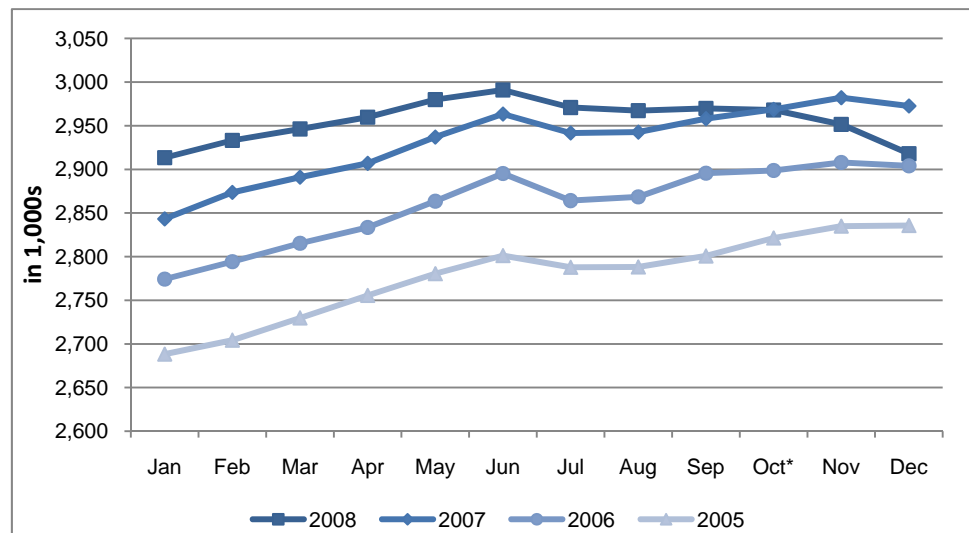


Recession Reaches Washington: A State Response

BY MARILYN P. WATKINS, PH.D.

During the first half of 2008 Washington's economy slowed but looked relatively healthy compared to the rest of the United States. In September, as job losses accelerated nationally, Washington, too, began shedding jobs. By December 2008, Washington had 54,800 fewer jobs than twelve months earlier. Announcements of layoffs by major employers in January 2009, including Microsoft, Boeing, and Starbucks, indicate the state has not yet hit bottom.

WASHINGTON NONFARM JOBS 2005-2008



*October 2008 figure adjusted to include striking Boeing workers. Source: *Workforceexplorer.com, Historical Series, Not Seasonally Adjusted*

The recession has caught up with Washington. It is more important than ever that the state avoid drastic spending cuts that could feed the downward spiral. The 2001 recession provides clear evidence of public policies *not* to follow. The federal government enacted tax cuts focused on the wealthy. Washington State relied primarily on cuts in public services to balance the budget. With these policies, Washington, along with much of the country, endured a three-year job slump. Job levels of 2000 were not attained again until 2004. Once economic growth resumed, most of the benefits went to the wealthiest while the majority of families struggled. In the current recession, President Obama's strategy to invest in infrastructure and a range of services shows more promise.

Unfortunately, Washington State appears poised to repeat the mistakes of the last recession by slashing public services— and jobs —which could deepen and prolong the effects of the recession locally.

Washington's economy will recover more quickly if the state maintains important public services, supported by carefully targeted tax increases.

