

THE STATE OF WORKING OKLAHOMA:

The Uneven Recovery Leaves Many Behind

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Community Action Project is a Tulsa-based comprehensive anti-poverty agency whose mission is to help individuals and families in need achieve self-sufficiency. CAP's public policy department aims to promote policies that will benefit low- and moderate- income Oklahomans through research, education and advocacy.

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1 EXECUTIVE SUMMARY

By most standards of economic growth, the Oklahoma economy has been doing very well. Gross State Product (GSP) – a measure of the value of all goods and services produced in the state – has shown strong growth. Oklahoma’s unemployment rate has remained below the national rate and total personal income in the state has increased significantly since the 2001 recession.

Yet the benefits of the expansion have been unevenly distributed. While the Oklahoma economy is expanding – producing more goods and services – and generating ever greater revenues, the growth is not necessarily translating into greater opportunity and economic well-being for all Oklahomans. Between 2001 and 2005, the median wage in Oklahoma, adjusted for inflation, declined by nearly 1 percent. Median household income declined 4.5 percent over the same period. For most Oklahoma wage earners and their families, the bottom line during this uneven recovery has been a declining standard of living.

To better understand how the Oklahoma economy can be enjoying a period of overall growth while simultaneously seeing declines in income for the median household, we focus our analysis on four main areas – the general Oklahoma economy, jobs and the labor force, wage and income, and family self-sufficiency. The principle findings are:

- ✘ Oklahoma’s economy is growing: output and per capita personal income are increasing;
- ✘ While the state was slow to recover jobs lost in the 2001 recession, its economy is now adding jobs and unemployment is declining, although its employment-to-population ratio continues to trail the nation’s;
- ✘ Oklahoma’s labor force is undergoing a profound structural change that is shifting high wage manufacturing jobs to lower wage service employment;
- ✘ Wages paid to Oklahoma workers have declined in purchasing power even as productivity and business profits have increased;
- ✘ The decline in real wages has hit Oklahoma minorities particularly hard;
- ✘ The gender wage gap has been tightened through female wage gains and male losses;
- ✘ Household income has stagnated for all but the wealthiest Oklahomans leading to increased income inequality in the state;
- ✘ And, more Oklahoman’s are suffering increased economic stress and hardship as they try to provide for themselves and their families as prices for basic necessities - including housing, utilities and health insurance - outpace changes in wages and income.

We conclude our report with five policy recommendations for state policymakers that build opportunity and increase economic security for working Oklahoma families. These recommendations are to:

- ✘ Expand health insurance coverage for children,
- ✘ Increase the state earned income tax credit,
- ✘ Promote college savings by creating a matched savings program for higher education,
- ✘ Expand consumer protections on payday loans, and
- ✘ Promote quality early childhood education.

4 We hope that these recommendations will help more equitably distribute the benefits of the strong growth of the Oklahoma economy during its current economic expansion and help secure the state and its citizens against the next, eventual downturn in the business cycle.

2 INTRODUCTION

The economic situation of many Oklahomans can be likened to that of a patient who goes to the doctor feeling ill but is told that there's nothing wrong with him. The patient tries to explain to the doctor that he is feeling sluggish and seems to catch every bug that goes around. The average Oklahoma worker must feel like that sick patient. No matter how much he protests that he is finding it harder and harder to scrape by, he reads some article or hears on the news that the economy is booming, personal income is on the rise and state coffers are overflowing with surplus revenues.

In fact, since the current economic expansion began following the recession of 2001, Oklahoma and the nation have seen impressive average annual growth: 2.8 percent for the nation and 3.8 percent for the state. Likewise, Oklahoma and the nation are both experiencing historically low unemployment rates, increasing real per-capita income, and strong employment growth. However, American wage earners are well aware that something is lacking in the current recovery. An August 2006 ABC News poll found that 54 percent of respondents rated the economy as getting worse, compared to 15 percent believing the economy is getting better.¹ A recent Gallup poll suggests reasons for the incongruence between positive overall economic performance and people's negative perceptions. Respondents were asked the following open-ended question: "What is the most important financial problem facing your family today?" The top two answers were "Health Care Costs" and "Lack of Money/Low Wages."²

Even U.S. Treasury Secretary Henry M. Paulson, speaking to an audience of business students at Columbia University last August, noted, "amid this country's strong economic expansion, many Americans simply aren't feeling the benefits." Oklahoma would seem to be no exception to this national trend. Oklahoma's economy, like the nation's, has seen strong growth and increasing personal income and productivity. Yet at the same time, the underlying structure of the economy has been changing. Job opportunities have increased in lower wage service industries, while available jobs in higher wage sectors have decreased in the state.

Since the end of the 2001 recession, Oklahoma's economy has grown by 8.5 percent after adjusting for inflation, while per capita personal income has seen gains of 6.5 percent. Yet, over the same period, the median household income in Oklahoma has fallen, after adjusting for inflation, by 4.5 percent.



How can the nation and the state be experiencing great gains in output and personal income yet so many working families are still struggling to make ends meet? This report looks to see why, if Oklahoma is doing fine, its workers are feeling so bad. Our analysis first considers the growth of the Oklahoma economy as a whole. Next, we look at employment data, finding that while the unemployment rate is low, the labor force is undergoing a profound structural shift from higher-wage to lower-wage jobs. Third, we consider wages and income of Oklahoma workers and households, identifying how the uneven recovery has failed to distribute its benefits across the population. Lastly, we look at the situation of the average working Oklahoma family and find that stagnant wages and income combined with rising costs are leaving many in dire financial straits.

3 OKLAHOMA'S GROWING ECONOMY

FINDING

**Oklahoma's economy is growing:
output and per capita personal income are increasing.**

KEY FACTS

- ✘ After adjusting for inflation, Oklahoma's economy grew by 8.5 percent between 2002 and 2005.³
- ✘ Oklahoma's economy ranks as the twenty-ninth largest state economy in terms of output and personal income.⁴
- ✘ Between 2002 and 2005, Oklahoma's per capita personal income grew in real terms by 6.5 percent.⁵

Gross State Product: Oklahoma's economy has shown strong growth during the current economic expansion, growing in *real terms* – adjusting dollar figures from year to year for inflation – by 8.5 percent between 2002 and 2005.⁶ After growing by 2.3 percent in 2001, Oklahoma's economy slowed in 2002 to 1.2 percent. But the lull in economic growth was only momentary; the following year Oklahoma was once again seeing a 2 percent growth rate that was to increase to 3.3 percent for 2004 and 2005. In 2005, over \$121 billion in goods and services were produced in and sold from Oklahoma.

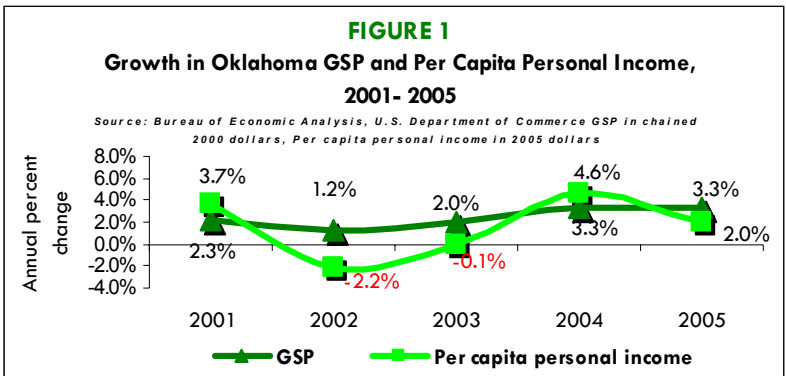
Personal Income: Oklahoma's economy ranks as the twenty-ninth largest state economy in terms of output and personal income. In 2005, Oklahoma's total personal income was \$106.1 billion an increase of 6.7 percent from 2001.⁷ Oklahoma's per capita personal income, which measures the average

income of the entire population, was \$29,908 in 2005. This represents growth of 6.5 percent between 2002 and 2005. Oklahoma's per capita personal income grew faster than the national average of 3.1 percent over this period. However, Oklahoma still stands \$4,537, or 13.3 percent, below the national average per capita income.

Gross State Product
The size of Oklahoma's economy is measured by Gross State Product (GSP). Like its national equivalent GDP, Gross State Product measures economic output using the total value of final goods and services. A final good or service is one that is sold to an end consumer, the person who will actually use the good or service without reselling it to another person or business. GSP measures how much industry in Oklahoma contributes to the total annual offering of goods and services that are produced and then sold to consumers in the state or in other states and countries.

Personal Income
Personal income is the sum of all income received by persons in the state. Personal income can be wages, rents, dividends, transfer payments (e.g., Social Security,) or capital gains.

For more detailed definition of personal income or GSP refer to the Bureau of Economic Analysis' *A Guide to the National Income and Product Accounts of the United States*, September 2006.



