ Hence, unless Oregon also imposes limits on these lenders, many Oregonians will continue to bear exorbitant costs for certain forms of credit. Oregon does not license check cashers and so does not even know how many such operations there are in the state, let alone what fees they are charging customers.

Oregon is promoting alternatives to payday loans

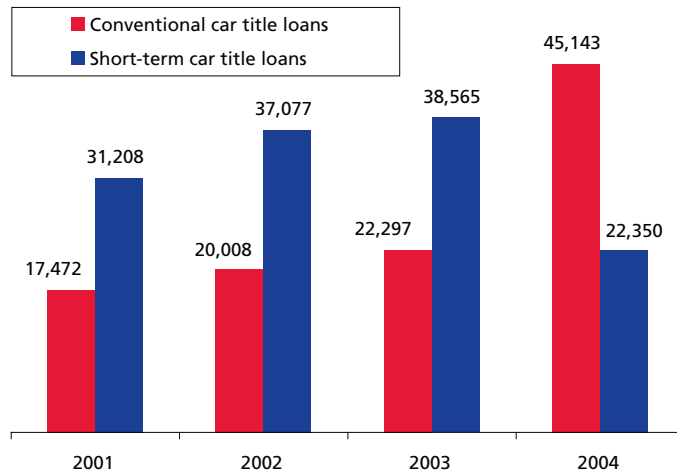
Oregon's new payday lending rules will help protect payday loan consumers, if they are implemented as enacted this spring. The new rules do not address the conditions that drive people to high-cost lenders in the first place, however. Oregonians would save money if they could more easily get short-term loans on better terms. To this end, the Oregon Department of Consumer and Business Services has worked with credit unions to provide less expensive options for short-term loans and to inform Oregonians about the availability of these loans. In July 2006, Governor Kulongoski announced a consumer campaign including a toll-free hotline (1-800-SAFENET) and a web site (www.211info.org) promoting alternatives to payday loans.¹⁴

Car title lenders can still charge exorbitant rates

A car title loan is secured by the borrower's car. If the borrower is unable to repay the loan after the maximum number of allowed renewals, the lender may obtain a court order permitting them to repossess the car. Some car title lenders are registered to offer only short-term loans of 60 days or less. Others are registered as conventional lenders, who are allowed to offer loans with payments due in more than 60 days. Title lenders registered as short-term lenders are required to lend no more than 25 percent of the borrower's monthly net income for borrowers making \$60,000 per year or less. They also may renew, or "roll over," a loan only six times.¹⁵ These limitations do not apply to conventional lenders using car titles as collateral. Car title lenders of both types can charge any interest rate they wish.

To avoid the restrictions associated with short-term loans, many car title lenders have registered as conventional lenders. In late November 2003, for example, Northwest Title Loans converted the licenses of 16 of their loan shops in Oregon from short-term to conventional licenses.¹⁶ Partly as a result, the number of conventional car title loans shot up in 2004, while the number of short-term title loans declined. As of 2004, the latest data available, two out of every three car title loans in Oregon were conventional loans, which face no restrictions on rollovers, loan amount, interest rates, or fees (Figure 4-3).

Figure 4-3: The number of short-term car title loans in Oregon fell sharply in 2004 while the number of conventional car title loans rose sharply



Source: Oregon Dept. of Consumer and Business Services.

As of 2004, the latest data available, two out of every three car title loans in Oregon were conventional loans, which face no restrictions on rollovers, loan amount, interest rates, or fees.

Pawn loans are capped, but a 1997 law pushed up costs for borrowers

The pawn industry has existed for decades. Because their market is more mature, pawnbrokers have not experienced the extraordinarily rapid growth that payday lenders have experienced over the last few years. Payday lenders in Oregon now lend nearly seven times more money than pawnbrokers do. Still, pawnbrokers are important providers of credit in the state, giving out nearly \$37 million in loans in 2005. The number of licensed pawnbrokers in Oregon nearly doubled over the last several years, from 25 in 1997 to 46 in 2005.

