GOVERNMENT SPENDING & REVENUE

OREGON 2050

The focus of this report is on the the challenges and implications in ways that the government is funded, and how that money is broadly distributed. There are some significant problems in the current state of revenue and spending. Yet there is no panacea that provides one best solution for addressing these problems. In addition, almost all tax and spend policies generate some winners and some losers. Thus, the key in planning for a better 2050 is in understanding the tradeoffs between different policy approaches, and in recognizing who wins and who loses.

GOVERNMENT REVENUE

While the structure of Oregon's tax system (e.g. no sales tax) is different from most states, the ultimate amount of revenue raised by the Oregon government is fairly average for its population and income. The table on the right shows per person tax revenue, or what the average Oregonian pays in state taxes (and does not include fees, etc.). At $4,731 in taxes per capita, Oregon ranked twenty-fourth highest in the country in 2017. Overall, close to 75 percent of taxes the average Oregonian pays are personal income and property taxes.

	$ Per Person	State Ranking	% of Personal Income	State Ranking*
Total Taxes	$4,731	24	9.80%	22
Personal Income Tax	$2,021	7	4.20%	2
Corporate Income Tax	$173	13	0.40%	13
General Sales Tax	$0	48	0.00%	48
Selective Sales Taxes	$525	29	1.10%	31
Property Tax	$1,487	28	3.10%	21
Other Taxes	$525	9	1.10%	9

*The lower the number, the higher the tax is relative to other states. We are ranked 48th for General Sales Tax as we are tied with three other states.

Figure 1: Oregon's per capita tax revenue and Orgeon's tax revenue as a percent of income, 2017. Source: Oregon Legislative Reveneue Office, Basic Facts report.

For economists, evaluating tax policies comes down to evaluating the tradeoffs between efficiency, equity, and effectiveness—known colloquially as the "Three E's." Here are some potential considerations of these:

- Efficiency: The most common economic criteria, efficiency signifies the relationship between costs and outputs. An efficient policy would produce the most output (e.g. government services) for the least cost (e.g. tax dollars) compared to feasible alternatives. This is more typically considered on the spending side of polices.
- Equity: Equity captures the concept of fairness, and typically refers to the distribution of resources across a population. An inequitable policy distributes goods "unfairly" across income groups, race, or other category. In Public Finance, the notion of vertical equity captures the idea that those with more ability to pay taxes, should pay more. This is considered both on the taxing and spending side of a potential policy.
- Effectiveness: Effectiveness refers to how well the policy objectives are met. Often confused with efficiency, effectiveness is about doing "the right thing", while efficiency is about "doing the thing, right."

WHO PAYS? PROGRESSIVE AND REGRESSIVE TAXATION

The first four quintiles of taxpayers in Oregon pay approximately 30% of the total income taxes, while the top 20% of earners pay close to 70%. Put succinctly, the state has a fairly progressive income tax structure, meaning that people with lower incomes (which includes American Indians, Black or African Americans, and Hispanic/Latino residents) pay less overall in taxes. More regressive taxing policies—such as Oregon's property tax system or a general sales tax—place a disproportionately high burden on lower income taxpayers.

Quintile	Share of Total Income Taxes Paid
First 20%	0.70%
Second 20%	2.00%
Middle 20%	9.60%
Fourth 20%	18.20%
Next 15%	28.90%
Next 4%	19.00%
Top 1%	21.50%

Figure 2: Share of total income taxes paid by taxable income quintile. Source: State of Oregon Legislative Revenue Office. 2020, Oregon Public Finance: Basic Facts.

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INCOME TAX BY COUNTY

The map on the left below highlights that differences in income tax liability are directly correlated with differences in incomes between counties. Counties with more income—such as Multnomah County—have higher average tax liabilities, meaning residents of those counties pay more in taxes on average. This is consistent with a progressive tax structure.

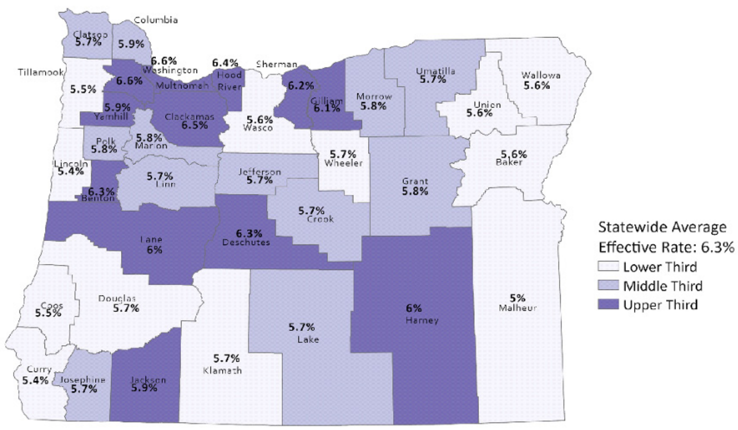

Figure 3: Effective income tax rate by county, tax year 2018. Source: Oregon Department of Revenue, 2020, Oregon Personal Income: Characteristics of Filers.

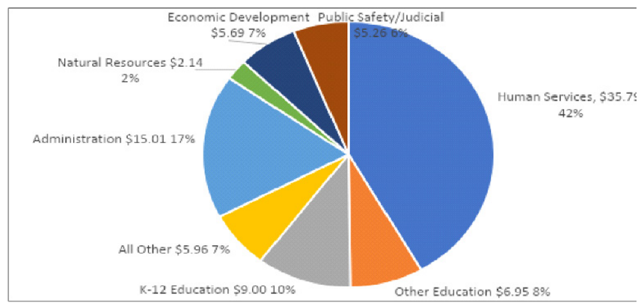

Figure 4: Oregon's legislatively adopted budget by sub-category 2019-2021 (billions of dollars). Source: Oregon Legislative Fiscal Office, 2019-21 Budget Highlights.

STATE SPENDING

The pie chart in Figure 4 provides a snapshot of state spending, showing the allocations of funds by program area (sub-categories). The largest share (42%) of state spending is directed towards human services, which performs a number of government services but are primarily known as the state source of healthcare and welfare. Education makes up 18% of total spending, with $9.0 billion going to K-12 education and $6.9 billion going to other education, while administration makes up 17%. The focus on human services and education is similar to other states. The total adopted budget in 2019-21 was $85.8 billion. The state regularly faces budget shortfalls, particularly during recessions.

WICKED PROBLEMS IN REVENUE AND SPENDING

- Volatility and recessions (though the Education Stability Fund and Oregon Rainy Day Fund have somewhat ameliorated the problems).
- The "Kicker"- popular but not equitable and increases government shortfalls during recessions.
- Measures 5 and 50, which create difficult to meet state requirements and lead to unequal treatment among taxpayers with similarly valued property.
- Tax competitiveness- creates a challenging tradeoff between policy goals, equity, and effectiveness (e.g. Commercial Activity Tax and carbon programs).
- Existing constraints in spending (e.g. Public Employees Retirement System).
- Lack of public appetite for addressing the problem created by the kicker and Measure 5 & 50, and for other revenue raising measures
- Other budgeting challenges include border effects, trade exposure, layering taxes, and tax compression.

LOOKING AHEAD TO 2050

Policymakers and the public have to hold a serious conversation on what can be done to adequately fund programs and reduce the deep swings in revenue from year to year. They may want to change currently regressive strucutres (e.g. property taxes) and consider new types of taxes. If they do look at these proposals, however, they need to make sure they examine all the different considerations involved, including equity.