Tax Policy, Liberty and the Pursuit of Happiness

An Introduction to Oregon's Future's

Oregon's tax policies suggest a story I heard a few years back. The woods in New Zealand are packed with poisoned bait. When I asked a local why, he told me that it was because of water-cress.

"Huh?" I asked, "What does poison have to do with watercress?"

"Simple," said he, "Some bloke imported watercress from England for sandwiches. It got loose and spread like wildfire. The waterways were choked with it. Then a fellow got the idea that the best way to control the watercress was to bring in rabbits to eat it. Pretty soon the country was infested with rabbits eating everything in sight. The solution to the rabbit problem? Weasels. So the rabbit problem displaced the watercress problem, and weasels displaced rabbits."

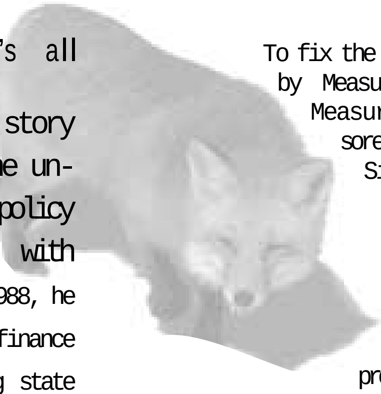
"But you solved the rabbit problem?" I asked. "Not really," he said. "The weasels were so much nastier, we lost sight of them."

"What did you do about the weasels?"

"A plague of foxes," he said. "Now we are overrun with exotics rabbits, weasels AND foxes, bushy-tailed opossums too, from Australia, but that is a different story. The poison is for the rabbits, weasels, and foxes. So you see, it's all because of watercress."

Why does this story remind me of the unfolding of tax policy in Oregon? Let s start with Governor Neil Goldschmidt. In 1988, he proposed to fix the school finance system in Oregon by stabilizing state support and making local levies permanent, thereby ending school closures. The legislature balked at the Governor s proposals, however. Several legislative leaders were reported to say that it wouldn t be possible to really fix the system unless things got worse. What they seemed to want was a state sales tax, and they were willing to let things get much worse to win one. In any case, things did get worse. But we didn t get a sales tax. Instead, we got Ballot Measure 5 (brought to us in 1990 by populist activist Don McIntire and former Reed College Professor Thomas P. Dennehy), which cut property tax rates. Because the state needed to replace the property tax revenue lost by school districts, responsibility for decisions about school spending was shifted from local voters to the state legislature in Salem.

Measure 5 caused various unanticipated problems. In the first place, Oregon had always had a levy-based property tax system. Local jurisdictions made spending decisions: After subtracting state and federal contributions from their total budgets, they set property tax rates to make up the difference. Measure 5 turned this process on its head by fixing property tax rates. Local jurisdictions now are left to match their budgets to the available funds. Increased reliance on state money has reduced local discretion and homogenized local spending levels (although not necessarily service levels). Because commercial and residential properties are assessed differently, Measure 5 also shifted the remaining property tax burden from businesses to homeowners.



To fix the problems caused by Measure 5, we got Measure 47 (sponsored by Bill Sizemore in 1996). Among other things, Measure 47 rolled back assessments on residential properties to pre-Measure 5 levels and fixed them there. Then in the May 1997 vote-by-mail election, Oregonians revised the State Const-itution to fix some of the unintended consequences of Measure 47. Ballot Measure 50 capped property taxes at the level of the 1994-95 tax year or 10 percent less than the 1995-96 tax year, whichever was less, and limited increases to 3 percent annually, with exceptions for increases to voter approved bonded indebtedness.

Measures 47 and 50 went a long way toward balancing tax burdens between businesses and homeowners. But they also created new problems of their own, the most important of which is that many local governments are starved for cash. Beneficiaries of local service improvements are no longer automatically obligated to pay for them (assessments do not automatically rise when local improvements increase market values). Instead, the cost of improvements is spread like peanut butter across the community, and opposition to local spending and development has intensified.

As a result of Measures 5, 47 and 50, Oregon relies more heavily than ever before on individual and corporate income taxes. Oregon doesn t tax retail sales and the property tax has been reduced considerably (from 5 percent of private disposable income in 1991 to less than 3 percent today Figure 1). As Joseph Cortright explains, in his article One Oregon, Two Economies, one consequence of this change is that the Portland metropolitan area has become a net contributor to financing public services that flow disproportionately to the rest the state. Not surprisingly, many of those who now bear the brunt of state taxes want to get their cut too. Which brings us to the present: A proposal to make federal income taxes fully deductible, sponsored by Bill Sizemore, is headed for the November ballot. Another ballot measure, which has been referred to the voters by the legislature, would raise the federal income tax deduction limit from $3,000 to $5,000. Both proposals would reduce personal and corporate income taxes. Senate Bill 1275 (passed by the state legislature in 1999, but vetoed by Governor Kitzhaber) was designed to reduce income taxes paid by corporations in Oregon. In addition, Sizemore s Taxpayer Protection Initiative proposes that all new or increased state and local fees, user charges and taxes be referred to the voters.

The tax measures of recent years share a common thread. Ordinary folks just don t like taxes, primarily because taxes leave them with less money to spend or save. More than anyone else, Bill Sizemore is the political entrepreneur who has catered to these dislikes (and helped to shape them as well). Sizemore is the driving force behind Oregon Taxpayers United, a political powerhouse in a tiny office in Clackamas, which has won seven major ballot measure campaigns, including Measure 47. It has lost only twice: the 1998 ballot initiatives to limit government spending and to abolish Metro, the Portland area regional government. In 1998, Sizemore was the Republican candidate for Governor, losing to incumbent John Kitzhaber by an unprecedented margin. This Forum begins with an interview with Bill Sizemore, in which he explains his approach to tax policy.

Economists are people too, but we are inclined to focus on the efficiency effects of taxation. Virtually every tax changes the relative price of things and thereby distorts what is made and how. But some taxes are more inefficient than others. In other words, they have greater deadweight costs. (These costs are measured by the difference between the tax take and the disutility the tax imposes upon taxpayers.) Economists

[The avoidance of taxes is the only pursuit that still carries any reward.—John Maynard Keynes] believe that the effciency losses from taxes can be minimized by:

Imposing low marginal rates, which can best be accomplished by broadening the tax base as far as possible, i.e., low rates on everything income, consumption, wealth, etc. are generally better than high rates on a few things.

Other things being equal, it is better to tax bad things like pollution, congestion and tobacco, rather than good things like working, saving and investing.

Other things being equal, it is better to tax things that are fixed in quantity (like land), rather than things that vary a lot according to price (like improvements).

