

## Problems Facing the New Administration

*By Bill Hobby*

When I first became Lieutenant Governor in January, 1973, one of the major issues facing the Legislature was how to equalize funding for public education. This past spring, during my final year in office, the Legislature spent four special sessions debating the same issue.

Last week's Supreme Court decision merely shows that, while the faces in the legislature change (and only two of the current 31 members of the Senate were elected before I was in 1972) the issues do not.

The 72nd Legislature, along with four new State officials--Governor, Lieutenant Governor, Attorney General, Comptroller--faces the same problems State government has faced for the past 10 years. To add spice to this new mix of personalities, they all will have to deal with an issue that arises only once every 10 years: Legislative and Congressional redistricting.

The problems may be the same, but their size grows every year.

Take the budget, for example.

State government is mainly about four things: Education, Health and Human Services, Public Safety, and Highways. These four areas account for more than 80 percent of State spending and more than two-thirds of all State employees. And spending for these four functions is largely beyond the Legislature's control.

The Legislature has no control over the number of children who register for public school, the number of vehicles on our highways, the number of elderly or disabled people, the number of abused children or the number of criminals sentenced to prison. These are the kinds the factors that drive the demand for government services and, consequently, State spending.

Moreover, three of these four primary activities of State government are now largely governed by State and Federal courts.

The State will spend more than \$1 billion this fiscal year, and had planned to spend an additional \$1.6 billion during the next two years, just to pay for the school finance reforms ordered by Texas courts. But since last week's decision we no longer can predict what the reforms will cost. Other law suits will add about \$400,000,000.

For reasons like these, the cost of State government for the next two years will be \$3.5 billion more than the current cost, just to run schools, prisons and human services at the current level. The Legislature can, of course, cut college enrollments, cut back on highway construction and maintenance. It can turn a deaf ear to chronically ill and disabled children. It can simply leave vacant the new prisons now being built.

No such drastic suggestions were made in the campaigns last year, so we probably will not hear them this Spring. But without doing those kinds of things, there is no way to significantly affect the State's budget needs for the next two years.

What about economic growth? There is no question that the State is recovering from the economic downturn of the mid-1980s. The recent increase in oil prices resulting from the Middle East crisis has caused some people to predict a windfall for the State treasury. That won't happen--for two reasons.

First, a big increase in energy prices will probably cause a national recession, from which Texas is no longer immune. Texas' economy looks more like the national economy today than it did 20 years ago. Second, oil production taxes do not bring in as much as they used to. They now rank sixth, behind such things as motor fuel and motor vehicle taxes, in part because Texas oil production has declined every year since 1973.

A related problem is that our tax base no longer reflects the real wealth of our economy. So even with a continued improvement in the economy State revenue will lag behind economic growth. This will not change until the Legislature significantly changes the State tax structure.

Our tax system penalizes investment and deters expansion of capital-intensive industries. It allows substantial wealth-producing sectors of the economy to remain untaxed. Its burdens fall unfairly on real property and business inventory which may not be income-producing. It is a hardship on many taxpayers, a boon to others.

But what it mainly does is discourage of the kinds of industry that provides good jobs at good wages. Texas attracts the jobs that it does despite our tax structure, not because of it.

*Written in 1991.*