

## Texas in Perspective: Its Role in the United States and in the World

by The Honorable  
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### Key Points

- Texas has become the industrial engine of the American economy, responsible for more than half of all jobs created in the country.
- The country has been struggling under the federal government's suffocating levels of taxation, regulation, and spending.
- Texas is almost single-handedly defending the vision of economic freedom against the federal government.

### Introduction: State and Nation

Texas has one of the strongest economies in the world. The second largest state in the United States in population terms, Texas is blessed with abundant natural resources and a dynamic labor force. It is similar to Australia in population and wealth, but possesses the natural resources and industrial base of much larger developed countries, such as Britain, France, and Italy. If Texas could pursue its model of limited government and economic freedom in harmony with the rest of America, the sky would be the limit for the state's economy—and the nation's.

For most of its history, Texas has shared in the peace and prosperity of the United States. The achievements of state and nation have been deeply interwoven. This is reflected in the attitudes that Texans and their fellow Americans have held toward each other. Texans have seen themselves as the most patriotic of all Americans. Meantime, many Americans have seen Texas as the nation's heartland—the preserver of its frontier mentality and of the vision that made America great.

But today America is struggling under the federal government's oppressive taxation, regulation, and spending, while Texas is almost single-handedly defending the Framers' vision of limited government and economic freedom. While the national economy remains moribund after five years of government suffocation, Texas has become the industrial engine of the American economy, responsible for more than half of all jobs created in the country.

This helps explain why the "Texas model" has become the subject of sustained national debate, and of several best-selling books. Sweeping as

this debate has been, it has largely overlooked two important, related questions. To what extent does Texas support the United States *government*, and how does Texas compare to the rest of the world, standing alone?

The first part explores how the state's contributions to the United States compare with what it gets in return. The second part compares Texas to other countries on a series of metrics related to economy, population, and geography. Unless otherwise indicated in a footnote, data points are generally from the *CIA World Factbook*.

### Texas and the United States: The Fiscal Picture

In 2011, *The Economist* ran an article showing the 20-year federal-state fiscal balances for every state.<sup>1</sup> It showed that Texas is in the low range of donor states, being taxed \$2.7 trillion from 1990 to 2009 and getting back \$2.3 trillion for a \$390 billion deficit. This is a little less than 2 percent of gross state product in an average year. A single-year snapshot of this imbalance taken in 2005 by the Tax Foundation shows that Texas received \$0.94 for every dollar paid into the Federal government.<sup>2</sup>

These data obscure an important factor, namely the impact of the federal deficit, which has averaged 3.4 percent of GDP over the last 30 years, but which exceeded 10 percent of GDP for much of the Obama administration. Different sources calculate outlays, taxes, and deficits differently, and not all federal outlays are spent domestically in the 50 states and District of Columbia. The question remains whether Texas approached anything like \$0.94 in federal spending from actual tax revenue.

## It is not too much to say that Congress runs massive deficits as a means of purchasing control of state governments, essentially a leveraged buyout of the states.

According to one source that compiles data from the U.S. Bureau of Economic Statistics,<sup>3</sup> federal spending in all states combined totaled \$3.2 trillion in FY 2009, the first year of the massive Obama deficits.<sup>4</sup> By population, Texas' equitable share of that spending would have been about \$280 billion. But it received only \$227 billion—about 80 percent of its equitable share of total federal spending. That was significantly more than the business, individual, and income taxes it paid in that year, which totaled slightly more than \$200 billion.<sup>5</sup> But that measure of tax revenue does not include other revenues such as gasoline taxes. And it does not account for the gargantuan federal deficits.

West Virginia, Mississippi, New Mexico, and Puerto Rico were the top recipients as a share of their economy over the period analyzed. The top donor states as a share of their economy were Delaware, Minnesota, and New Jersey. These data reflect the impact of America's progressive income taxation, which punishes high-income states and comparatively benefits low-income states.

