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## Oregon's Tax Hike: Unnecessary and a Bad Idea

by Max Pappas

### EXECUTIVE SUMMARY

On February 3<sup>rd</sup> Oregon's voters will decide whether to pay \$1.1 billion more in taxes. According to the State of Oregon's Legislative Fiscal Office, the total adopted budget for the 2003-05 biennium is \$37.081 billion, a 7.2 percent increase over the 2001-03 budget of \$34.605 billion. That is an increase of \$2.476 billion, despite talk of the budget being cut to the bone.

Everyone in Oregon will pay for the \$1.1 billion hike—which comes to \$825 per household. Income taxes will be raised, seniors will lose valued medical deductions and face higher taxes, property tax liabilities will increase, small and large business will pay more taxes if they choose to stay in Oregon, smokers will continue to pay higher taxes, and incentives for businesses to establish headquarters in Oregon will be diminished.

Joining businesses like Louisiana-Pacific and Gardenburger who have already left Oregon will be other companies who have already said

they would take new factories and jobs to other states.

Under the leadership of former Gov. Kitzhaber, Oregon's government spending grew faster than any other state in the Union. During his first term, spending increased by nearly 30 percent. Between 1989 and 2003, the state's general fund budget increased by 151 percent. The tax hike currently being proposed would cement these wasteful indulgences into Oregon's budget. Compared to other similar states, Oregon already spends 19 percent more than would be expected, with no discernable improvement in the quality of services.

Other states are avoiding tax hikes by reducing excessive spending. This paper outlines 10 money-saving options for Oregon. If Oregon ignores these pro-growth options, it will face the same problems as those states that raised taxes during the recession of the early 1990s: fewer jobs, more budget problems, and slower growth. This would spell trouble for Oregon, which already has the highest unemployment rate in the country.

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## INTRODUCTION

On January 28, 2003 the voters of Oregon went to the polls and rejected Measure 28, a \$313 million dollar tax hike proposed by Oregon's government. Despite this clear message from the people, the politicians of Oregon decided to raise taxes by *three times that amount* just seven months later when they approved a \$1.1 billion tax hike in September, 2003. The people will again have the chance to be heard when they go to the polls on February 3, 2004 to vote on Measure 30, the \$1.1 tax hike. Measure 30 is on the ballot for February's special election after the Secretary of State approved 118,274 signatures from voters on petitions asking for the repeal of the tax

The tax hike increases seven different taxes on the working men and women of Oregon, ensuring that everyone feels the pain. The tax hike takes \$1.1 billion dollars from working peoples' pockets and gives it to politicians to spend as they please. This will make the government substantially bigger, leaving the people of Oregon with less of the money they have worked so hard to earn.

When divided among the 1.3 million households in Oregon, the \$1.1 billion tax hike costs about \$825 more in taxes per household.

This government money grab is both irresponsible, and a sign of lazy governance.

Many states around the country face budget shortfalls this year. Most of them are using the many options available when money is tight, like

cutting spending through small, across-the-board funding reductions, early retirement packages, reorganizing or privatizing inefficient programs, or just holding spending at last year's levels. Oregon's government, despite the rhetoric of "the longest budget session in Oregon's history" is doing little to find ways to save money. Instead, they're taking the easy way out and trying to take more money from workers by raising taxes.

This paper outlines 10 ways for Oregon to save money by spending more wisely, while maintaining the services people need.

Taking \$1.1 billion out of the hands of working men and women and putting it into the hands of politicians in Salem will have a serious negative impact on Oregon's economy. While some state workers may lose their jobs if the tax hike is not passed, far more non-state workers will lose theirs if it is passed.

There is a great deal of empirical evidence showing that job losses and further economic slowdown will come as a result of a major tax hike. A recent report by Steve Moore for the American Legislative Exchange Council compared what happened in states that raised taxes during the last recession to cover budget shortfalls to what happened in states that reined in reckless spending instead. He found, "states that attempt to balance their budgets with higher tax rates are likely to lose jobs and businesses and thus create even larger long term structural deficits."<sup>1</sup>

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<sup>1</sup> Steve Moore, *States Can't Tax Their Way Back To Prosperity*, American Legislative Exchange

## FACTS ABOUT THE TAX<sup>2</sup>

1. **Seven different taxes are increased.**

Those paying income tax—workers, senior citizens, property owners, small businesses, and corporations—will all face higher taxes.

2. **Senior citizens would pay over \$86 million more in taxes.**

If the tax increase is not voted down on February 3, 2004, the medical expenses that can be deducted by seniors from state taxes will be reduced for some and eliminated completely for others.

3. **The government can balance the budget without raising taxes.**

Eliminating the 5,000 vacant positions in state government would free \$322 million in unobligated reserves. By doing this, and recognizing the \$300 million in K-12 PERS savings, Oregon's budget shortfall would be eliminated.

4. **Property taxes would increase by \$40 million per year.**

The tax hike reduces the discount for making an early payment. As a result, Oregonians would pay approximately \$40 million more

per year in property taxes. Reducing this discount is simply a scheme to increase property taxes without visibly raising rates.

5. **Businesses are already leaving, and more plan to as taxes increase.**

Oregon has the highest unemployment rate in the country. Oregon cannot afford to give more companies and jobs reasons to leave. Louisiana-Pacific, Gardenburger, Smuckers and others have already opted out of business in Oregon.

Companies of all sizes would be forced to pay more money and many may simply close their doors and move operations elsewhere.

6. **The tax increases are not all temporary.**

The tax package was sold as a "temporary" increase to fix Oregon's budget crisis. However, several components of the tax package, including the senior medical deduction, property tax discount reduction, corporate foreign income, sport utility vehicle (SUV) depreciation, and the corporate minimum tax are permanent tax increases.

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Council, p. 2

[www.alec.org/meSWFiles/pdf/0229.pdf](http://www.alec.org/meSWFiles/pdf/0229.pdf)

<sup>2</sup> [www.stoporegontax.com/facts-figures3.php](http://www.stoporegontax.com/facts-figures3.php)

## WHICH TAXES ARE RAISED?

The tax plan will raise the following taxes, if it is not voted down:<sup>3</sup>

### *Income Taxes*

The tax changes call for a 3-year, retroactive surcharge on personal income taxes. The graduated surcharge is retroactive to January 1, 2003. Being retroactive, none of the additional charges will have been withheld from paychecks in 2003. As a result, taxpayers will have to pay the entire year's worth of increased taxes in one lump sum on April 15<sup>th</sup>.

Surcharge rates are based on adjusted gross income and will affect both individuals and small businesses. This increase would raise over \$850 million.

### *Seniors Hit By Tax Hike*

Much of the increased tax burden comes in the form of an income tax hike, but some \$42 million over the next two years would come specifically from the pockets of senior citizens. If the tax hike is not repealed, more than 100,000 older taxpayers will be subject to higher taxes.

The tax hike calls for an end to a current law which, since 1991, has allowed seniors to deduct all medical expenses. The tax hike calls for increasing the qualifying age for the deduction from 62 to 65 and phasing out

the deduction altogether for seniors with higher incomes.

