OCPP OREGON CENTER for PUBLIC POLICY

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Executive Summary

September 4, 2009

Labor Day Woes and Wishes

Reviewing recession's impact on workers and policies for greater shared prosperity

By Joy Margheim

In the midst of a severe recession it should come as no surprise that the most recent economic data available this Labor Day are bleak. Oregon's unemployment rate reached historic highs in May, all job gains from the previous economic cycle have been wiped out and economists predict a "jobless recovery." Some parts of the safety net have served their function, but some have not. And wages have fallen for all income groups, though those at the top had ample cushion to soften the blow.

There's much work to be done to build an Oregon that works for working families. To achieve the goal of an economy of shared prosperity there are some key actions that the state can take. Those include upholding the revenue measures enacted by the 2009 legislature, improving Oregon's Earned Income Tax Credit (EITC) and shoring up the state's Rainy Day fund to help smooth the effects of economic volatility.

Among the key findings in the report:

- From December 2007 to July 2009, 107,800 jobs in the state vanished, wiping out all of Oregon's job gains from the previous economic cycle.
- In 2009, Oregon is expected to have only 67 jobs for each 100 workers, and the state is not expected to surpass even the jobs-to-workers level of 2003 — the worst year of the 2001-03 recession — before 2015.
- Absent congressional extension of unemployment benefits, thousands of unemployed workers will start running out of benefits in January 2010.
- The number of families relying on Oregon's Temporary Assistance to Needy Families (TANF) program has grown rapidly since the recession began, rising 32 percent since December 2007. Yet the TANF program is structurally unable to keep up with increased need.
- Workers at all wage levels saw their earnings fall relative to inflation in 2008. But the highest-income households, as a group, entered the recession with a cushion of prior earnings and income gains.

An economy of shared prosperity, with economic opportunity for all working families, won't be built overnight. But Oregon can take decisive steps in that direction by affirming the revenue measures enacted by the 2009 legislature, improving the state Earned Income Tax Credit and shoring up Oregon's Rainy Day Fund.

Taking those steps would make for better Labor Days in the years ahead.

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This Labor Day report updates some of the data from the December 2008 release of *Rolling Up Our Sleeves: Building an Oregon That Works for Working Families* — the most recent report in OCPP's series *The State of Working Oregon*.

There's much work to be done to build an Oregon that works for working families. To achieve the goal of an economy of shared prosperity there are some key actions that the state can take. Those include upholding the revenue measures enacted by the 2009 legislature, improving Oregon's Earned Income Tax Credit (EITC) and shoring up the state's Rainy Day fund to help smooth the effects of economic volatility.

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Job market recovery remains far off

The damage to Oregon's job market this recession has been swift and deep. In the course of a year and a half, Oregon's unemployment rate catapulted to record highs; all job gains from the previous economic cycle vanished. While the job market appears to be stabilizing, economists predict jobs will be slow to return even when the recession ends.

Unemployment rate reaches historic highs

As in the nation as a whole, unemployment in Oregon has reached levels not seen since the recession of 1980-82. Last Labor Day, Oregon's unemployment rate had crept up to 6.8 percent, after averaging 5.1 percent in 2007. But by May 2009, Oregon's unemployment rate had ballooned to 12.2 percent. That's the highest unemployment rate in records kept since 1976.[1]

The rate of unemployment growth has eased somewhat in recent months, but Oregon's unemployment level remains high. In July, unemployment stood at 11.9 percent, the fourth highest rate in the nation. That was the sixth month in a row of double-digit unemployment.

The sharp rise in Oregon's unemployment is due in large measure to contraction in the manufacturing sector. Relative to other states, manufacturing — particularly of durable-goods —

constitutes a significant portion of Oregon's economy. In an economic downturn, individuals and businesses can put off purchases of big-ticket items, so durable-goods manufacturing slows rapidly and employers shed workers.

The official unemployment rate, moreover, understates the extent of joblessness among Oregon workers. The official rate excludes Oregonians who, unable to find suitable work, have either given up their job search or settled for part-time work. In 2008, more than one in five part-time workers in Oregon (21.6 percent) wanted full-time work but could not find it.[2] When those who have given up looking for work or settled for part-time work are counted, Oregon's unemployment rate averaged 18.4 percent between July 2008 and June 2009, a period that encompasses the spike in unemployment this year. The official unemployment rate for the same 12-month period was 10 percent.[3]

It's important to note that Oregon's high unemployment rate, relative to the rest of the nation, is not an indication that Oregon is in worse shape that most other states. Oregon's unemployment rate has been above the national average in all but five of the past 32 years.[4] That's due to the fact that Oregon's job market includes a relatively large number of seasonal jobs, in industries such as agriculture and natural resources or construction. Oregon also has many isolated rural communities far from where the jobs are located.

If there is some good news in Oregon's higher-than-average unemployment rate, it is that it's partly due to the growth of Oregon's labor force. Oregon tends to attract newcomers, who may move here even if they don't have a job. Since the start of the recession, Oregon's labor force has expanded by 2 percent, some due to Oregonians reentering the work force but also due to new workers moving into the state. In the long run, new workers can contribute to the vitality of the state's economy.

Working families struggle with debt

As job losses reduce family incomes, Oregonians are struggling to cover their bills.

