

Texas vs. California: Myth-Busting Time

by The Honorable
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Key Findings

- Many of the criticisms of Texas lack important context.
- Texas' cost of living is one of the lowest in the nation, while big state peers California and New York have very high costs of living.
- Demographic factors are often ignored by Texas critics.
- California, the high-taxing, big-government model to which Texas critics aspire is similar to Texas demographically, but has comparatively unsatisfactory outcomes.

Introduction

Critics of the Lone Star State claim that the “Texas miracle” is a myth. Many comparisons have been made about the two largest states where one in five Americans live. Texas and California are remarkably similar in size, diversity and natural resources. They differ in their governance.

Recently, some radio ads featuring Texas Governor Rick Perry ran in California with the aim of encouraging California businesses to move to the Lone Star State. Texas' critics responded by countering that Texas' success, if any, originated from the state's natural resources, specifically oil, not from free-market, limited government policies. Joe Garofoli's column in the *San Francisco Chronicle* entitled “Some context behind Rick Perry's radio pitch for CA biz to come to Texas” and an older one it links to from 2011 represent the California retort to the Texas miracle.¹

The attacks on Texas take a few common, oft-repeated lines: Texas' public education is in the national cellar; Texas has the most uninsured residents; Texas' poverty rate is high as is its income inequality; Texas owes any wealth it has to oil; and little in the way of business is moving to Texas.

These claims, however, fail to stand up to scrutiny for several reasons: they use poor measures of academic achievement for comparison; they conflate having medical insurance with access to doctors; they ignore cost of living when comparing poverty and income inequality; they overlook California's vast

natural resources; and finally, they downplay the role of California business expansions into Texas. Examining these claims one by one will demonstrate that Texas' free-market policies and governance push it above California.

Texas' public education system produces better results than California's

Claim: Texas is dead last in the number of residents over 25 who have a high school diploma, insinuating a link to Gov. Perry's reductions in education funding in 2011.

Some 79.9 percent of Texans may have a high school degree, yet California similarly has the third-lowest percentage of people with high school degrees, 80.6 percent, barely ahead of number two Mississippi at 80.4 percent (and, given the margin of error, Mississippi may be ahead of California).² But, these numbers largely measure the educational attainment of adults who have moved to Texas. The fact is, that due to Texas' robust and growing manufacturing sector—the strength of non-oil related manufacturing is greater in Texas (10.7 percent of the economy) than in California (9.6 percent)—there are greater opportunities for those with less educational attainment.³ The bottom line is that high school attainment among adults is driven more by foreign immigration and availability of manufacturing jobs as opposed to the quality of public education in Texas.

A comparison of current residents with degrees is not a reliable measure of educational attainment in the state. A better measure would examine how the schools in Texas and California are performing, using high school

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graduation rates and per pupil funding. The U.S. Department of Education issued a report in January 2013 looking at high school graduation rates. Texas graduated a slightly higher percentage of its students (78.9 percent) than did California (78.2 percent).⁴ Further, among Hispanic students, which are the plurality in both states, the disparity is even higher, with 77.4 percent of Texas Hispanics graduating high school versus 71.7 percent in California.

Insofar as school funding goes, the National Education Association (NEA) lists its evaluation of K-12 per student average daily attendance (ADA) funding. In the most recent year, the NEA calculated the U.S. average per pupil ADA at \$11,305 with California at \$9,524 and Texas at \$9,446.⁵ These figures are not adjusted for the rather large cost of living differences from state to state. The fact is the dollar went about 42 percent further in Texas than in California in 2011. With the cost of living figured in, Texas spends at 97 percent of the U.S. average while California weighs in at 67 percent of the U.S. average.

