

A Framework for Prosperity

Introduction

Washington's path to economic recovery and future prosperity is dependent upon the choices we make in the coming weeks. Our state budget is an essential tool for investing in smart choices that will uphold our values and put us on the right path. In the midst of the worst economy since the Great Depression, our state's primary responsibility should be to make investments that will ignite the economy, put people back to work, and provide opportunities for future generations to prosper.

Washingtonians know how to do this—we've done it before. Our state is a great place to live because people before us made deliberate and thoughtful decisions to invest in the future by building schools, parks, and roads, making college affordable, and creating safe, strong communities. Returning to these investments will speed our recovery and help Washington remain a place where families, communities, and businesses can thrive.

We have a vision to make this happen. The Framework for Prosperity has two components:

Invest in our future prosperity

By pursuing practical and reasonable strategies, we can emerge from the economic downturn as a state where everyone can achieve prosperity. Our strategies for building prosperity include:

- Putting Washingtonians back to work;
- Preserving opportunities for accessing high quality, affordable education;
- Creating conditions for healthy living and safe environments; and
- Building thriving communities by ensuring public safety.

Build a revenue system that works

We need an adequate, sustainable, and equitable tax system to make these investments. We can build this system by:

- Raising revenue now to address our immediate needs; and
- Making structural changes so that our revenue system is adequate and sustainable in the long-term.

The Framework for Prosperity provides a vision for the future and solutions to get us there. Together, we can create a state budget that works for everyone in Washington.

Invest in our future prosperity

The decisions made about the state budget play a significant role in our ability to put people back to work, educate our children, maintain the health and well-being of our communities, and provide economic security to those in need. Washington state should build a budget that can invest in the following strategies.

Put Washingtonians back to work

State investments in [economic security](#) protect families from poverty and deprivation when someone loses a job or faces financial hardship. These supports are especially important when the impact of a downturn is as severe as the one we are experiencing now. Our economic recovery depends upon keeping people employed, getting those without jobs back to work, and providing assistance to meet basic needs. To achieve this, the state should:

- Ensure that working parents can keep their jobs by providing assistance with child care;
- Help unemployed, low-income parents get and keep a job by providing education and training, job search, child care and financial assistance;
- Provide food and housing assistance to those who are most impacted by the recession so they can meet their basic needs and continue to participate in the economy; and
- Maintain a lifeline of financial support for people who cannot work due to a disability.

Preserve opportunities for accessing high quality, affordable education

In order for Washington to rebound from our current economic slump and secure our long-term prosperity, we must keep our education system strong. High-quality educational opportunities are fundamental to generating a skilled workforce that meets the demands of our state's industries, and essential for creating better job opportunities, higher wages, and job security

for everyone in the state. Policymakers should sustain an education system that will:

- Guarantee that children will have access to affordable, high quality early learning;
- Uphold a strong K-12 education system that provides students with a world-class education, high quality teachers, and prepares them for college or a job;
- Build a strong workforce through adequate funding of [public universities and community and technical colleges](#); and
- Ensure educational opportunities among low and moderate income students by providing financial aid support.

Create conditions for healthy living and safe environments

Good health and safe, clean environments are key to quality of life and the strength of our economy. Businesses succeed when they have a healthy workforce, families thrive when they have the resources they need to provide safe and healthy homes, the elderly and people with developmental disabilities are secure when they receive adequate care and protection, and we all benefit from a safe and clean environment. To safeguard the health of people and the environment, policymakers should:

- Maintain access to affordable, quality health care for children, pregnant women, working adults, vulnerable populations, and people with low-incomes;
- Provide resources needed to keep families intact and ensure that youth separated from their families live in safe homes and receive support during transitions to adulthood;
- Maintain a full range of supports and services for people with long-term health needs; and
- Protect public and environmental health by making sure food and water are safe and our forests, farmlands, and aquatic resources are sustained.

Maintain public safety to promote thriving communities

Vibrant communities depend upon the safety and protection of people, property, and neighborhoods. Therefore, we must ensure the stability and security of communities across the state. To guarantee this, policymakers should:

- Sustain access to supports and services that keep people from entering the criminal justice system, such as alcohol and drug treatment and mental health services; and
- Provide assistance to help former prisoners transition successfully to the community, such as housing support and connection to vital services.

Build a revenue system that works

We need revenue to make this vision a reality. For too long Washington's revenue system has failed to keep pace with the investments we value, our rapidly growing and diverse population, and the enormous demand for public health and family support services amid the most severe economic downturn in 60 years. Rather than bolstering these public structures during the economic downturn, deep cuts have been made that damage our ability to rebuild our economy, create jobs, and improve well-being for all Washingtonians. It is crucial that we modernize and broaden our revenue system in order to strengthen our economy and ensure Washington remains a place where families, communities, and businesses can thrive. The following strategies will build a revenue system that will put Washington on a stronger path to prosperity.

