

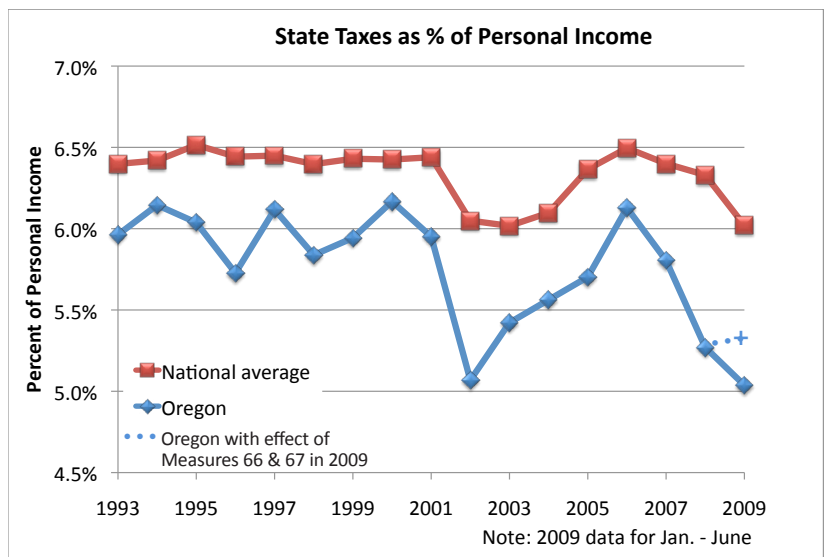
# Perspectives on Oregon's Taxes —

## An economic look at Measures 66 & 67

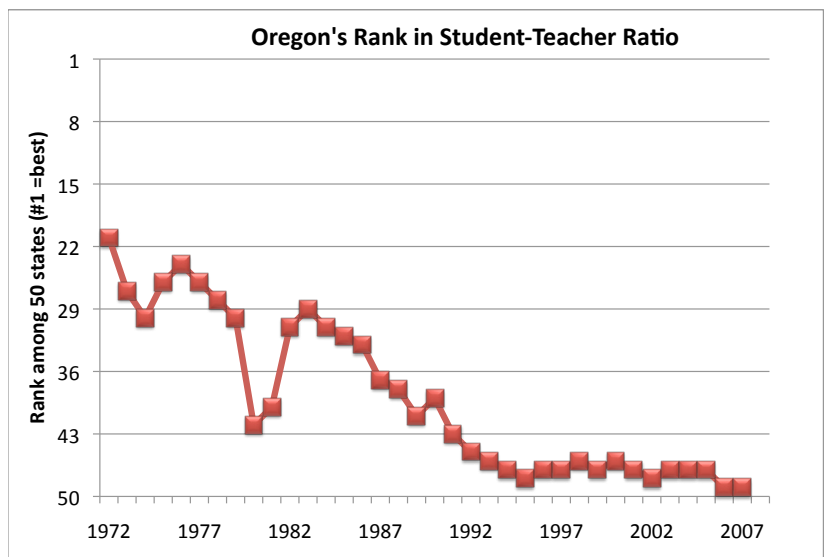
### Summary

Oregonians will vote in January 2010 on two ballot measures that would raise taxes on high-income individuals and on corporate incomes, in order to pay for public services. This report presents information intended to be helpful to Oregon's voters.

**Taxes:** Oregonians often want to understand how their state tax levels compare to other states, and how they have trended over time. A straightforward way to look at and compare state taxes is as a share of total personal income. The graph at right shows that Oregon's state taxes are lower than the national average (Oregon ranks 44th among the 50 states). And, it shows that Oregon's taxes decline more than the national average during times of recession and recovery, and that the gap between Oregon's taxes and the national average has widened over the last 17 years. We can also see that revenues from Measures 66 & 67 would only partly narrow, not eliminate, the gap between Oregon's taxes and the national average. See pages 3–5 and 7–8 to learn more.

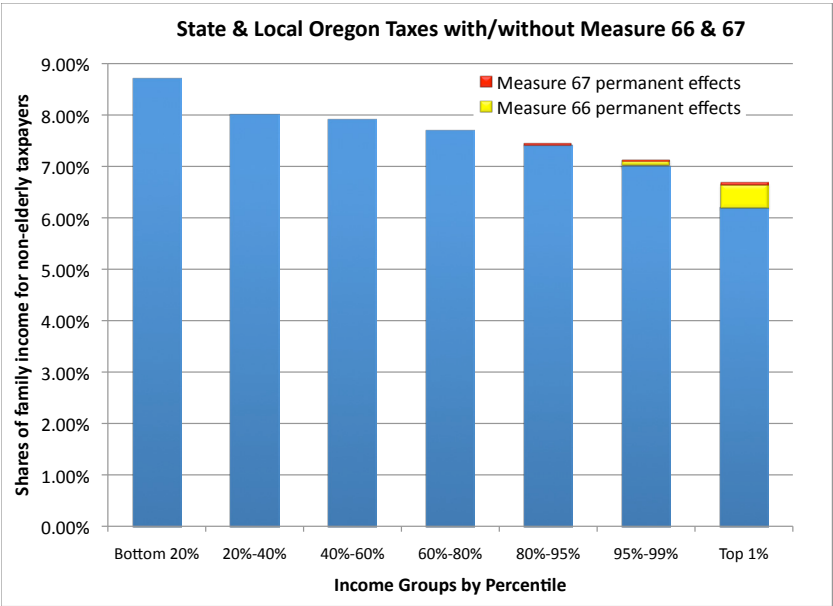


**Public services:** The graph at right shows that Oregon's rank in public school student-teacher ratio has fallen to 49th among 50 states. At Oregon's public universities, funding in real dollars per student has gone down by more than half in 20 years, and faculty salaries are 10–17 percent below national averages— meaning that it's harder to attract good teachers and researchers. At the same time, average education levels in our state have gone down too: only 28.8% of younger Oregonians have college degrees compared to 33.4% of older Oregonians. These trends in Oregon's public services and average education levels raise concern about how Oregon will be able to compete nationally and internationally. See pages 6–7 to learn more.