These ideas figure prominently in the Forum essay on green taxes by Xander Patterson. They also represent the best argument for a broad-based consumption or sales tax. (Econ-omists tend to like the system of taxes that was once typical in the U.S.: local governments relied on property taxes and user fees, states relied on sales taxes and specific excises, and the federal government relied on income and social security taxes.)

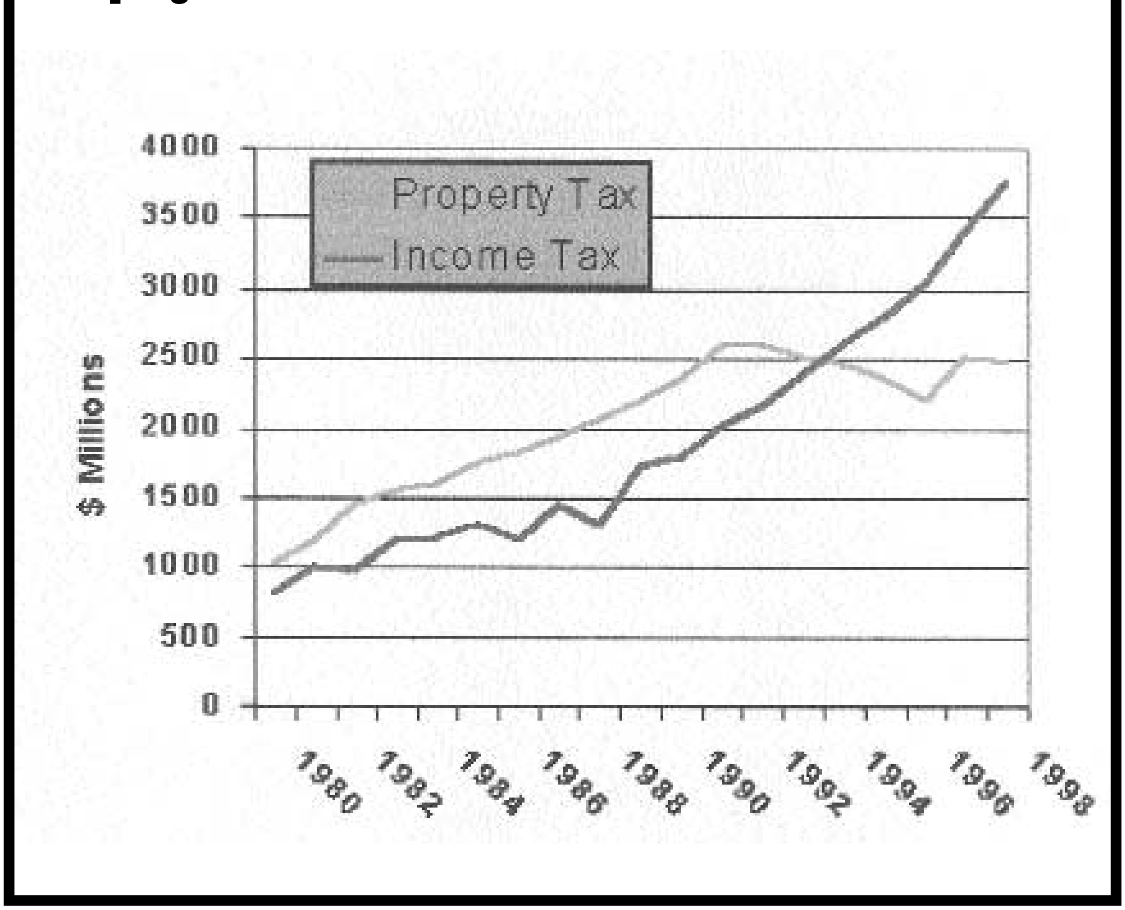
Economists tend to focus on effciency even when they talk about fairness. Most economists view fairness in terms of the benefit principle, which argues that tax burdens should be matched to the benefits received. That notion is implicit in my essay on the property tax, which presumes that the benefits provided by local governments are directly proportional to property values. It is explicit in arguments for greater reliance on user fees. Tony Rufolo s analysis of Oregon s weight-mile use tax is an excellent example of how the benefit principle works in practice.

In contrast, most other people have something else in mind when they talk about fairness. Bill Sizemore claims that it is unfair to taxpayers for states to collect income taxes without making federal tax payments fully deductible. In contrast, Steve Novick maintains that tax justice is concerned primarily with ability to pay and that the rich have proportionally greater ability to pay than the poor or the middle class. Consequently, he argues in favor of progressive income taxes.

It might be useful, at this point, to explain some terms that describe the relationship between tax payments and income or wealth. Where tax payments increase at precisely the same rate as income or wealth, we say the tax is proportional. Where tax payments increase faster than income or wealth, as a result of graduated rates, we say the tax is progressive (e.g., the federal personal income tax). Where tax payments increase faster than income or wealth, as a result of flat rate tax combined with an exemption up to a certain limit, we say the tax is degressive (e.g., the Oregon personal income tax). And finally, where tax payments do not increase as fast as income or wealth, we say the tax is regressive (e.g., alcohol and cigarette taxes). Measuring both sides of this relationship is very difficult. Economists would like to use permanent income, which is defined as the discounted present value of a household s lifetime cash and uncompensated net benefit flow converted to an annuity. But because that generally isn t feasible, they tend to use multiple measures current income, consumption and personal real estate that reflect permanent income as proxy measures of income or wealth, instead.

Turtle McBride s essay on sales taxes looks at the question of tax fairness

[Figure



[Tax reform is taking the taxes off things that have been taxed in the past and putting taxes on things that haven't been taxed Art Buchwald **]**

from this perspective. She wonders if a sales tax can be designed that would be roughly proportional to current income or even slightly progressive. Using Oregon income and consumption data she finds that narrowing the tax base by excluding food, clothing, services, rents and real estate implies higher rates on the items remaining to be taxed but has no net effect on the progressivity of the tax overall. Broadening it to include housing and professional, educational and public services would increase its progressivity only slightly.

Who pays a particular tax isn t always as straightforward as it seems. Figuring out who pays the weight-mile tax is pretty easy, so too the personal income tax and social security taxes (earners) and most sales taxes (consumers). But some taxes don t stick where they land, but are shifted forward to final consumers (in the case of gross receipts taxes and value-added taxes) or backward to workers, property owners or investors.

