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# Economic Times of Oregon

October 2010

## Oregon takes second in Hopelessness Index



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For almost 30 years Mary Keiler worked as a technical editor for a Portland engineering firm. Now, like thousands of Oregonians, she is part of the Hopelessness Index. That is the group of people who are underemployed, those looking for full time work but settling for part time, those working intermittently at short contract or temporary jobs, and saddest of all, those who have just plain given up.

Employment measures through the second quarter of 2010 from the U.S. Bureau of Labor Statistics show Oregon second only to California in what the Bureau categorizes as "underemployment."

A lot of these out-of-work Oregonians would refer to themselves as "hopeless."



Homeless and hopeless on the streets of Portland. Photo by Patrick Cote

Keiler is one of the lucky ones. Because of her experience and technical expertise, she found part time and contract work, and she has a spouse who is employed full time. A full time job would have been her preference, but in Oregon her prospects looked bleak.

"The company cashed me out," says Keiler, "but because of the recession I lost most of the value of my stock. When my unemployment ran out after six months I did mostly volunteer and freelance editing. I knew at my age, over 50, the chances were not good to be hired full time, so I made the decision to go on my own with contract work.

"Sure, I would prefer to be fully employed or even employed part time," she admits. "I could be putting more aside for retirement and my kids' college tuition."

"And I would be paying more taxes," she adds.

In an income tax-dependent state such as Oregon, where about 85 percent of the General Fund comes from personal income taxes, it is especially painful to both household budgets and state government budgets when people lose their jobs or reduce their paychecks with part time and intermittent work.

Likewise, the more people who are employed and the larger their incomes, the more money flows into the state revenue stream.

All 50 state measures by the U.S. Bureau of Labor Statistics can be found at <http://www.bls.gov/lau/stalt.htm>. A few of the states are shown on the left.

"Many people I know say they never imagined they would be at this point in their lives with so little for retirement, as a result of the current economic crisis. That is, unless they're in a union," says Keiler.

"I don't feel entitled to further state unemployment benefits; my husband and I are doing okay. I don't feel hopeless. But I miss the professional involvement and teamwork. I really enjoyed my job."

State	Traditional Unemployment Rate	Total Unemployment Rate (Hopelessness index)
California	12.0	21.9
Idaho	8.8	16.4
Louisiana	7.4	11.7
Michigan	13.2	21.6
Montana	7.6	15.1
Nebraska	5.0	9.1
Nevada	13.5	21.5
New Jersey	9.9	16.0
North Dakota	4.0	7.8
<b>Oregon</b>	<b>11.0</b>	<b>20.1</b>
Virginia	7.5	12.9
Washington	9.8	17.4

U.S. Bureau of Labor Statistics through 3rd quarter 2010

### How Oregon rates:

Above the national unemployment average for 14 straight years

Current unemployment: 10.6%

Third highest income tax rate in the nation

Third highest corporate income tax rate in the nation



# The dark side of introspection

*"When I left office in January of '87, I said publicly that the gas tank in Oregon's economy was filled. We had created a better business climate in Oregon than in either California or Washington."*

Oregon's postwar economic history is a schizophrenic tale – divided between eras when Oregon chooses to be part of the global economy, and eras when Oregon turns inward and falls in love with its own uniqueness.

But a peculiar phenomenon takes place during those eras when Oregon decides to act like the Greek god Narcissus, adoring its own reflection. When Oregonians start talking about our "unique quality of life" and how "Things Look Different Here" and when they tell travel-

ers, "Visit but Don't Stay," that is when the state's unemployment rate skyrockets.

Four distinct eras demonstrate this phenomenon. In the first two eras we chose to be economically vibrant. In the other two eras we chose not to be competitive, but instead to be introspective about our unique lifestyle.

Despite the fine work of Govs. Atiyeh and Goldschmidt to reinvigorate a strong business climate, once

again Oregon chose instead to gaze at its own reflection. For the last 15 years a majority of Oregonians preferred to "Keep Portland Weird," and to ensure that "Things Look Different Here."

These bumpersticker slogans symbolize the anti-business attitudes that have ushered in a second era of unemployment, business closures, and declining tax revenues remarkably similar to the McCall era. And unemployed Oregonians have suffered accordingly.

## Post-War Boom: 1945-1966

Governors: Snell, Hall, McKay, Patterson, Smith, Holmes and Hatfield

Oregon builds a successful economy based upon the use of its natural resources. Communities around the state thrive and grow around agriculture and timber, which provide family wage jobs for rural Oregonians and build profits for urban-based companies.

