

# An Appeal for Tax Reform

by R. Clayton McWhorter

**T**he State of Tennessee has a structural budget problem—the demands placed on state government grow more quickly than our tax revenues.

The simplistic response is, “Well, government should spend less and live within its means.” But what one finds on closer examination is that much of the budget is not discretionary. Education, health care, and public safety, for example, are things the state must provide because our state constitution requires it, federal law mandates it, or a court orders it. Tennessee increased funding for its public schools by \$1 billion after the state Supreme Court found the previous funding system to be unconstitutional. TennCare still obligates the state to honor the federal Medicaid entitlement. Tennessee’s system of mental health and mental retardation services is under court order, just as our prison system was in the 1980s.

As Tennessee begins planning for its next budget (2000-2001), the state faces at least \$582 million in new spending, most of it on expenses the state has little choice but to meet:

- \$131 million to replace the one-time funds used to balance this year’s budget
- \$73 million to meet the minimal requirements of Tennessee’s Basic Education Program
- \$66 million for minimal improvements to our higher education system, which has been underfunded for years
- \$92 million for TennCare
- \$26 million for prisons
- \$62 million for modest pay raises for teachers and state employees, who have done without much of an adjustment in recent years and whose salaries trail those of their peers regionally and nationally

These are obligations, not extras, and their cost exceeds projected revenue growth by more than \$382 million. It is not a matter of state officials thinking of ways to spend all of the money that taxpayers provide. Rather, it is a matter of making available dollars meet obligations that grow much more quickly.

Run state government more like a business? In most ways, the state has been operating more like a business: resisting price increases for its product through good management, downsizing employment, and out-sourcing more of its operations.



Tennessee’s last two governors have covered shortfalls like this by cutting spending in other areas of state government and shifting the savings to education, TennCare and other non-discretionary items—essentially robbing Peter to pay Paul.

Well, Peter’s tapped out, and Tennessee cannot cover a \$382 million shortfall with spending cuts alone unless we are prepared to cut programs most Tennesseans believe are important—education, health care, public safety, and safety net programs for the elderly and those in genuine need.

Tennessee is fortunate to have quality leadership in the executive and legislative branches of state government. I am confident that the current and future leaders of the state will work diligently to deal with our structural budget problem.

Without sensible tax reform, Tennessee will not be able to meet its current obligations, let alone undertake important investments in education, workforce develop-

ment, and infrastructure—all vital to our state’s long-term economic growth.

In today’s economy, companies place a premium on an educated workforce, quality of public services, quality of life, and stability in the tax system. Tennessee must be prepared to compete on those terms, rather than the long-standing formula of low skills, low wages, low services, and low taxes. In fact, a survey of workforce preparedness for the information-age economy ranks Tennessee a dismal 45th among the 50 states.

Tennessee is 50th nationally in tax burden. We are 47th nationally in per capita spending. Neither of those rankings will change appreciably under any of the tax reform proposals now under consideration. But some of these other rankings might well improve:

- Tennessee ranks 45th nationally in per pupil expenditure, and third from the bottom among the southern states.
- Tennessee is 38th nationally in percentage of adults with a high school diploma, and 41st nationally in percentage of adults with a college degree.

These are, in my judgement, areas Tennessee must address if our rising generation is to thrive and succeed. As Thomas Jefferson put it:

*If the children are untaught, their ignorance and vices will in future life cost us much dearer in their consequences than it would have done in their correction by a good education.*

Jefferson was right, and we must recognize that Tennessee’s status quo is simply not good enough. Yet, without tax reform, our state will be hard pressed even to maintain the current disappointing rankings. ■

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