



Center for Public Policy Priorities

900 Lydia Street, Austin, Texas

PH: 512.320.0222 FAX: 512.320.0227

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Contact: Don Baylor, baylor@cPPP.org

Recently in an interview with the Dallas Business Journal, the Governor touted the superior business climate of our state. He cited our relatively low taxes, tort reform, and the Enterprise Fund as magnets for business.

The Governor concluded that low taxes would eventually create enough revenue to improve our public schools, transportation, and health and human services; in other words, the lower our public investment, the greater our public returns.

This is exactly backwards. Investing in human capital development—sooner rather than later—will best foster stronger economic development over the long term. By deferring public investment, the state continues to squander human capital—a vital part of our state’s economic well-being.

The Governor offered California as an example of a state that has lost its way over the past few decades, presumably spoiling the business climate with higher taxes—sending businesses fleeing across the Sierra Nevada foothills into neighboring states. For all its problems, however, California has recognized that more businesses are scrutinizing state investments in its people, and not merely the tax rates.

Rhetoric aside, taxes alone won’t determine the business climate of any state.

According to government studies, *state and local taxes combined make up less than 1% of a typical company’s costs*. Like all of us, businesses prefer lower taxes, but businesses will benefit more from wise investments in human capital, namely public education and job training.

On this score, California surpasses Texas. For example, consider community colleges, the leader in workforce training. Over the past few decades, California has dramatically expanded its community college system while keeping tuition costs reasonably low. In terms of population, for every 3 Californians, there are 2 Texans. For every 3 Californians in community colleges, however, there is only 1 Texan.

Tuition costs may have something to do with this huge enrollment gap. Per semester, California residents spend \$493 for tuition at 2-year institutions while Texans spend nearly \$1,200. Texas’ community colleges—the backbone of higher education and workforce development are rarely mentioned within the ongoing debate about “school finance.”

In both good and bad fiscal times, California has made community college funding a priority. In Texas, however, state funding for community colleges has tumbled more than a third over the past few decades—through boom and bust cycles.

Californians in community colleges are busy learning skills: 2 of every 3 are enrolled in vocational or job training. Over the next 20 years, California will have a better trained workforce than Texas to attract businesses.

Texas also has starved its adult education infrastructure, including literacy programs that enable residents to acquire basic skills in order to compete in our changing economy. California spends 30 times what Texas spends on adult education funding per person without a high school diploma or GED. Texas ranks 49th among the states on this measure, while California ranks 3rd.

Clearly, Texas' low spending on human capital places financial investments in jeopardy, as businesses need a skilled workforce to compete in a global economy. Texas' business climate depends on *immediate* human capital investment to drive and sustain the economy.

We aren't talking about becoming a "high" tax state, but if we want to do more than just get by, we do need to increase our investment in our greatest asset—Texans.