In 2010, Texas received about \$2,100 per capita in defense spending (a little above the national average). Total direct defense contracts in Texas, not including Department of Defense salaries, were \$30.3 billion in 2010 out of a total of \$331.2 billion.<sup>6</sup> Texas received just over \$2,000 in health and human services spending (far less than the national average of about \$3,000), just under \$2,000 in Social Security payments (again, significantly less than the national average of about \$2,500—Texas is a young state), and other agency spending of about \$2,900 (just under the national average).<sup>7</sup>

The federal government arrives at the table of federal-state fiscal relations with an overwhelming advantage—the ability to borrow against the full faith and credit of every American born and unborn. Under the guise of federal “assistance” to

the states, Congress transfers about 3.0 percent of GDP (30 year average) to state and local governments. The average federal deficit is 3.4 percent of GDP (30 year average). In essence, the federal government uses its deficit to inflate state budgets far beyond what any state would want to pay for through its own taxes.

This federal “assistance” comes at a stiff price. Unsustainable federal borrowing crowds out the nation's private economy. And the more states depend on federal money, the more they become subservient to the federal government.

Every dollar of federal money for state and local governments comes with onerous conditions attached. In the aggregate, these conditions amount to a massive straightjacket on state governments, progressively reducing the states to little more than administrative agencies of Washington. Hence, it is not too much to say that Congress runs massive deficits as a means of purchasing control of state governments, essentially a leveraged buyout of the states.

### Economy, Geography, and Population

Texas has the world's 14th largest economy, with a gross state product of \$1.3 trillion in 2011.<sup>8</sup> That compares to Spain (which has nearly twice the population of Texas) and Mexico (which has more than four times the population of Texas). When compared to countries smaller than 30 million in population, Texas, alongside Australia, would have by far the most powerful economy. Indeed, in terms of population and economic output, Texas looks a lot like Australia.

**Land mass.** Texas' landmass is similar in size to countries such as Turkey and France. If it were a country, it would have the 40th largest landmass of any country in the world.

**Population.** The population is a little more than 26 million in 2012, just behind Saudi Arabia, and slightly larger than Australia. It would have the 46th largest population of any country in the world.

**Population Growth.** Texas is America's fastest growing large state, at 2.1 percent annual growth, due largely to high birth rates and massive net migration to the state from other parts of the country and from abroad.<sup>9</sup> Its growth rate is more than twice that of the U.S. average, but the international comparison is particularly striking. The rate of population growth in

Texas is virtually unmatched among developed countries: it is growing four times faster than Great Britain and France. Indeed its growth rate is more typical of countries in sub-Saharan Africa—for example Cameroon, Cote d'Ivoire, and Chad.

**Net Immigration.** Texas' net immigration is about 2.6 persons per 1,000 inhabitants (about 65,000 new residents yearly).<sup>10</sup> If that pattern continued for Texas, it would have about the 30th highest level of net immigration in the world.

**Life expectancy and infant mortality.** The United States continues to lag behind most developed countries in life expectancy (78.6 years in 2007), and Texas is slightly below that (78.3).<sup>11</sup> Texas' life expectancy would put it just above Bahrain and Chile, significantly lower than Puerto Rico and the European Union, and far lower than Japan. The infant mortality rate in Texas has declined faster than the national average decline since 1960, and was just 6.2 per 1,000 live births in 2008.<sup>12</sup> Texas' infant mortality rate is significantly higher than most European countries, but lower than most of the rest of the world.\*

**GDP and GDP per capita.** As noted above, Texas has the world's 14th largest economy, with a gross state product of \$1.3 trillion in 2011.<sup>13</sup> That is roughly equivalent to Spain and Mexico. Texas' real GDP per capita (in constant 2005 dollars) was \$46,498 in 2012, 8.7 percent higher than the national real GDP per capita in that year of \$42,784.<sup>14</sup> The United States had the 12th highest GDP per capita in the world in 2012, and by far the highest GDP per person of any country with a population larger than 10 million.<sup>15</sup> Hence, if Texas were an independent country, it would have the highest GDP per capita of any country with a population larger than 10 million. That said, other U.S. states would rank even higher.