(Summary continued on page 2.)

**Measures 66 & 67:** These measures would raise taxes on Oregon’s highest-income earners as shown in the graph at right. Measure 66 affects the top 3% of households (e.g., couples earning more than \$250,000 a year). Measure 67 raises corporate income taxes, resulting in small increases in the average taxes paid by the top 20% of income earners. Even with these changes, high-income earners would still pay lower average tax rates than lower income earners. The effect of these changes on Oregon’s business taxes overall would still leave Oregon ranked 46th out of 50 states in business taxes as a share of gross state product. See pages 7–10 to learn more.



A recent survey of scholarly economics research on the topic concludes that “there is little evidence that state and local tax cuts — when paid for by reducing public services — stimulate economic activity and create jobs,” and that “increases in taxes, when used to expand the quantity and quality of public services, can promote economic development and employment growth.” See pages 10–12 to learn more.

Overall, these data and related scholarly economic research make it difficult to argue that raising Oregon’s taxes in this way will be harmful to job growth. On the other hand, further decline in Oregon’s public services could adversely affect Oregon’s future competitiveness both nationally and internationally.

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## Tax Levels

Some observers look only at dollar amounts (**nominal dollars**) and see a rising trend. But, simple trends like this can be misleading, depending on what they are being used for and how they are interpreted. For example, if we want to say something about changes in the adequacy of Oregon's tax revenues over time, then we probably want to make some adjustments to the numbers representing nominal dollars before trying to interpret their levels or trends.

### Adjust for inflation

One reason to adjust these figures is inflation. The "purchasing power" of tax revenues in different years is not comparable because of the effect of inflation on the cost of providing a given level of public services. To adjust for this, we can use the Consumer Price Index and convert the "nominal dollars" in each year to "real" or "inflation-adjusted" dollars. Doing this makes the trend less steep, as indicated in Figure 1.

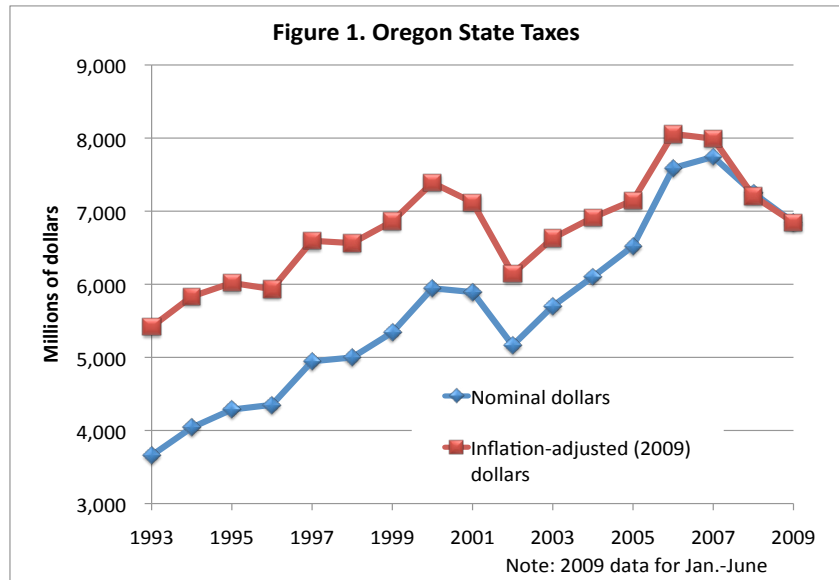
### Adjust for rising population

We should also account for the rising population in Oregon. Providing the same level of government services (such as education) to a growing population requires more funding compared to the needs of a fixed population. Oregon's population has grown by about 60% since the mid-1970s. So, it makes sense to measure the level of (inflation-adjusted) taxes "per million people." This gives an indication of the level of taxes, in real dollars, relative to the population. This measure of taxes in Oregon is shown in Figure 2.

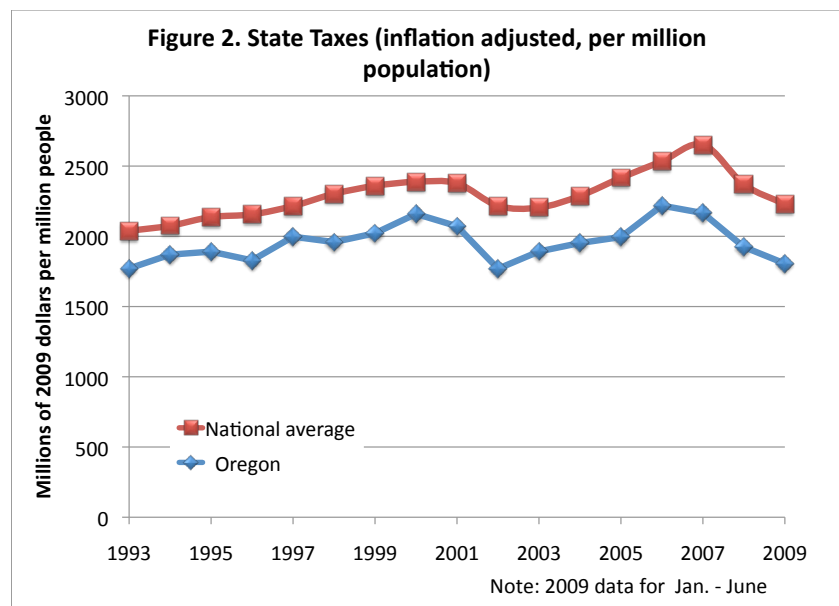
### Adjust for changes in income

Finally, we may want to adjust for changes in per capita income that have occurred over this period. There are two reasons for this.