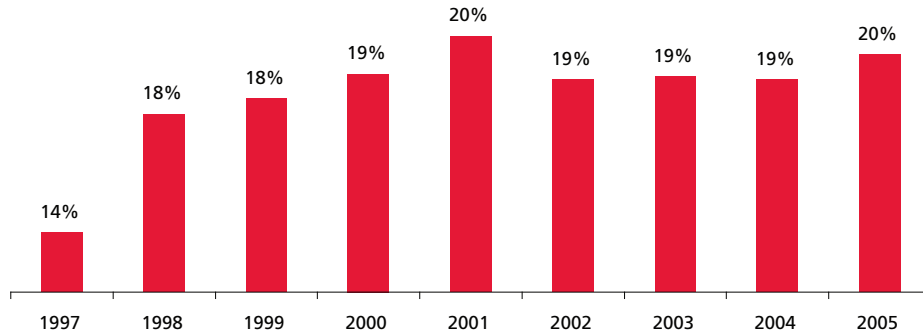
Pawnbrokers offer loans in exchange for personal property items such as rings or television sets. Under Oregon law, pawn loans are for 60-day periods, plus a 30-day grace period. Borrowers may redeem their property at any time by paying back the loan with interest and fees before the loan and grace periods have expired. If the borrower does not redeem the loan before the grace period expires, the property is forfeited to the pawnbroker, who typically seeks to sell it. Rather than forfeit, borrowers who are not able to redeem the loan may open a new loan on the same piece of property by paying all interest and fees that have accumulated to that point.

Oregon law sets limits on the amount of interest and fees that pawnbrokers can charge, making these loan providers more restricted under current Oregon law than payday lenders, title lenders, or check cashers.¹⁷ In 1997, Oregon changed the law to allow pawnbrokers to charge a “storage fee” and increased the maximum allowable “setup fee” from \$5 to \$100.¹⁸ The 1997 law also shortened the loan period for pawnbroker loans (including the 30-day grace period) from four months to 90 days.

Shortening the loan period for pawn loans immediately caused the number of loans made by pawnbrokers to rise, as borrowers were forced to renew their loans in 90 days rather than 120. The number of pawn loans shot up 22 percent between 1997 and 1998.

The new law also resulted in a higher percentage of borrowers forfeiting their property because they had less time to pay. In 1997, prior to passage of the law, 14 percent of pawn loans were forfeited. The next year, with the new law in place, the forfeiture rate rose to 18 percent (Figure 4-4). Nearly 17,000 more pawn loans were forfeited in 1998 than in the previous year, a 50 percent increase.

Figure 4-4: Shortening the loan period for pawnbroker loans increased forfeitures



Source: OCPP presentation of Oregon Dept. of Consumer and Business Services data.

Just 14 percent of pawn loans were forfeited in 1997. The next year, with a new law in place, the forfeiture rate rose. It has stayed high ever since.

The forfeiture rate continued to rise gradually over the next few years, reaching 20 percent in 2001, the first year of the recession. Since then, the forfeiture rate has remained high, at about one in five loans forfeited.

Because the 1997 law allowed pawnbrokers to charge higher fees, they did. Total fees collected by pawnbrokers also rose because the shorter loan periods shortened the amount of time borrowers had to pay the fees and redeem the loan. This had the effect of increasing loan volume and therefore increasing the fees collected by pawnbrokers.

Data on fees charged prior to 1998 are not available, but pawnbrokers' fees rose steadily after the new law took effect, from 7.5 percent of the average redeemed loan in 1998 to 11.7 percent in 2003, where the figure remained in 2005.

Since the 1997 changes, Oregon pawnshops have come to rely on the fees they charge more than on loan interest to make money. In 1998, pawnshops collected \$1.55 in interest for every \$1 they collected in fees. By 2005, the situation was reversed, with pawnshops collecting \$1.42 in fees for every \$1 they collected in interest.