Single filers with adjusted gross incomes of \$15,000 a year, and joint filers with incomes of \$30,000, would lose 60 percent of the deduction. Single filers with incomes above \$50,000, and joint filers with incomes over \$100,000 would lose the deduction entirely. The average tax increase for a single filer with an adjusted gross income of \$50,000 to \$60,000 would be about \$270. The Oregon Department of Revenue counts 162,000 tax returns claiming this deduction in 2001, with an average deduction of \$1,854 for single filers and \$3,033 for joint filers. At least 103,000 taxpayers would face a tax increase because of this change, with 24,500 seniors losing their medical deduction completely.<sup>4</sup>

This is a substantial shift in Oregon tax policy, where the trend for much of the past 20 years has been to exempt more senior citizen income from taxes. (See Table 1)

**Table 1**

Senior Deduction Changes	
Income	Reduction of Allowable Deduction
\$15,000 \$30,000	60% - deductions of only 40% allowed
\$30,000 \$40,000	80% - deductions of only 20% allowed
\$40,000- \$50,000	90% - deductions of only 10% allowed
More than \$50,000	100% - deductions cannot be claimed

<sup>3</sup>[www.leg.state.or.us/03reg/measures/hb2100.dir/hb2152.en.html](http://www.leg.state.or.us/03reg/measures/hb2100.dir/hb2152.en.html) and [www.stoporegontax.com/facts-figures.php](http://www.stoporegontax.com/facts-figures.php) and [www.stoporegontax.com/facts-figures2.php](http://www.stoporegontax.com/facts-figures2.php)

<sup>4</sup> James Mayer, "Tax Plan Squeezes Senior Citizens", Oregonlive.com, 9/22/03

### *Property Tax Discount Reduction*

Oregon's property owners currently receive a discount of 3 percent for early payment of property taxes. Beginning in 2004, this discount would be reduced to 1.5 percent. In addition, according to the Legislative Summary, the tax plan, "directs counties to transfer savings from discount reductions to State School Fund and General Fund," which means property owners would be forced to hand money over to the state instead of local governments to use for local services.

### *Corporate Tax Credits*

The hike cuts corporate tax credits by 20 percent across the board.

### *Cigarette Tax Extension*

The hike further extends the cigarette tax increases from January 1, 2004 to 2006. The Tax Foundation reports that, "Because smokers are mostly low-income people, the cigarette tax is the most regressive tax."<sup>5</sup>

### *Auto Depreciation*

Small businesses could no longer deduct the cost of utility vehicles for business purposes.

### *Business Minimum Tax*

It also imposes new minimums of anywhere from \$250 to \$5,000 on corporations in the state—both C-corporations and S-corporations—whether or not they make any profit that year.

<sup>5</sup> [www.taxfoundation.org/ff/cigarette.html](http://www.taxfoundation.org/ff/cigarette.html)

### *Extraterritorial Income Tax*

The proposal institutes income taxes on trade with foreign countries, reducing the incentive for expansion or establishment of headquarters within Oregon.

### *Dividend Taxation*

The plan cuts by 50 percent the deduction allowed for dividends received by one business from another.

### **A SPENDING PROBLEM, NOT A REVENUE PROBLEM**

Supporters of higher taxes often speak in terms of a "revenue shortfall" rather than excessive government spending. Whichever term one chooses, it is irrefutable that government spending in Oregon has increased dramatically since the early 1990s.

From the 1989-91 legislative session to the 2001-03 session, state spending grew 151 percent. The 1989 General Fund budget was \$4.532 billion. The first legislatively adopted general fund budget for 2001-03 was \$11.371 billion, a 151 percent increase.<sup>6</sup>

### **STILL PAYING FOR KITZHABER**

The spending problem in Oregon traces back to former Gov. John Kitzhaber. While in office, Kitzhaber received three consecutive "F"s on the Cato Institute's *Fiscal Report Card for Governors*.<sup>7</sup> In this biannual report, economists Stephen Moore and Stephen Slivinski use, "17 objective measures of each governor's fiscal performance.

<sup>6</sup> [www.cascadepolicy.org/pdf/fiscal/2003\\_26.pdf](http://www.cascadepolicy.org/pdf/fiscal/2003_26.pdf)

<sup>7</sup> [www.cato.org/pubs/pas/pa454.pdf](http://www.cato.org/pubs/pas/pa454.pdf)

Governors who have cut taxes and spending the most receive the highest grades. Those who have increased spending and taxes the most receive the lowest grades.”

Kitzhaber received the lowest score among the 4 governors who received “F”s in 2002.

Moore and Slivinski said of Kitzhaber in their 2002 report:

“His dismal performance is primarily a result of an astonishingly rapid rate of budget growth on his watch. No other governor has come close to the size of the spending spree that Kitzhaber has had in Oregon...he has shown excessive faith in the efficacy of government programs to solve economic and social problems. In his first term, spending skyrocketed by nearly 30 percent. He is the architect of the controversial Oregon Health Plan, which expands health care coverage by rationing treatment. The plan was supposed to reduce the ranks of the uninsured while cutting the burden on the state of paying for expensive treatments. Instead, Oregon’s Medicaid caseloads have swollen and costs have risen every year, partly because doctors apparently are not cooperating with the new rationing. As a consequence, the cigarette tax was hiked by 40 cents a pack to pay for the cost overruns.

“Kitzhaber has dumped money into the public schools while opposing education reforms that would give more power to parents...In his second term, spending has soared, causing an enormous funding gap. Now Kitzhaber the spender has morphed into Kitzhaber the taxer. In just the last two years, he has proposed an income tax hike, an

increase in auto fees, a 50-cent-a-pack cigarette tax hike (on top of the earlier 40 cent increase), a rollback of \$133 million in income tax rebates approved by voters in a prior ballot initiative, a \$44 million increase in beer and wine taxes, and numerous increased fees. Some have begun to refer to him as Governor “Tax-haber.” In spring 2002, the legislature enacted a balanced budget plan without any major tax hikes. Kitzhaber vetoed it and demanded that the budget contain more taxes. Kitzhaber has always supported growth in the public sector while casting a suspicious eye on growth in the private sector.”<sup>8</sup>

While Oregon’s voters did get Kitzhaber out of office, his legacy of excessive spending and higher taxes lives on in the form of the legislature’s proposed tax hike.

The tax hike would cement in place the mistakes of the previous administration.

### **OREGON SPENDS MORE THAN OTHERS**

Randall J. Pozdena, Ph.D. of the Cascade Policy Institute has also examined Oregon’s spending habits. In “Can Oregon Tighten its Fiscal Belt?”<sup>9</sup> he finds that in four of five major public service areas, Oregon is overspending compared to other states.

Pozdena goes beyond simple per capita comparisons and includes demographic factors that can significantly affect the level of program spending. Controlling for these factors

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<sup>8</sup> Ibid.