## Oregon, Open for Business: 1979-1992

Governors: Atiyeh, Goldschmidt

Governor Vic Atiyeh holds a press conference on the Oregon-California border and tears down McCall's "Visit but Don't Stay" sign. Atiyeh makes nine trips to Japan and over 200 Asian companies locate in Oregon. Intel moves its 5,000 research and development engineers to Hillsboro. *The Wall Street Journal* reports that by the mid 1990s more money is invested in the semiconductor industry in Washington County than the rest of the nation put together. Neil Goldschmidt builds on Atiyeh's work.



Narcissus by Caravaggio

*"Now, twelve years and three governors later, it appears that the last time the tank was filled was in 1987."*

--- Vic Atiyeh, November 1999

## McCall Shuts the Door: 1967-1978

Governors: McCall, Straub

Governor Tom McCall tells the world's tourists coming to Oregon: "Visit but Don't Stay." Oregon's economy slows and unemployment reaches 12.5 percent in the early 1980s – the highest unemployment rate of any state in the nation at the time since the Great Depression.

## Back in Self-Love: 1993-present

Governors: Roberts, Kitzhaber, Kulongoski

Oregon decides that "Things Look Different Here" and a string of governors enact tax and regulatory policies that send business into a tailspin. The public employee unions take unprecedented control of state politics. In the 2008 election, the OEA and NEA spend \$12 million on campaigns cementing their ownership of Oregon politics. More money is spent by public unions on political campaigns in Oregon than in any other state in the nation, with the exception of California.

By the summer of 2009 Oregon's unemployment rate rises to 12.5 percent, second highest in the nation. Oregon unemployment is more than three points above the national average and three points higher than its neighbor, Washington.

# EVEN BLUE STATES GET THE BLUES

Yes, Oregon, even blue states need Fortune 500 companies

**D**o Southern states in the U.S. locate a disproportionate share of Fortune 500 companies within their borders because they have a weak union presence and less stringent environmental regulations? Maybe so. That's an argument that's often made in *The Wall Street Journal* about why American companies keep moving plants South.

The state of Tennessee, with a population twice the size of Oregon, is known as a business friendly state. Tennessee is home to eight Fortune 500 companies and 23 Fortune 1,000 companies.

Oregon is home to just two

Fortune 500 companies.

Arkansas, with a smaller population than Oregon, is home to four Fortune 500 companies, twice as many as Oregon. And how about Missouri? Well, the St. Louis metropolitan area, with a population roughly the size of metro Portland, is home to 10 Fortune 500 companies, while Portland's metropolitan area has just two, Nike and Precision Castparts.

The evidence shows that Southern red states are more business friendly than Pacific Coast blue states. But how does Oregon compare to other

Northern U.S. blue states – states that have a similar reputation for progressive politics?

A look at the numbers is not positive for Oregon.

