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Supermajority Law's Damaging Legacy:
I-1185 Would Renew A Policy That Has Eliminated Jobs And Thwarted Economic Recovery In Washington State

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Introduction

Initiative 1185, which will appear on the November 2012 ballot in Washington state, jeopardizes our economic future and undermines basic values held by the vast majority of Washingtonians – such as healthy families, education and opportunity, thriving communities, and economic security.

It would renew the so-called "supermajority law," which bars policymakers from raising additional tax resources without a two-thirds (supermajority) vote of the legislature, or a vote of the people. That law has already caused enormous damage to Washington's economy, and renewing it would be a mistake.

During the worst recession of the post-World War II era, the supermajority law has given a small handful of lawmakers the ability to block legislation to raise the additional revenues necessary to bolster Washington's economy. As a result, policymakers have been forced to slash funding for health care, schools and colleges, and other public investments that create jobs and support a strong state economy.

Just in the past three years, the supermajority law has been responsible for:

- **The elimination of thousands of jobs in Washington:** Since the summer of 2009, about 18,000 jobs – teachers, child protection agents, parole officers, health care workers – have been directly eliminated due to state budget cuts. Thousands of additional private-sector jobs have been lost as a result of these layoffs and in turn reduced state and local government investments in the economy. Many jobs could have been preserved, were it not for the supermajority law.

- **Protecting wasteful tax breaks at the expense of public investments that support a strong state economy:** The supermajority law blocks policymakers from curbing special tax breaks for large, profitable corporations that don't need them. Even tax breaks that state auditors fault for failing to create jobs cannot be touched under the supermajority law. This wastes precious resources that could be used for education, health care, public safety, and other investments proven to foster economic growth.

- **Suppressing economic growth and causing human suffering:** Supermajority-induced budget cuts have deepened and prolonged the recession, taking public resources out of the economy when they are most needed. Cuts to education, health care, and other services have also taken an enormous human toll. Thousands of seniors can no longer afford prescription drugs. Large reductions to basic food assistance mean many households must go without nutritious meals or choose between food and other necessities.

- **Reducing opportunities for the next generation of Washingtonians:** The supermajority law has been especially harmful to young workers and families. Prospects of long-term prosperity and economic opportunity have been dimmed by short-sighted budget cuts to higher education, work supports largely utilized by young working families, and health care. The next generation of Washingtonians will shoulder most of the economic damage caused by the law, jeopardizing Washington's middle class.

It didn't have to be this way. Without the supermajority law, policymakers could have taken a more responsible and balanced approach to the downturn – one that included new revenue to save jobs and protect basic public priorities and values.

As long as Washington state is saddled with the onerous supermajority law, the state will not be able to make job-creating investments in transportation, public safety, health care, and education. If I-1185 is allowed to cement the law into place for another two years, those investments will continue to erode, forcing the next generation of Washingtonians to accept fewer jobs and limited opportunities.

It is not clear whether the supermajority law is even legal under the Washington State Constitution. Later this year, around the time voters will be deciding whether to approve I-1185 on the November ballot, the State Supreme Court will review the law. No matter how the Court rules, the supermajority law is a destructive policy that has done great damage to Washington state.

Power To The Few

For much of the last two decades, the supermajority law has given a small handful of lawmakers de facto control over the state budget. The law, which has been on the books in various forms since 1993, bars policymakers from raising taxes without a two-thirds vote of the legislature or a vote of the people. It allows as few as 17 state Senators (one-third of the 49-member chamber) to block legislation that would raise revenues to support state and local public health, education, and safety investments.

The supermajority law has made it nearly impossible for lawmakers to take a responsible and balanced approach to Washington's ongoing economic problems. Instead, just a handful of lawmakers – those who are ideologically opposed to any tax increase for any purpose – have forced the majority to accept unnecessarily deep cuts to public health and education priorities in the last few years.

