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ON THE BRINK:

Oklahoma Families Are Already Facing Tough Times

by David Blatt, Director of Policy

SPECIAL POINTS OF INTEREST:

- Oklahoma's economy continues to outperform the nation's as a whole, but is unlikely to withstand the effects of a deep and prolonged national downturn.
- Even as the state enjoys high employment and strong overall growth, many families are already caught in the financial pinch of stagnant wages and rising costs.
- Rising poverty rates, lack of access to adequate food and health care and increasing bankruptcies and home foreclosures are among the indicators of growing economic distress.
- With state revenues already declining, it will be a great challenge to assist vulnerable families in need tackle an impending economic slump.

Each passing day seems to bring new data confirming that the U.S. economy is in a serious slump. The latest employment figures revealed that the economy shed 80,000 jobs in March, marking the third consecutive month of declining employment. The March unemployment rate rose to 5.1 percent, a jump of 0.7 percent in the past year.¹ National real gross domestic product (GDP) grew at an annual rate for the fourth quarter of 2007 of just 0.6 percent, its slowest pace since the end of 2002.² Meanwhile, drops in the stock market, falling housing starts, the weakening dollar, and declining consumption are among the cascading indicators of a slumping economy. While economists and politicians are divided over whether these numbers constitute an actual recession, there is little disagreement that the economic situation is bad now and will

continue to deteriorate in the months ahead.

Compared to the nation as a whole, Oklahoma's economy is continuing to perform well. The state's seasonally-adjusted unemployment rate for March fell to 3.1 percent, two full percentage points below the national average and down substantially from the prior year (4.3 percent in March 2007).³ State personal income for the final quarter of 2007 was up 7.0 percent from a year prior, ranking Oklahoma as the tenth fastest growing state economy.⁴ Like many of the other states enjoying continued economic momentum, Oklahoma's growth is fueled by strong performance in the mining and natural resources sector.

These ongoing signs of strength in the state economy, however, mask the potential for serious problems if the national economy continues to weaken.



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While the economic slowdown is hitting other parts of the country earlier and harder, it is highly unlikely that Oklahoma can be spared the effects of a prolonged or deep economic downturn. Oklahoma State

University's Center for Applied Economic Research notes that "the state is not immune to national economic conditions," and predicts slowing job and income growth in 2008 and 2009.⁵

What makes the prospect of an impending downturn especially worrisome is that even in these generally prosperous times for the state, many Oklahoma families are already feeling financially pinched. Despite low jobless rates and rising statewide incomes, a great number of households are barely scraping by or not making it at all as they struggle to balance their household budgets and cover their essential needs.

This brief provides a concise overview of some of

the main factors contributing to the economic squeeze on Oklahoma households. It then reviews some of the indicators revealing the extent and range of hardships that are confronting many families, including rising poverty rates, lack of access to adequate food and health care, and increasing bankruptcy filings and home foreclosures.

As the economic downturn progresses, policymakers and advocates will need to be especially attentive to the needs of these vulnerable families and seek ways to provide assistance. With Oklahoma already experiencing declining revenue collections, a concerted effort is required to ensure that the state budget is not

balanced at the expense of the vital services and programs that keep economically fragile families afloat.

Feeling Squeezed: Stagnant Wages, Rising Costs

Since emerging from the last recession in 2002, Oklahoma's economy has grown robustly, but unevenly. Overall economic indicators such as gross state product, personal income, and wages have risen rapidly. Yet this aggregate prosperity masks an important fact: Economic growth has been most beneficial for those in the higher reaches of the income scale, while allowing little or no progress for many middle-

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and low-income households. A 2007 Community Action Project report on *The State of Working Oklahoma* provided some key findings:

- After adjusting for inflation, the median household income in Oklahoma declined by 4.1 percent between 2001 and 2005, from \$39,269 to \$37,465. For the same period, those in the 99th income percentile saw their income jump by 22 percent;
- Between 2001 and 2005, the share of total personal income accruing to the top one percent of households grew 11 percent, while declining for every other income group;
- The 2005 median hourly wage of \$12.26 was 0.7 percent lower than in 2001.⁶

Oklahoma's uneven economic recovery largely mirrors national patterns. According to a recent study, on average, incomes have declined on aver-

