Analysis: Texas outpaces California economically

Report credits tax policy, business-friendly regulations

By Kate Alexander
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Gov. Rick Perry on Tuesday touted an economic report that he said validated the state's 2003 decision to close a $10 billion budget hole by reducing services and cutting state jobs rather than raising taxes.

The Texas Public Policy Foundation report, produced by Arthur Laffer, a former economic adviser to President Reagan, declared Texas the winner in an economic head-to-head with California, which is grappling with a $15.2 billion deficit.

Texas is expected to have an $11.8 billion surplus going into the 2009 legislative session, though much of that money is dedicated to the property tax relief fund and the rainy day fund.

The report concluded that Texas was more competitive economically than California because of its low taxes on businesses and capital gains, the lack of a personal income tax, a business-friendly regulatory environment and restrained government spending.

"Let it be the textbook of how you run a state," Perry said at a luncheon sponsored by the foundation, which promotes limited government.

Critics of the report said it misstates the correlation between a state's economic policies and its economic performance.

"It is not the tax system. It is what's underneath the ground," said Dick Lavine, senior fiscal analyst for the Center for Public Policy Priorities, a group that is an advocate for low- and moderate-income residents.

Lavine was referring to the tax revenues from the booming oil and gas industry that have bolstered Texas' economy and state coffers.

Long-term competitiveness depends on the skills of the state's work force, which stems from a good education system, Lavine said.

Laffer, one of the report's authors, said California's economic problems are a direct consequence of the state's approach to tax policy, government spending and regulation of businesses.

"It is a sad day to report that California has done so poorly," he said.

But Jean Ross of the California Budget Project, a California group similar to Lavine's, said the real causes of the state's economic woes are the home foreclosure crisis, voter initiatives that have tied up tax revenues and other factors.

In a separate Laffer analysis of states' competitiveness, Texas ranked 10th while California ranked No. 41. The competitiveness index used in that analysis looks at variables such as tax burden, the state minimum wage, workers' compensation costs and other economic issues.

A different competitiveness index, however, puts both states in the middle of the national rankings.

The Beacon Hill Institute at Suffolk University in Boston, which has a similar ideological bent as the Texas Public Policy Foundation, includes several factors in addition to government fiscal policy, such as public safety, infrastructure and education, in its analysis.

The Beacon Hill analysis shows Texas government fiscal policy to be an advantage but found the high number of residents without health insurance and high school dropout rates to be competitive disadvantages.

kalexander@statesman.com; 445-3618