

Texas Conservative Coalition Research Institute

Comments to the House Select Committee on Economic Competitiveness

December 5, 2017

Regarding the Committee's Charge: *to develop and present concrete principles on long-term competitiveness and economic development issues. The purpose of the [December 5] hearing is to show businesses seeking to come to Texas, or that are already located in Texas, the principles that the Texas House believes should guide the state's pursuit of long-term economic growth.*

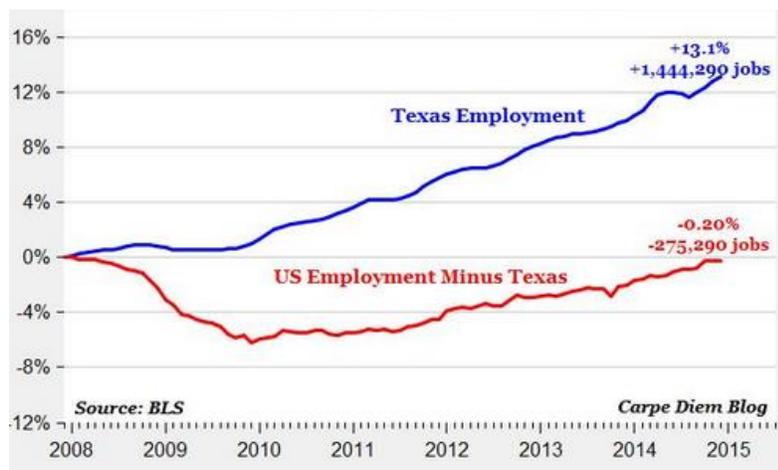
Introduction

The House Select Committee on Economic Competitiveness will meet on December 5, 2017 to discuss the important issues of economic growth and competitiveness in Texas. The stated purpose of the December 5 hearing is "to show businesses . . . the principles that the Texas House believes should guide the state's pursuit of long-term economic growth."

Businesses are in tune with the state's long-term economic growth. They are part of it, and they are coming to Texas in droves. The oft-cited "Texas Miracle" is the story of economic growth in Texas despite a 2008 financial crisis and prolonged recession. The following graph of that period illustrates how Texas "is solely responsible for the 1.169 million net increase in total U.S. employment ... [between] December 2007 and December 2014":

Percent Change in Employment:

Texas vs. U.S.-Minus-Texas, December 2007 to December 2014



As Derek Thompson described it in *The Atlantic*, the graph "makes Texas look like a tireless longhorn steer dragging the limp carcass of the other 49 state economies toward recovery."¹

The 2015 U.S. Census showed that people are leaving high tax, high regulatory burden states like California, and coming to Texas. At the time, Michael Barone commented on Texas's population growth and the public policies facilitating it:

The shale boom has obviously helped Texas, but it's far from the sole cause of its strength. Its economy is highly diversified, to the point that it's gaining high-tech jobs from Silicon Valley. From September 2007 to November 2013, while the nation lost 1.8 million jobs, Texas gained 1.1 million. **Texas's public policies — low taxes, light regulation — have clearly paid off.**²

Texas's growth is ongoing. As of November 2017, the Texas unemployment rate is down to 3.9 percent—the lowest rate in Texas since at least 1976 (Data from the Federal Reserve Bank of Dallas begins in 1976).³ Texas added over 300,000 new jobs in the last year, with California coming in a distant second place at approximately 257,000 jobs added, despite a population of 12 million more people.⁴ Texas's economy is well diversified, and not reliant exclusively upon the energy sector or any other specific area of business. Professor Bernard Weinstein of SMU's Maguire Energy Institute and an expert on economic development has stated that Texas has built “an incredible economic machine” and he sees no negatives on the horizon.⁵

In order “to show businesses . . . the principles that the Texas House believes should guide the state's pursuit of long-term economic growth,” the committee need only look at Texas's existing track record of low taxes and light-handed regulation. There are a number of non-speculative areas where Texas can improve. Thankfully, a plethora of publications exist, detailing objective metrics that directly identify where Texas has room to improve. These comments highlight several.

Tax Policy

The annual publication of *ALEC's “Rich States, Poor States”* by Arthur B. Laffer, Stephen Moore, and Jonathan Williams, is a state-by-state “economic competitiveness index.”⁶ Based on 15 state policy variables, states are ranked on the basis of economic outlook. Overall, Texas ranks 1st out of 50 states in economic performance (a backward-looking metric) and 9th out of the 50 states in economic outlook (a forward-looking metric).⁷ Where Texas ranks poorly in the competitiveness index is property tax burden and sales tax burden. Texas ranks 37th out of 50 states in both categories.⁸

Also relevant is the *Tax Foundation's 2018 “State Business Tax Climate Index,”* which ranks Texas 13th out of 50 states.⁹ Texas's lack of a state personal income tax is the primary factor keeping Texas near the top 10 on the Index, but its component rankings make clear why Texas does not place better. The burdensome business franchise tax and property taxes, together with a relatively high sales tax, result in a 49th place Corporate Tax Ranking.¹⁰ The Tax Foundation also ranks sales tax and property tax burdens individually, placing Texas 37th in both categories (the same ranking of these tax burdens as that found in *Rich States, Poor States*).¹¹