This issue is especially problematic in the case of taxes on commercial and rental properties. The easy assumption is that the owner pays the tax. In that case, property taxes are progressive taxes on average. (And if permanent income is considered, rather than current income, property ownership is also highly correlated with income.) Yet at least as far as improvements are concerned, it can be plausibly argued that most of the tax is ultimately shifted forward to final consumers renters of apartments, and customers of goods and services from commercial and industrial properties. From this it follows that the tax on commercial, industrial and residential rental properties is like a sales tax and is quite regressive. The regressivity of these taxes is only partly offset by taxes on owner-occupied housing. This is the position taken by the people building the Oregon Department of Revenue tax model, and by the Oregon Center for Public Policy, a liberal think tank that focuses on tax and poverty issues. It is not really possible to know who pays these taxes without also asking how the property tax is actually designed and administered and how the property is assessed.

The question of who benefits from government programs is often even more difficult to answer. Moreover, the further you are from locally paid for and provided services the harder it gets. For example, it is pretty clear who benefits from the municipal park across the street from my home, but who are the principal beneficiaries of Silver Falls State Park? How about benefits purchased with state income taxes? Most economists agree that government benefits increase with wealth, that the rich get more from government than do the poor. But if government disproportionately benefits any group, it is the literate, politically active, professional middle classes. They have property to protect and the means and the leisure to enjoy education, the arts, and public amenities such as highways, parks and libraries.

Because these facts are debatable, people can easily disagree about what constitutes good tax policy. One thing we can know for sure is that Oregon s current tax system allows a lot less local discretion and control than it did before 1990. It is now more complicated (although in some ways easier to administer), more arbitrary and less balanced, depending as it does almost entirely on income taxes, a cyclically unstable revenue source. It should be noted that the current state of affairs is not the result of the give and take of the legislative process, nor did it rely upon expert testimony. It is instead the creature of Oregon s unique system of initiative and referendum, a system that does not always encourage well-rounded dialogue, debate or study. The power of the citizen initiative to bring about sweeping institutional change would undoubtedly please its designer, William U Ren, who saw the initiative as a means to massive reform of the tax system. He would probably be less enthusiastic about the particular kinds of reforms (such as cuts in property taxes) that have been enacted in the last decade. As a single-taxer , he wanted all existing taxes to be replaced by taxes on the market value of land.

Fred Thompson is the Grace and Elmer

[Balancing the

The state Constitution requires the legislature to enact a balanced spending plan or budget. Consequently, the volatility of state revenues leads to large swings in state support for various activities in order to align the budget with revenue estimates. Before Measure 5, the Legislature typically coped with cyclical instability by varying the amount of state funding for things that were also supported by local property tax levies, like schools. It was then possible to increase support when the state expected to be flush and to cut back when things were tight. Under the old levy system, local taxpayers automatically received property tax relief at the top of the business cycle, but they were forced to make up for state revenue shortfalls in the trough. Moreover, the legislature was able to avoid making unpopular cuts in service levels. The state also tended to vary salary increases and maintenance with the business cycle, by deferring spending in lean times and catching up when flush. Other states often deal with the problem of volatility in a similar fashion, but Oregon's levy-based system made it a lot easier for the legislature to shift fiscal responsibility to local property taxpayers.

Because shifting the tax burden was easier here, Oregon was much less likely to rely on expedients developed in other states, such

as using current revenue to support construction of buildings, highways, bridges, parks etc. during periods of prosperity, and using debt financing to support these items during hard times, maintaining rainy day funds, relaxing restrictions on transfers between restricted funds and the general funds, and cutting services. Because the last ten years have been especially kind to Oregon, the state still hasn't had to turn to these options. That will change when we have our next serious recession or if a serious tax cut measure is enacted.

What are the likely consequences of the revenue loss that would result from Sizemore's federal income tax deductibility plan? If liquidity problems emerge, the Emergency Board has wide latitude to respond to them. It can borrow from the state cash pool, from other funds, or even from the public through issuance of revenue or bond anticipation notes. It can defer scheduled payments to fiduciary accounts such as the public employee retirement system. In addition, the Emergency Board can request that the Legislature be called into session to enact spending cuts or new taxes or fees. The state might manage to avoid making imme-

[I like to pay taxes with them, I buy civilization Oliver Wendell Holmes]

[Defining the

Deadweight losses: the value of the opportunities that are effectively lost when people turn to less preferred substitutes as a result of taxation, or employ less satisfactory methods of production. These losses can measured in terms of individual utility or in terms of the cost to the economy as a result of the diversion of labor, land or capital from their best uses. For example, when personal income taxes increase, people tend to substitute away from work (work less intensively) and toward things that are not taxed such as leisure; they may undertake more do-it-yourself work or shift into occupations with relatively large non-pecuniary benefits.The difference between the pre-tax work and the post-tax leisure measures the deadweight loss in this case.

Distributional effects: see vertical equity.

Efficiency: Maximizing individual utility, given existing resources. Where things that can be purchased with money are concerned, their utility to consumers is measured in terms of their willingness to pay. From the point of view of producers or owners, utility is measured in terms of willingness to sell. The consumer's net utility (consumer's surplus) is maximized where the difference between what he or she would pay and what she does pay is greatest. The producer's net utility (producer's surplus) is just the reverse. Efficiency is maximized when the sum of producers' and consumers' surpluses is maximized.

Gross receipts tax: A tax on business activity, sometimes called a transactions tax. Washington State's business and occupation tax is an example of a gross receipts tax. Under this tax all of Washington's businesses pay a .12 percent tax on their gross revenues. In addition to the usual effects of a sales tax, gross receipts taxes provide incentives for organizations to vertically integrate or to purchase goods and services from out of state firms.

Progressive tax:A tax that takes a larger percentage of the income of high income people than of low income people; an example is the graduated income tax.

Regressive tax: A tax that takes a larger percentage of the income of low income people than of high income people; examples include alcohol and cigarette taxes.

User Fee: A fee charged by a public agency for a service rendered; examples include bus fares, parking fees at municipal and county airports, rental charges at public libraries, water and sewer charges, disposal fees at public landfills.

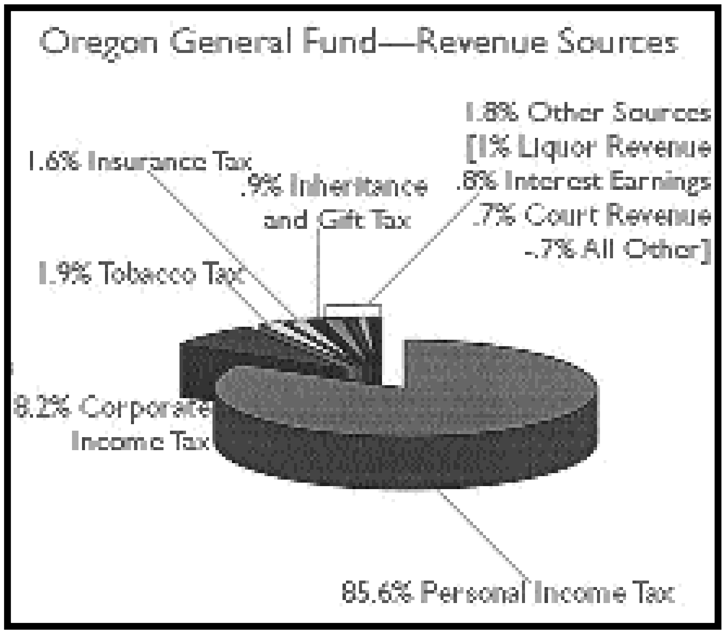
Value-added tax (VAT): Also called a net receipts tax, VATs tax the value the firm adds to its products, usually defined as its gross revenues less the cost of goods and services purchased from other firms. The Michigan VAT approximates that value by defining value added as the sum of a firm's payroll and its accounting profit.