When the recession hit in 2001, the fees collected by pawnbrokers soared. That year, fees collected rose 31 percent, after adjusting for inflation, from \$2.5 million to \$3.3 million. After holding steady in 2002, pawnshop fees rose another 14 percent in 2003, to \$3.9 million. Then, as the economy improved in 2004 and 2005, pawnshop fees declined somewhat in real terms. In 2005, pawnbrokers collected \$3.6 million in fees. They also collected \$2.5 million in loan interest charges that year.¹⁹

“Rapid refunds” continue to be costly for low-income Oregonians

In recent years, income tax preparation companies have developed products known as “rapid refunds.” Typically, “rapid refunds” are available to tax filers within a day or two, or on the same day for an additional fee. In the absence of a rapid refund, taxpayers with bank accounts can expect the IRS to directly deposit their refund check within three weeks if they file their taxes electronically. Taxpayers without bank accounts who electronically file will have their refund check mailed by the IRS after about four weeks.²⁰ Low-income taxpayers without the capacity to electronically file their returns have no way of getting refunds quickly, other than through rapid refund loans.

To deliver rapid refunds, tax preparers make an arrangement with a bank to provide a loan to the taxpayer in the amount of the expected refund. Many consumers using rapid refunds do not realize they are assuming responsibility for a short-term bank loan that they will be required to pay if, for some reason, their tax refund check is less than anticipated.²¹

Tax preparers charge expensive fees to broker these bank loans. The National Consumer Law Center estimates that, in 2005, U.S. taxpayers who sought a \$2,050 refund loan on their 2005 taxes would pay about \$100 in loan fees, including a fee for the bank to set up a “dummy account” for consumers without a bank account. In addition, some tax preparers also charge an additional administrative fee, averaging about \$32 per loan. Add the refund loan fees to the basic fee for filing an electronic return with a tax preparer – averaging \$120 – and the total cost to the consumer is about \$250. Rather than receiving \$2,050 from the IRS, the consumer will receive about \$1,800, in exchange for receiving the money perhaps a couple of weeks earlier.²²

Rapid refund loans are transferring substantial amounts of money intended to support low-wage working families into the pockets of tax preparation companies. Much of the fees tax preparers collect from these loans comes out of the Earned Income Tax Credit (EITC), refunds Congress intended for low-income working families. The EITC is a federal income tax credit designed to honor work, keep families together, reduce poverty, and offset the payroll taxes of workers in low-paying jobs. In Oregon, 51 percent of rapid refund customers in 2003 were EITC recipients, and 21 percent of EITC recipients used rapid refund loans.²³

The National Consumer Law Center estimates that rapid refund loans siphon off \$519 million in fees annually from the EITC program. If tax preparation fees and check cashing fees for some filers are included, the total cost of rapid refund loans for EITC recipients in 2003 alone was about \$1.74 billion.²⁴

While use of rapid refund loans by Oregon EITC recipients is high in some urban areas, the 10 zip codes with the highest share of EITC recipients using rapid refunds are primarily in small towns, in unincorporated rural areas, or on Native American reservations (Table 4-1). The one exception is a zip code in North Portland. Well over half (58 percent) of EITC recipients in Warm Springs zip code 97761 used rapid refund loans in 2003.

In Oregon, 51 percent of rapid refund customers in 2003 were EITC recipients, and 21 percent of EITC recipients used rapid refund loans.

Well over half (58 percent) of EITC recipients in Warm Springs zip code 97761 used rapid refund loans in 2003.

Table 4-1: The 10 zip codes with the highest share of EITC recipients getting rapid refund loans in Oregon in 2003 were mostly in smaller towns, unincorporated rural areas, and Native American reservations