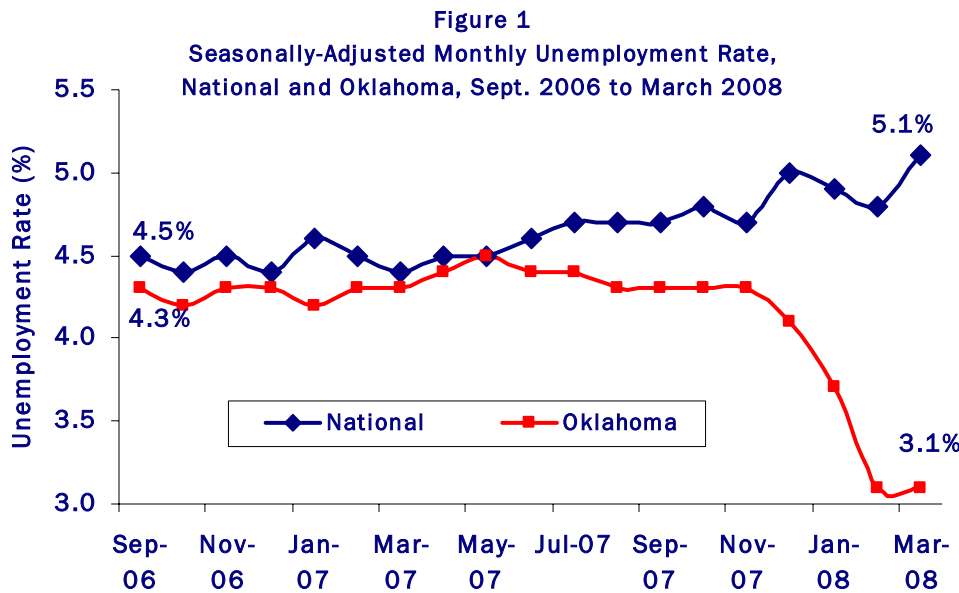
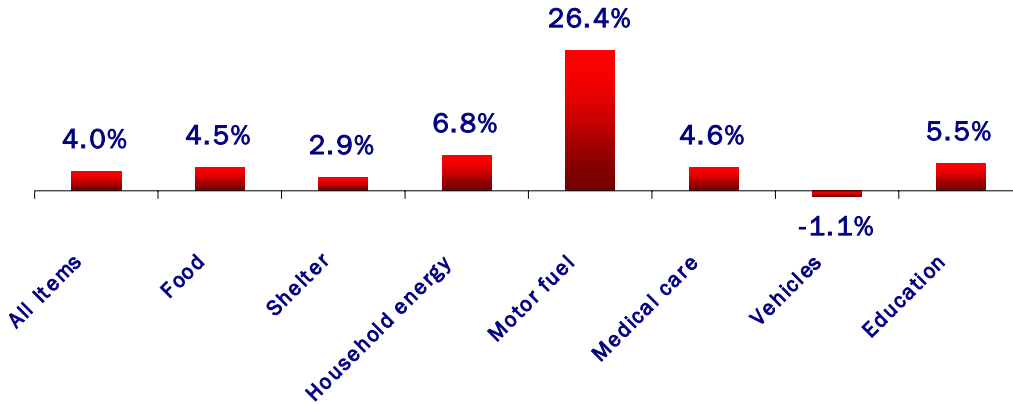


Figure 2
Consumer Price Index (CPI-U), % Change
March 2007 to March 2008, Selected Items



age by 2.5 percent among the bottom fifth of families since the late 1990s, while increasing by 9.1 percent among the top fifth.⁷

At the same time that many moderate- and low-income families are confronting stagnant or declining incomes, they are also facing substantial and accelerating increases in their cost of living. The most recent data shows that the Consumer Price Index, the standard measure of inflation, was up 4.0 percent in March 2008 compared with a year ago.⁸ Although the government does not provide state-specific inflation figures, regional data shows prices rising most steeply in the South region (4.4 percent), of which Oklahoma is a part. The current infla-

tion rate is the highest in seventeen years.⁹

A closer look at basic household expenditures reveals the strains caused by rising costs, especially for items that make up a larger portion of the household budgets of low- and moderate-income people than for those in higher income brackets [Unless otherwise cited, current inflation figures in this section are from the March CPI-U, see note 8. The share of total expenditures for households with income below \$70,000 is from the 2006 Consumer Expenditures Survey of the Bureau of Labor Statistics¹⁰].