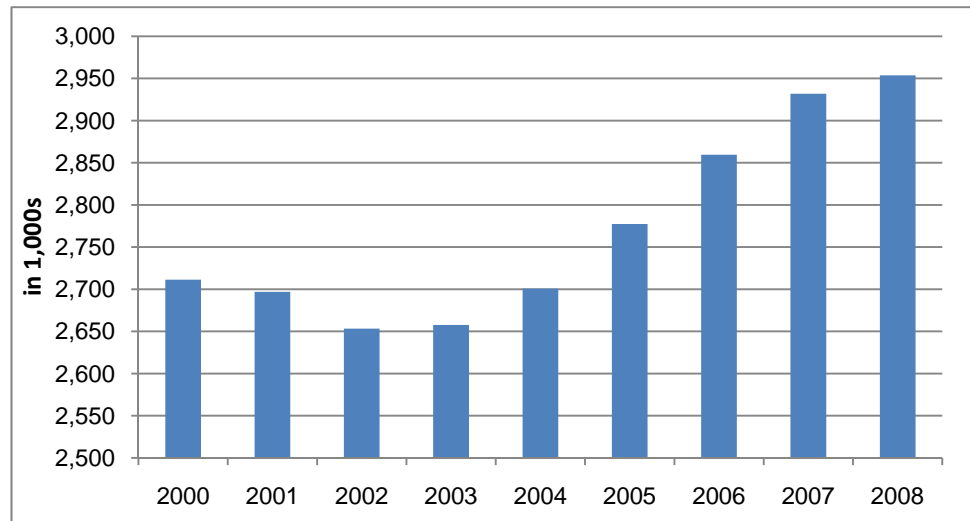
BLUEPRINT for change

FEBRUARY 2009
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Washington's Economy 2000-2008

Despite the economy's sharp slide in the fall of 2008, Washington ended the year with 22,000 more average monthly jobs than in 2007. From 2000 through 2008, jobs in Washington grew 8.9%. All of that net increase occurred after early 2004. The working-age population (ages 20 to 64), meanwhile, increased by 14%, resulting in a shortfall of 137,100 jobs.¹ Even with that lackluster performance, jobs in Washington State have grown at more than three times the national rate so far this decade.²

WASHINGTON NONFARM AVERAGE MONTHLY JOB TOTALS, 2000-2008



Source: Workforceexplorer.com, Historical Series, Not Seasonally Adjusted

Economic security is increasingly tenuous for working families. Incomes at the top rose since 2000, while incomes for the majority barely kept pace with inflation.

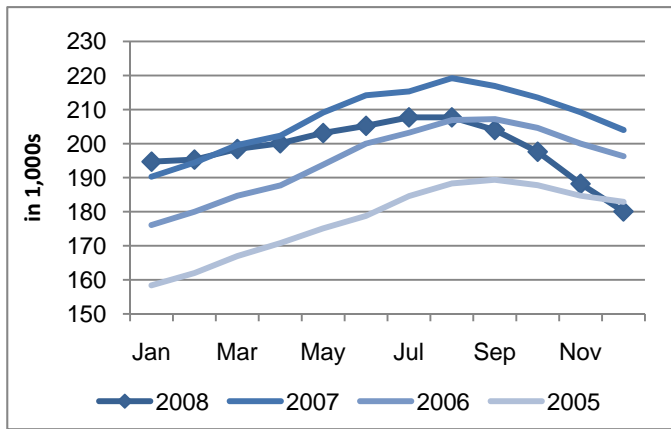
Not only was the economy slow to recover jobs after 2001, but economic security grew increasingly tenuous for the bulk of working families. Incomes at the top rose, while incomes in the middle and at the bottom barely kept pace with inflation. At the same time, the costs for health care shifted increasingly to workers, and other workplace benefits such as paid leave and retirement plans declined.³

Pursuing policies now that both inject money into the state economy and bolster economic security for working families will help stop the erosion of the middle class and rebuild a sustainable economy for coming decades.