Raise revenue now

- **Temporarily increase and permanently modernize our state sales tax.** A [temporary, one-cent increase](#) would quickly generate about \$1 billion in new resources to help maintain our health, education, and community safety systems – all of which are essential to a vibrant and growing state

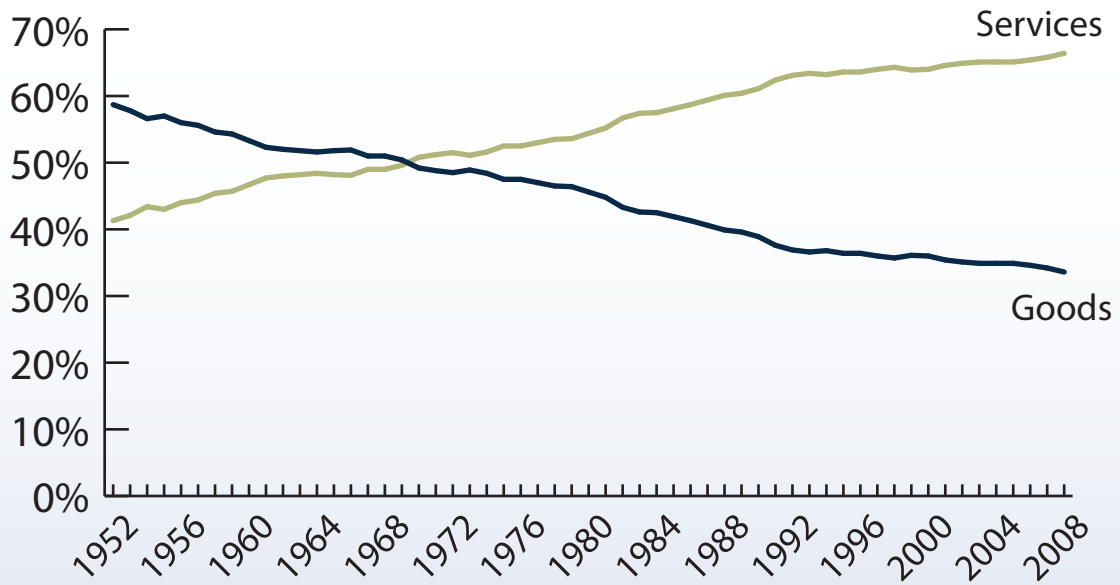
economy. To reflect the modern economy, the sales tax should also be updated to include currently untaxed entertainment and cosmetic services, which would generate more than \$100 million in new resources each year (see Figure 1). This expanded definition would ensure the tax became a more robust tool for financing important public priorities in the long run.

- **Eliminate unproductive tax breaks.** It is imperative that policymakers closely examine and prioritize all forms of state spending – including spending on special tax breaks. While closing tax breaks alone won't close our budget deficit, it would be a valuable place to start. The Joint Legislative Audit and Review Committee (JLARC) has identified 33 tax breaks that have no clear purpose or that fail to achieve public goals. Notably, a tax break that mostly benefits out-of-state banks costs our state some \$50 million each year in foregone resources. [JLARC found no evidence](#) that the break benefits homeowners or our state economy in any way.

Make long-term structural change

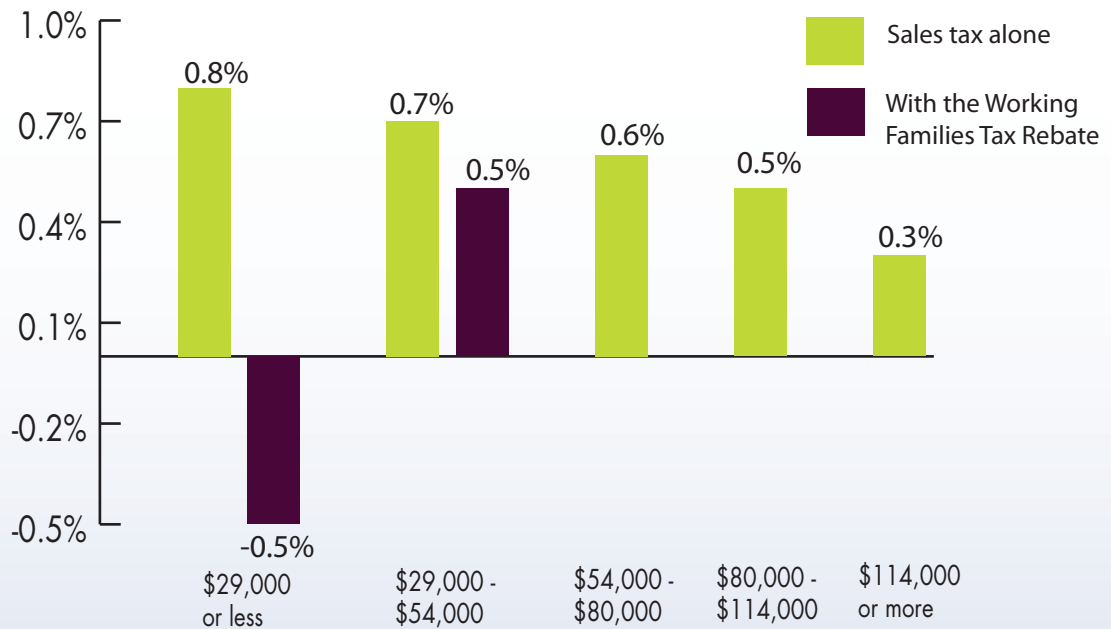
- **Enact a new tax on capital gains.** Capital gains – profits from the sale of stocks, bonds, vacation homes, and other real estate assets (not primary homes) – are an abundant but untapped economic resource in Washington state. Enacting a modest tax on capital gains would generate hundreds of millions of dollars in new job-creating resources that would grow rapidly over time.
- **Strengthen our Rainy Day Fund.** In good economic times our state should set aside resources to help maintain vital public priorities during recessions and other state emergencies. However, our current revenue system simply cannot support a robust [Rainy Day Fund \(RDF\)](#) while also maintaining core public structures. Devoting a share of revenue created under the capital gains tax (discussed above) would allow our state to build up