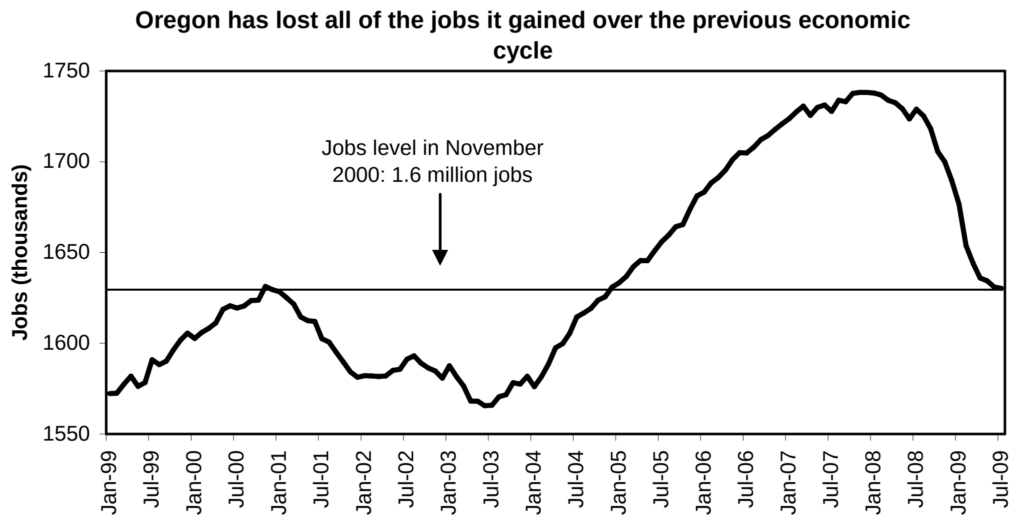
Oregon's housing market continues to fare better than the nation's as a whole, but homeowners increasingly are having difficulty covering their mortgages. Once driven by subprime loans, foreclosures are now moving into the prime market at the national level.[5]

Foreclosures statewide during the first quarter of 2009 have about tripled since late 2007.[6] Default filings in Multnomah County during the first quarter of 2009 were more than double the number in the last quarter of 2007.[7]

Bankruptcy filings have also risen, up 92 percent in Oregon in the first half of 2009 compared to the first half of 2007. That increase is higher than in the United States as a whole, where bankruptcy filings increased 76 percent over the same period.[8]

Recession wipes out job gains from previous business cycle

Another measure of the extent of the damage to Oregon's job market is the fact that the recession has wiped out all of Oregon's job gains from the previous economic cycle. That cycle, discussed in depth in *Rolling Up Our Sleeves*, lasted from late 2000 through 2007. During those seven years, Oregon added 106,800 jobs.[9] But in a span of a year and a half, from December 2007 to July 2009, 107,800 jobs in the state vanished.



Source: OCPP analysis of Oregon Employment Department data. Seasonally adjusted figures.

For now, job losses appear to be moderating. Oregon shed 10,300 jobs each month on average between August 2008 and April 2009. But from May through July, the average monthly losses were down to 1,900.[10]

Health care employment holds up; manufacturing and construction slide

Service-sector jobs in the health care industry have held up this recession. Four of the top five industries that produced new jobs between 2007 and the first quarter of 2009 were in health and social assistance. Two of these, ambulatory services and hospital jobs, provide good pay — around $50,000 per year on average. By contrast, jobs in nursing facilities and social assistance had annual pay in the low $20,000s.

Health care jobs have held up this recession. Manufacturing and construction jobs have been lost.

	Annualized pay	Change in number of jobs	% change
Top five job loss industries			
Specialty trade contractors	$42,164	-15,711	-25%
Administrative and support services	$26,852	-14,836	-17%
Wood product manufacturing	$36,176	-8,764	-29%
Transportation equipment manufacturing	$47,596	-7,540	-41%
Construction of buildings	$45,612	-6,657	-27%
Top five job growth industries			
Nursing and residential care facilities	$22,520	3,303	9%
Hospitals	$49,816	3,101	6%
Ambulatory health care services	$51,068	2,866	5%
Social assistance	$21,424	1,820	7%
General merchandise stores	$22,140	1,354	4%

Source: OCPP analysis of Employment Department data, first quarter 2007 and first quarter 2009.

While service sector jobs have held up, the recession has brought continued job losses in the manufacturing sector. In addition to the losses shown above in wood product and transportation equipment manufacturing, jobs also declined in manufacturing transportation equipment, computer and electronic products, furniture, plastics, machinery, paper, appliances, apparel, fabricated metal, primary metals and petroleum, nonmetallic mineral, and textile products.

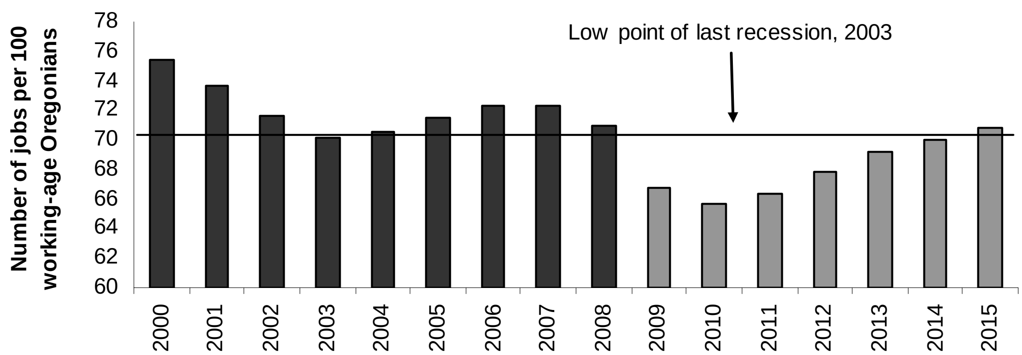
Several of the industries that lost the most jobs through the first quarter of 2009 had been among the largest job creators during the first part of this decade. Not surprisingly, this included construction industries along with administrative and support services, which includes temporary jobs. Restaurants, which were the biggest job creator in terms of job numbers leading up to the recession, also shed jobs in 2008 and early 2009.

Job shortage won't end anytime soon

Even if the recession ends soon, that won't bring quick relief to unemployed Oregonians. The state's most recent economic forecast predicts an end to the recession in late 2009, but the "end" is simply the point where economic activity begins to pick up again. The state projects job losses and high unemployment continuing into early 2010, with the job market growing slowly beginning in the second quarter of next year. Job growth is not expected to really pick up before 2011.[11] In other words, Oregonians can expect a "jobless recovery."