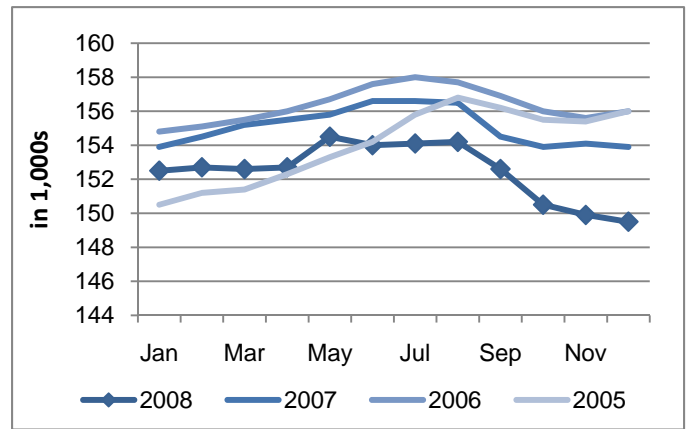
A Closer Look at Jobs in Washington

The current recession took hold in some sectors of the economy before 2008. Analysis of state job figures by sectors shows that **financial services** in the state began losing jobs in late 2006. The **construction** industry began slowing in late 2007 and lost jobs through 2008, ending the year with the same number of jobs as in December of 2005.

CONSTRUCTION



FINANCIAL SERVICES

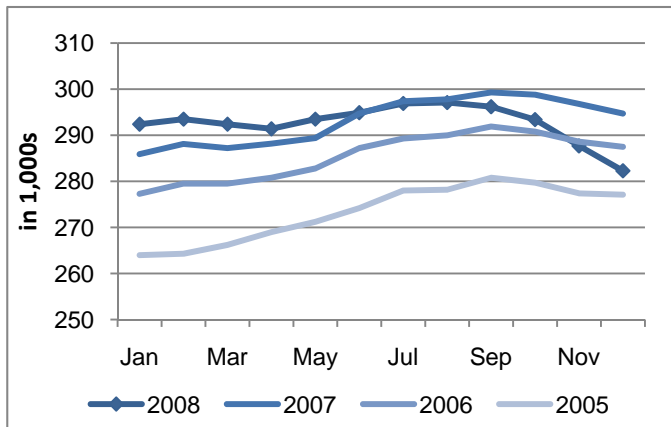


Source: Workforceexplorer.com, Historical Series, Not Seasonally Adjusted

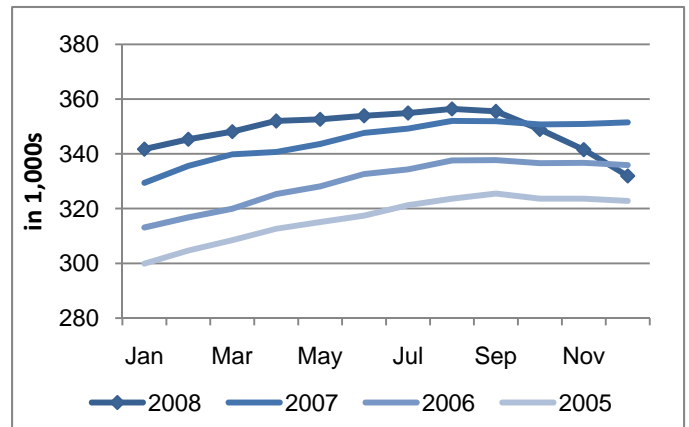
Employment in **manufacturing, retail, and restaurants** dropped to 2007 levels in mid-2008, then declined further in the last quarter of 2008. **Retail** employment did not

experience the usual holiday spike in 2008 as consumer confidence plummeted. **Business and professional services** also fell sharply in the last quarter.

