



EXECUTIVE SUMMARY

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Revised December 23, 2002

A Step in the Right Direction: Measure 28 and Oregon's Economy

By Jeff Thompson and Charles Sheketoff

Measure 28 is a temporary income tax increase that the Legislature referred to the voters as a way to avoid additional cuts to the state budget. Weighing further budget cuts to education, public safety, and programs for the poor and elderly against tax increases is a difficult proposition for many voters. Opponents argue that Measure 28 will interfere with Oregon's economic recovery.

Analysis of Measure 28, however, shows that its failure would be worse for the economy:

- Failure of Measure 28 will drain over \$1.5 billion from Oregon's economy, compared to only \$208 million if it succeeds.
- Budget cuts that will be implemented if Measure 28 fails will drain \$419 million in federal matching funds from Oregon's economy over the next two and one-half years.
- If Measure 28 succeeds, the increase in state taxes will be offset by Oregonians paying \$129 million less in federal income taxes.

If Measure 28 fails, decreased spending by state government will trigger public and private sector job losses, outweighing likely declines in consumer spending in response to the temporary tax increase. The long-term care sector alone is expected to eliminate over 730 jobs before June 30, 2003, and 2,610 jobs in the next two-year budget cycle because of reduced state spending and reduced federal matching funds if Measure 28 fails.

Measure 28 will have little impact on Oregon's business climate, since corporations would only pay \$44 million more in taxes. Oregon already has the lowest business tax burden in the West and ranks favorably for overall business costs. Education and public safety, two state services that are more important for business location decisions, face millions of dollars of additional cuts if Measure 28 fails.

Measure 28 raises only the top rate of Oregon's income tax. The typical Oregonian would pay \$70 more per year during the three years of the tax increase. Oregon's highest-income families, who reaped the greatest gains from the 1990s economy and who benefited most from the recent federal tax cuts, will pay most of the tax increase under Measure 28.



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The only thing that hurts more than paying an income tax is not having to pay an income tax.

Lord Thomas Robert Dewar¹

Oregon's current two-year budget continues to experience a revenue shortfall due to the recession and the slow economic recovery that has rocked Oregon and the nation. On January 28, 2003, Oregon voters will consider Measure 28, a temporary income tax increase that the Legislature referred to the voters as a way to avoid additional cuts to the state budget. Opponents of the measure argue that raising the income tax will slow Oregon's economic recovery and that budget cuts are the best approach for the economy.

Analysis of Measure 28, however, shows that its failure would be

worse for the economy.² The combined impacts of Measure 28's failure will drain \$1.5 billion from Oregon's economy. The economic damage caused by the failure to enact Measure 28 stems from reduced state spending, lost federal matching funds, and higher federal taxes paid by Oregonians. These impacts outweigh any decreased consumer spending that arguably would occur if Measure 28 is enacted. Oregon's long-term economic performance would be damaged more by further reductions to state spending, especially in the areas of education and human services, than by the small tax increase on corporations.

Measure 28 Primer: The Tax and Budget Effects

Measure 28 raises \$313 million for the 2001-03 budget cycle (biennium) and \$412 million for the 2003-05

budget cycle by temporarily increasing personal and corporate income taxes. For tax years 2002,

2003, and 2004, Measure 28 raises the top rate of Oregon's personal income tax from 9 percent to 9.5 percent, a 5.6 percent increase in the top rate. Over those same years

the corporate income tax rate is raised from 6.6 percent to 6.93 percent of profits, a 5 percent increase.

“...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.”

- - - 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?” Center on Budget and Policy Priorities, November 6, 2001.

Measure 28 was part of the Legislature's solution to balancing the state budget. In House Bill 5100 of the fifth Special Session, they conditioned \$310 million in additional across the board budget cuts to the 2001-03 budget on the success of Measure 28.³ If the measure fails at the polls, these cuts will be triggered automatically, with many taking place February 1, 2003.⁴ Education, including K-12, community colleges, and higher education, will be reduced by \$136 million. Public safety programs, including state police and corrections, will be reduced by \$45 million. Human services programs, including services to the disabled and the elderly and health care and job training, will be cut by \$88 million. The 2003 Legislature will be making even deeper budget cuts for the next budget cycle. Failure to enact Measure 28 will necessitate \$412 million in further program cuts for the 2003-05 biennium.⁵

Because Oregon's income tax system is loosely based on ability to pay and the tax increase is limited to the top tax rate, those with higher incomes will pay more under Measure 28. The typical Oregonian will pay \$70 more per year in taxes, or less than \$6 per month, during each year of the temporary increase. The highest-income fifth of Oregonians, those with incomes above \$75,000, will pay 67 percent of the tax increase in Measure 28. For example, the richest one percent of Oregonians will pay an average of \$2,130 more per year and the lowest-income fifth will pay \$6 more. Some 390,000 Oregonians would pay nothing because their incomes are so low.⁶ (See Appendix A for distribution table).