The cost of living also impacts the number of teachers that school districts can afford to hire. According to the NEA, Texas had a student-to-teacher ratio of 13.6 to 1 in the 2010-11 school year while California had a student-to-teacher ratio of 23.1 to 1 (the highest in the nation). The U.S. average was 14.9 to 1.⁶

Claim: SAT scores of Texas students rank 45th nationally
The problem with this attack is that SAT scores are unsound measures of academic performance. First of all, not every student takes the SAT. The SATs are self-selecting. In some states, guidance counselors and tradition drive far higher—or lower—participation rates, with the share of students taking the examine ranging from a low of two percent in North Dakota to a high of 100 percent in Delaware and Maine. Texas ranks 19th nationally in the share of public high school seniors taking the test for a total of 58 percent in 2012.⁷ In California, only 50 percent of public high school seniors took the SAT in 2012⁸—a large enough variation from Texas' participation rate to affect the test averages.

Texas' SAT participation rates have been climbing rapidly in recent years, up six percent in the last year alone compared to a two percent increase in California.⁹ Higher

participation rates push the scores toward the true mean because they include a greater sample of the population, not just the highest achievers. Further, the SATs make no account for racial and ethnic variations in the test-taking student body.

A better measure of academic performance would be a national, standardized test that virtually all students take. The National Assessment of Educational Progress (NAEP) is one such test. NAEP testing data for 4th and 8th graders is measured across three racial and ethnic groups in three topics: math, reading, and science. When comparing the eight largest states' 2009 test results, and looking at scores for all students, for white students, for African-American students, and for Hispanic students, there are 24 categories to measure (e.g. 8th grade science results for African-American students, etc.). The 2009 results showed Texas as having the strongest scores in 11 of 24 categories while California was last in 15 of 24 categories.¹⁰ The Institute of Education Sciences released findings for 2011's results for the five biggest states in February 2013.¹¹ Figure 1 shows Texas beating California in 17 of 18 of the 2011 NAEP test categories.

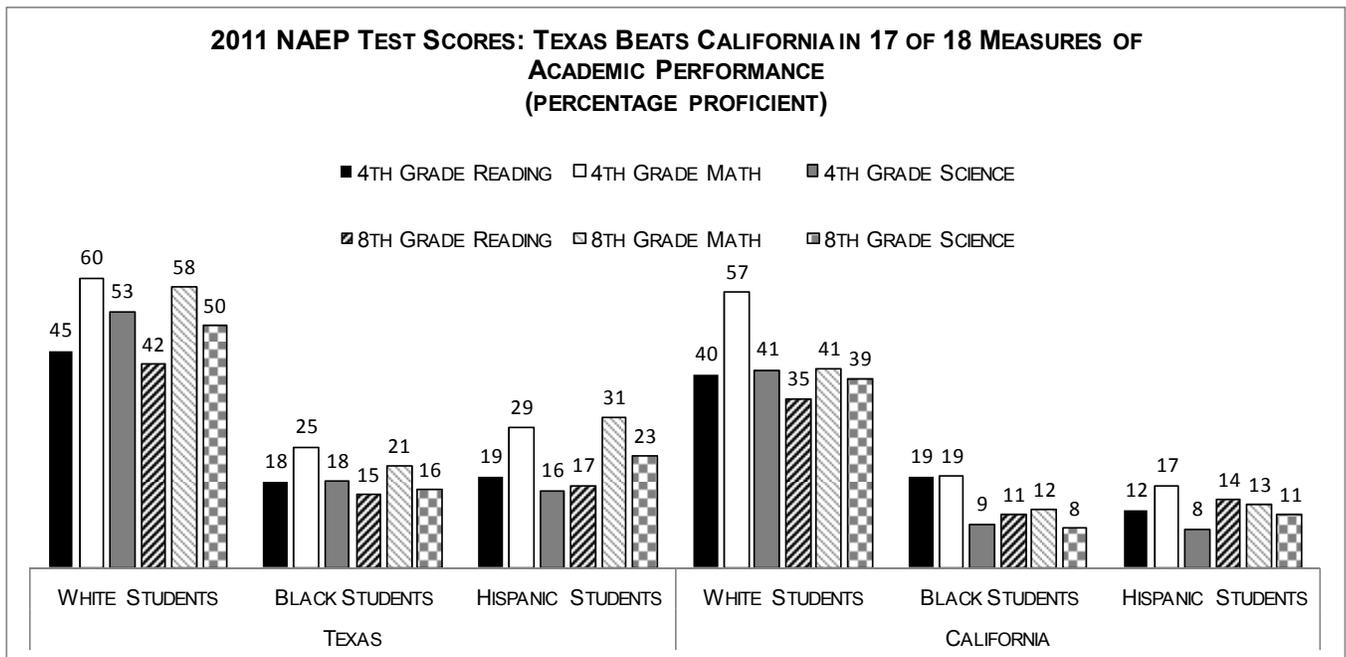
Access to health insurance is not the same as access to a doctor

Claim: Twenty-six percent of Texans do not have health insurance—the highest rate in the nation.

