Calif. can learn from Texas economy

By WILLIAM MURCHISON Special to the Standard-Times

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We didn't know the half of it, perhaps, when economist Arthur Laffer cut loose a few weeks back concerning Texas' superiority over California as a place to do business.

We knew enough to shake our heads as Laffer, in a report for the Texas Public Policy Foundation, listed tax and regulatory policies as elements that tilt business owners' viewpoints on where they can make it and where they can't.

There followed shortly the climax of the California budget battle: Gov. Arnold Schwarzenegger vs. the Legislature, a deficit of $15.2 billion yawning between them; endless wrangling; finally, a monster budget of $144.5 billion duly passed by the Legislature and signed by the governor. No one was happy, and everyone was edgy over what to expect next year.

Then came Schwarzenegger's blissfully brief flirtation with the idea of asking the federal government for a loan - the depths to which fiscal irresponsibility can drive a political entity.

If Texans were watching, and there was time, the Wall Street crisis not having yet burst upon us, they could see some of the consequences of spending too much state money without taking proper thought for business' ability to create jobs and pay taxes.

There's an intimate relationship here that bears constant scrutiny; namely, without healthy businesses, government can't function.

The $15.2 billion California deficit in a budget of $140 billion-plus left the state unable to pay medical clinics, nursing homes, day care centers, and contract vendors. By early September, students had ceased to receive state grants for tuition and books. School districts, community colleges, and local government were owed $4.2 billion. All 176,000 state workers had taken pay cuts to minimum-wage level.

A lot of factors need factoring in, such as the national real estate slump.

Yet the California crisis has no parallel in Texas, which last May projected a budgetary surplus of $10.7 billion.

The oil and natural gas boom has greatly helped Texas. Real estate values here have held up better than those of just about any other state.

It has to be added, nevertheless, that Texas government has the all-but-explicit policy of relying on business growth and expansion to provide revenues rather than demanding, through income taxes, that business and everyone else fork over.

Texas is business-friendly, which means, for most business folks, that it's a pleasure to do business here.

In fact, a number who operate here left California specifically to avoid a tax and regulatory environment they saw as discouraging investment and profit-making.

Laffer calls California's present problems the direct result of its approach to tax and regulatory matters. For instance (though he didn't say this specifically), if the state weren't making outsize payments to day-care centers and medical clinics, to say nothing of subsidies for textbooks, there wouldn't be the budgetary drag there is. With less budgetary drag, a lower level of taxes would be feasible. With lower taxes, business might feel energized enough to invest more and hire more and create more jobs.

You want more of something, you reward it; you want less, you penalize it. If that something is work and investment, be careful always to shape an economic environment of which those who are enterprising hunger to be part.

California, land of the gold rush and Silicon Valley, ought to have absorbed that lesson. The truth is, Texans should hope it does. A strong California is better for America than is a weak one. Moreover, there's nothing like intelligent competition to keep a state - any state - going strong; staying healthily nervous at the prospect of losing to some place with a better idea.

We need a chastened and revived California almost as much as California itself does.

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