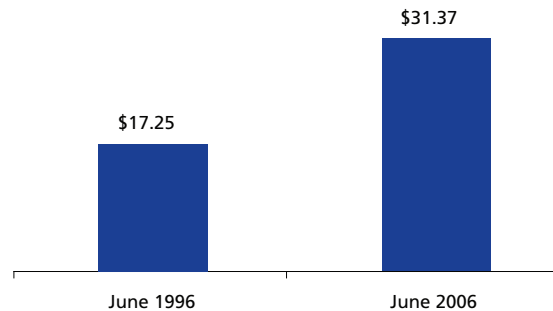
Zip Code	City/Town	County	# of EITC recipients	# of EITC recipients getting rapid refund loans	Percent getting rapid refund loans
97761	Warm Springs	Jefferson	502	291	58%
97350	Idanha	Marion	17	9	53%
97014	Cascade Locks	Hood River	111	45	41%
97121	Warrenton	Clatsop	96	38	40%
97862	Milton-Freewater	Umatilla	1,037	402	39%
97347	Grand Ronde	Polk	113	43	38%
97741	Madras, Metolius	Jefferson	897	322	36%
97203	Portland	Multnomah	1,927	686	36%
97731	unincorporated	Klamath	31	11	35%
97383	Stayton, Mehama	Marion	605	202	33%

Source: OCPP analysis of Internal Revenue Service data compiled by the Brookings Institution.

Credit card fees prey on borrowers with payment problems

Since a 1996 U.S. Supreme Court decision effectively eliminated state limits on fees, credit card companies have established new fee rules that prey on borrowers with payment problems.²⁵ Nationally, the average late fee was \$31.37 in June 2006, up from \$17.25 (after adjusting for inflation) in June 1996, the month of the Supreme Court decision (Figure 4-5).²⁶ Moreover, many bank issuers now consider a payment late if it arrives after a certain time of day on the due date. More than 40 percent of issuers raise the interest rate sharply after just one late payment.²⁷

Figure 4-5: The average late payment fee for credit cards nationally has nearly doubled in the past decade



Note: Adjusted for inflation using 2005 dollars with US CPI-U. Figures are for June of each year.
 Source: CardWeb.com, "Card Fees," July 18, 2006, and "Late Fees," August 5, 2005.

Since a 1996 U.S. Supreme Court decision effectively eliminated state limits on fees, credit card companies have established new fee rules that prey on borrowers with payment problems. Nationally, the average late fee was \$31.37 in June 2006, up from \$17.25 (after adjusting for inflation) in June 1996.

Similarly, "over-limit" fees, charged when borrowers exceed their credit limit, shot up from \$17.35 on average in 1996 to \$31.22 in 2005, after adjusting for inflation.²⁸ More importantly, hitting a card's limit will not only trigger an "over-limit" fee but is also likely to trigger a sharp increase in the card's interest rate. Increasingly, when a consumer makes late payments or hits a card's credit limit, interest rates will significantly increase on all of a consumer's credit cards, not just the card in question, regardless of issuer.²⁹

Bankruptcies exceed college degrees

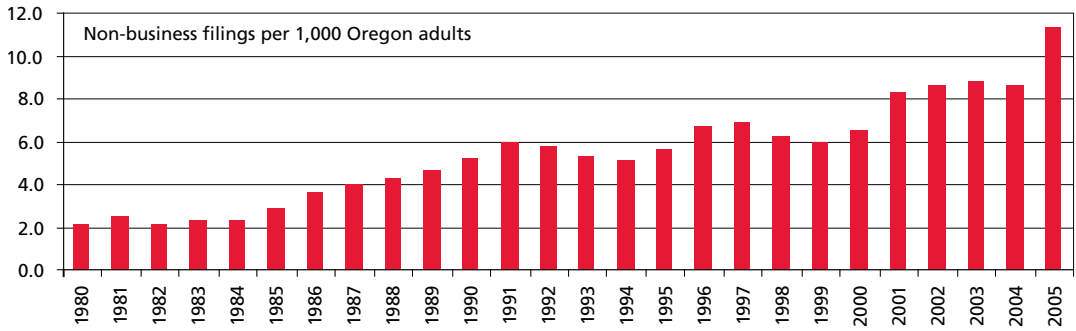
In recent years, Oregonians have filed for bankruptcy in droves. In the last few years, Oregon has produced more bankruptcy filings than college degrees. In 2004, there were over 23,600 bankruptcy filings in Oregon and a total of 16,664 bachelor's degrees awarded by all public and private higher education institutions.³⁰

In 2005, in Oregon as in the rest of the nation, the bankruptcy filing rate skyrocketed even beyond previously high levels, as financially devastated Oregonians rushed to file before a new federal bankruptcy law took effect in October of that year. In the second and third quarters of 2005, 8,444 and 10,114 Oregonians, respectively, filed for bankruptcy.