Vertical equity: Matching tax burdens to ability to pay by income class—this is the concern of those who focus on the progressivity or regressivity of the tax structure. Matching tax burdens to ability to pay within income classes, i.e. treating equals equally, is called horizontal equity. Both are measured by a statistical technique called regression analysis. We regress the log of tax payments against the log of some proxy for permanent income (like current income). The coefficient of the equation measures vertical equity: 1 means the relationship is proportional, >1 progressive, and <1 regressive. The variance of the equation (shown by the coefficient of correlation) measures horizontal equity. Using current income as the independent variable in the equation, cigarette taxes are shown to be highly regressive and personal property tax payments highly progressive, but both have quite low coefficients of correlation. The coefficient of correlation increases substantially when estimated permanent income is used in the property tax equa-

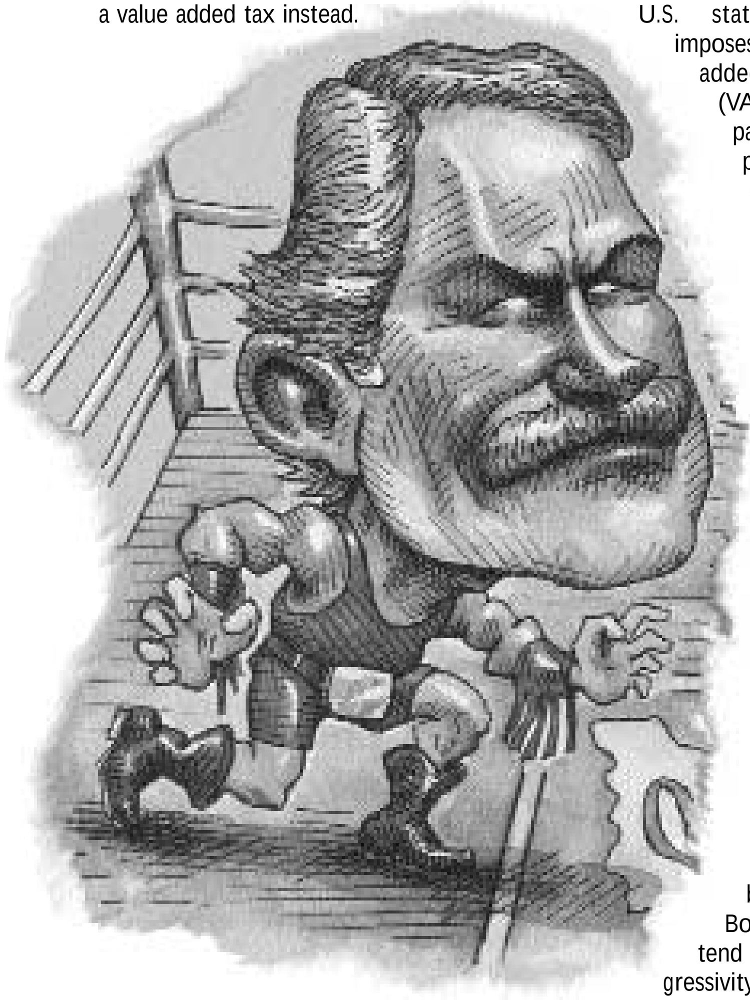
[I believe we should all pay our tax bill with a smile. I tried but they wanted cash. Anonymous]

[The Governor's

Governor John Kitzhaber recently described his thinking on tax reform to the Portland City Club. While he opposes Bill Sizemore's federal income tax deductibility proposal as well as Senate Bill 1275 (which reduced income taxes paid by corporations), he would like to broaden the tax base and reduce the state general fund's reliance on the income tax, in order to make state financing more stable. He thinks a consumption tax is the best way to broaden the tax base—a view that he shares with Sizemore. A sales tax was strongly advocated by at least two of the governor's recent predecessors, Tom McCall and Barbara Roberts. One difference between their views and Kitzhaber's is that he has taken a retail sales tax off the table, recommending a gross receipts tax or a value added tax instead.



Both of these methods tax business activity, which Kitzhaber claims would serve another worthwhile goal: reversing the shift in tax burden from businesses to individuals that has taken place over the past 20 years. With a gross receipts tax, such as Washington's business and occupation tax, the total gross revenue of a business, not net profit, is taxed. A 0.1 percent rate in Oregon with no exemptions would raise about $750 million per biennium. Michigan is the only U.S. state that imposes a value added tax (VAT). In Michigan, businesses pay a percent of total compensation, plus net income or loss. A one percent VAT would raise about $780 million per biennium in Oregon.



Ultimately, people pay taxes, not businesses. Which people would shoulder the tax burden that would result from greater reliance on consumption taxes? Obviously both of these taxes vary directly with sales—total transactions in the case of Washington's business and occupation tax, and final sales to consumers in the case of a VAT. It is therefore reasonable to conclude that they would have the same incidence as a broad-based tax on retail sales. Both kinds of taxes would tend to reduce the overall progressivity of Oregon's tax system. In the opinion of most economists, there is really no major difference between broad-based sales taxes and VATs, although they tend to prefer the latter owing to efficiency of administration. Transaction taxes, however, are generally seen as being without merit.

One of the interesting facts about taxes on business activity is that they go up and down with the business cycle, just like income taxes. While their receipts aren't as volatile as income tax receipts, substituting business activity taxes for income taxes wouldn't necessarily increase the overall stability of state financing. If, for example, personal income taxes were reduced by increasing exempt income by an amount that would increase their progressivity enough to offset the distributional consequences of a VAT, the volatility of income tax receipts would increase, leaving overall tax stability unchanged. On the other hand, if income taxes were reduced at the upper end of the income scale, by exempting federal tax payments or providing for more favorable treatment of capital gains, overall tax stability could be substantially increased, but this would exacerbate the negative distributional effects of a VAT by making the tax system more regressive.