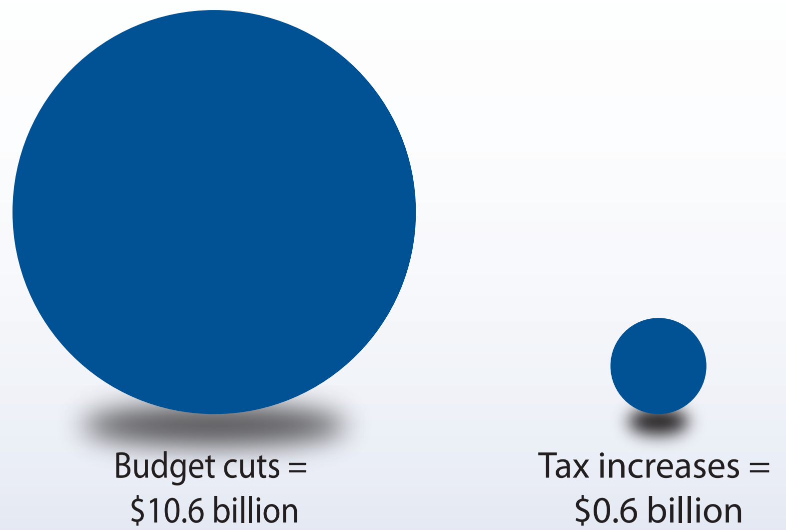
Figure 1 illustrates just how lopsided Washington's approach to the Great Recession has been under the supermajority law. Since 2009, for every one dollar in new revenue raised to support higher education, child care, and other economic investments, more than $17 has been cut from those services. In fact, tax increases and other revenue enhancements account for a mere four percent of the actions taken to balance the state budget over the past three years.[1]

Protecting wasteful tax breaks

The supermajority law is so broad that it has prevented lawmakers from raising additional resources simply by ending wasteful tax breaks – even those that don't create jobs and that predominantly benefit large, profitable corporations. It requires two-thirds of the legislature to modify or eliminate a tax break, but a simple majority to create one. This unequal treatment, making it far easier to create a new tax break than to weed out an underperforming one, has greatly under-

Figure 1: Damaging Public Service Cuts Dwarf Job-Saving Revenue Increases

Actions taken to balance the state budget since 2009



Source: Budget & Policy Center Calculations of Data from LEAP

mined transparency and accountability in Washington's entire budget process.[2]

Many of the 640 tax breaks on the books in Washington state have no proven ability to create jobs. Since 2007, the Joint Legislative Audit Review Committee (JLARC) has evaluated the performance of state tax breaks, with most subject to scrutiny at least once every ten years. So far, JLARC has reviewed 120 tax breaks. It has recommended terminating six because they do not fulfill their intended purpose and re-examining or clarifying another 29 that have no explicit public purpose whatsoever.[3]

Because of the supermajority law, the legislature has not been able to terminate a single tax break in accordance with JLARC's findings. In early 2012, one tax break – a wasteful Business and Occupation (B&O) tax deduction claimed mostly by large out-of-state banks – was narrowed.[4,5] However, in exchange for agreeing to limit that tax break, a small group of legislators successfully demanded the expansion and extension of other tax breaks. As a result, the state will actually lose more revenue from these expanded tax breaks in coming years than it will able to recoup from the bank deduction.[6]

Damaging Legacy

Even in normal economic times, the supermajority law has prevented lawmakers from providing adequate funding for higher education, health care, and other public investments essential to building a modern and competitive state economy. However, the greatest economic damage from the law has occurred just in the past few years.

Thousands of jobs needlessly eliminated

Tens of thousands of Washingtonians have lost jobs as a result of the Great Recession, and the supermajority law has made the situation far worse than it otherwise would have been. Without the law, policymakers could have responded to the recession with a balanced mix of targeted budget cuts and some tax increases. Such a balanced approach would have saved many jobs – both in the public and private sectors – and would have preserved core public health and education investments.