Even disregarding the spate of bankruptcy filings in 2005, the personal bankruptcy filing rate during the recent economic downturn easily surpassed the rate of filings in previous economic downturns. During the steep, back-to-back recessions of the early 1980s, annual bankruptcy filings stood at only about two for every 1,000 adult Oregonians. In the milder recession of the early 1990s, the bankruptcy filing rate stood at about six per 1,000 adults. Over the recent downturn, by contrast, the rate surged to nearly nine per 1,000 adults in 2003 and 2004 (Figure 4-6).³¹ That is, the personal bankruptcy filing rate during the recent economic downturn was more than four times the rate during the more severe downturn of the early 1980s.

The personal bankruptcy filing rate during the recent economic downturn was more than four times the rate during the more severe downturn of the early 1980s.

Figure 4-6: Oregon's personal bankruptcy rate is high by historical standards



Source: OCPP analysis of American Bankruptcy Institute data.

Job loss, illness, and marital failure the primary cause of bankruptcy

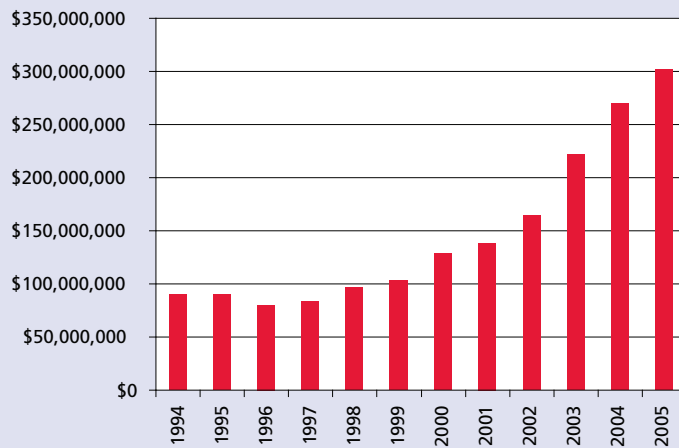
Information about why Oregonians filed for bankruptcy during the downturn is not available. Irresponsible or flagrant spending does not seem to be a primary cause of bankruptcy, however. Data from five diverse bankruptcy districts around the nation indicate that among families with children, the vast majority file for one of three reasons – they lose their jobs, they get sick, or their marriages fail. In 2001, 87 percent of these filers said they were forced into bankruptcy for one of these three major reasons. Just 13 percent of these filers offered some other reason, including being a victim of a natural disaster or crime, overspending with credit cards, or making a bad investment.³² Another study of households filing for bankruptcy found that about half ended up in bankruptcy court because of medical debt (see Text Box, “Medical debt skyrockets”).³³

Medical debt skyrockets

Nationally in 2003, about 20 million families reported problems paying for medical care in the previous year.³⁴ That is, about 14 percent of all families in the United States said they had problems paying for medical care. Families without health insurance are more likely to report problems paying for medical care. Nevertheless, two-thirds of the families having problems are, in fact, insured.³⁵ One study of households filing for bankruptcy found that about half ended up in bankruptcy court because of medical debt. Tellingly, three in four of these households had health insurance when their bankrupting illness struck.³⁶ For too many families, out-of-pocket medical care costs are difficult to cover, even with health insurance coverage.

In Oregon, the value of bad debt reported by Oregon hospitals more than doubled during this decade, rising from \$129 million in 2000 to \$302 million in 2005 (Figure 4-7).³⁷ Even as the economy improved in 2004 and 2005, bad medical debt continued to soar in Oregon, rising by 22 percent in 2004 and 12 percent in 2005. In the first quarter of 2006, however, bad debt was 24 percent lower than in the same quarter of the previous year, perhaps signaling an easing of the recent explosion of medical debt.

