# William Murchison: Margins tax haunts economic future

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We understand desirability well enough in human terms. Don't we?

Want a friend, be a friend, is the rule. Figure out the relationship in terms of mutual satisfactions. OK?

Why is it so hard, in that case, to apply the rule of thumb to governments and the ways they order, or disorder, their relationships with businesses whose job-creating, tax-paying potential they can't live without?

A state (or a city or a county or a country) that wants to be loved, economically speaking, must make itself lovable, by implementation of business policies that business loves.

Which brings us, with some satisfaction but just a bit of trepidation, to the question of how we're doing in Texas along those lines.

So far, so good, is the immediate answer. But there's the future to think about.

Texas likes business. Its fiscal and regulatory policies generally inspire business to like Texas in return. Forbes Magazine calls Texas the fourth-best state for business.

Not bad — except a year earlier, it was second best, falling this year behind Virginia, Utah and North Carolina.

Let's see what the Washington, D. C. -based Tax Foundation has to say, based on its analysis of our state's tax policies. Yes, again, we're doing reasonably well: number eight in the country for tax climate.

The top three —Wyoming, South Dakota and Nevada — aren't strictly comparable to a semi-industrialized state with 24.1 million people and 254 counties, so let's not start getting jealous. Let us note instead that Texans pay only 9.3 percent of their income to state and local government, compared with a national average of 11 percent.

So what's the problem here? Is there a problem?

A new feature of life called the margins tax — a 1 percent gross receipts tax — has begun to haunt those who ponder the state's economic future.

Enactment of the margins tax, in 2006, as a replacement for Robin Hood property tax reductions, caused Texas' drop to eighth place in tax climate from a consistent sixth dating to 2003.

Where's this thing going? That's the question we have to ask with intensity and persistence.

The last thing Texas should want at this stage is the inadvertent shaping of tax policies that undermine its relationship with business — that make our state a less desirable place to set up shop and hire people and send goods to market.

As the Tax Foundation observes, the modern market is characterized by mobile capital and labor. Therefore, companies will locate where they have the greatest competitive advantage.

States with the best tax system will be the most competitive in attracting new businesses and most effective at generating economic and employment growth.

A relationship of mutual satisfactions entails projection of those satisfactions in both directions. When, for one reason or another, those satisfactions wane, new considerations take over.

A business friendly environment depends directly on acts of friendship: like saying, through specific tax policies, hey, we want you here. It's harder than it sounds.

A state growing as fast and as unpredictably as Texas finds itself challenged to expand essential services at prudent cost.

What has to drive budgeting in Texas, at all governmental levels, is scrupulous consideration not of what we might want if we had all the money in the world, but rather of what we need most, and how we might most prudently pay for it.

We'll never quit wrangling over taxes. No society will.

We'll know we're getting somewhere when our political leaders signal with one heart and one accord their understanding of tax policy as a two-way street, as even and well-paved for those who pay the taxes as for those who consume the services.

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