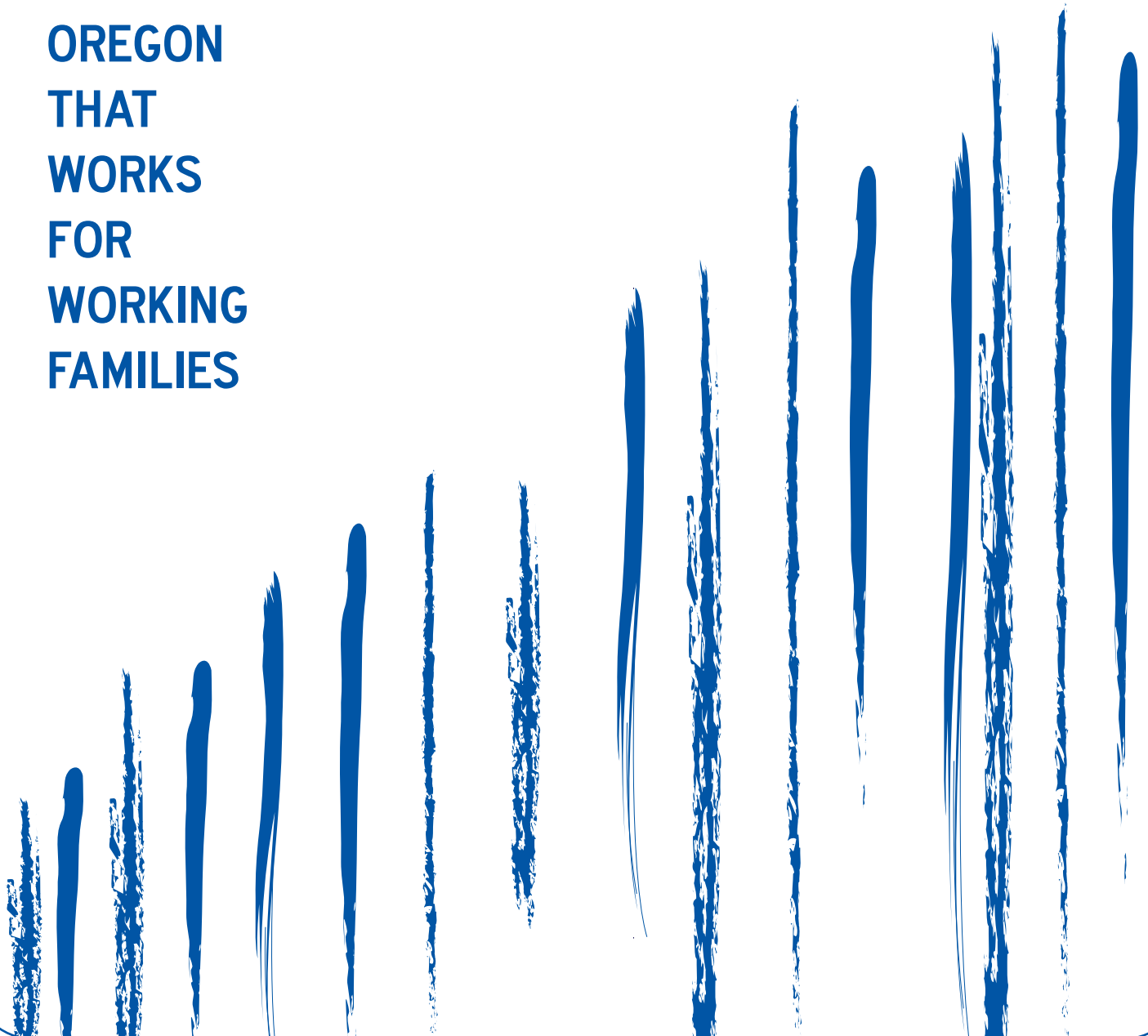


# ROLLING UP OUR SLEEVES



**BUILDING  
AN  
OREGON  
THAT  
WORKS  
FOR  
WORKING  
FAMILIES**





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FAMILIES

*By Michael Leachman and  
Joy Margheim*

**THE STATE OF WORKING OREGON 2008-2009**

*December 2008*

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# EXECUTIVE SUMMARY

## THE PROBLEM: FEW OREGONIANS HAVE SHARED IN THE BENEFITS OF ECONOMIC GROWTH

In early 2008, Oregon saw the end of an economic cycle that lasted a little over seven years.

- Oregon's economy grew at an annual rate of 4 percent, outperforming the 2.5 percent annual growth rate nationally.
- No state saw its real economic output per worker increase more quickly than Oregon.

Oregonians were more productive and made the economy grow, so you'd expect typical working families to have prospered — but they did not.

- In 2007, the typical Oregon household made \$48,730, about the same as in 2000 after adjusting for inflation.
- Oregon made no progress in reducing poverty.
- In 2006-07, 17.3 percent of Oregonians — 649,000 individuals — lacked health insurance, up from 12.7 percent at the start of the decade.
- Oregon produced nearly twice as many bankruptcy filings as college degrees from its public universities.

Why did most Oregon families see no gains during the recently concluded period of economic growth? The answer is that the prosperity created by Oregon workers was enjoyed primarily by corporations and a relative few individuals at the top of the income scale.

- Estimated corporate profits in Oregon more than doubled, from \$8.9 billion in 2000 to \$21.3 billion in 2007.
- In 2007, the average pay of the 40 highest-paid CEOs of public companies headquartered in Oregon shot up 22 percent, to \$2.1 million.
- Over the full seven years of the economic cycle, the 1,500 richest Oregon households were on track to reap about \$28 billion in total income.
- If prosperity had been more broadly shared, with the percentage of income going to the top 1 percent staying the same as it was in 2002, the bottom 99 percent would have had an extra \$4 billion in 2006, or more than \$2,300 per household.

The cycle of economic growth ended in early 2008. Now, as a recession engulfs the state, the economic picture looks even more difficult for Oregon workers.

## STRATEGY 1: STRENGTHEN THE PUBLIC SECTOR'S ROLE IN PROMOTING SHARED PROSPERITY

A successful strategy for shared prosperity begins with a healthy public sector. The public sector is a vital, yet often overlooked, player in our economy.

The economic benefits of sustaining public spending during a recession outweigh the potential economic harm to the state from a well-targeted tax increase.

- ✓ If dipping into the state's two reserve funds and some internal belt-tightening do not resolve the revenue crisis brought on by the recession, Oregon should turn to a tax increase targeted to profitable corporations and wealthy individuals, who can afford it most easily.

If the last period of economic growth was any indication, jobs generated by public investment may be needed even after the economy recovers.

- ✓ Oregon should use public sector spending to help tighten the job market.

Strategic investments in reducing child poverty and improving the state's infrastructure will build a solid foundation for future shared prosperity.

- ✓ Oregon should set an ambitious child poverty reduction goal, provide the resources necessary to achieve it and institute a process for holding state agencies accountable.
- ✓ Oregon should make the infrastructure investments that will undergird a strong future economy.

Wielding the power of the public purse, governments can require companies with which they conduct business to provide good wages and benefits and to respect union organizing efforts.

- ✓ Oregon should adopt neutrality legislation to help restore workers' bargaining power with private sector employers reliant upon public dollars.
- ✓ Oregon should enact a living wage law that applies to both state service contracts and economic development subsidies.
- ✓ Local governments in Oregon should follow the examples of other cities and counties in the U.S. and adopt labor peace ordinances.

## STRATEGY 2: IMPROVE THE STRUCTURES THAT PROVIDE ECONOMIC SECURITY

Today's working families face greater economic risks than those of an earlier generation. Economic insecurity has increased not only because working families have been excluded from the benefits of the prosperity they have helped create but



also because the public systems that ought to help them when the market fails are either degraded or outdated.

The U.S. system of health care relies heavily on employers providing health insurance to their workers. This system is not working for most low-wage workers.

- ✓ Oregon needs a new system of health care that is universal, comprehensive and affordable.

Because the unemployment insurance system has not kept up with changes in the workplace, many workers do not have coverage when they lose their job.

- ✓ Oregon can take several concrete steps to improve its unemployment insurance system. At the top of the list are allowing workers to count more of their recent work experience to qualify for benefits and allowing part-time workers to look for part-time work.

The workplace has not caught up with changing family dynamics. While some private companies provide paid leave for employees who get sick or need to care for a new child or a sick family member, companies are not required to do so, and no public program provides for workers who must take time off.

- ✓ Oregon should enact family leave insurance legislation.
- ✓ Oregon should enact paid sick leave rules.

The U.S. retirement system is commonly characterized as a three-legged stool held up by Social Security, employer pensions and worker savings. Common misperceptions notwithstanding, Social Security is the solid leg. Pensions and individual savings, by contrast, are shaky.

- ✓ Oregon can take an important step in ensuring the secure retirement of Oregonians by establishing a system of universal voluntary retirement accounts.

### STRATEGY 3: BUILD A FAIRER, STRONGER TAX SYSTEM

The final strategy for building an economy that works for working families requires reforming the tax system. Successful reform would ensure Oregon has adequate revenues to support the public structures that provide opportunities for all Oregonians.

Oregon's current tax system asks more of middle- and low-income households than it asks of the wealthy. There are a number of ways to improve the tax system so that it is based on ability to pay. Oregon should:

- ✓ Increase the state Earned Income Tax Credit to 18 percent of the federal tax credit.
- ✓ Reform its home mortgage interest deduction to better target it at those who need it most.
- ✓ Add a new top income tax bracket for households with very high incomes.

## Executive Summary

- ✓ Eliminate the subtraction of federal income taxes as part of a restructuring of its income tax system to add fairness and garner revenues for critical priorities.

Corporations are paying less than half of the income taxes they paid 30 years ago, as a share of the economy. Oregon should:

- ✓ Reform its corporate income tax system to raise roughly \$750 million a biennium in additional revenues, instead of settling for a modest increase in the \$10 minimum tax.
- ✓ Require large corporations to report tax-related information to the public.
- ✓ Produce a unified development budget report as part of the biennial budget development process.
- ✓ Require online disclosure of company-specific subsidy deals and mandate clawback provisions on all subsidy agreements.

In spite of its existing reserve system, Oregon does a poor job of stockpiling savings during good economic times to help ease the pain of bad times.

- ✓ Oregon should accept the Task Force on Comprehensive Revenue Restructuring's draft recommendations for increasing the size of and adjusting the funding mechanism for the Oregon Rainy Day Fund, so that the state is better prepared for future recessions.

# INTRODUCTION

A great task awaits Oregonians, that of building an Oregon that once again works for working families.

Working families in Oregon, as in the rest of the nation, faced a tough economic environment even before the onset of the current recession. Prior to the downturn, Oregon experienced a seven-year stretch in which its economy and productivity grew faster than that of the nation as a whole. And yet Oregon working families emerged from that seemingly favorable period with stagnant or shrunken wages and less health care coverage. The percentage of families stuck in poverty despite their work effort remained unchanged.

How did it come to pass that the economy grew but most working families gained nothing or fell behind? The answer is simply that the rules of the economy have not been guided by a goal of shared prosperity and opportunity for all. The economic benefits mostly flowed upward, swelling the incomes of those at the very top. Toward the end of the economic expansion, income inequality had reached record levels.

Now, with a recession battering the state and the nation, the economic condition of working families has become more precarious.

History shows, however, that in tough economic times we can summon the will to accomplish great things. Seven decades ago, a generation of Americans rose up from the depths of the Great Depression and together built a strong nation and economy. This achievement rested on a foundation of broadly shared prosperity and opportunity for all. The benefits of economic growth flowed to typical working families.

It is time for Oregonians to learn from history and build a new foundation. Action now can help alleviate some of the pain of the current downturn. But more importantly, our work today will help usher in a new era of broadly shared prosperity and opportunity.

In this report, we outline strategies for building an Oregon that works for working families. The specific recommendations fall under three broad categories: policies that strengthen the public sector's role in promoting shared prosperity, policies that secure the incomes of working families and reforms to the tax system that make it fairer for working families and generate revenue for public systems that create opportunity.

This report is not a comprehensive plan for achieving an economy of shared prosperity, but it presents a broad policy framework and a range of specific proposals that point the way forward.

So let's roll up our sleeves and begin building an Oregon that works for working families.



# THE PROBLEM: FEW OREGONIANS HAVE SHARED IN THE BENEFITS OF ECONOMIC GROWTH

To build a better future, it is important to recognize the lessons of the past.

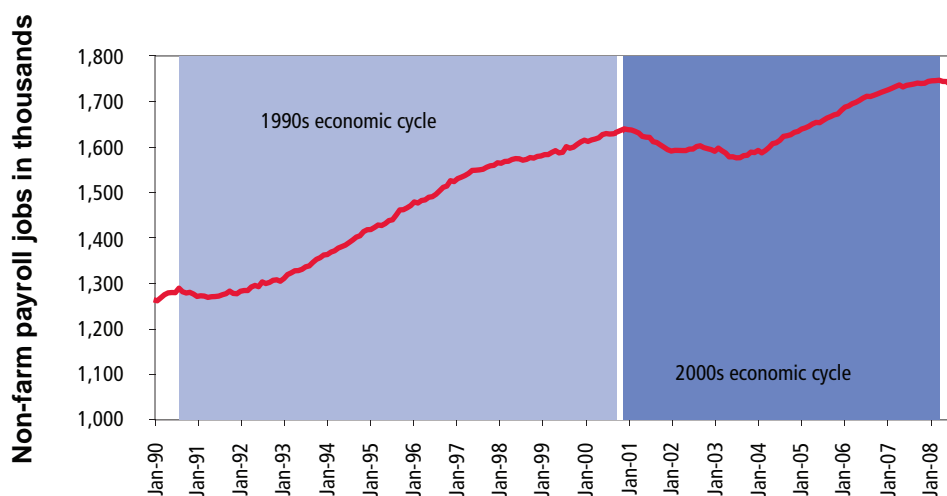
In Oregon, as in the rest of the country, most workers have not shared in the benefits of the economic growth they have helped generate. Productivity has soared this decade and the economy has expanded, but the majority of workers have seen stagnant or falling wages. The benefits mainly have flowed upward, swelling the incomes of corporate executives and others at the very top. As a result, inequality has reached record levels.

Now, as a recession engulfs the state, the economic picture looks even more difficult for Oregon workers.

## OREGON'S ECONOMY GREW FASTER THAN THE NATION'S

In early 2008, Oregon saw the end of an economic cycle. Economic cycles are measured from the peak of one expansionary period to the peak of the next. Job growth peaked in Oregon in November 2000 before the onset of a recession. It peaked again in February 2008, marking the end of the cycle. Hence, the recent economic cycle lasted a little over seven years.

**This decade's economic cycle ran from November 2000 — when jobs peaked before Oregon headed into recession — until February 2008, when jobs again reached a peak**



Source: OCPP presentation of Oregon Employment Dept. data.

**Economic cycles are measured from the peak of one expansionary period to the peak of the next. The most recent economic cycle lasted a little over seven years.**

## The Problem: Few Oregonians Have Shared in the Benefits of Economic Growth

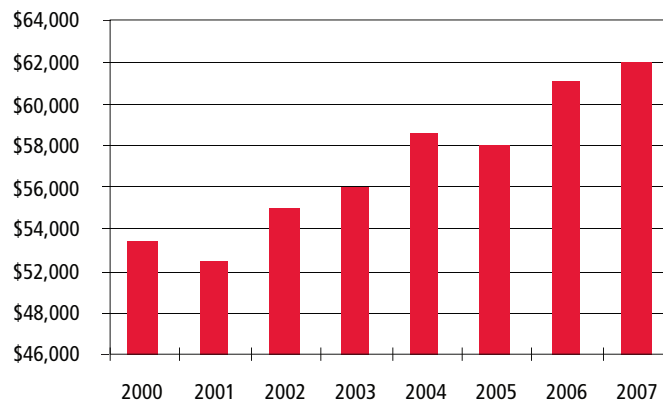
Despite significant economic decline at the cycle's start, Oregon's economy as measured by Oregon gross domestic product was 28 percent larger by the time the cycle ended, after adjusting for inflation.<sup>1</sup> This amounts to an annual growth rate of 4 percent, outperforming the 2.5 percent annual growth rate of total U.S. gross domestic product.

This was not the first time that Oregon outperformed the nation. During the economic cycle in the 1990s, the nation's economy grew at a particularly strong pace. But with an annual real growth rate of 7.8 percent, Oregon's economy expanded at nearly twice the rate as that of the nation during this cycle.

The state's relatively strong economic performance is explained in part by Oregon workers' increased productivity during the most recent cycle. From 2000 to 2007, no state saw its real economic output per worker increase more quickly than Oregon. In 2000, the average Oregon worker produced about \$53,000 in goods and services. Worker output increased to about \$62,000 by 2007, after adjusting for inflation. That translates to a 16 percent productivity growth rate, double the 8 percent growth rate nationally over the same period.

**In 2000, the average Oregon worker produced about \$53,000 in goods and services. Worker output increased to about \$62,000 by 2007.**

### Oregon's economic output per worker rose faster than that of any other state between 2000 and 2007



Source: OCPP analysis of Bureau of Economic Analysis data, using chained 2000 dollars.

Another reason why Oregon's economy performed relatively well is because the state is an attractive place to live. During the most recent economic cycle, from 2000 to 2007, about 200,000 people moved to Oregon, accounting for about two-thirds of the overall population growth.<sup>2</sup> Oregon ranked 13th among states for total population growth over those years.<sup>3</sup>

Oregonians have a lot to be proud of. Oregon workers' productivity growth was faster than workers' nationally. Our economy grew more quickly than the nation as a whole over the last two economic cycles.

## MOST OREGONIANS GAINED NOTHING OR LOST GROUND

Oregonians were more productive and made the economy grow, so you'd expect typical working families to have prospered — but they did not. In Oregon, as in the rest of the nation, the most recent period of economic growth left too many working families behind.

**Incomes stagnated**

The recently concluded period of economic growth was exceptionally bad for the typical American working family. In every period of expansion dating back to the mid-1940s, the economic position of families improved from one economic cycle to the next — except this time. At the end of the most recent economic cycle, the typical household’s income was lower than it had been at the beginning.<sup>4</sup>

Oregon families’ experience was similar. Last year, the typical Oregon household made \$48,730, about the same as in 2000 after adjusting for inflation.<sup>5</sup> This stagnation occurred because it took so long for incomes to recover from the recession earlier this decade. As late as 2005, Oregon median household income was still down by about \$2,000 compared to pre-recession levels. Incomes started improving in 2006 and continued to improve in 2007. The improvement was too little, too late, however, to help households get ahead.

It didn’t have to be that way. The economic cycle during the 1990s, by contrast, saw the typical Oregon household gain ground. During that period, incomes grew by 12 percent above inflation, adding \$5,300 in today’s dollars.

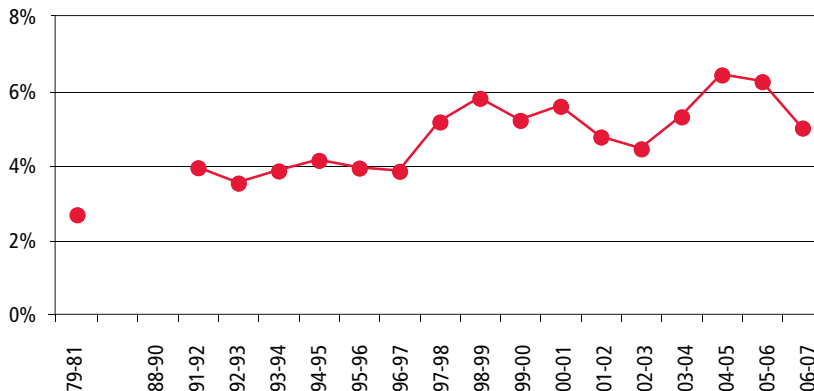
**Official poverty was flat; real poverty was worse**

Oregon made no progress in reducing poverty during the last economic cycle. At the peak of the economic good times, in 2007, about one in eight Oregonians (12.9 percent) was poor, according to the official definition of poverty.<sup>6</sup> That level is roughly where Oregon stood at the beginning of this decade.<sup>7</sup>

The chances that full-time work would offer a ticket out of poverty did not improve this decade. In 2006-07, at the end of the economic cycle, 5.0 percent of full-time working families with children lived in poverty, no different in statistical terms from the 5.2 percent share at the beginning of the decade.<sup>8</sup>

The rate of poverty among full-time working families in Oregon remained higher than it was three decades ago. In 1979-81, about one in 37 full-time working families with children in Oregon were poor. In 2006-07, the share in poverty was one in 20.<sup>9</sup>

**The share of Oregon’s full-time working families with children who were poor did not improve this decade and remains higher than in 1979-81**



Source: OCPP analysis of Current Population Survey data.

In 1979-81, about one in 37 full-time working families with children in Oregon were poor. In 2006-07, the share in poverty was one in 20.

## The Problem: Few Oregonians Have Shared in the Benefits of Economic Growth

Oregon's failure to reduce the poverty rate over the course of the recent expansion is troubling, especially because the official poverty line is out of date. It undercounts the number of people struggling with inadequate incomes. The official poverty line is based on a formula developed more than 40 years ago. Under that definition, families are poor when their income is less than three times the cost of a modest basket of inexpensive, nutritionally adequate food. But in today's reality, that threshold is not high enough, because families now have to spend more on housing, child care, transportation and health care than they did 40 years ago when the poverty guidelines were developed.

