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Summary

States that attempt to balance their budgets through higher tax rates are likely to lose jobs and businesses, thus creating even larger long-term budget shortfalls. Therefore, retroactively raising the tax rate on income earned last year and on income earned this year and next (as Measure 28 on the January 28 ballot proposes) may be exactly the wrong way to deal with Oregon's fiscal crisis. Even if Measure 28 fails, state spending will be higher this biennium than last.

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Oregon state spending up even if Measure 28 fails

By William B. Conerly and Steve Buckstein

Oregon is in the midst of a fiscal crisis. Voters are being asked to approve Measure 28 which would retroactively raise the tax rate on income we earned last year, and on income we earn this year and next. This may be exactly the wrong thing to do.

State spending has been growing faster than population growth and inflation for years. Real per capita state spending grew by 45 percent during the 1990s, leaving Oregon taxpayers with many new programs to fund. Why? Because legislators are often lobbied to spend more money by people who work for state agencies, believe in specific programs or are paid to lobby for special interests.

Where are the fiscal disciplinarians? Mostly at work and at home because they cannot afford the time and expense of going to Salem to argue for cutting some program that may save millions of dollars in total, but only a few dollars or less for themselves. The concentrated benefits to lobbyists, contrasted with the small savings to individual taxpayers, leads to overwhelming pressure on politicians to increase spending, and now to raise taxes.

Giving in to such pressures produces a "supertanker" effect: The ship of state cannot change course quickly. As the economy slowed and then retreated over the last two years the state kept spending, and budgeted for even higher spending in 2001-2003. Now that it's clear state revenues are falling far short of budgeted levels, the slowdown in spending is concentrated in the last few months of the budget cycle.

If Measure 28 fails, spending from now through June 30th will need to be reduced about 12 percent. It's hard to believe a 12 percent reduction can only be accomplished by cuts to K-12 spending, laying off state police, letting inmates out of prison and ending support for the aged and mentally ill.

If Measure 28 passes, one unintended consequence will be to set the state up for future budget shortfalls. This "temporary" tax increase is scheduled to end in two years (it's first year, 2002, is already passed). Taking the pressure off spending growth through such a short-term fix would send the wrong message to

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Salem, that state programs should be immune from economic downturns that affect citizens.

Whether Measure 28 passes or fails, state discretionary spending this biennium will be higher than similar spending in 1999-2001. Spending will be about 5.5 percent higher if Measure 28 fails, and about 8.5 percent higher if it passes. The purported cuts are from what officials wanted to spend, not from what they actually spent in the past.

Before voting on Measure 28, Oregonians should look at research done by the National Taxpayers Union Foundation in its new study, *Solutions to the States' Budget Ills*. It found states that attempt to balance their budgets through higher tax rates are likely to lose jobs and businesses, thus creating even larger long-term budget shortfalls. The reasons are simple: revenues generated from income and capital gains taxes are far from stable, and raising these tax rates discourages work and investment.

Given this reality, Oregon should align its short-term budget strategy with its long-term needs. Cutting spending is never easy; just ask the business owners who have been forced to downsize, and the families faced with unemployment. There is no reason for state government to be spared the hard decisions that families and businesses have already had to make. There is every reason to believe that, in the long run, lower spending and lower taxes will be good for Oregonians.

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