This salient claim is true, but two questions follow: Who makes up the uninsured population in Texas? And do Texans have worse access to health care services than Californians? The answer to the first question is that a full 35 percent of the uninsured in Texas, two out of 5.7 million, make over \$50,000 per year. For this segment of the population, not having health insurance is most likely a matter of consumer choice, not inability to afford it. Knowing this fact provides additional context for the 26 percent uninsured number.

Of course, the purpose of health care insurance is to improve access to health care services. But what if coverage did not equate to health care services? California provides a relevant example. There were 9.2 million Californians enrolled in Medi-Cal in 2011.¹³ However, the Golden State now has the lowest Medicaid reimbursement rates to doctors in the nation, forcing half of all doctors in California

Figure 1



Source: Data from National Center for Education Statistics; charting by author.¹²

to refuse to see Medi-Cal patients.¹⁴ What good is “coverage” if you cannot access a doctor? It is akin to having a chest full of Confederate currency in 1866. Factoring in access to health care, rather than “coverage,” would likely force a far different result in this index. In December 2012, a federal appeals court panel ruled that the State of California was allowed to trim Medi-Cal reimbursement rates by 10 percent. In response, an attorney for a group of pharmacies noted, “If this decision stands, it will not only destroy the Medicaid program in California ... it will destroy the Obamacare program for millions of Americans who are now being shoved into the Medicaid program.”¹⁵ Prior to the 10 percent cut, the California Medical Association found that “California’s (Medicaid) rates rank 47th in the nation and are on average 50 percent below Medicare rates. Because of these low rates, two-thirds of California’s physicians cannot afford to participate in the program and more than 50 percent of Medi-Cal patients report they can’t find a doctor.”¹⁶ It is not surprising then that studies have shown that people on Medicaid have worse health outcomes than those with private insurance and sometimes even worse than those without insurance.¹⁷ Clearly, government-subsidized care is not the solution.

The dollar goes further in Texas than in California

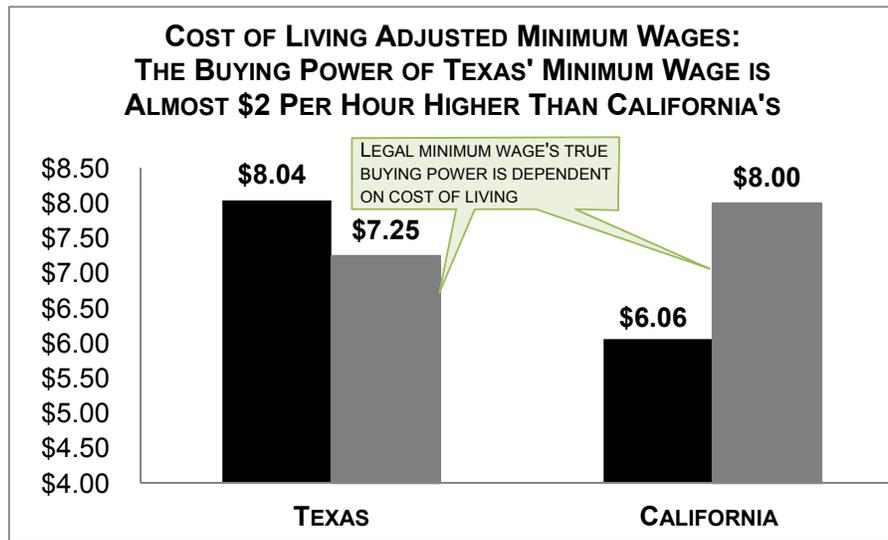
A number of economic assertions about Texas fail to factor in the high purchasing power of a dollar in Texas, largely due to Texas’ low cost of living.

