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Economists Warn Tax Increases Will Hurt Our State's Economy

Local and national experts warn recession is worst possible time to increase tax burden

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Olympia - 32 economists have signed an open letter to state elected officials warning that tax increases will damage Washington's economy and hamper economic recovery. This comes as lawmakers are grappling with a large budget shortfall and are considering tax and fee increases rather than prioritizing spending, which families all across Washington are doing now.

Today the letter ran in a full-page advertisement in *The Olympian* newspaper.

The mix of local and national economists offers a vital perspective to this issue, since Washington is not alone in facing budget troubles and our state is part of an interconnected economy.

"Leaving earnings in the hands of individuals and businesses is the best way to help grow the private sector, create jobs and lead to higher levels of consumption," the letter states. "Increasing taxes at this time will shift necessary capital from the private sector to the public sector, thereby depriving private enterprise of the source of true economic growth and making Washington state even less competitive for new businesses and jobs."

"There is nothing in modern economic theory that bestows special status to any government spending," says Douglas Wills, Associate Professor of Economics at the University of Washington in Tacoma. "For the state government to maintain expenditures in the face of declining revenues implies increased taxes on current citizens, future citizens, or, as is more likely, on both. By reducing expenditures during this time the government is doing exactly what any responsible household would do."

Even as the economy has deteriorated, peoples' property tax burden has grown; the Business & Occupation Tax falls hardest on small businesses, discourages growth, and takes money even when a business makes no profit; and the sales tax discourages one crucial aspect of economic recovery: consumption. Exacerbating these problems is not the solution to the state's budget problem.

"The state revenue forecast indicates we are mired in recession," said Dann Mead Smith, President of Washington Policy Center. "The last thing lawmakers should do is inhibit our economic recovery by raising taxes and damaging our ability to turn the economy around."

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Additional WPC Resources on the State Budget (available at washingtonpolicy.org)

- *Resources for Building the State Budget* (includes WPC's $2.9 billion "do not buy" list)
- *Why Government Spending Does Not Stimulate Economic Growth*
- *Changing the Budget Status Quo*
- *Principles of Taxation for Elected Officials*
- *Budget Needs Reform for Taxpayers to Win*

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Despite some news reports, not all economists believe increasing taxes is the best way to overcome Washington state's budget deficit.

In fact, we believe that raising taxes during a recessionary period is contrary to responsible economic policy and instead will thwart the state's economic recovery. Leaving earnings in the hands of individuals and businesses is the best way to help grow the private sector, create jobs and lead to higher levels of consumption.

Increasing taxes at this time will shift necessary capital from the private sector to the public sector, thereby depriving private enterprise of the source of true economic growth and making Washington state even less competitive for new businesses and jobs.

Higher taxes will depress the short-term economic growth needed to bring Washington out of the recession and will reduce prosperity in the medium and long-term.

Signed by the following state and national economists:

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