4 JOBS AND THE LABOR FORCE

FINDING

While the state was slow to recover jobs lost in the 2001 recession, its economy is now adding jobs and unemployment is declining although its employment-to-population ratio continues to trail the nation's.

KEY FACTS

- ✘ Oklahoma lost nearly 35,000 jobs due to the 2001 recession.⁸
- ✘ Oklahoma's unemployment and employment rates have remained below the nation-wide rates throughout the current recovery.⁹

During the current recovery, Oklahoma has lost over 25,000 manufacturing sector jobs, which have an average annual wage of \$36,296, and has seen the greatest job increase in service sector jobs, with an average annual wage of \$29,432.

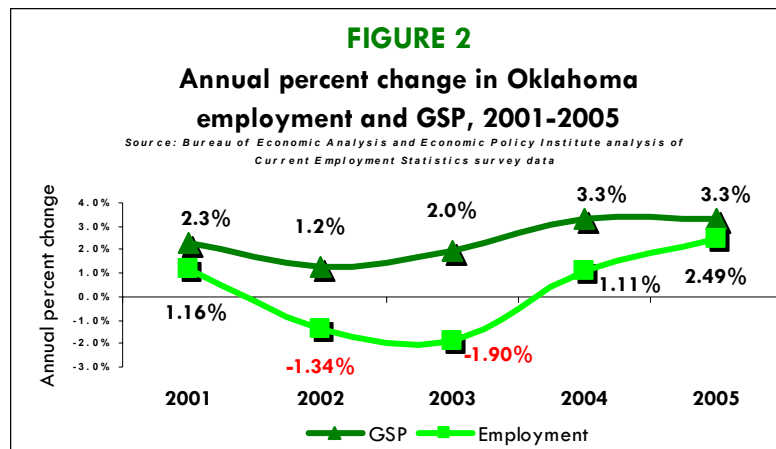


Job Growth: The last recession officially ended November 2001, but Oklahoma continued to see job losses for the next two years, not seeing new employment growth until the beginning of 2004. Oklahoma lost over twenty thousand private sector jobs in 2001, then nearly another ten thousand the following year. At the same time, Oklahoma's state and local governments were facing huge deficits, which required cutting government programs and services and resulted in the loss of nearly five thousand public sector jobs.¹⁰

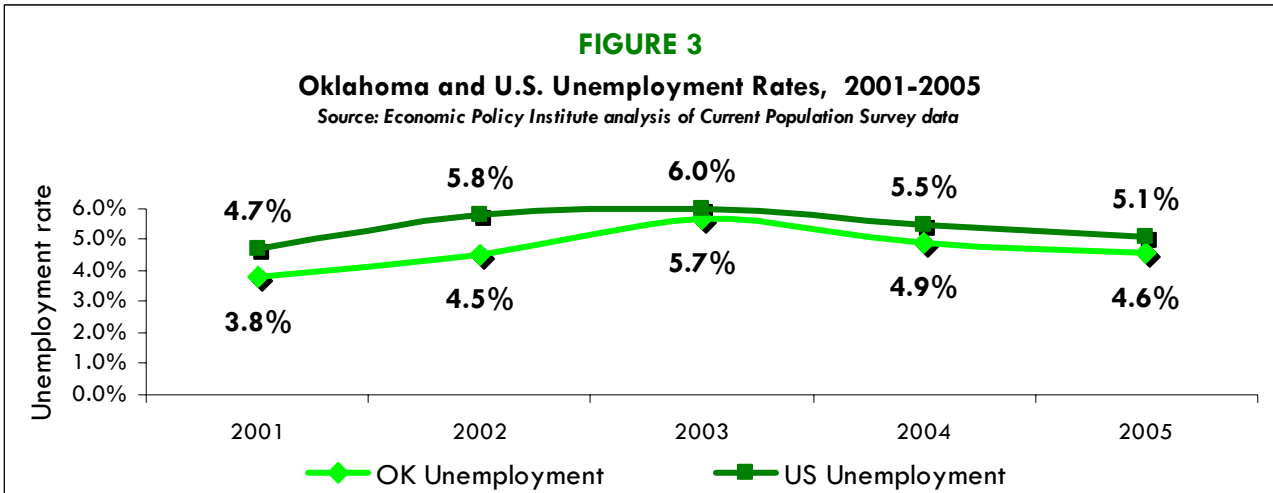
Oklahoma's economy, as measured by GSP, began expanding strongly in 2003, growing by 2.0 percent then by another 3.3 percent the following year. However, as Figure 2 shows, even as Oklahoma's economic output rebounded in 2003, job growth lagged significantly, with the number of jobs declining by nearly 2 percent. Since the beginning of 2004, Oklahoma has seen new employment growth at a slow but increasing pace. Still the average annual employment growth in the four years following the recession was less than 1 percent.

Employment and Unemployment Rates:

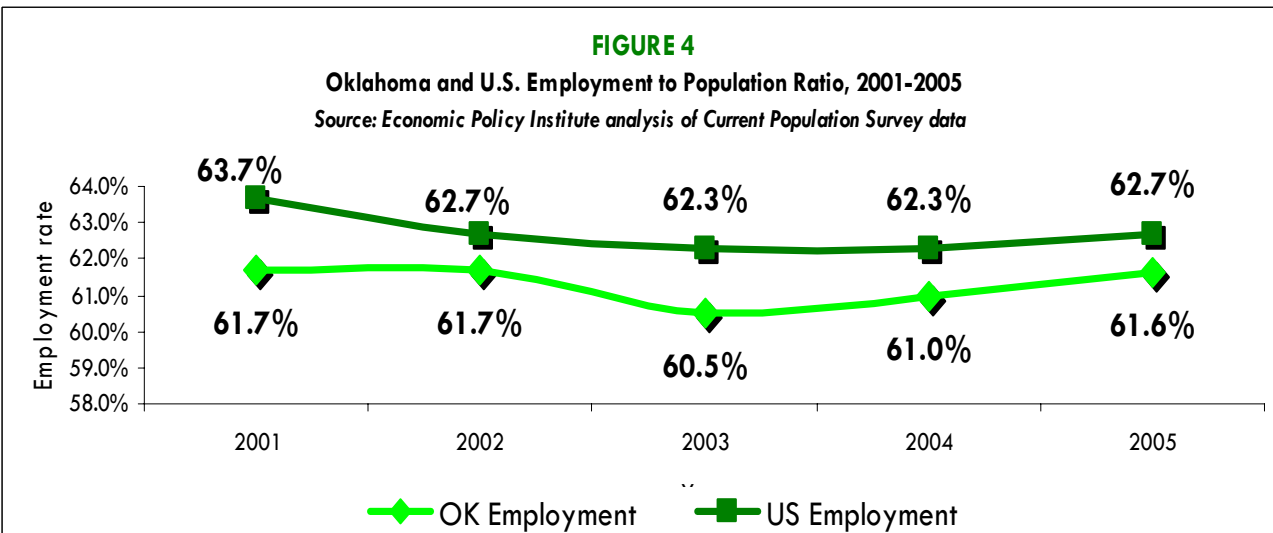
As Figure 3 shows, Oklahoma's unemployment rate remains below the national rate and is currently lower than that of any of its neighboring states. However, the



unemployment rate only measures those persons who have been actively looking for or lost their job in the last four weeks. If persons seeking jobs become discouraged and stop actively seeking work, the unemployment rate falls. The implication is that the falling unemployment rate may be an indicator of declining employment opportunities rather than one of a tightening labor market.



Because the unemployment rate can indicate two very different states of an economy, economists prefer to look at the employment rate, or the employment-to-population ratio, when trying to determine how well an economy provides employment to its workers. Oklahoma falls behind the nation in this measure. As can be seen in Figure 4, Oklahoma’s employment rate, in contrast to its unemployment rate, has remained below the national employment-to-population ratio throughout the current recovery. In fact, the picture is almost completely the opposite as to that when we considered only unemployment. Where Oklahoma consistently held a lower unemployment rate throughout the period, it also had a smaller percentage of its population being counted as a part of its workforce. Some of the difference between the state and national employment rates can be attributed to demographics and preferences in Oklahoma that tend to cause a larger number of persons to choose not to participate in the labor force. However, further supporting the idea that Oklahoma’s low unemployment rate is, in part, an indicator of declining or stagnant employment opportunity is that wages over the course of the recovery have not increased as would be expected with increased productivity and a tight labor market.



FINDING

Oklahoma's labor force is undergoing a profound structural change that is shifting high wage, manufacturing jobs to lower wage service employment.