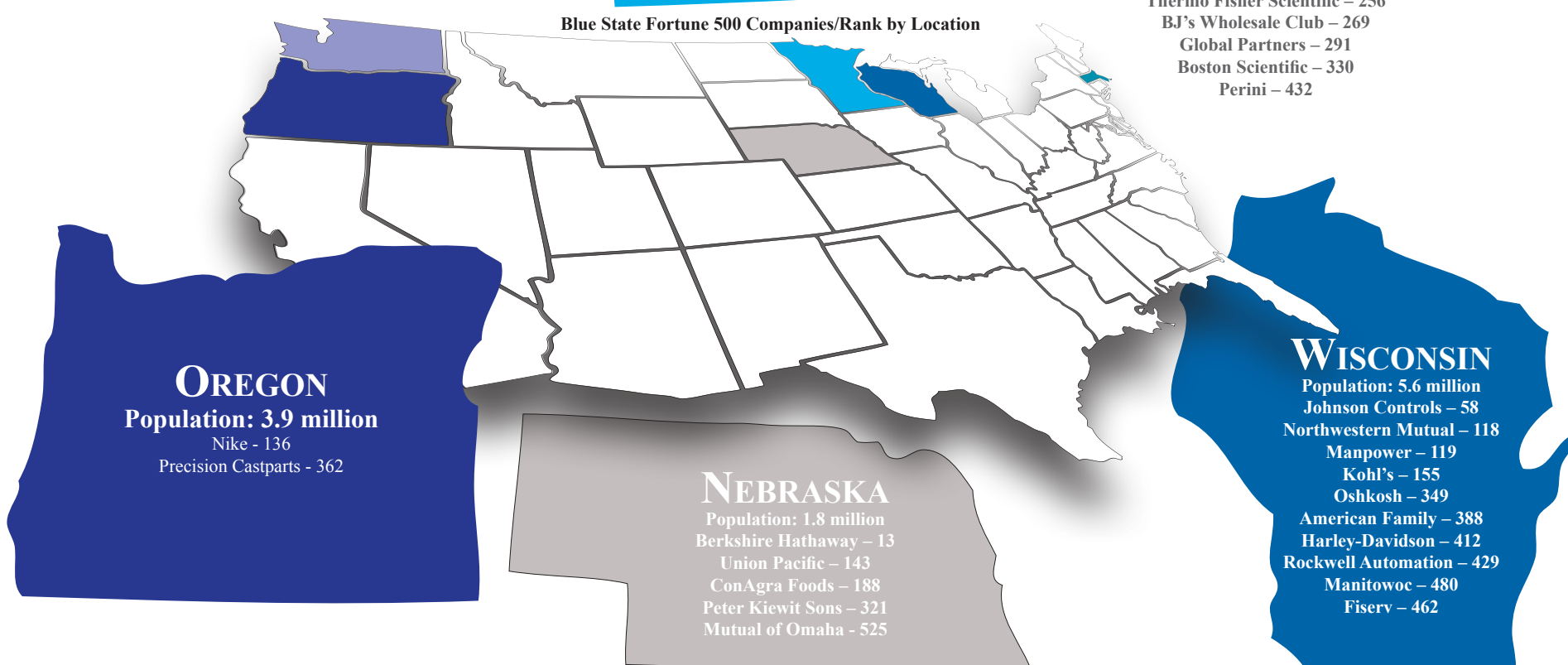
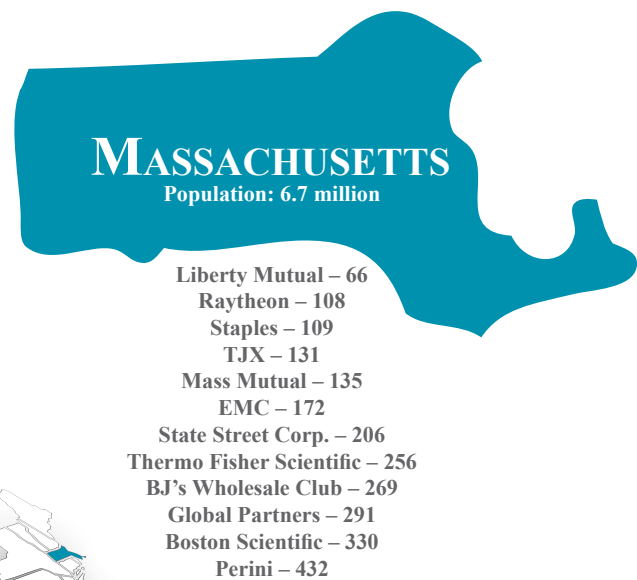
The four Northern U.S. blue states with politics similar to Oregon are: Minnesota, Wisconsin, Washington, and Massachusetts. All four states, though roughly double Oregon's population, are at least somewhat similar in business atmosphere to

Oregon, and could be expected to have a similar number of Fortune 500 companies headquartered in their states, at least proportionally. But that's not true. And the comparison numbers are stark.

While Oregon hosts two Fortune 500 companies, Washington state is home to eight, Massachusetts to 12, Wisconsin to 10, and Minnesota is home to a whopping 19 Fortune 500 companies headquarters. Even Nebraska, which is smaller than Oregon, has twice as many Fortune 500 companies as Oregon.

Why are these politically similar blue states so badly outperforming Oregon in business atmosphere as measured by number of Fortune 500 companies headquartered in a state? Answer: Oregon has now developed a national and worldwide reputation for being hostile to corporate business. Oregon's tax system is not considered corporate friendly, especially its high capital gains tax, and the state's European-style land use laws are easily the most restrictive in the country.

On a per capita basis, Oregon has fewer Fortune 500 companies located within its borders than any other state.



\*number after business name is Fortune 500 rank



# The China connection brings jobs to Oregon

In 1984, Oregon Governor Vic Atiyeh, in a visionary move, led a delegation to Fujian Province in China and signed "sister-state" accords with Fujian Governor Hu Ping.

