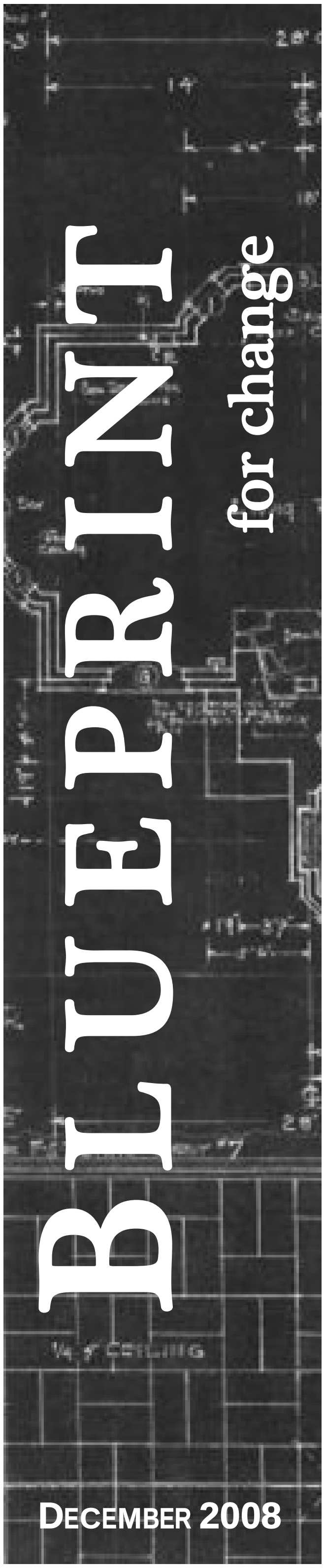
A Stimulus and Recovery Plan for Washington State



BY MARILYN P. WATKINS, PH.D.

We will not be able to get Washington's economy – or the nation's – on track to sustainable growth without rebuilding a financially secure middle class.

Working families in Washington state and across the nation were already highly stressed prior to the collapse of housing and financial markets. Throughout this decade, the majority of families have faced job insecurity, stagnating wages, and greater responsibility for ever-rising health care costs, even while the overall economy grew, worker productivity rose, and corporate profits soared. In fact, income inequality in the United States has been growing for 30 years, and by the fall of 2008 had reached the most extreme level since the 1920s.[1]

The precarious condition of many families' finances and the crisis of consumer confidence we now face owe their intensity to these longer standing problems.

The looming state budget deficit is largely due to the global economic crisis, but also has deeper roots – in an outmoded and regressive tax system. Balancing the state budget solely through cuts will slow our state's recovery from recession and undermine the future of our children, families, and businesses. On the other hand, by raising new revenues for strategic investments and simultaneously modernizing workplace standards and social insurance systems, we can come out of this crisis on the road to a sustainable 21st century economy where opportunity and prosperity are more broadly shared.

As we consider ways to stimulate the economy and plug the gaping hole in the state budget, we should give priority to policies and programs that:

1. Put money into the pockets of people who will immediately spend it locally;
2. Build the infrastructure of transportation and energy-efficient technology our 21st century economy needs;
3. Educate and train the workforce for that economy;
4. Modernize and strengthen our state tax structure to better finance both immediate and long term needs; and
5. Modernize workplace standards and benefits to serve today's families and businesses.

1900 N. Northlake Way, Suite 237, Seattle, WA 98103
206.633.6580 | fax: 206.663.6665 | www.eoionline.org

Washington State's Budget Chasm

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Washington's legislature will be forced to deal with a $5 to $7 billion chasm between projected revenues and the roughly $37 billion needed to maintain state services in the 2009-11 biennium.[1] Newly re-elected Democratic Governor Gregoire has pledged to introduce a budget with no new taxes, and has warned institutions of higher education and state departments to prepare for budget cuts of up to 20%.[2] With the State General Fund in 2007-09 allocating 41% to K-12 education, 11% to higher education, and 37% to health and human services, all these critical areas will inevitably face substantial reductions without significant new revenues.

The large gap projected for the 2009-11 biennium is primarily due to the national recession, collapse of the housing market, and widespread loss of consumer confidence. Washington State spending has remained level at about 6% of the overall state economy over the past decade.[3] Most states are facing big budget shortfalls.[4] Counties and municipalities are as well, and many are responding by reducing social services, postponing road and other improvements, and even laying off firefighters and police officers.[5]

Washington state's problems are exacerbated by an outmoded and inadequate tax structure that is the most regressive in the country. Important and growing areas of the modern economy are taxed only lightly or not at all, while we over-tax low- and moderate-income residents and small businesses and under-tax the wealthy.[6] The budget crisis gives us an opportunity to improve our tax structure and broaden the tax base. A stronger and fairer tax system will allow us to make the public investments necessary for a thriving economy for years to come.

