

## Editorial: No Time for a Hangover

August, 2002

The morning after the Primary Election Republicans woke to the realization that in an extremely competitive three-way primary they nominated a candidate who got 35 percent of the party's vote. The morning after, the party was not united, but it's been getting united, slowly.

Giddy Democrats, on the other hand, popped champagne corks on election night believing that the GOP's nominee for governor couldn't win, because even after being out of office for 16 years, Republicans had just nominated the most socially conservative of their three candidates.

Parallels with the California gubernatorial race are strong--Republicans in California, like Oregon, chose the social conservative primary candidate, Bill Simon, over Richard Riordan to run against the lackluster, if not disastrous, Democrat incumbent Gray Davis.

Oregon Democrats also clinked glasses after the election because nominee Ted Kulongoski got more than half of the party's votes. Word came quickly from party activists that the election would be a "play it safe," "low profile," "coast to victory" election.

Conventional wisdom in Oregon had spoken—not only is Kevin Mannix too much a social conservative to win, but also Ted Kulongoski is too lazy and too tied to unions to make any real difference on important issues that strangle Oregon, such as PERS reform.

As far as Oregon's future is concerned, conventional wisdom had better be wrong. Because there are some problems out there—big problems.

First, Oregon and the state's next governor have to flush out the excesses of the 90s culture... "the ethics and standards don't matter decade." Three years ago, at his impeachment trial, Bill Clinton did a good job of convincing the nation that "lying under oath," wasn't a big deal. That accomplished, it wasn't much of a stretch to convince accountants in the 1990s corporate culture, as *The Economist* recently wrote, "that anything less than double-digit growth in profits was regarded as a sign of timidity."

And the flushing, despite a mostly solid economy, will take time. The drag on the nation's economy, according to Fed Chairman Alan Greenspan, who spoke frankly about it in a series of Capitol Hill hearings in July, is because of a) the war on terrorism, b) accounting corruption and c) large high-tech inventories. All correctable problems, but not immediately.

Another urgent problem: state budgets are a mess. Again, according to *The Economist*, "states faced almost an ideal set of circumstances during the 1990s. Personal incomes

were rising so fast that states could cut taxes and still boost revenues. The combination of higher revenues, tax cuts, and abating costs was extremely unusual, but states reacted to it as if it were a permanent condition. They increased real spending by 28 percent per person during the 1990s, committing themselves to a range of new or expanded programs.”

The Wall Street Journal recently compared the best and the worst states in terms of spending. Colorado, which passed a 1993 constitutional amendment, The Taxpayer Bill of Rights, got top marks. “They couldn’t use an economic boom to build a permanently larger government. Per capita expenditures during Governor Owen’s four-year tenure grew by a total of just 8%—and now it (Colorado) is better prepared to ride out the technology recession.”

The big loser according to The Journal: California. “California by contrast, spent like drunken sailors—per capita general fund expenditures in the Davis era have jumped 31%, and now the politicians refuse to give up any of that government in the lean years.”

Oregon, like California, spent like a drunken sailor with state government spending up 70 percent in the 1990s. But we didn’t get much for our spending spree—certainly not infrastructure.

That’s a third problem the state must face: government spending grew by twice the rate of inflation, and Oregon still doesn’t have a competitive infrastructure, whether it’s roads, or a higher education system. Not good. Oregon’s only truly competitive offering these days is its public employee retirement system. Add high tax rates and draconian regulatory policies, and why stay in Oregon? Capital, as business leaders are saying more and more, is mobile. Why move to Oregon? The mayor of Portland calls this sort of look at today’s “real world” harsh realities playing the “blame game.”

According to a Cato Institute study, in the last decade the 10 states with the highest tax burden grew at half the rate of the 10 states with the lowest taxes. That’s how important low taxes are to a state’s business climate. Don’t even ask which direction Oregon is headed. Our legislature recently made Oregon one of only three states to raise personal income taxes.

Recent California polls show that Gray Davis’ reelection campaign, because of the state’s deteriorating economic condition, has been taken out of the “can’t miss” category and moved to the “in doubt” category—despite the fact that Simon is a social conservative. The same phenomenon is about to take place in Oregon, where Kulogonski’s “play it safe” strategy will prove inadequate this fall against Mannix.

Prediction: The next governor of Oregon will be the candidate who finds his voice on the issues that affect our future—issues of opportunity. After all, “It’s The Economy Stupid.”