If the poverty rate were updated to reflect today's basic needs — so that it reflected “real” poverty — more Americans and Oregonians would be deemed poor. An alternative formula developed by the National Academy of Sciences that corrects the major problems with the current definition of poverty would have added five million people to the nation's poverty rolls in 2006.<sup>10</sup> If the number of poor in Oregon increased proportionally, that would have meant another 64,000 Oregonians living below the poverty line, a 14 percent increase that year.<sup>11</sup>

### **Poverty is relative**

*Even if the federal poverty line were to better reflect today's family budget, it would still be inadequate. The poverty line tells us whether someone is living in absolute poverty — a state of raw material privation. Of course, it's important to know how many people have so little income that they struggle to feed, clothe and shelter themselves. But focusing on that alone ignores another troubling form of privation: how many people live with incomes so low relative to others that it undermines their ability to participate fully in the nation's life.*

*That approach recognizes that poverty is not just absolute but also relative. The U.S. is weaker if a broad swath of society has income so low relative to the rest as to set them apart. Even if those relatively deprived can meet their basic needs, relative poverty creates a nation within a nation.*

*Relative poverty has been on the rise in the U.S. for quite some time. In 1960, a family of four living at the official poverty line earned about half the median income for a family of four. Today, both nationally and in Oregon, that family has only about 30 percent of the median family's income.<sup>12</sup> And as the distance between poor families and the typical family widens, it pushes aside the nation's notion of a common interest and shared destiny.*

### **Health care coverage declined**

Despite this decade's economic growth, health care coverage shrank in Oregon. In 2006-07, 17.3 percent of Oregonians — 649,000 individuals — lacked health insurance, up from 12.7 percent at the start of the decade.<sup>13</sup> Among Oregon children, one in nine went without insurance for a year or more in 2006-07. That amounts to 103,000 kids without coverage.



Working-age Oregonians are now more likely to lack health insurance. In 2006-07, at the peak of the economic good times, more than one in five working-age Oregonians (22.4 percent) went without insurance for a year or more. That's up from 15.6 percent at the beginning of this decade.

The recession earlier this decade partly explains the decline in health coverage. The downturn caused a sharp decline in state revenue, prompting the legislature in 2003 to slash the state's public health insurance program, the Oregon Health Plan. The Oregon Health Plan's "Standard" program, which serves the working poor, saw its monthly caseload collapse from 98,000 to 18,000 after the cuts. The program closed to new recipients in July 2004.

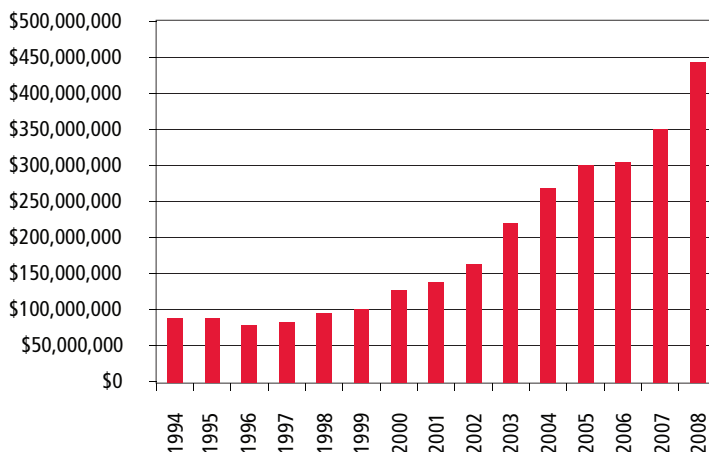
State revenue improved as the economy recovered, but that did not result in a return to health for the Oregon Health Plan.

It wasn't until 2008 that the Oregon Department of Human Services (DHS) slightly reopened the Oregon Health Plan's Standard program. DHS chose the new recipients through a lottery, with 90,000 people entering their names in hopes of being selected for a limited number of spots. With the additions, DHS estimated that the average total monthly caseload for the program will be about 26,000 in the 2007-09 biennium.<sup>14</sup> That's still about 73,000 Oregonians fewer than were benefiting from the Oregon Health Plan Standard program in April 2002, before cuts were made earlier this decade, and more than 104,000 fewer than at the program's peak in August 1995.<sup>15</sup>

Another reason why health coverage declined is that employers cut back coverage in the face of rising health care costs. In 1997-99, 63.7 percent of Oregon workers received at least some health insurance coverage from their employer.<sup>16</sup> By 2005-07, the share had fallen to 56.7 percent. In other words, an additional seven workers per 100 had lost employer coverage. If this rate of decline continues, eight years from now the majority of Oregon workers will no longer be covered by their employer.

As health coverage declined, Oregonians who became sick ended up with more medical bills they couldn't pay. In 2007, Oregon hospitals wrote off \$223 million more in consumer medical debt than they did in 2000, an increase of 173 percent. Based on data from the first six months of 2008, bad medical debt is on track to jump up another 26 percent in 2008, to an amount that would triple the 2000 figure.<sup>17</sup>

### The amount of bad debt reported by Oregon hospitals has skyrocketed



Source: Oregon Association of Hospitals and Health Systems. Note: 2008 is an estimate based on growth in first half of year.

Based on data from the first six months of 2008, bad medical debt is on track to jump up another 26 percent in 2008, to an amount that would triple the 2000 figure.

## The Problem: Few Oregonians Have Shared in the Benefits of Economic Growth

### **Bankruptcies soared**

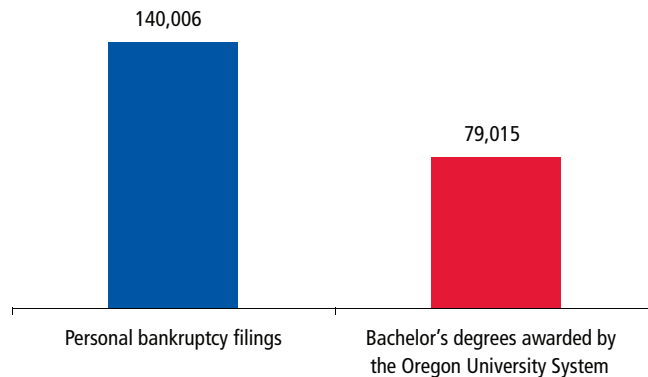
Personal bankruptcy filings in Oregon soared during the early part of the recent economic cycle, before federal bankruptcy rules changed. Filings rose 41 percent between 2000 and 2004 and peaked in 2005. In 2005, Congress passed new rules championed by banking interests and credit card lenders that made it harder for consumers to get out from under overwhelming debt by filing for bankruptcy.<sup>18</sup>

While filings declined following the rule changes, they have been rising again recently. In 2007, bankruptcy filings in Oregon stood at about half their 2000 level. And yet, between the first half of 2007 and the first half of 2008, filings were up 25 percent.<sup>19</sup>

Although Congress made it more difficult to declare bankruptcy, bankruptcies are still a good measure of the health of the economy. Over the full seven years of the economic cycle, 140,006 Oregonians filed for bankruptcy. That's nearly twice as many bankruptcy filings as bachelor's degrees awarded by the seven public universities in the Oregon University System over the same period.<sup>20</sup>

Over the full seven years of the economic cycle, 140,006 Oregonians filed for bankruptcy. That's nearly twice as many bankruptcy filings as bachelor's degrees awarded by the seven public universities in the Oregon University System.

### **Oregon produced more bankruptcy filings than bachelor's degrees over the course of the last economic cycle**



*Note: Bachelor's degree figure is an estimate based on Oregon University System reports for 2002, 2004 and 2006 school years.*

*Source: Oregon University System and American Bankruptcy Institute.*

### **Hunger declined, thanks to food stamps**

With incomes flat and health coverage down, the skies were mostly gray for working families during the last economic cycle. But one bright spot was Oregon's progress against hunger and food insecurity. Oregon was the only state in the country to make progress against hunger during the downturn earlier this decade.

The share of Oregon households struggling to put food on the table — those officially considered "food insecure" — declined from 13.7 percent at the beginning of the decade to 11.9 percent by 2002-04.<sup>21</sup> Oregon's rate of hunger — the most severe form of food insecurity — dropped from 5.8 percent to 3.8 percent during the period, despite a weak job market.<sup>22</sup>

How did we do it? The answer lies in Oregon's expansion of food stamp benefits.<sup>23</sup> In December 2000, Oregon increased the income eligibility limit for food stamps

from 130 percent of poverty to 185 percent of poverty. Families of four with income between about \$23,000 and about \$33,000 in 2001 became newly eligible for food stamps. The eligibility rule change, combined with other strategies to improve access, boosted the use of food stamps. Four years later the number of Oregonians benefiting from food stamps had risen 73 percent.<sup>24</sup>

With many more Oregonians benefiting from participation in the food stamp program, food insecurity and hunger declined. Food stamps help low-income families avoid hunger largely by giving them money in the form of electronic benefit transfer (EBT) cards for food. But they also help in other ways. Families eligible for food stamps can automatically qualify for other forms of assistance, including free school lunches for their children and financial assistance with their phone bills. This additional public assistance strengthens a family's ability to feed themselves adequately.

The gains against food insecurity and hunger continued in 2006 and 2007, when the economy finally started delivering some income gains to working families. The share of Oregon adults in food insecure homes fell from 15.7 percent in 2005 to 9.4 percent in 2007. Meanwhile, the share of those experiencing hunger declined from 5.6 percent to 3.2 percent.<sup>25</sup>

The expansion of the food stamp program, in addition to bringing assistance to kitchen tables, delivered economic benefits to the state. Oregon's expanded eligibility pumped millions of new federal dollars into the Oregon economy. Since the new eligibility rules went into effect, the amount of federal money coming to Oregon in the form of food stamp benefits each month is \$25 million higher than before the changes, a boon for vulnerable families and local economies.<sup>26</sup>

Any satisfaction over Oregon's gains against hunger should be tempered by the reality that about one in 11 Oregon adults still lived in a food insecure home in 2007. And that was before the economic downturn that began in early 2008.

### ***Service jobs grew; manufacturing jobs declined***

The recently concluded economic cycle continued the long-term transformation of Oregon's job base — the shift from manufacturing to service sector jobs. Service jobs typically pay less and offer fewer benefits than manufacturing jobs.

The biggest job creator in sheer numbers during the period was the restaurant industry, a low-wage employer. Restaurants added 20,821 jobs, a 20 percent increase.<sup>27</sup> As of the first quarter of 2008, restaurant jobs on average paid about \$14,400 per year.

Better-paying service sector jobs arose in health care-related industries. The second and third biggest job creators were the ambulance services industry, which added 14,902 jobs (a 29 percent increase), and the hospital industry, which created 9,454 new jobs (a 22 percent increase). Jobs in these industries paid about \$50,200 and \$49,400, respectively, on average.

Not surprisingly, strong job growth also appeared in the housing sector. This growth encompassed jobs in the construction and specialty trades as well as in the mortgage industry.

Meanwhile, the biggest job losses occurred in an industry that pays relatively well: high tech manufacturing. Following the collapse of the high tech stock market bubble at the start of the decade, the computer and electronics products industry

## The Problem: Few Oregonians Have Shared in the Benefits of Economic Growth

The biggest job creator in sheer numbers was the restaurant industry, a low-wage employer. Meanwhile, the biggest job losses occurred in an industry that pays relatively well: high tech manufacturing.

shed 10,878 jobs, a 21 percent decline. On average, these jobs paid about \$108,800. Other forms of manufacturing also lost ground. The wood products industry had 16 percent (5,346) fewer jobs by the end of the cycle. The number of jobs in Oregon manufacturing machines, paper, appliances, fabricated metal and apparel also declined.

### This past economic cycle, Oregon lost manufacturing and telecommunications jobs but gained restaurant and health care jobs

	Annualized pay	Change in number of jobs	% change
<b>Top five job loss industries</b>			
Computer and electronic products manufacturing	\$108,800	-10,878	-21%
Wood products manufacturing	\$37,800	-5,346	-16%
Telecommunications	\$62,600	-2,779	-26%
Printing and related support activities	\$40,300	-2,173	-24%
Machinery manufacturing	\$57,200	-1,991	-14%
<b>Top five job growth industries</b>			
Food services and drinking places	\$14,400	20,821	20%
Ambulatory health care services	\$50,200	14,902	29%
Hospitals	\$49,400	9,454	22%
Specialty trade contractors	\$41,000	8,880	18%
Administrative and support services	\$25,900	5,452	7%

Source: OCPP analysis of Employment Dept. data for first quarter 2001 through first quarter 2008.

## THE WEALTHIEST OREGONIANS CAPTURED THE GAINS

Why did most Oregon families see no gains during the recently concluded period of economic growth? How could the incomes of ordinary Oregonians stagnate, poverty fail to improve and health coverage decline even as the economy flourished and Oregon workers were more productive?

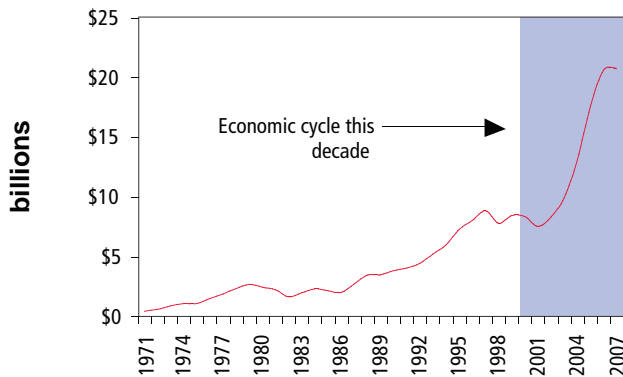
The answer is that the prosperity created by Oregon workers was enjoyed primarily by corporations and a relative few individuals at the top of the income scale. In Oregon and across the country, income inequality widened this economic cycle, with millionaires adding to their fortunes while working families struggled and stressed.

### Corporate profits skyrocketed

Corporations enjoyed record profits during the recently concluded economic cycle. Nationally, profits more than doubled, rising from \$773 billion in 2000 to \$1.9 trillion in 2007. That's a growth rate of 144 percent over a period when total wage and salary disbursements grew 32 percent.<sup>28</sup> Profits won out over workers.

Corporate profits likely skyrocketed in Oregon as well. While no definitive figures exist on the profitability of Oregon corporations, the methodology employed by the Oregon Office of Economic Analysis (OEA) when it develops state revenue projections yields a reasonable estimate. Using the OEA method, corporate profits in Oregon more than doubled from \$8.9 billion in 2000 to \$21.3 billion in 2007.<sup>29</sup>

Corporate profits in Oregon likely skyrocketed this decade



Source: OCPP analysis of Bureau of Economic Analysis data, using method employed by Oregon Office of Economic Analysis

Estimated corporate profits in Oregon more than doubled from \$8.9 billion in 2000 to \$21.3 billion in 2007.

Pay soared for CEOs

Also riding high were the chief executive officers of corporate America. In 2007, the average CEO of a company in the S&P 500 pocketed \$10.5 million, 344 times the pay of the average American worker. Thirty years ago, CEOs made only 30 to 40 times what the average worker in the U.S. made.<sup>30</sup>

CEO pay, however, seemed unrelated to performance. Five of the 10 highest-paid CEOs in the country — who raked in an average of \$58 million apiece in 2007 — headed companies that lost money.<sup>31</sup> Three of those 10 individuals (John Thain of Merrill Lynch, Lloyd Blankfein of Goldman Sachs and John Mack of Morgan Stanley) led financial firms that have now been sold.

The 40 highest-paid Oregon CEOs of public companies saw their pay rise 22 percent from 2006 to 2007. Here are the top 10.

CEO	Public Company	2006 Compensation	2007 Compensation	Change
Mark Donegan	Precision Castparts Corp.	\$8,328,499	\$9,159,660	10%
Mark G. Parker	Nike	NA	\$6,227,968	NA
John D. Carter	Schnitzer Steel Industries	NA	\$5,895,950	NA
Mark S. Dodson	Northwest Natural Gas Co.	\$2,376,533	\$4,894,439	106%
Eric E. Parsons	StanCorp Financial Group	\$3,821,201	\$4,621,121	21%
Earl R. Lewis	FLIR Systems	\$1,973,605	\$3,917,426	98%
Andrew A. Wiederhorn	Fog Cutter Capital Group	\$4,048,170	\$3,514,148	-13%
Don R. Kania	FEI Co.	\$2,052,539	\$3,472,677	69%
Kay L. Toolson	Monaco Coach Corp.	\$2,204,770	\$3,107,673	41%
Peggy Y. Fowler	Portland General Electric Co.	\$2,518,882	\$2,770,469	10%

NA - Not available.  
Source: Oregon Business Magazine, September 2008.

The state's top-paid public company CEO in 2007, Mark Donegan of Precision Castparts, received over \$9 million, a 10 percent gain over the previous year.

## The Problem: Few Oregonians Have Shared in the Benefits of Economic Growth

or saved from likely collapse by government intervention.<sup>32</sup> Thain took over Merrill Lynch in 2007 after the company's disastrous investments had begun to sink the company. The previous executive, E. Stanley O'Neal, walked away in the fall of 2007 with \$161 million owed to him under his compensation agreement, in addition to the \$70 million total he collected over four years as CEO.<sup>33</sup>

Salaries for CEOs of publicly traded Oregon companies haven't risen to those stratospheric levels, but they have certainly risen substantially. In 2007 alone, the average pay of the 40 highest-paid CEOs of public companies headquartered in Oregon shot up 22 percent, to \$2.1 million.<sup>34</sup> The state's top-paid public company CEO in 2007, Mark Donegan of Precision Castparts, received over \$9 million, a 10 percent gain.<sup>35</sup>

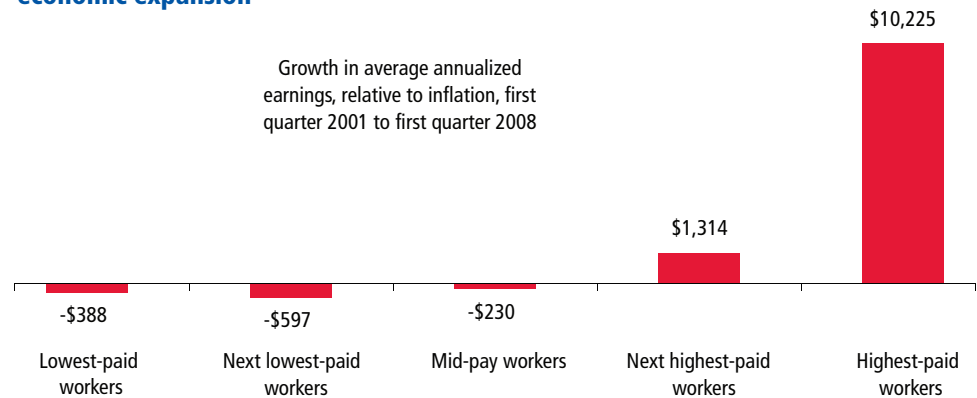
### Higher-paid workers took home all the gains

Another indication of how prosperity was not widely shared during the last economic cycle, all of the pay gains over the course of the cycle went to workers in the top two-fifths of the pay scale.

The highest-paid fifth of Oregon workers saw their earnings rise 9.5 percent above inflation over the course of the economic cycle. By the end of the cycle, they were earning on average \$10,225 more in annual terms than they were at the beginning. The next fifth of workers below them came out ahead, too, gaining \$1,314 on average. The other 60 percent of the workforce saw their earnings lose ground to inflation over the course of the cycle. Mid-pay workers lost \$230 on average, and the lowest-paid fifth lost \$388.

**The highest-paid fifth of Oregon workers saw their earnings rise 9.5 percent above inflation over the course of the economic cycle. By the end of the cycle, they were earning on average \$10,225 more than they were at the beginning.**

### Only higher-paid Oregon workers saw earnings gains over the economic expansion



Note: Based on figures inflation-adjusted to first quarter 2008 dollars, for workers employed 350 or more hours per quarter. Source: OCPP analysis of Oregon Employment Dept. data.

### Income inequality reached historic levels

While the well off walked away with all the earnings gains, those at the very top of the income scale catapulted ahead of everyone else. Inequality reached record levels in the U.S. this decade, with income more concentrated among the very wealthy than at any time since 1929.<sup>36</sup>

The extreme imbalance seen nationally also emerged in Oregon. Here, the combined income for the state's richest 1,500 households — the highest-income one-tenth of 1 percent — totaled more than \$4.3 billion in 2006, the latest year with available

data. To put that in perspective, Oregon's wealthiest 1,500 households — who together would fill less than a third of the seats in Portland's Rose Garden Arena — made as much money as 450,000 Oregon households, as many households as live in 28 of Oregon's 36 counties, combined.<sup>37</sup>

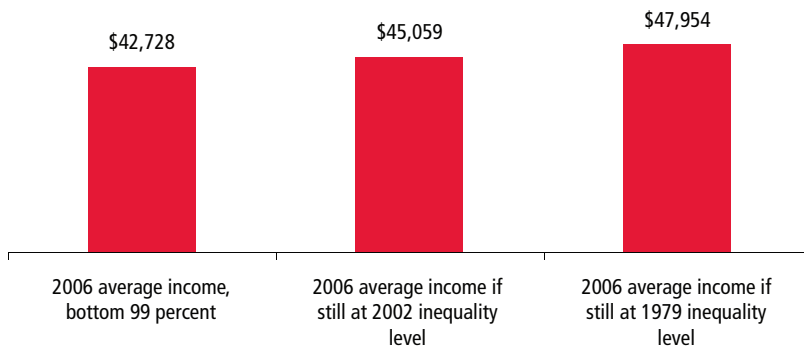
Over the full seven years of the economic cycle, the 1,500 richest Oregon households were on track to reap about \$28 billion in total income. That's nearly as much as total state General Fund revenues collected between mid-2001 and mid-2007.<sup>38</sup>

Income inequality is not new, but the most recent gains for the wealthy widen the gap. The change over time in income gains at the top of the income scale compared to those in the middle shows the problem. Back in 1980, the top one-tenth of 1 percent of households had incomes averaging \$782,000 in 2006 dollars. By 2006, the average income for this group was \$2.8 million. In other words, the incomes of Oregon's richest households more than tripled since 1980 after taking inflation into account. Meanwhile, the income of the typical Oregonian has stagnated since 1980. The typical Oregon household made around \$30,000 in 2006, about the same as in 1980 when adjusted for inflation. In 1980, Oregon's wealthiest households made 25 times as much as the typical Oregon household on average. By 2006, the wealthiest households were making 110 times as much as the typical Oregon household.

Does inequality of incomes really matter? As the rich get richer, does it affect ordinary families?

Yes. Consider that from 2002 to 2006, the share of total adjusted gross income in Oregon going to the richest 1 percent of households rose sharply, from 13 percent of all income to nearly 18 percent. If prosperity had been more broadly shared, with the percentage of income going to the top 1 percent staying the same as it was in 2002, the bottom 99 percent would have had an extra \$4 billion in 2006, or more than \$2,300 per household. If inequality were still at 1979 levels, the bottom 99 percent would have each had about \$5,200 more on average.

