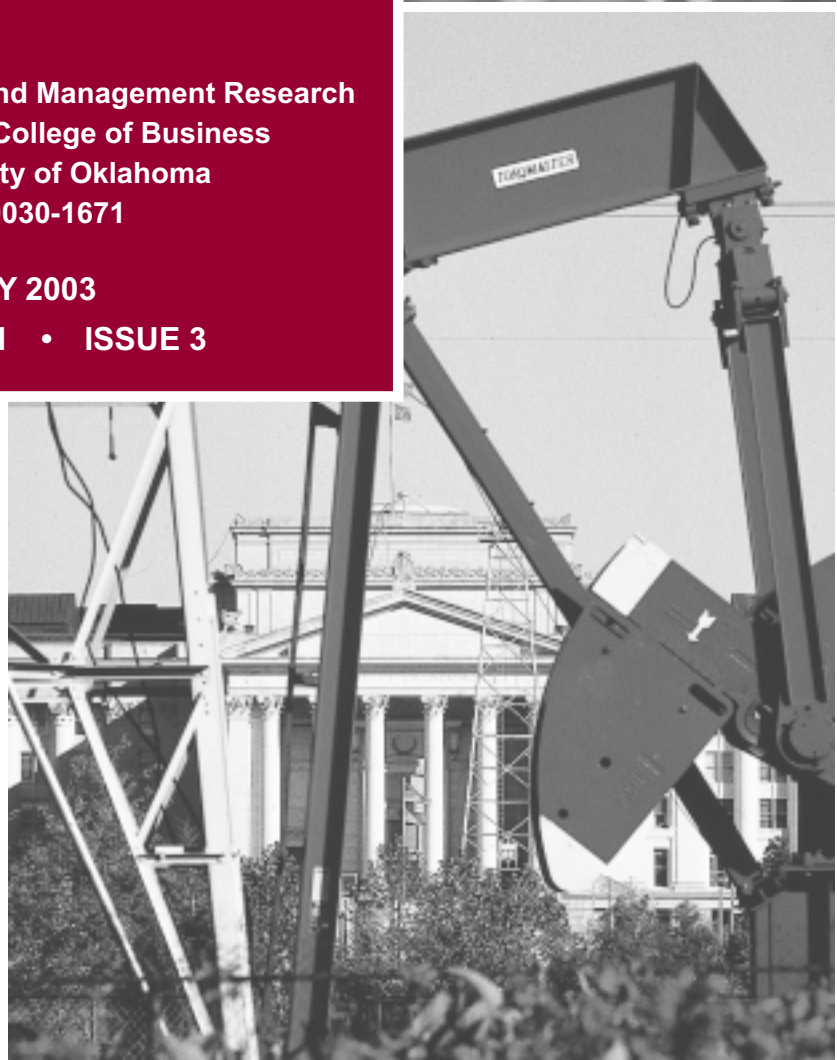
OKLAHOMA BUSINESS BULLETIN

Center for Economic and Management Research
Michael F. Price College of Business
The University of Oklahoma
ISSN 0030-1671

JULY 2003
VOLUME 71 • ISSUE 3



The *Oklahoma Business Bulletin* is published quarterly by the Center for Economic and Management Research, 307 West Brooks, Room 4, Norman, Oklahoma 73019-0450. July 2003, volume 71, number 3, ISSN 0030-1671. Second class postage paid at Norman, Oklahoma. Subscription price per year is $10.00. Postmaster: Send address changes to the *Oklahoma Business Bulletin*, 307 W. Brooks, Room 4, Norman, Oklahoma 73069.

The Editorial Review Board welcomes original manuscripts, studies, and research reports from persons in both the public and private sector in any area of economics and business administration. The editorial policy of the *Bulletin* promotes a free exchange of ideas and analyses. Accordingly, the contents do not necessarily reflect the views of the editor or the publisher.

Manuscripts for consideration should be typed, double-spaced, and submitted in duplicate. Each submitted manuscript is reviewed by at least two members of the Editorial Review Board and a decision is usually reached in four to six weeks.

Address all manuscripts and correspondence to:

Oklahoma Business Bulletin
Center for Economic and Management Research
307 West Brooks, Room 4
Norman, Oklahoma 73019-0450

The *Oklahoma Business Bulletin* is published by the Center for Economic and Management Research, Michael F. Price College of Business, The University of Oklahoma.

Publications Staff

Editorial Review Board

OVERVIEW

The University of Oklahoma is a doctoral degree-granting research university serving the educational, cultural, economic and health care needs of the state, region and nation. Created by the Oklahoma Territorial Legislature in 1890, the university is composed of campuses in Norman and Oklahoma City as well as the Schusterman Center in Tulsa. The university's main campus and the offices of administration of the University of Oklahoma are located in Norman. The OU Health Sciences Center, which is located in Oklahoma City, is the headquarters for the seven professional colleges and offers programs at the University of Oklahoma - Tulsa. OU-Tulsa is composed of the Schusterman Center, where the majority of OU programs serving Tulsa are located; the OU/OSU Research and Graduate Education Center, a collaborative effort to provide graduate education and research programs to the Tulsa metropolitan area; and several clinics and hospitals. OU enrolls almost 29,000 students, has approximately 1,900 full-time faculty members, and has 19 colleges offering 154 majors at the baccalaureate level, 152 majors at the master's level, 74 majors at the doctoral level, eight majors at the first professional level, and five graduate certificates. The university's annual operating budget is more than $1 billion. The University of Oklahoma is an equal opportunity institution.

OKLAHOMA BUSINESS BULLETIN

Volume 71, Number 3
July 2003

Articles

Tables

Quarterly

Business Highlights

by Robert C. Dauffenbach

The General Business Index for the state and its major metro areas is a composite of statistically important state and national economic variables. For each of these three geographic divisions, a coincident indictor series is compiled to form the index. Coincident indicators reflect on the current standing of the economy. These variables have strong current, but not lasting influences on the economy, unlike leading indicators, our Price College Indicators series. The GBI, thus, is designed to show trends in the regional economy as reflected in coincident indicators. The index is benchmarked on 1987 data and, thereby, provides a relative measure for judging the level of the economy today basis that benchmark.

It has been sometime since we have reviewed the GBI in this publication. While *Oklahoma City Marketing News*, a newsletter publication of *The Daily Oklahoman* publishes the index bi-monthly, it might be worthwhile reviewing its standing here.

"The Tulsa economy has been very hard hit by layoffs in primary corporate operations."

In the latest General Business Index computations, the Oklahoma City metropolitan area continues to outpace the state and Tulsa region. While the index was up only 0.7 percent in comparison to the May 2002 reading, this performance is a sharp contrast to the state as a whole, which was down 1.0 percent. The contrast is even more distinct in comparison with the Tulsa GBI, down 3.8 percent.

The closely followed payroll employment data mirror these findings. In May, Oklahoma City was up 3.9 thousand to 548.4 thousand in year-over-year comparison. In June 2003, the seasonally unadjusted data series recorded 541.5 thousand jobs, about the same as the previous year's value. However, the State of Oklahoma lost 13,200 jobs in the May-to-May comparison. The Tulsa region lost 18,800 jobs. The now available June data shows some improvement. The state is down 8,000 jobs while Tulsa is down about 12,000 jobs.

The reasons for these differential trends are fairly easily identified. The Tulsa economy has been very hard hit by layoffs in primary corporate operations. These include WorldCom, Williams Companies, and American Airlines. The well-documented bursting of the high-tech bubble is responsible for many of the ills facing the Tulsa economy. American Airlines operations have been in retreat as a consequence of 9/11 problems the airlines are facing. There is little that local authorities could have done to lessen the ramifications of these national, even international, events.

The Oklahoma City region has suffered high-tech losses, as well. Examples include Seagate and the former Lucent operation, now run by Celestica. What has made the difference is, perhaps, largely attributable to the Tinker facility. This is a very important component of the Oklahoma City employment base. Past studies of the economic impact of Tinker at CEMR show at over 40,000 jobs in Oklahoma are linked to that facility, either through direct employment, through indirect (supplier)

employment, or through induced employment. The latter category is jobs that come about in a region in consequence of increased spending. A lion's share of the economic impact of Tinker occurs in the Oklahoma City region. The war with Iraq and the renewed emphasis on defense has been beneficial to the Oklahoma economy, and Oklahoma City, in particular.

"...the GBI results continue to show that the worst of the recession has passed the Oklahoma economy."

The table below provides some comparison data on GBI trends. The latest GBI computations are obviously impacted by the revisions in the employment series. In general, however, the GBI results continue to show that the worst of the recession has passed the Oklahoma economy. The data for this current report are based on data that extend through May 2003. The State's GBI is down 0.9 percent in May relative to the year earlier attainment. This is a much weaker reading than in May 2002, when the index was up 2.1 percent. The Oklahoma City GBI is up 0.7 percent in May and seems to be stabilizing at that level for the time being. It was up 0.7 percent in March 2003, for example. As mentioned previously, the OKC area has once again proven to be a bright spot in the state's economy. Change in the Tulsa GBI of –4.6 percent from year-ago levels is quite dramatic in comparison to a gain of 2.8 percent in May of 2002. The major difficulties this economy faces at present are in the Tulsa area.