Because state income taxes are deductible on federal income taxes, Measure 28 will decrease the federal income taxes paid by Oregonians. The richest one percent will pay \$3,238 more in Oregon taxes, but

\$1,108 less in federal taxes.
Decreased federal taxes offset 19

percent of the total state tax
increase.⁷

The Economic Impacts of Measure 28 and its Failure

The same weak economy that is responsible for the state's declining revenue is also cause for concern about Measure 28. Some Oregonians fear that raising income taxes will further weaken the economy. This fear is misplaced. On balance, the economic dangers associated with failure to enact Measure 28 are far greater than those associated with its success. If enacted, tax induced spending reduction is minimized because much of the increase is levied on upper-income families that will, in part, reduce their savings to pay the temporary tax increase. Moreover, Measure 28 will reduce federal income taxes, further off-setting decreased consumer spending in Oregon. If it fails, the triggered budget cuts will result in millions of dollars flowing out of Oregon in the form of lost federal matching funds.⁸ State budget cuts will also trigger decreased spending among those who receive income from the state.

The quality of education, infrastructure, and public safety are more important for Oregon's long-term business climate than are taxes. Oregon ranks low for business costs and business tax burden, but the state's largest school district will soon have the shortest school year in the country. Failure of Measure 28 will force \$136 million in additional budget

cuts for education before June 30, while its success will have minimal impact on already low business taxes.

Which is worse? Tax Increases or Reduced Spending?

In principle neither tax increases nor reductions in state spending are good for a slowly growing state economy. Higher taxes can lead to less consumer spending, although the impact depends in large part on who is required to pay the increased taxes. On the other hand, because the state is a major employer and purchaser of goods and services in Oregon, and state spending brings new money into Oregon from the federal government, state budget cuts can damage the economy, as well.⁹

Considering this issue, economists Joseph Stiglitz, of Columbia University and a winner of the 2001 Nobel Prize in Economics, and Peter Orszag of the Brookings Institute, concluded that the two options are not equally harmful – that maintaining spending through higher taxes is likely better for a state's economy. As Stiglitz and Orszag write, 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.”¹⁰ Stiglitz and Orzag recommend that states target tax increases at the wealthy to maximize the degree to which the money comes from savings and to minimize the impact of a tax increase on spending.

High-income families can afford to finance tax increases by reducing their savings, rather than their spending. Unlike most low and middle-income families, high-income households tend to make more money than they need to meet their living expenses. In 2001, the highest-income fifth of American households had an average *after-tax* income of \$107,000, but only had \$77,000 in living expenses, or 72 percent of their after-tax income.¹¹ Those with very high incomes need even less of their income to meet their living expenses. The richest five percent of Americans spend 63 percent of their income on living expenses and the richest one percent spend only half of their income on living expenses.¹²

Since 21 percent of Measure 28 will be paid by the richest one-percent of Oregonians, with an average income of about \$800,000, and 67 percent will be paid by the top fifth, a considerable share of the tax increase will likely be paid through reduced saving rather than less spending.

Estimating Reduced Consumer Spending

How much consumer spending declines in response to a temporary tax increase is a subject of considerable debate among economists. One prominent economic theory, the “permanent income” theory of consumption, predicts that consumers will not modify spending at all in the face of a temporary tax-induced decline in income. Research has found that the theory, and its related assumptions, does not strictly hold.¹³ Consumer spending would likely decline to some degree in response to a temporary income tax increase, although by much less than the full amount of the tax.¹⁴ This is especially true of a temporary tax increase paid chiefly by the affluent. The research does find that temporary increases have considerably smaller impacts on consumer spending than do permanent ones.¹⁵

Several studies of a *temporary income* tax increase at the federal level have found a drop in consumer spending of roughly 35 cents for each dollar of revenue the government gained.¹⁶ Another recent study found that a temporary proportional increase in federal taxes would reduce consumption by 29 cents for each dollar of increased taxes.¹⁷ Much of the research literature also finds even smaller responses to federal income tax changes.¹⁸ The degree to which spending changes as a result of a tax increase depends in large part

on the income of the taxpayers on whom the tax falls.