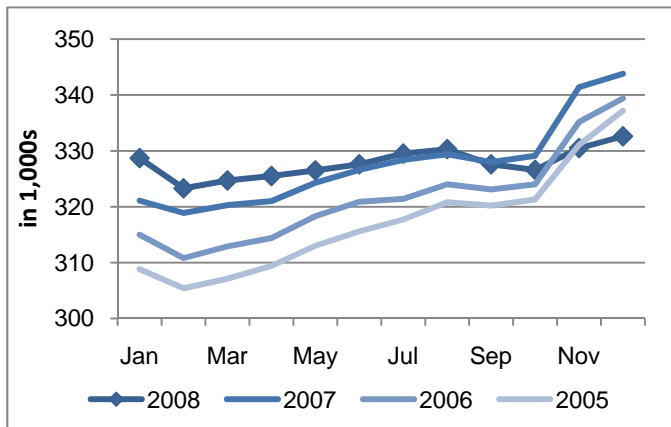
MANUFACTURING



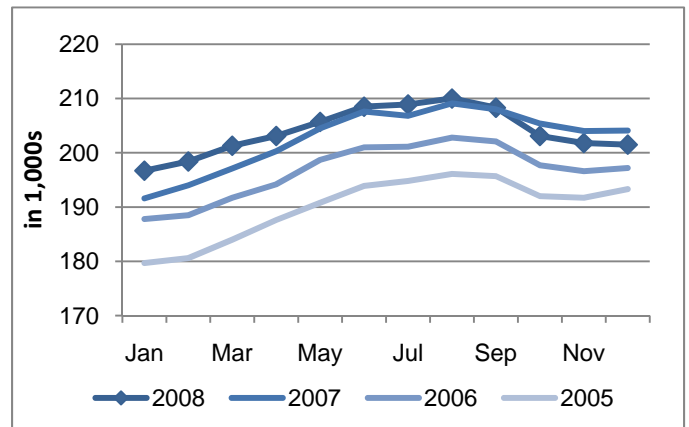
BUSINESS AND PROFESSIONAL SERVICES



RETAIL



RESTAURANTS

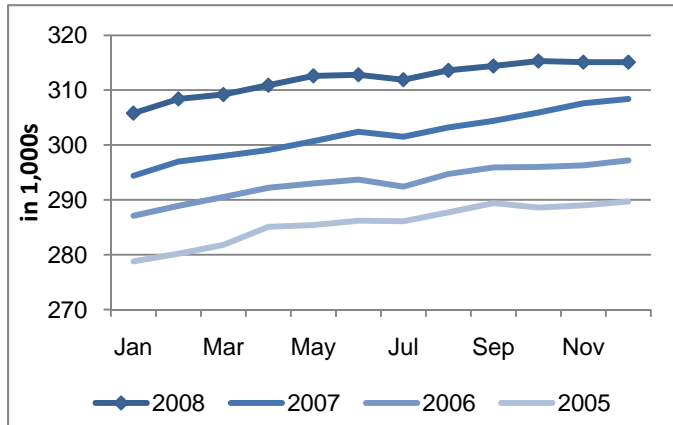


Source: Workforceexplorer.com, Historical Series, Not Seasonally Adjusted

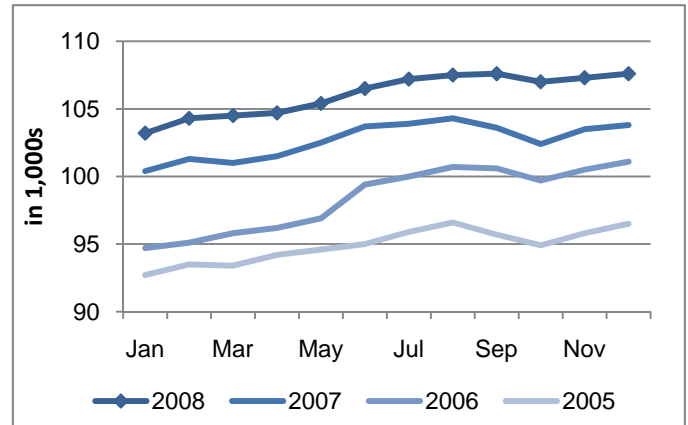
Two major sectors that showed little impact from the economic storm during 2008 were **information**, including software publishing, and **health and social assistance**. However, announcements of layoffs by Microsoft and Swedish Hospital in early 2009 signal that these economic bright spots are also dimming.⁴

State and local government jobs also held steady in 2008, but are likely to decline in 2009 in response to looming budget deficits. Both state and local government jobs grew at a slower pace than total job growth from 2005 through 2008, at 3.1% and 4.3%, respectively, compared to 6.3% overall.