### Households in the bottom 99 percent would have more income on average if inequality were still at earlier levels



*Note: Income is adjusted gross income as reported on 2006 Oregon tax returns.  
Source: OCPP analysis of Oregon Dept. of Revenue Data.*

**If inequality were still at 1979 levels, the bottom 99 percent would have each had about \$5,200 more on average in 2006.**

### **Rising inequality is no myth**

*Some dismiss America's rising inequality as unimportant or illusory. Their arguments, such as those summarized below, miss the mark.*

#### **Myth: "It's inevitable; the rich always get richer."**

*Not true. In the generation after World War II, family income grew more strongly and was more equitably distributed than today. From 1947 to 1973, families at the bottom and in the middle of the income distribution saw their incomes increase at a similar rate as those of families at the top.<sup>39</sup> In other words, the rising tide lifted all boats. Shared prosperity was supported by public policies and practices that protected opportunities for ordinary families — for example, a more progressive federal income tax, more widespread unionization and strategic public investments such as the GI Bill and Social Security.*

#### **Myth: "It's opportunity, not inequality, that matters, and opportunity has improved."**

*Not true. Over the last generation, social mobility — the opportunity to move up the income ladder — has either stagnated or worsened.<sup>40</sup> This has coincided with the sharp rise in inequality. In the past, young men could expect to earn more than their fathers. Today that is no longer true. And contrary to myth, the U.S. has more inequality and less social mobility than many other developed nations.<sup>41</sup>*

#### **Myth: "The poor are materially better off today than ever before."**

*Not true with regard to items that matter. The argument that even poor households are materially better off today because they possess a variety of goods (microwaves, televisions, air conditioners etc.) not widely available in the past is without merit.<sup>42</sup> The argument uses false metrics. It ignores how the costs of more important items such as health care, child care and higher education — unlike certain consumer items — have increased relative to the poor's incomes. It also ignores the rising gap between the goods and services affordable to ordinary families and those affordable to the rich. The opportunities available to the poor are more a*



*function of their competitive position relative to others than of their position relative to an arbitrary historical standard of consumption.*

***Myth: “Immigrants and single moms are to blame for the income gap.”***

*False. Some argue that an increase in the number of immigrants and single parents (particularly women) has caused the increase in income inequality. Even among native-born Americans, inequality has increased.<sup>43</sup> Although in certain limited markets the impact may be significant, immigrants generally have a small impact on the wages of native workers.<sup>44</sup> Moreover, studies controlling for immigration over the last 15 years found no change in the U.S. poverty rate.<sup>45</sup> Finally, the Congressional Budget Office examined inequality while controlling for family size and found that inequality still increased markedly.<sup>46</sup> There was no evidence that higher rates of single parenthood caused higher levels of inequality.*

***Myth: “Technology is to blame.”***

*Not so. Some argue that technological advances, particularly computers, have increased the value of skilled workers, pushing up their wages relative to unskilled workers. Yet technology gains are not affecting wages any more than in the past.<sup>47</sup> To take just one bit of evidence, since 2000 college educated workers have not seen their wages improve relative to those with high school educations, unlike in earlier years.<sup>48</sup> Meanwhile, inequality has continued to rise.*

***Fact: Inequality has increased.***

*Inequality has risen sharply over the last 30 years and stands at historically high levels. The principal reason for this is the decline in the bargaining power of workers. Unions today represent a smaller share of the workforce, compared to earlier generations. Globalization — structured primarily to benefit large corporations — has placed U.S. workers in competition with low-paid workers in other parts of the world. Public policies that have underfunded worker supports and handed huge tax breaks to the rich have also exacerbated the problem.*

## THE GROWTH PERIOD ENDS: OREGON FALLS INTO RECESSION

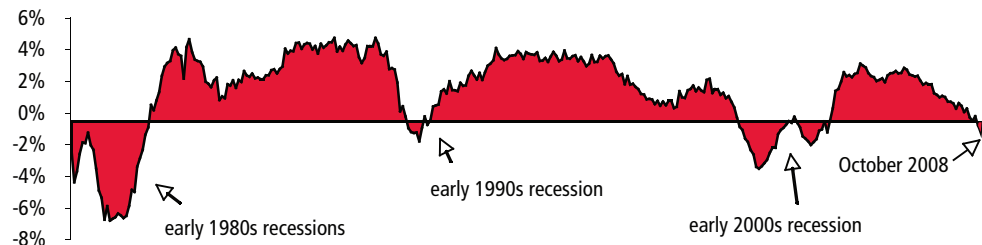
Following its February 2008 cycle peak, Oregon's economy began to decline and entered a recession.

### **Job and housing markets decline**

As of October 2008, there were fewer jobs in Oregon than in the same month a year earlier. The only times that has happened in the last 30 years has been during recessions. From February to October 2008, Oregon lost 31,000 jobs in seasonally adjusted terms.<sup>49</sup>

**From February to October 2008, Oregon lost 31,000 jobs in seasonally adjusted terms.**

### **Oregon has fewer jobs than it did a year ago. That hasn't happened except during past recessions**



Source: OCPP analysis of Oregon Employment Dept. data.

Some sectors within Oregon's economy remained vibrant well into 2008, offsetting job declines in other sectors. The health services and social assistance sector added 10,400 jobs from October 2007 to October 2008.<sup>50</sup> Exports through September 2008 were up nearly a third compared to the previous year, partly as a result of the relatively weak dollar and high agricultural prices.<sup>51</sup> The value of Oregon's agricultural exports through the third quarter of 2008 was up 65 percent over the previous year.<sup>52</sup>

A spike in gas prices and the national housing and financial crisis, however, have hurt the state economy in 2008. Construction shed 11,500 jobs over the 12 months prior to October 2008. Financial sector jobs were down 3,700 over the same period, and durable goods manufacturing jobs were down 15,300. The wood products industry and car dealers also cut substantial numbers of jobs.

Oregon's housing market was not hit as hard as that of some other states, but it still suffered. As of the second quarter of 2008, about one in eight subprime loans in the state was delinquent. Foreclosures were about triple what they were two years earlier.<sup>53</sup> During the summer of 2008 in Multnomah County, default filings were up more than 70 percent from the year before.<sup>54</sup>

Latino and African American home borrowers are probably more likely than whites to be facing default or foreclosure. In 2006, middle-income Latino and African American borrowers in Oregon were about twice as likely as white borrowers to get a subprime loan.<sup>55</sup>

As a result of the weakened job market, more Oregonians are struggling to find work. The unemployment rate was up to 7.3 percent as of October 2008.<sup>56</sup> Initial

claims for unemployment insurance were up 48 percent as of the third quarter, compared to a year earlier.<sup>57</sup> State economists predict continued job losses until the fourth quarter of 2009 and only mild growth in 2010.<sup>58</sup>

The number of jobs in Oregon for every 100 working-age Oregonians is quickly reaching recessionary depths. Based on official state projections, there will be 70.8 non-farm payroll jobs per 100 working-age Oregonians in 2009, a level similar to the bottom reached during the recession earlier this decade, when the figure dipped to 70.2 jobs.<sup>59</sup>

### ***Wages come under pressure***

The slackening job market likely will reduce Oregon workers' bargaining power, making wage gains more difficult to achieve. For 2008, state economists predict that the average wage in Oregon will lose ground to inflation and that in 2009 the average wage will merely match inflation, leaving the average worker treading water.<sup>60</sup>

Weak wage gains in Oregon would follow the national trend. In the whole U.S., total worker compensation was down 1.8 percent, after adjusting for inflation, in June 2008 compared to a year earlier. According to the Economic Policy Institute, that's the largest decline on record, based on data going back to the early 1980s.<sup>61</sup>

Wages and benefits did not keep up with inflation, in part because prices for food and energy rose sharply in 2007 and much of 2008. In October 2008, compared to two years earlier, the cost of milk was up 16 percent, bread was up 24 percent, and eggs were up 46 percent. Home energy costs were also up 11 percent in October 2008 compared to a year earlier.<sup>62</sup> Gas prices were plummeting though, as of late 2008. Regular unleaded gas prices spiked during the summer, reaching \$4.29 a gallon in early July 2008, then fell sharply in the fall and stood at \$2.09 a gallon as of late November.<sup>63</sup>

## **CONCLUSION**

This decade's strong economic growth failed to benefit most Oregonians. Instead, the gains of economic growth flowed only to well-paid workers and even more so to the wealthiest and most economically secure.

As a recession grips Oregon in the winter of 2008-09, the economic reality facing working Oregonians will only get more difficult.

But as the lessons of history show, we have it within our means to restructure the rules of the game and our public structures so that benefits spread broadly during the next period of economic growth. The economy is just us working together and deciding who benefits. We can build an economy of shared prosperity.



# STRATEGY 1: STRENGTHEN THE PUBLIC SECTOR'S ROLE IN PROMOTING SHARED PROSPERITY

Public structures play a vital role in our lives. They represent efforts by Oregonians to undertake tasks for the common good: public education, health care, care of abused and neglected children, public safety and transportation, for example.

Contrary to a widespread myth, investments in public structures are not a drain on the economy. The public sector is an important and integral part of the economy. Government does not operate in a vacuum.

A better economic future requires a vibrant public sector. Investing in the public sector and using its powers wisely to help working families get ahead will pay long-term dividends to our economy.

## INVEST IN THE PUBLIC SECTOR TO BENEFIT OREGONIANS TODAY AND IN THE FUTURE

A successful strategy for shared prosperity begins with a healthy public sector. The public sector is a vital, yet often overlooked, player in our economy. Right now, public sector investments can help boost an economy mired in recession. More importantly, strategic investments — in reducing child poverty and improving the state's infrastructure, for example — will build a solid foundation for future shared prosperity.

### ***The public sector is a key player in the economy***

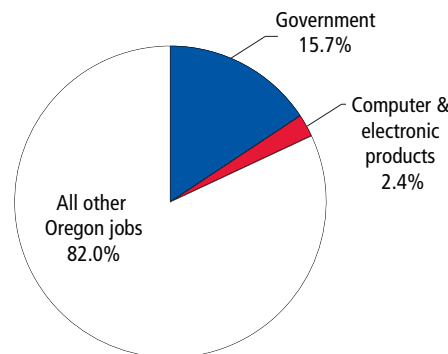
The public sector is a powerful and important component of the state economy.

Many thousands of Oregonians — teachers, police officers, engineers, economists and social workers, for example — are employed in the public sector. In 2007, government jobs in Oregon totaled 271,000, or 15.7 percent of all non-farm payroll jobs in the state. That's more than six times as many jobs as those in the state's computer and electronic products manufacturing industry.

## Strategy 1: Strengthen the Public Sector's Role in Promoting Shared Prosperity

Many thousands of Oregonians – teachers, police officers, engineers, economists and social workers, for example – are employed in the public sector.

**Government jobs represent 15.7 percent of all non-farm payroll jobs in Oregon, more than six times as many jobs as the electronic products industry**



Source: OCPP analysis of Oregon Employment Dept. data for 2007.

Public sector jobs pay relatively well. In 2007, the average government job in Oregon paid about \$41,600. That's less than the average manufacturing job (\$51,700) but nearly three times the average pay in Oregon's fastest growing industry — restaurants (\$14,600).<sup>1</sup>

Besides those employed directly by the public sector, thousands of other Oregonians owe their jobs to the public sector. A few examples are workers in construction firms and office supply companies dependent on business with government agencies, nurses in health clinics reliant on Medicaid dollars and waiters in restaurants near public universities.

Take spending by the Oregon Department of Human Services (DHS), for instance. In the current, 2007-09 budget cycle, DHS will deliver \$9.6 billion in public benefits and services to individual Oregonians and through local service providers.<sup>2</sup> That's more than the payroll of the entire construction industry in Oregon in 2007 and 2008 combined.<sup>3</sup>

DHS spending filters through the economy. Oregon families relying on food stamps or temporary cash assistance directly benefit from DHS spending, as do the communities in which these families shop. So do workers in private companies and organizations (often non-profits) that contract with DHS to provide services such as mental health care or job training. DHS also pays Oregon hospitals, nursing homes and other health care providers for delivering Medicaid services, which in turn pay thousands of nurses, doctors and others in the health care industry.

State spending also boosts Oregon's economy by attracting matching federal dollars. Medicaid spending is the best example of this. The federal government spends roughly \$2 in Oregon each time the state spends \$1 on Medicaid. In the current, 2007-09 budget cycle, federal Medicaid funds flowing into Oregon will total more than \$2.5 billion.<sup>4</sup>

### ***Maintaining public spending is vital during a recession***

When the economy is in recession, as it is now, the public sector plays a critical role. Protecting public spending during a downturn, even if it requires a tax increase targeted at those who can afford it, can help keep the economy moving at a time when spending in the private sector is down.

In the current recession, Oregon will confront a revenue shortfall, meaning it will not have the dollars it needs to support the services it plans to provide. When unemployment rises and business activity slows, income tax receipts fall. Based on data from the Budget and Management Division and the December 2008 revenue forecast, Oregon will be short \$1.2 billion in meeting the essential budget level in the 2009-11 biennium.

The initial response to a significant revenue shortfall should be to tap the reserve funds set up for such an emergency, though that may prove insufficient. Unlike at the start of the 2001 recession, Oregon currently has two reserve funds in place — the Oregon Rainy Day Fund and the Education Stability Fund — thanks to prudent legislative action. Unfortunately, as examined in detail later in this report, these reserve funds are not big enough at present to weather a significant economic downturn.

Because Oregon cannot run a deficit, a revenue shortfall that cannot be covered by reserve funds requires either cuts in vital services or measures to raise revenue. Of these two choices, the better option is to raise revenue — in a targeted way.

Cuts in public spending during a recession risk harming individuals and the overall state economy more than a targeted tax increase would. That is because the public sector spends nearly all of its money within the state. And state spending often brings matching federal dollars into the state economy. Because public spending ends up in the hands of people and businesses in Oregon, local economies are hit by public spending cuts.

By contrast, a tax increase targeted to well-off Oregonians is less likely to dampen in-state spending. Well-off Oregonians are likely to save, not spend, some of their money. And since they purchase some goods and services provided by out-of-state businesses, some of their spending helps economies outside Oregon. A tax targeted to well-off Oregonians would more likely take money out of their savings rather than out of their spending. To the extent that a tax increase reduces their spending, though, some of the impact would be exported to other states.

A tax increase targeted at profitable corporations, particularly those located out of state, would also serve the state better during the recession than cuts to essential state services. More than two-thirds of Oregon's corporate income tax is paid by profitable out-of-state firms.<sup>5</sup> As such, much of the impact of a corporate income tax increase would fall outside of Oregon.

Maintaining public spending on vital services during a recession keeps families stable and in a position to move forward when the economy recovers. Slashing services in programs such as mental health and child protective services, for example, may result in irreparable harm to some Oregonians. Such individual harm translates into long-term economic costs for the state.

In short, the economic benefits of sustaining public spending during a recession outweigh the potential economic harm to the state from a well-targeted tax increase.

**✓ *If dipping into the state's two reserve funds and some internal belt-tightening do not resolve the revenue crisis brought on by the recession, Oregon should turn to a tax increase targeted to profitable corporations and wealthy individuals who can afford it most easily.***

### **Top economists believe state spending cuts do more damage**

*In a paper issued during the 2001 recession, two of the nation's leading economists rejected the assumption that public spending cuts are better for the economy than tax increases during a recession. Nobel Prize-winning economist Joseph Stiglitz and Peter Orszag, who has served as director of the Congressional Budget Office and as an economic advisor to the White House, wrote:*

*"Basic economy theory suggests that direct spending reductions will generate more adverse consequences for the economy in the short run than . . . a tax increase. The reason is that some of any tax increase . . . reduce[s] saving rather than consumption, lessening its impact on the economy in the short run, whereas the full amount of government spending on goods and services would directly reduce consumption. . . .*

*"The more that the tax increases or transfer reductions are focused on those with lower propensities to consume (that is, on those who spend less and save more of each additional dollar of income), the less damage is done to the weakened economy. Since higher-income families tend to have lower propensities to consume than lower-income families, the least damaging approach in the short run involves tax increases concentrated on higher-income families.*

*"[State] government spending that would be reduced if direct spending programs are cut is often concentrated among local businesses.... By contrast, the spending by individuals and businesses that would be affected by tax increases often is less concentrated among local producers — since part of the decline in purchases that would occur if taxes were raised would be a decline in the purchase of goods produced out of state."<sup>6</sup>*

### **The public sector can help tighten a slack labor market**

If the last period of economic growth was any indication, jobs generated by public investment may be needed even after the economy recovers.

Earlier this decade, when the economy was still growing, the private sector of the economy was not generating enough jobs. That reduced the chances that workers would see their compensation improve, despite the economic growth.

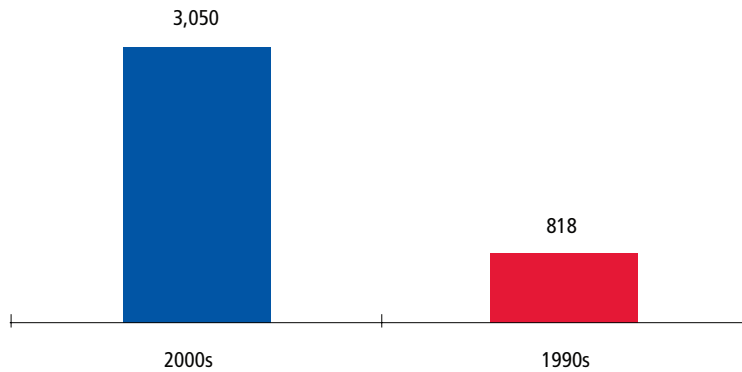
When the number of people wanting jobs exceeds the number of jobs available, bargaining power tilts in favor of employers. In such "slack" labor markets, employers face little pressure to raise wages or improve benefit packages to attract workers, because workers aren't in a position to be picky.

By contrast, in "tight" labor markets, employers need jobs filled, but there are relatively few workers available. Tight markets favor workers, since employers are more likely to improve their wage and benefit offers to attract the workers they need.



Oregon’s labor market was relatively slack during the most recent period of economic growth. From November 2000 to February 2008, Oregon added 71,200 jobs, or an average of 818 jobs per month. That’s less than one-third the rate of job growth during the 1990s economic cycle, when Oregon averaged 3,050 new jobs each month.<sup>7</sup> Underscoring the job market’s weak performance this decade is the fact that it took more than four years to restore the jobs lost during the 2001 recession — more than twice as long as it took to restore the jobs lost during the recession of the early 1990s.<sup>8</sup>

**During the economic cycle this decade, Oregon averaged less than one-third the monthly job growth of the 1990s economic cycle**



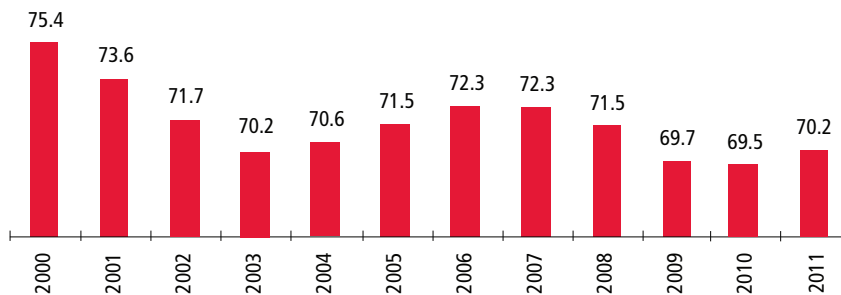
Source: OCPP analysis of Oregon Employment Dept. data. The 1990s economic cycle ran from Aug. 1990 to Nov. 2000. The cycle this decade ran from Nov. 2000 to Feb. 2008.

**From November 2000 to February 2008, Oregon added 71,200 jobs, or an average of 818 jobs per month. That’s less than one-third the rate of job growth during the 1990s economic cycle.**

As weak as recent job growth was in Oregon, national job growth was even weaker. Nationally, the number of jobs increased just 0.6 percent each year on average between 2000 and 2007, compared to 1.0 percent each year in Oregon.<sup>9</sup>

Not only were we not adding enough jobs in Oregon, but job growth failed to keep up with growth in the number of working-age individuals. In 2007, at the peak of the economic cycle, there were still three fewer jobs available per 100 working-age Oregonians than in 2000, at the peak of the 1990s cycle.

**The number of jobs per 100 working-age Oregonians continues to lag behind 2000 levels**



Note: Working age is ages 18-64. Jobs are non-farm payroll jobs. Source: OCPP analysis of September 2008 Oregon Economic and Revenue Forecast and Oregon Employment Dept. data.

**In 2007, at the peak of the economic cycle, there were still three fewer jobs available per 100 working-age Oregonians than in 2000, at the peak of the 1990s cycle.**

## Strategy 1: Strengthen the Public Sector's Role in Promoting Shared Prosperity

The slack labor market during this decade's economic cycle is a primary reason why most workers fared poorly. The weak labor market reduced their bargaining power, since employers had little need to bid up their compensation packages to attract workers.

If the labor market is again relatively slack when our economy starts growing again, public investments can help by tightening the labor market. The tighter market would set the stage for workers to enjoy the benefits of economic growth.

✓ *Oregon should use public sector spending to help tighten the job market.*

### ***The public sector lays the foundation for the future***

Smart public sector investments can lay a foundation for long-term economic growth. Strategic public investments in people and in infrastructure will pay off in the future with a more productive, higher-income workforce and a more attractive business environment.

Two compelling public investment strategies are child poverty reduction and state infrastructure upgrades. Wise investments in these areas will pay off in the long term and justify the near-term cost.

### ***Reduce child poverty***

Like overall poverty in Oregon, child poverty did not improve during the last period of economic growth. In 2007, about one in six children in Oregon (16.3 percent) lived in poverty.<sup>10</sup> That figure is not meaningfully different from what it was in 2000, at the beginning of the last economic cycle.

Oregon's failure to reduce child poverty is not just a moral outrage but also a long-term economic cost. Children who grow up poor tend to be less productive workers as adults than they would be otherwise. They are also more likely to have health problems as adults and to commit crimes.<sup>11</sup> In sum, child poverty is costly. It is estimated to cost the U.S. about \$500 billion a year, according to one study.<sup>12</sup>

Reducing child poverty means increasing incomes and job opportunities for parents. This requires a comprehensive approach that includes, but is not limited to, the strategies suggested throughout this report.