This analysis conservatively assumes that consumer spending would decline by 35 percent of the increase in the income tax.¹⁹ Since the increase in Oregon taxes is offset by a decrease in federal taxes, consumer spending declines as a

share of the net tax increase. This estimate suggests that consumer spending would decline by \$90 million in the current budget cycle that ends June 30, 2003, and \$119 million in next budget cycle (2003-05) as a result of voters enacting Measure 28 (Table 1). Combined, consumer spending would decline by \$208 million.

Table 1. Economic Impacts of Success and Failure of Measure 28

| | Measure 28 Success | | | Failure of Measure 28 | | |
|--|----------------------|-----------------------|-----------------------|-----------------------|-------------------------|------------------------|
| | 2001-03 | 2003-05 | Combined | 2001-03 | 2003-05 | Combined |
| State Spending (including lost matching funds) | \$0 | \$0 | \$0 | -\$380 million | -\$761 million | -\$1.14 billion |
| Consumer Spending | -\$90 million | -\$119 million | -\$208 million | -\$133 million | -\$266 million | -\$399 million |
| TOTAL | -\$90 million | -\$119 million | -\$208 million | -\$513 million | -\$1,027 million | -\$1.54 billion |
| Addendum: | | | | | | |
| Change in disposable income | -\$256 million | -\$340 million | -\$596 million | -\$380 million | -\$761 million | -\$1.14 billion |
| Federal income tax offset | \$57 million | \$72 million | \$129 million | | | |
| Federal matching funds | | | | -\$70 million | -\$349 million | -\$419 million |

Notes: State spending is change from baseline, adjusted for change in federal matching dollars. Disposable income is the change in state spending (in the case of failure) or the tax increase minus the federal income tax offset (in the case of success). Changes in consumer spending are calculated as 35 percent of the change in disposable income.

The estimated decreases in consumer spending are smaller than the decline in government spending if Measure 28 fails. If Measure 28 fails, spending by the state of Oregon, not including additional lost matching funds, will decline by \$310 million between now and June 30th and \$412 million in the 2003-05 budget cycle, totaling \$722 million. Including lost matching funds, state spending will decline by \$380 million by June 30, 2003, and

\$761 million over the following two years. The estimate for lost federal matching funds in the next budget cycle is based on agencies' projections and is subject to change based on decisions by the 2003 Legislature.

Even though consumer spending will decline among those paying increased taxes because of Measure 28, it will decline to an even greater degree among those who lose their

jobs or contracts because of spending cuts resulting from Measure 28. Consumer spending would likely decline even more following state budget cuts, since most of the tax increase in Measure 28 is focused on upper-income households, while those directly impacted by budget cuts tend to belong to middle-income and lower-income households.²⁰

Loss of Federal Matching Funds Exacerbates State Spending Cuts

Spending on many state programs is “matched” by, or otherwise tied to, federal dollars. If state spending is cut, fewer federal dollars flow into Oregon, exacerbating the impact of the cuts. Spending on matched programs is considerable, and the resulting loss of federal dollars if Measure 28 fails will be significant.

Human services programs bring in the most federal matching dollars. Federal Medicaid funds are the largest source of federal human services funds and are spent in Oregon on a wide range of services. Medicaid funds spent on the Oregon Health Plan go to hospitals and doctors and their employees and suppliers. Long-term care expenditures keep nursing homes, assisted living facilities, and adult foster homes in business.²¹ The \$88 million in additional cuts to human services programs if Measure 28 fails will trigger a \$67 million reduction in federal matching funds by June 30, 2003.²² While the 2003 Legislature will be making the final decision, the most current official estimate is that cuts in the 2003-05

budget cycle will trigger \$341 million in lost matching funds.

Oregon’s economy would lose \$67 million by June 30th if Measure 28 fails, and providers of and recipients of health care and social services would receive \$155 million less income by that date, as well. An anticipated result is job losses in hospitals, nursing homes, and other providers of health care and social services.