HEALTH & SOCIAL ASSISTANCE



INFORMATION



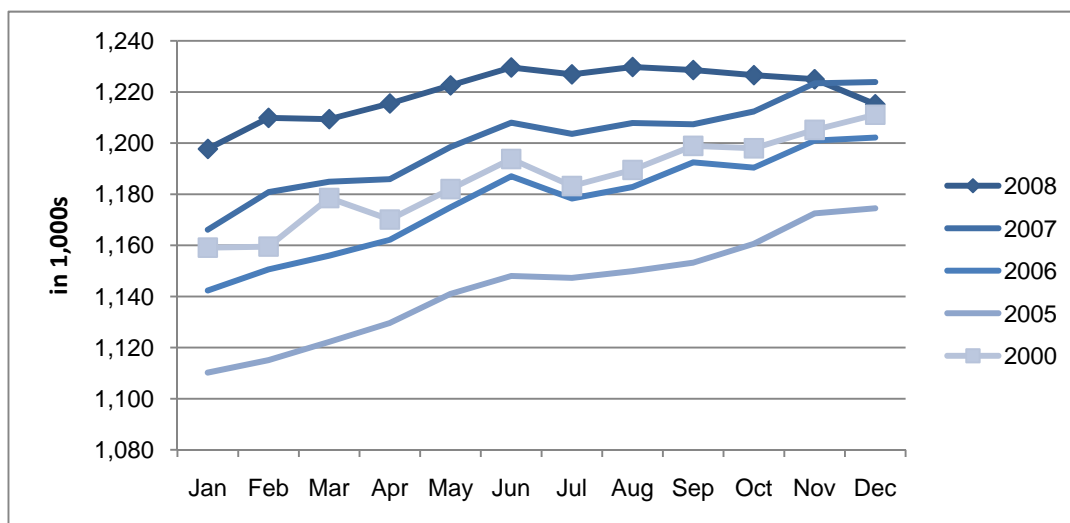
Source: Workforceexplorer.com, Historical Series, Not Seasonally Adjusted

King County

King County, with 41% of total state jobs, was the biggest job loser following the 2001 recession. By the end of 2006, jobs in the county still had not regained their 2000 level. The year 2007 finally posted higher job

numbers. Well into 2008, jobs in the county continued to grow. But the fall financial meltdown hit King County, too. In December 2008, King County had the same number of jobs as in December 2000.

KING COUNTY NON-FARM JOBS, 2000 AND 2005-08



*October 2008 figure adjusted to include striking Boeing workers. December 2008 figure preliminary. Source: Workforceexplorer.com, Historical Series, Not Seasonally Adjusted.

Washington's Budget: All Cuts Will Deepen Recession

Sales, real estate, and other tax revenues have fallen along with economic activity.⁵ In response to a projected budget deficit of roughly \$8 billion for the 2009-11 biennium – or one quarter of the state budget, Governor Gregoire has proposed to cut programs, reduce staff, and limit pay raises for teachers and other public sector workers. She has also proposed some state stimulus from non-General Funds, by moving capital projects forward and boosting unemployment benefits. However, she has not proposed any state revenue increases. Federal money is likely to off-set some state reductions, particularly in health care, but substantial cuts in both services and public jobs will occur without new state revenue.

The no-new-taxes approach is likely to deepen Washington's recession. Layoffs of public sector workers are as damaging to the local economy as private sector layoffs. Moreover, public services targeted toward low and moderate income state residents help the economy grow. These people are highly likely to spend all of the money received in benefits or saved through state services. A recent study found that the two most effective ways to infuse money into the economy were increasing food stamps and expanding unemployment benefits. For every public dollar spent, food stamps generate \$1.73 through the economy and unemployment insurance generates \$1.64. In contrast, a business tax break allowing accelerated depreciation of new equipment would generate only 33 cents for each public dollar spent.⁶

In similar findings during the 2001 recession, prominent economists Peter Orszag and Joseph Stiglitz concluded that maintaining state services by increasing taxes – especially on higher income individuals who would otherwise save a portion of the money or spend it out-of-state – was the better option for state governments facing deficits.⁷

Maintaining state services by increasing taxes – especially on higher-income individuals – is a better option for states facing deficits.