	State	% Change	OKC	% Change	Tulsa	% Change
2001:5	129.7	-1.8%	129.9	-1.7%	132.6	-2.6%
2002:5	132.4	2.1%	132.2	1.8%	136.2	2.8%
2003:5	131.2	-0.9%	133.2	0.7%	129.9	-4.6%

The forecasts for the two major metro areas and the State of Oklahoma are little changed from two months ago. However, at the OU Center for Economic and Management Research, we are engaged in a necessary extensive revision of the models because of movement to the NAICS system of industry classification. Many old economic series that were used in the modeling are simply no longer available. Current model runs, using estimation procedures for some data series, produces results that continue to show positive employment growth for the State of Oklahoma. The state is now expected to add only about 3,000 jobs this year, a miserably low 0.2 percent growth rate. The Oklahoma City area is projected to grow by 6,000 jobs, a much more respectable 1.2 percent rate of growth. The Tulsa region is expected to be about flat. By the end of 2004, nonagricultural employment for the state is expected to rise by about 19,000 or 1.3 percent. Forecasts have been looking somewhat stronger for the six-county Oklahoma City metro area. Growth of 8,000 jobs is anticipated for the OKC region in 2004, about a 1.5 percent gain. Tulsa , which will have hardly any growth in 2003, is expected to add 5,000 jobs in 2004, or 1.2 percent.

In truth, the forecast for a strong rebound has been pushed out considerably as national economic problems linger. The forecasts have come down in the most recent updating of the model. Now, only tepid growth is anticipated for 2003 and that growth may be late in coming. There remains one huge risk to the forecast: instability in financial markets. This forecast rests on a foundation of financial stability. The real economy is growing slowly, muddling-through the current travails. While the rapid growth that generally accompanies recessions is not anticipated simply because this is a recession like none other we have experienced, it is clear that public policy, principally the Fed, is pushing strongly for a recovery. Let us hope that these consistent and sizable public policy efforts to get the economy moving again can soon find traction.

Robert C. Dauffenbach is Director of the Center for Economic and Management Research and Associate Dean for Research and Graduate Programs.

Baby Boomers' Retirement: An Economic Analysis

Zohre Salehezadeh and Kenneth Kickham

Introduction

The demographic structure of the United States is going through profound changes. Millions of Americans born during the post-war period, roughly between 1946 and 1964, are working their way through the age distribution. By 2030, these baby boomers will have passed their retirement age.[1] The baby boomers have made a remarkable impact on American life. They spurred the rise of suburbs, transformed popular culture, and continue to define the political landscape. As they have aged, their impact on the nation's economy has evolved. Now, as they prepare to retire, their influence will be felt in new ways. This phenomenon, known as "the pig in the python,"[2] introduces an array of unsolved dilemmas. Are we, as a society, prepared for these baby boom retirees?

In this study, we examine this phenomenon with some specific attention to Oklahoma. The next two sections describe the problems of an aging population and society's response. We then discuss how economic and budgetary constraints impact the system of social programs. The next section evaluates various policy approaches and their implications for the social safety net, the federal budget, and the economy. We conclude this paper with some suggestions about how human services agencies can promote economic growth while meeting the needs of the elderly.

The Aging Population

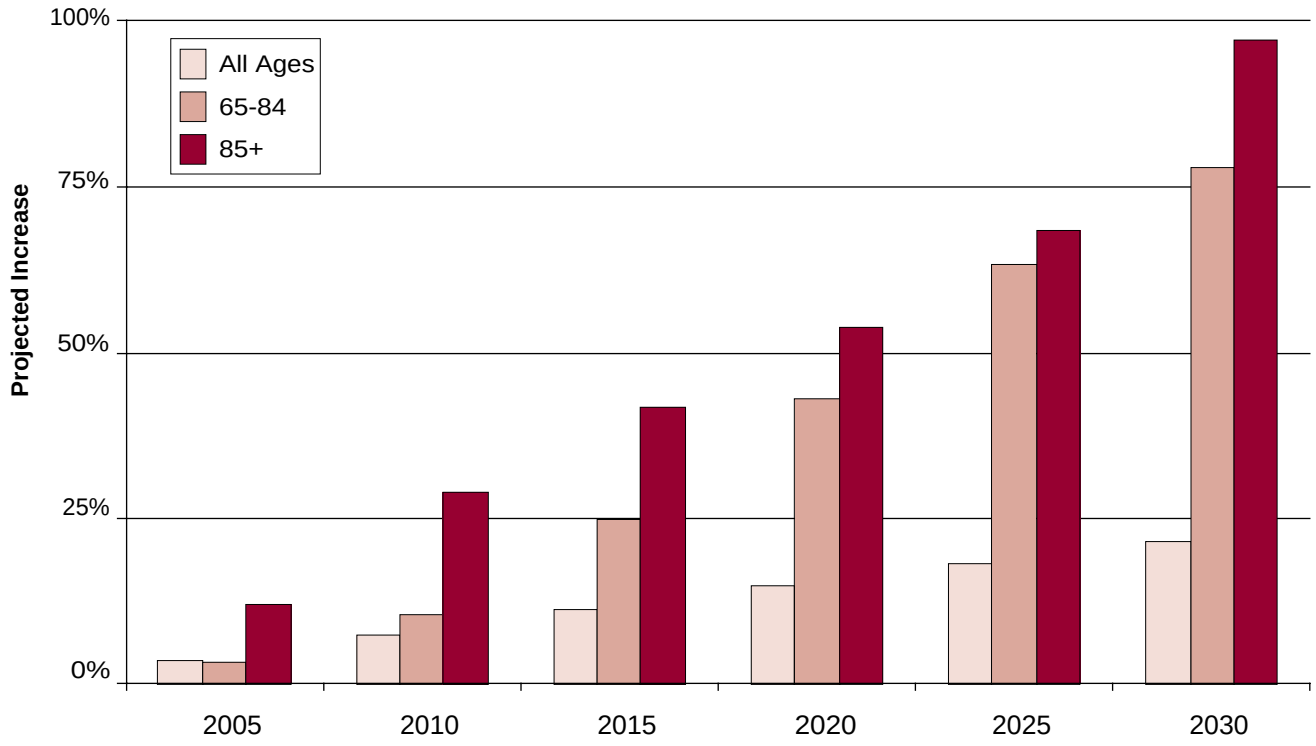
The 78 million baby boomers are entering middle age. In 30 years, almost 20 percent of the U.S. population will be age 65 or older. The future of America can be seen in Florida, where one person in five is over the age of 65. Two major forces are behind America's "senior boom." First, longevity is increasing. Average life expectancy in 1900 was 47; today it is 77 and is likely to reach 80 within the next decade.[3] Second, the birth rate has been declining for the past few decades. In short, the elderly are living longer and the younger generation is growing too slowly to make up for the added pressure of large numbers of retirees on the economy. In Oklahoma, the elderly segment of the population is growing dramatically. As Exhibit 1 illustrates, the number of Oklahomans age 85 and over will almost double by 2030. The state's 65 and older population has increased by 16.7 percent since 1980, outpacing the overall state population growth rate of 14.1 percent over the same period.[4]

"By 2020, one in six Oklahomans will be at least 65 years of age, with the fastest growing segment being the 85 and older group."

According to the U.S. Census, Oklahoma ranks 13th in the nation in the percentage of its population aged 60 and over and 19th in the percentage aged 65 and older. By 2020, one in six Oklahomans will be at least 65 years of age, with the fastest growing segment being the 85 and older group. For older Oklahomans, problems arise in connection with financial needs, medical conditions, and the desire to remain independent and preserve personal dignity.

Exhibit 1

Percent Increase in Oklahoma Population by Age (Projected)[a]



[a]Wallace, Jeff and Julia Bettis. 2002. *Population Projections for Oklahoma, 2000-2030*. Oklahoma Department of Commerce, Oklahoma City.

One in six elderly persons in Oklahoma live at or below poverty, while 46 percent live with a physical disability.

When breadwinners retire, they require alternative means of financial support. Retirement can significantly downgrade the financial resources available to these highly vulnerable Americans. Private sector retirement benefits are not guaranteed. Therefore, low-income people who are past working age must look to government programs as their last line of defense against destitution. For those who depend on Social Security, a 50 percent income reduction is a very real possibility (see Exhibit 2). This income loss comes at a time when health problems are likely to increase, as are needs for prescription drugs and other assistance.

Exhibit 2

Average Public Pension Benefit as a Percent of Average Gross Wage, 1995[a]

Country	*Percent*
France	60
Italy	54
Germany	52
United States	38
Canada	29
Japan	20
United Kingdom	18

[a]Pecchenino, Rowena A. and Patricia S. Pollard. 1999. *The Effects of Aging and Myopia on the Pay-as-you-go Social Security Systems of the G7*. The Federal Reserve Bank of St. Louis Working Paper #1998-023B, p. 13.

Guaranteeing Security for the Elderly

Social Security and Medicare programs are based on the Social Security Act (SSA) of 1935. Originally, the goal was to relieve the misery of the elderly in the throes of the Great Depression. The fact that the government had no funds to pay the destitute elderly led to the idea of taxing those who work to pay the elderly in the form of benefit checks. Since then, the system has expanded to something different. Now the elderly, rich and poor, receive Social Security benefits and are covered by Medicare. These programs claim the largest share of federal expenditures, and comprise the single largest drain on American workers' paychecks.

"Social Security and Medicare provide hundreds of billions of dollars in benefits each year, but still fall short of meeting the needs of the elderly."