First, as income per capita rises in the population, the cost of hiring a schoolteacher or a police officer rises as well. To attract high quality teachers and other public servants, schools and government agencies



**Figure 1.** To adjust for effects of inflation, we can use the Consumer Price Index and convert the "nominal dollars" in each year to "real" or "inflation-adjusted" dollars. Doing this makes the trend less steep.



**Figure 2.** Oregon's population has grown by about 60% since the mid-1990s. So, it makes sense to measure the level of (inflation-adjusted) taxes "per million people." This gives an indication of the level of taxes, in real dollars, relative to the population.

must compete for them in the labor market. If incomes are higher in private sector jobs, then schools and government agencies have to offer higher wages in order to attract teachers, state troopers, and other staff to take jobs in state government. So, the costs per worker go up as per capita incomes rise in the economy.

A second reason we may want to adjust for changes in per capita income is that as people's incomes rise, they tend to spend their money on more goods and services and/or higher quality goods and services. This pattern (a very basic observable pattern in economics) is also likely to apply to public goods and services: people are likely to want more, or better, public schools, roads, and police protection as their incomes rise. For example, we observe more and better public services in high-income countries than in low-income countries. So, rising tax revenues may reflect a government response to the demand for more, or better, public services.

To take account of these phenomena, we can look at tax revenues as a percent of personal income. This particular ratio is very useful because it adjusts for all three of the factors mentioned here: it takes account automatically for inflation, and it measures taxes relative to the size of the population and per capita income. It answers the basic question: what fraction of personal income is paid in state taxes? This measure of tax revenue in Oregon is shown in Figure 3.

## Compare to other states

Finally, one important way to evaluate whether Oregon's taxes are adequate, whether they are too high or too low, is to compare them to taxes in other states. Of course, U.S. states differ in population and income, so we will want to use a measure for this comparison that is easy to interpret given those differences.

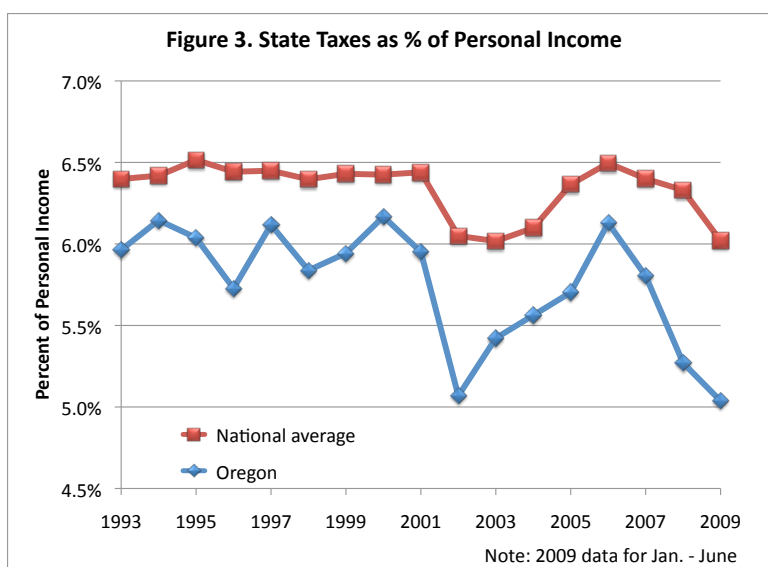
Figure 2 (page 3) shows taxes per capita both for Oregon and for all 50 states (**national average**). But, here again, we can use the level of state taxes as a percent of personal income to provide a simple and easily interpreted measure that can be compared across big and small states, poor and rich states. In Figure 3, this comparison can be made for the share of personal income paid in taxes.

## A few caveats

Before discussing what these data appear to suggest, a few caveats are in order. Some people wanting to evaluate state government have looked at state expenditures rather than state taxes. This is a useful measure as well, but looking at the level of expenditures can be misleading, especially for comparisons with other states.

For example:

- Some states channel more federal dollars through their budgets due to the presence of military bases or federal forestlands.
- Some states have seaports whose operations are included as part of state expenditures.



**Figure 3.** Measuring tax revenues as a percent of personal income is very useful because it adjusts for all three of the factors mentioned here: inflation, size of the population, and per capita income. It answers the basic question: what fraction of personal income is paid in state taxes?

- In Oregon and a few other states, operations of state-run liquor stores are included as part of expenditures. But, in many other states, though privately-run liquor stores are regulated by state government, this spending does not appear on state accounts.

For these reasons, state tax revenues are probably a better indicator of the “tax burden,” because they directly answer the question: **How much of people’s income is paid in state taxes?**

## ***Interpreting the Data***

### **Tax levels and trends in Oregon**

Although the trend in nominal dollars in Figure 1 (page 3) shows a steep rise in Oregon’s taxes, when we look at these taxes after adjusting for inflation and growth in the economy, a very different pattern emerges both in Oregon and nationwide.

