Jump in sales taxes offers hope for struggling state

BILL KING says the increase will fall well short of solving the deficit problems and suggests government bodies should plan for potential shortfalls in revenue.

AMID what has been a torrent of bad news for Texas state and local governments, one ray of hope has recently begun to shine through the gloom. Sales tax collections are rebounding at a surprisingly robust rate.

After growing at double-digit rates for a number of years, the state's sales tax receipts topped out in 2008 at $21.5 billion, then fell in both 2009 and 2010. By 2010, sales taxes had fallen to $19.6 billion, a nearly 9 percent decline. In some months, the decline was breathtaking. For example, collections in January 2010 fell to $1.65 billion from $1.92 billion the year before, a 14 percent decline.

Unfortunately, the state's 2010-2011 budget was drawn up assuming that sales taxes would be flat. The difference between the projected and actual sales tax collections contributed about $4 billion to the current projected shortfall.

However, the decline abruptly halted last April, and since then a year-over-year increase has been posted every month. And the rate of the improvement is accelerating. December's collections (the latest available) jumped an impressive 9.3 percent. This dramatic turnaround has generated speculation that Comptroller Susan Combs will be forced to revise, upwardly, her dour revenue projections for the balance of this and the next biennium. The state Legislature cannot spend more than the state comptroller certifies will likely be the state's revenue in the upcoming biennium.

Combs has projected that the state will finish its 2011 fiscal year, which ends Aug. 31, with sales tax collections of $20.2 billion, a 3.3 percent increase. But through the first four months for which we have data, the collections are running at a 6.5 percent increase. Assuming no further improvement, that increase would add about a billion dollars for just this year. She also might have to reconsider her 4 percent to 4.5 percent increase assumption for the 2012-2013 biennium, further closing the shortfall.

Locally, the city of Houston and Metro are the largest beneficiaries of the uptick in sales tax collections. The city's improved numbers are somewhat less impressive than the statewide gains but still good enough for the city to now project its receipts will come in about $16 million ahead of budget. However, the city's budgetary problems are structural at this point, mostly caused by its unsustainable pension obligations. As a result, the $16 million is the proverbial drop in the bucket, and even with this improvement the city is still expected to run an approximately $140 million deficit in the current year. About $35 million of the deficit may be covered by the sale of city-owned real estate. If that happens, the city will end the year with reserves of $80 million to $120 million, significantly better than the projected deficit for next year.

Metro's sales tax collections were a little more than 5 percent higher for the quarter ending Dec. 31, so it is likely to end up the year with $5 million to $10 million more than it expected. But with rising diesel prices and short $1.5 billion or so of the funds necessary to build just the North and Southeast light rail lines, the extra sales taxes will not go too far.

While the unexpected upturn in sales taxes is not a silver bullet for any of these entities' budget woes, having a few extra billion dollars never hurts. As Everett Dirksen is said to have quipped, "A billion here, a billion there, and pretty soon you're talking about real money."

But what these gyrations in the sales tax collections highlight more than anything else is the foolhardiness in setting budgets that depend on future tax increases. I once attended a Metro briefing on the light-rail project that included a financial projection that its sales tax collections would steadily increase for the following 30 years at just under 6 percent annually. When I questioned the reasonableness of that assumption, the Metro officials brushed the question aside, boasting that their collections had regularly outperformed their budgeted amounts for more than a decade. The following year, their sales tax collection fell in some months by as much as 18 percent.

I know this is a pretty radical idea, but perhaps our governmental entities should consider not budgeting every dime of projected revenue (and in some cases more than projected revenue).

Most of us plan on some margin of error in our household budget. Maybe government should consider doing the same.