Oregon's economic and cultural connection with China has grown dramatically since then. Over the past 20+ years, China's economic growth has skyrocketed, surpassing Japan as the second largest economy in the world.

So what does China's growth have to do with Oregon? And with Oregon jobs?

A few years ago China was Oregon's number 6 trade partner. Today, Oregon sells more products to China than any other export destination. Oregon's economy is inseparably connected with China.

Highlights from the 2010 Oregon Legislative & Business Delegation to China, which promoted trade, travel, training and educational exchange with agencies, businesses and universities throughout China, demonstrate a clear path to economic improvement for Oregon and for Oregon's elected leaders.

One Oregon delegation member was Gabriella Ferrari, a representative of NIKE's international department. NIKE is big business in China. More than 4,000 NIKE stores currently operate in China. In Beijing alone, NIKE has between 300-400 stores.

NIKE sold \$1 billion of merchandise in China last year and expects sales in China to double to \$2 billion by the end of next year — and NIKE will soon begin a major promotion of NIKE golf products in its Chinese markets. A substantial amount of NIKE

profits return either directly or indirectly to Oregon's economy.

In addition to NIKE's sales success in China, Oregon's INTEL is a major exporter of computer chips to China. In fact, nearly 75% of Oregon's exports to China involve computers and electronics.

Oregon has also been exporting grass and

forage seed to China for more than 25 years.

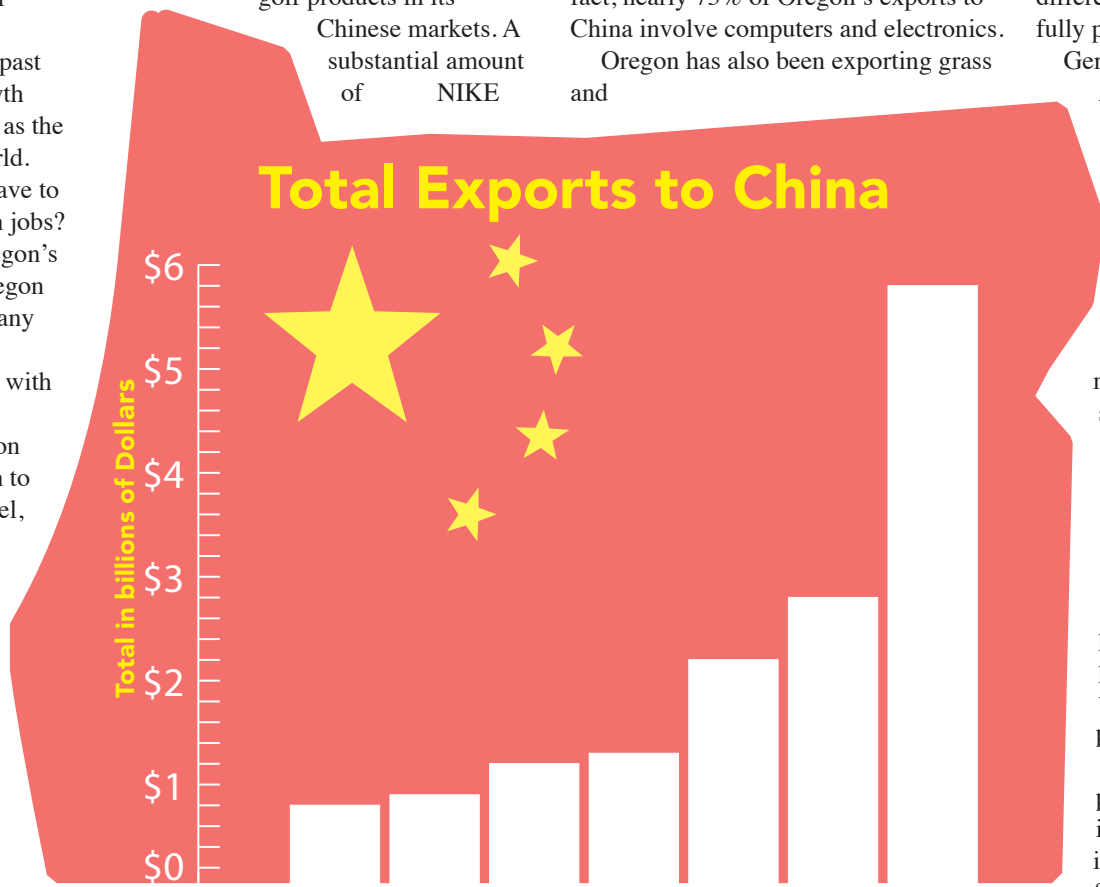
China's population is officially set at 1.3 billion, yet some estimates place it closer to 1.5 billion. Just the difference in population estimates would fully populate the combined nations of Germany, France and Great Britain.

