



## **Economic stimulus in a time of recession: What will work and not work**

### ***What will work***

- Short-term spending focused on unemployed workers

Fully funding public assistance programs will shorten the recession by putting money in the pockets of Oregonians who are required by circumstances to spend their available cash.

- Raising additional revenue from those who most benefited from the prosperity and tax cuts of the last decade

The wealthiest one-fifth of Oregon families received two-thirds of the recent “kicker” tax cut. Because affluent families are more likely to save, not spend, the extra cash, the kicker tax cut did not act as an economic stimulus. Given Oregon’s \$720 million budget shortfall, the State should introduce a one-time tax surcharge that recaptures that portion of the kicker tax cut that benefited the wealthiest fifth of families. This would raise about \$160 million that could be immediately spent by the State on public services, shortening the recession. For the same reasons, Oregon should delay implementation of Measure 88, scheduled to take effect for the 2002 tax year. This initiative will allow Oregonians to deduct more of their federal taxes when calculating state income taxes. The poorest 40 percent of Oregon families receive nothing from Measure 88. The richest 40 percent will get 91 percent of the benefits. In a state where the 1990s economic boom mainly benefited affluent Oregonians (the typical or “median” Oregon family saw no income gain in the 1990s), the burden of sacrifice in the current recession should be properly placed.

- Rejecting federal “stimulus” tax breaks that hurt Oregon’s economy

Oregon should not join the federal government in providing tax breaks to corporations when those tax breaks will deepen Oregon’s fiscal problem. The federal proposals to accelerate the depreciation of business equipment, for example, would deepen Oregon’s budget shortfall by between \$38 million and \$154 million. Oregon should carefully weigh all the federal changes and “decouple” from any proposals that will hurt, not help, Oregon’s economy.

***See the back for what won’t work***



## **Economic stimulus in a time of recession: What will work and not work**

### ***What won't work***

- Cuts in state spending

Reducing state spending will make Oregon's economy troubles worse. Budget cuts in public assistance payments are especially harmful, since low- and moderate-income families will spend the cash they have on hand.

- Tax cuts for businesses

Businesses are laying off workers because demand for their products has fallen, not because they lack cash. Giving corporations tax breaks doesn't increase demand for their products. Long-term tax cuts for businesses would be especially harmful, since Oregon's economy is structurally sound, and only suffering from a cyclical downturn. Oregon needs a temporary spending boost by government and individuals, not a long-term boost in after-tax profits for corporations.

- Tax cuts for upper-income families

Well-off families tend to save – not spend – the additional money they receive in tax cuts. Economic stimulus requires additional spending, not additional saving.

- Relying on an increase in “sin taxes” to balance the budget

Lower income Oregonians bear a disproportionate burden when taxes on beer, wine, and cigarettes increase. Low-income advocates have supported increases in “sin taxes” when the additional revenue was targeted to programs disproportionately benefiting low and moderate income families. Given the current budget shortfall, however, the State may choose to raise revenue through sin taxes without targeting the benefits to lower income families.

- A response that deepens the structural problems with Oregon's fiscal system

Tax cuts in the 1990s created a structural problem with Oregon's budget: the State's growing population requires more in public services than our tax structure allows us to pay for. This structural problem must be fixed, not put off for the future by simply cutting more programs.

***See the back for what will work***