[The trick is to stop thinking of it as your money Revenue Auditor]

Bill Sizemore: Rebel with a Cause?

Sizemore was interviewed on April 11, 2000 by Matteo G. Luccio, former Editor of Oregon's Future.

ML: Are there any taxes you like?

BS: I think taxes are necessary. I believe there are a number of issues you can debate about taxes the way you tax, how much you tax. And before you have those debates, you need to have the more philosophical debate and that is...What are you going to do with the money you re raising, why are you raising the money? In other words, what are the services that government should provide? What are the legitimate functions of government? We could have a serious debate about that and have had and will have.

I think that the tax that I like the least is the property tax, because it is the least related to the ability to pay. People can lose their jobs, have no income and the property taxes can go up simply because the value of their house went up. Yet, if they d had that same money invested in a valuable piece of artwork or in stocks, they would have paid no tax whatsoever on that increased appreciation until they sold the painting or the stock.

ML: And therefore have the cash from the sale...

BS: That s right, with property taxes your taxes go up because your value went up even though you haven t sold it and realized any income from it. And I think that is grossly unfair and it results in a lot of low income people, especially elderly people on fixed income, paying property taxes that are 25 percent, sometimes even 50 percent of their income, when their total income is well below the poverty level. Now, not even a money-hungry liberal would tax elderly people whose incomes put them at half of the poverty level and tax them at 25-50 percent of their income. And yet, that s what we do with the property tax. The reason we ve done that is primarily because we ve put so many services on the property tax bill that are unrelated to property ownership. Schools have nothing to do with property ownership. There may have been a day when they did, but this is not such a time. The police, fire protection...those kinds of things are reasonably related to property ownership. But 30-40 percent of the property taxes go to our schools, and I suggest that schools should be removed entirely from the property tax bill.

ML: I know you don t like the property tax, but my question was really on which tax...

BS: Do I like? I think probably the tax that I like the best...and I m not suggesting that we do this, because we wouldn t do this in a vacuum. But philosophically the tax that I like best is the tax on consumption that exempts the basic necessities of life so that the poor and those of low income are not taxed on the money they need just to provide for food, housing, and utility bills... just to keep the place warm and the lights on.

A lot of people are very critical of the sales tax; they say it s regressive. I say that s nonsense, and I can prove it to you in 10 seconds. Let s say we put a 10 percent sales tax that applies to nothing but yachts. The only people paying it will be people who can afford to buy a yacht. So how is that regressive? I m saying that the sales tax that exempts food, housing, medical expenses, and utilities, is not regressive. Since the poor spend most of their money on those kinds of expenses, they would pay a very small tax, if any.

I tend to like sales taxes, because there are other benefits. One, you tax tourists, which isn t, by the way, a lot of

money. In the case of the 1993 Barbara Roberts sales tax...only about 4 percent of the money raised by that measure would have come from tourists, according to the Legislative Revenue Office. It also taxes money that is obtained illegally: drug money, money that s black market, under the table dealings...when you spend that money, they catch you, you have to pay it. Also, I like the idea that we don t have the government nosing around in all of our personal affairs making us file tax returns telling them everything we did with our money.

I think the sales tax is the best way to tax, if it has the right exemptions. It also encourages investment, which, in a capitalist economy, means there s more money out there for companies and individuals to borrow to start new businesses, to expand their existing businesses, hire more employees, stimulate the economy, and raise the standard of living of society in general. It discourages consumption and encourages savings, and that s probably good public policy. So I would say I like sales taxes, properly constructed, and user fees... where only the people who actually use the government service pay for it. The problem with fees in today s world is that they are not used to reduce the burden on the average taxpayer. They re just an additional source of revenue for government on top of the existing taxes. That s why we have to keep a handle on fees, but otherwise, they are a good way to pay for government.

ML: You call your radio talk show News Just Right of Center. How would you characterize your overall political philosophy? How much more would you like to cut taxes in Oregon? What is your long term vision for Oregon s future?

BS: A lot of my opponents complain that the tax burden on Oregonians is decreasing, saying that, if this measure passes, we ll be the 47th state, or 46th state in the union in taxation, which means we re almost the lowest. When in fact, it should be the goal of every public official and every agency department head and every public employee to make Oregon the lowest tax state in the union with the highest quality government services. I would like for Oregon to have the lowest tax burden of all 50 states. But I d also like for it to have the highest quality government services, because our government is run efficiently. Now that is the goal: high quality services at the lowest possible price. After that we have to have the other debate, which I mentioned earlier, and that is, what are those services that we re going to deliver and what are the legitimate functions of government?

ML: To what extent do you feel that government is bloated and inefficient and to what extent is the actual array of services too large?

BS: Well, I don t tend to be politically correct in my responses. I know that the polling shows that Oregonians want to reduce the cost of government. But they don t particularly want to reduce the services available. I don t necessarily agree with the voters in that goal. I believe we have created a political world where the sun rises often but rarely sets. In other words, somebody comes up with an idea for a new government program to provide some new service, and elected officials buy into it. They want it. They fund it. But the one thing they almost never seem to do is evaluate whether that program is actually accomplishing the purpose for which it was launched. There is a constituency of public employees and department heads... and if we didn t continue the program, they wouldn t have jobs. They present funding requests every two years and tell us the same story with every new budget: We spent all we have last time, therefore, it wasn t enough. Because of inflation and population growth, we ll need more this time... The government is not going back and evaluating whether the program itself is actually worth the money that we re paying for it. We might find out that it s exacerbating the very problem it claims to be trying to cure.

What I am trying to say, and sometimes I feel like a voice crying in the wilderness, is let s see if this is working. Perhaps our war on poverty and illiteracy is creating more poverty and illiteracy instead of eliminating it. Maybe government can t cure this problem. Maybe giving money to people who engage in certain kinds of behavior only encourages them continue doing that and encourages more people to do it as well.

ML: OK, to the extent that there is poverty, to what extent is it public responsibility to deal with it? Is that something you think can be done with a leaner government, less funding and so forth?

BS: I believe the role of government in regard to poverty is to create, to the extent possible, an environment in which opportunity exists for every citizen. I do not believe that the government should have the authority to redistribute wealth so that we force people to be charitable. I do not believe you can coerce charity. But give every citizen the opportunity to increase their standard of living. One of the ways I believe that happens is a reduction of taxes.

Let me give you an example to explain what I mean. I recently examined US Treasury statistics regarding the bottom 20 percent of the income earners in America during the Reagan years. Because Reagan cut marginal tax rates, he was accused of engaging in trickle-down economic policy. But the U.S. Treasury statistics showed that the bottom 20 percent didn t stay there, but about 15 to 20 percent of them moved up to the next bracket, so that they were in the lower middle class, and approximately the same number moved up to the middle class.

