

Friday, August 28, 2009

Feds should act like Texas, not California

Austin Business Journal - by [Tom Pauken](#)

These difficult economic times have inspired serious soul searching on the part of policy makers. In the quest for the right formula for economic prosperity, analysts have been increasingly drawn to a comparison between two of the largest American states: Texas and California. While these two states share much in common, their policies could not be more different. After 30 years of divergent views, the analysts agree: **Texas has chosen the better path.**

In July, the London-based Economist magazine published an extensive comparison of these two models. In "California v. Texas: America's Future," the magazine detailed the pronounced differences between the two approaches. Texas chose low taxes, fiscal restraint, and regulatory reform. California emphasized a heavy dose of state spending to expand services combined with an increasingly complex regulatory structure. Texans believed that a free market would lead to economic prosperity, and that the resulting prosperity would benefit everyone. California believed that an activist government would centrally plan its way to supercharged economic growth — and increased state spending from \$38.9 billion in 1993 to \$102.9 billion in 2008. Sadly for the Bear Flag Republic, the music stopped for California in 2008 as the national recession resulted in unsustainable state budget deficits.

"Indeed, high taxes, coupled with intrusive regulation of business and greenery taken to silly extremes, have gradually strangled what was once America's most dynamic state economy," wrote the Economist about California's predicament. And this is from a magazine that has not been friendly to Texas or its exports.

Low taxes, fiscal restraint, and regulatory reform have performed better on nearly every economic metric. California has wrestled with an enormous budget deficit — starting at \$42.5 billion and now whittled down to still more than \$8 billion — while Texas balanced its budget and maintained its rainy day fund in case the economic situation worsened.

Each year, 100,000 more people chose to leave California than move there. Texas is the opposite: the net inflow of population was 150,000 in the same period. So many people are "voting with their feet" that it costs nearly three times more to rent a moving van from Los Angeles to Austin than it does in the other direction. More Fortune 500 firms are based in Texas than any other state, and more come every year. About 70 percent of all new jobs in America last year were created in Texas. In June, California's unemployment rate was 11.6 percent, while Texas had only risen to 7.5 percent. On nearly every published economic indicator, Texas comes out ahead.

But we can learn a few things from California. Take, for example, the different roles that the states have played in research and development. Houston's Johnson Space Center is the operational and managerial hub for NASA, but the Mars rover vehicle was designed and built in California at the Jet Propulsion Laboratory and the California Institute of Technology. In an inexplicable adoption of free-market

principles, California has not interfered with a remarkably effective partnership between research universities like Stanford and the private-sector venture capital industry. There are areas in which Texas can and will improve, but the fundamentals of our model are sound.

While Texas isn't perfect, there are lessons here that can become a roadmap for guiding the nation out of its current economic distress. More importantly, prudent policy makers need to change course before an even worse outcome is realized. On July 13, 2009, the Financial Times warned that "California's fiscal crisis is in danger of becoming a serious headache, not just for the state and its feuding politicians in Sacramento, but for the entire nation." Let's not double down on the wrongheaded economics of the California model with excessive spending and huge budget deficits at the national level.

Courtesy of JB Goodwin