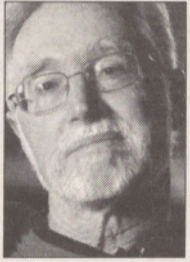


Tax reform: What to fight for – and against

BY ROBIN HAHNEL
CONTRIBUTING COLUMNIST

Game On! The first thing to understand is “we” are already behind. The tax reform “game” in Oregon is already late in the third quarter and our team bus has yet to arrive at the stadium. Not only have right-wing, anti-tax groups been at this game 24-7 for over thirty years, Governor Kitzhaber, who decided to run for re-election in large part to fix the Oregon tax mess I described in “Oregon State Taxes: What’s fair, what’s not” (Street Roots 01/03/2014), has called all the major “players” to the table – the Portland Business Alliance, the Oregon Business Association, the Association of



Robin Hahnel

Robin Hahnel is a political activist and retired visiting professor of economics at Portland State University. He is a co-creator of the post-capitalist economic model known as participatory economics, along with Z Magazine editor Michael Albert. He is also Professor Emeritus at American University in Washington, D.C.

Oregon Industries, the Oregon Business Council, the Oregon Education Association, and the Oregon branches of the SEIU, AFSCME, and AFL-CIO. These groups have jointly raised \$500,000 to fund their “work,” and hired Republican strategist Dan Lavey and Democratic strategist Kevin Looper to conduct polling and research. So the right wing is ready, as always, with their tax proposals and talking points, and the “big” boys are already feasting at the table. If lucky, you or I may get polled. Otherwise, we are left to rely on the leaders of organized labor to represent our interests at the governor’s bargaining table, and fight against corporations, the wealthy, and right wing zealots on their favorite subject – how to get us to pay more taxes so they can pay less.

What to Fear:

So far the tax game in Oregon has gone very much according to the right-wing script. On several occasions conservatives mobilized anti-tax sentiment to pass legislation at the state level that caps increases in property taxes set by county governments (Measure 5, passed in 1990, and measure 50, passed in 1997). Property taxes proved an easy target because you still have to pay them even when you lose your job or retire; because during a housing bubble you cannot prevent the value of your house, and therefore your property taxes from rising, even when your income may not; and because many in rural areas are “land poor,” i.e. they are truly quite poor, but still own land and therefore owe property taxes. Anti-tax groups also succeeded in passing the infamous “kicker” as a ballot measure in 1980, and incorporating it into the Oregon Constitution in 2000. The kicker requires the state government to rebate excess revenues during economic good times instead of putting them into a rainy day fund to be used when a recession pushes the state budget into deficit. We have now reached the “end game” in the great tax



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chess match. We are so starved for revenues needed to maintain even the most essential services and keep public schools from imploding, that we are a set up for the right-wing checkmate: Pass a regressive sales tax.

Beware the “Stability” Canard:

When you are selling snake oil that Oregonians have refused to buy nine times over you must resort to ever more devious subterfuge. The newest argument for a sales tax is that it is a way to “avoid sharp dips in state revenue when the economy sours.” (See “Poverty issues to mostly take a back seat in Salem,” Street Roots, 01/03/2014 which reports that this is the “word on the street” in Salem in advance of the legislative session about to open).

Really? Just as personal and corporate income tax revenues decline when personal and business income declines during a recession, sales tax revenues decline during recessions as well when people buy less. The only stable tax per resident would be a head tax – an abomination abandoned almost everywhere by the beginning of the 20th century. The revenue from any other tax will go up or down when income, sales, property values – you name it – go up or down. Billing a sales tax as a solution to volatility is a ruse.

One area where responsible personal behavior – save for a rainy day – does carry over into responsible public policy is how best to address volatility. Responsible Oregonians should repeal the “kicker” sponsored by fiscally irresponsible, anti-tax conservatives so Oregon can once again save for rainy days.