Oregon's "benchmarks" set a modest goal of reducing overall poverty to 10 percent by 2010, but there is no benchmark goal specific to child poverty.<sup>13</sup> To focus and expand Oregon's efforts to reduce child poverty and to galvanize public support, Oregon should establish an aggressive child poverty reduction goal. For example, Oregon could establish a goal to cut child poverty in half by 2020, with interim targets for 2012 and 2016.

In developing such a goal and figuring out how to meet it, Oregon can learn from other states and countries that have already set goals and made progress in meeting them. Connecticut, Vermont, and Delaware have task forces charged with designing strategies to cut child poverty in half, and Minnesota is developing a plan to eliminate poverty by 2020.<sup>14</sup> In 1999, the United Kingdom announced a goal to eliminate child poverty by 2020.<sup>15</sup> The United Kingdom missed its 2005 interim goal but still managed to cut child poverty by about 17 percent, lifting about 700,000 children out of poverty.<sup>16</sup>

Successfully reducing poverty will save money in the long run. Our state will not fulfill its economic potential if we continue to leave one in six of our children living in poverty.

- ✓ ***Oregon should set an ambitious child poverty reduction goal, provide the resources necessary to achieve it and institute a process for holding state agencies accountable.***

### **Improve the state's infrastructure**

Investing in the state's public infrastructure by constructing healthy school environments, stable bridges and efficient, "green" transportation systems will support the economy of tomorrow.

Over the last generation, U.S. investment in physical infrastructure has withered. As a share of gross domestic product, annual U.S. state and local public infrastructure and equipment investment is running about half where it stood in the 1960s. Federal government investments have fallen off even more dramatically.<sup>17</sup> The American Society of Civil Engineers estimates it would cost \$1.6 trillion over a five-year period to bring the nation's infrastructure into good condition.<sup>18</sup>

Like the rest of the nation, Oregon has underinvested in its public infrastructure, at the risk of undermining the potential of the state's future economy. There are many examples of underinvestment in Oregon. The following are some highlights:

- Oregon faces an annual shortfall of \$1.2 to \$1.4 billion for all forms of public transportation (air, highway, marine, public transit, rail).<sup>19</sup>
- Portland is spending only a third to a half of what it should to adequately maintain its school buildings.<sup>20</sup>
- Needed wastewater pollution control requires a total investment of \$2.9 billion.<sup>21</sup>
- At the current anemic funding level, it will take Oregon about 44 years to weatherize all the low-income housing units currently eligible for such assistance.<sup>22</sup>

- ✓ ***Oregon should make the infrastructure investments that will undergird a strong future economy.***

## **USE PUBLIC FINANCING TO INCREASE WORKERS' BARGAINING POWER**

Wielding the power of the public purse, governments can require companies with which they conduct business to provide good wages and benefits and to respect union organizing efforts. Wise use of the public purse in this way can help assure that when the economy grows, its benefits are broadly shared.

This public sector tool is particularly valuable in times when the labor market is slack, as was the case during the last economic cycle and may continue in the years ahead. By requiring firms doing business with government agencies to offer adequate wages and benefits and to respect union organizing, governments can

## Strategy 1: Strengthen the Public Sector's Role in Promoting Shared Prosperity

use public spending to directly increase the bargaining power of workers. And when the bargaining power of these workers increases, the wage and benefit gains they enjoy spill over into the broader workforce.

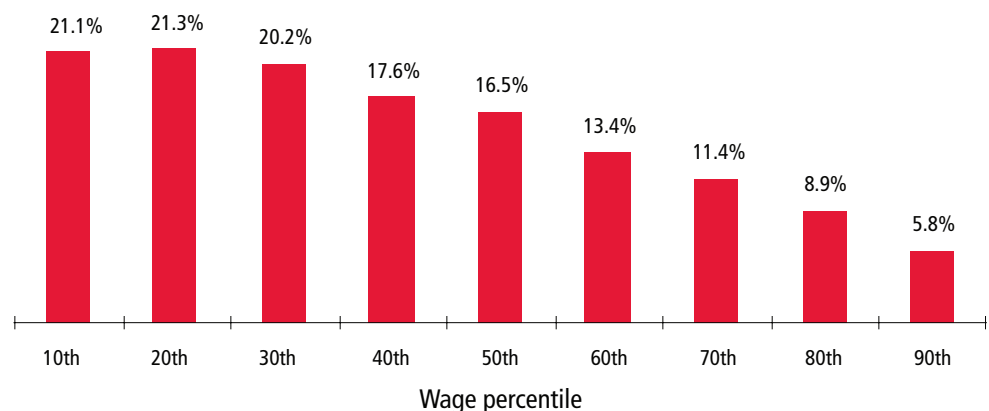
### **Unions raise wages for workers**

Historically, organized labor has led efforts to create an economy that works for everyone. Union activity has resulted in worker protections such as child labor laws, safer working conditions, overtime benefits, restroom and meal breaks, paid leave and the 40-hour work week. Following World War II, a vibrant U.S. labor movement helped support the development of a broad middle class by setting standards for wages and benefits.

Union wages consistently surpass non-union pay, especially at the bottom of the income scale. In Oregon, union membership boosted the wages of the lowest-paid workers by 21.1 percent in the 2003 to 2007 period. For a minimum wage earner, that meant an additional \$1.67 per hour, or roughly \$3,500 per year. The benefits of unionization extended to workers across the wage spectrum. Oregon workers at the median, or 50th percentile, got a 16.5 percent wage boost by joining a union. And even the highest earners saw a wage gain of 5.8 percent.<sup>23</sup>

**In Oregon, union membership boosted the wages of the lowest-paid workers by 21.1 percent in the 2003 to 2007 period.**

### **Union membership boosts Oregon workers' earnings across the wage spectrum**



Note: Figures show union hourly wage premium for union workers (age 16-64) in 2003-07.  
Source: John Schmitt, *The Union Advantage for Low-Wage Workers*, Center for Economic and Policy Research, May 2008.

The union advantage extends not just to wages but also to benefits. In 2008, private sector union members were almost three times more likely than non-unionized workers to have employer-paid health insurance. Union members' health benefit packages were more likely to include vision care, prescription drug coverage and dental coverage. Union members were four times more likely to have traditional, defined benefit pension coverage than non-unionized private industry workers in the United States. Unionized workers were also more likely than non-unionized workers to have paid holiday, sick, vacation and other forms of paid leave.<sup>24</sup>

Non-union workers indirectly benefit from unions' gains. In industries with a strong union presence, even non-unionized workers receive higher wages than similar workers in less unionized industries. Workers' compensation and unemployment insurance programs tend to be stronger and more inclusive in states with a strong union presence, and unions help maintain standards for safety and rights for all workers on the job.<sup>25</sup>

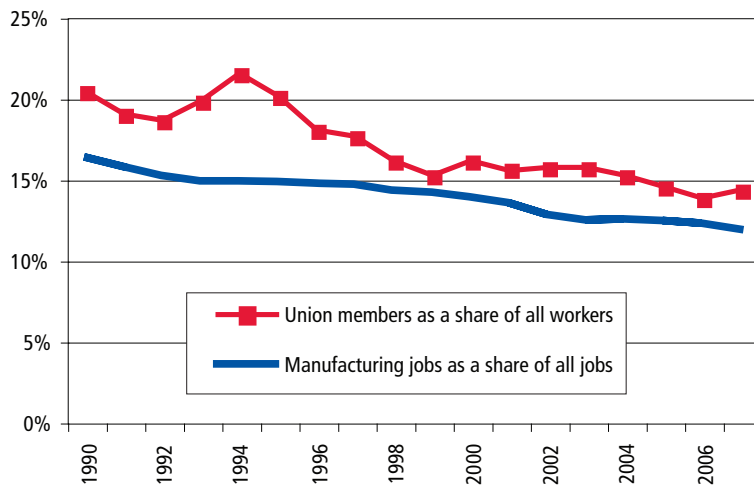
The benefits of unionization spill over into the larger economy. Unionization mitigates wage inequality. It has the biggest effect among low- and middle-wage workers, among blue-collar workers and among workers without college degrees. Unionization also benefits businesses through increased productivity and lower worker turnover.<sup>26</sup>

Not surprisingly, most Americans favor unions. In August 2008, according to Gallup polling, 59 percent of Americans approved of labor unions. A majority have approved of labor unions since Gallup began asking the question in the 1930s.<sup>27</sup> More than three-quarters of Americans (77 percent) favor laws that give workers the right to choose to form a union without employer harassment.<sup>28</sup>

### **Union membership has declined**

Union membership, unfortunately, has dwindled since 1979, when the number of union members in the United States was at its highest.<sup>29</sup> While holding up better than in the nation as a whole, union membership has also declined in Oregon over the last three decades. Union members made up 14.3 percent of Oregon's workforce in 2007, up from 13.8 percent in 2006 but well below the level in 1983 at 22.3 percent.<sup>30</sup> Data on manufacturing jobs back to 1990 show that the decline in union membership parallels decreases in Oregon's manufacturing base.

### **Union membership in Oregon compared to manufacturing employment**



Source: OCPP analysis of Oregon Employment Department data and analysis of Current Population Survey data by Barry T. Hirsch and David A. Macpherson, [www.unionstats.com](http://www.unionstats.com), © 2008 by Barry T. Hirsch and David A. Macpherson.

The slide in membership has not gone unnoticed by unions themselves. Oregon's unions have been tenacious in the face of a continued erosion of manufacturing jobs since 2000.<sup>31</sup> Reaching out to new industries, Oregon unions have held some ground, in part by organizing workers in retail trade, home health care and social services.<sup>32</sup> Among their legislative successes in 2007 was the establishment of collective bargaining rights for child care and adult foster care providers.<sup>33</sup>

**The decline in union membership parallels decreases in Oregon's manufacturing base.**

### **Unions have seen some recent success in Oregon**

*Portland Hilton Hotel workers fought for 11 months to negotiate an acceptable contract with management. They succeeded in May 2008, when "the company agreed to nearly every major proposal by the union."<sup>34</sup> The contract calls for a slightly reduced workload, retroactive pay, a 15 percent increase in workers' share of gratuities, bus pass subsidies and a successor provision ensuring that the union will remain in place even if the hotel is sold.<sup>35</sup>*

*After unanimously voting to join the International Longshore and Warehouse Union in March 2005, workers at McCall Oil and Chemical met extensive opposition from management during contract negotiations. The National Labor Relations Board (NLRB) found that McCall had "failed and refused" to discuss key issues of the contract.<sup>36</sup> After workers went on strike in December 2005, management agreed to return to contract negotiations. In January 2006, workers unanimously ratified their first contract, which included a 16 percent wage boost over a two-year period.<sup>37</sup>*

*After negotiating for six months, workers at the Rosemont Treatment Center and School in Southeast Portland signed their first contract in June 2008. The contract provided for better staffing, an average wage increase of 3.63 percent, access to personnel files, sick leave and bereavement pay.<sup>38</sup>*

*In August 2007, workers at Newport Fire and Rescue were the first to successfully use the card check law enacted by the Oregon Legislature the previous June. Eight firefighters opted to unionize and are now affiliated with the International Association of Fire Fighters and the Oregon State Fire Fighters Council.<sup>39</sup>*

### **Unions face unfair obstacles to organizing**

The decline in union membership is partially due to the economy's shift away from manufacturing and, until recently, to a shift within unions away from organizing. It also is the result of obstacles that employers have placed in the path of union organizers.

Employers' anti-union tactics are common and well documented.<sup>40</sup> When workers try to organize, employers can and routinely do require attendance at closed-door, anti-union meetings. Employers often hire consultants to run anti-union campaigns. They may threaten to shut down the plant or business, though few follow through on such threats. They may spy on, bribe or fire workers — illegal acts, but ones that carry minor penalties. And they may refuse to negotiate a contract once workers successfully organize.

In the process of voting on unionization, the rules are stacked against the union. Supervisors can use the entire facility, and as much time as they wish, to intimidate employees into voting against a union. Union organizers, meanwhile, are limited to giving out information or talking about the union only at break times and only in designated areas. When the vote does occur, it is in the place of employment, under the watchful eyes of ownership and management.

Even a majority yes vote is not always the end of the story. Certification of the union can be delayed for years if a business challenges the outcome, during which time the facility operates as if no vote ever took place.<sup>41</sup>

When employers are found to have violated the National Labor Relations Act, the sanctions are often trivial. In the face of a union drive, employers who illegally threaten to close their business or who lay off, spy on or harass workers are typically required to post a notice on a bulletin board saying that they will not violate the law again. That's it. The standard penalty for violating workers' right to organize has no bite.<sup>42</sup>

### **The Employee Free Choice Act is key**

*One of the most important policy solutions to restore balance in the workplace rests with Congress. In 2009, Congress will have the opportunity to enact the Employee Free Choice Act, which would require certification of a union when the majority of employees in a workplace sign cards expressing their desire to join the union.<sup>43</sup>*

*The Employee Free Choice Act would be a boon for Oregon workers in the private sector. Oregon and several other states have already enacted majority "card check" legislation, but those laws apply only to public sector unions.<sup>44</sup> The Employee Free Choice Act would extend the same right to workers in the private sector. It would also provide for mediation and arbitration if disputes arise during negotiation of the initial union contract and strengthen penalties for violation of employee rights.<sup>45</sup>*

### **Enact a neutrality law**

Labor relations are primarily, but not entirely, a matter of federal law. While state and local governments are restricted in what they can do to support workers' right to organize, there are important steps they can take. In addition to their power to regulate public unions, they can use the power of the public purse to help promote neutrality in private labor-management interactions.

State neutrality laws prohibit employers from using state money received through grants, loans, contracts or reimbursements to promote or deter unionization.

California and New York are two states that have enacted neutrality laws. These states prohibit the use of state funds for activities such as hiring consultants or supervisors to influence employees about union organizing or membership.<sup>46</sup>

In Oregon, neutrality legislation has been introduced but not enacted in recent legislative sessions.<sup>47</sup>

✓ ***Oregon should adopt neutrality legislation to help restore workers' bargaining power with private sector employers reliant upon public dollars.***

**Require living wages**

Living wage laws require private businesses that receive public contracts or other public funding to offer their workers wages and benefits sufficient to keep them out of poverty.

Living wage laws typically apply to service contracts. State and local governments contract with private businesses for various types of services, employing custodial workers, security guards, child care and home healthcare workers and others. Service sector jobs are frequently low wage with few benefits, and the service sector has relatively low levels of unionization.

To date, most living wage laws have been passed by city or county governments.<sup>48</sup> In Oregon, Ashland, Corvallis, Portland and Multnomah County all have living wage ordinances.<sup>49</sup> Maryland became the first state to pass a living wage law, in 2007.<sup>50</sup>

**In Oregon, Ashland, Corvallis, Portland and Multnomah County all have living wage ordinances.**

**Oregon Living Wage Laws**

	<b>Year enacted</b>	<b>Coverage</b>	<b>2008 hourly wage standard (including benefits)</b>	<b>Adjusted for inflation?</b>
Portland	1996	Contracts for janitorial, security and parking attendant services	\$11.26	Annually
Multnomah County	1998	Custodial and security service contracts	\$11.33	Every six months
Corvallis	1999	Service contractors, for city contracts over \$10,000 per year	\$11.18	Annually
Ashland	2001	Contractors and subcontractors on city service contracts	\$12.96	Annually

Source: City of Ashland, "2008 Living Wage Notice," July 1, 2008, [www.ashland.or.us](http://www.ashland.or.us); City of Corvallis, Finance Department, "Living Wage Information," updated June 30, 2008, [www.ci.corvallis.or.us](http://www.ci.corvallis.or.us); Online Charter and Code of the City of Portland, Oregon, chapter 3.99, Fair Wage Policies; Tom Feely, City of Portland, Office of Management and Finance, memorandum re: fiscal year 2008-09 Fair Wage adjustment, February 29, 2008; Multnomah County, Resolution no. 98-165; Barry Zimmerman, Multnomah County Central Procurement and Contract Administration, telephone conference with Joy Margheim, OCPP, November 3, 2008.

Living wage standards vary among jurisdictions. Some set the wage at the level a full-time worker would need to support a family above the poverty line (\$10.19 per hour for a family of four in 2008). Others base it on the national eligibility level for food stamps, which is 130 percent of the federal poverty level, or \$13.25 per hour for a family of four in 2008.<sup>51</sup> Areas with a high cost of living may use regional costs of living or self-sufficiency standards, which estimate the cost of maintaining a basic standard of living in that area.<sup>52</sup> The Maryland law sets different rates for urban and rural portions of the state.

Required annual adjustment of the wage rate for inflation and provisions for benefits are important if the standard is to remain a true living wage.

Some living wage laws also apply to businesses that receive public subsidies — grants, loans, tax breaks or other financial benefits — for economic development purposes.<sup>53</sup> While Oregon attaches job creation or quality standards to some subsidies, the state does not systematically disclose jobs information to the public. As a result, it is difficult to determine whether subsidies are producing living wage



jobs. A study of economic development tax subsidies in Minnesota, however, found that 72 percent of subsidized jobs paid below the average for their industry.<sup>54</sup>

Oregon should enact a living wage law that applies to both state service contracts and economic development subsidies.

### **Enact “labor peace” ordinances**

Local “labor peace” ordinances specify that, in return for public financial assistance, employers must sign a labor peace agreement with any union that requests it. Such ordinances are based on the principle that local governments have an interest in minimizing labor disruptions on projects in which public funds have been invested. They typically apply to development projects, such as hotels.<sup>55</sup>

In a typical labor peace agreement, employers promise to grant unions workplace access, provide employee contact information to union organizers and refrain from issuing anti-union messages. Some require employers to agree to card check recognition. Unions, in turn, agree to forego strikes or boycotts and to consent to arbitration of disputes during the term of the agreement.

San Francisco pioneered the use of labor peace ordinances. Other cities and counties around the nation have adopted similar provisions, either alone or as part of living wage policies.<sup>56</sup>

Local governments in Oregon should follow the examples of other cities and counties in the U.S. and adopt labor peace ordinances.

## **CONCLUSION**

Building an Oregon that works for working families requires strengthening our public sector. Sustaining public spending now, during the recession, will help the economy recover. Wise public investments to reduce child poverty and improve our public infrastructure will be cost-effective in the long-term. Effective use of the public purse can help build an economy of shared prosperity.



## STRATEGY 2: IMPROVE THE STRUCTURES THAT PROVIDE ECONOMIC SECURITY

Today's working families face greater economic risks than those of an earlier generation. Many families are a job loss or major illness away from bankruptcy. Economic insecurity has increased not only because working families have been excluded from the benefits of the prosperity they helped create but also because the public systems that ought to help them when the market fails are either degraded or outdated.

Oregon can help working families get ahead by ensuring that they don't fall too far down when hard times strike. To do this, Oregon must assure access to health care for all Oregonians, modernize the unemployment insurance system, implement family-friendly work supports and supplement the existing retirement system.

### ASSURE QUALITY HEALTH CARE FOR ALL OREGONIANS

The inadequacies of the U.S. health care system are plain to see. Its fragmented mix of public and private insurance coverage leaves more than 45 million uninsured.<sup>1</sup> The U.S. spends more per capita on health care than any other developed nation. Yet Americans do worse than other developed countries on major health indicators such as life expectancy, infant mortality and preventable deaths.<sup>2</sup>

Plus, more people are falling through the cracks today than just a few years ago. As described earlier, the share of working-age Oregonians who went without health insurance for a full year rose this decade to more than one out of five, from 15.6 percent to 22.4 percent.<sup>3</sup>

Reform is essential. To be successful, a new system must ensure that health care is universal, comprehensive and affordable.

#### ***The current system does not work for low-wage workers***

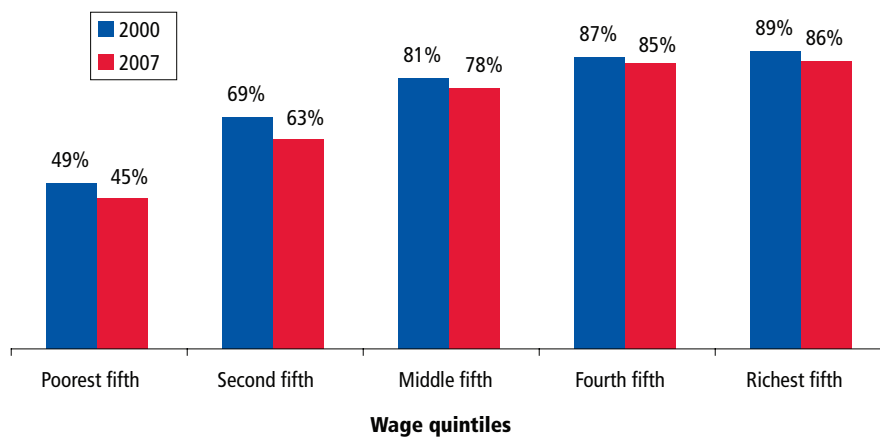
The U.S. system of health care relies heavily on employers providing health insurance to their workers. This system is not working for most low-wage workers.

Nationally in 2007, less than half (45 percent) of the lowest-wage fifth of workers received health coverage from their employer.<sup>4</sup> In other words, most low-wage workers are left to fend for themselves. Even if their employer offers health insurance, many low-wage workers are ineligible because they work part-time, they haven't met the waiting period requirement or their job classification makes them ineligible. Many others cannot afford the required employee contribution to premiums.<sup>5</sup>

## Strategy 2: Improve the Structures That Provide Economic Security

**The share of workers in the lowest-wage fifth receiving health insurance coverage declined from 49 percent to 45 percent between 2000 and 2007. Higher-wage workers lost less ground.**

### The share of lower-income U.S. workers getting health coverage from employers fell even further behind higher-income workers this decade



Source: Elise Gould, *The Erosion of Employer-Sponsored Health Insurance*, Economic Policy Institute, October 9, 2008.

