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Summary

Oregon has experienced major budgetary fluctuations over the past decade. Colorado's Taxpayer Bill of Rights is one example of what Oregon could do to mitigate this problem.

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“Today, Oregon legislators are discussing ‘tax reform’ as a way to maintain current budgets, but most voters see it for what it is—another way to raise taxes.”

Tame the Oregon Budget Roller Coaster

by Steve Buckstein

Former Oregon Senate Majority Leader Gene Derfler often remarked that if you send it, the legislature will spend it. He was referring, of course, to taxes and how lawmakers spend every dime they take from taxpayers.

Oregon's budget experience of that past decade illustrates what happens when government spending has no effective limits: Spending grows at a much faster rate than the state can sustain through the economy's natural ups and downs. This creates a roller coaster effect with spending highs and funding lows.

In the 1990s, Oregon State general fund spending doubled, far outpacing both growth in state population plus inflation, and growth in personal income. When revenues inevitably fell, spending had nowhere to go but down. This cycle will continue unless we do something to stop it.

As the Oregon economy peaked in late 2000, Cascade Policy Institute released a report titled *Can Oregon Tighten its Fiscal Belt?* Adjusting for demographics, the report found that Oregon state and local governments spent 15 to 19 percent more than similar states. When Oregon's revenue dipped further than other states in the recession due to our dependence on the income tax, budgets had to be cut.

Today, Oregon legislators are discussing “tax reform” as a way to maintain current budgets, but most voters see it for what it is—another way to raise taxes. Before we go through the same destructive cycle again, Oregonians need to create a mechanism that will restrain the spending habits of our politicians.

Fortunately, we have the experiences of other states to guide us. Our own experience over recent decades is a clear example *not* to follow.

As discussed in Cascade Policy Institute's 2003 report, *Halfway There: Measure 5 and the Road Ahead*, tax and expenditure limitations (TEL) are on the books in 30 states including Oregon. Some worked well but others did not.

Oregon's TEL is particularly ineffective. It limits state general fund appropria-

tions to the growth in personal income over the previous two calendar years. And, if revenues are at least two percent greater than forecast, the excess is returned to taxpayers. Historically, personal income has grown faster than population plus inflation, and Oregon is highly dependent on income tax for revenue. Thus Oregon's limitation was too weak to be of much good during a rapid economic expansion.

The most effective TEL is Colorado's Taxpayer Bill of Rights (TABOR), which has three key elements. It limits state spending to population growth plus inflation, covers more than just the general fund plus mandates that all surplus revenues be immediately refunded to taxpayers, and it is constitutional, which protects it from legislative abuse.

From 1997-2001, Colorado returned \$3.2 billion in tax rebates to its citizens, more than any other state. The total refund for a worker making \$30,000 was almost \$900.

If Oregon had enacted a TABOR style TEL in 1990, the 2001-2003 general fund budget would have been \$3.5 billion less than the first legislatively adopted budget during that biennium. Thus, during a time when Oregon faced a \$1 billion budget shortfall, we would have instead celebrated more than a \$2 billion surplus. Rather than ask voters for tax increases, the state would have returned rebates.

Would reduced budgets harm the state economy? Not if Colorado is any guide. Between 1995 and 2000—a time when most states enjoyed considerable economic growth—Colorado's economy enjoyed the fastest growth in gross state product and the second fastest growth in personal income.

Oregonians must tell their legislators that spending every tax dollar a strong economy generates is no longer acceptable. The best vehicle for restraining excess government spending is a strong constitutional limitation on expenditures. Until this happens, the roller coaster we call the Oregon state budget will continue to take us to unacceptable heights, then plunge us into stomach churning depths. Let's stop this ride.

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