Claim: Many of the jobs created in Texas are low-wage positions and, according to the federal Bureau of Labor Statistics, Texas (tied with Mississippi) has the highest percentage of minimum-wage jobs in the nation.

The first issue with this claim is that it leaves out the fact that Texas has more than 10 million nonfarm employees with about 5.9 million employees being paid hourly. Of the hourly workers, 473,000 earned the minimum wage or less in 2011, so, this claim applies to less than 5 percent of all Texas nonfarm workers.¹⁸

Further, focusing solely on wages does not take into account cost of living—how far one dollar goes in purchasing a basket of goods and services. California, for instance, had the third highest cost of living in the nation in 2011 at 132 percent of the national average, just behind Hawaii and New York. Texas, on the other hand, had the second-lowest cost of living at 90 percent of the U.S. average.¹⁹ What

Figure 2



Source: Author's calculations

this means for wages is that Texans need less money than Californians to be able to purchase the equivalent food, housing, and other essentials. In fact, factoring in the cost of living, Texas' \$7.25 minimum wage can buy the equivalent of \$8.04 while California's \$8.00 minimum wage can buy \$6.06 of goods and services (see Figure 2).²⁰

Why can Texans with lower minimum wages purchase more than Californians? Some two-thirds of the reason is that California has, for many years, had highly restrictive land use policies, high fees, and cumbersome environmental restrictions, which drive up the cost of shelter. Another example of how California's burdensome regulations drive up the cost of doing business, which is then passed on to consumers, can be found in the annual estimated regulatory compliance cost for small business: \$134,122 per year.²¹ Texas' limited government regulation in these areas, by contrast, encourages growth and lowers the cost of doing business, which translates to lower prices for consumers. Texans enter the market with more power behind their dollar. Cost of living also factors into the next claim.

Claim: According to the U.S. Census in 2009, a larger share of Texans lived in poverty (17.3 percent), than Californians (15.3 percent).

The U.S. Census has always calculated the poverty level at the same income threshold across the nation, about three

times the cost of needed food, regardless of cost of living. After 20 years of pressure from Congress to take into account the cost of living and the value of government benefits, the U.S. Census released its "Supplemental Poverty Measure" the week after the 2012 election. With this new, more comprehensive measure, California had the nation's highest poverty rate from 2009 to 2011, 23.5 percent. Texas' true poverty rate, by contrast, dropped from 17.3 to 16.5 percent.²² This means that, as a proportion of the population, there are 42 percent more poor people in California than in Texas. The reason is clear: because things cost about 42 percent more in California than in Texas, the poor have to dedicate more of their earnings to rent, food, transportation, medical care and the like than is the case in Texas. And this, even as the poor receive far more in the way of government assistance in California.

As with poverty and wages, the cost of living has a big impact on the next common claim about Texas.

Claim: The income gap in Texas between wealthy and middle-class families is the fifth-widest in the nation.

According to a November 2012 government workers union (AFSCME) report, liberally-governed California has the third highest income inequality gap in the nation; Texas ranked seventh.²³ So, this claim would appear to be close, but not quite right. However, had the report's methodol-

ogy taken into account Texas' low cost of living and looked at disposable income, it is doubtful that Texas would have placed in the top ten and California, ranked third in this report, likely would have ranked first in the nation just as it did in the U.S. Census report cited above that took into account a larger array of factors before arriving at the conclusion that California had America's highest poverty rate.

But again, this data from AFSCME uses the old U.S. Census measures of poverty.

Sound economic policies encourage job creation in Texas

Claim: Jobs created in Texas are due to the state's natural resources.