In terms of economic competitiveness, tax policy is the most objective category within which Texas can improve its standing in the national business and economic community. The House Select Committee on Economic Competitiveness should take these rankings into account when making its recommendations. Reduction or elimination of the state franchise tax and property taxes is a clear path to continued economic growth. The following bills represent opportunities to that end:

Property Tax Bills:

- Senate Bill 2 (Bettencourt, 85R) and House Bill 15 (Bonnen, D., 85R), which would have lowered property tax rollback rates and brought greater accountability to the property tax appraisal process.
- House Bill 44 (Keough, 85R), House Bill 586 (Bohac, 85R), House Bill 376 (Metcalf, 85R), and Senate Bill 376 (Creighton, 85R), which would have lowered property tax appraisal caps
- House Bill 301 (Krause, 85S1), House Bill 285 (Murr, 85R), and House Bill 82/House Joint Resolution 21 (Darby, 85S1), which were aimed at abolishing different types of local property taxation.

Franchise Tax Bills

- Senate Bill 17 (Nelson, 85R) and House Bill 28 (Bonnen, D., 85R), which would have phased out the franchise tax pending availability of surplus state tax revenues.
- House Bill 388 (Murphy, 85R) would have repealed and phased out the franchise tax.
- House Bill 1052 (Schubert, 85R) would have repealed the franchise tax, effective January 1, 2018.

Regulation

A sensible regulatory environment is also critical to long-term economic growth. Texas is known for its light regulatory touch, but it is not above criticism. Despite a 2nd place overall ranking in *Forbes's* "Best States For Business," *Forbes* ranks Texas 21st in "Regulatory Environment," leaving much room for improvement.

More broadly, the *Cato Institute* ranks all 50 states in "Freedom in the 50 States," a ranking based on personal and economic freedoms.¹² Texas ranks 28th overall, but 27th specifically in regulation.¹³ *Cato* points out that "the extent of occupational licensing is high" in Texas, and further specifies that, for example, "[n]urse practitioners enjoy no freedom of independent practice at all."¹⁴

The *Pacific Research Institute* (PRI) publishes a "50-State Small Business Regulation Index," which ranks Texas 3rd overall.¹⁵ As in other metrics, however, Texas's weaknesses are identified. Based on the number of job categories that require an occupational license, the share of the workforce that is licensed, and the share of the workforce that is certified, PRI ranks Texas 14th in occupational licensing and certification regulations.¹⁶

Occupational licensing is a common factor among state regulatory rankings, but the *Institute for Justice* publishes a comprehensive state-by-state ranking based specifically on occupational licensing. While Texas ranks 42nd overall in terms of the most broadly and onerously licensed state, its licensing laws are the 21st most burdensome.¹⁷ The *Institute for Justice* summarizes occupational licensing in Texas as follows:

Despite licensing fewer occupations than most states, Texas does license some occupations that are rarely licensed elsewhere. For example, few other states license animal control officers (six), locksmiths (13) or weighers (24). Security alarm installers are not licensed by 14 states, yet Texas requires two years (730 days) of experience, \$462 in fees and one exam before a person can open a security alarm installation business.

Texas imposes burdens on some occupations that seem excessive compared to those for other occupations that may present a greater risk to public safety. For example, it takes 10 times longer to become a cosmetologist or barber than it does to become an EMT (approximately 350 days or 1,500 hours of education versus approximately 35 days or 150 hours). Practitioners of these occupations should not be required to undergo so much more training than emergency first responders. Texas could expand lower-income employment opportunities by reducing or repealing its licensure burdens for cosmetologists, barbers and many other occupations, or—if government regulation is necessary—by replacing them with less restrictive regulatory alternatives such as inspections or voluntary certification.¹⁸

To remain competitive in terms of long-term economic growth, the House Select Committee on Economic Competitiveness should consider proposing the repeal of onerous occupational licensing regulations, and easing the regulatory burdens of those that currently exist. That includes hours of training, examination requirements, high fees for licensure and renewal, criminal history barriers to entry, and high thresholds for education and experience. Several examples from the 85th Legislative Session include:

- House Bill 2407 (Goldman) would have reduced the hours of instruction required from a licensed beauty school for a cosmetology license from 1500 hours to 1000 hours.
- House Bill 3878 (Goldman) would have repealed the criminal penalty associated with interior design licensing.
- House Bill 153 (Schaefer) would have prohibited municipalities from enacting licensing laws or regulations more stringent than those at the state level.
- House Bill 3278 (Schaefer) would have prohibited TDLR from establishing barber school regulations unrelated to health and safety, including regulations on square footage of floor space, number of chairs, or number of sinks.
- House Bill 3947 (Laubenberg) would have created a cause of action for businesses and workers to use in challenging burdensome and duplicative local regulations.