Instead, the supermajority law forced policymakers to cut public investments by $10.6 billion since 2009.[7] This damaging, all-cuts approach to the recession eliminated health care, child care, worker re-training, and other economic services right when they were most needed. It also eliminated thousands of jobs.

Since the deepest part of the recession in June 2009, the jobs of nearly 18,000 child protection workers, parole officers, health care workers, and other frontline public workers have been lost.[8] As Figure 2 shows, while private sector employment has increased by about 3 percent (83,200 jobs) since summer 2009, the state and local government workforce has declined by nearly 4 percent (17,800 jobs) during the same period.

That drop has significantly held down growth in total employment and has held back a broader economic recovery in Washington state. Without the loss of teachers, parole officers, child protection workers, and other state and local government employees, the economy would have added at least 83,000 new jobs since 2009 – well above the actual growth of 65,400 jobs.[9]

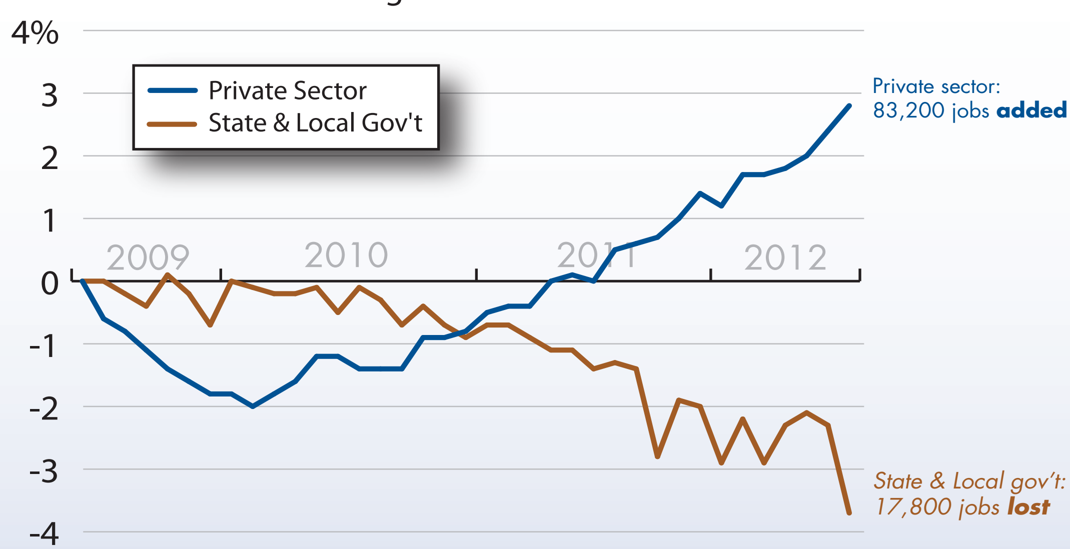
Supermajority law has eliminated private-sector jobs too

The supermajority law didn't just eliminate the jobs of teachers, public health workers, and parole officers. Thousands of private-sector workers have also lost jobs as a result of the unnecessarily deep state budget cuts.[10] That's because:

- **Cuts have hurt thousands of private businesses that contract with the state:** Washington's state and local governments contract with thousands of local businesses and nonprofit organizations to build and maintain roads, bridges, and other transportation infrastructure; provide medical, dental, and mental health care; and do family counseling and other important public services. Jobs were

Figure 2: Public Sector Job Losses Harming Recovery

Percent change in employment in Washington state since June 2009, private sector vs. state & local government



Budget & Policy Center calculations; seasonally-adjusted monthly employment data from BLS eliminated as the state reduced purchases and lowered payments to these businesses. As of 2009, 41 percent of human service nonprofits that contract with the state or local governments in Washington have been forced to lay off staff as a result of budget cuts.[11] Today, that share is certainly much higher due to an additional $5 billion in cuts to public health, education, safety services enacted since 2009.