<sup>9</sup> [www.cascadepolicy.org/pdf/fiscal/tightenbelt.pdf](http://www.cascadepolicy.org/pdf/fiscal/tightenbelt.pdf)

allows for comparisons that better respect Oregon's uniqueness.

Pozdena finds that, given Oregon's economic and demographic make up, when compared to other states:

1. Health care spending by Oregon's public sector is 30 percent higher than would be expected.
2. Welfare spending is 13 percent higher than expected.
3. Education spending is 14 percent higher than expected.
4. Spending on corrections and police is 19 percent higher than expected.
5. Highway spending is 3 percent lower than expected
6. Overall spending is 19 percent higher than expected.

Pozdena concludes that these figures suggest that reductions in spending on the order of 15 percent or so would not put Oregon out of line with other states.

### **OREGON: HIGHEST UNEMPLOYMENT IN COUNTRY**

For the past few years, Oregon has had one of the top three unemployment rates in the entire country. As of the writing of this report, no state in the Union has a higher unemployment rate than Oregon. According to the Bureau of Labor Statistics, "In October [2003], South Dakota recorded the lowest jobless rate, 3.1 percent, followed by Virginia, 3.5

percent, and North Dakota, 3.6 percent... Oregon had the highest unemployment rate, 7.6 percent."<sup>10</sup>

When addressing one problem, such as revenues insufficient to fund government spending desires, the legislature should keep in mind potential unintended consequences of their proposed remedy—particularly as such consequences apply to other existing problems. In this case, what will happen to Oregon's unemployment rate if a tax increase is used to cover the difference between what the legislature wants to spend, and how much it actually has to spend?

### **TAXES SLOW ECONOMY**

Professor Richard Vedder of Ohio University, in "Taxes and Economic Growth", looks at the effect of state tax policies on state economic performance over a 40 year period, from 1957 to 1997. His findings are unambiguous. He concludes that:

Taxes Matter. Indeed, they matter a great deal. Low taxes mean less government spending, and that more resources stay with private persons and companies. This leads to greater savings, investment and work... To be sure, some taxes are worse than others from the standpoint of increasing economic prosperity. Income taxes are particularly harmful, especially those levied on individuals.<sup>11</sup>

<sup>10</sup> [www.bls.gov/news.release/laus.nr0.htm](http://www.bls.gov/news.release/laus.nr0.htm)

<sup>11</sup> Dr. Richard Vedder, *Taxes and Economic Growth*, Ohio University, September 2001.

Income taxes increases form the bulk of Oregon’s proposed tax hike. Vedder compares economic growth in the 10 lowest tax states with the 10 highest tax states in several different ways, and consistently finds that, “In general, *the lower the tax burden, the higher the rate of economic growth.*”<sup>12</sup>

Vedder compares the 10 states with the lowest increases in tax burden with the 10 states with the greatest increases between 1957 and 1997. Total real personal income growth rose 390 percent in states with the smallest tax increases. It increased less than half as much, just 177 percent, in the 10 states with the greatest increase in tax burden. (See Figure 1)

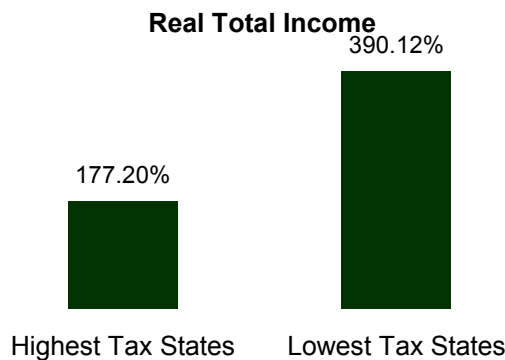


Figure 1: Economic Performance: 10 Highest, 10 Lowest Tax States 1957-1997<sup>13</sup>

Vedder also looks at 20 year periods, 1957-1977 and 1977-1997. He finds that those 10 states with the smallest increase in tax burden had dramatically high real per capita growth compared with the 10 states with the largest increase in taxes—86 percent to 58 percent, respectively. (See Figure 2)

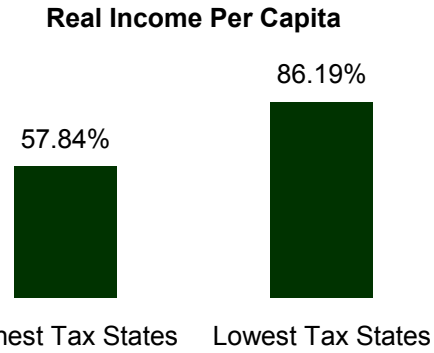


Figure 2: Economic Performance: 10 Highest, 10 Lowest Tax States 1957-1977.<sup>14</sup>

Vedder performs the same analysis for 1977-1997. While the states in the top ten and bottom ten change, the results do not: more growth in low tax states, less growth in high tax states. With regard to total personal income, the 10 states with the lowest (some actually reducing) taxes, there was growth of 72 percent, compared with 52 percent for those raising the burden the most. (See Figure 3)

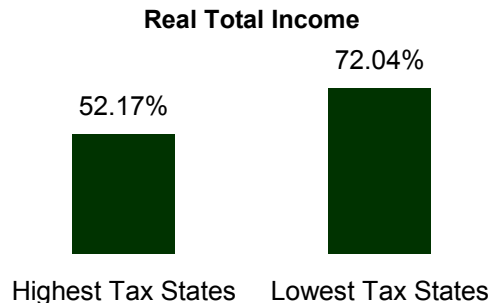


Figure 3: Economic Performance: 10 Highest, 10 Lowest Tax States, 1977-1997.<sup>15</sup>

Vedder also looks at the effect of raising income taxes. An increase in income taxes is the central feature of Oregon’s current tax hike. Vedder finds that, “real personal income growth was

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

more than twice as high in the states raising their income taxes the least (or not at all), compared with the states with the biggest increase in tax burden.”<sup>16</sup> (See Figure 4)

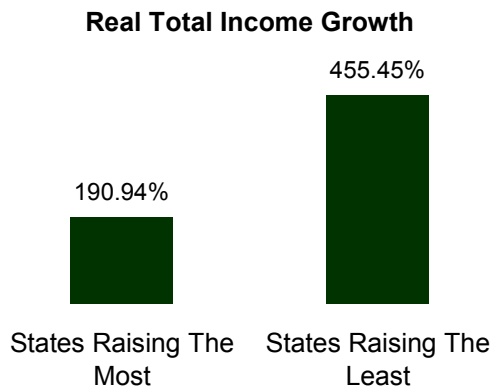


Figure 4: Economic Performance: 10 States Raising Income Taxes The Most vs. 10 States Raising Them the Least 1957-1997.<sup>17</sup>

Vedder looks at the data several more ways, and finds that, “In every single case, without exception, the results are consistent: **high or rising taxes are associated with lower amounts of economic growth.**”<sup>18</sup>

He also notes that there is considerably higher population growth in the low income tax states, reflected by massive migration into those states from high income states. This may be a case of people voting with their feet, preferring to live where taxes are lower. It could also be a reflection on where the jobs are, with people preferring to live where there is work to where there is not work.