As China's middle and upper economic classes grow, many Chinese families want their child to attend college in the U.S.

Chinese students coming to Oregon universities pay full non-resident tuition and gain a first class American education. In addition, relationships are made between Oregon and Chinese students that will last a lifetime. In addition to the win-win benefits for both the university and the students, strong friendships made will bear fruit in many ways throughout the students' careers.

China wants to buy Oregon products, and Oregon companies provide employment to Oregon workers to grow and produce products for Chinese consumers.

The vision of Gov. Atiyeh still pays dividends today. His legacy is a stunning example of the importance of building business friendships and partnerships with emerging economies around the world to create jobs right here in Oregon.



In 2008, Oregon exports to China were nearly \$2.5 billion. In 2009, Oregon exports to China increased \$500 million to just under \$3 billion in sales. Now, in only the first six months of 2010, Oregon's exports to China reached \$2.3 billion in sales.

## Oregon government growth far outpaces private sector

While Oregon economy shrinks, state government spending skyrockets

**4,300 State Govt. Jobs Added (since Nov. 2007)**

**154,000 Private Sector Jobs Lost (since Nov. 2007)**

Oregon has felt the effects of the national recession far more than most states.

Oregon's unemployment rate has more than doubled since the housing boom ended in 2008, and it has remained above the national average for more than 14 straight years. It has stood stubbornly between 10.5 percent and 10.7 percent for more than a year.

In the 14 years that unemployment has been above the national average, the state all-funds budget has grown by 161 percent.

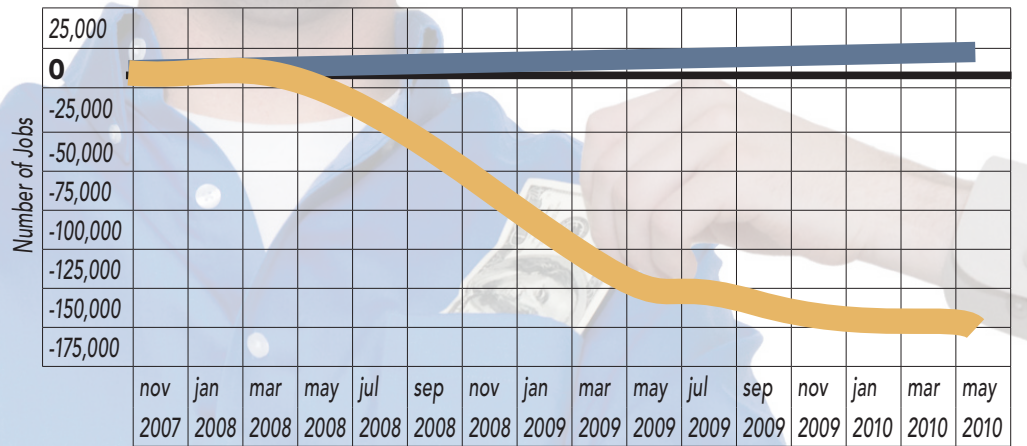
That's right — 161 percent.

Just since 2005, the state's budget has gone up a whopping 49 percent.

In just the last budget cycle, a time in which Oregon's economy has been in virtual free fall, the state budget increased from \$49 billion to \$61 billion — an increase of over 23 percent.

The picture looks even more interesting when Oregon's economic health, measured in "Gross State Product" is compared to the growth in state government spending. As the chart below shows, between 1999 and 2009, government spending grew more than twice as fast as Gross State Product.

And for the 2009-11 period, things will get worse. State spending is slated to grow by 23.2 percent, while economic growth will be near zero. The mismatch between public sector spending and economic growth is getting worse.



Oregon's Private vs. Public Sector Job Trends

### All Funds Spending

#### Employment: public vs. private sector

Since the recession started taking hold in Oregon in late 2007, the private sector has shed about 154,000 jobs. But employment in the public sector has gone in the opposite direction.

As the chart to the right shows, the public sector added more than 4,700 jobs in this same span of time

Economists say this kind of mismatch between a shrinking private sector and a growing public sector is unsustainable. "Common sense tells you that government can't keep growing during a recession," says Phillip J. Romero, Professor of Business at the University of Oregon Lundquist College of Business.