While employer coverage is declining for workers at all wage levels, it's the most vulnerable workers who are falling further behind. The share of lower-wage workers receiving coverage from their employer fell more quickly this decade than it did for higher-wage workers. The share of workers in the lowest-wage fifth receiving coverage declined from 49 percent to 45 percent between 2000 and 2007, and workers in the second fifth saw similarly steep declines in percentage terms. Higher-wage workers lost less ground.<sup>6</sup>

Unfortunately, the public system designed to protect low-wage workers without employer coverage lacks the breadth to accomplish its purpose.

The Oregon Health Plan (OHP) was originally designed to provide public health coverage to workers living in poverty. Oregon statutes state that it "is the policy of the State of Oregon to provide medical assistance to those individuals in need whose family income is below the federal poverty level" and that the "Legislative Assembly shall approve and fund health services to . . . [p]ersons 19 years of age or older with incomes no more than 100 percent of the federal poverty guidelines who do not have federal Medicare coverage."<sup>7</sup>

Unfortunately, the OHP began failing its statutory obligations early on in its history. An "employer mandate" provision was supposed to provide insurance to an estimated 165,000 Oregonians. It required employers to either "pay or play" — provide insurance to permanent workers or pay a tax into a statewide insurance fund for those employees who are uninsured. The 1995 legislature passed a law that scheduled automatic repeal of the mandate if it failed to receive necessary congressional authorization by January 2, 1996. Congressional action never occurred, so the mandate was repealed on that date.<sup>8</sup>

Plus, shortly after OHP's launch in February 1994, the legislature began scaling back eligibility.<sup>9</sup>

Then, as discussed earlier in this report, the state slashed the program during the economic downturn earlier this decade and never restored it to pre-recession levels.

As a result, the OHP has not achieved its original purpose of providing coverage to all poor, uninsured working adults. As of 2006, 42.5 percent of Oregon's working-age adults living in poverty lacked health insurance.<sup>10</sup>

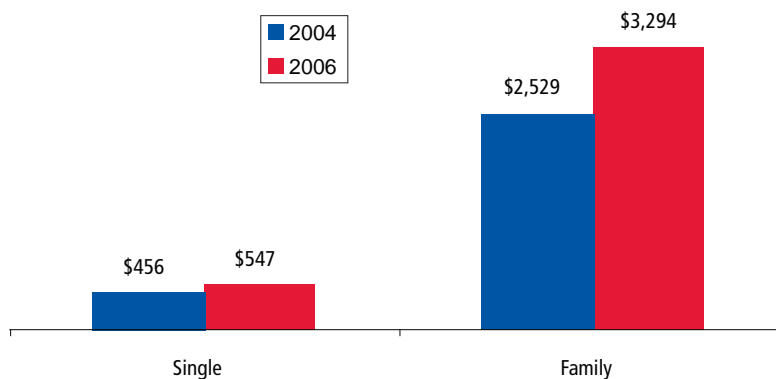
With employer-provided health coverage failing most low-wage workers and the Oregon Health Plan eviscerated, the current system in Oregon leaves too many working families without needed care and on the brink of financial and personal disaster.

### **Oregonians with coverage face rising costs**

While workers without health insurance are particularly vulnerable, even those with coverage face increasingly high costs that make it harder to get ahead and increase the risk of bankruptcy.

Employee contributions to premiums, deductibles, copayments or unreimbursed expenses can be a heavy burden. From 2004 to 2006, the average annual employee contribution to premiums for single coverage in Oregon grew 20 percent, from \$456 to \$547, after adjusting for general inflation. The average annual contribution for family coverage increased 30 percent, from \$2,529 to \$3,294.<sup>11</sup>

### **Workers' average annual contribution to health care premiums shot up from 2004 to 2006, even after adjusting for general inflation**



Note: Adjusted for inflation using 2006 dollars and US CPI-U.  
Source: OCPP analysis of Medical Expenditure Panel Survey (MEPS) data.

Even workers who are able to afford insurance are not necessarily protected from financial disaster if they get sick. Medical debt contributes to about half of bankruptcy filings in the U.S. Among those whose medical debt led to bankruptcy, about three in four were insured when the illness struck.<sup>12</sup>

### **Enact universal, comprehensive and affordable coverage**

Reforming health care is no easy feat. There are several competing, general approaches to fixing health care (single-payer and market-based systems, for example), not to mention the numerous permutations of each of those approaches.

But while the approaches vary, effective reform ultimately depends on being guided by sound principles:

**From 2004 to 2006, the average annual employee contribution to premiums for single coverage in Oregon grew 20 percent. For family coverage, it increased 30 percent.**

## Strategy 2: Improve the Structures That Provide Economic Security

- Universal coverage: Universality would guarantee that everyone has access to health care, regardless of their employment status or health condition. A worker would not have to worry about losing coverage or having to change providers if he or she changed employers or left the workforce. A patient diagnosed with a serious health condition such as cancer would not have to worry about being uninsurable in his or her next job.
- Comprehensive coverage: Comprehensive coverage would guarantee a uniform minimum standard of basic care.
- Affordable coverage: As a share of a family's budget, health care should not crowd out spending on other basic needs. Charges for coverage and care should be based on ability to pay, so that lower-income families pay less than higher-income families.

✓ **Oregon should adhere to these three principles in building a better health care system.**

### **The winds of health care reform blow in Oregon**

*Health care reform in Oregon is being shaped by the Oregon Health Fund Board, formed by 2007 legislation.<sup>13</sup> The Board's plan aims to achieve universal coverage by building on the existing system of public and employer-based health care in two stages.<sup>14</sup>*

*The first stage would ensure coverage for all children and low-income adults. Beginning in 2009, existing public programs would be expanded to offer fully subsidized coverage to an estimated 69,000 children (under age 19) and 121,000 adults, and an additional 20,000 children from moderate-income families would be eligible for premium assistance on a sliding scale. Expanding coverage to these 210,000 Oregonians would cover 32 percent of those currently uninsured.<sup>15</sup> The expansion would be paid for with federal dollars and state taxes on health care providers and insurers.<sup>16</sup>*

*The second stage, beginning in 2011, would require all Oregonians to have health insurance coverage. Employers would be required to provide health insurance benefits or pay an equivalent payroll tax. The state would subsidize premiums for low- and moderate-income families. It would also administer a health insurance exchange to offer affordable health insurance coverage for Oregonians without employer-based or public health insurance.*

*Funding for the second stage of the plan is less clear. The "pay or play" payroll tax on employers would produce revenue, and the board also suggests increasing tobacco or alcoholic beverage taxes for public health initiatives such as smoking cessation programs. This portion of the plan is also predicated on the success of efforts to lower costs through system improvement.*

## MODERNIZE OREGON'S UNEMPLOYMENT INSURANCE SYSTEM

Unemployment Insurance (UI) provides temporary, partial wage replacement benefits for laid-off workers. UI benefits help families avoid the worst aspects of unemployment and help local economies by sustaining demand for goods and services provided by local businesses. UI also benefits employers who must temporarily lay off workers by helping to assure that those workers will be available to return to work when employers need them again.

Since UI was first established in 1935, the workplace has changed considerably. In recent decades, more women have joined the labor force, more workers are holding part-time or temporary positions, fewer workers are represented by unions and welfare reform has increased the number of low-skilled workers in the job market.<sup>17</sup>

Because the unemployment insurance system has not kept up with changes in the workplace, many workers do not have coverage when they lose their job. It's time for Oregon to update its unemployment insurance system.

### **How the unemployment insurance system works**

*Unemployment insurance is a joint federal-state system funded through payroll taxes. The funds are held in unemployment insurance trusts.<sup>18</sup> Although employers technically pay the tax, economists generally believe that employers pass on the expense to workers in the form of lower wages.<sup>19</sup>*

*Oregon generally covers the cost of benefits through a payroll tax, while the federal government covers the cost of administration through a separate, smaller payroll tax.<sup>20</sup> For tax year 2008, Oregon unemployment insurance taxes applied to the first \$30,200 of earnings. Rates vary between 0.7 and 5.4 percent, based on an employer's "experience rate," which is derived from how often its employees make UI claims. The effective federal unemployment insurance tax is 0.8 percent of the first \$7,000 in annual earnings, also paid through a payroll tax.<sup>21</sup>*

*States set eligibility criteria under federal guidelines. In Oregon, an applicant must have worked at least 500 hours (about three months of full-time work) or earned more than \$1,000 in a 12-month "base period." The applicant must have lost the job through no fault of his or her own, continue to look for work and be willing to take a suitable new job if it is offered.*

*States also determine the amount of the benefits above federal minimum standards. Oregon bases benefits on earnings during the base period. Benefits range from \$113 to \$482 per week.<sup>22</sup> They are paid out for a maximum of 26 weeks (six months).<sup>23</sup> Oregon's average weekly benefit in fiscal year 2007 was almost \$280, and the average unemployed worker collected benefits for 14.3 weeks (about three and a half months).<sup>24</sup> Oregon taxes UI benefits.*

### **The system excludes many who ought to qualify**

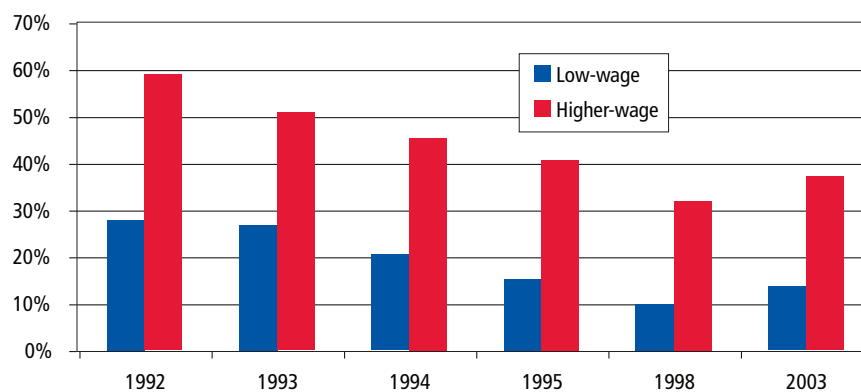
The unemployment insurance system excludes some unemployed workers who should receive benefits when they are laid off. The system was designed to cover workers with legitimate labor-market attachment who lose a job through no fault of their own. It was never intended to cover some unemployed workers, such as those looking for their first job or those who quit their job voluntarily. Others, such as some part-time workers or some who have held their job for a relatively short time, are wrongly left out.

Only about one in three unemployed workers (38 percent) nationally collected unemployment insurance in 2007, down from about half of unemployed workers in the 1950s.<sup>25</sup>

Low-wage workers are half as likely as higher-wage workers to get unemployment benefits. This occurs even though they are more than twice as likely to be unemployed.<sup>26</sup> Moreover, low-income families face longer spells of unemployment — 21 weeks on average in 2006 compared to 17 weeks among all workers.<sup>27</sup>

**Low-wage workers are half as likely to get unemployment benefits but twice as likely to be unemployed.**

### **Unemployed low-wage workers are about half as likely as higher-wage workers to receive unemployment benefits**



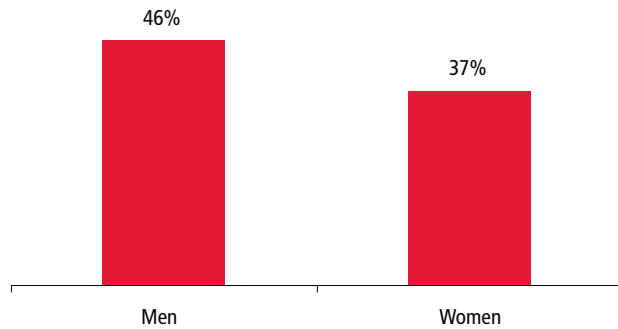
Source: U.S. GAO, Unemployment Insurance: Low-Wage and Part-Time Workers Continue to Experience Low Rates of Receipt, September 2007.

Unemployed part-time workers are also less likely to collect unemployment insurance than unemployed full-time workers. The U.S. Government Accountability Office estimates that, in the late 1990s and early 2000s, only 29 percent of part-time workers received UI benefits, compared to 50 percent of full-time workers.<sup>28</sup> Yet part-time workers make up a considerable portion of the workforce. In Oregon, one in four workers (26 percent) worked part-time in 2007, the seventh highest share among states.<sup>29</sup>

Women also are disproportionately affected. They are more likely to hold low-wage jobs and to work part-time or in temporary positions, in part because they more often balance work with caretaking responsibilities. In 2007, only 37 percent of unemployed women in Oregon received unemployment insurance benefits, compared to 46 percent of unemployed men.<sup>30</sup>



### Unemployed Oregon women were less likely than men to receive UI in 2007



Source: OCPP analysis of Oregon Employment Dept. and Bureau of Labor Statistics data.

**In 2007, only 37 percent of unemployed women in Oregon received unemployment insurance benefits, compared to 46 percent of unemployed men.**

Outdated program rules deprive these workers of unemployment insurance benefits. The rules disregard up to six months of recent earnings when figuring eligibility, so people who work intermittently or have recently returned to work after a period of unemployment or caretaking duties may have difficulty qualifying. Part-time workers can be disqualified from unemployment insurance if they do not seek full-time work, even if the job they lost was part-time and they are seeking similar part-time work.

### **Oregon has the means to fix the system**

Improvements in the unemployment insurance program are not only an investment in the well-being of Oregon workers but also a boon to the economy. Unemployment benefits typically are spent quickly on basic necessities, putting dollars back into communities where layoffs have occurred. Moreover, the money flows into economically depressed areas from economically strong areas. In 2006, three counties with high unemployment — Grant, Harney and Wheeler — received in unemployment benefits more than twice what they paid in.<sup>31</sup>

Oregon's unemployment insurance trust fund is one of the best-funded among all state trust funds, putting Oregon in a relatively strong position to modernize the system.<sup>32</sup> Furthermore, federal legislation that would provide funding for unemployment insurance modernization is likely to be considered in 2009. If enacted, it would provide a financial incentive for states to make improvements, facilitating Oregon's efforts to modernize its unemployment system.<sup>33</sup>

### **Adopt an Alternate Base Period**

The best way for Oregon to keep low-wage and part-time workers from falling through the cracks in the unemployment insurance system is to let them count more of their recent work experience to qualify for benefits. This requires implementing an Alternate Base Period (ABP) option for workers who fail to qualify under the standard criteria.

Unemployment insurance eligibility is based on total hours worked or earnings during a "base period." The standard base period is the first four of the most recently completed five calendar quarters (January-March, April-June, July-September and October-December). A worker who is laid off in late June 2008 would therefore have to exclude six months of his or her most recent work

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experience: the uncompleted “filing” quarter of April-June and the most recently completed (“lag”) quarter of January-March. Eligibility would be based on wage records for the four quarters of 2007.

Under ABP, workers who do not qualify under the standard base period could use an alternate base period to qualify for benefits. ABP would count work experience during the most recently completed, or lag, quarter (January-March in the example above). Some ABP systems also include the incomplete filing quarter (e.g., April-June).

**Under ABP, workers who do not qualify under the standard base period could use an alternate base period to qualify for benefits.**

### Explanation of the Alternate Base Period (ABP)

Year 1				Year 2	
Jan-Mar	Apr-Jun	Jul-Sept	Oct-Dec	Jan-Mar	Apr-Jun
Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 5	Quarter 6
Standard Base Period				Quarter not counted	File for benefits
Alternate Base Period - ABP 1					
Alternate Base Period - ABP 2					

Source: Andrew Stettner, Heather Boushey and Jeffrey Wenger, *Clearing the Path to Unemployment Insurance for Low-Wage Workers: An Analysis of Alternative Base Period Implementation*, National Employment Law Project and Center for Economic and Policy Research, August 2005, p. 8.

The current system, designed in the 1930s, allows time for states to gather and enter wage data from employers. Today, modern computer systems allow more rapid data entry and access. To date, 20 states and the District of Columbia have adopted ABP and report little difficulty in implementation.<sup>34</sup> Oregon’s Employment Department estimates that ABP implementation would extend benefits to 4,000 more Oregon workers each year.<sup>35</sup>

The adoption of ABP should be Oregon’s first priority in modernizing the system, because its enactment may enable Oregon to receive millions of dollars under pending federal legislation. The Unemployment Insurance Modernization Act would provide \$7 billion in incentive funds plus \$500 million in administrative funds to states that adopt certain improvements to unemployment insurance. With implementation of ABP, Oregon would qualify for its full share of funding — an estimated \$91 million.<sup>36</sup>

✓ **Oregon should enact an ABP, positioning itself to receive federal incentive funds and filling a crucial gap in the current UI system.**

### **Eliminate barriers for part-time workers**

The current system penalizes those who choose to work part time. Many part-time workers demonstrate as much legitimate labor-market attachment as full-time workers. Yet, to qualify for unemployment insurance, an unemployed worker must be willing to accept full-time employment if it is offered, even if he or she has a steady history of part-time work and is seeking similar part-time work.

Although employers pay unemployment taxes for part-time workers, the system doesn't cover them. Both employers and workers lose out.

Allowing workers with a history of part-time work to receive unemployment insurance benefits even if they are only willing to accept part-time work would allow an additional 9,000 Oregon workers to claim unemployment benefits annually.<sup>37</sup>

- ✓ ***Oregon should join the 22 other states plus the District of Columbia that already have part-time eligibility laws.***<sup>38</sup>

### ***Eliminate the waiting week***

Currently, Oregon workers who qualify for unemployment insurance must wait one week before getting their first benefit check. The wait was originally adopted to allow agencies time for manual claim processing — a rationale rendered archaic by modern computer systems. Utility bills, rent and food costs do not wait. Asking workers to give up a week's worth of benefits is an unnecessary hardship.

- ✓ ***Thirteen states have already eliminated the waiting week requirement, and Oregon should follow suit.***<sup>39</sup>

### ***Adopt a dependent allowance***

Unemployment insurance is meant to help buoy families until a wage earner finds another job. Many families with children struggle to meet basic needs even in good times, so trying to get by on an unemployment insurance payment that is a portion of previous wages may well be impossible. A dependent allowance, typically between \$15 and \$25 per child per week, recognizes the difficulties of providing for children when a wage earner is unemployed.

- ✓ ***Oregon should follow 13 states and the District of Columbia in supplementing unemployment benefits for families with children.***<sup>40</sup>

### ***Help low-income workers who seek job training***

Some low-wage workers lack skills that would allow them to get a higher-paying or more stable job. While a period of unemployment could offer an opportunity to gain new skills in a training program, the unemployment insurance program requires that an unemployed worker take a job if it is offered, even if that would mean quitting in the midst of a training program.

- ✓ ***Oregon should allow low-wage workers to receive unemployment insurance benefits if they participate in approved job training activities.***<sup>41</sup>

## **ENACT FAMILY-FRIENDLY WORK SUPPORTS**

More American women are working today. While that is due in part to the rightful opening of work opportunities to women, financial necessity is also a cause. Because the typical man's wages have been falling over the last 30 years — in Oregon by more than \$3 an hour after adjusting for inflation — more women need to be employed today for families to stay afloat.<sup>42</sup>

Today, many workers must juggle work and family responsibilities. In 2006-07, both parents worked among 62 percent of married couples with children in the United

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States. Among single women with children, 73 percent were employed. For single fathers, the rate was 85 percent.<sup>43</sup>

The workplace in the U.S. and Oregon has not caught up with changing family dynamics. While some private companies provide paid leave for employees who get sick or need to care for a new child or a sick family member, companies are not required to do so, and no public program provides for workers who must take time off. As a result, an Oregon working mother who takes time off to care for her newborn usually does so without a paycheck. The same goes for many workers who take time off because of an illness or to care for a sick child or parent. By contrast, most other industrialized countries have enacted paid family and sick leave.

Oregon needs modern, family-friendly work laws. Two key steps in this direction are family leave insurance and paid sick days.

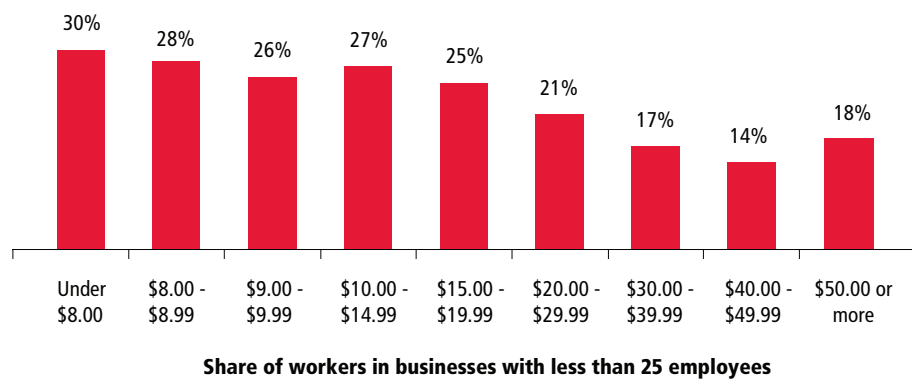
### **Enact family leave insurance**

Current law permits some, but not all, workers to take family leave with no pay. The federal Family and Medical Leave Act (FMLA) requires employers with 50 or more workers to provide up to 12 weeks of unpaid leave per year for workers who work a certain number of hours. Leave may be taken for the worker's own medical condition, to care for a newborn or an adopted or foster child or to care for a family member with a serious health condition.<sup>44</sup> The Oregon Family Leave Act (OFLA) extends unpaid leave to some employees and situations not covered under FMLA.<sup>45</sup>

Despite Oregon's more expansive law, it still leaves out many workers. Twenty-four percent of Oregon workers are not covered by OFLA because they work for businesses with less than 25 employees. Among the lowest-wage workers, 30 percent are ineligible for OFLA for this reason.

**Twenty-four percent of all Oregon workers are not covered by the Oregon Family Leave Act because they work for businesses with less than 25 employees. The share of workers not covered is highest among the lowest-wage workers.**

### **Thirty percent of the lowest-wage workers do not qualify for unpaid family leave under Oregon or federal law because they work for businesses with less than 25 employees**



Source: OCPP analysis of Oregon Employment Dept. data.

Even more workers are effectively ineligible because they cannot afford to take unpaid leave. Among workers who have not taken family leave when needed, most (77.6 percent) say it is because they cannot afford it.<sup>46</sup> Low-wage workers, of course, are least likely to be able to afford unpaid leave. They are also less likely to have paid sick or vacation time, which can be used in conjunction with FMLA or OFLA leave.