KEY FACTS

- ✘ During the current recovery, Oklahoma has lost over 25,000 manufacturing sector jobs, which have an average annual wage of \$36,296, and has seen the greatest job increase in service sector jobs, with an average annual wage of \$29,432.¹¹

Labor Force: In addition to overall employment levels, it is important to look more deeply at the changing nature of the Oklahoma labor force – i.e. which employment opportunities have been lost and which have been gained. We find that the Oklahoma labor force has been undergoing profound structural change. Private sector job gains have been primarily in lower wage service jobs, while private sector job losses have been in higher wage manufacturing and information jobs, with the manufacturing sector losing over 7,500 jobs and the information sector losing 5,200 jobs between 2002 and 2005. These are long standing trends in the U.S. economy and tend to be due to technological improvement, globalization, changing consumer preferences, and changes in hiring practices, with manufacturers preferring to meet changes in demand with contract workers rather than hiring full-time employees.¹²

In the last five years, goods producing jobs in Oklahoma have decreased by 4.9 percent. In the manufacturing sector alone, 25,400 jobs have been lost since 2001 – jobs with an average annual wage of \$36,296. As an example, Tulsa's manufacturing employment peaked at 59,000 in December of 1998, fell to 45,700 by January of 2005, and now stands at 47,500 (August 2006). Eighteen months have passed since the bottoming out of Tulsa's manufacturing sector, and only 1,800 of the 13,300 lost jobs have come back. Declines in manufacturing employment are especially troubling in terms of job security, pension benefits and health insurance.



On the other hand, employment in service industries in Oklahoma has increased tremendously. In fact, service jobs increased by 4.2 percent between 2001 and 2006. These job gains have been primarily in the education and health service sectors. In comparison to the high wage jobs lost in the manufacturing, these new jobs have an average annual wage of only \$29,432.

5 WAGES AND INCOME

FINDING

Wages paid to Oklahoma workers have declined in purchasing power even as productivity and business profits have increased.

KEY FACTS

- ✘ After adjusting for inflation, the 2005 Oklahoma median wage of \$12.26 was 0.7 percent lower than in 2001.¹³
- ✘ Oklahoma worker productivity grew, on average, by 2.1 percent between 2001 and 2004.¹⁴
- ✘ Gross operating surplus, a rough measure of business profits, has grown from 35.9 percent to nearly 40 percent of Gross State Product during the current recovery.¹⁵

Wages: After seeing a real increase – one adjusted for inflation - in the median wage of 3.1 percent in 2001, the Oklahoma median wage has declined by 0.7 percent since 2001. By 2005, the median hourly wage of \$12.26 was lower than the inflation-adjusted 2001 median hourly wage of \$12.35, erasing meager gains made during 2002 and 2003. Since 2003, the purchasing power of the median annual wage in Oklahoma has fallen by about a thousand dollars.

Median Wage

The median wage is simply the middle wage out of all wages paid to Oklahoma workers, or the 50th percentile. Because it ignores the effects of extremely large wages paid to a few persons that might increase average wage dramatically, it gives us a more accurate picture of what a middle-class employee would earn in Oklahoma.

Productivity: At first glance, the decrease in the Oklahoma median wage is surprising because Oklahoma has shown strong, steady growth in worker productivity. Historically, increases in productivity have been the catalyst for higher wages and a better standard of living. Between 2001 and 2004, worker productivity in the state grew overall by 2.1 percent including a nearly 3 percent increase in 2003.¹⁶

Productivity is a measure of how much of a good or service a worker can produce in a given period of time. When workers can produce more over the same time period, the costs of production go down and net revenues go up. Usually, businesses must pass some of the newly gained revenue on to the workers in the form of wage increases. If they did not, the workers might leave to work for a competitor. However, for the average Oklahoma worker there are not a lot of other jobs to go to; therefore, most employers feel no competitive pressure to share increased revenues with their employees. If productivity gains are not showing up in wages, where could they be? Perhaps the gains are being absorbed by research and development, more expensive technologies, or higher prices for raw materials. The other possibility is increased profits.

Gross Operating Surplus

Gross operating surplus is a “profits-like measure” that shows business income after subtracting the cost of employee compensation and taxes on production and imports.

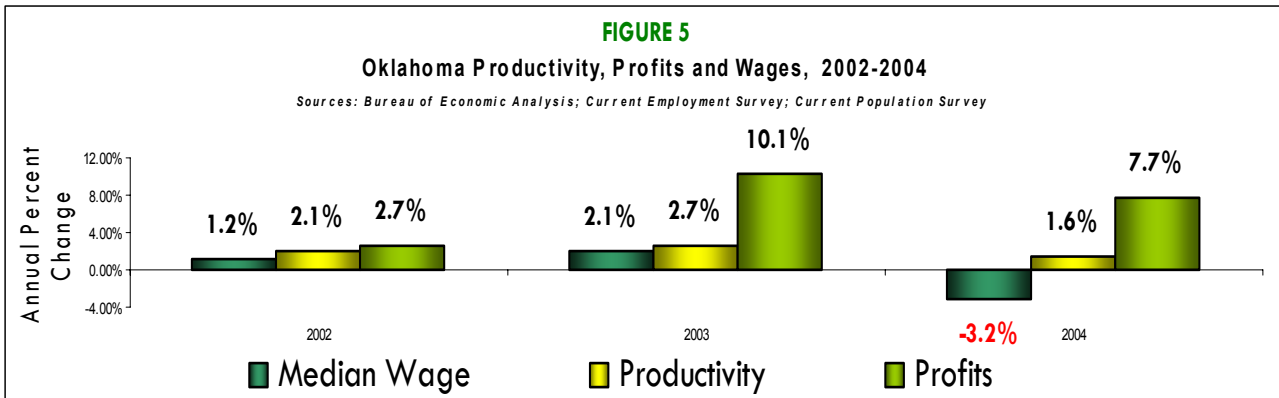
Profits: Business profits in Oklahoma as measured by gross operating surplus have grown sharply during the current recovery, increasing from 35.9 percent of GSP in 2001 to 39.5 percent in 2004, the most recent year data are available.¹⁷ In 2004, Oklahoma ranked sixth among the states in the percentage of GSP going to profits.

A more thorough definition can be found in Charles Ian Mead, Karin E. Moses and Brent R. Moulton’s “The NIPAs and the System of National Accounts,” *Survey of Current Business*, 84(12), December 2004.

The oil industry plays an important role in this trend, because the gross operating surplus for petroleum is higher than for private industry as a whole. Amazingly, Oklahoma's operating surplus for oil and natural gas extraction has increased from 55.8 percent in 2001 to 73.5 percent in 2004.¹⁸



Figure 5 brings together the recent trends in Oklahoma data on productivity, profits and wages.¹⁹ Oklahoma's productivity rose substantially between 2001 and 2004, and profits improved even more. Conversely, the overall median wage had a net growth of less than .02 percent over the period.

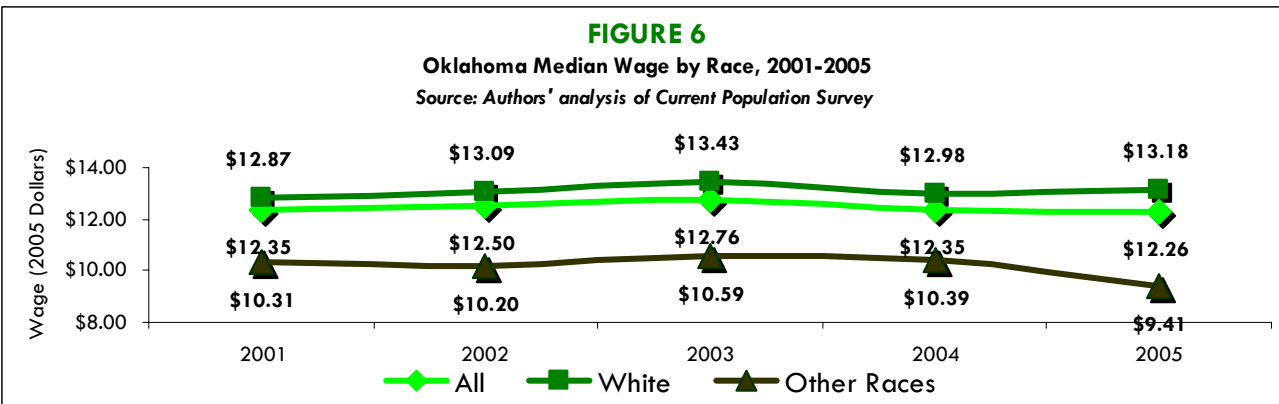


FINDING
The decline in real wages has hit Oklahoma minorities particularly hard.