- **Food** – The average household devotes 12.6 percent of its budget to food; for low- and moderate-income households

(below \$70,000), food’s share is 13.9 percent. The latest CPI figures show food prices rising 4.5 percent over the past year. Dairy and related products constitute the single fastest-rising grocery item, with prices up 11.0 percent increase compared with a year ago.

- **Gasoline** – The rise in motor fuel prices is the most visible and heavily-lamented component of the current surge in inflation. The March CPI reported a 26.4 percent increase in motor fuel costs compared to the year before. In 2005, gas made up 4.6 percent of expenditures for all households and 5.2 percent for lower- and moderate-income households.

- ♦ The current national average price for gaso-

line, at \$3.44 for a gallon of unleaded on April 18th, is at an all-time high. A gallon of unleaded gas has increased 58 cents in the past year. In Oklahoma, unleaded gasoline hit a record high of \$3.31 a gallon as of April 18th, a 59 cents per gallon increase over a year ago.¹¹

- ♦ The average national price for gasoline in 2008 (through the week of April 14th) is \$3.20. This is exactly double the

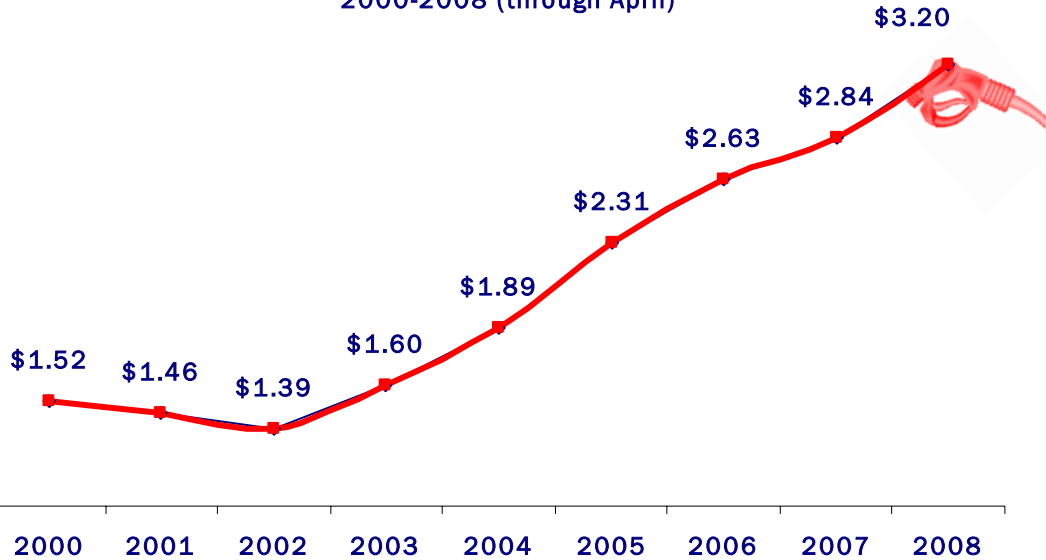


“Economic growth has been most beneficial for those in the higher reaches of the income scale, while allowing little or no progress for many middle- and low-income households.

price of five years ago (see Figure 3).¹²

- **Utilities** – Home utility costs, which account for

Figure 3
Average U.S. Retail Gasoline Prices (all Grades)
2000-2008 (through April)



7.0 percent of total budgets for all households and 8.6 percent for households below \$70,000, are increasing far less rapidly than motor fuel costs but are still outpacing general inflation. The March CPI shows a 6.8 percent increase in household energy costs over the past year. Since the winter of 2001-02, the average household has experienced a 62 percent increase in its winter heating fuel bills.¹³

- **Health Care** – Rapidly rising health care costs have been a burden on working families for many years. A study by Families USA revealed that between 2000 and 2006, the cost of employer-

based health care premiums paid by an Oklahoma worker for family coverage rose by 58 percent, from \$1,845 to \$3,050. Premium costs rose more than four times as rapidly as median earnings for Oklahoma families.¹⁴

Overall, CPI data shows health care costs rising by a relatively modest 4.6 percent over the past year. Health care spending accounts for some 5.7 percent of total household spending, and 6.9 percent for low- and moderate-income households. However, a separate Families USA study estimates that more than one in four Oklahoma families will spend more than 10 percent of their income on

health care costs in 2008.¹⁵

- **Education** - Education expenses, including tuition, fees and child care, make up only about two percent of total spending in the United States, but for those attending school or paying for care, education costs can be an important expenditure item. Over the past 12 months, according to the CPI, education costs have risen by 5.5 percent.