**Oil and Gas.** Regarding oil and gas production, Texas' signature product, in 2009 Texas produced 400 million barrels of oil and 7.66 billion cubic feet of natural gas, 20.8 percent and 30 percent, respectively, of the total produced in the U.S.<sup>16</sup>

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Were Texas a member of the Organization of Petroleum Exporting Countries (OPEC), it would be the largest producer of natural gas, producing 29.4 percent of the total output of the 12 nation grouping.<sup>17</sup> As for oil and OPEC, Texas produces more oil than do OPEC members Qatar and Ecuador and almost as much as Algeria—and, given recent production trends, is likely to exceed Algeria's production soon.<sup>18</sup>

### Conclusion

Texas is similar to Australia in population and wealth, but possesses the natural resources and industrial base of countries such as Britain, France, and Italy. Texas therefore has enormous economic potential. That helps explain why Texas has become the economic engine of America.

But that is not the only reason. Texas has pursued a vision of limited government and economic freedom that has allowed its diverse and dynamic people to realize their great potential. Sadly, that vision is today threatened by a federal government deep in the grips of special interests and of a philosophy that values dependency more than self-reliance.

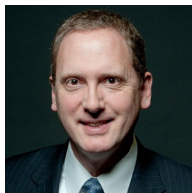
Texas is a land of makers, while Washington seeks to create a country of takers. The competition between those two visions of government—the free society vs. the cradle-to-grave welfare state—is at the heart of our national debate. It is also the reason to put Texas in perspective. ★

\* Many European Union nations use a different definition of infant mortality that excludes many high risk babies from being counted in the statistics.

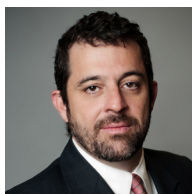
## Endnotes

- <sup>1</sup> "America's fiscal union – the red and the black," *The Economist* (1 Aug. 2011).
- <sup>2</sup> *Federal Spending Received for Dollars Paid*, The Tax Foundation (2005).
- <sup>3</sup> *Federal Spending by States*, USGovernmentSpending.org.
- <sup>4</sup> According to OMB's historical tables, federal spending in FY 2009 totaled \$3.5 trillion, with most of the defense budget spend overseas.
- <sup>5</sup> *Federal Spending by States*, USGovernmentSpending.org.
- <sup>6</sup> "Table 5-Federal Government Expenditure for Procurement Contracts, by Agency, by State and Outlying Area: Fiscal Year 2010," U.S. Census Bureau (2011).
- <sup>7</sup> "Figure 7-Consolidated Federal Funds Report for Fiscal Year 2010," U.S. Census Bureau (2011).
- <sup>8</sup> *CIA World Factbook*, 2011 estimate; "Gross Domestic Product by State," U.S. Bureau of Economic Analysis, 2011 data.
- <sup>9</sup> Becca Aaronson, "On the Records: Texas Has Largest Population Growth," *Texas Tribune* (Dec. 2011).
- <sup>10</sup> Matt Stiles, "Census Data Show Migration Patterns in Texas," *Texas Tribune* (24 May 2011).
- <sup>11</sup> State Health Facts. Kaiser Foundation.
- <sup>12</sup> Texas Infant Mortality Rates. Texas Department of State Health Services.
- <sup>13</sup> *CIA World Factbook*, 2011 estimate; "Gross Domestic Product by State," U.S. Bureau of Economic Analysis, 2011 data.
- <sup>14</sup> Bureau of Economic Statistics.
- <sup>15</sup> *CIA World Factbook*, 2012 estimate.
- <sup>16</sup> U.S. Energy Information Administration, "United States Total 2009," and "Texas 2009."
- <sup>17</sup> "Table 3.8: Natural gas production in OPEC Members, 1960-2009 (million standard cu m)," OPEC.
- <sup>18</sup> "Table 3.7: World Crude Oil Production by country," OPEC.

## About the Authors



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