- **Laid-off teachers and other public-sector workers can't fully participate in the economy:** When teachers, nurses, child care workers, or other public-sector employees lose their jobs, they must sharply curtail their spending in order make ends meet. They reduce their purchases of goods and services from local businesses. When 18,000 workers stop buying, the whole economy suffers, and businesses are forced to eliminate jobs or postpone hiring additional workers. That is exactly what has happened in Washington state.

Were it not for the supermajority law, many of these jobs could have been saved.

The human toll of the supermajority law

Beyond the economic damage they have done, state budget cuts have greatly harmed thousands of workers, children, seniors, and people with disabilities in other ways. Since 2009:

- More than 66,000 Washingtonians have lost health coverage, forcing them to go without care or seek expensive ER services that make the system more costly for all of us.[12]
- The number of kids in K-12 increased by 12,135 between 2008 and 2010, but the number of teachers in classrooms shrunk by nearly 3,000.[13]
- Roughly 20,000 individuals who cannot work due to a disability have seen their income support vanish.[14]
- Funding for Regional Support Networks, which manage and coordinate mental health care for over 120,000 people, has been slashed, leaving many without needed care.[15]
- Basic food assistance was halved for about 14,000 struggling people, forcing them to choose between nutritious meals and other neccessities.[16]
- More than 180,000 have lost dental care, eyeglasses, hearing devices, and podiatry services.[17]
- More than 50,000 seniors have lost prescription drug assistance, making vital medication too expensive for many.[18]
- Use of Maternity Support Services – a program shown to improve maternal and child health outcomes – has fallen by as much as 40 percent in some counties.[19]

These and other severe cuts to core public priorities have made the recession deeper and more painful than it otherwise would have been. However, it's the next generation of Washingtonians that will shoulder most of the economic damage caused by the supermajority requirement.

Less opportunity for future workers

The supermajority requirement has jeopardized the economic future of Washington state. Young adults, whether pursuing higher education or beginning their professional lives, are coming of age during a dismal economic reality – one that translates into lower-than-expected lifetime earnings and diminished careers.[20] As young workers age, long-term reductions in income and well-being mean a future of less prosperity, limited economic growth, and a weakened middle class.

In the past, when young adults have struggled with a poor economy, the state has responded with sustained investments that encourage opportunity and a strong economy by adequately funding higher education, basic supports for lower-income working people

Why Raising Taxes Would Have Saved Jobs and Mitigated Economic Damage

State policymakers can do much to mitigate job losses and reduce overall economic damage during a recession, but not with a supermajority requirement for revenue increases standing in the way.

Losing a job greatly compromises workers' ability to support their families, get adequate health insurance, and make ends meet. As cash-strapped households rein-in spending, local businesses are forced to eliminate even more jobs due to the reduced demand for their products or services.

State governments can help break this destructive cycle and limit total economic damage by maintaining investments in public services. During a recession, preserving health care, job-training, higher education, and other economy-building public investments helps to stem job losses because to keep delivering these important public services, the state must maintain (or even increase) its purchases of goods and services from local businesses. In doing so, it helps keep consumer demand high, which in turn supports the public and private sector jobs that help meet that demand.

But mass layoffs and reductions in consumer spending also greatly reduce tax resources that pay for public health, education, and safety investments. To keep the state budget in balance, policymakers must either raise taxes or sharply cut these important investments.

Given those choices, severely cutting public services is the most damaging action a state can take during a recession, according to two highly regarded economists – Nobel Prize winner Joseph Stiglitz of Columbia University, and Peter Orszag, former director of the federal Office of Management and Budget.[a,b] While both budget cuts and tax increases reduce demand, budget cuts do more overall damage to a state's economy, they argue.

That's because budget cuts directly reduce a state's investment in the local economy on a dollar-for-dollar basis. In other words, every dollar cut from public services is directly removed from the state economy – due to a combination of reduced purchases from local businesses, salary reductions for public sector workers, and lower support payments to struggling workers and families.

