OCPP OREGON CENTER for PUBLIC POLICY

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News Release

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Economic Stimulus Package Leaves Oregon Exposed

(Silverton) — While the tentative deal reached yesterday between the White House and House leaders on an economic stimulus package contains laudable elements, Oregonians should worry because it fails to provide for direct federal aid to states and threatens to reduce Oregon's revenue stream, according to the Oregon Center for Public Policy.

"Oregon would be in a much stronger position to weather a recession if the economic stimulus package shored up key state services," said OCPP policy analyst Janet Bauer. "It would keep state money flowing through the economy, providing a stimulus, and help keep the most vulnerable Oregonians on their feet."

The centerpiece of the tentative $150 billion deal is stipends of at least $300 for all workers who earned at least $3,000 last year, including those who did not earn enough to pay taxes. Workers who paid income taxes could receive more. Reports of the deal say that the payments will exclude individuals earning above $75,000 and couples earning above $150,000.

"The good news is that the agreement provides more benefits to low- and moderate-income workers than the Administration's initial proposal," said Bauer. "Low- and moderate-income Oregonians will spend the greatest share of their payments, making them the most likely group to deliver a boost to the economy."

The bad news, she added, is that the deal fails to extend unemployment benefits or increase food stamps. The non-partisan Congressional Budget Office recently called these two measures the most effective stimulus options because they put money into the hands of people most likely to spend it quickly.

The deal is also silent on direct assistance to states. Bauer argued that Oregon would almost certainly need federal aid in case of a significant downturn in order to avert budget cuts or tax increases.

Oregon would benefit from general federal aid and a temporary increase in the federal share of Medicaid spending to help minimize cuts to health coverage, according to the OCPP analyst. "When a recession hits," said Bauer, "more Oregonians will be looking to the state for health coverage. Increased federal help with Medicaid can offset declining state revenues."

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The stimulus package would also be stronger if the Senate removes business tax cuts, including the bonus depreciation provision contained in today's deal, said Bauer. She argued that such business tax breaks are a particularly weak stimulus and put state revenue in jeopardy.

The Washington, D.C.-based Center on Budget and Policy Priorities recently calculated that Oregon would lose about $90 million in revenue if bonus depreciation is in the stimulus package.

Oregon would lose revenue because state law automatically recognizes such a change in federal tax law, Bauer explained. She added that the state can "decouple" from the provision.

"Unless the legislature decouples Oregon from the provision, the federal bonus depreciation business tax break would reduce state revenue at a time when the economy would desperately need a spending infusion," Bauer noted. "Our legislature wasn't able to muster the votes to decouple during the last recession, when Congress enacted a similarly inefficient business tax loophole. It cost us dearly, as tax revenues plummeted."

"We'll be looking to Senators Wyden and Smith to strike the costly and ineffective bonus depreciation provision from the stimulus package," she added. "If the measure makes it into the final package, we'll be looking to the Oregon Legislative Assembly in the February special supplemental session to protect the state's coffers by disconnecting from the bonus depreciation tax loophole."

The Oregon Center for Public Policy is a non-partisan research institute that does in-depth research and analysis on budget, tax, and economic issues. The Center's goal is to improve decision making and generate more opportunities for all Oregonians.

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