

Where do we get the money?

By Tracy Warner

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It is becoming the accepted view, despite the occasional contradiction and naysayer, that Washington and its government does not have enough money. It needs to tax more, tax higher and tax soon, and if properly done it will skim off the top and inject into the bottom.

Demand for government spending rises, especially for education and health care, while tax revenue increases, but not fast enough to keep up. The trend is exacerbated by order of the state Supreme Court, which demands increased state spending on education to meet the state's constitutional duty to its children, a price estimated at \$3 billion or more, just for the next biennium.

Can our tax system handle it? The doubters got more evidence this week in a widely cited report from the bond raters at Standard & Poor's. Income inequality, manifest by lagging income for the middle class and soaring income for the rich, is a damper on the national economy, its analysts say. Income inequality "relates negatively with tax revenue growth," says the report. "Rising income inequality contributes to slower tax-revenue growth by weakening the rate of overall economic expansion." Moreover, states like Washington that rely on sales tax suffer most. Washington, with 45 percent of its revenue from sales tax, saw annual revenue growth of 3.89 percent since 2009, compared with 6.6 percent annual growth in the 1990s, and 9.1 percent in the 1980s, says the report. Income-tax dependent Oregon saw annual revenue growth of 6.5 percent since 2009, in comparison.

This report plays nicely with the prejudice of would-be tax hikers. They are right to point out the middle class has been "roughed up," to use the description of Washington Post columnist Robert J. Samuelson. The income ladder's second quintile, the "solid middle class," shared prosperity before the recession, then got pounded, he said. "The Great Recession hurled incomes all the way back to the late 1980s and early 1990s," Samuelson wrote. "They feel poorer because they are poorer. They feel less secure because they are less secure." They spend less, and so are taxed less.

Those less inclined to worry will point out that total state expenditures will rise by 11 percent this biennium, compared to the previous. It's not up to glory days, but not bad. State spending for the operation of public schools is rising now at a nearly \$1 billion-a-year pace, according to figures from the Office of Financial Management.

It's not fast enough. So, what to do? Raise the sales tax? That's disproportionately tough on the poor and middle class, who pay a higher share of their income in taxes. Raise taxes on business? Washington's businesses already have among the nation's highest burdens, according to the Washington Research Council, supplying 54 percent of state and local taxes. An income tax? A

progressive tax requires a constitutional amendment that voters have never supported, and likely never will. A capital gains tax or flat income tax likely won't fly either, not without concessions. Close tax loopholes? That's often proposed, but never effective. The biggest loopholes – the sales tax exemptions for food, fuel and services – are thoroughly enjoyed by the poor and middle class. Business tax loopholes often can't be closed, because the business with the tax break may go away without it, along with its jobs, and there goes the imaginary tax hike.

Now what? A carbon tax? A cap-and-trade indirect energy tax? Gov. Inslee would approve, perhaps. It's market based, and so has economic appeal, but still hits most voters in the pocketbook, and we see by the figures that we in the middle aren't doing so well, and we're a sensitive bunch.

Good luck.

Tracy Warner is a columnist for the Wenatchee World.

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