

REVIEW & OUTLOOK

Deep in the Heart of Taxes

Everything's big in Texas, and, if powerful Republican Lieutenant Governor David Dewhurst has his way, that will soon include the state budget. Allow us to explain.

For almost a decade now Texas has been grappling with court orders to provide "equitable" financing for the state's school system. The Republican-controlled legislature has now interpreted this to mean that the entire tax system in Texas has to be scrapped to raise more money. That makes us as skittish as a cat near a bathtub, because Texas's status as one of only nine states without an income tax is in serious peril. Both the state Senate and House have endorsed what Mr. Dewhurst—whose post of Lieutenant Governor is nearly as powerful as Governor in the state—is calling a "wage tax."

A wage tax is of course a fancy disguise for a personal income tax, and imposing one is a sure way to put a state on the path to slower growth. Since 1990 the nine states without income taxes have enjoyed twice the rate of job growth and 2.5 times the population growth of the highest income tax states. Capital, jobs and economic development in America are migrating from high-tax states to low, and from blue states to red. Why would fast-growing Texas want to imitate New York and Massachusetts?

The hot political issue in Texas this year, as in at least a dozen other high-growth states, is skyrocketing property tax assessments. In order to cut real estate taxes as home values rise, the Legislature has proposed a vast conglomeration of even more noxious levies, fees and assessments. At one time or another this year GOP legislators have proposed the wage tax, a one percentage point hike in the sales tax that would give Texas the highest sales tax in the nation at 9.75%, a business value-added tax, a 4% business-profits tax, a tax on cars, and an assortment of sin taxes on cigarettes, liquor and even snack foods.

All of these taxing schemes are allegedly necessary to fix the Texas school system. Along these lines the Legislature is set to lift outlays for its two-year budget to \$137.5 billion from \$118 billion, or 12.5% a year—the biggest two-year bulge in Texas history. Mr. Dewhurst defends his plan by trotting out the kind of

class-warfare reasoning normally reserved for Washington. "What good Texan is going to have real heartburn about paying—out of \$650,000—\$6,000 to \$9,000 to improve the education of our young-

sters?" he asked last week.

We're all for youngsters getting a better

education, but in Texas and other states under court orders "equity" has become a code word for Robin Hood financing schemes that redistribute school cash. This has reduced the authority of local school districts and parents, while empowering the blob of state-run education departments and teachers unions with a stranglehold on the schools. A Texas Public Policy Foundation study last year found that the state's high-spending school districts are no more efficient in educating kids than the low-spending districts.

There is a better way out of this fiscal mess. Brooke Rollins, director of the Texas Public Policy Foundation, has suggested a tax plan that would: cut residential and commercial school property taxes by 20%; eliminate the hated business franchise tax, which hammers high-capital investment companies; avoid any payroll/income tax scheme; and make up for lost revenues by broadening the base of the sales tax to many consumer services while raising the sales tax rate by 0.5%. Hold state spending growth to merely the rate of inflation, and the current 8.75% sales tax rate wouldn't have to be raised at all.

We hope Governor Rick Perry, who heroically closed a \$10 billion budget deficit without a penny of new taxes at the start of his term, is listening. Mr. Perry has pledged to veto "any tax bill that would be a job killer." A wage tax is a toll on employers for hiring workers, and according to one study the latest Senate plan would cost about 40,000 jobs, or the equivalent of eight auto factories.

In 2002 Texas voters gave Republicans control of the Legislature for the first time in 100 years on a pledge to keep government spending under control and maintain a pro-growth tax system. The Dewhurst plan violates both of those conservative governing principles and is the surest way to get the GOP thrown out of office. Better get your veto pen handy, Governor.

These days it's hard to distinguish Austin from Albany.