EDITORIAL
Kulongoski's Way

By the time this editorial is published, the November general election will be history. Governor Kulongoski will be serving the final two years of his term and will be ineligible to seek re-election.

More than likely he will have Democrats in control of both houses of the Legislature. The only real question will be whether the Democrats will have attained "super-majority" status in the House of Representatives (they already have it in the Senate) such that they can pass tax increases without referral to the voters.

Kulongoski entered the governor's office near the end of a recession that began under President Clinton. It was a relatively mild recession nationally and was further softened by President Bush's tax cuts. Oregon did not fair quite so well.

Now Kulongoski is likely to leave office in the middle of another recession begun under President Bush. In contrast, this recession will be much harsher due to the greed on Wall Street, the ineptitude of the current Congress, and the specific intention of Congressional Democrats to let the Bush tax cuts expire, thus raising taxes on individuals, business and capital gains at the very time that we need to pump more money into the economy rather than into government.

Oregon entered that first recession before the rest of the nation and trailed the rest of the nation by almost a year in its recovery. By all accounts, Kulongoski's performance during the first recession would earn him an "F."

The governor's first reaction was to raise taxes rather than control spending. Twice during that recession Kulongoski supported massive tax increases — the largest in Oregon's history. Both times the state's voters turned back those tax increases by overwhelming majorities.

In the end, despite soaring rhetoric about prioritizing the state's needs, Kulongoski allowed the budget to default to across-the-board budget cuts. During the process not a single program was eliminated. Government spending may have dipped slightly, but not a single public employee lost his or her job. The public employee unions proved once again that the intended beneficiaries of public spending come second to their employees and their generous benefits.

Beyond that, Kulongoski did little other than appoint blue ribbon commissions whose advice he subsequently ignored. Even as the economy improved nationally, Kulongoski was unable to capitalize on its resurgence or Oregon's unique status as a gateway to world commerce. Instead he focused on a myriad of "green dreams" and shunned the historic natural resource industries of the state. He kept the state forests locked up. He allowed (some say encouraged) the union organization of growers to the point that they ended their production. He waved goodbye to a succession of large businesses that had their roots in Oregon, including Louisiana Pacific and Freightliner.

Forty thousand jobs were lost during that first recession, and while that number was eventually recovered, it was a different mix. Growth in employment came heaviest in government employment and the hospitality business (primarily minimum-wage jobs). Between the beginning of 2007 and the beginning of 2008, Oregon once again lost another 23,000 jobs in manufacturing and construction, and as the recession intensifies, those numbers will grow.

The mistakes of the past are most likely to be repeated. Kulongoski is easily the least "economically literate" governor that Oregon has had in modern times. He is a labor lawyer and, except for a brief stint in private practice representing the likes of the public employee unions, he has spent most of his working life as a government official. His principal advisors are former union officials, and he has routinely eschewed advice from his own Council of Economic Advisors. He even sought through an intermediary to intimidate several of them for critical comments made in this magazine. (It is one thing to be ignorant, and it is quite another to be ignorant and clasp your hands over your ears in fear that someone might tell you so.)

But, with almost no expectation that Kulongoski will listen, we choose to plow ahead with some practical advice on leadership during this current economic downturn.

1. **Cut spending now.** Former Gov. John Kitzhaber deliberately maintained spending at the legislatively approved levels even though he and the Legislature knew that the revenues were insufficient to sustain that level of spending. He did it precisely to make the pain in the final quarters of the biennium more acute so as to bolster his chances of winning a tax increase. The net result was that the state was forced to take all of the cuts in the final quarter instead of spreading them out over a period of six quarters. Let's not repeat that cynical strategy.
2. **Cull those illegally in this country from healthcare and welfare rolls.** To this day, no one knows with any degree of accuracy how many illegal immigrants are receiving healthcare or welfare financed by Oregonians. The Federation for Immigration Reform estimated that Oregon's illegal immigrant population in 2005 was 139,000 and has been growing ever since. The Kulongoski administration (like the Kitzhaber administration before it) has routinely refused to determine the number of illegal immigrants receiving healthcare or welfare benefits, and neither the governor nor the secretary of state (who is charged by law with the auditing function) have systematically checked to determine the real eligibility.
3. **Freeze public employment.** At any given time there are a significant number of public employee jobs that have been requisitioned but not filled. In addition, a certain number of people routinely retire or leave public employment. In both such instances, the jobs should remain unfilled (with the exception of law enforcement).
4. **Fund education first.** During his unsuccessful gubernatorial primary campaign, Sen. Jason Atkinson promised to give the Legislature 80 days to pass an education budget and promised to veto every piece of legislation thereafter until such an education

budget was passed and approved. Kulongoski should do likewise. The governor and the Legislature realize that the education budget is the public's major concerned; consequently, they hold it out until the end. They expend the budget to fund their pet projects and less popular programs and then use the lack of remaining dollars to fully fund education as an excuse to raise taxes or fees. By funding education first and early, the governor and the legislature would have to show their hands regarding the remainder of the budget. Those less popular programs and pet programs would have to bear the lion's share of budget reductions.

5. **Cull those illegally in this country from the public education system.** Since state payments to local schools are based upon the average number attending, elimination of illegal migrants from the education system will reduce the payments required from a stressed state education budget.

These five simple steps may not provide a total cure for the anticipated $2 billion shortfall for the next biennium, but they will eliminate a substantial portion of the shortfall leaving the governor and the Legislature an easier task to prioritize spending on the remaining programs.

Five additional suggestions should help prepare Oregon to regain lost ground as the rest of the nation pulls out of the recession:

1. **Reduce the capital gains tax by one-half.** That can be done by either reducing the rate or exempting one-half the gain from state taxation. Every economist worth his/her salt will tell you that the ability to attract new capital to a state is the touchstone for future growth. Continuing to treat capital gains as ordinary income is the antithesis for attracting new capital. There is no better time to undertake this than during this economic downturn. History taught us that during the last recession, revenue from taxing capital gains dropped to near zero simply because there were no gains to tax. The precipitous drop in the stock market coupled with the recession indicates the same will be true in this recession. Reducing a tax that produces nearly nothing will cause little budget pain and will produce a clear signal that Oregon is once again open for business.
2. **Eliminate all of the education mandates imposed by the Legislature.** The cost of implementing, tracking and reporting on these mandates imposes an unnecessary burden on the budget.
3. **Rescind all promised salary increases to government executives.** While the governor rescinded the paltry cost of living portion of those raises, it only reduced the average 33 percent raise by 3 percent. Most government executives currently earn in excess of comparable positions in the private sector. There is no need to gild that lily.
4. **Renegotiate the unprecedented 12 percent salary increase to public employee union members.** Bring those increases in line with what other public employees are receiving — about 3.5 percent.
5. **Meet with your Council of Economic Advisors.** Apologize for ignoring them for the past six years and confess that you don't understand what drives the economy. Promise to listen this time and act accordingly.

Given Gov. Kulongoski's performance during the last recession, our expectation is that he will respond as he always has — with a series of tax increases. And for two more years Oregonians will watch the continued out-migration of business and good paying jobs.

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