KEY FACTS

- ✘ The real median wage for minorities in Oklahoma fell from \$10.31 per hour in 2001 to \$9.41 in 2005.²⁰

Minority Wages: Minorities in Oklahoma suffered dramatic losses in real median wage between 2001 and 2005. The real median hourly wage for minorities in Oklahoma was already \$2.56 less than for whites and the current economic recovery lowered their real median hourly wage by another 8.7 percent.²¹ As Figure 6 illustrates, the median wage for white workers in Oklahoma in 2001 was \$12.87, while for minorities it was \$10.31. Over the course of the recovery, the median wage paid to white workers increased by 2.4 percent to \$13.18 even as the median hourly wage paid to Oklahoma minorities decreased by 8.7 percent to \$9.41.



FINDING

The gender wage gap has been tightened through female wage gains and male wage losses.

KEY FACTS

- ✦ The wage gap between men and women has declined since 2001, yet women still earn, on average, more than 22 percent less than men in Oklahoma.²²

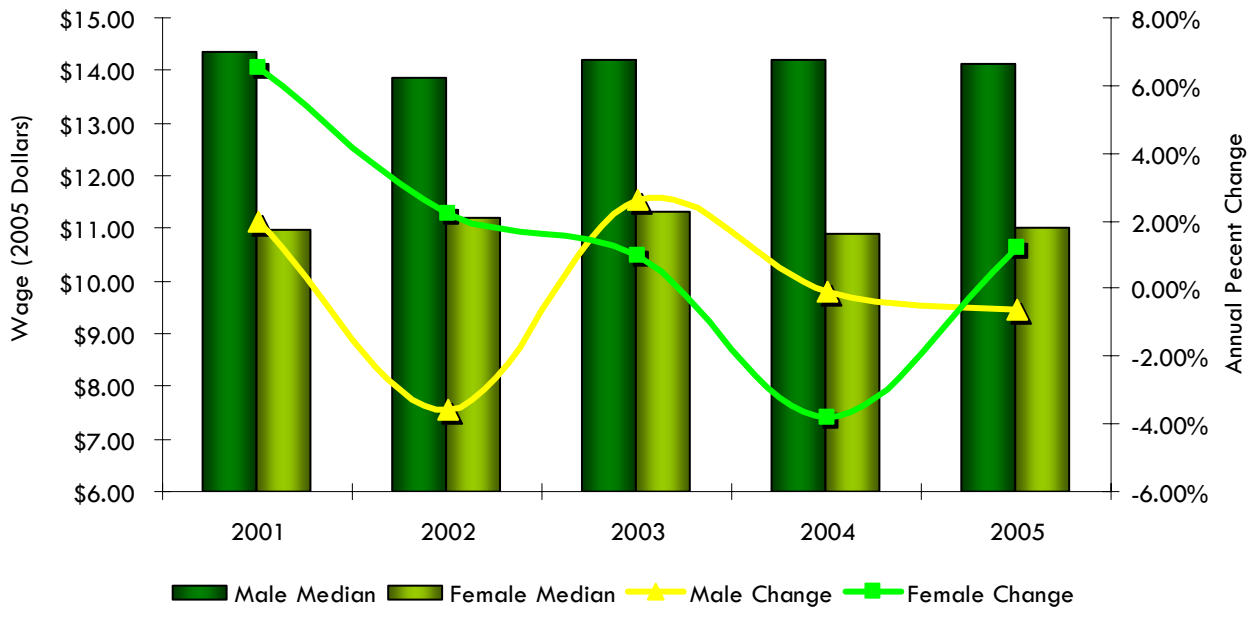


Gender Wage Gap: Females in Oklahoma have seen a greater percentage growth in wages than their male counterparts since 2001; however, this growth was insufficient to produce parity between males and females, still leaving a pronounced wage gap. Oklahoma women still earn below 80 percent of male wages on average. Even at the low end, where the minimum wage has an equalizing effect, female wages lag significantly. Moreover, the gap is closing not only due to female gains, but also male losses. From 2001 to 2005, the median male wage in Oklahoma decreased slightly, by 0.6 percent. The 20th percentile male wage fell by more than 3.4 percent. Even the 80th percentile male wage stood virtually still, falling 0.4 percent. For women, the median female wage between 2001 and 2005 increased by a mere 0.5 percent.

FIGURE 7

Oklahoma Median Wage by Gender, 2001-2005

Source: Economic Policy Institute Analysis of Current Population Survey



FINDING

Household income has stagnated for all but the wealthiest Oklahomans leading to increased income inequality in the state.

KEY FACTS

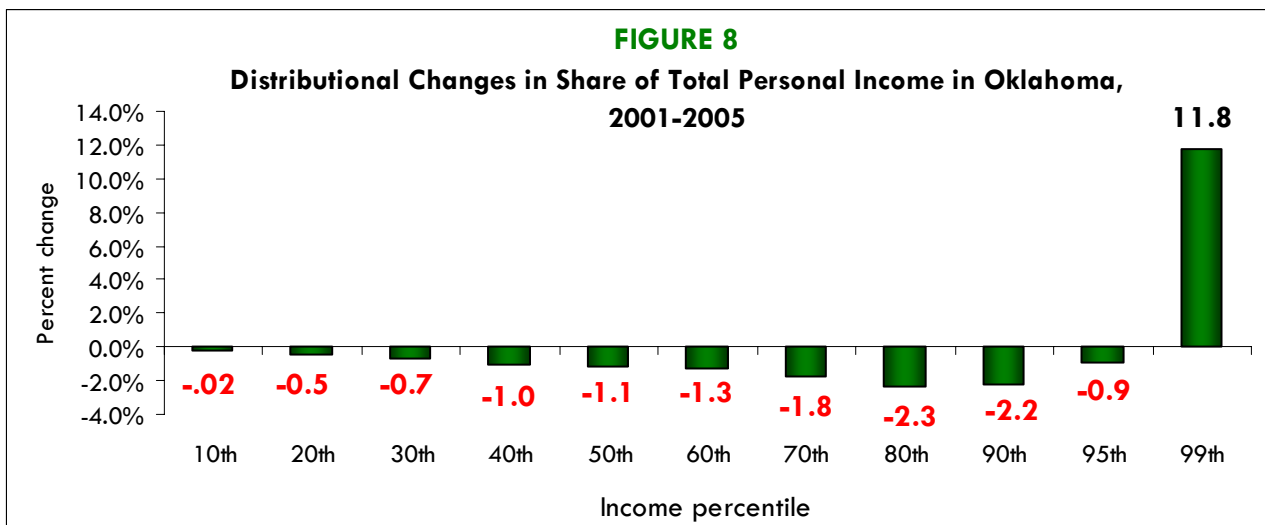
- ✘ The median household income in Oklahoma declined by 4.1 percent between 2001 and 2005 after adjusting for inflation.²³
- ✘ Income inequality in Oklahoma has increased over the course of the current economic expansion, with households in the 99th percentile seeing their share of the state’s total personal income increase by nearly 12 percentage points.²⁴

Household Income: Oklahoma’s median household income has not kept pace with inflation. Between 2001 and 2005, the Oklahoma median household income - after adjusting for inflation - declined from \$39,269 to \$37,645, representing a 4.1 percent decrease in purchasing power for the typical Oklahoma household.²⁵ However, for the same period, those in the 99th percentile saw their household income jump by over 22 percent, adding more than \$65,000 to an income that was already just shy of \$300,000.

Households

A household is a group of related or unrelated persons who share an accommodation in which they live and eat separately from any other persons in the building. For our analysis we use the median household income which serves as a barometer of the living standard for the typical, middle-class household.

Income Inequality: When we look to see how income has been distributed during the current recovery, we find that income for the 99th percentile households – those households whose income is higher than 98 percent of all other households - has increased by nearly 12 percentage points in terms of its share of total personal income, while the 10th through 95th percentile households have all lost ground. To find the distributional changes in the share of total personal income over the course of the recovery, we divide each percentile’s household income by Oklahoma’s total personal income. Figure 8 compares the percentage of total personal income in 2005 to 2001, showing the percentage point difference between the actual 2005 household income and what it would have been had the relative shares in total personal income remained the same. If the distribution of income among Oklahoma households had remained constant throughout the 2001-2005 recovery period, the bars in Figure 8 would all be at zero, representing no distributional changes.



6 ECONOMIC HARDSHIP: POVERTY AND MIDDLE CLASS ANXIETY

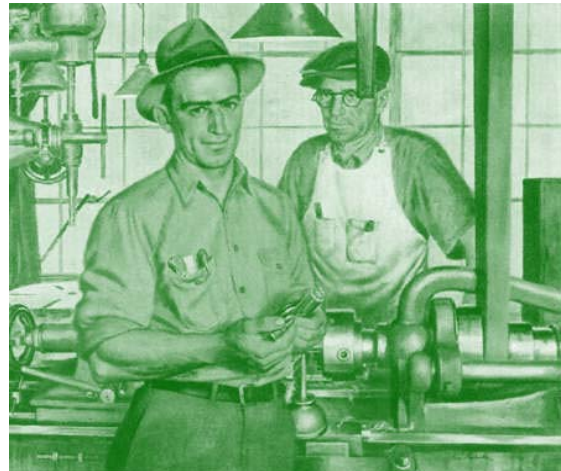
FINDING

More Oklahoman's are suffering increased economic stress and hardship as they try to provide for themselves and their families as prices for basic necessities - including housing, utilities and health insurance - outpace changes in wages and income.