Dealing with the budget gap solely through cuts will further damage the current economy and our prospects for the future.

Can the State Do Anything about a National Problem?

The federal government will have to take the bulk of responsibility for addressing both the current financial crisis and the underlying issues of growing income inequality and insecurity. Fortunately, President-elect Obama and Congress are fast-tracking a stimulus and recovery package that appears to meet the standards of "speedy, substantial, and sustained" that leading economists have advocated as the necessary response to turn around the national economy.[7]

State government has important responsibilities for education, health care, workplace standards, environmental stewardship, transportation and other infrastructure. Investment and modernization in these areas will enable Washington state residents to create and utilize future opportunities.

With the wrong decisions, we could also go backward. A substantial reduction in public investments will do both short-term and long-term harm to state residents and the state economy. Balancing the budget by gutting education and social programs will further damage the current economy and our state's prospects for the future.

Targeted Tax Increases - Not Across the Board Cuts

We can't solve the state's budget problems by decimating public programs. More families than ever are turning to social services. Layoffs resulting from state budget cuts hurt family income and local businesses as much as private sector layoffs do. Shortchanging our youth by slashing early learning and public education and by cutting off access to college and technical schools – at the same time that jobs are unavailable – will reduce lifetime opportunities for tens of thousands of our citizens. Instead, we need to upgrade our entire education system to maintain Washington's ability to compete for jobs and businesses in the emerging economy.

Shortchanging our youth by slashing education will reduce lifetime opportunities.

During the 2001 recession, Peter Orszag, newly named director of the Office of Management of Budget for the Obama administration and formerly director of the Congressional Budget Office, and Joseph Stiglitz, economics professor at Columbia University and formerly Senior Vice President and Chief Economist of the World Bank, wrote that steep reductions in spending and services by state governments would damage their economies. They concluded that the better option for state governments facing deficits was to maintain services by increasing taxes – especially on higher income individuals who would otherwise save a portion of the money or spend it out-of-state.[8]

In this economic crisis, businesses need increased consumer demand, not tax breaks. With the right revenue increases, we can stimulate the economy, bolster family economic security, *and* strengthen our tax structure to meet 21st century needs.

Raising Revenues – Which Ones?

Washington's tax structure was designed for the economy of the 1930s. Public revenues do not grow at the same rate as the demand for services because growing parts of the economy are taxed at relatively low rates. We rely heavily on sales taxes and have no income tax. This combination makes Washington's the most regressive of any state tax system. Low income people in our state pay a higher percentage of their income in state and local taxes than in any other state, while the highest income pay a lower percentage than in any state.[9] Small and new businesses also tend to be disadvantaged both by the high sales tax and by the business and occupation (B&O) tax, which is charged on gross receipts rather than on profits.[10]

We should prioritize new revenues that would be paid by the wealthy and those that would expand our tax base.

- In considering new revenues, we should give priority to those that:
- Focus on high income individuals;
- Focus on profitable multi-state or multinational businesses;
- Provide revenue to catalyze economic activity in our state;
- Discourage behavior that results in higher public costs;
- Broaden the tax base and improve the tax structure.

These priorities rule out a general sales tax increase, which would fall most heavily on low and moderate income individuals and local businesses.

Revenue increases can be ***paired with tax reductions*** that benefit moderate and low income families and local businesses.

A Selection of Alternatives to Strengthen Washington's Tax Base[11]

	Revenue Estimate 2009-11	Discussion
New high incomes tax: 3% over $200,000, 5% over $1 million	$2.58 billion	Only 4% of households would pay. Would make the state tax system fairer and more sustainable.
Windfall profits tax on oil companies	$350 million	Revenue could be dedicated to green investment – and otherwise would go out of state.
Sales tax on securities brokers	$128 million	Also raises $49 million for local services.
Suspend high tech sales tax break	$111.2 million	Also raises $34.5 million for local services
Suspend high tech and rural counties sales tax breaks *except for certified green construction from local suppliers.*		Would stimulate domestic green technology industry.
Suspend all tax breaks passed since 2004 that are not targeted to low or moderate income families.	$890 million	
Suspend sales tax exemption on items used in interstate commerce.	$369 million	Recommended for scrutiny by Tax Preference Commission.[12] Also raises $113 million for local services.
Suspend B&O tax exemption on agricultural producers (above income level to be determined.)	up to $66 million	Recommended for scrutiny by Tax Preference Commission.[13]
Suspend B&O deduction on investments by nonfinancial firms.	$799 million	
B&O tax surcharge on attorneys, architectural and engineering services, and consultants		B&O surcharge is easy to implement and collect.
B&O surcharge on software publishers		Among fastest growing and most highly paid professions
Sales tax on financial transactions		
New wholesale tax of 1 cent per ounce on bottled water (including large dispensers in offices)	$260 million	Bottled water is a growing market with negative environmental consequences. Could add flavored and enhanced waters.
Suspend B&O pop syrup credit	$20.7 million	Began phase-in in 2006; reaches 100% in 2010.
Sales tax on candy and gum	$61.3 million	Also raises $20 million for local governments on product that damages public health. Already implemented by other states under streamlined sales tax agreement.