"Every dollar the government spends must be first taxed from people's wages and business profits," says Romero. "In a deep recession like the one we are in, with personal incomes falling and business profits barely hanging on, government spending increases like we have seen in Oregon simply can't be sustained."

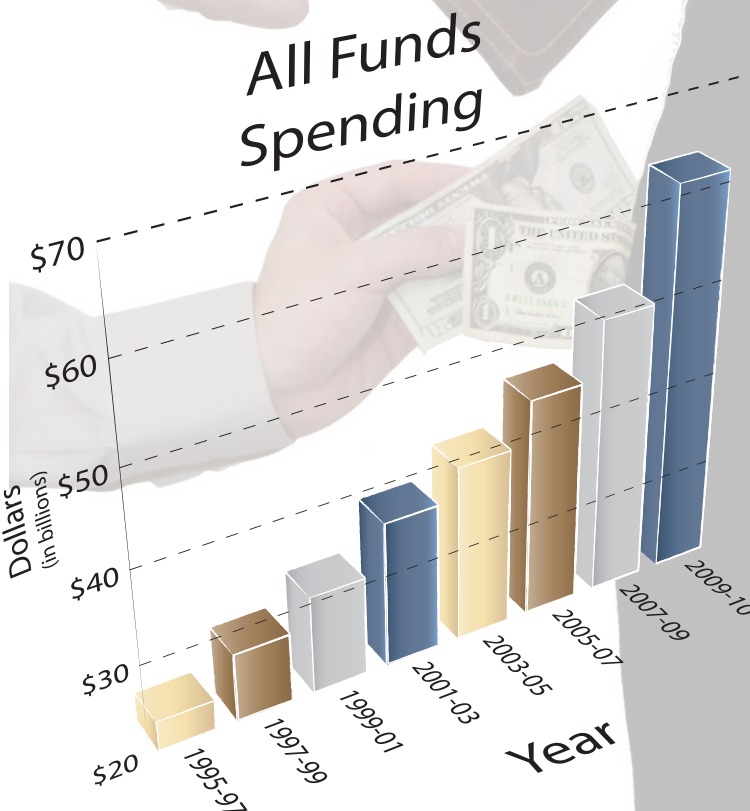


Photo illustration by Parick Cote

### "Other Funds"

#### Where the REAL money is

So how did Oregon's "all-funds" budget grow by 49 percent since 2005 when Oregon's income tax receipts were declining each year due to the deep recession? How can spending be going up that fast when we constantly read about budget shortfalls?

When politicians talk about budget shortfalls, they are referring to the General Fund, which is made up of income tax receipts and the profits from the Oregon Lottery. This portion of the budget is the most volatile, because it is directly tied to Oregon's economic vitality.

As the chart below shows, in the three budgets passed between 2005 and today, the General Fund has barely grown. It 2005-07 it was \$12.4 billion, and it grew to \$13.58 billion at the start of this biennium. That's a relatively modest 4.5 percent growth rate each two year cycle.

But the General Fund constitutes less than one-fourth of what the state government spends. The other 78 percent is made up of

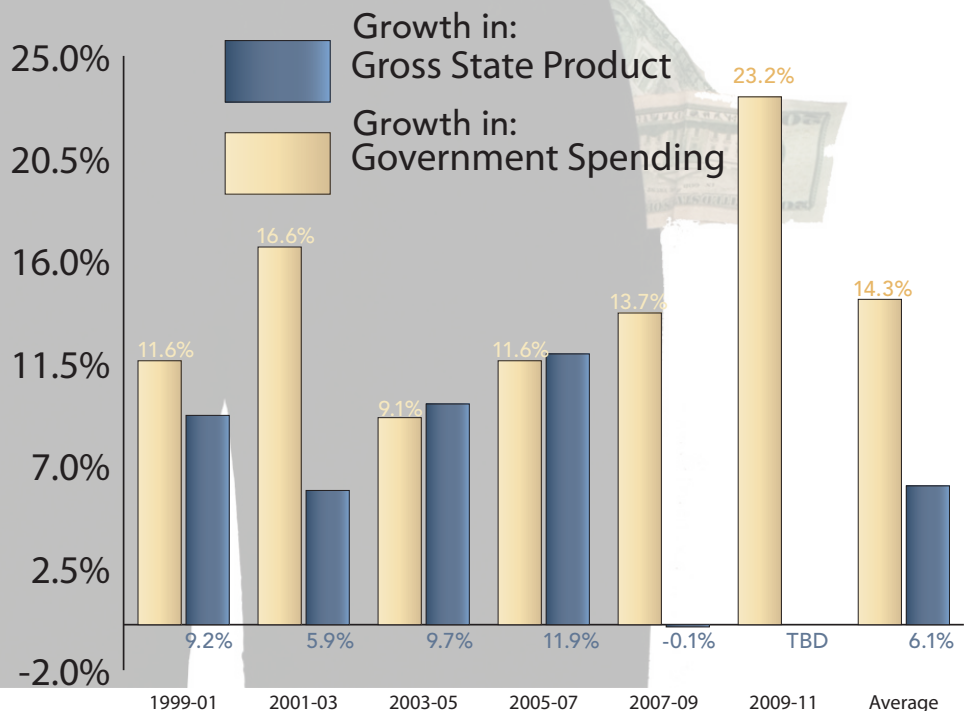
Federal Funds and the Other Funds budgets. Other Funds are made up of every non-income tax source of revenue: all the fees, gas taxes, licensing, excise taxes, public purpose charges, university tuition charges, etc.