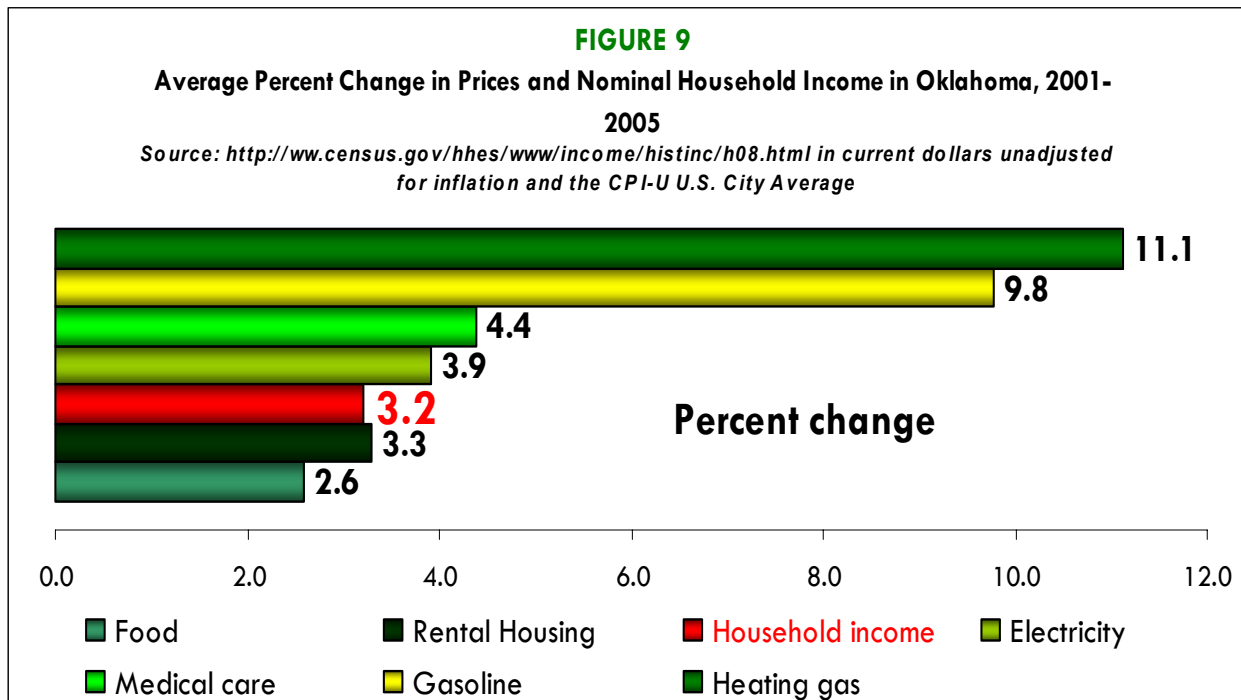
KEY FACTS

- ✘ Oklahoma ranks tenth in the percentage of persons in working families whose income fails to meet basic living expenses.²⁶
- ✘ Health insurance premiums for Oklahoma's working families increased by nearly 60 percent between 2000 and 2006.²⁷
- ✘ Oklahoma ranks first in the nation in prevalence of hunger.²⁸
- ✘ In 2005, Oklahoma's poverty rate increased by 1.4 percentage points from 11.8 percent to 13.2 percent.²⁹
- ✘ One in five Oklahoma children were living in poverty in 2005.³⁰

Declining wages and household income have increased the stress and hardship that middle-class and lower-income families feel while struggling to simply provide for themselves. In this section of our report, we examine how well the average Oklahoma working family is faring economically. According to a measure of basic family budgets developed by the Economic Policy Institute, Oklahoma currently has the tenth highest percentage of persons in working families whose income fails to meet basic living expenses.³¹ We consider the implications of rising prices and falling income on families' ability to navigate the economic vicissitudes of daily life while remaining self-sufficient and the social implications if they fail to stay afloat.



Increasing Prices: As we already have seen, household income has been stagnant or declining for most Oklahoma households recently, but as wages have declined, prices of necessities have increased. Figure 9 shows how medical care, excluding health insurance, utilities and gasoline have far outpaced growth in household income since 2001. We find that between 2001 and 2005 the costs for rental housing and medical care, on average, have increased by 3.3 and 4.4 percent, respectively. At the same time, the price of gasoline and heating oil grew at an average annual rate of 9.8 and 11.0 percent.



Health Insurance: Health insurance premiums for Oklahoma’s working families increased by nearly 60 percent between 2000 and 2006 with average premiums rising from \$2,734 to \$4,209 for individuals and from \$6,937 to \$11,090 for families.³² Increasingly, workers are paying more for plans with higher deductibles, more co-payments and fewer benefits.³³ The result is that many middle-class and lower-income families face catastrophic medical bills that can drive them to bankruptcy. According to a recent study, more than half of all bankruptcies are now due, at least in part, to problems with medical costs.³⁴

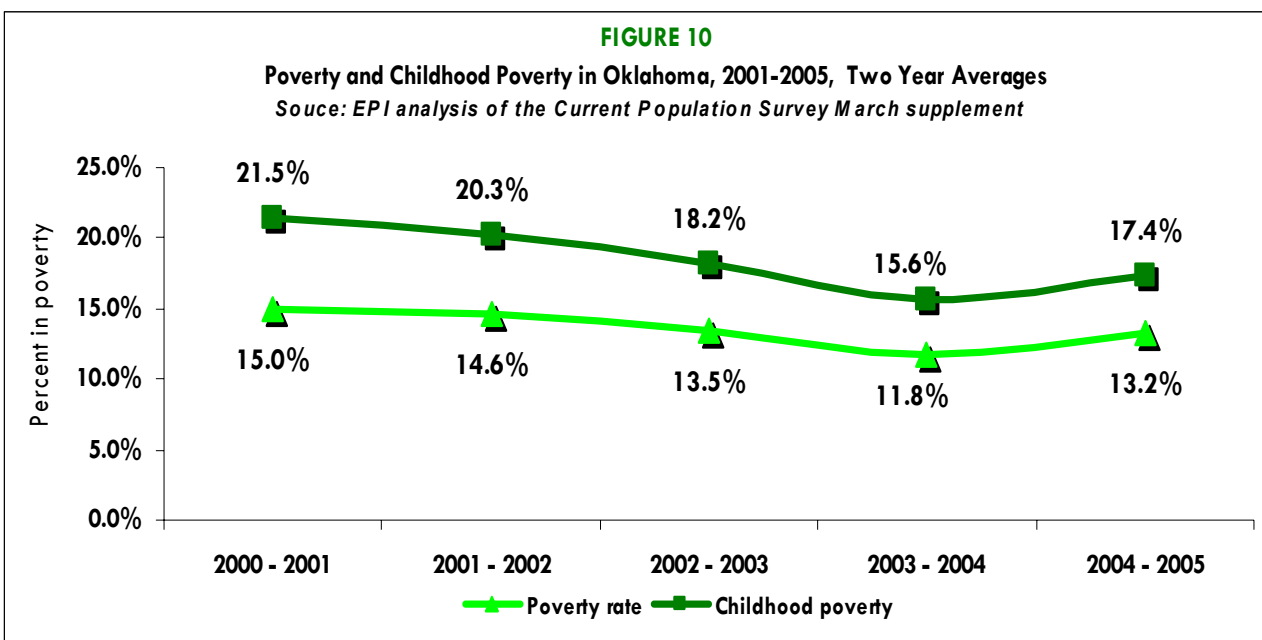
As premiums increased, the number of Oklahomans lacking health insurance increased as well. Between 2001 and 2005, the number of uninsured Oklahomans increased by 4.6 percent from 631,000 to 660,000.³⁵ Although the number of uninsured declined in 2004 and 2005, Oklahoma’s rate of uninsured – 19 percent – remains the fourth highest in the nation and more than 3 percent higher than the national rate of 15.7 percent.³⁶