On the other hand, tax increases – especially those targeted to higher income households – do not reduce demand on a dollar-for-dollar basis. That's because some of the money used to pay the additional taxes comes from either savings, which would not otherwise be spent in the local economy; or reduced purchases of goods from other states, which would have no impact on the local economy.

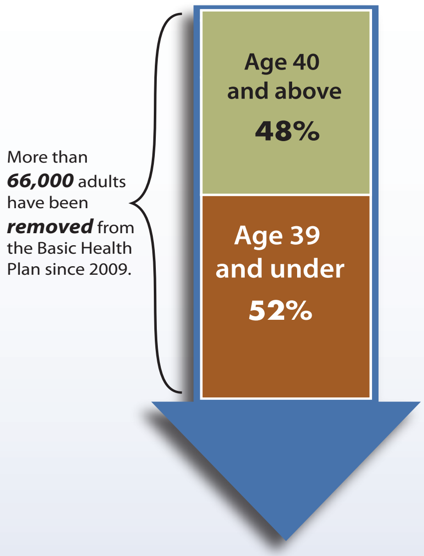
Unfortunately, the supermajority law has forced policymakers in Washington state to take the most damaging, cuts-only approach to the Great Recession. By blocking additional resources to maintain crucial health, education, and safety investments, the law has forced some $10.6 billion in damaging cuts to these assets since 2009. Without a change in direction, these cuts will continue to hold down Washington's economic recovery.

a.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, November 2001, http://www.cbpp.org/cms/index.cfm?fa=view&id=1346.

b.Nicholas Johnson, "Budget Cuts or Tax Increases at the State Level: Which Is Preferable When the Economy Is Weak?, Center on Budget and Policy Priorities, April 2010, http://www.cbpp.org/cms/?fa=view&id=1032.

Cuts to Basic Health Plan Felt Hardest by Young Adults

Percent share of adult BHP disenrollment, by age group, 2009-12



Source: Budget & Policy Center analysis data from HCA

and investments in public health. During the Great Recession, the supermajority requirement prevented the state from taking this normal course of action.

Young adults have paid the price. Since 2009, cuts to the higher education system have resulted in a 94 percent increase in the average cost to attending four-year college in Washington state.[21] Temporary Assistance for Needy Families (TANF), a program in which nearly three out of five adults served are between ages 18 and 30, was cut by $127 million this past legislative special session.[22]

As noted above, since the beginning of 2009, cuts to the Basic Health Plan have cost some 66,000 lower- and moderate-income adults their health insurance. Young Washingtonians have been hit hard: 52 percent of those who lost coverage were age 39 or younger (Figure 3).[23] Our state's young adults are facing higher barriers to care and more out-of-pocket costs, which could saddle them with high levels of debt for years to come.

Young Washington state residents who work hard and have played by the rules, through no fault of their own, see opportunity slipping away through higher tuition costs, fewer available work supports, and heightened fears of unanticipated health care expenses. The supermajority law means a steeper climb to prosperity for our future small business owners, community leaders, middle class families and, consequently, all Washingtonians.

Conclusion

Initiative 1185 would renew a law that has greatly undermined core public values held by the vast majority of Washingtonians – such as education and opportunity, thriving communities, economic security, and healthy families. By giving a small handful of lawmakers de facto control of the state budget, the supermajority law compromises Washington state's democratic institutions and the republican form of government they support.

Under the law, policymakers have been forced to cut some $10.6 billion in funding for essential public investments that create jobs and build a strong state economy. These cuts have eliminated thousands of jobs in Washington state and have stifled economic growth. They have also taken an enormous toll on the health and well-being of workers and families from Aberdeen to Spokane, while reducing opportunities for the next generation of Washingtonians.

It doesn't have to be this way, however. Without the supermajority law, Washingtonians would be empowered to make crucial investments needed to create jobs and build a more prosperous state for years to come.

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Foundation. The findings and conclusions presented in this report are those of the author alone, and do not necessarily reflect the opinions of these organizations.