ML: That probably depends also on what kind of pool they were in, in the first place, was it like they temporarily dropped down and then made a lot of money again...

BS: That s right, but it was true that the rising tide did indeed raise all ships. I suggest that we no longer measure how many poor we have, because unless Jesus was wrong, even he said, the poor you always have with you. Somebody s going to be in the bottom 20 percent. Poor is relative. The poor people in America are wealthy by the standards of many other nations. The measurement should not be how many poor people we have. The measurement should be how long are those people staying poor and how many of them are in fact rising, that is a much more meaningful measurement.

I think taxes can be too high. As far as the level of taxation that we have, that we should ultimately achieve, as a rule of thumb, the average American should not pay more than 25 percent of their incomes in total taxation (including federal, state and local taxes, as well as all government fees). If the good lord only takes 10 percent, I think the government ought to be able to live on 20 or 25 percent. And I think I m being probably a bit generous.

ML: You have repeatedly made a distinction between the people s money and taxes . Do you believe that money ceases to belong to the people the moment it is collected by a public agency?

BS: The government made this point during the debate on whether the state would return the kicker refund to the taxpayers or keep it. And I was claim-ing that that s the people s money and should be returned to them. The government rejected that distinction and said all the money, including the money that wasn t a part of the kicker is also the people s money... The point obviously being that the fact that it s the people s money doesn t mean that it has to be refunded to them. But the people have said at the ballot box that the kicker money goes back to them. I think the distinction is real...what the people have said they want returned to them is their money at a different level than the money they entrust to government to spend for them.

ML: It s you give a kid $10 to go to the store and you want change...

BS: That s right, I give it all to you. You buy what you re supposed to buy but the change is mine and there s a difference between those two amounts of money. The government didn t recognize that distinction but I think the voters do.

ML: What do you mean by this statement (from the cover letter on the OTU web site)? The success of our system of government is dependent upon people like you and me playing an active role in protecting our liberties.

BS: People in this world enjoy varying degrees of liberty. Some people are in overt slavery, other people are extensively free. We are not as free today as we were when this country, this republic, was established. If government takes 40 or 50 percent of your money, extracts it whether you like it or not, and controls what you can do with your private property, you are certainly not as free as the founding fathers and their constituents were. They protested over a lot less money, a lot smaller percentage of taxation than we suffer under today.

ML: But that was without representation.

BS: Well many a Brit has asked, Well you didn t like taxation without representation, how do you like paying a lot more taxes with representation? In 1928, the total government spending in this country was only 10 percent of all the total personal income in this country and by the early 1990s that number had increased all the way to 48 percent... you have to say that the trend is somewhat alarming. I am not as free as I would have been a couple of generations ago. So one of the prices of freedom is eternal vigilance, and those of us who fight excessive taxation I think are fighting to maintain the liberties that should be inherent to us as citizens of a free society.

“If government takes 40 or 50 percent of your money, extracts it whether you like it or not, and controls what you can do with your private property, you are certainly not as

Ml: I got on your web site, and you have a page with links to other conservative organizations. Do you see your movement here in Oregon, Oregon Taxpayers United, as a part of the larger conservative movement in the U.S.? Of course, there are different kinds of conservatives, fiscal conservatives, social conservatives...

BS: There are different roles for different organizations to play. We play perhaps the most difficult role. We are kind of where the rubber meets the road in politics. We don t throw ideas out for discussion. We place those ideas on the ballot so as to not only discuss them but make the actual change in public policy that we have proposed. That means we re going to take the brunt of heat from the liberal media, from liberal politicians, from public employee unions that live off of our tax dollars and have a vested interest in us paying more taxes...Sometimes I wish I could be leading one of those organizations that just is a think tank, where it s all theory, it s all philosophy.

ML: But you see that as a part of a larger picture about the role of government and so forth?

BS: You can discuss how we make government more efficient, or you can cut taxes and force them to become more efficient because they have less money to spend. Which is more effective? That s certainly a subject worthy of debate, but I believe that government will never become more efficient on its own. For example, Jack Bierworth, the superintendent of the Portland school district, stated on Town Hall one night that we had removed a number of administrative positions and reduced the cost of the school district by that amount of money and had done so without hurting the kids. And Dwight Jaynes from the Oregonian, at that time a sports columnist, asked, If you can cut all of those positions out of the budget without hurting the kids, what were they doing in the budget in the first place? In other words, Jack Bierworth had just said we have lots of money in there that we could cut without hurting the kids, but we didn t cut it and wouldn t have cut it until the voters reduced taxes and forced us to become efficient.

The government doesn t always respond that way. I think the first way they respond when you pass a tax-cutting measure is to figure out a way to get around it, if there s a way to get it thrown out in court...Then if they have to make cuts, they look for how to cut in places that will make the voters feel the pain so they don t get the impression that, wow, we can cut government with no consequences. But eventually they come to the point to where it occurs to someone that they could be more efficient and remove positions that they don t really need, people that just fill a spot on the payroll and consume part of the budget. Eventually it comes to that but not until you cut. Brady Adams, Gene Derfler, any number of Republicans have said, Bill if you send us the money, we will spend it. If you don t want us to spend it, don t send it. So we re just playing our small role in giving them the opportunity to not spend it, by not sending it.

“Do we have the right to be unfair to people in our tax system just because they are successful or wealthy? Are we somehow trying to get even with them for making too

ML: You have stated that the state could meet the budget limits that would be imposed, should your full deductibility initiative pass, by starting to cut expenditure now. Specifically, what do you believe the state should cut and by how much?

BS: If the state legislature would limit all of their expenditures in this biennium to last budget s expenditures plus an adjustment for inflation and where applicable, increases in population, or enrollment, this measure would have almost no effect on them. If there are already cuts required as a result of passage of the 100 percent deductibility measure, they will be necessary only because the legislature and the government increase spending at about 3 or 4 times the rate of inflation... and in the first year and a half of the biennium, spent money like drunken sailors rather than prudently controlling their expenditures.

I wouldn t presume to tell the legislature how and where to cut if any cuts are necessary. I think the legitimate function of elected officials is to prioritize the expenditures of the dollars we taxpayers give them. I do not believe they should have carte blanche authority to determine how much of our money they get, so that we have to live only on what they leave us for our family budgets. But the money we do give them...they should be the ones to determine how that money is spent.

ML: Is it true that about 90 percent of the state budget goes to education, health care, public safety (prisons, state police, courts, etc.), services to seniors and the disabled, and children s services (child abuse investigation, foster care, etc)? If that is true, won t some of those programs have to be severely cut?

