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Economic Analysis

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Texas can take credit for its economic success

Gov. Rick Perry's decision to enter the presidential race is generating considerable discussion on the economic performance of Texas relative to other states. More specifically, his candidacy is fostering debate on the economic policies undertaken during his watch and the degree to which they have delivered results.

What is the story behind the state's economic success? Texas owes its performance in large part to limited government, entrepreneurship and foreign trade, all of which are embedded in the state's political and economic culture. Perry effectively harnessed this framework, which coupled with the state's ample natural resources and advantageous geography, boosted economic growth.

Between 1987 and 1995, on average, Texas gross domestic product growth was lower than 31 other states. However, between 1997 and 2010, Texas outperformed all but nine other states. Moreover, in the last 10 years, Texas GDP growth was 70 percent higher than the average of the remaining six most populated states, including California, New York and Florida. In the same period, it ranked as the ninth strongest economy in the nation.

These results can be explained not only by a hands-off economic policy, but also by a structural transformation that supported economic activity, even during the recent recession. This process included a shift of resources toward services and high value-added manufacturing, and reduced dependency on volatile industries such as oil and gas. As a result, the share of GDP of the mining industry, which includes petroleum, declined from 18 percent in 1997 to 11 percent in 2010.

In contrast, durable goods production, wholesale trade, information, finance, professional business services and management of companies added almost 10 percentage points in the same period. Diversification also reached the energy sector, with Texas leading the nation in wind-powered generation capacity.

With the North American Free Trade Agreement, Texas became a magnet for private investment that allowed the state to reap the benefits of increased globalization. Between 1997 and 2010, Texas exports contributed with 22 percent of total U.S. gains. This was three times greater than California, the second biggest contributor.

Moreover, Texas exports grew 2.3 times faster than the rest of the nation. In the case of computers and electronics, the increase was larger than all other states combined, driving Texas' share to 21 percent from 12.5 percent in the same period. Moreover, in the last 10 years exports to China jumped sevenfold, 30 percent faster than for the rest of the country.

At the same time, policymakers supported stable public finances and avoided overregulation, fostering a business-friendly environment. Texas has one of the lowest tax burdens for business, performs relatively well in terms of economic freedom, boasts a highly flexible labor market and is more lenient on land use than most of the country.

These policies reinforced economic diversification while keeping production costs competitive and homes affordable. As a consequence, businesses increased hiring, which in turn attracted people, thereby boosting sales, investment and fiscal revenues. Not surprisingly, some of the most successful companies started in - or relocated to - Texas. The state is one of the top net business creators, while population growth is twice the national average.

Texas also fostered innovation. The state has a high level of private spending in research and development while the economy benefits from hosting important technology centers and venture capital. This nurtures high-tech entrepreneurship and attracts high-skilled workers, allowing for the development of clean-energy technologies that can help lower energy costs.

If Texas wants to continue capturing these benefits, the economic transformation should be seen as an evolving process. In order to support high long-term growth, it is crucial to strengthen existing technology clusters and further diversify. Success depends on increasing the supply of science and engineering professionals and boosting private spending in research and development, which will support productivity and real income growth. That, in turn, means increased school enrollment and improved K-12 and higher-education standards.

Although sustainable growth will help to raise living standards, it is important to improve health care coverage and address poverty, particularly in the border region and among minorities. In 2010, Texas had the sixth highest poverty rate and the lowest percentage of people with health care coverage in the country. In addition, transforming the existing urban model will help reduce energy consumption per capita. Currently, 47 percent of urban highways are congested, particularly in Dallas and Houston, which rank among the worst cities in the nation for traffic, while 32 percent of roads are in poor or mediocre conditions.

These socioeconomic issues may temper the state's achievements. But Texas has enjoyed good economic times, and the Lone Star State should take credit where it is due.