#### ***National levels***

In Figure 3 (page 4), we see that as a percent of personal income nationally, state taxes appear to maintain a fairly steady level of about 6.4% of personal income on average, except during periods of recession and recovery. We see that nationally this was true from 1993–2001 and again from 2005–07. The recession in 2001–02 and its prolonged recovery period appear to be responsible for the decline in tax revenues nationally from 2002–2004, and again beginning with the current recession in 2008. The fact that, aside from periods of recession, the percent of personal income spent on state taxes has held steady when averaged across all 50 states lends support to the justification given for using this ratio.

#### ***Oregon levels***

Turning now to Oregon, we see that Oregon’s taxes were also at a fairly steady level from 1993–2001, but averaging 6.0% of personal income — below the national average of 6.4%. This lower level of taxes as a fraction of personal income has persisted throughout the period examined. Oregon is currently (2008) ranked 44th in the country in terms of taxes as a share of personal income. Neighboring west coast states Washington and California are ranked 30th and 15th respectively.

If state and local taxes are combined, the pattern is similar. The most recent data available (2007) show that Oregon’s state and local taxes are 9.6% of personal income compared to a national average of 10.7%. Oregon’s rank when state and local taxes are combined is essentially the same (43rd). Oregon’s local taxes are 3.75% of personal income compared to the national average of 4.34%.

#### ***Trends***

One other pattern we can see in Figure 3 is that Oregon’s decline in taxes during recession and recovery drops lower than in other states. For all 50 states, the average decline in taxes in 2002 and again in 2009 (January–June) is a drop of about 0.4% of personal income. In the case of Oregon, the decline is nearly 1.0% of personal income, or more than twice the decline of the national average. Indeed, the current gap (2008 and 2009) between Oregon’s taxes and the national average as a share of personal income drops Oregon lower than it has been since 1988.

During the period reflected in Figure 3, the average level of state taxes has declined between the first half of the period examined (1993–2000) and the last half (2001–2009) from 6.0% of personal income to 5.5%. At current levels of personal income, this represents a decline of \$600 million in revenue (although some of this has been recession-related).

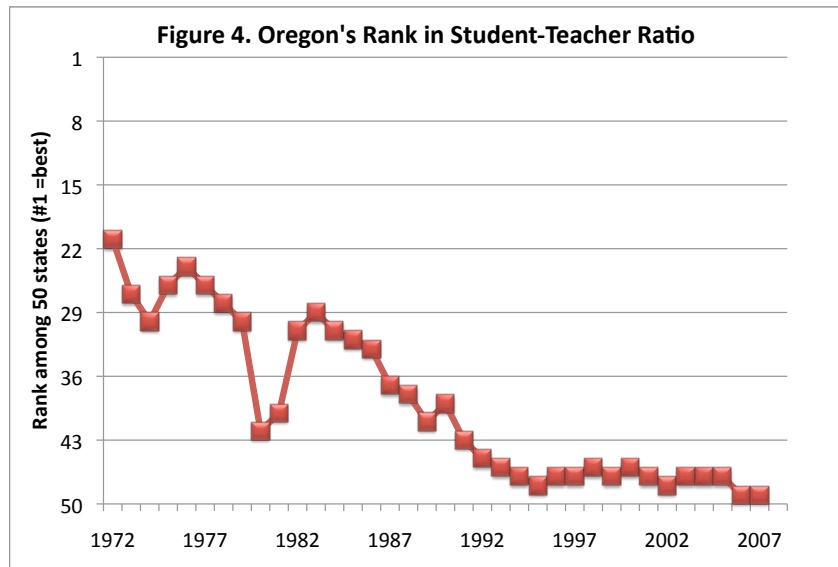


## Effects of Oregon's tax levels on public services

A level of state taxes that is lower than other states, and also below historical levels, is likely to be reflected in the government services provided throughout the state. Compiling easily interpretable data on the quantity or quality of state services for comparison purposes is more difficult and less transparent than simply reporting on taxes as a share of personal income. However, there are some indicators that can be examined.

### Schools

Let's begin with education, since Oregon's schools receive the largest portion of state funds. There are some indicators of public education across states that are compiled by the U.S. Department of Education and the National Center for Education Statistics. One commonly-used indicator for public schools is the student-teacher ratio, which provides some evidence of differences in educational services across states and over time. Given the relatively low level of state taxes collected in Oregon, we might expect to see more students per teacher than in other states. Indeed, in Figure 4 we see that Oregon's ranking among states has fallen from mid-range in the early 1970s to 49th out of 50 in each of the last two years.



**Figure 4.** Here we see that Oregon's ranking among states in student-teacher ratio has fallen from mid-range in the early 1970s to 49th out of 50 in each of the last two years.

Teacher pay and total compensation provide an additional indicator of how Oregon's public schools compete for good teachers. In terms of wages and benefits, public school teachers in K-12 in Oregon are paid at about the national average. For faculty in Oregon's public higher education system, however, this comparison is less favorable. For example, faculty at the University of Oregon, Oregon State University, and Portland State University receive average total compensation levels that are between 10 and 17 percent below the national average for doctoral degree granting institutions.

Lower salaries at public universities means Oregon schools are less able to attract high-quality, experienced faculty and less able to provide students what they need to be able to do well in a competitive job market. In fact, inflation-adjusted state dollars per student for the Oregon University System have declined by more than half in the past 20 years. This trend has coincided with a decline in average education level among younger Oregonians: 28.8% of Oregonians (ages 25–34) have bachelor's degrees as compared to 33.4% for older Oregonians (ages 55–64). At a time when it is increasingly clear that education is the key to competitiveness nationally and globally, this downward trend in Oregon is opposite to the rising levels of educational attainment in most other states and in other countries (Frohnmayr 2009).