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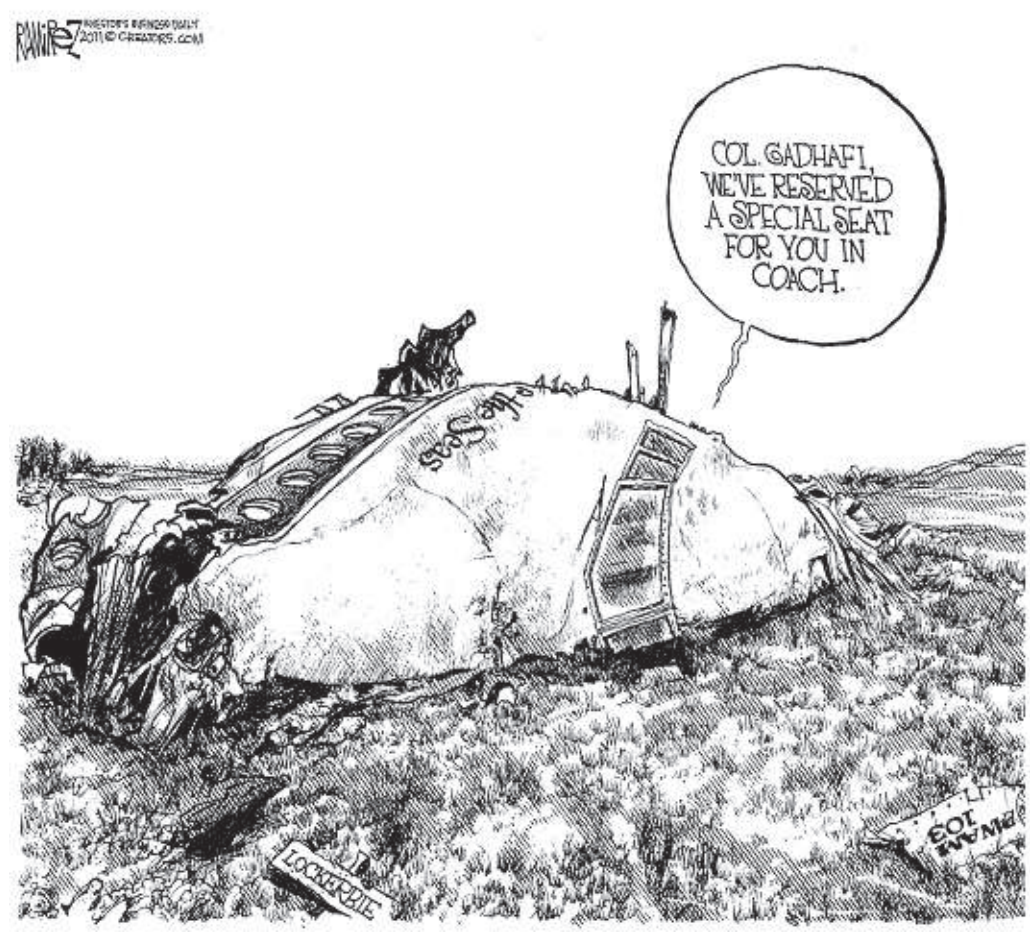

