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Time for a tax cut

By William B. Conerly, Ph.D.

Summary

State spending grows even as the economy falters. Tax increases are the wrong response. Rob Kremer, candidate for state superintendent of schools, offers the best budget plan so far, including a temporary hiring freeze and elimination of new programs. Contrary to his plan, however, we should also freeze school spending levels to allow a $250 million tax cut

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Private sector jobs in Oregon: down 42,000 since November 2000. State and local government jobs in Oregon: up 4,100 in the same period.

Even with the recession, state revenue will be higher this biennium than last. The state has been consuming more resources while we Oregonians have fewer resources to offer. What Oregon really needs is a tax cut.

Instead, the governor is trying to pursue tax hikes. He criticizes—and rightfully so—the members of the legislature who want to use what Kitzhaber called "funny financing" to resolve the deficit. That label can be applied to the very unhumorous idea of borrowing from the Common School Fund. State projections of even greater deficits in the future show a need for spending restraint, not borrowing from our children.

The governor's counter-proposal, however, is even less responsible. His tax increases include regressive taxes on cigarettes and wine. The beer tax would apply to the blue-collar worker's sixpack of Bud, but not to the West Hills doctor's microbrew. Worse, the governor's plan continues to low-ball estimates of welfare costs, which are rising rapidly since Kitzhaber eliminated the money-saving JOBS Plus program. In short, even Kitzhaber's tax increases won't solve the budget problem as we progress through the biennium.

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The most responsible plan to date comes from Rob Kremer, candidate for state superintendent of schools, and the only candidate for statewide office yet to offer a budget rebalance plan.

Kremer's plan starts off well, without tax increases or "funny financing." It eliminates a number of new programs the legislature wanted to start. (Oregon Tax Research has calculated that new programs and expanded missions for old programs account for 70 percent of the budget shortfall.) Kremer's plan also cuts back on budgeted staffing levels. A temporary hiring freeze along with normal employee turnover should allow the state to hit Kremer's targets without layoffs.

Unfortunately there's no room for tax cuts with Kremer's pledge to maintain budgeted funds for schools. Let's fix that.

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This year's school employment gains will cover almost all of this and next year's enrollment increase. In short, we can freeze staffing levels today and not raise average class sizes significantly above last year's level. On top of the staffing freeze, a pay freeze for 18 months still protects teachers from the layoffs and pay cuts that private sector workers have faced.

How would educational achievement be impacted by a budget freeze? Extensive research demonstrates that money alone has a minimal effect on student performance. Kremer's other proposals—such as shifting educational decisions from Salem to the local school districts—will improve student performance and give school administrators greater flexibility to work within tight budgets.

An immediate freeze in school funding levels plus the non-school portion of Kremer's plan would allow the state to cut $250 million in taxes. What would that do for taxpayers? Pick any one of the following:

- Cut the personal income tax rate by 0.3 percentage points, bringing the top rate down to 8.7 percent—still one of the highest in the country; or
- Reduce the capital gains tax rate from nine to four percent; or
- Cut the corporate income tax in half.

The state's new computer model of the economic effects of tax policies finds that taxation of capital has the biggest effect on economic growth. That argues for the capital gains cut or the corporate income tax cut. But it's probably not so important how we cut taxes, so long as we get going now.

A tax cut will help to restore the balance between private sector wealth creation and public sector spending in Oregon.

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