Figure 4-7: The amount of bad debt reported by Oregon hospitals continued to rise even as the economy improved



Source: Oregon Association of Hospitals and Health Systems.

The value of bad debt reported by Oregon hospitals more than doubled during this decade, rising from \$129 million in 2000 to \$302 million in 2005.

New bankruptcy law is bankrupt

The right to file for bankruptcy – embedded in the U.S. Constitution – not only benefits individuals but serves the public good.³⁸ By providing the opportunity for a fresh start, bankruptcy allows individuals to return to being productive citizens.

Unfortunately, revisions to the bankruptcy law passed by Congress in 2005 made it more expensive and burdensome to file for bankruptcy.³⁹ Ostensibly designed to curtail abuse of the bankruptcy process by those who have the means to pay their debts, the revisions, championed by banking interests and credit card lenders, appear likely to have little effect on filing rates over the long term. Moreover, the revisions failed to address the underlying causes of bankruptcies, in particular by failing to address predatory lending practices.⁴⁰

Studies conducted prior to passage of the bill suggested that few who filed for Chapter 7 (liquidation) bankruptcy did so to avoid debts that they had the means to repay.⁴¹ A survey of credit counselors following passage of the new bankruptcy law offered a similar picture of those who file bankruptcy. Only about three percent of those seeking bankruptcy protection were deemed candidates for paying off their debts, and four out of five consumers visiting credit counselors were fighting debt caused by circumstances beyond their control, such as job loss, medical expenses, death, and divorce.⁴²

The revisions make it more difficult and expensive to file for bankruptcy by requiring credit counseling, raising court filing fees, and introducing a means test and additional paperwork. Lawyers are now personally responsible for verifying that an individual is eligible to file under Chapter 7, an unusual burden that has raised concerns about whether pro bono legal services will continue to be available for the neediest clients.

Changes in the law also increased the expense of filing for bankruptcy. The law increased filing fees for Chapter 7 from \$209 to \$274. In April of this year, filing fees increased again, to \$299. In Oregon, mandatory credit counseling and a financial management course will cost around \$100. In addition, given more complicated provisions and additional paperwork requirements under the new law, Oregon attorneys have raised their fees for handling a bankruptcy case.⁴³

Individuals emerge from the bankruptcy process with burdens that will limit their opportunities for years. A bankruptcy remains on one's credit record for 10 years, making it more difficult and more expensive to secure credit in the future. The growth in bankruptcies in Oregon makes continued expansion of the market for alternative loans more likely. In addition, certain types of debt, including student loans, alimony, and child support, cannot be discharged in bankruptcy.⁴⁴ Some individuals may emerge from bankruptcy with substantial obligations.

The growth in bankruptcies in Oregon makes continued expansion of the market for alternative loans more likely.

Conclusion

The wider availability of credit today can provide opportunities for Oregonians who would not have had access to as much credit in the past. Exorbitant interest rates and fees, though, sap crucial income from low- and moderate-income Oregon families. Oregon could help these families get ahead by establishing reasonable caps on interest rates and fees for all types of financial products. Oregon should also expand its efforts to help lower-cost lenders increase their share of business in low- and moderate-income markets and to educate Oregonians about financial products.

Endnotes

- 1 In *Marquette Bank of Minneapolis v. First of Omaha Service Corp.*, 439 U.S. 299 (1978), the Supreme Court affirmed the right of banks to override credit card interest rate caps set at the state level by locating in states with weak or nonexistent interest rate caps.
- 2 See Or. Laws 1981, Ch. 412, ORS 82.010, and ORS 82.025.
- 3 Fellowes, Matt, "From Poverty, Opportunity: Putting the Market to Work for Lower Income Families," Brookings Institution, July 2006.
- 4 The Oregon Department of Consumer and Business Services reports that bank overdraft fees among Oregon banks they surveyed range between \$20 and \$33 per bounced check. Oregon Department of Consumer and Business Services, "Policy Review of Consumer Finance and Payday Lending," July 2004, Appendix N. Available at: http://www.cbs.state.or.us/external/dfcs/consumer_finance.html.
- 5 OCPP analysis using population figures for 2004 in Oregon Office of Economic Analysis, June 2006 Oregon Economic and Revenue Forecast.
- 6 The Oregon Department of Consumer and Business Services (DCBS) reports that there were 360 payday lenders in