As with health care, rising education costs are a long-standing concern. Students at Oklahoma's two research universities have seen their resident tuition and fees increase on average by \$2,572

between 2003 and 2008. This represents a cumulative increase of 86.4 percent in five years, or an annual average increase of 13.3 percent. Regional and community colleges have experienced only slightly less severe cost increases, growing at an annual average rate of 10.1 percent.¹⁶

Many Face Hard Times Now

Squeezed between the grip of stagnating incomes and rising costs, growing numbers of families and individuals are facing financial hardships. Data on poverty, hunger, health care, bankruptcies and foreclosures tell various pieces of the story, as hundreds of thousands of Oklahomans struggle every day to make ends meet.

- **Poverty:** The most recent poverty data from the US Census Bureau showed that for the second straight year, Oklahoma experienced a steep rise in the number and percentage of its population living below the poverty line (see Figure 5). Oklahoma's poverty rate hit 15.4 percent for the period of 2005-6, a sharp increase of 2.2 percent compared to the prior two-year period,

and its highest level in over a decade. This translates to 537,000 Oklahomans in poverty for the period of 2005-06, up from 406,500 in 2003-04. Among children, one in five Oklahomans under the age of 18 (20.8 percent) live in poverty. In 2006, the federal poverty level was \$20,000 for a family of four.¹⁷

- **Hunger.** Even prior to the recent upsurge in food prices, many Oklahoma families were earning too little to purchase an adequate amount of food on an ongoing basis. As the Oklahoma Task Force on Hunger reported in December 2007, one out of every seven Oklahomans

(14.6 percent) is classified as “food insecure”, with one-third of that fragile population classified as “food insecure with hunger”. Both the number of “food insecure” and “food insecure with hunger” have increased in Oklahoma in the past decade, with Oklahoma ranking among the five worst states on these measures.¹⁸ Without enough income to purchase sufficient food, many households need periodic or ongoing assistance from privately-operated food pantries, or from public programs, such as food stamps and the free and reduced school meals program. More than one in 10 Oklahomans depends

on food stamp benefits to pay for some or all of their grocery costs. Participation in the Food Stamp Program increased 59 percent between FY '01 and FY '07, from a monthly average of 266,000 to 423,000 over this period, or over 11 percent of the state’s population. However, it is important to note that food stamp caseloads declined in 2006 and 2007 after peaking in 2005. There are early indications of a renewed uptick in food stamp participation beginning in January 2008, but this trend awaits confirmation.¹⁹

- **Access to Health Care:** An average of 650,000

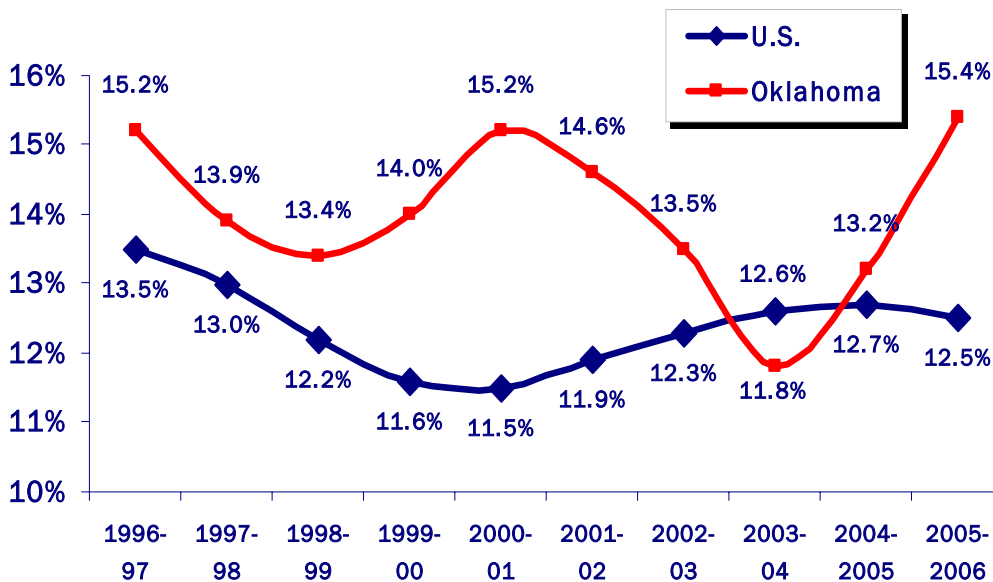
“A closer look at basic household expenditures reveals the strains caused by rising costs, especially for items that make up a larger portion of the household budgets of low- and moderate-income people ...