Food Insecurity: Oklahoma ranks first in the nation in the prevalence of hunger with 5 percent of Oklahomans going hungry at sometime during 2005.³⁷ Between 2003 and 2005, on average 14.6 percent, or a little more than a half a million Oklahomans, lived in households that experienced some level of food insecurity.³⁸ The growth in the number of Oklahomans going hungry is echoed in the increasing food stamp participation rate in the state. As would be expected, when the Oklahoma economy slipped into recession in 2001, reliance on food stamps increased, but, unexpectedly, as the economy recovered the number of Oklahomans requiring help to purchase sufficient amounts of foods continued to grow. In fact, between 2002 and 2005 the total number of persons receiving food stamps in Oklahoma increased by 34 percent before declining modestly in 2006.³⁹



Poverty: For the two-year period 2004-05,⁴⁰ Oklahoma’s poverty rate increased from 11.8 percent to 13.2 percent. This represents roughly 50,000 additional Oklahoman’s living below the poverty line, which in 2005 was just under \$20,000 for a family of four.⁴¹ However, the general agreement among poverty researchers is that the official poverty threshold is an inadequate benchmark for a family’s ability to make ends meet.⁴² A crude approximation of the true threshold of economic viability is double the poverty threshold. About 38 percent of Oklahomans live in households at or below double the poverty threshold.⁴³

Still, the poverty rate is most frequently used when discussing the changing standard of living of lower-income families, and, to insure a better estimate of the number of persons in poverty, two-year averages are used. In Figure 10, we see that as the recession took hold in 2001, the average poverty rate in Oklahoma for the two-year period 2000-01 was 15.0 percent. The following two-year period, it declined to 14.6 percent and continued to decline until by the 2003-04 period it was at an historic low of 11.8 percent. Then in the 2004-05 period, the poverty rate jumped by 1.4 percentage points to 13.2 percent just as Oklahoma’s recovery had gathered momentum. This increase in poverty in the midst of economic growth is among the most alarming indicators of this



recovery’s failure to spread its benefits across the population.

As Figure 10 indicates, poverty is higher for children, and the childhood poverty rate follows the same general trends as the overall poverty rate. During the current recovery, poverty in Oklahoma saw significant decreases but shot up again in 2005 to the point that one in five Oklahoma children are living in poverty. Research has shown that rates of childhood poverty are related predictably to a range of socioeconomic conditions.⁴⁴ Among the factors pushing these rates up are single parent families, births to unmarried women, and the rate of unemployment (particularly among females). Some public policies work the other way, holding down rates of childhood poverty. These include state minimum wages set higher than the federal minimum wage, the Earned Income Tax Credit, and aggressive child support collection.

7 CONCLUSIONS & RECOMMENDATIONS

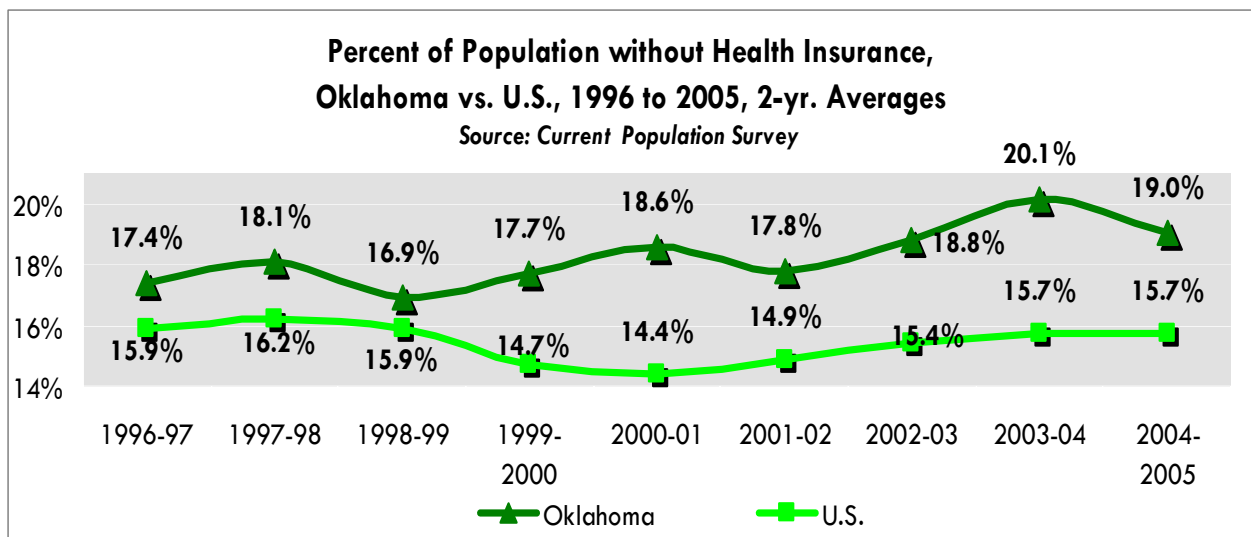
The State of Working Oklahoma report has laid out the evidence of Oklahoma’s uneven recovery, which has failed to distribute economic benefits across the population and has left many working middle class families facing increased economic hardships and insecurity. Oklahoma policymakers obviously lack the authority and resources to address the full scope of the problems associated with the uneven recovery, which involve factors associated with technological change, shifts in the global economy, trade policy, etc. Still, there are some practical and achievable policies that the State could adopt to offer a hand up to segments of the population that are being left behind.

The following are policy recommendations based on the goal of building opportunity and increasing security for Oklahoma families:

1. EXPAND HEALTH INSURANCE COVERAGE

There are currently some 650,000 Oklahomans, including 130,000 children, who are without health insurance. Oklahoma’s rate of persons lacking health insurance coverage, 19.0 percent for the years 2004-05, is third highest in the nation and well above the national average of 15.7 percent. The problem disproportionately affects low- and moderate-income working families, with 64 percent of the uninsured in Oklahoma having incomes below 200 percent of the federal poverty level (\$40,000 for a family of four) and 72 percent being in families with at least one working adult. Alarming, the state’s economic recovery and job growth since 2001 have not been accompanied by increased health insurance coverage, which reflects the increasing difficulty private businesses face in performing their traditional role as the nation’s primary source of health insurance coverage.

FIGURE 11



The consequences of there being 650,000 uninsured Oklahomans are significant and far-reaching. Being uninsured affects the health of individuals and families, who are unable to access appropriate and timely care. The number of uninsured affects the bottom line of our community’s health care providers, such as hospitals and clinics, and impacts the health care costs of those with insurance, who are forced to bear a portion of the burden of uncompensated care. In total, the magnitude of the problem amounts to a crisis for the state.

Several states are beginning to undertake comprehensive efforts to address the crisis of the uninsured using a combination of public and private-based solutions. Since 2003, five states – Maine, Illinois, Pennsylvania, Massachusetts and Vermont - have passed legislation providing universal coverage for children. Several additional states are considering universal health care bills that would cover all persons, or have commissioned studies to look at the possibilities for such a system.

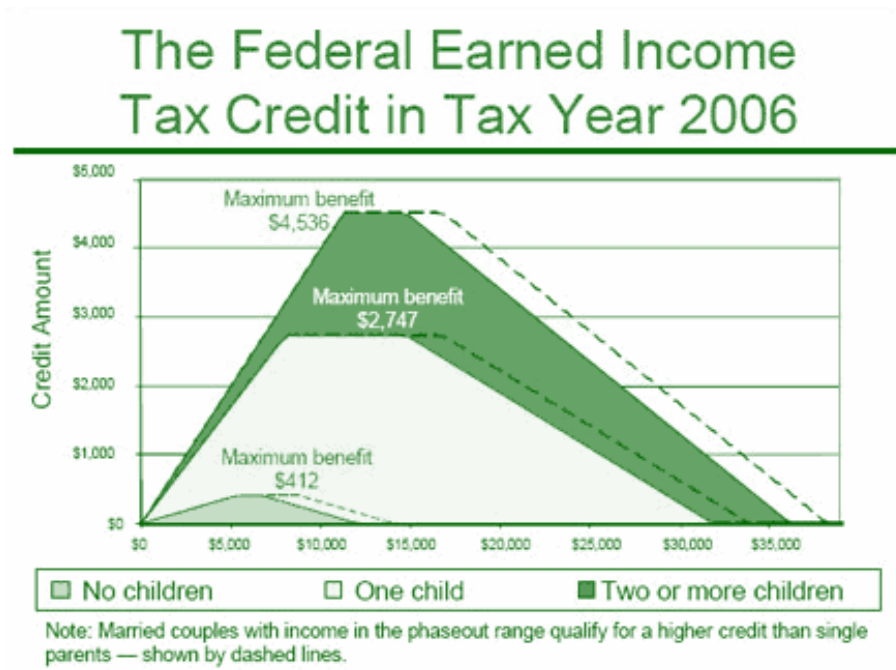
While Oklahoma has recently taken a positive step forward by adopting the O-EPIC premium assistance program to help subsidize coverage for low-income workers, further action is needed. Oklahoma needs to pursue creative, comprehensive approaches aimed at ensuring that all children, and ultimately all individuals, are afforded the basic security and access to care that health insurance provides. Legislation to expand Medicaid eligibility for children up to 300 percent of the federal poverty level, with appropriate levels of family financial participation, is a feasible yet bold next step to continue addressing the crisis of the uninsured.