Since 1935, the Social Security system has guaranteed pension benefits to retired workers and their dependents. In 1965, Medicare was added to the system to provide hospitalization and physician coverage. These two programs are financed by the payroll taxes on wages. When collections exceed benefits, the excess is used to purchase bonds issued by the U.S. Treasury. This accumulation of bonds is held in trust funds, which are called the "Old Age and Survivors Insurance Trust Fund" and "Disability Insurance Trust Fund" for Social Security (combined as OASDI), and the "Federal Hospital Insurance (HI) Trust Fund" for Medicare. The trust funds reflect payroll taxes that have been collected each year, minus the benefits that have been paid out.

Trust Fund revenues are generated mainly from two funding streams—payroll taxes and interest earnings on accumulated assets. OASDI collected over $600 billion in 2001, with 86 percent coming from payroll taxes. Medicare (HI) took in $152 billion in payroll taxes. Payrolls were taxed at the rate of 12.4 percent for OASDI (known as "FICA" [Federal Insurance Contributions Act]) and 2.9 percent for Medicare (known as "MQFE" [Medicare Qualified Federal Employee]), with each employee splitting the contribution evenly with her employer. The OASDI payroll tax rate remains at 12.4 percent for the employee's first $84,900 of wages, and then the rate falls to zero. This means the Social Security tax is regressive for incomes above $84,900. For example, a salary of $1 million faces a social security tax rate of about 0.6 percent, while those making $24,000 a year pay 7.65 percent. The Medicare tax, however, is "flat," with the same rate applied to all earnings.

For Medicare, the HI trust fund pays for inpatient hospital care and related services. Social Security benefits are paid to individuals, with the benefit amount varying according to an individual's wage level. Retirees with at least 10 years of covered employment are "fully insured," and they become eligible for full benefits at age 65. For each retiree, the calculation of the benefit begins with that person's "average indexed monthly earnings" (AIME). The AIME is the worker's average monthly earnings during all years of covered employment, adjusted for wage inflation. For workers reaching age 62 in 2003, the monthly Social Security amount equals 90 percent of the first $606 AIME, 32 percent of the AIME between $606 and $3,653 and 15 percent of AIME over $3,653 up to a maximum of $2,907 per month. This amount is then automatically increased each year to keep up with price inflation. The average monthly benefit for all retired workers, as of July 2002, was $879. OASDI benefit payments totaled $439 billion in 2001.

Social Security and Medicare provide hundreds of billions of dollars in benefits each year, but still fall short of meeting the needs of the elderly. As a result, the importance of other welfare programs becomes apparent. As we will see in the next section, the major difference between these two large programs and the others is the way they are funded. While Social Security and Medicare are primarily financed with payroll taxes, other welfare programs must weather the appropriations process.

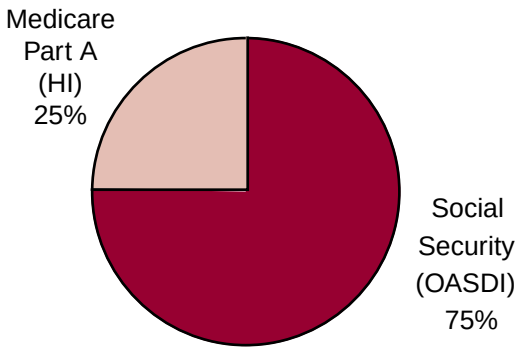
Meeting the Needs of the Elderly Beyond Social Security

Social Security provides some financial stability for retirees, but not enough to address all their needs. As Exhibit 2 shows, Social Security benefits in the U.S. are considerably lower, on average, than wages. Less than half of the average wage is "replaced" by the average Social Security check. In France, for example, the average income falls by 40 percent after retirement, whereas in the United States it falls by 62 percent.

Medicare, Medicaid, and other welfare programs augment Social Security by contributing to seniors' health and well-being. Social Security and Medicare cover about 40 million seniors, with roughly 5 million of them also covered by Medicaid. Medicare is comprised of two parts. Part A, Hospital Insurance (HI), heavily subsidizes hospitalization and inpatient coverage. Part B, Supplementary Medical Insurance (SMI), pays for physician and outpatient services. Part A is financed by payroll taxes, while Part B is mostly financed by general revenue. Medicare Part A benefits totaled nearly $144 billion in 2001, accounting for 25 percent of payroll tax expenditures for the elderly (Exhibit 3).[5]

Exhibit 3

Expenditures for the Elderly from Payroll Taxes by Program[8]



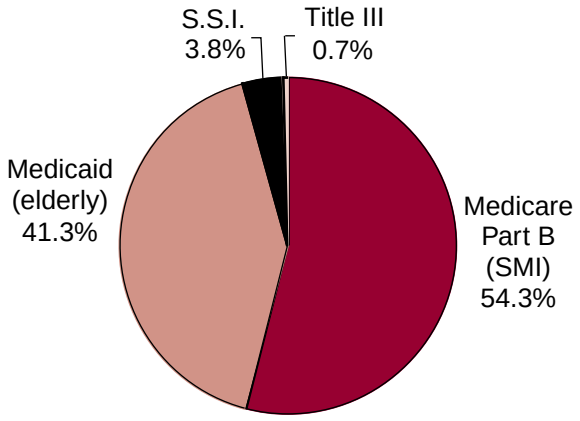
Note: Social Security and Medicare expenditures are for 2001. Medicare does not include Part B (Supplemental Medical Insurance).

[a]Social Security Administration and Centers for Medicare and Medicaid Services data. For Social Security and Medicare data see http://www.ssa.gov/OACT/TRSUM/trsummary.html. For Medicaid see http://cms.hhs.gov/medicaid/msis/00total.pdf.

Medicare Part B (SMI) and other welfare programs for the elderly such as Medicaid, Supplemental Security Income (SSI), and "Title III" programs, are financed through general revenue (see Exhibit 4). These programs are especially important in meeting the needs of the elderly beyond Social Security. Of the $101.4 billion in SMI benefit payments in 2001, $72.8 billion came from general revenue and $22.8 billion from beneficiary premiums. About one third of Medicaid funding — roughly $50 billion a year — is used for low-income people over the age of 65, providing various services for the elderly in addition to paying for medical bills. SSI helps seniors who have little or no income by providing cash to meet basic needs for food, clothing, and shelter. Title III of the Older Americans Act (OAA) provides funds to help states organize and pay for meals and a broad range of social services.[6] Welfare programs like these soften the effects of income reduction after retirement.[7]

Exhibit 4

Expenditures for the Elderly from General Revenue by Program[a]



Note: Medicare (SMI) and Medicaid are for fiscal year (FY) 2000 and SSI is for calendar year 2000. Medicaid and SSI expenditures are combined state and federal shares. Title III refers to federal appropriations for FY 2000 under the Older Americans Act.

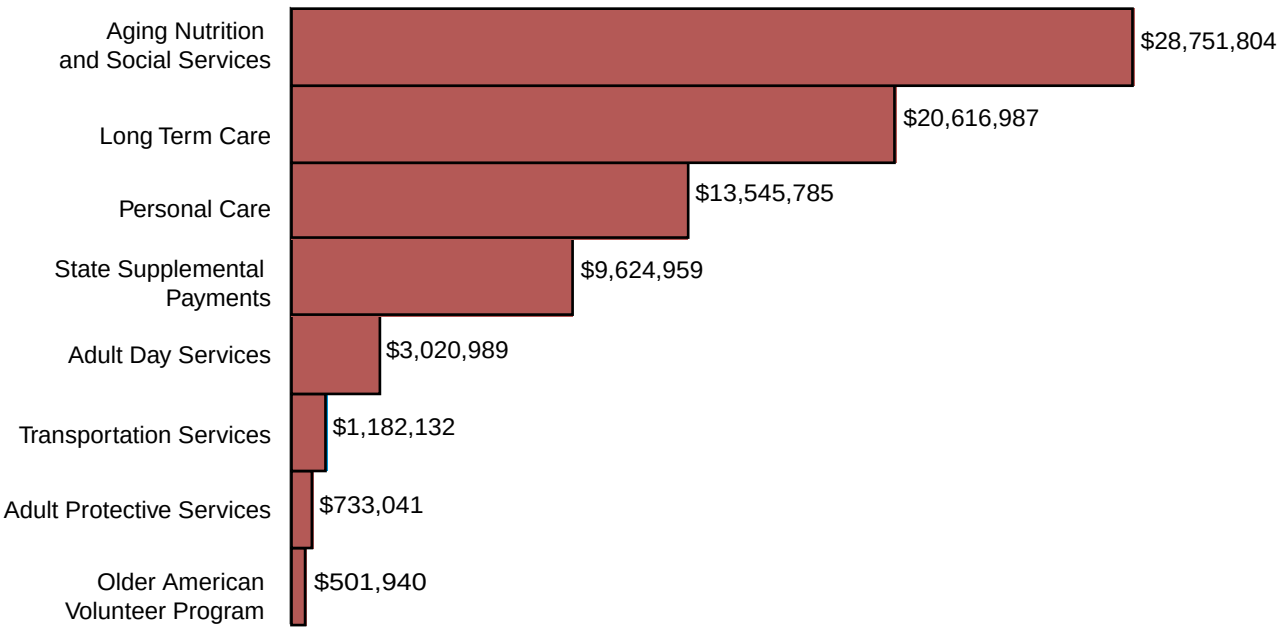
[a]Social Security Administration and Centers for Medicare and Medicaid Services data. For Social Security and Medicare data see http://www.ssa.gov/OACT/TRSUM/trsummary.html. For Medicaid see http://cms.hhs.gov/medicaid/msis/00total.pdf.