The prospects of a jobless recovery become more dispiriting when considering how much job growth has lagged growth in the number of workers this decade. In 2000, as the expansionary period of the 1990s was coming to an end, there were 75 jobs in the state for every 100 working-age Oregonians. The ratio of jobs to workers fell as Oregon moved into recession in the early part of this decade and never returned to the prior peak in the subsequent recovery that ended in December 2007. In 2009, Oregon is expected to have only 67 jobs for each 100 workers, and the state is not expected to surpass even the jobs-to-workers level of 2003 — the worst year of the 2001-03 recession — before 2015.

Jobs will be hard to find in Oregon for years to come



Working age is 18-64. Jobs are non-farm payroll jobs, not seasonally adjusted.
Source: OCPP analysis of September 2009 Economic and Revenue Forecast and Oregon Employment Department data.

While the rate of job losses may be slowing, Oregon is not expected to create enough jobs during the recovery to keep up with growth in the working-age population. In sum, Oregon's job market this Labor Day finds itself in a deep hole that will take years to get out of.

Safety net has some strengths, some holes

Safety net programs such as unemployment insurance, welfare and food stamps are key stabilizers of the economy. They offer a measure of relief for struggling families, and in terms of economic stimulus, money spent on such programs offers some of the best bang for the buck. That's because the recipients of such assistance spend their money quickly and locally. These safety nets are what have so far prevented the current downturn from turning into a deep depression.

This recession has highlighted some strengths in the nation's and Oregon's safety nets, as well as some holes.

Unemployment insurance could run out for thousands of Oregonians

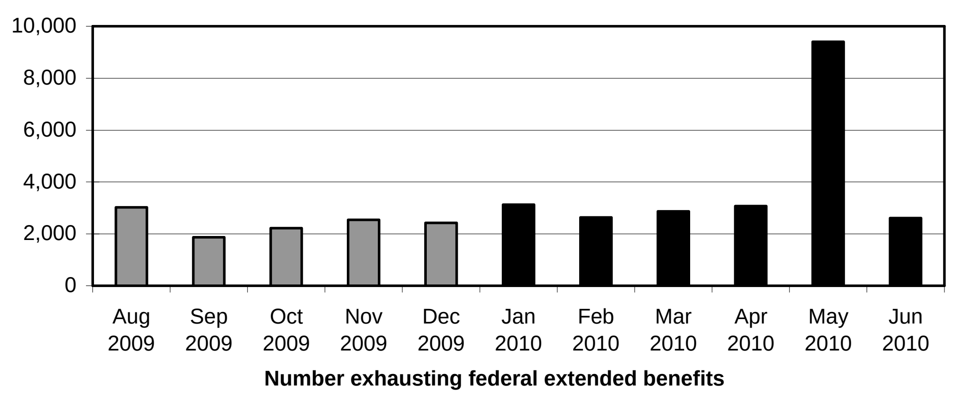
Unemployment checks not only help families cover basic needs after workers lose their jobs but also support local economies as those dollars are spent among local merchants. Fortunately, Oregon — unlike many other states — has a well-managed unemployment insurance trust fund.

The magnitude of this recession has prompted Congress to extend unemployment insurance coverage beyond the regular 26 weeks of state-funded benefits. With an additional 53 weeks of federally-funded extended benefits, eligible workers are now able to collect up to 79 weeks of benefits.

These extensions, however, have fallen short in the face of this downturn. As the recession enters its 21st month, growing numbers of Oregonians who have been unable to find a job face the end of their unemployment benefit payments. In response, the 2009 Oregon legislature enacted an additional 13-week extension of benefits from October through the end of the year that will help an estimated 6,000 unemployed workers who otherwise would have exhausted all their extended benefits.[12]

Starting in January 2010, unemployed workers will run out of extension options. Each month thousands will be left without unemployment benefits. In May 2010, when a federal benefit program expires, the number of unemployed workers who will have used all their unemployment benefits will spike, with over 9,000 workers losing their benefits that month alone and around 2,600 the following month.

Laid-off Oregonians are reaching the end of their unemployment insurance benefits



Gray bars indicate workers who will have access to state-funded extended benefits.
Source: Oregon Employment Department data.

Absent congressional action to continue federally-funded extended benefits, thousands of unemployed Oregon workers will be out in the cold next year.

Not enough families get temporary cash assistance

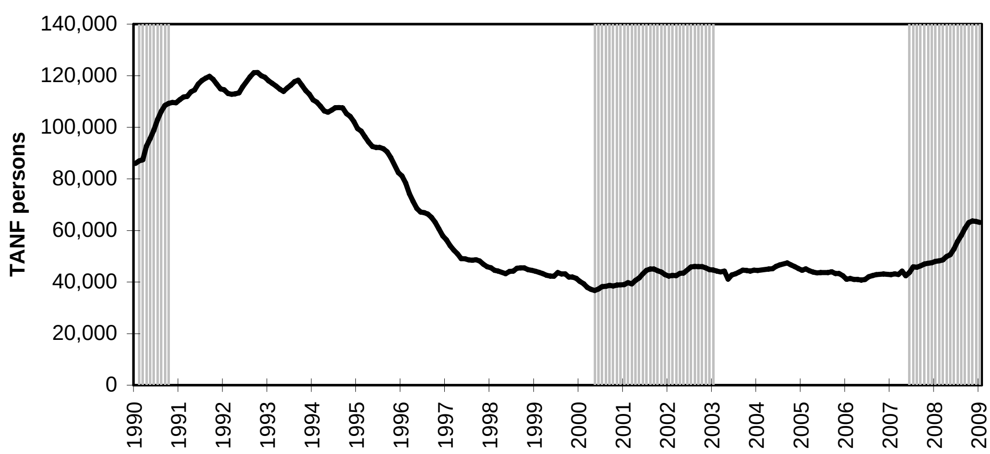
Workers who do not qualify for unemployment benefits or have run out of benefits may need temporary cash assistance, or welfare, to support their families. Oregon's welfare program, Temporary Assistance for Needy Families (TANF), helps poor, single-parent families with dependent children remain stable during hard times. It also helps them get into the workforce. A small number of two-parent families also receive TANF, if both parents are unemployed or underemployed.