According to an ECONorthwest analysis of reduced spending for long-term care providers, each \$1 million reduction in state general funding of long-term health care providers results in approximately 47 jobs lost.²³ The ECONorthwest analysis suggests the job losses associated with the failure of Measure 28 will be significant.²⁴ Failure of Measure 28 will trigger more than \$18 million in state cuts and \$21 million in lost federal matching funds by June 30th to long-term care, eliminating more than 730 jobs.²⁵ In the 2003-05 budget cycle long-term care is expected to face about \$58 million in state budget cuts and nearly \$81 million in lost federal matching funds, eliminating 2,610 jobs. These estimated job losses will result in decreased consumer spending at other Oregon businesses and reductions in state and local tax receipts. Other health care and social service sectors would suffer similar impacts.

All state programs combined will lose \$70 million in matching funds by June 30, 2003 and an estimated

additional \$349 million in the next two-year budget cycle. Combined, Oregon will lose \$419 million in federal matching funds over the next two and one-half years if Measure 28 fails.

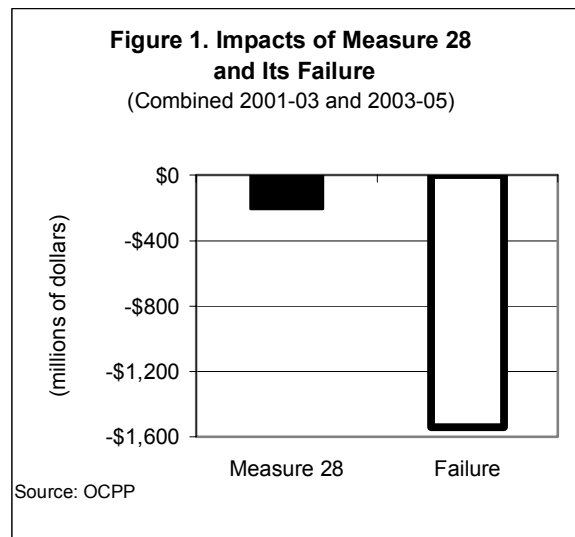
Reducing Federal Taxes

Itemizers can fully deduct state income taxes when calculating federal income taxes. Thus, increasing Oregon's state income tax will trigger a partially offsetting decrease in federal income taxes paid by Oregonians. The degree to which the state tax increase is offset by federal taxes is based in large part on the degree to which the state tax increase is targeted toward higher income households. Higher income households tend to itemize more than lower-income households and to have higher federal tax rates. Measure 28 would raise \$301 million in state personal income taxes by June 30th, but would lower the amount of federal income taxes paid by \$57 million, offsetting 19 percent of the increase.²⁶ Federal taxes paid by Oregonians would decline by \$72 million in the 2003-05 biennium.

If Measure 28 is successful at the polls, the state will sustain spending on a broad range of programs, including a combined \$129 million that otherwise will go to the federal government in federal income taxes. If Measure 28 fails, spending by the state will further decline by \$722 million, and Oregonians will unnecessarily send \$129 million to the federal government.

Combined Economic Impacts

The state's current fiscal crisis is harmful to Oregon's economy, regardless of the success of Measure 28. Decreased spending, from cuts to state programs or from increased taxes on consumers, will further depress the economy and make the recovery more difficult. Measure 28's success or failure, however, are not equally bad for the economy.



Measure 28's failure would cause far greater damage to the economy, in terms of reduced spending, than its success. The combined impacts of Measure 28's failure will drain \$1.5 billion from Oregon's economy (Figure 1). If Measure 28 succeeds, the loss will be minimized at just \$208 million. The combined economic damage cause by the failure of Measure 28 is over seven times as large as its success.

If Measure 28 fails, Oregon's economy will lose \$513 million by June 30, 2003 and over \$1 billion in the next two-year budget cycle

(Table 1 and Figure 1). If Measure 28 succeeds, the economy will decline by only \$90 million by June

30th and \$119 million in the 2003-05 biennium.

“Business climate” and long-term economic prospects

The corporate tax increase in Measure 28 is quite small and will have little impact on Oregon’s “business climate.” Further budget cuts and under-funding of education and other services that will occur if Measure 28 fails may harm economic development in the future.