Education

Innovative ideas and a skilled labor force are critical factors in long-term economic growth. In Texas, however, there is evidence that the education system is not adequately preparing students for the workplace or for post-secondary education.

In fact, the Texas Higher Education Coordinating Board reports that “statewide, 32 percent of students enrolling in Texas public higher education required some form of developmental education.”¹⁹ As far back as 2012, the Texas Association of Manufacturers cautioned that “our state leaders are fond of the expression ‘Texas is wide open for business,’ but ... there's an increasing risk that the help-wanted signs may go unanswered for many employers.”²⁰ The Texas Chemical Council concurred, opining that “the education policy of our state is not meeting our employers' needs.”²¹ More recently, the aftermath of Hurricane Harvey has exposed a shortage of skilled tradesmen in the state, with at least two observers explaining that “the

shift in emphasis in high school curriculums away from trade crafts toward professional and service jobs requiring college educations also has reduced the number of skilled workers.”²²

Most economists agree that education and long-term economic growth are correlated. However, there is disagreement on the causation side. As Hoover Institution economist Eric Hanushek’s research illustrates, merely attending school is not sufficient. It is the availability of *quality* education resulting in positive outcomes that results in economic growth. Hanushek Explains:

The accumulated evidence from analyses of economic outcomes is that the quality of education – measured on an outcome basis of cognitive skills – has powerful economic effects. Economic growth is strongly affected by the skills of workers. What people know matters.

...

Because of the reported findings – that knowledge rather than just time in school is what counts for economic growth – policies must pay more attention to the quality of schools.²³

Texas must improve its existing public schools, but it must also do more. And more funding alone is not the answer. Hanushek has published extensive research in this field and has been cited by the United States Supreme Court as a leading authority among “a growing consensus in education research that increased funding alone does not improve student achievement.”²⁴ The Texas Supreme Court gave Hanushek similar weight in its discussion of funding and outcomes in the *Morath* decision, explaining the following:

What is not clear, given the current state of knowledge in the social sciences, is that spending a specific amount of additional money necessarily correlates to a better education as measured by objective outcomes.²⁵

One of the best means available of improving education in Texas is to adopt policies allowing broad school choice. Recently updated in 2016, “A Win-Win Solution: The Empirical Evidence on School Choice” is a comprehensive survey of the existing research on private school choice programs. Two of the survey’s key findings are pertinent to the immediate goal of improving educational outcomes:

- Eighteen empirical studies have examined academic outcomes for school choice participants using random assignment, the gold standard of social science. Of those, 14 find choice improves student outcomes: six find all students benefit and eight find some benefit and some are not visibly affected. Two studies find no visible effect, and two studies find Louisiana’s voucher program—where most of the eligible private schools were scared away from the program by an expectation of hostile future action from regulators—had a negative effect.
- Thirty-three empirical studies (including all methods) have examined school choice’s effect on students’ academic outcomes in public schools. Of those, 31 find choice improved public schools. One finds no visible effect. One finds a negative effect.²⁶

14 of 18 empirical studies show that school choice programs improve student outcomes for students utilizing the programs. 31 of 33 empirical studies show that public schools affected by school choice actually improve once the policies are in place. In other words, the data overwhelmingly demonstrate that school choice programs work to improve educational outcomes both for students using the programs and the schools they leave behind.

Thus, in order to encourage long-term economic growth in Texas through education, the House Select Committee on Economic Competitiveness should consider the links between quality education and economic growth, and increasing accessibility to quality education through school choice policies.

Conclusion

In pursuit of “principles that the Texas House believes should guide the state’s pursuit of long-term economic growth,” the House Select Committee on Economic Competitiveness need only look to the past. Texas is in the middle of ongoing long-term economic growth. The current model is a successful model. To the extent that Texas could improve, there is no shortage of non-speculative public policy decisions the Texas Legislature could make in order to encourage continued success, namely: (1) reducing the burden of business taxation and property taxation, (2) repealing unnecessary regulations and especially superfluous occupational licensing requirements, and (3) expanding school choice options for Texas students.

END NOTES

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- ⁴ Jeff Mosier, "Texas' October Unemployment Rate of 3.9 Percent is Lowest in Four Decades," *The Dallas Morning News*, available at <http://apps.dallasnews.com/texas-jobs-report>.
- ⁵ *Ibid.*
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- ⁷ *Ibid.*
- ⁸ *Ibid.*
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- ¹³ *Ibid.*
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- ²¹ *Ibid.*
- ²² David Hendricks, "Texas caught short on construction workers as Harvey rebuild needed," *San Antonio Express-News* (Aug. 30, 2017), available at <http://www.mysanantonio.com/business/local/article/Texas-caught-short-on-construction-workers-as-12161320.php>.
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- ²⁵ *Morath v. Taxpayer and Student Fairness Coalition*, 490 SW 3d 826 (2016).
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