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What the rest of the country can learn from Texas.

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On the 80-mile drive from San Antonio to the Texas capitol in Austin, it's difficult to miss the signs of growth. At every highway exit, it seems, huge new shopping malls greet motorists. Valleys where cattle grazed five years ago now sport shiny new Target stores, tract homes, and tennis courts. Between 2000 and 2009, Texas added about 4 million residents, more than half of them migrants from elsewhere in the nation. And Texas will almost certainly emerge from the recession with the nation's strongest and most important economy.

In May alone, Texas, America's second most populous state, added over 75,000 jobs—more than California (the biggest), New York (third biggest), and Florida (fourth biggest) combined. Texas has shown consistent gains in 10 of the 11 categories of private employment that the Bureau of Labor Statistics measures. The state is far more than cowboys and oil: It has several of the nation's leading medical research centers (Baylor and UT hospitals among them), one of the biggest computer makers (Dell), and a financial industry that never took a turn for the worse. And, even though unemployment remains a tick over 8 percent (about a point and a half lower than the national average), the rapid growth is bringing this down quickly. During the last week in June, the job-hunt website Monster.com offered more new job openings in Texas than in California even though the Golden State has over 10 million more people. In a nation looking for economic good news, Texas stands out as a bright spot.

Texas's economic growth and its success in attracting migrants defy easy explanations. High oil prices helped, but economic growth in Texas has actually accelerated as pain at the pump has eased. Likewise, while the lack of a state income tax, (mostly) nice weather, and Republican-dominated state politics may create a business-friendly environment, Florida shares all these attributes and has one of the nation's worst economies. The real secret to Texas's speedy recovery and rapid growth may lie in the closely interrelated trends of limited but activist government and affordable homeownership.

The story of Texas's governance centers on Rick Perry, George W. Bush's successor and Texas's longest serving governor. Like Bush, Perry is no minimalist. He has greatly upped spending on public schools, improved the universities, and funneled lots of public dollars into efforts to make Texas a medical research hub. He's departed from Bush's model, however, in that he hasn't increased overall spending faster than population growth and inflation or made any large tax cuts. While not all of the spending has shown results (test scores remain low), it has made him popular. And in one major field, transportation infrastructure, Perry can point to a very real success.

"For the first time, in the early 2000s, we had a governor and a legislature that said they were going to make transportation a major statewide priority," says Justin Keener, vice president of the Texas Public Policy Foundation, a conservative Austin-based think tank. "Texas has had tremendous growth and that brought pain. With the roads, we've addressed some of that pain." Thanks largely to new toll road authorities established mostly under Perry's administration, every major Texas metropolitan area—the state has five of the nation's 25 largest cities—has built new roads or greatly expanded existing ones.

These new roads, in turn, have contributed to a climate that has kept homes affordable. Texas didn't impose urban growth boundaries around its cities the way many other Sunbelt states did, kept zoning flexible, never imposed a statewide building code, and, because of its prodigious road building, put more areas within easy commuting distance of its job centers. "Home affordability is key," says demographer Wendell Cox, the author of several studies on Texas. "That is why Texas has avoided most of the bubble and the recession." According to data Cox has compiled, an average home in Texas at the height of the real estate bubble cost only about three times the median income in the state even as the price of a typical California home soared to more than ten times that state's median income. As a result, Cox argues, it was possible to build homes in Texas without resorting to the gimmicky, subprime loans that so damaged the rest of the economy. Through the whole recession, foreclosures barely budged in the state.

But additional factors, Cox and other analysts concede, have also contributed to Texas's relative prosperity. To begin with, the highest property taxes in the country as a percentage of home value (about $2,200 a year on a typical house) made it difficult for developers to "bank" Texas land without building homes. Likewise, the inland locations of major Texas cities meant that they simply had more room to grow than ocean-hemmed metropolises like San Francisco and New York. Finally, huge public and private investments in the arts, parks, and universities have brought the state a large affluent professional class that would have once scorned Texas as a backwater.

In short, a state known for size and excess has succeeded because of public policies that avoided excesses of big government overspending, poorly conceived private lending, and business-government land planning. In this way, Texas offers important lessons for other states looking to claw their way out of the recession.

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