

# Economic Freedom

## TEXAS Style

by Bill Peacock

*freedom*



SOMETHING extraordinary is happening in Texas.

Of course, we Texans are fond of proclaiming how everything is bigger—and better—in Texas. But what is happening today goes beyond typical Texas bravado.

Here are just a few of the facts:

- Texas has created more jobs in the last year—and the last 10 years—than all of the other states combined.
- The five largest cities in Texas rank in the top seven nationally—out of 66—when it comes to job growth.
- Supply-side economist Dr. Art Laffer ranks Texas as having the third best state economic performance—and first among the most populous 44 states—in the last 10 years.
- The *Atlantic*, in an article, “How Texas Is Dominating the Recession,” says, “No state is thriving in the wake of the Great Recession. But compared to the rest of the country, Texas is experiencing something like an economic boom.”

### WHAT DOES THIS TELL US ABOUT WHAT IS HAPPENING IN TEXAS?

Well, one obvious thing is we are dominating economic growth and job creation in the United States. Some have called this the Texas Economic Miracle.

Not everyone buys that label, however. One critic said, “Take a tech-oriented region like Greater Boston or the Bay Area, subtract out a housing collapse

and add in an energy boom, and I suspect you’ve covered most of the discrepancy in performance” between Texas and other states.

Perhaps it is true that if Texas’ housing and energy markets had collapsed along with most of the rest of the country, our economy might look a lot like Massachusetts’ or California’s. But they didn’t. And it doesn’t.

Other critics point to our 8.2 percent unemployment rate—22nd in the country and equal with New York—as evidence that Texas is not doing so well. But they overlook the fact that Texas’ unemployment rate stands at 8.2 percent after a net inflow of 1.78 million job seekers and their families in the last 10 years. New York, on the other hand, lost 847,000 during the same time.

Texas, in fact, has kept much of the country employed. Over the last 10 years, while the rest of the country lost 1.3 million jobs, Texas had a net increase of 843,000 jobs.

Texas’ economic miracle is real and it is helping to keep the rest of the country afloat during these hard times.

Yet, what is really so extraordinary about Texas is not our economic growth, but our consistent commitment to freedom despite constant assaults.

We shouldn’t be surprised by this; freedom is nothing new to Texas. Almost 165 years ago, Davy Crockett wrote this to his two children:

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*“I have no doubt [this] is the richest country in the world. Good land, plenty of timber, and the best springs. ... I am rejoiced at my fate. ... I am in great hopes of making a fortune for myself and my family.” ~Davy Crockett*

*There is a world of country to settle. It is not required here to pay down for your League of Land; every man is entitled to his head right of 4000 & 428 acres. They may make the money to pay for it off the Land. ...*

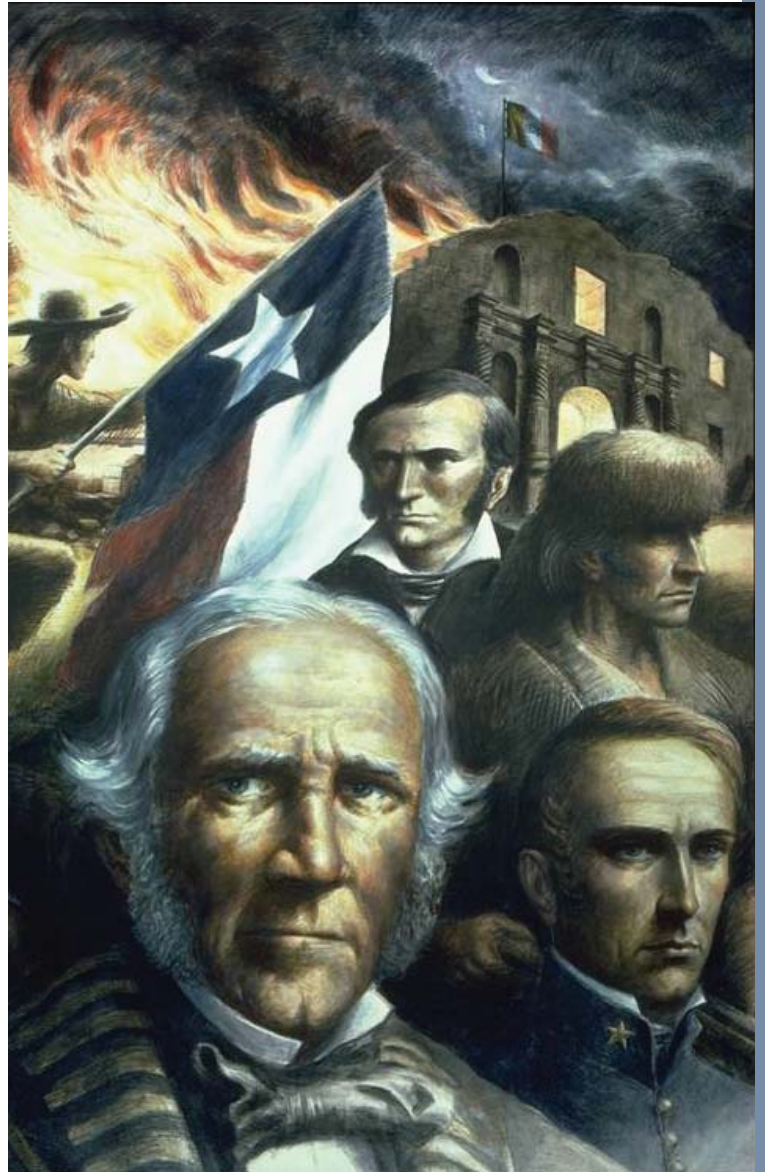
*I have no doubt [this] is the richest country in the world. Good land, plenty of timber, and the best springs. ... I am rejoiced at my fate. I had rather be in my present situation than to be elected to a seat in Congress for life. I am in great hopes of making a fortune for myself and my family.*

