

State Needs to Look at the Big Picture of Economic Development

By Senator Pete Campos and Dr. Beverlee McClure

The deepening global recession and its increasingly grim grip on New Mexico give us an opportunity to evaluate how well we are being served by our economic development and tax policies.

While other states may have been hit harder by the recession than New Mexico, we are certainly suffering:

- * unemployment is at five percent and thousands of jobs have been lost in the last year;

- * some promising business prospects have either failed (Eclipse Aviation) or have been delayed (housing construction at Mesa del Sol); and

- * tax revenue paid into the state treasury — an indicator of actual economic activity — is down to 2006 levels and is continuing to fall.

Just as businesses and families are evaluating their own financial situations, so too should state government during this challenging time. We must look now to make government more accountable and efficient and its regulatory environment less burdensome.

A favorite economic development tactic is to offer tax incentives to businesses in exchange for relocating to New Mexico or expanding current operations within the state. We offer such credits to a range of employers, from filmmakers to renewable power generators, and from high-wage employers to those who locate in rural areas. What is hard to evaluate, however, is whether the revenue and social benefits from the new jobs and economic activity made possible by the tax incentives outweigh the costs of lost tax revenue to our public education, health care and public safety programs.

Of course, we can never really know if a decision to expand or relocate to New Mexico was prompted by a tax incentive, or by some other factor, such as our productive work force or quality of life.

We need to make more conscientious decisions on the other side of the tax policy equation, as well, when looking at how much money proposed tax increases would raise. Not surprisingly, we assume that increasing a tax by a certain percentage will raise the tax revenue by the same percentage, but this method ignores how consumer or business

behavior may change because of the tax increase or how many jobs may be lost due to higher tax costs on businesses. It is ironic, but true, that some proposals designed to raise money may actually result in less being collected because of the secondary effects.

At the same time we're trying to lure businesses to New Mexico with tax incentives and sound tax policy — the revenue raising side of government — we should demand fiscal accountability on the spending side in our public schools, colleges and universities and in state and local government agencies.

Several measures under consideration this legislative session would help us make more informed decisions. The Economic Development Fiscal Accountability Act would provide policymakers with a single report every two years detailing New Mexico's various incentives, their costs and their effects. Another measure would help ensure that school districts comply with audit requirements by withholding a portion of state funding from those that do not. Other proposals request that a legislative committee study the need for an Office of Fiscal Accountability and that the Taxation and Revenue Department create a business tax advisory committee to help make short- and long-term tax policy recommendations.

We should also be cognizant of the big picture when evaluating whether state cabinet agencies are as efficient as they can be and whether the entire cabinet system is structured appropriately. Piecemeal initiatives to create and divide cabinet departments occur regularly and are not necessary bad, but a once-a-decade review of the entire cabinet structure — as contemplated by a proposal moving through the legislature — would help ensure that the executive branch is structured as efficiently as possible.

Finally, New Mexico must improve its business regulatory environment by giving the legislature a role in overseeing the regulations adopted by state agencies. State government must be committed to protecting the public's health and safety without burdening small businesses.

This is the time to evaluate how well our state government is truly serving the people of the state.