What to Support:

How can we raise more revenue while making the Oregon tax system more fair? The answer is simple, even if mobilizing enough political support to make it happen is not: *Increase progressive taxes by more than we reduce regressive taxes.* In particular:

1. Do not introduce new regressive taxes:

No matter how desperate we are for additional revenue, we never have to acquiesce to a regressive tax because we can always increase revenues by raising a progressive tax instead. That means no sales tax, which is regressive. That means making sure that lower income households are fully compensated for the increase in their energy bills any new state carbon tax will cause. (See below)

2. Increase revenues from corporate and personal income taxes: This can be done without harming smaller businesses and middle and lower income individuals by making corporate and personal income taxes significantly more progressive than they currently are. We should take heart from the passage of Measures 66 and 67 in 2010 which set a precedent for responding to revenue shortfalls by increasing taxes on those with the most undeserved income who can also best afford to pay. This is far better than increasing fees or property taxes, which are both regressive. It is time to use the success of conservative anti-tax strategists against them. They worked hard to pass ballot measures that cap property tax increases. But there are no similar restrictions on state corporate and personal income taxes. On this matter progressives should thank conservatives and let bygones be bygones. Property taxes are not only particularly unpopular, they are also regressive.

3. Introduce a new financial transaction tax: As I explained in my column last month, the biggest problem with property taxes is they tax close to 100 percent of an ordinary person’s wealth, but a very small percentage of the wealth of the rich. A financial transaction tax is a convenient way to begin to tax more of the wealth of the rich and force the financial industry to pay for part of the damage it has caused. Alternatively, a corporate income surtax on for-profit financial institutions would be hugely popular with voters.

A Carbon Tax:

Absent a national carbon tax – which would be better far better but unfortunately is not on the political horizon – a state carbon tax is good policy because it reduces carbon emissions, makes renewable energy and energy conservation – which should become the engine that drives Oregon’s future economy – more cost effective, and could raise a great deal of much needed revenue.

However, if we are not careful a state carbon tax will make our tax system more regressive since higher energy costs take a bigger bite out of poorer family budgets. To prevent this, a big chunk of revenues from any state carbon tax must be rebated to households to offset their higher energy costs. “Carbon Tax and Shift: How to Make it Work for Oregon’s Economy,” written by Professor Jenny Liu and Jeff Renfro for the Northwest Economic Research Center (NERC) at Portland State University, directed by former State Economist Tom Potiowsky, spells out the dollars and cents very clearly. NERC estimates that a tax of only \$10 per ton of carbon dioxide equivalents would raise over \$1 billion of additional revenues in 2015. It also and calculates that even if only 20 percent of the revenues collected were used to reduce personal taxes, and even if personal taxes were reduced in proportion to how much one paid, those earning \$35,000 or less would incur no extra cost from the program. If we use more than 20 percent of carbon tax revenues to reduce personal taxes, and reduce personal taxes for those in lower income brackets by more than those in higher income brackets, instead of the reverse as NERC calculated, we could (a) still raise hundreds of millions of dollars annually in additional revenues, (b) protect all but the wealthy from being adversely affected financially, (c) substantially reduce Oregon’s carbon emissions, and (d) make renewable energy and energy conservation projects in the state much more cost effective.

The danger is there are already calls to devote most of the revenue from a carbon tax to reducing, or eliminating state corporate income taxes altogether. The conservative argument for why we should use carbon tax revenues to replace corporate taxes instead of personal taxes of low and middle income Oregonians who are most hurt by higher energy costs is the height of hypocrisy. While conservatives oppose every known effective program to provide jobs for the unemployed, who they portray as shiftless and unworthy, they urge us to reduce corporate taxes if “we” care about jobs! However, it is clearly a zero sum game when we consider all states together: Whatever corporate investment – and jobs – one state gains by lowering its corporate tax rate compared to rates in other states, is investment – and jobs – other states lose. But even if we embrace the goal of one state trying to steal jobs from other states, the empirical evidence that reducing corporate tax rates is an effective way to provide jobs for the state’s unemployed is remarkably weak. (See “Cutting State Corporate Income Taxes is Unlikely to Create Many Jobs,” by Michael Mazerov of the Center on Budget Policies and Priorities available at www.cbpp.org.)



Dignity



Poverty