Since 2005, Federal Funds received by Oregon have almost doubled from \$8.2 billion to \$16.1 billion. This is partially due to one-time "Stimulus funds" from the federal government.

The Other Funds category has also grown very rapidly since 2005. In the last three budgets, the Other Funds category has grown from \$20.02 billion in 2005-07 to \$30.7 billion in 2009-11.

As the chart shows, combining the growth of all three categories of funds, the Oregon state government budget has grown by 49 percent since the 2005-07 biennium.

The only question that most Oregonians may want to ask themselves is whether their own household budget has grown by 49 percent, because all three funds come from taxpayers' pockets.





# Does quality still count?

Oregon K-12 spending remains above western neighbors; School quality and academic results show little difference

Every two years when the Oregon legislature meets to decide on the state government budget, the question of how much to spend on education is always the most controversial budget issue.

One issue that doesn't get much discussion in the legislature, however, is whether Oregon gets a good return on the investment it makes in our schools.

Most legislators say that K-12 education is their highest priority. This no doubt reflects the fact that the Oregon Education Association (OEA), Oregon's largest teachers union, is the state's most powerful union.

A report released this summer by the non-partisan education journal *Education Next* showed that Oregon's teachers union spends far more on politics than any other teachers union in the country. The OEA spent \$357 per teacher in 2008 to influence elections, compared to a national average of \$22 per teacher. The Colorado teachers union was the next highest, spending less than half the per-teacher amount spent by the OEA.

The union's investment in politics appears to have paid dividends.

Oregon's per-student education spending is above every other western state in the lower 48 states. According to the National Education Association's "Ranking of the States 2009," Oregon led every other western state with \$9,705 per student in the 2007-08 school year, the latest year for which numbers are available.

California spent a full 11 percent less than Oregon. Arizona ranked last in the west, at \$5685 per student, 41 percent less than Oregon spends per student.

With such a large disparity in per-student spending between states in the western U.S., one might think that there would also be a large disparity in the quality of the schools. But this isn't the case. Although there is no universally accepted method for comparing school quality state-to-state, one of the most respected efforts to do so is *Education Week's* annual "Quality Counts" report.

Despite spending more per student than other western states, Oregon's grade from the 2010 Quality Counts report is a very pedestrian "C-minus." Oregon ranked 43rd in the nation, while California, which spends 11 percent less per-student, came in 19th. Utah schools, which spend less than 60 percent of what Oregon schools spend per student, received a higher grade in the Quality Counts report, coming in 38th in the nation.

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schools, what are we getting for it?

Judging from one study done several years back for the Oregon School Boards Association, Oregon taxpayers are footing the bill for a disproportionate level of non-classroom personnel, and for a benefit package that is among the most generous in the nation.