Vedder finds that from 1990 to 1999, 2,849,310 native born Americans

moved from the 41 states and the District of Columbia to the nine states that have essentially no personal income tax (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming). Vedder notes that, excepting Sundays, that equals 1,000 people moving every day for nine years to no income tax states—more than the number who moved from East to West Germany during the Cold War.<sup>19</sup>

### TAXES INCREASE UNEMPLOYMENT

The evidence from Vedder’s research coincides with calculations by the Beacon Hill Institute that predict job losses for states that raise taxes. The evidence suggests that tax increases can generally be expected to increase unemployment, decrease investment, and decrease disposable income.

#### *Alabama*

In September 2003 Alabama’s voters turned down a \$1.2 billion tax hike. To assess the impact such a tax hike would have on Alabama’s economy, the Alabama Policy Institute relied on the extensive State Tax Analysis Modeling Program (STAMP) developed by the Beacon Hill Institute in Massachusetts. STAMP, a respected economic calculation model, used in 14 other states, estimated that 24,000 Alabamians would lose their jobs in 2004 alone if the tax hike was passed. Further, Alabama would have seen a \$331 million reduction in investment and a drop of \$2.3 billion in disposable income.<sup>20</sup>

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

<sup>20</sup> [www.alabamapolicy.org/Alabama%20STAMP 2.pdf](http://www.alabamapolicy.org/Alabama%20STAMP%202.pdf)

## *Pennsylvania*

In October, 2003, the Commonwealth Foundation in Pennsylvania, in conjunction with the Beacon Hill Institute, looked at the economic impact of a \$700 million proposed income tax hike. They found that bringing \$700 million more into the state coffers by increasing the personal income tax from 2.8 percent to 3.1 percent would destroy 35,892 jobs in the next year—98 jobs per day. They also found that investment in Pennsylvania would decrease by \$77.38 million, state personal income would decrease by \$298 million, and disposable income would drop \$1.46 billion.<sup>21</sup>

## *Kansas*

In June, 2003 the Flint Hills Center for Public Policy, in Wichita, Kansas, examined the effects of a proposed \$853 million income tax increase on Kansas' economy. The consequences would be the same in Kansas as they would be in Alabama and Pennsylvania, if tax takings were increased: fewer jobs and a poorer economy. As a result of an \$853,000,000 income tax increase in Kansas, the model indicates that, "approximately 21,000 jobs will be lost due to the increase in income taxes. Investment is reduced 0.18 percent and gross state product is 1.26 percent lower."<sup>22</sup>

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<sup>21</sup> [www.commonwealthfoundation.org/taxes/nr20031020.shtml](http://www.commonwealthfoundation.org/taxes/nr20031020.shtml)

<sup>22</sup> [www.flinthills.org/Projects/STAMP/An%20Income%20Tax%20Increase%20to%20Fund%20Education.pdf](http://www.flinthills.org/Projects/STAMP/An%20Income%20Tax%20Increase%20to%20Fund%20Education.pdf)

## *Maine*

The Main Public Policy Institute conducted a similar analysis in October, 2003 on a much smaller proposed tax hike in Maine. Maine proposed raising taxes \$250 million—significantly less than Oregon's proposed \$1.1 billion tax increase. The analysis estimated, "Three thousand to 10,000 lost Maine jobs, a sharp drop in disposable income, and 5,600 out-of-work families leaving Maine for greener pastures."<sup>23</sup>

### **REAL JOBS LEAVING OREGON**

Higher taxes are already pushing businesses, and the jobs they create, out of Oregon. This has led to, and exacerbates, Oregon's position as the state with the highest unemployment rate in the entire country, at 7.6 percent.

## *Louisiana-Pacific*

Louisiana-Pacific (LP), Oregon's largest publicly traded forest products firm, is moving its headquarters to Nashville, Tennessee, taking all but 130 of its jobs—and the tax revenue they generate—with them.

LP Chairman and Chief Executive Officer Mark Suwyn explained the move to Dylan Rivera of *The Oregonian*, saying Tennessee offers "an affordable, good quality of life for our employees and a positive business climate."<sup>24</sup> Rivera goes on to report that top executives and some mid-level managers will move to the new headquarters in two waves. He points out that the loss of these high-level

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<sup>23</sup> [www.maineinstitute.com/maine\\_stamp.pdf](http://www.maineinstitute.com/maine_stamp.pdf)

<sup>24</sup> Dylan Rivera, "Portland Loses LP's Base", *The Oregonian*, October 1, 2003.

employees means less tax revenue for the state, and that the loss of the executives' charitable involvement gives Oregon's economic development a black eye.

Richard Butrick, president of Associated Oregon Industries, is quoted as saying, "You're losing the intellectual capital and the 9 percent of their salary that goes to the general fund of the state and everything else that they were doing in their hometown."

Dylan goes on to quote Duane McDougall, the former chief executive officer of Willamette Industries (which also moved) and who now serves on several corporate boards, as saying the company's move was "somewhat symbolic of frustration that many in the business community have voiced."

According to Dylan, "The Oregon Legislature recently passed a minimum tax that requires a company the size of LP to pay at least \$5,000, even in a year when it loses money. In Tennessee, companies can use a financial loss from one year to lower their taxable income for the next 15 years...Tennessee will almost certainly ease LP's state tax burden."<sup>25</sup>

### *Kuni Automotive Group*

Kuni Automotive Group, which has 10 car dealerships in four Western states, including Oregon, is also moving out of Oregon. John Snell of *The Oregonian* quotes Kuni's president Greg Goodwin as saying the company is leaving because of Oregon's "punitive" tax system. Goodwin says Oregon

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<sup>25</sup> Ibid.

"punishes companies like ours that have multi-state operations."<sup>26</sup>

Profits from Kuni Automotive dealerships in Washington, California, and Colorado are taxed not in those states, but rather where the company's headquarters is located—which had been downtown Portland until recently. The move to Vancouver, Washington means Oregon will lose these tax dollars, and the jobs that came with having the headquarters in Oregon. It means more jobs and more tax revenue for Washington and it will save Kuni Automotive "hundreds of thousands of dollars annually."<sup>27</sup>

Snell goes on to quote Goodwin saying, "It is something we're unhappy about. It's something we'd rather not do. But Oregon's tax structure is broken."<sup>28</sup> Oregon and its legislature "continually go back to middle and upper income earners for revenue,"<sup>29</sup> said Goodwin.

But the latest tax hike will not affect the middle and upper income workers from Kuni Automotive's headquarters, because now they will be paying taxes in Washington instead.

### *Gardenburger*

Gardenburger, a company founded in Portland, Oregon 18 years ago, has completely moved out. It started four and a half years ago when Gardenburger sold its Portland plant and

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<sup>26</sup> John Snell, "Oregon Taxes Drive Kuni to Vancouver", *The Oregonian*, September 18, 2003.