In Oklahoma, the impacts of the demographic change and the increased demands of the elderly are already being felt. In 2002, the Aging Services Division (ASD) of the Department of Human Services (DHS) reported record high participation levels and, for the first time in its history, demand for services that exceeded the ASD budget and available resources. This was due to a "basic standstill in budget growth at both the state and federal level at a time when the demand for services was at an all time high."[8] The growth in demand for long-term care, for example, has exacerbated the shortage of nurses in Oklahoma. The U.S. Department of Health and Human Services reports nursing shortages in 24 Oklahoma counties.[9] Exhibit 5 summarizes the major categories of Oklahoma DHS expenditures for the elderly in 2002. These programs served over 170,000 seniors in fiscal year (FY) 2002.

As the population ages, this multifaceted approach to meeting the needs of the elderly must increase its capacity to provide a social safety net for this group of people. Since the resource base is shrinking due to the declining workers-to-retirees ratio, increasing the capacity of the system will be difficult. When analyzing this problem, it is important to recognize how Social Security, Medicare, Medicaid, and other welfare programs are intertwined in subtle ways. Because they are components of a welfare system, fixing a problem with one program can create problems for the other programs. For example, cutting the Social Security benefit would lead to an increase in the number of people who qualify for SSI due to low income.[10] This means that a larger portion of the general revenue would be needed for SSI. Another example involves the interrelationships among Medicare Part A, Part B, and Medi-caid. As Medicare Part A medical service coverage declines, Part B (SMI) and Medicaid must pick up the tab. Again, the result is more pressure on the general fund. So, if we look at the interconnected-ness of these programs from a broader perspective, it becomes apparent that programs are able to gain additional funding only to the extent that other programs are cut. This is the logic behind the term "unified budget perspective," described by the Social Security and Medicare Trustees in their most recent report.[11]

Exhibit 5

Oklahoma Dept. of Human Services Expenditures for the Elderly, FY2002[14]



[a]Oklahoma Department of Human Services data: http://s99web01/oppr/Program Data/AGING_FY03.htm

The Unified Budget Perspective and the Social Safety Net

To understand the unified budget perspective, we should understand the notions of "on-budget" and "off-budget." Social Security is by law off-budget. This means the government cannot include the collected payroll taxes in the budget to finance other programs. But the fact is that payroll taxes in excess of Social Security benefit payments are used indirectly to pay for other government expenditures. This is how it works. Social Security surpluses are, by law, lent to the U.S. Treasury in exchange for Treasury bonds. Social Security keeps these bonds and the federal government gets to use this money to finance the federal deficit (i.e., to pay for programs).

"When the time comes that payroll taxes are not enough to pay Social Security benefits, the government must buy back the Treasury bonds."

This surplus[12] therefore appears as "assets" on the books of the Social Security trust fund, but actually the same amount is borrowed and spent by the government.[13] As a result, Medicaid and other "on-budget" (i.e., general revenue) programs are indirectly financed by "off-budget" Social Security taxes. The relationships among these programs suggest the need for a perspective that does not focus on each component of the system in isolation. This perspective, which considers all federal programs as on-budget (i.e., unified budget perspective), gives a better display of the government's finances.

Each year, the Trustees of Social Security and Medicare report on the funds' current status and their projected health over the next 75 years. In 2002, the Boards of Trustees projected that the Social Security trust fund will run out of assets in 2041. Years earlier, beginning in 2017, benefit payments will become greater than payroll tax revenues. At that time, the Trustees will begin selling assets of the trust funds to make up the difference between income and outgo. The assets, as mentioned above, are actually U.S. Treasury bonds, which are liabilities of the U.S. government. When the time comes that payroll taxes are not enough to pay Social Security benefits, the government must buy back the Treasury bonds. That means the government must borrow to pay its debt to Social Security. Therefore, from a perspective that recognizes this connection between the trust funds and the federal budget, covering the difference between income and outgo requires federal budget dollars, either in the form of general revenues or increased debt. This perspective views Social Security's future as inseparable from that of any other federal program.

According to the Trustees, the question of whether we are prepared for the baby boomers' retirement is really about more than the sustainability of Social Security. Although Medicare and other social service spending is considerably less than Social Security (which pays out more than $430 billion a year), a long-term strategy should recognize the essential contribution of each component of the system. Medicare costs over $240 billion a year and is growing rapidly.[14] SSI, Title III and Medicaid programs for the elderly cost over $55 billion in 2001. If current laws are maintained, it is estimated that the elderly will consume 40 percent of all federal spending within 10 years, increasing to 50 percent of the federal budget within the next 25 years.

Every budget cycle, Medicaid and other general fund programs face stiff competition for scarce budget dollars. Social Security and Medicare, on the other hand, face the approaching "trust fund problem," which has to do with the ratio of workers to retirees. For the next few years, this ratio will remain large enough to keep these two programs out of the budget battles, but this will not be the case in the long term. Long-range projections, based on current law and conservative estimates of population and economic growth, predict trouble as early as 2016, as Exhibit 6 indicates. The Trustees have identified a long-term deficiency in the amount of payroll taxes to be collected for Social Security and Medicare, which is called a "funding gap." Based

on these projections, Medicare's HI assets will be depleted by 2030, with the OASDI fund following suit in 2041. When that happens, benefits will be paid with current year payroll taxes alone,[15] implying either a decline in benefits, an increase in taxes (i.e., raising the tax rate, or expanding the taxable wage base), or the use of general revenues. If general revenues are used to cover the gap, Social Security will not resemble a self-sustaining pension plan as was originally intended.

Exhibit 6

Trust Fund Projections by Year[a]

Description	Social Security	Medicare
First year outgo exceeds income (excluding interest)	2017	2016
First year outgo exceeds income plus interest earned	2027	2021
Year trust fund assets are exhausted	2041	2030

Note: Social Security refers to the OASDI Trust Fund. Medicare refers to the HI Trust Fund.

[a]Social Security and Medicare Boards of Trustees (2002). http://www.ssa.gov/OACT/TRSUM/trsummary.html

Exhibit 7

Payroll Taxes Over Time

	1935	1955	1975	2002
Payroll tax rate	2%	4%	11.7%	15.3%
Maximum Wage for Social Security Tax	$3,000	$4,200	$14,100	$84,900

Raising the payroll tax rate and expanding the taxable wage base have been the techniques of choice in the past. Payroll taxes, which are collected from workers and their employers at the rate of 15.3 percent of total wages, will not be sufficient to cover projected benefits over the next 75 years. According to the Trustees' forecasts, the payroll tax would need to be increased to 19.2 percent, starting in 2002, to cover the difference between income and costs up to the year 2076. However, as Exhibit 7 shows, payroll taxes have already risen considerably in recent years.

Both the tax rate and the taxable wage base have been legislatively increased numerous times. While this strategy has kept the trust funds afloat, it has taken more away from the pool of wages. This taxable wage base is the major source of funding for government programs, as Exhibit 8 shows.

In 2002, almost 38 percent of federal revenues came from payroll taxes. This was an increase of three percentage points from the previous year (34.9% in 2001). Another 46 percent of federal revenues came from individual income taxes, which are based primarily on wages. Corporate income taxes and other sources accounted for less than one-sixth (15.9%) of federal revenues.

Unless the structure of Social Security is fundamentally altered, there are only three basic options for preserving stability—increase the payroll tax rate, increase the taxable wage base or reduce benefits. Unfortunately, these options are painful and problematic. Reducing the benefit is politically problematic because the elderly vote in great numbers. However, maintaining the trust funds through tax increases creates a drag on the

Exhibit 8

Federal Revenues by Source (in Billions of Dollars)[a]

Source	FY 2001	FY 2002	Percent Change
Individual Income Taxes	994	858	-13.7
Corporate Income Taxes	151	148	-2.0
Payroll Taxes	694	701	1.0
Other	152	146	-3.6
Total Revenues	**1,991**	**1,853**	**-6.9**

[a]U.S. Department of the Treasury. http://www.cbo.gov/showdoc.cfm?index=3981&sequence=0

economy, and a long-term dampening effect on federal revenues. Regardless of how the funding gap problem plays out, the unified budget perspective implies a much larger problem. If general revenues are channeled into Social Security and Medicare, other programs -such as Medicaid and SSI – will face a squeezing-out effect. In the last analysis, economic growth and public policy will have the most profound impact on the quality of life for retiring baby boomers. A growing economy enables the government to fund programs out of a larger and expanding revenue base. Unless strong economic growth comes to the rescue, budgetary dilemmas will force controversial trade-offs among programs.

"While there is much debate over who should pay for the growing cost of the elderly, the more urgent question is whether the system of programs can survive."

In the next section, we consider several approaches for sustaining the social safety net.

Policy Approaches and Their Implications

In previous sections we have referred to the array of government programs serving the elderly as a system. While there is much debate over who should pay for the growing cost of the elderly, the more urgent question is whether the system of programs can survive. If the survival of Social Security puts the other components of the safety net at risk, it may not do much good to save Social Security. The rising cost of medical care and prescription drugs, coupled with dwindling retirement income, has forced people to scramble to make ends meet. In this section we evaluate some well-known strategies for meeting these needs from a unified budget perspective. We briefly outline each strategy and analyze its potential impact on programs, the budget, and on economic growth.

