

Oregon will have to raise revenue smartly

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October 28, 2008

Even before the phrase "Wall Street bailout" reverberated worldwide, Oregon faced a tough budget situation.

State economists said in late August that the state is operating on a razor-thin margin in the current budget cycle. Then a preliminary report by the state Budget and Management Division projected a \$500 million shortfall for the next budget cycle.

The financial crisis now at hand is certain to further pressure the state budget, just as more Oregonians will be turning to public structures for help. In this difficult environment, legislators must resist slashing key services to balance the budget. They should confront a revenue crisis with a revenue solution.

The budget outlook mirrors the deteriorating job market. Since February, Oregon has lost 20,000 jobs in seasonally adjusted terms. Oregon now has fewer total jobs than it did at this time last year, something that previously has occurred only during recessions.

Fewer jobs mean less tax revenue for the state.

They also mean more struggling families turning to the state for help. As the Statesman Journal reported last month, the Department of Human Services (DHS) has seen a rise in its caseload that is beginning to strain its budget.

Unlike the federal government, Oregon cannot run a deficit. So unless the feds come to the rescue with an aid package for the states, what should Oregon do in this fiscal bind?

Besides some internal belt-tightening, such as the efforts DHS is already undertaking, the state should tap into the newly created Rainy Day Fund and the Education Stability Fund. After all, it's pouring outside.

Thankfully, Oregonians stashed away some money for difficult times. Only time will tell if there's enough in the reserve funds to ride out the storm, but the deteriorating situation suggests preparing for the worst.

In that case, should the state slash education, public safety and human services to balance the budget? Or should it raise revenue to protect services?

Neither choice is appetizing. But of the two, the better option is to raise revenue — smartly.

Cutting state spending would aggravate the recession. When a state reduces spending, it lowers payments to businesses and non-profits that provide direct services. It cuts benefits and services relied upon by vulnerable individuals, including school children. It reduces spending on programs such as the Oregon Health Plan that bring matching federal dollars into the Oregon economy.

Spending is what's needed most during a recession, and the state must maintain its part.

How to raise revenue smartly? In a 2001 paper, Joseph Stiglitz, winner of the Nobel Prize in economics, and Peter Orszag, current director of the Congressional Budget Office, concluded that cutting spending is more damaging to states than raising taxes during a recession. They recommended a tax increase on the wealthy, who can cover the increases by reducing their savings, rather than their spending.

Such a plan is likely to elicit the oft-repeated claim: "The worst thing you can do in a recession is to raise taxes." That claim, however, is as baseless as the now-discredited notion that markets are self-regulating.

The worst thing you can do in a recession — for struggling Oregonians and the economy — is to cut state spending. State government is a key part of Oregon's economy. Its role will be even more important in the troubled times ahead.

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