Some states have begun modernizing their work laws by enacting an insurance program that provides income support for workers who need family leave. Programs adopted by California, Washington and New Jersey offer a partial wage replacement for workers who take family and medical leave.<sup>47</sup> By providing continued partial income, family leave insurance allows more workers to exercise existing leave policies.

Family leave insurance helps workers and businesses. Similar to unemployment insurance, family leave insurance provides an affordable mechanism for replacing a portion of wages for workers taking leave. With family leave insurance workers no longer have to choose between addressing a pressing family problem and earning a paycheck. Businesses benefit from reduced turnover.<sup>48</sup>

Family leave insurance programs (proposed and existing) typically cover most workers and allow leave to be taken for a worker's or family member's serious illness or to care for a new child. They differ in the length of leave, amount of benefits and funding mechanisms.

Most programs collect funds through payroll deduction. Minnesota has proposed a shared responsibility model in which employers, workers and state government each contribute a third of the costs.<sup>49</sup> Because these insurance programs are broadly based, they represent a modest cost for workers. New Jersey workers will contribute approximately \$33 per year, or 64 cents a week beginning January 1, 2009.<sup>50</sup> California's maximum premium in 2005 was \$64, or \$1.25 per week.<sup>51</sup>

The Oregon legislature considered but failed to enact a family leave bill during the 2007 session. HB 2575 would have established family leave insurance, funded through a payroll deduction of one penny per hour per employee. The law would have covered workers subject to OFLA. Small businesses and the self-employed would have been able to opt in.<sup>52</sup>

✓ ***Oregon should enact family leave insurance legislation.***

### ***Enact paid sick leave***

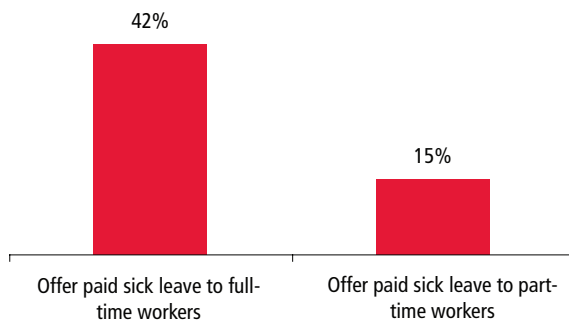
When an employee comes to work sick or a working parent sends a sick child to school, everyone suffers. Workers and families struggle, businesses lose productivity and contagious diseases spread. Ensuring that all workers have access to a few paid sick days each year is sound public policy that Oregon should adopt.

Not all Oregon workers have the benefit of paid sick leave. In 2005, only 42 percent of Oregon private sector employers offered full-time employees paid sick leave, and only 15 percent offered it to part-time employees. Workers at smaller firms were less likely to have access to paid sick leave, as were those in the natural resources and mining, construction and leisure and hospitality industries.<sup>53</sup>

## Strategy 2: Improve the Structures That Provide Economic Security

**In 2005, only 42 percent of Oregon private sector employers offered full-time employees paid sick leave, and only 15 percent offered it to part-time employees.**

### Less than half of Oregon's private sector employers offer paid sick leave to even their full-time workers



Source: Art Ayre, *Oregon Employee Benefits 2005*, Oregon Employment Department.

Paid sick leave can make a big difference for workers juggling work and family responsibilities. Paid sick leave can help workers and their families get health care more promptly, which improves their health overall, speeds up recovery and reduces health care spending. Workers don't have to worry about being fired or losing wages.<sup>54</sup> Most workers need little more than some schedule flexibility and a few days off each year to take care of themselves and their families.

Businesses also gain. A recent study estimated that employees showing up to work sick cost U.S. businesses \$150 billion a year in lost productivity — far more than the cost of letting employees stay home when sick.<sup>55</sup>

The public health benefits are also considerable. Paid sick leave makes it less likely that sick employees will go to work and infect others or that sick children will go to school or child care and make other children sick.<sup>56</sup> Sick employees also endanger customers. Cooks and wait staff who come to work with contagious illnesses pose a health threat to the public, and yet less than one in five businesses in Oregon's leisure and hospitality industry, which includes restaurants, offer paid sick days to their employees.<sup>57</sup>

The absence of laws guaranteeing paid sick leave places the U.S. on the fringe. Most countries require some number of paid sick days, and 99 offer a month or more.<sup>58</sup> In the U.S., only San Francisco and the District of Columbia have laws requiring paid sick leave.<sup>59</sup>

✓ ***Oregon should lead the nation and become the first state to enact paid sick leave rules.***

## HELP SHORE UP THE RETIREMENT SYSTEM FOR OREGONIANS

The U.S. retirement system is commonly characterized as a three-legged stool held up by Social Security, employer pensions and worker savings. Common misperceptions notwithstanding, Social Security is the solid leg. Pensions and individual savings, by contrast, are shaky.

Oregon can take an important step in ensuring the secure retirement of Oregonians by establishing a system of universal voluntary retirement accounts to supplement, not supplant, Social Security.

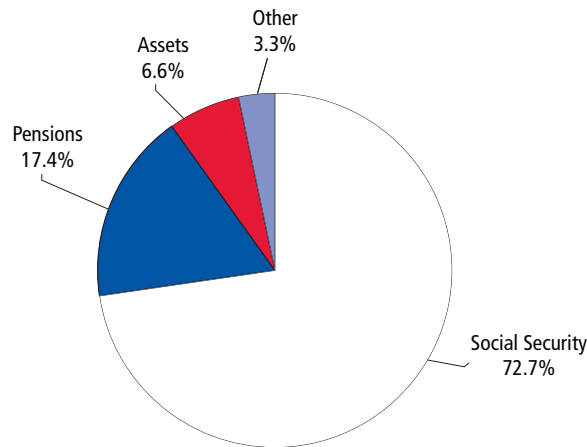
**Social Security is sound but insufficient for retirement needs**

Social Security offers almost all Americans guaranteed, inflation-proof retirement income. Workers cannot outlive their benefits. In 2005, the most recent year for which data are available, more than one in six Oregonians received Social Security benefits. A full 95 percent of Oregonians age 65 or older were Social Security beneficiaries that year.<sup>60</sup>

Social Security is structurally sound, although it faces potential funding shortfalls in coming decades. Under current law, the program is expected to generate a funding surplus through 2017, after which time it can draw on reserves through 2041. After that, revenues would cover about 75 percent of costs through 2082 if no changes in taxes or benefits were made.<sup>61</sup> Modest reforms in the program can ensure that Social Security benefits are available for many generations of retirees.

Social Security was never designed to offer more than basic insurance against poverty in old age. Experts generally agree that retirees need 75-80 percent of their pre-retirement income in order to maintain the standard of living they had while in the workforce. For the average worker to maintain his or her standard of living in retirement, 35 to 40 percent of pre-retirement income must come from employer-sponsored pensions or personal savings.<sup>62</sup>

**Social Security is the primary source of retirement income for middle-income retirees**



Note: Figures are for Americans age 65 and older in the middle income quintile, 2004, excluding earned income (wages). Source: Alicia H. Munnell and Annika Sunden, *401(k) Plans Are Still Coming up Short*, Center for Retirement Research, Boston College, March 2006. Current Population Survey data.

**Social Security provides 72.7 percent of retirement income for middle-income retirees.**

**Pensions and savings are wobbly**

Worker savings have never played a significant role in funding retirement for most Americans. Currently, personal retirement savings outside of pensions are negligible.

Meanwhile, pensions — retirement plans provided by employers — are providing less retirement security even for those workers who have one. Slightly less than half of private-sector workers in Oregon were covered by employer pension plans in 2005-07.<sup>63</sup>

While the share of workers covered by pensions has changed little over the past three decades, the form of pension coverage has shifted. Traditional-style pensions

## Strategy 2: Improve the Structures That Provide Economic Security

— those with a guaranteed benefit based on years of service and earnings — are disappearing. They are being replaced by tax-deductible contribution plans such as 401(k)s, in which benefits depend on how much individual workers save and how well their investments fare in the stock and bond markets.

The transformation in employer-sponsored plans has been dramatic. In 1980, 60 percent of workers with pension coverage had defined benefit plans while 17 percent had defined contribution plans.<sup>64</sup> (The remaining 23 percent had both types.) By 2004, only 11 percent of workers with pension coverage had defined benefit plans, while 61 percent were covered by defined contribution plans. The Oregon experience reflects the national pattern. In 2005, 10 percent of Oregon private-sector firms offered their full-time workers a defined benefit plan, while 31 percent offered a defined contribution plan.<sup>65</sup>

The trend in pensions raises concerns because defined contribution plans shift risk from employers to workers. Traditional pensions typically offer guaranteed, lifetime benefits and automatically enroll workers. In defined contribution plans, by contrast, workers typically decide whether to join the plan, how much to save and how to invest it. Because a defined contribution plan does not provide a guaranteed pension for life, a retiree can outlive his or her savings. Moreover, a worker who retires during a market slump can face substantially reduced savings. Plans also may allow individuals to cash out when they change jobs or to withdraw or borrow against savings for other financial needs, which depletes the savings before they ever reach retirement.

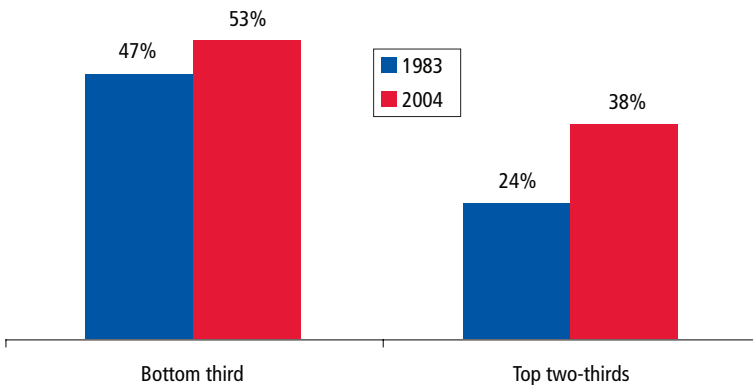
Concerns about defined contribution plans are heightened by signs that the plans do not provide adequate incentives for many workers to save. Nationally, about one in five workers eligible to participate in a 401(k) fails to do so, and only about one in nine of those who do participate contributes the maximum amount allowed. Those who participate often make investment mistakes. In 2004, about 45 percent of participants cashed out when they changed jobs.<sup>66</sup>

For low-wage workers, defined contribution plans are particularly risky. Low-wage workers are less likely to have access to a defined contribution plan at work or to participate when a plan is offered, they are less likely to have resources to help navigate complex savings decisions and their smaller account balances are hit harder by plan fees and costs. Almost two-thirds (63 percent) of the lowest-income workers were projected to have no defined contribution plan savings upon retirement and thus to have to rely solely on Social Security.<sup>67</sup>

Retirement increasingly means a drop in one's standard of living. Among U.S. households surveyed in 2004, 43 percent were estimated to be unable to maintain their standard of living in retirement. Among the lowest-income third, the figure was 53 percent of households. And the stakes are higher for lower-income households, for whom a lower retirement income may mean not simply belt-tightening but difficulty meeting basic needs.<sup>68</sup>



The share of U.S. households unprepared to maintain their standard of living in retirement has grown among both lower- and higher-income households



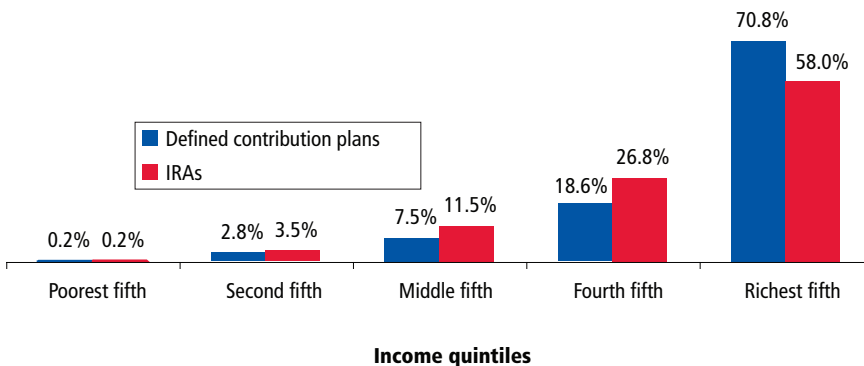
Source: Alicia H. Munnell, et al., Households "At Risk": A Closer Look at the Bottom Third, Center for Retirement Research, Boston College, January 2007.

Among U.S. households surveyed in 2004, 43 percent were estimated to be unable to maintain their standard of living in retirement. Among the lowest-income third, the figure was 53 percent.

**Defined contribution plans favor the well off**

A disturbing flaw of the predominant defined contribution pension system is that incentives and benefits are skewed to the wealthy. Tax breaks for 401(k)s and another popular retirement savings vehicle, Individual Retirement Accounts (IRAs), go mostly to the wealthy because it is easier for the wealthy to save and they receive bigger tax breaks when they do so. In 2004, only about one in three U.S. households (29 percent) received any tax break for contributing to defined contribution plans or IRAs. The wealthiest fifth of taxpayers received 70.8 percent of tax subsidies for defined contribution plans, and more than half of such subsidies went to the highest-income 10 percent.<sup>69</sup>

**Retirement tax breaks go mostly to the wealthy**



Source: Leonard E. Burman et al., Distributional Effects of Defined Contribution Plans and Individual Retirement Accounts, Urban-Brookings Tax Policy Center, August 2004.

In 2004, only about one in three U.S. households received retirement tax breaks. The wealthiest fifth of taxpayers received 70.8 percent of tax subsidies for defined contribution plans.

Moreover, current tax breaks do little to increase the overall national savings rate. High-income taxpayers generally don't save more as a result of the new tax subsidies but merely shift existing savings from taxable to tax-advantaged forms.<sup>70</sup>

## Strategy 2: Improve the Structures That Provide Economic Security

Skewed tax incentives are an expense for the nation. Foregone federal revenue for tax breaks for 401(k)s and IRAs amounted to \$135 billion in 2007.<sup>71</sup> Taxpayers are giving up increasing amounts of revenue with these popular retirement instruments even as overall retirement security decreases.

### ***Institute a system of universal voluntary retirement accounts***

Workers need a secure pension to supplement Social Security when they retire. An ideal pension system would mimic many of the features of Social Security: it would offer broad coverage, be portable for workers who change jobs, restrict early withdrawals, provide inflation-indexed benefits for life and have low administrative costs. Oregon can take an important step in that direction by adopting a system of universal voluntary retirement accounts.

Universal voluntary accounts would give every worker in Oregon access to a portable, defined contribution pension program from their first day on the job.<sup>72</sup> Workers could voluntarily contribute a portion of their paycheck through payroll deduction, and employers could opt to contribute on behalf of their workers. When workers changed jobs within Oregon, the accounts would travel with them. If they moved out of state, the pension would be rolled into an IRA or other retirement fund.

Administrative costs would be low, because the state would administer the program and piggyback on the state's existing retirement infrastructure for public employees. Workers would assume the small administrative cost, making the system revenue-neutral for the state budget.

Such voluntary accounts would make it simple for all workers to save. The accounts would be valuable to small businesses, which often lack the funds, time and expertise to set up pension plans for their employees but for whom offering a pension could help attract and keep employees.

Washington state is already designing such a system. The 2007 state legislature provided funding for the state Department of Retirement Systems (the equivalent of Oregon's Public Employees Retirement System) to study the best design. While funding for the system is not guaranteed by the legislation, the study — expected to be completed by December 2008 — is a first step for Washington that could provide useful information for Oregon, as well.<sup>73</sup>

Once Oregon took the first step of establishing the accounts, it could consider additional improvements. For instance, Oregon could create a system under which the default is that workers contribute a certain share of pay into a universal voluntary account, unless workers expressly opt out.<sup>74</sup> Oregon could also make a modest contribution for low-income workers.

**✓ *Oregon should follow Washington's lead and begin designing a system to provide universal voluntary retirement accounts.***

## CONCLUSION

Oregon can do much to improve the economic security of working families. Smart, cost-effective public policies exist that can improve health care coverage, unemployment support, the balance of work and family and retirement income. These policies can play a valuable role in building an economy of shared prosperity.

# STRATEGY 3: BUILD A FAIRER, STRONGER TAX SYSTEM

“Taxes, after all, are dues that we pay for the privileges of membership in an organized society,” Franklin Delano Roosevelt once said.<sup>1</sup> Taxes fund our public schools and universities and our courts; they help us care for the frail elderly and for abused and neglected children. Without adequate taxes, these and many other public structures that we take for granted fail to meet our needs.

And yet Oregonians’ ability to prosper is weakened if our tax system is poorly designed. When we allow well-off individuals and large, profitable corporations to escape paying a fair share of taxes, we are less able to fund adequately public structures that provide opportunity for every Oregonian to succeed. When we ask the most of low-income working families, we make it that much harder for those families to get ahead. When we cut public services during recessions we exacerbate the economic problems. Unfortunately, Oregon’s tax system exhibits all of these flaws.

The final strategy for building an economy that works for working families requires improving the tax system to benefit working families. Successful reform would accomplish three things. First, reform would make the overall system progressive, raising revenue based on taxpayers’ ability to pay. Second, it would reverse the tax shift whereby households and small businesses carry a bigger share of the tax load and profitable corporations pay less. And third, it would ensure that the state saves enough during good economic times to weather economic downturns. Combined, these changes would ensure Oregon has adequate revenues to support the public structures that provide opportunities for all Oregonians.

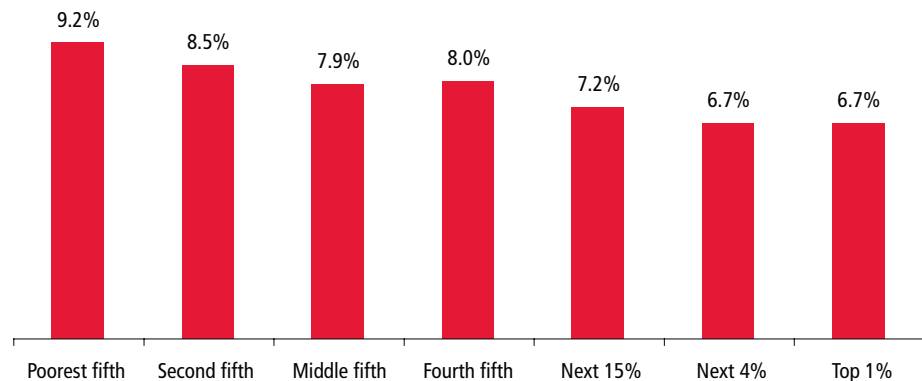
## BUILD A TAX SYSTEM BASED ON ABILITY TO PAY

Oregon’s current tax system asks more of middle- and low-income households than it asks of the wealthy. Taking both state and local taxes into account, the share of income that the poorest fifth of families pay toward taxes is 9.2 percent and the share paid by middle-income families is 7.9 percent, while the richest 1 percent of families pay only 6.7 percent of their income in taxes.<sup>2</sup> Those figures take into account the fact that federal law permits the deduction of state personal income taxes and local property taxes on federal income tax returns.

## Strategy 3: Build a Fairer, Stronger Tax System

**The share of income that the poorest fifth of families pay toward taxes is 9.2 percent and the share paid by middle-income families is 7.9 percent, while the richest 1 percent of families pay only 6.7 percent of their income in taxes.**

### The richest families pay the smallest share of their income to state and local taxes in Oregon



Note: For taxpayers under age 65 only. Based on 2008 tax law and 2006 income levels. Includes impact of federal deductions for state and local income and property taxes.  
Source: Institute on Taxation and Economic Policy.

The news gets worse when considering Oregon's shift in recent years away from taxes and toward fees. In 1989, fees accounted for 17 percent of Oregon's own-source general revenue. By 2006, fees accounted for 24 percent of revenue.<sup>3</sup>

The biggest driver of fee increases has been the sharp rise in tuition and other fees at Oregon's universities and community colleges. The increased cost of college limits the ability of low- and middle-income Oregonians to access higher education and training that would expand their economic opportunities.

There are a number of ways to improve the tax system so that it is based on ability to pay.

### **Expand the Oregon Earned Income Tax Credit**

The most targeted way to provide direct tax assistance to low- and middle-income working families is to expand the state's Earned Income Tax Credit (EITC). The EITC supplements the wages of working families, especially those with children. One in seven Oregon households benefit directly from the credit.<sup>4</sup>

Unfortunately, Oregon's EITC is one of the smallest among 24 state-level credits. To get Oregon up to the middle of the pack, our current credit would need to increase from 6 percent of the federal EITC to 18 percent.

This level of expansion would put \$180 into the pocket of the average EITC recipient. For a family of four living with poverty-level income, the increase would be about \$480, money that could be used to cover a major car repair, to fund community college course credits or to pay bills that have stacked up.

An expansion to 18 percent of the federal credit would cost about \$100 million a biennium.<sup>5</sup> The overall fairness of Oregon's tax system would be improved slightly, and an economy of shared prosperity would be one step nearer.

✓ **Oregon should increase the state EITC to 18 percent of the federal tax credit.**

**Target our primary subsidy for homeownership better**

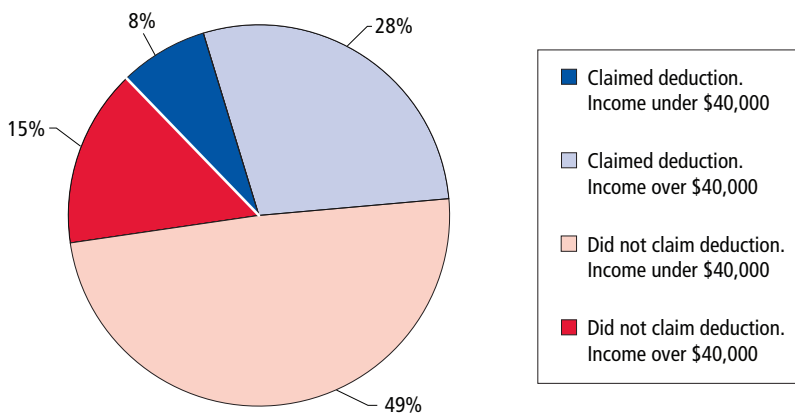
One of the most effective measures Oregon could take to build a fairer tax structure would be to better target the state's primary tax subsidy for helping people buy a home. The current tax subsidy, the home mortgage interest deduction, does little to promote homeownership and helps primarily those with higher incomes. Its cost undercuts the ability of the state to promote homeownership opportunities. As high levels of foreclosure and a tight home lending market weigh on Oregon's homeownership rate, the time is ripe for reforming this poorly targeted tax subsidy.

