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Editorial

Texas Needs Moderate Tax Changes To Stay Healthy

Texans have enjoyed being a low tax state for years, but a leading economist warns the Lone Star State may be taking an upward turn which will hurt individuals and companies planning to move here.

Internationally acclaimed economist Richard Vedder, a University of Ohio professor, warns, "Texans are paying more in taxes than ever before, and a further increase in taxes could throw the state's economy into a tailspin."

Vedder, who, who has served as an economist for the U.S. Congress' Joint Economic Committee and has advised leaders from around the world, said Texas' reputation as a low tax state has attracted new industry in the past, but with taxes continuing to go up, it will put this balance in jeopardy.

"The Texas system needs moderate changes designed to make the Lone Star State even more attractive to individuals and businesses," he added.

In his comprehensive six-part "Taxing Texans" series study for the Texas Public Policy Foundation in San Antonio, he found the state's "low tax burden has helped to propel the Texas economy to high rates of growth."

"So we know that Texas has a relatively low overall tax burden, but not one that is so unusually low to make it unique. Indeed, low taxes are relatively commonplace among the fast growing states — which of course is one factor that propels growth," he said.

His study shows property taxes provide almost a third of the tax revenue, followed by general sales taxes, selective taxes (motor fuel, alcoholic beverages, tobacco, etc.), and motor vehicle licenses. Other tax revenue is generated through Texas' mineral production taxes.

Vedder detailed property taxes are 13.9 percent higher than the U.S. average, while individual income and corporate income taxes are 100 percent lower, since Texas has neither of these taxes.

General sales taxes are 16.5 percent higher than the average while selective sales tax such as motor fuel, alcoholic beverages, tobacco and public utilities are 38.8 percent higher than the national average.

However, he said, "Estimated state tax collections in fiscal year 2001 were more than 11 times as large as they were in fiscal year 1972 ... tax revenues have grown at a compounded annual rate of 8.87 percent over the past 29 years."

"While Texas' state and local tax burden ranks 47th overall, nine other states have similar burdens and could easily move ahead of Texas in the race to attract new jobs. Florida ranks better than Texas and should be a model for any changes," he said.

"Texas' low tax burden has helped to propel the Texas economy to high rates of growth. I examined three outside assessments of each state's business or fiscal climate, and did one of my own," he said.

"Texas did very well on all four measures, and the median of all studies is a very respectable B plus. Moreover, Texas generally receives higher marks than all of its neighbors, dramatically so in the case of New Mexico," Vedder added.

When it comes to spending, Vedder points out facts that contradict popular sentiment. "For instance, Texas' spending on education — at both the elementary and collegiate levels — is 6 to 9 percent higher than the national average, as a percentage of individual income.

Vedder's analysis of U.S. Bureau of Census numbers shows Texans pay \$231 of every \$1,000 earned in state and local taxes, just 5 percent below the national average. Census Bureau numbers are considered the most accurate for research purposes.

"Now is not the time to mess with Texas' taxes," Vedder concluded.

His advice is for Texas: "Take it easy and go slow — the Texas system is not in need of radical reform. What Texas needs instead are moderate changes designed to make the Lone Star State even more attractive to individuals and businesses."