The tax impact on businesses

Measure 28 only impacts profitable corporations. In addition, Measure 28 will increase the corporate income tax by only \$12 million in 2001-03, just four percent of the total revenue raised by the measure. Corporate income taxes will rise by only \$32 million in 2003-05, just eight percent of the total revenue raised by the measure.

Corporations will pick up a smaller share of the revenue decline than individual taxpayers. Corporate taxes are down \$464 million in the 2001-03 budget cycle, and Measure 28 will recoup less than 3 percent of that decline. On the other hand, personal income taxes are down \$1.4 billion, and individual taxpayers are being asked to recoup over 21 percent of the decline. The sacrifices are not being shared equally.

The small corporate tax increase in Measure 28 is consistent with Oregon’s status as a low-tax state for business. A 2001 study by the Utah State Tax Commission showed that Oregon had the lowest business tax burden among Western states.²⁷ Recent analysis also shows that Oregon ranks low compared to the rest of the nation for overall business costs.²⁸

What matters for business location decisions

Oregon has lower business taxes than many other states, but the research literature indicates that this matters little for business location decisions. One recent analysis found that “tax incentives and tax packages are uniformly viewed as low priorities by location consultants, relatively unimportant to the basic decision.”²⁹

More important for business location is education and the quality of a region’s workforce. The study documents a survey of business leaders where “72 percent cited workforce suitability as the top criterion in the selection of a city. In the past, location decision-makers put more emphasis on land, buildings and transportation networks. Corporate real estate executive’s litany has changed from

'location, location, location' to 'education, education, education.'"³⁰ It takes money to provide education. If Measure 28 fails, education cuts will result.

Oregon has a low business tax burden, but has faced education financing problems since Measure 5 was enacted more than a decade ago. As Portland schools consider adopting the shortest school year in the nation and as higher education

scales back its curriculum and programs, chronic inability to finance public education looms large as a serious impediment to Oregon's future economic development. Measure 28 will not overturn the millions in cuts that education, public safety, and other public services have absorbed over the last year, but it would prevent hundreds of millions of dollars in additional cuts that will make the situation even worse.

Appendix A.

| Impact of Increasing the Top Oregon Personal Income Tax Rate from 9% to 9.5% | | | | | | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|-----------------|----------------|---------------|-------------------|-------------------|----------------------|
| All Oregon Taxpayers, Average Impact for 2002-2004 | | | | | | | | | | |
| 2002 Income Group | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Next 15% | Next 4% | Top 1% | Bottom 40% | Bottom 60% | All Taxpayers |
| Average Income in Group | \$9,900 | \$22,000 | \$36,000 | \$59,000 | \$97,000 | \$193,000 | \$817,000 | \$16,000 | \$23,000 | \$56,000 |
| State Tax Change Only | | | | | | | | | | |
| Tax Change as a % of Income | +0.1% | +0.1% | +0.2% | +0.3% | +0.3% | +0.4% | +0.4% | +0.1% | +0.2% | +0.3% |
| \$ Average Tax Change | \$ 6 | \$ 30 | \$ 73 | \$ 150 | \$ 302 | \$ 697 | \$ 3,238 | \$ 18 | \$ 36 | \$ 156 |
| Share of Total Tax Hike | 1% | 4% | 9% | 19% | 28% | 18% | 21% | 4% | 14% | 100% |
| Combined Federal/State Tax Change | | | | | | | | | | |
| Tax Change as a % of Income | +0.1% | +0.1% | +0.2% | +0.2% | +0.2% | +0.3% | +0.3% | +0.1% | +0.2% | +0.2% |
| \$ Average Tax Change | \$ 6 | \$ 29 | \$ 70 | \$ 133 | \$ 234 | \$ 575 | \$ 2,130 | \$ 18 | \$ 35 | \$ 126 |
| Share of Total Tax Hike | 1% | 5% | 11% | 21% | 27% | 18% | 17% | 6% | 16% | 100% |
| % of state hike offset by federal cuts | | | | | | | | | | |
| % offset | — | -1% | -5% | -12% | -23% | -18% | -34% | -1% | -3% | -19% |