Reduce Social Security and Medicare Benefits

The unified budget perspective suggests that reducing benefits to the elderly frees up money for other programs. These could be programs that support economic growth through the development of "human capital."[16] Higher education, for example, enables people to increase their earnings and promotes economic growth. As human capital increases, the potential for economic growth, and the welfare of the society as a whole, is enhanced. Therefore, if benefit payments are cut and the government instead spends money to improve public education, the result will be higher economic growth and social welfare. The following strategies are aimed at reducing the portion of federal spending consumed by Social Security and Medicare.

Means testing Social Security and Medicare: Currently, every person who has worked for a specific period of time, regardless of the person's financial situation, receives Social Security and Medicare coverage. Instead, the government could decrease or eliminate benefits to wealthy seniors. This method of distribution, with need as the driving principle, would limit receipt of benefits to those with little or no other income, and also limit the benefit amount to a basic subsistence level. This would relieve pressure on the general fund (by reducing the debt to the trust funds), decrease the need for additional payroll taxes, and encourage economic growth. With means testing, however, Social Security would resemble a welfare program instead of a pension plan. When we consider how distasteful this realization might be for retirees, and the fact that this group votes in large numbers, means testing seems an unlikely strategy for political reasons.

Increase the retirement age: This idea is already part of public policy. By the year 2022, the normal retirement age will be 67. This saves money by delaying benefits to those who retire at the normal retirement age, and by reducing the amount of the benefit to those retiring early. One study

suggests that increasing the normal retirement age to 70 by the year 2030 would eliminate about half of the funding gap.[17] This approach also seems promising for economic growth, assuming older workers remain productive. The budget would be enhanced to the extent that productive seniors add to the wage base, provided their wages are deemed taxable. Government and welfare agencies are in a position to aid economic growth by helping seniors remain in the labor force and work as long as they are able to.

Privatize Social Security: Privatization refers to shifting some of the annual surplus to private investment instead of U.S. Treasury bonds. The argument is that the Treasury bonds do not reflect "genuine" investment, since the trust fund surpluses are used to cover deficits in other government accounts. By investing the surplus in the stock market, whether this is done by individuals or collectively by fund managers, national investment would increase, paving the way for economic growth. For example, the government may offer workers the option of investing some portion of their payroll taxes currently going to Social Security.

"The baby boom problem was not envisioned when Social Security was designed, and the basic assumption of a high ratio of workers to retirees no longer holds."

This would increase private investment and economic growth, reduce the government's obligation for future benefit payments, and ease the pressure on general revenues and other welfare programs. However, privatization has several disadvantages.

The main problem is that the stock market can be very unpredictable, while Social Security functions as a source of *guaranteed* retirement income. (In fact, the stock market crash in 1929 and subsequent depression prompted the creation of a guaranteed retirement system.) Moreover, administrative costs would increase due to the increased complexity of managing a portfolio, as opposed to merely buying Treasury bonds. These administrative costs would, in effect, transfer money from workers to fund managers, who tend to be paid very well. Although they cannot guarantee high rates of return, these financiers would receive substantial transaction fees due to the size of the portfolios. A system that guarantees commissions for stock traders, instead of basic incomes for the elderly, may not be politically feasible. Finally, there would be the danger of investment decisions being motivated by personal or political interests rather than sound financial analysis.

The three strategies mentioned above share the objective of reducing the role of trust fund spending relative to other program expenditures. This is an important goal. The baby boom problem was not envisioned when Social Security was designed, and the basic assumption of a high ratio of workers to retirees no longer holds. Therefore, it makes sense to re-evaluate the role of the trust funds. The challenge is to find an appropriate way to use taxes, whether payroll taxes, income taxes, or any other kind, to distribute benefits and burdens.

Increase Payroll Tax Rates

Although a payroll tax increase is a straightforward way to cover the funding gap and extend the life of the trust funds, there are significant problems with this approach. First, there is the political problem. As mentioned previously, Social Security taxes are flat taxes up to a point, and then become regressive. A tax is said to be regressive when *lower* salaries are taxed at a *higher* rate. As a result, the funding burden rests disproportionately on middle and low-income workers. Increased reliance on payroll taxes, whether flat or regressive, would seem to run counter to the equity principle embodied by our progressive income tax structure, in which lower incomes are taxed at lower rates. At the same time, Social Security and Medicare beneficiaries can be quite wealthy. From a worker's perspective, Social Security can look like a transfer program that takes too much from the working poor and gives too often to the rich. When these regressive taxes overtake progressive income taxes as the chief revenue source

(see Exhibit 8), political support for Social Security and Medicare could wane.

Perhaps even more sobering than the political problem is the economic problem. If payroll taxes were to increase to cover the funding gap, this would have a negative effect on the economy. Any tax increase on wages would equate to a direct reduction in household income, and therefore almost certainly reduce the already low household savings rate.[18] Reduced savings results in lower physical capital accumulation (capital stock) and investment, leading to lower economic growth and lower wages.

"...the compounded effect on the economy will emerge a few decades from now when baby boomers retire and the government has to pay off its huge debt to the trust funds."

Also, workers discouraged by higher taxes might reduce working hours and increase leisure time.[19] On the other hand, these negative effects (i.e., reduced wages, savings, and investment) might be offset to some degree by increased government expenditure.

As explained previously, the collected payroll taxes in excess of Social Security and Medicare payments are lent to the government to finance its other expenditures. An increase in payroll taxes will, in effect, create more room for programmatic spending, which will, in turn, increase consumption and investment. The effect of this policy on the well-being of the elderly depends on government spending decisions. If the government uses this extra revenue to increase funding for programs that enhance human capital, the welfare of the society as a whole will improve. However, the compounded effect on the economy will emerge a few decades from now when baby boomers retire and the government has to pay off its huge debt to the trust funds. Currently, the government's total debt is about $6.4 trillion.[20] The federal government has to pay interest on this debt, which in turn requires more borrowing to pay the interest. As government debt increases – due to increased payroll tax collection and more spending – paying it off later will be increasingly difficult. In order to sell more bonds, the Treasury has to increase the effective interest rate on bonds. Fortunately, with this higher interest rate and the globalization of capital markets, the government will have no problem attracting more capital – everything else being equal – to pay off its debt to the trust funds. However, the huge interest payments will be a burden on future generations and dampen economic growth. Therefore, even though an increase in the payroll tax rate may not reduce growth in the short run, it will certainly have a negative effect on the economy in the long run.

Increase the Taxable Wage Base

There are two significant advantages associated with increasing the taxable wage base. First, this strategy avoids the problems of higher payroll tax rates, which inhibit saving and economic growth. Second, an increase in taxable wages also bodes well for a major source of revenue—individual income taxes. Increasing the number of people in the labor force is preferable to merely subjecting a larger percentage of wages to taxation. The following paragraphs illustrate various approaches to expanding the taxable wage base.

Eliminate the cap on taxable earnings: As Exhibit 7 shows, yearly earnings above $84,900 are not subject to the Social Security tax. Untaxed earnings amounted to 16.6 percent of total wages in 2000.[21] Researchers at the Brookings Institute have projected that if the cap were increased to cover 90 percent of wages, the long-term funding gap would decline by about one quarter.[22] Removing the cap on taxable wages would generate more revenues, leading to greater stability of the trust funds.

Tax fringe benefits: Another way to increase the tax base involves taxing employment benefits that are currently tax-exempt, such as health insurance. Although it would be difficult to put an exact value on these benefits from the perspective of the

employee, the cost to the employer is easily calculated. Taxing only the employer would be attractive in that future benefit payments would not need to increase to reflect higher taxable earnings.

Change immigration laws: U.S. immigration policy recognizes two general categories of immigrants—working and nonworking. Nonworking immigrants are typically tourists or temporary business visitors. Working immigrants hold visas that permit them to stay in the country permanently and ultimately apply for citizenship. The number of working immigrant visas has been limited to 140,000 per year since 1996.[23] If this limit were increased, and if preference were given on the basis of productive potential, there would be more workers contributing to the trust funds, mitigating the age distribution problem.

Other Policy Approaches

The advantages and disadvantages outlined throughout this section point to economic growth as the best way out of the demographic dilemma brought about by the aging of the baby boom generation. Other policy approaches, though widely discussed, are controversial and/or incomplete. One idea not mentioned above, known as the "lock box" proposal, has been popular at times even though it is nonsensical.

The lock box idea suggests that payroll tax surpluses should be locked away and unavailable for Congress to spend. The goal is to move the money not just off-budget, but out of Congress' reach. While there is extensive debate about the effectiveness of a lock box, the question that remains is what would happen to the surplus money. If the trust funds keep the surplus in cash, in addition to not earning interest ($89.2 billion in 2001 alone), the surplus loses value due to inflation. On the other hand, it is not logical to expect the government to sell Treasury bonds to the trust funds without being able to spend the money it receives. Under this scenario, the government would pay billions of dollars in interest to the trust funds; but, instead of using the money received from the sale of bonds to the trust funds, the government would borrow from the public and pay higher interest rates to finance its deficit. So, from either perspective, the idea of a lock box does not make sense.