Oregon's TANF caseload has grown rapidly since the recession began. It's up 32 percent since December 2007. In June 2009, the program served 24,982 families, more than the 18,509 served in June 2003, during the 2001-03 recession.[13]

While the number of TANF cases has grown this recession, structurally the TANF program is unable to keep up with increased need. Oregon's current TANF caseload remains well below the 38,951 families receiving cash assistance in June 1991, just after a relatively mild recession.[14]

Prior to welfare reform in 1996, states were entitled to federal matching funds under a formula similar to that used in the Medicaid program. The federal government shared the increased costs of growing caseloads when a downturn hit. With welfare reform, Congress shifted funding to a block grant. States now receive a fixed amount each year, making the state pick up the entire cost of increased numbers of families helped during a recession. State fiscal limits mean that the TANF program is unable to respond adequately to rising need during recessions.

Since welfare reform in 1996, TANF has not responded as strongly as it used to during recessions



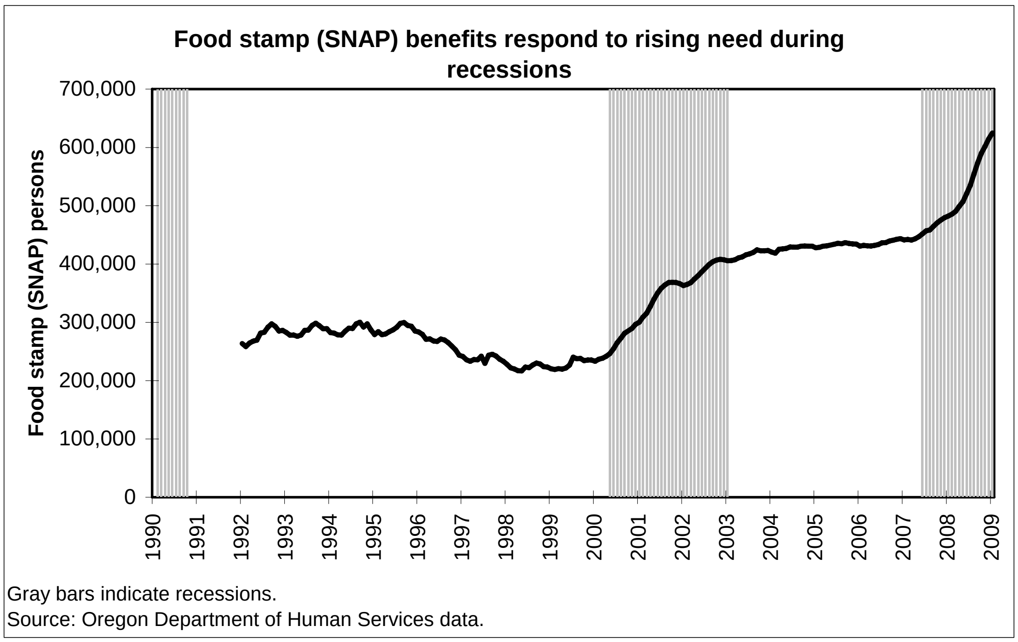
Gray bars indicate recessions. TANF person count is for both basic (1-parent) and UN (2-parent) programs. Source: Oregon Department of Human Services data.

With fixed federal funding and increased demand, eligibility rules have been made more stringent to control the number of families helped. For instance, families now have to be much poorer to be eligible for TANF. Today, the gross income limit — the maximum allowable income before certain deductions and exemptions — for a three-person family is $616 per month, the same as it has been since the early 1990s.[15] Because of the effects of inflation, a family now has to be poorer in real terms to qualify for TANF. In 1996, a three-person family earning the $616 limit would have had an income of 57 percent of the federal poverty guidelines. In 2009, that amount would be 40 percent of the poverty guidelines.

The federal stimulus package enacted earlier this year has helped Oregon's TANF program respond to this recession. The package provides $4 for every $1 that Oregon spends on increased assistance to families with dependent children, up to a capped amount.[16] But the response is still below what the program was able to do in the past.

Food stamps respond to need

Whereas TANF's predetermined federal funding amount has led to restricted eligibility limits, funds for food stamps, now called Supplemental Nutrition Assistance Program (SNAP) benefits, adjust to economic reality. Everyone who applies for SNAP and is eligible receives benefits. Benefits are paid entirely by the federal government; states contribute to administrative costs. As a result, states are able to focus on improving access to food stamps among eligible families rather than having to hold down eligibility limits. And when the economy turns sour, participation is allowed to grow.



Earlier this decade, Oregon changed food stamp eligibility rules to allow more families access to food stamps. The number of Oregonians getting food stamps in 2007 was nearly double the number that received them in 1999. The program has grown further this recession. Between December 2007 and July 2009, the number of Oregonians served by the program increased 38 percent.[17]

Expanded Health Coverage for Children and Low-Income Adults

The 2009 Oregon legislature expanded health insurance coverage for children and low-income adults. [18] The Healthy Kids legislation will cover an additional 80,000 children in 2009-11, ensuring that nearly all Oregon children have access to comprehensive health insurance coverage. The expansion will double the number of low-income adults, from 25,000 to 50,000, covered by the Oregon Health Plan "Standard" program, which serves the working poor who lack health insurance.