Endnotes

1. Budget & Policy Center calculations; data from the Legislative Evaluation & Accountability Program (LEAP) Committee and the Economic and Revenue Forecast Council (ERFC).

2. Andy Nicholas, "Every Dollar Counts: Why It's Time For Tax Expenditure Reform," Washington State Budget & Policy Center, February 2011, http://budgetandpolicy.org/reports/every-dollar-counts-why-its-time-for-tax-expenditure-reform.

3. Citizen Commission for Performance Measurement of Tax Preferences, "Recap of Legislative Actions on Prior Reviews," July 2012, http://www.citizentaxpref.wa.gov/documents/Scorecard.pdf.

4. 2012 Senate Bill 6635 limited the tax deduction for interest paid on loans secured by first home mortgages to banks that operate in 10 or fewer states, which was projected to generate about $15 million per year in additional revenue.

5. The Joint Legislative Audit and Review Committee concluded, "There is no evidence that continuation of the [first home mortgage interest deduction] will contribute to the implied public policy objective of making residential loans available to Washington home buyers at lower cost." See the 2011 report, located at http://www.leg.wa.gov/JLARC/AuditAndStudyReports/2011/Documents/12-2.pdf#page=93.

6. The net fiscal impact of SB6635 (legislation that narrowed the first mortgage interest deduction and extended other tax preferences) is estimated to be -$1.2 million in 2013-15 fiscal biennium. See the Department of Revenue's, "Summary of 2012 Tax Legislation," located at http://dor.wa.gov/Docs/Reports/2012/Summary_2012_Tax_Leg/2012LegSummary.pdf.

7. Budget & Policy Center calculations; data from LEAP.

8. Budget & Policy Center calculations; seasonally adjusted data from the Bureau of Labor Statistics (BLS).

9. Budget & Policy Center calculations; seasonally adjusted data from BLS.

10. Estimating the exact number of private sector jobs lost as a result of state and local budget cuts is beyond the scope of this analysis due to data limitations. However, as explained in box on page 6 of this report, that budget cuts remove demand from state economies to a greater degree than tax increases -- and therefore create more economic damage -- is supported by mainstream economic theory.

11. Elizabeth T. Boris, Erwin de Leon, Katie L. Roeger, and Milena Nikolova, "National Study of Nonprofit-Government Contracting: State Profiles," Urban Institute, Center on Nonprofits and Philanthropy, October 2010, http://www.urban.org/UploadedPDF/412227-National-Study-of-Nonprofit-Government.pdf.

12. Budget & Policy Center calculations; caseload data from the Health Care Authority (HCA).

13. Kim Justice, "Declining Support for Education Threatens Economic Growth," Washington State Budget & Policy Center, November 2011, http://budgetandpolicy.org/reports/declining-support-for-education-threatens-economic-growth/.

14. Kim Justice, "Economic Security: Key to Recovery and Prosperity," Washington State Budget & Policy Center, October 2011, http://budgetandpolicy.org/reports/economic-security-key-to-recovery-and-properity.

15. Kim Justice, "Cuts on the Rise, Health in Decline: The Impact of Cuts to Washing State's Health Care Structures," February 2012, http://budgetandpolicy.org/reports/cuts-on-the-rise-health-in-decline.

16. Washington State Department of Social & Health Services.

17. See endnote 15.

18. See endnote 15.

19. Lori Pfingst, "Women, Work, and Washington's Economy: How State Budget Cuts are Hurting All Three," Washington State Budget & Policy Center, February 2012, http://budgetandpolicy.org/reports/women-work-and-washingtons-economy?searchterm=Women%2C+Work.

20. Lisa Kahn, Yale School of Management, "The Long-Term Labor Market Consequences of Graduating from College in a Bad Economy" 2009, http://mba.yale.edu/faculty/pdf/kahn_longtermlabor.pdf

21. See endnote 13.

22. Budget & Policy Center analysis; data from LEAP.

23. Budget & Policy Center analysis; data from HCA.