When Crockett wrote this letter to his children from St. Augustine, Texas in January 1836, his future prosperity was far from certain. Santa Anna was preparing to bring his army to Texas, and only a few days after his letter to his children, Crockett enlisted in the Texian army.

Yet in spite of the hard realities of frontier life and war that stood before him, Crockett was optimistic about his future because in Texas he was free to work and to use his property in the pursuit of the opportunities he saw before him.

The same can be said of Texas today—especially when compared to much of the rest of our country. And it is this extraordinary freedom to own and use property and to work and to conduct business—in other words, economic freedom—that is the main reason why Texas continues to attract hundreds of thousands of new “settlers” each year seeking opportunity.

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Texas heroes who fought for liberty and freedom.

*prosperity*

Economic freedom doesn't get much press these days, and it gets even less attention from our courts and legislatures. This shouldn't be the case, though, because economic freedom is the most fundamental of all of our freedoms. What good is freedom of speech, assembly, or petition if our property, money, and ability to work are taken away from us?

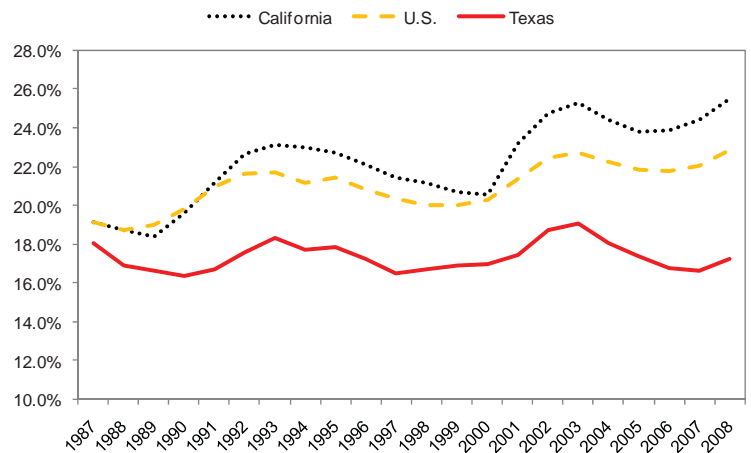
Not much. Yet that is exactly what is happening all across our country today. The government takes away our freedom to work and support ourselves; then, when the economy—predictably—begins to fall apart and jobs disappear, it gives us some combination of government economic development programs, economic stimulus packages, and welfare. When all we really want is our old jobs back. And our freedom.

A recent study by the Federal Reserve Bank of St. Louis confirms the connection between economic freedom and jobs. “We find that states with greater economic freedom—defined as the protection of private property and private markets operating with minimal government interference—experienced greater rates of employment growth.”

At the Texas Public Policy Foundation, we've been doing a lot of research recently on what we call “Economic Development: Texas Style.” What we mean by this is that rather than rely on government payouts to businesses, government spending, or government programs to keep the economy growing, Texas tends to rely on economic freedom. There are several ways this shows up in the public policy choices made by policymakers in Austin.