2. INCREASE THE STATE EARNED INCOME TAX CREDIT

As this report has shown, low- and moderate-income working families have seen their wages and family incomes stagnate in recent years while the cost of basic family needs, such as gas, utilities, and health care, have grown rapidly. One simple and direct way to provide targeted help for families hit hardest by this crunch would be through an increase in the state Earned Income Tax Credit (EITC).

The EITC is a tax credit available to low-income working families. The EITC is claimed by roughly 300,000 Oklahoma taxpayers, representing slightly over one-fifth of all Oklahoma households. The size of the credit initially rises as earnings approach the equivalent of full time work at the minimum wage, and then gradually phases out as family income approaches 200 percent of the federal poverty level. Figure 12 displays eligibility limits and benefit levels for the federal EITC.

FIGURE 12



Oklahoma is among 21 states that has adopted a state Earned Income Tax Credit. Oklahoma’s credit was set at 5 percent of the federal credit, which provides for a maximum state credit (in 2006) of \$226. To the extent that the state’s fiscal situation allows for any discussion of further

tax cuts this session, an increase in the state EITC deserves strong consideration. Increasing the state EITC from 5 percent to 15 percent would have a full-year fiscal impact of approximately \$55 million.

The EITC has been supported by legislators from both parties and by policy analysts from across the political spectrum as a program that succeeds both in helping lift families out of poverty and in making work pay. Increasing the state EITC would provide an important and deserved income supplement to low-income working families

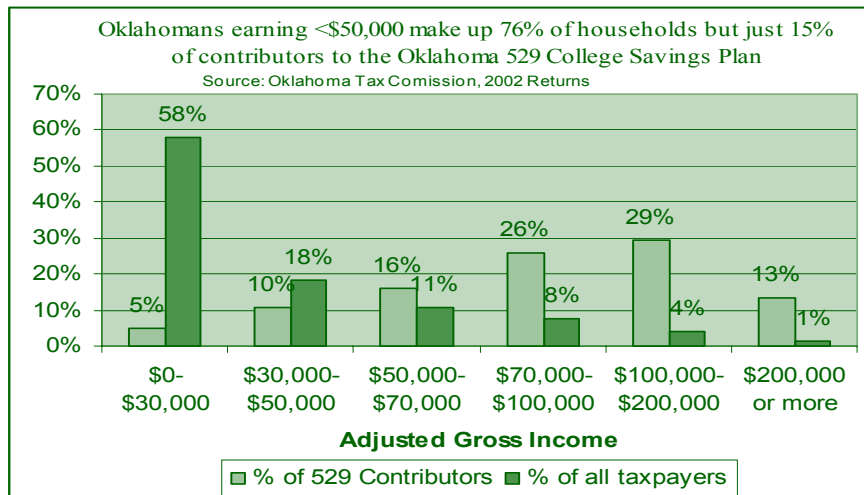
3. PROMOTE COLLEGE SAVINGS

It is well understood that college attendance is strongly correlated with both individual success and state economic growth. For children from across all economic backgrounds, but especially for children in low-to-moderate income families, rapidly rising college costs create a formidable barrier to attending college. Oklahoma has adopted numerous policies aimed at helping more students pay for college, including creating the Oklahoma 529 College Savings Plan. 529 Plans provide a tax-preferred, highly flexible mechanism for families to save and pay for their children’s higher education costs.

A recent Legislative Task Force discovered that most low-income families are not currently taking advantage of 529 college savings plans. Data shows that families earning under \$50,000 represent only 15 percent of current 529 plan account-holders in Oklahoma. This led the Task Force to recommend that the State of Oklahoma make an automatic deposit at the birth of children in low-to-moderate income families to start an Oklahoma 529 College Savings Plan account. In addition, qualified households would be eligible for a *public match* of individual deposits to their child’s 529 Savings Plan. The state would also incorporate information about Oklahoma 529 College Savings Plans into financial literacy education curricula in schools and elsewhere.

Unlike some of this report’s other recommendations, this one would provide no immediate financial benefit to working families. However, creating a college savings plan for children at birth might have the greatest and longest-term benefits for families that currently may have no habit of savings and no experience of building assets. By providing a mechanism to save and invest and by creating the expectation and realistic hope of attending college from a very young age, a relatively small initial public deposit in a child’s 529 College Savings account could yield truly enormous returns.

FIGURE 13

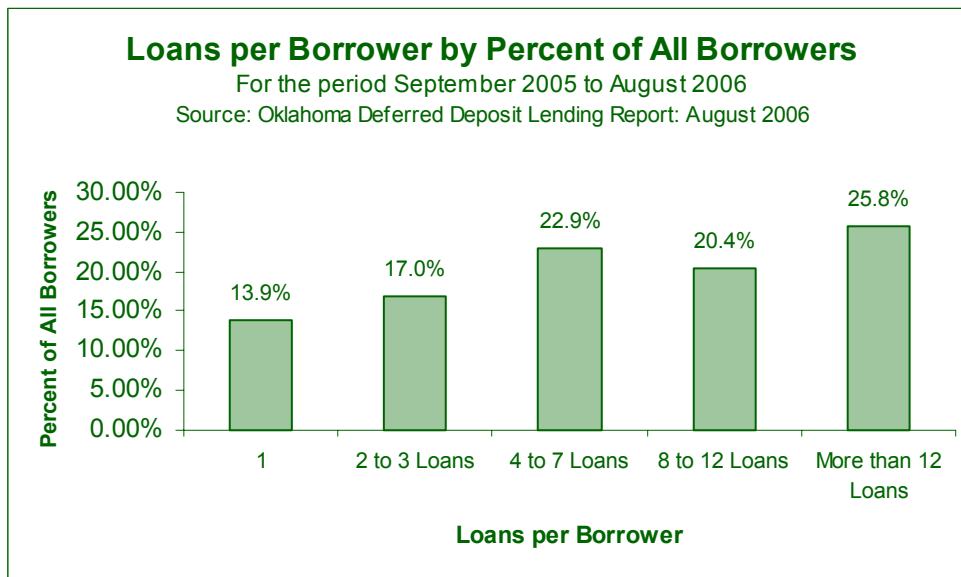


4. EXPAND PROTECTIONS ON PAYDAY LOANS

In 2003, Oklahoma authorized payday lending with the passage of the Oklahoma Deferred Deposit Lending Act. Today there are about 400 payday lending stores in the state, more than the total number of McDonalds, 7-Elevens and QuickTrips combined.⁴⁵ By law, payday loans can be issued for up to \$500 with interest rates up to 456 percent APR.

Despite claims by the industry that a payday loan is “a short-term solution to an immediate need,”⁴⁶ the evidence shows that most payday loan clients borrow frequently and rapidly, with the average client taking out 9 loans in a year for a total of \$3,156 in advances carrying \$418 dollars in fees.⁴⁷ As Figure 14 indicates, nearly half of all borrowers take out 8 or more loans in a year, with over a quarter of borrowers having twelve or more loans in a single year. Because more than one loan can be taken out at a time, it appears that many borrowers pay for one loan by taking out another. Approximately 76 percent of Oklahoma payday loans are to customers with at least 1 payday loan open and 40 percent of loans are to customers with three or more consecutive loans. The result is a revolving door of upward spiraling debt.

FIGURE 14



This past year, the U.S. Congress passed legislation that protects active duty military personnel and their families from the most egregious abuses of the payday lending industry.⁴⁸ The Oklahoma legislature should pass simple, common-sense reforms that would provide similar protection to Oklahoma citizens and veterans as that provided to active members of the U.S. military. By doing so, payday loan borrowing could be:

Less frequent by allowing only one outstanding loan and requiring a waiting period between loans, thereby closing the revolving door of allowing one loan to pay for the other.

Less costly by lowering the maximum fee to \$10 per \$100 borrowed and increasing the minimum loan term from 12 to 30 days.