Current law allows taxpayers to claim as an itemized deduction interest on up to \$1 million in combined mortgage debt on a first and second home. Additionally, taxpayers can deduct interest on home equity loans up to \$100,000. Hence, Oregon taxpayers are currently subsidizing the purchase of expensive homes and home improvements in the name of promoting homeownership.<sup>6</sup>

Most Oregonians do not benefit from this tax subsidy. In 2006, nearly two out of three Oregon taxpayers (64 percent) received no benefit from the mortgage interest deduction.

The minority who do benefit from the subsidy are primarily those who need it least. Only about 13 percent of those earning less than \$40,000 per year claimed the deduction in 2006, even though that group represented more than half of all Oregon taxpayers. Put another way, just 8 percent of Oregon taxpayers both claim the mortgage interest deduction and have incomes under \$40,000.<sup>7</sup>

**Only 8 percent of Oregon taxpayers both claim the home mortgage interest deduction and have incomes under \$40,000**



Source: OCPP analysis of Legislative Revenue Office data.

Even middle- and low-income taxpayers who claim the deduction tend to get little benefit. These taxpayers generally have smaller amounts of itemized deductions than do higher-income taxpayers. For them, the mortgage interest deduction may provide only a modest advantage over the standard deduction they would have claimed otherwise.<sup>8</sup>

**The minority who benefit from the mortgage interest subsidy are primarily those who need it least.**

**The home mortgage interest deduction does little to increase homeownership rates.**

The deduction does little to increase homeownership rates. Much of the tax break goes to homeowners who would have likely purchased a home even without the subsidy. At the same time, it offers little incentive to those with limited income looking to buy a home. Programs that assist low-income families with their down payment are more effective in increasing rates of homeownership.<sup>9</sup> The home mortgage interest deduction spends tax dollars that otherwise could be directed to these efficient programs for advancing homeownership.

Nine states with income taxes do not offer a home mortgage interest deduction. In 2007, seven of these nine had homeownership rates higher than the national rate. Oregon did not.

**Seven of the nine income tax states that do not offer a home mortgage interest deduction had homeownership rates higher than the national rate in 2007. Oregon did not.**

	Homeownership rate, 2007	Statistically significantly higher than the national rate?
West Virginia	77.6%	Yes
Michigan	76.4%	Yes
Indiana	73.8%	Yes
Pennsylvania	72.9%	Yes
Ohio	71.4%	Yes
Connecticut	70.3%	Yes
Illinois	69.4%	Yes
New Jersey	68.3%	No
United States	68.1%	--
<b>Oregon</b>	<b>65.7%</b>	<b>No</b>
Massachusetts	64.3%	No

\* The 2007 homeownership rates for Oregon and Massachusetts were statistically significantly lower than the U.S. rate. The rate for New Jersey was no different in statistical terms from the national rate. Source: OCPP analysis of U.S. Census Bureau data.

This poorly targeted tax subsidy is also very expensive. The cost to Oregon is projected to total about \$905 million in the 2009-11 biennium, up from \$885 million in 2007-09.<sup>10</sup>

An improved mortgage interest tax break would encourage homeownership, not the purchase of large and expensive homes. It would offer a moderate incentive to more Oregonians without subsidizing the purchase of luxury and vacation homes. It would use at least part of the revenue generated from making the tax expenditure less expensive to ensure affordable housing for more Oregonians through renters' assistance and down payment assistance programs.

There are various ways to improve the current subsidy, each with the goal of better targeting those who truly need help with home purchases. For example, Oregon could reduce the mortgage interest deduction limit to well under \$1 million of debt. Capping debt subject to the tax break at the cost of a modest home would target the relief.

A more comprehensive option would be to turn the current tax deduction into a refundable tax credit available to all homeowners, only to first-time homeowners or to persons with income below an income cap. That would end the current practice

of offering tax assistance only to homeowners who itemize. Combining this credit with down payment assistance for first-time home buyers, paid for with the savings from the policy change, would make it particularly effective at improving the homeownership rate relative to the current deduction.<sup>11</sup>

Depending on the structure of reform, Oregon could raise significant revenue for higher-priority home purchase expenditures while still offering more assistance to first-time homebuyers.

✓ ***Oregon should reform its home mortgage interest deduction to better target it at those who need it most.***

### ***Add a new top bracket for the top eight-tenths of 1 percent***

One straightforward way to make Oregon's tax system less regressive is to raise the income tax rate paid by very high-income Oregonians. One way of doing so would be to establish a new, upper-income tax bracket, such as an 11 percent tax bracket on income over a half-million dollars for joint filers, or \$250,000 for single filers. Doing so would raise roughly \$480 million a biennium from the approximately 14,400 households who comprise the top eight-tenths of 1 percent (0.8 percent) of Oregon taxpayers.<sup>12</sup> In other words, the new tax bracket would apply to fewer than one out of every 100 Oregon taxpayers, with nearly 1.8 million households seeing better services and no tax increase.<sup>13</sup>

There is some historical precedent for Oregon to tax some income at levels above the current 9 percent top bracket. For 31 years, from 1955 to 1986, the top bracket ranged from 9.5 percent to 11.6 percent.<sup>14</sup> The income at which these top brackets kicked in varied widely over these years. In 2007 dollars, the beginning of the top bracket ranged from \$118,060 in 1957 to \$18,918 in 1986.<sup>15</sup>

A new top bracket would not cause undue hardship for Oregon's wealthiest households. Taxpayers with incomes high enough to pay the new tax collectively took in \$22.4 billion in income in 2005 and 2006 combined. Over those two years, the households in this group averaged annual incomes of \$1.2 million.<sup>16</sup> Since the estimated revenue from the new tax is \$480 million a biennium, these very high-income Oregon households could have paid the tax in 2005 and 2006 and still pocketed \$21.9 billion, averaging about \$1.17 million each, annually. While the average is skewed by the exorbitant incomes at the very top, as a group those paying the new top tax bracket would still have plenty to spend, while the state would be able to better help ordinary Oregonians get ahead.

✓ ***Oregon should add a new top income tax bracket for households with very high incomes.***

### ***Eliminate the costly and unfair federal income tax subtraction***

One of the most expensive tax subsidies on Oregon's books is the subtraction for federal income taxes paid. In the upcoming budget cycle, the subtraction is projected to cost about \$750 million.<sup>17</sup>

Like only six other states, Oregon allows taxpayers to subtract their federal income tax payments from the income that is subject to tax in Oregon. The subtraction is capped, and the cap increases each year with inflation; in tax year 2008, Oregon taxpayers could subtract up to \$5,600 in federal income taxes paid.<sup>18</sup>

## Strategy 3: Build a Fairer, Stronger Tax System

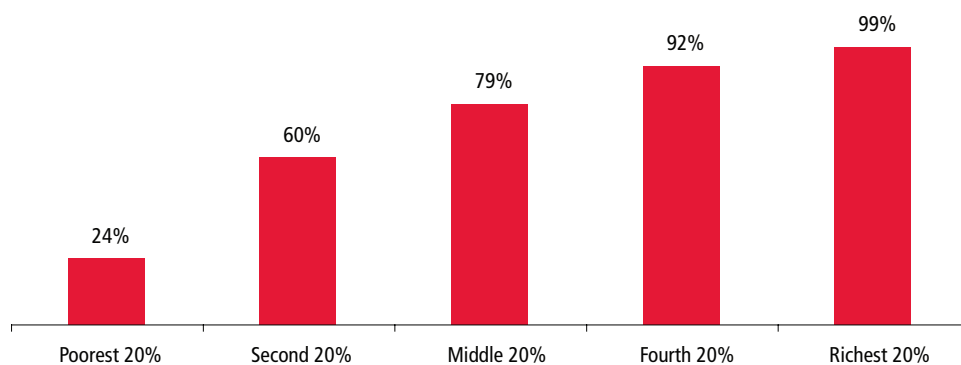
**Among the poorest fifth of Oregon households, less than one in four benefit from the federal income tax subtraction.**

The federal income tax subtraction is based on the false notion that it is unfair for Oregonians to be taxed on income that was used to pay federal income taxes. There is nothing unfair about the federal government and the state government using income as the basis for determining how much one should pay in taxes. What matters, ultimately, is the overall tax rate that one pays and whether it is in accord with one's ability to pay.

The real injustice in Oregon's overall tax system is that it asks the most of the poor. And the federal subtraction just makes that worse.

The subtraction does little for those Oregon households who need help the most. Among the poorest fifth of Oregon households, less than one in four benefit from the federal income tax subtraction. That's because these households typically do not pay federal income taxes (but they do pay federal payroll and other taxes).

### The lowest-income taxpayers are least likely to benefit from Oregon's subtraction for federal income taxes paid



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

At the same time, the federal subtraction hands a tax break to Oregon's wealthiest households. In 2006, Oregon households with adjusted gross incomes over \$500,000 avoided state income taxes on over \$40 million in income thanks to the federal subtraction.<sup>19</sup>

Oregon would do better by eliminating the subtraction for federal income taxes and restructuring its income tax system to be fairer for low- and middle-income Oregonians. If combined with an effective income tax restructuring, such a change would boost most middle- and low-income taxpayers. It would also generate revenue that could be used to invest in Oregon's future.

✓ **Oregon should eliminate the federal subtraction as part of a restructuring of its income tax system to add fairness and garner revenues for critical priorities.**

## REVERSE THE CORPORATE AND BUSINESS TAX SHIFTS

As inequality has risen over the last generation, Oregon has shifted a larger share of the responsibility for taxes away from corporations and onto individual taxpayers and small businesses. This shift has further undermined the capacity of typical Oregon families to get ahead.

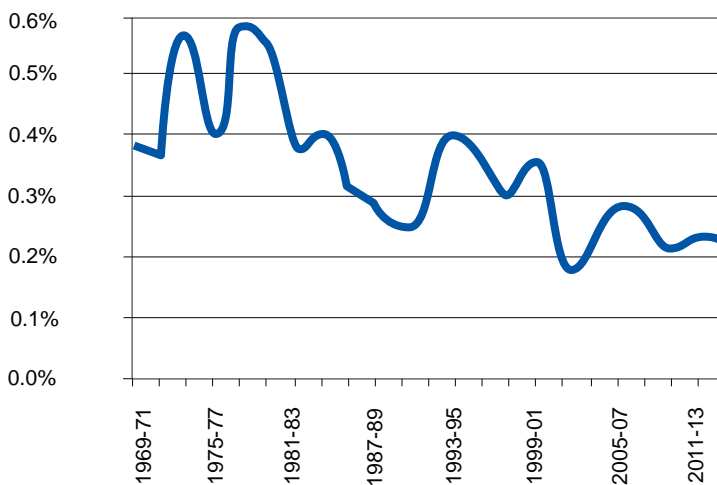


**A shift has occurred in both income and property taxes**

Corporations are paying less than half of the income taxes they paid 30 years ago, as a share of the economy. Specifically, in an average biennium during the 1970s, corporations paid state income taxes totaling 0.46 percent of Oregon’s gross domestic product (GDP). In the upcoming 2009-11 biennium, corporations are projected to pay just 0.22 percent of state GDP.<sup>20</sup>

The shift has forced individual Oregon income taxpayers and small businesses to pick up the slack. In the 1973-75 budget cycle, individuals paid 81.5 percent of all Oregon income taxes. Corporations paid the rest. By contrast, in the upcoming 2009-11 budget cycle, individuals will cover 94.6 percent of all income taxes.<sup>21</sup> While corporations once used to pay more than one of every six Oregon income tax dollars (18.5 percent), in the next budget cycle they will pay less than one in eighteen (5.4 percent).<sup>22</sup>

**Corporations are paying less than half of the income taxes they paid 30 years ago, as a share of Oregon gross domestic product**



Source: OCPP analysis of data from the Bureau of Economic Analysis, the Legislative Revenue Office and the Office of Economic Analysis, through Sept. 2008 Oregon Economic & Revenue Forecast.

**In an average biennium during the 1970s, corporations paid state income taxes totaling 0.46 percent of Oregon GDP. In 2009-11, corporations are projected to pay just 0.22 percent of state GDP.**

What does the tax shift mean in dollar terms? Individuals and small businesses will pay \$1.9 billion more in the 2009-11 biennium than they would have if their share of the income tax pie were still at 1973-75 levels.<sup>23</sup> That’s about \$1,000 for each individual taxpayer in Oregon.<sup>24</sup> Instead of being paid by corporations, like it used to be, that \$1,000 will come out of the pockets of Oregon families and small businesses.

It’s not just the income tax that has shifted toward individual Oregonians. Oregon’s property tax system has shifted away from business interests, too, placing even more strain on Oregon families.

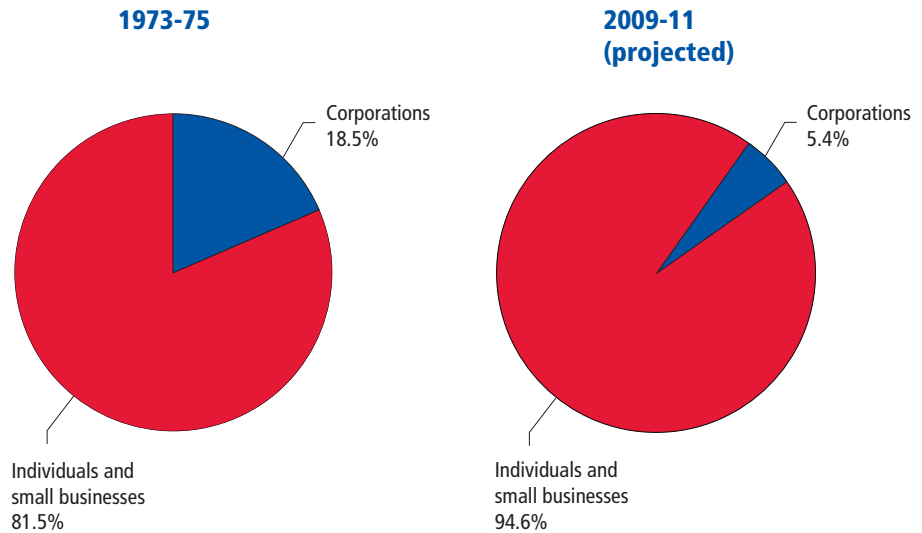
Before the early 1990s, businesses and homeowners in Oregon each paid about half of Oregon’s property taxes. That changed when a population surge in the early 1990s pushed up home values sharply. Since commercial property values lagged behind home values during this period, the share of property taxes paid by businesses sagged to around 40 percent. Because of Measure 5 — a 1990 ballot measure that sharply reduced property tax rates — rates fell for both homeowners

### Strategy 3: Build a Fairer, Stronger Tax System

and businesses in the first part of the 1990s. While businesses saw their rates decline sharply, Measure 5 did not cause the business share of property taxes to fall during this period. Measure 5 just happened to occur before a period when home values grew quickly relative to business property values, causing homeowners to pay a larger share of all property taxes.

**What does the tax shift mean in dollar terms? Individuals and small businesses will pay \$1.9 billion more in 2009-11 than they would have if their share of the income tax pie were still at 1973-75 levels. That's about \$1,000 for each individual taxpayer in Oregon.**

#### Then and now: Share of Oregon income taxes paid by corporations



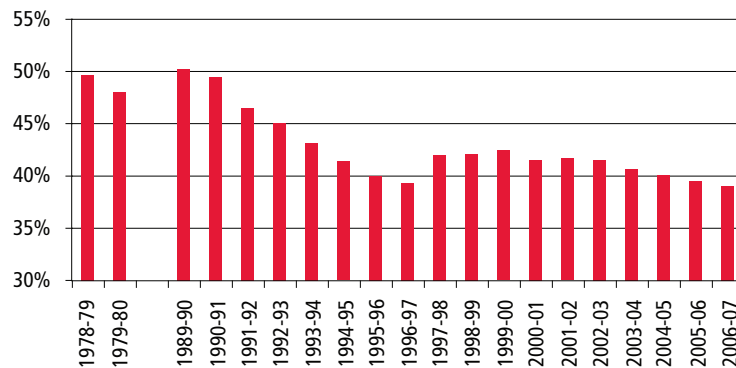
Source: OCPP analysis of Legislative Revenue Office data.

Source: OCPP analysis of Oregon Economic & Revenue Forecast, September 2008.

At that point, voters unfortunately locked in businesses' low share of property taxes. Measure 50, passed in 1997, changed Oregon's property tax system from one based on real market values to one based on assessed values. The measure also cut maximum assessed values based on 1995-96 real market values levels and imposed a 3 percent growth cap on assessed values. In essence, Measure 50 froze Oregon's property tax system at a time when businesses happened to be paying a significantly smaller share of Oregon's property taxes. Individual homeowners have been left holding the bag ever since.

**Before the early 1990s, businesses paid about half of Oregon's property taxes. Today, they pay less than 40 percent.**

#### The share of Oregon property taxes paid by businesses fell in the early 1990s and then was held low by Measure 50 after 1997



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

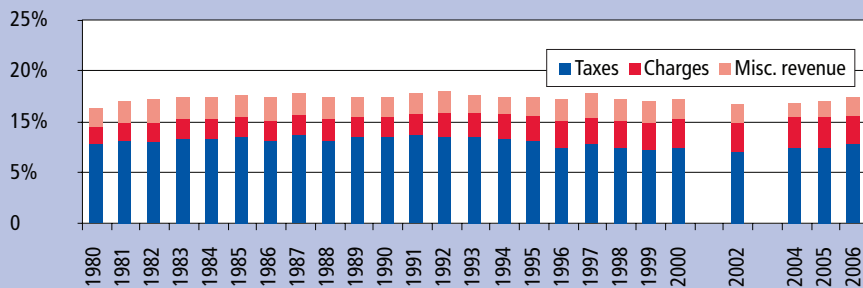
**Revenue has held steady, but who pays has shifted**

Over the last 25 years, Oregon’s revenue system has been remarkably consistent in terms of how much it asks of taxpayers. As a share of the combined income of all Oregonians, own-source state and local government general revenue in Oregon has hovered around 15 percent every year since at least 1980. The high point of the last three decades was reached in 1992, when revenue equaled 16.3 percent of income. The share has not fallen below 14 percent over that period.<sup>25</sup>

In 2006, the most recent year of data available, Oregon state and local government revenue totaled 15.3 percent of income. That’s the same percentage as the average annual share since 1980. In other words, government demands on Oregon taxpayers have not changed much.

Oregonians are not paying more as a share of income than they used to, but who pays has shifted. For example, as detailed in this chapter, income taxes have shifted away from corporations to individual Oregonians and small businesses, and property taxes have shifted away from businesses to homeowners. Oregon should keep this in mind when raising revenue to invest for the future.

**Oregon state and local government general revenue as a share of income has hovered around 15 percent since 1980**



Note: Income is personal income plus capital gains. Census Bureau did not release data for 2001 and 2003. Source: OCPP analysis of data from Tax Policy Center, U.S. Census Bureau, Bureau of Economic Analysis and Oregon Office of Economic Analysis.

**Over the last 25 years, Oregon’s revenue system has been remarkably consistent in terms of how much it asks of taxpayers.**

**Reform the corporate income tax system to bring in appropriate revenues**

The first step in restoring a fairer balance between corporations and individuals in Oregon is to reform the corporate income tax system to bring in appropriate revenues.

Meaningful reform means more than a modest increase in Oregon’s \$10 minimum corporate income tax, which two out of three corporations operating in Oregon pay. An increase in the \$10 minimum tax is long overdue. Originally set at \$25 in

## Strategy 3: Build a Fairer, Stronger Tax System

1929, it was lowered to \$10 in 1931. In today's dollars, the \$25 1929 tax would need to be \$320 just to keep up with inflation. But a modest increase in the \$10 minimum would likely leave corporations still paying far less in income taxes as a share of the economy than they used to. For example, Governor Kulongoski's proposed increase to the corporate minimum for the 2007-09 budget period would have raised about \$85 million, still leaving corporations paying half of what they paid 30 years ago, as a share of the economy.<sup>26</sup>

If a modest increase in the minimum corporate income tax is not enough, then what is?

One way of answering that question is to consider how well Oregon taxes corporate profits compared to the federal government. Corporations pay taxes on their profits to both Oregon and the federal government. Therefore, comparing Oregon's ability to tax profits with the federal government's performance serves as a barometer of how well Oregon is doing.

Oregon represents 1.2 percent of the total national economy, as measured by gross domestic product.<sup>27</sup> Hence, it is reasonable to assume that the tax base for Oregon's corporate profits tax is about 1.2 percent of the national corporate tax base.

Since the national corporate profits tax base was about \$2.1 trillion in 2006 and 2007 combined, Oregon's share was about \$24 billion.<sup>28</sup>

If corporations had paid Oregon income taxes on \$24 billion in profits in 2006 and 2007, they would have paid \$754 million more than they actually did over those two years.

That \$754 million bar seems reasonable. The federal comparison is a conservative approach because it ignores the fact that corporations avoid federal taxes on a significant amount of profits. A recent U.S. Government Accountability Office report found that about two out of three corporations pay no federal income taxes, demonstrating that the federal tax effort is not a high standard.<sup>29</sup> Still, federal payments as a share of the economy sets a bar, even if the bar is not as high as it ought to be.