One of the least controversial approaches to economic growth emphasizes human capital, because productive people are needed to balance out the huge number of retirees. The human capital approach has the potential to expand the taxable wage base without reducing the savings rate or hindering economic growth. As a result, government programs that meet the needs of the elderly can be funded from a larger and expanding budgetary pie. We conclude this study by suggesting how the human services community can enhance human capital while addressing the needs of the elderly.

Conclusion

The unified budget perspective recognizes the need to consider all programs when devising strategies to deal with the aging baby boom generation. Medicaid and other welfare programs are financed with general revenue, while Social Security and Medicare are financed by payroll taxes. But this distinction is artificial and misleading. The way the trust fund system works, coupled with the fact that payroll taxes are constantly increased to finance future benefit payments, implies an increasing role for regressive payroll taxes in financing *all other government expenditures as well*. This suggests that the role of the trust funds is to finance government spending with regressive taxes. This calls into question the trust fund strategy.

As the baby boom generation causes an increase in the share of federal expenditures financed by payroll taxes, the role of regressive taxation will grow. A commitment to keep Social Security fully funded using payroll taxes is a commitment to shift more of the total tax burden to middle and low-income workers. Moreover, to the extent we maintain a trust fund surplus, we are taking money from workers in exchange for a promise to tax them again later when the bonds are redeemed. This is more than a funding strategy – it is a redistribution strategy (as is any tax policy).

Funding strategies should flow from an understanding that economic growth is the key to sustaining government programs. Coincidentally, human

services professionals are dedicated to economic growth—their mission is to help people reach their full potential in life. To the extent that working seniors add to the taxable wage base, helping them stay productive helps the economy sustain government programs. Aging services programs that help seniors stay productive should be considered in this light. Typically, a government program that helps disadvantaged people is thought of as a drain on resources. However, the baby boom problem can be seen as an opportunity to help the disadvantaged while bolstering the economy and the federal budget. The most promising strategy is to expand the taxable wage base. Moreover, it would be better to increase the tax base without discouraging production. Two ways of increasing the tax base are (1) increasing wages; and, (2) increasing the number of people earning wages. Welfare agencies are in a good position to further both of these objectives.

For example, the 1996 welfare reform law mandated work in exchange for receipt of public assistance. Most states have tried to place clients in the first available job, without much concern for developing human capital or long-term wage growth. It would make sense to aim as high as possible, in terms of wage potential, by guiding welfare clients into training and education programs. Considering the shortage of nurses, for example, it would make sense to consider nursing degree programs as a welfare-to-work strategy. The labor market would welcome these new nurses, and pay them very well, thereby increasing the taxable wage base without hindering economic growth. Moreover, there would be more nurses to care for the elderly. Many retirees could also benefit from retraining and employment programs that help them remain productive. In terms of meeting the needs of the elderly while fostering economic growth, policies directed at improving education and wages may be the most effective ways to prepare for the pig in the python.

Endnotes

[1]Currently, the normal retirement age is 65. It is scheduled to increase to 67 by 2022.

[2]This phrase is used by many authors. For example, see Ebersole, Priscilla. 2001. "The Pig in the Python: Baby Boomers." *Geriatric Nursing* 22(1): 6, January/February issue.

[3]Miller, R. L. 2001. *Economics Today: The Macro View*. Addison Wesley Longman, p. 121.

[4]Oklahoma Dept. of Human Services. 2002. *Annual Report: Structuring for Services, Fiscal Year 2002*, p. 41.

[5]Americans pay an average of about $1,000 per worker annually (as part of payroll taxes) to subsidize medical care for the elderly. Medicare pays an average of over $6,000 per year per beneficiary.

[6]All persons age 60 and older are eligible to receive Title III services, but states are required to target assistance to persons with the greatest social or economic need.

[7]There are also other programs for the elderly financed through Title XX (Social Services Block Grant) and with state dollars.

[8]Oklahoma Dept. of Human Services. 2002. *Facts About Aging in Oklahoma, Environmental Scan for Aging Services Division* (unpublished).

[9]See http://bhpr.hrsa.gov/nursing/shortage.htm

[10]In order for an elderly person (over the age of 65) to be eligible for SSI, income must be below a certain amount. If income from Social Security is reduced, the amount of SSI increases, all else being equal.

[11]Social Security and Medicare Boards of Trustees. 2002. *Status of the Social Security and Medicare Programs: A Summary of the 2002 Annual Reports.* http://www.ssa.gov/OACT/TRSUM/trsummary.html

[12]The surplus for 2001 alone was over $160 billion, and total accumulated surpluses have reached $1.3 trillion.

[13]This phenomenon -that there is no money kept in the trust funds, but just IOUs- is known as the "accounting fiction."

[14]This amount includes Medicare Part A (HI) and Part B (which is funded by premiums and general revenues).

[15]A financing scheme where payroll tax collections are enough to pay current benefits, with trust fund assets built up only to the extent needed to prevent exhaustion of the fund by economic fluctuations, is called pay-as-you-go financing.

[16]See Pecchenino and Pollard (1999) for a discussion of the concept of human capital.

[17]Aaron, Henry J. and B. P. Bosworth. 1997. "Preparing for the Baby Boomers' Retirement," in *Setting National Priorities: Budget Choices for the Next Century*, Robert D. Reischauer, ed. Brookings Institution Press: Washington, DC, p. 278.

[18]From 1996 to 2001, the U.S. household savings rate was the lowest among major industrialized economies. See Popper, Margaret. 2002. "Commentary: Low Savings? Big Deal," *Business Week* (May 20). http://www.businessweek.com/magazine/content/02_20/b3783078.htm

[19]According to economic theory, as the opportunity cost of leisure declines, workers will substitute leisure for work. This means that as take-home pay declines, leisure becomes less expensive.

[20]U.S. Treasury data. See http://www.publicdebt.treas.gov/opd/opds012003.htm

[21]Social Security Administration. 2002 OASDI Trustees Report. http://www.ssa.gov/OACT/TR/TR02/V_programatic.html

[22]Aaron and Bosworth (1997), p. 281.

[23]Public Law 104-208, 110 Stat. 3009 (September 30, 1996) http://ww w.immigration-usa.com/ina_96_title_2.html

Zohre Salehezadeh, PhD, and Kenneth Kickham, PhD, Office of Planning, Policy and Research, Oklahoma Department of Human Services, Oklahoma City, Oklahoma.

SELECTED INDICATORS FOR OKLAHOMA

	1st Qtr '03	4th Qtr '02	1st Qtr '02	Percentage Change '03/'02 1st Qtr	Percentage Change 1st Qtr '03 4th Qtr '02
Crude Oil Production (000 bbl)[a]	18,313	19,093	17,460	4.9	-4.1
Natural Gas Production (000 mcf)[a]	393,590	392,791	416,990	-5.6	0.2
Rig Count	111	95	73	52.1	16.8
Intial Unemployment Claims	31,183	30,595	27,565	13.1	1.9
Permit-Authorized Construction					
Residential Single Family					
Dollar Value ($000)	366,778	306,283	310,942	18.0	19.8
Number of Units	2,646	2,268	2,462	7.5	16.7
Residential-Multi Family					
Dollar Value ($000)	35,939	10,833	43,297	-17.0	231.8
Number of Units	690	253	561	23.0	172.7
Total Construction ($000)	402,717	317,116	354,239	13.7	27.0
Employment					
Total Labor Force (000)[b]	1,687.7	1,700.1	1,680.1	0.5	-0.7
Total Employment (000)	1,596.2	1,623.7	1,599.6	-0.2	-1.7
Unemployment Rate (%)	5.4	4.5	4.8	--	--
Wage and Salary Employment (000)	1,464.1	1,490.3	1,477.6	-0.9	-1.8
Manufacturing	147,000	149,233	155,067	-5.2	-1.5
Mining	28,000	28,167	27,773	0.8	-0.6
Government	299,967	304,067	302,667	-0.9	-1.3
Construction	63,267	64,067	63,367	-0.2	-1.2
Retail Trade	169,200	176,867	171,467	-1.3	-4.3
Average Weekly Hours (Per Worker)					
Manufacturing	38.5	39.1	39.2	-1.8	-1.5
Average Weekly Earnings ($ Per Worker)					
Manufacturing	548.29	554.36	548.03	0.0	-1.1

Note: Includes revisions in some previous months.
[a]Figures are for 4th Qtr 2002.
[b]Labor Force refer to place of residence, non-agricultural wage and salary employment refers to place of work.