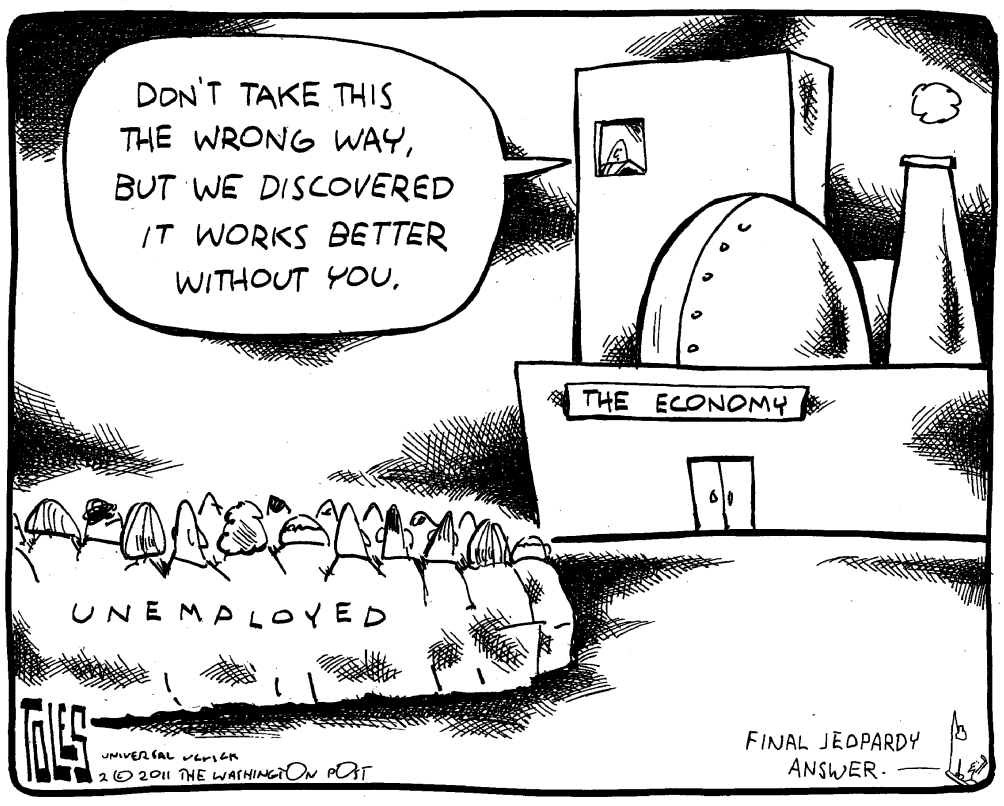

Efforts to control obesity have benefits — and costs

■ Unexpected consequences come with some measures

By MICHAEL GROSSMAN and NACI MOCAN

DURING the past four decades, the U.S. and most of the rest of the developed world have experienced a rapid and sustained rise in the obesity rate. Currently, about one out of six children and one out of three adults are obese in the United States.

The increasing prevalence of obesity accounts for between 100,000 and 300,000 deaths every year. Obesity costs more in annual medical care expenditures than cigarette smoking — around $147 billion in 2008 — because of the long and costly treatments for its complications. A large percentage of these costs are borne by Medicare, Medicaid, private health-insurance companies, and ultimately by the population at large rather than by the obese.

We have just completed a study for the Baker Institute for Public Policy that reviews the research aiming to explain the upward trend in obesity. Potential explanations include declines in the real prices of many food items, increases in the prices of fruits and vegetables, the rapid growth in fast-food and full-service restaurants, increases in the rates of labor force participation by women, technological changes in the home kitchen that have contributed to an increase in caloric consumption, and increases in the amount of time allocated to watching television, playing video games and using computers.

Some of the culprits are very surprising. Reductions in population density due to urban sprawl (a low-density development pattern, which changes the built environment in which individuals reside) are associated with increases in obesity. More densely populated urban areas offer more transportation choices, are more compact, and have a variety of stores and activity centers within reach. All these factors lower the cost of physical exercise and other forms of active leisure. The crackdown on smoking via tax increases has caused more smokers to quit, but these smokers seem to have begun eating more as a result.

A tax on sugar-sweetened beverages (sodas) is one policy lever that has attracted a good deal of recent attention in the so-called "war on obesity." Proponents assume that a 10 percent increase in the price of soda due to a tax of 1 cent per ounce would generate a decrease in soda consumption of 8 percent to 10 percent. For this policy to be effective, one would observe a direct impact of taxes on body weight. Yet researchers have not observed this impact, possibly because high soda taxes cause increases in the consumption of other high-calorie drinks, such as juice and milk.

A different policy proposal is to have restaurants display the amount of calories contained in each food item. The federal health care reform legislation enacted in March 2010 mandates that calorie labels be posted on food items at chains with 20 or more restaurants within the next two years. New York City implemented its own calorie posting law on April 1, 2008. Data from Starbucks stores indicate that average calories per transaction fell by six percent in the following year.

Given the emphasis of the 2010 health act on prevention, subsidies for exercise may be on the horizon. Some studies suggest that financial incentives may motivate individuals to lose weight. But the reductions are modest, and the cost-effectiveness of incentive programs have not been analyzed.

Perhaps the main message that we wish to convey is that there is no free lunch, that with benefits come costs. Positive changes such as increases in technology that lowered the real price of food, reduced smoking, increased female participation in the labor force, and government spending on roadwork and infrastructure that has subsidized urban sprawl have also carried unforeseen negative consequences. Was the anti-smoking campaign a mistake if it also encouraged obesity? This may have been one of the unintended consequences of social change and government action.

Of course, we do not believe people should start smoking in order to become thin, substituting one type of unhealthy behavior for another. Nor do we suggest that women abandon the labor force to provide their families with home-cooked meals.

