

Oregon Economists Oppose 2009 Legislature's Permanent Tax Increases

In January 2010, Oregonians will vote on two ballot measures. Measure 66 permanently increases personal income taxes. Measure 67 permanently increases corporate income taxes. Both tax increases will slow Oregon's recovery from the current recession and permanently damage employment growth in the state.

Oregon is in one of the deepest recessions since the Great Depression. Since employment peaked in November 2007, Oregon has lost more than 130,000 private-sector jobs. More than one in ten Oregonians are unemployed today, and many more are working fewer hours than they would like.

"The last thing you want to do is raise taxes in the middle of a recession," President Obama said this past summer, "because that would just take more demand out of the economy and put businesses in a further hole." The president's view is supported by dozens of academic studies that tied increased personal and business income taxes to lower employment and economic output.

Edmund Phelps, who was awarded a Nobel Prize for his study of the macroeconomic impacts of government policies, has concluded, "Big increases in payroll and personal-income taxes in most countries have been mass job-killers."

Corporate income taxes are passed to employees in the form of lower salary and benefits, and reduced employment. The taxes are passed to consumers in the form of higher prices, and they are passed to investors—such as retirement and college savings accounts—in the form of lower dividends and stock prices. As Nobel Prize winner Joseph Stiglitz has pointed out: "Of course, individuals pay the corporate income tax."

Higher income taxes reduce incentives for employees to work and entrepreneurs to take the risks that lead to job creation. Higher corporate income taxes also stifle economic growth. Nobel Prize-winning economist Edward Prescott has stated, "If we establish rules that punish the winners, entrepreneurs will take fewer risks and we will have less innovation, less output, less job growth. The whole economy suffers under such a scenario—not just those few individuals who are taxed at a higher rate."

Some economists who favor these permanent tax increases cite a memo by Peter Orszag and Joseph Stiglitz to argue that these tax increases are preferable to spending cuts that might result if voters reject these tax increases. Oregon's Legislative Revenue Office has taken a similar approach in examining these tax increases. Their conclusions are off the mark in several ways.

First, the legislature has other options at its disposal if voters reject these tax increases. It can, for example, access existing cash reserves or cut non-essential spending.

Second, Measure 66 and 67 proponents misrepresent Orszag and Stiglitz's short memo. In fact, Orszag and Stiglitz acknowledge that tax increases are counterproductive in that they restrain the economy at a time when it is already slowing. Moreover, Orszag and Stiglitz focused on short term tax increases for the duration of an economic downturn. In contrast, although Oregon tax increases would be highest during the recession, the increases are largely permanent.

Third, the economists supporting these permanent tax increases assume that a significant portion of the revenue generated will boost state productivity. That's a questionable assumption.

Despite its best efforts to present these tax increases in the most favorable light possible, Oregon's Legislative Revenue Office found that the tax increases would reduce employment and personal income over the next seven years.

The permanent tax increases in Measures 66 and 67 will prolong Oregon's recession. All Oregonians will feel their negative impacts — employees, consumers and business owners. With Oregon's unemployment near record levels, the state cannot afford the short- and long-term harm these permanent tax increases will do to Oregon's economy.

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