



CASCADE POLICY INSTITUTE

# CASCADE COMMENTARY

April 2003

No. 2003-13

## Summary

Multnomah County proposes a new income tax to fund county schools and other services for three years. The tax will likely harm the economy, and most funds will go to a dysfunctional school system that can't control its costs. The same disincentives causing county officials to oppose sharing this revenue with other parts of the state may cause taxpayers to oppose sharing more of their income in the county.

**Word count:** 752

***“Any increase in marginal income tax rates discourages working, saving, investing, and risk-taking, thereby reducing economic growth.”***

## Risks of a Multnomah County income tax

*By Steve Buckstein*

If Multnomah County voters approve the 1.25 percent income tax measure on the May ballot, middle-income county residents will have the dubious honor of paying virtually the highest combined federal, state and local income taxes in the nation. Over its three-year life, the new county tax alone will take \$981 from the typical \$45,000 median income family.

Any increase in marginal income tax rates discourages working, saving, investing, and risk-taking, thereby reducing economic growth. Increasing the Oregon personal income tax burden by 14 percent, as Measure 26-48 will do, seems especially risky for an economy already in the tank.

The economic literature says that increasing a state income tax rate by one percent will likely reduce business activity by 0.33 percent. A new 1.25 percent local income tax is likely to impact Multnomah County's economy even more, however, since an individual or business can avoid the tax by leaving the county without having to leave the state. Couple this new personal income tax with business taxes that are already higher than in surrounding counties, and the stage will be set for a significant decline in business activity accompanied by a further loss of jobs.

These risks might be worth taking if the new revenue were used productively. But three quarters will go into largely dysfunctional public school districts. Most will go to the Portland Public Schools where even though student enrollment is dropping, and the general inflation rate is just 2 percent, the superintendent believes he will need nearly 13 percent more general fund revenue to maintain current services next school year. Such runaway spending is not surprising within a bureaucracy whose anachronistic seniority and work rules put teacher welfare before that of the students. The schools don't need more money, they need to be brought into the modern world.

Tax proponents argue that the new money will be used productively because Portland and the County will audit the use of funds. They will demand that all funds go to the classroom, which is a laudable but likely unachievable goal. That

is because every new dollar flowing into the classroom frees an existing dollar that can be redirected away from students. The same pressures to fund administration and union benefits will remain in place. Overseers can do little to stifle this so-called revenue substitution phenomenon, especially since the Portland district failed to put any reasonable caps on runaway benefits. Health care premiums paid by the district, for example, rose 45 percent in just the last two years and are now almost \$800 per teacher per month. And, if serious PERS reform isn't achieved in this legislature, retirement cost increases alone will add at least eight million dollars to a school district budget that will already be up \$45 million.

The county tax measure will do little to help students learn. The lesson of Oregon schools is that irrespective of the good intentions of voters and parents, the public school system is doomed to spend more and deliver less because it is run for the bureaucracy, not the students.

Finally, tax advocates tell us that sharing more of our income with others is a good thing for all. But do they really believe it? Tucked into the measure's explanatory statement is this confusing paragraph: "If the State reduces base funding allocation for county schools, or funding for public safety or human services, the County Board of Commissioners will consider immediate termination of this County income tax." In English, this signals the commissions' opposition to attempts by rural legislators to share any new Multnomah County income tax revenue with less fortunate parts of the state

It seems that Marx's concept of "from each according to his ability, to each according to his need" stops at the county line. County officials shouldn't be castigated for wanting to keep all of "their money." They're reacting like any of us would when asked to share our income with those we believe are less deserving of it than we are. But, therein lies a major flaw in this tax measure's rationale.

If county officials see a disincentive attached to sharing their new revenue with the rest of the state, then surely many individual taxpayers see a similar disincentive. Many may decide that sharing more of their income with others, even in the same county, is a disincentive for them. They may have better uses for \$981 than dropping it into what they perceive to be dysfunctional government programs. And you know what? They're right.

---

*Steve Buckstein is president of Cascade Policy Institute, a Portland, Oregon think tank*

***“Tax proponents... will demand that all funds go to the classroom, which is a laudable but likely unachievable goal. That is because every new dollar flowing into the classroom frees an existing dollar that can be redirected away from students. The same pressures to fund administration and union benefits will remain in place.”***

### **Attention editors and producers**

*Cascade Commentaries* are provided for reprint in newspapers and other publications, with credit given to author(s) and Cascade. Contact Cascade to arrange print or broadcast interviews on this commentary topic. Electronic text files are available online at [www.cascadepolicy.org/cctext/](http://www.cascadepolicy.org/cctext/).

Please contact:

Kurt T. Weber  
Vice President  
Cascade Policy Institute  
813 SW Alder Street, Suite 450  
Portland, Oregon 97205

Phone: (503) 242-0900  
Fax: (503) 242-3822

[www.cascadepolicy.org](http://www.cascadepolicy.org)  
[kurt@cascadepolicy.org](mailto:kurt@cascadepolicy.org)