Endnotes

- ¹ Lord Thomas Robert Dewar, as quoted in Brunori, David, *State Tax Policy: A Political Perspective*, Urban Institute, 2001.
- ² Thanks to Dean Baker, executive director of the Center for Economic and Policy Research for his advice in preparing this report.
- ³ The fifth legislative special session was held between September 1, 2002 and September 18, 2002.
- ⁴ Because the cuts must occur in the budget cycle that ends June 30, 2003, the sooner they are implemented the less “deep” the cuts to programs and services.
- ⁵ Continued slow revenue growth makes it almost certain that further budget cuts will be required in the 2003-05 budget. This situation was made more severe through legislative decisions that pushed some of the 2001-03 funding problem off into the 2003-05 budget cycle. The 2003-05 budget cycle cuts will not necessarily be across the board as was required in the 2001-03 biennium by House Bill 5100.
- ⁶ For additional details on the distribution of Measure 28, see “Less Than You Think: A Distributional Analysis of Measure 28” available at www.ocpp.org. The estimates in this paper differ from the estimates set out in *Less Than You Think* by a few dollars due to a revised estimate of the inflation-adjusted tax brackets that will be in place in 2004. For all practical purposes, there is no substantive difference in the estimates, and the estimates contained herein are similar to those estimates by the Legislative Revenue Office.
- ⁷ Calculated for OCPP by the Institute for Taxation and Economic Policy (ITEP).
- ⁸ OCPP analysis of DAS documents.
- ⁹ Targetted tax cuts can sometimes serve as economic stimulus at the federal level because the federal government can maintain spending and engage in deficit spending. Declining tax revenues in Oregon, however, are clearly a drag on the economy, because the constitutional requirement of a balanced budget forces budget cuts.
- ¹⁰ Orszag, Peter and Joseph Stiglitz, “Budget cuts Vs. tax increases at the state level: Is one more counter-productive than the other during a recession?” Center on Budget and Policy Priorities, November 6, 2001. Available at <http://www.cbpp.org/10-30-01sfp.pdf>.
- ¹¹ OCPP analysis of 2001 Consumer Expenditure Survey data, available at <http://www.bls.gov/cex/2001/Standard/quintile.pdf>.
- ¹² Dynan, Karen, Jonathan Skinner, and Stephen Zeldes, “Do the Rich Save More?” National Bureau of Economic Research working paper, July 2000, page 22.
- ¹³ The economics literature on consumption has consistently found in recent years that consumers behave differently than predicted in the canonical “life-time income, permanent income” theory. Because some households have very low incomes or are otherwise unable to borrow, many households engage in precautionary savings, and some households save in order to leave their heirs an inheritance, the simple theory is inadequate for use in policy discussions.
- ¹⁴ A consistent body of economic research has found that tax changes do impact consumption. Many studies, like those briefly summarized below, focus on tax changes that are permanent, or that are levied primarily on low and middle-income households, or both. These types of tax changes would be expected to have a larger impact on consumption than would a temporary tax increase that falls more heavily on upper-income households, as Measure 28 does. One

recent study of permanent payroll tax increases found that consumer spending declined by 50 cents for each dollar raised. (Parker, Jonathan, "The Reaction of Household Consumption to Predictable Changes in Payroll Tax Rates," *American Economic Review*, September 1999.) One would expect the impact of payroll tax increases to be greater than increases based on income taxes, because payroll taxes place a lower burden on high-income earners. Another study of *temporary* federal income tax rebates, which are concentrated disproportionately among lower and middle-income households, found that consumer spending responded by 35 percent to 60 percent of the size of the tax change. (Souleles, Nicholas, "The response of Household Consumption to Income Tax Refunds," *American Economic Review*, September 1999. Souleles studies consumption responses to federal income tax rebates, but the results from this research are typically treated as symmetric and the same reaction, in the other direction, would be expected of a tax increase.) See also Auerbach, Alan and Daniel Feenberg, "The Significance of Federal Taxes as Automatic Stabilizers," NBER working paper, April 2000. Available at <http://emlab.berkeley.edu/users/auerbach/ftp/jpe.pdf>.

¹⁵ Economist Alan Blinder found that temporary tax increases had one-half of the impact on consumer spending compared to permanent ones. Blinder, Alan, "Temporary Income Taxes and Consumer Spending," *Journal of Political Economy*, 1981, vol. 89, no. 1.