### Human services, public safety, and the judiciary

After education, human services, public safety, and the judiciary take the majority of remaining general funds and lottery dollars. One indicator of how the level of these

public services has changed over time is the number of full-time state agency positions relative to the size of the economy.

The number of state agency full-time equivalent (FTE) positions in Oregon has grown from about 42,000 for the 1995–97 biennium to nearly 50,000 for the 2007–09 biennium. But, relative to the size of the economy, this trend represents a 24% decline: from 0.43 FTE per million dollars of real (inflation-adjusted) personal income to 0.33 FTE per million dollars of real personal income. This trend is illustrated in Figure 5.

In the areas of public safety and the judiciary, there are few easily interpretable indicators. Noteworthy developments in Oregon, and in a few other states, include changes in prisoners' early release due to prison overcrowding and a lack of additional beds. Oregon's lawmakers approved a law July 1, 2009 that allows inmates to increase their "earned time" toward early release by 30 percent compared to the previous 20 percent. As of October 23rd, 1,346 inmates had been granted enhanced sentence reductions.

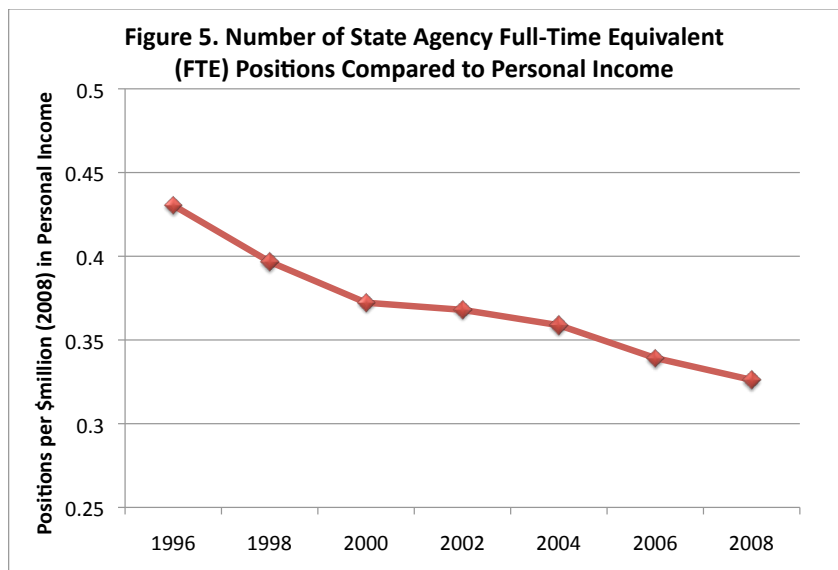
These developments have been criticized by prosecutors and crime-victim advocates who object to weakened punishments for offenders, especially those with histories of violent crimes or extensive rap sheets (*Salem Statesman Journal*, October 30, 2009). Budget cuts in Lane County have resulted in a prison bed shortage leading to early release of violent offenders that, in one case, led to a state Supreme Court ruling against the county commissioners disallowing a planned early release of a violent crime inmate (*Eugene Register-Guard*, October 15, 2009).

## How would the passage of Measures 66 and 67 affect the tax situation in Oregon?

Measures 66 and 67 would raise the taxes paid by high-income individuals. Measure 66 raises state income taxes for couples earning \$250,000 or more in taxable income, and on individual tax returns earning \$125,000 or more. These effects would be concentrated in the top 3 percent of income earners. Measure 67 raises the state corporate income tax, resulting in small increases in average taxes paid by the top 20% of income earners. Measures 66 and 67 would narrow the tax shortfall between Oregon and the national average — but only partially.

The measures, if passed, take effect in 2010. But to show their effect on tax levels, we can ask how the estimated revenues from the two measures would affect the pattern in Figure 3 (page 4) if they were implemented in 2009 (one year earlier than they would actually take effect).

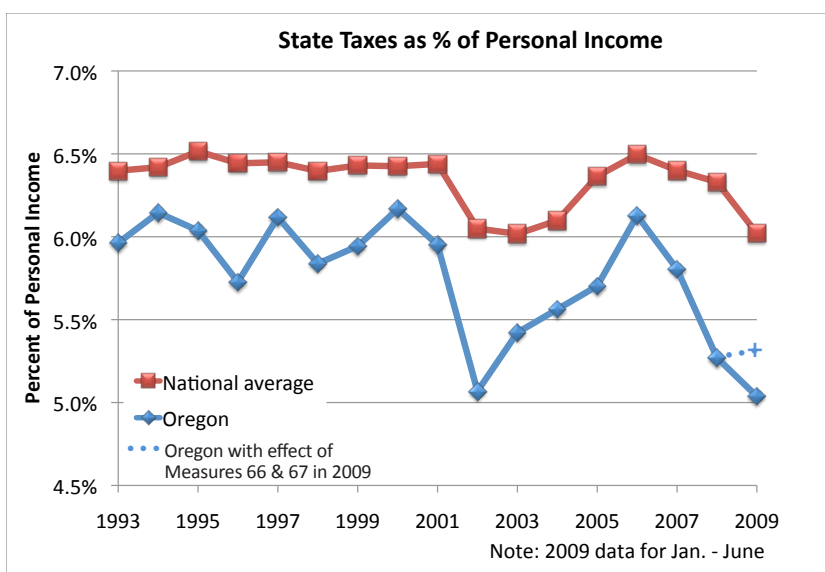
Measures 66 and 67 are expected to generate \$366.5 million per year. If we add this amount to Oregon's tax revenues in 2009, we see that it would partially narrow the gap



**Figure 5.** The number of state agency full-time equivalent (FTE) positions in Oregon has grown from the 1995–97 biennium to the 2007–09 biennium. But, relative to the size of the economy, this trend represents a 24% decline.

between Oregon's state taxes and the average for all 50 states. The dotted line in Figure 6 shows the trajectory that Oregon's taxes would take in 2009 if Measures 66 and 67 had been implemented in the current year.

