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One thing Texas doesn't need — more taxes

By JEFF M. JUDSON

SUGGESTING that the poor can be helped by raising taxes is as bankrupt a proposition intellectually as it is fiscally.

The Center for Public Policy Priorities, a left-leaning think tank that often sees more government as the solution to all ills, recently proposed increasing sales, property, franchise and cigarette taxes by more than $6 billion to solve Texas' projected revenue shortfall. While CPPP might believe Texas can raise and expand taxes without doing economic harm, the research is undeniable: Taxes hurt the poor and will reduce economic growth.

Like all of us, CPPP Executive director Scott McCown — best known as the state judge who gave Texas the "Robin Hood" school finance scheme — wants to help the less fortunate. Unfortunately, his remedy is like using a hammer to cure a headache.

Economists investigating state and federal fiscal policy have clearly demonstrated that tax increases have a negative effect on the growth of personal income, especially at the margins where the poor reside.

Many people wrongly believe businesses pay taxes. They do not. So-called "business" taxes are paid mostly by customers and employees, and least by owners. Worst of all, such taxes are invisible to the consumer, hidden in the cost of the product or service being purchased. Studies conducted by economists around the nation and world find a direct link between high taxes, reduced job opportunities and higher unemployment.

When taxes are too high, jobs are either lost, not created or move out of state. Indeed, over the past decade almost 2 million people have fled high-tax states and moved to low-tax states, like Texas — one of the great migrations of human history, according to economist Richard Vedder, who discovered the phenomenon.

The CPPP study calling for more taxes states that: "Personal income reflects the ability of Texans to pay taxes." Sorry, but that brand of economics hasn't held water since the Berlin Wall fell. Personal income is the measure of personal productivity, and nothing else. Increasing taxes reduces productivity, and ultimately economic opportunity.

A recent analysis of the 48 contiguous states by Vedder showed poverty was greatest in states with more government and higher taxes; conversely, poverty was lowest in states with low taxes and less government. Taking an additional $6 billion from private investment in the Texas economy and giving it to the government will emulate the models of New York, Massachusetts and Germany, which have learned the hard way that these types of tax-and-spend policies destroy human prosperity.

The choice for Texas is not simply between raising taxes or shutting down nursing homes and letting the poor die shivering in the cold with no health care. The third way is to increase productivity, and do more with less, something that is done on a daily basis in the private sector.

The state should begin by taking seriously state Comptoller Carole Keeton Rylander's "Yellow Pages test." Where the private sector is doing something more efficiently than the government, then the government should outsource that function to save money. Just a few years ago, then-Gov. George W. Bush tried to outsource Medicaid eligibility screening in Texas but the Clinton administration rejected his request. This one project would have saved hundreds of millions of dollars for Texas taxpayers. Such outsourcing opportunities exist in virtually every state agency but have never been seriously pursued.

As the Texas Legislature gathers for work in January, the one thing they must do is clear: Don't mess with Texans' taxes. The state must limit the growth of spending and seek creative ways to reduce expenditures at every level.

That Texas has weathered the economic downturn better than most other states is due almost entirely to its low-tax burden. Job opportunities have been more plentiful in Texas primarily because it costs less to do business here.

More taxes are not the answer, they are the problem.

Judson is president and CEO of the Texas Public Policy Foundation, a San Antonio-based research institution. The foundation's six-part "Taxing Texans" series is available at www.tppf.org.