BS: I m familiar with the uses to which the general fund goes. For every argument you make for the use of tax dollars, I think it s only fair that you point to the other side of the ledger and ask what will happen to that money if government doesn t receive it. Will we have a big bonfire and all get together and burn it? Or will it go back into the budgets of the families of Oregon? And you know what? I know what the liberal response to that statement is. Oh, you mean the wealthy families of Oregon? Well you know, my secretary...her husband s a construction worker, works when he can, and she is a secretary at a modest wage. She ll save more than $200 in this picture. I can tell you that there are hundreds of thousands of Oregon families that will get a substantial reduction in their tax burden and will have that money available to better provide for their families.

ML: You have said that predictions of devastating budget cuts if your income tax cut proposal (Measure 91) passes are scare tactics just like the ones that were used when Measure 5 and 47 were on the ballot. Isn t it true that the primary reason Measures 5 and 47 did not result in cuts as large as people feared was that, because of the booming economy, the state was able to use income tax money to replace much of the lost property tax money? Isn t it true that if we now cut income taxes too, there will be nothing left to fall back on?

BS: The fact remains that this measure does not cut income taxes, it reduces the rate of growth of state government. The state government will still have hundreds of millions more in this current biennium than it did in the previous biennium if this measure passes. The problem will not be that it has less money, the problem will be that it increases spending at an inordinate rate.

ML: Senate Majority Leader Gene Derfler, regarded as a conservative Republican, has said that the impact of

> **“Caps on deductibility of federal income taxes are a politician's sneaky way of increasing taxes without increasing tax rates. You just artificially increase the amount of income upon which those taxes**

the cuts required by your measure would be devastating.

BS: I remember what he said, and I remember Brady Adams quote. This is one of the reasons I m a fan of term limits. I like Gene Derfler, I like Brady. Know them both, have dealt with them politically a fair amount, but when you ve been in Salem as long as they have, you begin to see things from the bureaucrat s perspective and it s time for them to...I mean God bless them for all they ve done for our state, but it s time for them to move on. They ve begun to believe that government needs the amount of revenue it s extracting from its citizens.

ML: Don McIntire, the author of Measure 5, has responded to the retroactive feature of your measure by saying I m at a loss to explain why you want to slap it on that hard, that fast. Would you agree that Mr. McIntire seems to think your measure is more extreme than Measure 5?

BS: Well, Don is quick to criticize anything I do, because in the minds of some I have replaced him as the leader of the tax revolt and what you re hearing there is clearly not an indication of Don s philosophy of tax cutting. It is an opportunity to attack Bill Sizemore, someone he considers a rival. To illustrate, Don McIntire s measure, which is going to be on the ballot this year, requires the state to limit its total spending not just the 10 or 11 billion in the general fund, but 30 billion including the off-budget, non-general fund expenditures requires it, in one biennium, to be reduced to not more than 15 percent of the total personal income in the state. So before you use Don McIntire as a credible source for criticizing my measure, understand that he has proposed a measure that would cut 3-4 times as much money out of the state s budget, all in one biennium. So he s hardly a credible critic.

ML: According to the Legislative Revenue Office, over two-thirds of the tax relief to individuals (that would result from Measure 91) would go to people (households) who make over $100,000 a year. Is that true? If not, what is the correct figure?

BS: I used to think that people who make $80,000, $100,000 were rich, until I got married and had a house with five kids in it and had all the expenses associated with raising a family. Now I think people who make $80,000 to $100,000 are probably just making enough to get by as a family. And my heart goes out to those people who have to live on $25,000, or $30,000 a year. But I will say that this measure does not discriminate against those people, because they can already deduct all of their federal taxes on their state returns. How is it discriminating against the poor to give everyone else the same tax break that the poor already have?

ML: Do you object only to the cap on the deduction of federal income taxes from state income taxes, or do you object to progressive taxation in general?

BS: Both. I think taxes should be fair for everyone. I reject class envy. The politics of envy. I think what bothers a lot of liberals is not that the rich don t pay enough taxes. What bothers them is that the rich have more money left over after they pay their taxes, and they think that s unfair. You can illustrate that as I have in a number of speeches when liberals have pointed out to me that the poor pay a slightly higher percentage of their income in state income taxes than the wealthy.

And I have given them this illustration: Let s say that the rich person pays 9 percent of their income in taxes, but his income is $200,000. That means he s going to pay $18,000 in state income taxes. The poor person pays 10 percent...I m just making up these numbers, these aren t precise numbers...and his income is $20,000, so he s going to pay $2,000 in taxes. Now, wait a minute, the rich person is paying $18,000, the poor person is paying $2,000. In other words, the rich person is paying nine times as much in state taxes for government services that he or she will probably use less than the poor person. If it s unfair to anyone, it s probably unfair to the wealthy person, because the street lights don t shine any brighter for him when he drives by, the roads aren t any smoother. They get no extra benefit, they just pay more. Therefore, I m under the impression that what really bothers liberals is that the rich have more money left over and they don t like that. They want equality of result rather than equality of opportunity.

ML: Well, isn t it easier for the person making $300,000 to pay $20,000 than it is for the person making $50,000 to pay $10,000?

BS: I understand the arguments for regressive vs. progressive taxes. The fact of the matter is, I don t know what the expenses are for the person who s wealthy. So I don t know that it s easier. I don t know how many kids he s trying to put through college. I don t know how much his house payment or car payment is. People who make more money tend to increase their expenses. You get a pay raise, instead of going out and putting that money in the bank, you buy a more expensive car or a more expensive house...you raise your standard of living and increase your expenses to where you now need that much money just to get by. So it s real easy for someone making $20,000 to think a person making $200,000 is really loaded, rolling in money. But I ll tell you, I ve known a lot of wealthy people in my lifetime and I ve seen probably as many of them under financial stress as any poor person. And I think it s none of our business whether it s easier for them to pay or harder for them to pay. Do we have the right to be unfair to people in our tax system just because they are successful or wealthy? Are we somehow trying to get even with them for making too much money? That kind of social engineering troubles me.

ML: Why do you consider (the current state income tax) double taxation?

BS: Because under current law, you re paying income taxes on money that you didn t get to keep but you had to send to the federal government as income taxes. And charging income taxes on income you didn t get, that went straight into the federal government, is taxing you on income that is not really income.

ML: Most other states have a cap (on the amount of federal income tax that can be deducted on state income tax returns)...