Raising the Right Kinds of Revenue

Washington is hampered by a regressive tax system that lacks an income tax or other easy way to target a tax toward higher income individuals. The state also has a structural deficit, with revenues over time growing more slowly than the state economy and demand for services, such as K-12 and higher education. Making this situation worse, over the past five years alone, the state legislature has passed over \$900 million in tax exemptions, further shrinking the tax base and adding to the current deficit.⁸

New tax revenues raised primarily from higher income individuals and businesses and spent on services for low and moderate income state residents will have the most stimulating effect on the state economy. **New revenues that expand the tax base** will strengthen Washington's tax structure both in the short and long run, enabling us to finance the education and other services needed in the 21st century economy.

REVENUES TO STIMULATE THE ECONOMY AND STRENGTHEN TAX STRUCTURE

Examples	Estimated Revenues 2009-11 biennium
Sales tax on security brokers	\$136.5 million
B&O rate increase from 1.5 to 2% (on lawyers, engineers, architects, lobbyists, consultants, advertising)	\$119.6 million
B&O rate increase on oil refining from .484 to .968	\$170.0 million*
Estate tax, double rates above \$9 million	\$98.2 million**
Suspend B&O credit for pop syrup	\$20.7 million
Soft drinks, 5 cents per 12 oz can at wholesale	\$277.0 million
Bottled water, 1 cent per oz at wholesale	\$365.9 million
Sales tax on candy & gum	\$58.8 million
Total	\$ 1,246.7 million

* EOI estimate from 2005 gross receipts from refineries in Washington (NAICS 324110);

**EOI estimate from Washington Department of Revenue data.

All others from Department of Revenue, "Estimate Impact of Revenue Alternatives," Nov. 2008.

Washington needs a new tax structure to achieve a world class education system for the 21st century economy.

Wasting a Crisis – When If Not Now?

Washington's current tax structure is inadequate to fund the new investments needed to upgrade our education system to world class standards. From early learning to graduate programs, Washington State is underfunding its paramount duty to provide amply for the education of all children. We are short changing our own future.⁹

The current fiscal crisis provides an ideal vehicle to engage in dialogue with the citizens of Washington on the need for serious tax reform. In addition to measures to raise immediate revenues to invest in spurring economic growth, the 2009 Washington Legislature should also move forward on comprehensive reform. Instituting an income tax will take several steps and two to three years. Proposals for a tax limited to incomes over \$200,000 as well as more comprehensive measures should be considered.¹⁰

Conclusions – Public Policy for the Great Recession

The severity of the current recession is daily becoming more evident. The failed policies adopted by the Bush administration and still espoused by conservative think tanks and many “moderates” pushed the United States – and now most of the world – into financial crisis. Cutting taxes, reducing government oversight, delegitimizing public services, underfunding infrastructure, and abandoning America’s children and families resulted in growing insecurity and inequality even before the economy collapsed.

We need a change of course that reclaims our shared responsibility for public structures and restores economic security for working families. Government at all levels has a central role in building the foundations for a strong, sustainable economy, where individual initiative can thrive and opportunity is open to all.

Americans rely on their government to regulate private companies and protect them from predatory lending, tainted food, toxic toys, and greenhouse gases. Our democratic ideals and economic prosperity rest on government providing educational opportunity for all, supporting research, and building the infrastructure of roads and public transit systems on which commerce depends. And middle class economic security is undergirded by social supports that protect families and individuals when crisis or bad luck strike – access to health care, paid family leave, retirement security, and a social safety net.

