

The Texas Economic Miracle

Can We Weather the Current Economic Storm?

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What is the Texas Economic Miracle?



- 250,000 new jobs were created in Texas between October 2007 and October 2008, while 500,000 jobs were lost in the United States
- Texas economy created 1,615,000 jobs from 1997-2007; during the same period, Ohio lost 10,400 jobs
- Texas is home to more Fortune 500 companies (58) than any other state
- CNBC ranked Texas as “America’s Top State for Business”

What is the Texas Economic Miracle?



- Texas Comptroller of Public Accounts announced in May that the state would have an estimated \$10.7 billion budget surplus
- Texas had an October unemployment rate of 5.6 percent, one percent below the national average
- Cumulative employment growth, 2004-07:
U.S. 1.5%; California 1.4%; Texas 2.9%
- Texas ranks first in *Site Selection magazine's* survey of real estate professionals

Triple Threat to the Texas Economic Miracle



- National Economic Crisis
 - “Dow Plunges 680 Points as Recession Is Declared”
- Collapse of Oil and Natural Gas Prices
 - “Oil at 3-1/2 year low, below \$47”
- Recovery from Hurricane Season
 - “Hit by hurricane Ike, Galveston ponders its recovery”
 - “Hurricane Dolly batters South Padre Island with 100 mph winds, worst storm to hit the island in more than three decades”

How Are We Doing So Far?



- Seasonally adjusted jobless rate was 6.0% in December, up from 5.1 percent in Sept., but still 1.2% below national average
- After Texas bucked the national trend by adding 23,000 jobs in October, we lost 46,000 in November and December
- Dallas Fed predicts Texas could lose more than 300,000 jobs this year, though not everyone agrees—Comptroller puts loss at 100,000

Texas' Competitive Economic Edge



- What Can We Do to maintain Texas' Competitive Economic Edge?
- Let's look at how we got to where we are for some guidance

Texas' Competitive Economic Edge



- When examining a state's economic well being, economist Arthur Laffer asks several questions, including the following:
 - How frequently does the state legislature turn to higher taxes, or do they resist the spend-and tax
 - cycle?
 - What after-tax incentive is there to earn or invest that next dollar?
 - Is income taxed in a relatively efficient manner?
 - How does the state tax burden compare to that of other states?
 - And what about workers' compensation costs and other indirect taxes?

Texas' Competitive Economic Edge



- The average performance of the nine states without a personal income tax outperformed the average performance of the nine states with the highest top marginal personal income tax rates) in these categories:
 - higher levels of gross state product growth (85.8% vs. 65.0%);
 - greater personal income growth (78.3% vs. 61.2%);
 - higher personal income per capita growth (52.6% vs. 50.0%);
higher population growth (17.3% vs. 7.4%);
 - greater domestic in-migration as a share of population (4.1% vs. -2.2%);
 - greater job creation (22.7% vs. 12.4%);
 - lower average unemployment rate (4.7% vs. 4.8%).

Texas' Competitive Economic Edge



- Top Personal Marginal Income Tax Rate – Rank: 1
- Top Marginal Corporate Income Tax Rate – Rank: 6
- Personal Income Tax Progressivity – Rank: 2
- Estate/Inheritance Tax – Rank: 1
- Recent Legislated Tax Changes – Rank: 3
- State Minimum Wage – Rank: 1
- Right to Work State – Rank: 1
- Economic Freedom Index Score – Rank: 7
- Texas Tort System – Rank: 1

What NOT To Do



- Avoid imposing higher costs on consumers: Wind energy subsidies will cost consumers/taxpayers at least \$60 billion through 2025
- Avoid imposing higher costs on taxpayers: “Schwarzenegger has allowed spending to increase 40 percent ... and has backed tens of billions more in borrowing ... that will leave the state paying down debt for decades to come.” – *Mercury News*
- “EPA proposal to regulate greenhouse gas emissions ... would disproportionately affect Texas and inflict significant damage to our energy industry and the nation as a whole” – Rick Perry
- Climate change regulations could cost Texas families up to \$1,149 per year in extra electricity costs
- Don’t use this as an excuse to go find more sources of funds that could hurt us in the long run—like gambling and federal stimulus

What is Being Done



- Texas Workforce commission distributed nearly \$1 million in disaster-related unemployment benefits in first few weeks
- Texas deciding if and how to use stimulus funds
- Legislature looking at use of rainy day fund
- Big push for higher transportation taxes to fund infrastructure growth
- Renewable energy and energy efficiency being promoted
- Efforts being made to undo successful tort reforms

What Should Be Done



- Limit spending increases: keep taxes low and return budget surplus to taxpayers
- Maintain deregulated electricity and telecommunications markets, and reduce regulations on the homeowners' and windstorm insurance markets
- Reduce traffic congestion through tolling, not higher taxes
- Dr. Laffer says we should maintain “a pro-growth economic environment with a competitive tax system, sound regulations, and spending discipline that will help Texas maintain its superior economic performance well into the future.”

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