When fully implemented in January 2010, Healthy Kids will allow the lowest-income families to enroll their children at no cost. Households with incomes between 200 and 300 percent of poverty will receive a subsidy.[19]

The legislature paid for the expansion with a new tax on insurers and hospitals. That tax will draw into the Oregon economy $1.9 billion in federal matching funds over the 2009-11 and 2011-13 biennia. The hospital tax will flow back to the providers in the form of increased fees. [20]

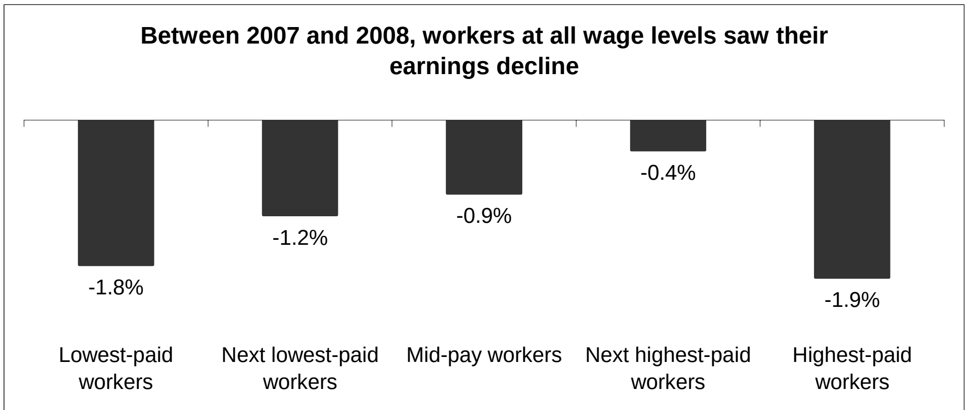
While the expansion is an important step toward providing health coverage to all Oregonians, there is still along way to go to cover the 649,000 Oregonians who lacked health insurance in 2006-07, the most recent year for which data are available.[21]

Wages take a hit; wealthy are well cushioned

The recession has impacted wages at all income levels, but not all groups entered the recession in the same condition. While more than half of Oregon families were experiencing stagnant or falling wages even prior to the recession, the highest-income households, as a group, entered the recession with a cushion of prior earnings and income gains.

Wage earnings fall for all income groups

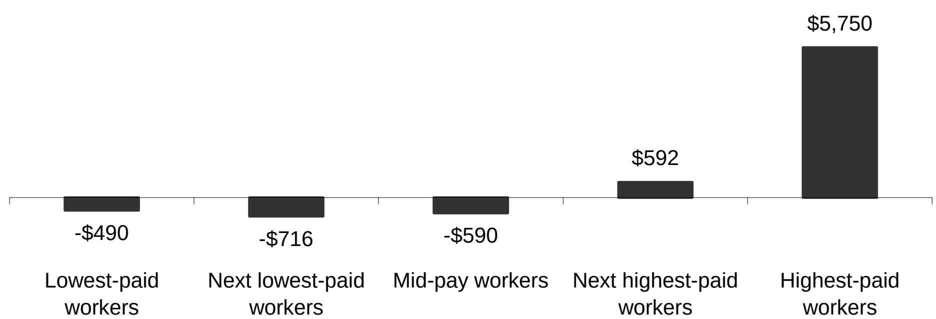
Workers at all wage levels saw their earnings fall relative to inflation in 2008. Average annual earnings of the highest-paid workers declined 1.9 percent behind inflation, or more than $2,200, between 2007 and 2008. The lowest-paid workers experienced almost as much of a decline — 1.8 percent, or more than $300. Wage losses likely reflect both reductions in hours and inflation growth, as prices for food and energy rose sharply through much of 2008.



Change in average annualized earnings by quintile, inflation-adjusted to 2008 dollars using US CPI-U, for workers employed 350 or more hours per quarter.
Source: OCPP analysis of Oregon Employment Department data.

For low- to mid-pay workers, the decline in earnings came on top of wage losses suffered since 2001. Between 2001 and 2007, mid-pay workers saw their average annual wages fall $249. By the end of 2008, their earnings were $590 below what they had been at the beginning of the decade, after adjusting for inflation. The lowest-paid workers saw their earnings decline $490, or 2.7 percent, over the entire period.

Higher-paid workers' earnings are still up from 2001, while lower-paid workers are further behind



Change in averge annualized earnings by quintile, inflation-adjusted to 2008 dollars using US CPI-U, for workers employed 350 or more hours per quarter.
Source: OCPP analysis of Oregon Employment Department data.

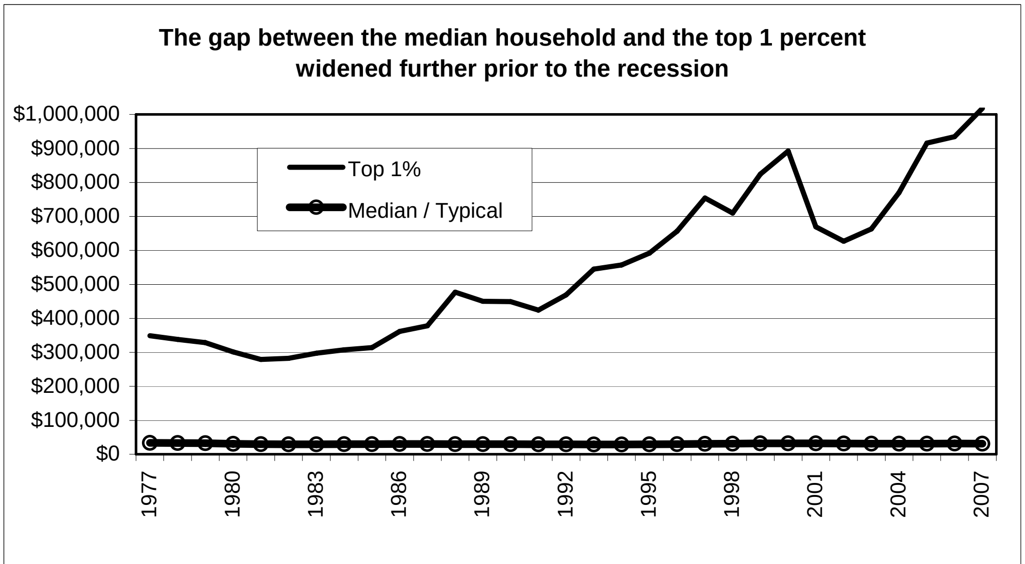
Higher-paid workers were cushioned, however, by earnings gains over the first part of this decade. Even with the wage losses they experienced from 2007 to 2008, their average wages grew by $5,750 or 5.4 percent over inflation this decade. Their average annual earnings beat inflation by more than $7,900 between 2001 and 2007.