Better informed by following the industry’s own best practices which require disclosure of fees both as a dollar amount and as an annual percentage rate; also, by informing clients that payday loans are a short-term cash flow tool and notifying them of the availability of credit counseling services.⁴⁹

5. EXPAND QUALITY EARLY CHILDHOOD EDUCATION

Access to quality early childhood education can have a significant impact for working families by helping disadvantaged children begin school ready to learn and by providing reliable, quality care for working parents. Recent research has focused on the crucial neurological development of children during their earliest years and of the need to expose children to a stimulating and nurturing environment. At the same time, the economic development implications of early childhood education are being recognized as well. According to a Federal Reserve Bank of Minnesota study, investments in early childhood development programs provide a return on investment that “far exceeds the return on most projects that are currently funded as economic development”.⁵⁰ The Economic Policy Institute estimates the rate of return for high-quality early childhood development programs to be three-to-one.⁵¹

Oklahoma already has distinguished itself as a national leader in the field of early childhood education. The state’s universal 4-year old program has earned Oklahoma the #1 ranking from the National Institute for Early Education Research (NIEER) in high standards and access to pre-kindergarten. The “Reach for the Stars” child care licensing and reimbursement system administered by DHS has helped maintain access to affordable and quality child care among community-based providers for children from birth through 5. Tulsa’s new Educare Center is one of only four facilities in the nation meeting the best-practice standards Educare model, with another Educare center in development in Oklahoma City.

Building on this, last year’s Legislature appropriated \$5 million for a statewide pilot program to enhance quality care for infants and toddlers, with the requirement of a 2:1 private matching contribution. This funding allows participating communities to pay for services that have a real impact on the quality of care for infants and toddlers – for example, by ensuring highly trained staff and low child-to-staff ratios and by linking every family with a family support service provider. This year, the Legislature should increase that investment to help foster the emergence of top-quality infant and toddler care for low-income children across the state.

END NOTES

¹Consumer Confidence Dips to Two Month Low: Most Americans Think The Economy is Getting Worse, ABC News, August 15, 2006. See <http://abcnews.go.com/Business/CreativeConsumer/story?id=2316348&page=1>

²Americans Still Dour on U.S. Economy, Gallup News Service, July 16, 2006. See <http://www.gallupoll.com/content/default.aspx?ci=23782&VERSION=p>

³Bureau of Economic Analysis: <http://www.bea.gov/bea/regional/gsp/>

⁴Bureau of Economic Analysis, BEARFACTS

⁵Regional Economic Information System, Bureau of Economic Analysis

⁶Inflation adjusted GSP figures are given in chained 2000 dollars.

⁷Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce

⁸Economic Policy Institute analysis of Current Employment Statistics survey data.

⁹Economic Policy Institute analysis of Current Population Survey data.

¹⁰Economic Policy Institute analysis of Current Employment Statistics survey data.

¹¹Bureau of Labor Statistics Quarterly Census of Employment and Wages, 2005 data.

¹²“What Accounts for the Decline in Manufacturing Employment?” Congressional Budget Office: February 18, 2004.

¹³Economic Policy Institute analysis of Current Population Survey data.

¹⁴Bureau of Economic Analysis.

¹⁵Bureau of Economic Analysis.

¹⁶Productivity is measured in chained 2000 dollars. Source: Bureau of Economic Analysis, U.S. Department of Commerce.

¹⁷<http://www.bea.gov/bea/regional/gsp/>

¹⁸Bureau of Economic Analysis data. See <http://www.bea.gov/bea/regional/gsp/action.cfm>

¹⁹Gross operating surplus and median wage are in 2005 dollars. Productivity is in 2000 chained dollars.

²⁰Authors’ analysis of Current Population Survey data.

²¹Research has shown that race matters when it comes to economic issues. A starting point for further study on this issue would be the following: Dalton Conley, Being Black, Living in the Red. Race, Wealth, and Social Policy in America. (Berkeley, CA: University of California Press, 1999). Melvin L. Oliver and Thomas M. Shapiro, Black Wealth/White Wealth: A New Perspective on Racial Inequality (New York: Routledge, 1995). Peter Gottschalk and Sheldon Danziger, “Family Structure, Family Size, and Family Income,” pp. 165-93 in Sheldon Danziger and Peter Gottschalk, eds., Uneven Tides (New York: Russell Sage Foundation, 1993).

22 ²²Economic Policy Institute analysis of Current Population Survey data.

²³<http://www.census.gov/hhes/www/income/histinc/h08.html>

²⁴Authors' analysis of CPS data and Bureau of Economic Analysis Regional Economic Accounts.

²⁵Source: <http://www.census.gov/hhes/www/income/histinc/h08.html>

²⁶Sylvia Allegretto "Basic Family Budgets: Working Families' Incomes Often Fail to Meet Living Expenses Around the U.S." Economic Policy Institute Briefing Paper 165, September 1, 2005.

²⁷Kim Jones, Kathleen Stoll, Elizabeth McCarthy and Kenneth E. Thorpe, "Premiums versus Paychecks: A Growing Burden for Oklahoma Workers," Families USA: November, 2006.

²⁸<http://www.ers.usda.gov/Briefing/FoodSecurity/> and http://www.centeronhunger.org/pdf/full_state_rankings.pdf

²⁹Census Bureau, American Community Survey.

³⁰Economic Policy Institute's analysis of the Current Population Survey, March supplement.

³¹Sylvia A. Allegretto, op.cit., September 1, 2005.

³²Kim Jones, Kathleen Stoll, Elizabeth McCarthy and Kenneth E. Thorpe, "Premiums versus Paychecks: A Growing Burden for Oklahoma Workers," Families USA: November, 2006.

³³Cathy Schoen, Michelle M. Doty, Sara R. Collins and Alyssa L. Holmgren, "Insured but Not Protected: How Many Adults Are Undersinsured?" Health Affairs Web Exclusive, W5-289 to W5-302, June 14, 2005.

³⁴David U. Himmelstein, Elizabeth Warren, Deborah Thorne and Steffie Woolhandler, "Illness and Injury as contributors to Bankruptcy," Health Affairs Web Exclusive W5-63 to W5-73, February 2, 2005.

³⁵<http://www.census.gov/hhes/www/hlthins/historic/hihist4.html> Two-year averages are used to correct for sampling error do to small sample size.

³⁶Carmen DeNavas-Walt, Bernadette D. Proctor, and Cheryl Hill Lee, U.S. Census Bureau, Current Population Reports, P60-231, *Income, Poverty, and Health Insurance Coverage in the United States: 2005*, U.S. Government Printing Office, Washington, D.C., 2006.

³⁷Data on food security in Oklahoma and the nation can be found in *Household Food Security in the United States, 2005*/ ERR-29 by the Economic Research Service of the USDA or <http://www.ers.usda.gov/Briefing/FoodSecurity/>

³⁸The government defines a household as food insecure when it reports the inability to find or maintain adequate, nutritious food during the course of a year. The government distinguishes between households that are food insecure without hunger and those with hunger. The official definitions of food insecurity can be found at <http://www.ers.usda.gov/Briefing/FoodSecurity/labels.htm>

³⁹Data on food stamp participation rates can be found at <http://www.fns.usda.gov/pd/fspmain.htm> and in the Oklahoma Department of Human Services Statistical Bulletin. To qualify for food stamps a family's gross income must be at or below 130% of the federal poverty level or net income is not over 100% of the federal poverty level. A family's assets holdings are also limited so that families must first use money that they have saved, whether for emergencies, education or future purchases, before relying on public assistance. For further information on eligibility requirements see http://www.fns.usda.gov/fsp/applicant_recipients/fs_Res_Ben_elig.htm

⁴⁰When discussing poverty, the Census Bureau encourages researchers to use two-year averages to correct for sampling error due to small sample populations.

⁴¹American Communities Survey, U.S. Census Bureau, 2004 – 2005. Over half a million Oklahomans experienced poverty in 2005.

⁴²See <http://aspe.hhs.gov/poverty/06poverty.shtml>

⁴³Using CPS data, the percentage is 37.9. American Communities Survey (ACS) data puts the number a bit higher at 38.1%. We use ACS data, unless noted otherwise, due to its larger sample size for Oklahoma.

⁴⁴Morgan, David R. and Kenneth Kickham, "Children in Poverty: Do State Policies Matter?" *Social Science Quarterly* 82(3): 478-93, September 2001.

⁴⁵There are approximately 200 McDonalds, 105 7-Elevens and 55 QuickTrips in Oklahoma. Source: McDonalds Corporation, 7-Eleven, Inc and QuickTrip Corporation.

⁴⁶<http://www.cfsa.net/custinf/ccustinf.html>

⁴⁷Oklahoma Program Status Report, *Oklahoma Trends in Deferred Deposit Lending: Oklahoma Deferred Deposit Program, August, 2006*, Veritec Solutions, LLC, August, 2006.

⁴⁸United States Public Law 109-364-October 17, 2006, Subtitle F, Sec. 670 § 987.

⁴⁹Best practices can be found at the Community Financial Services Association of America (CFSA) web site: <http://www.cfsa.net/genfo/egeninf.html>

⁵⁰<http://www.minneapolisfed.org/pubs/fedgaz/03-03/earlychild.cfm>

⁵¹http://www.epinet.org/content.cfm/books_exceptional_returns