Reducing Regressive Taxes?

Revenue increases can also be ***paired with tax reductions*** that benefit moderate and low income families and local businesses. For example:

- Reducing the general sales tax from 6.5% to 6.0% would result in a loss of $1.3 billion for the biennium.
- Eliminating one quarter of the state portion of the property tax would cut $750 million in revenues.
- Exempting a greater range of small businesses from the B&O tax would cost from $130 to $400 million, depending on the income cutoff.[14]

Priorities for State Spending

Washington state should preserve and expand programs that:

- Ensure low- and moderate-income families money meet basic needs (examples: broaden unemployment insurance eligibility, childcare and energy assistance, Early Childhood Education Career and the Wage Ladder);
- Bring in federal matching dollars (examples: expand SCHIP and Medicaid);
- Prepare people for better and high demand jobs (examples: early learning, K-12, higher education);
- Modernize the transportation infrastructure (example: fast track ready-to-go projects);
- Promote clean technology, energy conservation, and energy independence.

Diminishing collective supports and shifting risks to individuals have contributed to the economic crisis and to the growing insecurity of the middle class.

It's Not All About the Budget

Modernizing Workplace Standards and Supports for Working Families

This deep recession provides an opportunity to evaluate the direction and consequences of public policy. Since 1980, American public policy has increasingly been dominated by a "you're on your own" philosophy.[15] Collective supports have diminished, while the private sector has been glorified and deregulated. Individuals have borne increasing amounts of the risks and costs for health care and retirement. The acceleration of these approaches since 2001 has contributed to the immediate economic crisis and to the growing insecurity of the middle class.

Today, most parents are in the workforce and four in ten workers care for an elderly family member. Yet only a few states guarantee paid leave for workers – a right taken for granted in every other developed country.[16] Health care costs have been the leading cost of personal bankruptcy and are devouring ever more of the state budget – now more than 28%.[17] The U.S. spends a greater share of its economy on health care than any other country in the world, yet has shorter life expectancies, higher infant death rates, and lower rates of health care coverage than other advanced economies.[18] Half of workers have no workplace-based retirement plan other than Social Security, and even more are at risk of economic insecurity in their senior years.

Changes in state policy in these areas can build economic security for working families, improve outcomes for children, lower health care costs, reduce demand for state services and boost local businesses – all with minimal costs to the state General Fund and substantial savings in the long run.

Areas for state action include:

- Expanding Washington's Family Leave Insurance Program to include care of seriously ill family members and a worker's own serious health condition, financed through a 2.5 cent per hour payroll premium. Start-up costs can be borrowed from the supplemental pension fund. Partial funding may also be forthcoming from the federal government.[19]
- Passing paid sick days legislation, guaranteeing all workers 10 paid sick days annually for the health needs of themselves or close family members.[20]
- Maximizing federal matches and public access to established health programs that emphasize preventative care, including SCHIP, Medicaid, and the Basic Health Plan, and requiring the practice of evidence-based medicine, modernized record-keeping, and other cost-saving measures.
- Establishing universal voluntary retirement accounts, so that all workers and small business owners have the opportunity to save for income security in retirement.[21]
- Ensuring Washington's minimum wage law remains strong.

We can build economic security for working families, improve outcomes for children, lower health care costs, reduce demand for state services, and boost local businesses.

Emerging from Recession on the Road to Shared Prosperity

The extent of the current economic crisis requires us to act boldly. We can turn the economy around and ensure that our children and all state residents have a future where opportunity abounds. By balancing judicious spending cuts with well-chosen tax increases and moving forward with policies that provide the framework for working families to build and maintain economic security, we can emerge from this recession on a firmer foundation to meet the challenges of the 21st century.

Endnotes

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[19] President-elect Obama has pledged $1.5 billion to help states implement paid family leave programs. http://change.gov/agenda/economy_agenda/.

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