Although experts say many of the jobs created in Texas are because of the state's natural resources, no jobs would be created without economic policies that enabled use of those resources. About nine percent of the Texas economy is tied to oil and gas and refining. It is three percent in California. While California has among the highest proven oil reserves in the nation, political considerations keep most of that in the ground.²⁴ Further, as mentioned above, U.S. Bureau of Economic Analysis (BEA) data shows that Texas' manufacturing sector, even with oil refining removed from it, makes up a larger portion of the economy than in California. So, the Texas economy is not based primarily on oil.²⁵ Nevertheless, California's Monterey shale formation holds two-thirds of America's estimated shale-oil reserves and could—if Sacramento allows it—turn California into the nation's top oil producing state.²⁶ Policymakers, not lack of natural endowments, will determine California's resource-based job creation. A similar economic critique relates to business moves versus expansions.

Claim: Gov. Perry has talked up all of the California businesses that have “moved” to Texas—a closer look shows that most of those moves are “expansions.” There is a difference.

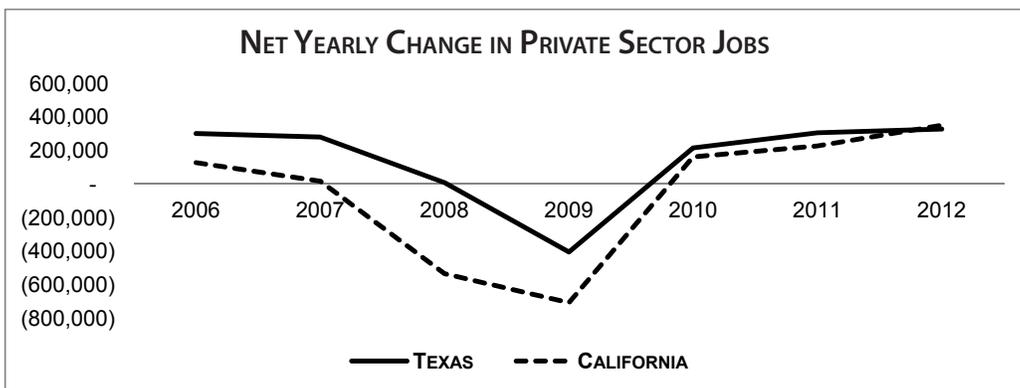
Is there *really* a difference? A job is a job. From 2000 to 2010, California had a net loss of some two million Americans, with Texas the foremost destination state. Certainly some of those millions of Californians who left did so because of employment opportunities. In 2011, an extensive piece appeared in *The Wall Street Journal* that looked at the job creation environment in California.²⁷ It cited many powerful points, among them:

Texas had a higher overall net addition of jobs than California between 2006-2012. California had a net loss of 359,000 jobs while Texas, even with a recession, had a net gain of 1,030,000.

- California business leaders consistently say that they plan to halt their job creation in the state, with large percentages expecting to expand operations elsewhere. Texas is the most frequently mentioned destination state.
- For several years in a row, California has ranked dead last in *Chief Executive's* poll about states' business environments.
- The National Establishment Time Series database shows that from 1994 through 2008, California ranked 47th among the states in net jobs created through business relocation, losing 124,000 more jobs to other places than it gained from other places.
- California generated only 285,000 more jobs from new businesses than it lost to business failures, placing 29th in the country with virtually none of those net jobs created between 2000 and 2008, meaning that California's famous start-ups have not contributed to the employment picture there for a decade.
- From 2007 to 2010, according to the California Manufacturers and Technology Association, 10,763 industrial facilities were built or expanded in America. Of those, only 176 were in California, the lowest rate of any state with a per-capita manufacturing facilities investment rate of less than one-fifth of the national average.