- Oregon as of December 31, 2005. DCBS, "Payday Loans in Oregon," http://www.cbs.state.or.us/external/dfcs/cf/fact_sheet.html. As of August 18, 2006, there were 257 Starbucks in Oregon according to Starbucks headquarters customer service. There were 171 McDonald's in Oregon according to Julie Andrews of McDonald's regional headquarters and 128 7-Elevens in Oregon according to Cynthia Baker of 7-Eleven headquarters. Phone conversations with author, August 2006.
- 7 ORS 725.622(4).
- 8 See Enrolled Senate Bill 1105, Or. Laws 2006, Ch. 3, available at <http://www.leg.state.or.us/06ss1/measpdf/sb1105.en.pdf>.
- 9 Local Reform, Oregonians for Payday Loan Fairness, http://www.paydayloanfairness.org/local_reform.
- 10 City of Portland, Auditor's Office, Online Code and Charter, chapter 7.26, Regulation of Payday Lending. Available at: www.portlandonline.com/auditor. Ordinances around the state are generally similar to Portland's ordinance. Portland's provisions serve as a model in part because theirs was the first ordinance passed and because it was upheld by the courts after payday lenders filed suit. Graves, Bill, "Payday Lenders Face Stiffer Rules," *Oregonian*, April 20, 2006.
- 11 Graves, Bill, "Governor: No Predatory Lending," *Oregonian*, July 28, 2006.
- 12 ORS 725.600.
- 13 See Graves, Bill, "High Title Loan Costs Unchecked," *Oregonian*, July 2, 2006.
- 14 "Governor Promotes Consumer-Friendly Payday Loan Alternatives," press release, July 27, 2006, available at http://egov.oregon.gov/DCBS/DIR/docs/press_releases/2006/payday_7_27_06.pdf.
- 15 ORS 725.615. See also Senate Bill 171, 71st Oregon Legislative Assembly – 2001 Regular Session.
- 16 Charles Donald, Oregon Department of Consumer and Business Services, phone conversation with author, August 18, 2006.
- 17 ORS 726.390, 726.395, 726.400.
- 18 Senate Bill 656, sponsored by Senator Derfler at the request of the Oregon Pawnbrokers Association.
- 19 Oregon Department of Consumer and Business Services.
- 20 "Frequently Asked Tax Questions and Answers," keyword: refund, 1.12 IRS Procedures: Refund Inquiries, <http://www.irs.gov/faqs/faq-kw148.html>.
- 21 Wu, Chi Chi, and Jean Ann Fox, "Picking Taxpayers' Pockets, Draining Tax Relief Dollars: Refund Anticipation Loans Still Slicing Into Low-Income Americans' Hard-Earned Tax Refunds," National Consumer Law Center and Consumer Federation of America, January 2005, pp. 7-8.
- 22 *Ibid.*, p. 5.
- 23 OCPP analysis of data from Brookings Institution.
- 24 Wu and Fox, "Picking Taxpayers' Pockets," p. 6.
- 25 *Smiley v. Citibank* (South Dakota), 517 U.S. 735 (1996).
- 26 Cardweb.com, Inc. "Card Fees," CardTrak, July 18, 2006, and Cardweb.com, Inc., "Late Fees," CardTrak, August 5, 2005. Figures are averages for June of each year.
- 27 Consumer Action, "New Credit Card Study Shines Light on Industry Practices," press release issued July 28, 2005. Available at: http://www.consumer-action.org/press/articles/new_credit_card_study_shines_light_on_industry_practices/. See also CardWeb.com, Inc., "Late Fee Bug," CardTrak, May 17, 2002. Available at: <http://www.cardweb.com/cardtrak/news/2002/may/17a.html>.
- 28 Cardweb.com, Inc. "Over-Limit Fees," CardTrak, February 6, 2006.
- 29 *Ibid.* A 2005 survey conducted between April and June by Consumer Action found that 45 percent of bank card issuers were employing "universal default" provisions triggering rate increases based on late payments on any of a consumer's cards, regardless of issue. See Consumer Action, "New Credit Card Study."
- 30 National Center for Education Statistics, Digest of Education Statistics, 2005, table 303. Available at: http://nces.ed.gov/programs/digest/d05/tables/dt05_303.asp.
- 31 The bankruptcy filing rate is the number of annual filings per 1,000 Oregon adults. Because some Oregonians file for bankruptcy more than once, these rates do not precisely indicate the percentage of Oregon adults who filed for bankruptcy.
- 32 Warren, Elizabeth, and Amelia Warren Tyagi, *The Two-Income Trap: Why Middle-Class Mothers and Fathers Are Going Broke*, 2003, Basic Books: New York, p. 81. The districts included in the survey encompassed Los Angeles, Chicago, Philadelphia, Nashville, and Dallas and areas near these cities.
- 33 Himmelstein, David U., et al., "MarketWatch: Illness and Injury as Contributors to Bankruptcy," *Health Affairs*, February 2, 2005.
- 34 May, Jessica, and Peter Cunningham, "Tough Trade-Offs: Medical Bills, Family Finances, and Access to Care," Center for Studying Health System Change, Issue Brief #85, June 2004. Available at: <http://www.hschange.org/CONTENT/689>.
- 35 *Ibid.*
- 36 Himmelstein, et al., "MarketWatch."
- 37 Oregon Association of Hospitals and Health Systems. Bad debt, according to the Oregon Association of Hospitals and Health Systems, is "the unpaid obligation for care, based on a hospital's full established rates, for patients who are unwilling to pay their bill." The hospital's "full established rate" is the highest rate level. The price for privately insured patients receiving the same services is typically less than the full established rate.
- 38 U.S. Constitution, Article I, Section 8, Clause 4, gives Congress the right "To establish a uniform Rule of Naturalization, and uniform Laws on the subject of Bankruptcies throughout the United States."
- 39 Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, 109th Congress, enrolled as Public Law 109-8.
- 40 The Federal Reserve's "Senior Loan Officer Opinion Survey on Bank Lending Practices," October 2005 (available at <http://www.federalreserve.gov/boarddocs/SnLoanSurvey/200510/default.htm>) included special questions on the anticipated effects of the bankruptcy law revisions. Around a third of respondents representing domestic institutions reported that they expected credit losses on new loans to households to be moderately lower as a result of the revisions. For examples