<sup>27</sup> Ibid.

<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

moved all its manufacturing operations to Utah. Now Gardenburger has closed its remaining Portland office, laying off four people and moving the remaining 17 to its main Utah facility and a small office in Southern California. Chief Executive Scott Wallace said Gardenburger needed to move to cut costs.<sup>30</sup>

### *Portland*

Taxes causing businesses to move their operations can also be seen within a state. Just as companies will take their jobs and tax contributions from a less business-friendly state to a more business-friendly state, they will also take their jobs and tax contributions from a less tax-friendly region of a state to a more tax-friendly region of a state.

Portland, well known for confiscatory tax policy, has seen a slew of jobs and taxpayers leave for lower tax pastures. “The City That Works” now boasts the highest unemployment rate of any major metropolitan region in the United States of America, with 8 percent of the workforce unemployed.<sup>31</sup>

In addition to Louisiana-Pacific, Kuni Automotive Group, and Gardenburger, Portland has witnessed the exit of Pacific Metals, Columbia Sportswear, Willamette Industries, and Albina Fuel.

### *Similar in Other States*

Businesses leaving one state for another with a lower tax burden is not unique to Oregon—it is characteristic of

states with increasingly oppressive tax burdens. Alabama saw the same thing happening when tax increases were being considered there.

Mike Cason of the *Montgomery Advertiser* spoke with Bill Braudt, an executive from Tenaska, an international power development company which operates two plants in Alabama, about what a tax hike there would mean. Tenaska’s current operations generate more than \$13.5 million in state, local and county taxes, and they have invested more than \$500 million in Alabama since 2000. Braudt, however, said, “No. 1, it changes the economics of being in Alabama negatively. Secondly, it lets us know we cannot count on the government to maintain a steady course. Therefore, locking in long-term contracts is a really bad idea. Because Tenaska is not going to take that kind of risk, we’ll probably choose to build in other places.”<sup>32</sup>

The stream of companies leaving Oregon indicates that they may feel the same about policies in Oregon. Any claims about the tax hike *bringing* employment to Oregon because of “improved services” have no basis in reality, and contradict the evidence.

### **SMALL BUSINESS HURT**

The tax hike will hurt small businesses. According to the Small Business Administration 75 percent of all new jobs are created by small businesses, and they employ 36 percent of the work force. Ninety-eight percent

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<sup>30</sup> Business Briefs, *Seattle Times*, September 27, 2003.

<sup>31</sup> [www.bls.gov/web/laurgma.htm](http://www.bls.gov/web/laurgma.htm)

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<sup>32</sup> Ibid.

of American businesses have fewer than 100 employees.<sup>33</sup>

Most small businesses pay the top personal income tax rate—not the corporate tax rate. As a result, although the tax hike is being sold as a “tax the rich” plan, the real victims of the 9 percent top rate will be small businesses, everyone in Oregon who works for a small business, and anyone who was hoping for one of the 75 percent of new jobs that small businesses offer.

The National Bureau of Economic Research has calculated that a 10 percent increase in the top income tax rate will reduce small business hiring by 10.7 percent and reduce wages by 3 percent to 4 percent.<sup>34</sup>

The Small Business Administration, in its *Characteristics of Small Business Employees and Owners*, reports, “Small businesses hire a greater proportion of part-time employees, employees with lower educational attainment, and individuals that receive public assistance than large businesses.”<sup>35</sup> This fact calls into question the legislature’s claim that taxes must be raised to ensure needed government services, such as helping the needy. It is difficult to see how a plan that attacks the very businesses that are most likely to employ the less fortunate will also help them.

Taxing jobs out of the state is no way to help anyone. Small business is

the engine of job growth. By raising taxes on small business, the legislature’s plan will result in fewer jobs and fewer raises for the working people of Oregon.

### **LESSONS FROM THE LAST RECESSION: TAX HIKERS LOSE, TAX CUTTERS WIN**

Vedder’s conclusions cited earlier, and the claim that tax hikes will harm the economy, are buttressed by further empirical evidence. In *States Can’t Tax Their Way Back To Prosperity: Lessons Learned from the 1990-01 Recession*, a study for the American Legislative Exchange Council, Steve Moore compares states which raised taxes to deal with deficits to states which cut taxes and spending.<sup>36</sup> Moore finds that in the early 1990s roughly a dozen governors passed major income tax hikes to close budget gaps. He finds:

“[T]hese tax-raising states had among the worst subsequent rates of economic and income growth. Furthermore, states that raised taxes in the early 1990s recovered more slowly from the recession, and their budget problems persisted longer than states that did not raise taxes.”<sup>37</sup>

He lists examples of several states, such as Georgia, which prospered after cutting taxes, and several states, such as California,

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<sup>33</sup> Press Release, Americans for Tax Reform, “Alabama Fact of the Day #3: “Bob Riley—Killing the Engine of Job Growth”, July 17, 2003. [www.atr.org/alabama/fact\\_3.pdf](http://www.atr.org/alabama/fact_3.pdf)

<sup>34</sup> Ibid.

<sup>35</sup> [www.sba.gov/advo/stats/ch\\_em97.pdf](http://www.sba.gov/advo/stats/ch_em97.pdf)

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<sup>36</sup> Steve Moore, *States Can’t Tax Their Way Back To Prosperity: Lessons Learned from the 1990-01 Recession*, American Legislative Exchange Council, October 2002.

[www.alec.org/meSWFiles/pdf/0229.pdf](http://www.alec.org/meSWFiles/pdf/0229.pdf)

<sup>37</sup> Ibid.

which floundered after raising taxes.

*Tax Cutting State: Georgia*

In the mid-1990s, then-Gov. Zell Miller enacted a series of tax cuts. In 1996, Miller signed a \$500 million tax cut, exempting food from the sales tax. In 1994, Miller approved a \$100 million tax cut for families with children by raising the dependent exemption from \$1,500 to \$2,500, and signed an income tax cut for senior citizens with retirement income. These tax cuts led to an economic boom in the state. In the 1990s, Georgia had the fastest growth rate of any state east of the Mississippi; employment grew more than twice the regional average between 1990-96.<sup>38</sup>

*Tax Raising State: California*

In 1990, the legislature and Gov. Pete Wilson enacted a \$7 billion tax increase, the largest in the history of the fifty states. The top income tax rate was raised from 9.5 percent to 11 percent. This rate hike was noteworthy because it failed to raise any new revenue while sinking the state deeper into recession. The already ailing economy continued to decline; from 1990 to 1993 the state lost 350,000 jobs. In 1995 the tax hike was repealed, and over the next four years the state gained more than 200,000 jobs and the unemployment rate fell sharply.<sup>39</sup>

The findings from Moore’s research are clear: tax increases harm a state’s economy, leading to fewer jobs and less growth, while tax cuts stimulate

it, leading to more jobs and more growth.