The gap between Oregon's state taxes and those for all 50 states has averaged about \$1 billion over the past four years. Measures 66 and 67 would reduce that difference by only about one-third.<sup>1</sup>



**Figure 6.** Dollars that Measures 66 and 67 are expected to generate would partially narrow the gap between Oregon's state taxes and the average for all 50 states. The dotted line in Figure 6 shows the trajectory that Oregon's taxes would take in 2009 if Measures 66 and 67 had been implemented in the current year.

## Jobs, Taxes, and Public Services

In principle, if taxes in a particular state are very high relative to the value of the public services being provided, then these taxes could represent a disincentive for individuals and businesses: they could encourage some individuals and firms to leave the state, or could discourage other individuals or firms from coming to a state.

On the other hand, if taxes in a given state are very low, and as a result the level of public services does not provide the kinds of infrastructure, education, human services, and public safety individuals and businesses desire, then this too could encourage some individuals and firms to leave the state, or it could discourage other individuals or firms from coming to a state. In this context, what can we say about Oregon?

Oregon's taxes are lower than in most other states.

- The share of income paid in state taxes in Oregon is significantly below the average paid in other states. If Measures 66 and 67 pass in January, Oregon's state taxes will **still be significantly below the average** paid in other states, based on the analysis described here.
- In general, Oregon's taxes on businesses are very low compared to other states. According to the annual Council on State Taxation Study conducted by Ernst & Young, Oregon ranks third-lowest among states in terms of business taxes. Passage of Measure 67 would **move Oregon only up to fifth-lowest** (according to Oregon's Legislative Revenue Office).

The Ernst & Young study also looked at expenditures that benefit businesses in all 50 states. Oregon ranks second for share of business taxes that are returned in the form of expenditures benefiting businesses. In fact, when these expenditures benefiting businesses are netted out for each state, the "net" business tax as a percent of GSP (gross

<sup>1</sup> Measure 66 includes higher tax increases during the first two years; Measure 67 is phased in by 2013.



state product) **is lower in Oregon than in any other state**, and half the national average: 1.1% of GSP compared to the national average of 2.2%.

It is therefore difficult to conclude that Oregon's taxes, even with the passage of Measures 66 and 67, will represent a significant disincentive for individuals and businesses.

## Increase in corporate income tax

A particular issue of concern is the effect of an increase in the corporate income tax (under Measure 67) on incentives, jobs, and growth.

An important insight from economics in this regard is that the "burden" of a tax is often passed on to other segments in an economy. The tax may be applied to one group, but the effects may be spread more widely. A wage tax paid by workers, for example, may lead employers to offer higher pay rates to attract workers. In that case, as in most cases, the "tax burden" is shared.

Similarly, the net effect of state and local taxes on businesses can be **direct** due to the taxes on businesses themselves, or **indirect** when income or sales taxes raise the cost of living for a business's employees. The wages and salaries that must be paid to attract good employees are affected by the taxes those employees will have to pay out of their incomes.

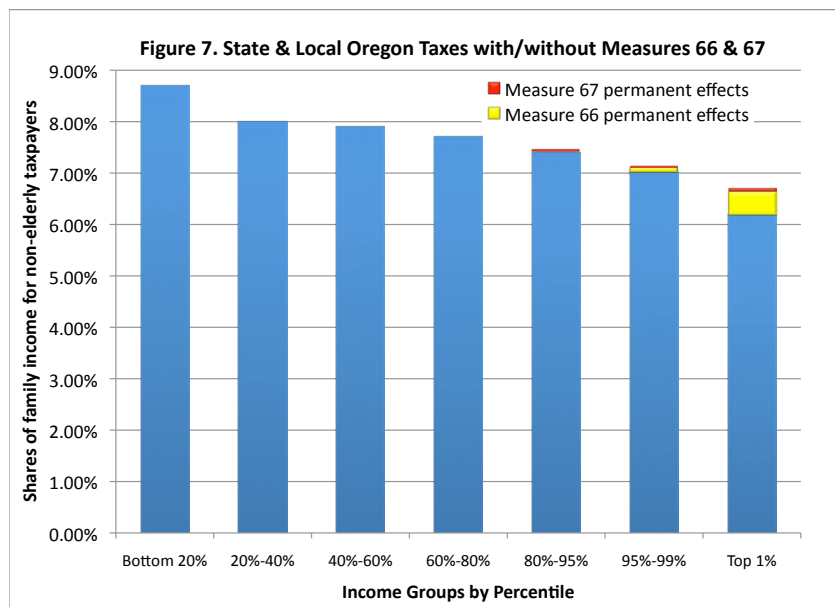
As a result, the combined effect of all such taxes may be the best indicator, and therefore looking at state taxes as a share of personal income seems to be the best simple, transparent, and intuitive indicator.