Income inequality reached extremes on the eve of recession

Wages are just one component of income. Total household income includes sources that are often important for higher-income households, such as capital gains, real estate and other investments. At the national level, there are indications that incomes at the top of the scale have dropped this recession and may not rebound quickly, as they did earlier this decade. [22]

The latest data on total household income cover only the period leading up to the start of the recession, so the impact of the subsequent stock and real estate market crashes on the extent of income inequality won't be known until data for 2008 and subsequent years become available.

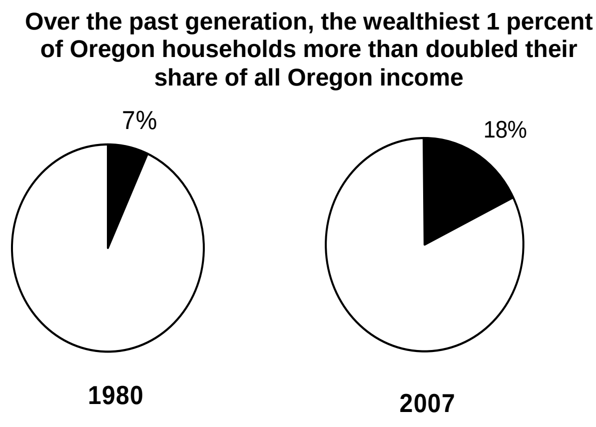
The most recent income data, however, reveal the extent of the gap between the richest Oregonians and the typical Oregon household that existed on the eve of the recession. In 2007, the average adjusted gross income of the wealthiest 1 percent of Oregon households surpassed the $1 million mark. That meant that these wealthiest households had tripled their inflation-adjusted income compared to 1979. By contrast, the typical, or median, Oregon household income remained at around $31,000, about what it was in 1979 in inflation-adjusted dollars.[23]



Source: OCPP analysis of Oregon Dept. of Revenue adjusted gross income data. Income by all tax returns. Inflation-adjusted 2007 dollars with US CPI-U.

The income gains of the top one-tenth of 1 percent — a select group of about 1,600 households — were even more impressive. Between 1980 and 2007, this group's average income grew to $3.2 million. In 2007 alone, the top one-tenth of 1 percent reported a total of $5.2 billion in income. That equals the total income reported by the lowest-earning 506,000 households in the state in 2007, about 30 percent of Oregon taxpayers.[24]

Not surprisingly, income has become increasingly concentrated in the hands of the richest Oregonians, particularly the wealthiest 1 percent. In 1980, 7 percent of all income in Oregon went to the richest 1 percent of households. By 2007, on the eve of the recession, the top 1 percent collected 18 percent of all income.[25]



Source: OCPP analysis of Oregon Department of Revenue data, full-year returns.

In the meantime, the share of the pie shrank for all but the top 20 percent of income earners. For Oregon households in the middle, for example, their share of total income declined from 16 percent in 1980 to 12 percent in 2007.

Distribution of income in Oregon						
	Bottom 20%	**Second 20%**	**Middle 20%**	**Fourth 20%**	**Top 20%**	**Top 1%**
Share of all income						
1980	3%	8%	16%	25%	49%	7%
2000	2%	7%	13%	21%	58%	16%
2007	2%	6%	12%	21%	60%	18%
Average income, 2007$						
1980	$5,934	$17,799	$33,559	$54,304	$104,776	$315,323
2000	$6,477	$19,246	$35,225	$59,934	$162,878	$927,087
2007	$6,106	$18,549	$34,466	$59,947	$173,071	$1,046,308
$ change						
1980 to 2000	$543	$1,447	$1,666	$5,631	$58,101	$611,764
2000 to 2007	-$371	-$697	-$759	$13	$10,194	$119,221
1980 to 2007	$172	$750	$907	$5,644	$68,295	$730,986
% change						
1980 to 2000	9%	8%	5%	10%	55%	194%
2000 to 2007	-6%	-4%	-2%	0%	6%	13%
1980 to 2007	3%	4%	3%	10%	65%	232%

Returns with negative income are excluded from bottom fifth; "share of all income" column will not sum to 100 percent.

Source: OCPP analysis of Oregon Department of Revenue data, full-year returns.

Oregonians in the middle and lower income tiers gained little over inflation between 1980 and 2007. They actually lost ground between 2000 and 2007, once inflation is taken into account. As a result, their income grew only 3 percent during the entire 27-year period.

By contrast, the wealthiest 20 percent of Oregonians captured almost all the income gains during the first part of this decade. The wealthiest 1 percent saw their income increase 232 percent over inflation between 1980 and 2007.

Corporate profits are down, but CEO pay is holding up

The recession diminished corporate profits in 2007 and 2008, but Oregon corporations still did well this decade, with strong gains prior to 2007.

