The Texas Model

The Issue

Texas is a national leader in relying on the free market to increase prosperity within its borders. It has arrived at this point because it has relied on the Texas Model of economic development—lower taxes and spending, less regulation, fewer frivolous lawsuits, and reduced reliance on the federal government—more than the collectivist approach where government planners decide what is best for the economy.

The results of the Texas Model speak for themselves, with low spending Texas (Texas state government spends $4,098 per capita versus $5,711 for the average state) leading the nation in just about every economic category. And Texas isn't alone. States that cut taxes and return surpluses to taxpayers have much stronger economic growth than states that use government spending to grow an economy. Some examples:

- Texas ranks third in the Fraser Economic Freedom Index and the PRI Small Business Index;
- *Rich States, Poor States* ranks Texas first among all states for economic performance;
- *Chief Executive* ranks Texas as the best place for doing business;
- *Forbes* rates the Houston metropolitan area as the most affordable place to live in the United States; and
- States that don't have an income tax rank higher in GDP and employment growth than the states with the highest income tax rates.

Texas has long embraced the Texas Model. In addition to our overall approach to less government intervention, Texas also ranks 49th among the states in state economic development spending. While Texas has always embraced this approach, it really started separating itself from the pack in 2003 as the country was still recovering from the dot-com bust. Texas' relatively restrained fiscal, regulatory, and tort policy over the ensuing years put Texas at the forefront of economic growth in the country. During this time, job creation in Texas has grown at almost five times the rate of the rest of the country.

However, Texas isn't the only state that pursues relatively restrained fiscal policy. Other states are also using the Texas Model in their way, which after all is simply the most recent expression of the founding principles of this country. In general, these states also are experiencing above average economic growth.

The Arguments

Collectivist economic development does more harm than good. Not only does it fail to achieve its goal of increased economic growth, it often tramples the rights of citizens who don't share the vision of enlightened central planners.

There will always be experts, though, who claim that collectivist economic development programs are good for the economy. For instance, one study claims that Texas' $7 billion subsidy for the wind industry through the building of the Competitive Renewable Energy Zone (CREZ) electricity transmission lines will provide "an additional $3.8 billion in gross product per year and generate more than 40,000 jobs." Studies like this always assume that the collectivist development experts can make better decisions than Texans about where to invest their money.

Yet, these claims are deeply flawed because, in addition to the use of questionable assumptions and economic multipliers, they mostly ignore the benefits that Texas would have gained if Texans had invested that $7 billion themselves through the free market. A quick look at economic development spending in the states proves this point.

There is in fact a strong positive connection between heavy economic development spending by state governments and poor job growth in the 20 most populous states. From 2007 through 2014, Ohio averaged $402 per capita in economic development spending while jobs declined by 3.6 percent. The biggest spending states averaged $281 in per capita economic development spending, while sporting a meager 1.9 percent job growth.

Meanwhile, Texas tops the group of states with low economic development spending. Texas' $92 per capita economic development spending from 2007 through 2014 is second to last not only among the biggest states but among all states. This lack of reliance on collectivist economic development hasn't hurt Texas any. No other large state comes close to its robust 19.4 percent increase in jobs since 2007. Though 10 states out of the 20 largest states that spend the least on economic development still averaged 5.5 percent job growth.

Large states that spend more on collectivist economic development programs have less job growth. It would be difficult to find a more compelling argument against the technocratic development model.

Recommendations

- Slow spending growth by adopting a Conservative Texas Budget for 2018-19 that increases spending by less than population growth plus inflation.
- Eliminate the margin tax.
- Require local government entities to get voter approval for increasing property tax revenue more than 4 percent or population growth plus inflation, whichever is less.
- Eliminate state and local economic development programs.

Resources

Growing the Economy without Growing Government: Eliminating Taxpayer-funded Corporate Subsidies by Bill Peacock, Texas Public Policy Foundation (Sept. 2014).

The 2018-19 Conservative Texas Budget by Talmadge Heflin and Vance Ginn, Texas Public Policy Foundation (June 2016).

The Real Texas Budget: Why Texas Needs to Ratchet Down Spending Growth by Talmadge Heflin, Vance Ginn, and Bill Peacock, Texas Public Policy Foundation (June 2016).

The Failure of Texas' Business Margin Tax by Talmadge Heflin and Vance Ginn, Texas Public Policy Foundation (Dec. 2015).

Why Texas Needs Spending Limit Reform by Talmadge Heflin and Vance Ginn, Texas Public Policy Foundation (Dec. 2015).

"Why Entrepreneurship Is Essential for Economic Development" by Shawn Ritenour, Institute for Faith, Work & Economics (July 3, 2014).