Whether public policies should be pursued that offset the ignored or unanticipated consequence of previous policies that contributed to the rise in obesity will depend, in the end, on evaluations of the external costs and benefits of these policies

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Mother of all wake-up calls unfolding in Arab world

THOMAS FRIEDMAN says no one should have any illusions about how difficult and convulsive the region's return to history is going to be.

WHAT'S unfolding in the Arab world today is the mother of all wake-up calls. And what the voice on the other end of the line is telling us is clear as a bell: "America, you have built your house at the foot of a volcano. That volcano is now spewing lava from different cracks and is rumbling like it's going to blow. Move your house!" In this case "move your house" means "end your addiction to oil."

No one is rooting harder for the democracy movements in the Arab world to succeed than I am. But even if things go well, this will be a long and rocky road. The smart thing for us to do right now is to impose a $1-a-gallon gasoline tax, to be phased in at 5 cents a month beginning in 2012, with all the money going to pay down the deficit. Legislating a higher energy price today that takes effect in the future, notes the Princeton economist Alan Blinder, would trigger a shift in buying and investment well before the tax kicks in. With one little gasoline tax we can make ourselves more economically and strategically secure, help sell more Chevy Volts and free ourselves to openly push for democratic values in the Middle East without worrying anymore that it will harm our oil interests. Yes, it will mean higher gas prices, but prices are going up anyway, folks. Let's capture some of it for ourselves.

It is about time. For the last 50 years, America has treated the Middle East as if it were just a collection of big gas stations: Saudi station, Iran station, Kuwait station, Bahrain station, Egypt station, Libya station, Iraq station, United Arab Emirates station, etc. Our message to the region has been very consistent: "Guys, here's the deal. Keep your pumps open, your oil prices low, don't bother the Israelis too much and, as far as we're concerned, you can do whatever you want out back. You can deprive your people of whatever civil rights you like. You can engage in however much corruption you like. You can preach whatever intolerance from your mosques that you like. You can print whatever conspiracy theories about us in your newspapers that you like. You can keep your women as illiterate as you like. You can create whatever vast welfare-state economies, without any innovative capacity, that you like. You can under-educate your youth as much as you like. Just keep your pumps open, your oil prices low, don't hassle the Jews too much — and you can do whatever you want out back."

It was that attitude that enabled the Arab world to be insulated from history for the last 50 years — to be ruled for decades by the same kings and dictators. Well, history is back. The combination of rising food prices, huge bulges of unemployed youth and social networks that are enabling those youths to organize against their leaders is breaking down all the barriers of fear that kept these kleptocracies in power.

But fasten your seat belts. This is not going to be a joy ride because the lid is being blown off an entire region with frail institutions, scant civil society and virtually no democratic traditions or culture of innovation. The United Nations' Arab Human Development Report 2002 warned us about all of this, but the Arab League made sure that that report was ignored in the Arab world and the West turned a blind eye. But that report — compiled by a group of Arab intellectuals led by Nader Fergany, an Egyptian statistician — was prophetic. It merits re-reading today to appreciate just how hard this democratic transition will be.

The report stated that the Arab world is suffering from three huge deficits — a deficit of education, a deficit of freedom and a deficit of women's empowerment. A summary of the report in Middle East Quarterly in the fall of 2002 detailed the key evidence: The gross domestic product of the entire Arab world combined was less than that of Spain. Per capita expenditure on education in Arab countries dropped from 20 percent of that in industrialized countries in 1980 to 10 percent in the mid-1990s. In terms of the number of scientific papers per unit of population, the average output of the Arab world per million inhabitants was roughly 2 percent of that of an industrialized country.

When the report was compiled, the Arab world translated about 330 books annually, one-fifth of the number that Greece translates. Out of seven world regions, the Arab countries had the lowest freedom score in the late 1990s in the rankings of Freedom House. At the dawn of the 21st century, the Arab world had more than 60 million illiterate adults, the majority of whom were women. Yemen could be the first country in the world to run out of water within 10 years.

This is the vaunted "stability" all these dictators provided — the stability of societies frozen in time.

Seeing the Arab democracy movements in Egypt and elsewhere succeed in modernizing their countries would be hugely beneficial to them and to the world. We must do whatever we can to help. But no one should have any illusions about how difficult and convulsive the Arabs' return to history is going to be. Let's root for it, without being in the middle of it.

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