Figure 1: Goods and services in the U.S. as a share of personal consumptions expenditures, 1952-2008



Source: BPC calculations of data from the U.S. Bureau of Economic Analysis (NIPA 1.1.5)

Figure 2: Annual cost of a one-percentage-point increase in the state sales tax as a share of personal income, by 2009 income group



Source: Institute on Taxation and Economic Policy

ample reserves when times are good, diminishing the need for tax increases or damaging cuts to our health and education systems during economic downturns. Policymakers should also replace the RDF's onerous and arbitrary deposit and withdrawal requirements. Doing so would create a more accessible RDF that is sensibly replenished only during good economic times.

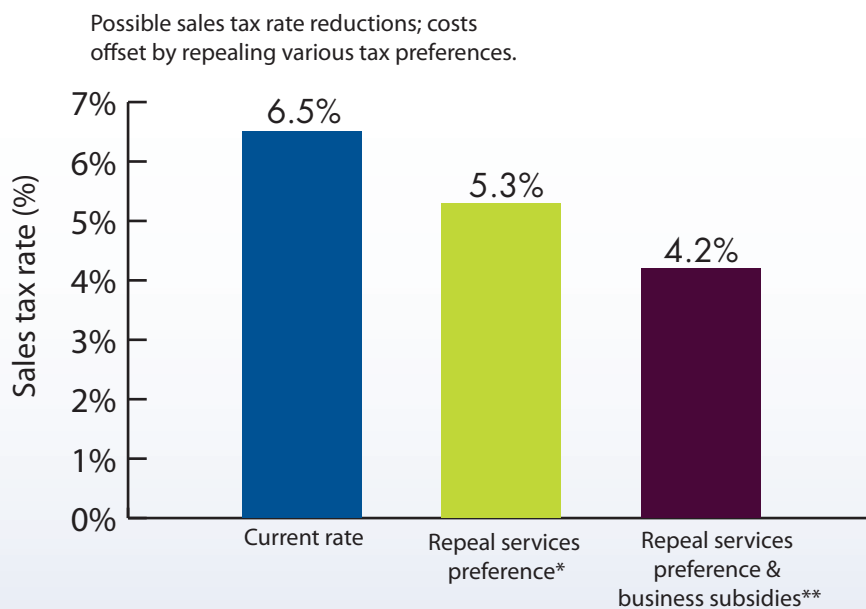
- **Lower taxes for lower-and middle-income families.** Our current revenue structure is upside down. It asks little of the wealthiest Washingtonians but consumes a large share of lower-and moderate-income families' resources. Based on the highly successful federal Earned Income Tax Credit, the [Working Families Tax Rebate \(WFTR\)](#) would significantly reduce taxes for lower-income working families with children in Washington (see Figure 2). Under full funding of the WFTR, families would receive a rebate of up to [\\$466](#) each year.

- **Increase transparency and accountability of our tax system.** Our current state budget process fails to account for the billions of dollars spent each year on [tax expenditures](#) - the hundreds of special credits, exemptions, deductions and other tax breaks (see Figure 3). To create a more holistic, transparent, and accountable state budget process we must pursue common-sense reforms that would allow policymakers and the public to balance the costs and benefits of tax expenditures against other important public priorities - like health care and education.

Conclusion

In the coming weeks, policymakers will convene to decide on what our future will look like. Now more than ever they should make the investments that we know create high quality jobs, a strong economy, and promote social and economic well-being for all Washingtonians.

Figure 3: Overall tax rates must be higher due to tax expenditures



Source: Budget & Policy Center calculations of data from DOR.
 *Sales tax exemption on personal and professional services. Assumes the B&O rate for services is reduced to the retailing rate.
 **All business tax incentives and preferences.

Our Framework for Prosperity lays out a vision that upholds the values that matter most to Washingtonians – economic security for all, educational opportunity, optimal health, a sustainable environment, and safe, strong communities. Coupled with an adequate revenue system, we can achieve this vision. Together, we can make Washington a state where everyone has the opportunity to thrive.

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