

The case against a constitutional ban on grocery industry taxes



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street smart economics

Street Smart Economics is a periodic series written by professors emeriti in economics for Street Roots. Mary C. King is a Professor of Economics Emerita, Portland State University.

Three massive grocery chains – together worth far more than the entire Oregon economy – hope to mislead Oregonians into voting for a constitutional ban on taxes for the entire grocery industry, including trucking and distribution, by telling us it will help keep food prices low.

They'll tell us that what they oppose are sales taxes on food.

Don't believe them.

What they really want is to protect their profits; – avoid paying for our schools, public services and infrastructure; and keep us from even thinking about taxing soda –

all in one fell swoop.

For a generation, Oregonians have been grappling with how to adequately fund our starving schools and public services,

pinched by a decades-long decline in corporate tax revenue. We need to figure out how to raise business taxes, not lower them, as Oregon's business tax take is now the second lowest in the country.

Just one state collects less revenue from businesses than Oregon, according to the pro-business Anderson Economic Group's recently updated ranking. Only in dark-red Oklahoma do corporations contribute less. And Oklahoma has so weakened its ability to raise money that conditions in the schools galvanized teachers there to walk off the job for nine days this spring, demanding big increases in the education budget.

Oregon progressives figured out that a targeted "gross receipts" tax on the 1 percent of businesses could not be passed on to customers, and so would be paid from the profits of the world's biggest, most profitable corporations.

Gross receipts taxes are calculated as a percentage of a company's total sales in the state or local area. Our state corporate minimum tax is a gross receipts tax.

A targeted gross receipts tax, levied only on the very largest businesses, can't be easily shifted to consumers by raising prices, since their competitors won't have to pay it. That means it will have to be paid from business profits.

Measure 97, which passed in Multnomah County but ultimately failed statewide, was designed to fund our schools and public services with a targeted gross receipts tax on the top 1 percent of corporations doing business in Oregon. Now, the Portland Just Energy Transition campaign has a measure on the fall ballot for a targeted gross receipts tax in Portland to fund a shift to a greener, more inclusive city economy.

The mega-grocers want to stop us from taxing their profits with a targeted gross receipts tax by purposely confusing a targeted gross receipts tax with a sales tax. Sales taxes are well-known to be paid by consumers, and to hit low-income people harder than those with more money. So, food is often exempted from sales taxes.

It won't help hungry Oregonians, only major grocery chains

Unlike targeted gross receipts taxes, sales taxes *are* paid by consumers and take a bigger bite out of the budgets of low-income households than of more affluent families.

Sales tax states like California generally do not charge sales taxes on basic groceries or prescription medicines. Sales tax states do, however, tax prepared food, pet food and all the non-grocery items that big chains sell. They certainly do not exempt the entire grocery industry from other taxes.

It's easy to confuse people about targeted gross receipts taxes, because they're quite different from more common general gross receipts taxes. General gross receipts taxes, levied on all businesses rather than on just a small minority of businesses, do act like sales taxes, in that customers rather than corporations usually have to pay them.

A general gross receipts tax applied to all businesses at the similar rates, works like a sales tax, in that it's generally paid by consumers.

Targeted gross receipts taxes, only paid by some businesses, can't be accurately analyzed with the big, simplified economic models used by Oregon's Legislative Revenue Office and Portland State University's Northwest Economic Research Center. Maybe worse, those models can't predict that a tax will be paid from profits, because they build in the unrealistic assumption that companies don't have profits after paying taxes and investors.

However, state and local taxes, other than sales taxes on food, do not appear to affect the local cost of food for consumers.

Our state and local taxes have virtually no impact on our food prices. Oregon's business tax take is rock-bottom, but our food prices are not low.

In fact, food prices hardly vary around the country. The only regional differences that exist are due primarily to differences in food transportation costs.

Food prices are actually low by historical standards. People aren't hungry because food costs too much; they're hungry because rents are so high.

People who study hunger say that the problem is not the cost of food. Housing has become so expensive that there's no money for food left at the end of the month, after families have paid the big bills.

In 1900, American families spent nearly half their budgets on food. Now, the big items in family budgets are housing, transportation, health care and child care –

and that doesn't leave much for groceries.

Public investment in schools, health care, housing and high quality care for preschoolers, the elderly and developmentally disabled adults is a far more effective way to reduce poverty and inequality than tax breaks for business.

High quality public housing, public schooling from pre-school through university, and care for those who need it create opportunity, good jobs, and lower the cost of living. The market can never provide high quality services to low and moderate-income people, because private sector firms have to make money in the short term. The government can invest for the long-term, because public investments in people and housing pay off handsomely, by helping more people earn more over their lifetimes.

By contrast, tax breaks for big businesses just line the pockets of the wealthy.

Big grocery chains always claim that theirs is a low profit business, but we should be skeptical.

Big grocery PR flacks love to say that there's no money to be made in grocery stores, but enormous corporations are eagerly pushing their way into the American grocery business. Amazon just bought Whole Foods, and a big German chain called Lidl is opening 600 stores in the U.S.

It seems they believe they'll earn good money in the grocery business. And the profits of U.S. corporations overall have been at record levels for most of the past 15 years.

It's terrible policy to put what should be the subject of legislation into the constitution.

The constitution is hard to change because it's meant for issues larger than the taxes paid by one industry. A constitutional ban ties the hands of our state legislators, and steals people's rights to tailor policies to changing local circumstances.

Giant corporations would never spend a cent on a ballot measure to protect low-income people from having to pay higher prices, even on life's basic necessities.

By law, corporations' sole purpose is to make money for their shareholders. If giant businesses are paying to tell you that they can make someone else pay their taxes, you have to assume that truth is the opposite, that they can't figure out a way to make someone else pay their taxes.

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