BS: I don t care what other states do, but let me tell you there are a number of factors... First off, there are, depending on whom you ask, there are 5-7 states that let you deduct 100 percent of your federal income taxes on your state tax return, so we would not be pioneering to pass this measure. Secondly, there are a number of states, like the one to our north, that have no income tax anyway, so throwing them into the mix would skew the results a bit and lead you to some false conclusions. There s a state for example that has a $10,000 cap. I believe there s one state that allows you to deduct half of your federal income tax. The fact of the matter is that if you look at the states that have the initiative process, where the voters have a chance to speak regarding this issue, you find that they are much more likely to have more deductibility of federal income taxes. Caps on deductibility of federal income taxes are a politician s sneaky way of increasing taxes without increasing taxes. It s a back door accounting method for increasing government revenue without increasing tax rates. You just artificially increase the amount of income upon which those taxes are levied, and presto, government has more money. But you didn t increase taxes...Take the temptation away from the politicians. They should thank me for removing that temptation.

"In spite of all the ads that you saw on Measure 59 (on the November 1998 ballot), with my head floating around the screen, with Grover Norquist, who was supposedly a close advisor to former speaker Newt Gingrich, I

ML: Why did you make your initiative about taxes and fees (Measure 93) retroactive? And is there a reason for the particular date you chose?

BS: Yeah, it went back to the last general election. The measure is retroactive to discourage Oregon governments from doing what governments all across Washington did immediately after the passage of I695, that is, to increase every tax they could possibly increase. Anticipating the response of government to a measure that requires voter approval for taxes and fees, we just made it retroactive.

ML: To the extent that state and local governments have already obligated funds, are there any kind of constitutional issues about contract and so forth? They were assuming they had a certain amount of money available, they made budgets and obligated funds, and now retroactively this measure would undercut or reduce the funds available in anything from teachers salaries to bridge construction...

BS: There s nothing in this measure that would require a refund of such an amount that a government would not be capable of still meeting its contractual obligations. There may be some give and take. There may be other services that could be impacted, but there is no government program that I know of that could be required to refund so much money that it could not meet its contractual obligations.

ML: The Taxpayer Protection Act (now Measure 93) lumps together taxes, fees and charges. Fees and charges are similar under the law, but taxes are treated differently. Why lump them together?

BS: Because fees are government s secret weapon for extracting money that they couldn t get in a tax increase. A tax increase generally finds major opposition because it s general. It affects large groups of people. Every few years the legislature refers a sales tax out to the voters and we all stomp on it, defeating it 3 to 1. The highest any sales tax has received is 29 percent, out of 9 different tries. Then we voters do a Tarzan yell about having defeated once again that cursed sales tax.

Meanwhile, the government is busy as ants out of sight increasing 1,000 different fees $1, $5, $20, $100...and raising the same amounts of revenue they would have raised with their general tax increase. But by using fees they have made each one of those little battles too small to fight. I mean people will go to Salem to testify against the sales tax, but they won t take a day off work to go down to Salem and sit in a hearing room for four hours to testify against the $2 increase in some government license or fee. So that s how fees and charges have become government s secret weapon. They do, a little bit at a time, what they wouldn t dare to all at once with a tax increase.

ML: How do your various initiatives relate? Is it true that part of your strategy is to overwhelm your opponents, such as the public sector unions?

BS: The public employee unions are so suspicious, they re so cynical. My position is that each one of these measures proposes a worthwhile change in public policy and is worth the effort of putting it on the ballot, and stands on its own two feet. They come up with some interesting and fanciful theories.

ML: What effect do you expect your ballot measures to have on Oregon s bond rating? Do you care?

BS: Let me say this is a non-issue. I have gone through this ever since 1994 with State Treasurer Jim Hill. He and I debated this issue in front of the independent employers association back when that measure was on the ballot, and I believe I demonstrated in that debate that the government is making claims that are unreasonable. Oregon s bond rating I believe today is AA, and they claimed that Measure 5...Jim Hill wasn t the state treasurer then, but the one then claimed that Measure 5 would devastate Oregon s bond rating. It didn t. They claimed that Measure 47 would seriously hurt Oregon s bond rating. It didn t. So this issue is a non-starter with the voters, they don t buy it and it is patently false.

In fact, I think you could demonstrate that economies have performed better in states where they have lower taxes. Any impact in the limitation of government to raise revenue is offset by the fact that they raise more revenue anyway, because they lowered taxes and therefore the economy did better and produced more revenue. We were very careful to give governments every reasonable protection to preserve their bond ratings in drafting this measure. In fact, one provision was drafted word for word by the State Treasurer s office...we ve essentially given them everything we could give them in this measure to protect them. So, it gets under my skin a little bit when they make these predictions that are empty, hollow prophesies of doom.

ML: Is Oregon Taxpayers United really three distinct legal entities: Oregon Taxpayers United, Oregon Taxpayers United PAC, and Oregon Taxpayers United Education Foundation?

BS: There are three organizations, but the PAC really has quite a number of subsets, because the Secretary of State requires you to file a separate PAC for every measure that you file. We file a lot of measures...some will be placed on the ballot, some will not, but each one of them has a PAC, so really we have quite a number of PACs

ML: I see, one per measure...

BS: One per measure, though Oregon Taxpayers United PAC tends to operate as an umbrella PAC over the others. We do have the education foundation, which is a 501c3, within tax exempt status. The other entity, Oregon Taxpayers United, with no PAC or education foundation after it, was going to be a 501c4, for lobbying purposes, but we have never really done much lobbying...

ML: Who are your principal financial supporters, in Oregon and nationally? Does Americans for Tax Reform (ATR) subsidize OTU s current campaign?

BS: In spite of all the ads that you saw on Measure 59 (on the November 1998 ballot), with my head floating around the screen, with Grover Norquist, who was supposedly a close advisor to former speaker Newt Gingrich, I have to tell you ATR doesn t give us much money. They did give us $15,000, which is a tiny percentage of the amount of money we raised in 1997-98 and they did not contribute one single dime to the campaign attempting to pass Measure 59, which as you know lost 49 to 51 percent. In either 1994 or 1996, ATR did give us money, but in the last four years I think their total contributions were probably around $15,000...so I would have to say that as a contributor they are a minor factor.

“Sometimes I wish I could be leading one of those organizations that just is a think tank, where it's all

We will disclose all of our contributors. I know there ll be no secrets, and there will be no surprises other than the fact that the amount donated to us this year or this election cycle will be, I think, noticeably higher than it has been in the past.

ML: Are most of your financial contributions spread out among many small contributions or are there a whole bunch of really large ones?

BS: We will report that thousands of individuals have contributed small checks, $25, $50, $100 checks. We will also show some people who contributed thousands of dollars, even tens of thousands of dollars. I haven t done the calculations to see what the mix will be, but without a doubt there will be thousands of individuals who have contributed small amounts.

Bill Sizemore