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Oregon at the Tax Crossroad

A ballot showdown over higher rates.

A great beauty of the American federal system is that any of the 50 states can offer its policies as an experiment for others. So the nation owes some gratitude to Oregon for testing whether it is possible for a state to tax its way from deep recession to prosperity.

Oregon's unemployment rate is 11.1%, among the nation's highest. But Oregonians are now voting by mail whether to endorse a pair of tax increases passed by the legislature last year: one to raise the state's top personal income tax, to 11% from 9%, and another to raise the business income tax, to 7.9% from 6.6%. Both tax hikes would be retroactive to January 1, 2009.

The legislature and governor argue that only the state's wealthiest 2.2% percent of residents will pay this tab. Nonetheless, the liberal Portland Oregonian has editorialized against the new taxes, which it says would target "the very businesses and employers that Oregon is depending on to lead an economic recovery, start hiring again and pay the wages that support state services."

The battle in Oregon is a case study in the political drama now unfolding in many states. Essentially, it's about whether a state's wealth belongs to its public employee unions or to everyone.

The public unions are the primary drivers behind the Oregon tax hike campaign. In recent weeks, national powerhouses AFSCME and the SEIU have poured close to \$1 million into the state campaign to secure passage. Oregon's public employees have one of the sweetest deals in America. Their average pay is about one-third higher than that of private Oregon workers, and Oregon public employees don't have to pay anything toward their health-care benefits.

In the last budget, the Democratic controlled state legislature doled out a \$259 million pay raise to the government work force, even as the state was facing a near \$1 billion deficit. In the last three years, the state has added 25,000 new public employees while losing 40,000 private sector jobs. The union TV ads say the tax hikes are needed to preserve schools, roads and public services.

The 11% income tax rate will make Oregon's income tax about twice as high as the national average. Businesses in Portland can move across the Columbia River to Vancouver, Washington and pay zero income tax. Oregonians used to argue they didn't have to pay a state sales tax. But the current tax proposal imposes a first-ever "gross receipts tax" on certain retail and wholesalers. This is a disguised sales tax.

Despite the state's well-earned reputation for sympathy with all manner of liberal causes, Oregon voters trounced two major tax-hike initiatives in 2003 and 2004. Now Oregon has reached a crossroads. If Oregon enacts these tax hikes to fund its rising public payroll after a severe recession and amid a slow recovery, we'll revisit the state in the future to see how many private workers are still there to pay the taxes.

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