The residents of Washington need our state government to step up to its role. In the current crisis, we cannot rely on largess from the federal government alone. We must both raise new revenues for the 2009-11 budget and begin serious efforts toward adopting a fairer and more robust tax system. Only then can we make the investments that shared prosperity and democracy demand in the modern economy.

We need a change of course that reclaims our shared responsibility for public structures and restores economic security for working families.

Endnotes

- ¹ State job figures from Washington Employment Security Department, Workforceexplorer.com, Historical Series, Not Seasonally Adjusted (December 2008 figure is preliminary.) Population numbers from Washington Office of Financial Management, "April 1 Population Estimates by Age and Sex, 1980-2008," <http://www.ofm.wa.gov/pop/coagemf/state.pdf>.
- ² National figures from Bureau of Labor Statistics, Employment, Hours, and Earnings from the Current Employment Statistics Survey (National), data extracted January 29, 2009 (November and December 2008 figures preliminary) <http://www.bls.gov/>.
- ³ For further details see Marilyn P. Watkins and Cara Saunto, *The State of Working Washington 2008: Who's Prospering, Who's Not – And how We Can Build Economic Security for All*, Economic Opportunity Institute, September 2008; Lawrence Mishel, Jared Bernstein, Heidi Shierholz, *The State of Working America, 2007-2008*, Economic Policy Institute, 2008; Jared Bernstein, Elizabeth McNichol, and Andrew Nicholas, "Pulling Apart: A State-by-State Analysis of Income Trends," Center on Budget and Policy Priorities and Economic Policy Institute, April 2008, http://www.epi.org/content.cfm/studies_pulling_apart_2008.
- ⁴ The Microsoft Blog, "Microsoft says it will slash 5,000 jobs," *Seattle Post Intelligencer*, January 22, 2009, <http://blog.seattlepi.nwsourc.com/microsoft/archives/160076.asp>; "Swedish to lay off 200 workers," *Seattle Post Intelligencer*, February 3, 2009, http://seattlepi.nwsourc.com/business/398633_swedisho4.html.
- ⁵ State of Washington, Economic and Revenue Forecast Council, Revenue Review Meeting, November 19, 2008, <http://www.ercf.wa.gov/pubs/rev1108.pdf>.
- ⁶ Moody's Economy.com, reported in CNN Money.com, January 29, 2009, http://money.cnn.com/2008/01/29/news/economy/stimulus_analysis/index.htm. On the benefits of public spending in recession, see also Dean Baker, "Economic Stimulus on the Cheap," *The Guardian*, February 9, 2009, <http://www.guardian.co.uk/commentisfree/cifamerica/2009/feb/09/us-economic-stimulus-senate>.
- ⁷ Peter Orszag and Joseph Stiglitz, "Budget Cuts vs. Tax Increases at the State Level: Is One More Counter-Productive than the Other During a Recession?" Center on Budget and Policy Priorities, revised November 2001, <http://www.fiscalpolicy.org/10-30-01sfp.pdf>.
- ⁸ Author's calculation from revenue measures adopted in 2008 and exemptions with realizable revenue enacted 2004-2007 in, Washington Department of Revenue, *Tax Exemptions 2008*, "Detailed Summary of Exemptions," http://www.dor.wa.gov/Content/AboutUs/StatisticsAndReports/2008/Tax_Exemptions_2008/Default.aspx.
- ⁹ For recommendations to upgrade Washington's public education system, see *Washington Learns* final report, <http://www.washingtonlearns.wa.gov/report/FinalReport.pdf>.
- ¹⁰ See Marilyn P. Watkins, "Fairer Taxes For Washington," April 2008, Economic Opportunity Institute, http://www.eoionline.org/public_revenue_spending/reports/FairerTaxesForWashington-Apro8.pdf; and Washington State Tax Structure Study Committee, *Tax Alternatives for Washington State*, November 2002, <http://www.dor.wa.gov/Content/AboutUs/StatisticsAndReports/WAtaxstudy/wataxstudy.htm>.