The general insight stated above, that the burden of a tax is generally spread throughout an economy, is also true for corporate income taxes. A recent study from the Federal Reserve Bank of Kansas City found that in the case of state corporate income taxes, a one-percentage-point increase in the marginal state corporate income tax rate reduces wages 0.14% to 0.36% (Felix 2009). This implies that a significant portion of these corporate income taxes are being passed on to other segments of the economy, lowering the burden on corporate income earners and shifting the burden elsewhere.

However, the analysis also found that the shift from corporate income to wages was **progressive** (meaning that tax "incidence" is shifted to those with higher ability to pay). In this case, the effects were nearly twice as large on wages of individuals with college degrees as compared to those with less than a high school diploma.

## Effects on income groups

The distribution of Oregon state and local taxes across income groups is illustrated in Figure 7 based on data and analysis from 2007 (more on this distribution below). Across income percentiles (e.g., the lowest 10 percent of the population by income, the top 1 percent, etc.), we see that lower-income Oregonians pay a higher fraction of their income in taxes. The effects of Oregon's corporate income tax on



**Figure 7.** Measure 66 would have direct effects on the top 3 percent of income earners; Measure 67 raises corporate income taxes, affecting the average taxes paid by the top 20 percent of income earners. The other 80 percent of income earners in Oregon would not see their taxes increased.

this distribution is concentrated in the top percentiles of income earners, and it is small relative to overall taxes paid by all groups.<sup>2</sup> This analysis, however, does not take account of indirect effects such as how corporate income taxes are shifted to others via lower wages.

The incentive effects of corporate income taxes are difficult to fully evaluate. But it is relevant to note that in the national 2009 study, Oregon's corporate income taxes (shown in Figure 7, page 9) were lower than the average for all 50 states.<sup>3</sup>

Measures 66 and 67 include temporary tax increases that take effect for 2009. Their permanent provisions are phased in by 2013. The discussions here focus on the permanent tax increases that are somewhat more modest than the temporary increases.

Measure 66 would have direct effects on the top 3 percent of income earners; Measure 67 raises corporate income taxes, resulting in small increases in the average taxes paid by the top 20 percent of income earners. The other 80 percent of income earners in Oregon would not see their taxes increased. The effects of the Measures on taxpayers in these high-income groups are small, as illustrated in Figure 7. Figure 7 shows that most of the effects are on the top 5 percent of income earners, and these are due to Measure 66.

We can also see from Figure 7 that even with these tax increases, Oregon's taxes are still regressive (meaning that lower income groups pay a higher share of their income than higher income groups). These estimates are based on analysis from Oregon's Legislative Revenue Office and the Institute on Taxation and Economic Policy (Davis et al., 2009).

### **Effects compared to other states**

We also would like to know how the tax burden is distributed across income groups (e.g., low, middle, high) in Oregon compared to the distribution in other states. Estimating the distribution of state and local taxes for all 50 states is a large undertaking, and the most recent national study of this kind is from 2009. Those estimates indicate that for 95% of Oregonians, state and local taxes are lower than the average for similar income groups across all states.

Oregon's taxes are below the national average by the greatest amount for low-income households. For example, for the lowest 20 percent of residents by income level, Oregon's taxes average 8.7% compared to 10.9% nationally. At the median income level, Oregon's taxes are 7.9% compared to 9.4% for the national average. Only for Oregonians with incomes in the range of \$250,000 and above is the average level of state and local taxes higher than the national average.

Although Oregon's tax structure is regressive, it is somewhat less regressive than the national average. Also, these comparisons do not take account of how tax burdens may shift within the economy as a result of their effects on wages and prices.

### **Budget cuts or tax increases?**

In a recession, the question often arises: Is it better for state governments to cut spending or raise taxes?<sup>4</sup> Some state-level policymakers and other observers believe that with a weak economy, a state should rely solely on cutting spending rather than raising taxes.

This view is not based on sound economics. For example, two highly regarded economists — Nobel Prize winner Joseph Stiglitz of Columbia University and Peter Orszag, then-director of the Congressional Budget Office — wrote a paper in 2001

<sup>2</sup> 0.1% above the 95th percentile, and 0.2% for the top 1 percent of income earners

<sup>3</sup> 0.2% at the top income percentile as compared to 0.3% nationally

<sup>4</sup> This question would arise less frequently if a state had an adequate rainy day fund.

explaining why spending reductions are more likely to harm the economy than tax increases. Below are a few excerpts from that paper:

“[E]conomic analysis suggests that tax increases would **not** in general be more harmful to the economy than spending reductions. Indeed, in the short run (which is the period of concern during a downturn), the adverse impact of a tax increase on the economy may, if anything, be smaller than the adverse impact of a spending reduction, because some of the tax increase would result in reduced saving rather than reduced consumption. For example, if taxes increase by \$1, consumption may fall by 90 cents and saving may fall by 10 cents. Since a tax increase does not reduce consumption on a dollar-for-dollar basis, its negative impact on the economy is attenuated in the short run. Some types of spending reductions, however, would reduce demand in the economy on a dollar-for-dollar basis and therefore would be more harmful to the economy than a tax increase....”

Stiglitz and Orszag add,

“The more that the tax increases or transfer reductions are focused on those with lower propensities to consume (that is, on those who spend less and save more of each additional dollar of income), the less damage is done to the weakened economy. Since higher-income families tend to have lower propensities to consume than lower-income families, **the least damaging approach in the short run involves tax increases concentrated on higher-income families.** Reductions in transfer payments to lower-income families would generally be more harmful to the economy than increases in taxes on higher-income families, since lower-income families are more likely to spend any additional income than higher-income families. Indeed, since the recipients of transfer payments typically spend virtually their entire income, the negative impact of reductions in transfer payments is likely to be nearly as great as a reduction in direct government spending on goods and services.