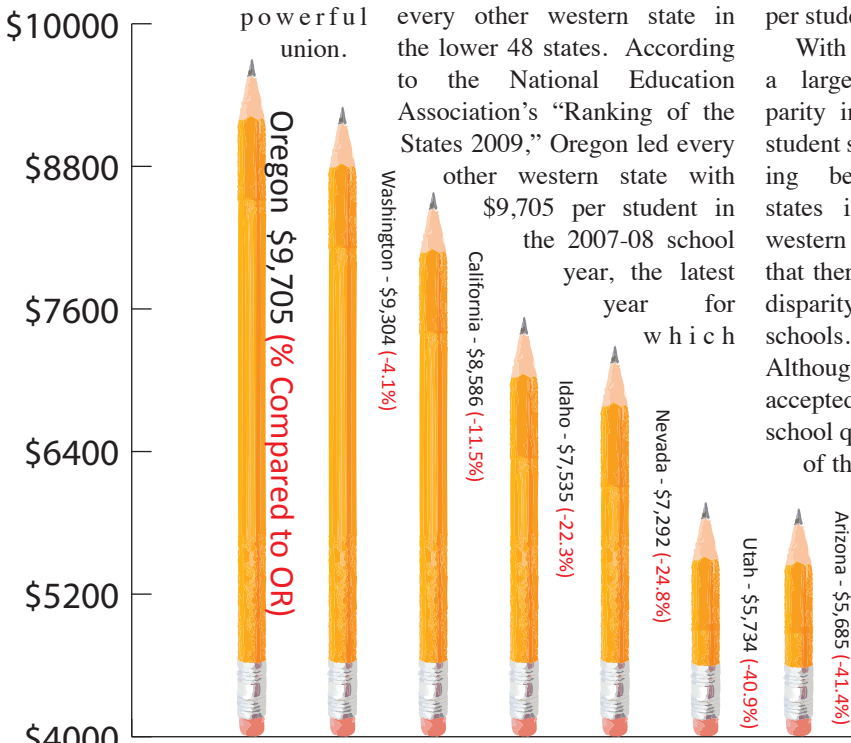
From the study's conclusion: "Oregonians elect to spend more on elementary and secondary public education relative to the average state and each of its neighboring states. This additional spending essentially funds higher relative compensation for system staff primarily in the form of higher than average benefits. Relative to neighboring states, Oregon also has a greater number of non-teacher staff per teacher."

Public K-12 education is one of the largest single line items in the state general fund budget. In the current budget, schools receive 43 percent of the \$14.5 billion General Fund.

Based on the Quality Counts report, there may be little reason for Oregonians to believe they are getting value for their school spending dollars.

State	Overall Grade	Score	Rank	Achievement rank
Oregon	C-	71.0	43	40
Washington	C	75.4	30	22
California	C+	76.8	19	38
Idaho	C-	70.9	44	17
Nevada	D+	68.7	50	45
Utah	C	72.7	38	26
Arizona	C-	70.8	46	44

Education Week Quality Counts 2009



NEA RANKING OF THE STATES 2009 EXPENDITURES FOR PUBLIC K-12 SCHOOLS PER STUDENT IN FALL ENROLLMENT, 2007-08

<http://www.nea.org/assets/docs/010rankings.pdf>

\* Compare the expenditures in this chart to the achievement rankings in the chart above right

Oregon does not get much bang for its buck spent on K-12 education.

# In the poorhouse and out of step with the neighborhood

The western region of the United States, as a whole the second wealthiest region in the country, ranks well above the rest of the nation in per capita income.

But not so for poor Oregon.

If there were four houses on a block, three well-manicured mansions and one rundown old home, it would be painfully clear where the high income earners lived and where the family lived that was struggling to make ends meet.

Oregon is becoming that house and Oregonians are the families struggling with lower per capita incomes than their regional neighbors. While their incomes have improved, ours have lost ground.

Oregon reached its economic high-water mark of 22nd in the nation in per capita income back in 1995, at the peak of Intel's investment in Washington County. At the time, per capita income stood at \$23,076 nationally and Oregon's stood at \$22,293. Oregon's neighbors, Washington, California and Nevada, ranked 16th, 13th and 9th respectively in per capita income.

By 2009, U.S. per capita income reached \$39,138, while Oregon's was just \$35,667. Oregon has now dropped to 31st in the nation, several thousand dollars behind the national average.

What about Oregon's neighbors? Did they slide as well? No. Today, California, Washington and Nevada are ranked 10th, 12th and 20th in per capita income. The Far West region, as measured by the U.S. Commerce Department, remains well above the national average, with a per capita income more than \$40,000 annually.

Despite the high-tech boom of the 1990s that helped make the West an even more prosperous region, structural problems and attitudes in Oregon have now, at least statistically, made the state less prosperous than its nearby neighbors.

The next global economic recovery cannot wholly address the structural problems unique to Oregon. We've got some catching up to do, and the state will need to find its own solutions.



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