

# Tax bills proliferate, but to what end?

The New Mexico Tax Research Institute reported that as of last week it was tracking 75 tax-related bills introduced in this 30-day session, more than double the number of tax bills introduced last year in a 60-day session. If there is a philosophy behind this interest in taxation it is that New Mexico can bring construction and manufacturing jobs back and attract new business to the state if it can find the right way to tweak its tax code. Business groups like the Association of Commerce and Industry and the Greater Albuquerque Chamber of Commerce embrace the philosophy and argue that tax cuts will create jobs.

Bill Jordan, the veteran lobbyist for New Mexico Voices for Children, says that history tells a different story. The Legislature in 2003, at the urging of Bill Richardson, cut the top personal income tax rate from 8.2 percent to 4.9 percent, and the rate of capital gains taxation was cut in half.

"We are now in a structural deficit of more than half a billion dollars," Jordan said in an interview. "And where are the jobs? Policy makers now seem to be racing to make that same mistake. They want to give away more revenue at a time when we can least afford it with the promise it is going to create jobs."

"There are a lot of tax studies out there that have us all over the place (in rankings against other states)," Jordan said. "Most have us in the middle of the pack. There are lots of studies out there about child well-being. Does anybody doubt New Mexico is always at the bottom of those

## Macro / Micro



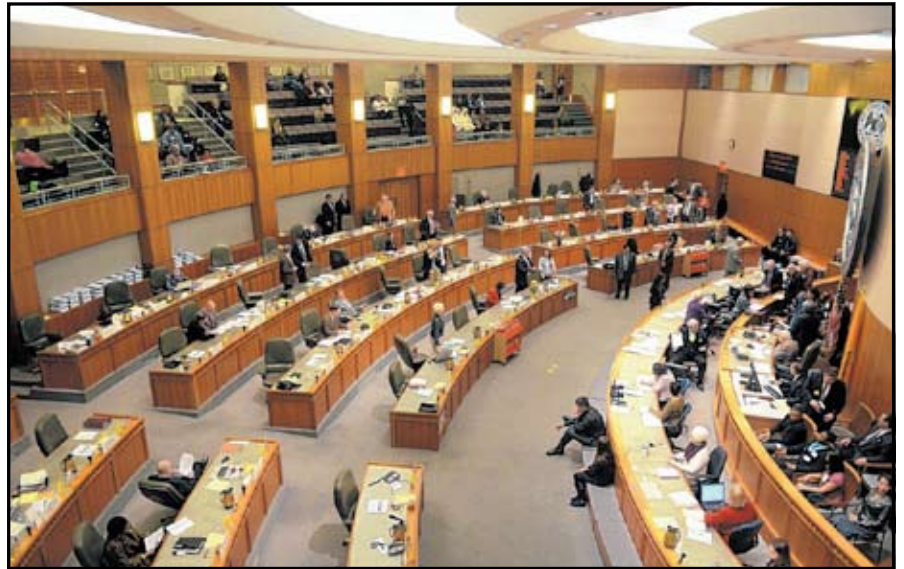
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studies? No. We know New Mexico kids are near the bottom when compared with other states. (Child welfare) is not a priority. You have one study (produced by Ernst & Young) that shows New Mexico is last in business friendliness and everybody hits the panic button and introduces 75 tax bills."

Tax changes proposed by Gov. Susana Martinez could lower business taxes by an estimated \$55 million. "The tax cuts the governor is talking about would cover every uninsured child in state. We could go from near last to first (in the nation), but that's not on the policy makers' priority list. Nor is ending the waiting list for child care. Nor is fully funding education."

States can create jobs with "a stronger, more educated work force, with better state infrastructure, so a company that is moving here knows it can hire good workers, it can get its products in and out of the state, that employees' children are going to be safe and well educated when they go to our public school system."

Voices for Children isn't intransigent about lowering taxes, Jordan said. "In another day with a better revenue outlook there are some tax cuts we'd certainly support. With revenue tight and \$700 million in (spending) cuts over the last



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The state Legislature is facing a barrage of tax-related bills this 30-day session.

few years, our position is this is no time to be spending money on tax cuts. We're generally opposing all of them on that principle."

"Our tax system is very regressive," Jordan said. "Any changes that make us more competitive or promote economic development really need to be balanced by increasing taxes on the wealthiest folks. For us there are two primary factors: is revenue adequate and do we collect it in a way that's fair? Because of the high rate of poverty in the state, fairness in tax policy is important to us."

We've all seen studies that show how tax cuts lead to more jobs and others that show there is no jobs effect at all. These conflicting answers aren't necessarily a flaw in the studies or in the motives of those who produce them. It is testament to the simple fact that it is hard to know why a company created

a new job in a specific location and why another company did not.

New Mexico employment growth quickened after the Richardson tax cuts, for example, from a pace of a little more than 1 percent annual growth from 2001 through 2003 to a pace of 2.34 percent from 2004 to 2005 and 3.7 percent from 2005 to 2006 before slowing again to 1.79 percent from 2006 to 2007. During this same period oil prices were climbing, the real estate bubble was forming and, until 2005, the Federal Reserve System was holding interest rates down.

My analysis of the latest Tax Foundation study ranking states by the weight of their tax burdens shows the average unemployment rate of the 10 least burdensome states is about the same as the rate of the 10 most burdensome states. New Mexico, ranked 38th for its tax burden, has

a 6.6 percent unemployment rate, better than six of the 10 states with the lowest tax burdens.

We know from companies that have decided not to move to New Mexico that for some of them some aspects of our taxation are deal killers. We also know that the right incentives can overcome those objections, though with some cost, in the short run at least, to the state treasury. We know that tax policy is helpless against the damage caused by financial panics and exploding real estate bubbles and that when times are at their toughest demand for social services is at its highest and least affordable. And that is about all we know for sure about the link between taxes and jobs.

All of this means that the Legislature needs to cut taxes not with an axe but with a scalpel.