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of lawyers' and consumer groups' criticisms of the revision, see Robben, Janine, "New Bankruptcy Law Is Challenging Practitioners as Well as Clients," *Oregon State Bar Bulletin*, April 2006, available at <https://www.osbar.org/publications/bulletin/06apr/bankruptcy.html>; Consumers Union, Consumer Federation of America, Center for Responsible Lending, U.S. Public Interest Research Group, National Consumer Law Center, and Consumer Action, "Bankruptcy Bill on House Floor Will Erect Harsh New Barriers and Reward Abusive Lenders," April 14, 2005, available at: http://www.consumerfed.org/pdfs/bankruptcy_House_floor_debate_05_release.pdf.

- 41 "Personal Bankruptcy: A Literature Review," Congressional Budget Office, September 2000, p. xi. Available at: <http://www.cbo.gov/showdoc.cfm?index=2421&sequence=0>.
- 42 National Association of Consumer Bankruptcy Attorneys, "Bankruptcy Reform's Impact: Where Are All the 'Deadbeats'?", February 22, 2006. Available at: http://www.nacba.org/files/main_page/022206NACBAbankruptcyreformstudy.pdf.
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- 44 Oregon State Bar, "Understanding Bankruptcy," available at <https://www.osbar.org/public/pamphlets/bankruptcy.html>.

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