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Summary

The looming campaign to approve or reject two new legislative tax increases will be spirited and probably heated. What voters believe these new taxes will do to jobs very well could be the deciding factor in the January 26, 2010 special election, where both measures will be decided.

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“[T]hese two tax measures will cost over 70,000 Oregonians their jobs. That’s 70,000 people who have jobs today but will lose them if these taxes go into effect, or 70,000 people looking for work who won’t find it.”

Killing Jobs with Tax Increases

By Steve Buckstein

The looming campaign to approve or reject two new legislative tax increases will be spirited and probably heated. Tax proponents will claim that only very high-income individuals (under Measure 66) and corporations (under Measure 67) will bear virtually the entire burden. Opponents will respond that those being taxed are the job creators, and taxing them will cost many ordinary Oregonians their employment.

Most economists understand that it’s actually individuals who pay business taxes. Individual consumers pay business taxes in the form of higher prices. Employees pay business taxes in the form of lower compensation and fewer job opportunities. Owners and shareholders pay business taxes in the form of lower take-home pay, dividends and stock prices. Because the cost of higher business taxes is spread among consumers, employees and investors, it is difficult to quantify how any specific individual would be affected by the higher tax.

Economists are debating whether the U.S. is still in a recession or entering a jobless recovery. Regardless, raising prices to consumers may be virtually impossible. At the same time, layoffs are still looming and businesses are slow to hire additional workers. What voters believe these new taxes will do to jobs very well could be the deciding factor in the January 26, 2010 special election, where both measures will be decided.

Tax proponents have latched onto a recent Legislative Revenue Office (LRO) report which they claim argues that raising personal and business income taxes now will be good for Oregon’s economy.¹ But the report actually says that the tax increases will *reduce* employment and personal income over the next seven years. After seven years, the report assumes that if the new money results in what it calls “productive state spending,” then employment and personal income will grow.

It is almost certain, however, that the additional taxes would not go to productive purposes. Instead, the looming Public Employee Retirement System (PERS) crisis makes it likely that most of the new tax revenue will be eaten up in higher state contributions to PERS, needed to maintain public employee retirement benefits.² You simply can’t increase productivity if you spend the money on benefits for workers who long since left the job.

Irrespective of the PERS funding situation, the LRO report conclusion is refuted by dozens of academic studies which find that increasing personal and business income taxes actually lower employment and economic output.³

Cascade Policy Institute asked two respected Oregon economists to look at the specific tax measures under discussion here and to estimate their impacts on job creation in the state.



William Conerly, Ph.D. looked at Measure 66 (the personal income tax increase) and concluded that it will cost the state over 30,000 jobs.⁴ He based this estimate on a model of state employment growth that incorporates data for all 50 states for 26 years. It exploits tremendous variation in tax practices from one state to another, and within individual states across time.

Randall Pozdena, Ph.D. looked at the business income tax increase portion of Measure 67 and found that it will cost the state over 40,000 jobs.⁵ He derived this estimate from studies based on country comparisons and notes that tax competition among states is likely higher than that among countries, resulting in greater movement of jobs to states which tax corporate incomes at lower rates.

So, combined, these two tax measures will cost over 70,000 Oregonians their jobs. That's 70,000 people who have jobs today but will lose them if these taxes go into effect, or 70,000 people looking for work who won't find it. Either way, that's a far cry from tax proponents' claims that only a small slice of Oregonians will feel the burden of these new taxes.

Dr. Pozdena notes that the projected job losses associated with the net income tax rate increases in Measure 67 do not take into account the other major provision of the bill, namely the increase in the corporate minimum tax from the current \$10 a year to between \$150 and \$100,000, depending on gross Oregon sales. He states: "This provision is clearly damaging to the economy and hard to quantify without detailed tax return data. Ominously, because it taxes gross income rather than net income, the tax easily may exceed a company's net income and can be tantamount to a net income tax of more than 100 percent."

In conclusion, Oregonians need to recognize that capital and people are mobile, especially the corporations and high-income individuals targeted by these two tax measures. If they move, Oregon loses the jobs that their companies, spending and investments create. Even for those that remain, these higher tax rates will reduce the motivation to work harder and create more jobs.

¹ Oregon Legislative Revenue Office, "Referendum 301 & 302 Revenue Measures," September 2009.

²The Oregonian, Ted Sickinger, "Climbing PERS Expenses Face Oregon Pension Board, Agency Budget Writers," October 24, 2009.

³ Wasylenko, Michael, "Taxation and economic development: The state of the economic literature," *New England Economic Review*, pp. 37-52, March/April 1997.

⁴ Conerly, Bill, "Taxing the 'Wealthy' More Will Cost 36,000 Oregon Jobs," Cascade Policy Institute, June 11, 2009.

⁵ Pozdena, Randall J., "Raising Oregon's Corporate Income Tax Rate Will Cost 43,000 Oregon Jobs," Cascade Policy Institute, June 23, 2009.

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