There are no definitive figures on the profitability of Oregon corporations. Using the methodology employed by the Oregon Office of Economic Analysis when it develops state revenue projections, however, OCPP estimates that corporate profits rose from $8.7 billion in 2000 to $20 billion in 2006. Profits dipped to $19.6 billion in 2007 and fell to $16.3 billion in 2008. That still left them almost double what they were in 2000.[26]

Corporate leaders felt less of an impact. Average compensation among Oregon's 40 highest-paid CEOs of public companies was $2.05 million in 2008, down 0.4 percent or about $7,400 per CEO compared to 2007. While total compensation, including benefits, stock options and so on, dropped 3.6 percent, 22 out of the 40 CEOs saw their total compensation go up. [27]

Total compensation among the highest-paid Oregon CEOs of public companies held up fairly well from 2007 to 2008

CEO	Public company	2007 compensation	2008 compensation	Change
John D. Carter*	Schnitzer Steel Industries	$5,895,950	$9,093,156	54%
Earl R. Lewis	FLIR Systems	$3,917,426	$8,917,342	128%
Mark Donegan	Precision Castparts Corp.**	$9,159,660	$7,417,002	-19%
Mark G. Parker	Nike**	$8,800,587	$7,306,694	-17%
Peggy Y. Fowler*	Portland General Electric Co.	$2,770,469	$4,522,982	63%
Eric E. Parsons*	StanCorp Financial Group	$4,621,121	$3,870,802	-16%
Raymond P. Davis	Umpqua Holdings Corp.	$2,072,528	$3,334,363	61%
Bruce Davis	Digimarc Corp.	$1,172,886	$3,082,857	163%
Don R. Kania	FEI Co.	$3,472,677	$2,607,008	-25%
Mark S. Dodson*	Northwest Natural Gas Co.	$4,894,439	$2,529,128	-48%
James S. Osterman	Blount International	$1,897,939	$2,324,593	23%
Scott C. Grout	RadiSys Corp.	$1,562,586	$2,261,466	45%

*No longer serving as CEO. **2008 compensation column lists figure reported for 2009, when last fiscal year ended.

Source: *Oregon Business Magazine,* September 2009.

With the right policies, future Labor Days can be better for workers other than just CEOs

As it moves toward recovery, some of the most important steps Oregon should take to support working families follow on the heels of actions taken by the 2009 legislature.

Support measures that modestly, fairly and smartly raise revenue

Faced with declining income tax revenues in this recession, the 2009 legislature made painful cuts in education, health and human services and public safety programs to help balance the state's budget. They also enacted modest tax increases on corporations and wealthy Oregonians that balanced the budget and helped avoid even deeper cuts.

That was a good choice. Cutting programs reduces demand by reducing the amount the state spends in Oregon maintaining public services and, in some cases, by reducing matching federal dollars brought into the state. Tax increases targeted at high-income households and corporations also reduce demand, but not as much as cutting state services would. To pay the additional taxes, wealthy people can draw out of their savings or cut spending they would have done in other states. And more than two-thirds of Oregon's corporate income tax is paid by out-of-state companies, so much of the impact of a corporate tax increase will fall outside of Oregon.

When fully implemented, the measures make only modest changes. For example, the corporate minimum tax will go up from $10 to $150 for corporations that pay taxes on profits through the personal income tax (S-corporations). Partnerships and limited liability corporations (LLCs) that also pay taxes on profits through the personal income tax will have to pay a new $150 entity tax. Under the new personal income tax changes a family with $260,000 in income will pay just $90 in additional taxes.

The personal income tax measure also helps the unemployed this Labor Day by lowering their taxes. The measure exempts from state income taxes for one year the first $2,400 in unemployment benefits.[28]

The revenue measures also reduce the level of inequality in Oregon's tax system, which asks more of low-income Oregonians and individuals than of the wealthy. Low-income Oregonians pay a larger share of their income in state and local taxes than wealthy Oregonians.[29] And the corporate share of income taxes has declined over the past three decades. In 1973-75, corporations paid 18 percent of all Oregon income taxes. By 2007-09, they paid only 6.3 percent.[30]

Because vital state services are funded with the additional revenue, it's in Oregonian's best interest to uphold the tax measures. Critics of the revenue measures are gathering signatures to refer them to voters in January. By voting "yes" in support of the measures if they reach the ballot, Oregonians will not only avoid additional budget cuts that would hit hard on individuals and families already battered by the recession, but they also will protect thousands of jobs that will otherwise be lost.

Bolster the Rainy Day Fund to soften the effects of economic volatility

The revenue measures also help bring stability to Oregon's budget. Legislators could have avoided some of the budget cuts made this session if Oregon's Rainy Day Fund, created in 2007, had been larger or had been instituted earlier.

Starting in 2013, the revenue raised from the tax on corporate profits in excess of $10 million will be deposited into the state's Rainy Day Fund.[31] That will help protect the state from having to make damaging budget cuts when the next recession hits.

Oregon could go further in preparing for downturns by reforming its income tax "kicker" law. The law requires the state to automatically "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. By transforming the personal and corporate income tax kickers into permanent reserve funding sources, Oregon could save unanticipated revenues during good economic times, for use during downturns.

Oregon's Task Force on Comprehensive Revenue Restructuring issued recommendations for strengthening the Rainy Day Fund by saving more unanticipated revenue. Oregon should implement those recommendations.

Improve the state EITC to offset regressive transportation taxes and fees

Oregon should also improve the state Earned Income Tax Credit (EITC) to offset needed but regressive new transportation taxes and fees passed by the 2009 legislature. The Jobs and Transportation Act raises gasoline taxes and vehicle fees to fund important improvements and repairs to Oregon's transportation infrastructure. Unfortunately, the tax and fee increases are not based on ability to pay. They ask more from low-income Oregonians as a share of their income than from any other group.[32]

To offset these regressive taxes and fees, the legislature should improve Oregon's EITC, a tax credit that helps low-income working families with children make ends meet. Raising the state's Earned Income Tax Credit from the current 6 percent to 18 percent of the federal credit would in a small way make Oregon's overall tax system less regressive and, as importantly, reduce the impact of the Jobs and Transportation Act's tax and fee increases on low-income families.