¹⁶ Steindel, Charles, "The Effect of Tax Changes on Consumer Spending," Current Issues in Economics and Finance, Federal Reserve Bank of New York, December 2001. The 1968 federal income tax surcharge was a ten percent increase in its first year, then reduced to 5 percent in 1969 and expired in 1971. Oregon's Measure 28 is a three-year 5 percent increase in the top income tax rate, similar to the 1968 federal income tax surcharge.

¹⁷ Heathcote, Jonathan, "Fiscal Policy with Heterogenous Agents and Incomplete Markets," Duke University working paper #01-03, July 28, 2001.

¹⁸ Economists Joel Slemrod and Matthew Shapiro survey the literature and identify studies showing that consumer spending increased between 16 percent and 24 percent of the size of a temporary federal income tax cut in 1975 (Blinder and Poterba). Shapiro, Matthew and Joel Slemrod, "Consumer Response to Tax Rebates," October 9, 2002, University of Michigan working paper. Research by economist Christopher Carroll showed that the marginal propensity to consume out of *permanent* tax cuts might be as low as 30 percent. Carroll, Christopher, "Risky Habits' and the Marginal Propensity to Consume Out of Permanent Income, or, How Much Would a Permanent Tax Cut Boost Japanese Consumption?" July 21, 2000, National Bureau of Economic Research working paper. Economist James Tobin also finds that temporary income tax increases have small impacts on consumption, "Monetary and Fiscal Effects on Consumption," *Essays in Economics, Volume 2*, MIT Press, 1981.

¹⁹ This estimate is regarded as "conservative" since many analyses of the impact that *permanent* tax changes have on consumption yield results that are only slightly larger or even smaller than 35 percent. Also, most analyses of the impact of tax changes on consumption are at the federal level. What matters for Oregon's economy is the "in-state" propensity to consume. The extent to which households, particularly upper-income households, spend money outside of Oregon, that decrease in spending is not thought to harm Oregon's economy.

²⁰ This analysis conservatively assumes that the loss in disposable income triggered by state budget cuts and lost federal matching funds would result in a 35 percent reduction in consumption among impacted households.

²¹ Other federal funds, such as food stamp benefits, flow directly into Oregon's economy.

²² A summary of Department of Human Services budget cuts that will result if Measure 28 fails is available at <http://www.hr.state.or.us/budget/hb5100/Total%20Summaryhb5100.pdf>.

²³ ECONorthwest, “The Economic Impacts On the Oregon Economy from the Loss of Federal Matching Funds for Long-Term Care Services for Seniors and Persons With Disabilities,” 2002, page 3.

²⁴ In preparing its report, ECONorthwest assumed a roughly 60 percent “blended” matching rate for state spending on long-term care programs, with each dollar of state general fund bringing in roughly 1.5 federal matching dollars. Budget documents prepared by the Department of Human Services show that if Measure 28 fails the planned budget cuts would result in different losses in federal matching dollars than implied by the matching rates used by ECONorthwest. Using the “implicit” match rate based on the DHS budget documents, the 2001-03 state general fund budget cuts from Measure 28’s are matched at 86 percent and the 2003-05 cuts are matched at 72 percent. These more conservative figures are used to calculate job losses using the same economic impact formula from the ECONorthwest study, which implies 47 jobs lost for each \$2.5 million in lost combined state general fund and federal matching funds.

²⁵ A list of budget cuts to Senior and Disabled Services (SDSD) programs, which include long-term care, is available at <http://www.hr.state.or.us/budget/hb5100/SDSD%20HB5100%20Reductions.pdf>.

²⁶ Calculated for OCPP by ITEP.

²⁷ “Western States’ Tax Burdens, Fiscal Year 1999-2000,” Utah State Tax Commission, available at <http://txdtm01.tax.ex.state.ut.us/esu/BURDENS/westburd00.html>. States studied by the Commission include Arizona, California, Colorado, Idaho, Oregon, Utah, and Washington.

²⁸ According to the Oregon Progress Board, a recent analysis by the Regional Financial Associates found that Oregon had the tenth lowest “business cost index” in the country. Oregon Progress Board, “Background Data: How is Oregon Doing?” Summer-Fall 2002, page 30.

²⁹ Cohen, Natalie, “Business Location Decision-making and the Cities: Bringing Companies Back,” Brookings Institution Center on Urban and Metropolitan Policy working paper, April 2000.

³⁰ Ibid.