Hunger— chronically inadequate nutritional intake or the uneasy and uncomfortable sensation caused by involuntary lack of food.

Food Insecurity— limited or uncertain access to a nutritionally adequate diet, characterized by skipped meals, reduced food portions, and/or uncertainty of being able to adequately feed all household members.

Figure 4
Poverty Rates, U.S. vs. Oklahoma, 1996-2006



Oklahomans, or 18.7 percent, were without health insurance for the period from 2004-06, leaving Oklahoma with the 6th highest rate of uninsured in the country. One in five adults (21 percent) and nearly one in three adults with incomes below 300 percent of the federal poverty level (\$60,000) went without health coverage.²⁰ Being without health insurance perpetuates poor health and poverty by leaving people less likely to seek and receive timely and appropriate care, and can lead directly to financial catastrophe in the event of major illness or injury.

- **Bankruptcy:** As economic hardships have worsened and spread in Oklahoma, the number of bankruptcy filings has climbed. There have been 2,447 bankruptcy filings through the first three months of 2008, an increase of 23 percent compared to the first three months of 2007.²¹ (Due to the implementation of the new bankruptcy law in November 2005, it is not possible to compare to previous years.)

- **Foreclosures:** Finally, although Oklahomans

largely missed the boom in housing prices of recent years and have thus been spared the pain of plunging house prices accompanying the national credit crunch, many Oklahomans are losing the battle to keep up with their mortgage payments. Between the third quarter of 2005 and the third quarter of 2007, the number of mortgages in delinquency increased by over 50 percent, from 20,800 to 33,100.²² The latest monthly data from RealtyTrac reported 1,791 foreclosure filings for the single month of March 2008, which represents a 27 percent increase compared with March 2007.²³ As in other states, the foreclosure crisis in Oklahoma is hitting homeowners with subprime mortgages especially hard. According to a report from the Joint Economic Committee, the number of subprime foreclosures will total over 11,000 between the third quarter of 2007 and the end of 2009, costing Oklahoma \$322 million.²⁴

Bearing the Burden

We have seen that a substantial portion of Okla-

homa's population has missed the benefits of Oklahoma's economic boom and is already struggling to meet basic needs. A worsening economic situation will increase the scope and severity of hardship for many families and will create greater demands on our private and public safety net programs and providers to assist those in need. Programs that provide health care, social services, food assistance and job training will be most directly affected. In addition, economic downturns create various strains on family well-being, which can lead to increased demand for intervention and services in such areas as child welfare, mental health and substance abuse, domestic violence, juvenile justice and corrections.

Unfortunately, Oklahoma's state budget is already facing severe strains, even in advance of any clear or widespread downturn in the economy. State general revenue collections are down 5.2 percent for the first nine months of the current fiscal year compared to a year ago, a result of sharp drops in both individual and corporate income tax

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collections.²⁵ Faced with declining revenues, the Legislature and Governor have reached agreement on a largely stand-still “maintenance-of-effort” budget for the upcoming year that provides no funding increases for most agencies. For agencies confronting spending pressures in the form of growing caseloads and enrollment, rising costs for fuel, utilities and employee benefits, and declining federal support, flat funding will not allow for a maintenance of effort but will instead inevitably force reductions in services.

There is no simple or painless solution to the dilemma of growing needs at a time of

declining resources, especially for states that are subject to annual balanced budget requirements. The federal government could provide some aid to the states by considering a relief package that includes direct payments to the states and increases for Medicaid,

food stamps, unemployment insurance and other safety net programs.²⁶ At the same time, state policymakers must accept responsibility for maintaining adequate funding for health and human services programs that protect our most vulnerable families and individuals

during a downturn. This effort will require prioritizing spending and looking for new revenue sources



“State policymakers must accept responsibility for maintaining adequate funding for human service programs that protect our most vulnerable families and individuals during a downturn.

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