Conclusion

This Labor Day Oregon's working families are finding little good news in the economic data. Record unemployment levels as well as earnings losses indicate that working families — many of whom entered the recession with stagnant or declining wages — have taken a significant hit this recession.

An economy of shared prosperity, with economic opportunity for all working families, won't be built overnight. But Oregon can take decisive steps in that direction by affirming the revenue measures enacted by the 2009 legislature, improving the state Earned Income Tax Credit and shoring up Oregon's Rainy Day Fund.

Endnotes

[1] Oregon Employment Department data, seasonally adjusted figures.

[2] Economic Policy Institute analysis of Current Population Survey data.

[3] Bureau of Labor Statistics, Local Area Unemployment Statistics, "Alternative Measures of Labor Underutilization for States," second quarter 2008 through first quarter 2009 averages, www.bls.gov/lau/stalt.html.

[4] OCPP analysis of Oregon Employment Department data.

[5] Mortgage Bankers Association, "Delinquencies and Foreclosures Continue to Climb in Latest MBA National Delinquency Survey," news release, May 28, 2009, and "Delinquencies Continue to Climb, Foreclosures Flat in Latest MBA National Delinquency Survey," news release, August 20, 2009, available at www.mbaa.org/NewsandMedia/PressCenter.

[6] Federal Deposit Insurance Corporation, Regional Economic Conditions, www2.fdic.gov/recon/.

[7] OCPP analysis of Multnomah County data.

[8] OCPP analysis of American Bankruptcy Institute data.

[9] OCPP analysis of Oregon Employment Department data. Seasonally adjusted figures.

[10] Oregon Employment Department data. Seasonally adjusted figures.

[11] Office of Economic Analysis, *Oregon Economic and Revenue Forecast,* September 2009, available at www.oregon.gov/DAS/OEA/economic.shtml.

[12] HB 3483, 2009 session.

[13] Oregon Department of Human Services data. Count is for basic (1-parent) and UN (2-parent) programs combined.

[14] Oregon Department of Human Services data.

[15] Oregon Department of Human Services, *Family Services Manual*, TANF Income and Payment Standards.

[16] See Sharon Parrott and Liz Schott, *Overview of the TANF Provisions in the Economic Recovery Act,* Center on Budget and Policy Priorities, February 25, 2009, available at www.cbpp.org/files/2-26-09tanf.pdf.

[17] Oregon Department of Human Services data.

[18] HB 2116, 2009 session.

[19] Families with income below 200 percent of the federal poverty level (FPL) will not pay for coverage; those earning 200-300 percent of FPL will receive premium assistance; and those above 300 percent of FPL will pay full cost for coverage. Children from the lowest-income families will be enrolled in the Oregon Health Plan, while higher-income families will have access to subsidized employer-sponsored insurance policies or access to state-sponsored insurance.

[20] Legislative Fiscal Office, *Budget Highlights, 2009-11 Legislatively Adopted Budget,* August 2009, p. 85, available at www.leg.state.or.us/comm/lfo/2009_11_budget/highlights.pdf. Both the hospital and the insurer assessments sunset in 2013.

[21] OCPP analysis of Current Population Survey data.

[22] David Leonhardt and Geraldine Fabrikant, "Rise of the Super-Rich Hits a Sobering Wall," *New York Times,* August 21, 2009.

[23] OCPP analysis of Oregon Department of Revenue adjusted gross income data, all returns. Median income in 1979 inflation-adjusted to 2007 dollars was $32,492, compared to $31,147 in 2007. Average income of the top 1 percent in 1979 adjusted to 2007 dollars was $328,696.

[24] OCPP analysis of Oregon Department of Revenue data, full-year personal income tax returns. Comparison to lowest-income 30 percent excludes returns with negative income. These data are available only since 1980.

[25] OCPP analysis of Oregon Department of Revenue data, full-year personal income tax returns. Excludes returns with negative income.

[26] OCPP analysis of Bureau of Economic Analysis data. Figures here differ slightly from those in earlier OCPP publications because BEA has updated their data. Corporate profits here includes profits made by both C-corporations and S-corporations. A previous OCPP analysis included only C-corporations, since only C-corporations pay corporate income taxes (S-corporations' profits are passed through to owners and taxed under the personal income tax system.). See Michael Leachman, *Doing Well for Themselves, Not Oregonians*, Oregon Center for Public Policy, June 5, 2007, available at www.ocpp.org/2007/Issue070605CorpProfits.pdf.

[27] Brandon Sawyer, "CEO Pay Slims Down," *Oregon Business,* September 2009.

[28] The change stems from a provision in the federal stimulus package, the American Recovery and Reinvestment Act, that exempted the first $2,400 in unemployment benefits from federal income taxes for tax year 2009.

[29] In 2008, the lowest-income fifth of Oregon taxpayers paid 9.2 percent of their income in state and local taxes, while the highest-income 1 percent paid just 6.7 percent. For more details, see Oregon Center for Public Policy, "Oregon State and Local Taxes in 2008," available at www.ocpp.org/resources/2008WhoPays20080424.pdf.

[30] Oregon Center for Public Policy, "Latest Revenue Forecast Shows That Even With Tax Increase, Corporations' Share of Income Taxes Still Lags," August 27, 2009, available at www.ocpp.org/cgi-bin/display.cgi?page=nr20090827Foreca.

[31] HB 2073, 2009 session, dedicates revenue collected from the new tax increment to the Rainy Day Fund. This is expected to generate $69 million for the fund in 2013-15.

[32] Oregon Center for Public Policy, *Will Poor, Working Families Be Roadkill?,* June 11, 2009, available at www.ocpp.org/cgi-bin/display.cgi?page=IS20090610EICGas.

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