

[Back to Article](#)

## **The Real Deal On Taxes And Tuition**

**by Ted Busiek**

*This essay is a response to Don Baylor's [Taxes and Tuition](#) (published last issue).*

The first mistake that Don Baylor makes in his recent article, *Taxes and Tuition*, is equating low taxes with decreased revenue for the Texas government. It does seem to make sense to conclude that if the state taxes its workers at a higher rate it will accrue more money, but what this thinking doesn't take into account is that taxation is not applied to the entire pool of money in the state some fixed number of times annually, but rather triggers for every monetary transaction of certain kinds. Because of this, the state can potentially get more tax revenue when taxes are low than it would were the taxes higher. If the government takes less of your money, you're inclined to spend more. Doing so benefits businesses that produce whatever it is you're now buying, allowing them to either hire more people or pay their current employees more. All of this contributes to creating taxable revenue. Even if the people running businesses decide to pocket the additional revenue, they won't be keeping it in a big brown sack with a dollar sign on it, but rather will spend it or put it in a bank, either way providing further opportunities for the government to tax it. If you're skeptical, consider the record. When Ronald Reagan took office in 1981 the top marginal tax rate was 70%. By the time he left office in 1989, the top marginal rate was down to 28%. IRS revenue for that year was about \$991 billion, whereas in 1981 it was \$550 billion. And don't think that Reagan got all that extra tax money by squeezing the middle classes. In 1992, tax rates were lower for every income quintile than they had been in 1980.

"Rhetoric aside," writes Don Baylor "taxes 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." I'd like to see those government studies. In order for them to be true, they'd have to have a very narrow definition of the word "costs." Sure, the government might not tax the purchases and processing costs of a typical company, but it taxes the revenue of

whomever sold these companies the requisite materials and equipment. This works out as a cost for the company buying said materials and equipment, as the ones doing the selling are surely going to ease some of their tax burden (which I'll bet's a lot higher than 1% of their income) by charging more for their products. Likewise, the government may not consider it a "cost" that a business has to pay a larger-than-1% chunk of its own revenue in taxes, state and local, but you can be sure that a good business takes this into consideration when deciding where to locate itself.

In case you still agree with Baylor that taxes "won't determine the business climate of any state" I'll give you a real-life example to the contrary. I live in Massachusetts. I often hear radio advertisements for New Hampshire businesses, especially those that sell expensive goods like cars or refrigerators. Why would New Hampshire business bother to advertise on Boston radio stations, when there are probably plenty of businesses in Massachusetts that'll sell you the same things the New Hampshire businesses sell? Because New Hampshire doesn't have a sales tax, and Massachusetts has a sales tax of 5%. The closer a person living in Massachusetts is to the New Hampshire border, the more likely that it's worth his while to travel to New Hampshire to buy things. If he's getting something really expensive, like a pickup truck, it's almost always worth his while. And you can bet that business owners in Massachusetts recognize that this situation costs them money, whether government studies do or not.

Don Baylor's second mistake is prescribing for Texas the community college system of California, which Baylor naively exalts. Baylor's proposition, as I see it, is this: The state of Texas takes some money from its wage earners, which includes the parents of high school students, and the people who manage and work for the number of private colleges and universities that currently exist in Texas. What does it do with this money? Well, there's always a step that goes in between government taking your money and government using it to do things. That's the creation or expansion of a bureaucracy. So, first, the government needs to take some of that money and put it into the pockets of the folks at The Texas Department of State-Funded

Indoctrination, or whatever bureau manages state schools. Bureaucrats need to eat, too, you know. Then the bureaucrats take whatever they have left over after their own salaries have been deducted from this big pile of appropriated money and they build schools with it. Meanwhile, the private sector schools are inclined to charge more tuition per student to compensate for the fact that a percentage of the money these schools are making is now being confiscated by the state to pay for the state-run schools-- state-run schools which can boast dramatically smaller tuition fees, and not because it costs any less to operate a state-run college than it does to operate a private college, because it probably costs the same or more. Rather, this is because much of the money it costs to run them has already been confiscated by the government. Who've they taken this money from? The prospective college student's wage-earning parents, for one. These people will likely send their son or daughter to the state school, which, as I've described, has an advantage over the private school, namely that a student's parents have to pay for the state-run school whether or not their son or daughter actually attends it. Meanwhile, the private colleges and universities, which don't have the luxury of forcing the general population to pay them to exist, and are themselves forced to pay the operating costs of their own competitors, start one by one to either become extremely expensive or simply to disappear. This is another misfortune for students, because these private colleges and universities are often many times better than their state-run counterparts.

This is exactly the situation with kindergarten through twelfth grade education. I can think of only a few private high schools, but I could rattle off the names of dozens of private colleges and universities. This is because states spend much more money on public high schools than they do on public colleges. The quality of these public schools, from elementary to high school, is abysmal. Unfortunately, most people are consigned to going to public school anyway, as private high schools tend to be astronomically expensive.

Lastly, Baylor is mistaken in decrying Texas for having "starved its adult education infrastructure." He notes that California, which he evidently views as some kind of utopia (personally I'd take Texas for

California any day) “spends 30 times what Texas spends on adult education funding per person *without a high school diploma or GED.*” [emphasis mine] In other words, he wants Texans to pay for certain individuals to be educated multiple times over. Once in high school, and then when that doesn’t work, additional attempts are to be made with “adult education,” all paid for by the dollar of the Texan working man.

Baylor is right in stating that “businesses need a skilled workforce to compete in a global economy,” but it would be disastrously misguided to consider that such a workforce can be bettered by selective wealth redistribution.

### **About The Author**

Ted Busiek is a student at the University of Dallas. In his spare time he writes and draws pictures and fantasizes that he can someday make a living doing either.

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