EDITORIAL

TITLE: No State Is an Island

In the nation's capitol, President Bush and proponents of Social Security reform face an uphill fight in their attempt to partially privatize the federal program. The press, in particular, has not been helpful in the debate, often demagoguing the issue, and intimidating moderate Republican members of the Senate's Finance Committee from embracing reform ideas. Sen. Gordon Smith fits this description, but he is not alone. So too does Maine's Sen. Olympia Snowe.

The outlook for Social Security reform in this $109^{th}$ Congress is bleak, and thankfully, the president at the end of session will not toss out the concept of private accounts to get a deal with the Democrats and moderate Republicans. The deal that opponents of private accounts want would be similar to the bipartisan agreement of '82, which temporarily restored solvency to Social Security but also raised taxes significantly on employer and employee contributions to the retirement program. That option is a no-go this time. So too is raising the income cap on the current tax.

The April 16 cover of *The Economist* magazine read: *The flat-tax revolution*. *Towards simpler*, *fairer*, *and better taxes*. The magazine's cover story lists the European nations who have adopted a flat tax: Estonia, Lithuania, Latvia, Russia, Serbia, Ukraine Slovakia, Georgia, and Romania. What do these nations have in common? They are all former client states of the departed Soviet Union. When the Iron Curtain fell, these small nations were left with the worst economies in Europe. Why not start anew? And if you're building something from scratch, why not start with a purer, more efficient tax code. The adoption of the flat tax by the former Soviet states has suddenly made these nations laboratories for economic growth, much in the same way that American states served as laboratories for welfare reform in the early 1990s.

Smaller nations structuring their tax code in a more efficient manner will eventually put pressure on larger countries with less efficient codes—make that America. Already the American economy is burdened by a weak dollar, a budget deficit that is roughly six percent of the GDP, a trade deficit, and a tax system that could become increasingly uncompetitive in future years.

Writes *The Economist: The more complicated a country's tax system becomes, the easier it is for governments to make it more complicated still, in an accelerating process of proliferating insanity – until, perhaps a limit of madness is reached, and a spasm of radical simplification is demanded. In 2005, many of the world's rich countries seem far along this curve. The United States, which last simplified its tax code in 1986, and which spent the next two decades feverishly unsimplifying it, may soon be coming to a point of renewed fiscal catharsis. Other rich countries, with a tolerance for tax-code sclerosis even greater than America's, may not be so far behind.*

The advanced case of "fiscal catharsis" that *The Economist* warns about is why it appears that Congress and the president will end this session without a major reform of Social Security. The president *will not accept a tax increase*, especially with the country already in questionable financial health, and Congress and the media will, most likely, blame the deficits on the administration and use it as an excuse to not accept partial privatization of the program.

But the stalemate will not last. The growing competitiveness of the world economy means that U.S. and other wealthy nations will have to be more efficient themselves. The good news for our federal government is that Pres. Bush, by pushing for Social Security reform, has forced the conversation about the federal government's drag on our future competitive position. This is the kind of conversation that is not happening on the state level.

No offense to our current governor, Ted Kulongoski, or his potential competitors in '06, Kevin Mannix and Ron Saxton, but Oregon's *business* leaders know something that Oregon's *official* leaders do not: present and future globalization pressures are starting to magnify Oregon's increasingly uncompetitive position.

*Oregonian* columnist Steve Duin recently accused Nike and Intel of selfish behavior when the two large Oregon employers aggressively fought campaigns to a) not be annexed by the City of Beaverton, or b) have its tax liability limited in exchange for billions in future investment.

Writes Duin: "While no man—at least, no residential taxpayer—is an island, Oregon's Fortune 500 companies are atolls with an attitude, islands of self-interest, isolated planets, isolated planets with the power to demand tax breaks unavailable to their commercial cousins or the common man." Duin continues, "Because legislators and city/council bureaucrats are terrified of the big dogs, we're stuck with the pathetic bake sale. And our schools and human services will survive on crumbs until the business leaders at Nike and Intel demand a better compromise between their self-interest and the common good."

Duin's thinking is wrong. Duin views the world as flat, very flat. However, his views accurately reflect how Portland's elected leaders and Oregon's state officials view business and how out of touch they are with pressures of the modern, global economy. Nike and Intel leaders are neither arrogant nor cheap, but there are minimum conditions these corporations need from civic leaders to remain located in a region that is now known for being out-of-step, by choice, with global corporate dynamism.

As previously recounted on this page in October, another corporate leader, Wally Rhines, CEO of Mentor Graphics (3,500 employees), laid out what should be the minimum standard of economic reform in Oregon. Rhines said, "Land use regulations and taxes are big negatives in Oregon. Higher education is a positive, but just not positive enough. OSU turns out good engineering graduates, just not enough of them, and they need to achieve a top 25 national ranking."

Translated: Rhines knows how to fix the Oregon economy: a sales tax, a world-class university system, and land-use reform.

In fact, this is a secret that every other CEO in Oregon also knows. They know this, not because they are selfish islands, but for the opposite reason. In his fervent provincialism, Duin has it exactly backwards. Oregon's international businesses compete aggressively in a diverse, complex world economy; their businesses compete under rules determined by much larger forces than the small legislative bodies in county court houses or state legislatures.

No, it's not Nike and Intel who are lost on the island – it is Portland and Oregon's leaders. With each passing day, their inability to understand the world isolates them, and us, further.