As Moore concludes,

“Governors attempted to enact ‘soak the rich’ tax hikes in the early 1990s only to see their states plunge into even deeper pools of red ink and endure further economic contraction... Only through budget/spending controls and economic growth tax reduction policies will fiscally ailing states close their budget gaps next year. That is the principle fiscal lesson of the recession of 1990-01.”<sup>40</sup> (See Table 2)

**Table 2**

<b>Economic Growth and Corporate Income Tax Rate Changes 1990-2001</b>				
	Corporate Income Tax Rate			Real Personal Income Growth 1990-2001
	1990	2001	Change	
<i>Tax Hikers</i>				
Alabama	5	6.5	+1.5	25.6%
Arkansas	6	6.5	+0.5	33.3%
Missouri	5	6.25	+1.25	28.0%
<i>Tax Cutters</i>				
Arizona	9.3	6.968	-2.332	57.6%
Colorado	5.5	4.63	-0.87	65.1%
North Carolina	7	6.9	-0.1	43.3%

Source: Steve Moore, *States Can’t Tax Their Way Back to Prosperity*, ALEC, 2

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

<sup>40</sup> Ibid.

## **EDUCATION: THE STATE'S BIGGEST EXPENSE**

Education spending is the largest item in the state budget. As such, it attracts a lot of attention when the budget is being discussed. The special interest groups representing state employees have come out strongly in favor of the tax hike—but this should not be a surprise. With more money going to the government, they are the most likely to benefit.

Policy experts Richard Leonetti and Nick Weller of Cascade Policy Institute authored a study, *Oregon K-12 Revenue and Expenditures, 1990-2001*, which provides an overview of education revenue and expenditures for the past decade, and investigates specific spending areas. The following are the key findings of the study<sup>41</sup>:

1. Audited per pupil spending for 2000-01 in Oregon K-12 schools was \$8,794 adjusted to 2000 dollars. This represents an 8 percent increase over 1990-91, after adjusting for inflation and student enrollment. During the same time period state revenues rose 3 percent.
2. The Average Daily Membership in Oregon schools grew 12.9 percent between 1990-91 and 2000-01 from 462,042 to 521,703.
3. School districts are borrowing more money now than in previous years for capital expenditures. From 1990-2001 net borrowing totaled \$2.56 billion and capital expenditures were \$2.86 billion.
4. Measure 5 appears to have slowed the growth in education revenue. Although it was not possible to find exact data from the 1980s, to the extent that growth in teacher salaries serves as a proxy for overall education spending, they indicate that spending grew more rapidly in the 1980s than the 1990s.
5. Spending for special programs such as disabilities education, English as a Second Language (ESL) and Title I for low-income children grew throughout the past decade. In 1990-01 the programs accounted for \$625 on a per pupil basis and \$1,132 in 2000-01. Between 1990-91 and 1999-00 the number of students diagnosed with special needs grew from 10.9 percent to 13.1 percent of average daily student enrollment. Students in ESL programs grew from 2.5 to 7.0 percent between 1993-94 and 2000-01.
6. In 2000-01 per pupil, inflation adjusted spending in the Portland School District was \$11,124, which is 23 percent higher than the statewide, per pupil expenditure of \$8,794. In 1990-91 the Portland School District spent in inflation-adjusted dollars \$10,233 per pupil compared to the state average of \$8,119.

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<sup>41</sup> Richard Leonetti and Nick Weller, "Oregon K-12 Revenue and Expenditures, 1990-2001", September 2002, Cascade Policy Institute. [www.cascadepolicy.org/pdf/edref/School\\_spending\\_report.pdf](http://www.cascadepolicy.org/pdf/edref/School_spending_report.pdf)

7. The Oregon Department of Education compiles most of this data in some form, but they do not publish figures in a form that reveals per pupil spending and statewide expenditures. More revealing timely and useful data comparisons would be a valuable service to policy makers and public stakeholders.

### **DO THE SCHOOLS NEED MORE MONEY?**

Oregon currently finds itself spending more money per student than ever before. Still, school districts are cutting programs, increasing class size and shortening the school year. Continued spending with no regard for results or accountability is part of what led to the current crisis. But another problem is the cost structure into which Oregon's schools are forced.

Collective bargaining contracts and state and federal mandates control a substantial portion of school costs, which are examined by Rob Kremer of Oregon Tax Research.<sup>42</sup>

#### *Teacher Pay*

Average teacher salaries in Oregon are 7 percent higher than the national average, while the average annual pay of Oregonians is about 8 percent lower than the national average.<sup>43</sup>

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<sup>42</sup> Rob Kremer, "Understanding Oregon's School Fiscal Crisis", *Your Taxes*, May 2003, Vol 69, No. 2.

<sup>43</sup> [www.cascadepolicy.org/pdf/fiscal/tightenbelt.pdf](http://www.cascadepolicy.org/pdf/fiscal/tightenbelt.pdf)

Teachers in most districts are paid according to a salary grid, within which they move up to higher salaries, based not on performance, but on years on the job. In most districts, this means that roughly half the teachers move up in salary by 3.4 percent every year. On top of this, an additional 2-3 percent increase is added as a "cost of living" increase, which applies to all teachers. Also, an additional 4.5 percent increase is given to any teacher who accumulates 15 additional hours of graduate school credit.<sup>44</sup>

The cumulative effect of this is that a school district finds the cost of teachers' salaries increasing more than 5 percent per year, locked in by an artificial, merit-free, salary system. Adding further costs is the additional 2 percent to 5 percent increase in the salary grid that tends to happen every time the teacher's collective bargaining contract is renegotiated.<sup>45</sup>

#### *PERS*

PERS, Oregon's Public Employees' Retirement System, was officially reformed for the better on September 1, 2003. However, most of the reforms are currently being challenged in court by public employee unions, making it impossible to know which cost changes, if any, will result from the reforms. This leaves the pre-reform cost estimates as the best estimates to go by.<sup>46</sup>

School districts pay more in PERS as a percent of payroll than most other government bodies. In the 2004-

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<sup>44</sup> Kremer.

<sup>45</sup> Ibid.

<sup>46</sup> Ibid.

05 academic year most districts would be required to pay 24.58 percent of payroll into PERS, up from 18.73 percent the year before. Districts have no discretion over this rate, as it set by the PERS board.

In 2003, Oregon’s school districts spent \$1,042 per student on PERS—an unsustainable level.

*Special Education*

Special education spending during the 1990s skyrocketed, increasing at an annual rate of 14.3 percent since 1992. This is at least partly due to the Individuals with Disabilities Education Act (IDEA), a federal mandate requiring special education spending. In 2000, Oregon spent approximately \$650 million—or \$1,200 per student—on special education services. Special education legally has the first claim on all available school dollars. Schools are not allowed to weigh the impact of special education spending on the education of the remaining students.<sup>47</sup>

*Regional Comparison*

Oregon spends well above the national average per student, and outpaces nearby states by an even wider margin. While Oregon spends \$8,593 per student, the national average is \$7,640, and California spends \$6,837. (See Figure 5). It is unclear whether this substantially higher level of spending has resulted in better educational performance.