OKLAHOMA GENERAL BUSINESS INDEX

	Preliminary Forecast Mar '03	Mar '02	Mar '01	Percentage Change '03/'02 Mar	'03/'01 Mar
State	129.5	130.8	130.0	-1.0	-0.4
Oklahoma City MSA	131.5	130.6	129.9	0.7	1.2
Tulsa MSA	129.2	134.4	132.3	-3.9	-2.3

ADJUSTED RETAIL TRADE FOR METRO AREAS AND STATE ($ Seasonally Adjusted)

				Percentage Change	
	1st Qtr '03	4th Qtr '02	1st Qtr '02	'03/'02 1st Qtr	1st Qtr '03 4th Qtr '02
OKLAHOMA CITY MSA					
Durable Goods	574,300,315	583,252,675	607,320,114	-5.4	-1.5
Lumber, Building Materials and Hardware	200,258,765	193,767,507	195,777,085	2.3	3.4
Auto Accessories and Repair	87,964,593	90,427,757	92,293,572	-4.7	-2.7
Furniture	78,930,481	79,293,574	78,038,548	1.1	-0.5
Computer, Electronics and Music Stores	73,127,682	84,924,091	96,800,965	-24.5	-13.9
Miscellaneous Durables	117,650,018	119,214,543	127,327,577	-7.6	-1.3
Used Merchandise	16,368,777	15,625,202	17,082,366	-4.2	4.8
Nondurable Goods	1,579,153,492	1,598,611,455	1,588,621,357	-0.6	-1.2
General Merchandise	547,862,355	546,387,524	563,741,788	-2.8	0.3
Food Stores	262,268,401	271,814,572	292,377,700	-10.3	-3.5
Apparel	98,553,893	101,830,385	105,159,691	-6.3	-3.2
Eating and Drinking Places	326,699,375	340,308,501	331,896,578	-1.6	-4.0
Drug Stores	37,532,280	38,235,187	36,115,154	3.9	-1.8
Liquor Stores	20,448,799	19,949,103	20,454,896	0.0	2.5
Miscellaneous Nondurables	82,056,644	82,324,071	83,557,350	-1.8	-0.3
Gasoline	203,731,747	197,762,113	155,318,200	31.2	3.0
Total Retail Trade	2,153,453,807	2,181,864,129	2,195,941,471	-1.9	-1.3
TULSA MSA					
Durable Goods	421,766,515	422,152,525	473,106,543	-10.9	-0.1
Lumber, Building Materials and Hardware	131,240,337	129,768,547	129,699,183	1.2	1.1
Auto Accessories and Repair	56,383,391	56,739,863	60,186,633	-6.3	-0.6
Furniture	50,231,660	52,293,724	54,573,433	-8.0	-3.9
Computer, Electronics and Music Stores	87,802,296	82,486,615	117,655,770	-25.4	6.4
Miscellaneous Durables	82,490,227	87,447,015	95,527,542	-13.6	-5.7
Used Merchandise	13,618,603	13,416,762	15,463,981	-11.9	1.5
Nondurable Goods	1,158,311,553	1,189,880,972	1,175,682,612	-1.5	-2.7
General Merchandise	396,669,873	411,014,359	394,726,799	0.5	-3.5
Food Stores	226,035,687	236,070,854	246,734,197	-8.4	-4.3
Apparel	70,086,088	72,497,451	73,822,347	-5.1	-3.3
Eating and Drinking Places	215,058,836	217,711,927	226,213,697	-4.9	-1.2
Drug Stores	29,090,546	31,385,581	29,041,049	0.2	-7.3
Liquor Stores	16,885,245	16,897,772	16,971,032	-0.5	-0.1
Miscellaneous Nondurables	53,867,208	58,097,818	73,347,361	-26.6	-7.3
Gasoline	150,618,071	146,205,211	114,826,130	31.2	3.0
Total Retail Trade	1,580,078,068	1,612,033,496	1,648,789,155	-4.2	-2.0
ENID MSA					
Durable Goods	22,292,192	22,915,944	25,902,003	-13.9	-2.7
Lumber, Building Materials and Hardware	8,311,539	8,322,644	10,187,192	-18.4	-0.1
Auto Accessories and Repair	4,696,415	4,900,691	5,370,684	-12.6	-4.2
Furniture	2,011,503	1,981,619	1,702,324	18.2	1.5
Computer, Electronics and Music Stores	2,027,120	2,056,879	2,430,952	-16.6	-1.4
Miscellaneous Durables	4,619,680	5,030,349	5,490,311	-15.9	-8.2
Used Merchandise	625,934	623,763	720,539	-13.1	0.3

ADJUSTED RETAIL TRADE FOR METRO AREAS AND STATE ($ Seasonally Adjusted)

	1st Qtr '03	4th Qtr '02	1st Qtr '02	Percentage Change '03/'02 1st Qtr	Percentage Change 1st Qtr '03 4th Qtr '02
ENID MSA					
Nondurable Goods	78,633,056	80,382,278	84,854,747	-7.3	-2.2
General Merchandise	24,694,262	25,835,494	29,120,563	-15.2	-4.4
Food Stores	19,841,534	20,042,326	22,218,430	-10.7	-1.0
Apparel	3,312,144	3,573,863	3,763,240	-12.0	-7.3
Eating and Drinking Places	11,998,994	12,570,638	13,677,362	-12.3	-4.5
Drug Stores	2,486,363	2,565,888	2,816,517	-11.7	-3.1
Liquor Stores	682,547	697,368	758,347	-10.0	-2.1
Miscellaneous Nondurables	4,449,656	4,256,333	3,986,520	11.6	4.5
Gasoline	11,167,556	10,840,368	8,513,768	31.2	3.0
Total Retail Trade	100,925,248	103,298,222	110,756,750	-8.9	-2.3
LAWTON MSA					
Durable Goods	33,323,909	31,807,797	31,458,069	5.9	4.8
Lumber, Building Materials and Hardware	10,055,823	9,364,230	8,676,780	15.9	7.4
Auto Accessories and Repair	6,570,253	6,511,792	6,688,600	-1.8	0.9
Furniture	3,896,627	3,413,884	3,072,916	26.8	14.1
Computer, Electronics and Music Stores	3,738,187	3,310,034	4,028,174	-7.2	12.9
Miscellaneous Durables	7,865,381	8,178,742	7,944,480	-1.0	-3.8
Used Merchandise	1,197,637	1,029,114	1,047,119	14.4	16.4
Nondurable Goods	136,462,423	132,703,885	129,667,731	5.2	2.8
General Merchandise	62,218,884	59,127,825	59,730,653	4.2	5.2
Food Stores	18,810,761	19,034,637	20,466,610	-8.1	-1.2
Apparel	7,395,973	7,157,316	6,688,097	10.6	3.3
Eating and Drinking Places	24,801,378	24,527,610	23,661,091	4.8	1.1
Drug Stores	2,317,330	2,350,417	2,165,355	7.0	-1.4
Liquor Stores	892,475	916,681	801,936	11.3	-2.6
Miscellaneous Nondurables	5,805,493	5,832,056	5,333,436	8.9	-0.5
Gasoline	14,220,131	13,757,343	10,820,552	31.4	3.4
Total Retail Trade	169,786,332	164,511,682	161,125,800	5.4	3.2
OKLAHOMA					
Durable Goods	1,528,964,221	1,580,133,546	1,556,215,151	-1.8	-3.2
Lumber, Building Materials and Hardware	521,374,618	487,433,924	516,206,851	1.0	7.0
Auto Accessories and Repair	265,260,268	262,444,590	270,105,125	-1.8	1.1
Furniture	178,886,898	182,834,353	174,736,777	2.4	-2.2
Computer, Electronics and Music Stores	222,567,272	272,169,736	266,351,824	-16.4	-18.2
Miscellaneous Durables	298,337,766	329,494,331	285,223,291	4.6	-9.5
Used Merchandise	42,537,398	45,756,612	43,591,283	-2.4	-7.0
Nondurable Goods	4,689,484,549	4,866,592,701	4,555,716,004	2.9	-3.6
General Merchandise	1,650,225,535	1,782,964,483	1,558,642,853	5.9	-7.4
Food Stores	931,947,930	962,432,468	1,004,146,783	-7.2	-3.2
Apparel	241,732,069	276,247,599	258,694,549	-6.6	-12.5
Eating and Drinking Places	820,582,228	815,909,414	844,639,412	-2.8	0.6
Drug Stores	97,275,823	102,144,502	94,716,883	2.7	-4.8
Liquor Stores	55,835,653	59,655,973	51,079,483	9.3	-6.4
Miscellaneous Nondurables	231,742,709	243,297,819	242,484,789	-4.4	-4.7
Gasoline	660,142,602	623,940,444	501,311,251	31.7	5.8
Total Retail Trade	6,218,448,769	6,446,726,247	6,111,931,155	1.7	-3.5

ADJUSTED RETAIL TRADE FOR SELECTED CITIES ($ Seasonally Adjusted)