**Comparing Oregon's ability to tax profits with the federal government's performance serves as a barometer of how well Oregon is doing.**

### In 2006-07, Oregon lost \$754 million because it failed to collect its share of the federal corporate income tax base

	2006	2007	Total 2006-07
Total federal corporate income taxes	\$372,033	\$364,084	\$736,117
Implied federal base	\$1,062,951	\$1,040,240	\$2,103,191
Oregon's share of GDP	1.2%	1.2%	1.2%
Oregon's share of federal base	\$12,232	\$11,977	\$24,209
Potential Oregon corporate income taxes	\$807	\$790	\$1,598
Actual Oregon corporate income taxes	\$438	\$406	\$844
Difference	\$369	\$385	\$754

*Note: All figures in millions.*

*Source: OCPP analysis of U.S. Census Bureau and U.S. Dept. of the Treasury data, following methodology devised by Martin A. Sullivan, "State Corporate Tax Leakage: \$14.5 Billion in 2006," State Tax Notes, November 27, 2007.*

Having set the bar, Oregon would need to implement a mechanism to lift us up to it. One possible mechanism could be to follow New Hampshire's lead and require corporations to pay either a corporate income tax or an alternative tax based primarily on the size of company payrolls in the state.<sup>30</sup> If Oregon were to adopt an alternative tax similar to New Hampshire's, OCPP estimates preliminarily that it would raise over \$700 million a biennium.

Oregon could also look to New Jersey for a model. In 2002, New Jersey enacted an alternative minimum corporate tax for large corporations. Large corporations had to pay the alternative tax if it exceeded the corporation's regular income tax liability. Those required to pay the alternative could choose whether to calculate it based on gross receipts at one rate or gross profits (gross receipts minus costs of goods sold) at a different tax rate. The alternative tax was designed to be temporary for in-state corporations and was discontinued as designed in 2006. It remains in place for out-of-state corporations with a significant business presence in New Jersey who are not required to pay the state corporate income tax because of a federal law that unfairly restricts state taxation of out-of-state companies.<sup>31</sup>

✓ ***Oregon should reform its corporate income tax system to raise roughly \$750 million a biennium in additional revenues, rather than settling for just a modest increase in the \$10 minimum tax.***

### **Require public reporting to change the climate for reform**

Improving how Oregon taxes corporations requires better information. If the public knew how much (or how little) certain large corporations pay in state income taxes and local property taxes, for example, Oregon could honor the corporations that pay their fair share and hold accountable the corporations that don't.

Many Oregonians may know that two-thirds of corporations operating in Oregon pay just \$10 in income taxes, but they don't know the names of these companies. Which corporations pay less than the typical individual taxpayer in Oregon? Are some corporations paying more than similar companies with similar amounts of profit?

To answer these questions and better manage its corporate income tax system, Oregon could require large corporations to file a report with the Oregon Secretary of State specifying tax-related information that would be available for public review. The law could be written to cover only large corporations, not small businesses. Initiative Petition 102, which was circulated for the 2006 general election, could serve as a model.<sup>32</sup>

Requiring public reporting of such information would help restore public confidence in Oregon's corporate tax system. It would also improve decision making about tax loopholes and tax incentives, helping Oregonians understand which tax breaks work and which do not. Most importantly, the information would help create a climate for corporate tax reform and help Oregonians construct a better corporate tax system.

✓ ***Oregon should require large corporations to report tax-related information to the public.***

## ENSURE THAT ECONOMIC DEVELOPMENT SPENDING PAYS OFF

How much does Oregon spend on economic development? Do economic development subsidies generate investment that would not occur otherwise? How much does each job created cost? Do subsidies result in jobs with good wages and benefits?

Oregonians do not know the answers to these questions because the state neither reports total spending on economic development nor discloses which businesses get economic development subsidies and what the state gets in return. That needs to change.

### ***Shine the light on economic development spending***

Economic development encompasses a broad range of programs scattered across multiple state agencies. It includes funding for Agriculture Department trade missions, the Employment Department's workforce training activities and the Oregon Innovation Council's efforts to develop public-private partnerships to commercialize university research, for example. Most economic development spending, however, occurs through tax breaks, which operate without the scrutiny that schools, the Oregon Health Plan and other budget expenditures receive.

Economic development programs offered as tax breaks reduce revenue while operating largely out of sight. While on-budget programs come before the governor and legislature every two years through the budget appropriations process, tax programs in Oregon receive a significantly less rigorous level of review.<sup>33</sup> And all the on-budget and tax spending on economic development is not pulled together in one place.

A unified development budget (UDB) report can clarify economic development spending. A UDB would report total state spending on economic development efforts, whether tax expenditure programs or budget allocations for programs run by state agencies.<sup>34</sup> It would reveal Oregon's economic development spending priorities and help Oregonians assess whether spending is effectively stimulating growth that offers broad-based benefits.

✓ ***Oregon should produce a unified development budget report as part of the biennial budget development process.***

### ***Hold companies accountable for subsidy deals***

A subset of economic development programs offers tax breaks, grants, loans or other benefits to individual companies to encourage business investment and job creation.<sup>35</sup> Businesses that accept these subsidies should be held accountable for producing the jobs or investments promised in return for the subsidy.

A key step toward such accountability is public disclosure of the details of economic development subsidies. Disclosure should include the name of the subsidy recipient and amount received, job creation figures and wage and benefit data and information about whether the subsidy caused job loss at another site in the state.

Such information should be available to taxpayers and policymakers through an online database and in an annual report that compiles figures on the total costs and outcomes of all business development subsidies. Twenty-four other states already require online disclosure of company-specific economic development subsidy deals.<sup>36</sup>

If companies fail to uphold their end of the bargain, Oregonians should get their money back. Oregon should consistently use “clawback” provisions, which enable the state to recoup the subsidy if a company does not fulfill its job creation or investment requirements.

✓ ***Oregon should require online disclosure of company-specific subsidy deals and mandate clawback provisions on all subsidy agreements.***

## SAVE ENOUGH TO WEATHER ECONOMIC DOWNTURNS

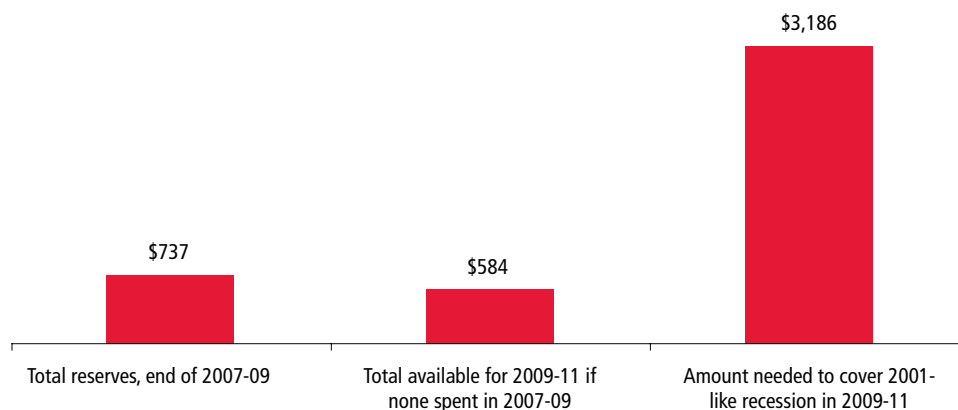
Thanks to legislative foresight, Oregon has some reserve funds available to help weather the current recession. Time will tell whether the funds will be enough to weather the current storm. Still, Oregon needs to strengthen its reserve system so that it can adequately protect Oregonians from the devastation wrought by severe economic downturns.

In spite of its existing reserve system, Oregon does a poor job of stockpiling savings during good economic times to help ease the pain of bad times. The main culprits are Oregon’s income tax “kickers.” The kicker law automatically requires the state to “kick back” revenue to taxpayers when income tax revenues exceed the state’s forecast for the two-year budget period by 2 percent or more. Thus, the kickers squander a perfect opportunity to save unanticipated revenues for a rainy day. They are, in short, awful public policy.

The current recession underscores the foolishness that underlies the kickers. In late 2007, Oregon sent out personal income tax kicker checks totaling over \$1 billion. A year later, Oregon is in a recession and facing a revenue shortfall.

Unless the current recession is a mild one, Oregon’s reserves will be inadequate to weather the storm. Oregon’s reserves will total about \$737 million by the end of the current budget cycle.<sup>37</sup> Because of rules governing how these funds may be spent, only about \$584 million of that money will be available to cover shortfalls in the upcoming 2009-11 biennium, assuming that none of the money is used during the remainder of the 2007-09 biennium. Yet, if the current recession ends up as deep as the last one, Oregon will need much more revenue than will be available in reserves. To cover a budget shortfall in 2009-11 like the one that emerged during the 2001 recession, Oregon would need over \$3 billion.<sup>38</sup>

**If the recession hits the state budget like the one in 2001 did, Oregon’s reserve funds will prove inadequate**



Source: OCPP analysis of Oregon Economic & Revenue Forecast, September 2008.

***Oregon’s reserves will total about \$737 million by the end of the current budget cycle. To cover a budget shortfall like the one that emerged during the 2001 recession, Oregon would need over \$3 billion.***

### Strategy 3: Build a Fairer, Stronger Tax System

If the current recession mirrors the 2001-03 period, Oregon will face difficult choices. Will legislators turn to voters to raise more revenue? Or will the legislature shortchange our public systems — by clipping school days or further gutting the Oregon Health Plan, for example?

Oregon can better prepare for downturns by saving unanticipated revenues in its reserves during good economic times, for use during the bad times. That means transforming the personal and corporate income tax kickers into permanent sources of funding for our reserves.

Oregon's Task Force on Comprehensive Revenue Restructuring has issued a sensible draft recommendation on how to strengthen the Rainy Day Fund by saving more unanticipated revenue.<sup>39</sup> The task force recognized the inherent difficulty in projecting revenue two years out. Accordingly, it recommended that state economists continue projecting personal and corporate income tax revenues for an upcoming biennium but also estimate a range above and below which the projection is statistically likely to fall. Any unanticipated revenues between the projection and the top end of the range would go into the Rainy Day Fund, until the fund reached its cap. Unanticipated revenues above the top of the range would continue to be returned to personal or corporate income taxpayers as kicker refunds.<sup>40</sup>

In addition, the task force recommended that the maximum size of the Rainy Day Fund be increased so that Oregon's reserves will better protect state services during future recessions.

✓ ***Oregon should accept the Task Force on Comprehensive Revenue Restructuring's draft recommendations for increasing the size of and adjusting the funding mechanism for the Oregon Rainy Day Fund, so that the state is better prepared for future recessions.***<sup>41</sup>

## CONCLUSION

A successful reform of our tax system would accomplish three things. It would make the overall system progressive, raising revenue based on taxpayers' ability to pay. It would require corporations to once again pay their fair share of taxes. And it would ensure that the state saves enough during good economic times to weather economic downturns.

Undertaking these improvements in our tax system, in conjunction with the other strategies outlined in this report, would help ensure that when Oregon's economy grows in the future all Oregonians will prosper. Oregon will be stronger if we all move forward together.

It's time to roll up our sleeves and build a better Oregon.



# ENDNOTES

## THE PROBLEM

- 1 OCPP analysis of data from the Bureau of Economic Analysis (BEA), using BEA's "chained 2000 dollars" series.
- 2 OCPP analysis of data from Portland State University, Population Research Center, available at [www.pdx.edu/prc/](http://www.pdx.edu/prc/).
- 3 OCPP analysis of U.S. Census Bureau data, available at [www.census.gov/popest/states/](http://www.census.gov/popest/states/).
- 4 Lawrence Mishel, Jared Bernstein and Heidi Shierholz, *The State of Working America 2008/2009* (Washington, D.C.: Economic Policy Institute, 2008), p. 3.
- 5 OCPP analysis of American Community Survey data. In 2000, the median household income in Oregon was \$47,066, not statistically different from the 2007 figure. Data from the U.S. Census Bureau's Current Population Survey also show no statistically significant change in median household income in Oregon from the end of the 1990s economic cycle to the end of the cycle that ended in 2008.
- 6 2007 American Community Survey.
- 7 According to the American Community Survey, Oregon's poverty rate in 2000 was 13.2 percent, no different in statistical terms from Oregon's 12.9 percent poverty rate in 2007. The rates are considered no different because the chances are too high that the difference between the two rates results from differences in the survey samples for the two years rather than any actual difference in the poverty rate. Another widely used survey, the Current Population Survey, found that Oregon's poverty rate in 1999-00 was 11.8 percent and in 2006-07 it was 12.3 percent. Again, though, the difference is not statistically significant. Therefore, the poverty rate is considered not to have changed.
- 8 OCPP analysis of Current Population Survey data.
- 9 OCPP analysis of Current Population Survey data.
- 10 OCPP analysis of U.S. Census Bureau data, available at [www.census.gov/hhes/www/povmeas/tables.html](http://www.census.gov/hhes/www/povmeas/tables.html). The measure we used is CMB-GA-CE, which refers to the method that combines a number of adjustments recognized as needed by the National Academy of Sciences, including an adjustment for the geographic area in which the family lives, and uses the Consumer Expenditure Survey to compute the poverty thresholds. For more information, see [www.census.gov/hhes/www/povmeas/nas.html](http://www.census.gov/hhes/www/povmeas/nas.html).
- 11 OCPP analysis using Current Population Survey estimates of poverty in Oregon in 2006-07 and the U.S. Census Bureau's reporting of alternative measurements of poverty (see previous endnote).
- 12 Jared Bernstein, *Crunch: Why Do I Feel Squeezed? (And Other Unsolved Economic Mysteries)* (San Francisco: Berrett-Koehler, 2008), p. 39 (for national figures); OCPP analysis of American Community Survey data and 2007 poverty guidelines (for Oregon figures).
- 13 Unless otherwise noted, health insurance information from OCPP analysis of Current Population Survey data.
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## STRATEGY 2

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## STRATEGY 3

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  - 15 Adjusted for inflation to 2007 dollars using US CPI-U.
  - 16 OCPP analysis of Oregon Department of Revenue data for tax years 2005 and 2006. "Income" is adjusted gross income. The average is, of course, skewed by the highest-income taxpayers.
  - 17 The subtraction is estimated to cost \$749,200,000 in 2009-11. DOR and DAS, *State of Oregon 2009-11 Tax Expenditure Report*, p. 128-29.
  - 18 In November 2008, Oregon voters overwhelmingly rejected Measure 59, an initiative that would have allowed an unlimited subtraction of federal income taxes. Most Oregonians would not have received a tax break, and about half the total tax break would have gone to the highest-income 1 percent of Oregon households, a group with average incomes over \$1 million. Measure 59 failed on a 63 percent "no" vote, according to unofficial vote tallies posted by the Oregon Secretary of State's Elections Division on November 8, 2008. See Michael Leachman and Joy Margheim, *No Gain, Just Pain*, Oregon Center for Public Policy, August 18, 2008, available at [www.ocpp.org/cgi-bin/display.cgi?page=es080818NoGain59](http://www.ocpp.org/cgi-bin/display.cgi?page=es080818NoGain59). For the text of the measure, see [oregonvotes.org/nov42008/guide/meas/m59\\_text.html](http://oregonvotes.org/nov42008/guide/meas/m59_text.html). Voters also rejected a similar initiative, Measure 91, in 2000.
  - 19 OCPP analysis of Oregon Department of Revenue data.
  - 20 OCPP analysis of Bureau of Economic Analysis and Legislative Revenue Office data and data from Oregon Office of Economic Analysis (OEA), *Oregon Economic and Revenue Forecast*, September 2008, available at [www.oregon.gov/DAS/OEA/revenue.shtml](http://www.oregon.gov/DAS/OEA/revenue.shtml).
  - 21 OCPP analysis of Legislative Revenue Office data and data from OEA, *Oregon Economic and Revenue Forecast*, September 2008.
  - 22 Some of the shift away from corporate income taxes over the last three or four decades has resulted from looser rules that allow corporations to choose to pay tax through the personal income tax code if it lowers their tax bill. Because some corporations have taken advantage of these looser rules, a larger share of corporate taxes is probably paid through the personal income tax code than used to be the case. Though most large corporations still pay through the corporate income tax, this shift likely has exacerbated the decline of the state corporate income tax.
  - 23 OCPP analysis of Legislative Revenue Office data and data from OEA, *Oregon Economic and Revenue Forecast*, September 2008.
  - 24 Based on OCPP's projection of individual income tax returns in 2010, based on projected population growth reported in OEA, *Oregon Economic and Revenue Forecast*, September 2008.
  - 25 OCPP analysis of data from the U.S. Census Bureau, State and Local Government Finances, as compiled by the Tax Policy Center, State and Local Finance Data Query System, at [www.taxpolicycenter.org/slf-dqs/pages.cfm?p=intro](http://www.taxpolicycenter.org/slf-dqs/pages.cfm?p=intro).
  - 26 OCPP analysis based on projections in OEA, *Oregon Economic and Revenue Forecast*, September 2008, and data from the Legislative Revenue Office for corporate income tax revenues in 1977-79 and from the Bureau of Economic Analysis for Oregon gross domestic product. The governor's proposal would have raised \$84.5 million in 2007-09. Legislative Fiscal Office, *Summary Analysis, 2007-09 Governor's Budget*, January 2007, p. 13, available at [www.leg.state.or.us/comm/lfo/2007\\_budget\\_analyses/summary\\_analysis\\_2007\\_09\\_grb.pdf](http://www.leg.state.or.us/comm/lfo/2007_budget_analyses/summary_analysis_2007_09_grb.pdf).
  - 27 OCPP analysis of Bureau of Economic Analysis data for 2007.
  - 28 OCPP analysis of data from U.S. Department of the Treasury, Monthly Treasury Statements, Back Issues, available at [fms.treas.gov/mts/backissues.html](http://fms.treas.gov/mts/backissues.html).
  - 29 U.S. Government Accountability Office, *Comparison of the Reported Tax Liabilities of Foreign- and U.S.-Controlled Corporations, 1998-2005*, GAO-08-957, July 2008, available at [www.gao.gov/products/GAO-08-957](http://www.gao.gov/products/GAO-08-957).
  - 30 See New Hampshire Department of Revenue Administration, "What Is the Business Enterprise Tax?," [www.nh.gov/revenue/faq/dra\\_2400.htm](http://www.nh.gov/revenue/faq/dra_2400.htm).
  - 31 Under Public Law 86-272 passed by Congress in 1959, companies selling goods in a state in which they have no permanent physical presence are exempt from the state's corporate income taxes. Hence, a company without a store or other "brick and mortar" presence in a state can avoid the state's corporate income taxes even if the company makes millions of dollars in profits in the state by soliciting orders through the Internet or mail order catalogs, sending delivery trucks into a state or paying sales representatives to travel through the state. For more information on New Jersey's

- alternative assessment, see State of New Jersey, Department of the Treasury, Division of Taxation, *2007 Annual Report*, August 2008, p. 28, available at [www.state.nj.us/treasury/taxation/pdf/annual/2007.pdf](http://www.state.nj.us/treasury/taxation/pdf/annual/2007.pdf); Mary E. Forsberg, *A Question of Balance: Taxing Business in the Twenty-first Century*, *New Jersey Policy Perspective*, January 2003, available at [www.njpp.org/rpt\\_cbt-report.html#didin2002](http://www.njpp.org/rpt_cbt-report.html#didin2002).
- 32 A copy of Initiative Petition 102 is available at [www.sos.state.or.us/elections/irr/2006/102text.pdf](http://www.sos.state.or.us/elections/irr/2006/102text.pdf).
- 33 See Institute on Taxation and Economic Policy, *Tax Expenditures: Spending by Another Name*, policy brief no. 4, 2005, available at [www.itepnet.org/pb4exp.pdf](http://www.itepnet.org/pb4exp.pdf).
- 34 See Matt Hull, William Schweke and Carl Rist, *Budgeting and Economic Development Performance: A Guide to Unified Development Budgets*, Corporation for Enterprise Development, December 2000.
- 35 For a list of Oregon's major economic development subsidy programs, see Oregon Economic and Community Development Department, "Incentives and Finance," [www.oregon4biz.com/incentives.htm](http://www.oregon4biz.com/incentives.htm).
- 36 Philip Mattera, Karla Walter, Julie Farb Blain and Michelle Lee, *The State of State Disclosure: An Evaluation of Online Public Information About Economic Development Subsidies, Procurement Contracts and Lobbying Activities*, Good Jobs First, November 2007, available at [www.goodjobsfirst.org/pdf/statedisclosure.pdf](http://www.goodjobsfirst.org/pdf/statedisclosure.pdf) (full report) and [www.goodjobsfirst.org/statedisclosure.cfm](http://www.goodjobsfirst.org/statedisclosure.cfm) (state appendices and supplementary online material).
- 37 OEA, *Oregon Economic and Revenue Forecast*, September 2008, p. 97.
- 38 Data from the Oregon Office of Economic Analysis indicate that the actual amount of General Fund revenues that came in during 2001-03 was 20.6 percent less than what legislators expected, based on the "close of session" forecast. OCPP applied this percentage to projected General Fund revenues in 2009-11 as of the September 2008 forecast to estimate that if Oregon is hit with a revenue decline equivalent to the one that hit in 2001-03, General Fund revenues would fall \$3.186 billion.
- 39 Task Force on Comprehensive Revenue Restructuring, "Report Draft #2," October 30, 2008, pp. 20-21, available at [www.leg.state.or.us/comm/lro/comprehensive%20revenue%20task%20force/lro\\_103008/rev\\_restructure\\_draft\\_2.pdf](http://www.leg.state.or.us/comm/lro/comprehensive%20revenue%20task%20force/lro_103008/rev_restructure_draft_2.pdf). For the bill establishing the task force, see enrolled HB 2530, 2007 session.
- 40 The task force's draft recommendations are unclear about precisely when unanticipated revenues above the top of the range would be sent to taxpayers. OCPP believes that the appropriate design would return unanticipated revenues above the top of the range if they came in more than 2 percent above the top of the range.
- 41 The task force's draft recommendations would increase the maximum size of the Rainy Day Fund from 7.5 percent to 10 percent of the prior biennium's revenues. In combination with the Education Stability Fund, which is capped at 5 percent of the prior biennium's revenues, this increase would allow Oregon's reserves to total 15 percent of the prior biennium's revenues. This is a substantial improvement, though it may still fall somewhat short of Oregon's needs. OCPP has shown that in two of the last three recessions Oregon needed reserves of at least 15 percent of the *current* biennium's revenues, typically a higher number than 15 percent of the prior biennium's revenues. See Michael Leachman, *How Big an Umbrella Does Oregon Need?* Oregon Center for Public Policy, January 8, 2008, available at <http://www.ocpp.org/2007/200801IssueRainyDayFund15percentfinal.pdf>.



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