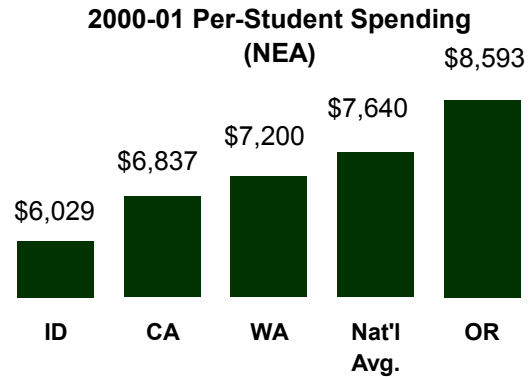


Figure 5

**TEACHERS ARE JUST 36 PERCENT OF COSTS, SO WHERE DOES ALL THE MONEY GO?**

According to the Oregon School Boards Association (OSBA), Oregon expenditures per student outpaced every West Coast neighbor and the national average (See Figure 5). The OSBA also found that Oregon spends a lower proportion of this money on teaching than other Western states, with more going to non-teachers. Also, more is spent on employee benefits than any state, with the exception of Rhode Island.<sup>48</sup>

Oregon spends \$8,794 per pupil. Of this, \$3,100 goes to paying for teachers, including their benefits packages. The rest goes to other costs, like food service, including funds paying for free or reduced-price lunches for 37 percent of Oregon’s children. Another significant portion is spent on the acquisition, construction, and maintenance of school buildings. This portion of the budget in 1990-91 cost

<sup>47</sup> Ibid.

<sup>48</sup> [www.osba.org/hotopics/funding/2002/analysis/final.pdf](http://www.osba.org/hotopics/funding/2002/analysis/final.pdf)

\$750 per pupil. In 2000-01 it cost \$1,300 per pupil.<sup>49</sup>

In *Dollars & Sense*, Dr. John R. Hill looks at how non-educational services such as maintenance, grounds keeping, transportation, and food service can be better and more efficiently provided by the private sector.<sup>50</sup>

Dr. Hill finds that many school districts around the country outsource this work to private companies that specialize in each field of work. According to the report, “Outsourcing is helping some districts achieve greater financial responsibility by offering better quality support services at a lower price. Potential savings could be used to bolster academic programs and classroom resources while reducing the need to approach citizens for further tax increases.”<sup>51</sup>

The position of powerful unions like the National Education Association (NEA) is to oppose outsourcing. In a classic case of do as I say, not as I do, the NEA frequently outsources its own support services at its \$60 million national headquarters in Washington, D.C.<sup>52</sup>

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<sup>49</sup> Richard Leonetti and Nick Weller, “Oregon K-12 Revenue and Expenditures, 1990-2001”, September 2002, Cascade Policy Institute.

<sup>50</sup> Dr. John R. Hill, *Dollars and “Sense”: How Outsourcing Can Save Money for Alabama’s Schools*, Alabama Policy Institute, 2002, p. 1. [www.alabamapolicy.org/OutsourcingStudyM.pdf](http://www.alabamapolicy.org/OutsourcingStudyM.pdf)

<sup>51</sup> Ibid.

<sup>52</sup> Ibid.

### TAXING OR CUTTING: ELIMINATING THE SHORTFALL WITHOUT RAISING TAXES

In fiscal year 2003, thirty-seven states had to reduce already enacted budgets by nearly 14.5 billion. Thirteen states did not, having shown at least some amount of fiscal prudence and spending restraint. Arizona and Minnesota faced shortfalls equal to 15 percent of their budgets. Both states covered the difference without raising taxes.

Twenty-eight states used across-the-board cuts, 22 states used the “rainy day funds” which they saved, instead of spent, during the boom, 17 states eliminated extra government jobs, 10 states reorganized agencies and programs to realize savings, and 8 states offered early retirement.<sup>53</sup>

Instead of taking the time to do their job and figure out how to spend the money already being taken from the taxpayers more wisely, Oregon’s rulers in Salem are just demanding more money. The spending problem is the politicians’ own doing—their reckless spending over the past ten years has created a money monster that they are afraid to control. In their *Fiscal Report Card on America’s Governors: 2002* Stephen Moore and Stephen Slivinski of the Cato Institute find that real per capita spending in Oregon increased at the 13<sup>th</sup> fastest rate in the nation.<sup>54</sup>

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<sup>53</sup> Hanson.

<sup>54</sup> Steve Moore and Stephen Slivinski, *Fiscal Report Card on America’s Governors: 2002*, Cato Institute, p. 8. [www.cato.org/pubs/pas/pa454.pdf](http://www.cato.org/pubs/pas/pa454.pdf)

Politicians should be made to deal with the problems their own excess has created, instead of putting it on the backs of working Oregonians.

### **OTHER OPTIONS: GOVERNMENT REFORM**

In *Show Me the Money: Budget Cutting Strategies for Cash-Strapped States*, William D. Eggers outlines dozens of innovative options for legislators looking to save the taxpayers' money.<sup>55</sup> Eggers finds that, "Only by fundamentally restructuring government will state policy makers be able to contain spending growth and return accountability to state finance." Of course, this is a difficult task, and takes a lot more work than raising taxes by \$1.1 billion.

Eggers offers ten strategies for cutting budget deficits:

#### **1. Go Where the Money Is: Reduce Work Force Costs**

Here he points to Illinois and Massachusetts who froze state hiring to cut costs, and Florida and Missouri where the state workforce is being reduced. Other options include eliminating "phantom positions" where agencies receive funding for certain jobs, a certain percent of which are never filled. There are currently 5,000 such jobs in Oregon, tying up \$322 million—

almost half the estimated shortfall.

#### **2. Spread the Pain: Impose Broad-Based Spending Cuts**

Dozens of states used this technique, including Iowa, New Jersey, Oklahoma, and Virginia. He also suggests simply freezing spending at the prior year's level. Oregon has increased its biennium budget by 7.2 percent, or almost \$2.5 billion.

#### **3. Modernize Government: Reform Entitlement Programs**

Medicaid accounts for one-fifth of total state expenditures, partly because of its defined benefits structure, which fixes benefits and eligibility and makes cost variable—a recipe for skyrocketing costs. Here, market-based reform is needed. Eggers also suggests using technology, as Ontario, Canada has, to save \$1 billion over five years, and only paying welfare recipients after they've met certain criteria, a technique used in Wyoming to reduce caseloads by 70 percent.

#### **4. Turn Capital Assets into Financial Assets: Sell or Lease Government Assets and Enterprises**

The Reason Foundation estimates that cities and states own over \$226 billion in assets that could be sold to the private sector, like golf courses, liquor operations, tax lines, loan

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<sup>55</sup> William D. Eggers, *Show Me the Money: Budget Cutting Strategies for Cash-Strapped States*, American Legislative Exchange Council, 2002.  
[www.alec.org/meSWFiles/pdf/ShowMeTheMoney2.pdf](http://www.alec.org/meSWFiles/pdf/ShowMeTheMoney2.pdf)

portfolios, surplus land, and public housing. Table 3 demonstrates savings generated by such sales.