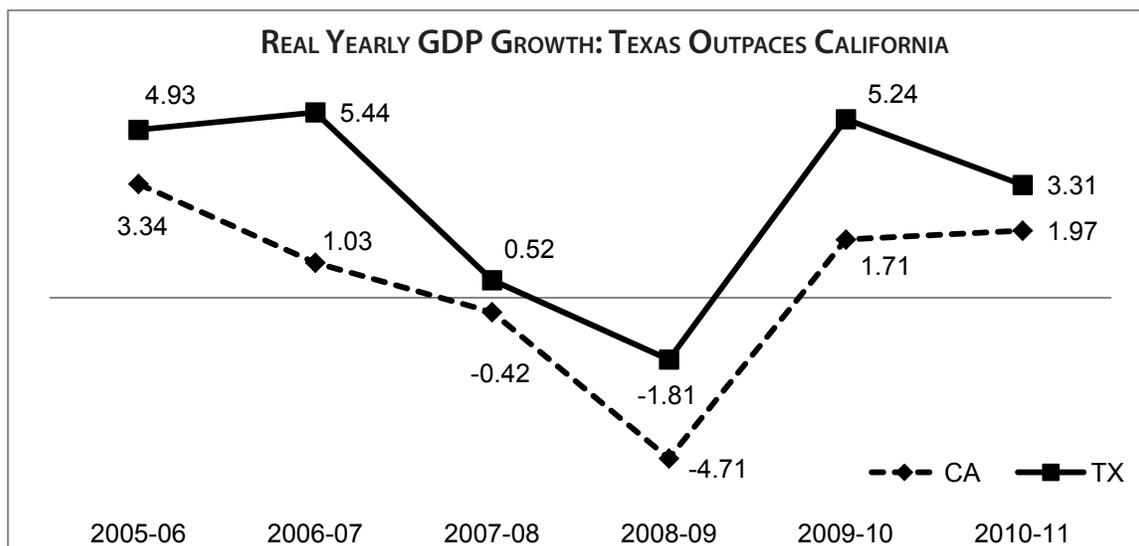
Figure 3 (*next page*) shows that Texas had a higher overall net addition of jobs than California between 2006-2012. California had a net loss of 359,000 jobs while Texas, even with a recession, had a net gain of 1,030,000.

Figure 3



Source: Data from Bureau of Labor Statistics; charting by author.²⁹

Figure 4



Source: Data from U.S. Bureau of Economic Analysis, Regional Data; charting of data done by author.³²

Furthermore, California’s taxes at the state and local level as a percentage of personal income are some 34 percent greater than in Texas. Government is about 33 percent larger as a share of the economy in California than in Texas. California has 42 percent more people in poverty as a proportion of the population. Texas has a higher cost of living adjusted per capita income that is 30 percent higher than California’s: \$43,895 vs. \$33,703. This disparity grows even further after subtracting state and local taxes with after tax per capita income of \$40,055 in Texas vs. \$29,691 in California, an advantage in Texas’ favor of 35 percent. It is not surprising, given these differences in government

size and taxation, that Texas’ real GDP growth has outpaced California’s (see Figure 4).

Clearly, California and Texas have very different approaches to economic policies and governance. These policies impact their prosperity. Boosters of big government claim California is doing better than Texas. Yet, the facts say otherwise, painting Texas as a place with a better performing education system, a more dynamic economy, far less poverty, and more prosperity than in California. ★