**“For states interested in the impact only on their own economy rather than the national economy, the arguments made above are even stronger.** In particular, the government spending that would be reduced if direct spending programs are cut is often concentrated among local businesses.... By contrast, the spending by individuals and businesses that would be affected by tax increases often is less concentrated among local producers — since part of the decline in purchases that would occur if taxes were raised would be a decline in the purchase of goods produced out of state. Thus, more of the reduction in purchases that results from tax increases than from government budget cuts falls on out-of-state goods (relative to in-state goods), lessening the adverse impact of a tax increase on the state economy. Reductions in direct government spending consequently could have a larger adverse impact on a state’s economy than tax increases, which have a stronger adverse impact on out-of-state goods and services.

“The conclusion is that, **if anything, tax increases on higher-income families are the least damaging mechanism for closing state fiscal deficits in the short run.** Reductions in government spending on goods and services, or reductions in transfer payments to lower-income families, are likely to be more damaging to the economy in the short run than tax increases focused on higher-income families. In any case, in terms of how counter-productive they are, there is no automatic preference for spending reductions rather than tax increases.” [emphases added]

Recently, Stiglitz wrote a letter to the Governor of New York reiterating this position. It was titled “Economists to Governor: Raise High-End Income Taxes to Help Close Budget Gaps.” The letter was co-signed by 120 other economists.

There is also a distributional or equity aspect to these short-term choices that reinforces the conclusions by Stiglitz and others: cutting social services further harms those already hurt by the recession, while a tax increase on high-income groups affects only those who are doing well during a recession.

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## Conclusions

### Tax levels

The evidence summarized here does not support the view that Oregon’s taxes are high relative to those in other states or relative to Oregon’s own tax levels in recent years. In fact, Oregon’s taxes are significantly lower than the national average, and they have declined over the past 17 years.

Passage of Measures 66 and 67 would reduce the discrepancy between Oregon’s taxes as a share of personal income and the national average for that same indicator, but it would not eliminate that difference: Oregon’s state taxes as a percent of personal income would remain significantly lower than the national average.

### Jobs, taxes, and public services

How would the passage of Measures 66 and 67 affect jobs and growth in Oregon? Leading economists including Nobel Prize winner Joseph Stiglitz have concluded that, in the short run, raising state taxes is better for the economy than cutting state spending.

In the long run, since Oregon’s taxes are significantly below the national average and would remain so with the passage of Measures 66 and 67, there is no reason to believe that passage of these two measures would make Oregon less competitive than other states with higher taxes. Businesses located in Oregon will pay lower taxes than they would in most other states.

There are dozens of scholarly, peer-reviewed economic studies addressing these questions. A survey of these studies (Lynch 2004) concludes that “there is little evidence that state and local tax cuts — when paid for by reducing public services — stimulate economic activity and create jobs.” The study goes on to explain that “by forcing reductions in public services, tax cuts and incentives may retard economic and employment growth.” And finally, Lynch summarizes the evidence as showing that “increases in taxes, when used to expand the quantity and quality of public services, can promote economic development and employment growth.”

There is also evidence that Oregon’s public services related to education and public safety are low relative to other states, and declining compared to past years. To the extent that this evidence makes Oregon less attractive to current or future residents, it could adversely affect growth in Oregon’s economy. To the extent that these indicators related to education adversely affect the competitiveness of Oregon’s labor force nationally and internationally, Oregon’s economic competitiveness could be at a disadvantage in the future.

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## Data Sources

For data on population: state and local public finance and taxation, U.S. Census Bureau

For data on personal income: U.S. Bureau of Economic Analysis

For data on student/teacher ratios and teacher salaries: U.S. Department of Education and the National Center for Education Statistics <http://nces.ed.gov/programs/digest/d01/dt067.asp>

For university salaries in Oregon and nationally: National Education Association and the Digest of Education Statistics (NCES) <http://nces.ed.gov/programs/digest/>

Information on Oregon's prison early release is available from a number of sources, including reporting in the *Salem Statesman-Journal* and *Eugene Register-Guard* (online sources).

Data on Oregon's state agency employee FTE levels comes from "Budget Highlights," prepared by the Legislative Fiscal Office, State of Oregon, March 2008.

The paper by Peter Orszag and Joseph Stiglitz, "Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-productive than the Other During a Recession?" can be found at <http://www.cbpp.org/cms/index.cfm?fa=view&id=1346>

Data on the distribution of state and local taxes among income groups is based on Davis, C., K. Davis, M. Gardner, R.S. McIntyre and A. Sapazhnikova, 2009. *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, 3rd edition. Institute on Taxation and Economic Policy. Washington, D.C. [www.itepnet.org](http://www.itepnet.org)

The study of the effect of state corporate income taxes on wages is: Alison Felix, 2009. "Do State Corporate Income Taxes Reduce Wages?" *Economic Review*, Second Quarter 2009. Federal Reserve Bank of Kansas City.

The review of literature on the effects of state and local taxes on growth is: Robert G. Lynch, 2004. *Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development*. Washington, D.C. Economic Policy Institute [http://www.epi.org/publications/entry/books\\_rethinking\\_growth/](http://www.epi.org/publications/entry/books_rethinking_growth/)

Information on higher education spending and educational attainment in Oregon is from David Frohnmayr, *The Coming Crisis in College Completion: Oregon's Challenge and Proposals for First Steps*, November 2009.

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Acknowledgments: Tim Duy, Mark Toma, and Bruce Weber for their comments; and Ariel Ginsburg for editorial assistance.

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Published December 2009.