The first way is in lower government spending. Texas state government spent only \$3,380 per capita in 2008, ranking dead last among the states. The nearby chart from our recent paper, “Competitive States 2010: Texas vs. California,” shows that Texas has much lower government spending as a percentage of the private economy than the U.S. or our largest competitor, California. The reason for this is that when the spending burden has begun to grow—usually during a recession, Texas policymakers have stepped up to the plate and brought it under control. This is quite obvious after the 2001 recession when in 2003 Texas met the challenge of balancing the state's budget without raising taxes. Because of this policy decision, Texas' 2008 spending burden remained slightly below its 1987 levels—a major accomplishment since our

Total State and Local Expenditures as a Percentage of Private GDP: California, Texas, U.S. (1987-2008)



Source: *Competitive States: Texas vs. California*, Texas Public Policy Foundation, October 2010.

paper also shows a close negative correlation between government spending and economic growth: the less spending, the more growth.

But now, only eight years later, Texas faces this challenge again. The spending burden has increased and Texas has an \$11 billion plus budget shortfall, both as a result of the most recent recession. So for the third time in 20 years, a significant danger arises for Texas. If the current growth in the expenditure burden is not reduced by the Texas Legislature, it will create a change in Texas' long run trend of controlled government spending and put Texas on California's path toward overspending and economic weakness.

Next, it follows that if a state keeps its spending low, its taxes will be low as well. Indeed, that is the case here in Texas. And low taxes are the second way in which Texas fosters economic growth through economic freedom.

Texas ranks 43rd in state tax collections at \$1,646 per capita. One reason for this is that we don't have a state income tax. Both of these facts are important.

Over the last 10 years, the economies of states with the lowest tax burdens have grown by 88 percent, while those with the highest tax burden have grown only 58 percent. The same picture emerges for those states with no income tax versus those with the highest income tax rates; the economic growth is 86 percent versus 59 percent, respectively.

This again points to the challenge Texas faces in 2011. We can either balance our budget through spending restraint or raising taxes. It won't be easy to find \$11 billion or more in budget savings, but the alternative is to move from a high growth to a low growth economy, with more budget shortfalls, more taxes, and fewer jobs in the future.

Finally, Texas promotes economic freedom through a focus on protecting private property rights. There are two parts to this: stopping the government from taking our property through eminent domain, and stopping the government from limiting our ability to use our property through land-use restrictions and economic regulation.

Texas has engaged in relatively little of the *Kelo*-style eminent domain takings made famous when the U.S. Supreme Court approved of New London, Connecticut's taking of Susette Kelo's home in order to increase its tax revenues. And in response to *Kelo*, the Texas Legislature has made it harder to engage in these types of takings.

Likewise, we have much fewer land use restrictions in Texas than elsewhere. Houston is the best example. Besides being the only major U.S. city without zoning, Houston is also the only major city where both per capita income and job growth have increased faster than the U.S. average. This is not a coincidence. Houston's lack of zoning was the main reason that it avoided most of the ill effects of the housing bubble—the ability of Houstonians to put their property to the most efficient and economical use kept housing prices from spiraling upward and then downward along with the rest of the nation.

In much the same way, Texas' relative lack of economic regulation—think price controls, environmental regulation, and other interference with market transactions—has allowed markets to operate quite efficiently.

To sum it all up, Texas is the national leader in economic freedom because we spend less, tax less, and regulate less.

One key reason we are doing so well in this is that no state has done a better job than Texas of standing up to the federal government's encroachment on our freedoms. The focus of Texas' efforts has been in just saying no to federal money.

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## Texas' economic size and strength makes it best suited to lead our friends in the national fight for freedom, one state at a time.

Most people think that taking federal money is good for a state—almost like free money. If we don't take it, they say, someone else will. But the truth is that states would be better off if someone else did take the federal money. Because history has proven that more federal money means more state spending which means more state taxes and less state jobs.

Of course, Texas is not perfect when it comes to economic freedom—a quick visit to our web site will provide plenty of examples of where Texas can improve. But, as we have seen, we are doing better than just about anyone else.

In many ways, it is a sad commentary on our country that our relative commitment to economic freedom could be labeled extraordinary. After all, freedom isn't new to the U.S. either. Yet Texas isn't alone in the fight for freedom, as there are other states pushing back against the federal and state encroachment on economic freedom.

Texas' economic size and strength makes it best suited to lead our friends in the national fight for freedom, one state at a time. I strongly believe we will be successful in this as long as freedom-minded Texans don't give up the fight. ★

Bill Peacock is the Texas Public Policy Foundation's vice president of research and director of the Center for Economic Freedom. See all of the Center for Economic Freedom's research and commentaries at: [www.TexasPolicy.com](http://www.TexasPolicy.com).