Endnotes

- ¹ Joe Garofoli, "Some context behind Rick Perry's radio pitch for CA biz to come to Texas," *San Francisco Chronicle* (4 Feb. 2013).
- ² "Educational Attainment in the United States: 2009," Table 2, Educational Attainment for the Population 25 Years and Over by Region and State by Nativity Status: 2009, pg. 11, U.S. Census Bureau.
- ³ Chuck DeVore, *The Texas Model: Prosperity in the Lone Star State and Lessons for America* (2013) 26.
- ⁴ "Public School Graduates and Dropouts from the Common Core of Data: School Year 2009–10," U.S. Department of Education.
- ⁵ "Rankings of the States 2011 and Estimates of School Statistics 2012," National Education Association (Dec. 2011) Table H-16, 57.
- ⁶ *Ibid.*, Table C-7, 18.
- ⁷ Morgan Smith, "Texas SAT Scores Drop, but Participation Rates Surge," *The Texas Tribune* (24 Sept. 2012).
- ⁸ Sharon Noguchi, "California's SAT scores drop; reading and math below national average," *Mercury News* (25 Sept. 2012).
- ⁹ Morgan Smith, "Texas SAT Scores Drop, but Participation Rates Surge," *The Texas Tribune* (24 Sept. 2012); Sharon Noguchi, "California's SAT scores drop; reading and math below national average," *Mercury News* (25 Sept. 2012).
- ¹⁰ Chuck DeVore, *The Texas Model: Prosperity in the Lone Star State and Lessons for America* (2013) 41, citing 2009 National Assessment of Educational Progress test results for 4th and 8th grade in math, science and reading.
- ¹¹ "Mega-States: An Analysis of Student Performance in the Five Most Heavily Populated States in the Nation," National Center for Education Statistics, U.S. Department of Education (Feb. 2013).
- ¹² National Center for Education Statistics, State Profiles.
- ¹³ "Medi-Cal Program Enrollment Totals for Fiscal Year 2010-11," California Department of Health Care Services.
- ¹⁴ Rick Ungar, "California Cuts Medicaid Payments to Doctors" (28 Oct. 2011).
- ¹⁵ "Appeals Court Rules Calif. Can Reduce Medi-Cal Rates by 10%," *California Healthline* (14 Dec. 2012).
- ¹⁶ Elizabeth McNeil, "Medi-Cal primary care rates will increase to Medicare levels in 2013-2014," *California Medical Association News* (14 May 2012).
- ¹⁷ *See for example*, JG Allen et al., "Insurance status is an independent predictor of long-term survival after lung transplantation in the United States," *Journal of Heart and Lung Transplantation* (Jan. 2011) 30(1): 45–53; JK Giacobelli et al., "Insurance status predicts access to care and outcomes of vascular disease," *Journal of Vascular Surgery* (Oct. 2008) 48(4): 905–11; RR Kelz et al., "Morbidity and mortality of colorectal carcinoma surgery differs by insurance status," *Cancer* (Nov. 2004) 101(10): 2187–94; J Kwok et al., "The impact of health insurance status on the survival of patients with head and neck cancer," *Cancer* (Jan. 2010) 116(2): 476–85; DJ LaPar et al., "Primary payer status affects mortality for major surgical operations," *Annals of Surgery* (Sept. 2010) 252(3): 544–51; RG Roetzheim et al., "Effects of health insurance and race on early detection of cancer," *Journal of the National Cancer Institute* (Aug. 1999) 91(16): 1409–15; Avik Roy, "The Medicaid Mess: How ObamaCare Makes it Worse," The Manhattan Institute for Policy Research, No. 8 (Mar. 2012).
- ¹⁸ "Minimum Wage Workers in Texas – 2011," U.S. Bureau of Labor Statistics, Southwest Information Office.
- ¹⁹ 2nd Quarter, 2011 Data, The Council for Community and Economic Research.
- ²⁰ DeVore, 31.
- ²¹ Sanjay B. Varshney, Ph.D., CFA and Dennis H. Tootelian, Ph.D., "Cost of State Regulations on California Small Business Study," California State University, Sacramento (Sept. 2009).
- ²² Kathleen Short, "The Research Supplemental Poverty Measure: 2011," U.S. Census Bureau (Nov. 2012) Table 4, Percentage of People in Poverty by State Using 3-Year Averages Over 2009, 2010, and 2011.
- ²³ Clyde Weiss, AFSCME (15 Nov. 2012).
- ²⁴ In 2009, the author, then a California State Assemblyman, had a bill that would have opened up the first new off shore oil lease in California in 40 years. It passed the State Senate but died in the Assembly after pressure from environmental groups.
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- ²⁸ Bureau of Labor Statistics, State and Local Employment Data.
- ²⁹ *Ibid.*
- ³⁰ DeVore, 5.
- ³¹ DeVore, 11.
- ³² U.S. Bureau of Economic Analysis, Regional Data: Real Gross Domestic Product by State.

About the Author



The Honorable Chuck DeVore is Vice President of Policy for the Texas Public Policy Foundation. From 2004 to 2010, DeVore represented almost 500,000 people in the California State Assembly in the coastal Orange County region that includes the cities of Irvine, Newport Beach, Laguna Beach, and others. He was the Vice Chairman of the Assembly Committee on Revenue and Taxation and served on the Budget Committee as well.

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