

For Immediate Release

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Oregon Economists Endorse Legislature's Tax Measures

Balancing cuts and tax increases was "a prudent course of action"

Three dozen Oregon economists issued an open letter today backing the Oregon legislature's decision to balance budget cuts with tax increases targeted at corporations and high-income Oregonians, calling it "a prudent course of action" from an economic perspective.

The economists' analysis and endorsement of the legislature's tax measures come as the measures seem headed to the ballot box in January, where Oregon voters will decide their fate.

The economists' letter echoed a report released last week by the Oregon Legislative Revenue Office. In it, the legislature's own economists concluded that state spending reductions "tend to decrease economic activity more than tax increases."

"The report by the legislature's economists and this open letter from dozens of Oregon economists provide a one-two punch that ought to settle the matter of what's in Oregon's best economic interests," said Chuck Sheketoff, executive director of the Oregon Center for Public Policy. "They make an indisputable case for Oregonians to vote 'yes' on the revenue measures in January."

Recognizing that the legislature had "no easy options" for balancing the state's \$4 billion budget shortfall, the group of economists concluded that "in a recession, it is preferable for states to enact targeted tax increases than to cut services." That's also the recommendation of "eminent economists, such as such as President Barack Obama's budget director Peter Orszag and Nobel Prize winner Joseph Stiglitz," the letter noted.

Cutting services is more damaging than targeted taxes because "the bulk of the money that the state spends on public services — more than 90 percent of which goes to education, health and human services and public safety — is spent right here in Oregon," the economists' letter said.

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By contrast, “tax increases targeted at high-income households and corporations” don’t reduce total in-state spending as much. The economists said that’s because high-income households don’t spend all of their money, and some of the money they spend is likely to be spent outside the state.

And since “a significant fraction” of Oregon’s corporate income taxes are paid by out-of-state corporations, the tax increase on corporations keeps money in Oregon that would otherwise leave the state, according to the economists.

The legislature’s revenue economists described this phenomenon as “leakage” of money from the state economy in the absence of the tax increases.

The revenue office and the group of economists also concurred that reducing state spending would cause an even greater reduction in total economic activity because Oregon would lose federal matching funds.

Those are funds that Washington, D.C., sends to states that put up some of their own money to help pay for certain programs such as Medicaid. The federal government may provide two or more dollars for every one dollar spent by the state, depending on the particular program.

“The positive impact of federal dollars coming into Oregon’s economy as a result of the revenue measures is something the opponents refuse to acknowledge,” said Sheketoff. “The federal match is an undeniable economic boost to Oregon’s economy and an important reason why voters should join these economists and say ‘yes’ to the tax measures in January.”

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NOTE TO REPORTERS AND EDITORS:

A copy of the economists’ letter and the Legislative Revenue Office report are available at www.ocpp.org.

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Dear Oregonians:

The 2009 legislature raised taxes on corporations and high-income Oregonians to help address Oregon's revenue shortfall due to the recession. These targeted revenue measures were part of a fiscal plan that also included cutting public services and maximizing the receipt of federal recovery funds to meet Oregon's \$4 billion revenue shortfall.

We are a group of Oregon economists who have considered what the legislature did and have concluded that there is a valid economic case for the actions the legislature took.

Unlike the federal government, our state government must maintain a balanced budget. Because Oregon cannot engage in deficit spending, in a fiscal crisis the state must balance its budget by cutting services, raising taxes or both.

There are, as a result, no easy options for states in this kind of recession. That said, the worst thing the state can do during a recession is further reduce aggregate demand — the total spending by households, businesses and government. Without the revenue measures enacted by the legislature, aggregate demand in Oregon will further fall and the economy will further contract.

The bulk of the money that the state spends on public services — more than 90 percent of which goes to education, health and human services and public safety — is spent right here in Oregon.

Cutting state spending reduces in-state aggregate demand, virtually dollar-for-dollar. Some forms of state spending, particularly in the area of health care, bring matching federal dollars into the state's economy. So cuts to certain public services result in even bigger reductions in aggregate demand because they prevent federal dollars from coming into Oregon's economy.

Tax increases targeted at high-income households and corporations also reduce demand, but not as much as cutting state services. High-income people typically don't spend all their money, and some of the money that they do spend is likely to be spent outside Oregon. In addition, the deductibility of state income taxes from federal taxable income means that a fraction of state tax liabilities are, in effect, shifted to the federal government. Therefore, a tax increase on high-income Oregonians does not reduce aggregate demand in Oregon dollar for dollar. And since a significant fraction of Oregon's corporate taxes are paid by out-of-state, multi-state corporations, the corporate tax measure also does not reduce demand dollar for dollar in Oregon.

Eminent economists, such as President Barack Obama's budget director Peter Orszag, and Nobel Prize winner Joseph Stiglitz, agree that in a recession, it is preferable for states to enact targeted tax increases than to cut services.

In sum, our economic analysis leads to the conclusion that the Oregon legislature's decision to balance budget cuts with tax increases targeted on corporations and high-income Oregonians while maximizing receipt of federal dollars to fill a \$4 billion shortfall was, from an economic perspective, a prudent course of action.

Signed: ¹

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¹ Names are listed in alphabetical order and appear as each economist requested. Job titles and employers' names are listed for informational purposes only, not as endorsements.

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