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Ballot measure gives us chance to fix budget for good

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Should we be upset that Congress has just promised Washington an extra \$526 million? Not I nor, I think, will others whose kids go to our public schools, who use Medicaid for health insurance or have a parent in a nursing home, or who otherwise support the wide range of services the state provides: This money will help assure their continuation.

But according to Richard S. Davis (column, 8-11), we would be better off without this additional federal money. Basically, Davis believes this windfall has allowed elected officials to temporarily avoid the hard choices ahead.

To his credit, Davis isn't just being masochistic. He seems to genuinely believe that the short-term pain of no federal revenue would be more than offset by the long-term gain from "resetting the state budget" to a permanently lower level.

However, there is more than one way to "reset" the state budget to fix our state budget problems. The most promising of those is Initiative 1098, the Income Tax Initiative, which voters will decide this fall. If it passes (and passes judicial scrutiny), we will eliminate the state's budget gap while also dramatically improving the manner in which the state generates its revenue.

OK, so there is something predictable and unconvincing about a state employee calling for tax increases as a way to balance our budget. But bear with me.

First, the premise of those like Davis who would like to significantly reduce the services provided by the state is that the state is wasteful and overspends.

But a full two-thirds of state expenditures go to K-12 education, health care, public assistance, nursing homes, mental health, and maintaining correctional facilities. About half of the remaining dollars go to higher education. What remains from that goes to support our parks, fix and maintain roads, run our ferry system, and pay for the state's judicial system.

In other words, the money goes for things most of us look to our state to provide. Granted, there are inevitably programs that could be better run or dollars more carefully budgeted. But it is simply not the case that the state government has gotten more bloated with time.

In fact over the last two decades, the per-capita tax burden in Washington has fallen from over \$120 to about \$105 per \$1,000 in income. During this time Washington went from being the 10th most taxed state to its place today at around the 30th. And this occurred while medical costs, the share of the over-65 population, and the demand for higher education have all been steadily rising.

Moreover, these trends that place increased demand on state dollars will continue into the foreseeable future. As one indication, over the next 20 years the over-65 population as a share of Washington's total population will nearly double.

So what does I-1098 do? In a nutshell, it reduces state property and B&O taxes in exchange for an income tax on wealthier residents. For example, married couples making \$500,000 would pay about 1 percent of their income to the state; couples with \$1 million in income would pay about 3 percent. Couples with less than \$400,000 would pay no income tax.

According to estimates from Washington's Office of Financial Management, this tax change would provide the state with additional funds – raising our tax rate from \$105 to about \$112 per \$1,000 in income. Such a tax increase would still leave Washington below the national average and below the state's average tax burden over the last 30 years. And it would eliminate the state's long-term budget gap.

It's easy to advocate for higher taxes when they fall on others – under I-1098, these "others" are clearly Washingtonians with very high incomes. But this is precisely the group that escapes their fair share of taxes under our existing tax system.

As a percent of income, our most economically-stressed households today pay five times or more in state and local taxes than do those households targeted by the proposed income tax. This is why the Institute on Taxation and Economic Policy has identified Washington as having the nation's most unfair tax system.

So yes, it is a good thing that Congress provided us with the money to tide us over until the voters have their say in November. Hopefully we will "reset" our state finances – just not in the way that Davis meant.

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