	1st Qtr '03	4th Qtr '02	1st Qtr '02	Percentage Change '03/'02 1st Qtr	Percentage Change 1st Qtr '03 4th Qtr '02
Ada	55,158,754	54,947,580	53,563,101	3.0	0.4
Altus	43,302,815	42,820,595	43,591,865	-0.7	1.1
Alva	12,969,525	12,930,836	12,981,375	-0.1	0.3
Anadarko	14,461,171	14,438,463	14,346,846	0.8	0.2
Ardmore	76,389,528	77,253,570	76,829,868	-0.6	-1.1
Bartlesville	92,425,407	93,170,447	91,723,093	0.8	-0.8
Blackwell	127,607,175	125,213,276	119,324,666	6.9	1.9
Broken Arrow	127,607,175	125,213,276	119,324,666	6.9	1.9
Chickasha	35,473,560	35,550,598	35,944,085	-1.3	-0.2
Clinton	17,989,923	19,006,969	18,594,754	-3.3	-5.4
Cushing	14,848,142	14,998,667	15,811,795	-6.1	-1.0
Del City	26,789,229	26,427,854	27,257,912	-1.7	1.4
Duncan	48,428,098	45,855,516	49,316,335	-1.8	5.6
Durant	40,261,317	41,330,257	36,394,661	10.6	-2.6
Edmond	169,595,493	172,506,170	162,063,154	4.6	-1.7
El Reno	27,502,975	27,303,499	27,819,424	-1.1	0.7
Elk City	33,832,687	32,192,677	32,296,720	4.8	5.1
Enid	104,994,894	109,152,519	104,058,479	0.9	-3.8
Guthrie	19,028,300	19,331,505	19,026,571	0.0	-1.6
Guymon	22,370,918	22,050,832	23,411,066	-4.4	1.5
Henryetta	12,112,500	12,154,119	11,665,728	3.8	-0.3
Hobart	6,140,125	5,923,199	6,316,740	-2.8	3.7
Holdenville	7,817,708	7,650,388	8,027,290	-2.6	2.2
Hugo	16,850,600	16,614,684	16,939,028	-0.5	1.4
Idabel	15,922,585	15,993,134	16,164,841	-1.5	-0.4
Lawton	160,595,963	155,838,375	150,930,120	6.4	3.1
McAlester	61,626,441	63,715,465	62,682,962	-1.7	-3.3
Miami	29,067,399	29,974,834	29,705,225	-2.1	-3.0
Midwest City	127,011,583	131,485,329	132,326,053	-4.0	-3.4
Moore	74,348,178	75,127,509	71,627,113	3.8	-1.0
Muskogee	106,189,647	104,722,947	107,706,489	-1.4	1.4
Norman	232,030,619	235,773,978	224,578,004	3.3	-1.6
Oklahoma City	1,163,519,926	1,228,626,348	1,204,070,563	-3.4	-5.3
Okmulgee	33,028,899	32,160,878	32,445,897	1.8	2.7
Pauls Valley	19,837,078	19,632,552	19,203,533	3.3	1.0
Pawhuska	5,215,845	5,185,733	4,907,636	6.3	0.6
Ponca City	65,068,661	64,310,468	66,260,909	-1.8	1.2
Poteau	31,057,578	31,020,609	31,158,149	-0.3	0.1
Sand Springs	43,685,312	44,293,875	45,416,949	-3.8	-1.4
Sapulpa	48,747,614	48,786,256	48,850,478	-0.2	-0.1
Seminole	19,282,206	18,825,583	19,297,228	-0.1	2.4
Shawnee	86,041,315	87,255,249	85,239,889	0.9	-1.4
Stillwater	102,413,309	103,108,750	100,954,364	1.4	-0.7
Tahlequah	48,064,597	48,649,614	47,503,699	1.2	-1.2
Tulsa	1,088,549,122	1,117,714,456	1,146,876,349	-5.1	-2.6
Watonga	5,076,232	4,743,967	5,097,616	-0.4	7.0
Weatherford	24,425,385	25,348,267	24,018,149	1.7	-3.6
Wewoka	2,756,498	2,863,615	2,789,642	-1.2	-3.7
Woodward	41,841,744	40,741,776	39,775,915	5.2	2.7
Total SelectedCities	4,789,361,753	4,889,937,061	4,846,216,994	-1.2	-2.1

SELECTED INDICATORS FOR THE ENID AND LAWTON MSA'S AND MUSKOGEE MA

	1st Qtr '03	4th Qtr '02	1st Qtr '02	Percentage Change '03/'02 1st Qtr	Percentage Change 1st Qtr '03 4th Qtr '02
ENID MSA					
Employment (Number)					
Labor Force[a]	26,690	26,753	26,063	2.4	-0.2
Total Employment	25,763	26,013	25,277	1.9	-1.0
Unemployment Rate (%)	3.5	2.9	3.0	--	--
Wage and Salary Employment	23,333	23,700	23,000	1.4	-1.5
Wholesale and Retail Trade	4,100	4,300	4,233	-3.1	-4.7
Manufacturing	2,267	2,300	2,333	-2.8	-1.4
Permit-Authorized Construction					
Residential-Single Family					
Dollar Value ($000)	2,130	4,374	2,809	-24.2	-51.3
Number of Units	11	24	15	-26.7	-54.2
Residential-Multi Family					
Dollar Value ($000)	108	3,240	2,177	-95.0	-96.7
Number of Units	3	28	50	-94.0	-89.3
Total Construction ($000)	2,238	7,614	4,986	-55.1	-70.6
LAWTON MSA					
Employment (Number)					
Labor Force[a]	41,183	41,813	40,770	1.0	-1.5
Total Employment	39,773	40,477	39,177	1.5	-1.7
Unemployment Rate (%)	3.4	3.2	309.0	--	--
Wage and Salary Employment	38,167	38,933	37,900	0.7	-2.0
Wholesale and Retail Trade	5,067	5,333	5,100	-0.6	-5.0
Manufacturing	3,500	3,600	3,600	-2.8	-2.8
Permit-Authorized Construction					
Residential-Single Family					
Dollar Value ($000)	2,849	2,744	4,225	-32.6	3.8
Number of Units	23	23	36	-36.1	0.0
Residential-Multi Family					
Dollar Value ($000)	0	0	0	--	--
Number of Units	0	0	0	--	--
Total Construction ($000)	2,849	2,744	4,225	-32.6	3.8
MUSKOGEE MA					
Employment (Number)					
Labor Forcea	33,097	32,987	31,240	5.9	0.3
Total Employment	30,990	31,380	29,627	4.6	-1.2
Unemployment Rate (%)	6.4	4.9	5.2	--	--
Water Transportation					
Port of Muskogee					
Tons In	88,444	120,667	112,201	-21.2	-26.7
Tons Out	46,070	30,625	21,668	112.6	50.4

Note: Includes revisions.
[a]Civilian Labor Force.
E = Exceeds 600 percent.

SELECTED INDICATORS FOR THE TULSA MSA

	1st Qtr '03	4th Qtr '02	1st Qtr '02	Percentage Change '03/'02 1st Qtr	Percentage Change 1st Qtr '03 4th Qtr '02
Employment (Number)					
Labor Force[a]	423,057	430,090	430,277	-1.7	-1.6
Total Employment	396,290	407,867	409,990	-3.3	-2.8
Unemployment Rate (%)	6.3	5.2	4.7	--	--
Wage and Salary Employment	384,033	393,500	399,367	-3.8	-2.4
Manufacturing	45,767	47,400	51,133	-10.5	-3.4
Mining	4,733	4,733	5,200	-9.0	0.0
Government	45,300	46,333	45,900	-1.3	-2.2
Wholesale and Retail Trade	58,200	62,333	62,067	-6.2	-6.6
Average Weekly Earnings					
Manufacturing ($ Per Worker)	641.10	626.58	605.02	6.0	2.3
Air Transportation					
Passengers Enplaning (Number)	303,824	360,399	332,063	-8.5	-15.7
Passengers Deplaning (Number)	307,182	356,437	333,416	-7.9	-13.8
Freight (Tons)	12,292	13,064	11,267	9.1	-5.9
Water Transportation					
Tulsa Port of Catoosa					
Tons In	265,917	241,281	240,695	10.5	10.2
Tons Out	320,217	270,746	371,251	-13.7	18.3
Permit-Authorized Construction					
Residential-Single Family					
Dollar Value ($000)	124,004	92,479	112,543	10.2	34.1
Number of Units	884	650	945	-6.5	36.0
Residential-Multi Family					
Dollar Value ($000)	4,814	5,271	31,745	-84.8	-8.7
Number of Units	101	171	298	-66.1	-40.9
Total Construction	128,818	97,750	144,288	-10.7	31.8

Note: Includes revisions.
[a]Civilian Labor Force.
E = Exceeds 600 percent.

SELECTED INDICATORS FOR OKLAHOMA CITY MSA

	1st Qtr '03	4th Qtr '02	1st Qtr '02	Percentage Change '03/'02 1st Qtr	Percentage Change 1st Qtr '03 4th Qtr '02
Employment (Number)					
Labor Force[a]	574,907	582,390	567,087	1.4	-1.3
Total Employment	548,170	559,303	541,183	1.3	-2.0
Unemployment Rate (%)	4.7	4.0	4.6	--	--
Wage and Salary Employment	540,633	549,033	536,000	0.9	-1.5
Manufacturing	40,700	41,267	41,467	-1.8	-1.4
Mining	6,700	6,567	6,467	3.6	2.0
Government	111,000	112,733	110,800	0.2	-1.5
Wholesale and Retail Trade	82,000	84,567	82,800	-1.0	-3.0
Average Weekly Earnings					
Manufacturing ($ Per Worker)	593.93	608.17	546.44	8.7	-2.3
Air Transportation					
Passengers Enplaning (Number)	354,246	409,512	346,208	2.3	-13.5
Passengers Deplaning (Number)	364,566	404,284	351,927	3.6	-9.8
Freight Enplaned (Tons)	3,707	3,912	3,934	-5.8	-5.2
Freight Deplaned (Tons)	4,214	4,807	4,842	-13.0	-12.3
Permit-Authorized Construction					
Residential-Single Family					
Dollar Value ($000)	214,219	166,456	173,981	23.1	28.7
Number of Units	1,549	1,280	1,314	17.9	21.0
Residential-Multi Family					
Dollar Value ($000)	27,668	648	5,277	424.3	E
Number of Units	513	11	92	457.6	E
Total Construction ($000)	241,887	167,104	179,258	34.9	44.8

Note: Includes revisions.
[a]Civilian Labor Force.