**Table 3**

Revenues From Selected State Privatizations over the Past Decade		
California	Surplus buildings and real estate	\$200m
Michigan	Accident Fund	\$255m
Ohio	Liquor stores	\$21m
Virginia	Student loan portfolio	\$62m

Source: Eggers, Show Me the Money

**5. Apply Antitrust to Government: Introduce Competition in Service Delivery**

When government bans competition, it communicates a message to public workers that state systems and those who run them are inferior. Eggers points to Virginia’s Commonwealth Competition Council and the Texas Council on Competitive Government (CCG), which have brought competition to government services for about a decade. The CCG has saved Texas more than \$65 million.

**6. Fund Results: Reduce or Eliminate Programs That Perform Poorly**

The Bush administration does something similar with its OMB scorecard that grades each federal agency on how well it manages its operations.

**7. Change the Incentives: Reward Employees for Saving Money**

In Portland, Maine public works department employees receive between \$100 and \$250 for reducing construction costs by 10 percent or more. Something similar should be tried in Portland, Oregon. In Charlotte, North Carolina, all city employees get a bonus if the budget comes under a certain savings target. Eggers also suggests replacing longevity pay with performance pay.

**8. Get Rational: Reduce Duplication and Overlap**

The Bush administration found that an average of 19 agencies serve each of the federal government’s 32 lines of business—overlap that costs the taxpayers at least \$9 billion in redundant information technology costs alone. The same exists in Oregon—it just needs to be found.

**9. Take the Cost Out: Use Technology to Slash Overhead**

To speed the transition from paper-based to digital purchasing, North Carolina, Florida, and many other states have mandated that state agencies ditch their archaic, paper-based purchasing system and use enterprise-wide e-procurement platforms.

## 10. Arm the Battle: Create Cost-Cutting Brigades

When Texas faced massive deficits in the early 1990s, leaders hired 100 of the best budget analysts in Texas government and gave them a single mission: get us out of this budget crunch. In five months they came up with 1,000 recommendations and identified over \$2.4 billion in budget savings, ending the crisis.

### OTHER OPTIONS: CUT CARELESS SPENDING

Reforming and running a more efficient government is the best long-term and medium-term solution to spending problems. A faster, simpler way is to cut wasteful spending. The politicians in Salem have the power to cut whichever programs they would like. They try to scare voters into paying higher taxes by saying schools will be closed early and seniors will go without healthcare. If that happens, it is not the fault of the voters for saying “no” to higher taxes, but the fault of the politicians who continue to spend taxpayers’ money carelessly.

Citizens Against Government Waste and The Taxpayers Association of Oregon have teamed up to produce the *2002 Oregon Piglet Book*, which they call “The book Salem doesn’t want you to read.”<sup>56</sup>

They point out that in fact spending has not been cut to the bone in Oregon and that the real culprit of

Oregon’s budgetary mess is runaway spending. They identify the following examples of taxpayer money being wasted:

1. \$74,000 state grant to a private membership organization called the World Affairs Council, a non-profit organization that helps recruit guest speakers to Oregon. The executive director of this private business is State Representative Jeff Merkley (D-Portland).
2. \$100,000 salary of Internet program manager—given to State Rep. Jim Hill, who helped create the position when he was a lawmaker.
3. \$208,000 to buy seven Ford Excursions for the Department of Administrative Services, which included premium CD players.
4. \$4,000 for high-end Palm Pilots for employees of the Department of Adult and Family Services. Less popular brands with similar functions are available for half that price—and paper organizers for even less.
5. \$8.5 billion shortfall of PERS. Reform is pending, as public service unions sue to stop the changes. Under the old system the average age of retirement was 51 and the average retiree made 105 percent of his/her salary upon retirement.
6. \$1,000,000,000 spent by Oregon Economic and Community Development to help stimulate

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<sup>56</sup>[www.cagw.org/site/DocServer/Oregon\\_Pig\\_Book\\_-\\_Finalpdf.pdf?docID=161](http://www.cagw.org/site/DocServer/Oregon_Pig_Book_-_Finalpdf.pdf?docID=161)

the economy. Oregon still ranks number one in unemployment.

7. State funding to private environmental groups
  - a. \$66,000, Ecosystem Workforce Mgmt.
  - b. \$15,000, American Enviro. Review-Media Piece.
  - c. \$13,000, Green Building-Healthy Living.
  - d. \$7,500, NW Environmental Councils.
  - e. \$5,000 Sustainable NW Forum.
  - f. \$5,000, Zero Waste Alliance.
  - g. \$950 NW Environmental Conference.
8. \$212,000 for several Public Utility Commissioners to travel to Armenia, Brazil, Hungary, Latvia, Portugal, Romania, and Zambia
9. \$250,000 self-identified by state agencies in possible travel reductions.
10. \$26,000 for 16 legislators to go to Denver for a conference
11. \$10,000 to send Reynolds School district board members to New Orleans for a conference.
12. \$4.3 million in benefits to people who did not meet eligibility, income, or residency requirements, from Oregon Health Plan.

New SUVs with CD players for the police and government employee trips to Europe are nice, but they should be the first things cut when Salem's spending problems are exposed in the form of a revenue shortfall.

## CONCLUSION

The government of Oregon is attempting to pull off one of the biggest money grabs in the history of the state. The politicians in Salem want to take \$1.1 billion from the working people to cover a shortfall created not by the workers, but by those representing them in the capital.

The tax hike will hit everyone—from regular workers to small business owners to senior citizens. It will not only mean more in taxes, but also a slower economy and long-term damage to the economic health of the state.

Louisiana-Pacific, Kuni Automotive Group, Gardenburger, Pacific Metals, Columbia Sportswear, Willamette Industries, and Albina Fuel, have already moved to more business-friendly locations. There is little reason to believe not only that others would follow if the tax hike remains, but that others would also be discouraged from ever moving to Oregon in the first place.

Discouraging the inflow of jobs and encouraging the outflow of jobs is exactly the opposite of what the state with the highest unemployment rate in the country needs to be doing. But this is exactly what the tax hike will do.

There are many ways to deal with a budget shortfall, raising taxes being the worst choice. There are ways for Salem to provide the same services at a lower cost. Money can also be saved by cutting programs that have no business existing in the first place.

The evidence is in from the last recession and it makes one point loud and clear: States that raised taxes to deal with deficits were met with slower economic growth, and a more difficult recovery. The evidence is also in from the past 40 years of economic performance in states across the country, as shown in the Vedder study: Higher tax states have slower economic growth than lower tax states. Clearly, higher taxes are the government-led hands that choke market economy, the goose who lays the golden egg of economic growth and prosperity.

Few would argue with the legislator who says it is hard to cut spending—especially those families faced with unemployment and a struggling economy, cutting their own spending. But after years of spending faster than any state in the Union, it is time for the state government to cut back—and by doing so, encourage economic growth.